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Indonesia

Dairy and Products Annual

Indonesia 2017 Dairy and Products Annual Report

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Report Highlights:

Sluggish consumer demand and uncertainty over implementation of new import requirements are clouding prospects for non-fat dry milk powder imports. While the intent of the new import requirements is to stimulate local milk output, a variety of production challenges and constraints still hinders growth in the local sector. U.S. dairy powder exports continue to face stiff competition from New Zealand and Australia.

Executive Summary:

Whole milk powder (WMP) and non-fat dry milk (NFDM) imports are forecast to remain stagnant through 2018. This pessimistic outlook stems from uncertainty created by new import requirements and general sluggishness in consumer demand. U.S. powder sales are down in 2017 due to lower prices offered by other suppliers, particularly New Zealand and Australia. A recovery in U.S. sales in 2018 will hinge on price relationships and implementation of the new import requirements. The objective of the new import regulation is to stimulate domestic production. The regulation includes local procurement requirements as a condition for import approvals. However, many fundamental and structural constraints limit capacity to grow milk production in Indonesia. While a group of well-managed modern dairy farms account for about 23 percent of production, the rest of the sector is composed of relatively inefficient small-holders.

Post updated historic import data based on exporters' reported shipments, and consumption estimates were adjusted accordingly.

Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Production:

With ongoing construction and expansion of new large-scale integrated dairy farms, fresh milk production is estimated at 620 million liters in 2017, up slightly from 610 million liters in 2016. Production is forecast to continue growing in 2018, reaching 638 million liters. Most of this increase in domestic milk production will go to meet the still growing demand for fluid milk, but it will also contribute to growth in whole milk powder production, which is forecast to grow slightly to 78 million tons in 2018. There is no local nonfat dry milk (NFDM) production.

Indonesia's dairy sector has two very distinct scales of production. First, a small group of modern, efficient, productive, and fully integrated dairy companies own about ten percent of the dairy herd, yet contribute 23 percent of fresh milk production. These well-managed companies are driving Indonesia's modest annual fluid milk production growth. In general, output on these farms is 20 liters per animal per day, with an average calving interval of 13 to 14 months. Two new dairy farms, with a total population of 8,000 head, are expected to become fully operational in 2018. In addition, an existing farm is in the process of expanding to 20,000 head in 2018. Even though two new farms have been built on Sumatera Island, Java still accounts for 99 percent of the dairy population.

The second type of production, which accounts for the vast majority of Indonesia's dairy operations, is small production units, with two to three cows. These production units are characteristically inefficient, with low productivity. If the price of beef is right, these farmers often prefer to sell their cows for beef slaughter rather than to maintain them for milk production. Dairy cattle numbers on these operations

have still not recovered from a major sell-off in 2012-14, when dairy farmers culled productive dairy animals to take advantage of high beef prices. On average, milk yield is less than 10 liters per animal per day, and calving intervals are between 18 and 20 months. These producers sell fresh milk to collectors from cooperatives. Profitability for these small-holders can be quite low. Nonetheless, these small-scale operations account for 77 percent of fresh milk production. A variety of constraints limit production growth among these small-holders, including: lack of quality feed, unhygienic milking and handling conditions, infrastructure and marketing bottlenecks, and low-level management skills. But most importantly, these producers lack access to improved dairy genetics needed to enhance productivity.

Led by the Ministry of Agriculture (MOA), several Indonesian Ministries have plans to boost dairy production. All these plans recognize the need to enhance dairy genetics through live dairy heifer imports. In addition, in what may prove to be a counterproductive strategy, in July 2017, MOA issued a regulation that would require local dairy importers/processors to procure milk locally, invest in the local dairy industry, and/or “promote” the local industry. The importers/processors must do one of these activities as a condition for obtaining import permits. Most of the large dairy processors already have commercial partnerships with dairy cooperatives, and assist and advise small-scale dairy farmers. The processors also provide technical assistance to increase milk quality, which is notoriously low.

However, because local production is insufficient and low quality, most dairy product importers and other processors don't have commercial relationships with local producers. Thus, it may difficult for these companies to comply with MOA's new regulation.

