Required Report - public distribution

Date: 10/23/2015
GAIN Report Number: ID1532

Indonesia

Grain and Feed Update

Indonesia Grain and Feed Update October 2015: El Nino

Approved By:
Ali Abdi
Prepared By:
Thom Wright, Sugiarti Meylinah

Report Highlights:
Despite an extended El Nino event, Indonesian rice and corn production did not experience significant declines. Production declines are limited to dryland areas, while irrigated areas are experiencing higher yields due to grain ripening from improved sunlight and dryness. Some farmers report that dryland production areas have switched to shorter duration crops such as soybean, mung bean and peanut. Post observations also noted fallow dryland areas in South Sulawesi and Java. Farmers expect that first the first crop cycle of 2015/16 will be delayed by up to one month, assuming late onset rains characteristic of El Nino. Reservoirs also appear to have ample reserves, indicating that irrigated rice planting will proceed regardless of El Nino. Post expects the Indonesian National Logistics Agency (BULOG) to

import rice in 2015 in order to maintain required stock levels. Under current conditions, Indonesia is on track to achieve near-normal production of rice and corn. Post will continue to observe rainfall levels, especially during the critical months of November and December, and revise its production estimate as necessary.

Post:
Jakarta

SECTION I. SITUATION AND OUTLOOK

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika,* BMKG) forecast in September 2015 during a discussion forum at the United Nations office in Indonesia that:

- The 2015 El Nino event will continue through the end of the northern hemisphere winter in 2016.
- The ongoing El Nino event may be comparable in strength to the 1997 event.
- El Nino events typically peak in the end of November or December and gradually decline in strength during the first and second quarter of the year following its formation.
- The Indonesian El Nino is expected to gradually moderate when the Asian monsoon brings rain from the western part of Indonesia in November.

The following is BMKG forecasts of monthly rainfall intensity for the upcoming months of 2015:

