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**Research Report**

# Indonesian Food Trade Policy during COVID-19

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# POLICY BRIEF

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Policy Brief No. 1

# Indonesian Food Trade Policy during Covid-19

**by** Felippa Amanta & Ira Aprilianti

## Key Messages

- Covid-19 is disrupting Indonesia's food system. Employment in agriculture is expected to contract by 4.87% and domestic agricultural supply by 6.20%. Imports will decrease by 17.11% while import prices are expected to rise by 1.20% in the short term and by 2.42% in 2022. With reductions in supplies and imports, food shortages and food price inflation must be expected.
- Ministry of Trade regulations require importers to state the country of origin when applying for permits. Therefore, importers cannot flexibly find new supplies when export countries close their border during Covid-19. This exacerbates food security risks, causes shortages, and increases prices in Indonesia.
- The Indonesian government should consider removing trade barriers on food and agriculture by eliminating tariffs and easing non-automatic import licensing (SPI) requirements for imported key food items like beef and sugar. If tariffs are eliminated, the import price of agriculture goods will still increase, but only by 0.65%.
- Indonesia's economic diplomacy should focus on ensuring continuous food supplies from exporting countries.
- The Ministry of Agriculture must protect supply chain actors with additional health measures to ensure flow of goods.

The Covid-19 outbreak has brought concerns on food security around the world, including in Indonesia due to disruptions in production and the supply chain. The global cereal market in 2019/2020 is expected to remain well supplied (FAO, 2020). Similarly, the Indonesian Ministry of Agriculture (2020) has claimed that rice supply will last until August, with expected harvest of 12.4 million tons between March to May. However, Indonesia is experiencing a shortage of other food commodities such as garlic, beef, and sugar, which are particularly important during Ramadan.

Indonesia remains dependent on food imports. In 2018, 95% of Indonesia's garlic supply, 24% of beef supply, and 55% of sugar supply came from abroad, and the Ministry of Trade has started imports in 2020 (Asogiyan, 2018; Respatiadi & Nabila, 2017; McDonald & Meylinah, 2019; Ministry of Agriculture, 2020). In 2018, Indonesia was a net importer of food products in the amount of USD 576.18 million (WITS, n.d.). As Covid-19 spreads, the supply chain is experiencing significant disruption due to reduction in processing capacity, closure of roads and ports, and limited transportation, which slows down agricultural production and the distribution of food from producers to consumers.

These disruptions have caused an increase in Indonesia's food prices. The average rice price across Indonesia during the first week of April is at Rp11,900 per kilogram, a 1.28% increase from the price in December 2019. In provinces which have imposed Large-Scale Social Restriction (*Pembatasan Sosial Berskala Besar* or PSBB) like DKI Jakarta, rice price is even higher, reaching Rp13,500 per kilogram in traditional markets as people are stocking up food. Price increases for imported food items are even more significant. From December to mid-April 2020, the sugar price increased by 32.97% to Rp18,350 per kilogram, garlic increased by 35.64% to Rp43,200 per kilogram, while beef prices remained persistently high at Rp117,750 per kilogram[1] [2].

Under normal circumstances, Indonesians spend, on average, 51% of their monthly income on food, while those at or below the poverty line spend around 62.76% (Ilman, 2020). Yusuf and Sumner (2015) estimated that a 1% increase in price of rice raises the national poverty headcount by more than 1%, taking into account other factors. Considering the loss of income due to rising unemployment, an increase in overall food prices will put even more pressure on the poor. This, in turn, will exacerbate hunger and malnutrition.

The Global Hunger Index 2019 considers Indonesia at a "serious" level of hunger, estimating that 8.3% of the population is undernourished and 32.7% of children under five are stunted. Amid Covid-19 in 2020, Indonesia's household consumption of agricultural goods is predicted to decline 8.29% from what it would have been had Covid-19 did not occur (McKibbin & Fernando, 2020)[3]. The inability to consume sufficient healthy, nutritious food can suppress immune systems and increase health risks, especially for the poor and vulnerable. Ensuring an affordable supply of food is essential during Covid-19 pandemic and the recovery period afterwards.

This brief explores three possible trade scenarios and their likely consequences for Indonesia's food prices. The first is business-as-usual (BAU) scenario that assumes unchanged tariffs and non-tariff measures imposed by Indonesia and its trading partners. In the second scenario, major food trading partners of Indonesia, such as India, impose export barriers, while Indonesia's trade policy remains the same. In the third scenario, Indonesia eases its trade restrictions by removing tariffs and non-tariff measures.

[1] Prices are taken from Bank Indonesia's National Strategic Commodity Price Information Center (Pusat Informasi Harga Pangan Strategis or PIHPS) at https://hargapangan.id/
[2] Over 70% higher than international beef price recorded by the World Bank
[3] The estimation impact is based on G-cubed Model estimation Scenario 6 by McKibbin & Fernando (2020).

