

THE LOOMING GLOBAL FOOD CRISIS

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Factors behind the crisis...

- Severe, sometimes erratic, weather (draughts, floods) in producing countries;
- Strong demand & insecurity in major production → record oil prices;
- **Sub-prime** mortgage issue → Declining **dollar value** → sales of portfolio investment → **Shift of investment** from stocks/bonds into commodities and use of farm land, also to **grow fuel** → **self-fulfilling cycle**;
- Drives towards **renewable energy** and greener fuel as West seeks to tackle risk of global warming, are compounding food problems;
- **Population growth** in developing countries such as China → Boom in demand from fast-developing nations
- ALL factors combine to create additional setback for world's economy.

... reflecting in violent price movements

- In Jan.06-Jan.07 period, **cooking oil** price averaged Rp5,500 at fluctuating range of 5,000-5,500)/liter. → Now in Jan.-Feb. 08, at a range of Rp10,000/liter;
- Prices of **soybeans** rose from around Rp3,500 to Rp7,500 in last 3 months;
- Price of standard **rice** rose from Rp75,000 per sack (25 kg) to Rp120,000 or by Rp1,800 per kg; Price of good quality rice--> from Rp 90,000 to Rp 130,000 or by Rp 1,600 per kg. Low-quality price, from Rp 1,500 to Rp 3,900 per *liter*.
- Price of **flour/wheat** rose in last months at varying increase ranging from 7.5% to 10% per month.

Notes about Indonesia's rice

- Peak of rice harvest in 2008 may take place in March-April period;
- Production of unhusked rice in whole 2008 estimated at 58.26 million tons, which will be produced on 12.29 million hectares of fields nationally;
- With population 227.78 million and per capita consumption of 139.15 kg per year, thus national need for rice stands at 31.68 million tons;
- A rice surplus of about 1.30 million tons, excluding year-end left-over stocks at warehouses of national logistics board (Bulog)
- Source: Ministry of Agriculture, DG for Food Crops, Mr. Sutarto Alimuso.

Notes about cooking oil

Price of cooking oil in last 6 months	
<i>Month</i>	<i>Price (Rp/kg)</i>
October	9,033
November	9,114
December	9,224
January	10,147
February	10,709
March	12,437

Price of cooking oil in March	
<i>Week</i>	<i>Price (Rp/kg)</i>
1st	12,581
2nd	12,900
3rd	12,489
4th	11,923
Ave.	12,437

Source: Ministry of Trade, quoted in *Bisnis Indonesia*, April 2, 2008

Notes about CPO

Chart 1. CPO prices year to date movement

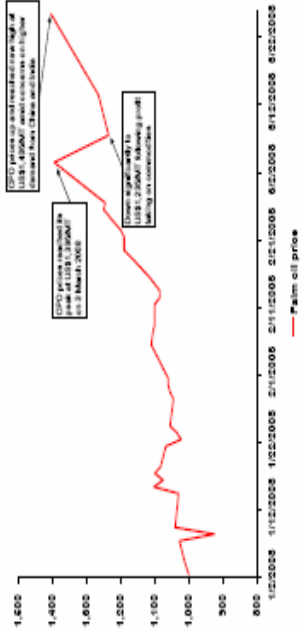


Chart 2. CPO prices surging since mid 2006

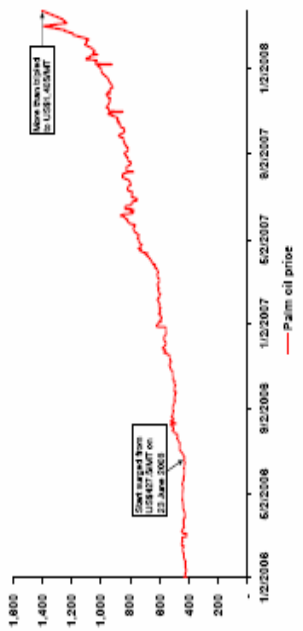
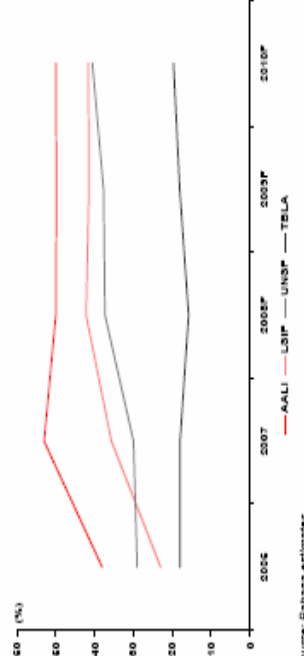


Chart 3. EBITDA margins of plantation companies



Notes about CPO (cont.)