Chart 1. Rainfall Intensity Forecast for October 2015

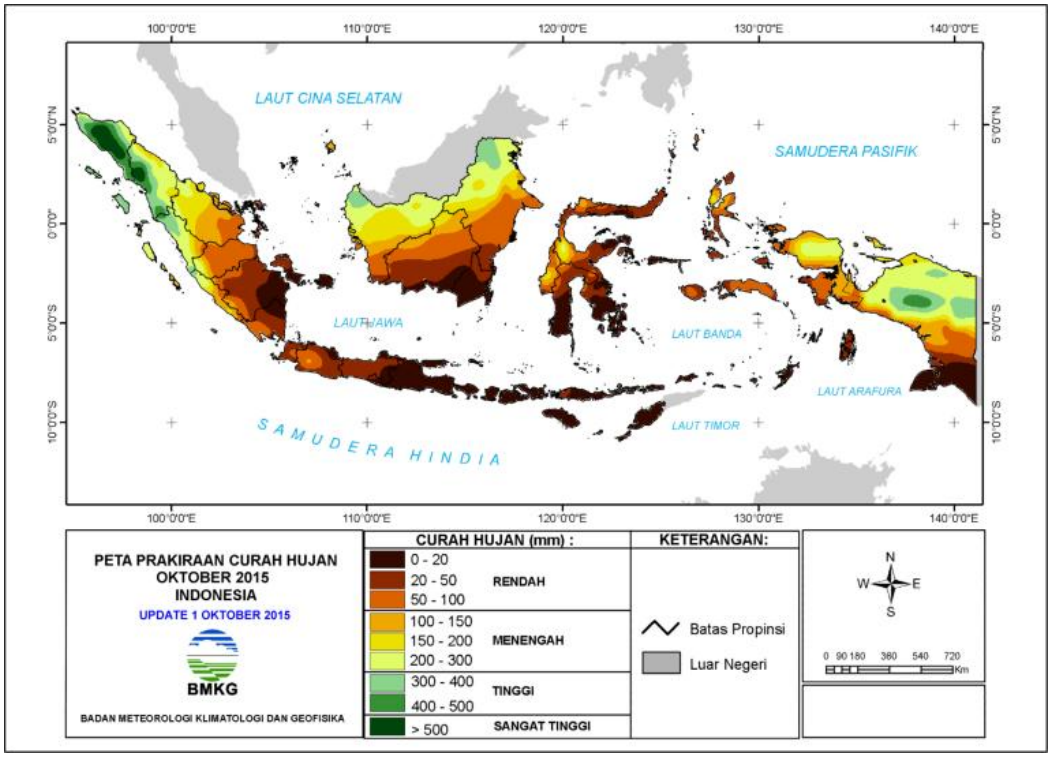


Chart 2. Rainfall Intensity Forecast for November 2015

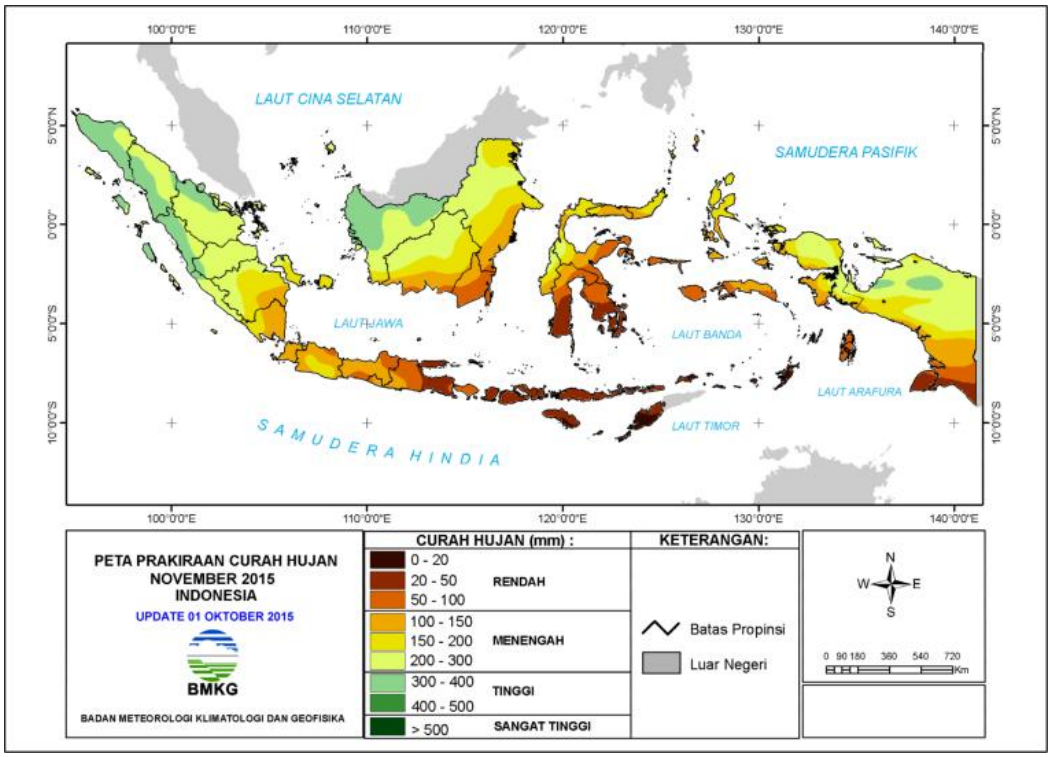
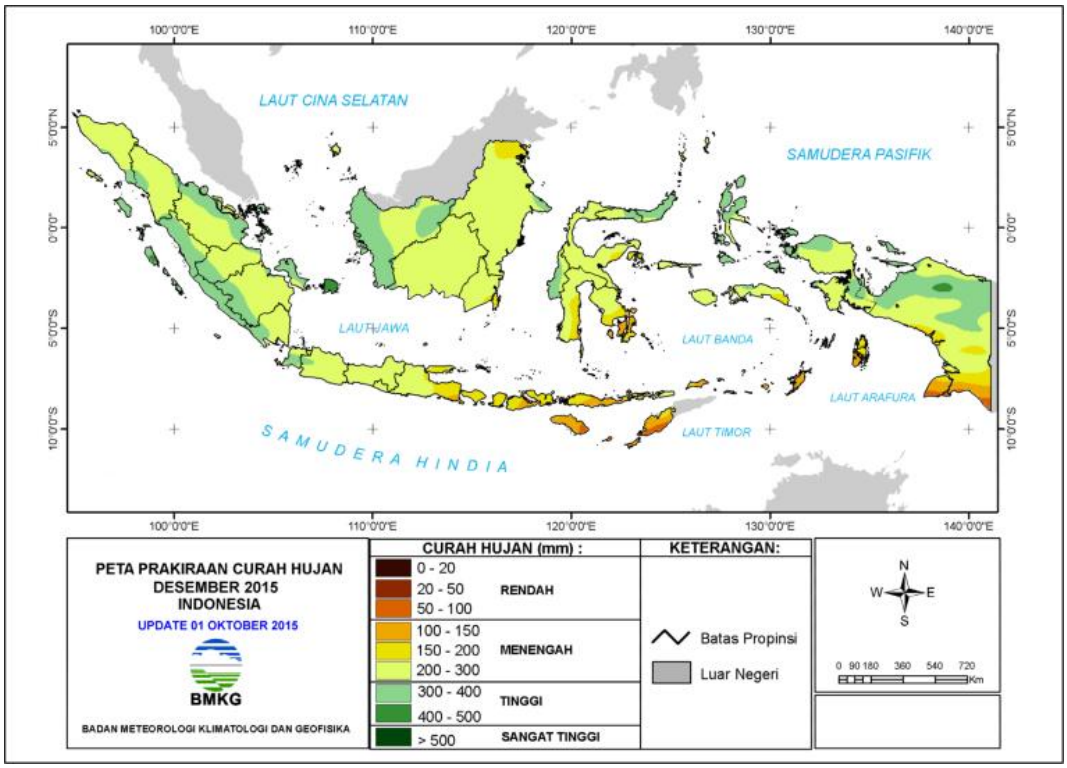


