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Annual

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Report Highlights:

The economic crisis in Indonesia did little to snuff out cigarette consumption. Tobacco production and quality are recovering from a large drop in MY98. The MY99 dry leaf production estimate is 133,350 mt. Tobacco leaf exports reached 22,206 mt in MY99 due to a better harvest that year. The MY00 forecast is for normal exports of around 15,700 mt. After a drop in MY98, leaf imports were up 127 percent to 38,376 mt in MY99. In MY00, they should moderate to around 26,000 mt. Cigarette production is estimated at 219.7 billion sticks and is forecast to increase 4 percent to 228.6 billion sticks in MY00, reflecting gains in clove cigarette volume. Exports of cigarettes were down in MY98 and stable in MY99 at about 121 million sticks. In MY00, exports are expected to recover to 140 million sticks. Government regulations in 1999 led to new excise tax and price guidelines which increased prices significantly.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I - SITUATION AND OUTLOOK

Total tobacco production in MY99 (January-December) reached 133,350 mt dry weight basis or 156,882 mt farm sales weight, up 8 percent from MY98's very poor showing of 123,653 mt but still below average. Although it is still very early in the growing season, production is forecast to increase significantly to 157,353 mt in MY00, due largely to returning acreage and assumed normal weather patterns. In addition, the continued alliance between manufacturers and growers whereby manufacturers provide technical assistance, seeds, and even credit referrals to encourage better farm management, will boost production slightly. This practice, so far centered on the island of Lombok, has increased yield substantially. And it is a trend which has spread to Bali and Lumajang, East Java.

Tobacco consumption took a downturn in MY98 to 133,300 mt due to the crop's low quality, lower imports and a decline in demand that year due to the effects of the economic crisis on white cigarette consumption. But in MY99, higher quality and renewed cigarette consumption boosted tobacco consumption to 150,400 mt, still 46,000 mt below the pre-crisis peak in 1997. With cigarette sales increasing around 4 percent in MY00, FAS/Jakarta forecasts tobacco consumption will be up about 5 percent to 158,600 mt.

Cigarette production is on an upward trend, forecast to reach 228.6 billion sticks in MY00, or a 4 percent increase. The MY99 estimate is revised upward to 219.7 billion sticks. Cigarette production in Indonesia is dominated by three types of cigarettes, machine-rolled clove cigarettes (SKM-Sigaret Kretek Mesin), hand-rolled clove cigarettes (SKT-Sigaret Kretek Tangan), and white or non-clove standard cigarettes (SPM-Sigaret Putih Mesin). One clear trend in the cigarette industry is the trend away from white cigarettes. White cigarette market share has decreased from around 40 percent at its height in the 1980s to roughly 13 percent in 1999. Production of white cigarettes decreased almost 7 percent in MY99 to 28.3 billion sticks as minimum price regulations placed white cigarettes out of the price range of many consumers. Meanwhile, kretek cigarettes – especially the hand-rolled variety – gained market share. Kretek (clove cigarettes) sales increased 3 percent in MY99 and could climb a further 6 to 7 percent in MY00 to 203.8 billion sticks. Hand-rolled cigarettes (SKT - Sigaret Kretek Tangan) are cheaper than machine-rolled cigarettes (SKM - Sigaret Kretek Mesin) because machine-rolled contain filters which add measurable costs to production. Thus, hand-rolled have gained in popularity over the last two years. A second discernable trend is the growing demand for "mild" cigarettes, both white and kreteks. From virtually no sales in 1994, this market segment has ballooned to almost 7 percent of the market in MY99. Sales of "mild" cigarettes, with lower tar and nicotine content, are expected to continue growing as consumer awareness about the negative effects of tar and nicotine grows. Thus, more manufacturers are focusing on this area.

Domestic cigarette consumption was 199.1 billion sticks in 1998, down a bit due to the reduced purchasing power of Indonesian consumers during the heart of the economic crisis. Economic considerations led consumers to switch from medium-to-higher priced brands to cheaper product. As a result, total cigarette consumption recovered to about 202.8 billion sticks in MY99 and is forecast up by around 4 percent in MY00 to 211.3 billion sticks.

Indonesian cigarette manufacturers import tobacco from various sources for blending. During the economic crisis, high prices and difficulties in trade financing hit tobacco imports and led to a dramatic decline by almost two-thirds to only 16,882 mt in MY98. In MY99, tobacco imports rallied to 38,376 mt primarily because of the failure of the domestic crop and a more favorable exchange rate. Based on improved crop conditions leading up to MY00, Post forecasts tobacco imports will moderate to around 26,000 mt. With respect to exports, Indonesia's tobacco exports increased from 16,339 mt in MY98 to 22,206 mt in MY99, again owing to quality and quantity factors. Post forecasts exports to moderate in MY00 to 15,700 mt. Indonesian tobacco exports are dominated by Dark Air Cured (DAC) tobacco at close to 95 percent. Indonesia imported 1,158 mt of tobacco from the United States in MY99.