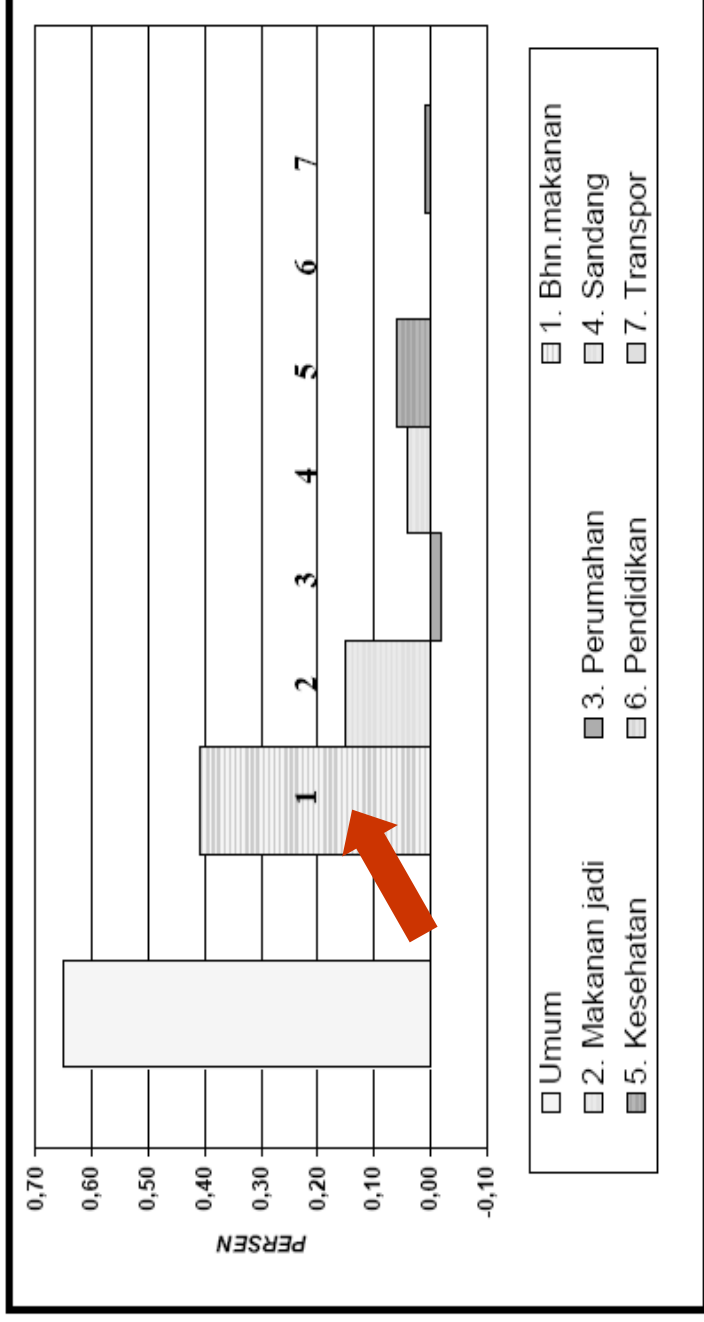
- Crude Palm Oil (CPO)=main ingredient in local cooking oil;
- Difference between prices so great→producers prefer to sell it internationally, despite Govt. imposing a 30% tax on the sector. Eg. Indonesian CPO in Medan is priced \$1360/metric ton compared to more than \$11,900/ton in Holland.
- Local demand for CPO makes up just 15% of total production; the rest goes international.
- (Similar case applies to soybean producers.)

Consumer's Price Index/Inflation

- February inflation hit 0.65%.
- Highest contribution to inflation came from foodstuff → at 1.59%;
- Calendar year inflation (Jan-Feb): 2.44%
- Y-o-Y inflation → 7.40%
- February core inflation; 0.76% or 2.29% throughout Jan-Feb '08; or 7.33% Y-o-Y.

