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

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

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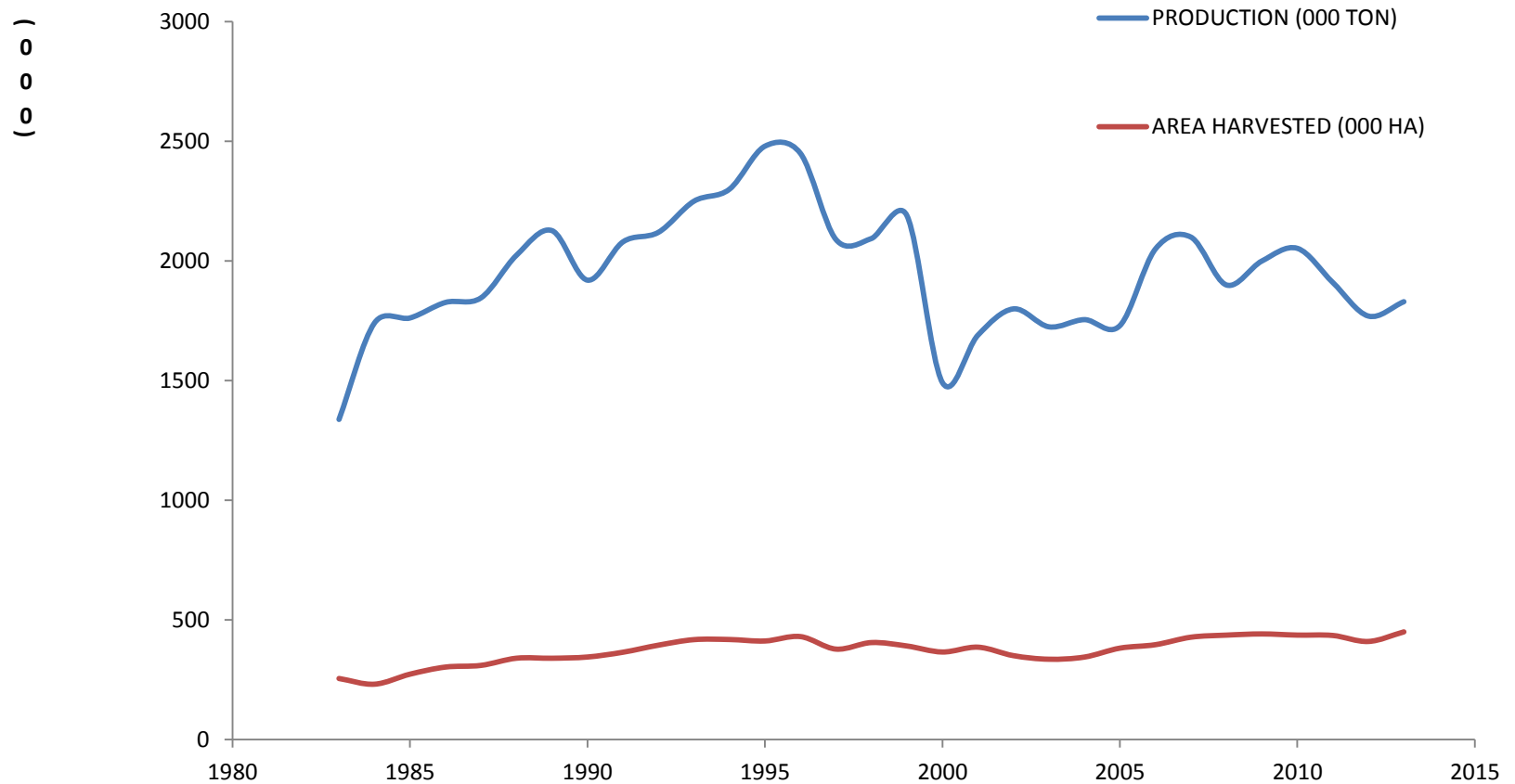
# History

