

PROMOTING MARKETS FOR HIGH VALUE COMMODITIES IN INDONESIA

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Outline

1. Indonesian agriculture: key features
2. Markets for high value commodities
3. Connecting to global value chains
4. Priority policy agendas: the role of public sector
5. Concluding remarks

Indonesian agriculture: key features (1)

OECD (2012):

- World's 10th largest agricultural producer, ahead of Germany and Argentina
- The largest producer and exporter of palm oil, just ahead of Malaysia
- The second largest producer of natural rubber after Thailand,
- The third largest rice producer after China and India

Indonesian agriculture: key features (2)

- Food crop: tiny farms of 0.3 ha in Java and 1.4 ha in Off-Java
- Perennial crops: both smallholders and large private and state-owned farms
- Agriculture exports 2.5-times higher than imports=>\$ 25.1 billions surplus in 2013
- Palm oil and rubber: 75% of total agriculture exports => diversification toward other high value commodities

Markets for high value commodities

The changes on farm structures (1)

| Farm Size (ha) | 2003 | | 2013 | |
|-------------------|------------------------|------|------------------------|------|
| | Household (million) | % | Household (million) | % |
| <0.10 | 9.4 | 30.1 | 4.3 | 16.6 |
| 0.10-0.49 | 10.4 | 33.3 | 10.3 | 30.2 |
| 0.50-0.99 | 4.8 | 15.3 | 4.6 | 17.4 |
| 1.00-1.99 | 3.7 | 11.7 | 3.7 | 14.3 |
| >2.00 | 3.0 | 9.8 | 3.2 | 12.4 |
| Total | 31.2 | 100 | 26.1 | 100 |

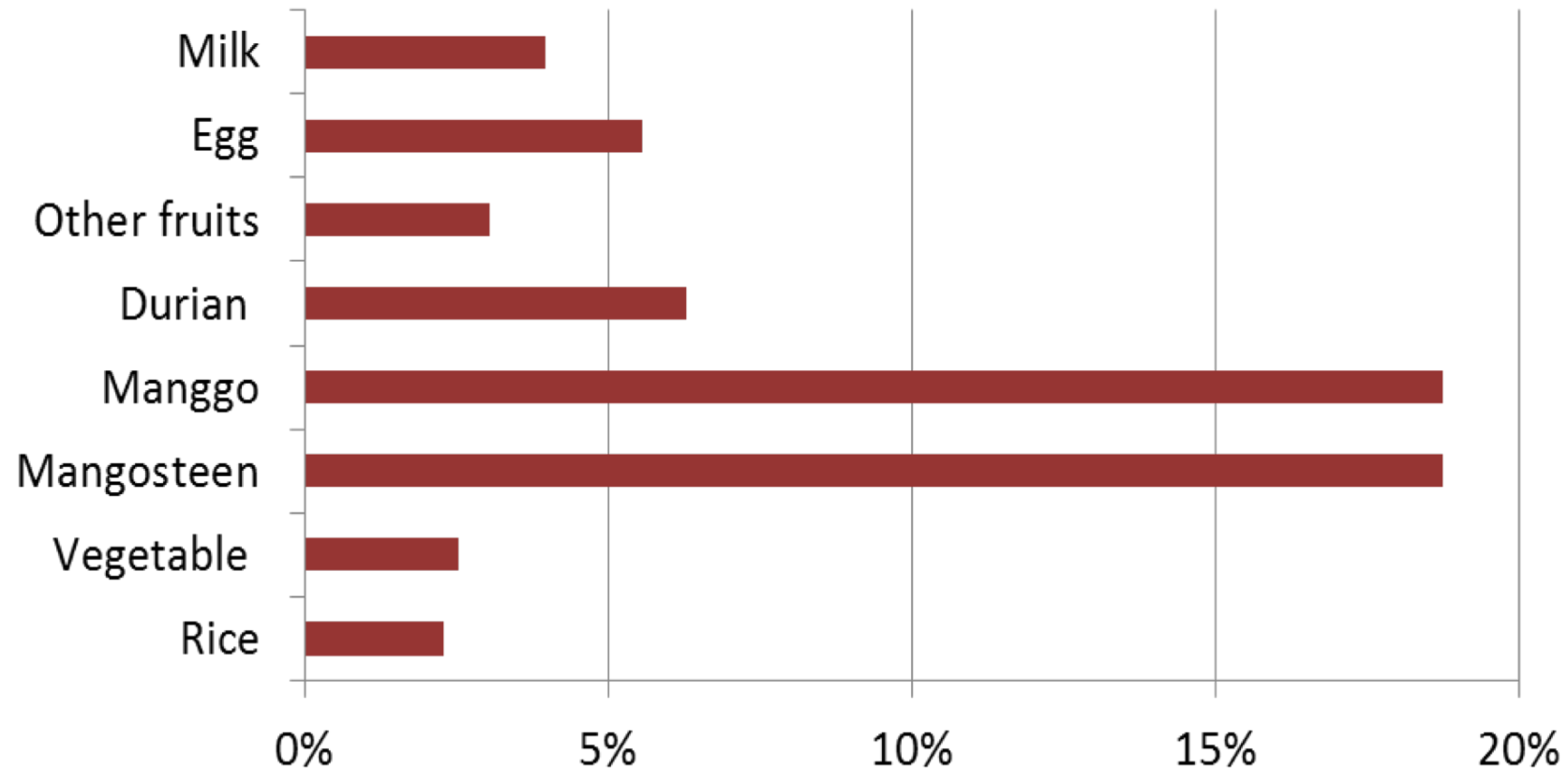
Source: Calculated from Central Bureau of Statistic (CBS)

