

Source:

Ribka, Stefani. "Price Controls Not an Instant Sweetener for Sugar Industry." PressReader.com. The Jakarta Post, 17 Jan. 2017. Web. 09 Feb. 2017.
<<https://www.pressreader.com/indonesia/the-jakarta-post/20170117/281483571080347>>.

Price controls not an instant sweetener for sugar industry

The Jakarta Post

17 Jan 2017

Stefani Ribka

In another instant move to push down commodity prices, the government has decided to introduce a price ceiling for sugar sold for household consumption, despite the policy potentially hampering the domestic sugar industry in the long run.

On Monday, Trade Minister Enggartiasto Lukita sealed a memorandum of understanding (MoU) with eight sugar refiners and 11 sugar distributors for them to maintain the price of household sugar at Rp 12,500 (93 US cents), lower than current market prices that vary between Rp 12,650 and Rp 17,250 depending on the province.

> low allocative efficiency

→ price ceiling
Rp 12,500

The ministry confirmed on the same day that it would soon issue import permits for 400,000 tons of raw sugar, which would be refined into household sugar.

Enggartiasto said the government's intervention into sugar prices had undergone lengthy discussions with various stakeholders and received an endorsement from President Joko "Jokowi" Widodo.

→ consumers
← shortage → producers

"It started with the President showing his concern about several staple food prices. Sugar is one of those [with prices] that keep fluctuating and significantly affect inflation rates," he said.

Indonesia, under the Dutch colonial administration, was the world's second-largest sugar exporter in the 1930s, behind Cuba. Declining sugarcane plantation areas and a failure to revitalize sugar production facilities, however, have made Southeast Asia's largest economy the world's fifth-largest importer of sugar, according to data from the Geneva-based International Trade Center.

National demand for household sugar, meanwhile, stands at between 3.2 million and 3.5 million tons annually, but production dropped to 2.1 million tons last year and is predicted to fall further this year to 1.7 million tons because of a bad harvest during the prolonged wet season in 2016.

→ shortage

Central Statistics Agency (BPS) data, however, shows sugar only contributed 0.06 percent to 2016's inflation and 0.05 percent to 2015's inflation. The rates are considered low by economists.

With such a situation, economist Dwi Andreas of the Bogor Institute of Agriculture said the government should have focused more on increasing local production rather than on setting fixed prices for sugar.

→ subsidy
↓

The declining sugar production in the country, Dwi continued, was also partly due to the absence of any obligation for sugar refiners to run their own sugarcane plantations.

increase
supply

"The government should be strict and oblige sugar refiners to open up their own sugarcane plantations here," he said.

↓
decreases
price

Meanwhile, economist Mohammad Faisal from the Center of Reform in Economics (CORE) acknowledged the government move might control inflation as intended, but said a set price lower than the market price could hamper local sugarcane processors and farmers.

Sugar distributor PT Hasil Karya Wijaya director Erwin Haryono admitted profits could decline by up to 30 percent due to the new policy, but said the firm would still support it.

Indonesian Sugarcane Farmers Association (APTRI) chairman Soemitro Samadikun said with the price set at Rp 12,500 per kg, distributors would only buy what they produced for Rp 11,500 per kg or even lower while production costs were Rp 9,500 per kg during normal weather and double during unsupportive weather.

"With the policy, it seems like the government doesn't care about local farmers," he said.

Since taking office in 2014, President Jokowi has repeatedly used interventions as an instant measure to bring down prices of important commodities.

→ government intervention

In 2015, at a time when the nation was gripped with soaring beef prices caused largely by mismanagement of imports and distribution, the National Police forced feedlots to immediately sell the cattle that were still below minimum weight for slaughter.

In the same year, Jokowi also forced state cement company PT Semen Indonesia to slash its prices, sending shockwaves through the cement industry.

Last month, Jokowi demanded the application of one price for fuel sold in the remote province of Papua, causing losses of more than Rp 1.5 trillion (US\$ 111 million) for state energy company Pertamina.