

# Indonesia's Market Operation of its Government Rice Inventory and Price Stabilization Framework

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## INTRODUCTION

The Indonesian government has continually pursued efforts to stabilize food prices for the sovereignty of Indonesian food through a policy written by the Ministry of Agriculture. In 2017, the Rice Market Operation began to be regulated by the Ministry of Agriculture's Regulation No. 320/5 the Year of 2017 (PERMENTAN / PP.320 / 5/2017) and the Ministry of Trade Regulations No. 4 the Year of 2012 (PERMENTAN No. 4 /M-DAG/PER/1/2012). The government program's mission is to stabilize rice prices by distributing government-owned reserves to the public. While this effort has reaped many positive results, it remains a controversial topic due to its numerous weaknesses. This article will discuss the course of regulations, implementation and policy analysis, including the weaknesses and threats as well as recommendations for the government.

### **Background: Domestic and International Rice Price Analysis**

Based on the data from the Directorate General of Trade Affairs, the price of rice is nationally classified as stable with a coefficient daily price diversity of 0.34% in September 2017. This value is still under the key performance indicator set by the Ministry of Trade at 5 - 9%. The price of rice during the period September 2016 – September 2017 is also stable with a coefficient monthly price variation of 0.46%.

On the other hand, rice price disparity between provinces in September 2017 is still considered high, as the value of the coefficient of the diversity of monthly rice prices between cities reached 13.21%. This regional disparity has been a catalyst to further conduct market operations, namely to stabilize the national food prices and reduce price significant price differences among provinces in Indonesia (Domestic Trade Research Center, 2017).

When compared to the import parity price of Thailand (5%) and Vietnam (5%), the price of medium quality rice in the domestic market, based on data from Directorate General of Domestic Trade, is relatively more expensive. In September 2017, the median price of rice

was 54% more expensive than Thailand rice (5%) and 46% more expensive than Vietnam rice (5%). Figure 1 below shows the comparison between the domestic rice price and import parity price from 2014-2017.

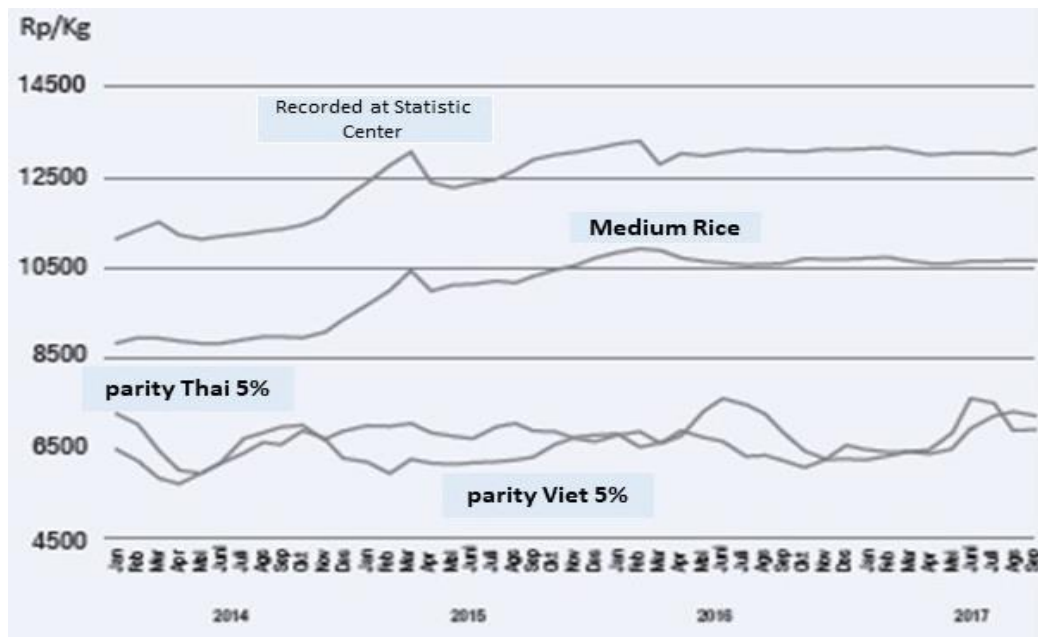


Fig. 1. Domestic Rice Price and Domestic Rice Price Import Parity (Thai 5% and Viet 5%), 2014 - September 2017 (Domestic Trade Research Center, 2017)

Note: USD to IDR Exchange Rate is 1: 13,858.15 on 2018/4/27

## POLICY FRAMEWORK

### Policy preface

The BULOG state-owned public company provides BULOG rice inventory for this program. The rice is government owned, funded by the State Budget (APBN) and managed by the Indonesian Bureau of Logistics for Food Distribution (BULOG). It is intended to be used for emergency response, food security post-disaster, control of rice price hikes, and to comply with international cooperation agreements including ASEAN Plus Three Emergency Rice Reserve (APTERR) Emergency Reserves, as well as other purposes set by the government.