Chart 3.

Rainfall Intensity Forecast for December 2015



Based on the forecast, the ongoing El Nino will delay the planting period of the first crop cycle of paddy to the end of November or early December 2015.

According to the Indonesian Ministry of Public Works (MPW), approximately 84 percent of Indonesian rice area is irrigated, while the remaining 16 percent is rain fed. The country is divided into 90 River Area Units (*Satuan Wilayah Sungai,* SWS) consisting of 5,000 river basin areas (*Daerah Aliran Sungai,* DAS). The GOI and provincial governments are responsible for primary and secondary irrigation development, while farmer groups are responsible for tertiary irrigation development and improvement. The following table shows water levels at major Indonesian reservoirs as of September 30, 2015:

Table 1. Indonesia: Major Water Reservoir Status, September 30, 2015.

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	Keuliling	45.80	18.36	44.88	16.07	-0.92	-2.29	38.50	Deficit
2	Batutegi	274.00	687.77	258.80	414.56	-15.20	-273.21	243.93	Deficit
3	Jatiluhur	93.73	360.62	91.87	246.70	-1.86	-113.92	87.50	Deficit
4	Cirata	209.52	160.87	210.11	189.35	0.59	28.48	206.00	Normal
5	Saguling	631.50	138.97	631.79	146.41	0.29	7.44	625.00	Normal
6	Kedungombo	83.00	385.89	82.45	366.63	-0.55	-19.26	67.50	Deficit
7	Wadaslintang	173.00	271.37	167.64	222.69	-5.36	-48.68	157.75	Deficit
8	Wonogiri	128.31	86.44	129.03	102.92	0.72	16.48	128.00	Normal
9	Sempor	59.50	14.68	53.42	7.31	-6.08	-7.37	53.15	Deficit
10	Sermo	124.08	5.08	131.68	12.14	7.60	7.06	113.70	Normal
11	Sutami	266.36	144.86	266.53	144.89	0.17	0.03	246.00	Normal
12	Wonorejo	166.70	79.46	168.54	83.83	1.84	4.37	141.00	Normal
13	Selorejo	614.91	27.08	615.10	28.13	0.19	1.05	598.00	Normal
14	Lahor	271.17	23.27	266.76	23.25	-4.41	-0.02	253.00	Deficit
15	Bening	98.71	10.71	100.39	13.10	1.68	2.39	96.40	Normal
16	Bili-bili	79.75	50.96	83.98	80.07	4.23	29.11	76.26	Normal