Due to higher prices and consumers' reduced purchasing power, cigarette imports reached only 16 million sticks in MY98 (Jan-Dec), according to GOI data (or equal to 21.9 mt) . Renewed consumption and more favorable exchange rates in MY99 pushed imports back up to 121 million sticks (170.0 mt). In MY00, cigarette imports should reach 140 million sticks. Several manufacturers of white cigarettes are looking to the export market to make up for sluggish sales at home. However, unfavorable economic conditions in the major importing countries in the region have limited cigarette exports to 17.0 billion sticks in MY99. Post forecasts MY00 cigarette exports at 17.5 billion sticks.

Government regulations on the cigarette industry were plentiful in 1999. Currently, excise taxes are based on the manufacturers' annual production volume. A minimum price is in effect for all cigarettes (please refer to Table "Classification of Tobacco Product Manufacturers"). As of April 1, 2000 (Decree No. SK89/2000), the minimum price of white cigarettes is pegged to the kretek price at 50 percent (year 2000) – up from 45 percent under the previous decree (Decree No. SK482/1999). The minimum price for kreteks was increased by 10 percent, causing the price of white cigarettes to increase from 20 to 40 percent. White cigarette manufacturers are attempting to get a revision to this regulation, with an incremental increase in the pegged minimum price rate. In addition, the regulation raised the excise tax rate by 14 percent (please refer to Table "Excise Rate and the Minimum Retail Price of Local Tobacco Products"). An additional regulation, known as "PP81" of October 5, 1999, stipulates among other things that all cigarettes must meet maximum tar and nicotine levels. Under this rule, the maximum tar level would be 20 mg/stick and maximum nicotine 1.5 mg/stick. The kretek cigarette manufacturers are strongly opposed to this regulation, claiming that it will put them out of business. Kretek cigarettes typically contain between 40-60 mg tar/stick (depending on the method of production). Implementation for the maximum tar and nicotine content was scheduled for incremental implementation, i.e., up to 2 years after the date of stipulation (for machine rolled cigarette - white and clove); 5 years for large manufacturers producing hand rolled cigarette and 10 years for medium/small manufacturers of hand rolled cigarette, but in practice has not yet been implemented.

SECTION II - STATISTICAL INFORMATION AND TABLES**Tobacco, Unmfg, Total**

Production Table						
Country:	Indonesia			Unit:	MT	
Commodity:	Tobacco, Unmfg.					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	214000	204000	212000	207000	0	210000
Beginning Stocks	15718	15718	6131	6614	10631	5734
Farm Sales Weight Prod	202000	148980	210000	156882	0	185121
Dry Weight Production	175825	123653	185005	133350	0	157353
U.S. Leaf Imports	1161	947	1000	1158	0	1000
Other Foreign Imports	16497	15935	14000	37218	0	25000
TOTAL Imports	17658	16882	15000	38376	0	26000
TOTAL SUPPLY	209201	156253	206136	178340	10631	189087
Exports	15955	16339	15000	22206	0	15700
Dom. Leaf Consumption	158127	114400	159000	129400	0	137100
U.S. Leaf Dom. Consum.	1000	900	800	1000	0	800
Other Foreign Consump.	27988	18000	20705	20000	0	20705
TOTAL Dom. Consumption	187115	133300	180505	150400	0	158605
TOTAL Disappearance	203070	149639	195505	172606	0	174305
Ending Stocks	6131	6614	10631	5734	0	14782
TOTAL DISTRIBUTION	209201	156253	206136	178340	0	189087

Trade Matrix of Unmanufactured Tobacco 1999 (by volume)

Export Import Trade Matrix			
Country:	Indonesia	Units:	MT
Commodity:	Unmanufactured Tobacco		
Time period:	Jan-Dec		Jan-Dec
Exports for	1999	Imports for	1999
U.S.	3,591	U.S.	1,158
Others		Others	
USSR/Russia Fed.	8,269	China	22,603
Germany	5,098	Turkey	4,120
Netherlands	3,119	Greece	3,253
Belgium	1,961	Zimbabwe	2,724
		Brazil	1,958
		Germany	837
Total for Others	18,447	Total for Others	35,495
Others not listed	168	Others not listed	1,723
Grand Total	22,206	Grand Total	38,376

Trade Matrix of Unmanufactured Tobacco 1999 (by Value)

Export Import Trade Matrix			
Country:	Indonesia	Units:	US\$
Commodity:	Unmanufactured Tobacco		
Time period:	Jan-Dec		Jan-Dec
Exports for	1999	Imports for	1999
U.S.	5,963,882	U.S.	9,043,903
Others		Others	
USSR/Russia Fed.	5,363,515	China	56,555,261
Germany	28,667,746	Turkey	16,887,059
Netherlands	9,635,985	Greece	17,456,557
Belgium	4,348,367	Zimbabwe	12,812,615
		Brazil	6,923,228
		Germany	1,856,582
Total for Others	48,015,613	Total for Others	112,491,302
Others not listed	24,993,915	Others not listed	4,721,854
Grand Total	78,973,410	Grand Total	126,257,059