- 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

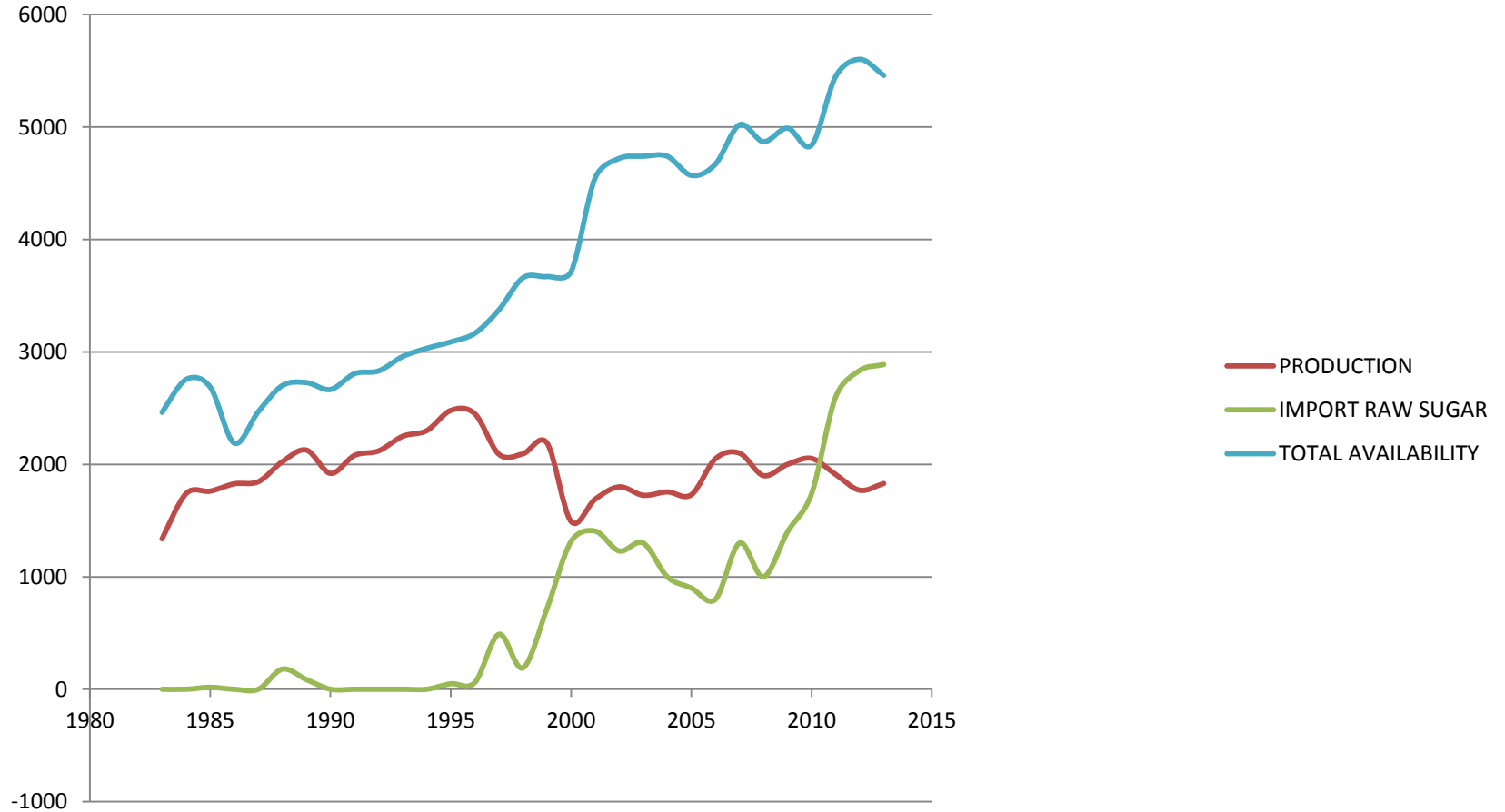
# Current issues

- Declining national sugar production
- Increasing consumption of sugar, by households and by industry
- Rising imports of sugar, resulting from global trading opportunities

