Required Report - public distribution

Date: 3/30/2016
GAIN Report Number: ID1610

Indonesia

Grain and Feed Annual

Indonesia Grain and Feed Annual Report 2016

Approved By:
Ali Abdi

Prepared By:
Thom Wright, Sugiarti Meylinah

Report Highlights:
Post expects marketing year (MY) 2015/16 Indonesian wheat imports to increase by 1.6 percent to 7.6 million metric tons (MMT), compared to 7.478 MMT in MY 2014/15. Post also estimates MY 2015/16 Indonesian corn production to increase to 9.4 MMT compared to 9 MMT in MY 2014/15 due to corn planted area increasing at the expense of paddy plantings. Despite higher corn demand by domestic feed mills, current import restrictions will reduce MY 2015/16 Indonesian corn imports to 3 MMT compared to 3.381 MMT in MY 2014/15. Post estimates that MY 2015/16 Indonesian rice imports will increase to 2 MMT compared to 1.35 MMT in MY 2014/15, due to anticipated stagnant production and imports carried over from last year.

SECTION I. SITUATION AND OUTLOOK

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) reported that Indonesia has experienced a strong El Nino phenomenon since August 2015, exacerbating forest fires in Sumatera and Kalimantan. BMKG forecasts that unlike last year, Indonesia will experience La Nina during the period of October to December 2016, which may lead to higher intensity rainfall during the first crop cycle of MY2016/17. BMKG will refer to the following guidelines for evaluating sea surface temperatures and forecasting possible El Nino/La Nina occurrences.

Table 1. El Nino/La Nina Forecast Guidelines Based on Southern Oscillation Index (SOI)

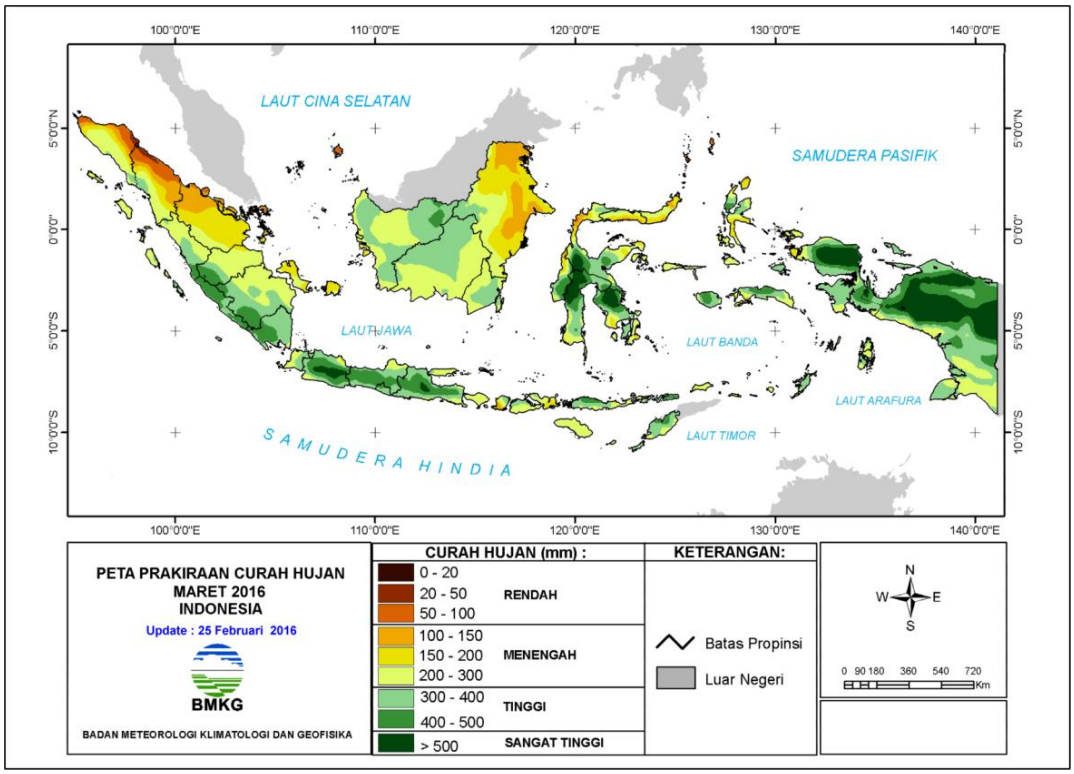
SOI Value (Tahiti Island and Darwin) Island)	Events That May Occur
Below -10 for 6 months	Strong El Nino
-5 to -10 for 6 months	Moderate to Weak El Nino
-5 to +5 for 6 months	Normal
+5 to +10 for 6 months	Moderate to Weak La Nina
Above +10 for 6 months	Strong La Nina

Source: BMKG

On March 21, 2016, BMKG reported that:

