

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 10/17/2018

GAIN Report Number: ID1830

Indonesia

Dairy and Products Annual

Indonesia 2018 Dairy and Products Annual Report

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Report Highlights:

Indonesia revised Regulation 26/2017 on dairy partnerships, removing problematic compulsory elements and linkages to import permit issuance. U.S. SMP exports increased 87 percent through August 2018, but challenges loom as established and pending free trade agreements offer tariff advantages to competing suppliers. Post adjusted 10 years of SMP import data to reflect exporting countries reported shipments.

Commodities:

Dairy, Dry Whole Milk Powder
Dairy, Milk, Nonfat Dry

Production:

Expansion of large-scale integrated dairy farms in the last quarter of 2017 has increased fresh milk production to 659 million liters in 2018, compared to 633 million liters in 2017. Ninety five percent of fresh milk is used by industrial dairy processors for a variety of products, including pasteurized/UHT liquid milk, powdered milk, yoghurt, butter and cheese. The remaining five percent is processed by dairy farmers or cooperatives to become pasteurized liquid milk, yoghurt, kefir, butter, or cheese. The dairy processing industry used 601 million liters in 2017. Indonesia does not produce skim milk powder (SMP), although it does produce a small amount of whole milk powder (WMP), which is entirely used by the local processors.

Indonesia's dairy sector operates on two different ends of the production spectrum. On one end, there is a small, yet growing group of modern, efficient, productive, and integrated dairy companies that own about ten percent of the dairy herd, yet contribute 23 percent of fresh milk production. On the other end, are smallholder farmers, which may have only a few cows.

Integrated dairy companies have an average of 5,000 head of lactating dairy cows per farm and are driving the modest annual fluid milk production growth. In general, output on these farms is 20 liters per animal per day, with one large company reporting yields of more than 30 liters per day. Calving intervals for these companies range between 13 to 14 months. Although 99 percent of production still occurs on Java where dairy processors are located, two new farms have been built on Sumatera Island as the industry seeks additional land for expansion.

By contrast, smallholder production units are characteristically inefficient, yielding on average less than 10 liters per animal per day, with calving intervals between 18 to 20 months. Profitability of these smallholders remains low, which in times of high beef prices can lead to large sell-offs of cattle. During such a period from 2012-2014, dairy farmers culled approximately 100,000 head of productive dairy animals. Nonetheless, these small-scale operations still account for 77 percent of fresh milk production. Most of these farmers are members of dairy cooperatives, which collect and sell fresh milk to dairy processors. The payment from the processors is made through the cooperatives in accordance with a price contract agreement, which considers quality parameters (protein and fat content, and bacterial count) set by the processors. In the payments to producers, the cooperatives deduct for management fees, animal health and artificial insemination (AI) services, and feed.

Smallholder farmers are also more susceptible to adverse weather conditions, as evidenced by a prolonged dry season in 2018 that has reduced forage availability. Combined with rudimentary management skills, the lack of forage is contributing to lower quality fresh milk and lower selling prices.

Large farms, anticipating the forage shortage, have imported alfalfa hay, an option that is not economical for smallholder farmers.

The majority of Indonesia's dairy farms use the Frisian-Holstein breed, which has been the dairy breed of choice since the Dutch colonial era. Currently, one integrated company is trying out Jersey cows that are known to consume less feed, are more resistant to diseases and hot weather, and produce milk with higher fat and protein contents.

All live dairy cattle are imported from Australia, which is the only country with a live dairy cattle import protocol with Indonesia. Shortage of dairy heifers, combined with the aforementioned farm management difficulties, limit domestic fresh milk production. Some local dairies augment their breeding programs with genetics imports from the United States.

In recent years, more cooperatives and startup companies have begun producing further processed dairy products such as yoghurt, kefir, butter, or cheese. Salted and unsalted butter are produced locally in limited amount, while cheese is more commonly produced. Indonesian cheese producers are capable of producing many varieties of cheeses, including mozzarella, ricotta, parmesan and cheddar. Cheddar remains one of the most popular cheeses, for both local producers and imports, as it was one of the first types of cheese introduced to the Indonesian market. The majority of imported cheeses are from New Zealand, Australia and the U.S., while butter is mostly imported from New Zealand and Netherlands.

Consumption:

Indonesia's total dairy consumption is 3.8 billion liters, or 3.91 million tons. Approximately 56 percent of consumption is in the form of liquid fresh milk, UHT milk, flavored/fermented milk, evaporated/condensed milk, and cream. The industry produced 1,692 and 1,903 billion liters of these products in 2016 and 2017, respectively. Consumption is forecast to increase an additional 12.5 percent in 2018, reaching 2,142 billion liters, or 2,206 million tons. The remaining 44 percent of consumption includes powdered milk, cheese and bakery uses. The majority of imported SMP is used by the dairy processors to recombine with local milk and other imported ingredients to form reconstituted milk. Only several large producers are producing fresh pasteurized milk, while most others are producing reconstituted milk that is generally cheaper. SMP is also used in powdered milk beverages products, and as ingredients in food manufacturing.

