

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 2/22/2012

**GAIN Report Number:** ID1201

## Indonesia

**Post:** Jakarta

### Indonesia Rice and Corn Update February 2012

**Report Categories:**

Grain and Feed

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**Report Highlights:**

Both Indonesian rice and corn production estimates for MY 2011/12 are expected to be higher than Post's previous MY 2010/11 estimates. The increased production estimates are due to more favorable rainfall patterns during the production stage and fewer than expected problems with pests and diseases during the first main harvest. Paddy in most rice producing areas is ready for the first main harvest in February and March 2012. Some corn in upland areas has already been harvested as of early February 2012.

## **General Information:**

### **Production:**

#### **RICE, MILLED**

##### Production

Paddy standing crops in almost all major production areas in Central Java, Sulawesi, and Sumatra are entering the final stages of filling and ripening. Most of the paddy in these areas will be ready for harvest by mid February to early March 2012. Farmers are optimistic that the upcoming harvest will yield better over the same period last year. This is due to less rainfall during pollination stage and fewer incidents of pests and diseases. Although the Indonesian Meteorology, Climatology, and Geophysics Agency (BMKG) reported that Indonesia would experience minor effects from a tropical storm system throughout the southern part of Indonesia during late January and early February 2012, weather related impacts to the agricultural sector have thus far been insignificant. The first main harvest is expected to begin around mid-February through early April 2012. This harvest will yield approximately 55 – 60 percent of total rice harvested in Indonesian for the year.

Since mid-January, small and scattered early harvests have occurred during the first harvesting cycle of 2012. Early harvesters are generally farmers in upland, rain-fed areas in Sulawesi and Java. Some of these farmers harvest early to take advantage of higher market prices for wet paddy. These same farmers also try to avoid further loss from too much rainfall during harvest that will increase post-harvest loss or reduce quality.

The period of December through February is considered to be the peak of the off-season. During this period, market prices are typically higher for wet paddy and milled rice. Prices for wet paddy at the farmer level currently range from the lowest of Rp. 3,300/kg (\$366/MT) in Sulawesi, Rp. 3,900/kg (\$432/MT) in Central Java, and to the highest of Rp. 4,600/kg (\$510/MT) in West Java. Bulog, the National Logistics Agency, is required to buy paddy and rice only from domestic market sources when prices are lower than, or equal to the government purchasing price (HPP). Given the current market prices for wet paddy, which is now higher than the current HPP, the Government of Indonesia (GOI) is considering an increase to the HPP in order to provide Bulog with more flexibility to reach its secure level of stock from domestic procurement. If the proposed increase of the HPP is approved, Bulog will be able to buy paddy and milled rice locally as well as to prevent prices from falling which occasionally happen during the upcoming first main harvest. The Indonesian Minister of Agriculture stated in a press conference after an inter-ministerial coordinating meeting on January 26, 2012 that the new HPP is expected to be announced in February 2012.

The GOI is aware of the stagnant and/or declining trends in the levels of Indonesia's rice production capacity. Some efforts have been made to stabilize and/or increase Indonesia's ability to produce more rice. For example, on January 11, 2012, the State Enterprises Minister, Dahlan Iskan, said in a press conference that the GOI plans to spend Rp. 9 trillion (\$998 million) in 2012 to open 100,000 new

hectares for rice production areas in the province of East Kalimantan. The GOI has indicated it wishes to pursue land expansion policies to offset the high rates of land conversion to non-agricultural uses. Land being converted into non-agricultural uses currently averages roughly 100,000 hectares annually and is occurring mostly on Java.

In 2012 the GOI plans to triple the level of funding (Rp. 3 trillion or \$333 million) over 2011 for expanding production areas. The ministry intends to start the project by conducting a feasibility study in the near future. If the initial project is a success, the ministry plans to expand rice production on an additional 200,000 hectares in the same area. The provincial government has also shown its preparedness to support this project by stating that total area available for agriculture uses is about 331,183 hectares. The peak of the rainy season is in December and March of each year. Therefore, the land can be grown with paddy crops twice or one paddy crop and one secondary crop in a year. Some private investors have also expressed their interest in the project. However, the Minister also underlined that if the situation in East Kalimantan is not successful, the project can be scrapped on short notice. Some of the obstacles that may impede the success of the project are a lack of infrastructure and challenges concerning land property rights.