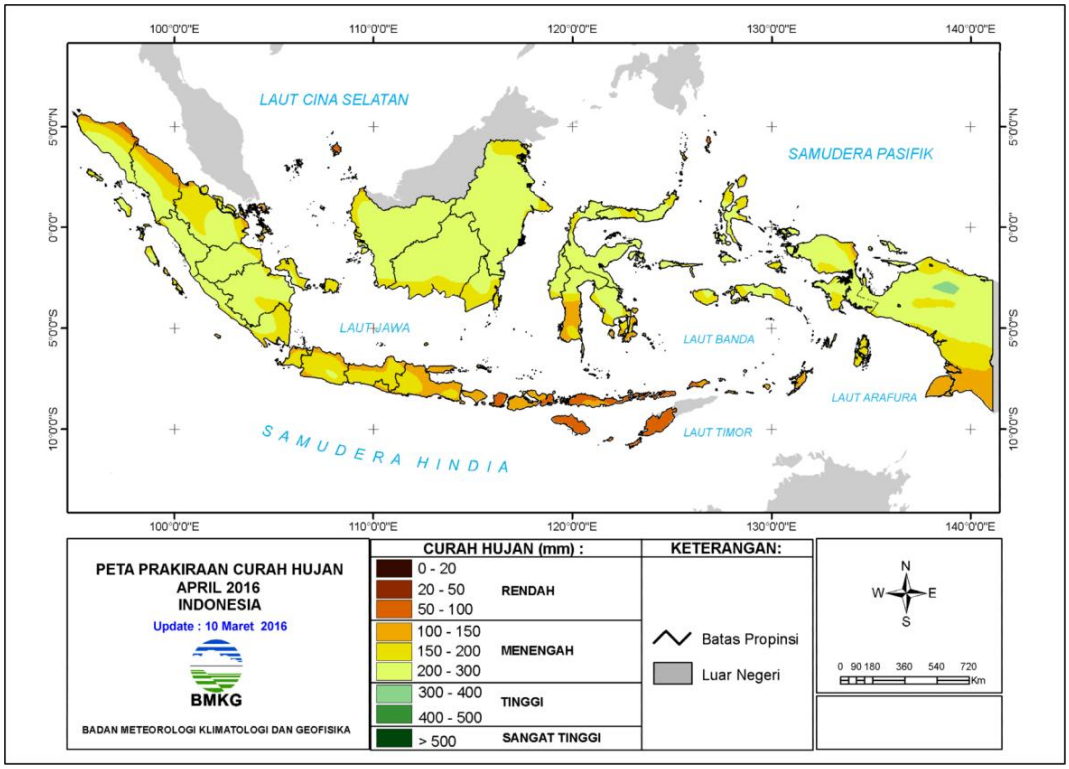
1. The value of the El Nino index is currently at 1.44 compared to 1.51 of last week. It indicates a moderate El Nino (+1 to +2).
2. The intensity of the moderate El Nino is forecast to diminish gradually within the next two to four weeks. El Nino is expected to be neutralized by April to May 2016.
3. During the first ten days of March 2016, rainfall intensity is at 20-150 mm/ten days which is categorized as low to medium rainfall intensity. Rainfall intensity is considered below normal in most areas of Indonesia, especially in northern Sumatera, Riau, Lampung, Central Java, Bali, West Nusa Tenggara, East Nusa Tenggara, eastern Kalimantan, North Sulawesi, Central Sulawesi, North Maluku, and Papua.
4. Results from rainfall observations indicate uneven rainfall distribution and no extreme droughts.
5. The dry season will start in May/June 2016, covering 66 percent of Indonesia. Referring to the 30-year average, 50 percent of Indonesia will have a delayed dry season, while 23 percent will have an early dry season.
6. Due to the expected La Nina which may arrive in April to May 2016, Indonesia will experience a wet dry season in 2016.

Chart 1. Forecast of Rainfall Intensity in March 2016



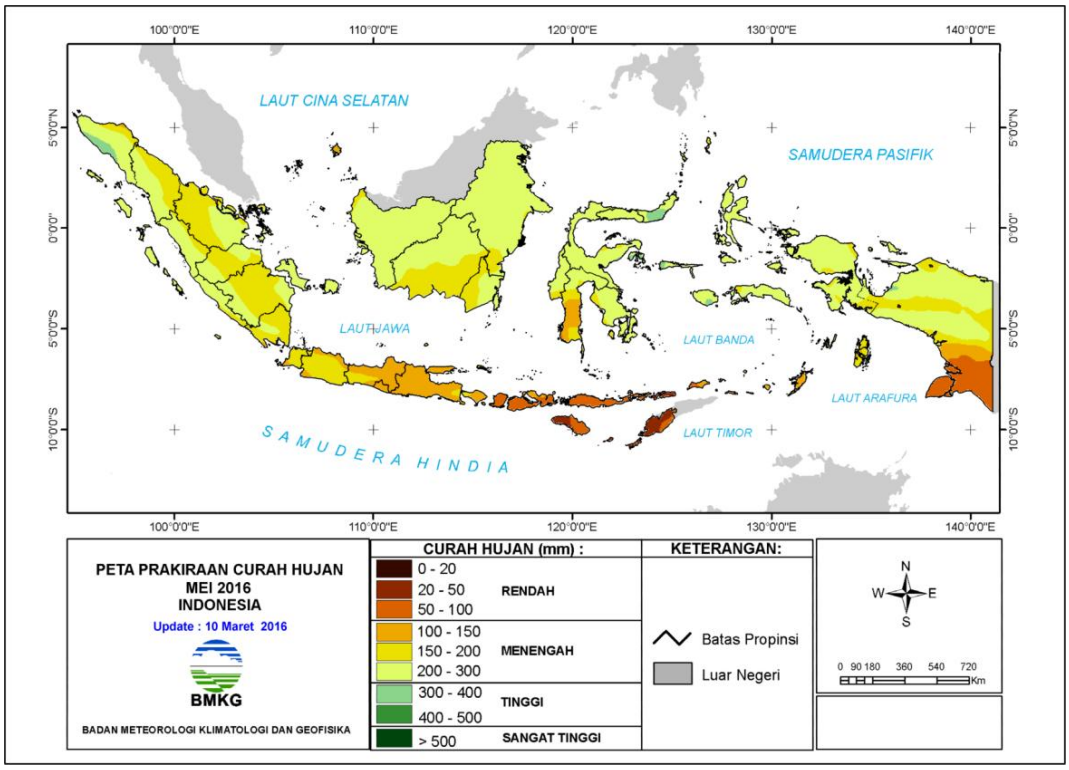
Source: BMK

Chart 2. Forecast of Rainfall Intensity in April 2016



Source: BMKG

Chart 3. Forecast of Rainfall Intensity in May 2016



Source: BMKG

The occurrence of a moderate to strong El Nino in Indonesia since April 2015 delayed the onset of 2015's rainy season to December 2015, with its peak arriving in February 2016. The delayed onset of the rainy season pushed back the start of the MY 2015/16 paddy crop to early December 2015. Some parts of Java, including key rice producing areas, started the first crop as late as the end of January or February 2016. Normally, the rainy season lasts from October to April, although the 2016 rainy season started in December and is currently expected to continue through May. As of March 2016, Indonesia's rainy season is ongoing, with sufficient rainfall.

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 West Java as of March 21, 2016:

Table 2. Water Elevation at West Java Water Reservoirs, March 21, 2016.

No.	Reservoir	Elevation & Volume				Elevation Deviation	Vol. Deviation	Drought Prep. Elev.	Status
		Target		Observed					
		Elev. (m)	Vol. (mil.m^3)	Elev. (m)	Vol. (mil. m^3)	(m)	(mil.m^3)	(m)	
1.	Jatiluhur	93.73	360.62	103.24	n/a	9.51	n/a	87.50	Normal
2.	Cirata	209.52	160.87	217.24	n/a	7.72	n/a	206.00	Normal
3.	Saguling	631.50	138.97	640.87	n/a	9.37	n/a	625.00	Normal

Source: Indonesian Min. of Public Works, Perum Jasa Tirta II (December 3, 2015), processed by FAS/Jakarta.
Note: "Deficit" indicates water levels lower than target, but above drought condition levels

EXECUTIVE SUMMARY

Wheat

Post estimates that total Indonesian wheat imports will grow by 1.6 percent from 7.478 MMT in MY 2014/15 to 7.6 MMT in MY 2015/16. Imports are expected to continue growing by 5.3 percent to 8.0 MMT in MY 2016/17, in line with higher demand from the domestic wheat flour-based food industry. Post expects that U.S. origin wheat exports to Indonesia will remain on par at 560,000 MT in MY 2015/16 due to stronger competition with traditional suppliers such as Australia and Canada.