Source: Ministry of Public Works October 15, 2015.
Note: "Deficit" indicates water levels lower than target, but above drought condition levels.

Given current weather conditions, agricultural production appears on track to achieve typical, although slightly diminished levels for rice and corn. The possibility of achieving normal production, however, is threatened by the possibility of extended dryness through the November 2015- March 2016 period. Post will observe rainfall in November and December, and revise production estimates as necessary.

EXECUTIVE SUMMARY

Corn

Post observed that the ongoing El Nino diminished corn plantings on rain-fed upland areas during the third crop cycle in South Sulawesi, Central Java, and East Java. As a result, Post estimates that MY 2014/15 Indonesian corn production will decline by 3.3 percent compared to the previous MY2013/14. Indonesian MY 2014/15 imports of corn are also estimated to decline to 3.2 MMT due to Minister of Agriculture's decision to unofficially ban imports of corn as of July 23, 2015.

Rice

MY 2014/15 Indonesian rice production is estimated to decline by 1.5 percent from the previous estimate of 35.76 MMT (milled rice equivalent) due to the ongoing El Nino event. El Nino is expected to delay the planting period of the first crop cycle of MY 2015/16. Lower domestic procurement and higher than planned raskin program distributions have depleted the Indonesian National Logistics Agency's (BULOG) stocks. BULOG will be required to import rice by the end of the year if Indonesia intends to maintain secure rice stock levels.

CORN

Production

Indonesia's first corn season normally takes place from November to February, accounting for 49 percent of annual production. The second season takes place from March to June (37 percent), and the third runs from July to September (14 percent). Due to delays in the first crop planting, the second crop cycle of corn was delayed, with MY 2014/15 harvest taking place in July/August 2015. As a result of the ongoing El Nino, farmers' have substituted shorter duration crops such as soy, peanuts and mung beans in the place of corn. Recent crop observations confirmed that some upland areas in South Sulawesi and Central Java were left idle compared to the same period of last year when farmers planted corn in those areas.

Post estimates that MY 2014/2015 Indonesia corn harvested area will decline to 2.94 million hectares compared to the previous estimate of 3.14 million hectares. Despite planting declines in non-irrigated areas, yields are expected to improve in irrigated areas as the El Nino event provides dry conditions for optimal grain ripening. Considering the balance of declining plantings and improving yields, Post revises MY2014/15 Indonesian corn production to 8.8 MMT from the previous estimate of 9.4 MMT.

Trade

The Indonesian Minister of Agriculture unofficially banned corn imports in late July 2015 following the Indonesian Statistic Agency's (BPS) estimate that CY 2015 Indonesia corn production grew to 20.6 MMT from 19 MMT in CY 2014. Based on the ban, Post's corn import estimate is reduced from 3.5 to

3.2 MMT in MY 214/15. Approximately 3.04 MMT of corn has landed in Indonesia during the October 2014 – July 2015 period.

RICE, MILLED

Production

South Sulawesi

South Sulawesi is divided into three climate zones:

Table 2. South Sulawesi Climate Zones

South Sulawesi Climate Zones	Wet Season Period	Dry Season Period
West (Monsoonal)	Dec - Apr	May – Nov
East (Equatorial)	Apr - Jul	Aug – Mar
Upper North (Non Zone)	Nov - Sep	Oct

Source: BMKG

BMKG reported that the monsoonal area of South Sulawesi (western South Sulawesi) will be the most severely impacted by El Nino. Furthermore, BMKG stated that the El Nino phenomenon occurring in Indonesia will affect agricultural production in Java, Bali, West Nusa Tenggara, East Nusa Tenggara, and southern parts of Sumatera. Specifically, regions falling south of the equator will experience dryness.