Tobacco, Unmfg, Flue Cured

Production Table						
Country:	Indonesia		Unit:	MT		
Commodity:	Flue Cured					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	63000	38000	63000	50500	0	54000
Beginning Stocks	3540	3540	2844	189	3144	2835
Farm Sales Weight Prod	52500	49909	53000	42360	0	43000
Dry Weight Production	47280	41425	47400	36000	0	36500
U.S. Leaf Imports	942	942	1000	900	0	1000
Other Foreign Imports	9353	9353	10000	28234	0	15000
TOTAL Imports	10295	10295	11000	29134	0	16000
TOTAL SUPPLY	61115	55260	61244	65323	3144	55335
Exports	1671	1671	1000	388	0	500
Dom. Leaf Consumption	48500	45800	49000	53000	0	47500
U.S. Leaf Dom. Consum.	100	100	100	100	0	100
Other Foreign Consump.	8000	7500	8000	9000	0	7000
TOTAL Dom. Consumption	56600	53400	57100	62100	0	54600
TOTAL Disappearance	58271	55071	58100	62488	0	55100
Ending Stocks	2844	189	3144	2835	0	235
TOTAL DISTRIBUTION	61115	55260	61244	65323	0	55335

Unmfg, Dark Air & Sun Cured

Production Table						
Country:	Indonesia			Unit:	MT	
Commodity:	Dark Air & Sun Cured					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	136500	147800	135000	136220	0	137100
Beginning Stocks	11683	11683	3109	2925	7559	2817
Farm Sales Weight Prod	132000	77052	140200	92402	0	123291
Dry Weight Production	113670	63955	123305	78550	0	104853
U.S. Leaf Imports	219	5	0	258	0	0
Other Foreign Imports	6369	6582	4000	8984	0	10000
TOTAL Imports	6588	6587	4000	9242	0	10000
TOTAL SUPPLY	131941	82225	130414	90717	7559	117670
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	109027	68000	109450	76000	0	89000
U.S. Leaf Dom. Consum.	900	800	700	900	0	700
Other Foreign Consump.	18905	10500	12705	11000	0	13705
TOTAL Dom. Consumption	128832	79300	122855	87900	0	103405
TOTAL Disappearance	128832	79300	122855	87900	0	103405
Ending Stocks	3109	2925	7559	2817	0	14265
TOTAL DISTRIBUTION	131941	82225	130414	90717	0	117670

Unmfg, Dark Air Cured, Cigar

Production Table						
Country:	Indonesia			Unit:	MT	
Commodity:	Dark Air Cured					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	14500	18200	14000	20280	0	18900
Beginning Stocks	495	495	486	3500	236	82
Farm Sales Weight Prod	17500	22019	16800	22120	0	18830
Dry Weight Production	14875	18273	14300	18800	0	16000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	15370	18768	14786	22300	236	16082
Exports	14284	14668	14000	21818	0	15200
Dom. Leaf Consumption	600	600	550	400	0	600
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	600	600	550	400	0	600
TOTAL Disappearance	14884	15268	14550	22218	0	15800
Ending Stocks	486	3500	236	82	0	282
TOTAL DISTRIBUTION	15370	18768	14786	22300	0	16082

**Composition of Tobacco Production: Area & Production by Region
Initial Estimate of Government of Indonesia for 1999 1/**

Island/Province	Area Harvested (Ha)	Yield (MT/Ha)	Production (MT)	Share (%)
SUMATRA	7,460	0.57	4,287	3.12
North Sumatra	3,225	0.52	1,670	1.21
JAVA 2/	205,500	0.62	126,605	92.03
East Java	130,500	0.61	79,225	57.59
Central Java	64,800	0.61	39,730	28.88
West Java	6,000	0.76	4,550	3.31
Yogyakarta	4,200	0.74	3,100	2.25
BALI & NUSA TENGGARA	9,250	0.66	6,135	4.46
West Nusa Tenggara	6,100	0.52	3,150	2.29
Bali	1,900	1.16	2,200	1.60
East Nusa Tenggara	1,250	0.63	785	0.57
KALIMANTAN	15	0.80	12	0.01
SULAWESI	820	0.64	525	0.38
MALUKU & IRIAN JAYA	0	0.00	0	0.00
TOTAL INDONESIA	223,045	0.62	137,564	100.00

Source: Directorate General of Estate Crops.

1/ To describe major producing areas of tobacco. Does not reflect the figure in the PS&D table.

2/ Java totals include production in the Jakarta and Yogyakarta areas.

**Exports and Imports of Unmanufactured Tobacco
(Calendar Year: January - December)
In Metric Tons/US\$**

Year (Jan-Dec)	Export			Import		
	Volume MT	Value US\$ (FOB)	Unit Price US\$/MT	Volume MT	Value US\$ (CIF)	Unit Price US\$/MT
1994	30,927	53,261,721	1,722	40,322	100,216,307	2,485
1995	21,989	61,455,847	2,795	47,953	115,473,899	2,408
1996	33,205	84,371,381	2,541	45,060	134,152,718	2,977
1997	42,280	104,742,741	2,477	47,108	157,766,947	3,349
1998	46,960	147,551,956	3,142	17,153	75,971,408	4,429
1999	37,097	91,834,090	2,476	40,913	128,019,658	3,129

Source: Central Bureau of Statistics, Buletin Ringkas, Jakarta.

