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Indonesia

Dairy and Products Annual

Indonesia Dairy and Products Annual Report 2014

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Report Highlights:

Indonesian imports of nonfat dry milk slowed in 2013 due to tight international supplies. This is expected to continue in 2014, although Post expects a rebound in 2015, dependent on international prices. Post estimates CY 2014 Indonesian whole milk powder imports to decrease to 48,000 MT compared to 50,000 MT in CY 2013, based on the same conditions. Indonesian WMP imports are also expected to rebound in CY 2015 to 50,000 MT. Despite bumps, Indonesian per capita milk consumption is expected to follow a long-term growth path. Indonesian per capita consumption is currently much lower than other ASEAN countries and it is expected that Indonesia's consumption will reach levels at least on par with neighboring Malaysia, The Philippines and Thailand.

PRODUCTION

Government of Indonesia (GOI) self-sufficiency goals limited 2013 beef imports, which in turn led to high beef prices and a subsequent cull of Indonesia's small-holder dairy herd. The GOI has since eased off trade limitations, importing 316,675 head of beef cattle in the January-September 2014 period compared to 312,687 head in calendar year (CY) 2013. Indonesia also imported 49,190 MT of beef in the January – September 2014 period compared to 55,840 MT in CY 2013. Dairy culling has slowed in 2014, although beef prices have remained high. According to the Indonesian National Statistics Agency's (Badan Pusat Statistik, or BPS) preliminary figures for the 2013 Indonesian Agricultural Census, Indonesia's 2013 dairy cattle population was 636,000 head. However, with the high level of dairy cattle culling in CY 2013, Post estimates that in CY 2014 the Indonesian dairy cattle population will decline to 395,000 head. Post notes that despite sustained beef prices, dairy culling in 2014 may not continue as stocks available for slaughter may have been depleted, and there is more certainty surrounding the arrivals of higher quality Australian feeder calves.

In CY 2014, total Indonesian production of fluid milk is expected to remain stable. Although there was a massive decline in the small-holder cattle population in 2013, medium and large-scale farms continue to expand and are improving yields. Additionally, fluid milk companies blend fluid milk with imported whey, lactose and nonfat dry milk (NFDm), which offsets production declines from 2013. Post therefore estimates that in CY 2014, Indonesian fresh milk production will reach 1.68 million liters per day. In CY 2015, Indonesian fresh milk production levels are expected to increase to 1.7 million liters per day. Local WMP production is expected to remain stable in CY 2014 and 2015, with production estimated at 72 thousand MT and 74 thousand MT, respectively. The effects of herd culls were mostly seen in the fluid milk market, where some cooperatives may experience trouble collecting milk. Post notes that Indonesia does not produce NFDm, and local whole milk powder production only constitutes about 20 percent of total milk powder supply and was thus not exceptionally vulnerable to the cull.

Large-scale dairies milking up to 2,000 head of Australian-origin Holstein-Friesian cattle are establishing themselves or expanding operations. These operations are primarily located on Java and achieve yields of up to 25 liters per cow per day using improved feed, sanitation, and reproduction practices. It is expected that within the next two to three years, new dairies will expand throughout Java and into Sumatra. The arrival of scaled-up dairies has helped give rise to middle-size farms, milking between 30 and 100 cows. Despite increases in larger dairies, however, the majority of the cattle population remains in the hands of smallholders. Indonesia's Ministry of Agriculture (MOA) reports there are 192,160 dairy farmers managing about 3 cows each on average. Most of these producers average 10-11 liters per cow per day. Small-holder farm yields remain limited as these farms do not benefit from scaling technologies. The majority of smallholder milk is marketed through local cooperatives.



Left: a woman small-holder farmer in Malang, East Java, delivering milk via motorcycle to the nearest cooling unit before being sent to a local cooperative. Right: large-scale integrated dairy farm processes milk directly from the cattle.

CONSUMPTION

Industry contacts report that due to dairy's uncompetitive retail prices compared to other staple foods, consumer purchases will prioritize other staple foods in 2014. Retail prices were driven up by expensive milk powder imports in 2013 and the first half of 2014. While whole milk powder consumption is expected to remain stagnant in 2013, 2014 and 2015, NFDN is expected to decline in 2014. NFDN consumption is expected to rebound in 2015, assuming an import increase over 2014, based on price.

Pricing challenges in 2014 led to declines in various dairy product categories. According to the Ministry of Trade's Market Information Center, retail prices of sweetened condensed milk increased from Rp. 9,600 to Rp. 10,900 while milk powder has grown from Rp. 29,400 to Rp. 44,000 (per 400 gram container during the Oct/Sept 2013-2014 period). Fluid milk numbers for 2014 are not yet available, although CY 2013 per capita milk consumption rose marginally to 13.4 liters from 12.83 liters in CY2012. Three types of consumer products dominate Indonesia's market. Fluid UHT milk, sweetened condensed milk, and powdered milk have market shares of 26 percent, 35 percent, and 39 percent respectively.