The changes on farm structures (2)

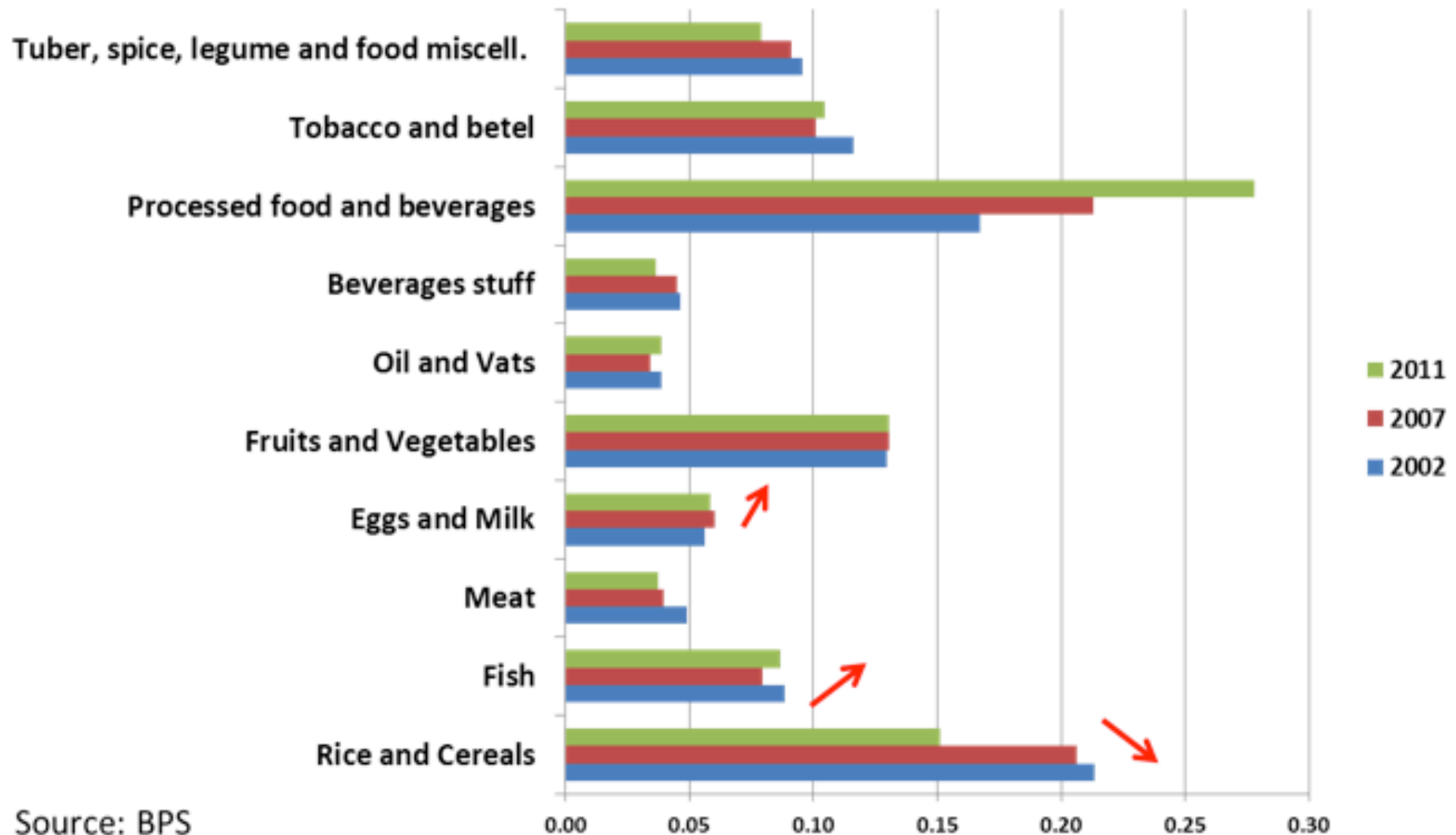
- Some farmers were better position to move out of agriculture
- The percentage of small farms (<0.5ha) has declined in 2003-2013
- The number of agriculture companies have increased from 4 011 in 2003 to 5 486 in 2013 (36.8%)
- Transformation toward more formal and commercial agriculture

