

On the rice fracas in Indonesia

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ISG, 2 August 2017

Why is rice price always a headache in Indonesia?

- ▶ Indonesia is one the largest importers of rice
- ▶ Imports are banned since 2004 - allowed only occasionally
- ▶ ... which leads to relative increase in domestic prices
- ▶ ... and benefits the largest farmers and traders (including absentee landowners), but harms the poorest consumers (including landless farm workers)

So what policies work?

That holy grail named self-sufficiency

Indonesia's rice self-sufficiency to be achieved by 2020



Stefani Ribka
The Jakarta Post

Jakarta | Fri, March 31, 2017 | 10:31 am



Farmers carry paddy grains at a milling factory in Ngawi, East Java. (Antara/Ari Bowo Sucipto)

Worry not, we'll tame the prices

HARGA ACUAN DARI PEMERINTAH (RUPIAH/KILOGRAM)

	HARGA ACUAN		HARGA ECERAN TERTINGGI
	September 2016 [*]	Mei 2017 ^{**}	Juli 2017 ^{***}
Acuan pembelian di petani			
Gabah kering panen	3.700	3.700	3.700
Gabah kering giling	4.600	4.600	4.600
Beras	7.300	7.300	7.300
Acuan penjualan di konsumen			
Beras	9.500	9.500	9.000



^{*}Peraturan Menteri Perdagangan Nomor 63/M-DAG/PER/9/2016

^{**}Peraturan Menteri Perdagangan Nomor 27/M-DAG/PER/5/2017

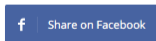
^{***}Peraturan Menteri Perdagangan Nomor 47/M-DAG/PER/7/2017 (belum berlaku)

Text: Rice prices guide set by the government (*Kompas*, 28/7/2017)

HET: reference max retail price, GKP: unhusked paddy, GKG: husked paddy

Mendag dan Mentan Jamin Stok dan Harga Pangan Stabil Hingga Lebaran

Penulis **Rijal Ilyas** - 19 Juni 2017



Text: Minister of Trade and Minister of Agriculture promise stable stock and prices of food until the Eid Day

Allegedly bogus premium rice?

Polisi Gerebek Gudang Beras Oplosan di Bekasi

Oleh Heru Guntoro - 21 Juli 2017



foto: antara

Text: Police raid rice blends storage in Bekasi

Gerebek Gudang Bulog, Polisi Temukan Beras Tak Layak Konsumsi

SELASA, 25 JULI 2017 | 14:09 WIB



Petugas kepolisian melakukan penggerebekan gudang beras oplosan di Pasar Induk Cipinang, Jakarta, 7 Oktober 2016. Dalam penggerebekan ini ditemukan 152 ton beras subsidi Bulog, 10 ton beras curah merk Palm Mas dari Demak dan 10 ton beras yang sudah dicampur atau dioplos. TEMPO/Dian Triyuli Handoko

Text: Raiding a Bulog's rice store house, police find bug-infested rice

And do we trust the data?

Mantan Menteri: Kebijakan HET Beras Perlu Data yang Akurat

Juli
26
/ 2017
16:34 WIB

Oleh:
Azizah Nur Alfi

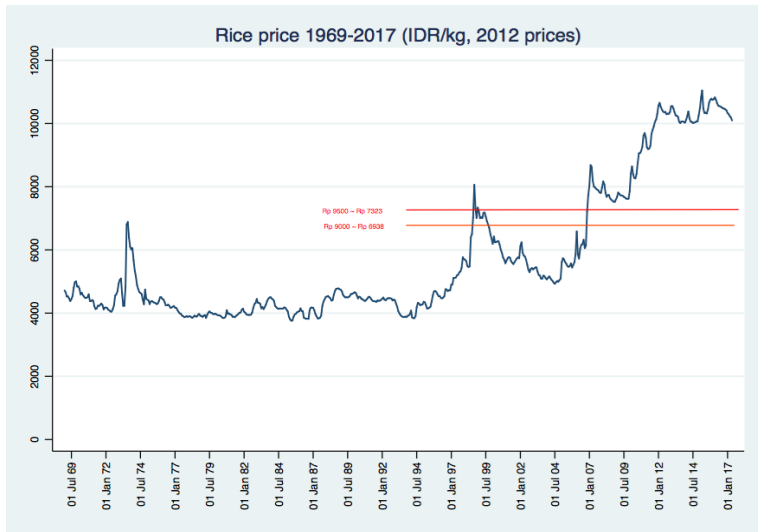
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Beras Bulog. - JIBI/Dwi Prasetya

