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Tobacco

Tobacco Annual

1999

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Report Highlights:

Tobacco production is on the rise as area planted decreases. Post estimate for dry -weight production in 1998 is 175,825 mt up from 148,775 mt in 1997. Contract growing with cigarette manufacturers have improved planting and harvesting practices as well as leaf quality. Total tobacco production is expected to increase as demand from the Indonesian cigarette industry remain strong and producer yields continue to improve. Both imports and exports of tobacco have declined dramatically. The local currency has lost value making imported tobacco too expensive and the Asian economic crisis has reduced the buying power of most of Indonesia's export market.

Cigarette production and consumption has remained relatively strong considering consumer prices have skyrocketed and consumer buying power has almost hit the bottom. Indonesia's new regulations for cigarette excise taxes and minimum cigarette pricing are expected to lower cigarette production in 1999 to 219.2 billion sticks, 1.5% from 1998. However, cigarette consumption is expected to increase to 1.5% based on strong consumer demand as new smokers start and old smokers switch to cheaper brands. Cigarette producers are confident that as the country's economic situation improves consumption growth will return to 5% to 7% annually.

Includes PSD changes: Yes
Includes Trade Matrix: Yes

Annual Report

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SECTION I - SITUATION AND OUTLOOK

Total tobacco production in 1997 reached 148,775 mt dry weight basis or 175,000 mt farm sales weight. Strong demand and attractive prices encouraged farmers to grow tobacco in 1998, now estimated at 175.825 mt dry weight (equal to 202,000 mt. farm sales weight). Contract growing developed by cigarette companies helped improve tobacco yields and quality primarily in Lombok. Although it is too early to predict farmers' interest in growing tobacco, demand from the cigarette industry remains high which may translate into increased production in 1999. Post forecasts tobacco production in 1999 to reach 185,005 mt dry leaves or approximately 210,000 mt farm sales weight.

Total domestic tobacco consumption decreased by 5.7 percent, from 196,425 mt in 1997 to 185,180 mt in 1998. Based on a forecast of declining cigarette production, FAS/Jakarta predicts further decline in domestic tobacco consumption to around 180,505 mt in 1999, a 2.5 percent drop from 1998. The economic crisis, high prices and difficulties in trade financing have led tobacco imports to decrease sharply from 46,333 mt in 1997 to 16,883 mt in 1998 (a 60 percent drop). Post forecasts tobacco imports to decline further to 15,000 mt in 1999, an 11.2 percent drop from 1998. Based on the GOI trade data, U.S. tobacco accounted for 1,161 mt, or 7 percent of total tobacco imports in 1998, and valued at US\$ 9.0 million. Indonesia's tobacco exports declined, from 17,075 mt in 1997 to 15,955 mt in 1998. Post forecasts exports to be 15,000 mt in 1999. Indonesian tobacco exports are dominated by the Dark Air Cured (DAC) tobacco at 95 percent. The United States imported 4,081 mt of Indonesian tobacco in 1998.

Cigarette production in Indonesia 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). SKM production accounts for around 65 percent of clove cigarette production or around 60 percent of total cigarette production. Cigarette production in 1997 was 225.4 billion sticks, slightly higher than previous estimate. A government mandated price increase in April and October 1998 forced cigarette companies to reduce production in 1998 to about 222.5 billion sticks. A new government regulation that standardizes the excise system and sets minimum prices for white and clove cigarettes is forecast to cut 1999 production to 219.2 billion sticks, a 1.5 percent drop from 1998.

Neither high prices nor the economic crisis seem to have stopped people from smoking in Indonesia. Price increases only make people switch from high priced brands to cheaper brands or force them to buy by the stick. Domestic cigarette consumption reached 202.4 billion sticks in 1997, slightly higher than the previous estimate. Cigarette consumption increased by 1.5 percent to 205.5 billion sticks in 1998, and is forecast to be 207.7 billion sticks in 1999. Cigarette imports decreased from 84 million sticks in 1997 to 16 million sticks in 1998. Little or no cigarette imports are forecasted to be made in 1999. Unfavorable economic conditions in the major importing countries in the region have reduced cigarettes exports to 17.1 million sticks, down by 26.0 percent from 23.0 million sticks in 1997. Post forecasts a further decline in exports in 1999 to 11.5 million sticks, a 32.7 percent drop from 1998.