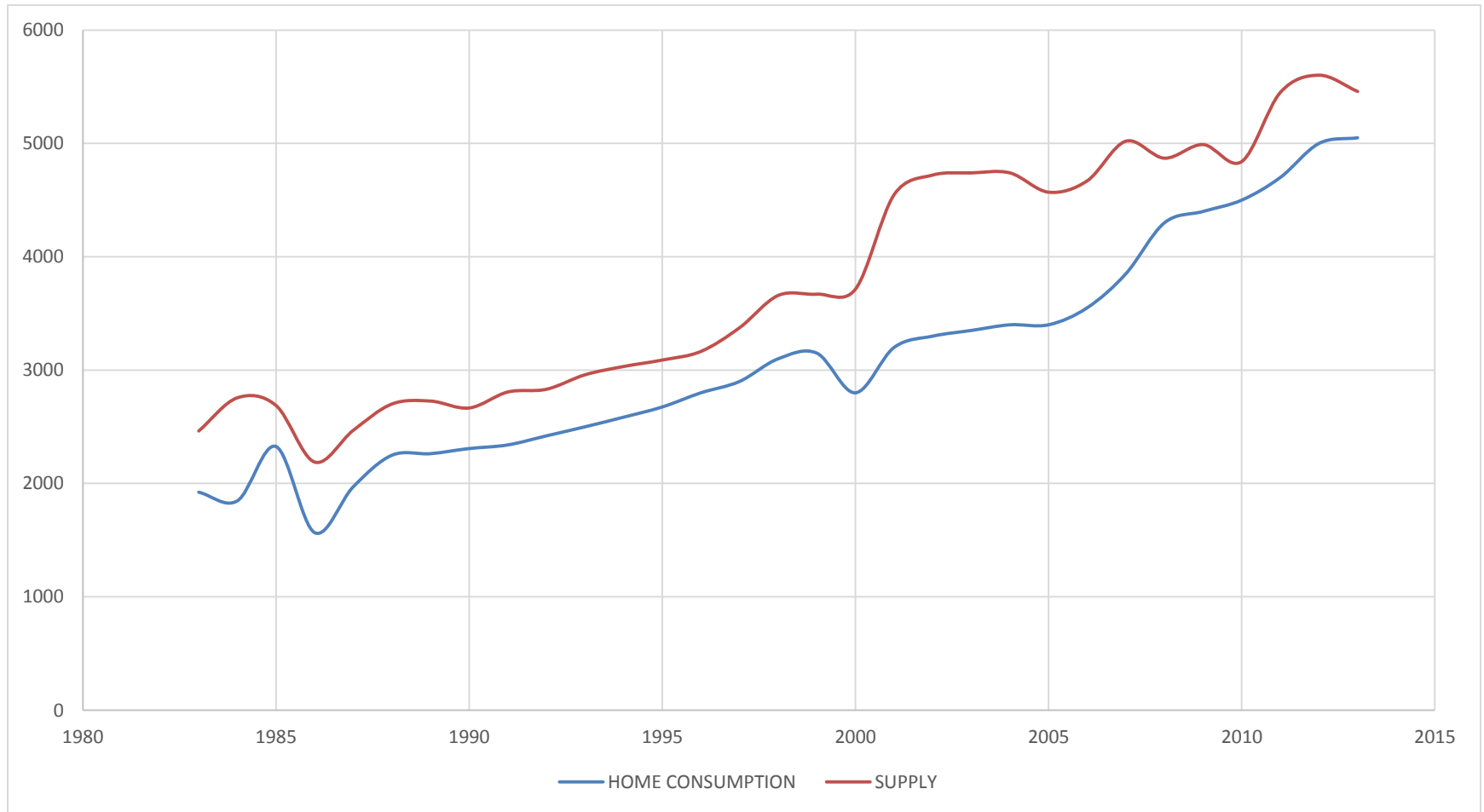
# Indonesian sugar production



# Sugar availability in Indonesia

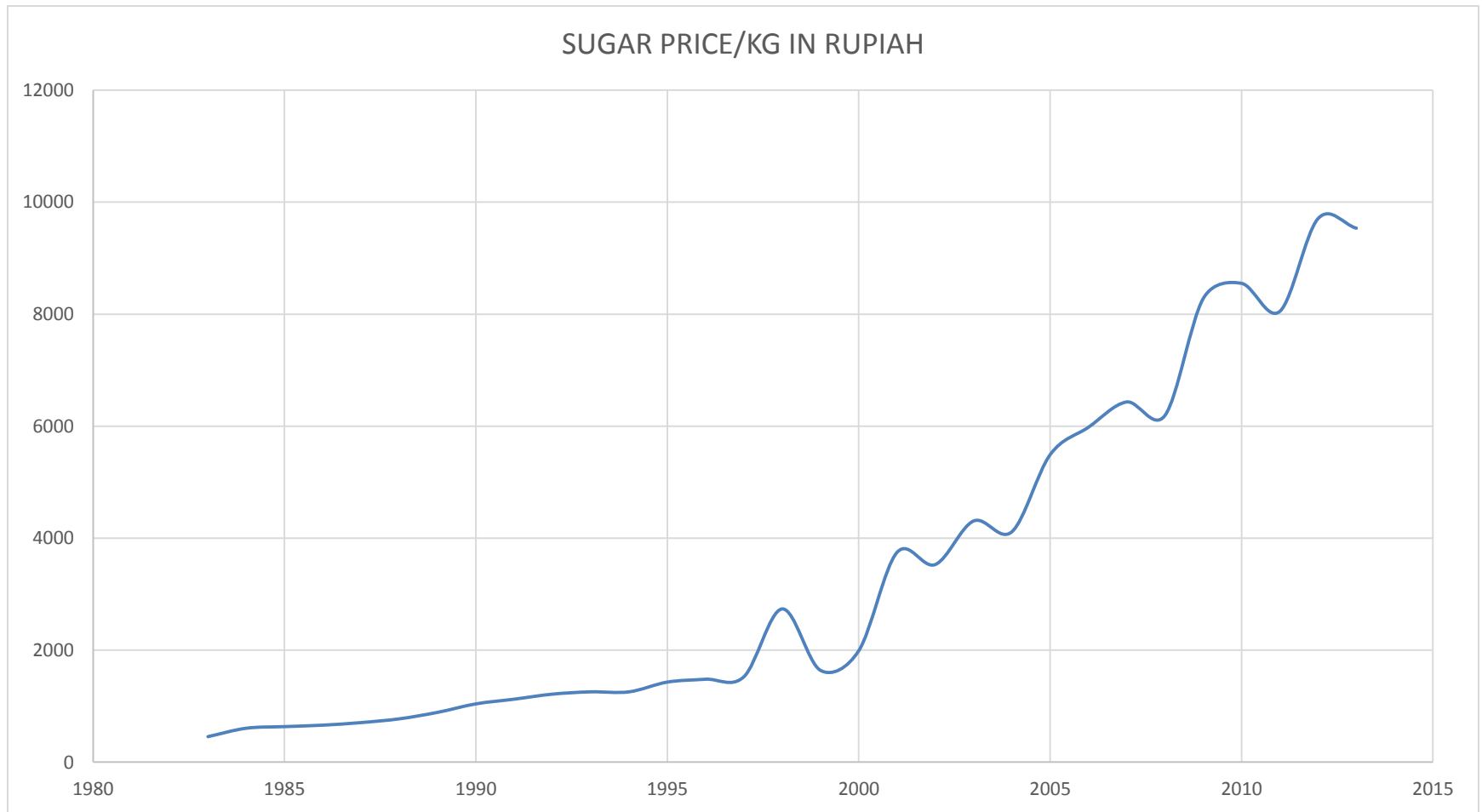


# Sugar consumption and availability





# Indonesian “floor price” for sugar



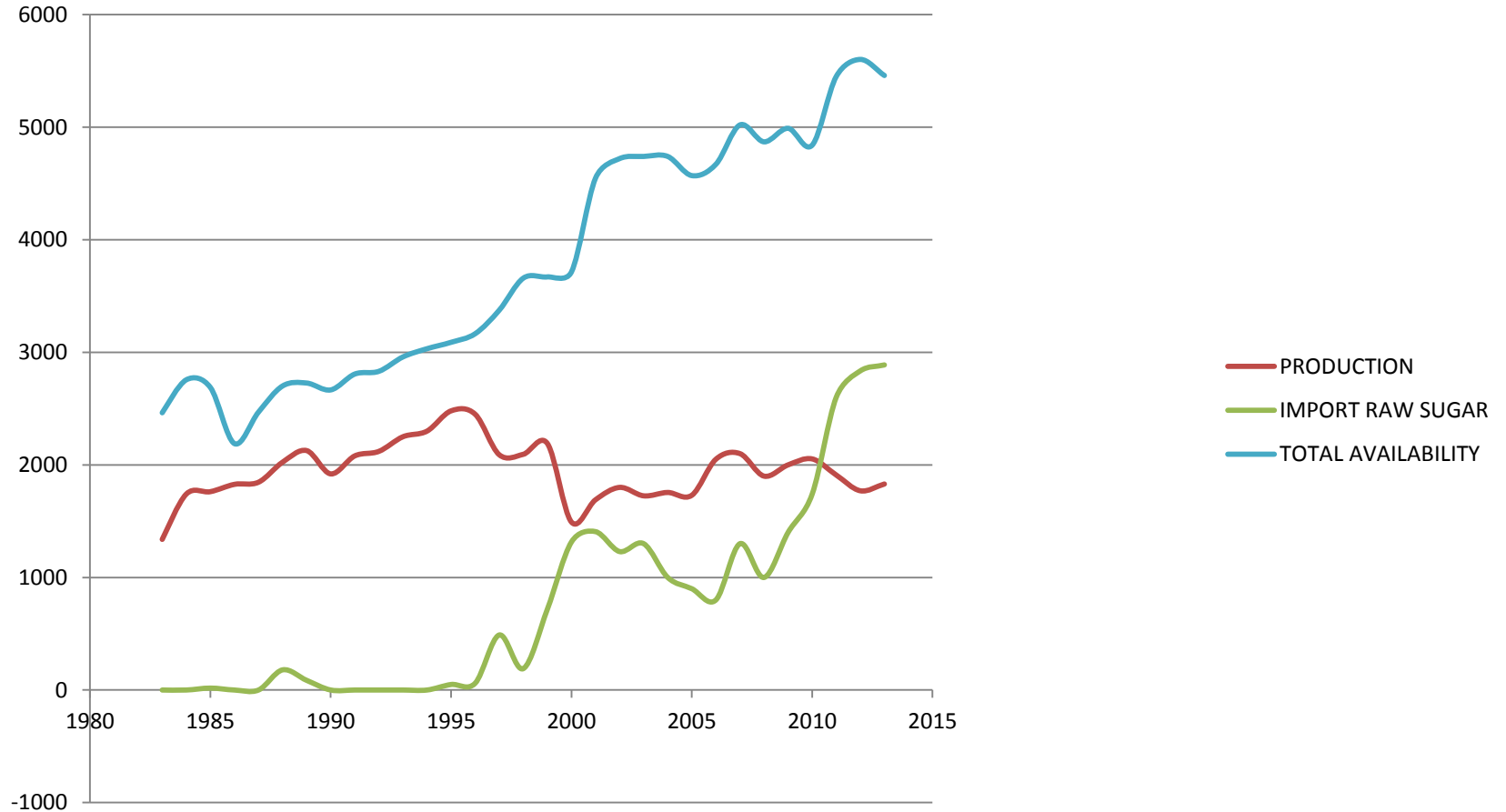
# Sugar policy

- Three different approaches
  - Industry stabilisation, 1971-1996
  - 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

