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Indonesia

Grain and Feed Annual

Indonesia Grain and Feed Annual Report 2015

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Report Highlights:

Post expects marketing year (MY) 2014/15 Indonesian wheat imports to increase by 4.2 percent to 7.7 million metric tons (MMT), compared to 7.392 MMT in MY 2013/14. Post also revised its MY 2014/15 Indonesian corn import upwards to 3.5 MMT, despite an expected increase in Indonesian corn production. Increased corn import estimates are based on expected feed production increases in calendar year (CY) 2015. Post estimates that MY 2014/15 Indonesian rice imports will increase marginally to 1.25 MT compared to MY 2013/14 of 1.225 MMT, based on expected higher production due to Indonesia's self-sufficiency policy.

SECTION I. SITUATION AND OUTLOOK

Food sovereignty is one of Indonesia's new administration priorities. The Government of Indonesia (GOI) has identified rice, corn and soybean as priority crops for self-sufficiency within the next three years, with rice self-sufficiency as the top objective.

The policy direction to achieve food sovereignty, as formulated by Indonesian Ministry of National Plan Development is:

1. Improve food security by strengthening domestic rice production capacity through:
 - a) The completion of a sustainable land security policy. This policy will prevent further land conversion to non-agricultural uses, expand agricultural production area by one million hectares, and expand or revitalize Indonesia's irrigation system.
 - b) Revitalize extension and seed systems to 1,000 seed sovereign villages and 1,000 organic farming villages.
 - c) The establishment of banks for agriculture, small and medium enterprise (SME), and cooperatives.
2. Increase the public's access to food through:
 - a) The construction of warehousing and post-harvest facilities.
 - b) Suppressing illegal imports.
 - c) Strengthening food reserves and stabilize food prices.
3. Improve the quality of food consumption and public nutrition by:
 - a) Increasing protein consumption such as eggs, fish, meat.
 - b) Increasing consumption of local non-rice food.
4. Mitigate disruptions to food sovereignty through the use of climate change-adaptive seed, the development of climate studies school, and the creation of agricultural insurance programs.

Table 1. Indonesian Food Sovereignty Goals:

INDICATOR	2014 (Baseline)	2019 (Target)
Domestic Production for Food Sovereignty		
Paddy (Million Tons)	69.9	82.0
Corn (Million Tons)	18.6	23.4
Soybean (Million Tons)	0.89	1.02
Sugar (Million Tons)	2.8	3.4
Beef (Million Tons)	395.1	459.9
Fishery Products (Million Tons)	24.9	40-50
Development, Improvement, and Rehabilitation of Irrigation:		
Development and improvement of surface water irrigation networks, water, and swamp land (Million Ha)	8.9	9.89
Rehabilitation of irrigation network of surface, ground water, and swamps (Million Ha)	2.71	3.01
Development and improvement of irrigation for ponds (Thousands Ha)	189.75	304.75
Reservoirs construction (cumulative for next 5 years)	21	49

Source: Ministry of National Development Plan.

The Indonesian Coordinating Ministry of Economy has also come up with planned steps to achieve food sovereignty:

1. Open up 1 million hectares of new agricultural production area. The GOI will identify forest area reserves (HPK, Hutan Produksi yang dapat di Konversi) as well as wetlands suitable for conversion to agricultural uses. There is 17.94 million hectares of HPK throughout Indonesia.
2. Rehabilitate existing as well as create new irrigation systems.
3. Encourage local governments to stop converting agricultural land to non-agricultural uses by implementing Law No. 41/2009 on Sustainability Food Agricultural Land Protection.
4. Establish 1,000 seed-independent villages. The Ministry of Agriculture will play a role in planning the programs and activities, as well as financing the establishment of 1,000 seed-independent villages.
5. Encourage the development of agro-processing facilities. The Ministries of Agriculture, Industry, Finance, and the local government will be encouraged to develop regulations that facilitate post-harvest processing development.
6. Prepare and implement Article 87 of Law No. 19/2013 on Protection and Empowerment of Farmers, on the establishment of Agricultural Unit Bank (BUP). Indonesian Ministry of Agriculture will establish an Agricultural Business Bank, the Indonesia Financial Services Authority will issue BUP permit, and the Ministry of Finance will set up the BUP's implementing guidelines.
7. Control food imports by implementing following measures:

- Determine the types of staple foods/basic commodities and essential goods required, as well as appropriate quantities, as mandated by Law No. 18/2012 on Food and Law No. 7/2014 on Trade.
- Harmonize legislation related to food imports through a review of import policies established in Law No. 13/2010 on Horticulture, Law No. 7/2014 on Trade, Law No. 39/2014 on Plantations, and Law No. 41/2014 on the Amendment to Law No. 18/2009 on Livestock and Animal Health.
- Strengthen National Food Reserves (government, local government, and villages' food reserves) by improving the role of BULOG and village-owned enterprises.
- Prevent hoarding and speculation through new regulations on warehousing.

Indonesia requires improved irrigation systems in order to achieve higher agricultural production. Indonesia is divided into 90 River Area Units (*Satuan Wilayah Sungai, SWS*) consisting of 5,000 river basin areas (*Daerah Aliran Sungai, DAS*). Water Resources Law No. 7/2004 states that the primary objective for Indonesia's water conservation policies is to ensure enough water for agriculture. The GOI and provincial governments are responsible for primary and secondary irrigation development, while farmer groups are responsible for tertiary irrigation development and improvement. According to the Indonesian Ministry of Public Works (MPW), approximately 84 percent of Indonesian rice area was irrigated, while the remaining 16 percent was rain fed.

The following table shows water levels at major Indonesian reservoirs as of February 15, 2015:

Table 2. Indonesia: Major Water Reservoir Status, February 15, 2015.