Irrigation systems cover 50 to 60 percent of South Sulawesi's 638,000 hectares of paddy area. The general cropping pattern on irrigated area is paddy during the first and second plantings, and paddy or secondary crops during the third planting. The general cropping pattern on rain fed areas is paddy during the first crop, paddy or secondary crops during the second crop, and secondary crops or fallow during the third crop. South Sulawesi has not received any rainfall since June 2015. As a result, crop failures were experienced on 16,000 hectares of rain fed area out of a total of 309,000 hectares planted on South Sulawesi during the third crop cycle. With the ongoing drought, the Provincial Food Crops Office estimates that the area suffering from harvest failure will reach a total of 45,000 hectares by the end of the year. Post observation confirmed this estimate, with most of the rain-fed areas in western part of South Sulawesi fallow in October 2015. Post estimates that the El Nino has led to the loss of third crop paddy production on rain-fed areas in South Sulawesi, accounting for 4 percent of South Sulawesi's 2015 paddy production estimate. Post did not see any corn crops during the visit, in irrigated or non-irrigated areas.


Irrigated and rain-fed areas in South Sulawesi October, 2015.

Central Java

The Provincial Food Crops Office reports that as of September 2015, a total of 61,000 hectares of paddy fields are damaged by the ongoing El Nino, of which 18,000 hectares located in rain-fed areas experienced total crop failure. In 2014, total damaged area was 56,000 hectares (due to floods in early 2014 and brown hopper problems). Central Java has not received rainfall since June, and second crop harvest mostly took place in August 2015.

Dry conditions during the second crop harvest in 2015 increased average yields to 5.8 MT per hectares, compared to the 2014 average yield of 5.4 MT. Post observations in October 2015 showed that some rain-fed areas in Central Java were left idle. Local farmers reported that the upland rain-fed area could not produce corn, which was not the case in 2014. On the other hand, Post confirmed that irrigated areas were grown with both corn and paddy. Therefore, Post estimates that Central Java corn production remained stagnant during the third crop. Post estimates there may not be a significant decline in paddy production in Central Java as farmers on technically irrigated low land areas were still able to grow paddy using canal water, while those on semi-technically irrigated areas continued to get water from river or ground water using pumps or wells. An official from Kedung Ombo, a major water reservoir in Central Java, reported that the level of water is sufficient to irrigate paddy field into early 2016.


Rain-fed and irrigated areas in Central Java.


Left: Some irrigated areas in Central Java are planted to corn, soybean or left barren. Right: The water level at Kedung Ombo water reservoir is sufficient to irrigate paddy field for the upcoming planting period of the first crop of MY2015/16.

East Java

Although East Java has not received rainfall since July 2015, the GOI expects that there will be no significant loss of paddy production. Officials note that the El Nino event corresponds with their dry season and second and third crops do not require significant rainfall due to irrigation systems. The water levels at major reservoirs in East Java (Sutami, Lahor, Selorejo, Bening, and Wonorejo) remain sufficient to irrigate paddy fields. El Nino is expected to delay the arrival of the rainy season until the end of November, thus delaying first crop cycle 2015/16 plantings.

Considering the above mentioned facts, Post reduces its estimate for MY 2014/15 by 1.5 percent to 11.9 million hectares compared to the previous estimate of 12.08. Yields are expected to benefit from the dry conditions and increased daylight created by the El Nino event. Therefore, Post estimates that MY2014/15 Indonesian paddy production will decline to 35.76 MMT of milled rice equivalent compared to the previous estimate of 36.3 MMT.

