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**Report Name:** Dairy and Products Annual

**Country:** Indonesia

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**Report Highlights:**

Hampered by several constraints, domestic fluid milk production is expected to only marginally increase in 2019. Total dairy production consumption is growing about 5 percent annually, with the growth met almost exclusively through rising SMP and other dairy powder imports.

## **Production:**

Low productivity due to continued lack of genetic improvement and difficulties in obtaining adequate forage during the dry season hindered milk production in 2019. Fresh milk production is forecast to increase only slightly to 667 million liters, compared to 659 million liters in 2018. Dairy processors use ninety-five percent of fresh milk production to make pasteurized/UHT liquid milk, powdered milk, yoghurt, butter, and cheese. Individual dairy farmers and cooperatives use the remaining five percent to make pasteurized liquid milk, yoghurt, kefir, butter, or cheese. Dairy processors used 626 million liters in 2018. Indonesia does not produce skimmed milk powder (SMP), although it does produce whole milk powder (WMP), which is entirely used for domestic needs.

The dairy sector consists of two very distinct scales of production: 1) A small, yet growing group of modern, efficient, productive, and integrated dairy companies own about ten percent of the dairy herd yet contribute 23 percent of fresh milk production; and 2) Smallholders with typically only three to five cows.

The integrated dairy companies average 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 yielding 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 the dairy processors are located, two new farms have recently been built on Sumatera Island.

By contrast, smallholder production units are characteristically inefficient, yielding on average less than 10 liters per animal per day, and with calving intervals between 18 to 20 months. Smallholder profitability remains low, which in times of high beef prices can lead to high cow culling rates. Nonetheless, these small-scale operations still account for 77 percent of fresh milk production. Most of these farmers are dairy cooperative members, which collect and sell their fresh milk to dairy processors. Processors pay producers through the cooperatives in accordance with a fixed price contract agreement, which considers quality parameters (protein and fat content, and bacterial count) set by the processors. The cooperatives deduct management fees, animal health and artificial insemination (AI) services, and feed costs.

The Union of Indonesian Dairy Cooperatives (GKSI) estimates that only 30 percent of their members own forage land, and only 10 percent can provide enough forage for their dairy cows. Large cooperatives have tried to overcome this problem by collaborating with nearby state plantation companies to plant forage on available fallow land. However, recently the plantation companies decided to revoke the cooperative's right to use the land. The lack of adequate forage, particularly during the long dry season, limited smallholders' output during 2019. Large farms supplement local forage supplies with imported alfalfa, an option that is not economical for smallholder farmers. Some smallholders do use corn silage, but that too is insufficient.

The dairy processing companies continue to aid dairy farmers through the cooperatives, arranging for low or no interest loans to cooperatives. These loans are used to maintain the fresh milk supply chain, providing for much-needed upgrades to cold chain infrastructure, collection

points, handling equipment, and transport vehicles. Some processors also provide business and production management training for young farmers.

The Indonesian Government has a credit program that dairy farmers can use to buy more dairy cows for their businesses, but reportedly this credit program is hardly used as most dairy farmers lack the collateral needed to participate in the loan program. However, many cooperatives can get commercial bank loans, which they can use to fund purchases of more productive dairy cows.

Most farms have 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. Several cooperatives have also indicated their interest in this breed.

All live dairy cattle are currently imported from Australia, which is the only country with 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 genetic imports from the United States.

Cooperatives and dairy processors produce further processed dairy products such as yoghurt, kefir, butter, or cheese. Salted and unsalted butter production is limited, while cheese is more commonly produced. Local cheese producers make a variety 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 Indonesia. Most imported cheese is from New Zealand, Australia and the U.S., while butter is mostly imported from New Zealand and the Netherlands.

