

ABSTRACTION

East Java, that contributed 44 percent in national sugar production, is the center of the national sugar industry in the last five year. This fact is supported by sugarcane farming systems in East Java that using irrigated land and dry (non-irrigated) land. However, there are some problems in the sugarcane farming. The problems are not only from other farming that is more profitable than sugarcane farming but also from the decreasing of the land for sugarcane farming. The other problem is that the price of imported sugar, that reflects the efficiency sugarcane farming output in a condition without distortion, influences the revenue of sugarcane farmers because their selling price of sugar is less than the cost of their farming production.

This research use the Policy Analysis Matrix methodologies. The result indicates that sugarcane farming is still profitable from the revenue of the output price. This case is the result of government intervention that support the increase of the revenue from the sugarcane farming system. The government policies include the floor price policy, revenue sharing system between farmer and sugar factory policy, subsidized input policy, and import tariff policy. The sugarcane farming still shows its competitiveness because of government distortion. Without government intervention, reflected from the social price of sugar, sugarcane farming in East Java will suffer of loss. Without government role, through relevant policies, there will be inefficiency in the allocation of domestic resource. Unfortunately, this government distortion cause the domestic consumer have to pay the price that is more expensive than it should be.

Based on this analysis, the sugarcane farming system in East Java as a whole still requires government protection. It will be difficult to survive from the competition, both from the farming system and the domestic sugar versus imported sugar. Even so, the government still can give the protection to prepare self sufficiency of national sugarcane farming and to prepare for the implementation of commerce liberalisation through AFTA in 2010.

Keywords: *Efficiency, Competitiveness, Government intervention, Policy analysis matrix*