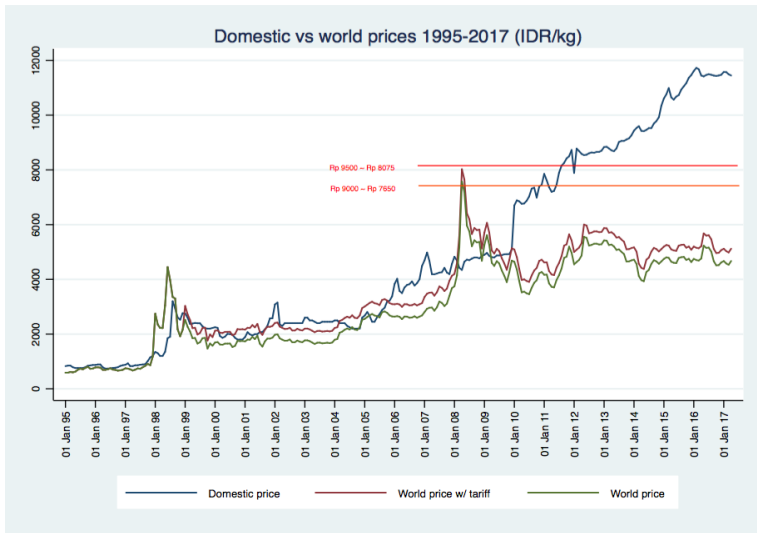
Text: Ex agriculture minister warns (rightly) against inaccurate data

Rice prices have been on the increasing trend ...



The 2012-price equivalent of the recent HET prices of Rp 9500 and Rp 9000 are Rp 7323 & Rp 6938

... deviating away from the world prices



The wholesale-price equivalent of the recent HET prices of Rp 9500 and Rp 9000 are Rp 8075 & Rp 7650

How is it today?

Example: a back-of-the-envelope calculation

- ▶ The retail price of rice in Jakarta is **Rp 9,800/kg** (infopangan.jakarta.go.id, 30/7/2017)
- ▶ The wholesale price of rice in Bangkok is **US\$ 419/ton** (thairiceexporters.or.th, 30/7/2017)
- ▶ The Thai rice price translates into: **Rp 6,909/kg** in Jakarta's market, assuming
 - ▶ S&H cost of \$20/ton and import duty of \$5/ton
 - ▶ Wholesale-to-retail margin of 1.15 (avg Jan 2016 to Apr 2017)
- ▶ So: Import price < HET < domestic price
- ▶ Expect problem to continue

Why production data are problematic

If we produced enough rice, why then do we need to import? More importantly, why prices keep rising?

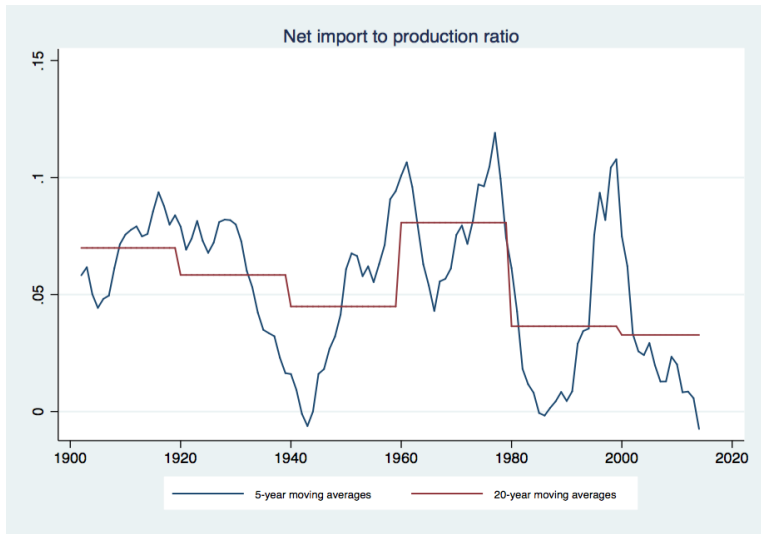
Consumption, production, and imports of rice

