

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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EXPANSION OF TRADE - AGRICULTURAL POLICYReport of Committee II on the Consultation with  
Indonesia

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Indonesia. The Committee had before it: (i) document COM.II/2(u), prepared by the secretariat, which contained a synopsis of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and (ii) a document, distributed to the members of the Committee by the representative of Indonesia, which contained statistics on exports and imports of agricultural products, farm income, etc. The consultation was conducted on the basis of an opening statement by the representative of Indonesia, discussion on points arising from the opening statement and examination of background documents. The consultation was completed on 17 November 1959. The present report summarizes the main points discussed during the consultation.

GENERAL AGRICULTURAL POLICY

2. In his opening statement, the representative of Indonesia drew the attention of the Committee to some of the salient features of his country's economy. About 80 per cent of the people of Indonesia were engaged in agriculture and more than half of the country's foreign exchange earnings were derived from exports of commercial crops such as rubber, copra, tobacco, tea, coffee, palm oil and sugar.

3. The essential objectives of the agricultural policies of the Indonesian Government were to increase production and exportation of commercial crops, to achieve a greater degree of self-sufficiency in regard to food and clothing materials, to diversify the economy, and to improve economic and social conditions in the agricultural sector.

4. In order to achieve these objectives the Government of Indonesia was endeavouring to extend the area under cultivation, to increase production per acre by the greater use of fertilizer, to encourage the use of better seed, better irrigation facilities and better equipment, and to improve agricultural techniques and practices. Emphasis was being placed on increased production of protein crops and livestock. The transference of families from densely populated areas also was being implemented.

5. As regards the price and market control measures on the important products, rice, copra and sugar, the synopsis drafted by the secretariat clearly set out the way these measures were being effected. It was felt that capoc should also be included in this group. With a prewar production of about 20,000 tons a year, Indonesia had been one of the main capoc exporting countries of the world, with exports of about 15,000 tons annually. After the war, the production had decreased to about 10,000 tons a year, while home consumption had increased. Increased competition among capoc-exporting countries, as well as the increased use of substitutes, were the main factors causing an unfavourable development of the capoc price in world markets. Due to unfavourable economic conditions in Indonesia, the domestic price was higher than the prices in foreign markets. In order to maintain a continuity in the export of this commodity, the Indonesian Government on 17 August 1957 established the Capoc Corporation, a semi-Governmental body with a status of "single-buyer" and "single-seller" of capoc. The Capoc Corporation, with the approval of the Institute for Capoc Affairs (Lembaga Urusan Kapok) determined the purchasing prices as well as the selling prices for home consumption and for export. In order to be able to cover the losses sustained from the export trade, prices for home consumption were fixed at a higher level than the prices for export.

6. While there were no subsidies in Indonesia which could have the effect of hampering international trade, the Indonesian Government did provide fertilizers for rice cultivation at cost price or in certain cases, free of charge. The Indonesian Government also granted a subsidy for the importation of milk preparations for infants.

7. All Indonesian imports and exports were, for the sake of control, subject to licensing. The volume and value of imports depended entirely on the volume and value of the export earnings. It was found necessary that import restrictions should still be maintained for balance-of-payments reasons. Licences were issued on commercial considerations, irrespective of the provisions of trade agreements in force.

8. Since 24 August 1959, the export certificate system had been abandoned; the Indonesian rupiah was re-rated at 45 rupiahs equivalent to one US dollar and all other foreign currencies were adjusted accordingly. In addition, as from 24 October 1955, all products exported from Indonesia, with the exception of oil products had been exempted from export duty.

9. The leader of the Indonesian delegation during the Ministerial Meeting, had stated that under certain prevailing conditions in the economy of Indonesia, it might become necessary, with a view to securing an effective distribution of essential goods in the interest of the people and the economic development of the country, to regulate the trade through Government-controlled trading agencies. The leader had also mentioned that due to certain internal and external factors, Indonesia's economic progress had declined during the year 1957/1958. Export earnings had fallen by almost 25 per cent. It was to be understood that under such circumstances the Indonesian Government considered it necessary to take vigorous measures in order to cope with the situation.

