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Cotton and Products

Annual

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Report Highlights:

Due to sluggishness during the first half of the year, marketing year 2001/02 (August - July) imports are forecast to decline about 10 percent to 2.3 million bales. Nonetheless, overseas demand for textiles has recently revived, and imports are forecast to rebound to 2.4 million bales in 2002/03. Abundant U.S. supplies and competitive prices have led to a boost in U.S. market share during 2001/02. The local textile and garment industry still must struggle with rising production costs, a strengthening Rupiah, and stiff competition from China.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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I. SITUATION AND OUTLOOK

Production

Domestic output is still insignificant, accounting for only about 2 percent of total domestic consumption. Nonetheless, both the government and private sector are making an effort to increase local production, most notably in South Sulawesi where Bollgard has been approved for planting. The variety was originally approved for one season during the last marketing year, but in January 2002 the Ministry of Agriculture extended approval for the current marketing year as well. While the issue of biotechnology has not generated as much controversy as in other countries in the world, the Ministry of Agriculture has nonetheless been the focus of criticism and litigation for granting approval to plant and market the transgenic cotton variety. Area planted to the genetically-enhanced variety is expect to approach 6,000 hectares this year. In other areas, particularly on Java, textile companies are supporting cotton production through various financial arrangements with local farmers.

Consumption

Due to a sluggish first semester, cotton use for marketing year 2001/02 (August 01 - July 02) is expected to decline about 6 percent, reaching 500,000 tons or 2.3 million bales. Although world cotton prices have been favorable, other factors negatively affected cotton demand. First, the international instability following the September 11 attacks led major customers to reduce orders or cancel orders altogether during. Second, the recent strengthening of the rupiah against the U.S. dollar has eroded the competitiveness of Indonesian textile products relative to textiles from other countries such as China, Pakistan, India. Also, customers switched to more short term and irregular buying patterns, which caused a slow-down in plant output and cotton use.

Nonetheless, the decline in spindle activity has reportedly stopped, and use is expected to remain stable through at least the end of 2001/02, and is then expected to begin growing again in the first quarter of 2002/03. In May 2002, operators were much more optimistic about the state of market conditions than they were five months previously. Given the anticipated rebound in activity, use for 2002/03 is forecast to grow to 2.4 million bales.

The domestic textile market has exhibited signs of recovery. However, rampant smuggling and under invoicing of imported textiles and garments continues, and continued low purchasing power causes consumers to make food purchases a priority relative to expenditures on fabrics/clothes. Thus, growth in demand for domestically produced textiles is expected to remain sluggish, and the health of the sector will continue to hinge on demand conditions in markets overseas.

With increases in world oil and electricity prices boosting polyester prices, and in the face of historically low cotton prices, some mills have begun to substitute cotton for synthetics in textiles targeted for the export market. Synthetic fiber (for viscose rayon and polyester staple) and yarn (polyester and nylon filament) production declined about two percent during calendar year 2002.

Marketing

Abundant U.S. supplies and competitive prices have led to a boost in U.S. market share during 2001/02. While some users report concerns regarding quality, the pace of U.S. export sales for the current marketing year remains well-ahead of the previous year. After playing an important role in the last four years in facilitating transactions for U.S. cotton purchases, the GSM-102 has not been in effect this year. Nonetheless, U.S. exporters and local importers have been relying on alternative trade financing mechanisms to maintain U.S. sales.

Trade

Due to the slow-down in demand during the first part of the marketing year, 2001/02 imports are forecast to decline about 10 percent to 510,000 tons (2.3 million bales). However, with expectations for a revival in overseas textile orders, as already evident in the final quarter of 2001/02, imports are forecast to rebound to 530,000 tons (2.4 million bales) in 2002/03. [As also mentioned in the previous GAIN report (ID#1034), import estimates in the PSD tables do not reflect official data published by the Center Bureau of Statistics (BPS), as by all accounts the BPS data is much higher than the actual level of cotton imports. The data in the trade matrices does reflect the BPS data to provide a rough approximation of relative market share].

