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# GAIN Report

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**Date:** 4/13/2017

**GAIN Report Number:** ID1708

## **Indonesia**

### **Sugar Annual**

#### **Indonesia Sugar Annual Report 2017**

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**Report Highlights:**

MY 2016/17 sugarcane tonnage grew as a result of La Nina conditions, although sucrose yields fell due to flowering. Post expects sucrose yields to rise based on the expectation of more favorable weather in 2017. Thus, MY 2017/18 Indonesian plantation white sugar production will increase to 2.2 MMT compared to 2.05 MMT produced in MY2016/17, while sugarcane production will remain stable at 28.0 MMT. MY 2016/17 raw sugar and refined sugar import estimates are increased to 3.5 MMT and 300,000 MT (raw sugar equivalent). 2017/18 imports are expected to fall to 3.35 MMT based on rebounding sugar production and the expectation of favorable weather.

**General Summary**

Post revises its MY2015/16 Indonesian raw sugar and refined sugar import estimates to 3.2 million metric tons (MMT) and 155,000 MT of raw sugar equivalent, respectively, based on Indonesian sugar industry association import data. MY 2016/17 raw sugar and refined sugar import estimates are increased to 3.5 MMT and 300,000 MT (raw sugar equivalent) to compensate for lower MY 2015/16 carry-over stocks, currently estimated at 729,000 MT compared to the 2014/15 carry-over stocks of 949,000 MT. Post anticipates support for higher imports in order to enable Indonesian millers to maintain uninterrupted operations during lean production periods.

MY 2015/16 Indonesian plantation white sugar production fell due to El Nino conditions which delayed planting and limited sugarcane growth. The MY 2016/17 La Nina resulted in some sugarcane flowering. Although sugarcane tonnage increased as a result of the La Nina conditions, sucrose yields declined. Post’s MY 2016/17 plantation white sugar production estimate will marginally increase to 2.05 MMT.

Post revises its MY2015/16 Indonesian sugar consumption estimate to 5.6 MMT, also based on Indonesian sugar industry association data. Post’s MY 2016/17 and MY 2017/18 sugar consumption estimate is increased to 5.7 MMT, supporting population growth and reports of increasing demand from the food and beverage industry.

The average retail price of plantation white sugar in March 2017 increased to Rp. 14,591/kg (\$1,094/MT) compared to Rp. 13,400/kg (\$1,004/MT) in March 2016. The price increase reflects the decrease in MY 2015/16 domestic plantation white sugar production. In order to stimulate sugarcane production, the Government of Indonesia (GOI) increased the plantation white sugar floor price in May 2016 to Rp. 9,100/ kg (\$682/MT) from Rp. 8,900/kg (\$667/MT). Despite MY 2016/17 price hikes, wet conditions during Indonesia’s dry season (due to the La Nina phenomenon) drove down sucrose yields, thus limiting Indonesian plantation white sugar production in MY 2016/17.

GOI sugar policy classifies domestic sugar into three categories: plantation white sugar for home consumption, raw sugar for domestic sugar refining, and refined sugar for the local food and beverage industry.

Table 1. PSD: Sugarcane for Centrifugal

Sugar Cane for Centrifugal	2015/2016	2016/2017	2017/2018
Market Begin Year	May 2015	May 2016	May 2018

Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	410	410	420	410	0	410
Area Harvested	405	405	410	405	0	405
Production	27000	27000	28000	28000	0	28000
Total Supply	27000	27000	28000	28000	0	28000
Utilization for Sugar	27000	27000	28000	28000	0	28000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	27000	27000	28000	28000	0	28000

(1000 HA) ,(1000 MT)

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

Table 2. PSD: Centrifugal Sugar

Sugar, Centrifugal Market Begin Year	2015/2016		2016/2017		2017/2018	
	May 2015		May 2016		May 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Indonesia						
Beginning Stocks	949	949	644	729	0	879
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2025	2025	2200	2050	0	2200
Total Sugar Production	2025	2025	2200	2050	0	2200
Raw Imports	3500	3200	3200	3500	0	3200
Refined Imp.(Raw Val)	105	155	150	300	0	150
Total Imports	3605	3355	3350	3800	0	3350
Total Supply	6579	6329	6194	6579	0	6429
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	5935	5600	5650	5700	0	5700
Other Disappearance	0	0	0	0	0	0
Total Use	5935	5600	5650	5700	0	5700
Ending Stocks	644	729	544	879	0	729
Total Distribution	6579	6329	6194	6579	0	6429

(1000 MT)

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

## 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 industry. Indonesian regulations prohibit the distribution of refined sugar produced from imported raw sugar to retail markets for direct human consumption.