## **CORN**

### Production

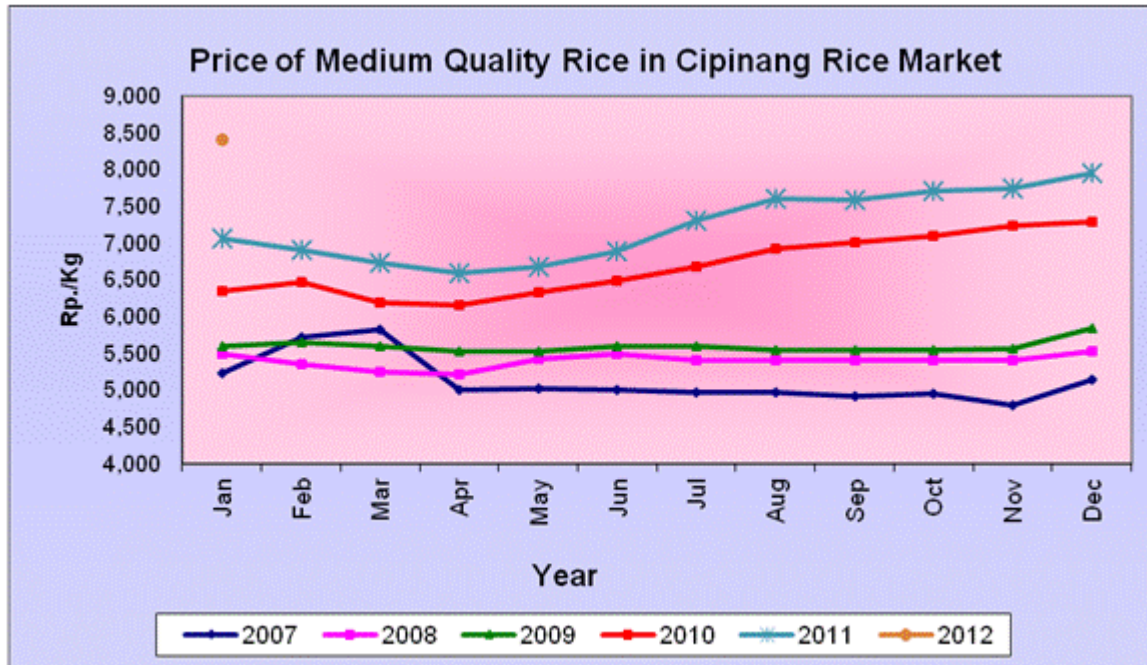
Indonesian corn production is expected to increase over last year. Farmers report that most of the corn crop planted on upland areas will be harvested by the middle of February. Similar to paddy, corn farmers are optimistic that they will see better yields during the first harvest of 2012 due to more seasonal rainfall and fewer pest and disease incidents. The first main harvest of corn will contribute 30 – 35 percent of overall Indonesian corn production for the year. Currently, prices of corn at farmer level ranges from Rp. 2,000/kg (\$222/MT) to Rp. 2,800/kg (\$310/MT).

Post will not make any changes to the current PSD in order to avoid any precedent of changing corn production figures prior to the release of Indonesian official production figures by the National Statistics Agency (BPS). Post uses the official figures as reference to make any adjustment to PSD.

### **Consumption:**

#### **RICE, MILLED**

Shorter supplies from Indonesia's major rice production areas and the end of the third harvest period by October 2011 have also driven up prices of the popularly-consumed medium quality rice throughout Indonesia as seen in the following chart. The peak of the high price of rice is expected to occur in February 2012.



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

In an effort to soften the price of rice in the domestic market, Bulog continues to distribute rice to poor families under its *Raskin* Program. During the period of January – December 2011, Bulog distributed a total of 400,000 MT of rice for market operations and 3.37 MMT of *Raskin* rice to 17.5 million poor families in Indonesia. As of January 26, 2012, Bulog has distributed a total of approximately 18,000MT of rice for market operation in Jakarta and surrounding areas. Bulog in cooperation with Indonesian Rice Millers Association sells the rice at Rp. 6,300/kg in Cipinang rice wholesale market in Jakarta. The price of market operation rice must not be more than Rp. 6,500/kg for the end user.

**Trade:**

**RICE, MILLED**

In order to maintain Bulog’s minimum stock levels of 1.5 MMT of rice by the end of 2011, the GOI authorized Bulog to import rice during the year. In July 2011 Bulog was granted authorization to import 1.6 MMT of rice. However, during the period of August - December 2011, Bulog has reportedly contracted a total of 1.9 MMT of rice. During the period of August 2011 – January 2012, a total of 1.22 MMT of rice imported by Bulog has arrived in the country. Since the currently effective regulation stated that rice imports are prohibited from one month prior until two months after the main rice harvest season, Post expects that all additional rice imports must arrive before the end of February 2012. Post has already included the remaining contracts into the calculation of FY 2011/12 imports figures, thus no additional changes are necessary.

**Policy:**

**RICE, MILLED**

On 9 December 2011, the Indonesian Ministry of Agriculture issued Minister of Agriculture regulation No. 87/Permentan/SR.130/12/2011. The regulation stipulated that the maximum retail prices of subsidized fertilizer and allocation for food crops are as in the following table:

Fertilizer	New		Allocation for Food Crops (MT)
	Rp./Kg.	US\$/MT	
Urea	1,800	200	3,315,000
ZA	1,400	155	425,529
SP-36 (Phosphate)	2,000	222	576,708
NPK	2,300	255	1,651,159
Organic	500	55	542,750

The new regulation increases the maximum retail price of urea is increased by 12.5 percent from Rp. 1,600/kg while prices for other fertilizers remain the same. The subsidized fertilizer is provided for farmers with an average maximum land ownership of two hectares per crop cycle per family.

Notes:

Exchange rate is Rp. 9,018/US\$ 1, as of January 25, 2012.