Despite bumps, Indonesian per capita milk consumption is expected to continue to follow a long-term growth path. Indonesian per capita consumption is currently much lower than other ASEAN countries (Indonesia: 13.4 liters; The Philippines: 22.1 liters; Malaysia: 50.9 liters; and Thailand: 33.7 liters), and it is therefore expected that Indonesia's consumption will reach levels at least on par with its neighbors. This growth will be driven by an expanding middle class, growing consumer awareness of milk's health benefits, and a growing food and beverage processing sector. Indonesia's middle class has expanded significantly over the last decade. In 2003, the middle class (defined as those spending between two and 20 USD per day), was estimated at 37.6 percent of the total population. The World Bank reports that the

Indonesian middle class is growing by 7 percent annually and that it will have expanded to 60 percent of the total population in 2013

TRADE

Indonesian imports of NFDM, whey, and anhydrous milk fat (AMF) slowed in 2013 due to tight international supplies. Despite higher supplies and lower demand that lead to lower prices of dairy ingredients on the international market in the second half of CY2014, Indonesian dairy manufacturers maintained a “wait and see” position, only buying ingredients on an as-needed basis. Based on these conditions, Post estimates CY 2014 NFDM imports to decrease by 8.5 percent over CY 2013 to 205,000 MT. Assuming that the Indonesian economy will grow by 5.5 – 6 percent in CY 2015, Post anticipates that CY 2015 imports will rebound to 220 MT based on the expansion of dairy manufacturing in Indonesia.

Indonesia imports significant quantities of dairy products from Oceania, primarily due to geographic proximity and longstanding supplier-importer relationships. Aggressive marketing strategies have helped protect Oceania’s market share. U.S. dairy products, however, are gaining strength as awareness of U.S. product attributes grow. According to trade data, the United States overtook New Zealand’s position as the largest supplier of NFDM to Indonesia with 36 percent market share in CY 2013. New Zealand and Australia followed with 22 and 14 percent market share respectively. Despite the U.S. position in 2013, 2014 U.S. dairy prices are currently uncompetitive with Oceania and EU exporters. As a result, CY 2014 exports from the United States are estimated to decline modestly to 51,000 MT from 56,000 MT CY 2013.

Indonesian sweetened condensed milk manufacturers rely on imported whole milk powder to supplement protein content. Post estimates CY 2014 Indonesian whole milk powder imports to decrease to 48,000 MT compared to 50,000 MT in CY 2013, based on the same conditions that drove down NFDM imports, including high international prices and a weakening exchange rate. Indonesian WMP imports are also expected to rebound in CY 2015 to 50,000 MT. According to CY 2013 trade data, New Zealand remains Indonesia’s largest WMP supplier with 53 percent market share, followed by Australia with 16 percent and the United Kingdom with 7 percent. The United States exported limited quantities of WMP in CY2013.

Indonesian dairy manufacturers sometimes substitute whey for NFDM when prices favor whey imports. NFDM is typically substituted at a 3:1 ratio (three parts whey equal one part NFDM). Post estimates CY 2014 Indonesian whey imports will remain stable at 100,000 MT. High whey prices, as with most dairy ingredients, have slowed U.S. whey exports to Indonesia. In CY 2013, the United States also took over France’s position as the largest suppliers of whey to Indonesia with 25 percent market share. France followed in second place with 24 percent.

STOCK

Due to high commodity prices and weak foreign exchange rates, importers tend to import on an as-needed basis, thus minimizing stocks. In CY 2014 WMP stocks are expected to decline to 6,000 MT compared to 7,000 MT in CY 2013. NFDM is expected to decrease slightly to 10,000 MT in CY 2014, as importers will substitute whey for NFDM, thus stocking limited quantities of NFDM. CY 2014 NFDM stocks are expected to marginally increase to 12,000 MT, although this will depend on whey and NFDM prices as well as exchange rates.

POLICY

Dairy Import Policy

The GOI has selected the dairy industry as an area for priority development. In February 2014, the Indonesian Coordinating Ministry of Economy launched the Road Map of Indonesian Dairy 2015 – 2025. The road map states that CY 2015 fresh milk production is targeted at 1.53 million MT, per capita milk consumption is set at 15 liters per capita per year, and 843,564 head of dairy cattle will produce an average daily production of 11.48 liters of milk per day. The milk production target for CY 2020 is set at 2.75 million MT, per capita milk consumption is set at 20 liters per capita per year, and 1.3 million head of dairy cattle will produce an average daily production of 13.11 liters of milk per day. CY 2025 aims for 5.32 million MT, per capita milk consumption is set at 30 liters per capita per year, and 1.7 million head of dairy cattle will produce an average daily production of 19.67 liters of milk per day. However, the realization of the target will remain a question as based on Post observation and industry reports, Indonesian dairy sector continue receiving minimal attention from the government. 2013 culls to the Indonesian herd make this less likely.