Market Operations are conducted by BULOG under the instruction of the Ministry of Agriculture. Ministerial instruction shall be made after obtaining a proposal from the governor, who, in regards to implementing the policy, cooperates with the head of the regional service, who organizes the food affairs in the area. The proposed selling price of foods shall be determined on the basis of a report on the development of the price of rice in its territory and will be submitted by the mayor or head of the food department. The amount of rice distributed for Market Operation is adjusted based on the availability and/or capability of the BULOG.

The program is conducted at the consumer level in traditional markets, parent markets, and elsewhere within easy reach of consumers. The program is monitored, evaluated and reported on daily to BULOG by the head of the Food or Trade Department in that district or city.

The government, through the ministry of agriculture and The Ministry of Trade, conducts

rice operations to ensure that medium rice sales do not exceed the highest retail price and that BULOG's market operations throughout Indonesia keep rice prices stable (Ministry of Agriculture Regulation, 2017).

### Program mission and vision

During Indonesia's national holidays such as Ramadan, Christmas and New Year, consumers are particularly susceptible to price gouging due to the inelastic demand for food. Due to the necessity to provide large meals during these holidays, the consumer psychology is to pay for food regardless of the cost, causing the price of rice to rise significantly. Part of BULOG's mission is to limit said inflation and to prevent consumer exploitation.

In addition to ensuring price stability during national holidays, Rice Market Operations are also aimed at keeping price stability year-round. The operation is responsible for maintaining price stability as well as reducing the country's inflation rate (Gafar, 2018).

By using the "social justice" principle of statehood, Market Operation has also implemented human rights programs to ensure that everyone is able to obtain food. In the government's overarching goal of fighting poverty and hunger, Market Operation is believed to be able to close the gap between the rich and poor in terms of the right to food.

### Policy Strategy and Target

Item	Remark
Policy Strategy	<ul style="list-style-type: none"> <li>- Market operations are conducted simultaneously in a number of major cities in Indonesia in traditional markets and stalls. Several locations began to build</li> <li>- BULOGmart which also sells daily necessities other than rice.</li> <li>- By 2018, traders in all traditional markets are required to sell BULOG rice.</li> </ul>
Program Target	<ul style="list-style-type: none"> <li>- BULOG rice consumers are residents in the territory of Indonesia.</li> <li>- The main target is middle-income and low-income earners.</li> </ul>
Technical and operational	<ul style="list-style-type: none"> <li>- The government bought medium quality rice from the BULOG company to state rice inventory at Rp 7,300 and is regulated by Presidential Decree no. 5 The Year of 2015 (INPRES No. 5/2015). - BULOG Rice, which is an inventory of government rice, is sold while Market Operation program takes place.</li> <li>- Local governments set the market price of Market Operation rice to consumers in accordance with the average price of rice in the area after receiving a report from the mayor of the Regional Food Department.</li> <li>- Market Operation rice or BULOG rice is sold below or equal to the highest retail price of the median price in the producer. (referred to table 1)</li> <li>- The sale of BULOG rice is deposited to the state treasury by BULOG company.</li> </ul>

### The highest retail price

The government, through the Ministry of Trade, has established the regulation of the highest retail price of rice, which is regulated by the Ministry of Trade Regulation No. 57 the year of 2017 (PERMENDAG No. 57 / M-DAG / PER / 8/2017). The highest retail price of rice aims to maintain stability and certainty of rice prices to consumers. The regulation has been valid

since August 2017 and applies only to medium and premium quality rice. Table 1 shows the highest retail price of medium quality rice. Medium quality rice is rice sold for the Market Operation program. The prices set forth in the present regulation are also intended to complement the government's regulation of Market Operation. Traders who sell medium quality rice must sell below or equal to the highest retail price

Table 1. Highest Retail Price of Medium Quality Rice (Ministry of Trade Regulation, 2017)

