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GAIN Report

Global Agricultural Information Network

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POLICY

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Indonesia

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Indonesia Issues Local Content Requirement for Dairy Importers

Report Categories:

Trade Policy Monitoring

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Report Highlights:

The Ministry of Agriculture recently issued a regulation that will require dairy businesses to buy local milk and/or invest in local on-farm dairy production activities. The penalty for failing to comply with this regulation includes withholding import recommendations for dairy products. It is still unclear how this regulation will be implemented, but it potentially could have a negative impact on U.S. dairy product exports.

General Information:

On August 2, Post obtained a copy of Minister of Agriculture Regulation No. 26, 2017, on “Milk Supply and Distribution.” As a condition for obtaining approval to import dairy products, this regulation requires local milk processors to procure local milk, and dairy product importers must fund activities to promote milk consumption. In addition, both entities are to invest in the local dairy sector at the farm level. Local processors rely on imported dairy powder for approximately 85 percent of their dairy ingredient needs; consequently, compliance with this regulation will be critical to processors’ commercial viability. However, the language of the regulation is ambiguous, and does not specify how much local milk processors must procure or how much they must invest to comply. The regulation merely states that the Directorate General of Livestock and Animal Health Services (DGLAHS) will calculate the “appropriate” amount by taking into consideration processors’ capacity and local milk production. The regulation does not mention how this calculation will be made, although reportedly DGLAHS is currently developing a standard operating procedure for this determination. Nonetheless, local processors feel they can comply with the regulation as they had been expecting it for some time, and most already buy some local milk.

All businesses must submit their plans for “partnering” with local milk producers, and the DGLAHS will approve these plans and use them when considering whether to issue import permits. The regulation implies that companies whose plans aren’t approved or who fail to comply with the provisions on partnerships, including failure to submit production and distribution reports regularly, may be prevented from obtaining approval to import dairy products. The regulation also seems to ban businesses from merely trading/importing dairy products, as within three years, all businesses handling dairy products must also be milk processors.

Led by dairy powder (NDM, whey, lactose) sales, the U.S. exported about \$160 million in dairy products to Indonesia in 2016.

Below is a translation of some of the key passages in the regulation:

- Milk processors must establish “partnerships” with local milk producers to either buy milk or invest to promote local milk in a manner “mutually beneficial to both businesses and milk producers.”
- Business processing milk must buy a quantity of fluid milk from local producers “consistent with the processors’ production capacity” and the local fluid milk output. DGLAHS will determine the output and processor’s production capacity annually in November, based on “developments in local milk production.” An inter-Ministerial milk “Supply and Demand Team” will calculate processors’ production capacity and local milk production.
- Businesses involved in the dairy sector, but who are not processors, are required to “promote” milk consumption, and DGLAHS will determine the acceptable dairy product promotion activities.

- Investing in production facilities, equipment, and inputs; and providing financing, and conducting farmer training can also be ways that private sector businesses can demonstrate support for the local sector.
- Businesses and processors must submit a “Partnership Agreement” and “Partnership Plan” for the DGLAHS to approve. The Partnership Plan should include information on prices, distribution of profits, and marketing guarantees. These documents will be “considered” when deciding whether to approve import recommendations.
- Businesses have to report milk procurement and distribution quarterly to DGLAHS.
- Sanctions for failing to comply with this regulation include withholding import recommendations for dairy products for one year after violations occur.
- Within three years from the date this regulation takes effect, all businesses involved in the dairy sector must own a dairy processing plant, and comply with the local procurement requirements of this regulation.