Corn

Post estimates that MY 2015/16 Indonesian corn production will increase to 9.4 MMT, compared to 9.0 MMT in MY 2014/15. The increase is due to increasing hybrid corn seed use, as well as increased corn plantings in the place of paddy and soybean. Production is expected to increase to 9.6 MMT in MY 2016/17. MY 2015/16 Indonesian corn imports are estimated to decline to 3.0 MMT due to corn import restrictions imposed by the government. Despite forecasted increases in MY2016/17 production, higher demand from feed mills will maintain corn imports at 3.0 MMT.

Rice

MY 2015/16 first crop delays due to the strong El Nino phenomenon will push back the MY 2015/16 third crop harvest to MY 2016/17. Considering the potential loss, Post estimates MY 2015/16 Indonesian paddy harvested area lower at 11.8 million hectares. Despite acreage losses, MY 2015/16 main harvest will take place under less rainfall, thus improving yields. Therefore, Post estimates that MY 2015/16 Indonesian rice production will slightly increase to 35.6 MMT milled rice equivalent. Despite higher production, Post estimates MY2015/16 Indonesian rice imports to reach 2.0 MMT, in response to lower stocks carried over from the previous marketing year. Imports are expected to decline to 1.25 MMT in MY 2016/17.

WHEAT

Trade

During the 1998 Indonesian monetary crisis, only four Indonesian flour mills were operating. Today Indonesia is home to 31 flour mills with a total installed capacity of 11.2 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. This is exacerbated by the Indonesian rupiah's weak exchange rate against the U.S. dollar, valued at Rp. 13,481/$1 in July 2015 and Rp. 13,367/$1 on March 18, 2016. Exchange rates have been somewhat offset by abundant wheat supplies in the international market. As a result, the Indonesian Ministry of Trade's Market Information Center reports that the price of Segi Tiga Biru flour has been relatively stable. (Retail Rp. 8,500/kg ($635.9/MT) – Rp. 8,575/kg ($641.5/MT) and factory gate Rp. 5,868/kg ($439/MT) from August 2015 to February 2016).

Indonesian feed mills face difficulties meeting feed corn demand due to 2015/16 El Nino-related production declines and GOI measures to reduce corn imports. In response to low local supplies and import barriers, feed mills are substituting corn with imported feed wheat. Specifically, the Indonesian Flour Mills Association (APTINDO) reports that there are 22 feed mills importing feed wheat, resulting in feed wheat import surge since September 2015. Global Trade Atlas and APTINDO import data indicate that wheat imports from September 2015 to January 2016 have grown to 3.3 MMT (26.28 percent). This situation is expected to continue until the main corn harvest in late March and April 2016. Considering the aforementioned factors, Post estimates that Indonesia's MY 2015/16 wheat imports will increase to 7.6 MMT, compared to 7.478 MMT in MY 2014/15.

Looking to 2016/17, higher demand for wheat flour-based food will be moderated by an expected continued weak exchange rate, thus slowing Indonesian wheat import growth to 5.26 percent from an average annual growth of 6-7 percent. MY 2016/17 Indonesian wheat imports are therefore expected to reach 8.0 MMT. Australia held the largest market share for wheat (60 percent) in MY 2014/15. This was followed by Canada (25 percent) and the United States (7.7 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. Assuming these conditions, U.S. wheat exports to Indonesia in MY 2015/16 are expected to remain on par at 560,000 MT.

Indonesia is expected to implement an anti-dumping duty for imports of Indian and Turkish wheat flour (HS Code 1101.00.10.10 and 1101.00.10.90) in the first half of 2016. The anti-dumping duty is the result of an APTINDO request to the Indonesian Anti-Dumping Commission (*Komisi Anti Dumping Indonesia, KADI*) in March 2014, in advance of the December 4, 2014 expiration of Indonesia's wheat flour import quota. The anti-dumping duty will range from 5.6 percent to 28.9 percent. (The current import duty for imports of wheat flour is 5 percent). The import duty will have a limited duration of four years from the implementation date.

Importers note that wheat flour imports did not increase significantly in 2015 due to the depreciating Rupiah. High freight rates also discouraged wheat flour imports from Sri Lanka, India, and Turkey. Domestic flour dominated the market throughout CY 2015, with a 98 percent market share. According to Global Trade Atlas data, India held the largest market share of MY 2014/15 wheat flour exports to Indonesia (35 percent), followed closely by Turkey (28 percent), and Ukraine (13 percent). In MY

2014/15, Indonesia imported a total of 130,935 MT of wheat flour (179,119 MT of wheat equivalent). This represents a decline from MY 2013/14 wheat flour imports of 225,392 MT (308,336 MT of wheat equivalent).

Indonesia is the home of the largest flour mill in the world. In MY2014/15 Indonesia exported a total of 80,000 MT of the wheat flour to the Philippines (44 percent), Timor Leste (17 percent), and Thailand (16 percent). Exports of wheat flour in MY2015/16 are estimated to slightly increase to 81,000 MT due to relative stagnant production.

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 2014/15, Indonesia's annual per capita wheat flour consumption reached 22.2 kg. 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 commercial biscuit producers each consume 10 percent, respectively. The Indonesian Statistics Agency (BPS) recorded in its 2013 National Economic Survey that Indonesian wheat flour-based food consumption has increased by one percent per annum since 2009. However, the weak rupiah has also depressed consumers' purchasing power leading to slowdown in growth of wheat flour for human consumption. Given these factors, Post estimates the MY 2015/16 Indonesian wheat consumption to remain stagnant at 7.2 MMT. Nonetheless, in line with population and economic growth, human consumption of wheat flour in MY 2016/17 is forecast to increase to 7.5 MMT.