No.	Area	Highest Retail Price (per kg)
1	Java, Lampung and South Sumatra	Rp. 9.450 (US\$ 0.68)
2	Sumatra, except Lampung and South Sumatra	Rp. 9.950 (US\$ 0.72)
3	Bali and West Nusa Tenggara	Rp. 9.450 (US\$ 0.68)
4	East Nusa Tenggara	Rp. 9.950 (US\$ 0.72)
5	Sulawesi	Rp. 9.450 (US\$ 0.68)
6	Kalimantan	Rp. 9.950 (US\$ 0.72)
7	Maluku	Rp. 10.250 (US\$ 0.74)
8	Papua	Rp. 10.250 (US\$ 0.74)

## POLICY ANALYSIS

### The implementation

According to BULOG President Director Djarot Kusumayakti: "rice market operations have actually been done since October 2017 to dampen the price of rice turmoil, but it does not have a significant impact on the rice price movement in Indonesia because the volume of rice prepared for Market Operation is insufficient." (Julianto, 2018a)

### Price stabilization

In early March 2018, based on the price stipulated by the National Strategic Food Price Information Center (PHIPS), the price of Medium Quality rice ranges from Rp. 9.700 (US\$ 0.7) (West Nusa Tenggara) up to Rp 14,300 (US\$1.03) (DKI Jakarta) (PIHPS, 2018). Due to the high range of prices, rice price stabilization is still considered to be absent.

The Market Operation's efforts to reduce the national rice price have been ineffective due to the insignificant amount of rice that has been distributed. Market operations in 2017 succeeded in lowering the price and increasing the availability of rice during the program period, however, when the supply ran out, the price of rice jumped back to its former regional prices.

### Policy effectiveness

The operational cost of rice distribution from BULOG company warehouse to the location of the Market Operation target is borne by provincial and regency or municipal government. The high logistical costs of this program have caused the price of BULOG rice to rise, leading to a price imbalance between rice in Western Indonesia such Jakarta, Java and Sumatra and Eastern Indonesia such as Papua and Maluku. However, the effectiveness of rice distribution in its operation is very strong because the company not only has regional divisions spread all over Indonesia, but every regional division of the company also has useful information and logistic access with BULOG headmaster office at Jakarta.

### Policy threats

The rice distribution system is very vulnerable to corruption, enabling BULOG officers to defraud the system. For example, some officers have stored rice that should be shipped to the market for sale, while others have mixed BULOG rice with low-quality rice, replaced the BULOG rice packaging, then sold BULOG rice at a higher price after the end of the Market Operation (Sihombing, 2018). In addition, the rice's packaging is both easily broken and imitated. It also does not come with a certification or seal. Thus, quality rice cannot be guaranteed.

### **Policy weaknesses**

The purpose of Market Operation is to reduce the pace at which the price of rice increases and to focus on reducing poverty. Cheap rice in Market Operation is intended for consumers, especially those of middle or lower economic status. In addition to this program, the government also has a rice and primary needs (food) aid program for the poor named BNPT. In this program, the government provides aid in the form of subsidized rice to low-income households near or below the poverty line. (Khudori, 2018). In theory, the idea of MO is to create a food subsidy that may be associated with BNPT. However, from a governmental perspective, it is a waste of state budget and less efficient.

On a regional scale, the seller of BULOG rice is limited, causing difficulties in the access of BULOG rice. In areas with limited access to the internet or mass media, it is difficult to provide information on where to buy BULOG rice.

### **Government's action**

The government, through the Ministry of Trade and BULOG, will increase the amount of rice produced and expand the Market Operations in Indonesia.

According to BULOG's data, rice market operations in December 2017 have been implemented at 1,100 points across Indonesia, and, by January 2018, had increased to 1,800. The program aims to expand to as many as 2,000 points across Indonesia in the foreseeable future (Julianto, 2018b).

During October-December 2017 a recorded 53,241 tons of Medium quality rice was distributed. From January 2<sup>nd</sup> to the 8<sup>th</sup> 2018 the distribution of rice reached 37,908 tons and is continually increasing. By the end of December 2017, a recorded total of 1,172 trade partners worked with BULOG. The number has increased to 1,838 in January 2018 and is still increasing (Sihite, 2018).

The Ministry of Trade established a team to supervise the operation of the BULOG rice market. The supervisory team will work in two phases; the first from the 8<sup>th</sup> to the 31<sup>st</sup> of January 2018 and the second phase from the 1<sup>st</sup> February to the 31<sup>st</sup> of March 2018. The supervisory team will ensure the availability of medium rice stock at the BULOG company warehouse and the distributor's warehouse at the regional division location. They will also ensure that the implementation of the median rice sales does not exceed the highest retail price as dictated by PERMENDAG No. 57 / MDAG / PER / 8/2017 (Hamdani, 2018).

