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Indonesia

Sugar Annual

Indonesia Sugar Annual Report 2013

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Report Highlights:
Post predicts that Indonesia will produce an estimated total of 25.6 million metric tons (MMT) of sugarcane in marketing year (MY) 2012/13. In line with the increase of sugar cane production, Post estimates that Indonesia will produce 1.97 MMT of plantation white sugar in MY 2012/13, an increase of 7.7 percent over MY 2011/12. Additionally, Post expects that imports of raw sugar will increase to 3.4 MMT over previous MY 2011/12 of 2.888 MMT. This increase is primarily attributed to higher imports by refineries, sugar mills, and imports for eastern part of Indonesia.

Executive Summary:

The Government of Indonesia (GOI) strictly regulates sugar production and trade. In MY 2012/13, Post expects that Indonesia will produce 1.97 MMT of plantation white sugar, an increase of 7.7 percent over MY 2011/12. Moreover, Post predicts that Indonesian imports of raw sugar will increase to 3.4 MMT. This increase is primarily driven by Indonesia's food and beverage industry, as well as regional spikes in imports of plantation white sugar. Aceh and Kalimantan have increased refined sugar imports to 165,000 MT of raw sugar equivalent. In MY 2013/14 Post estimates that imports of refined sugar will decline by 100,000 MT of raw sugar equivalent, based on the expectation that the GOI will not import any plantation white sugar. 2014 is an election year in Indonesia and current populist politics are not favorable toward food imports. Thus, the GOI will likely insist that domestically produced plantation white sugar will be 'sufficient' to meet demand. Any refined sugar imports will only be imported by the food and beverage industry. Although GOI authorized total imports at 107,500 MT of refined sugar in CY 2012, as of December 2012 only 91,000 MT of refined sugar actually landed in Indonesia.

Despite an increase in Indonesian production of plantation white sugar, the GOI increased baseline prices for plantation white sugar at farm gate to Rp. 8,100/kg ($841/MT) in May 2012. As a result, retail prices gradually increased throughout most of 2012, especially before and during Ramadan and other significant holidays. 2012 retail prices of plantation white sugar ranged from a peak of Rp. 13,200/kg ($1,370/MT) to the lowest of Rp. 10,650/kg ($1,105/MT).

Commodities:

Select

Production:

Indonesia produces plantation white sugar from sugarcane, primarily produced for direct human consumption. Indonesia also produces refined sugar from imported raw sugar, which is generally used for processing by the food and beverage industries.

A total of 375,000 hectares were planted with sugarcane in MY 2012/13, an increase of about 5,000 hectares over the previous year. The additional hectares were primarily on Central Java, Lampung, and South Sulawesi and were driven by favorable weather in MY 2012/13. Favorable weather conditions for sugarcane are expected to continue into MY 2013/14. The total area planted with sugarcane is forecasted to remain at 375,000 hectares in MY 2013/14. While some minor expansions will likely occur outside of Java, these will be offset by land conversion to non agricultural uses on Java. Improved yield of sugarcane per hectare is expected increase and the recovery rate is also expected to be higher than in MY 2011/12 due to higher levels of sugar concentrates in the sugarcane. Increased recovery rates have become an incentive for farmers to grow sugarcane as the recovery rate is used by sugar mills as the basis to calculate prices of sugar paid to the farmers.

The milling period of MY 2012/13 is expected to start on Java in May 2013. The Sumatran milling period began as early as mid February 2013. The milling period is expected to end in late November

2013. Both regions will experience longer than average milling periods compared to a more normal period of 150 days. Longer milling period will reduce the sugar content of the sugarcane. However, the milling period of MY 2012/13 is estimated to be shorter than the previous MY 2011/12. Shorter milling period will lead to a higher milling rate of 7.7 percent in MY 2012/13 compared to 7.6 percent reached in MY 2011/12.

The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika*, BMKG) predicts, based on a 30 year average, that the beginning of the MY 2012/13 rainy season will start at its normal time throughout most areas of Indonesia. However, roughly 40 percent of Indonesia will experience late rainy season. The intensity of rainfall during the dry season will be normal in 65 percent area of Indonesia, while 32 percent area will receive lower than normal levels of rainfall. Unlike the MY2009/10 milling season which was marked by especially heavy rains, which led to flowering, long sugarcane stalks, and difficulties in loading harvested sugarcane, the anticipated, more favorable weather during MY 2012/13 should provide higher sugar content. Subsequently, this will increase plantation white sugar production in MY 2012/13 to approximately 1.97 MMT, a 7.7 percent increase from MY 2011/12. However, this target may be hampered by poor recovery rate analysis, poor harvest management, sugarcane transportation problems, and capacity of old machines at sugar mills.

Currently, a total of 48 sugar mills are located in Java and account for 64 percent of Indonesian white sugar production in MY 2011/12. The balance is produced by 14 sugar mills outside of Java, primarily in Sumatra. Indonesian sugar mills must attempt to increase sugarcane production capacity by adopting new planting patterns, using higher quality varieties, and by better timing of the harvest to increase the recovery rate.

