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Indonesia

Grain and Feed Update

Indonesia Grain and Feed Update January 2013

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Report Highlights:

- Post revises Indonesian corn production estimates to 8.85 million metric ton (MMT) during marketing year (MY) 2011/12. This decline is due to lower than expected harvested areas in Sumatra and Java.
- Post revises MY 2011/12 Indonesian rice imports estimates to 1.96 MMT due to higher than expected imports by the Indonesian National Logistics Agency (BULOG). The Government of Indonesia (GOI) recently granted BULOG permission to import adequate rice stocks to reach 2.0 MMT through the end of MY 2011/12.

Post: Jakarta

Commodities:

Executive Summary:

On January 18, 2013, the Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika,* BMKG) forecasted significant precipitation due to the rainy season in the areas of South Sumatra, Lampung, Bengkulu, large parts of Java, Bali, and Nusa Tenggara. In addition to increased rainfall, the rainy season has increased wind speeds and tidal flows in South China Sea, Southern Karimata, Flores Sea, Timor Sea, Sawu Sea, and Banda Sea. Currently, the air movement is from Asia to Australia. The movement of air from Asia to Australia tends to increase the impact of the rainy season in Indonesia. Conversely, air movement from Australia to Asia tends to create dry and/or drought conditions. BMKG predicts that the peak of the rainy season will occur between January - March 2013.

On January 25, 2013, the Indonesian Ministry of Public Works published a report on the conditions of Indonesia's water reservoirs. The report listed one reservoir on Java, three reservoirs in Bali, and four reservoirs in Sumatra as "alert" status due to low water levels.

MONITORING OF WATER ELEVATION AT INDONESIAN MAJOR WATER RESERVOIRS AS OF DECEMBER 31, 2012

No.	Reservoir	Service Area (ha)	Capacity (mil. m^3)	Elevation & Volume							Status
				Normal		Monitored		Elev. Deviation	Vol. Deviation	Elev. for Drought Prep. (m)	
				Elev. (m)	Vol. (mil m^3)	Elev. (m)	Vol. (mil. m^3)				
1	2	3	4	5	6	7	8	9	10	11	14
WEST JAWA					**709.79**		**1,104.9**		**395.12**		
1	**Djuanda**	282,15	2,556.00	94.34	398.67	98.52	677.62	4.18	278.95	87.50	Normal
2	**Cirata**	-	973.00	209.97	172.36	211.43	239.12	1.46	66.76	206.00	Normal
3	**Saguling**	-	982.00	632.26	138.76	634.15	188.17	1.89	49.41	625.00	Normal
CENTRAL JAWA					**590.42**		**818.59**		**228.18**		
1	**Kedungombo**	59,645	723.00	77.60	299.50	76.85	292.71	-0.75	-6.79	64.76	Alert
2	**Wonogiri**	28,109	660.09	128.47	84.26	132.88	219.80	4.41	135.54	129.50	Normal
3	**Sempor**	6,485	36.43	53.40	6.88	71.98	38.04	18.58	31.16	43.00	Normal
4	**Wadaslintang**		388.71	165.00	199.78	171.39	268.05	6.39	68.26	124.00	Normal

