

## Policy Brief No. 3

# Mitigating Food Supply Chain Disruptions Amid Covid-19

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### Key Messages

- To contain the outbreak, many regions in Indonesia have implemented Large Scale Social Restriction (*Pembatasan Sosial Berskala Besar/ PSBB*) with varying degrees of restrictions on the movements of people and goods.
- Lack of clarity in industry and transportation restrictions during PSBB risks creating supply disruptions and distribution delays that can result in shortages and inflate prices. This is exacerbated by measures imposed by local governments when declaring PSBB in their areas.
- Authorities should ensure that the entire food supply chain remains active and unhindered. The Ministry of Industry (MOI) should issue permits to all sectors involved in the food supply chain and the Ministry of Transportation (MOT) should allow for these permits to be used for quick verification at checkpoints. The Ministry of State-Owned Enterprises (MSOE) should direct its surveying firms to increase surveying capacity at ports.
- MOI, MOT and local governments should ensure that health protocols are adhered to by industries and transportation providers by clearly specifying sanctions and conducting random checks.
- Local governments should contain the outbreak with minimal disruption to the food supply.



The Covid-19 outbreak has ushered in an unprecedented level of social restrictions across the world. As nations seek to contain the outbreak, governments face the difficult task of balancing the need to enforce physical distancing measures with maintaining food security for their population. International organizations, such as FAO, have warned of such tension playing out, emphasizing that countries need to keep trade routes open and supply chains alive amidst containment measures being implemented (World Economic Forum, 2020). Indeed, this struggle is apparent in the implementation of social restrictions in Indonesia.

As of 1<sup>st</sup> May 2020, over 10,000 confirmed cases of Covid-19 have been reported in Indonesia, mostly concentrated within Jabodetabek<sup>1</sup> (National Disaster Management Agency, 2020; Ministry of Health, 2020a). To slow the transmission, the Indonesian Government has implemented Large Scale Social Restrictions (*Pembatasan Sosial Berskala Besar/PSBB*) which limits certain activities of people and goods movement. As of 21<sup>st</sup> April 2020, twenty regions have implemented PSBB in their areas (Debora, 2020). The health-vs-food tension is playing out quite clearly here, with Indonesian government's Covid-19 Task Force reaffirming its commitment to ensure unimpeded logistics on basic needs (including food), but industry stakeholders expressing concerns due to increasing operational and distribution restrictions (Covid-19 Task Force, 2020a).

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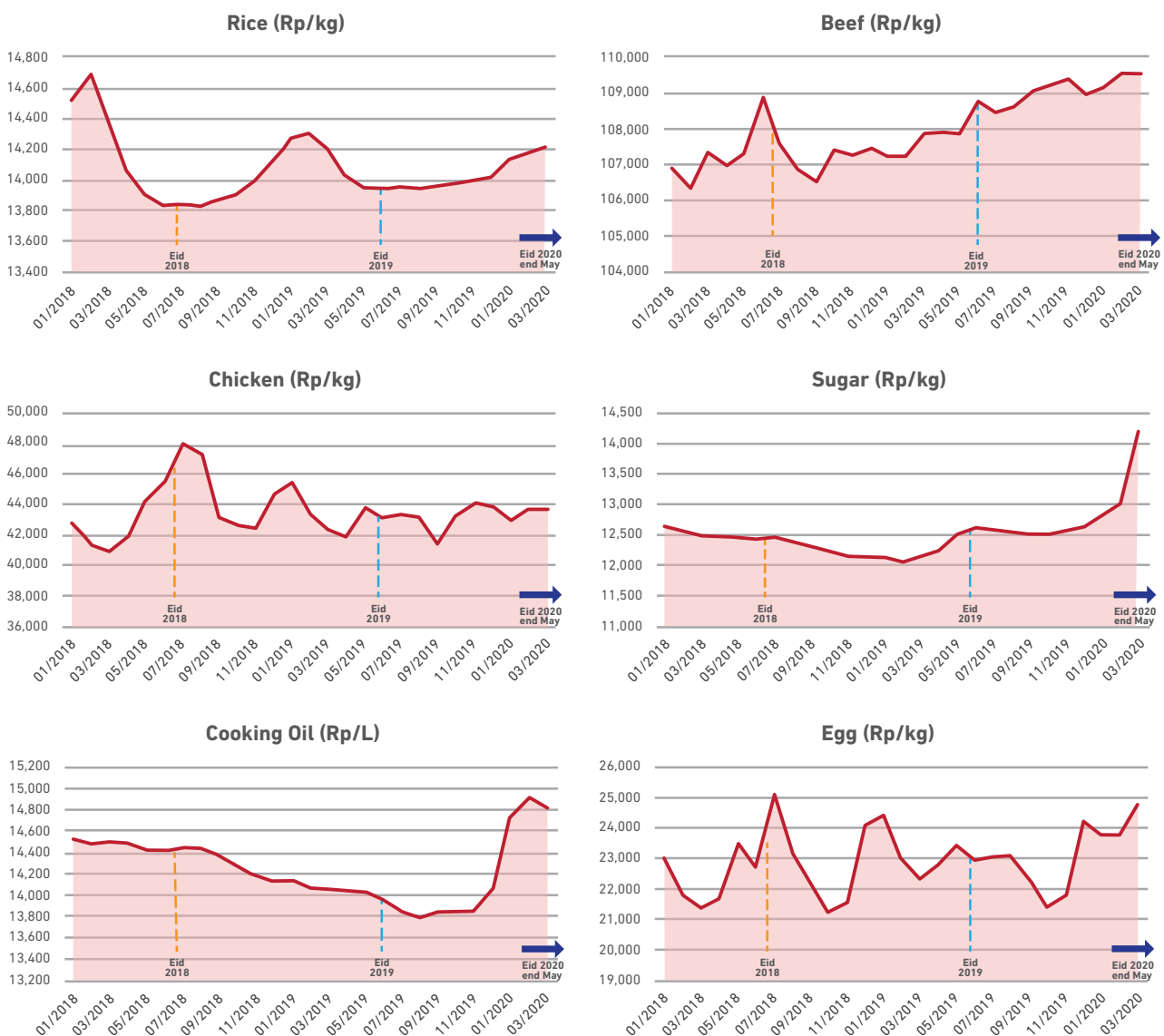
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# Price Volatility Before PSBB