Table 3. Profile and Characteristics of Indonesian Sugar Industry

No.	Description	Sugarcane Based	Raw Sugar Based
1.	Number of companies	18	11

2.	Number of plants	63	11
3.	Processing capacity	245,900 TCD (Ton Cane Day) Avg. 3,900 TCD per mill	5.01 MMT of installed capacity 3.697 MMT of running capacity
4.	Raw material	Sugarcane from mills' own plantation and farmers	Imported raw sugar
5.	Number of processing day	Avg. 160 days per year	Avg. 320 days per annum
6.	Annual production potential	2.5-3.0 MMT	3-4 MMT
7.	Number of workers: - On farm - Off farm	28,350 27,427	None 4,833
8.	Number of farmers involved	1,328,250 farming families	None
9.	Age of existing mills	1-184 years old	3-12 years old
10.	Influence of climate on production	Strong	Almost none
11.	Overseeing agency	Ministry of Agriculture (GOI Reg. No. 17/1986)	Ministry of Industry (Law No. 5/1984)

Source: Nusantara Sugar Community.

In MY 2015/16 59 out of 63 mills processing raw cane to plantation white sugar were operational. Four inefficient mills closed. Java's sugar mills accounted for 63 percent of Indonesian white sugar production in MY 2015/16. The balance is produced by sugar mills outside of Java, primarily in Sumatera. These sugar mills produce plantation white sugar from sugarcane with a total running capacity of 245,900 tons of cane per day (TCD) or an average of 3,900 TCD per mill. Indonesian sugar mills are aging, with approximately 40 mills over 100 years old. Only six sugar mills are less than 25 years old. Old machinery results in poor recovery rates and is a disincentive to farmers, who obtain higher margins from paddy or corn. Given these factors, Indonesian total sugarcane area, especially on Java, is stagnant and expected to decline over the longer term. Post does not expect this trend to change significantly, despite government efforts to become self-sufficient in sugar by 2019 (a revision to the initial 2014 self-sufficiency target). Post notes that the GOI's plan to open approximately 500,000 ha of land for sugarcane and build 10 new sugar mills continues to face challenges due to limited land appropriate for sugarcane production.

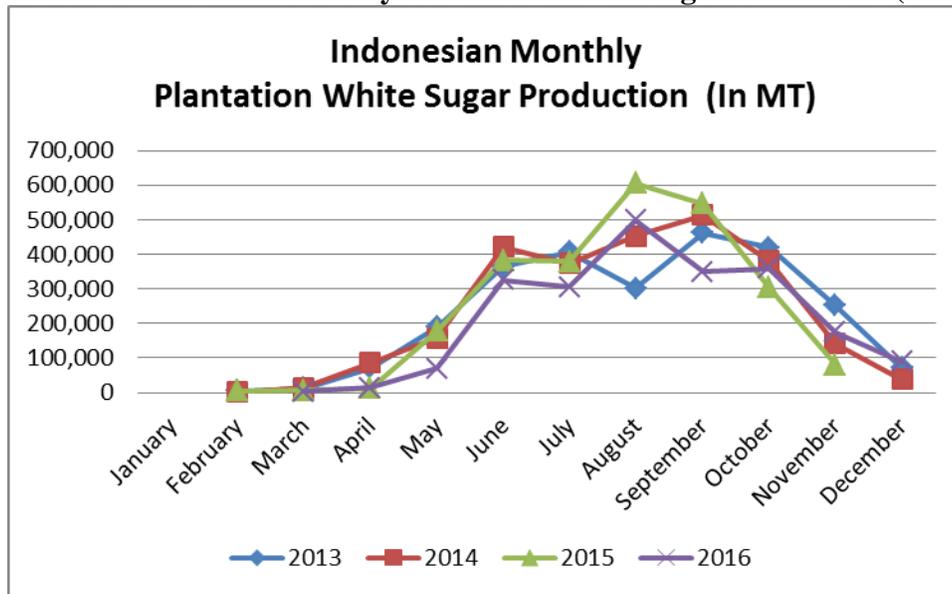
The Indonesian Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika, BMKG*) on March 7, 2017 reported that:

1. Indonesia was hit by a strong El Nino in 2015 and a weak to moderate La Nina in 2016. Based on observations in early March 2017, the sea surface temperature level, El Nino Southern Oscillation Index, and the Indian Ocean Dipole Index remain neutral. BMKG forecasts a low probability of a weak El Nino to occur in June, July, and August 2017.

2. Indonesia's dry season will start in May, June, or July 2017 and peak between July and September 2017.
3. BMKG forecasts that Indonesia's dry season will either arrive later than normal with a 39.9 percent probability, during normal time (37.3 percent), and earlier than normal (22.8 percent).