(Source: BPS, February 2008 Inflation)

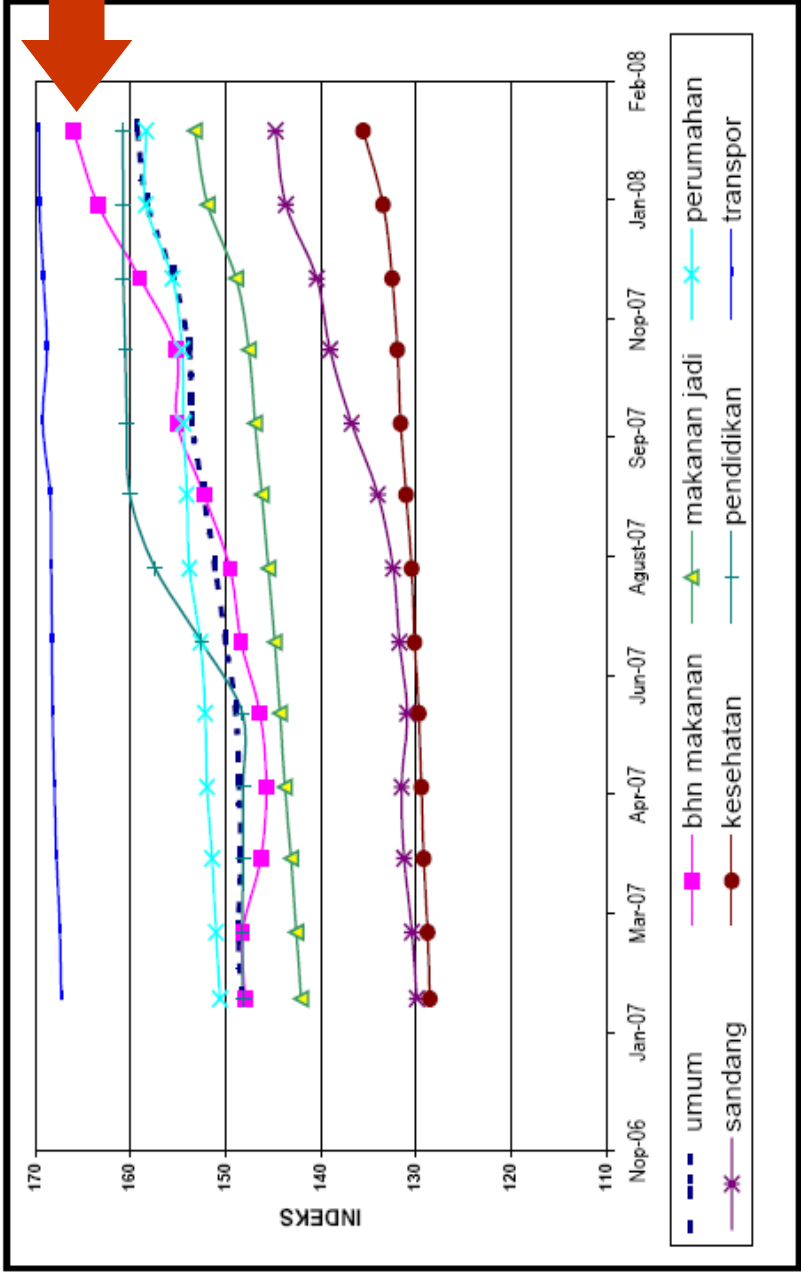
Group contribution to National Inflation, February 2008



Pure grey=general inflation; 1. Foodstuff; 2. Ready-made food; 3. Housing; 4. Clothing; 5. Health; 6. Education; 7. Transportation.

(Source: BPS, February 2008 Inflation)

