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## Indonesia

### Sugar Annual

## Indonesia Sugar Annual Report 2019

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**Report Highlights:**

Indonesia's sugar sector remains highly regulated, with the government controlling imports and domestic market prices and supply chains. While sugar production is expected to increase slightly in 2018/19, output is forecast to fall in 2019/20 due to dwindling land availability. Meanwhile, population growth and the food and beverage sector's robust expansion continues to fuel demand.

## General Summary

The Government of Indonesia (GOI) tightly controls and regulates the sugar industry. GOI sugar policy classifies domestic sugar into three categories: white sugar for home consumption, raw sugar for domestic sugar refining, and refined sugar for the local food and beverage industry. The GOI allows sugar refineries to import raw sugar to process into refined sugar for the food and beverage industry. Also, if refined sugar with certain specifications is unavailable in the local market, food and beverage companies can import. Whenever deemed necessary, the GOI allows sugar mills to import raw sugar to fill idle capacity.

Raw sugar imports for 2018/19 are estimated to increase to 4.7 million tons due to higher allocation given to refineries. In line with the expected higher imports, stocks are forecast to grow in 2018/19. The larger carry-over stocks should result in less import demand in 2019/20, and raw sugar imports are forecast to decline to 4.4 million tons.

GOI encourages the food and beverage industry to source refined sugar from domestic production. Refined sugar imports for 2018/19 are estimated to remain similar to the previous year at 150,000 tons sugar equivalent. Refined sugar imports for 2019/20 are forecast to decline to 100,000 tons of raw sugar equivalent due to higher supply of domestically produced refined sugar.

Sugarcane production in 2018/19 is forecast to increase marginally due to area expansion outside of Java and more use of Perhutani (State-owned company land under the Ministry of Forestry and Environment) land on Java. Favorable weather is expected to increase the average recovery rate during 2018/19 milling season.

In line with population growth and demand from food and beverage industry, 2018/19 and 2019/20 sugar consumption is forecast to increase to 6.6 million tons and 6.8 million tons, respectively.

In October 2018 the Ministry of Trade (MOT) issued a regulation establishing a Maximum Retail Price (*Harga Eceran Tertinggi, HET*) for several commodities, including sugar. The regulation is meant to cap retail prices for certain staple commodities. However, the effect has been to cause further distortions in an already highly distorted market. The average retail price of plantation white sugar has persistently remained above HET maximum price of Rp. 12,500/kg (\$880/ton). In April 2019, the average plantation white sugar retail price was recorded at Rp. 12,900/kg (\$907/ton), only a slight decrease from Rp. 12,950/kg (\$911/ton) in January 2019.

In order to stimulate sugarcane production, per the above mentioned regulation, MOT has maintained the plantation white sugar floor price at Rp. 9,100/kg (\$640/ton). In August 2017, MOT instructed BULOG (*The National Logistics Agency*) to buy plantation white sugar at Rp. 9,700/kg (\$704/ton) at farmers gate. BULOG's buying price remained in place through December 2018, with total procurement for the period of January to September 2018 at 198,000 tons. However, by the end of September 2018, private traders were able to buy plantation white sugar at farm-gate prices lower than BULOG buying price. As a result, BULOG encountered difficulties selling its higher priced sugar to the commercial market, and at the end of 2018, BULOG decided to stop buying plantation white sugar from farmers.

**Table 1. PSD: Sugarcane for Centrifugal**

Sugar Cane for Centrifugal Market Begin Year Indonesia	2017/2018		2018/2019		2019/2020	
	May 2018		May 2018		May 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	410	410	425	425	0	410
Area Harvested	405	405	415	415	0	405
Production	28000	28000	29500	29500	0	29100
Total Supply	28000	28000	29500	29500	0	29100
Utilization for Sugar	28000	28000	29500	29500	0	29100
Utilizatr for Alcohol	0	0	0	0	0	0
Total Utilization	28000	28000	29500	29500	0	29100
(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 Indonesia	2017/2018		2018/2019		2019/2020	
	May 2017		May 2018		May 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	1743	1743	1763	1793	0	2243
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2100	2100	2200	2200	0	2100
Total Sugar Production	2100	2100	2200	2200	0	2100
Raw Imports	4154	4300	4100	4700	0	4400
Refined Imp.(Raw Val)	144	150	150	150	0	100
Total Imports	4298	4450	4250	4850	0	4500
Total Supply	8141	8293	8213	8843	0	8843
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	6378	6500	6670	6600	0	6800
Other Disappearance	0	0	0	0	0	0
Total Use	6378	6500	6670	6600	0	6800
Ending Stocks	1763	1793	1543	2243	0	2043
Total Distribution	8141	8293	8213	8843	0	8843
(1000 MT)						

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

## Production

White sugar is mainly produced from sugarcane, and is primarily for direct human consumption. Refined sugar is also made from imported raw sugar, which is generally used for processing by the food and beverage industry. Refined sugar produced from imported raw sugar is prohibited from being distributed to retail markets for human consumption.

