
The Cigar Tobacco Industry in East Java: Facing an Uncertain Future?

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Abstract

Tobacco has historically been a significant cash crop in Indonesia, with the tobacco manufacturing industry contributing about 0.69 percent to the country's GDP in 2022, generating revenue of around USD 35 billion. The tobacco industry plays a crucial role in employment, economic growth, and tax revenue collection, particularly in regions like East Java, focusing on high-quality tobacco and cigar production. The paper delves into tobacco cultivation in East Java, specifically Jember, and examines trading relationships, price arrangements, and the economic and health implications of cigar tobacco. It highlights the history of tobacco in Indonesia, including the transition from Dutch-owned plantations to small-scale tobacco production for cigarettes. The fluctuating supply and demand of tobacco in Indonesia have been influenced by global factors, with implications for local farmers and the export market, particularly to the Dominican Republic and China.

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Introduction

Tobacco has long been an important cash crop in Indonesia. In 2022, the contribution of tobacco manufacturing industry to Indonesia's GDP was about 0.69 percent at 135.75 trillion Indonesian rupiah (approximately USD 8.67 billion). The tobacco industry is one of Indonesia's largest contributors to employment, economic growth, and tax revenue collection. Tobacco products generated a revenue of around USD 35 billion in 2022 (Statista 2023).

At a time of rising global concern about the health costs of cigarettes, the Indonesian Government and tobacco industry players in

East Java face a dilemma over the trade-off between asserting national health standards and the economic and social disruption that would come with a retreat from the tobacco cash crop.

This paper explores tobacco cultivation in East Java with a particular focus on the Jember region which is a centre for high quality tobacco and cigar production. It examines the trading relationships that govern the cigar tobacco industry in East Java and explores price and excise arrangements for tobacco generally in Indonesia.

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The paper attempts to weigh up the competing arguments for and against cigar tobacco as a source of livelihood for growers in East Java, as a strategic export commodity for Indonesia, and as an impediment to public health worldwide. The paper draws on fieldwork conducted in Jember Regency, East Java in late 2023, including interviews with cigar manufacturers, tobacco farmers and industry experts at Jember University in East Java.

East Java: Major Centres



Tobacco was introduced to Indonesia by the Dutch in the 18th century. Dutch merchants brought tobacco leaf from Indonesia to the Netherlands and Germany to sell in the tobacco stock market in those countries. Under the colonial administration of Governor Van den Bosch during the 1830s, plantations set up near Semarang in Central Java began to supply the burgeoning demand for tobacco in Europe. By the 1860s, tobacco plantations had expanded to Besuki on the south coast of East Java.

During the 20th century, Besuki (East Java), Klaten (Central Java) and Deli (Sumatra) became the prime centres of cigar tobacco in Indonesia, mainly for export to Europe. Tobacco from Besuki and Klaten were known internationally as ‘Java leaf’, while tobacco from Deli was known as ‘Sumatra leaf’ (Haroen 2018). Given its

reputation for quality and its commercial importance, Besuki tobacco was widely hailed as the ‘golden leaf’.

In 1958, Dutch-owned tobacco plantations were nationalised, and cigar leaf production went into decline in favour of small-holder grown, lower quality tobacco for kretek (clove) and white (Western-style) cigarettes (Mackie in Dick et al, 1993).

Fluctuations in supply and demand continue to characterise the Indonesian tobacco industry. Following a period of global oversupply of cigar tobacco in the 1990s some tobacco companies operating in Indonesia played farmers off against each other, resulting in a drop in the price of cigar leaf (Suckling 1999). In recent years cigar tobacco prices have increased as global supply of all types of leaf tobacco has tightened as a result of drought conditions and the Covid-19 pandemic.

Indonesia’s tobacco production is concentrated in four provinces: East Java (43.4 per cent), West Nusa Tenggara (23.4 per cent), Central Java (22.8 per cent), and West Java (4.6 per cent). Other smaller areas of cultivation are in the provinces of South Sulawesi, Aceh and North Sumatra (Direktorat Jenderal Perkebunan, 2019). Indonesian tobacco is exported all around the globe. As of October 2023, the Dominican Republic was the largest importer with sales worth USD 12.53 million (see Table One). The Central Statistics Agency (BPS) reported that Indonesia’s tobacco export volume reached 7.31 million kilograms during January–October 2023 (Databoks 2024).