Australia is the leading supplier of cotton in the Indonesian market, with market share at about 44 percent share during August 2001-January 2002. The shorter shipping period and lower freight rates provides Australian cotton with a fundamental advantage over U.S. cotton. However, given the pace of reported U.S. sales, U.S. market share is expected to increase significantly during marketing year 2001/02. The preliminary data shows that U.S. market share has increased significantly from 21 percent to about 30 percent through January 2002, and this should even be higher when final data is available.
In line with higher cotton imports during the first semester of the year, exports of cotton yarn and fabric during calendar year 2001 increased about 6 and 11 percent, respectively, compared to 2000. The major markets for Indonesia's cotton yarn exports are Japan, Hongkong, and Korea, and Japan is also the top market for cotton fabric followed by the U.S. and Italy. It is estimated that cotton yarn and fabric exports will continue to climb and these market will remain the major export destination for Indonesia.

Cotton yarn imports declined about 18 percent to 18,000 tons during calendar 2001. Pakistan and India were the major suppliers of cotton yarn, supply about 30 percent of imports. Cotton fabric imports in 2001 were stable at 21,000 tons, supplied primarily by China and Hongkong.

Except for yarns, total exports of fibers (synthetic and natural), fabrics, and garments declined in volume by approximately 7 percent in 2001. Garments contributed the highest value of Indonesian textile industry with about 52 percent of the total export value, followed by fabric (20 percent) and Yarns (16 percent). Exports of textiles and garments has been an important contributor to Indonesia's foreign exchange earnings derived from non-oil exports. As a result of the international market situation (as described above) in the final trimester of the year, in 2001 total textile exports declined to US$ 7.7 billion from US$8.2 billion the previous year. Nonetheless, the industry reports a revival in export demand going into the end of the first semester of calendar year 2002, and expectations are that final calendar year textile exports will once again surpass $8 billion. However, the sector will still have to struggle with rising production costs (particularly energy and labor), a strengthening Rupiah, and stiff competition from China.

Investment

Growth and development in textile and garment industry has been practically nil since the financial turmoil of 1997. Furthermore, the large garment and textile companies still being restructured by the Indonesian Bank Restructuring Agency (IBRA) are not expected to expand in the short to medium term. However, some medium-sized mills have reportedly been adding new spinning machines and replacing existing machines. According to a GOI report, investment in the textile industry increased about 3 percent in 2001.

Policy and Issue

The import duties on cotton, cotton yarn and fabric are unchanged since last year. A VAT of 10 percent on raw cotton, applied retroactively starting from January 2001, is still a problem for many companies, and the industry has lobbied to get the tax removed. As a result, GOI is reviewing the policy. Although the VAT payment is refundable when products are exported, companies complain that the process takes too long, tying up needed working capital.

The Government of Indonesia through the Ministry of Industry and Trade, recently announced a new regulation, which requires importers of certain commodities, including textile and textile products, to obtain a special Importer Identification Number (NPIK). Under this new regulation, only importers holding a NPIK can import textiles or textile products. This requirement applies to all importers, including both domestic and foreign companies. The NPIK is aimed at reducing cases of importers creating fictitious names to avoid taxes, manipulation of import data, and smuggling.

Textile companies report that the GOI's decisions to periodically increase electrical power charges, telephone bills, and fuel prices, results in managers being unable to accurately forecast production costs, determine prices, and estimate profits. These changes have created a great deal of uncertainty for mills on top of the already uncertain business climate prevalent in Indonesia.

The sector also remains deeply concerned that a continued strengthening of the Rupiah relative to the dollar will cause a sharp influx of imported textiles and garments, especially from China.