CORN

Production

Although corn requires less water compared to paddy, delayed onset of the 2015 rainy season has also delayed the first crop planting of corn. Farmers reported that most of the corn in upland areas was planted towards the end of November 2015 (two to three weeks late), and was harvested in late February or early March 2016. 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 first corn crop cycles of MY 2015/16.

Post revised MY 2014/15 corn harvested area to 3.1 million hectares from the previous estimate of 2.94 million hectares, based on GOI data that higher areas switched from paddy to corn, especially during the second crop cycle when water was only sufficient to grow corn in many areas (Reference GAIN Report ID1542). Post also revises MY 2014/15 Indonesian corn production to 9.0 MMT compared to the previous estimate of 8.8 MMT, based on reports from seed industry contacts of a slight increase in CY 2015 hybrid corn seed sales. Higher hybrid sales were the result of changes to the GOI's subsidized seed project. Specifically, farmers were reluctant to grow corn using subsidized seed provided by GOI in CY 2014 due to the low quality of the subsidized seed compared to commercially available hybrid corn seed. In CY 2015, GOI sourced hybrid corn seed from local and multinational seed suppliers, thus meeting the quality required by Indonesian farmers. This led to slightly higher areas planted to hybrid corn seed, and also improved corn yields. The loss of corn planted area during the 3rd crop cycle in South Sulawesi and Lampung is partly offset by the switch from paddy to corn planting on Java.

BMKG reports that the peak of the rainy season occurred during January and February, and that rainfall intensity started to decrease in March 2016. Delayed rains resulted in the delayed planting of first crop cycle rice paddy, further reducing the opportunity for second crop paddy on upland and lowland rain-fed area. As a result, farmers will likely increase corn plantings in place of rice. The GOI will also increase the allocation to the hybrid corn seed subsidy program to cover 1.5 to 2 million hectares compared to 750,000 hectares area in CY 2015. Seed industry contacts report that the area planted with hybrid corn seed in CY 2016 may increase 55 to 60 percent of the total corn planted area. Post thus increases the MY 2015/16 corn harvested area estimate forecast to 3.18 million hectares.

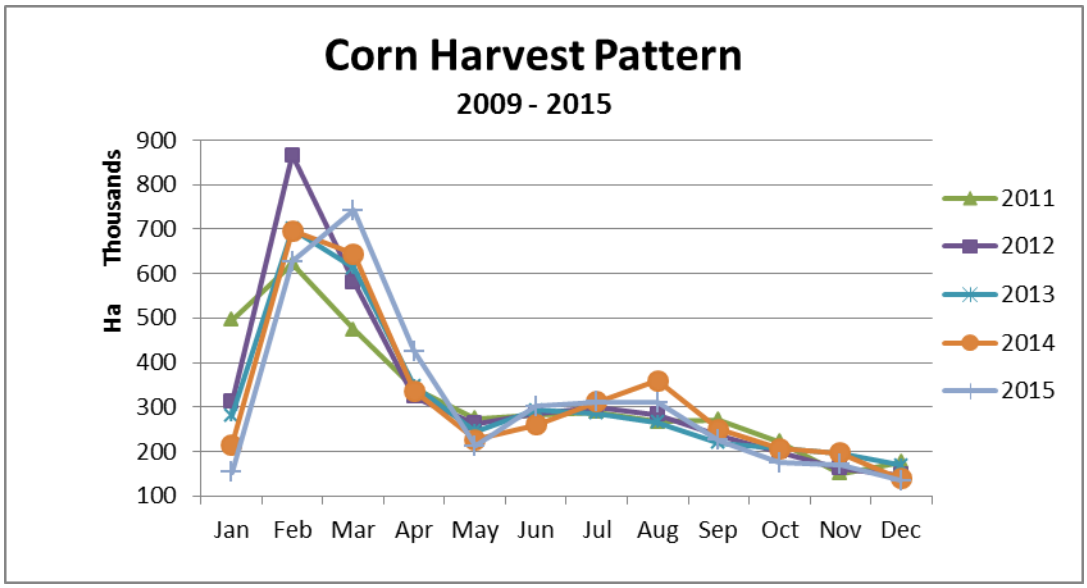
Post field visits to Lampung and Sumbawa of West Nusa Tenggara in late January 2016 revealed that farmers in both lowland and upland rain-fed areas are growing corn during the first crop cycle.

Discussion with farmer and seed suppliers in Lampung in corn field, end of January 2016.
Source: FAS Jakarta

Corn field located by the sea in Sumbawa, end of January 2016.

Sumbawa upland corn, end of January 2016.
Source: FAS Jakarta

Chart 4. Indonesia: Corn Harvest Pattern 2011 – 2015



Source: Indonesian National Statistics Agency (BPS).

Assuming normal weather in MY 2016/17, farmers are expected to return to more typical crop rotations, thus reverting some land back from corn to rice. Assuming the continued higher use of hybrid, yield-improving corn seed, Post reduces MY 2016/17 harvested area to 3.14 million hectares but increases MY 2016/17 Indonesian corn production to 9.6 MMT.

March 2016 farm-gate corn prices range from Rp. 3,300/kg ($247/MT) in West Java to Rp. 2,850/kg ($213/MT) in East Java. The price of hybrid corn seed has been relatively stable, ranging from Rp. 60,000/kg ($4.5/kg) to Rp. 85,000/kg ($6.4/kg). (This compares with Rp. 60,000/kg ($4.5/kg) to Rp. 80,000/kg ($6.0/kg) in 2015).

Consumption

The Indonesian Feed Producers Association (*Asosiasi Produsen Pakan Indonesia, APPI*) reports that in MY 2014/15, feed production was expected to increase by 10 percent to 16.4 MMT, compared to 14.9 MMT in CY 2014. (This excludes 1.55 MMT used for aquaculture feed in CY 2015). Feed consumption in MY 2014/15 was 16.0 MMT, excluding 1.5 MMT for aqua feed.

Despite an Indonesian anti-monopoly committee's investigation of cartel practices against major integrated poultry producers, culling broiler day-old-chicks (DOC) continues in attempt to cope with over-supply. This situation, combined with the current economic slowdown indicated by the weak rupiah-U.S. dollar exchange rate and depressed consumer purchasing power are expected to slow down the growth of commercial poultry feed consumption. *APPI* forecasts that Indonesian feed consumption will increase by 8 percent to 17.3 MMT in MY 2015/16. Post notes that avian influenza outbreaks detected in March 2016 in backyard chickens and commercial layer farms in Jakarta and South Sulawesi have resulted in poultry culls. These culls, however, are not significant and have not had a significant effect on poultry production or consumption.