Table One: Indonesian Tobacco Export Volume Based on Top 10 Destination Countries (January-October 2023), Kilograms

1.	Dominican Republic	1,437,796
2.	Sri Lanka	887,139
3.	South Korea	732,280
4.	Philippines	694,418
5.	Belgium	632,879
6.	Singapore	615,288
7.	United States	336,898
8.	Nicaragua	282,439
9.	Germany	265,209
10.	Netherlands	240,049

Source: Databoks

Two main types of tobacco are cultivated in Indonesia, Voor Oogst (early harvest) and Na Oogst (late harvest). The majority of the tobacco crop is Voor Oogst which is usually grown in the rainy season and harvested in the dry season. The principal varieties of Voor Oogst tobacco are Virginia, Lumajang and white burley. These tobaccos are generally used in the making of white and kretek cigarettes. Na Oogst tobacco, on the other hand, is grown in the dry season and harvested in the rainy season. Na Oogst is the principal type of tobacco used in cigar production, essentially being used for the cigar filler, binder and wrapper. The main varieties of Na Oogst are Besuki Na Oogst and Vorstenland.

A potential challenge for the tobacco industry in Indonesia is the use of dry taro leaves as a low nicotine replacement for tobacco. Although several growers in Central Java have exported taro to Australia, the United States, Britain, and UAE, it does not appear to be promoted as an alternative to tobacco in other parts of Indonesia, including East Java.

Discussion

East Java tobacco industry

Based on data from the Central Statistics Agency (BPS), tobacco production in East Java reached 97,937 tons in 2022. Output was down 17.42 per cent (year-on-year) from 2021 when 118,604 tons of tobacco were produced (Databoks 2024 ii). Tobacco production in East Java fluctuates from year to year in line with variations in cultivation methods, planting locations, weather, and processing techniques.

Tobacco grown in East Java is used in kretek, white cigarette and cigar manufacture. The largest manufacturer of kretek cigarettes in Indonesia, PT Gudang Garam, is based in Kediri to the southwest of Surabaya. In 2022, Gudang Garam had an estimated 25.5 per cent share of the Indonesian kretek market (Statista 2023 ii). Another renowned kretek producer, PT. HM Sampoerna, has factories in Surabaya, Malang, Probolinggo and Pasuruan.

In 2020, tobacco commodities accounted for 2.5 per cent of East Java's exports. Export destinations included Singapore, Malaysia, Japan, the United States, and several European countries (Wijaya et al, 2023). Four tobacco producing regions: Jember, Probolinggo, Situbondo and Bojonegoro, account for around 2 per cent of East Java's Gross Regional Domestic Product (Mu'min et al, 2018). Jember Regency is the largest tobacco producing region in East Java, attaining an output of 27.25 thousand tons in 2022 (see Table Two). Both Na Oogst and Voor Oogst varieties are grown in Jember. Smallholders also grow a lesser quality tobacco leaf, known as 'kasturi' or *tembakau rakyat* (peasant tobacco), mainly for white cigarettes and kretek but also as for filler for cigars. PT Gudang Garam, currently operates a tobacco warehouse in Jember Regency.

Table Two: 10 Largest Tobacco Producing Districts/Cities in East Java (2022), tons

1.	Jember	27,251
2.	Probolinggo	11,304
3.	Pamekasan	11,273
4.	Bojonegoro	11,250
5.	Situbondo	6,883
6.	Bondowoso	6,324
7.	Jombang	6,256
8.	Lamongan	4,147
9.	Sumenep	3,051
10.	Tulungagung	1,745

Source: Databoks

Around thirty domestic cigar companies are located in Jember, including prominent cigar makers, PT Mangli Djaya Raya, PT Dwipa Nusantara Tobacco, and PT BIN Cigar. A provincial tobacco state enterprise, PTPN X, is also based in Jember. It exports cigar tobacco leaf, locally made cigars and cigarillos to Europe (Switzerland, Denmark, the Netherlands) and to Southeast Asia (Malaysia and Brunei Darussalam). According to one industry observer, PTPN X exported 10 million cigarillos to China in 2018 (Haroen, 2019). Global tobacco conglomerate, Universal Leaf Tobacco, which is headquartered in the United States, has an operation in Jember through a local subsidiary, PT Tempu Rejo. Swiss-German tobacco firm Villiger has manufacturing facilities in Jember and Mojokerto through the joint venture, PT. Villiger Tobacco Indonesia.