# Food Supplies in the Business-As-Usual Scenario

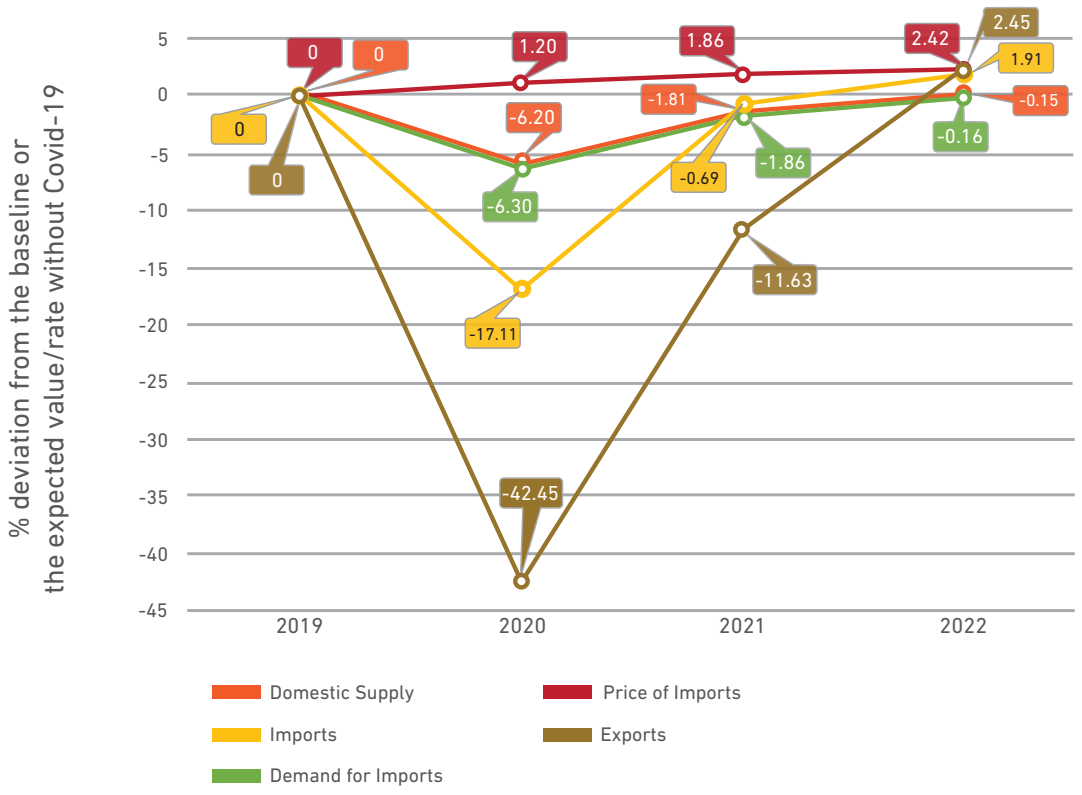
Indonesia imposes both tariffs and non-tariff barriers for food imports. The former added a weighted average import tariff for food product of 6.39% in 2018. The latter include quantitative restrictions (quotas), along with sanitary-phytosanitary measures (e.g. quarantine, quality inspection) and other technical barriers to trade (e.g. packaging, labelling). These trade barriers impose an extra 41% on top of the value-add activities throughout the supply chain (Marks, 2017).

The private sector must acquire quota and permits through a non-automatic import licensing system (*Surat Persetujuan Impor* or SPI) from the Ministry of Trade after obtaining a recommendation letter from the Ministry of Agriculture. The quota is set through a coordination meeting between five different ministries and agencies and based on production and stock data, which are notoriously inaccurate (Ruslan, 2019). This process also consumes time and results in shortages and price spikes according to various media reports (Yasmin, 2019; Rosana, 2020).

Due to Covid-19, a 4.87% reduction of employment in agriculture is expected due to mortality, morbidity, mobility restrictions, and caregiving for affected family members (McKibbin & Fernando, 2020). This constrains the domestic supply capability which is expected to decrease by 6.20% (McKibbin & Fernando, 2020) (see Figure 1). This domestic supply drop is greater than that of other countries such as India (6.03%), Mexico (5.81%), and Saudi Arabia (3.10%).

With no lifting of trade restrictions, Indonesia's agriculture imports are estimated to dive 17.11% from the baseline, while agriculture exports may plummet by 42.45% (McKibbin & Fernando, 2020). The estimation suggests the price of imports will increase by 1.20% and reach an increase of 2.42% by 2022. Under the BAU scenario, Indonesia would not be able to mitigate the negative impacts of Covid-19 in 2020. Decreases in both domestic supplies and imports can result in possible food supply shortages.

**Figure 1.**
**Estimation of Covid-19 Impacts on Supply, Imports, and Exports of Agriculture Goods**




Source: McKibbin & Fernando (2020).