**Table 3. Profile and Characteristics of Indonesian Sugar Industry in 2018**

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

2.	Number of plants	55	11
3.	Processing capacity	279,411 TCD (Ton Cane Day) Avg. 3,900 TCD per mill	5.01 MMT of installed capacity 3.265 MMT of running capacity
4.	Raw material	Local Sugarcane	Imported raw sugar
5.	Number of active processing days	160 days/year	320 days/year
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 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.

Local sugar mills are aging, with approximately 40 mills over 100 years old. Only six sugar mills are less than 25 years old. The older machinery results in poor recovery rates and is a disincentive to farmers, who are paid based on recovery rate. State-owned sugar mills set a minimum recovery rate as reference to pay farmers. Whenever farmers' actual recovery rate falls below the minimum reference, sugar mills will continue paying farmers at the minimum reference level. As a result, there is a disincentive for farmers to frequently re-plant to try to boost productivity. Farmers also obtain higher margins from growing paddy or corn, providing further disincentive to plant sugarcane. Land conversion for infrastructure development and other non-agriculture uses continues to reduce land availability for sugar and other crops.

In 2017/18, 4 out of 59 mills ceased processing raw cane to plantation white sugar due to inefficiency. By the year 2020 an estimated additional 12 sugar mills on Java will stop operations due to inefficiency. To provide support for modernization of the sugar industry, for the period of 2014-2019, the Ministry for State-Owned Companies allocated a total budget of Rp 4.6 trillion (\$324 million) to revitalize sugar mills under Ministry control. Additionally, in 2018/19 three newly established state-owned sugar mills started operations with a total installed capacity of approximately 22,000 TCD (Ton Cane Day). Two of the newly operational mills are located outside of Java.

During the past five years, Java's sugar mills have accounted for 62 percent of domestic white sugar production. The balance is produced by sugar mills primarily in Sumatera. Java's contribution to national plantation white sugar production is expected to continue declining as a result of the aforementioned land conversion to non-agricultural uses and/or farmer preference for other crops. Limited opportunities to expand production exist only in small areas on land under the authority of

Perhutani, outside of Java, and from replanting programs. Given these factors, in the long term, total sugarcane area, especially on Java, should decline. GOI's stated goal to become self-sufficient in sugar by 2019 (a revision to the initial 2014 self-sufficiency target) will not be achieved.

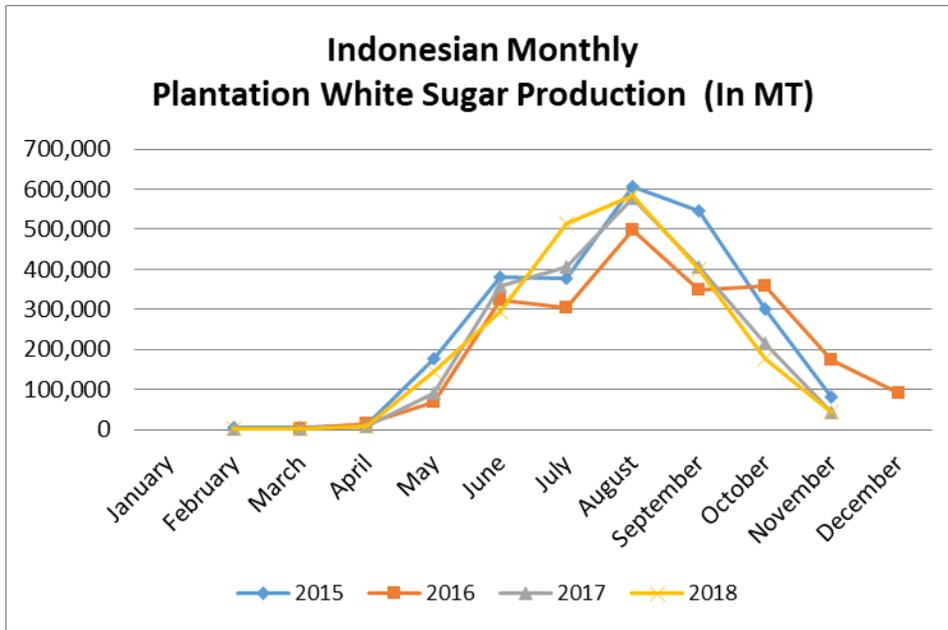
The Indonesian Meteorology, Climatology, and Geophysics Agency (*BMKG, Badan Meteorologi, Klimatologi, dan Geofisika*) reported on March 6, 2019 that:

1. As of the end of February 2019, the rainy season had arrived throughout Indonesia.
2. A weak El Nino is occurring in the Equatorial Pacific Ocean. This weak El Nino is forecast to continue through July 2019. Historically, a weak El Nino will have insignificant impact on Indonesia's weather conditions.
3. The dry season is forecast to begin in April 2019 in some areas of Java, Bali, and Nusa Tenggara; in May 2019 for other parts of Java, Sumatera, and Sulawesi; and in June 2019 in Maluku and Papua.
4. Compared to the 30 year average, rainfall intensity is forecast to be average in 63 percent of Indonesia's area, below average in 24 percent, and higher than average in 13.4 percent.
5. The peak dry season will occur in August – September 2019.

With the start of the new mills and expansion outside of Java, 2018/19 sugarcane harvested area is estimated to slightly increase to 415,000 hectares compared to 410,000 hectares in previous marketing year. Additionally, technological improvements are expected to 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. However, harvested area in MY 2019/20 is forecast to decline to 404,000 hectares due to rapid land conversion to non-agricultural uses in Java.

Farmers in the main rice and corn production areas of Central Java, East Java, South Sulawesi, and North Sulawesi report that rainfall in February and March 2019 was less than during the same period in 2018. If the drier conditions continue, some farmers may have an opportunity to increase 2018/19 cane sugar yields due to higher concentration of sucrose content in sugarcane. Farmers and sugar mills have reported optimal rain and sun conditions, with rainfall primarily occurring during the night, providing more sunshine during daylight hours. These advantageous conditions are expected to lead to an increased average recovery rate, from 6.71 percent in 2017/18 to 7.1 percent in 2018/19. To optimize gains, the 2018/19 milling period started as early as February for some mills on Sumatera and will begin in May for mills on Java. Milling generally continues until November.

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



Source: Industry.

Considering the above factors, plantation white sugar production is estimated to increase marginally from 2.1 million tons in 2017/18 to 2.2 million tons in 2018/19. In line with the forecast harvested area decline, 2019/20 plantation white sugar production is forecast to slightly decline to 2.1 million tons.

There are 11 sugar refineries processing imported raw sugar into refined sugar, with a total installed capacity of 5.01 million tons. Running capacity of these refineries varies depending on the GOI's issuance of raw sugar import permits. Running capacity reached 77.23 percent in 2017/18, and is estimated to remain at a similar level in 2018/19. Robust growth of the food and beverage industry will incentivize refineries to expand sugar production. The food and beverage industry required approximately 3.4 million tons of refined sugar in 2017/18, (3.638 million tons of raw sugar equivalent). With an estimated growth of five percent per annum, the industry would require a total of 3.6 million tons of refined sugar in 2018/19 (3.852 million tons of raw sugar equivalent). Despite growing demand, 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

Sugar consumption for 2018/19 is expected to increase to 6.6 million tons based on 1.4 percent population growth and growing demand from the food and beverage industry. Sugar consumption is forecast to continue to increase to 6.8 million tons in 2019/20 due to the same reasons. Direct human consumption is estimated at 3.1 million tons, while the food and beverage industry uses the balance. Indonesian per capita sugar consumption in 2017/18 was estimated at 12.66 kg, an increase from 12.45 kg in 2016/17.

## Prices

The Ministry of Trade (MOT) issued regulation 96/2018 “Farmer Level Purchase and Consumer Level Selling Reference Prices” on September 19, 2018. Reference prices are supposed 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 vs MOT 96/2018**

Commodity	Buying Price from Farmer (Rp./Kg)		Selling Price to Consumer (Rp./Kg)	
	2016	2018	2016	2018
Sugar	9,100	9,100	13,000	12,500

Lack of strong enforcement of the regulation leads to fluctuating prices for plantation white sugar at the retail level, which is still above the maximum retail price (*HET, Harga Eceran Tertinggi*).