10. Prior to 1958, semi-Government agencies had dealt only with the importation and distribution of rice, fertilizers, cambrics and cloves. In the middle of 1958 raw cotton, weaving yarn, textile sewing thread, newsprint, cement, concrete iron/wires, tinplate, jute bags and wheat flour, constituting approximately 40 per cent of the value of Indonesia's total imports, were added to the list in an effort to achieve some degree of stability. The importation and distribution of these commodities were monopolized by eight Government-controlled agencies, which in their purchases acted in a manner consistent with the general principles of non-discriminatory treatment. The monopoly in the export of sugar and copra was also the responsibility of Government agencies. Applications for import and export licences by the agencies were subject to the general rules in force for all traders.

11. The representative of Indonesia drew the attention of the Committee to the view of his Government that State trading could be accepted if it contributed to an expansion of international trade in accordance with the objectives and principles of GATT and if all trade activities were executed in the spirit of the General Agreement.

12. As regards imports of agricultural products into Indonesia, no non-tariff or protection measures existed for reasons of agricultural policy. Although Indonesia's needs for such products were great, purchases had to be adjusted to the position of the balance of payments.

13. The representative of Indonesia concluded his opening statement by stressing that in order to achieve the objectives of the agricultural policy set by his Government, emphasis was being laid on boosting the production of small-holders by providing loans and supplying fertilizers at cost-price, by improving the irrigation system, by improving the organization and marketing techniques, by training and by modern techniques and practices.

14. Members of the Committee thanked the representative of Indonesia for his comprehensive and informative statement on the general agricultural policies of the Indonesian Government.

15. A member of the Committee, noting that more than one half of the foreign exchange earnings of Indonesia were derived from the export of seven commercial crops, namely, rubber, copra, tobacco, tea, coffee, palm oil and sugar, asked whether it was expected that these seven products would continue to be important sources of export income in view of Indonesia's increasing domestic requirements. The representative of Indonesia stated that while his Government was making every effort to increase production of these commercial crops there was a high domestic demand and a lack of capital which made an expansion of exports difficult. In response to a question on the importance of coffee and rubber to Indonesia's export income, the representative of Indonesia advised the Committee that earnings from the export of coffee and rubber amounted to 3 per cent and 45 per cent respectively. The Government was looking forward to an increase in the production of coffee when conditions in world markets improved.

16. Several members of the Committee expressed particular interest in the objective of the agricultural policy of the Government of Indonesia to increase production and to achieve a greater degree of self-sufficiency. The representative of Indonesia drew the attention of the Committee to the speech given by the Agricultural Minister of Indonesia at the opening of the Agricultural Ministry's five-year plan conference in April 1954. The Minister had pointed out that figures for the production of rice, corn, cassava and sweet potatoes in the past years had shown a considerable increase. The production of rice, for example, had increased from 5,800,000 tons in 1950 to 6,800,000 tons in 1953 resulting in a per capita consumption of 86 kg. during the latter year. Expressed in rice equivalent the production of the four main carbohydrate crops (rice, corn, cassava, sweet potatoes) amounted to 9.7 million tons in 1950 and 12.6 million tons in 1953, or approximately 127 and 166 kg. per capita respectively. According to nutrition experts, the carbohydrate needs of the human body could be met by a consumption of 110 kg. rice equivalent. This quantity could already be covered by the national rice and corn production in Indonesia. It was to be noted, however, that 90 per cent of the Indonesian population preferred rice as the only carbohydrate source, therefore, at the present time for the whole population of Indonesia there was a need of approximately 7,900,000 tons of rice. Taking into account the net annual increase in population of 1.5 per cent, in the course of five years Indonesia would need 8.5 million tons of rice. Compared with the 1953 production of 6.8 million tons, this would mean an increase in the target of the Indonesian Government for the next five years of 1.7 million tons in order to reach a self-supporting stage based on a satisfactory diet standard.
17. In response to a question raised by a member of the Committee concerning the exchange certificate system, the representative of Indonesia informed the Committee that the export certificate system had been abandoned as from 24 August 1959.
18. The representative of Indonesia, in reply to a request for information on the industrialization of Indonesia, stated that industries in his country were still at the infant stage and that the basic policy of his Government was to accelerate the process of industrialization, based on both agricultural and non-agricultural resources. He stressed that it was the view of his Government that, even from the long-term point of view, Indonesia was entirely dependent upon export earnings in order to achieve this objective.
19. A member of the Committee noted that bilateral trade arrangements had long been a feature of Indonesia's trade in agricultural products, and enquired about the basis on which the bilateral trade arrangements were operated. The same member, referring to the long-term prospects of the bilateral arrangements, asked whether such arrangements would continue to be a feature of Indonesia's trade in future. The representative of Indonesia stated that, because of a lack of foreign exchange, his Government had signed bilateral trade agreements with three countries which were also in short supply of foreign-currency, namely, Czechoslovakia, Mainland China and the

