
INDONESIA ECONOMY, WEATHER & MARKETS

with P.T. Van Aroma 'Celebrating 10 Years'

How is a local tax amnesty in Indonesia impacting on your essential oil prices? Well it's quiet simple. By attracting local business and residents to return monies invested overseas at a reduced tax rate, the Indonesian government is hopeful that the increased tax revenues will stimulate further growth in the economy, which in turn will strengthen the local currency, the Indonesian Rupiah (IDR). This strength means that when converted into US Dollars it takes more dollars to buy the products, which results in your prices increasing.

This initiative has been spoken about since the turn of the year and has recently been implemented. It is because of this we've seen a sudden strengthening of the IDR, which is likely to continue throughout the course of 2016. Of course currency can be influenced by other global factors and of course by the performance of the US Dollar itself, but based on what we know locally we can expect further strengthening in the months to come.

The IDR has appreciated by around 13% and is having a direct impact on Indonesian export prices. This trend is set to continue over the coming months largely due to the government's tax amnesty.

Interested to understand more? Here's what 'Indonesian Investments' had to explain:

When we put this into some perspective it is estimated that within months of the amnesty Indonesia could see an increase of up to IDR 1,000 trillion (approx. USD \$76 billion) in funds according to government estimates.

It is believed that a whopping IDR 11,450 trillion (approx. USD \$867 billion) is invested/banked outside the country undeclared, which is nearly the same size as Indonesia's gross domestic product (GDP).

The difference for normal taxpayers is significant. This new Bill allows individuals to bring money back into the country at 2% tax whereas a normal income tax rate in Indonesia would be as high as 25% (still not so bad some may say!).

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Indonesia's tax revenue realization in the first half of 2016 was disappointing. According to the latest data, Southeast Asia's largest economy collected a total of IDR 518.4 trillion (approx. USD \$39.6 billion) worth of tax revenue (including customs and excise) in the first six months of 2016, down 3.3 percent (y/y) from tax revenue realization in the same period one year earlier, and only 33.7 percent of total targeted tax revenue (IDR 1,539.2 trillion) set in the revised 2016 State Budget. The disappointing performance is mainly due to weak tax income from the oil and gas sector. For taxpayers and small to medium sized businesses that reveal assets overseas of up to Rp 10 billion will be

charged a redemption fee of 0.5%, while those that reveal more than Rp 10 billion will be subject to a 2% charge.

Taxpayers willing to repatriate their assets from abroad will be granted a 2% redemption rate for July - September 2016, 3% for the period from October to December 2016 and 5% for January 1, 2017 until March 31, 2017.

Finally, taxpayers who declare their assets abroad without repatriation will cost 4% for the period July-September 2016 6% for the period from October to December 2016 and 10% for the period January-March 2017.

NO LONGER JUST A COLLECTOR

2016 is an iconic year for our sourcing in Indonesia as our partner, P.T. Van Aroma celebrate their 10th year of business.

Once considered to be just a collector, Van Aroma can now boast a state-of-the-art facility in Jakarta which produces many different essential oils and natural derivatives. They are also able to say that in 2015 they became Indonesia's largest exporter of Patchouli Oil.

Patchouli is one reason why the business in Indonesia is no longer simply about collecting raw materials and steam distilling. Mother Nature has provided us with a new challenge as traditional qualities continue to change with each new planting cycle, which means bringing the quality up to industry standards involves a more sophisticated process. Given the fact that our industry cannot accommodate such irregularities in quality, our continued strategic investment in Van Aroma's infrastructure will not only allow us to build our capacity and offer new exciting derivatives, but also it will ensure consistency in the quality of the products we supply to our customers worldwide. And it goes well beyond patchouli!

Visit www.vanaroma.com for more information on their recent expansion.