Exchange Rate: Rupiah/US\$ on Period Month Ending Basis

1995	1996	1997	Jan98	Apr98	Jul98	Nov98	Dec98	Jan99	Feb99	Mar99	Apr99
2308	2383	6250	10250	7970	13000	7300	8068	8950	8730	8685	8260

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

Country:	Indonesia					
Commodity:	Tobacco, Unmfg.					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	216500	216500	216000	214000	0	212000
Beginning Stocks	34110	34110	16493	15718	0	6131
Farm Sales Weight Prod	175000	175000	173000	202000	0	210000
Dry Weight Production	148775	148775	147000	175825	0	185005
U.S. Leaf Imports	2050	2050	1000	1161	0	1000
Other Foreign Imports	44283	44283	37000	15722	0	14000
TOTAL Imports	46333	46333	38000	16883	0	15000
TOTAL SUPPLY	229218	229218	201493	207266	0	206136
Exports	17075	17075	17000	15955	0	15000
Dom. Leaf Consumption	165350	0	151050	158127	0	159000
U.S. Leaf Dom. Consum.	998	0	550	1000	0	800
Other Foreign Consump.	29302	0	22500	26905	0	20705
TOTAL Dom. Consumption	195650	196425	174100	185180	0	180505
TOTAL Disappearance	212725	213500	191100	201135	0	195505
Ending Stocks	16493	15718	10393	6131	0	10631
TOTAL DISTRIBUTION	229218	229218	201493	207266	0	206136

Tobacco, Unmfg, Flue Cured

Production Table						
Country:	Indonesia					
Commodity:	Flue Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	63500	63500	63000	63000	0	63000
Beginning Stocks	12346	12346	4267	3540	0	2844
Farm Sales Weight Prod	44000	42940	43500	52500	0	53000
Dry Weight Production	37400	36498	37000	47280	0	47400
U.S. Leaf Imports	1252	1252	500	942	0	1000
Other Foreign Imports	28904	28904	25000	9353	0	10000
TOTAL Imports	30156	30156	25500	10295	0	11000
TOTAL SUPPLY	79902	79000	66767	61115	0	61244
Exports	635	635	500	1671	0	1000
Dom. Leaf Consumption	57000	56825	50950	48500	0	49000
U.S. Leaf Dom. Consum.	200	200	50	100	0	100
Other Foreign Consump.	17800	17800	12500	8000	0	8000
TOTAL Dom. Consumption	75000	74825	63500	56600	0	57100
TOTAL Disappearance	75635	75460	64000	58271	0	58100
Ending Stocks	4267	3540	2767	2844	0	3144
TOTAL DISTRIBUTION	79902	79000	66767	61115	0	61244

Trade Matrix of Unmanufactured Tobacco 1998 (by volume)

Export Import Trade Matrix			
Country:	Indonesia		Units: MT
Commodity:	Tobacco, Unmfg.		
Time period:	Jan-Dec		
Exports for	1998	Imports for	1998
U.S.	4,081	U.S.	1,161
Others		Others	
Netherlands	3,705	China	6,049
Former USSR	2,874	Brazil	2,156
Germany	2,801	South Africa	1,868
Belgium	1,829	Greece	1,711
		Turkey	1,610
		Zimbabwe	1,220
Total for Others	11,209		14,614
Others not listed	665		1,108
Grand Total	15,955		16,883

Trade Matrix of Unmanufactured Tobacco 1998 (by Value)

Export Import Trade Matrix			
Country:	Indonesia	Units:	US\$
Commodity:	Tobacco, Unmfg.		
Time period:	Jan-Dec		
Exports for	1998	Imports for	1998
U.S.	13,908,284	U.S.	9,037,583
Others		Others	
Netherlands	15,604,021	China	24,084,906
Former USSR	3,066,839	Brazil	8,962,470
Germany	34,803,138	Greece	8,962,336
Belgium	6,696,956	Spoth Africa	7,967,966
		Turkey	7,663,064
		Zimbabwe	4,997,300
Total for Others	60,170,954		62,638,042
Others not listed	1,955,644		4,095,946
Grand Total	76,034,881		75,771,571