No	Name of Water Reservoir	Elevation and Volume				Drought Alert Elev. (m)	Monitored	Condition
		Plan	Monitored	Elev. Deviation	Vol. Deviation			

1	2	Elev. (m)	Vol. (Mill. m ³)	Elev. (m)	Vol. (Mill. m ³)	tion (m)	(Mill. m ³)	11	Status	13
2	Jatiluhur	98.53	678.37	95.09	655.22	-3.44	-23.15	87.50	03/12/20 14	Deficit
3	Cirata	210.6 6	203.52	208.8 1	149.44	-1.85	-54.08	206.00	03/12/20 14	Deficit
4	Saguling	633.0 8	159.29	630.6 2	115.36	-2.46	-43.93	623.00	03/12/20 14	Deficit
5	Kedungombo	77.60	299.50	78.45	308.46	0.85	8.96	241.00	29/12/20 14	Normal
6	Wonogiri	136.0 0	357.16	136.2 3	364.78	0.23	7.62	128.00	15/02/20 15	Normal
7	Sempor	53.40	6.89	69.75	32.69	16.35	25.80	168.30	16/02/20 15	Normal
8	Wadaslintang	165.0 0	199.78	181.2 1	349.20	16.21	149.42	314.06	16/02/20 15	Normal
9	Sermo	128.6 6	8.95	136.0 6	17.81	7.40	8.86	122.12	16/02/20 15	Normal
10	Sutami	259.0 0	42.13	258.7 4	40.93	-0.26	-1.20	246.00	10/01/20 15	Deficit
11	Lahor	259.2 0	3.90	258.5 9	3.64	-0.61	-0.26	253.00	10/01/20 15	Deficit
12	Selorejo	611.6 8	11.86	619.0 2	26.98	7.34	15.12	598.00	10/01/20 15	Normal
13	Bening	99.49	2.32	101.8 1	4.90	2.32	2.58	96.40	10/01/20 15	Normal
14	Wonorejo	161.5 0	35.94	165.1 0	44.59	3.60	8.65	141.00	10/01/20 15	Normal
15	Keuliling	45.80	18.36	45.78	18.31	-0.02	-0.05	38.50	31/01/20 15	Deficit
16	Bili-bili	91.14	178.16	99.34	256.88	8.20	78.72	80.91	15/02/20 15	Normal
17	Batutege	274.0 0	687.77	273.8 4	684.43	-0.16	-3.34	243.93	31/12/20 14	Deficit

Source: Ministry of Public Works December 31, 2013.

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) reported that in January 2015 the surface temperature of Indonesian seas was warmer, with insignificant additional evaporation in northern Java. From February to June 2015, BMKG forecasts that sea surface temperatures will be normal to warm with significant additional evaporation on Java and surrounding areas. BMKG will refer to the following guidelines for evaluating sea surface temperatures and forecasting possible El Nino/La Nina occurrences.

Table 3. El Nino/La Nina Forecast Guidelines Based on Southern Oscillation Index (SOI)

SOI Value (Tahiti Island and Darwin) Island)	Events That May Occur
Below -10 for 6 months	Strong El Nino
-5 to -10 for 6 months	Moderate to Weak El Nino

-5 to +5 for 6 months	Normal
+5 to +10 for 6 months	Moderate to Weak La Nina
Above +10 for 6 months	Strong La Nina

Source: BMKG

BMKG obtained the following results on the recent southern oscillation index:

Table 4. Recent Southern Oscillation Index Status

Date	Tahiti	Darwin	Daily	30-day Avg. SOI	90-day Avg. SOI
13 Jan 2015	1011.44	1005.90	4.39	-5.75	-7.46
14 Jan 2015	1011.75	1006.55	2.78	-5.51	-7.27
15 Jan 2015	1012.35	1005.95	8.44	-5.29	-7.05
16 Jan 2015	1011.56	1006.45	236	-5.29	0.93
17 Jan 2015	1010.03	1007.55	-1003	-5.72	0.97
18 Jan 2015	1006.90	1008.60	-2972	28	-7.12
19 Jan 2015	1005.36	1010.05	-4380	-7.20	-7.33
20 Jan 2015	1007.21	1011.30	-40.98	-8.04	-7.51
21 Jan 2015	1007.54	1011.10	-3848	-8.65	-7.67

Source: BMKG

BMKG forecasts that Indonesia will experience a weak El Nino from March through June 2015. A weak El Nino also occurred in January 2015. The occurrence of a weak El Nino in November 2014 delayed the onset of the 2014 rainy season to December, pushing back the start of the MY 2014/15 paddy crop to early December 2014. Normally, the rainy season lasts from October to April, while the dry season takes up the remaining months. The Indonesian 2015 rainy season is still ongoing, with sufficient rainfall.

EXECUTIVE SUMMARY

Wheat

Post estimates that total Indonesian wheat imports will grow by 4.2 percent from 7.329 MMT in MY 2013/14 to 7.7 MMT in MY 2014/15. Imports are expected to continue growing to 8.1 MMT in MY 2015/16, in line with higher demand from the domestic wheat flour-based food industry. Post expects that U.S. origin wheat exports to Indonesia will decrease to 600,000 MT in MY 2014/15 due to stronger competition with traditional suppliers such as Australia and Canada.

Corn

Post estimates that MY 2014/15 Indonesian corn production will increase to 9.4 MMT, compared to 9.1 MMT in MY 2013/14. The increase is due to more area planted with hybrid corn seed, as well as expansion in the place of soybean area. Production is expected to increase to 9.6 MMT in MY 2015/16. Despite the increase in production, MY 2014/15 Indonesia corn imports are estimated to be stable at 3.5

MMT. In line with increased production, MY 2015/16 Indonesian corn imports are forecast to decline to 3 MMT.

Rice

MY 2014/15 first crop delays will push back the MY 2014/15 third crop harvest to MY 2015/16. Considering the potential loss, Post estimates MY 2014/15 Indonesian paddy harvested area down to 12.080 million hectares. On the other hand, Post estimates that MY 2014/15 Indonesian rice production will remain stable at 36.3 MMT due to higher expected yields. Increasingly strict import policies will slow MY 2014/15 Indonesian rice imports to 1.25 MMT, a marginal increase. Imports are expected to decline to 1.1 MMT in MY 2015/16.

WHEAT

Trade

During the 1998 Indonesian monetary crisis, only four Indonesian flour mills were operating. Today Indonesia is home to 29 flour mills with a total installed capacity of 10.3 MMT/year, currently operating at 60 – 70 percent capacity. This is lower than 2012, when estimates indicated that mills were operating at 75 percent capacity. The decline is attributable to a highly competitive market and strong supply.