		31,109									
DAERAH ISTIMEWA YOGYAKARTA											
1	**Sermo**	400	25.00	129.55	9.72	132.84	13.51	3.29	3.79	122.09	Normal
EAST JAWA					**68.06**		**89.68**		**21.62**		
1	**Sutami - Lahor**	71,643		257.73	39.33	260.22	52.62	2.49	13.29	246.00	Normal
2	**Selorejo**	30,487	62.30	606.37	5.56	612.54	13.17	6.17	7.61	596.00	Normal
3	**Bening**	8,752	33.00	96.18	1.21	96.21	1.23	0.03	0.02	96.40	Normal
4	**Wonorejo**	1,012	122.00	155.06	21.96	155.45	22.68	0.39	0.72	141.00	Normal
BALI				**12.44**		**7.11**		**-5.33**			
1	Palasari			77.00	6.50	72.55	4.03	-4.45	-2.47	-	Alert
2	Telaga Tunjung			199.00	1.00	199.10	1.00	0.10	0.00	-	Normal
3	Gerokgak		3.05	126.00	2.90	114.80	0.40	-11.20	-2.50	-	Dry
4	Benel	1,008	1.92	171.50	1.62	169.40	1.33	-2.10	-0.29	-	Alert
5	Muara Nusa Dua			1.70	0.42	1.40	0.35	-0.30	-0.07	-	Alert
NANGGROE ACEH DARUSSALAM				**19**		**1,073**		**1,053.44**			
1	Keuliling	2,455		45.80	18.35	45.60	17.84	-0.20	-0.51	38.50	Alert
2	Sianjo-anjo			14.50	1.06	14.50	1,055	0.00	1,053.9	9.88	Normal
LAMPUNG				**595.65**		**382.11**		**213.54**	-0.36		
1	Batutegi	2,455		255.00	488	252.13	322	-2.87	-166.15	38.50	Alert
2	Way Rarem			54.00	72	51.37	47	-2.63	-25.14	9.88	Alert
3	Way Jepara			28.00	35	26.50	13	-1.50	-22.25	9.88	Alert
SULAWESI SOUTH											
1	**Bili-bili**	24,585	375.00	88.98	149.30	92.73	171.23	3.75	21.93	73.45	Normal

Source: Indonesian Ministry of Public Works, January 2013.

The Ministry of Public Works is taking measures to minimize potential negative impacts from extreme weather such as:

- Monitoring meteorological reports;
- Observing water levels at reservoirs;
- Allocating water based on the rainfall levels and priorities of planting area;
- Intermittent water management;
- Reevaluating farmers' planting plans; and
- Minimizing leakages along the irrigation canals.

On December 27, 2012 the Indonesian Minister of Agriculture (MOA) held a press conference which reflected on various ag-related policies from 2012, as well as agricultural development prospects for 2013. The Minister explained that in 2012 Indonesia managed to reach production targets on rice, corn, and beef while missing the targets for sugar and soybean production. However, the reached targets were revision from initial targets set in early 2012. For 2013, the GOI has set a target to increase rice production by 4.5 percent to 72.064 MMT.

2012 Indonesian Food Production (In MMT)

Commodity	Realization	Revised Target	Initial Target
Paddy	67.96	67.83	71
Corn	18.96	18.86	24
Soybean	0.783	1.1	1.9
Sugar	2.58	2.7	-
Beef	0.505	0.517	-

Source: Indonesian Ministry of Agriculture, 2012

MOA claims that the main reason behind the failures to reach their initial production targets is the lack of land suitable for agricultural production. An average of 100,000 hectares per year of agricultural land is converted to non-agricultural uses. They claim that unless there are effective prevention measures put in place, Indonesia will have a deficit of 730,000 hectares of land for agricultural uses by 2015. The loss is a result of high rate of land conversion to non agricultural uses combined with rapid growth of demand for food crops. Therefore, MOA has petitioned the President to issue a regulation banning the development of existing agricultural land. Post expects such a regulation may be forthcoming.