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 2016 will include 3.224 billion broilers, 150 million layers, and 24.8 million breeders. Demand for aquaculture feed in CY 2016 is estimated to increase by 13 percent due to an increase in demand for shrimp in the international market. 84 feed mills are currently operational in Indonesia, with expansion continuing. Due to the continued expansion of existing mills, there is an additional 1.5 MMT installed capacity which brings up the total installed capacity of Indonesian feed mills to 21 MMT per annum. Millers report that Indonesian mills are running at 70 – 80 percent capacity.

Table 3. 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.	Crude Palm Oil	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), crude palm oil (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 increases the MY 2015/16 corn feed consumption estimate to 8.6 MMT compared to the previous estimate of 8.0 MMT. MY 2016/17 consumption is expected to further increase to 9.0 MMT. Looking to human consumption, the Indonesian National Economic Survey reports that Indonesian's consumption is decreasing by 6.33 percent per annum. Therefore, Post estimates that MY 2015/16 Indonesia food corn consumption will decline to 4.1 MMT compared to MY2014/15 of 4.2 MMT. Corn consumption is expected to continue declining to 4.0 MMT in MY 2016/17 as consumers substitute rice and wheat-based food products.

Trade

Indonesia's corn demand is larger than its domestic supply, with corn constituting about 50 percent of Indonesian feed energy sources. Domestic production, while increasing, faces challenges due to inconsistent seasonal supplies and poor post-harvest management (resulting in high moisture content and high aflatoxin levels). Despite strong domestic demand, MY 2014/15 saw corn exports reach 255,000

MT, compared to MY2013/14 exports of 12,000 MT. Post notes that Indonesian exports were the result of regional trade advantages between Sulawesi and the Philippines, where transportation costs are more advantageous than shipping to Java or Sumatera. The GOI has nonetheless used this scenario as justification of the success of its self-sufficiency objectives, resulting in restrictions and unclear corn import policies.

Until November 6, 2015, feed mills importing feed mills were bound by the policies referred to the Director General for Livestock and Animal Health Service's (DGLAHS) circular letter effective since 2002. The circular letter requires feed mills to obtain bill of lading prior to applying for import recommendation from the Ministry of Agriculture. Therefore, importers are required to apply for an import recommendation only after a corn import contract is made. This changed late last year when the Ministry of Agriculture revoked the circular letter without notice. On November 25, 2015, MOA issued Regulation No. 57/2015 on Imports and Exports of Plant Based Feed Ingredients. The regulation stated that the Minister of Trade will issue import permits for any imports of plant-based feed ingredients. In order for this regulation to be implemented, the Ministry of Trade (MOT) must also issue a corresponding regulation to MOA 57/2015 for the administration of import licensing.

On March 24, 2016, MOT issued regulation 20/2016 on corn imports. The regulation classified corn imports into three categories: feed, food, and industrial use. The volume of corn that can be imported for feed, food, and industrial use will be decided via an inter-ministerial meeting including MOT, MOA, state-owned trading company BULOG, the Ministry for State-Owned Companies, and the Coordinating Ministry for Economic Affairs. The regulation assigns BULOG as the single importer of feed corn. In order to import feed corn, BULOG must get an import authorization from the Ministry of State Owned Companies and an import recommendation from MOA prior to obtaining import approval from MOT. Imports of corn for food and industrial use can be conducted by private sector importers with either a general importer identification number or a producer importer identification number. MOT will issue import approvals quarterly at the beginning of each quarter. Corn imported by producer-importer companies must only be used as an ingredient for production in Indonesia and cannot be traded or transferred to another party.

Prior to the issuance of MOT regulation 20/2016, feed millers continued importing corn in the absence of clear regulations. Approximately 445,000 MT of corn was imported during November and December 2015 and MOA declared the imports illegal. In late January 2016, the GOI designated the Indonesian National Logistics Agency (BULOG) as the sole authorized importer for corn. BULOG thus purchased some the detained corn shipments, then transferring the title to feed millers with an agreement that 20 percent of the imported corn would be distributed at a set price to smaller poultry farms self-mixing feed rations. Additionally, the GOI decided that Indonesia will import 2.4 MMT of corn in CY 2016. The imports will be divided into 600,000 MT per quarter. It remains unclear how this decision will be implemented in the future since there are no clear import guidelines for the importation of corn.

Despite growing feed mill capacity, the above mentioned restriction is expected to impede import growth. Therefore, Post estimates that MY 2015/16 corn imports will decline to 3.0 MMT compared to MY 2014/15 of 3.381 MMT. MY 2016/17 imports of corn is forecast to remain at 3.0 MMT in line with the forecast increase in domestic production. According to the Global Trade Atlas, MY 2014/15 Indonesian corn imports originated from Argentina (58 percent), Brazil (37 percent), and India (3 percent).

Feed millers are increasing efforts to source feed corn domestically in line with stricter import restrictions. Post therefore estimates that MY 2015/16 Indonesian corn exports will decline to 40,000 MT as there's incentive to sell the corn domestically.

Indonesia imported 252,403 MT of distiller's dried grain soluble (DDGS) in MY 2014/15, a 21 percent decrease from 321,154 MT in MY 2013/14. The United States is Indonesia's largest DDGS supplier, with an 86 percent market share, followed by Argentina and Australia, each with a five percent share. In 2014/15, Indonesia imported 163,847 MT of corn gluten meal (CGM), a decline of 18 percent compared to 199,594 MT in MY 2013/14. The United States maintains its position as the largest supplier of CGM to Indonesia with a 94 percent market share, followed by China and India with 3 percent and 2 percent market share, respectively. The decline in the import volume of both DDGS and CGM is due to the strengthening U.S. dollar against the Indonesian rupiah, which lowers the purchasing power of Indonesian importers. Frequent promotional activities and technical assistance provided by the U.S. Grains Council, in conjunction with other U.S. promotional activities, contributed to Indonesian feed mill's knowledge of the value of DDGS.

Policy

On December 31, 2015, the Indonesian Ministry of Finance issued Regulation No. 267/2015 on the Import of Livestock and Poultry and Aqua Feed Ingredients which are exempted from Value Added Tax. The regulation listed corn gluten meal (HS. 2303.10.90.00), DDGS (HS. 2303.30.00.00), soybean (HS. 1201.90.00.00), corn (HS. 1005.90.90.00), sunflower seed (HS. 2306.30.00.00), and wheat pollard (HS. 2302.30.00.00) as poultry feed ingredient imports free from value added tax. An average of 10 percent VAT is imposed on imports of other feed ingredients.