**Exports and Imports of Manufactured Tobacco
(Calendar Year: January - December)
In Metric Tons/US\$**

Year (Jan-Dec)	Export			Import		
	Volume MT	Value US\$ (FOB)	Unit Price US\$/MT	Volume MT	Value US\$ (CIF)	Unit Price US\$/MT
1994	22,860	73,160,360	3,200	2,663	25,083,603	9,420
1995	31,012	125,312,805	4,041	4,564	40,654,462	8,908
1996	28,942	135,127,903	4,669	4,750	47,265,195	9,950
1997	33,602	141,053,003	4,198	5,032	48,781,257	9,695
1998	25,246	106,780,008	4,230	2,639	8,503,747	3,222
1999	25,371	120,237,879	4,739	7,928	13,041,193	1,645

Source: Central Bureau of Statistics, Buletin Ringkas, Jakarta.

Note: Data for all types of manufactured tobacco (including cigars, cigarillos, cheroots, etc.)

Production, Supply and Demand for Manufactured Tobacco

PSD Table						
Country:	Indonesia					
Commodity:	Tobacco, Mfg., Cigarettes					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	155938	151700	150920	138550	0	141000
Non-Filter Production	66585	64500	68265	81150	0	87640
TOTAL Production	222523	216200	219185	219700	0	228640
Imports	16	16	0	121	0	140
TOTAL SUPPLY	222539	216216	219185	219821	0	228780
Exports	17080	17080	11500	16999	0	17500
Domestic Consumption	205459	199136	207685	202822	0	211280
TOTAL DISTRIBUTION	222539	216216	219185	219821	0	228780

Unit: million sticks.

Trade Matrix of Manufactured Tobacco 1999 (by volume)

Export Import Trade Matrix			
Country:	Indonesia	Units:	MT
Commodity:	Manufactured Tobacco		
Time period:	Jan-Dec		Jan-Dec
Exports for	1999	Imports for	1999
U.S.	351	U.S.	0
Others		Others	
Cambodia	12185	Batam	170
Malaysia	5227		
Thailand	4498		
Singapore	587		
Cyprus	143		
Vietnam	104		
Lebanon	100		
Germany	85		
Japan	75		
Canada	68		
Total for Others	23072	Total for Others	170
Others not listed	376	Others not listed	0
Grand Total	23799	Grand Total	170

Note: Data for Cigarette Export and Import (HS Codes: 2402.20.200 and 2402.20.900).

Trade Matrix of Manufactured Tobacco 1999 (by value)

Export Import Trade Matrix			
Country:	Indonesia	Units:	US\$
Commodity:	Manufactured Tobacco		
Time period:	Jan-Dec		
Exports for	1999	Imports for	1999
U.S.	4,583,694	U.S.	0
Others		Others	
Cambodia	38,017,532	Batam	624,488
Malaysia	47,722,487		
Thailand	678,164		
Singapore	3,056,204		
Cyprus	461,400		
Vietnam	348,000		
Lebanon	317,460		
Germany	210,041		
Japan	897,670		
Canada	233,598		
Total for Others	91,942,556	Total for Others	624,488
Others not listed	15,987,975	Others not listed	2,350
Grand Total	112,514,225	Grand Total	626,838

Note: Data for Cigarette Export and Import (HS Codes: 2402.20.200 and 2402.20.900).

Note: Batam is a free trade area in Indonesia.

The following tables outline the most recent GOI regulations (Minister of Finance Decree No. 89/KMK.05/2000 dated March 31, 2000) on tobacco products, effective April 1, 2000.

Classifications of Tobacco Products Manufacturers

Type of Tobacco Products	Manufacturer Classification	Limits of Production/Year (in billion/million sticks)
A. SKM or SPM	Large Scale	> 6 billion
	Medium Scale	> 2 billion but < 6 billion
	Small Scale	< 2 billion
B. SKT, KLB or KLM	Large Scale	> 6 billion
	Medium Scale	> 2 billion but < 6 billion
	Small Scale	< 2 billion
C. TIS	Large Scale	> 6 billion
	Medium Scale	> 2 billion but < 6 billion
	Small Scale	< 2 billion
D. SKT	Very Small Scale	< 20 million
or KLB	Very Small Scale	< 20 million
or KLM	Very Small Scale	< 20 million
CRT	Very Small Scale	> 10 million
or TIS	Very Small Scale	> 1.5 million packs with a net weight < 75 million grams
Or a combination of tobacco prod. as meant in the category of very small manufacturing		The total balance in the production quantity not exceeding the CY production limit of each type of tobacco product
	Very Small Scale	

Note: Minister of Finance Decree No. 89/KMK.05/2000 - Dated: March 31, 2000.