Flour production costs have increased as Indonesian electricity and labor rates have risen, while the Dollar/Rupiah exchange rate has fallen from Rp. 11,591/\$1 in July 2014 to Rp. 13,191/\$1 in March 2015. This has been somewhat offset by abundant wheat supplies in Australia, the United States, and Europe. Therefore, the Indonesian Ministry of Trade's Market Information Center reports that the price of Segi Tiga Biru flour has been relatively stable. (Retail Rp. 8,200 (\$631/MT) – Rp. 8,300/kg (\$638/MT) and factory gate Rp. 5,832/kg (\$449/MT) from July 2014 to March 2015).

Based on the aforementioned factors, Post estimates that Indonesia's MY 2014/15 wheat imports will increase to 7.7 MMT, compared to 7.392 MMT in MY 2013/14. Higher demand for wheat flour-based food and growing mills will drive a further increase of wheat imports which is forecast to reach 8.1 MMT in MY 2015/16. Australia held the largest market share for wheat (53 percent) in MY 2013/14. This was followed by United States (16 percent), and the Canada (16 percent). Australia's majority market share is due to the noodle industry's preference for Australian standard white wheat, price, and Australia's close proximity. With strong Australia supplies expected to continue to MY 2014/15, U.S. market share in MY 2014/15 will likely to decline to approximately 7.8 percent. U.S. wheat import market share is expected to increase to 8.6 percent in MY 2015/16, in line with increasing imports from Indonesian flour mills.

Indonesia's wheat flour import quota, which limits imports of wheat flour, expired on December 4, 2014. Nevertheless, industry reports that the depreciating Rupiah has resulted in higher freight rates, discouraging wheat flour imports from Sri Lanka, India, or Turkey. Domestic flour continues to dominate the market with a 96.4 percent market share. Based on Global Trade Atlas data for MY 2013/14 Indonesian wheat flour imports, Turkey maintained the largest market share (43 percent), followed closely by India (23 percent), Sri Lanka (16 percent), Malaysia (7 percent) and Ukraine (6 percent). In MY 2013/14, Indonesia imported a total of 225,392 MT of flour, (308,336 MT of wheat

equivalent). This represents a decline from MY 2013/14 wheat flour imports of 256,420 MT (350,783 MT of wheat equivalent).

With the expiration of the wheat flour import quota, the Indonesian Flour Mills Association (APTINDO) urgently requested the GOI to implement an anti-dumping duty. APTINDO has submitted anti-dumping petitions to the Indonesian Anti-Dumping Commission in March 2014. If their petition is approved, Indonesia is expected to impose an anti-subsidy or anti-dumping duty on imports of wheat flour. The current import duty for imports of wheat flour is 5 percent. One consequence of this action is Indonesia's feed sector, which consumes approximately 165,000 MT of imported feed grade wheat flour annually. Industry sources report that the feed sector continues to prefer to use domestically produced feed-grade wheat flour.

Consumption

Approximately 66 percent of Indonesian flour mill customers are small and medium sized wheat-food producers. These include small scale wet noodle makers, street food vendors, low end bread and bakery businesses, and traditional Indonesian cake makers. Instant noodle manufacturers, middle and upper end bakeries, and cookie and biscuit manufacturers take the other 34 percent of the market. APTINDO reported that approximately 200,000 small and medium scale enterprises, employing two million workers, are operational in Indonesia.

In MY 2013/14, Indonesia's annual per capita wheat flour consumption reached 19 kg per capita per year. Relatively stable macro-economic conditions have allowed middle and upper-middle income consumers to diversify their diets to include more western-style foods like bread and pasta. Rather than eating rice three daily meals, many Indonesians have switched to eating bread or noodles for breakfast. Restaurants are also driving demand for wheat-based food products. Contrary to the depressed growth of small and medium scale bakeries, the number of high-end bakeries is growing, mainly in major cities including Jakarta, Surabaya, Medan, and Bandung. Instant noodle prices are currently cheaper than rice, and many more lower and middle income consumers substitute instant noodles for breakfast or dinner. As a result, the noodle industry continues to grow rapidly, consuming 70 percent of Indonesia's wheat flour. Bakery industry consumption follows with 20 percent of flour, while household and the commercial biscuit producers each consume 10 percent, respectively. The Indonesian Statistics Agency (BPS) in its 2013 National Economic Survey recorded that Indonesian wheat flour-based food consumption has increasing by one percent per annum since 2009. Given these factors, Post increased the MY 2014/15 Indonesian wheat consumption estimate by approximately 4.2 percent from 7.1 MMT to 7.4 MMT. It is forecast to continue increase to 7.6 MMT in MY 2015/16.

CORN

Production

Despite forecasts of a weak El Nino in November, favorable weather prevailed in 2014. Farmers in upland areas were able to plant corn during the second cropping season, while a third corn crop was harvested on Java's irrigated lowland areas. Farmers report that most of the corn planted in upland areas was harvested by late February and early March 2014. Indonesia's first corn season normally takes place from November to February (49 percent). The second season takes place from March to June (37

percent), while the third runs from July to September (14 percent). No significant pest and disease incidents were reported during the last two corn crop cycles of MY 2013/14.

MY 2014/15 corn harvested area is estimated to increase at the expense of soybean area. Farmers are less interested in growing soybean due to lower yield and margins compared to corn. Furthermore, in an effort to increase corn production, the Indonesian Ministry of Agriculture is cooperating with Indonesian Ministry of Forestry and Environment to allow farmers to grow secondary crops and sugarcane on 1 million hectares of targeted forestry area. A pilot project on 30,000 hectares of forestry land will be carried out in Central Java. Therefore, Post raises the MY 2014/15 corn harvested area estimate to 3.14 million hectares, compared to the previous estimate of 3.12 million hectares.

Post field visits to East Java revealed that farmers in both lowland and upland rain-fed areas are growing corn during the first crop cycle.



