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Indonesia

Coffee Annual

Indonesia Coffee Annual Report 2018

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Report Highlights:
Favorable weather in Northern Sumatra and lowland Southern Sumatra are forecast to increase Indonesia's 2018/19 coffee production to 11.1 million bags, with green bean exports projected to reach 7.2 million bags. Production and exports for 2017/18 are revised downward due to poor weather conditions affecting both Arabica and Robusta. Imports reach record levels for January-March period. A disruptive technology begins to circumvent the value chain in Southern Sumatra.

Commodities
Coffee, green

Crop Area

Indonesia's 2018/2019 coffee crop area remains stable at 1.2 million hectares. Most plantations are maintained by smallholders at size of 1-2 hectare each. Coffee farms are primarily held by smallholder farmers with an average holding of 1-2 hectares. As such, conversions from coffee to other crops are infrequent although many farmers grow multiple complimentary commodities alongside coffee such as bananas and pepper. The limited expansion of coffee crop area is usually at the expense of cacao, which has experienced a larger impact from disease.

Geographically, Arabica crops dominate in Northern Sumatra and some mountainous areas in Java, while Robusta is grown mostly in Southern Sumatra. Sumatra accounts for more than 60 percent of Indonesian coffee crop area, followed by Java Island with 15 percent and Nusa Tenggara and Sulawesi with smaller shares.

Although new coffee planting areas are possible, as shown by cooperation between forest state-owned company Perhutani and farmers in West Java, there are no significant incentives to expand coffee crops. There are no national programs established for expanding coffee production and only limited local government programs for distributing planting materials.

Table 1. Indonesia Coffee Area Characteristics

Region	Topography	Key Production
Northern Sumatra	Highland areas (>90 pct)	Arabica
Southern Sumatra	Low (40 pct) and Highland (60 pct)	Robusta
Java and others	Low and Highland	Arabica, Robusta

Source: Industry contacts

Production

Post forecasts 2018/19 coffee production at 11.1 million bags, an increase of 500,000 bags from updated 2017/18 production. Lowland Robusta areas in Southern Sumatra, including Lampung and Bengkulu, received adequate precipitation and no sustained strong winds during cherry development. Farmers and industry contacts expect favorable yields in these key Robusta production regions. Nationally, Post estimates Robusta production to increase to 9.7 million bags in 2018/19.

Similarly, Arabica production for 2018/19 is projected at 1.4 million bags, up 200 thousand bags from updated 2017/18 production. Growers in North Sumatra are also expecting higher yields in 2018/19 as weather patterns have supported the fruit development process.

These increases are forecast despite industry contacts and post field observation confirming Robusta production in highland areas suffering heavy rainfall and strong winds during cherry development stage. Although growers in these areas expect 30-40 percent lower production 2018/19, these declines will be offset by increases in other areas.

The following table shows coffee production by variety from 2014/15 to 2018/19. Post revises 2017/18 production estimates based on grower reports in North Sumatra that flowering stages were disrupted by strong wind during a wet dry-season, and lower than expected Robusta production in general.

Table 2. Indonesia coffee production (million 60-kg bags)

Variety	*MY 2014/15*	*MY 2015/16*	*MY 2016/17*	*MY 2017/18*	*MY 2018/19*
Arabica	1.3	1.5	1.3	1.2	1.4
Robusta	9.2	10.6	9.3	9.4	9.7
Total	10.5	12.1	10.6	10.6	11.1

Inputs

The majority of Indonesia's coffee crops are maintained with minimum inputs. Smallholder farmers may receive fertilizer or pesticide from village level collectors on a financed basis as needed, while larger plantations may use fertilizers once a year. Smallholder growers rely on family labor for non-harvest activities such pruning and cooperative arrangements are often made during harvest. Harvesting is often carried out by women who rotate between farms and divide labor costs.

Yields

Indonesia's coffee crops rely on a balanced amount of sun and rain after flowering to produce optimal yields. Crops in highland areas may be comparatively less impacted by low moisture as the normal morning mists may mitigate drier conditions. Yields are often most greatly impacted by too much rain and strong winds during the cherry development season. Such conditions, which occurred in Southern Sumatra highlands this year, often cause plants to drop their cherries prior to harvesting.

Consumption

Indonesian's desire for coffee and coffee products continues to grow. Post estimates Indonesia's coffee consumption will increase to 3.9 million bags in 2018/19, about 340,000 thousand bags higher than updated 2017/18 consumption. The continuing growth is seen across the board in roasted ground coffee, soluble coffee and ready to drink (RTD) coffee beverages and aligns with an increasing middle class and its growing taste for coffee.

Recent reporting shows RTD coffee volumes more than doubling over a five-year period. Sales of RTD coffee have been boosted by increased urbanization and the spread of chain convenience stores. RTD coffee registered 13 percent off-trade volume growth in 2017.