Trade

The GOI reorganized BULOG in early June 2015 in an effort to boost domestic procurement. The new BULOG administration has set the agency's domestic procurement target to 4 MMT during calendar year 2015, in line with BPS's expected production increase. The target was raised to 4 MMT from its typical procurement of 3.2 MMT. 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 only began domestic procurement in March 2015. As of October 5, 2015, BULOG procured approximately 1.8 MMT, lower than the 2.3 MMT procured during the same period in MY 2013/14. In order to meet the new target, BULOG must procure a total of 2.2 MMT from farmers until the end of 2015. Post notes that this target appears ambitious, given that procurement under better weather conditions during the same period in 2014 yielded less than 500 TMT.

In the past, the GOI instructed BULOG to maintain a minimum secure stock level of 2 MMT. This year, BULOG is instructed to maintain 2.5 MMT of stock at the end of the year. 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). With the current HPP, BULOG found it difficult to meet its procurement target as inflation and the delayed harvest pushed paddy prices above the HPP. At the end of September 2015, BULOG's stock stood at 1.7 MMT. The GOI has instructed BULOG to double distribute raskin rice in September and November, which will reduce BULOG's stock by approximately 950 TMT. Therefore, Post estimates that to meet the end of year stock level, BULOG must import at least 1.1 MMT during the last three months of MY 2014/15.

BULOG's purchasing guidelines on price and quality are listed below, as per Presidential Instruction 5/2015:

Table 3. Government Purchasing Price

		Presidential Instruction 2012			Presidential Instruction 2015		
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 Number 5/2015

Indonesian regulations restrict imports of rice one month prior to, during, and two months after the main harvest period (February through May). Indonesian regulations only permit BULOG to import medium quality rice, while private companies can import specialty rice (jasmine rice, basmati rice, rice for diabetics and rice seed, for example). To date, 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. Considering the above mentioned conditions, Post estimates that MY 2014/15 Indonesian rice imports to increase to 1.7 MMT compared to the previous estimate of 1.25 MMT.

PSD TABLES

Table 4. PSD: Corn

Corn	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2014		Oct 2015		May 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3120	3120	3140	2940	3140	3140
Beginning Stocks	1040	1040	1729	1715	2499	1495
Production	9100	9100	9400	8800	9600	9600
MY Imports	3501	3500	3500	3200	3000	3000
TY Imports	3501	3500	3500	3200	3000	3000
TY Imp. from U.S.	127	126	0	10	0	0
Total Supply	13641	13640	14629	13715	15099	14095
MY Exports	12	25	30	20	25	20
TY Exports	12	25	30	20	25	20
Feed and Residual	7400	7400	7900	8000	8400	8600
FSI Consumption	4500	4500	4200	4200	4100	4100
Total Consumption	11900	11900	12100	12200	12500	12700
Ending Stocks	1729	1715	2499	1495	2574	1375
Total Distribution	13641	13640	14629	13715	15099	14095
Yield	2.9167	2.9167	2.9936	2.9936	3.0573	3.0573

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

Table 5 : PSD: Milled, Rice

Rice, Milled	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12100	12100	12080	11900	12160	12160
Beginning Stocks	6476	6476	5501	5501	4451	4361
Milled Production	36300	36300	36300	35760	36300	36650
Rough Production	57165	57165	57165	56315	57165	57717
Milling Rate (.9999)	6350	6350	6350	6350	6350	6350
MY Imports	1225	1225	1250	1700	1300	1100
TY Imports	1225	1225	1250	1700	1300	1100
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	44001	44001	43051	42961	42051	42111
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	38500	38500	38600	38600	38650	38650
Ending Stocks	5501	5501	4451	4361	3401	3461
Total Distribution	44001	44001	43051	42961	42051	42321
Yield (Rough)	4.7244	4.7244	4.7322	4.7324	4.7011	4.7465

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