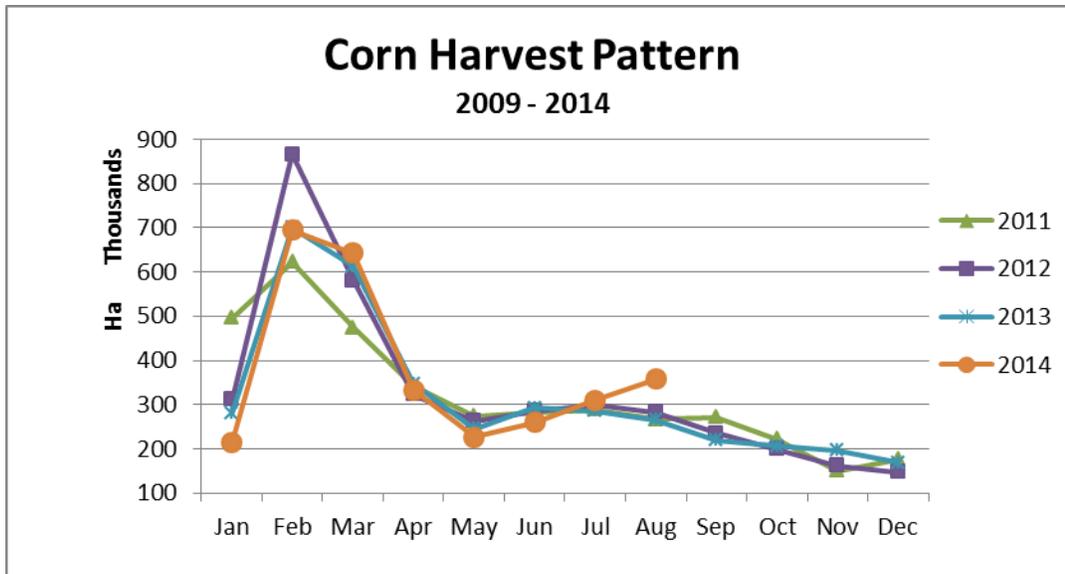
East Java upland corn, February 2015.



Corn and teak multi-crop on

Indonesian Ministry of Forestry-owned land in Central Java.

Chart 1. Indonesia: Corn Harvest Pattern 2011 – 2014



Source: Indonesian National Statistics Agency (BPS).

Average corn yields are expected to rise slightly due to the increased use of hybrid corn seed. More seed producers are producing downy mildew-resistant hybrid corn seed. Corn seed suppliers report that in MY 2014/15 total area grown with hybrid corn seed is expected to reach 55 percent, an increase from 50 percent in MY 2013/14. All major hybrid corn seed suppliers expect increased sales in MY2014/15.

Given the abovementioned factors, Post revised the estimate of MY 2014/15 Indonesian corn production from 9.2 to 9.4 MMT. Assuming normal weather and increased hybrid corn planting, Post expects MY 2015/16 corn harvested area to remain on par at 3.12 million hectares. Post also expects that MY 2015/16 corn production will increase to 9.6 MMT due to the growth of hybrid corn seed use. Post notes that production growth is challenged by the conversion of Indonesian farm land to non-agricultural uses.

Current farm-gate corn prices range from Rp. 2,400/kg (\$185/MT) in Lampung to Rp. 3,400/kg (\$261/MT) in East Java. The price of hybrid corn seed has risen, with prices ranging from Rp. 60,000/kg (\$4.6/kg) to Rp. 80,000/kg (\$6.2/kg). (This compares with Rp. 50,000/kg (\$3.8/kg) to Rp. 80,000/kg (\$6.2/kg) in 2014).

Consumption

The Indonesian Feed Producers Association (*Asosiasi Produsen Pakan Indonesia, APPI*) reports that in calendar year (CY) 2015, feed production is expected to increase by 10 percent to 16.5 MMT, compared to 15 MMT in CY 2014 (This excludes 1.4 MMT used for aquaculture feed). Assuming that the economic and political situation remains stable, there are no significant poultry disease outbreaks, and the Indonesian rupiah trades favorably against the U.S. dollar, *APPI* forecasts that Indonesian feed consumption will further increase to 18 MMT in CY 2016.

The poultry industry consumes approximately 83 percent of Indonesia's animal feed. Aquaculture consumes 11 percent and the remaining six percent is consumed by cattle and swine. The Indonesian poultry industry reports that the poultry population in CY 2014 will include 2.354 billion broilers, 134.7

million layers, 21.755 million breeders, and 94.3 million male layers (raised for meat). Demand for aquaculture feed in CY 2015 is estimated to increase by 13 percent due to an increase in demand for shrimp in the international market. Expansion by feed mills continues to take place. Five new feed mills started operation in CY 2014, and existing major feed mills continue to expand operations. As a result, installed capacity of Indonesian feed mills is expected to reach 20 MMT. Millers report that Indonesian mills are running at 70 – 80 percent capacity.

Table 5. Indonesia: Sources of Primary Feed Ingredients

No.	Feed Ingredient	Sources	
		Local	Import
1.	Corn	90-95	5-10
2.	Fish Meal	5-10	90-95
3.	MBM	0	100
4.	Soybean Meal	0	100
5.	Rapeseed Meal	0	100
6.	Corn Gluten Meal	0	100
7.	Feed Additive	0	100
8.	Rice Bran	100	0
9.	Copra Meal	100	0
10.	Palm Kernel Meal	100	0
11.	CPO	100	0

Source: Indonesian Feed Producers Association (APPI)

APPI reports that on average, livestock feed is composed of corn (50 percent), soybean meal (15-20 percent), corn gluten meal (3 percent), CPO (2 percent), fish meal (5 percent), rice bran (15 percent), wheat pollard (8 percent), and premix (0.6 percent). Indonesian feed millers are heavily reliant on imported feed ingredients. Factors inhibiting feed millers from sourcing ingredients locally include low protein content, high raw fiber content, rancidity, limited and inconsistent corn supplies for commercial scale feed millers, and storage challenges. Given these challenges and Indonesia's expanding livestock sector, feed millers report inelastic demand for imported corn.

Considering the above factors, Post increased the MY2014/15 corn feed consumption estimate to 8 MMT compared to the previous estimate of 7.6 MMT. This is forecast to increase further to 8.6 MMT in MY 2015/16. To the contrary, BPS reports in the Indonesian National Economic Survey that Indonesian human corn consumption is decreasing by 6.33 percent per annum. Therefore, Post estimates that MY 2014/15 Indonesia corn consumption for human food will decline to 4.2 MMT compared to the previous estimate of 4.4 MMT. Corn consumption is forecast to continue declining to 4.1 MMT in MY 2015/16 as consumers substitute rice and wheat-based food products.