Table 3. Indonesia RTD Coffee off-trade volume 2012-2017 (million liter)

Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
RTD Coffee	23.8	47.6	62.1	77.4	93.2	104.9

Source: Euromonitor Passport

Coffee consumption has also been supported by an increasing number of retail coffee outlets opening in public areas such in office buildings and shopping malls. Both independent and retail chains such Starbucks, Maxx Coffee, Excelso are aggressively expanding. By early 2018, Starbucks Indonesia operated over 320 outlets, twice as many as 2013.

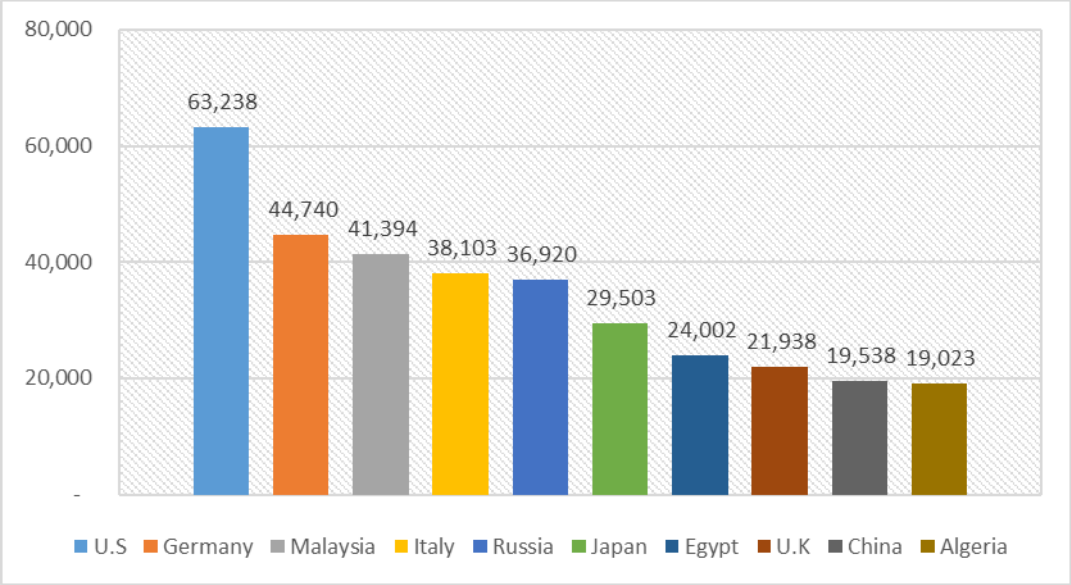
Trade

Exports

Post forecasts Indonesia green bean exports for 2018/19 at 7.2 million bags. Exports for 2017/18 are revised downward to 6,939 million bags due to lower than expected production of both Arabica and Robusta and as well as updated trade data. These figures represent a 5 percent decline in exports compared with 2016/17.

Indonesia exports more than 60 percent of its production mostly in the form of green beans. Major markets include the EU, U.S., Malaysia and Japan. Notably, shipments to Malaysia have almost doubled since 2008. Exports usually peak in on June – July following the harvesting period in Southern Sumatra.

Figure 1. Indonesia Green Bean Exports by Destination, 2017

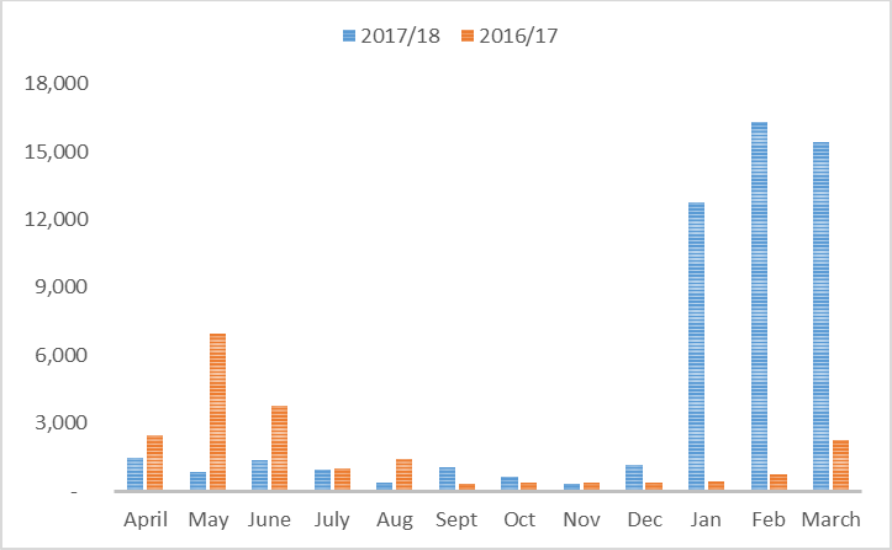


Source: GTA

Imports

Trade data indicates record-high green bean imports during Jan-Mar 2018 as the harvest from Vietnam came online and farmers there sold off stocks prior to the Tet Holiday, driving down prices. This coincided with increased demand driven by lower than expected production of Robusta resulting in lower stocks available for roasters. Increasing use of imports for blending and soluble production added to the strong import demand. Post forecasts 2018/19 Indonesia green bean imports will drop to 300,000 bags in conjunction with increasing domestic supplies.