Prices

In March 2016, corn farm gate prices ranged from Rp. 2,850/kg ($213/MT) to Rp. 3,200/kg ($247/MT) compared to Rp. 3,300/kg ($247/MT) to Rp. 3,500/kg ($262/MT) in March 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 a weak rupiah/U.S. dollar exchange rate, and heavy reliance on imported feed ingredients, APPI reports that broiler feed prices in March 2016 increased to Rp. 6,900/kg ($516/MT) compared to Rp. 6,200/kg ($464/MT) in March 2015.

In order to maintain stable prices of corn at the farm gate level, MOT also issued MOT regulation number 21/2016 "Pricing Benchmark for Corn at Farm Gate Level." The regulation states that BULOG, other state-owned companies, cooperatives, and private buyers can buy corn from farmers at the following set prices:

Table 4. Farm Gate Corn Benchmark Prices

Quality Requirement	Price/kg				
	Rp. 2,500	Rp. 2,750	Rp. 2,850	Rp. 3,050	Rp. 3,150
Moisture content (%)	35	30	25	20	15
Aflatoxin content (ppb)	100	100	100	100	100
Damaged kernel (%)	3	3	3	3	3

Fungus grains (%)	2	2	2	2	2
Broken kernel (%)	2	2	2	2	2
Foreign material (%)	2	2	2	2	2

Source: MOT regulation 21/2016

RICE, MILLED

Production

MY 2015/16 first crop paddy for major production areas is delayed, in line with BMKG reports that the rainy season was delayed until December 2015, peaking in January/February 2016. 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, mung bean, soybean, peanut, or sweet potato during the third crop cycle (July – October). In the 2015/16 season, the first paddy crop planting was delayed to the end of December or January in most areas in Central Java, East Java, Lampung, and NTT. This has resulted in expected harvest delays for MY 2015/16 third crops, especially on irrigated lowland areas. Therefore, Post estimates MY 2015/16 Indonesian rice harvested areas at 11.8 million hectares compared to the previous MY 2014/15 estimate of 11.83 million hectares. With carry-over from the MY 2015/16 third crop, as well as assuming favorable weather and no significant pest and disease incidents, Post forecast that MY 2016/17 Indonesian paddy harvested areas will rebound to 12.16 million hectares.

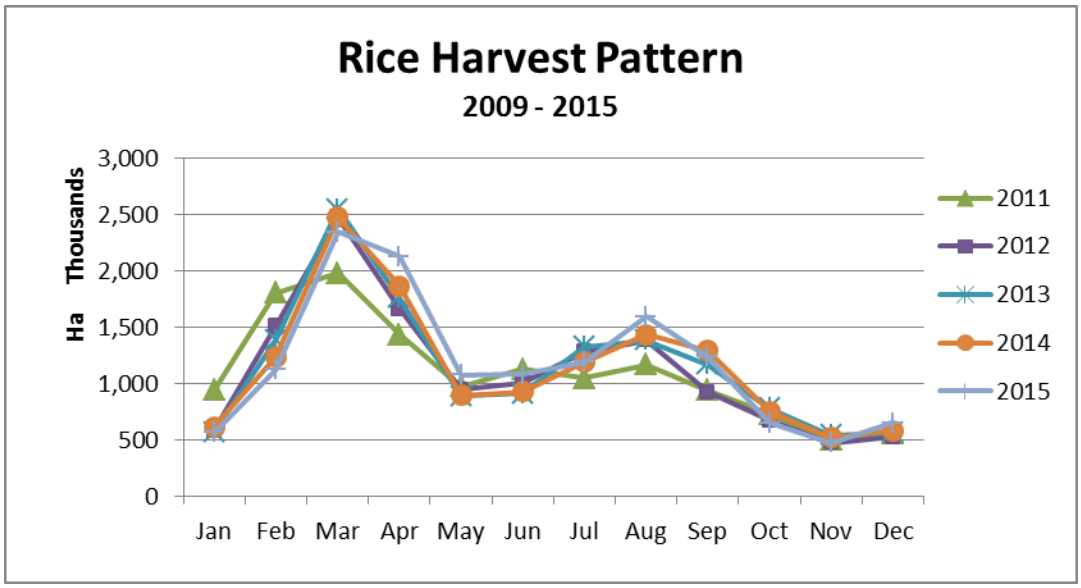
Overall MY 2015/16 yields are estimated to remain higher than MY 2014/15 due to the harvest's delay to March and April, resulting in lower rainfall at harvest time and thus higher yields. Other factors aiding yield increases include the growing use of high-yielding varieties such as Ciherang, Sinta Nur, Inpari, Memberamo, and Mekonga, and absence of major flooding or reports of significant pest and disease outbreaks. A growing number of farmers are adopting paddy planting technology called "Jajar Legowo." The Jajar Legowo cropping system plants paddy with a pattern of several rows interspersed with an empty row. In empty rows farmers make a shallow trench which is used to collect snails and other pests. Farmers report higher yields as a result of improved sunlight penetration, increased air circulation and optimization of growing space for paddy. . Farmers using the technology may achieve yield increases up to 10 – 15 percent.
Paddy harvest has started on Java, with the first main harvest period expected to take place between late March and April 2016. Irrigated land will harvest first crop paddy, while upland areas of Java are harvesting corn. The second harvest is expected to occur in late August 2016.

	First	First lowland paddy planting, late January

2016, Sumbawa

lowland paddy planting, late January 2016, Lampung
Source: FAS Jakarta

Chart 5. Indonesia: Rice Harvest Pattern 2011 - 2015



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 seed varieties to be distributed at subsidized rates to farmers.

Table 5. Indonesia: Subsidized Seed Allocation and Maximum Retail Price (*Harga Eceran Tertinggi, HET*), 2016

No.	Seed	Subsidized Allocation		HET
		Volume (Kg)	Total Area	(Rp. Kg)
1.	Inbred Paddy	97,500,000	3,900,000	2,500

2.	Hybrid Paddy	2,250,000	150,000	4,100
3.	Soybeans	2,500,000	50,000	3,100
	Total	102,250,000	4,100,000	

Source: Ministry of Agriculture, 2016.