Unmfg, Dark Air & Sun Cured

Production Table						
Country:	Indonesia					
Commodity:	Dark Air & Sun Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	137500	137000	138000	136500	0	135000
Beginning Stocks	29565	20754	15804	11683	0	3109
Farm Sales Weight Prod	112200	112560	117500	132000	0	140200
Dry Weight Production	95400	95702	100000	113670	0	123305
U.S. Leaf Imports	900	798	900	219	0	0
Other Foreign Imports	11889	15379	17000	6369	0	4000
TOTAL Imports	12789	16177	17900	6588	0	4000
TOTAL SUPPLY	137754	132633	133704	131941	0	130414
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	110000	108650	113000	109027	0	109450
U.S. Leaf Dom. Consum.	900	800	900	900	0	700
Other Foreign Consump.	11050	11500	10000	18905	0	12705
TOTAL Dom. Consumption	121950	120950	123900	128832	0	122855
TOTAL Disappearance	121950	120950	123900	128832	0	122855
Ending Stocks	15804	11683	9804	3109	0	7559
TOTAL DISTRIBUTION	137754	132633	133704	131941	0	130414

Unmfg, Dark Air Cured,Cigar

Production Table						
Country:	Indonesia					
Commodity:	Dark Air Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	16000	16000	16000	14500	0	14000
Beginning Stocks	1010	1010	495	495	0	486
Farm Sales Weight Prod	19500	19500	20000	17500	0	16800
Dry Weight Production	16575	16575	17000	14875	0	14300
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	17585	17585	17495	15370	0	14786
Exports	16440	16440	16500	14284	0	14000
Dom. Leaf Consumption	650	650	600	600	0	550
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	650	650	600	600	0	550
TOTAL Disappearance	17090	17090	17100	14884	0	14550
Ending Stocks	495	495	395	486	0	236
TOTAL DISTRIBUTION	17585	17585	17495	15370	0	14786

Composition of Tobacco Production: Area & Production by Region
Initial Estimate of Government of Indonesia for 1998 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.

Production and Stocks of Tobacco

Year	Production	Stocks
	1000 Metric Ton	1000 Metric Ton
1995	5.1	1.8
1996	9.9	2.9
1997	7.1	3.3
1998*	5.4	2.9

Source: Central Bureau of Statistics, Monthly Statistical Bulletin, Jakarta.

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

Year (Jan-Dec)	Export			Import		
	Volume Metric Tons	Value US\$ (FOB)	Unit Price US\$/MT	Volume Metric Tons	Value US\$ (CIF)	Unit Price US\$/MT
1994	30,927.20	53,261,721	1,722.16	40,321.80	100,216,307	2,485.41
1995	21,988.60	61,455,847	2,794.90	47,953.40	115,473,899	2,408.04
1996	33,205.10	84,371,381	2,540.92	45,060.10	134,152,718	2,977.20
1997	42,280.30	104,742,741	2,477.34	47,107.80	157,766,947	3,349.06
1998	46,959.90	147,551,956	3,142.08	17,152.50	75,971,408	4,429.17

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 Metric Tons	Value US\$ (FOB)	Unit Price US\$/MT	Volume Metric Tons	Value US\$ (CIF)	Unit Price US\$/MT
1994	22,859.60	73,160,360	3,200.42	2,662.90	25,083,603	9,419.66
1995	31,012.20	125,312,805	4,040.76	4,563.70	40,654,462	8,908.22
1996	28,942.30	135,127,903	4,668.87	4,750.10	47,265,195	9,950.36
1997	33,601.90	141,053,003	4,197.77	5,031.60	48,781,257	9,694.98
1998	25,246.20	106,780,008	4,229.55	2,639.00	8,503,747	3,222.34

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

Production, Supply and Demand for Manufactured Tobacco

PSD Table						
Country:	Indonesia					
Commodity:	Tobacco, Mfg., Cigarettes					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	170670	171084	162500	155938	0	150920
Non-Filter Production	54119	54301	51500	66585	0	68265
TOTAL Production	224789	225385	214000	222523	0	219185
Imports	50	84	0	16	0	0
TOTAL SUPPLY	224839	225469	214000	222539	0	219185
Exports	23090	23090	25000	17080	0	11500
Domestic Consumption	201749	202379	189000	205459	0	207685
TOTAL DISTRIBUTION	224839	225469	214000	222539	0	219185