This year's national economic growth is predicted to only reach 5.1 percent, lower than the initial expectation of 5.3 percent. Other headwinds, including a declining rupiah, further dampen consumer demand for imported goods, including dairy. Yet, overall Indonesia's middle class continues to expand at a fast pace, leading to more consumers with disposable incomes. At the end of 2017, the World Bank estimated the number of Indonesians reaching the middle class would reach 52 million, accounting for 43 percent of total national household consumption.

Trade:

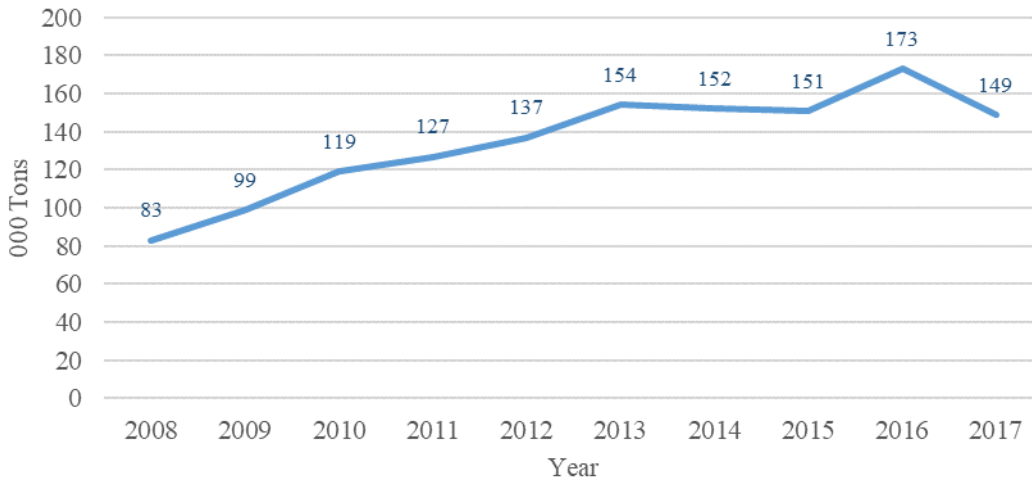
To provide better consistency in data for imports of SMP, Post is adjusting 10 years of PS&D data on SMP to reflect reported exports to Indonesia. The resulting revised PS&D tables are as noted below:

PSD: Skimmed Milk Powder (revision)

Dairy, Milk, Nonfat, Dry	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Market Begin Year	Jan 2008	Jan 2009	Jan 2010	Jan 2011	Jan 2012	Jan 2013	Jan 2014	Jan 2015	Jan 2016	Jan 2017
Indonesia	New Post	New Post	New Post	New Post	New Post	New Post	New Post	New Post	New Post	New Post
Beginning Stocks	11	11	11	11	11	11	11	11	11	11
Production	0	0	0	0	0	0	0	0	0	0
Other Imports	83	99	119	127	137	154	152	151	173	149
Total Imports	83	99	119	127	137	154	152	151	173	149
Total Supply	94	110	130	138	148	165	163	162	184	160
Other Exports	0	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0	0
Human Dom. Consumption	83	99	119	127	137	154	152	151	173	149
Other use, Losses	0	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	83	99	119	127	137	154	152	151	173	149
Total Use	83	99	119	127	137	154	152	151	173	149
Ending Stocks	11	11	11	11	11	11	11	11	11	11
Total Distribution	94	110	130	138	148	165	163	162	184	160
CY Imp. from US	0	0	0	0	0	0	0	0	0	0
CY Exp. to US	0	0	0	0	0	0	0	0	0	0
TS = TD	0	0	0	0	0	0	0	0	0	0

Indonesia remains a price sensitive market for SMP. SMP imports for the last five years have been stagnant at approximately 150,000 tons annually, with the exception of 2016 when the global prices led to increased demand.