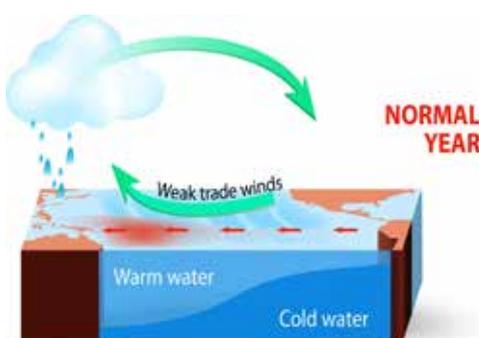
Oil production (MT)	2014	2015	2016
Citronella	550	700	Growing
Clove	4,000	4,500	Stable
Ginger Fresh	7	10	Decline
Massoia Bark	15	20	Stable
Nutmeg	400	350	Decline
Patchouli	1,000	1,400	Decline
Vetiver	25	20	Decline

WEATHER

Last year we wrote about the negative effects of the largest ever recorded El Niño, which brought some severe droughts to the region. Sadly, this year we have the opposite as significantly higher rainfall during the dry-season is causing mass devastation. The dry-season usually lasts from July to early September but Indonesia has been experiencing the exact opposite.

This time last year the news reported the devastating forest and peat land fires, which burned an area the same size of Macedonia (an area around 25,000 square kilometers), causing smoke to engulf large areas as far away as Singapore. This year the excessive rains are causing localised floods and landslides already resulting in many deaths.

We know these effects are not new. These are challenges the region has faced throughout its history but they are certainly becoming more extreme and



frequent. We now understand the weather in more detail, which is why there is more information on the causes of extreme weather and a greater appreciation of the impact it has in a global commercial world.

Farming in remote land areas during these times cannot only be dangerous, but also will massively slow down raw material collections, potentially inflating prices due to shortages in supply. It is something that one way or another we face year on year and depending on the global market conditions, including the strength of market demand, their impact can go from unnoticeable to destructive.

Here is a typical, basic, weather pattern seen during a La Niña season. You can see the strong trade winds pushing across the Pacific create a prolonged wet period for Indonesia that can last months at a time when it is typically dry.

CAJEPUT OIL*Melaleuca cajuputi*

We are generally seeing a return to good supplies, only recently slowed down by the local weather and religious holidays. After a long period of unsustainable supplies of quality material we have been pleased with the recent progress of supplies, which we hope will continue to improve throughout the year.

🏠 USD 25.00 /kilo

CANANGA OIL*Cananga odorata*

The situation is similar to that last reported and despite this being a typical harvest period supplies are yet to improve. We hope by October this may have changed and additional supplies start to come online.

Demand continues to be high for this product, as you simply cannot buy any volumes with the market today being based on pure speculation. As such, today's prices are at an all time high and will rise based on who wants what and when. We hope to see some fresh stocks soon but it's unlikely to have any immediate impact on price as there is a waiting market for some significant volumes.

🏠 USD 110.00 /kilo

CLOVE OIL*Eugenia caryophyllate*

Supplies have remained fairly stable during what has been a very wet rainy season. Clove needs the rain but there is a limit to how much you want when trying to harvest and then dry before distillation. That said, overall the picture remains a stable one with no major changes expected in the near future.

🏠 Leaf USD 11.00 – 14.00/ kilo; Bud USD 23.00 /kilo; Stem USD 15.75 /kilo; Eugenol USD 15.00 /kilo

MASSOIA BARK OIL*Cryptocaria massoia*

Overall supplies in 2015 improved and continue to improve modestly in 2016 but this market sector lacks controls and continuity. Supplies are ad hoc and qualities need to be re-worked constantly in particular from some of the newer suppliers offering material from Irian Jaya province. Here the quality lacks maturity and with it the yields are particularly low which is in some ways confusing an expecting market that wants to believe this is a positive change in the market. Efforts are in place to improve the quality and continuity long term but it will take time to find the reassurances we all like to have when dealing with these premium natural ingredients. Today prices remain firm but stable.