II. STATISTICAL TABLE

Table 1. Production, Supply, and Demand : Cotton

PSD Table				Units:	**MT**	
Country:	Indonesia					
Commodity:	**Cotton**					
		2000		**2001**		**2002**
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	22,000	22,000	22,000	22,000	0	22,000
Beginning Stocks	52,472	18,300	99,719	29,300	115,831	31,300
Production	6,967	7,000	8,491	12,000	0	12,000
Imports	576,975	570,000	544,316	510,000	0	530,000
TOTAL SUPPLY	636,414	595,300	652,526	551,300	115,831	573,300
Exports	3,266	26,000	3,266	20,000	0	20,000
USE Dom. Consumption	522,544	530,000	522,544	490,000	0	520,000
Loss Dom. Consumption	10,886	10,000	10,886	10,000	0	10,000
TOTAL Dom. Consumption	533,430	540,000	533,430	500,000	0	530,000
Ending Stocks	99,719	29,300	115,831	31,300	115,831	23,300
TOTAL DISTRIBUTION	636,415	595,300	652,527	551,300	0	573,300

PSD Table						
Country:	Indonesia			**Conversion : 0.004593**		
Commodity:	Cotton			**Units : Bales**		
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	0	0	0	0	0
Area Harvested	22,000	22,000	22,000	22,000	0	22,000
Beginning Stocks	241	84	458	135	532	144
Production	32	32	39	55	0	55
Imports	2,650	2,618	2,500	2,342	0	2,434
TOTAL SUPPLY	2,923	2,734	2,997	2,532	532	2,633
Exports	15	119	15	92	0	92
USE Dom. Consumption	2,400	2,434	2,400	2,251	0	2,388
Loss Dom. Consumption	50	46	50	46	0	46
TOTAL Dom. Consumption	2,450	2,480	2,450	2,296	0	2,434
Ending Stocks	458	135	532	144	532	107
TOTAL DISTRIBUTION	2,923	2,734	2,997	2,532	532	2,633

Table 2. Import Trade Matrix

Import Trade Matrix					
Country:				Units :	1,000 mt
Commodity:	**Cotton**				
Time period:	**Aug-Jul**				
Imports for	**1999/2000**		**2000/2001**		**2001/2002***
U.S.	97	U.S.	243	U.S.	63
Others		Others		Others	
Australia	161	Australia	404	Australia	93
China	67	China	45	Brazil	9
Ivory Coast	17	Pakistan	42	Argentine	8
Syrian Arab Rep.	14	Ivory Coast	21	Ivory Coast	4
Benin	9	Syrian Arab Rep	15	Tanzania	4
Pakistan	8	Benin	13	Argentine	4
Burkina Faso	6	Tanzania	6	Turkey	2
Uzbekistan	6	Uzbekistan	6	Latvia	2
Mexico	5	Mexico	4	Pakistan	2
Tanzania	4	Brazil	3	China	1
Total for Others	297		559		129
Others not listed	56		78		18
Grand Total	450		880		210

Source : Central Bureau of Statistics (CBS)
* : Aug 2001 - January 2002 only

Note : The MY00/01 import in PSD table does not reflect data published by the Center Bureau of Statistics (BPS) in the Trade Matrix, because by all accounts, the BPS data is much higher than the actual level of cotton imports.

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	Cotton		
Time period:	**Aug-Jan**		
Imports for	2000/2001		2001/2002
U.S.	87	U.S.	63
Others		Others	
Australia	163	Australia	93
China	39	Brazil	9
Pakistan	19	Argentine	8
Syrian Arab Rep.	10	Ivory Coast	4
Ivory Coast	10	Tanzania	4
Benin	6	Argentine	4
Tanzania	5	Turkey	2
Uzbekistan	5	Latvia	2
Argentina	2	Pakistan	2
Mexico	2	China	1
Total for Others	261		129
Others not listed	34		18
Grand Total	382		210

Source : Central Bureau of Statistics (CBS)