Jember is internationally recognised for the quality of cigar tobacco grown in the Regency. The local cigar industry is proud of its reputation and has organised a 'Jember - Cigar City' promotion annually since 2018.

The tobacco grown near Jember has been important to premium international cigarmakers since the late 1990s.

At that time, East Java began to supply cigars to a booming market in the United States. Many US companies were unable to find sufficient tobacco to fill their production needs, and some turned to Java tobacco, as this was more readily available and cheaper than cigar tobacco from traditional sources such as the Dominican Republic, Nicaragua and Ecuador (Haroen 2018).

The aromatic and rich tobacco grown near Jember, mostly Besuki Na Oogst leaf, is a key component of the blends of most machine-made small cigars for the European market. The region south of Jember is the region where most of the wrapper tobacco is grown with hundreds of acres of tobacco in plots side by side on a flat plain. However, it is the region just north of Jember that is best for filler tobacco where rich soils support a large number of small plantations. The area produces the richest cigar tobacco which is destined for the European market.

Improved trading relationship

The tobacco supply chain in Indonesia is relatively long, involving middlemen, small- and large-scale traders and tobacco graders. Before tobacco arrives at a factory for processing, middlemen and graders determine quality and price, often in the absence of a common reference point.

In East Java, two trading systems prevail. One is the factory 'partnership' scheme, a form of contract farming involving the big tobacco companies and farmers. The partnership provides farmers with seed and fertiliser, in addition to setting a price to be paid for the tobacco crop. However, farmers complain the relationship with the factory is lopsided as they have no say in the tobacco grading process and are obliged to accept whatever factory graders decide.

The second trading system sees farmers selling their harvests directly to middlemen.

The advantage for farmers of this arrangement is that they are paid more quickly than under the partnership scheme. Sometimes farmers act as middlemen, selling as well as buying from smaller-scale farmers. It is estimated that the number of farmers in contract trading relationships is smaller than the number of farmers outside contracts. However, the value of the crop produced from contract farming is greater than that produced as a result of non-contract farming.

The supply chain for Na Oogst leaf is typically shorter than for other varieties of tobacco. Many cigar manufacturers in the Jember region maintain nucleus-plasma trading relationships with growers. The Na Oogst supply chain is also considered to be 'thicker' than other leaf varieties, i.e. it provides more employment for tobacco workers. Factory workers in tobacco manufacturing are predominantly female in the Jember district (Niken interview, 2023).

The once strained trading relationship between the tobacco companies and farmers under contract to them has improved over time. One interesting variant on the tobacco trading relationship may be found about half an hour by road to the east of Jember in Pakusari Village. Here, the village head, Bapak Misjo, receives delivery orders from the tobacco company, for example PT Gudang Garam, and distributes them to members of his village cooperative. In addition, he serves as banker for the receipt of tobacco company funds as well as funds deposited by investors. This quasi-brokerage role reinforces the influence of the village head and gives him considerable political power in marshalling votes on behalf of political parties (mainly PDI-P or PKB) during electioneering to the local legislature (Misjo interview 2023).

The State University in Jember fosters grower collectives for cigar tobacco farmers who are not part of partnership contracts with the big tobacco companies. The university looks to add value to the local cigar leaf crop by training small-scale farmers to undertake cigar manufacturing and to this end, has approached cigar companies in Nicaragua and Cuba. However, many farmers in the Jember region have been reluctant to modify existing farming practices to take on down-stream processing (Santosa interview, 2023).

Price, productivity and excise issues

In the Jember district, tobacco is a significant contributor to community income. Its cultivation provides a large boost to the local economy at harvest time. In Ambulu sub-district, for example, farmers are said to go out to buy refrigerators on the strength of proceeds from the sale of their harvest – whether or not their village is connected to the electricity grid. (Niken interview, 2023).

Under the Revenue Sharing Fund of Tobacco Products Excise (*Dana Bagi Hasil Cukai Hasil Tembakau / DBHCHT*), two per cent of the revenue from the government's tobacco excise is returned to tobacco growers (Audrine 2020). The stated purpose of this redistribution is to resource continued improvement in tobacco cultivation. Tobacco companies appear to want a bigger slice of the pie (up to 10 per cent) but to date this has not been agreed to by the Ministry of Finance. According to Jember-based cigar manufacturer, PT Bin Cigar, in 2023 around 150 billion rupiah was handed back to growers through the DBHCHT (Purwana interview 2023).