Excise Tax Rate and the Minimum Retail Prices of Local Tobacco Products

Type of Tobacco Products	Manufacturer Classification	Minimum Retail Price		Excise Tax Rate %
		Minimum per stick/gram	Maximum per stick/gram	
	Large Scale	Rp. 250.00	Free	40
	Medium Scale	Rp. 250.00	Free	38
A. SKM	Medium Scale	Rp. 165.00	Rp. 245.00	36
	Small Scale	Rp. 250.00	Free	36
	Small Scale	Rp. 165.00	Rp. 240.00	34
	Small Scale	Rp. 120.00	Rp. 160.00	28
	Large Scale	Rp. 150.00	Free	40
	Medium Scale	Rp. 150.00	Free	38
B. SPM	Medium Scale	Rp. 100.00	Rp. 145.00	36
	Small Scale	Rp. 150.00	Free	36
	Small Scale	Rp. 100.00	Rp. 145.00	34
	Small Scale	Rp. 70.00	Rp. 95.00	28
C. SKT, KLB, or KLM	Large Scale	Rp. 165.00	Free	20
	Medium Scale	Rp. 165.00	Free	18
	Medium Scale	Rp. 110.00	Rp. 160.00	16
	Small Scale	Rp. 165.00	Free	16
	Small Scale	Rp. 110.00	Rp. 160.00	14
	Small Scale	Rp. 80.00	Rp. 105.00	12
	Very Small Scale	Rp. 65.00	Rp. 75.00	12
	Large Scale	Rp. 100.00	Free	20
	Medium Scale	Rp. 100.00	Free	18
	Medium Scale	Rp. 50.00	Rp. 95.00	16
D. TIS	Small Scale	Rp. 100.00	Free	16
	Small Scale	Rp. 50.00	Rp. 95.00	14
	Small Scale	Rp. 20.00	Rp. 45.00	12
	Very Small Scale	Rp. 10.00	Rp. 18.00	12
E. CRT		Rp. 75.00	Free	20
F. HPTL		Rp. 75.00	Free	20

Note: Minister of Finance Decree No. 89/KMK.05/2000 - Dated: March 31, 2000.

Excise Tax and the Minimum Retail Prices of Imported Tobacco Products

Type of Tobacco Products	Limits of Retail Prices		Excise Tax Rate %
	Minimum per stick/gram	Maximum per stick/gram	
a. SKM	Rp. 250.00	Free	40
b. SPM	Rp. 150.00	Free	40
c. SKT	Rp. 165.00	Free	20
d. KLB	Rp. 165.00	Free	20
e. KLM	Rp. 165.00	Free	20
f. TIS	Rp. 100.00	Free	20
g. CRT	Rp. 75.00	Free	20
h. HPTL	Rp. 75.00	Free	20

Note: Minister of Finance Decree No. 89/KMK.05/2000 - Dated: March 31, 2000.

Exchange Rates

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7590	7945	8550	8650						

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
 Note: - June 2000 exchange rate is quoted for June 12, 2000.
 - BPS data available up to February 2000.

SECTION III - NARRATIVE, TOBACCO, UNMFG

Production

Tobacco production in Indonesia in MY98 was heavily influenced by weather (La Nina) and economic returns (a drop in consumption) and dropped to 123,653 mt (dry weight basis). But both area and production registered positive growth in MY99, with area up 3,000 ha to 207,000 ha and production up to 133,350 mt (156,882 mt farm sales weight). In addition, the quality of the MY99 crop was reportedly far superior to the MY98 crop, which was drenched by rain well into the growing season. A recovery in domestic consumption also spurred

higher plantings and production. Also adding to the upswing in tobacco production are several close alliances between cigarette manufacturers and tobacco growers. Under these collaborative arrangements, several large-scale manufacturers are providing assistance in the form of seeds, technical assistance and even credit referrals to farmers in an effort to promote better farming practices, enhance quality and yield. These programs, concentrated on the island of Lombok, have been quite successful. Area on Lombok has been estimated at 30,000 hectares in 2000, up from 26,000 ha in 1999 and production has likewise gone up to an estimated 24,000 mt. The MY00 forecast is for a 1.4 percent increase in area planted to 210,000 ha, based on information from the industry that this upswing will continue. The production forecast, based on an industry survey, is up markedly to 157,353 mt (dry sales weight). Industry reports that the combination of higher area, higher consumption and better management practices and higher yields support this forecast.

Indonesia grows 3 types of tobacco, in accordance with curing method: flue-cured, dark air cured, and dark air and sun cured. Approximately 98 percent of tobacco area is managed by small holders while 2 percent is government-owned plantation.

While official tobacco production figures by type are not available from the government, data from association and industry sources indicates that Dark Air & Sun-Cured (DA&SC) tobacco accounts for close to 59 percent of total production, flue-cured about 27 percent, and dark-air cured (DAC) 14 percent. DA&SC and flue-cured tobacco are mainly grown by small holders who alternate between tobacco and food crops and/or horticulture based on profitability. Most of Indonesia's dark air-cured cigar tobacco (DAC) plantations are managed by the government, mainly for export. Although production of Virginia flue-cured tobacco has increased in the last few years on Lombok (through technical and financial assistance from the large cigarette manufacturers) total flue cured tobacco production has declined from 41,425 mt in MY98 to 36,500 mt forecast for MY00 due to low yield from other producing areas.