Table 3. Actual Textile Production in CY1999-2001
in Metric Tons

Products	**1999**	**2000**	**2001**
MANMADE FIBER	839,566	970,749	961,041
a. Viscose Rayon	316,148	365,547	361,352
b. Polyester Staple	523,418	605,202	599,689
YARNS	1,912,485	2,056,303	2,025,458
a. Polyester Filament	612,000	658,022	648,144
b. Nylon Filament	40,163	43,183	42,535
c. Spun Yarn	1,260,322	1,355,098	1,224,780
FABRICS	1,346,236	1,546,360	1,564,824
a. Woven Fabrics	1,147,049	1,315,608	1,327,550
b. Knitted Fabrics	201,187	230,752	234,273
GARMENTS	543,150	554,436	565,524
OTHER TEXTILE			
PRODUCTS	22,534	42,152	42,995

Source : Ministry of Industry and Trade (MoIT)

Table 4. Indonesian Textile and Textile Product Exports
(CY 1999 - 2001)
Volume : in Metric Tons ; Value : in US$ 1,000

No.	Products	1999		2000		2001	
		Volume	Value	Volume	Value	Volume	Value
1	FIBERS	108,900	97,654	140,369	135,227	112,476	105,779
	1.1. Natural Fiber	18,565	18,498	30,055	26,092	23,620	20,098
	a. Cotton	17,940	17,794	29,185	24,909	22,911	19,093
	b. Silk	66	182	12	61	33	40
	c. Wool	16	110	125	544	99	563
	d. Others	543	412	733	577	576	402
	1.2. Synthetics	90,335	79,156	110,315	109,135	88,856	85,681
	a. Polyester	39,228	25,919	44,761	35,055	36,058	27,310
	b. Nylon	426	633	661	1,177	533	857
	c. Acrylic	1,632	1,351	256	412	195	323
	d. Rayon	38,916	44,486	51,656	64,233	41,611	50,444
	e. Others	10,133	6,768	12,980	8,258	10,458	6,747
2	YARNS	645,493	1,177,420	717,090	1,326,218	717,380	1,244,780
	2.1. Spun Yarn	380,135	828,884	369,278	850,198	369,399	801,010
	2.2. Rayon	4,388	8,398	1,977	5,757	2,037	5,353
	2.3. Polyester	222,141	256,683	303,631	383,550	303,696	351,558
	2.4. Nylon	32,853	73,186	34,659	78,060	36,645	78,237
	2.5. Acrylic	1,525	1,584	2,770	2,566	2,797	3,020
	2.6. Others	4,451	8,686	4,775	6,086	4,806	5,602
3	FABRICS	396,473	1,614,593	416,017	1,913,157	375,029	1,526,834
	3.1. Grey	124,791	372,947	123,723	453,962	111,534	366,440
	3.2. Finished	271,682	1,241,646	292,294	1,459,196	263,495	1,160,394
4	GARMENTS	322,812	3,526,678	341,971	4,281,328	317,514	4,000,201
5	TEXTILE ARTICLES	105,657	437,232	118,659	547,858	165,634	775,974
	5.1. Rugs/Carpets	19,758	35,971	11,057	28,308	9,381	24,994
	5.2. Others	85,899	401,261	107,602	519,550	156,253	750,980
6	PEBT	62,940	303,704	160	1,150	33,278	24,854
	TOTAL	1,642,275	7,157,281	1,734,264	8,204,938	1,721,312	7,678,422

Source : Ministry of Industry and Trade

Table 5. Indonesian Textile and Textile Product Imports
(CY 1999 - 2001)
Volume : in Metric Tons ; Value : in US$ 1,000

