

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Indonesia

**Post:** Jakarta

### **Impact of Soybean Price Rally on Indonesian Soy Business**

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Oilseeds and Products

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**Report Highlights:**

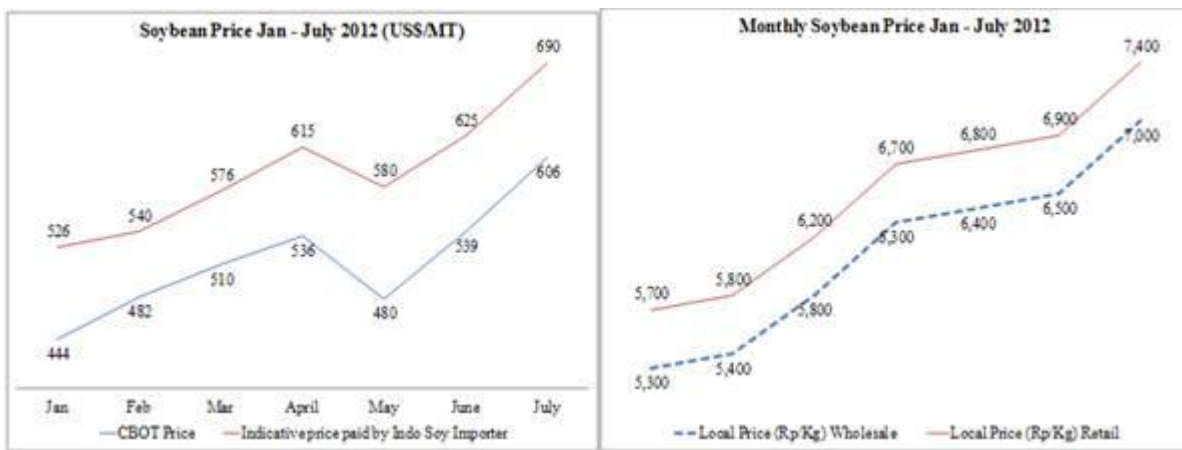
Recent soybean price hikes on the Chicago Board of Trade (CBOT) and other international commodity markets have increased soybean prices for local end users in Indonesia. Local soybean prices have gone from 5,700/kg Indonesian rupiah (IDR) in January 2012 to 7,400/kg IDR in July 2012. The Government of Indonesia (GOI) has implemented several measures to keep Tempe and tofu production on line during the current period of high soybean prices, to include lifting entirely a five percent import duty through the end of the year. Recently President Yudhoyono also announced his intention to renew the role of National Logistics Agency (BULOG) in the distribution of soybeans.

### **Indonesian Soybean Price Hike**

Global soybean supplies continue to tighten primarily due to following factors:

1. reduced South American production in MY 2011/2012;
2. lower-than-expected U.S. production in MY 2012/2013 due to unusually hot and dry U.S. weather patterns in 77 percent of soybean production areas; and
3. continued strong demand by China.

Higher global soybean prices over the last seven months are reflected in the local Indonesian domestic market, as soybean prices increased from 5,700/kg IDR to 7,400/kg IDR during the January - July 2012 timeframe.



Source: ASAIM – Indonesia

The current local market situation show domestic prices generally tracking with global soybean price trends. Indonesia heavily relies on imported soybeans, which account for 84 percent of total soy consumption in Indonesia. Almost 90 percent of soybean imports come from United States. The Indonesian soy market is unique in the sense that the vast majority of the soybeans consumed in Indonesia are consumed directly as human food in the forms of tofu and Tempe.

### GOI Takes Steps to Support Tempe and Tofu Producers

The Tempe and tofu industries consume 88 percent of the total soybean supply in Indonesia. The cost of producing Tempe and tofu per kg of has risen by roughly 30 percent over the last seven months due to soybean price hike. Typically, during times of high soy prices, Tempe and tofu producers are forced to absorb the brunt of additional expenses, as there are no large margins for passing higher production costs on to consumers through price increases. Producers compensate by decreasing the quantities of Tempe and tofu sold at normal prices.

If current soybean prices persist, some Tempe and tofu producers may not stay in business. This has led to demonstrations and calls by producers for the GOI to subsidize domestic soybean prices. Currently, the GOI has indicated that it is unwilling to provide soy subsidies, as they claim any subsidies would

contradict with the GOI's goals to achieve self-sufficiency in soybean by 2014. The issue was discussed at a recent Presidential cabinet meeting, which led to the following measures:

- The GOI temporarily reduces import duty on soybean from five to zero percent through the end of 2012. The GOI claims that this measure will deflate domestic soybean prices by around 300 IDR/kg. Custom officers at the ports, however, are still collecting a 5 percent duty on imported soybeans due to the absence of official Minister of Finance decree. Soybean importers have urged MOF to expedite the issuance of the decree to make changes in import duty effective.
- The GOI noted that it will help groups of tempe and tofu producers import soybeans themselves, as opposed to importing them through third parties; and
- The GOI will improve local production and national distribution of soybeans, to include the possibility of tasking BULOG resume distributing soybeans.

### **Media Reaction**

Soybean prices have received significant media attention. Media reports and op-ed pieces have consistently called on GOI officials to reform the distribution of soybeans. Some GOI officials and well as press reports, have noted that soybeans in Indonesia are dominated by a handful of major importers. Press reports and politicians have accused of importers of using "cartel" tactics to control soybean price in Indonesia. Post observes that the Indonesian soybean market is relatively open and transparent based on the following:

- Major importers account for roughly 85 percent of total soybean imports. These importers generally import bulk, Panamex vessel shipments. However, smaller importers with more limited capital are dominant in containerized shipments. The range in shipment sizes for soybeans currently provides opportunities for both big and small importers.
- There is no single, set soybean retail price in Indonesia. Some importer set slightly different prices depending on bean quality and specs, as well as brand awareness.
- Some importers have been in the business for years, but some of the companies are on-off soybean importers. This flexibility indicates no significant market barriers exist in Indonesia for soybean importers.