Index/price movement of food

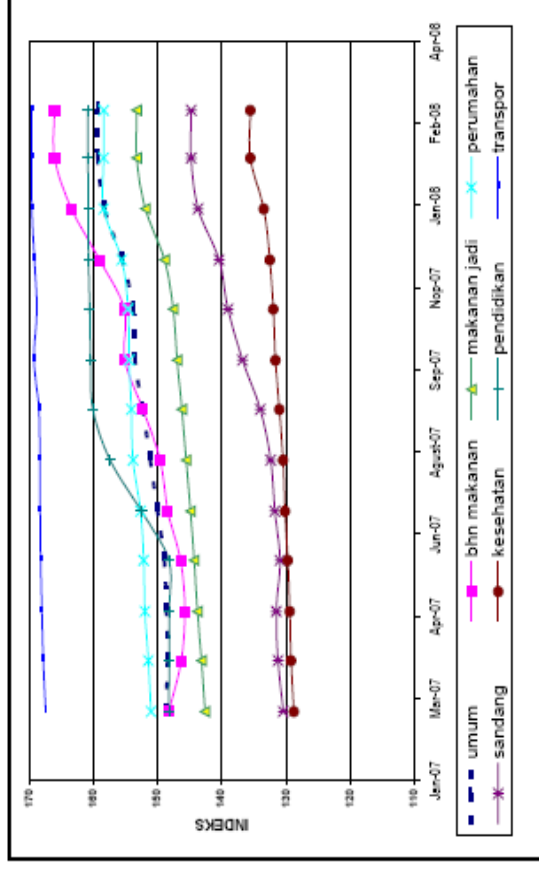


(Source: BPS, February 2008 Inflation)

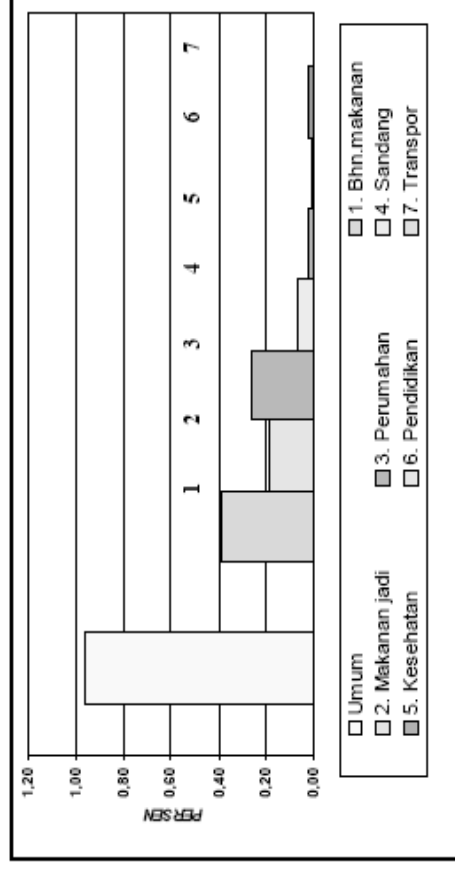
- Situation persists in March 2008;
- In fact March inflation (0.95%) was higher than previous month (0.65%);
- Jan-March inflation= 3.41%;
- Y-0-Y March 2007-March 2008=8.17%.

(Source: BPS, March 2008 Inflation)

Gambar 1
Perkembangan IHK 45 Kota (2002 =100)
Maret 2007-Maret 2008



Gambar 2
Sumbangan Kelompok Pengeluaran Terhadap Inflasi Nasional
Maret 2008



A Hungry Man is an Angry Man!

- Global food prices, based on United Nations records, rose slowly since 2002 and then sharply to 35% in 2007 until Jan. 2008;
- According to world food index from FAO, in 2007 dairy prices rose nearly 80%; grain/wheat 42%;
- Countries: Sub-Saharan Africa, Mexico, EU, Egypt, Argentina, Kazakhstan, China, Vietnam, India, are thinking of, or are already banning/obstructing exports;
- Countries: Cameroon, Mauritania, Burkina Faso, Indonesia, Philippines → discontent and violent protests;

Deep Impacts

ASIAN ECONOMIES, in percentage			
Country/Region	2008	2008 (Revised)	2009
East Asia	8.2	7.3	7.4
Developing countries			
Asia	9.7	8.6	8.5
China	10.8	9.4	9.2
Hong Kong	5.2	4.8	5.1
Indonesia	6.4	6.0	6.4
Malaysia	5.9	5.5	5.9
Philippines	6.2	5.9	6.1
Singapore	6.4	5.2	5.9
South Korea	5.1	4.6	5.0
Taiwan	4.6	4.3	4.6
Thailand	4.6	5.0	5.4
Vietnam	8.2	8.0	8.5
Source: World Bank			

- Basic-commodity price hike will impact to all sectors of economy and cannot be short-term;
- Since food allocation makes 31-50% of consumption in Asia (while only 15% in USA), food problem and volatile prices in international markets are affecting more significantly to the poor in developing countries, than that of sub-prime mortgage.
- Price hikes directly means reduced buying power.
- East Asian growth can be expected to balance World's economic woe.