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

Month	2016	2017	2018	2019
January	13,325	14,500	13,455	12,950
February	13,375	14,580	12,450	12,850
March	13,400	14,591	12,339	12,900
April	13,825	14,614	12,363	12,900
May	14,775	14,445	12,416	
June	15,625	14,409	12,350	
July	15,667	14,303	12,335	
August	15,625	14,159	12,301	
September	15,150	13,920	12,229	
October	14,950	13,750	12,266	
November	14,875	13,796	12,207	
December	14,500	13,693	11,897	
Average	14,591	14,230	12,384	12,900

Source: Market Information Center (PIP), Ministry of Trade and Jakarta Provincial Food Prices Info.

## Stocks

Ending stocks for 2018/19 are estimated to increase to 2.243 million tons due to higher plantation white sugar production and higher raw sugar imports. Ending stocks are forecast to decline to 2.043 million tons in 2019/20 due to forecast lower production of plantation white sugar, higher consumption, and lower raw sugar imports.

## Trade

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 2018, sugar refineries imported a total of 3.2 million tons of raw sugar from the total allocation of 3.3 million tons. This sugar must be refined and distributed to the domestic food and beverage industry. During the first semester of 2018/19, the GOI allocated a total of 2.8 million tons of raw sugar imports to refineries. As of February 2018, the GOI had issued import permits for 1.4 million tons out of the total allocation. Referring to the actual production of plantation white sugar, in addition to the refinery imports, MOT may authorize sugar mills and state-trading companies to import raw sugar to be processed into white sugar during the remaining months of 2018/19.

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 cane sugar	550	40	10
2.	White sugar	790	57	10
3.	Refined sugar	790	57	10

Source: Indonesian Customs Tariff Book 2017.

With the conclusion of the Indonesia–Australia Comprehensive Economic Partnership Agreement on March 4, 2019, Indonesia will be able to import a number of Australian agricultural products at reduced tariffs, including sugar. The import duty on sugar from Australia is reduced from 10 percent to 5 percent.

For the period May 2018 to January 2019, Indonesia’s primary raw sugar suppliers were Thailand (78 percent) and Australia (23 percent). Refined sugar was supplied by Thailand (93 percent) and South Korea (7 percent). Currently, Indonesia imports most of its sugar from Thailand due to freight advantage, and because Thailand can meet Indonesia’s unique specifications.

## Policy

To ensure that refined sugar is used only as a raw material for food and beverage manufacturing, and not for direct household consumption nor sold in retail market, MOT issued regulation 1/2019 on Refined Sugar Trade. The new regulation stated that sugar refineries must produce refined sugar (HS Code 1701.99.11.00) from imported raw sugar that meets the specific requirement set by the Indonesian National Standar (*SNI, Standar Nasional Indonesia*). Sugar refineries must only sell the refined sugar to sectors using it as a manufacturing input. Sugar refineries must not sell the refined sugar to distributors, retail merchants, or end users. Sugar refineries are allowed to sell the refined sugar to small and medium food and beverage industry only through cooperatives.

## TRADE MATRICES

**Table 7. Import Trade Matrix, Raw Sugar 2018 - 2019**

Import Trade Matrix			
Country	Indonesia		

<b>Commodity</b>	Raw Sugar		
Time Period	May/Apr	Units:	1,000 MT
Exports for:	2018		2019*
U.S.	0	U.S.	0
Others		Others	
Thailand	2480	Thailand	3042
Brazil	1064	Australia	847
Australia	476		
Cuba	86		
El Salvador	48		
Total for Others	4154	Total for Others	3889
Others not Listed	0	Others not Listed	0
Grand Total	4154	Grand Total	3889

Note: \* Only for the period of May 2018 – January 2019

Source: Global Trade Atlas.

**Table 8. Import Trade Matrix, Refined Sugar 2018 - 2019**

<b>Import Trade Matrix</b>			
<b>Country</b>	Indonesia		
<b>Commodity</b>	Refined Sugar		
Time Period	May/Apr	Units:	1,000 MT
Exports for:	2018		2019*
U.S.	0	U.S.	0
Others		Others	
Thailand	79	Thailand	93

South Korea	7	South Korea	7
Malaysia	2		
Hong Kong	1		
Total for Others	88	Total for Others	100
Others not Listed	1	Others not Listed	0
Grand Total	89	Grand Total	100

Note: \* Only for the period of May 2018 – January 2019

Source: Global Trade Atlas.

Note: Exchange rate is Rp. 14,216/US\$ 1, as of April 9, 2019.