# Food Supplies Facing Increased International Export Restrictions

Scenario two assumes that other countries will restrict their exports while Indonesia's trade policy remains the same. This scenario is reflective of recent trends, with India closing their ports due to lockdown. Prior to the lockdown, Indonesia has negotiated an informal agreement to import 200,000 tons of bovine meat from India and to increase sugar import, in exchange for Indonesia's palm oil (Das & Ahmed, 2020). Based on this agreement, Bulog planned to import 5,000 tons of Indian bovine meat before Ramadan, but this is now obstructed due to India's lockdown policy according to a media interview with Bulog's Director (Yuniartha, 2020).

Under this scenario, Indonesia will face difficulty sourcing key commodities from trading partners due to their unilateral actions but is unable to quickly switch to other readily available alternatives because of inflexible licensing process.

In general, the flexibility of switching to other trading partners is hampered by Indonesia's import policy that involves recommendations by the Ministry of Agriculture, SPI by the Ministry of Trade, and a quota system. This SPI has to include details about the country of origin (Ministry of Trade Regulation 117/2015 on Sugar Import Requirement and Ministry of Trade Regulation 29/2019 on Export and Import Requirements for Animal and Animal Products), which means that switching countries requires submitting an application to revise the import license.

When importing sugar and bovine from India is no longer possible, flexibility would have allowed Indonesia to quickly switch to other established sources which are still open, such as Thailand and South Korea for sugar and Australia, New Zealand, or Spain for beef. This also allows for quickly broadening access to new trading partners, such as sugar from Brazil. When exporters close their borders, Indonesian import licensing regime will cause a shortage in the Indonesian domestic market as they prevent importers from flexibly shifting to other exporting countries or taking advantage of global price fluctuations to buy at lower prices.

# Effects of Reduced Import Restrictions on Food Supplies

Indonesia could consider removing some of its existing trade barriers in the food and agriculture sector, such as tariffs, quantitative restrictions, and non-automatic import licensing system for key food commodities. If tariffs are eliminated, the import price of agriculture goods will still increase, but only by 0.65% compared to the 1.20% under the BAU scenario (McKibbin & Fernando, 2020). Green et al. (2013)[4] estimate that a 1% increase of food prices reduces consumption by 0.68% in middle income countries like Indonesia. As such, tariff elimination can lead to 0.38% higher household consumption compared to the BAU scenario.

Ministry of Trade Regulation 27/2020 has already removed SPI requirements for garlic and onion in March 2020 to relieve the shortage. Garlic prices dropped significantly from Rp55,200 per kilogram in February to Rp40,650 per kilogram as of 23 April 2020, a 26.36% reduction in 10 weeks[5]. This implies that the removal of SPI and quota can help Indonesia expedite its import process also for other commodities, such as beef and sugar.

# Policy Recommendations

**The ability to secure food more quickly at reasonable costs is critical during emergencies, such as the Covid-19 crisis. The following activities are recommended:**

- Indonesia should consider eliminating tariffs on food imports to maximize the economic welfare for the society. This strategy has been taken up by other countries, such as China, El Salvador, Costa Rica, Mauritania, and Morocco (International Trade Center, 2020).

- The Ministry of Trade should remove SPI and quota requirements for staple commodities of beef and sugar. Any importers with an Importer Identification Number (*Angka Pengenal Importir* or API) should be allowed to act immediately. Such an automatic licensing system is applied in Singapore, Malaysia, and the United States (ASEAN Briefing, 2020a; ASEAN Briefing 2020b). This can expedite the import process and allow importers to acquire food commodities once they perceive a pending global price increase. This needs to respect quarantine procedures and other sanitary procedures to ensure the food quality.

- The Ministry of Trade and the Ministry of Foreign Affairs need to use all suitable tools of economic diplomacy to ensure that exporting countries keep their borders open. In a recent declaration, Indonesia along with 12 other countries including Singapore, Canada, and South Korea has agreed to keep supply chains open (Septiari, 2020). This should include food and agriculture products. FAO experts and others have long concluded that the World Food Price Crisis in 2007/2008 crisis was man-made and not the result of natural factors. Without a series of misled policy decisions by several countries, world prices would not have reached the heights that were experienced (Sharma, 2011).

- The Indonesian government, through the Ministry of Agriculture, needs to provide extra support to keep the agriculture supply chain running by providing health protection measures in ports, customs and excise office, quarantines, processing facilities, and cold storage facilities. These facilities must be equipped with adequate personal protection measures such as masks and hand washing facilities or hand sanitizers to protect the workers. This ensures that food and agriculture flow will continue as best as possible without endangering workers which supports this essential supply chain.

[4] The estimation uses meta-regression analysis
[5] Prices are taken from Bank Indonesia's National Strategic Commodity Price Information Center (Pusat Informasi Harga Pangan Strategis or PIHPS) at https://hargapangan.id/

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