



Influence of the WTO's Agreement on Agriculture (AOA) Policy on Indonesian Coffee Imports 2007-2013

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Abstract

As one of the policies issued by the World Trade Organization (WTO), the Agreement on Agriculture is an agricultural commodity agreement that binds all WTO member countries. As the fourth largest coffee producer globally, Indonesia must accept this policy as the exit to Indonesian coffee to various countries around the world. The study's findings get three things that influence agreement on agriculture (AoA) on Indonesian coffee imports. First, the opening of market access; Second, the reduction of domestic subsidies; Third, the removal of export subsidies. The method used in this study is qualitative-transcribed.

Keywords: *Coffee Trade, Agreement Agriculture, Neoliberalism.*

How to Cite: Anshari, A., & Lubis, M. A., (2022). Influence of the WTO's Agreement on Agriculture (AOA) Policy on Indonesian Coffee Imports 2007-2013. *Journal of Peasants' Right's*, Vol. 1 No. 1: 30-35

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INTRODUCTION

Since 1995 Indonesia has been a member of the WTO marked by Indonesia's ratification of WTO approval through law No. 7 of 1994 concerning the Agreement's ratification establishing the World Trade Organization (Agreement on the Establishment of the World Trade Organization). Through this, all WTO agreements are legally part of national legislation. Agricultural development in Indonesia and other developing countries is not as simple as expected. The most crucial problem is that the market and politics alike undervalue the agricultural sector and other sectors based on natural resources.

As a consequence of the Agreement on Agriculture (AoA) ratification, Indonesia must lower or eliminate trade barriers such as tariffs and non-tariff barriers to increase market access in other WTO member countries. Caused AoA aims to increase the volume of world trade in agricultural products by reducing or eliminating everything that is an obstacle for its member countries.

In the logic of international trade, the rate should subtract because they are considered an obstacle. Tariffs make imported goods more expensive than domestic prices. Therefore tariffs must be reduced or eliminated so that the pace of goods and free trade can run smoothly. Following Adam Smith's liberalization concept that free trade should be allowed to be accessible without any interference from the government at all. (Fuady Munir, 2004, 3)

When trade tariffs began to subtract and the country's role decreased, Indonesia's trade activities were left entirely to the market mechanism to market mechanisms. The

results in trading activity do not fully benefit domestic economic actors. Often losses such as the inability to compete with imported products and lack of ability of local economic actors to simplify the production process result in accumulated losses.

Just like what happens with coffee, the influence of the WTO through the AoA policy has a significant impact on Indonesia's coffee export-import activities. In terms of exports, Indonesia has a somewhat important role in the distribution of world coffee because Indonesia is currently the fourth-largest producer in the world after Brazil, Vietnam, and Colombia. Mainly Indonesia is recorded as the largest exporting country of robusta coffee globally. Indonesia's coffee exports are almost entirely in the form of dried beans and a small percentage of processed forms.

It has become a problem because it directly impacts coffee farmers in Indonesia. The production turns out to be marketed abroad at a high price. Unfortunately, they can not enjoy the high price because the peasants' coffee is still very cheap. For the rest market mechanism regulates the distribution to the destination country. The high price of coffee does not touch coffee peasants in Indonesia, so they also do not get much from the production process.

RESEARCH METHODS

This research uses qualitative research, which will produce observable descriptive data. Data collection is done through observation. In comparison, the data analysis is also done qualitatively.

RESULTS AND DISCUSSIONS

Impact of Indonesia's Membership in WTO on coffee commodities

On April 15, 1994, in Marrakech, Morocco, the Government of Indonesia signed an agreement to join international trade relations between countries with 124 developed countries in a container called World Trade Organization (WTO). As a consequence of the joining agreement, Indonesia ratified the WTO through Law No. 7 of 1994 as a sign of the legal free trade relations in Indonesia.

The WTO, led by European countries and the United States, was established to establish a multilateral system in open trade and seen as an attempt to create better and prosperous economic conditions for the world's countries and people. Indonesia's participation in the WTO to include Indonesian fish is included in the trade flow and bound by the rule of law.

The description of establishing the WTO includes several areas such as tariffs, non-tariff measures, tropical products, products sourced from natural resources, textiles, and clothing. Thus, agriculture, GATT articles (General Agreement on Tariff and Trade), agreement or arrangement of the results of multilateral trade negotiations, perfect GATT rules and discipline relating to all forms of subsidies and countervailing actions, dispute resolution, intellectual property rights, investment related to trade, functionalization of GATT system, security actions, and services. Looking at the provisions contained in the WTO regulations, it is substantially contrary to the personality of the Indonesian nation.

These provisions and regulations are actual neoliberalism practices applied in Indonesia. As Mansour Fakhri called it, Neoliberalism believes economic growth will happen on its own if the state does not intervene or intervene (Mansour Fakhri, 2003, 192). Further to the fact that the state's task is only a subject that facilitates the practice of Neoliberalism.