The government does not subsidise training for tobacco growers or factory workers. Apart from managing the tobacco excise, its role is limited to setting the floor and ceiling price for tobacco. Cigar

manufacturers in Jember consider that, with increasing production, the government should be more active in finding markets for Indonesian tobacco products.

Conclusion

A health versus economic benefits debate over tobacco production persists in Indonesia. Civil society, tobacco farmers' groups and mass social organisations such as Nahdlatul Ulama are at loggerheads with respect to tobacco policy. Tobacco control proponents urge the President and National Parliament to adopt a national framework to eliminate tobacco industry influence in the policy process (Kramer et al, 2023). They argue signing the World Health Organization's Framework Convention on Tobacco Control (FCTC) would allow the Indonesian Government to shift the power imbalance away from the tobacco industry towards public health stakeholders (Astuti et al 2020). On the other hand, the tobacco industry and academic observers in tobacco producing areas maintain the government should increase domestic production to reduce reliance on tobacco imports rather than aim to stymie the industry through regulation (Wijaya et al 2023). International standards particularly target low grade, non-cigar tobacco varieties.

The economic importance of the tobacco industry is a point of contention. According to some observers, tobacco and processed tobacco products have high economic value as they are a significant source of income for both the community and the government (Firdaus et al 2022, Mu'min et al 2018). Contrary to this point of view, a 2018 World Bank report concluded tobacco cultivation was unprofitable for most farmers. The World Bank argued that tobacco farmers often miscalculate their return on investment, that poverty is widespread among tobacco

farmers in Indonesia and that, on average, former tobacco farmers were doing better economically than current tobacco farmers (Drope et al 2018). The Southeast Asia Tobacco Control Alliance based in Bangkok maintains that the yearly income of former tobacco farmers has increased by 69 per cent after they shifted to other crops (Tan and Dorotheo 2021). It is likely global climate change will hasten crop diversification as tobacco farmers seek to sustain a living from agriculture.

The tobacco industry is a major source of employment in Indonesia. In 2022, the number of workers absorbed in the manufacturing and distribution sector reached 4.28 million people, while in the plantation sector reached 5.98 million people (Deny, 2023). This makes the tobacco sector one of the five largest sectors in terms of employment in Indonesia.

The tobacco industry in Indonesia is subject to different regulatory controls of varying efficacy. Measures in place control tobacco advertising, tobacco additives and sales excise. Government Regulation (PP) No. 109 of 2012 was intended to restrict addictive tobacco substances for health reasons. Although now dated, the government does not have plans to revise the regulation, acknowledging that it would require "prudence and independence" to change such complex regulation (Manan 2021). Ambiguous messaging from within the bureaucracy is an impediment to coherent control of the tobacco industry. The Ministries of Trade, Industry, and Agriculture developed a "tobacco industry roadmap" which earned the praise of industry players. Through regulations that protect the domestic tobacco market, the Ministry of Agriculture helps tobacco farmers.

Structural change in the Indonesia tobacco industry and efforts to drive health reform are complicated by the clout of the tobacco lobby in politics at national and regional level.

Tobacco magnates like the owners of PT Djarum, the Hartono family, and the descendants of Surya Wonowidjojo who control the Gudang Garam kretek cigarette conglomerate, maintain political influence by virtue of their very substantial wealth. To offset declining cigarette sales, Gudang Garam has diversified into new business lines including construction and toll roads. The transition has not had much effect on company profits with revenue in 2023 falling a paltry 4.6% to 118.9 trillion rupiah (Haraito 2023). Another East Java-based company, PT HM Sampoerna, was sold to Philip Morris International in 2005 but continues to market kretek through 109 sales offices and distribution centres across Indonesia. Sampoerna champions its credentials as a trendsetter in entrepreneurship training and fostering SME enterprise, while promoting so-called 'smoke-free products' that are supposed to be an alternative to cigarettes (Wiradji 2024).

For the foreseeable future, Jember's cigar industry, buoyed by robust international demand and continuing high prices, will exhibit resilience. At the same time, international efforts to curb tobacco production and government regulatory controls will continue to pose a challenge. Against these headwinds, the long-term viability of East Java's 'golden leaf' seems uncertain.

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