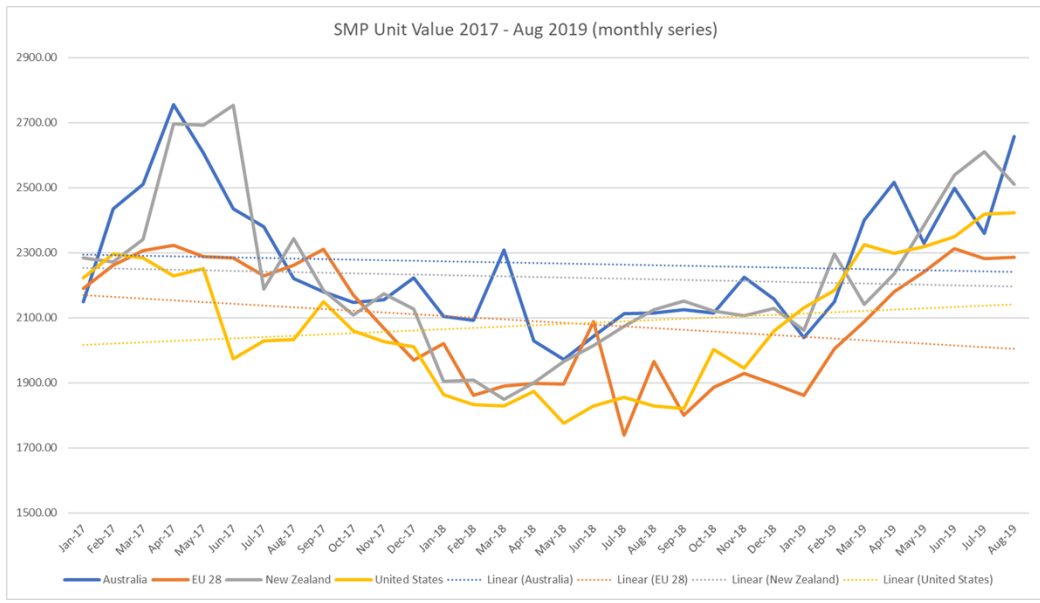
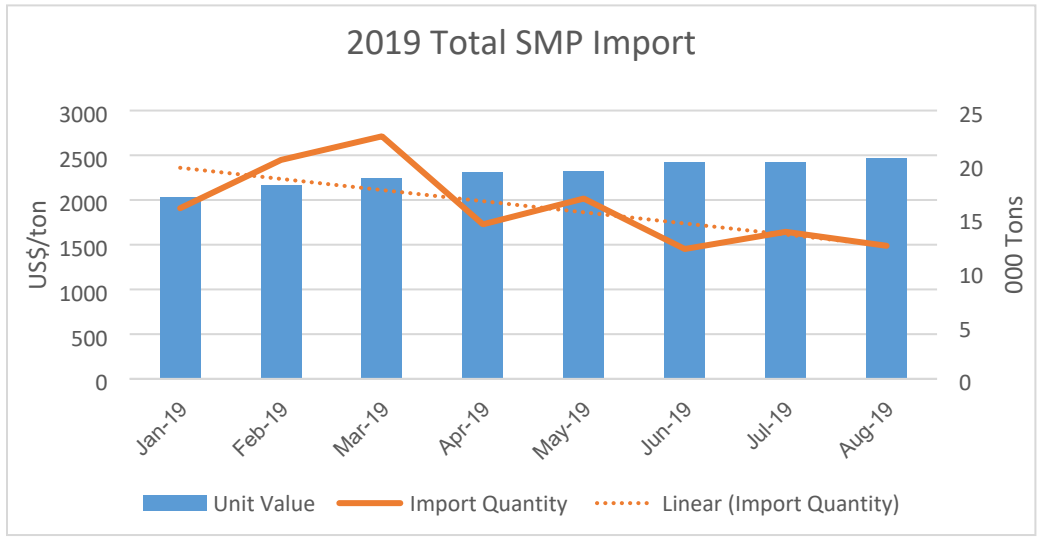
### **Consumption:**

Fueled by a dynamic food processing industry and overall demand growth, total dairy consumption is forecast to increase 5 percent in 2019, reaching 3.99 billion liters, or 4.08 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 1.9 and 2.14 billion liters of these products in 2017 and 2018, respectively. Consumption of these fluid milk products is forecast to increase to 2.3 billion liters, or 2.4 million tons in 2019. 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 a few large producers market fresh pasteurized milk, while most others are producing reconstituted milk, which is generally cheaper. SMP is also used in powdered milk beverages products and as ingredients in food manufacturing.