Market Operations in 2018 lasted for three months, from January to March. It is expected that when the harvest season arrives in March, the price of rice will re-stabilize.

### **Learn from history**

After Indonesia's independence, from the '50s and because of high inflation rates, BULOG had the task to provide civil servants and military with rice rations which partly

replaced cash payment. During the difficult time as well as following the collapse of the rice market in 1972/73 and the scramble for affordable rice imports, Indonesia focused on greater self-sufficiency and developed policies to achieve it (Gouel, 2013). Various governmental programs were implemented to promote the adoption of high-yielding rice varieties, an increase in the use of fertilizers and an expansion of the irrigated area. The government distributed improved crop varieties and provided fertilizers and pesticides at a highly subsidized price, and also provided extension services.

From 1985-1996 when self-sufficiency is on trend, the government tried to manage the costs of surplus. In the '80s, the policy changed. The need for reform was driven by the high costs related to BULOG intervention. It had to maintain large stocks, to subsidize exports when surpluses accumulated and subsidize imports when domestic production was short.

The financial crisis, in 1997-1999, was deeper and longer lasting in Indonesia compared to other countries affected in the region. Economic growth was drastically curtailed. It turned into a social and political crisis which then turned into a food crisis. After the country recovered, rice prices stayed around 30% above the world price.

The Indonesian experience is rich in lessons. In summary, it shows that government intervention can be highly adaptive to a changing context and contribute to a quick economic growth but that it is difficult to perform (Gérard, 2010).

## CONCLUSION

Indonesia has the ability to achieve food security; however, price instability remains a problem to be fixed. The program, Market Operations, managed to stabilize national rice prices in various regions of Indonesia. However, its success so far has been limited due to the fact that it is relatively new and has only worked for low quantities of rice. Future plans of the Indonesian government through the minister of agriculture and trade ministry based on Ministry of Agriculture's Regulation No. 320/5 the Year of 2017 and Ministry of Trade Regulations No. 4 the Year of 2012, to expand the rice market operations for the period of January to March 2018 aims to solve that problem. After evaluation, the government recognizes that there are still many weaknesses in the program but continues to strive to build national food security by stabilizing national food prices. We provide some suggestions as follows:

1. The quality of rice sold should also have guaranteed food safety standards. Food safety standards are significant in order to ensure food security. The food provided should meet the food safety standard recommended by the Ministry of Agriculture (PERMENTAN No. 31/PP. 130/8/2017) about the class of quality rice as well as the Indonesian National Standard 6128:2015 for rice (SNI 6128:2015).
2. As rice imports compete with local farmers for market share, tensions will rise between the government and local people. To abate said tensions, the government should comply with the terms and conditions of the Ministry of Trade Regulations No. 1 the Year of 2018 (PERMENDAG No. 1/ 2018) on provisions of the exportation and importation of rice. Doing so will maintain the balance of domestic production activities, import activities and ensure that imported rice is accepted by the public.  
According to economic theory, increasing supply of rice will lead to a decrease in its price. In order to increase the domestic rice supply, rice importation from nations such as Vietnam or Thailand, where prices can be up to the 54% cheaper than in Indonesia, should be considered. However, rice importation is inhibitive towards local rice

productions.

3. In order to sustain the national food price stabilization efforts, the government, through the Indonesia central statistical agency (BPS), should keep updated records of the price of paddy production at the farming level and price limits at the milling, trader, and consumer levels (Kompas, 2018). As for balancing supply-demand, the government should accurately measure the volume of rice production and demand.
4. 2018 and 2019 will be Indonesia's political year as President Joko Widodo's term in office will conclude in 2019. The strategy of the Ministry of Agriculture and Ministry of Trade should be immediately realized as it will be an issue on the state budget. Too many government programs will be viewed by the public as programs with "vague strategies".
5. Regarding Gouel & Jean (2012), Agricultural price stabilization policy such as storage policy and trade policy should begin to be enforced. Optimal storage policy on its own is detrimental to consumers since its stabilizing benefits leak into the world market. In contrast, the optimal combination of storage and trade policies results in a powerful stabilization of domestic food prices. Such a policy mix includes export restrictions, which are harmful to export partners, but to refrain from using them is costly and entails substantial transfers from consumers to producers.

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