Conversely, there are a total of eight sugar refineries producing refined sugar from imported raw sugar. The combined annual output of these facilities in 2012 was approximately 2.5 MMT and these facilities are currently operating at 70 to 75 percent of total operational capacity. Total operational capacity for all of the major Javanese refineries is around 3.2 MMT. The market conditions for the sugar sector in Indonesia will become an incentive for refineries sector expansion. Despite GOI policies which have kept the sugar sector on Indonesia's Negative Investment List since 2004, three new refineries with a total installed capacity of 1.2 MMT are expected to start operation by early to mid of CY 2013. The new refineries, which are located in Banten, Jakarta, and Medan, are eligible to begin operations this year because they obtained their permits prior 2004.   The GOI is currently reviewing its policy vis-à-vis Negative Investment List for sugar, primarily due to the food and beverage industry's growth.

Despite Indonesia's intention to reach sugar self sufficiency by 2014, in December 2012, the Indonesian Minister of Agriculture held a press conference where he noted that Indonesia missed its sugar production targets. More generally, the MOA claims that the main reason behind the failures to reach production targets is the lack of land suitable for agricultural production. Thus, the GOI has revised the target for sugar self sufficiency in 2014 to 3.1 MMT (both refined and plantation white sugar production). Initially the production targets for self sufficiency are set at 2.76 MMT for plantation white sugar and 2.74 MMT for refined sugar.

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

Consumption:

Due to growing demand from the food and beverage industry, which in CY 2012 consume a total of 2.6 MMT of refined sugar, and population growth, 1.4 percent annually, Indonesian sugar consumption is estimated to increase to 5.13 MMT in MY 2012/13. Post forecasts that consumption will continue to increase to 5.2 MMT in MY 2013/2014. Direct human consumption is estimated at 2.8 MMT, while the food and beverage industry uses the balance. Indonesian annual per capita sugar consumption is estimated at19 kg.

Trade:

As a regulated commodity, white sugar can only be imported by the four registered importers, which are also sugar companies that purchase plantation sugarcane from farmers to produce white sugar. Raw sugar and refined sugar can only be imported by processors that will use the raw sugar as a raw material for their production. Also, whenever it deems necessary, the GOI can grant sugar processors permission to import raw sugar, provided that it is used to meet demand, due to domestic production shortfalls.

In CY 2012, the Minister of Trade granted import licenses to nine companies namely PT. Perkebunan Nusantara (PTPN) II, VII, IX, X, XI, PT. Industri Gula Nusantara, PT. Pabrik Gula Gorontalo, PT. Pemuka Sakti Manis Indah, and PT. Madu Baru to import a total of 350,000 MT of raw sugar to fill the companies' idle capacity. In late 2012, additional import license to import a total of 240,000 MT of raw sugar was also granted to PT. PPI. In line with GOI regulation prohibiting imports of sugar one month, during, and two months after the milling period, imports of this raw sugar must land in Indonesia before the beginning of the 2013 milling season which is expected to start as early as February 2013. Since PT. Perdagangan Indonesia is a trading company and does not own any sugar mill, GOI ordered the company to appoint certain sugar mills to process the raw sugar.
However, as of the end of December 2012 only 73 percent of the import authorization materialized. Therefore, GOI extended the period to import the raw sugar to March 2013.

In an effort to support sugar imports and monitor prices, GOI continues to set sugar import duties at the following level:

SUGAR IMPORT DUTY (ID) AND VALUE ADDED TAX (VAT)

No.	**Commodity**	**ID**		**VAT**	**Restriction**
		(Rp./Kg)	**(US$/ton)**	**(%)**	
1.	Raw sugar from sugar cane	550	63.7	10	NPIK, IP, SNI

2.	White sugar	790	91.6	10	NPIK, IT
3.	Refined sugar	790	91.6	10	NPIK, IT

Source: Indonesian Customs Tariff Book 2010.

In CY 2011, the GOI reduced the allocation of refined sugar imports for food and beverage industry to only 75,000 MT. In CY 2012 GOI authorized importation of 107,500 MT of refined sugar. Nonetheless, as of December 2012 only 91,000 MT of refined sugar have actually landed in the country. This amount is still lower compared to the refined sugar import allocation in 2010 of 200,000 MT. The GOI expects that the food and beverage industry to consume more domestically produced refined sugar. GOI normally provides refined sugar import allocations at the beginning of the year. However, this allocation is subject to change should any company require refined sugar with higher quality than what the domestic refineries can produce. The GOI limits the issuance of refined sugar import permit for the food and beverage industry to every six months.