Trade Matrix of Manufactured Tobacco

Export Import Trade Matrix			
Country:	Indonesia	Units:	MT
Commodity:	Tobacco, Mfg., Cigarettes		
Time period:	Jan-Dec		
Exports for	1998	Imports for	1998
U.S.	420	U.S.	0
Others		Others	
Cambodia	13155	Batam	14
Thailand	6376	Netherlands	7
Malaysia	2214	Australia	1
Singapore	629		
Turkey	235		
Rep. of Korea	174		
Hong Kong	110		
United Arab Emirat	107		
Vietnam	74		
Lebanon	71		
Total for Others	23145		22
Others not listed	367		0
Grand Total	23932		22

Trade Matrix of Manufactured Tobacco 1998 (by value)

Export Import Trade Matrix			
Country:	Indonesia	Units:	US\$
Commodity:	Tobacco, Mfg., Cigarettes		
Time period:	Jan-Dec		
Exports for	1998	Imports for	1998
U.S.	4,994,370	U.S.	0
Others		Others	
Cambodia	41,333,375	Batam	166,500
Thailand	20,126,570	Netherlands	64,683
Malaysia	24,939,154	Australia	7,574
Singapore	3,827,178		
Turkey	672,111		
Rep. of Korea	545,429		
Hong Kong	81,278		
United Arab Emirate	331,240		
Vietnam	269,260		
Lebanon	230,440		
Total for Others	92,356,035		238,757
Others not listed	2,627,854		641
Grand Total	99,978,259		239,398

The following tables are the most recent GOI regulations on tobacco products which is effective April 1, 1999. The new regulations are meant to increase government revenue from the tobacco excise taxes and to protect small manufacturers. There will be a transition period to allow the white cigarette manufacturers to adjust to the new minimum prices. According to the new decree the large, medium, and small scales of white cigarette manufacturers should increase their prices by 45 percent in 2000; 70 percent in 2001; and 100 percent in 2002.

Classifications of Tobacco Products Manufacturers

Type of Tobacco Products	Manufacturer Classification	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 grams
	Medium Scale	> 2 billion but < 6 billion grams
	Small Scale	< 2 billion grams
SKT	Very Small Scale	< 20 million
or KLB	Very Small Scale	< 20 million
or KLM	Very Small Scale	< 20 million
D. CRT	Very Small Scale	> 10 million
or TIS	Very Small Scale	> 1.5 million packets with a net weight > 75 million grams
Or a combination of tobacco prod. as meant in the category of very small manufacturing	Very Small Scale	The total balance in the production quantity not exceeding the CY production limit of each type of tobacco product

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	
A. SKM or SPM	Large Scale	Rp. 225.00	Free	36
	Medium Scale	Rp. 180.00	Rp. 220.00	30
	Medium Scale	Rp. 150.00	Rp. 175.00	28
	Small Scale	Rp. 130.00	Rp. 145.00	22
	Small Scale	Rp. 110.00	Rp. 125.00	20
B. SKT, KLB, or KLM	Large Scale	Rp. 150.00	Free	16
	Medium Scale	Rp. 100.00	Rp. 145.00	8
	Small Scale	Rp. 75.00	Rp. 95.00	4
	Very Small Scale	Rp. 55.00	Rp. 65.00	4
C. TIS	Large Scale	Rp. 100.00	Free	16
	Medium Scale	Rp. 50.00	Rp. 95.00	8
	Small Scale	Rp. 20.00	Rp. 45.00	4
	Very Small Scale	Rp. 10.00	Rp. 18.00	4
D. CRT		Rp. 75.00	Free	16
E. HPTL		Rp. 75.00	Free	16

Source: Business News 6296/April 12/1999.

Excise Tax and the Minimum Retail Prices of Imported Tobacco Products

Type of Tobacco Products	Minimum Retail Price		Excise Tax Rate %
	Minimum per stick/grm	Maximum per stick/grm	
a. SKM	Rp. 225.00	Free	36
b. SPM	Rp. 225.00	Free	36
c. SKT	Rp. 150.00	Free	16
d. KLB	Rp. 150.00	Free	16
e. KLM	Rp. 150.00	Free	16
f. TIS	Rp. 100.00	Free	16
g. CRT	Rp. 75.00	Free	16
h. HPTL	Rp. 75.00	Free	16

Source: Business News 6296/April 12, 1999.