Figure 2. Indonesia Green Bean Imports (ton)



Source: GTA

Value-Chain

Indonesia's green bean coffee finds its way to export markets through a complex, multi-tiered value-chain structure that relies upon well-established relationships and shifting value parameters based on the needs of exporters.

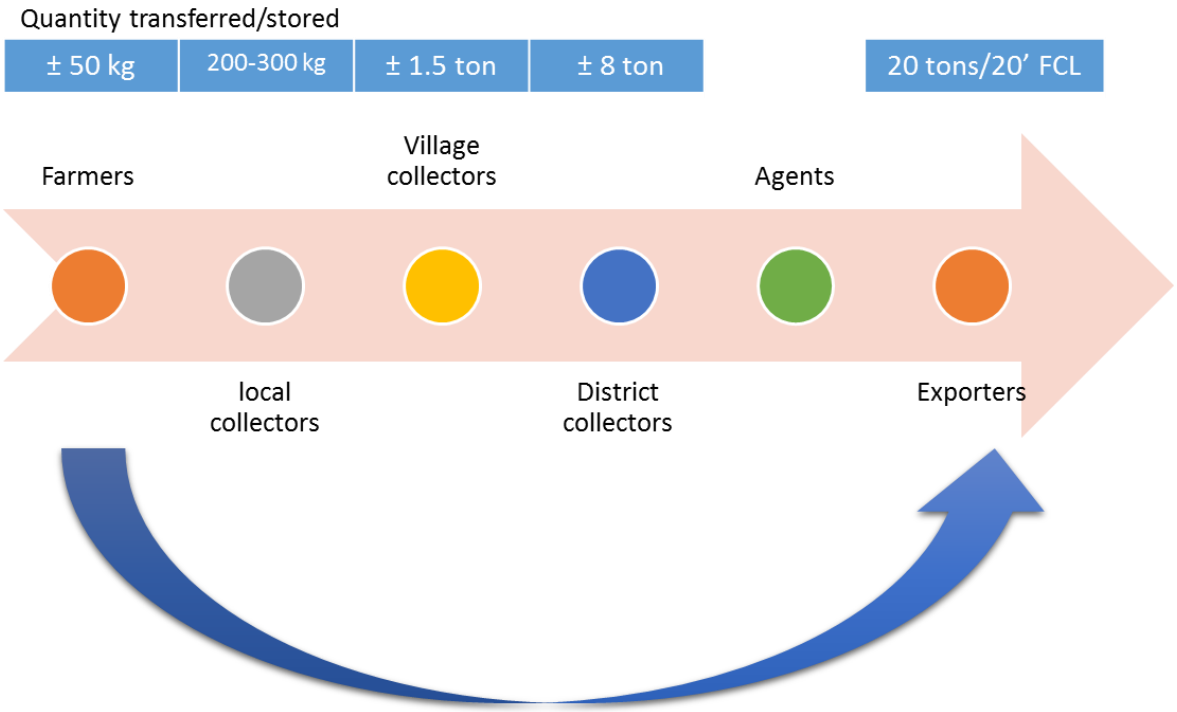
The coffee harvesting period, which can run from March to June, requires multiple harvests as cherries on different trees and even the same plants ripen at different times. This often leaves smallholder farmers with relatively small amounts of coffee to sell at any given time during harvest. As a result, local collectors often travel to different farms to collect 30-100 kg bags on the backs of motorcycles where they are then transported to a village collector.

Village collectors have small storage facilities on site and are well-known to local farmers, often acting as representatives for local grower groups. Village collectors usually keep a small shop at their premises, selling fertilizer and pesticides to farmers in need. The village collector may also stock staple commodities such as rice and cooking oil that a farmer may use their coffee to barter for. These transactions may be financed against the future delivery of the farmer's crops. As such, village collectors are often the first line of defense for smallholder farmers facing pests, adverse weather or the need to bridge essential items between harvests.

Since the storage capacity of most village collectors is limited (approx. 1.5 tons), coffee is usually collected again at the district level. District collectors are normally located in larger towns outside of farming areas. With warehouses reaching 10 tons of capacity, they provide the crucial link between the farm and village operators and the exporters located in larger cities. Their purpose is two-fold: to provide the volume of beans necessary to fill the minimum 8 tons required for trucking beans to the city and to provide the linkage between savvy agents and exporters and small scale farmers and collectors who rarely operate outside of their local district. District collectors may sell their beans directly to exporters or they may use an agent to shop around for the best price for a commission.