No.	Products	1999		2000		2001	
		Volume	Value	Volume	Value	Volume	Value
1	FIBERS	615,928	833,648	777,485	1,009,518	212,424	262,037
	1.1. Natural Fiber	465,389	682,211	570,494	740,468	155,877	192,204
	a. Cotton	456,733	672,640	565,023	729,919	154,380	189,475
	b. Silk	434	766	657	1,008	187	269
	c. Wool	1,522	6,501	1,723	7,581	468	1,960
	d. Others	6,699	2,305	3,091	1,959	842	500
	1.2. Synthetics	150,539	151,437	206,990	269,050	56,547	69,833
	a. Polyester	48,998	36,391	64,659	58,096	17,665	15,077
	b. Nylon	309	879	557	1,445	147	510
	c. Acrylic	85,176	94,202	112,927	172,721	30,852	44,833
	d. Rayon	12,373	15,121	24,048	31,247	6,571	8,108
	e. Others	3,683	4,844	4,799	4,844	1,312	1,306
2	YARNS	62,184	195,290	92,822	276,246	89,383	267,075
	2.1. Spun Yarn	17,331	49,379	32,881	88,078	31,660	85,143
	2.2. Rayon	23,441	80,145	26,202	81,789	25,233	79,081
	2.3. Polyester	10,355	19,841	14,722	32,914	14,176	31,809
	2.4. Nylon	9,172	28,530	16,401	53,653	15,794	51,866
	2.5. Acrylic	167	339	469	596	456	588
	2.6. Others	1,717	17,055	2,147	19,216	2,065	18,588
3	FABRICS	117,898	631,058	174,150	926,412	122,256	629,432
	3.1. Grey	12,466	37,933	24,661	81,269	17,312	55,201
	3.2. Finished	105,432	593,124	149,489	845,142	104,945	574,231
4	GARMENTS	6,007	8,180	9,618	10,391	8,867	70,289
5	TEXTILE ARTICLES	34,141	47,454	43,070	61,581	73,028	144,918
	5.1. Rugs/Carpets	2,837	1,835	5,802	2,875	5,839	2,325
	5.2. Others	31,304	45,619	37,268	58,706	67,189	142,593
	TOTAL	836,160	1,715,629	1,097,144	2,284,147	505,958	1,373,751

Source : Ministry of Industry and Trade

Table 6. Indonesian Cotton Exports (MY 1999 - 2001)
HS Code 5201, 5202, 5203

Export Trade Matrix					
Country:				Units:	1,000 MT
Commodity:					
Time period:	Aug-Jul				
Exports for	1999/2000		2000/2001		2001/2002*
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
Taiwan	4	Hong Kong	4	Hong Kong	2
Hong Kong	3	Taiwan	4	Taiwan	1
Japan	3	Japan	3	Philippines	1
Thailand	2	Thailand	2	Italy	1
India	2	Italy	2	India	1
Netherlands	2	Vietnam	2		
Belgium	1	China	1		
Philippines	1	India	1		
Italy	1	France	1		
Vietnam	1	Italy	1		
Total for Others	20		21		6
Others not listed	4		5		3
Grand Total	24		26		9

Table 7. Indonesian Cotton Yarn Exports (CY1999 - 2001)
HS Code 5204, 5205, 5207

Export Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	**Cotton Yarn**		
Time period:	Jan-Dec		
Exports for	1999	2000	2001
U.S.	4	4	4
Others			
Japan	43	26	22
Hong Kong	18	16	18
Rep of Korea	15	12	16
China	5	6	7
Taiwan	3	3	3
Belgium	2	1	1
Singapore	3	3	3
Australia	2	2	2
Sri Lanka	2	2	2
Germany	2	1	2
Malaysia	2	1	2
United Kingdom	1	1	0
Bangladesh	1	1	2
Total for Others	99	75	80
Others not listed	13	11	12
Grand Total	116	90	96

