Price Stabilization Policy on Staple Food in Indonesia

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Introduction

Food price stability is one of major elements on food security policy. From the consumer side high food price provides undesirable impact to consumer access to sufficient and quality diet. Accelerated food prices also increase the number of households who are below the poverty line. The concern on domestic price stabilization policy is also motivated by experiencing price spike in international market.

From the producer side, price increase provides additional incentive to invest on new farming activities and increase productivity, particularly for large and commercial farmers. On the other hand, small farmers do not necessarily benefit from high prices since most of them are net consumers. On the other hand, a declined on food prices would benefit consumers at large, but is very detrimental to producers and farmers (Erwidodo, 2016). The purpose of this brief is to review current framework on price stabilization policy.

Trend on domestic food prices and policy response

The consumer price index (CPI) for food in Indonesia has been more volatile and increasing compared to that of other ASEAN member states (Malaysia, Singapore and Thailand). This observation indicates that consumers in Indonesia have been facing unstable and higher food prices compared to consumers in those countries. The World Bank reported that the price of rice in Indonesia is roughly 70% higher than in Greater Mekong regions of Vietnam. Healthy foods are also more expensive in Jakarta than Singapore, a country which does not have an agricultural sector. OECD (2016) reported that Nominal Protection Coefficient of agriculture in Indonesia is around 1.32, which means that on average, prices of agricultural products in Indonesia is 32% higher than the prices of the same commodities in the border.

During 2005-2012, the producer price index in ASEAN countries (including Indonesia) increased steadily (Erwidodo, 2016). However, since 2010 the producer price index of rice in Indonesia increased abruptly, well above the increase in other ASEAN countries and China. This was due to a growing protectionist centiment triggered, among others, by world economic crisis which in turn caused the food price spike in 2007-2008.
Price stabilization policy has been practiced for a long time in the case of rice. Similar to many other countries, Indonesia adopted the non-market framework in stabilizing rice prices. The primary instruments for this policy are as follows:

a) Government established HPP (*Harga Pembelian Pemerintah*, a procurement price of rice) as a reference for BULOG (National Logistic Board) to procure rice (unhushed and milled) from the farmers, millers or traders. The HPP protects farmgate prices of rice to fall below the HPP.

b) BULOG accumulated rice stockd (from domestic procurement and import) for open market operation and emergency response.
c) To protect retail price of rice above a certain level, BULOG implemented an open market operation by selling rice below market price.
d) Import control policy was put in place by using a combination of tariff, quota, licensing, port of destination and timing of import in accordance to harvest season.

The evidence shows that HPP has been effective in providing a reasonable price to farmers to get reasonable profits. However, for domestic procurement purposes, the HPP has not been effective. In practice, the market price of rice is always higher than the HPP which, by regulation, does not permit BULOG to procure rice. Competition between BULOG and local traders, to buy rice also makes the market price to soar. The fact that market price is always above the HPP indicates that there is no exess supply of rice. Market has worked well to absorb all domestically produced rice and no government procurement is needed.

In addition to a standard framework as described above, since 2015 the Ministry of Agriculture (MoA) has also launched *Toko Tani Indonesia (TTI,* Indonesian Agriculture Shop). Objectives of the TTI are: (a) to protect food price at the farmgate; (b) to shorthen the marketing channels; (c) to reduce food price at the consumers' level; (d) to reduce profit of the middleman; and (e) to change market structure.

In 2016 MoA facilitated 500 Federation of Farmers Group which manages 1000 units of TTI in 33 Provinces. The priority provinces are: North Sumatera, South Sumatera, Lampung, Banten, DKI Jakarta (Special Region of Jakarta), West Java, Central Java, East Java, and South Sulawesi. Those provinces are considered as barometers of food price fluctuations. It is too early to assess the effectiveness of this program. However, one of the major concerns is to what extent this program could do to tap private sector initiatives.

Conclusion

In response to erratic food price fluctuations, price stabilization policy is still an important policy framework for the interest of both producers and consumers. The HPP of rice has been an effective instrument to provide safeguard to the farmers in case of drop in prices. However, this instrument has not been effective in the procurement of domestically produced rice. Major concern of TTI program is to stabilize food prices at the consumers level which is on the crowding out effect of this policy to private sector innitiatives.

References

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