Native sliced/chopped tobacco prices ranges from as low as Rp. 2,500/kg to as high as Rp. 23,000/kg. Prices depend on the area and the leaf quality. High quality native tobacco is generally produced in Besuki, Bondowoso, Paiton and Madura (East Java). Cigar tobacco prices ranges from Rp. 1,500/kg to Rp. 10,000/kg (cigar filler) and from Rp. 10,000/kg to Rp. 35,000/kg for cigar wrapper/binder.

Consumption

Total domestic consumption of unmanufactured tobacco by the cigarette and cigar industries is back on the increase after a slight dip. In MY98, tobacco consumption was 133,300 mt, down due to the economic crisis' affect on cigarette consumption. Total leaf consumption for MY99 is estimated up almost 13 percent from MY98 to 150,400 mt, due to higher cigarette production and improved crop quality. The MY00 forecast is 158,605 mt (5% higher than MY99), based on reports from the industry that cigarette sales are up around 4 percent.

Trade

Indonesia tends to export more tobacco leaf than it imports. While economic turmoil -- including the drastic fall in the rupiah's value and the similarly harsh drop in incomes -- in 1997 and 1998 hindered tobacco imports, volumes have picked up and are expected to reach pre-crisis levels this year. The MY99 import estimate is

revised upward to 38,376 mt. This is a large increase from 16,882 mt in MY98, but is due in part to the poor domestic crop leading into MY99 as well as a more favorable exchange rate and higher consumption. In addition, recovery in cigarette sales stimulated imports. In MY00, FAS/Jakarta forecasts tobacco leaf imports will moderate to around 26,000 mt due to the improvement in domestic supply.

Imported tobacco (mainly flue-cured tobacco) is used in blending by Indonesian cigarette manufacturers. According to GOI data, major flue-cured suppliers in MY99 were China (75%), Zimbabwe (8%), and Brazil (6%). Of the total, the United States accounted for 3%, valued around US\$ 7.4 million. Based on the GOI trade data, U.S. tobacco accounted for 1,158 mt, or around 3 percent of total tobacco imports in MY99, valued at US\$ 9.0 million. The high price of U.S. tobacco will reduce sales to Indonesia this year. Major suppliers in MY99 were China (36%). Likewise, Indonesia's tobacco is exported to cigarette manufacturers for blending. Indonesian tobacco is known for its premium quality cigar tobacco or DAC which is produced by state-owned enterprises. From a total of 21,818 mt DAC tobacco exports in MY99, around 3,590 mt (16%) were shipped to the United States, valued at US\$ 9.3 million. Other major destinations for Indonesian DAC cigar tobacco were the Netherlands (14%), Germany (23%), and Belgium & Luxemburg (9%).

NOTE: Trade data are official GOI trade statistics (published by the Central Bureau of Statistics/CBS). FAS/Jakarta is aware that this data may not correspond to U.S. export data for shipments of tobacco to Indonesia. The CBS data has only 2 classifications for unmanufactured tobacco: Virginia (flue-cured) and other. Post applies Harmonized System (HS) Codes 2401.10.100 and 2401.20.100 for flue-cured; HS. 2401.10.900 and 2401.20.900 for the DA&SC imports; and HS. Code 2401.10.900 for DAC exports.

Stocks

Tobacco is held in stock both for aging – up to two years – and to ensure constant supply. Cigarette manufacturers, who hold the majority of Indonesia's tobacco stocks, report carrying up to 18 months' worth of stocks. Carry over stocks managed by tobacco traders are smaller in volume. Total beginning stocks of all types of tobacco reached 15,718 mt in MY98 as a result of large production and imports in MY97. In MY99, beginning stocks leveled out at 6,614 mt. Beginning stocks are forecast to be 5,734 mt in MY00, about 13 percent lower than MY99 due to the increased domestic consumption estimate in MY99.

SECTION III - NARRATIVE, TOBACCO, MFG, CIGARETTES

Production

Total cigarette production (clove and non-clove) will show an increase in MY00, up from around 219.7 billion sticks in MY99 to a forecast 228.6 billion sticks. The industry at large is expected to continue on an upward trend in the short to medium term as more and more consumers' purchasing power improves enabling them to either increase consumption or move from cheap, roll-your-own cigarettes to manufactured brands.