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

Post's MY 2015/16 Indonesian paddy production estimate is expected to marginally increase to 56.063 MMT compared to 56.0 MMT in MY 2014/15 despite lower harvested areas and land conversion to non-agricultural uses. The increase is based on growing demand for high-yielding seed varieties and the opportunity for higher yields due to an expected dryer-than-normal harvest period. Post also expects MY 2016/17 paddy production to increase to 57.638 MMT based on additional carry over from MY 2015/16 third crops.

Trade

BULOG has set its procurement target at 3.9 MMT of milled rice equivalent for MY 2015/16. This is high compared to the 3.2 MMT target set in MY 2014/15. As of December 2015, BULOG realized approximately 2.0 MMT of the procurement target of MY 2014/15, with an ending stock of 1.38 MMT. On February 17, 2016, the GOI decided to maintain the government purchasing price (*Harga Pembelian Pemerintah, HPP*) for paddy and rice at the same level as stated in Presidential Instruction No. 5/2015 stipulated on March 17, 2015. BULOG can only buy paddy or rice from farmers when the market price is lower than or equal to the HPP. According to presidential instructions, BULOG can buy paddy or rice that meets the following criteria and HPP:

Table 6. Indonesia: Government Purchasing Price for Paddy and Rice 2012-Present

		2012-2014			2015-2016		
Quality Requirement		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

Source: Presidential Instruction No. 5/2015

BULOG normally meets 60 percent of its procurement target during the first main harvest period. With the delay in the MY 2015/16 first harvest, BULOG procurements totaled 18,616 MT as of March 11, 2016. This is below the 30,000 MT procured during the same period last year.

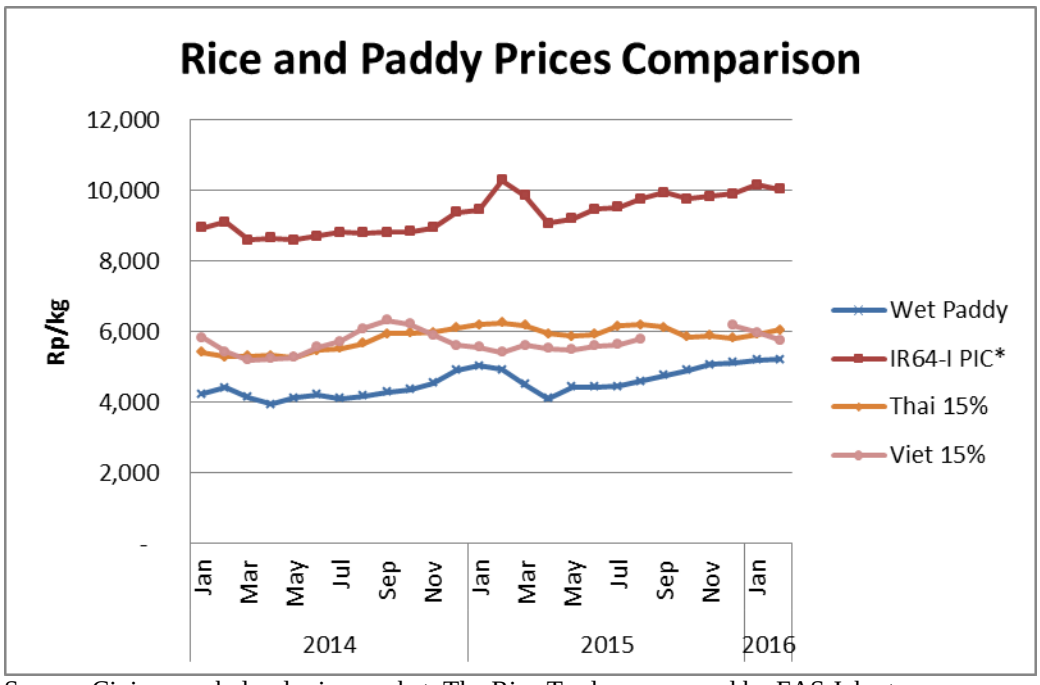
In the past, the GOI instructed BULOG to maintain a minimum secure stock level of 2 MMT by the end of the year. With the current HPP, BULOG may find difficulty in meeting its procurement target due to the delayed harvest, combined with inflation, will push paddy prices above the HPP. June is usually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

In October 2015, the GOI instructed BULOG to import a total of 1.5 MMT of medium quality rice from Vietnam and Thailand to maintain BULOG's CY 2015 ending stock at 1.5 MMT. Based on Global Trade Atlas data, a total of 600,000 MT of imported rice arrived in country as of November 2015.

Indonesian regulations restrict rice imports one month prior, during, and two months after the main harvest period. Indonesian regulations only permit BULOG 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). However, since the end of 2014, MOA has refused to issue any import recommendation for japonica rice, claiming that the japonica rice can be substituted with similar Indonesian varieties. On December 8, 2015, MOT stipulated in Regulation 103/2015 on Rice Imports and Exports that japonica rice (HS. 1006.30.99.00) is permitted for import into Indonesia. In order for japonica rice imports to resume, the Ministry of Agriculture must agree to issue import recommendations.

Indonesian rice prices are considered the highest in the international market, providing incentives for illegal rice imports.

Chart 6. Indonesia: Rice Price Comparisons



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

With estimated lower rice production and carry over imports from last year as well as higher demand for specialty rice, Post expects that MY 2015/16 imports will increase to 2 MMT from to 1.35 MMT in MY 2014/15. Post forecasts that MY 2016/17 Indonesian imports of rice will decline to 1.25 MMT, in line with the forecast production increase.

Consumption

In MY 2015/16, 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 March 11, 2016, BULOG distributed a total of 407,243 kg of rice under the *Raskin* program.

2013 Indonesia National Economic Survey (Susenas) data showed an average decline in per capita rice consumption of 1.62 percent per annum. The decline in rice consumption is due to some switching to wheat flour-based foods such as instant noodle and bread. The price of a pack of instant noodle is approximately Rp. 2,000/pack ($0.15/pack) and can be eaten without any side dishes, compared to the price of rice of Rp. 9,400 – 11,750/kg ($703 - $879/MT). Post therefore estimates MY 2015/16 Indonesian rice consumption to decline to 38.3 MMT from the previous estimate of 38.5 MMT in MY2014/15. Post expects Indonesian rice consumption to be stable at 38.3 MMT in MY 2016/17.

Stocks

Post estimates MY 2015/16 Indonesian rice ending stocks at 3.211 MMT, a decline from 3.911 MMT in MY 2014/15 due to estimated production declines. Post expects Indonesia's MY 2016/17 rice ending stocks to further decline to 2.761 MMT, based on lower imports and stagnant consumption.