Indonesia's MY2016/17 La Nina led to a prolonged vegetative period and sugarcane flowering, increasing total sugarcane production from 66 MT per hectare to 69. Despite higher sugarcane volumes, cane flowering reduced sucrose content, lowering sugar extraction rates. Given wet conditions which result in harvest and transport complications, millers have announced planned delays to the beginning of their milling season. Thus, while milling can start as early as February, the MY 2016/17 milling season is expected to start in May or June 2017 and continue for approximately six months. Delayed milling will reduce recovery rates, estimated at 7.3 percent for MY 2016/17 compared to 7.5 percent in MY 2015/16. Extraction rates may also be hampered by poor harvest management, sugarcane transportation problems, and old milling equipment.

**Chart 1. Indonesia: Monthly Plantation White Sugar Production (MT)**



Source: Industry.

Considering the above factors, Post estimates that MY 2016/17 and MY2017/18 Indonesian sugarcane harvested area will remain stagnant at 405,000 hectares. Indonesian sugarcane production is estimated to increase marginally from 2.025 MMT in MY2015/16 to 2.05 MMT in MY 2016/17. Post expects sucrose yields to rise based on the expectation of more favorable weather in 2017 (including a forecasted weak El Nino close to the sugarcane harvest period). As a result, MY 2017/18 Indonesian plantation white sugar will increase to 2.2 MMT compared to 2.05 MMT produced in MY2016/17, while sugarcane production will remain stable at 28.0 MMT. Additionally, industry contacts are optimistic that expected technological improvements will boost production. These include the adoption of new planting

patterns, introduction of higher yielding/late ripening varieties, increasing farm mechanization, and improving harvest timing to increase recovery rates.

As of MY 2013/14 there are 11 sugar refineries transforming imported raw sugar into refined sugar, with a total installed capacity of 5.01 MMT. Running capacity of these refineries varies depending on the GOI's issuance of raw sugar import approvals. Running capacity reached 92.8 percent in MY 2015/16, and is estimated to remain at a similar level in MY 2016/17. Robust growth of the Indonesian food and beverage industry will incentivize refineries to expand sugar production. Based on a private survey, the Indonesian food and beverage industry required approximately 3.03 MMT of refined sugar in MY2015/16, (3.2 MMT of raw sugar equivalent). With an estimated growth of five percent per annum, the industry is estimated to require a total of 3.18 MMT of refined sugar in MY2016/17 (3.4 MMT of raw sugar equivalent). Despite growing demand, industry sources report that no new sugar refineries are expected to come online in the near future. This is consistent with Indonesia's Presidential Regulation No. 36/2010, which places sugar refineries on the Negative Investment List for foreign direct investment.

### Consumption

MY 2016/17 sugar consumption is estimated to increase to 5.7 MMT based on 1.4 percent population growth and growing demand from the food and beverage industry. Post expects consumption will remain on par at 5.7 MMT in MY 2017/2018. Direct human consumption is estimated at 2.5 MMT, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption in MY2015/16 is estimated at 11.47 kg. Per capita consumption is forecast to increase to 12 kg in MY2016/17.

### Prices

Indonesia's Ministry of Trade (MOT) issued regulation 63/2016 "Farmer Level Purchase and Consumer Level Selling Reference Prices" on September 15, 2016. Reference prices are set to ensure availability and price stability for agricultural products for both producers and consumers, as per Presidential decree 71/2015 on essential commodities. The regulation covers seven commodities: rice, corn, soybeans, sugar, shallots, chilies, and beef.

**Table 4: Indonesian Reference Prices for Sugar per MOT 63/2016**

Commodity	Buying Price from Farmer (Rp./Kg)	Selling Price to Consumer (Rp./Kg)
Sugar	9,100	13,000
- Auction price	11,000	

According to MOT 63/2016, the GOI will carry out market operations in the event that market prices fall below the purchase reference price or rise above the selling reference price. Market operations will be carried out by BULOG and other state-owned enterprises. In the initial implementation of the new regulation, the Ministry of Agriculture assigned PD. Pasar Jaya (a provincial government-owned company) to distribute sugar to consumers at a maximum price of Rp. 12,500/kg. The regulation was

stated to expire in January 2017. However, the GOI did not issue any new reference price regulations for these commodities, and as a result, the regulation continues to be effective. MOT is currently discussing new reference prices for sugar.

**Table 5. Indonesia: Jakarta Monthly Average Retail White Sugar Prices (Rp./Kg)**

Month	2014		2015		2016		2017	
	Local	Imported	Local	Imported	Local	Imported	Local	Imported
January	12,600	13,000	11,850	-	13,325	-	14,500	-
February	12,350	13,000	11,800	-	13,375	-	14,580	-
March	12,400	13,000	11,600	-	13,400	-	14,591	-
April	12,100	-	12,325	-	13,825	-		-
May	11,900	-	12,575	-	14,775	-		-
June	11,950	-	12,725	-	15,625	-		-
July	11,900	-	13,000	-	15,667	-		-
August	11,950	-	13,350	-	15,625	-		-
September	11,700	-	13,200	-	15,150	-		-
October	11,600	-	12,975	-	14,950	-		-
November	11,750	-	13,050	-	14,875	-		-
December	11,800	-	13,150	-	14,500	-		-
Average	12,000	13,000	12,633	-	14,591	-	14,557	-

Source: Market Information Center (PIP), Ministry of Trade.