🏠 USD 400.00 – 700.00 kilo

CITRONELLA OIL*Cymbopogon winterianus*

As with other products the continued rains are negatively impacting harvesting and as such supplies have slowed. This at a time when Indonesian citronella oil has been experiencing fantastic growth across the world as once again Java material becomes a preferred choice for buyers everywhere. The weather coupled with the appreciating local currency has meant that prices have increased around 5% in the past couple of months.

🏠 USD 16.75 / kilo

GINGER OIL FRESH*Zingiber officinale*

There is a lot of interest in this product at the moment as the market continues to assess the viability of this quality as a long-term option. It has been accepted in a number of new and interesting applications. Prices remain steady but supplies are not as consistent as they could be. Hopefully more controls coming from within the supply chain will improve this over the next months.

🏠 USD 110.00 /kilo

MACE OIL*Myristica fragrans*

There is certainly a knock on effect from the current situation impacting the supply and pricing of nutmeg oil but it is less damaging for mace as the markets are smaller and can withstand some short-term disruptions in supply. Of course local prices have risen and coupled with the appreciating currency small but hopefully manageable price increases have been seen.

🏠 USD 95.00 /kilo

PATCHOULI OIL

Pogostemon cablin

The effects of additional rains since June are not as big an issue for patchouli as they are for many other locally produced products due to the fact that patchouli generally grows on hillside slopes so the waters drain away. Where it does become a problem is when farmers try to dry the leaves outdoors after collection. The rains can slow down the drying process and in such times we also start to see a negative impact on quality. That said we have enjoyed a period of stability for this product and following the main producing season supplies are good which will be needed to fill the pipeline in the coming months with

demand forecast to be a little stronger than in recent times due to the attractive and stable prices. With supply and demand overall well balanced for now the only impact on export pricing over the coming months is likely to be due to any additional appreciation of the Indonesian Rupiah.

Whilst this is the over riding story for Sulawesi material, supplies from Sumatra and Java are very low. We had hoped that things would improve last month but the rains have put a stop to this and it may be some time before supplies begin to improve.

▲ USD 45.00 – 60.00 /kilo

VETIVER OIL

Vetiveria zizanioides

There could be a little light at the end of what's been a very long tunnel but at this stage it isn't enough light to start any celebrations.

The conditions locally and globally have been terrible for some time now with supplies only coming in small amounts with questionable qualities at times. As such prices have soared and are likely to continue to remain firm for some time even with the prospect of seeing some fresh supplies from October.

The continuing rising prices do appear to have stalled but remain extremely firm, perhaps 30% higher than where they should be. However, even with this renewed optimism expect prices to stay high for the foreseeable future as there is a lot of pipe filling to be done in the market before we get to a balanced supply/demand situation.

▲ USD 350.00 /kilo +

NUTMEG OIL

Myristica fragrans Houtt.

Collections have been slow for a few months and we are seeing overall supplies dwindle at a time when demand has certainly returned. Today's situation is a result of the events from the past 18 months, which have seen this product yo-yo in supply and pricing somewhat uncontrollably. Stocks around the world have started to be depleted and as many return to source for new contracts alarm bells have finally started to ring if they hadn't already.

Given the additional and unexpected rains in the main producing areas during June and July we have seen a period of even fewer collections. Farmers are unable to collect in such conditions and have chosen to leave the fruits on the trees to mature which will

later be used for the spice market and not the oil market.

Thankfully over the past couple of weeks, the conditions fueling an almost daily price increase have weakened giving us all a little bit of breathing space to assess the market. It seems we've now hit a new price level which could be seen as firm based on the past 12 months or average if you look at the past 24 months! Whilst today the price increases have slowed a closer look at the market would suggest there could be a continued shortage of raw material into the new year with many producers not wishing to commit to any 2017 contracts leaving a few end-users worried about what may happen next. Hopefully a period of calm, but that may be too much to ask for on this one!

▲ USD 72.00 /kilo +

VAN AROMA

Celebrating 10 years

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THAT YOUR
DREAMS ARE
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