

New Policy on the Ceiling of Retail Rice Price in Indonesia

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INTRODUCTION

To provide incentive to the rice farmers, the Indonesian Government has established Procurement Price at the farm gate for paddy and at the rice miller for rice. In 2016, the procurement price for dried paddy at the farm gate was IDR 4,700/kg and for milled rice was IDR 6,000 at the rice miller. These prices serve as reference for the trader to buy both paddy and rice in case market price was below the stated reference price.

On the other side, there has been some concern also that accelerated increase of rice price at the retail level has undesirable impact to low income household to buy sufficient quantity of rice. High rice price also contributes to inflation rate which is also unfavorable to macro economy in general. In response to this issue, the Government (Minister of Trade) has issued a Decree No.57/M-DAG/PER/8/2017, regulating a ceiling price of rice which has been effective since 28 August 2017.

The purpose of this note is to discuss briefly the policy on setting a ceiling on the price of rice, its likely impacts and concerns to some stakeholders.

Setting a ceiling on the price of rice

To protect consumer from accelerated increase of retail rice price, and to control inflation rate the government has established a decree of the Minister of Trade regulating a ceiling price of rice. Considering different production and logistic cost across regions, the ceiling price is varied accordingly (Table 1). The ceiling price is also differentiated by rice quality into two broad categories, medium quality (most commonly consumed) and premium quality (mostly consumed by high income consumers). According to some analysts, the stated ceiling price is considered too low which ultimately reduce marketing margin for the trader or reduce the farm gate price for the farmer. The actual retail price in September was around IDR 10,500/kg.

Table 1. Ceiling price of rice according to Decree of the Minister of Trade No.57/M-DAG/PER/8/2017 (IDR/kg)

No.	Regions	Medium Quality	Premium Quality
1.	Java, Lampung, and South Sumatera	9,450	12,800
2.	The rest of Sumatera	9,950	13,300
3.	Bali and West Nusa Tenggara	9,450	12,800
4.	East Nusa Tenggara	9,950	13,300
5.	Sulawesi	9,450	12,800
6.	Kalimantan	9,950	13,300
7.	Maluku	10,250	13,600

Source: Decree of the Minister of Trade No.57/M-DAG/PER/8/2017

The Decree also emphasizes the following points:

1. In selling rice to consumers, business actors must comply with the stated regulation on ceiling price;
2. In selling rice to the consumers using the packaging, business actors must put information on the type of rice and the corresponding ceiling price on the package.
3. Business actors who do not comply with the regulations stated in the decree are subject to administrative sanction.

The decree implies very strong legal implications, particularly to traders. Some traders are reluctant to sell rice because they are worried of being charged for selling rice above the stated ceiling price. Therefore, the likely impacts of the decree to rice industry are as follows:

1. In the short run, rice millers are likely to reduce the volume of paddy procurement from the farmers because less incentive to do so;
2. Farm gate price of rice is likely to decline because traders will try to maintain the same margin;
3. Some rice millers and traders will be out of business because there is not enough margin at the stated ceiling price.

CONCLUSION

The objective of controlling ceiling price of rice is to stabilize rice price at the retail level and to control inflation rate. However, the official ceiling price of rice was considered too low and do not provide enough incentive to traders and rice millers. Ultimately, the regulation leads to downward pressure on the volume of both paddy and rice traded in the market.

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