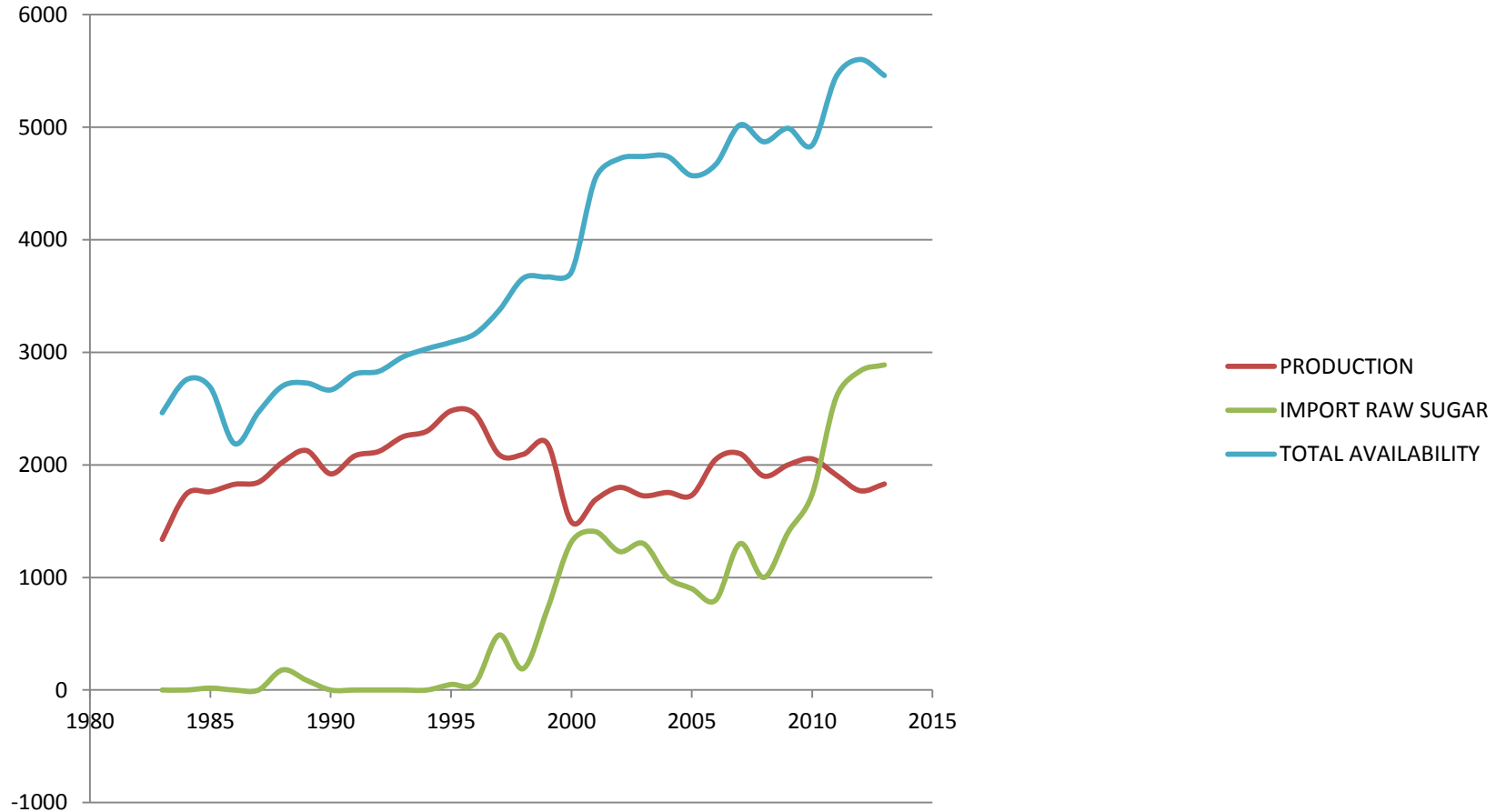
# Sugar availability in Indonesia



# 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

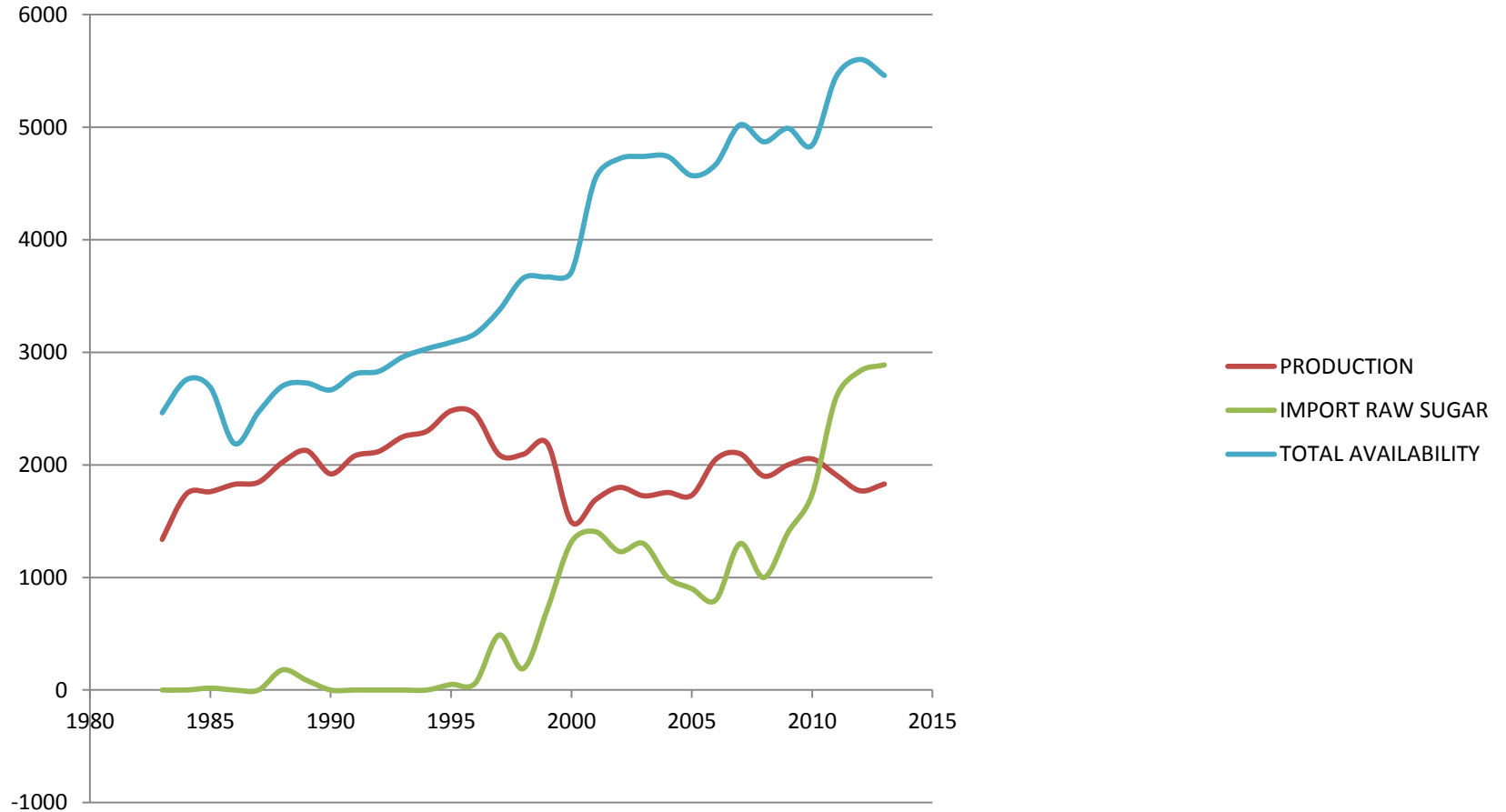
# Sugar availability in Indonesia