Numerous agents or brokers operate in the cities, bringing samples from district collectors to various exporters and seeking a buyer whose interest in the particular qualities of that lot of beans may result in a higher price. Some agents may also buy beans directly from the district collectors and sell themselves to the exporters, though the risk of taking possession and the costs of storage make this a much riskier proposition.

Figure 3. Robusta Supply Chain in Southern Sumatra



Source: Association

Large exporters (trading companies) use a various parameters to determine the price offered to agents or district collectors. Since the beans will ultimately move to foreign markets, exporters must be cognizant of the qualities and characteristics of their buyer's desire. This often leads to discrepant pricing among exporters for the same lots of coffee. Agents or district collectors that understand these nuances stand to gain a better price for their beans.

Once samples are tested and the general terms are agreed to exporters will take possession of the beans and pay an initial lump sum amount to the seller, who then transfers the money back through the value chain. The final amount paid will be determined by the exporter's formula for discounting the actual quality and characteristics of the beans received versus the parameters set forth in the contract (see below sample of quality/discount formula).

Table 4. Beans Quality Specifications / Parameters

Quality	Finding	Deduction
MC (moisture content)	19 percent	6 percent
Husk	1.0 percent	1 percent

Dust (5<mm)	2.0 percent	2 percent
Total Triage	20 percent	5 percent
Cherry	2 percent	1 percent
Foreign Matter	0 percent	0 percent
Rendement / Return		**85 percent**

Source: Association

Disruptive Technology

Recently, some larger exporters have sought to short-circuit the established value chain by giving farmers and village collectors access to mobile applications on their smartphones that allow them to directly calculate the discounted price for their beans, sometime even supplier the smartphones.

With this technology farmers and village collectors can see real-time prices, make calculations for discounts based on dust, husks, foreign material and moisture and potentially shop around to receive a better price for their crop. Some companies have even set up temporary buying stations for farmers to bring in their beans and circumvent the entire value chain.

This disruption has not been well-received by agents, district collectors and some village and local collectors whose livelihoods have been threatened. While it does provide the opportunity for farmers to fetch a better price, it also may prove disadvantageous in the long-term as farmers often rely on village collectors for financing and inputs throughout the year. Larger companies are unlikely and probably unable to fill such a role. While it remains to be seen if the short-term profit may come at the expense of a greater loss during trying times, the use of technology is likely to continue expanding. Industry sources suggest that 10-15 percent of Robusta beans in Southern Sumatra may already be sold outside of the traditional value chain.

Price Table

Table 5: Indonesia Robusta spot price in Lampung and Arabica spot price in Medan 2017-2018 (IDR per kg)

	Robusta	**Arabica**
Apr-17	24,812	54,384
May-17	23,318	53,420
Jun-17	23,976	51,575
Jul-17	25,981	51,989
Aug-17	25,873	52,139
Sep-17	24,289	52,359
Oct-17	24,545	53,223
Nov-17	24,704	54,154
Dec-17	24,787	56,846
Jan-18	24,930	57,495
Feb-18	25,855	56,625
Mar-18	26,317	56,591
Apr-18	25,265	55,820

Source: Bappebti

Coffee, Green	2016/2017		2017/2018		2018/2019	
Market Begin Year	Apr-16		Apr-17		Apr-18	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1240	1,240	1250	1250		1250
Area Harvested	1200	1,200	1210	1210		1210
Bearing Trees	1160	1,160	1160	1160		1160
Non-Bearing Trees	15	15	15	15		15
Total Tree Population	1175	1,175	1175	1,175		1,175
Beginning Stocks	46	46	12	12		797
Arabica Production	1300	1300	1300	1200		1400
Robusta Production	9300	9300	9600	9,400		9700
Other Production	0	0	0	0		0
Total Production	10,600	10,600	10900	10,600		11,100
Bean Imports	342	342	340	877		300
Roast & Ground Imports	10	10	40	48		20
Soluble Imports	391	391	350	828		400
Total Imports	743	743	730	1,753		720
Total Supply	11,389	11,389	11,642	12,365		12,617
Bean Exports	7309	7,309	7450	6,939		7,200
Rst-Grnd Exp.	48	48	50	69		60
Soluble Exports	800	800	810	1,000		1,020
Total Exports	8,157	8,157	8,310	8,008		8,280
Rst,Ground Dom. Consum	2410	2,410	2470	2,650		2,900
Soluble Dom. Cons.	810	810	820	910		1,000
Domestic Consumption	3,220	3,220	3,290	3,560		3,900
Ending Stocks	12	12	42	797		437
Total Distribution	11,389	11,389	11,642	12,365		12,617
		-	-	-		-
(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)						