United Arab Republic. While it was considered preferable to trade on a multilateral basis, Indonesia had of necessity to take recourse to bilateral arrangements.

### COMMODITIES

#### Coffee

20. In response to a number of questions on exports of coffee from Indonesia the representative of Indonesia informed the Committee that his country was facing marketing difficulties in world markets and particularly in European countries. He stressed, however, that his Government had no special agreement with any particular country for the sale of Indonesian coffee. He stated that, while Indonesia was looking forward to an expansion in coffee exports, the present conditions in world markets were not favourable. Approximately 10 per cent of the coffee produced in Indonesia was consumed in the domestic market whereas the major portion of coffee exports were directed to the six countries of the European Economic Community and to Singapore. The type of coffee which was being exported from Indonesia was mainly of the Robusta type.

#### Fish

21. A member of the Committee noted that at present fish production in Indonesia was not sufficient to meet demand and enquired about the possibility of expanding fish production in the future and whether there were government programmes to encourage such an expansion. He asked which countries were presently supplying the Indonesian market. The representative of Indonesia stated that it was the intention of his Government to increase fish production, but his country still imported quantities of salt fish from Thailand, Hong Kong and Singapore and canned fish from Japan. He drew the attention of the Committee to the view of his Government that Indonesia would not be in a position to achieve self-sufficiency in fishery products for some time.

#### Copra

22. A member of the Committee requested information about home consumption of copra. He asked whether the existing Central Copra Co-operative purchased copra at fixed prices and whether the Indonesian Government imposed regulations on the sale of copra in order to ensure fulfilment of domestic needs. The representative of Indonesia stated that approximately 40 per cent of Indonesia's copra production was consumed domestically and that the average home consumption was about 140,000 tons a year compared with the pre-war figure of 13,000 tons a year. He stated that under the existing system copra producers received an advance on delivery to the Co-operative and received the balance on the final sale of the copra. For a period the export of copra was prohibited in order to fulfil the domestic requirements of copra oil.

Rice

23. A member of the Committee noted that the Indonesian Government had changed in 1957 from a policy of normal commercial transactions to a policy of government-to-government purchases of rice. He enquired about the reason for such change in the Government policy and asked why the previous methods were not found satisfactory. The representative of Indonesia informed the Committee that some improvement could be seen in the situation of rice purchases since the system of government-to-government purchases had been adopted. He stated, however, that it was the intention of his Government to have the producer assume as much responsibility as possible for the marketing of rice.

24. Several members of the Committee requested information on guaranteed prices to producers, fixed prices for consumers, the free market price of rice and the relative costs of local and imported rice. The representative of Indonesia stated that the Government agency, the Food Supply Foundation, purchased rice from the cultivators at guaranteed minimum prices which varied slightly in different parts of the country depending on quality, transportation costs etc. In an effort to keep price fluctuations at a minimum the rice acquired by the Government agency was moved into consumption by the issuance of regular supplies to vital consumer groups, such as the armed services, or by injections into the free market, at prices below the free market price. The representative of Indonesia explained that the free market price was above the Government fixed price due to the excess of demand and some speculation. While there was sufficient rice for the entire population, the area of Indonesia was so large and communication in many areas so difficult that local shortages were difficult to avoid. While it was recognized that this difficulty could be overcome by additional imports the representative of Indonesia emphasized that already one-tenth of Indonesia's foreign exchange expenditure was for the importation of rice and that, due to limited foreign exchange and to the important needs of an expanding economy, his Government was not in a position to appropriate additional funds for the importation of rice. The representative of Indonesia added that, while he was not in a position to supply actual figures, he felt that it would be cheaper to produce rice domestically than to purchase from abroad.

