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Indonesia

Sugar Annual

Sugar Annual Report 2010

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Report Highlights:
In marketing year (MY) 2009/10 Indonesia is estimated to produce 1.9 million tons of plantation white sugar, a decrease from 2.1 million tons produced in the previous MY. Imports of raw sugar are forecasted to jump to 2.3 million tons compared to 1.5 million tons in MY 2008/09, due to lower domestic production, and an increase in total operational capacity, due to new sugar refineries coming on-line. Refined sugar imports are also forecasted at approximately 600,000 tons, an increase of 450,000 tons. This increase will cover shortages of plantation white sugar produced domestically, and to stabilize the price of white sugar in retail market.

Executive Summary:

The Government of Indonesia (GOI) strictly regulates sugar production and trade. In MY 2009/10, it is expected that Indonesia will produce 1.9 million tons of plantation white sugar, a decrease by 9 percent compared to 2.1 million tons produced in MY 08/09. In line with the decrease in production, MY 2009/10 Indonesia will estimately import 400,000 tons of plantation white sugar and increase raw sugar imports to 2.3 million tons.

Due to the shortage in plantation white sugar production, the retail price of plantation white sugar in domestic retail market increased to Rp. 7,713/kg ($855/ton) in March 2009 to Rp. 11,050/kg ($1,225/ton) in March 2010.

Commodities:

Select

Production:

Indonesia produces plantation white sugar from sugar cane, primarily produced for direct human consumption, as well produces refined sugar from imported raw sugar. Generally, the refined sugar is used for processing by the food and beverage industries.

A total area of 340,000 hectares was planted with sugar cane in MY 2009/10, a decrease of about 10,000 hectares. The decrease in area planted is primarily due to non-agricultural land conversion, such as for toll roads and housing areas. The preference to plant other crops such as rice, corn, and soybeans, particularly on the island of Java, has also resulted in fewer hectares of sugar cane. The total area planted with sugar cane is forecasted to remain stagnant in MY 2010/11. Moreover, efforts to develop new sugar cane plantations outside of Java have been hindered by the lack of supporting infrastructure, and land ownership problems. Therefore, the only way to increase production is by growing new plant sugar cane, using higher quality varieties, and by harvesting the sugar cane after taking some samples for its recovery rate instead of harvesting based on when the cane was planted.

The milling period of MY 2009/10 started on Java in May 2009. The Sumatran milling period began as early as January 2009. The milling period ended in December 2009, with both regions experiencing longer than average milling periods compared to normal milling period of 150 days reduced the sugar content of the sugar cane. This leads to a lower average of recovery rate of 7.8 percent in MY 2009/10 compared to 8.1 percent reached in MY 2008/09. The 2009 milling season was marked by inconducive weather, especially heavy rains, which led to flowering, shorter sugar cane stalks, and difficulties in loading harvested sugar cane. Subsequently, this will decrease cane production in MY 2009/10 to approximately 1.9 million tons – a 300,000 ton decrease from MY 2008/09.
The recovery rate is estimated to remain stagnant in MY 2010/11 due to the poor recovery rate analysis, poor harvest management, sugar cane transportation problems, and old machines at sugar mills.

Indonesia is trying to achieve self sufficiency in sugar by 2014. Currently, a total of 46 sugar mills are located in Java and accounted for 65 percent of Indonesian plantation white sugar production in MY 2009/10. The balance is produced by 58 sugar mills outside of Java, primarily in Sumatera. According to the Indonesian Ministry of Agriculture's Directorate General of Estate Crops, the GOI has provided licenses for opening new sugar cane plantations, totaling about 215,000 hectares, in Riau, Lampung, South Sulawesi, Central Java, East Java, South Sulawesi, West Kalimantan, and Papua.

Also, three new Javanese sugar refineries began operations in 2009. The combined annual output of these new facilities is approximately one million tons and these facilities are currently operating at 84 percent of total operational capacity. Total operational capacity for all of the major Javanese refineries is around 3.2 million tons, however actual output falls short of full capacity by 500,000 tons, totaling 2.7 million tons of refined sugar.

Consumption:

Due to growing demand from the food and beverage industry, and in line with the population growth, Indonesian sugar consumption is estimated to increase to 4.8 million tons in MY 2009/10. Post forecasts that consumption will continue to increase to 4.9 million tons in MY 2010/2011. Direct human consumption is estimated at 2.8 million tons, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption is 17 kg per year.