Production of clove, or kretek, cigarettes is driving the volume increases, especially hand-rolled clove cigarettes. First, kreteks have gained market share in MY99 and MY00, from 60 percent in the 1980s to around 87 and 89 percent, respectively. This development can be attributed to the highly price-sensitive consumer who

– especially during the height of the economic crisis – switched to lower-priced brands. Hand-rolled clove cigarettes (SKT) gained the most, as noted previously. FAS/Jakarta estimates MY99 clove cigarette production at around 191.4 billion sticks, up 3 percent from MY98, based on industry data. The MY00 forecast is 203.8 billion sticks, a 6.5 percent increase. With respect to SKT versus SKM volumes, SKT production has doubled in the last 10 years, with the largest gains so far made in MY98 (22%) and MY99 (26%). Machine-rolled clove cigarette production, on the other hand, peaked in MY97 and has since declined about 14 percent and 9 percent annually but is forecast up in MY00 by about 5 percent. Thus, SKT now capture about 42 percent of the kretek market and SKM around 58 percent. There are over 800 kretek producers in Indonesia, but the industry is dominated by three large-scale clove cigarette producers: Gudang Garam, Sampoerna and Djarum, who together produce approximately 64 percent of total kretek production. Gudang Garam has the largest market share of SKM while Sampoerna produces the largest portion of SKT.

Meanwhile, white cigarette production is facing a declining market. Due to minimum pricing regulations in place since MY99 and the relatively higher cost of production for white cigarettes, white cigarettes are priced higher than kreteks. FAS/Jakarta has estimated that MY99 production was down by almost 7 percent to 28.3 billion sticks. A further large decline to 24.8 billion sticks is anticipated for MY00.

Licensing agreements with foreign brands

White cigarette in Indonesia produced by multinational manufacturers (British American Tobacco (BAT), Rothmans of Pall Mall and Philip Morris) which operate under licensing agreements. BAT and PM are in the process of merging. Once complete, the merged company will be a veritable powerhouse in the Indonesian tobacco industry. BAT and Rothmans are considered “large scale” producers, producing more than 6 billion sticks per year. Philip Morris, due to a sharp drop in production in MY99, is now classified as a “small scale” company, producing less than 2 billion sticks a year. Under the current GOI policy, though, Philip Morris will be upgraded to “medium scale” once it reaches the 2 billion stick production threshold, probably in mid-year. The multinational white cigarette producers use local tobacco for filler but also import tobacco for blending to produce specific flavor/taste. These companies only export to certain markets, based on individual company policy. For example, Philip Morris does export to Thailand but not to most other Asian countries which are covered out of a different office.

Percentage of filter-tipped cigarettes:

Filters add significantly to the cost of production and as a result have been losing market share in the last few years from 70 percent in MY98 to 62 percent forecast for MY00. Generally, white cigarettes have filters as do machine-rolled clove cigarettes. The correlation between loss of market share and filter content are remarkably linked, as noted previously.

Production of light cigarettes and roll-your-own

As noted, growth in mild cigarette production has jumped in the past 5 years, from virtually zero in 1994 to almost 7 percent of the market (15 billion sticks) in MY99. And the volumes show no signs of slowing down. Consumers, especially, young smokers, women and new smokers, are demanding mild cigarettes for health reasons as well as the cachet of smoking a mild brand. One regular hand-rolled clove cigarette delivers over 50 milligrams (mg) of tar to the smoker compared to 15 mg from the light variety. With respect to white cigarettes, tar content is around 15 mg for regular cigarettes and 10 mg for mild or light varieties. The

Indonesian Ministry of Health announced a new regulation in October 1999 that stipulates all cigarettes must meet maximum tar and nicotine levels. The maximum levels for tar and nicotine per stick of cigarette are 20 mg and 1.5 mg, respectively. The regulation was announced October 5, 1999 but the regulation on maximum tar and nicotine content is slated to be enforced by the end of the transition period, i.e., 2 years after the date of stipulation (for machine rolled cigarette - white and clove); 5 years for large manufacturers producing hand rolled cigarette and 10 years for medium/small manufacturers of hand rolled cigarette. However, the regulation has not yet been implemented. Hand-rolled clove cigarette manufacturers are strictly opposed to the ruling and are in the process of attempting to revise it.

Besides white and clove cigarettes, small cigarette manufacturers also produce very small volumes of roll-your-own cigarettes and corn husk cigarettes (KLB/KLM). According to the new regulation, these products are subject to the lowest excise tax, ranging from 12 to 20 percent (depending on the size of the manufacturer). The minimum retail price of local roll-your-own tobacco remains at a range of Rp.10 to Rp.100 per gram while imported product has a minimum price of Rp. 100/g (excise tax of 20%). The lowest of the maximum price for this local tobacco product is Rp. 18/g.

Availability of inputs:

Cigarette paper, packaging material, and tobacco, are produced and available locally, except that the material for cigarette filters is still imported from Japan and the United States. Some tobacco imports are also required for blending.

Consumption

After a somewhat disappointing MY97 and MY98, cigarette consumption has rebounded to pre-crisis levels. A slight decline in MY98 consumption can be attributed to the economic crisis. However, given the seriousness of the crisis it is surprising that cigarette consumption did not decline further than it did. In addition, it is worth noting that the rebound from that slump has been quick and shows no signs of slowing. In MY99, domestic cigarette consumption (all types) reached 202.8 billion sticks or a 2 percent increase from the previous year. In MY00 Post forecasts that Indonesians will consume 211.3 billion sticks. Behind this trend is, first and foremost, a large customer base that continues to smoke regardless of lower purchasing power. Rather than stop smoking, customers simply switch to cheaper cigarettes and/or buy by the stick rather than by the pack. This is why Indonesian clove cigarettes' market share has ballooned since MY98. Secondly, more and more women and young people are smoking. Thirdly, more and more people are buying manufactured cigarettes rather than rolling them themselves.