In CY 2012, GOI authorized a total of 240,000 MT of raw sugar imports to be processed into white sugar and distributed in eastern part of Indonesia and non sugar producing areas. This is a new authorization that has never been considered in the previous years. As of the end of December 2012, a total of 182,000 MT were brought into the country. GOI also gave a newly considered authorization to import a total of 71,000 MT of plantation white sugar to six companies for distribution in Aceh and border areas of West Kalimantan. A total of 61,000 MT landed in the country by the end of December 2012. Estimating that Indonesia will produce sufficient plantation white sugar in MY 2012/13, GOI decided not to give any authorization to import plantation white sugar.

Indonesian food and beverage industry is estimated to grow at 8 percent annually. In CY 2012, GOI gave authorization to eight refineries to import a total of 2.7 MMT of raw sugar. The raw sugar must be refined and distributed to the domestic food and beverage industry. In CY 2013, GOI gave authorization to import a total of 2.265 MMT of raw sugar for the refineries.

According to the Global Trade Atlas, Indonesia imported approximately 83,000 MT of refined sugar and 2,288,000 MT of raw sugar in MY 2011/12. Thailand (58 percent), Australia (14 percent), India (9 percent), and South Korea (9 percent) were the main suppliers of refined sugar to Indonesia. For raw sugar, Thailand (56 percent), Brazil (29 percent), Australia (12 percent), and the Philippines (2 percent) were the main suppliers.

Indonesia imports most of its sugar from Thailand not only because of the freight advantage, but also because Thailand can meet specifications for color based on Indonesia’s sugar requirements called “Indospec”. The GOI normally determines the quality of sugar that the registered importers can import.

Stocks:

Due to slight production increases of plantation white sugar production, increased imports of refined and raw sugar, and a minor increase of sugar consumption, MY 2012/13 ending stocks are expected to slightly increase by about 5,000 MT to 814,000 MT over MY 2011/12. Post estimates these levels will increase to 1.4 MMT in MY 2013/14 due to an estimated increase of refined sugar imports and plantation white sugar production.

Policy:
According to Ministry of Trade regulations, white sugar ranging from 70-200 International Units may be imported if the domestic production of white sugar is deemed insufficient to meet demand. Sugar imports are prohibited one month prior to the milling season, during the milling season, and two months after the milling season. Registered sugar importers are required to support the sugar price should the price fall below Rp. 8,100/kg ($841/MT) at the farm gate level. The support is through purchase of farmers' sugarcane production in cooperation with a third party that has secured a permit from the local Association of Sugarcane Farmers.

To achieve the target of sugar self sufficiency by 2014, the GOI launched a processing machine revitalization scheme in 2008. In 2013, the program will provide reimbursement to any sugar factory that purchase new machines, increasing installed capacity of the existing sugar mills, develop new sugar cane plantation, and develop new sugar mills. Increasing installed capacity of existing sugar mills is carried out by land intensification to increasing sugarcane yield and by improving the capacity of the sugar mills. Developing new sugar cane plantation and new sugar mills are carried out by opening a total of 350,000 hectares of land for sugar cane plantation and by building 10 sugar mills that have an individual capacity of 15,000 Ton Cane Day (TCD) or 25 new sugar mills that have an individual capacity of 6,000 TCD. In 2011, the Indonesian Ministry of Industry allocated a total of Rp. 273 billion for the machinery reimbursement program. The new machines must be domestically produced and be technology advanced. A 12.5 percent discount will be given for any purchase of new machines, and an additional 10 percent will be given if the machine is domestically produced. The revitalization program is only for sugar mills producing plantation white sugar from sugar cane and is not for refineries.

Note: Exchange rate is Rp. 9,634/US$ 1, as of February 12, 2013.

Production, Supply and Demand Data Statistics:

PSD: Sugarcane for Centrifugal

Sugar Cane for Centrifugal Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	370	370	370	375		375
Area Harvested	360	360	360	365		365
Production	24,000	24,000	25,900	25,600		26,700
Total Supply	24,000	24,000	25,900	25,600		26,700
Utilization for Sugar	24,000	24,000	25,900	25,600		26,700
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	24,000	24,000	25,900	25,600		26,700

Note: the last column of each Marketing Year is not official USDA data.

PSD: Centrifugal Sugar

Sugar, Centrifugal Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	602	602	409	409		814
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	1,830	1,830	2,040	1,970		2,080
Total Sugar Production	1,830	1,830	2,040	1,970		2,080
Raw Imports	2,888	2,888	2,860	3,400		3,600
Refined Imp.(Raw Val)	139	139	340	165		100
Total Imports	3,027	3,027	3,200	3,565		3,700
Total Supply	5,459	5,459	5,649	5,944		6,594
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	5,050	5,050	5,100	5,130		5,200
Other Disappearance	0	0	0	0		0
Total Use	5,050	5,050	5,100	5,130		5,200
Ending Stocks	409	409	549	814		1,394
Total Distribution	5,459	5,459	5,649	5,944		6,594

Note: the last column of each Marketing Year is not official USDA data.