Trade

Corn constitutes about 80 percent of Indonesian feed energy sources. Despite growing domestic production, challenges persist due to inconsistent seasonal supplies and poor post-harvest management that result in high moisture content and high aflatoxin levels. These factors, combined with growing feed mill capacity, are driving import demand. Post revises MY 2014/15 Indonesian corn import

estimates to 3.5 MMT, an increase of 900,000 MT over the previous estimate. Prospects for better corn production in MY 2015/16 and larger carryover stocks from MY 2014/15 will push MY 2015/16 Indonesian corn imports down to 3 MMT. According to the Global Trade Atlas, MY 2013/14 Indonesian corn imports originated in Brazil (48 percent), India (33 percent), Argentina (15 percent), and the United States (3 percent).

Indonesia imported 326,000 MT of distiller's dried grain solubles (DDGS) in MY 2013/14, a 47 percent increase over 223,000 MT in MY 2012/13. The United States is Indonesia's largest DDGS supplier, with a 98 percent market share. In 2013/14, Indonesia imported 200,000 MT of corn gluten meal (CGM), a decline of 29 percent compared to 282,000 MT in MY 2012/13. Frequent promotional activities and technical assistance provided by the U.S. Grains Council, in conjunction with other U.S. promotional activities, contributed to increased knowledge about the value of using DDGS by Indonesian feed mills.

With increasing feed production capacity and higher demand from the meat and poultry sectors, APPI reports that the feed industry will need to import more corn in MY 2014/15 than in MY2013/14. However, MOA maintains an unofficial import quota for corn. In order to import corn, a feed miller must obtain an import recommendation from MOA. MOA only issues import recommendations for corn imports based on the difference between estimated domestic corn production and estimated feed demand. MOA's production estimate for CY 2014 is 19.13 MMT.

Prices

In March 2015, corn farm gate prices ranged from Rp. 2,400/kg (\$185/MT) to Rp. 3,400/kg (\$261/MT) compared to Rp. 2,600/kg (\$200/MT) to Rp. 3,600/kg (\$277/MT) in February 2015. (Note corn prices FOB Gulf basis ranged approximately \$170 to \$180/MT in March 2015.) Prices are decreasing as supplies arrive from the current harvest period. With tighter competition from growing feed mills industry, APPI reported that prices of broiler feed in January 2015 declined to Rp. 5,500/kg (\$423/MT) compared to Rp. 6,000/kg (\$461/MT) in 2014.

RICE, MILLED

Production

The first crop of paddy for MY 2014/15 in major production areas is delayed, in line with BMKG reports that the onset of the 2014 rainy season was delayed until December 2014. Typically, irrigated farms are planted to paddy during the first crop cycle (October – February), followed by paddy on the second crop cycle (March to June), and ended by growing paddy or secondary crops such as corn, mungbean, soybean, peanut, or sweet potato during the third crop cycle (July – October). However, in MY 2014/15, most farmers on Java started the first crop cycle in mid-December 2014 due to water shortages (late rainfall). The delayed first crop is expected to push back the harvest of MY 2014/15

third crops, especially on irrigated low land areas. Furthermore, BMKG reported that the sea surface temperature during January and February 2015 ranged from normal to warm. This implies that rainfall intensity will not be as high as in the early 2014, when the northern coastal areas of Java experienced flooding. Therefore, Post revises the MY 2014/15 Indonesian rice harvested areas to 12.08 million hectares compared to the previous estimate of 12.16 million hectares. With carry-over from the MY 2014/15 third crop, as well as assuming favorable weather and no significant pest and disease incidents, Post forecast that MY 2015/16 Indonesian paddy harvested areas will rebound to 12.16 million hectares.

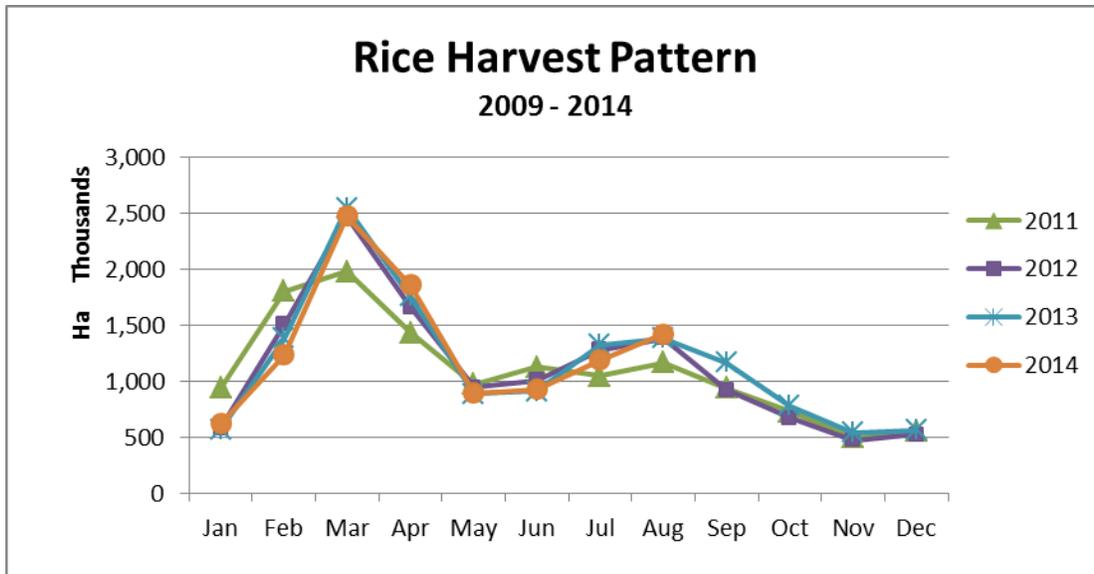
Overall MY 2014/15 yields are estimated to remain higher than MY 2013/14 due to the growing use of high yielding varieties such as Ciherang, Sinta Nur, Inpari, Memberamo, and Mekonga. Other factors aiding yield increases include an absence of flooding and no reports of major pest and disease outbreaks. More and more farmers are adopting the paddy planting technology called “Jajar Legowo”. The Jajar Legowo cropping system plants paddy with a pattern of several rows interspersed with an empty row. Plants that should be planted in an empty row are inserted in row crops. Initially, Jajar Legowo is applied to areas with many pests and diseases. In blank rows farmers can make shallow trench. The trenches can be used collect snails which are harmful to paddy. Later on, the cropping pattern evolves, providing higher yields as a result of increasing populations and optimization of growing space for paddy. This cropping system also provides more air and sunshine circulation. In addition, efforts to control weeds and fertilization can be done more easily. Farmers using the technology can achieve a potential increase of 10 – 15 percent in yield.