SMP Import to Indonesia 2008-2017



Source: Global Trade Atlas

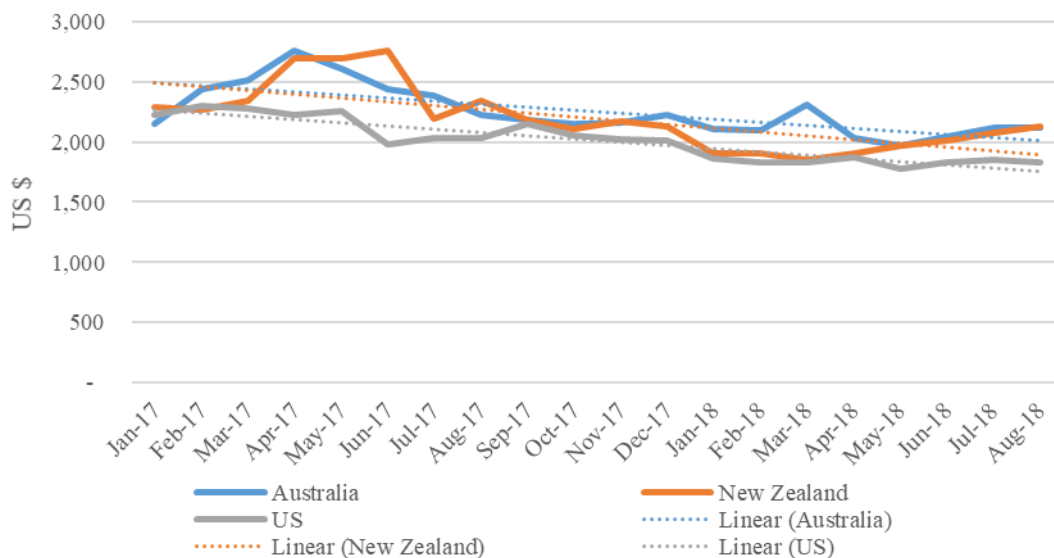
SMP imports in the first semester of 2018 reached 79,000 tons, on par with first semester 2017 imports. However, beginning in the second quarter of 2018, a pronounced price difference between U.S. and Oceania SMP appears to have helped increase market share for U.S. products. Through August 2018, U.S. SMP exports reached 40,000 tons, an 87 percent increase from 2017.

In 2019, SMP imports are forecast to increase modestly to 155,000 tons, as stronger demand is balanced with a weakening rupiah and a government push to reduce imports.

Competition

As noted in the below price comparison, in the past year, the U.S. has been price competitive with other suppliers; however, existing and future Free Trade Agreements offer other suppliers lower import tariffs vis-à-vis the U.S., which poses a persistent threat to U.S. competitiveness.

SMP Unit Price Comparison 2017-2018



Source: Global Trade Atlas

The ASEAN – Australia - New Zealand Free Trade Agreement (AANZFTA) will eliminate Oceania’s SMP import tariff beginning 2020. Australia and Indonesia announced the substantive conclusion of negotiations on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) on 31 August 2018 (please see [ID1825](#)). The IA-CEPA provides preferential access for a number of Australian agricultural products, including the elimination or reduction of tariffs for on a number of dairy products beginning 2019. Meanwhile, trade agreement negotiations between the EU and Indonesia are ongoing. As noted in the below comparison table, all U.S. dairy products are currently charged five percent import tariff.

Commodity (HS code)	Year		
	2018	2019	2020
Australia & New Zealand (under AANZ FTA)			
Milk and cream, concentrated not containing added sugar or other sweetening matter, in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5% (0402.10)	4%	4%	0%
Milk and cream, concentrated not containing added sugar or other sweetening matter, in containers of a gross weight of 20 kg or more (0402.21.20)	4%	0%	0%
Milk and cream, concentrated not containing added sugar or other sweetening matter, other (0402.21.90)	4%	4%	0%
Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter (0404.10)	0%	0%	0%
Anhydrous butterfat (0405.90)	0%	0%	0%
Lactose and lactose syrup, containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter (1702.11)	0%	0%	0%

European Union			
Milk and cream, concentrated not containing added sugar or other sweetening matter, in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5% (0402.10)	5%	5%	5%
Milk and cream, concentrated not containing added sugar or other sweetening matter, in containers of a gross weight of 20 kg or more (0402.21.20)	5%	5%	5%
Milk and cream, concentrated not containing added sugar or other sweetening matter, other (0402.21.90)	5%	5%	5%
Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter (0404.10)	5%	5%	5%
Anhydrous butterfat (0405.90)	5%	5%	5%
Lactose and lactose syrup, containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter (1702.11)	5%	5%	5%
United States of America			
Milk and cream, concentrated not containing added sugar or other sweetening matter, in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5% (0402.10)	5%	5%	5%
Milk and cream, concentrated not containing added sugar or other sweetening matter, in containers of a gross weight of 20 kg or more (0402.21.20)	5%	5%	5%
Milk and cream, concentrated not containing added sugar or other sweetening matter, other (0402.21.90)	5%	5%	5%
Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter (0404.10)	5%	5%	5%
Anhydrous butterfat (0405.90)	5%	5%	5%
Lactose and lactose syrup, containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter (1702.11)	5%	5%	5%

Stocks:

Dairy manufacturers import powder on an as-needed basis, and any inventory can be considered pipeline stocks. All locally produced WMP or its equivalent is used in country. As a result, WMP and SMP stocks are expected to remain low and relatively unchanged.

