An analysis of the Political Economy of the Sugar Trading System in Indonesia

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Contributed paper prepared for presentation at the 59th AARES Annual Conference,
Rotorua, New Zealand, February 10-13, 2015

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History

- sugar is one of the oldest and most important industrial sectors in Indonesia
- golden era in 1930s
  - 179 sugar mills in operation
  - peak production about 3 million tonnes sugar
  - exports of 2.4 million tonnes
- Indonesia was the second largest exporter of sugar in the world, after Cuba
- Sugar industry has been heavily influenced by government policy in Indonesia
Current issues

- Declining national sugar production
- Increasing consumption of sugar, by households and by industry
- Rising imports of sugar, resulting from global trading opportunities
Indonesian sugar production
Sugar consumption and availability
Indonesian “floor price” for sugar

SUGAR PRICE/KG IN RUPIAH

Sugar policy

• Three different approaches
  – Free trade/liberalisation, 1997-2001
  – Control of imports, 2002-present
Stabilisation period

• 1971-1996
• Range of policies to encourage domestic production
  – Stability of supply and prices
  – Presidential decree 43/1971
  • Authorised BULOG (the government logistics agency) to maintain supplies of sugar and price stability
Sugar availability in Indonesia

![Graph showing sugar availability in Indonesia from 1980 to 2015 with lines for production, import raw sugar, and total availability. The graph illustrates trends in availability over time.]
Free trade/liberalisation

• 1997-2001
• Market opened to allow a dramatic increase in sugar imports
• Sugar imports exempt from control, no longer monopolised by BULOG
• Ministry of Trade and Industry decision 25/MPP/Kep/1/1009
  – ended BULOG’s role as monopoly importer of strategic commodities including sugar
  – Decline in sugar prices, economic crisis in sugar industry, pressure on farmers and sugar producers
Sugar availability in Indonesia

![Graph showing sugar availability in Indonesia from 1980 to 2015. The graph includes lines for production, import raw sugar, and total availability.]
Controlled imports

• 2002 to present
• Manufacturers and registered importers permitted to bring in sugar
• Sugar imported by food manufacturers limited to meet their industrial needs, not for trading
• Registered importers (sugar factories and refineries) needed to take 75% of their raw material from farmers
• Ministry for Trade and Industry decision 643/MPP/Kep/9/2002
  – Sugar imports allowed when sugar price at farm level was above Rp3100 /kg
Sugar availability in Indonesia
Sugar imports correlated with number of refineries constructed
Further changes

- Changes to policy by Ministry of Industry, 2004
  - Definition of sugar products and standards
    - Defined white sugar, refined sugar, raw sugar according to ICUMSSA standards
    - Clarity in regard to time and port of imports
    - Increased price at farm level to RP3800/kg
- Policy objective: to “protect the sugar industry in the country”
  - Price of sugar at consumer level should be affordable
  - Simultaneously increase farmers’ incomes
Indonesian “floor price” for sugar
Research topic

• Why does the policy regarding sugar trade in Indonesia not achieve justice to all parties?
  – What factors led to this policy?
  – How could a review of the political economy of international sugar trade affect policy in Indonesia?
  – What would be an ideal sugar policy for Indonesia?
    • Policy to regulate sugar trading in Indonesia is not only a consideration of domestic issues
    • Need to consider broader issues affecting world trade in sugar to determine how sugar trading in Indonesia should operate