



Foreign Agricultural Service

**GAIN Report**

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## Indonesia

### Grain and Feed

#### Rice Update (February)

## 2000

Approved by:

**Robin Tilsworth Rude**

**U.S. Embassy**

Prepared by:

Deanna M. Johnson/Niniek S. Alam

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#### **Report Highlights:**

**The main rice harvest of the year is underway and the 2000 crop is reportedly in excellent condition. The 2000 production forecast is 51.0 mmt (unmilled). Trade during 2000 should remain strong, albeit not as strong as in 1999. Imports are forecast at 3.0 mmt. Due to falling domestic rice prices, there have been pressures to increase the rice import duty. No action has been taken yet.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Jakarta [ID1], ID



**PS&D Table**

PSD Table						
Country:	Indonesia					
Commodity:	Rice, Milled					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Harvested	11730	11730	11600	11700	11700	11700
Beginning Stocks	4129	4129	6133	6133	5617	5933
Milled Production	31118	31118	31284	31600	33232	32232
Rough Production	49237	49237	49500	50000	51000	51000
Milling Rate(.9999)	6320	6320	6320	6320	6320	6320
TOTAL Imports	6086	6086	3500	3600	2000	3000
Jan-Dec Imports	6086	6086	3500	3600	2000	3000
Jan-Dec Import U.S.	51	51	200	200	0	0
TOTAL SUPPLY	41333	41333	40917	41333	40849	41165
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	35200	35200	35300	35400	35400	36000
Ending Stocks	6133	6133	5617	5933	5449	5165
TOTAL DISTRIBUTION	41333	41333	40917	41333	40849	41165

**Production**

The main rice crop of the year (November-April) is just beginning to be harvested in Indonesia; peak harvest is expected in March-April. Reports from the field indicate that this season's crop is in excellent condition. Rainfall has been on target, pests have been minor and fertilizer availability has improved and along with it so has use. Recently, the Government of Indonesia (GOI) unexpectedly reduced its 2000 production forecast to 49.11 mmt unmilled based on a 3.46 percent reduction in area to 11.44 mha. However, based on information from the field, FAS/Jakarta leaves its previous production estimate unchanged at 51.0 mmt unmilled. The production estimate for milled rice, based on conversion rate of .632, is 32.232 mmt.

The 1999 production and area estimates have been increased slightly to 50.0 mmt and 11.7 mha, respectively, based on recent GOI preliminary estimates of 50.4 mmt (31.85 milled) and 11.85 million hectares. All production factors experienced positive growth from 1998 to 1999. Production increased by 2.4 percent from 49.2 mmt in 1998, area was 1.2 percent higher than 1998 and yields increased from 4.20 mt/ha in 1998 to 4.25 mt/ha in 1999.

With respect to inputs, the number of agriculture input (fertilizer) outlets has reportedly increased significantly and so has competition among suppliers. The end result has been that farmers are

comparison shopping and receiving better prices for inputs. One assessment indicates fertilizer prices fell as much as 15 percent in 1999.

### **Consumption**

Bulog continues its function of providing rice to civil servants, the military, and targeted low income citizens. In order to carry out those functions, Bulog estimates it will need to distribute roughly 400,000 tons of rice per month (4.8 mmt/year). Given the inelasticity of rice consumption in Indonesia, there is little year to year change. However, the CY00 consumption estimate has been increased to 36.0 mmt due to the expected increase in population.

The special market operation (Operasi Pasar Khusus = OPK) for low income families will be continued in 2000, however, it is not clear whether the government will modify the program either by reducing the volume distributed or by reducing the price subsidy. The chairman of Bulog stated recently that the price of the rice for OPK will remain at Rp. 1,000/kilogram - the rumor is that the price will be increased to Rp. 1,200/kilogram (or \$161/mt at the current exchange rate of Rp. 7,445). The current level of OPK is around 200,000 mt/month distributed by Dolog offices to points of distribution throughout the country in coordination with the local government and non-governmental organizations.

### **Stocks**

FAS/Jakarta has revised its 1999 ending stocks number upward to 5.9 mmt due to increased privately-held stock levels. Private stock levels are reportedly high, due to large imports made prior to the new tariff regulation. In addition, with rice harvest underway in several producing areas, supply of local rice is plenty.

Public stocks, on the other hand, are below normal. Bulog's lack of activity and the seasonal lull in procurement have left government stocks relatively low at 1.2 mmt at the end of February. Bulog has indicated that it will keep stocks low this year in an effort to minimize costs. As a result, total stocks at the end of 2000 could dip to 5.2 mmt.

### **Trade**

The 2000 import estimate has been increased significantly to 3.0 mmt. Reports from GOI and private sources indicate that 2000 rice imports will continue flowing into Indonesia, although they are not expected to reach the 1999 level (3.6 mmt). Government imports should reach around 2.0 mmt in order to meet obligations for rice distribution and stock maintenance. Private imports will slow somewhat due to the high level of imports in CY99. The new rice import tariff is roughly equivalent to the implicit tariff created by the import restrictions set in August of 1999, so as long as the world market price remains competitive it will be profitable for traders to sell in Indonesia. FAS/Jakarta estimates private imports of around 1.0-1.2 mmt in CY00.