As of February 2015, there were a few small and sporadic paddy harvests ongoing on Java. The first main harvest period is expected to take place between late March 2015 and April 2015. Irrigated land has started the first paddy crop planting, while upland areas of Java are being planted to corn. The second harvest is expected to occur in late August 2015.



Jajar Legowo and harvest on Java.

Chart 2. Indonesia: Rice Harvest Pattern 2011 - 2014



Source: BPS

In efforts to achieve food self-sufficiency targets, The Ministry of Agriculture has appointed PT. Sang Hyang Seri and PT. Pertani, two state owned companies, to provide high yielding variety seed to be distributed at subsidized rates to farmers.

Table 6. Indonesia: of Subsidized Seed Allocation and Maximum Retail Price (*Harga Eceran Tertinggi, HET*), 2015

No.	Seed	Subsidized Allocation	Total Area	HET
		Volume (Kg)		(Rp. Kg)
1.	Inbred Paddy	98,500,000	3,940,000	3,050
2.	Hybrid Paddy	1,500,000	100,0000	5,700
3.	Hybrid Corn	1,500,000	100,000	16,300
4.	Soybeans	15,000,000	300,000	5,200
	Total	116,500,000	4,440,000	

Source: Ministry of Agriculture, 2015.

The Ministry of Agriculture is taking additional steps to ensure the success of rice self-sufficiency policies. MOA has requested assistance from Indonesian national army to monitor the distribution of subsidized fertilizer, help farmers repair tertiary irrigation canals, and to control pest and disease incidents that may occur.

Despite lower harvested areas, Post's MY 2014/15 Indonesian paddy production estimate is expected to reach 57.165 MMT based on growing demand for high-yielding seed varieties, land conversion to non-

agricultural uses, and assuming normal weather. Post also expects MY 2015/16 paddy production to increase to 57.717 MMT based on additional carry over from MY 2014/15 third crops.

Trade

The Indonesian National Logistics Agency (BULOG) has set its procurement target at 3.2 MMT of milled rice equivalent for MY 2014/15. This is higher compared to the 3 MMT target set in MY 2013/14. As of December 2014, BULOG realized 2.5 MMT of the procurement target of MY 2013/14, with an ending stock of 1.79 MMT, which includes approximately 250,000 tons of government rice reserve. However, in the middle of March 2015, BULOG revised its MY 2014/15 procurement target from 3.2 to 2.5 MMT. This decision is a follow up to the GOI decision to increase government purchasing price (*Harga Pembelian Pemerintah, HPP*) for paddy and rice as stated in Presidential Instruction No. 5/2015 stipulated on March 17, 2015. The average increase of the HPP, which is set at an average of 10 -12 percent from the previous HPP, is considered lower than BULOG's expectation of a 15 percent average increase of HPP.

BULOG can only buy paddy or rice from farmers when the market price is lower or equal to the GOI's official purchasing price (*Harga Pembelian Pemerintah, HPP*). According to presidential instructions, BULOG can buy paddy or rice that meets the following criteria and using the following HPP:

Table 7. Indonesia: Government Purchasing Price for Paddy and Rice 2012-Present

Quality Requirement		Inpres 2012			Inpres 2015		
		Wet Paddy	Dry Paddy	Rice	Wet Paddy	Dry Paddy	Rice
Moisture Content	Max	25%	14%	14%	25%	14%	14%
Empty Husks/Dirt	Max	10%	3%	-	10%	3%	-
Broken	Max	-	-	20%	-	-	20%
Price at farmer's level		Rp. 3,300	-	-	Rp. 3,700	-	-
Price at mill's level		Rp. 3,350	Rp. 4,150	-	Rp. 3,750	Rp. 4,600	-
Price at Bulog warehouse		-	Rp. 4,200	Rp. 6,600	-	Rp. 4,650	Rp. 7,300

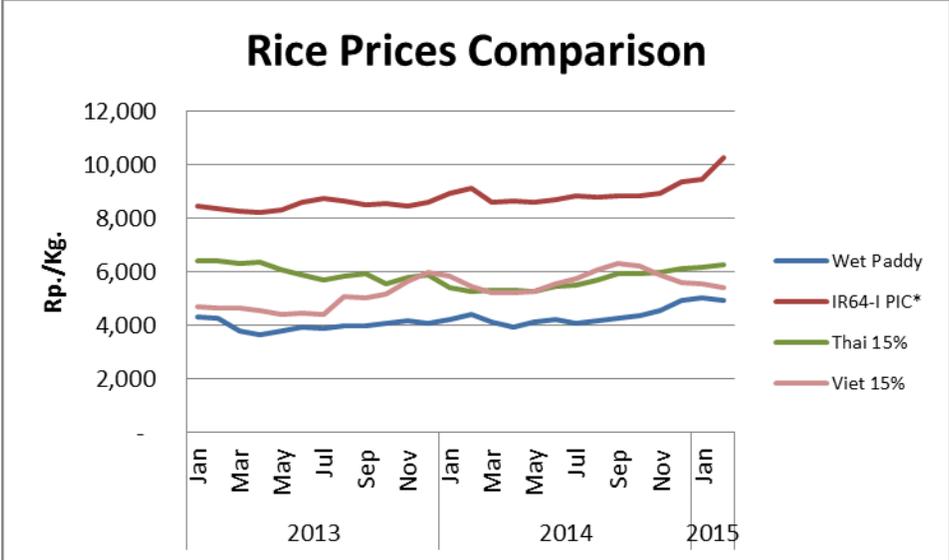
BULOG normally meets 60 percent of its procurement target during the first main harvest period. With the delay in the MY 2014/15 first harvest, BULOG has only begun domestic procurement. As of March 31, 2015 BULOG procurements totaled 30,000 MT, far below 320,000 MT procured during the same period of last year.