Trade

At its height in 1998, the economic crisis in Indonesia reduced purchasing power and made imported cigarettes less affordable. Beginning in MY99, though, the political and economic climate improved and so did imports. Imports increased from 16 million sticks in MY98 to 121 million sticks in MY99. Post forecasts an even larger increase in MY00, to roughly 140 million sticks. Most of imported cigarettes come from Batam, a free trade area in Indonesia.

Regarding exports of cigarettes, concurrent economic turmoil in neighboring countries hurt sales in MY98 and MY99. Exports were down to 17.08 billion sticks in MY98 and then down fractionally again in MY99 to 16.99 billion sticks. In MY00, FAS/Jakarta expects cigarette exports to rebound slightly to reach 17.5 billion sticks. Most of the cigarette exports are low priced clove cigarettes with major destinations of Cambodia (51%), Malaysia (22%) and Thailand (19%). Multi-national cigarette makers in Indonesia typically do not export their locally produced world brands as a matter of individual company policy.

Policy

There has been no lack of changes to tobacco and cigarette regulations over the past year; no fewer than three new directives were announced. The current policy is meant to increase government revenue from the tobacco excise taxes, to encourage fair trade and to protect small manufacturers. Effective April 1, 2000, the Government of Indonesia (GOI) revised the excise tax system for clove and non-clove (white) cigarettes and set the excise tax for all manufacturer classifications of machine rolled clove and non-clove at the same level (from the lowest of 28% to the highest of 40%). The new regulation also fixed a minimum price per stick according to the type of tobacco products (i.e., clove or white) and the annual production volume (see table). For example, a large manufacturer of clove cigarettes is required to sell its product at no less than Rp. 250 per stick with an excise tax rate of 40 percent while a large white cigarette producers can sell their product at Rp. 150/stick with the same excise tax rate, i.e. 40 percent.

In addition, according to this regulation the excise rates of local machine-made and white cigarettes are determined based on the retail prices. There are five excise categories: 40, 38, 36, 34 and 28 percent. For local hand-made clove cigarettes, incense and corn husk cigarettes, there are five categories: 20,18,16, 14, and 12 percent. Excise rates of imported tobacco products, machine rolled clove and white cigarettes are set at 40 percent while other tobacco products are set at 20 percent. See attached tables for more details on the excise tax, manufacturer size and minimum pricing. There was no change in the regulation on the number of cigarettes per pack since the last decree of March, 1998.

A minimum pricing system is also in effect, modified by an April 2000 decree (Decree No. SK89). This decree states that in year 2000 white cigarettes must be priced at 50 percent of the price of a clove cigarette -- up from 45 percent requirement per October 1999 decree (Decree No. 482/1999). This white cigarette price ratio will have to be increased to 60 percent of the price of a clove cigarette in year 2002. As a result, the price of white cigarette will increase almost 10 percent.

In October 1999, a regulation (Peraturan Pemerintah 81, 1999) was issued which stipulates, among other things, a maximum tar content for all cigarettes of 20 mg/stick within 10 years. This decree has been controversial because hand-rolled kretek manufacturers claim that it will bankrupt them because they must reduce tar content from around 50 mg/stick to 20 mg. The hand-rolled sector is made up of hundreds of small scale producers who do not have the benefit of economies of scale. To make the matter more complicated and politically charged, together they employ thousands of Indonesians who would be put out of work should the worst case scenario come to fruition. Under the current economic conditions in Indonesia, the microeconomic and political effects could be severe. The GOI is in discussions with affected parties to resolve this issue, and there is speculation that some reprieve will be granted. Among the regulations that have been implemented are: restrictions on advertising, additional health warnings on packages, and formal establishment of non-smoking zones.

Public Health Awareness

With the new regulation (PP81/99), it is mandatory that tobacco product manufacturers should include a health warning that says “smoking may harm your health.” The regulation also required that tar content should be 20 mg/stick maximum and nicotine content may not exceed 1.5 percent/stick. The current maximum tar level in Indonesia for hand-made cloves cigarettes is 60 mg, 40 mg for machine-made cloves cigarettes, 20 mg for white cigarettes and up to 50 mg for other tobacco products. Nicotine content generally varies from 2 percent up to 4 percent. In addition, each pack must provide information on number of sticks per pack and an excise tape that displays the minimum price for the pack.

Government revenue from tobacco taxes

Government revenue from tobacco excise taxes in MY99 was Rp. 10 trillion (approximately US\$ billion) and they are expected to reach Rp. 10.3 trillion for April-December 2000 (see table for excise tax system). Tobacco excise taxes account for as much as 95 percent of the GOI’s excise tax revenue. The GOI frequently adjusts minimum prices to ensure steady revenues.

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