Chicago School economists such as Milton Friedman argue that all forms of good order are formed spontaneously from the principle of freedom and that freedom has only

been implemented in an order formed from spontaneous relations. The free market economy is the locus and mode of that spontaneity and freedom, and all forms of planning economy are the "road to slavery." (Friedman, Milton. 1962, 10) Therefore, all political, cultural, social, and legal boundaries and government regulations must keep it minimum. Even if it is done, the rules can only be "negative." It means, "do not interfere."

For these libertarian economists, there is no more perfect spontaneity and volunteerism than relations in a free market. Friedrich Hayek and Milton Friedman made this point most emphatically. Capitalism, Friedman writes, is a prerequisite for political freedom.¹⁰ For this reason, primary attention is paid to the nature of spontaneity in free markets. The nature of spontaneity and volunteerism in market economy transactions is an actual model of freedom. Man is undoubtedly like a garden of diversity: he is homo culturalist, homo politicon, homo legalist, homo spiritualist.

Indonesian Coffee Trade 2007-2013

Coffee is one of the plantation commodities that have an essential role in supporting trade. In 2004 foreign exchange earnings from coffee commodities, in an export value of US \$251 million or 10.1% of the export value of all agriculture. As the world's fourth-largest producer, Indonesia exports an average of 61% of total coffee production. The rest is consumed domestically and stored as carry-over stocks by traders and exporters as reserves in crop failure. The consequence of the large amount of coffee exported is Indonesia's dependence on the situation and conditions of the world coffee market.

In addition to exports, Indonesian coffee imports also experience fluctuations each year. In 2010/2011 and 2012/2103, Indonesian coffee had a decline in imports carried out, while in 2011/2012, there was a tremendous increase in imports to reach 171.7% due to an increase in coffee consumption in the states. However, the increase is nothing compared to public awareness to switch to local coffee. People still like to consume imported coffee, so the government takes import policies to meet the needs of coffee in the country.

Year	Varieties							
	Green Beans		Instant Coffee		Extract, Essence, Concentrat		Roasted Coffee	
	Vol	Value	Vol	Value	Vol	Value	Vol	Value
2007	47,962	72,708	3,893	44,396	1,358	33,313	2,054	5,606
2008	5,948	11,584	6,810	74,189	2,510	46,153	1,582	5,703
2009	14,064	23,773	2,539	18,123	551	4,612	336	1,238
2010	18,550	31,369	3,105	19,133	690	3,734	1,205	3,483
2011	17,300	44,195	9,497	67,150	1,634	5,810	807	4,925
2012	47,129	102,711	8,221	53,066	964	3,894	5,615	14,354
2013	14,624	33,196	12,812	79,119	1,662	9,307	554	4,170

Indonesian Coffee Import Data 2007-2013

Source: Association of Indonesian Coffee Exporters (AEKI)

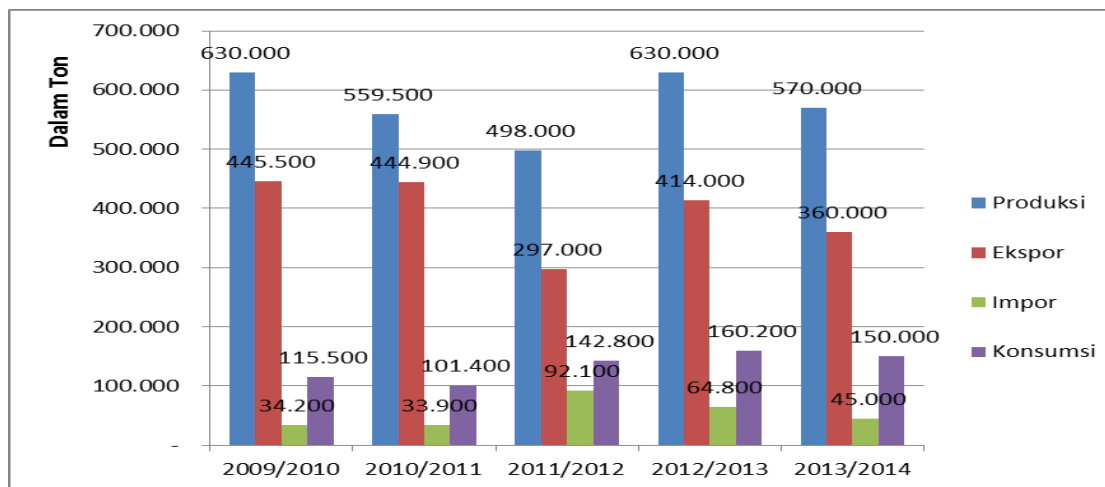
Year	Varieties							
	Green Beans		Instant Coffee		Extract, Essence, Concentrate		Roasted Coffee	
	Vol	Value	Vol	Value	Vol	Value	Vol	Value
2007	321,545	633,918	13,186	50,491	6,096	13,259	935	2,079
2008	468,018	989,399	7,829	49,098	15,618	40,915	727	2,055
2009	510,187	835,999	7,200	41,616	19,647	50,507	708	1,700
2010	432,780	812,531	7,384	40,812	43,870	126,445	812	4,210
2011	346,091	1,034,814	7,196	48,467	69,721	218,358	399	1,855
2012	447,064	1,244,146	71,685	274,598	14,941	42,695	1,526	5,366
2013	500,675	1,101,525	66,045	239,952	9,929	30,107	1,570	6,575