Disruptions in food distribution have been reported even before PSBB were enacted. A week before PSBB was enforced in Jakarta, rice deliveries from West, Central and East Java were delayed despite abundant stocks. The reasons cited were fear of entering the outbreak's epicenter or trucks being held up in Jakarta (Ramadhan, 2020).

An upward drift of food price has indeed been observed prior to PSBB for a variety of reasons. The staple food prices collected from Statistics Indonesia (2020) via CEIC database reported that the average price of main food items, such as medium-quality rice, beef, chicken, sugar, cooking oil, and egg has increased since early 2020, especially in March when Indonesia's first two cases of Covid-19 were announced (Figure 1). With food prices traditionally going up in the month leading up to Eid, this may increase even further under the current economic shock.

**Figure 1.**  
**Monthly Strategic Food Commodities Prices**  
**(January 2018 - March 2020)**



Source: Statistics Indonesia (BPS) via CEIC Database



(Source: Getty Images)

## Industrial Restrictions during PSBB

Ministry of Health (MOH) Regulation 9/2020 gives guidelines on PSBB implementation by local governments and specifies business sectors which can remain operational during the restrictions. This includes food processing, distribution, and retailing. “Production units with a continuous process” must obtain a permit from the Ministry of Industry (MOI). MOI Circular Letter 7/2020 clarified that this entails a “production and mobility” permit, which can be applied for online and which is applicable to all industries, including F&B.

Aside from these ministerial regulations, local governments can issue additional restrictions or exemptions when implementing PSBB in their areas. The provincial government of DKI Jakarta, for example, imposed a mandatory 14-days closure of any work sites with a confirmed Covid-19 case.

Despite a generally quick turnaround time on the online application process and priority on the food industry, such permits can still create significant disruptions when authorities interpret the food industry as facilities that produce the final food products. However, the food supply chain consists not only of food processing facilities but also includes the agricultural supply chain as well as packaging material and other food supporting industries.

According to the Indonesian Standard Industrial Classification (*Klasifikasi Baku Lapangan Usaha Indonesia* or KBLI), food-related industries ranges from food processing (KBLI 107), animal feedstock processing (KBLI 108), food colouring (KBLI 20116), food additives (KBLI 20118), plastic packaging (KBLI 22220), metal packaging (KBLI 25950), food and beverages machineries (KBLI 28250), and more (Indonesia Investment Coordination Board, 2020). MOI needs to ensure that all these supporting industries remain operational for food processing facilities to continue to run.

In addition to that, local governments should also be mindful when prescribing additional restrictions in their PSBB implementation. DKI Jakarta Government, for example, mandates 14-days shutdown of facilities if even a single positive Covid-19 case is detected. Such closure can put further strain on food supplies. DKI Jakarta Government should consider replacing this restriction with a more directed intervention that still allows for the operability of affected facilities as long as strict precautionary measures are being applied to protect the workforce.

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<sup>2</sup> KBLI is one of the standard classification published by the Badan Pusat Statistik (BPS) for economic activities.



# Transportation Restrictions during PSBB

PSBB implementation has caused disruptions in transport logistics. Ministry of Transportation (MOT) Regulation 25/2020 bans ground, sea, and air travel to and from PSBB and Covid-19 transmission red-zone areas between 24<sup>th</sup> April and 31<sup>st</sup> May to prevent mass exodus during Eid Al Fitr holiday (Ministry of Transportation, 2020).

This regulation stipulates transportation checkpoints at main access points such as toll roads and ports. For goods transportation, trucks that carry basic goods, logistics, and medical supplies are exempted (Article 5). While staple foods may be considered as basic goods, checkpoints will create bottlenecks in food distribution and thus should be managed carefully. Food-related goods as outlined above may be deemed non-essential and their transportation blocked.