In the past, the GOI instructed BULOG to maintain a minimum secure stock level of 2 MMT by the end of the year. With the current HPP, BULOG may find difficulty in meeting its procurement target as the delayed harvest, combined with inflation, will push paddy prices above the HPP. June is usually the

most important month for BULOG domestic procurement objectives. Assuming that BULOG will be able to reach the procurement target from domestic farmers, the GOI will still need to consider imports to maintain BULOG’s stock at their prescribed levels.

Indonesian regulations restrict imports of rice one month prior to, during, and two months after the main harvest period. Indonesian regulations only permit BULOG, the Indonesian state trading company, to import medium quality rice while private companies can import specialty rice (jasmine rice, basmati rice, sushi rice, rice for diabetics and rice seed, for example). Indonesian rice prices are considered the highest in the international market.

Chart 3. Indonesia: Rice Price Comparisons



Source: Cipinang wholesale rice market, The Rice Trader, processed by FAS Jakarta.

Post expects that MY 2014/15 imports will increase to 1.25 MMT from to 1.225 MMT in MY 2013/14. Medium grade rice is expected to make up 400,000 MT, with the remainder as specialty rice imports.

Post also expects that Indonesia may impose additional import restrictions in MY 2015/16, leading to a lower import forecast of 1.1 MMT. Post notes that the GOI's rice self-sufficiency aspirations have resulted in import restrictions on rice, including specialty rice. The Ministry of Agriculture has not issued any import recommendations for japonica rice since the fourth quarter of 2014, claiming that certain local varieties can be substituted for restaurant grade japonica rice. The Ministry of Agriculture continues to issue import recommendations for other specialty rice varieties.

Consumption

In MY 2014/15 BULOG will allocate 2.795 MMT of rice for the *Raskin* program to 15,530,897 poor families. Each family will receive 15 kg of rice/month for 12 months at the price of Rp. 1,600/kg. As of February 2015, BULOG distributed a total of 210,204 kg of rice under the *Raskin* program.

2013 Indonesia National Economic Survey (Susenas) data showed an average decline in rice per capita consumption of 1.62 percent per annum. The decline in rice consumption is due to some switching (especially at those middle income class) to wheat flour-based foods such as instant noodle and bread. The price of a pack of instant noodle currently is about Rp. 2,000/pack (\$0.15/pack) and can be eaten without any side dishes, compared to the price of rice of Rp. 10,580 – 11,400/kg (\$814 - \$877/MT).

Based on population growth and other data, Post revised MY 2014/15 Indonesian rice consumption to 38.6 MMT from the previous estimate of 39.2 MMT. Post expects Indonesian rice consumption to increase to 38.65 MMT in MY 2015/16, in line with population growth.

Stocks

Post revises MY 2014/15 Indonesian rice ending stocks to 4.451 MMT, slightly higher than the previous estimate of 4.101 MMT, based on consumption revisions. Furthermore, Post forecasts MY 2015/16 Indonesian rice ending stocks to 3.551 MMT, based on lower imports and higher consumption.

Prices

Due to the delayed harvest, the current price of wet paddy and rice are above the HPP. Current farm gate prices of wet paddy in Java range from Rp. 3,600/kg (\$277/MT) to 4,500/kg (\$346/MT) compared with Rp. 2,900/kg (\$223/MT) to Rp. 4,300/kg (\$331/MT) in the same period of MY2013/14. The average price of medium quality rice at Cipinang wholesale market also decreased from Rp. 10,800/kg (\$831/MT) in March 1, 2015 to Rp. 9,200/kg (\$708/MT) in March 30, 2015. Average daily rice supplies to the Cipinang rice wholesale market in Jakarta increased to 3,876 MT in March 2015 from 2,006 MT in February 2015, as harvesting in major production areas takes off.

Policy

In an effort to achieve the MY 2014/15 paddy production target of 73.4 MMT, the GOI set the maximum retail price of subsidized fertilizer on 27 November 2014. These prices apply only to small holder farmers possessing no more than 2 hectares of land for 2015.

Urea : Rp. 1,800/kg

SP-36 : Rp. 2,000/kg
 ZA : Rp. 1,400/kg
 NPK : Rp. 2,300/kg
 Organic fertilizer : Rp. 500/kg

Table 8. Indonesia: Planned Subsidized Fertilizer Demand by Sub Sector, 2014 and 2015.

Sub Sector	Fertilizer Type (MT)									
	2014					2015				
	Urea	SP-36	ZA	NPK	Organic	Urea	SP-36	ZA	NPK	Organic
Food Crops	2,481,552	520,639	514,103	1,362,272	595,989	3,071,382	567,317	713,097	1,857,441	721,512
Horticulture	195,819	41,930	40,154	206,077	71,884	181,378	45,961	61,191	165,344	53,991
Estate Crops	521,113	136,461	224,922	389,288	109,859	677,705	197,985	264,473	509,338	134,097
Livestock	102,663	20,960	20,821	42,363	22,268	76,789	12,888	11,239	17,877	90,401
Aquaculture	116,853	40,010	-	-	-	92,746	25,849	-	-	-
Total	3,418,000	760,000	800,000	2,000,000	800,000	4,100,000	850,000	1,050,000	2,550,000	1,000,001

Source: MOA Reg. No. 123/Permentan/SR.130/11/2013 and MOA Reg. No. 130/Permentan/SR.130/11/2014

Farmers receive subsidized fertilizer based on the fertilizer demand included in the Farmers Group Definitive Demand Plan (*Rencana Definitif Kebutuhan Kelompok, RDKK*). The Ministry of Agriculture reports that based on the 2015 national budget allocation, subsidized fertilizer received a total of Rp. 28.5 trillion rupiah (equivalent to 9.5 MMT of fertilizer). The proposed demand by farmers based on RDKK for 2014 is 15.2 MMT. There is concern that the allocation of subsidized fertilizer will not be sufficient to cover farmers demand for one year.