SECTION III - NARRATIVE, TOBACCO, UNMFG

Production

Attractive prices and contract growing relationships with cigarette companies have motivated tobacco farmers, and yields are increasing. FAS/Jakarta estimates the 1998 production of total unmanufactured tobacco at 175,825 mt dry weight basis or 202,000 mt farm sales weight, around 18.0 percent higher than the 148,775 mt dry leaves production in 1997. Continued support from cigarette companies is expected to increase production in 1999 to 185,005 mt dry basis, around 5.0 percent higher than 1998.

Large clove and white cigarette companies are developing contract growing arrangements with local tobacco. Under these partnership agreements, cigarette companies may provide technical assistance, seeds, fertilizers, and insecticides. The companies also help farmers to obtain credit. Officials from PT. Gudang Garam and PT. Sampoerna reported on a successful partnership project in Lombok which produces flue-cured Virginia tobacco. PT. Sampoerna is also developing village cooperatives (KUD) in East and Central Java to produce their hand-rolled cigarettes. The company reports to have started 21 cooperatives since 1995.

While official tobacco production figures by type are not available from the government, actual utilization data from the cigarette industry indicates that Dark Air & Sun-Cured (DA&SC) tobacco accounts for 65 percent of total production, flue-cured about 25 percent, and dark-air cured (DAC) 10 percent. DA&SC and flue-cured tobacco are mainly grown by smallholders, competing with foodcrops and/or horticulture. Most of Indonesia's dark air-cured cigar tobacco (DAC) plantations are managed by the government, mainly for export.

The price of high quality native tobacco from Temanggung, Central Java ranges from Rp. 25,000/kg to Rp. 90,000/kg. The average quality tobacco from this area ranges from Rp. 10,000 to Rp. 12,000 per kilogram. Contract farming developed by cigarette companies in Lombok, West Nusa Tenggara, is showing progress. The lowest/highest prices of Virginia flue cured tobacco from Lombok range from Rp. 600/kg to Rp. 15,000/kg. The average price of cigar tobacco (dekblood-cigar wrapper, omblood-cigar binder, and cigar fillers tobacco) from Deli, North Sumatra is reportedly stable at around Rp. 31,500 per kilogram.

Consumption

Total domestic consumption of unmanufactured tobacco in 1997 reached 196,425 mt, up slightly from the previous estimate of 195,650 mt due to higher cigarette production. Total leaf consumption for 1998 is estimated down 1.3 percent from 1997 to 185,180 mt, due to reduced cigarette production starting in mid-1997. In 1999, consumption is forecast to drop 2.5 percent to around 180,505 mt. This in line with a 1.5 percent drop forecast for cigarette production.

Trade

Economic turmoil starting at the end of 1997 sharply reduced tobacco imports to 16,883 mt in 1998, down from 46,333 mt in 1997. Post forecasts a further decline in imports to 15,000 mt in 1999. In general, Flue-cured tobacco accounts for approximately 60 percent of total tobacco imports while DA&SC tobacco accounts for the remaining 40 percent. Indonesia's unmanufactured tobacco exports are dominated by the cigar tobacco (DAC) accounting for over 95 percent of total exports. Despite the attraction of a strong dollar, unfavorable economics in the major importing countries drug down tobacco exports in 1998 to 15,955 mt. Imports in 1999 are expected to reach 15,000 mt, around 6 percent lower from 1998.

Imported tobacco (mainly Flue-cured tobacco) is required to bring the taste/ flavor for white cigarettes. It is also used for blending in mild clove cigarettes. Major flue-cured suppliers in 1998 were China (28.2%), Brazil (17.9%), and South Africa (17.2%). Of the total, the United States accounted for 9.2%, valued around US\$ 4 million. From a total of 14,284 mt DAC tobacco exports in 1998, around 4,000 mt (28.0%) were shipped to the United States, valued at US\$ 13.9 million. Other major destination of Indonesian DAC cigar tobacco were Netherlands (25.9%), Germany (19.6%), and Belgium&Luxemburg (12.8%).