Government of Indonesia

Feb. 1 Food Policy Package

- Main Objective: To stabilize prices and gradually reduce them to proper rates (Coordinating Minister quoted as saying in media a day earlier)
- **Rice**
 1. Additional subsidized rice rationing, from 10kg to 15kg/month at Rp1,650 per kg per low-income family;
 2. Tax reduction of rice importation from Rp 550 to Rp 450 per kg;
 3. Improved production of rice by expediting distribution of high quality seeds;
- **Cooking oil**
 1. Continuing policy on progressive export tax on palm oil and its derivatives;
 2. Increased export CPO tax to 15 % for prices beyond 1,100 per ton;
 3. Progressive increase of export tax for palm oil used for biofuel;
 4. Continuing policy on income tax whereby govt absorbs tax burdens of domestic producers and sellers of cooking oil;
 5. Market operation on cooking oil, overseeing that it be sold at Rp 2,500 per liter.
- **Soybeans**
 1. Uplifting related income tax;
 2. Reduction of import tax from 2.5% to 0.5%.
 3. Improved production in 2008.

Government of Indonesia

Feb. 1 Food Policy Package (cont.)

- **Wheat/Flour**
 1. Uplifting related income tax;
 2. Continuing policy on income tax whereby govt absorbs tax burdens relating flour/wheat;
 3. Temporary postponement of SNI for this commodity, while taking effort to improve the policy;
 4. Facilitating wheat/flour related SMEs within process of conversion from using kerosene to LPG;
 5. Encouraging food diversification, i.e. flour produced from local tubers.
- **SOEs**
 1. Suasion so SOEs participate in arranging affordable/subsidized food bazaars for 4 months;
 2. Soft loans and interest subsidy up to Rp 2 million per sellers of tofu, tempe, martabak etc, targeting at 5,000 sellers.
- Govt also undertakes food subsidies amounting Rp 3.6 tn for additional allocation of Raskin (rice for the poor) of 5kg/household; continues market operation for cooking oil (totalling Rp 0,5 tn) ; provision of direct assistance program to tempe/tahu producers at a total of Rp 0,5 tn.
- Lastly, revision of APBN 2008 will be sped up to finalize by mid April 2008.
- *(From various sources including Detik.com; MOF website, and online news)*

Measures to stabilize prices of 5 commodities

Five basic commodities here are: 1) rice, 2) cooking oil, 3) soybeans, 4) flour, and 5) kerosene.

1. Rice: 3 policies adopted

- provision of additional subsidized rice from originally 10 kg to 15 kg per head of poor family at Rp 1,600/kg;
- reduce rice import tax from Rp550 to Rp450 per kg.
- increase production through accelerated provision of high quality seeds

2. Cooking oil: 4 policies

- continue and adjust progressive export tax for palm oil and its derivatives, including charges for outgoing palm oil products to 15 % at global price above US\$ 1,100 per ton;
- impose progressive export tax to palm oil for use as biofuel at 5 % at global price above US\$ 1,100 per ton;
- Annul income tax on domestic cooking oil (both free label or packaged types);
- Conduct price operation by selling simple, labelless cooking oil at subsidized price for 6 months at average rate of Rp2,500 per liter;

3. Soybeans: 4 policies

- Annul import tax on soybean;
- Reduce income tax on imported soybean, from 2.5 to 0.5 %;
- Subsidize sales of soybean as raw materials to tofu and *tempe* producers for 6 months at subsidized average rate of Rp1,000 per kg;
- Increase soybean production in 2008.

4. Wheat flour: 6 policies

- Annul import tax and income tax of flour and wheat;
- Postpone application of SNI in flour importation;
- Revise SNI regulation;
- Facilitate participation of flour-producing SMEs within program of conversion of kerosene into LPG through distribution and provision of gas stoves
- Encourage food diversification programs so as to support use of types of flour derived from local tubers;
- Encourage involvement of SOEs in partnership programs so as to provide subsidized bazaars at Rp50,000 per head of poor family, targeting at 2 million families for 4 months. Partnership programs may be in forms of provision of soft loans (subsidized interest rate) to micro producers of tofu, martabak, and such food types, amounting to Rp 2 million each targeted at 50,000 business entities.

5. Kerosene: 4 policies

- Undertake closed distribution of kerosene, using a broadened poor-rice distribution pattern;
- Accelerate kerosene-to-LPG conversion process in 2008 and 2009;
- Intensify operations to mitigate abuse of kerosene abuse;
- Reduce distribution cost and margin of fuel provision to one percent.