Minimizing disruption to food distribution between regions is critically important to avoid scarcity in times of pandemic. Top producers of staple food commodities such as rice, chicken, and sugar are all centralized in Java. Central Java is the biggest rice producer with a total production of 5.52 million tonnes in 2019 (Statistics Indonesia, 2020). 51.15% of Indonesia's sugar was produced in East Java in 2018 (Statistics Indonesia, 2018). West Java is the largest producer of chicken meat with a total of 886,752 tonnes produced in 2019. These commodities need to be transported, not just in Java but all throughout Indonesia.

According to Bulog (2020), staple food such as rice<sup>3</sup> is distributed to Sumatera, Kalimantan, Bali, and the Eastern part of Indonesia. Ports play a key role in inter-island transportation of these commodities. With goods transportation now heavily restricted, there are concerns that port checkpoints may not have sufficient manpower to check every incoming shipment from both import and domestic sources. For imports, a temporary measure to increase surveying capacities should be considered. MOI permits should be used for domestic shipments to speed up the cargo verification process.

Jabodetabek and other non-food producing areas depend largely on rice from East and Central Java. If road checkpoints create a long queue of trucks waiting to be checked, this may inadvertently lead to shortages despite abundant stock in producing regions. MOI mobility permit can again be useful here to expedite checking.

While transportation disruptions on the food supply chain must be minimized, it is also important to ensure that food can indeed reach the households. Both local and central governments have taken some initiatives to make it easier for consumers to access food. The government of DKI Jakarta, for example, has created an online ordering service for traditional markets in the capital city. However, it does not offer a door-to-door delivery service for purchases made (PD Pasar Jaya, 2020).

The central government, on the other hand, is more proactive in addressing transportation barriers. The Ministry of Agriculture (MOA) engages the two largest on-demand ride-hailing applications, Gojek<sup>4</sup> and Grab<sup>5</sup>, to provide subsidised delivery services for selected staple foods from the ministry-run markets (Gojek, 2020; Katadata, 2020). MOA should consider extending this partnership to other door-to-door transportation providers to increase the program's reach and capacity. At the end of the day, these are necessary initiatives but focusing on retail distribution will be ineffective if upstream movements are hindered.

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<sup>3</sup> At present, the national food balance has a surplus of approximately 3.5 million tons of rice reserves. While in the February to May paddy fields were able to produce 12.4 million tons of rice. If the stock is added at the Logistics Agency (Bulog) and in the mills, there will be a total stock of 15 million tons of rice (Covid-19 Task Force, 2020).

<sup>4</sup> Now Gojek users can buy staple foods from the MOA's Mitra Tani Market in South Jakarta and Bogor using the app. Shipping costs will be fully paid by MOA (terms and conditions applied). At the moment, Gojek is also developing a delivery partnership with MOA's Toko Tani Indonesia that spreads across Indonesia to run a similar program in the near future (CNBC, 2020).

<sup>5</sup> Following the implementation of PSBB in several areas, Grab also provides delivery services from MOA and other food and beverages retailers across Indonesia through its application under several schemes for its users.

# Policy Recommendations for the Indonesian Government

The following recommendations intend to mitigate the risks of food production and distribution disruption:

- MOI should conduct a complete review of the entire food supply chain to identify which industries are critical suppliers to food processing facilities and equip these with permits. The online application process can be streamlined by programming a KBLI matching function which automatically issues the permit if the applicant's KBLI falls under the list of identified food and food-supporting industries. This permit should also be valid in port and traffic checkpoints to allow for faster verification.
- The Ministry of State-Owned Enterprises (MSOE) should direct state-owned survey firms to conduct urgent recruitment for container checkers at ports. This recruitment drive can target quantity surveyors from other industries that are prohibited to operate during PSBB. Adding more surveyors is crucial to avoid delays in the food distribution process and also can help alleviate some unemployment pressure in other sectors.
- MOI and MOT should form a task force to conduct random checks on hygiene protocols of the food industry and logistics providers. As highlighted in the case of Jakarta, logistics workers may be concerned for their safety when delivering to PSBB areas. MOT should enforce MOT 25/2020 stipulation that logistic providers failing to follow appropriate health protocols can have their license revoked. Meanwhile, MOI has no sanctions for industries failing to provide sufficient hygiene measures for their workers. It may be worthwhile for MOI to specify sanctions so that workers can be effectively protected.
- Considering the risk of disruption in food supply, the Provincial Government of DKI Jakarta should consider revising the mandatory 14-days closure rule into a regular test-trace-constrain regime. Under this procedure, the focus is on regularly testing workers and quickly responding with isolation, contact tracing, and disinfection when a positive case is detected. On identification of cases, the task force should also conduct an on-the-spot review of the facilities' health protocols and allow it to resume operation if minimum standards are met. This reactive action should be enhanced with proactive random spot checks to ensure that health protocols are consistently implemented all the time.

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