25. A member of the Committee noted that a system of advance payments to rice cultivators had been adopted by the Government of Indonesia. He asked whether such payments were made on the basis of grants or loans and enquired whether the rates of interest which were requested by the Government were lower than the prevailing rates in the non-agricultural sector. The representative of Indonesia informed the Committee that in certain cases the Government provided loans of materials, such as seeds, but generally it was the policy to grant credit at a rate of interest which was merely adequate to cover administrative costs. He pointed out that these Government measures were adopted in an effort to remove the great dependence of the farming community on private money lenders whose practices were not always consistent with the policies of the Government.

26. In response to a question raised by a member of the Committee about the import restrictions on rice, the representative of Indonesia stressed again that, since inflationary pressures created some excess demand for rice, and the export earnings of his country fluctuated to a large extent, the Indonesian Government felt that it could not be expected that import restrictions maintained on rice would be removed unless these difficulties were largely overcome.

#### Pigs

27. A member of the Committee expressed his particular interest in the special plans for development of animal production. He asked whether the production of pigs was carried out simply on the basis of commercial considerations or whether there were any government guarantee systems or subsidy schemes. The representative of Indonesia stated that no government plan was in force in Indonesia for production of animals, including pigs. Of Indonesia's population of 87 million, only some 2 million provided a market for pig products.

#### Sugar

28. In response to a question raised by a member of the Committee about the Government control of sugar, the representative of Indonesia informed the Committee that Government intervention was exercised only in the form of production control.

#### Cotton

29. A member of the Committee noted that no information about State trading in raw cotton was mentioned in the background paper COM.II/2(u). The representative of Indonesia stated that raw cotton was amongst the products which were imported through Government controlled agencies. The value of imports in 1957 amounted to 75,479 thousand rupiahs.

#### Wheat Flour

30. A member of the Committee asked why no information was provided in the background paper with respect to State trading in wheat flour. The representative of Indonesia informed the Committee that wheat flour was also amongst the products which were imported through Government controlled agencies. The value of imports in 1957 amounted to 186,557 thousand rupiahs.

#### Cattle and Sheep

31. A member of the Committee enquired about the proportions of cattle and buffalo stock which were used for draught and dairy stock. He also enquired about the role of sheep in the Indonesian agricultural economy. The representative of Indonesia informed the committee that the cattle and sheep population was small in relation to demand. Many cattle were used for labour and a small percentage for slaughter. There was, however, a

very small-scale export of cattle to Singapore. There was no production of sheep or wool for export but only for slaughter and home consumption. He explained that the wool of tropical sheep was not of sufficient quality to compete on any export market.

#### QUANTITATIVE RESTRICTIONS

32. A member of the Committee asked the representative of Indonesia whether he could give details of the import licensing treatment of dairy products entering Indonesia. He enquired whether there would be any difficulties in the removal of quantitative restrictions on such products when Indonesia emerged from balance-of-payments difficulties. The representative of Indonesia explained that the determination of the amounts available for expenditure on various import products depended on the category in which they appeared. He explained that there were two groupings for each of luxury goods, semi-essentials and essentials. The foreign exchange made available for the importation of goods such as dairy products would depend entirely on its availability and on the needs of the Government to develop the economy.

#### GENERAL

33. Members of the Committee thanked the representative of Indonesia for his frank and informative answers to the many questions asked by the members of the Committee. Several members stated, however, that it would be most helpful to the work of the Committee if the Indonesian Government could provide the Committee with commodity information as set out in Annex B to document COM.II/5. The representative of Indonesia stated that his Government would be pleased to circulate such information through the secretariat.