

Agricultural Economy & Policy Paper: INDONESIA **March 2009**

POLITICAL SITUATION: Susilo Bambang Yudhoyono, a retired Army general, was sworn in as President of Indonesia on October 20, 2004. Mr. Yudhoyono is probably best known internationally for his leading role in Indonesia's fight against terrorism in the wake of the Bali bombing in 2002. He is the first directly elected president in Indonesian history going back to the declaration of independence from the Dutch in 1945. The next round of national elections will take place in October 2009.

MACROECONOMIC SITUATION: Indonesia is an archipelago nation of 237 million people, the world's fourth most populous country, third largest democracy, and largest Muslim country. In the backdrop of an economic and political roller coaster following the economic collapse in 1998, GNP growth has been steadily rising from 3.3 percent in 2001 to an estimated 3.8 percent in 2007. Latest World Bank figures report a Purchasing Power Parity (PPP) per capita GDP of \$3,728. Consumer demand is growing, but slower than food prices and is constrained by raising fuel costs. International financial institutions forecast a continued 3-5 year recovery period for Indonesia, which will be heavily dependent on export earnings, new investment, and economic reforms.

GENERAL TRADE: The overall U.S. trade deficit with Indonesia is generally between \$7 to \$8 billion, with the U.S. importing about \$10 billion. Indonesia is rich in natural resources and exports oil, coal, copper, tin, gold, natural gas, forest products, tropical products, garments, textiles and yarn.

AGRICULTURE AND THE ECONOMY: Roughly 60 percent of Indonesia's population relies on agriculture for their income. The archipelago is favored with regions with excellent soils and rainfall and is a key producer of a wide variety of tropical products. Indonesia is the leading producer of palm oil globally, and has substantial land area that could be brought under cultivation for new oil palm plantations. In addition, production of coffee, cocoa, a wide range of tropical spices, rubber and forest products contribute to Indonesia's export earnings. Rice production of over 50 million tons (paddy basis) annually is substantial, but not enough to meet local consumption.

Indonesian agriculture features both plantation and small holder production modes. Palm oil, rubber and sugar exhibit both types of production, while most other crops, such as rice, soybeans, corn, fruits and vegetables are largely the province of small holder agriculture. Small holders typically farm very small plots, averaging 0.3 hectares, and the tropical climate usually allow for multiple crops annually, so long as irrigation is available.

For animal protein production, Indonesia relies on a spectrum of producers, from large integrated poultry firms to small backyard producers. For beef, roughly 500,000 head of cattle are imported and fed out annually, almost all from Australia. Commercial milk production is confined to a few dairies, as the tropical environment is not generally supportive for dairy operations.

Indonesia imports a wide variety of feed ingredients for the poultry and aquaculture sectors including soybean meal, Distiller's Dry Grain (DDGS), Meat and Bone Meal (MBM). There are no commercial soybean crushing operations in country, although a few small full-fat crushers produce meal, principally from soybeans that are not suitable for direct human consumption.

AGRICULTURAL POLICY OVERVIEW: The one goal of Indonesia's agricultural policy continuously raised since the inception of the Soeharto New Order regime in 1966 is self sufficiency. In Indonesia to this day, self sufficiency means self sufficiency in rice production. In terms of agricultural policy, all other goals are secondary compared to rice self sufficiency. This goal has been so pervasively discussed over the two generations since 1966 that it percolated out of the government offices where it was first vetted to reside with the man on the street. While the goal is elusive, progress toward the goal is impressive.

East, Central and West Java, the three most populous Indonesian Provinces with a combined population of over 100 million produce almost 30 million metric tons of rice annually, plus substantial volumes of corn and other food crops. With a land area approximately equal to that of the State of Pennsylvania, and an estimated population density an order of magnitude more than the Keystone State, it is a remarkable statement of the basic productivity of the agricultural resource base of the island in general, and these three provinces especially. This is especially the case as the average land holding is estimated by provincial officials at a mere 0.3 hectares. Total rice production on the whole of the island of Java in 1965 was only 4.9 million tons, indicating more than a six-fold increase in production since 1965. Over the same period *per capita* rice consumption rose over 50 percent, from an estimated 85 kilograms to 140 kilograms annually, while Indonesia's population increased 140 percent to 240 million. Substantial gains in rice production on Java, Indonesia's most productive rice farming zone, were largely offset by population and *per capita* consumption increases.