Indonesian Coffee Export Data 2007-2013

Source: Association of Indonesian Coffee Exporters (AEKI)

The following two tables illustrate that Indonesia exports coffee abroad and only imports a few. The export happens to meet the needs of the world market because Indonesia is trapped in the world trading system under the control of the World Trade Organization (WTO). Meanwhile, import policies have been done to meet the domestic market, where every year, there continues to be an increase in domestic coffee demand.

According to the Ministry of Trade of the Republic of Indonesia, the coffee trade also fluctuated. However, coffee demand data increased from 2009 to 2014. Here are the data provided by the Ministry of Trade related to the level of production, export, and



import of coffee, as well as domestic coffee consumption from 2009-2014.

Based on Indonesian Coffee Production, Export, Import, Consumption 2009-2014

Source: Ministry of Trade of the Republic of Indonesia

Based on these data, it is clear that production is more dominantly exported to meet the world's coffee demand. Not only happening in that year, but it is happening in other years. The quality of Indonesian coffee that is very high is in demand by almost all coffee connoisseurs worldwide and causes many coffee exporters who send coffee abroad. The world's coffee companies also can not be separated from this, where they also take Indonesian coffee directly to be sent to the world market.

The Influence of AoA on Indonesian Coffee Commodities

Since AoA performs its function in regulating Indonesia's agricultural policy, three direct influences are affecting Indonesia's coffee trade. The three influences are the opening of market access, the reduction of domestic subsidies, and the reduction of export subsidies.

First. The opening of market access. The fundamental mechanisms in this commitment are to build trade with tariffication regimes, tariff reductions, and the binding of tariffs on each agricultural product. Tariffication, also called comprehensive tariffication, is a mechanism of rate withdrawal without exception. This tariff changes by amending change all non-tariff policies to tariffs worth (equivalent tariff). The tariff reduction is set at an average of 36% or at least 15%, which applies to each tariff point within six years and only applies to developed countries. The tariff decrease is 24% or at least 10% in 10 years for developing countries. The target of the tariff reduction is the non-tariff barrier that has been replaced with tariffs.

Second. The reduction of domestic subsidies. This commitment is realized in the form of reduction policy subsidies both for production and in the form of transfers of funds to producers. The contents of the agreement in the AoA are designed so that the support in the agreement is changed so that it can be eliminated. To accommodate the interests of developing countries, not all domestic aid is eliminated. The aid can be classified into special categories.

Green Box, Blue Box, and Amber Box are the categories. Green Box is a subsidy that indirectly supports agricultural products. This subsidy is considered not to disrupt the market too much.. *Blue Box is a subsidy in the form of direct payments to farmers to limit the amount of production.* In addition, it is also earmarked for government assistance aimed at encouraging the agricultural sector and rural development in developing countries. Meanwhile, the Amber Box is a subsidy considered to disrupt trade directly but may be given temporarily. If only, it will be phased out in stages. (Fuady Munir, 2004, 231).

Third, the reduction of export subsidies. This commitment is intended to discipline the government's policies and actions that assist exports in the form of export subsidies. Reduction of export subsidies is carried out on the target volume of exported commodities and in the form of value (budgetary). The reduction in value is subject to a 36% reduction in quantity and a 21% volume reduction of total exports within six years using the base year for the 1980-1990 period for developed countries. The reduction in value is 24% and 14% for volume reduction within ten years for developing countries. (Fuady Munir, 2004, 231).

Developed countries can protect their farmers. Meanwhile, developing countries do not have sufficient financial resources to do this. Ironically, under challenging circumstances to protect their farmers, developing countries are still under intense pressure in the WTO forum to open the broadest possible market, especially food products from developed countries. The role of developing countries as producers of agricultural commodities over the last two decades has been replaced.

CONCLUSIONS AND SUGGESTIONS

The Agreement on Agriculture (AoA) policy issued by the WTO does force and bind member countries to implement it. As a member of the WTO, Indonesia has also implemented this policy and has a direct impact on Indonesian agriculture, especially for coffee commodities. There are three direct impacts of this policy on Indonesian coffee

commodities, namely; first, opening market access; second, the reduction of domestic subsidies; third, the reduction of export subsidies.

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