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

Tobaccos are aged up to 2 years before being used. Carry over stocks managed mainly by the cigarette companies and tobacco traders in smaller volume. Total stocks of all types of tobacco declined to 6,439 mt in 1998 as imports sharply declined. Stock is forecast to be 10,939 mt, over 60 percent higher than 1998 due to forecasted increase in production and a forecast of 1.5 percent decline of cigarette production in 1999.

SECTION III - NARRATIVE, TOBACCO, MFG, CIGARETTES

Production

FAS/Jakarta has revised 1997 total (clove and non-clove) cigarette production to 225.4 billion sticks, slightly higher than the previous estimate, based on industry data. Industry contacts indicate that a combination of the economic crisis and increased cigarettes prices in 1998 led to a decline in cigarette production. Total 1998 production is estimated to be 222.5 billion sticks, a 1.3 percent drop from 1997. So far in 1999, the Government of Indonesia (GOI) has standardized the excise tax system for clove and non-clove cigarettes and will introduce a series of price increases. As a result, Post forecasts total cigarette production to be 219.2 billion sticks in 1999, a 1 percent decline from 1998.

Of the estimated cigarette production of 222.5 billion sticks in 1998, around 31.5 billion sticks were non-clove or standard cigarettes called white cigarettes in Indonesia (SPM-Sigaret Putih Mesin) and 191.0 billion sticks were clove cigarettes or "kretek". The hand-rolled kretek (SKT-Sigaret Kretek Tangan) accounted for 66.6 billion sticks and the machine-rolled kretek (SKM-Sigaret Kretek Mesin) production for 124.4 billion sticks. Clove cigarette production is forecast to be 183.5 billion sticks in 1999, down 3.9 percent from 1998. White cigarette production is forecast to be 24.0 billion sticks, down 23.8 percent from 1998.

Over 85 percent of cigarette production in Indonesia is clove or kretek cigarettes, around 70 percent machine made cigarettes (SKM) and 30 percent hand-rolled cigarettes (SKT). Three large-scale clove cigarette producers, Gudang Garam, Sampoerna and Djarum produce approximately 65 percent of total production. Gudang Garam has the largest market share of SKM while Sampoerna produces the largest portion of SKT.

Licensing agreements with foreign brands

There are three multinational white cigarette manufacturers operating in Indonesia under licensing agreements, British American Tobacco (BAT), Rothmans of Pall Mall and Phillip Morris. BAT and Rothmans are considered “large scale” producers producing more than 6 billion sticks per year. Phillip Morris is considered “medium scale” producing between 2 and 6 billion sticks a year. BAT and Rothmans are in the final stages of a worldwide merger. International brands produced in Indonesia are required to be true to their original blends. This requires tobacco for flavor/taste to be imported for the production brands such as Marlboro. However, these brands also use local tobacco for filler. These companies do not export their international brands from Indonesia as a matter of individual company policy.

Percentage of filter-tipped cigarettes:

Around 97 percent of the white cigarettes produced in Indonesia have filters. As for clove cigarettes, machine-made clove cigarettes are filtered and hand-made cigarettes (including the corn-husk cigarette or KLB-Klobot) are not filtered. White cigarettes make up 14 percent of total production. Hand-rolled clove and machine-made clove cigarettes make up 30 and 56 percent of production, respectively.

Production of light cigarettes and roll-your-own

One hand-rolled clove cigarette delivers over 50 milligrams (mg) of tar to the smoker. This compares to 18 mg delivered by Lucky Strike and Marlboro. The Indonesian Ministry of Health has announced preliminary plans to link taxes to tar and nicotine content in cigarettes. Levels suggested for tar and nicotine are 20 mg and 1.8 mg, respectively. Light cigarettes have been identified as a preference of young smokers, women and new smokers. Gudang Garam and Sampoerna have light brands on the market.

Roll-your-own cigarette production is very small, but subject to the lowest excise tax, ranging from 4 to 16 percent (depend on the size of the manufacturer). The minimum retail price of local roll-your-own tobacco ranges from Rp.10 to Rp.100 per gram while imported product has a minimum price of Rp. 100 per gram. The lowest of the maximum price for this product is Rp. 18 per gram (2 cents). Similar to the corn-husk, hand-rolled clove cigarettes, the target market of the roll-your-own cigarette is the older and the most-thrifty smoker.