WHEAT

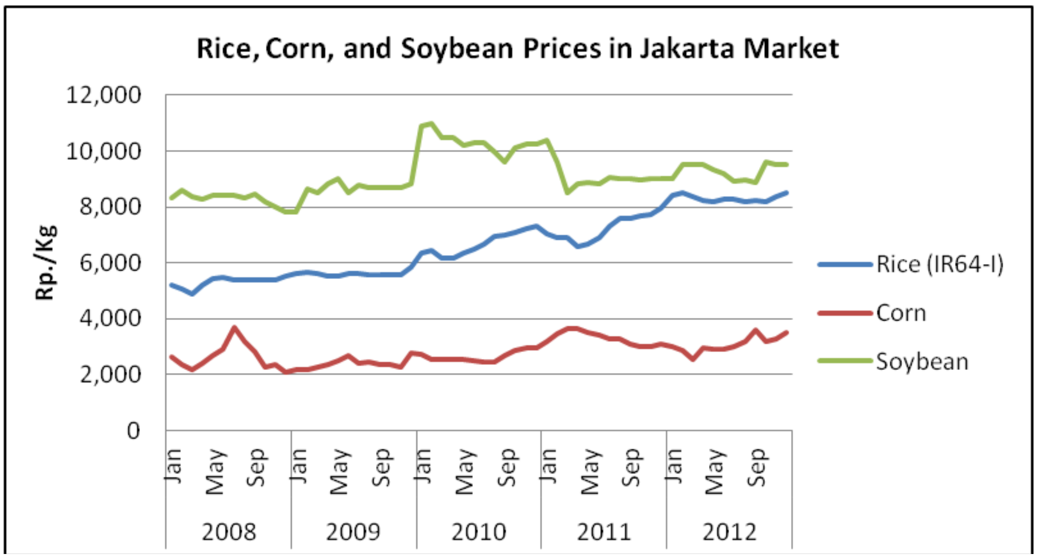
Indonesia recently began to impose a 20 percent temporary safeguard duty on imported wheat flour. As a result, Turkey has taken measures to stop Turkish wheat flour exports to Indonesia. Turkey is also considering action against Indonesia in the World Trade Organization (WTO). The Indonesian Flour Millers Association (APTINDO) has claimed that there will be no shortage to the domestic wheat flour supply. It is expected that the domestic flour millers will import more wheat to fill the gap created by less flour imports. Therefore, Post will not make any changes to MY2012/13 Indonesian wheat imports levels.

CORN

Production

Based on recently released Indonesian 2012 corn production estimates from the National Statistics Agency (BPS), as well as information from local seed companies, Post revises Indonesia's MY 2011/12 corn production estimates to 8.85 MMT. The decline is due to lower than expected harvested areas in regions where farmers are switching from corn to rice and tobacco (Java) and from corn to rice, cassava and palm oil (Sumatra). The price incentive for farmers to grow paddy, tobacco, cassava, or palm oil is relatively higher than growing corn. However, farmers will continue to prefer corn over soybean production, as corn provides higher yields and stronger rates of return over soybeans. As of July 2012, the Indonesian Ministry of Forestry (MOF) no longer allows farmers to grow corn on land under the MOF's authority. Moreover, productivity per hectare did not improve significantly because the use of premium hybrids is not pushed intensively, although higher potential yield and productivity through hybrids is likely in the future.

The first and major corn planting season normally takes place from November - February (49 percent). The second planting season takes place from March - June (37 percent). The final season occurs from July - September (14 percent). Farmers in the upland areas of Java are expected to harvest their first corn crop from late February - early March 2013. Farmers report no significant pest outbreak affecting the standing crops. Assuming that weather condition remain favorable, Post maintains the MY 2012/13 Indonesian corn production figure.



Source: Cipinang rice wholesale market; Market Information Center (PIP), Ministry of Trade; The American Soybean Association (ASA).

In December 2012, corn prices at the producer level ranged from Rp. 3,300/kg ($342/MT) in Lampung to Rp. 3,500/kg ($363/MT) in Jakarta. These prices are higher compared to November 2012 prices of Rp. 3,150/kg ($327/MT) in Lampung and Rp. 3,300/kg ($342/MT) in Jakarta. The price increase is due to a general tightening of supply during the current off season period. The price of hybrid corn seed in January 2013 remained relatively stagnant at the range of Rp. 55,000/kg ($5.74/kg) to Rp. 70,000/kg ($7.3/kg). In 2011 hybrid corn seed prices ranged from Rp. 40,000/kg ($4.2/kg) to Rp. 60,000/kg ($6.3/kg). In line with the increasing corn prices and lower domestic supplies, the Feed Millers Association (GPMT) recently reported their intention of increasing feed prices by approximately Rp. 100 – 200/kg ($10-20/MT).

Consumption

Many, if not most Indonesian corn farmers continue to use composite seed, as composite corn is generally for human consumption. Hybrid corn is used almost exclusively for feed and livestock consumption. GPMT reported that in calendar year (CY) 2012 feed consumption will reach approximately 12.7 MMT higher than the initial estimate of 12.3 MMT. This volume is excluding 1.2 MMT used for aquaculture feed. The poultry industry consumes approximately 83 percent of the total feed consumed. Aquaculture consumes 11 percent and the balance of six percent is consumed by cattle and swine. GPMT forecasts that Indonesian feed consumption will further increase to 13.8 MMT in CY 2013. Some expansion of the currently operating feed mills and newly investment in feed mill are the driver of this feed consumption increase. Currently, the Indonesian feed millers are running at 77 – 80 percent of their total installed capacity.