## Stocks

Post revises its MY 2015/16 ending stock estimate from 644,000 to 729,000 MT of raw sugar equivalent, reflecting lower raw sugar imports and declining plantation white sugar production. MY 2016/17 ending stocks are expected to increase to 879,000 MT of raw sugar equivalent, based on the marginal increase of MY 2016/17 plantation white sugar production and imports of raw and refined sugar. However, plantation white sugar production is expected to increase, resulting in lower refined sugar and raw sugar imports. MY2017/18 ending stocks are thus forecast to decline to 729,000 MT (raw sugar equivalent).

## Trade

According to Minister of Trade (MOT) regulation 19/2008, as a regulated commodity, plantation white sugar can only be imported by registered importers. Registered importers must be sugar producers and are required to produce at least 75 percent of their white sugar from Indonesian-grown sugarcane. Raw sugar can only be imported by processors who will use it for their own refining, while refined sugar may be imported by food processors for their own production. In December 2015, MOT issued regulation number 117/2015, stating that imports of plantation white sugar can only be conducted by state owned companies. Regulation 117 prohibits the GOI from issuing raw sugar import approvals to sugar mills to fill idle capacity.

The GOI expects the food and beverage industry to consume domestically produced refined sugar, although it also permits some imports, normally issuing import allocations at the beginning of the year. These allocations are subject to change when certain sugar products cannot be sourced domestically.

In MY2015/16, Indonesian sugar refineries imported a total of 3.1 MMT of raw sugar. This sugar must be refined and distributed to the domestic food and beverage industry. The MY 2016/17 total allocation for raw sugar imports by refineries is expected to reach 3.2 MMT. The GOI authorized refineries a total allocation of 1.6 MMT of imported raw sugar for the first quarter of 2017. As of March 2017, refineries have imported approximately 324,000 MT of the allocation. MOT authorized sugar refineries and state-owned trading companies to import an additional 400,000 MT of raw sugar in early January 2017 to be processed into white sugar.

In accordance with Minister of Trade regulation No. 117/2015, the GOI may give import permits to state-owned companies who hold a general importer identification number to import plantation white sugar. Permits are issued in order to fulfill demand for plantation white sugar in the case of domestic production shortfalls. The GOI has not issued any import approvals for MY2016/17 imports of plantation white sugar.

The GOI sets sugar import duties as follows:

**Table 6. Indonesia: Sugar Import Duty (ID) and Value Added Tax (VAT), 2017**

No.	Commodity	ID		VAT (%)
		(Rp./Kg)	(US\$/ton)	
1.	Raw sugar from sugarcane	550		10
2.	White sugar	790		10
3.	Refined sugar	790		10

Source: Indonesian Customs Tariff Book 2017.

In MY 2015/16, Indonesia’s primary refined sugar suppliers were Thailand (47 percent) and Malaysia (29 percent). An additional 21 percent is transshipped through Singapore. Raw sugar was supplied by Thailand (94 percent), Brazil (3 percent) and El Salvador (2 percent). Indonesia imports most of its sugar from Thailand due to freight advantage, and because Thailand can meet Indonesia’s unique specifications.

### **Policy**

Refined sugar is subject to the quality requirements specified by Indonesian National Standard SNI 01-3140.2.2000. Refined sugar falls under HS code 1701.99.10. The use of this HS code is the result of Indonesian Ministry of Industry regulation number 6/2017, which converted Indonesia’s old refined sugar HS codes (1701.99.11.00 and 1701.99.19.00) to the new one on February 24, 2017.

Indonesian policy is used to encourage mills and refineries to use domestically produced raw material as much as possible. In support of this goal, Minister of Industry regulation 10/2017 “Facility to Source Raw Material in Efforts to Develop Indonesian Sugar Industry,” issued March 20, 2017, requires the integration of refineries and mills with cane plantations. According to regulation 10/2017, sugar plantations can be owned by refineries, mills, or in partnership with farmers. The refineries or mills must source at least 20 percent of their raw materials from the integrated sugarcane plantations initially. The

GOI will gradually reduce the allocation of raw sugar imports to refineries and sugar mills over a five year period for mills located on Java and a seven year period for those located outside of Java, in support of GOI self-sufficiency goals. Expanding sugar mills and refineries will also be allotted three years to secure sufficient domestic sources.

Note: Exchange rate is Rp. 13,341/US\$ 1, as of April 7, 2017.