### **Prices**

Heading into the main harvest season with high stocks, prices are generally down. At the retail level, current prices of medium to lower rice quality rice are down from Rp. 2,800 - Rp. 3,100/kg in the previous month to Rp. 2,550 - Rp. 3,000/kg due to ample supply both from local and imports. To compensate for the decrease in price of low quality rice, traders have increased the price of medium to high quality rice from Rp. 3,500 - Rp. 4,600/kg to Rp. 3,750 - Rp. 5,100/kg. Demand for glutinous rice has come back down to a normal level after the fasting month and Idul Fitri/New Year celebrations. Prices are declining from Rp. 5,500/kg to Rp. 4,400/kg. Imported glutinous rice prices are more or less stable at around Rp. 3,200/kg.

At the wholesale level, the market is reportedly sluggish and prices of local rice are decreasing from Rp. 2,200 - Rp. 3,000/kg to Rp. 2,000 - Rp. 2,800/kg due to ample supply and high moisture content. The late start in procurement by Bulog added to the downward pressure. Prices of imported rice (Vietnam 5% broken; Thailand 5%, 10%, and 25% broken; and fragrant rice) are more or less stable between Rp. 1,800 and 5,200/kg (according to the quality). Traders estimate that these large stocks of imported rice will last for two to three months. China 25% broken and Australian 10% broken are also available in the market at Rp. 1,800 and Rp. 3,500/kg, respectively. Currently, the market for glutinous rice is quiet and prices of both local and imported glutinous rice are stable at Rp. 2,400 to Rp. 2,600/kg.

## **Policy**

Bulog's role in the domestic rice market continues to evolve under the new government. The agency will continue to import rice to maintain food security including maintenance of domestic stocks and distribution of rice to civil servants, the military and the poor. Bulog's role as price stabilizer has been reduced in that they will no longer intervene significantly in the wholesale market and will limit activity to rice procurement. Reflecting the overall extremely limited government budget, Bulog is operating under severe financial constraints which affect all aspects of its operations. A proposal to convert civil service rice rations to cash rations is under consideration as is a proposal to decrease the amount of rice to be distributed under the OPK. At this point, though, the programs will continue as in the past.

In line with its evolving role, Bulog's "Invitation for Bids" procedure was revised on January 20, 2000 for their tender concluded in early February. First, quality specs have been revised due to low international prices and pleas from consumers of food aid for better quality rice. Pakistani rice must be 10% broken, previously 15-20% was acceptable. Chinese, Vietnamese and Thai rice must be 15% broken, changed from 25%. Second, 80% payment on Letters of Credit will be made after loading of the vessel and the remaining 20% will be paid upon arrival at the discharging port. This is to guarantee that the rice shipped meets specs. Third, country of origin must be specified in the contract so that price and quality are met. Fourth, the shipment period and volume must be outlined in detail to avoid unexpected demurrage and delays. Fifth, inspections will be conducted twice, at loading and discharge, to assure that the rice meets specs. Finally, Bulog will require a performance bond worth 5% of the contract value capable of being liquidated at any time should there be a default.

Based on the lowest price offered, Bulog accepted offers from three companies for the import of 100,000 mt of rice, i.e. PT. Bumindo Hastajaya (25,000 mt of 10% broken rice from Pakistan at US\$

196.47/mt); PT. Pratiwi Putri Sulung (25,000 mt of 10% broken rice from Pakistan at US\$ 194.88/mt); and IKKU-DMI (Cooperative of Moslem Prosperity - Board of Indonesian Mosques or Induk Koperasi Kesejahteraan Umat-Dewan Mesjid Indonesia) who will deliver 25,000 mt of 15% broken rice from China paid at US\$ 193.95/mt and 25,000 mt of 15% broken rice from China at US\$ 195.50/mt. The purchases will be financed with \$32 million in loans from the Islamic Development Bank (IDB) loans left over from 1999/2000. The rice will be used for rice distribution during March-April 2000 when it will not yet be possible for Bulog to fulfill demand from local procurement.

There is pressure vetted in the press for the government to increase the import duty on rice from its current level of Rp. 430/kg to Rp. 600/kg. This discussion is based on the current substantial decline of rough rice prices which have fallen due to high moisture content and would provide additional income protection for farmers especially as the peak harvest season approaches. However, many analysts predict that raising the tariff would have the opposite of the desired effect by encouraging even more smuggling. Also, the very recent but historically late start to Bulog procurement operations is expected to help buoy seasonally low prices.

### Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1,997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1,998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1,999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6900	7245	7100
2,000	7425	7445										

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.  
 Note: - February 2000 exchange rate is quoted for February 24, 2000.  
 - BPS data available up to September 1999.

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