	Cons kg/cap/wk	Pop mn	Cons/yr 000 tons	Prod paddy 000 tons	Rice *0.63	Exc. Supply 000 tons	Imports 000 tons
2007	1.74	226	21197	57157	36009	14812	1407
2008	1.8	232	22512	60326	38005	15494	290
2009	1.76	235	22334	64399	40571	18237	250
2010	1.73	239	22283	66469	41876	19593	688
2011	1.72	242	22476	65757	41427	18951	2751
2012	1.68	245	22265	69056	43505	21240	1810
2013	1.64	249	22035	71280	44906	22871	473
2014	1.63	252	22196	70846	44633	22437	844

Source: BPS

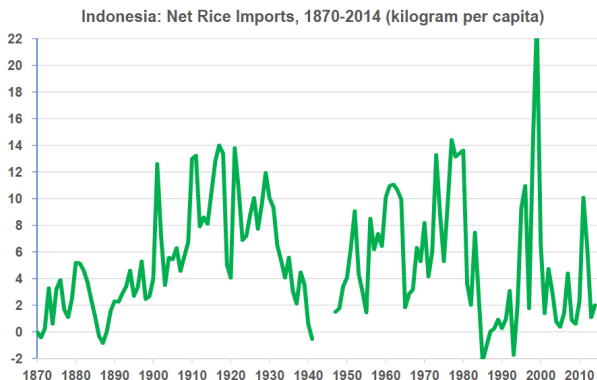
Note: some media cite consumption of 32 million tons and production of 47 million tons (e.g. *Kompas* 28/7/2017)

Fact: we've been importing rice for a long time



Fact: only in 7 out of 145 years where $X > M!$

“Indonesia exported more rice than it imported during only 7 of the 145 years covered: 1871, 1886, 1887, 1941, 1985, 1986, 1993. And in 1985 and 1986 it exported poor quality rice in order to import superior qualities” - van der Eng



Source: Pierre van der Eng, personal communication 1/8/2017

So who benefits from this situation?

	Net producers and net consumers of rice (% of HH)		Total	
	Net producers (Rice-growing)	Net consumers Rice-growing Non-rice growing		
<i>2004 (total households: 54.3 million)</i>				
Urban	5.5	2.0	92.5	94.5
Rural	28.3	9.3	62.4	71.7
Total	18.5	6.2	75.3	81.5
<i>2012 (total households: 63.3 million)</i>				
Urban	4.6	0.3	95.1	95.4
Rural	19.0	1.2	79.8	81.0
Total	11.8	0.9	87.3	88.2

Source: McCulloch (2008), Susenas (2012)

More than 80% of Indonesia people are net consumers of rice - for them, lower prices are preferable

The impact of 5% increase in prices to the net consumers

Losses are greater in the lowest income groups

Per capita consumer losses share in expenditure

	Rural areas			Urban areas		
	Low	Middle	High	Low	Middle	High
N. Sumatra	1.01	0.72	0.39	1.01	0.68	0.32
S. Sumatra	1.14	0.75	0.29	1.06	0.74	0.26
Lampung	1.14	0.77	0.32	1.02	0.68	0.28
W. Sumatra	0.94	0.72	0.35	0.79	0.60	0.28
E. Java	1.14	0.84	0.30	1.00	0.67	0.26
W. Java	1.12	0.73	0.34	1.13	0.67	0.23
C. Java	1.20	0.89	0.29	1.09	0.70	0.27
S. Sulawesi	1.40	0.81	0.34	0.99	0.73	0.26
INDONESIA	1.16	0.76	0.34	1.05	0.65	0.24

Source: Susenas 2012

Seems small? Consider that the price wedge in 2012 was 65%, or 13 times as big! It translates to 15-18% of total expenditure

For some, it's a good business indeed

Meet Nellys Soekidi



Terlahir sebagai anak pasangan petani. Hidup Nellys Soekidi tidak jauh dari beras. Namun kesuksesan dia sekarang bukan tanpa perjuangan. Pria yang dikenal sebagai juragan beras. Sekarang memang memiliki 5 kios dan satu gudang penyimpanan di PBIC, merupakan salah satu juragan beras besar asal Pasar Cipinang.