Availability of inputs:

Most of the material for cigarette production such as cigarette paper, cigar wrappers, packaging material, and the tobacco are produced and available locally. However, the material for cigarette filters is still imported from Japan and the United States. Cigarette manufacturers continue to import tobaccos which are required for flavor/taste and for blending low tar cigarettes.

Consumption

Despite the economic crisis and several price increases, overall cigarette consumption in 1998 increased by 1.5 percent over the 1997. Still disappointing for a market accustomed to 5 or better percent growth in consumption annually. All indications are that consumption in 1999 will be similarly effected by economic conditions and new price increases. Both a new excise tax system and dramatic price increases (especially for white cigarettes) have industry forecasters suggesting overall consumption growth at only about 1 percent. That means about 207.7 billion sticks consumed in 1999 up from 205.4 in 1998. This contracted consumption is forecast due to unprecedented increases in cigarette prices across the board as well as on the lowest priced product coming from the smallest producers that had enjoyed the lowest minimum prices and the lowest taxes levels in the past. Clove cigarette prices are up 20 percent and non-clove prices are up 7 percent to 105 percent.

Some industry officials expect a relatively quick turnaround in consumption patterns as more young people and women begin to smoke. The large clove cigarette manufacturers also plan to adjust their marketing efforts by producing more filtered (machine-made) cigarettes with slim sticks, nice packaging and low tar/low nicotine content. To cope with the sharp decline in the sales of upper-end products, multinational white cigarette manufacturers producing more economical products including new low-end brands, such as Long Beach.

Package labeling requirements

The Government of Indonesia (GOI) requires tobacco product manufacturers to include information on their product packaging indicating the number of cigarettes per pack and a health warning that says "smoking may harm your health." In addition, each pack has a nexcise tape that displays the minimum price for the pack. The GOI/Ministry of Health has drafted a regulation on labeling requirements for tar and nicotine content, however, it has not yet been finalized. The current maximum tolerated tar content 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 mg up to 4 mg.

Government revenue from tobacco taxes

Government revenue from tobacco excise taxes in 1997/98 were Rp. 8 trillion (approximately US\$1 billion) and they are expected to reach Rp. 9.3 trillion in 1999/00 (See table for excise tax system). Tobacco excise taxes account for as much as 95 percent of GOI's excise tax revenue. GOI frequently adjusts minimum prices to ensure steady revenues. In 1998, clove cigarette manufacturers had to raise their minimum prices on three separate occasions.

Trade

The ongoing economic crisis in Indonesia has reduced purchasing power and made imported cigarettes less affordable. Cigarette imports have declined significantly since 1997. Imports dropped from 117.6 mt. (equivalent 84 million sticks) in 1997 to 22.4 mt. (equivalent 16 million sticks) in 1998. Post forecasts only token imports in 1999. Unfavorable economic conditions in most destination markets (i.e. Malaysia and Thailand) reduced the estimated export figure for 1998 to 23,912 mt. (around 17.1 billion sticks) down from 32,326 mt. (around 23.1 billion sticks) in 1997. If the economic crisis continues in the region, exports in 1999 are forecast to reach only 11.5 billion sticks. Exports of machine-made clove cigarettes in 1998 totaled at US\$ 31.4 million, down over 30 percent from US\$ 46.9 million in 1997. Most of the cigarette exports are clove cigarettes to Indonesians living in Malaysia. Local white cigarette brands only contribute about 2 percent to the export figure. Multi-national cigarette makers in Indonesia do not export their locally produced world brands as a matter of individual company policy.

Policy

Effective April 1, 1999, the Government of Indonesia (GOI) standardized the excise tax system for clove and non-clove (white) cigarettes. The new regulation levies taxes based on a manufacturer's production level and the GOI set minimum per stick price (see table). The new regulation sets the excise tax for large manufacturers of clove and non-clove at the same level for the first time. For example, a large manufacturer of clove or non-clove cigarettes are required to sell their product at no less than Rp. 225 per stick with an excise tax rate of 36 percent.

According to the new regulation, the excise rates of local machine-made and white cigarettes are determined based on the retail prices. There are five excise categories; 36, 30, 28, 22 and 20 percent. For local hand-made clove cigarettes, incense and corn husk cigarettes, there are three categories; 16, 8, and 4 percent. Excise rates of imported tobacco products clove and white cigarettes are set at 36 percent while other tobacco products are set at 16 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.

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