On September 16, 2014, the Indonesian Ministry of Agriculture held a socialization on a newly proposed regulation on dairy imports. The regulation is intended to ensure that Indonesian consumers receive dairy products that are healthy, safe, and halal. During the socialization, MOA stated:

- Indonesia currently imports dairy and dairy products from 338 permanently (listed) and temporarily (pre-listed) approved establishments from 25 countries.
- The country and establishment approval process will go through two stages: questionnaire review (desk review) and on-site verification (on-site review).
- One of the means to monitor and control imports of dairy and dairy products into Indonesia is through the issuance of an import recommendation from the Ministry of Agriculture, an entry permit from National Agency for Food and Drugs Control (*BPOM, Badan Pengawas Obat dan Makanan*), and an import permit from Indonesian Ministry of Trade.
- Import recommendations from the Ministry of Agriculture are intended to protect human, animal, and environmental health through sanitary technical requirements on veterinary public health.

Therefore, the newly proposed regulation will require an Indonesian importer to fulfill administrative requirement such as:

- a. Tax payer identification number.
- b. General importer identification number (API-U) or Producer importer identification number (API-P).
- c. Identification number (ID).
- d. Company license.
- e. Veterinary Control Number (NKV).
- f. Import recommendation from provincial office.
- g. Import realization report from previous import approval.

Technical requirements include:

- a. Imports of dairy and dairy products must come from a country and establishment that is already approved by Director General for Livestock and Animal Health Services, Ministry of Agriculture.
- b. Purchase Order (PO)/Invoice.
- c. Halal Certificate.
- d. Certificate of Analysis (COA).
- e. Certificate of Origin (COO).
- f. Bill of Lading.

To obtain an approval to export dairy and dairy products to Indonesia, a country must be free from Foot and Mouth Disease (FMD) and the farm must be free from Brucellosis and Bovine Tuberculosis.

An establishment that wishes to export to Indonesia must fulfill the following requirements:

- a. Controlled and listed under the veterinary authority of the country of origin.
- b. Implement a food safety system proven with food safety system certificate which is issued by an internationally recognized competent authority.
- c. Implement a halal assurance system proven with a halal certificate which is issued by Council of Indonesian Ulama (*LPPOM MUI, Lembaga Pengkajian dan Pengawasan Obat dan Makanan Majelis Ulama Indonesia*).
- d. Does not accept or process milk or dairy products from a country that is infected by major contagious animal diseases.
- e. Consistently implements monitoring programs for pathogenic microbial contaminant, veterinary drug residues, hormones, pesticides, toxins, and other materials potentially dangerous to human health, proven with a certificate of analysis (COA) issued by the competent authority at the country of origin.

Following the completion of the above requirements, DGLAHS will conduct the desk review and on-site review before giving approval for the establishment to be listed or pre-listed. It is not clear when MOA will stipulate the final regulation.

Law 18/2009 Revisions

Indonesia’s House of Representatives revised Law 18/2009 in September 2014, giving it the new title of “Animal Husbandry and Animal Health Law.” A key provision in the revision was inclusion of language permitting imports from regions or zones. This language opens the door for other countries, including Brazil or India to export livestock products (especially beef) to Indonesia. However, the regulation will not be implemented until several animal health systems required by the regulation are created. This includes the establishment of a quarantine island for live animals. Animal products will also require plant inspection and risk evaluation of the zone or region, implying that new export origins for Indonesia are still a long way off.

PSD: Non Fat Dry Milk

Dairy, Milk, Nonfat Dry Indonesia	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	9	9	11	11		10
Production	0	0	0	0		0
Other Imports	225	225	230	205		220
Total Imports	225	225	230	205		220
Total Supply	234	234	241	216		230
Other Exports	1	1	1	1		1
Total Exports	1	1	1	1		1
Human Dom. Consumption	222	222	231	205		217
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	222	222	231	205		217
Total Use	223	223	232	206		218
Ending Stocks	11	11	9	10		12
Total Distribution	234	234	241	216		230
CY Imp. from U.S.	0	56	0	51		55
CY. Exp. to U.S.	0	0	0	0		0

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

PSD: Whole Milk Powder

Dairy, Dry Whole Milk Powder Indonesia	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	7	7		6

Production	71	71	72	72		74
Other Imports	50	50	55	48		50
Total Imports	50	50	55	48		50
Total Supply	127	127	134	127		130
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	120	120	127	121		123
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	120	120	127	121		123
Total Use	120	120	127	121		123
Ending Stocks	7	7	7	6		7
Total Distribution	127	127	134	127		130
CY Imp. from U.S.	0	0	0	0		0
CY. Exp. to U.S.	0	0	0	0		0

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

Note: Exchange rate as of Oct 1, 2014: Rp. 12,188/US\$1.

Commodities:

Select