Lima kiosnya menduduki kawasan Pasar Induk Cipinang. Delapan toko lain juga tersebar di sekitaran Kota Jakarta alias Jabodetabek. Ada di Pondok Ungu, Bintara, Kalimalang, Cilodong, Depok, dan Cengkareng. Omzetnya mencapai Rp.500 juta perhari atau Rp.15 miliaran perbulan.

Text: a rice trader, owning 13 stores in Jabodetabek with total sales of Rp 15 billion (\$ 1.5 million) per month (www.pengusaha.us)

So why rice protection policy persists?

- ▶ Part of protectionism/populism in general (it pays, politically) (Rodrik 2017)
- ▶ Power of lobbying (Olson 1965)
- ▶ Rice myths: self-sufficiency, thin world market (Dawe 2008), pro-poor (Warr 2005)
- ▶ Identity nationalism?

- ▶ Or false belief, albeit romantic: “[s]ince long time ago painters have been drawing yellowing paddy trees or harvesting in the paddy fields with a background of mountains, clear water irrigations or green dykes...” (Amang & Sawit 2001, pp. 76)

Now, if neither quantity restriction nor price setting benefits the poor, what does?

Should we just focus on productivity? Opening up new land?

Recall the Mega Rice Project and Merauke Integrated Food and Energy Estate:

- ▶ Soeharto's MRP: to convert 1 million ha peat swamp forest, 4000 km drainage and irrigation built, forest cover dropped significantly, 8000 orangutans killed
- ▶ SBY's MIFEE: to convert 1.28 million ha land, more than half on the forest area - now stalled

Note also that Indonesia is not a mainland, has no dominant river deltas, and lacks flat land.

Should we just focus on productivity? Boost the yield?

Compare Thailand and Indonesia in 2013:

- ▶ Thailand: rice area 11.7 million ha, yield 3.15 ton/ha, NPK used 168,000 tons
- ▶ Indonesia: rice area 13.8 million ha, yield 5.15 ton/ha, NPK used 204,000 tons

Admittedly, the yield figures are based on the questionable production data - but since production is almost always biased upward (Rosner & McCulloch 2008), Indonesia's yield might be lower than 5.15 ton/ha - yet, it used much more fertilizer than Thailand

Should we just focus on productivity? Develop more irrigation?

Rice area irrigated, compared:

- ▶ Exporters: Thailand 20%, Myanmar 30%, Vietnam 50%
- ▶ Importers: Malaysia 65%, Philippines 68%, Indonesia 70%

Again this implies that production costs are much higher in Indonesia than in the rice-exporting countries. According to INDEF, it is Rp 4,079/kg in Indonesia vs Rp 1,679/kg in Vietnam (cendananews.com, 27/7/2017)

Some broader programs: Less effective ones

Program	2016 allocation	Notes
Seed subsidy	Rp 1 trillion	In 2011-2015, utilization rate was only 34%
Fertilizer subsidy	Rp 30.1 trillion	In 2011, only 21% of the recipients were small-scale farmers, 60% owned 0.75-2 ha land
Raskin/rastra (subsidized rice)	Rp 21 trillion	Leaked between 18% (Olken 2005) and 30% (WB 2006)

Some broader programs: Potentially more effective ones

Program	2016 allocation	Notes
PKH (cond. cash transfer)	Rp 9.98 trillion	Target: 6 mn families. Has helped reduce maternal mortality rate by 15% (2012-15), increased secondary SER by 9.5%, etc.
JKN/KIS (healthcare assistance)	Rp 23.38 trillion and Rp 2.12 trillion	Target: 103.5 mn people. Challenge: poor supply of health facilities
KIP (edu. assistance)	Rp 11.56 trillion	Target: 19.5 mn students. Impact has decreased recently.

- ▶ Rice has continued to be protected.
- ▶ At the same time the ambition for self-sufficiency persists, using trade restriction as its tool.
- ▶ This policy is regressive.
- ▶ So are some other policies intended to help the poor (farmers)
- ▶ Productivity-oriented policies should be formulated with caution, as they might be very costly
- ▶ It might be preferable to use more targeted assistance programs

Thank you