MOF Regulations

- Minister of Finance Regulation no. [09/PMK.011/2008](#) on Amendments to the 8th Changes of Minister of Finance Regulation no. 92/PMK.02/2005 on Imposition of *export tariffs* for certain commodities;
- Minister of Finance Regulation no. [10/PMK.011/2008](#) on Government-absorbed Income Tax regarding importation and/or Provision of *wheat and wheat flour*;
- Minister of Finance Regulation no. [14/PMK.011/2008](#) on Government-absorbed Income tax on Provision of domestic cooking *oil* (brandless), and;
- Minister of Finance Regulation no. [15/PMK.011/2008](#) on Government-absorbed Income tax on Provision of Domestic cooking *oil* (branded; packaged).

More on Govt. Policy Measure

- To anticipate global slowdown and soaring prices of strategic foodstuff (such as rice, flour, wheat, soybeans, and cooking oil), govt though MOF take measures to stabilize prices.
- Policy measures by which government absorbs certain taxes is conceived to stabilize price and stimulate investment. → **Effective 1 Feb. 2008.**
- One mechanism is through so-called *Pajak Ditanggung Pemerintah (DTP)* mechanism, by which government should nullify certain tax burdens.
- DTP is incurred tax on certain companies, private or State owned, that is taken over by Government through provision of budget ceiling in its tax subsidies.
- DTP was first introduced in APBN-P of 2002. The notion resembles the meaning of *tax expenditure*, which is popular among OECDE countries.
- In Planned Revision of APBN 2008, Govt eased down taxes for certain sectors, whereby it may stimulate companies dealing with price stabilization and investment.
- DTP is to be conducted in line with PMK No.10/2008, PMK No.14/2008, PMK No. 15/2008 (see above) and KMK No. 776/1992 on calculation, channeling and reportation concerning income tax, value added tax, and other taxes over thermal heat production for electricity; → also in line with PMK No. 178/2007 on government's absorption of taxes relating importation of goods for business activities in downstream areas, natural gas, and geothermal.
- (Source: MOF website; 17 March 08)

More on Govt. Policy Measure (cont.)

- Trade Minister Mari Pangestu opted for provision of Rp. 2500/liter subsidies to low income families (max. 2 liters/month), as implementation of 1 February policy package on food items, in view of soaring prices of cooking oil.
- The subsidies for 2008 will total Rp. 500 bn; first stage channeled Rp. 100 bn to be spent within 2 weeks time in poor pouches in Indonesia.
- To regulate mechanism for distributing cooking oil, Minister of Trade Regulation no. 06/M-AG/PER/3/2008 was issued 4 March 2008 on *Directives for Distributing subsidies Cooking Oil to Society*.



(Source: Ministry of Trade website)

Additional measures...

- With international rice price (US\$618.5-745/ton) higher than domestic price (Rp4,750-6,000/kg) → Govt. drafting regulation to ban rice export; → **dancing with smugglers** may happen but, overall, still considered worth doing;
- Fine-tuning between reducing import duties and increasing export tax for certain commodities e.g. Reg. of Minister of Trade;
- Govt. is to couple Feb.1 policies with *existing* plantation revitalization program aimed to encourage national banking to channel credits to independent plantations and plantation farmers. (Current poor implementation due i.e. *land certification* problem, and weak or overlapping *property rights* arrangement.

Final Cuts

- Short-term and piece-meal as they may be, the policies that the Govt has opted undeniably **did** take effect in some degree to some beneficiaries, although not without additional problems (eg. mistargeting, corruption, etc.). However, overall, such will neither lower prices nor help the poor.
- Also worth remembering, this effect is also **short-term**; while such prolonged fiscal initiatives in medium-term could backfire, and in the long-run lethal;
- Long-term governmental solutions amidst political business cycle looks gloomy enough, especially with impending 2009 election; general lack of coordination; and long-term fiscal pressures;
- Confused and conflicting priorities, e.g. going green biofuel development vs. food sustainability, as much as expertly explanations;

Updates (Apr. 17, 08)

- Rice export policy is subject to 3 conditions: 1) excess stock is to reach 3 million tons; 2) domestic rice price is relatively low; and 3) export is to be done only by **Bulog**, **EXCEPT** for one particular type of rice, namely *beras pulut ketan*, a variant of sticky rice, which can be exported by any party. ← Sources: Press Release of Min. of Trade, and Minister of Trade Regulation No. 12/M-M-DAG/PER/4/2008 on *Directives for Rice Import and Export*.