GPMT reports that corn normally accounts for 50 percent of feed formulations, with soybean meal at 15-20 percent, corn gluten meal at three percent, CPO at two percent, fish meal at five percent, rice bran at 15 percent, wheat pollard eight percent and premix 0.6 percent. Based on local feed miller production estimates, Post estimates that in MY 2011/12 Indonesian corn consumption will reach 6.0 MMT. Because several new foreign investors are expected to begin producing feed in Indonesia, Post expects that the MY 2012/13 Indonesian corn consumption forecast will increase further to 6.2 MMT.

While claiming significantly higher production of corn in CY 2012 that reached 18.9 MMT compared to 17.6 MMT in CY 2011 as per BPS official release in March 2012, the MOA continues to maintain unofficial import quota in place. Only feed millers can import corn, and not traders. In order to be able to import corn, a feed miller must obtain an import recommendation from the MOA. The MOA will grant the volume of corn that can be imported based on the actual feed production of the feed millers.

In addition, effective September 28, 2012, the Governor of East Java Office requires all importers of rice, glutinous rice, broken rice, corn, soybean, soybean meal, wheat flour, corn meal, feather meal, and fish meal who wish to unload their commodities in East Java to obtain a permit from his office. The importers can start the process to get the unloading permit once the imported products arrive in East Java. The process usually takes one week to complete. Consequently, this requirement exacerbates the already complex process for importing agricultural products into Indonesia.

Stocks

In line with the MY 2011/12 lower corn production estimate, Post revised Indonesian MY 2011/12 corn ending stock to 707,000 MT from the previous 757,000 MT. Post forecast MY 2012/13 ending stocks to further decline to 382,000 MT due to higher consumption for feed.

RICE, MILLED

Production

Currently, most of the paddy in Indonesian major rice producing areas is about two - six weeks of age. Corresponding with BMKG forecast of the peak of the rainy season that will take place during January – March 2013, MOA estimated that around 90,000 hectares of paddy field scattered around West Java, Central Java, East Java, and South Sulawesi are affected by flood resulted from recent heavy rainfall. About 30,000 hectares of the field is likely to be totally damaged in January 2013. MOA further predicted that in February 2013, a total of 50,000 hectares paddy field will be flooded and about 18,000 hectares of it will be totally damaged. MOA will provide compensation to farmers who suffer losses including seed, fertilizer, and cash. Farmers should use the compensation to replant their damaged field. The already delayed first-crop planting combined with this condition will delay the first main harvest to the last week of March through April 2013. Unfortunately this weather condition, which caused damages in many areas, has become normal occurrence. Therefore, Post decided not to change the MY 2012/13 Indonesian rice production figures yet.