# Controlled imports

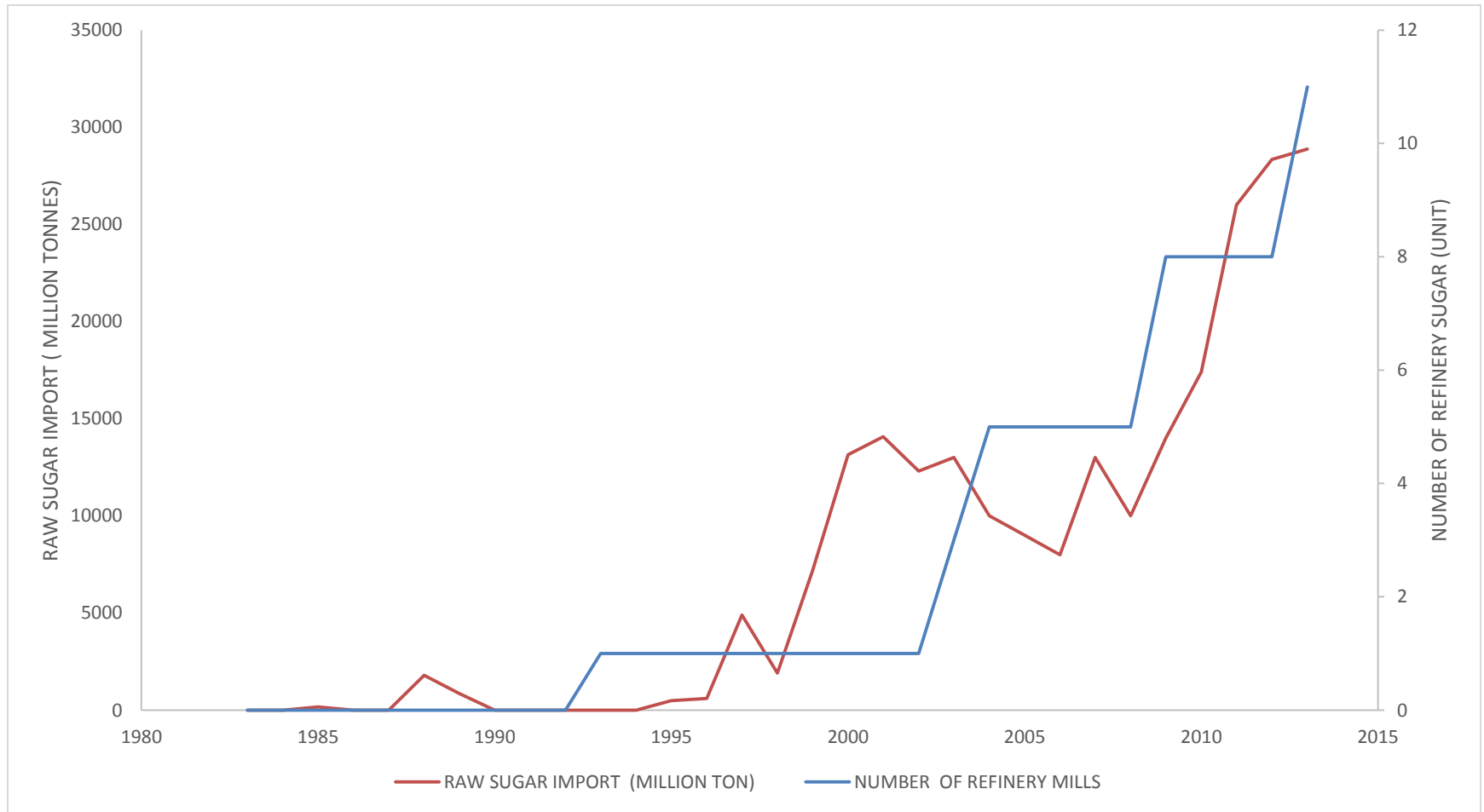
- 2002 to present
- Manufacturers and registered importers permitted to bring in sugar
- Sugar imported by food manufacturers limited to meet their industrial needs, not for trading
- Registered importers (sugar factories and refineries) needed to take 75% of their raw material from farmers
- Ministry 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