Self sufficiency as an Indonesia agricultural policy goal is not unique to rice. Ministry of Agriculture officials frequently mention this goal with respect to corn, animal proteins and other crops, although the main thrust remains rice.

The adoption of a transparent body of regulation for biotechnology is a low priority for the GOI. Revised food labeling (only "packaged" food) regulation is expected similarly. A committee approach is being used, although it appears that the two committees (i.e., biosafety, food safety) have the same members, just a different meeting venue. Meanwhile, transnational corporations working in the arena of transgenic seed development complain quietly about a lack of leadership and direction that stymies their progress. At present, there are no imported or locally developed commercial transgenic seed varieties approved for planting in Indonesia. Approvals for planting and full commercialization are hindered because guidelines for food safety assessment have not yet been approved. Nevertheless, research activity at a relatively low level (e.g., second replication of containment trials) continues. Also continuing is GOI research and development at the agricultural institute in Bogor. Bt corn, Bt Cotton, RR Corn, and RR soybeans have to date passed all contained and field trials under the Biosafety assessment process.

Notwithstanding some confusion in the existing Indonesian regulatory framework for biotechnology, the general impact is relatively benign, especially with respect to imports of LMOs and processed food products with transgenic content. Indonesia imports hundreds of millions of dollars of transgenic products from the U.S. annually, significant quantities or which are for direct consumption. This trade is currently not regulated with respect to transgenic content. Although current plans provide for labeling of food products containing more than 5 percent content derived from transgenic processes, it is not yet a regulatory requirement; a multitude of products over this threshold are currently on retail shelves with no labeling. The one sub-

sector held captive by the regulatory system at present is that for local development, multiplication and use of transgenic seed. This, plus additional confusion in the IPR sector, are major impediments to increased investment in Indonesian biotechnology activities.

Nevertheless, given the recent global price runs for a number of commodities, Indonesia appears to be at the point where serious consideration of biotechnology could come to the fore. Biotechnology presents both an opportunity and a threat to long term US agricultural interests in Indonesia.

GENERAL AND AGRICULTURAL TRADE SITUATION: U.S. agriculture exports (excluding fish and forest products) to Indonesia reached the second consecutive record \$1.5 billion in 2007, up from \$1.1 billion shipped in 2006. Indonesia is now the 8th largest market for U.S. agricultural exports. Indonesia is a leading market for U.S. soybeans, cotton, feed ingredients, apples, grapes, milk powder, and protein meals. Corn and wheat also feature prominently. The recently re-instated GSM-102 Export Guarantee Program, although small, could support expansion of US agricultural exports and opportunities for targeted use of this program in support of overall USG foreign policy goals are ample. Indonesia is expected to continue to be an important market as the economy grows and per capita incomes rise.

U.S. agricultural imports from Indonesia in 2007 totaled about \$2.0 billion, giving Indonesia a trade surplus with the U.S. in agriculture products of about \$500 million. Indonesia's main exports to the United States are rubber, spices, shrimp, cocoa beans and coffee. As the world's largest producer and exporter of palm oil, Indonesia also offers fierce competition for the U.S. in international vegetable oil markets, and US imports of palm oil for human consumption and biodiesel are forecast to grow.

AGRICULTURAL TRADE POLICY: Indonesia's long reported protectionist posture in agriculture trade has moderated recently, largely in attempts by the GOI to limit the impact of global price increases on Indonesian food prices. This is exemplified most notably by the 2007 removal of a ban on rice imports, in place since early 2004. A 10 percent tariff on soybeans has been suspended, and the GOI is now waiving a 10 percent Value Added Tax (VAT) for wheat imports. Nevertheless, sugar imports are constrained through a restrictive licensing system and high tariffs. Since 2000, the GOI has maintained a ban on U.S. poultry imports, due to "uncertainty" about the U.S. halal slaughtering process. On 1 July 2005 Indonesia once again banned imports of U.S. beef and beef products as a result of the second confirmed BSE finding in the United States. This ban was formally lifted in January 2008. A food-labeling requirement for GMO products exists, though it is not being implemented.