Consumption:

Due to sluggish overall consumer demand, WMP and NFDM consumption is forecast to decline slightly through 2018. WMP and NFDM are used as ingredients in a wide variety of dairy and food preparations. During 2017, demand for food preparations has been flat, possibly reflecting reduced consumer purchasing power. Demand for dairy-based products is still quite price elastic in Indonesia, so with any general increase in the cost of living, dairy products would be the first food product consumers forgo. The exception to this is fluid milk, which still shows solid growth in demand. An expanding middle class, seeking new sources of high quality proteins, is driving the demand for fluid milk.

Trade:

Due to stagnant consumer demand, and uncertainty over import policy, NFDM and WMP imports are expected to decline in 2017, and then remain flat through 2018. To a certain extent, increases in lactose, anhydrous fat milk, and whey powder imports will compensate for the decline in NFDM and WMP imports. Nonetheless, the lackluster nature of the market is expected to continue. The continued robust fresh milk demand will be satisfied by the marginal production increases in the local dairy sector. Due to stiff competition from Oceania, U.S. dairy powder sales are down in 2017. Price relationships will determine whether U.S. sales rebound in 2018.

Stocks:

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

Policy:

As of October 10, 2017, MOA has 99 U.S. dairy plants listed as approved to export to Indonesia, an increase from 97 plants in October 2016.

Dairy products are currently charged a five percent import tariff. Beginning in 2019, the ASEAN-Australian-New Zealand Free Trade Agreement will remove import duties on Australia and New Zealand origin milk products. This obviously will result in a fundamental loss of competitiveness for U.S. powder.

As mentioned above, in July 2017, MOA issued a new regulation that requires local milk processors to form “partnerships” with local milk producers. Through these partnerships, processors are to procure an “appropriate” amount of local milk. MOA’s Directorate General of Livestock and Animal Health Services (DGLAHS) will determine just how much needs to be procured based on processors’ capacity and the local area’s milk production. It is unclear how this calculation will be made, which is leading to a great deal of consternation among dairy processors. Reportedly, DGLAHS is developing a standard operating procedure for this determination, which is to be issued before the end of October 2017. Other provisions in the regulation require dairy product importers to fund activities to promote milk consumption and/or invest in the local dairy sector at the farm level. Furthermore, the regulation stipulates that businesses handling dairy products must have their own milk processing unit within three years.

While most processors already procure locally, they also need to import significant quantities of powder. In addition, numerous local companies import powders and then resell to local food manufacturers. Finally, there is another group of companies that import value-added processed dairy products (e.g. cheeses, yogurt) and then sell to the retail and/or food service sectors. As a condition for obtaining import permits, this new regulation will require all these business to establish one of the aforementioned types of “partnerships” with the local dairy production sector. Due to limited local milk production, and tight competition in procuring local milk, importers may have difficulties in complying with the new regulation, which would result in failure to obtain MOA’s import recommendation. This uncertainty is clouding prospects for import growth in 2018, and could also have a negative impact on U.S. milk powder sales.

Production, Supply and Demand Data Statistics*:

(*Post updated historic import data based on exporters' reported shipments. Consumption data was then modified to reflect the resulting changes in total supplies.)

PSD: Whole Milk Powder

Dairy, Dry Whole Milk Powder	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	7	7	7	7	0	7
Production	73	75	73	77	0	78
Other Imports	52	42	50	36	0	36
Total Imports	52	42	50	36	0	36
Total Supply	132	124	130	120	0	121
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	125	117	123	113	0	114
Other use, Losses	0	0		0	0	0
Total Dom. Consumption	125	117	123	113	0	114
Total use	125	117	123	113	0	114
Ending stocks	7	7	7	7	0	7
Total Distribution	132	124	130	120	0	121
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: Nonfat Dry Milk

Dairy, Milk, Nonfat Dry	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
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	205	173	210	163	0	163
Total Imports	205	173	210	163	0	163
Total Supply	216	184	221	174	0	174
Other Exports	1	0	1	0	0	0
Total Exports	1	0	1	0	0	0
Human Dom. Consumption	204	173	209	163	0	163
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	204	173	209	163	0	163
Total use	204	173	210	163	0	163
Ending stocks	12	11	11	11	0	11
Total Distribution	216	184	221	174	0	174
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