Policy:

The Ministry of Agriculture (MoA) issued Regulation 26/2017 (please see [ID 1722](#)) on July 17, 2017, requiring local milk processors to procure domestic milk from local producers, and for dairy product importers to fund activities to promote milk consumption as a condition for obtaining import permits. Also known as, “Partnership Agreements”, the MoA officials noted its goal was to support smallholder farmers by increasing demand for domestic milk, improve domestic milk quality, and to provide price support farmers. The ambiguous language of the regulation provided few details on how much local milk processors had to procure or how much importers would need to invest in farm-level assistance or promotion to obtain import permits. The regulation simply stated that the Directorate General of Livestock and Animal Health Services (DGLAHS) would calculate the “appropriate” amount by taking into consideration processors’ capacity and local milk production, while those businesses failing to

complete partnership agreements would be subject to sanctions, including suspension of import permits for one year or revocation of business license.

In February 2018, DGLAHS issued a standard operating procedure for these requirements, which stated partnership agreements should be submitted by March 2018, and businesses should provide activity reports by October 2018. The timeline indicated reports would be considered prior to the issuance of first semester 2019 import permits.

Under pressure from trading partners, on July 20, 2018, MoA amended Regulation 26/2017 with Regulation 30/2018 (please see [ID1822](#)). In the revised regulation, partnership agreements are no longer compulsory; the clause stating that MoA will consider the partnerships when deciding on issuing import recommendations is eliminated; and the penalty of withholding import recommendations for one year for failing to comply with the partnership requirement was removed. MoA further revised Regulation 26/2017 on July 30, 2018 with Regulation 33/2018 (please see [ID1824](#)). This second revision eliminates any notion that the partnership agreements are compulsory, deletes mandatory reporting requirements, removes all remaining sanctions associated with non-compliance, and deletes the clause stating that dairy processors must (within three years) establish their own plants that only procure milk locally.

Reaction to the amendments

Following these revisions, in late August 2018, DGLAHS announced that it had received 99 proposals from 30 dairy processors and 88 importers, worth US\$51.8 million. In response to a backlash of criticism from domestic producer organizations for rescinding the local purchase and promotion mandate, MoA stated publicly that they would continue to “encourage” dairy processors to form partnerships to buy local milk, invest in dairy production, and to promote local fluid milk consumption. MoA officials have referenced a “substitute regulation” that may be issued to provide additional support to producers; however, details on such a regulation have yet to emerge.

The full impact of these amendments may only be assessed during the next import issuance period in November-December 2018. Some importers are concerned MoA may still have an implicit requirement that importers must demonstrate they are supporting the local industry as a condition for obtaining a permit to import dairy products. Likewise, while most dairy processors already held partnerships with dairy farmers and cooperatives long before it was required, many are taking a wait and see attitude regarding the necessity of providing official partnership agreements. It is expected that many importers and local dairy processors will continue to provide partnership agreements to ensure access to imports.

Production, Supply and Demand Data Statistics:

PSD: Whole Milk Powder

Dairy, Dry Whole Milk Powder	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	12	7	7	7	0	7
Production	77	76	78	81	0	93
Other Imports	45	39	50	46	0	50
Total Imports	45	39	50	46	0	50
Total Supply	134	122	135	134	0	150
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	127	115	130	127	0	143
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	127	115	130	127	0	143
Total Use	127	115	130	127	0	143
Ending Stocks	7	7	5	7	0	7
Total Distribution	134	122	135	134	0	150
CY Imp. from US	0	0	0	0	0	0
CY Exp. to US	0	0	0	0	0	0
TS = TD	0	0	0	0	0	0

Note: Number in the last column of each year is not official USDA figure

PSD: Skimmed Milk Powder

Dairy, Milk, Nonfat, Dry	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	11	11	0	11
Production	0	0	0	0	0	0
Other Imports	165	149	145	150	0	155
Total Imports	165	149	145	150	0	155
Total Supply	176	160	156	161	0	166
Other Exports	2	0	1	0	0	0
Total Exports	2	0	1	0	0	0
Human Dom. Consumption	163	149	144	150	0	155
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	163	149	144	150	0	155
Total Use	163	149	145	150	0	155
Ending Stocks	11	11	11	11	0	11
Total Distribution	176	160	156	161	0	166
CY Imp. from US	0	0	0	0	0	0
CY Exp. to US	0	0	0	0	0	0
TS = TD	0	0	0	0	0	0
Note: Number in the last column of each year is not official USDA figure						