



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 11/21/2000

GAIN Report #ID0054

Indonesia

Grain and Feed

RICE: Controlling Free Markets in Indonesia?

2000

Approved by:

Kent D. Sisson

U.S. Embassy, Jakarta

Prepared by:

Deanna M.J. Ayala/Ninieck S. Alam

Report Highlights:

The Government of Indonesia (GOI) is poised to revamp its rice policy once again, dubbing the new version a "Controlled Free Market Mechanism". This time around, the GOI is aiming to protect domestic producers by banning private imports except during October to January and imposing a higher import tariff, using a variable levy, during those months. Details of these two items are still under review by the GOI and will not be implemented until 2001. The GOI has agreed to raise the floor price on Bulog's domestic rice procurement from Rp. 1,400/kg to Rp. 1,500/kg (unmilled basis or GKG-Gabah Kering Giling). FAS/Jakarta estimates the net result will be a decrease in imports to 1.8 mmt in CY00 and CY01. Part of the justification for this move is a robust crop this year, estimated by Post at 53.0 mmt unmilled, a 5 percent increase from CY99.

Executive Summary

Upheaval in the Indonesian rice sector as mentioned in previous reports continues. Prices continue to be low and production appears to be high, mirroring the international situation. Previous calls for quick fixes are now being heeded. The Ministry of Agriculture (MOA) announced on November 3, 2000 and the National Logistics Agency (Bulog) confirmed on November 8 a proposal to revamp Indonesia's rice policy. The new policy under consideration, dubbed a "Controlled Free Market Mechanism" has three parts. First, rice imports would be banned except during the lean season, roughly October through January each year. Second, during the import season, the rice tariff would be increased from its current rate of Rp. 430/kg (milled basis) to a variable levy based on: world prices, the U.S dollar-rupiah exchange rate, and domestic supply. Finally, on the domestic front the floor price for dry unmilled rice or Gabah Kering Giling (GKG) will be raised from Rp. 1400/kg to Rp. 1500/kg. An official government decree is forthcoming subject to a final decision on the import tariff. A target date of January 2001 is being considered.

The net result of this policy shift is expected to be a significant drop in legal rice imports but continued regular smuggling of imported rice and an even more pronounced distortion of the local rice price compared with the international market. Imports for CY00 were previously estimated by FAS/Jakarta at 2.5 mmt. However, given an excellent crop this year, Bulog's withdrawal from the market and the weakening of the rupiah in mid-2000, the import estimate is revised downward to 1.8 mmt. This estimate shows higher imports than official Government of Indonesia (GOI) data reflecting smuggling of as much as 80,000 tons/month in the outer islands. The full impact of the policy shift won't be felt until 2001. As a result of the import ban, tariff increase, and expectations of another good crop FAS/Jakarta would expect imports to remain moderate at 1.8 mmt. Smuggling could become more pronounced. Despite efforts by some to lower the floor price, which is already artificially high, the GOI is intent on raising it to provide "relief" for farmers. First, it is worth noting that farmers typically sell wet, unhusked rice to middlemen who are not required to pay a minimum price. So, any relief to farmers must trickle down from middlemen. (The market price received by farmers for wet, unhusked rice is roughly Rp. 600 - Rp. 900/kg). Second, in terms of milled rice, the floor price is equivalent to around Rp. 2,400/kg compared to around Rp. 1,485/kg based on an international C&F price of US\$ 160 - 170/mt at Rp. 9,000/US\$1. Thus an increase to Rp. 1500/kg clearly widens the gap and distorts the "controlled free market" even more.

Production

Based on reports from the trade and field observations, FAS/Jakarta is increasing its production estimate for CY00 from 50.0 mmt to 52.9 mmt unmilled (33.4 mmt milled). This represents a 5 percent increase over last year. Reports from the field indicate that although area has not increased significantly, that favorable weather and little incidence of pests or disease have nurtured this year's crop. Prices on the domestic market support this theory. Domestic (medium quality) rice prices at the

retail market in Jakarta remain low at around Rp. 2,700/kg - and lower

compared to last year - despite the fact that prices tend to rise at this time of year. Since imports have been modest this year it is domestic supply that seems to be keeping prices lower than usual.

Expectations of a similar weather pattern next year and good conditions for the crop in the ground at this time lead Post to increase the CY01 forecast to 53.0 mmt unmilled (33.5 mmt milled).

Trade

The CY00 import estimate is lowered to 1.8 mmt. Rice imports at the tail end of CY99 – prior to implementation of the current rice tariff – led to a slower start in CY00. Imports by large traders picked up significantly in late spring, when the exchange rate still hovered around Rp. 7,600-8,000/US \$1. When the tariff was added and the exchange rate fell to Rp. 8,700-9,000/US \$1 imports were no longer competitive. Sources speculate that around 80,000 mt of smuggled rice continues to enter every month. Meanwhile, Bulog limited its imports to around 544,000 mt for CY00.

In CY01, Post expects a very similar situation and reduces the import forecast to 1.8 mmt. Private imports will be modest and smuggled imports will continue, perhaps at an even higher rate. Bulog does not plan to import any rice in CY01.

Prices

The average farmgate prices of unmilled rice (GKG-Gabah Kering Giling) at all locations during CY2000 are lower compared to the levels in CY1999, i.e., Rp. 1,245/kilogram vs. Rp. 1,356/kilogram for area I (Java, Bali, West Nusa Tenggara, South Sulawesi, Southeast Sulawesi, and Central Sulawesi); Rp. 1,447/kilogram vs. Rp. 1,461/kilogram for area II (Sumatera); and Rp. 1,423/kilogram vs. Rp. 1,617/kilogram for area III (Kalimantan, North Sulawesi, Maluku, Irian Jaya/Papua). The average retail price for medium rice in Jakarta traditional markets in 2000 is also lower compared to the average price in 1999 (Rp. 2,722/kilogram vs. Rp. 3,012/kilogram). During January-November, 2000 the average retail price ranged between Rp. 2,660 and Rp. 2,835/kilogram.

Production, Supply and Demand

PSD Table						
Country:	Indonesia					
Commodity:	Rice, Milled				Unit: 1,000 MT	
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Harvested	11700	11850	11650	11650	0	11700
Beginning Stocks	4025	6133	2425	6586	1525	5831
Milled Production	32100	31853	32100	33445	0	33496
Rough Production	50791	50400	50791	52919	0	53000
Milling Rate(.9999)	6320	6320	6320	6320	0	6320
TOTAL Imports	2000	4000	3000	1800	0	1800
Jan-Dec Imports	2000	4000	3000	1800	0	1800
Jan-Dec Import U.S.	0	200	0	0	0	0
TOTAL SUPPLY	38125	41986	37525	41831	1525	41127
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	35700	35400	36000	36000	0	36500
Ending Stocks	2425	6586	1525	5831	0	4627
TOTAL DISTRIBUTION	38125	41986	37525	41831	0	41127

Note: Ending stocks include post harvest loss of between 10-20%.

Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID0029.

Exchange Rates

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8290	8780	9395	9446	

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.

Note: - November 2000 exchange rate is quoted for November 20, 2000.
 - BPS data available up to July 2000.

F:\gain\docs\gf\repm00\rice0011.wpd