Trade:

As a regulated commodity, white sugar can only be imported by the four registered importers, which are also sugar companies that purchase plantation sugar cane from farmers to produce white sugar. Raw sugar and refined sugar can only be imported by processors that will use the raw sugar as a raw material for their production. Also, whenever it deems necessary, the GOI can grant some sugar processors permission to import raw sugar if it is required to meet demand, resulting from shorter than normal milling periods at the processing plants.

In December 2009, the Minister of Trade granted import licenses to PTPN IX, X, XI, PT. Rajawali Nusantara Indonesia, Perum Bulog and Perusahaan Perdagangan Indonesia to import a total of 500,000 tons of white sugar. These measures were taken in an effort to stabilize the soaring price of white sugar in domestic market. The sugar must be imported before the beginning of the milling season in 2010 which is expected to start in April 2010. As of February 2010, those companies have committed to import a total of 408,850 tons of white sugar. To further support this effort, in December 2009, the Minister of Finance issued Regulation No. 239/PMK.011/2009, amending Regulation No. 150/PMK.011/2009, issued the previous September 2009. The amendment regulation stated that the effective period of reduced import duty for sugar that was initially valid only until December 31, 2009 is extended to April 31, 2010. The reduced import duty for sugar is as follow:

SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)

(Based on Minister of Finance Regulation No. 150/PMK.011/2009)

No.	Commodity	ID		VAT	Restriction
		(Rp./Kg)	(US$/ton)	(%)	
1.	Raw sugar from sugar cane	150	16.7	10	NPIK, IP, SNI
2.	White sugar	400	44	10	NPIK, IT
3.	Refined sugar	400	44	10	NPIK, IT

Note:

NPIK = Nomor Pengenal Importer Khusus (Specific Importer Identification Number)

IP = Importer Producer

IT = Registered Importer

According to the Global Trade Atlas, in MY 2008/09, Indonesia imported approximately 380,000 tons of refined sugar and 416,000 tons of raw sugar. A total of 85 food and beverage manufacturers imported the refined sugar in MY 2008/09. Thailand (85 percent), Malaysia (7.4 percent), Singapore (3 percent), and South Korea (3 percent) were the main suppliers of refined sugar to Indonesia while Thailand (85 percent), Singapore (10 percent), Brazil (2 percent), and India (12 percent) were the main suppliers of raw sugar to Indonesia. Indonesia imports most of its sugar needs from Thailand not only because of the freight advantage but also because Thailand can meet Indonesian specifications based on the color (ICUMSA) level that meets the Indonesian sugar requirements called "Indospec". The GOI normally determines the quality of sugar that the registered importers can import. However, due to the higher price of sugar and the availability within the international market, the GOI gives flexibility to white sugar importers to import white sugar with higher quality than the ICUMSA level stated in the import permit of 70-200 International Unit for the import period of January-April 2010.

The GOI reduced the allocation of refined sugar imports for food and beverage industry to only 150,000 tons in MY 2009/10. This amount is lower than the refined sugar imports allocation in 2009. GOI expects that the food and beverage industry to consume more domestically produced refined sugar. However, this allocation is subject to change should any company require refined sugar with higher quality than what the domestic refineries can produce. The GOI limits the issuance of refined sugar import permit for the food and beverage industry to every six months.

A total of seven sugar factories imported approximately 150,000 tons of raw sugar in MY 2008/09 to fill mills idle after Indonesian production is completed. The same amount of raw sugar is estimated to be imported for that purpose in MY 209/10.

With the increase of total installed capacity of sugar refineries, there may be a surplus of refined sugar production. According to the Indonesian Minister of Trade, the surplus can be exported and the sugar refineries can decide when and how much to export. However, currently, the sugar refineries still focus to fulfill demand from domestic market.

Stocks:
Due to the shortfall of plantation white sugar production and increased of sugar consumption, the ending stocks of MY 2009/10 are expected to decline to 483,000 tons. It is estimated to further decrease to 404,000 tons in MY 2010/11.

Policy:
The Minister of Trade issued a regulation stating that white sugar with an ICUMSA ranging from 70-200 International Units may be imported if the domestic production of white sugar is not sufficient to meet demand. Sugar imports are prohibited one month prior to the milling season, during the milling season, and two months after the milling season. Registered sugar importers are required to support the sugar price should the price fall below Rp. 5,350/kg (US$ 593/ton) at the farmer level by buying farmers sugar cane production in cooperation with another party that has secured permit from local Association of Sugar Cane Farmers.

To achieve the target of sugar self sufficiency by 2014, GOI launched the sugar machines revitalization program in 2008. This program gives reimbursement to any sugar factory who wishes to buy new machines. The new machines must be domestically produced and have high technology. A ten percent discount will be given for any purchase of new machine with maximum price of Rp. 10 billion ($1.1 million). GOI provides a total of Rp. 2.6 trillion ($288 million) to fund this program. The sugar factories have absorbed approximately 53.09 percent of the budget. GOI continues this program for this year.