PSD TABLES

Table 9. PSD: WHEAT

Wheat Market Begin Year Indonesia	2013/2014		2014/2015		2015/2016	
	Jul 2013		Jul 2014		Jul 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1,560	1,560	1,387	1,387	0	1,192
Production	0	0	0	0	0	0
MY Imports	7,392	7,392	7,700	7,700	0	8,100
TY Imports	7,392	7,392	7,700	7,700	0	8,100
TY Imp. from U.S.	1,126	1,126	0	600	0	700
Total Supply	8,952	8,952	9,087	9,087	0	9,292
MY Exports	300	300	300	330	0	370
TY Exports	300	300	300	330	0	370
Feed and Residual	165	165	165	165	0	200
FSI Consumption	7,100	7,100	7,300	7,400	0	7,600
Total Consumption	7,265	7,265	7,465	7,565	0	7,800
Ending Stocks	1,387	1,387	1,322	1,192	0	1,122
Total Distribution	8,952	8,952	9,087	9,087	0	9,292

1000 HA, 1000 MT, MT/HA

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 10. PSD: CORN

Corn Market Begin Year Indonesia	2013/2014		2014/2015		2015/2016	
	Oct 2013		Oct 2014		Oct 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	3,120	3,120	3,120	3,140	0	3,140
Beginning Stocks	1,040	1,040	1,715	1,715	0	2,395
Production	9,100	9,100	9,200	9,400	0	9,600
MY Imports	3,500	3,500	2,600	3,500	0	3,000
TY Imports	3,500	3,500	2,600	3,500	0	3,000
TY Imp. from U.S.	126	126	0	10	0	0
Total Supply	13,640	13,640	13,515	14,615	0	14,995
MY Exports	25	25	25	20	0	20
TY Exports	25	25	25	20	0	20
Feed and Residual	7,400	7,400	7,600	8,000	0	8,600
FSI Consumption	4,500	4,500	4,400	4,200	0	4,100
Total Consumption	11,900	11,900	12,000	12,200	0	12,700
Ending Stocks	1,715	1,715	1,490	2,395	0	2,275
Total Distribution	13,640	13,640	13,515	14,615	0	14,995

1000 HA, 1000 MT, MT/HA

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 11. PSD: RICE, MILLED

Rice, Milled Market Begin Year Indonesia	2013/2014		2014/2015		2015/2016	
	Jan 2013		Jan 2014		Jan 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	12,100	12,100	12,160	12,080	0	12,160
Beginning Stocks	6,476	6,476	5,501	5,501	0	4,451
Milled Production	36,300	36,300	36,500	36,300	0	36,650
Rough Production	57,165	57,165	57,480	57,165	0	57,717
Milling Rate (.9999)	6,350	6,350	6,350	6,350	0	6,350
MY Imports	1,225	1,225	1,300	1,250	0	1,100
TY Imports	1,225	1,225	1,300	1,250	0	1,100
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	44,001	44,001	43,301	43,051	0	42,201
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	38,500	38,500	39,200	38,600	0	38,650
Ending Stocks	5,501	5,501	4,101	4,451	0	3,551
Total Distribution	44,001	44,001	43,301	43,051	0	42,201

1000 HA, 1000 MT, MT/HA

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 12. RAINFALL DATA

Rainfall Pattern at Selected Station in Rice/Corn Producing Areas (in millimeters, except where stated)											
JATIWANGI (WEST JAVA)											

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	651	208	436	160	83	32	0	4	1	44	528	493
2009	231	208	279	211	57	N/A	0	0	1	53	398	191
2010	231	332	492	278	385	161	n/a	112	216	195	287	261
2011	23	176	482	558	149	98	22	0	0	29	290	491
2012	182	330	329	144	26	70	0	0	0	47	204	496
2013	251	449	439	283	157	217	196	20	26	0	138	550
2014	476	337	212	302	194	55	53	0	0	0	234	

TEGAL (CENTRAL JAVA)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	229	169	295	277	19	85	21	35	2	74	115	259
2009	140	169	112	60	161	N/A	0	1	20	8	92	57
2010	122	242	152	263	200	193	N/A	121	143	64	159	214
2011	82	372	217	105	138	10	69	0	4	37	128	340
2012	335	294	330	111	86	22	1	0	0	18	102	238
2013	458	103	229	82	263	301	159	3	0	5	128	310
2014	439	208	216	98	147	58	52	0	0	3	170	

SURABAYA (EAST JAVA)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	250	124	144	132	22	17	0	0	0	59	180	269
2009	357	124	204	164	256	N/A	0	0	0	0	25	166
2010	507	368	295	226	354	90	N/A	14	129	246	113	303

LAMPUNG												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	198	126	199	171	38	35	26	109	27	147	174	313
2009	233	126	218	143	94	N/A	15	58	21	152	176	102
2010	137	231	270	91	84	24	N/A	72	99	176	204	260
2011	188	66	120	106	0	23	70	0	1	116	137	N/A
2012	228	172	172	161	62	N/A	15	6	39	114	80	611
2013	761	154	156	216	166	49	223	19	51	333	340	297
2014	177	306	373	235	79	35	129	0	0	72	266	

Source: Indonesian Meteorology, Geophysics, and Climatology Agency (BMKG).

TABLE 13. EXCHANGE RATE (Rp./\$1.)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2008	9,304	9,051	9,199	9,234	9,318	9,225	9,118	9,153	9,378	10,995	12,151	10,950	9,756
2009	11,330	11,975	11,575	10,713	10,340	10,225	9,920	10,060	9,681	9,545	9,480	9,400	10,354
2010	9,365	9,335	9,070	9,012	9,180	9,038	8,952	9,041	8,952	8,928	9,013	9,014	9,075
2011	9,057	8,823	8,709	8,574	8,537	8,597	8,508	8,578	8,823	8,835	9,055	9,170	8,772
2012	9,000	9,158	9,188	9,180	9,565	9,468	9,485	9,573	9,588	9,605	9,605	9,670	9,424
2013	9,680	9,713	9,745	9,722	9,811	9,929	10,277	10,936	11,532	11,234	11,977	12,189	10,562
2014	12,226	11,675	11,404	11,589	11,611	11,969	11,591	11,717	12,212	12,163	12,196	12,436	11,899
2015	12,625	12,863	13,191										12,893

Source: Bisnis Indonesia Daily.

Note: Exchange rate is Rp. 13,003/USD 1, as of March 26, 2014.