The changes in production pattern

Annual growth of Production over 2008-2012



Per capita monthly expenditure on food



Source: BPS

Transformation on diets

- ✓ Declining importance of rice and other staples
- ✓ Growing importance of high-value food products
- ✓ Drivers => rising income and urbanization

Transformation on agricultural markets

- ✓ Growing importance of high value commodities
- ✓ Growth of supermarkets and other retailers
- ✓ Larger role of processors
- ✓ Farmers respond to incentives, transforming, and modernizing
- ✓ Drivers=>change in diets, rising income, trade, and FDI

Increasing role of modern outlets

- Sales of modern outlets (hypermarkets, super markets) increase by 9%/year
 - Appreciated for proximity to entertainment, good quality, and cleanliness
- Traditional outlets (wet markets, street vendors, etc) coexist with average growth of sales 5%/year
 - Appreciated for low price

Connecting to global value chains (1)

- High value commodities particularly supply a growing domestic markets
- Opportunities also exist to supply global market
- Currently only limited quantity of vegetable and tropical fruits exported to some countries such as Singapore, China, Japan, Middle East, Australia, New Zealand

Connecting to global value chains (2)

Major issues:

- Limited and discontinue production
- Quality and food safety
- Standard and certification
- Cost of logistic (transport, storage)
- Trade facilitation (custom, quarantine)
- Participation of smallholder farmers

Priority policy agendas: the role of public sector (1)

1. Increase agricultural productivity and quality in a sustainable manner
2. Promote agricultural innovation system=> research and extension
3. Develop and facilitate standard and certification (products and process)
4. Develop and maintenance of public infrastructures

Priority policy agendas: the role of public sector (2)

5. Promote higher domestic and foreign investment on agriculture
6. Phase out tariff and non-tariff barriers to trade
7. Connecting farmers to trade: partnerships, contract farming, etc

Concluding remarks

- Growing markets for high value commodities (domestic and international)
- Opportunities for smallholder farmers to increase production and income
- Priority policy agendas:
 - a) improving the competitiveness of domestic production
 - b) creating enabling environments for development of efficient domestic markets and connecting to the global value chains

Thank you

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