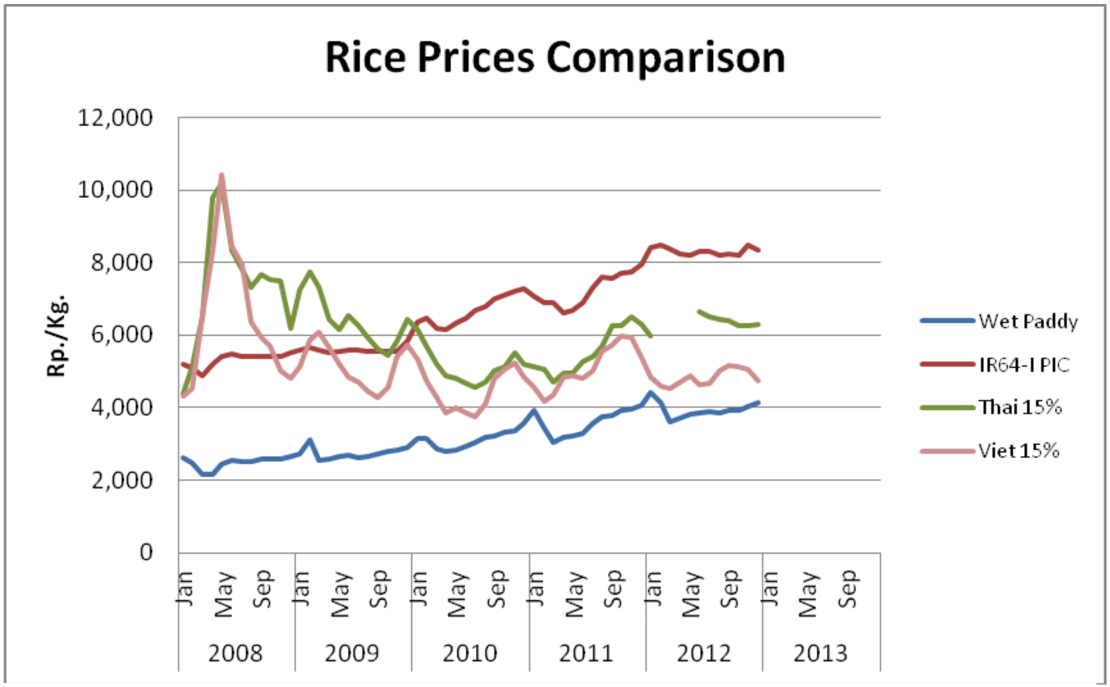
Trade

During the period of January – March 2012 a total of 700,000 MT of rice was imported by BULOG. BULOG stopped rice imports in early March 2012, in order to avoid violating domestic regulations which prohibit rice imports one month prior to, during, and two months after the main harvest season. In October 2012, the GOI authorized BULOG to import a total of 1.0 MMT of rice with the objective of maintaining minimal stock levels of 2.0 MMT through the end of the year. As of the end of December 2012 BULOG signed contracts for a total of 720,000 MT of imported rice, and a total of 650,000 MT of it landed in the country.

In MY 2011/12, BULOG targeted to procure 4.5 MMT of rice. As of the end of 2012, BULOG procured a total of 3.6 MMT from the domestic market, which is higher than the 3.3 MMT procured domestically during the same period in 2011. For MY 2012/13 BULOG targeted to procure 3.6 MMT of rice. 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). BULOG's aggressive approach to procure rice directly from farmers has made the HPP more competitive. GOI will review the HPP for MY 2012/13 in the near future. The review will aim at calculating whether the current HPP is still attractive to encourage farmers to grow rice. Based on the calculation GOI will decide to increase or to keep the HPP at the current level. Other than the rice imported by BULOG, Indonesia has also imported approximately 500 TMT of rice for health and other specific purposes in MY 2011/12. This specialty rice imports combined with the aforementioned 700 TMT imported during the first quarter of 2012, the rice imports realization from BULOG's end of last year authorization, and small amounts of smuggling, Post estimates that MY2011/12 Indonesian rice imports will reach approximately 1.95 MMT.

The success has increased BULOG's 2012 ending stock to 2.3 MMT. The ending stock is already more than the secure level of ending stock that must be held by BULOG that is set at 2 MMT. Considering the current stock held by BULOG, combined with the assumption that BULOG will be able to procure the same amount or f rice from the domestic market as last year and an assumption that BULOG will distribute the same amount of rice for *raskin* (rice for the poor) as last year, BULOG will be able to maintain its secure level of ending stock by the end of December 2013. Therefore, BULOG will not need to import during MY 2012/13. Furthermore, Post forecast that MY 2012/13 Indonesian rice imports will decline to 800 MMT that consisted of the carry over imports by BULOG in 2012, imports of specialty rice, and small amount of illegal rice trade at Indonesian border areas.

The high price disparity between Indonesia's domestically produced rice over Vietnamese and Thai 15 percent broken rice will continue to provide incentives for unauthorized imports, especially through the more porous Indonesian border areas.



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

Consumption

While BULOG's primary objective is to shore up 2012 ending stocks, some imported rice will also be used in BULOG's market operations as a mechanism to dampen the price of medium quality rice in the domestic market. During the period of January – December 2012, BULOG flooded the market with a total of 298,000 MT under market operations.