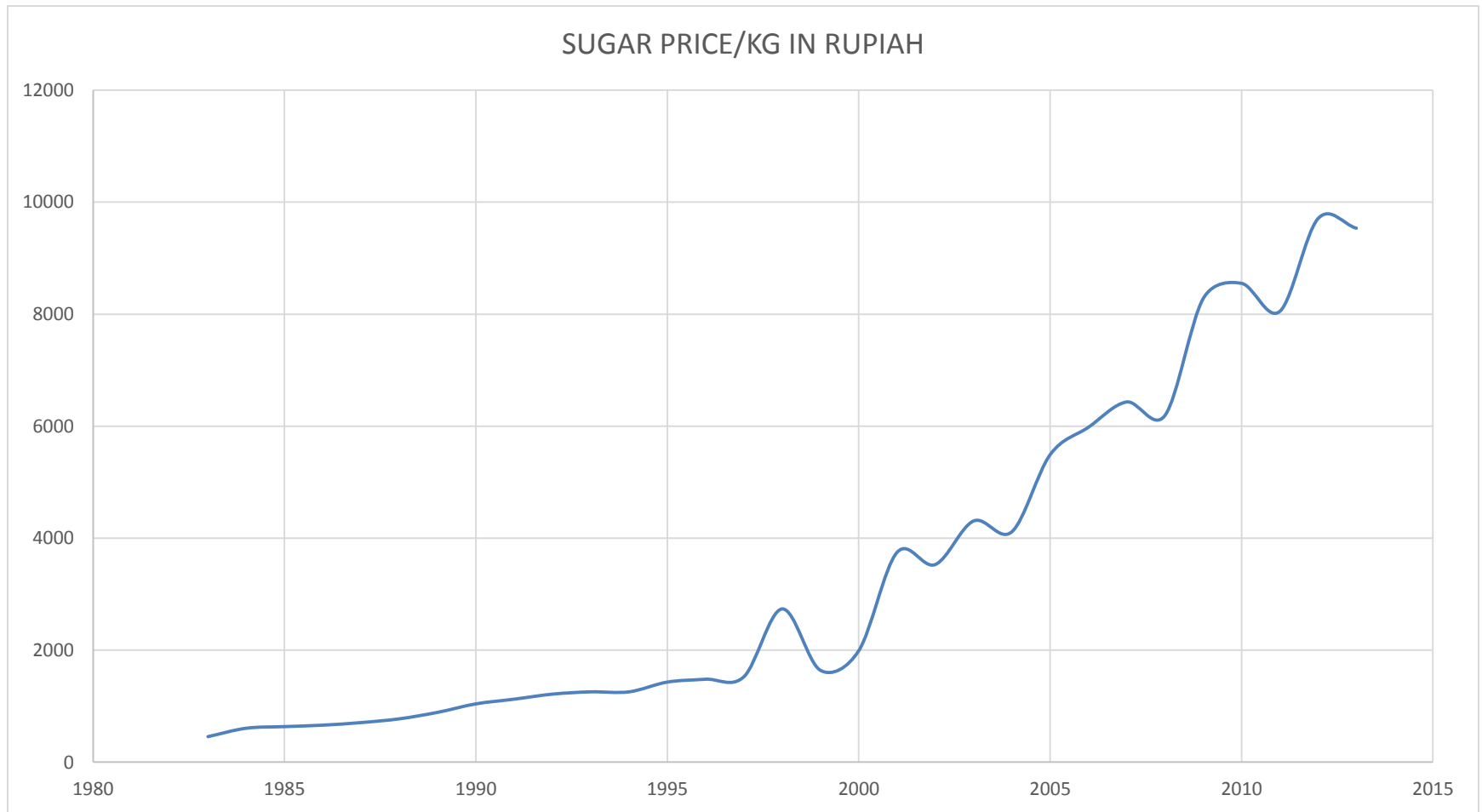
# Sugar imports correlated with number of refineries constructed



# 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



# Gorontolo Mill