Source : Central Bureau of Statistics

Table 8. Indonesian Cotton Fabric Exports (CY1999 - 2001)
HS Code 5208 and 5209

Export Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	Cotton Fabric		
Time period:	Jan-Dec		
Exports for	1999	2000	2001
U.S.	7	12	10
Others			
Japan	11	11	11
Hong Kong	7	6	4
Philippines	4	2	4
Italy	3	4	10
Taiwan	3	1	2
United Kingdom	3	3	4
Germany	2	2	2
Sri Langka	2	3	2
Korea	2	1	1
Netherlands	1	1	1
Spain	1	1	2
China	1	1	1
Malaysia	1	2	1
Singapore	1	1	1
Belgium	1	2	2
Australia	1	1	0
Turkey	0	2	3
France	0	0	1
Thailand	1	1	1
United Arab Emirates	1	1	1
Canada	1	1	1
Total for Others	47	47	55
Others not listed	15	17	19
Grand Total	69	76	84

Source : Central Bureau of Statistics

Table 9. Indonesian Cotton Yarn Imports (CY1999 - 2001)
HS Code 5204, 5205, and 5207

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	**Cotton Yarn**		
Time period:	Jan-Dec		
Imports for	1999	2000	2001
U.S.	0	0	0
Others			
India	3	7	3
Pakistan	2	6	6
Hong Kong	1	2	2
Australia	2	2	2
Thailand	0	1	1
Taiwan	1	1	1
Total for Others	9	19	15
Others not listed	2	3	3
Grand Total	11	22	18

Table 10. Indonesian Cotton Fabric Imports (CY1999 - 2001)
HS Code 5208 and 5209

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:	**Cotton Fabric**		
Time period:	Jan-Dec		
Imports for	1999	2000	2001
U.S.	0	0	0
Others			
China	3	6	8
Hong Kong	4	5	5
Taiwan	3	5	2
Rep. of Korea	1	2	3
Japan	1	1	0
Total for Others	12	19	18
Others not listed	2	3	3
Grand Total	14	22	21

Table 11. Cotton and Textiles Import Duty and Value Added Tax

HS Code	Description	Import Duty	VAT
		(%)	(%)
5201.00.000	Cotton, not carded or combed.	0	-
5202	Cotton waste (including yarn waste and garmented stock)	5	10
5203	Cotton, carded or combed.	5	10
5204	Cotton sewing thread, whether or not put up for retail sale	5	10
5205	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale.	5	10
5206	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale.	5	10
5207	Cotton yarn (other than sewing thread) put up for retail sale	5	10
5208	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m sq.		
5208.11 - 5208.19	- Unbleached	10	10
5208.21 - 5208.29	- Bleached	10	10
5208.31 - 5208.49	- Dyed	10	10
5208.51 - 5208.59	- Printed	10	10
5209	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m sq.		
5209.11 - 5209.19	- Unbleached	10	10
5209.21 - 5209.29	- Bleached	10	10
5209.31 - 5209.49	- Dyed	10	10
5209.51 - 5209.59	- Printed	10	10

Source: 2001 Government of Indonesia Tariff Book

Table 12. Number of Textile Companies by Location in Indonesia (CY1999 - 2001)

No.	Location	1999	2000	2001
1	Sumatra	46	49	49
2	DKI Jakarta	450	455	455
3	West Java	1,463	1,496	1,496
4	Central Java	377	380	380
5	Yogyakarta	30	31	31
6	East Java	149	150	150
7	Bali	78	83	83
8	Sulawesi	5	5	5
	TOTAL	2,598	2,649	2,649

Table 13. Exchange Rates

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2,387	2,403	2,418	2,443	2,458	2,450	2,528	2,190	3,350	3,700	3,740	5,700
1998	13,513	9,377	8,740	8,211	10,767	15,160	13,850	11,700	11,314	9,142	7,755	8,100
1999	9,419	8,992	8,778	8,632	8,179	6,750	6,989	7,736	8,571	6,949	7,439	7,161
2000	7,414	7,517	7,598	7,988	8,728	8,742	9,055	8,370	8,891	9,483	9,524	9,385
2001	9,488	9,914	10,460	12,117	11,423	11,436	9,744	9,045	9,696	10,358	10,476	10,450
2002	10,383	10,189	9,655	9,316	8,926							

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.

Note: May 2002 exchange rate is quoted for May 27, 2002