BULOG also uses stocks for its Rice for the Poor (*Raskin*) program. During the period of January – December 2012 BULOG distributed a total of 3.378 MMT of *Raskin* rice to 17.5 million poor families. Each family received 15 kg of rice/month at the price of Rp. 1,600 /kg.

In line with the population growth, Post estimated MY 2011/12 Indonesian rice consumption to increase to 39.550 MMT from 39 MMT in previous MY2010/11. The consumption is forecast to increase further to 40 MMT in MY 2012/13.

Stocks

Taking BULOG's import realization into account, Post revised MY 2011/12 ending stock of Indonesian rice to increase to 5.1 MMT, and forecast to further decline in MY 2012/13 to 3.175 MMT due to higher consumption and lower imports of MY 2012/13.

Prices

The Indonesian National Statistics Agency (BPS) reported that the average price of wet paddy at farm gate is slightly increasing from Rp. 3,911/kg ($406/MT) in September 2012 to Rp. 4,131/kg ($486/MT) in December 2012. The average price of dry paddy at farm gate is also increasing from Rp. 4,405

($457/MT) in September 2012 to Rp. 4,774 ($495/MT) in December 2012.

Average daily supply of rice from the major rice producing areas of Java to the Cipinang Rice Wholesale Market in Jakarta is declining to 2,698 MT in January 2013 (as of January 28, 2013) from 2,750 MT in December 2012. The average price of medium quality rice at Cipinang whole sale market is slightly declining to Rp. 8,445/kg ($876/MT) in January 2013 (as of January 28, 2013) compared to the average price of Rp. 8,494/kg ($881/MT) in December 2012.

Policy

As a result of lower yield gained by farmers using lower quality seed from government free seed program, this year GOI decided not to continue the free seed program. In years past, the GOI paid for all of the seed. However, new changes to the scheme require that the GOI cover 75 percent of the seed price to the seed companies, with farmers obligated to pay for the remaining 25 percent. The fact that farmers will now have to pay for some of the seed may encourage them to consider the quality of the seed. This change should also force seed companies to provide a better quality product.

PSD TABLES

PSD: CORN

Corn Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,850	2,850	3,140	3,120	3,150	3,150
Beginning Stocks	668	668	697	697	757	707
Production	6,800	6,800	8,900	8,850	8,900	8,900
MY Imports	3,041	3,041	1,700	1,700	1,500	1,500
TY Imports	3,041	3,041	1,700	1,700	1,500	1,500
TY Imp. from U.S.	485	485	42	42	0	0
Total Supply	10,509	10,509	11,297	11,247	11,157	11,107
MY Exports	12	12	40	40	25	25
TY Exports	12	12	40	40	25	25
Feed and Residual	5,400	5,400	6,000	6,000	6,200	6,200
FSI Consumption	4,400	4,400	4,500	4,500	4,500	4,500
Total Consumption	9,800	9,800	10,500	10,500	10,700	10,700
Ending Stocks	697	697	757	707	432	382
Total Distribution	10,509	10,509	11,297	11,247	11,157	11,107
Yield	2.	2.386	3.	2.8365	3.	2.8254

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

PSD: RICE, MILLED

Rice, Milled Indonesia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12,075	12,075	12,160	12,160	12,150	12,150
Beginning Stocks	6,577	6,577	6,175	6,175	4,825	5,085
Milled Production	35,500	35,500	36,500	36,500	36,900	36,900
Rough Production	56,349	56,349	57,480	57,480	58,110	58,110
Milling Rate (.9999)	6,300	6,300	6,350	6,350	6,350	6,350
MY Imports	3,098	3,098	1,700	1,960	1,450	800
TY Imports	3,098	3,098	1,700	1,960	1,450	800
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	45,175	45,175	44,375	44,635	43,175	42,785
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	39,000	39,000	39,550	39,550	40,000	40,000
Ending Stocks	6,175	6,175	4,825	5,085	3,175	2,785
Total Distribution	45,175	45,175	44,375	44,635	43,175	42,785
Yield (Rough)	5.	4.6666	5.	4.727	5.	4.7827

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

Note: Exchange rate is Rp. 9,640/USD 1, as of January 25, 2013.