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# Sugar Development Policy in Indonesia

**Tahlim Sudaryanto**

**Assistant Minister for International Cooperation**
**Ministry of Agriculture, the Republic of Indonesia,**
**email:tahlim@indo.net.id**

## INTRODUCTION

Sugar is one of the five major staple foods which has high priority in Indonesia's agricultural development agenda. The primary objective of the sugar development policy is to achieve self-sufficiency in 2014. On the production side, sugar provides employment and income to a large number of populations in rural community. Sugar production also promotes development of the sugar processing industry, which provides value addition to the commodity. The processing industry produces two different types of sugar, namely refined sugar to be consumed directly by consumers and raw sugar, which is used by the food processing industry. Characteristics of this industry then influence the framework of Indonesia's government policy.

### Key features

During 2009-2013, the harvested area for sugar was relative stagnant at an average of 440.36 thousand ha. It was relatively small, only about 3.7% compared to the harvested area of rice. At the same period, average productivity of sugar cane was 73.93 mt/ha, which was equivalent to 5.51 mt/ha of white sugar, and total production was 2.43 million mt of white sugar.

On the demand side, average utilization of sugar was 5.18 million mt of white sugar, which consisted of 2.80 million mt for direct consumption and 2.38 million mt for industrial use. Since domestic demand was much higher than domestic production, Indonesia's imported sugar registered about 2.75 million mt annually.

There are 17 major sugar-miller industries, which consist of 11 private companies and six state-owned companies. In 2013, roughly 61.40% of sugar production was processed by state-owned companies. However, productivity of sugar produced by state-owned companies is 6.3% lower than that produced by private companies.

Most of the sugar cane was produced by smallholder farmers, which then sell the cane to the nearest sugar miller, mostly without any formal contractual arrangement. Under this arrangement, there is always an issue on the milling rate which is mostly determined by the company, which potentially reduce the return to the farmers. This indicates that the sugar millers exercise its monopsonistic power to maximize their profit.

**Policy framework**

The government implementss modest intervention to the sugar industry, which consists of sugar cane production policy, and price & trade policy. For that purpose, the government established the *Sugar Board*, the membership of which consists of representatives from several line ministries, farmers associations, sugar miller companies, research centers, and universities. The board meets regularly to review the development of the sugar industry and to decide any policy initiatives.

**(a) Sugar cane production policy**

Every year, the Ministry of Agriculture (MoA) sets the target on planting area, productivity and sugar production, along with the corresponding action program. For instance, in 2014 the target on sugar cane planting is 456.30 thousand ha, which will produce 38.78 million mt of sugar cane or the equivalent of 3.10 mt of white sugar. To achieve this target, the MoA provides assistance in terms of development budget delivered to the corresponding provincial and district agriculture services. The budget is used for extension services, pest & diseaseas surveillance, coordination, monitoring and evaluation. In some years, the MoA also delivers good quality planting material to selected sites.

**(b) Price and trade policy**

To provide incentive to the farmers, the government sets the procurement price of sugar cane. This price serves as a reference of the price of sugar for sugar miller. The sugar millers then adjust the price of sugar cane paid to the farmers. For instance, in 2014, the procurement price is US$ 0.71/kg of white sugar.

To protect domestic price of sugar, the government also regulates sugar import. Similar to rice, the quantity of sugar import is decided at the meeting coordinated by the Coordinating Minister of Economy, based on the situation on sugar supply and demand. The quantity of sugar import consists of white sugar for direct consumption and raw sugar for industrial use.

## Conclusion

As one of the strategic commodities, production, price, and trade of sugar is regulated by the government. However, up until now, domestic sugar production cannot meet the increasing domestic demand, both for direct consumption and industrial use. In addition to low productivity of sugar cane, old infrastructures of most sugar miller industries, lead to slow growth of sugar production. Priority of government intervention in the future should focus on the application of improved sugar cane production technology and promote investment on rehabilitation of the sugar processing industry.

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