Prices

The price of wet paddy and rice remain above the HPP, despite the ongoing harvest. Current farm gate prices of wet paddy in Java range from Rp. 3,600/kg ($267/MT) to 4,500/kg ($337/MT), the same as the main harvest period in MY2014/15. The average price of medium quality rice at Cipinang wholesale market also decreased from Rp. 10,300/kg ($771/MT) in March 1, 2016 to Rp. 10,200/kg ($763/MT) in March 15, 2015.

Policy

On December 3, 2015, the GOI set the maximum retail price of subsidized fertilizer in support of the MY 2015/16 paddy production target of 76.23 MMT. These prices apply only to small holder farmers possessing no more than 2 hectares of land for 2016.

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 7. Indonesia: Planned Subsidized Fertilizer Demand by Sub Sector, 2015 and 2016.

Sub Sector	Fertilizer Type (MT)									
	2015					2016				
	Urea	SP-36	ZA	NPK	Organic	Urea	SP-36	ZA	NPK	Organic
Food Crops	3,071,382	567,317	713,097	1,857,441	721,512	3,335,350	635,375	812,385	2,018,580	817,200
Horticulture	181,378	45,961	61,191	165,344	53,991	198,440	51,000	49,350	122,655	88,400
Estate Crops	677,705	197,985	264,473	509,338	134,097	465,760	142,715	174,930	383,775	83,600
Livestock	76,789	12,888	11,239	17,877	90,401	37,720	5,100	11,865	18,360	2,300
Aquaculture	92,746	25,849	-	-	-	62,730	15,810	1,470	6,630	8,500
Total	4,100,000	850,000	1,050,000	2,550,000	1,000,001	4,100,000	850,000	1,050,000	2,550,000	1,000,000

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 2016 national budget allocation, subsidized fertilizer received a total of Rp. 30.1 trillion rupiah compared to 28.5 trillion rupiah authorized in 2015.

PSD TABLES

Table 8. PSD: WHEAT

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2015		Jul 2015		Jul 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1486	1486	1299	1299	0	1049
Production	0	0	0	0	0	0
MY Imports	7478	7478	8100	7600	0	8000
TY Imports	7478	7478	8100	7600	0	8000
TY Imp. from U.S.	562	562	0	560	0	600
Total Supply	8964	8964	9399	8899	0	9049
MY Exports	300	300	300	200	0	300
TY Exports	300	300	300	200	0	300
Feed and Residual	165	165	450	450	0	200
FSI Consumption	7200	7200	7500	7200	0	7500
Total Consumption	7365	7365	7950	7650	0	7700
Ending Stocks	1299	1299	1149	1049	0	1049
Total Distribution	8964	8964	9399	8899	0	9049
(1000 HA) ,(1000 MT)						

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

Table 9. PSD: CORN

Corn	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2015		Oct 2015		Oct 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3100	3100	3180	3180	0	3140
Beginning Stocks	1729	1729	1655	1655	0	1315
Production	9000	9000	9400	9400	0	9600
MY Imports	3381	3381	3100	3000	0	3000
TY Imports	3381	3381	3100	3000	0	3000
TY Imp. from U.S.	35	35	0	0	0	0
Total Supply	14110	14110	14155	14055	0	13915
MY Exports	255	255	250	40	0	20
TY Exports	255	255	250	40	0	20
Feed and Residual	8000	8000	8600	8600	0	9000
FSI Consumption	4200	4200	4200	4100	0	4000
Total Consumption	12200	12200	12800	12700	0	13000
Ending Stocks	1655	1655	1105	1315	0	895
Total Distribution	14110	14110	14155	14055	0	13915
(1000 HA) ,(1000 MT)						

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

Table 10. PSD: RICE, MILLED

Rice, Milled	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Harvested	11830	11830	11660	11800	0	12160
Beginning Stocks	5501	5501	3959	3911	0	3211
Milled Production	35560	35560	35300	35600	0	36600
Rough Production	56000	56000	55591	56063	0	57638
Milling Rate (.9999)	6350	6350	6350	6350	0	6350
MY Imports	1198	1350	2000	2000	0	1250
TY Imports	1198	1350	2000	2000	0	1250
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	42259	42411	41259	41511	0	41061
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	38300	38500	38100	38300	0	38300
Ending Stocks	3959	3911	3159	3211	0	2761
Total Distribution	42259	42411	41259	41511	0	41061
(1000 HA) ,(1000 MT)						

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

Table 11. 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	9	0	0	234	441
2015	429	378	262	19	98							
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	12	0	3	170	166
2015	404	388	225	0	72							
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
2011	148	194	401	642	158	32	31	0	0	5	243	240
2012	383	181	172	67	88	50	0	0	0	2	58	173
2013	366	286	464	310	197	246	110	1	0	3	107	360
2014	259	250	448	276	106	211	48	0	0	0	73	319
2015	465	438	480	2	182							
DENPASAR (BALI)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2008	419	403	246	93	65	25	8	1	6	121	67	268
2009	442	403	172	59	49	N/A	23	1	32	14	28	257
2010	199	177	76	327	56	21	N/A	64	286	214	146	256
2011	277	286	277	283	118	15	16	0	0	8	128	279
2012	490	223	627	44	109	11	51	0	92	11	94	208
2013	664	158	118	67	121	189	103	6	1	10	190	438
2014	536	277	56	30	28	11	49	5	0	1	152	485
2015	316	178	287	2	57							
UJUNG PANDANG (SOUTH SULAWESI)												
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2008	507	762	255	100	15	78	27	5	6	83	320	481
2009	617	762	196	158	132	N/A	32	1	81	32	151	370
2010	620	409	156	121	311	238	N/A	93	315	185	223	693
2011	481	469	448	228	0	20	1	0	0	121	310	382
2012	538	343	353	N/A	195	35	38	1	1	53	127	366
2013	1067	384	319	334	74	99	241	16	0	174	285	810
2014	842	258	201	271	152	48	28	13	0	0	117	768
2015	1039	522	339	39	65							
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	119	0	72	266	279

2015	209	254	198	305	40							

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

TABLE 12. 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	13,084	12,922	12,937	13,332	13,481	14,027	14,657	13,563	13,747	13,794	13,419
2016	13,877	13,617	13,367										13,620

Source: Bisnis Indonesia Daily.

Note: Exchange rate is Rp. 13,367/USD 1, as of March 18, 2016.

Commodities:

Select