Production, Supply and Demand Data Statistics:

PSD: Sugar Cane for Centrifugal

Sugar Cane for Centrifugal Indonesia	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official Data		New Post Data	USDA Official Data		New Post Data	USDA Official Data		New Post Data
Area Planted	350	350	340			340			340
Area Harvested	640	340	336			336			330
Production	26,400	26,400	25,050			24,450			24,500
Total Supply	26,400	26,400	25,050			24,450			24,500
Utilization for Sugar	26,400	26,400	25,050			24,450			24,500
Utilizatn for Alcohol	0	0							
Total Utilization	26,400	26,400	25,050			24,450			24,500
TS=TD			0			0			0

Note: the last column of each Marketing Year is not official USDA data.

PSD: Centrifugal Sugar

Centrifugal Sugar, Indonesia	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: May 2008			Market Year Begin: May 2009			Market Year Begin: May 2010		
	USDA Official Data		New Post Data	USDA Official Data		New Post Data	USDA Official Data		New Post Data
Beginning Stocks	490	1,290	1,290	340		503			483
Beet Sugar Production	0	0	0	0		0			0
Cane Sugar Production	2,680	2,060	2,053	2,960		1,910			1,911
Total Sugar Production	2,680	2,060	2,053	2,960		1,910			1,911
Raw Imports	1,070	1,500	1,500	1,000		2,270			2,310
Refined Imp.(Raw Val)	500	700	160	500		600			600
Total Imports	1,570	1,780	1,660	1,500		2,870			2,910
Total Supply	4,740	5,130	5,003	4,800		5,283			5,304
Raw Exports	0	0	0	0		0			0

Refined Exp.(Raw Val)	0	0	0	0		0			0
Total Exports	0	0	0	0		0			0
Human Dom. Consumption	4,400	4,500	4,500	4,400		4,800			4,900
Other Disappearance	0	0	0	0		0			0
Total Use	4,400	4,500	4,500	4,400		4,800			4,900
Ending Stocks	340	630	503	400		483			404
Total Distribution	4,740	5,130	5,003	4,800		5,283			5,304
TS=TD			0			0			0

Note: the last column of each Marketing Year is not official USDA data.

Author Defined:

Prices

In 2009, the Indonesian Sugar Council or *Dewan Gula Indonesia* (DGI) set the production cost for plantation white sugar at Rp. 5,100/kg ($565/ton). Based on a recommendation from DGI, the Indonesian Minister of Trade set the price of plantation white sugar floor at Rp. 5,350/kg ($593/ton). The GOI announced its intentions to change the plantation white sugar floor price during MY 2009/10 and is currently calculating the plantation white sugar production cost.

Due to the shortage of plantation white sugar production, the average retail price of the commodity in domestic markets skyrocketed. The price went up from Rp. 7,713/kg ($855/ton) in March 2009 to Rp. 11,050/kg ($1,225/ton) in March 2010. The higest level was reached of Rp. 11,350/kg ($1,258/ton) in February 2010. The retail price started to decrease when white sugar imports flooded the market in March 2010 .

2007 – 2009 MONTHLY FARM LEVEL WHITE SUGAR PRICES (Rp./Kg)

Month	2007	2008	2009
January	6,431	6,300	6,194
February	6,450	6,413	6,675
March	6,450	6,241	7,337
April	6,494	6,199	7,744
May	6,553	6,198	7,900
June	6,550	6,135	7,993
July	6,269	6,178	8,086
August	6,225	6,082	8,675
September	6,250	6,078	9,436

October	6,219	6,125	9,364
November	6,125	6,118	9,213
December	6,088	6,118	9,843

Source: Indonesian Sugar Council (DGI)

2009 MONTHLY AVERAGE RETAIL WHITE SUGAR PRICES

In JAKARTA MARKETS

(Rp./Kg)

Month	2009		2010	
	Local	Imported	Local	Imported
January	6,594	6,768	11,200	11,000
February	7,406	7,177	11,350	11,000
March	7,713	7,404	11,050	11,000
April	7,715	7,688	11,000	11,000
May	7,900	7,888		
June	8,140	8,000		
July	8,225	8,100		
August	8,775	8,425		
September	9,900	9,375		
October	9,850	10,375		
November	9,700	9,375		

December	9,875	9,813		

Source: Market Information Center (PIP)

Ministry of Industry

Note: Exchange rate is Rp. 9,020/US$ 1, as of April 13, 2010.