### **Trade:**

Indonesia remains a price sensitive market for SMP, as shown in the graph as imports decline as prices rose. SMP Imports in 2019 reached 132,000 by September 2019, but the monthly pace of imports steadily declined since the fourth quarter of 2018, in line with rising import prices. Total 2019 SMP imports are forecast to reach 176,000 tons, a four percent increase compared to the

2018. This increase in imports reflects growing demand in the face of relatively flat local production.



Source: Trade Data Monitoring

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.

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 Australian agricultural products, including the elimination or reduction of tariffs on a

number of dairy products beginning in 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
<b>Australia &amp; New Zealand (under AANZ FTA)</b>			
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%
<b>European Union</b>			
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%
<b>United States of America</b>			
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	5%	5%	5%

added sugar or other sweetening matter (0404.10)			
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%

As of October 2019, the Ministry of Agriculture listed 101 U.S. dairy plants as approved to export to Indonesia, with thirty new plants in the process of seeking approval.

### Import Trade Matrix

Country	Indonesia				
Commodity	Skimmed Milk Powder				
Time Period	Jan - Dec				
Units:	1,000 MT	Units:	1,000 MT	Units:	1,000 MT
Imports for	2017		2018		2019*
U.S.	32		56		36
Others					
Australia	35.5		33		18
Canada	1.5		4		2
EU	60		56		62
New Zealand	20		20		14
Total for Others	117	Total for Others	113	Total for Others	96
Others not listed	0	Others not listed	0	Others not listed	0
Grand total	149	Grand total	169	Grand total	132
Note: *only for the period of January-September 2019					
Source: Trade Data Monitoring					

### Import Trade Matrix

Country	Indonesia				
Commodity	Whole Milk Powder				
Time Period	Jan - Dec				
Units:	1,000 MT	Units:	1,000 MT	Units:	1,000 MT
Imports for	2017		2018		2019*
U.S.	0		1		0
Others					
EU	3		3		4
New Zealand	36		43		36
Total for Others	39	Total for Others	46	Total for Others	40
Others not listed	0	Others not listed	0	Others not listed	0
Grand total	39	Grand total	47	Grand total	40
Note: *only for the period of January-August 2019					
Source: Trade Data Monitoring					

**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 Trade issued a new regulation regarding the Provisions of Export and Import of Animals and Products of Animal Origin in April 2019, that deregulates labelling requirements and removes the mandatory inclusion of Import Permit number on the Certificate of Health that previously had caused the delay of the Certificate of Health issuance. The Import Permit number must be included on the Custom Import Notification instead.

**Production, Supply and Demand Data Statistics:****PSD: Whole Milk Powder**

Dairy, Dry Whole Milk Powder	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	7	7	5	5	0	5
Production	81	81	85	82	0	84
Other Imports	59	59	60	60	0	62
Total Imports	59	59	60	60	0	62
Total Supply	147	147	150	147	0	151
Other Exports	0	0	2	0	0	0
Total Exports	0	0	2	0	0	0
Human Dom. Consumption	142	142	143	142	0	146
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	142	142	145	142	0	146
Total Use	142	142	145	142	0	146
Ending Stocks	5	5	5	5	0	5
Total Distribution	142	142	145	142	0	146
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	2018		2019		2020	
Market Begin Year	Jan 2018		Jan 2019		Jan 2020	
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	169	169	185	176	0	180
Total Imports	169	169	185	176	0	180
Total Supply	180	180	196	187	0	191
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	168	168	184	175	0	179
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	169	169	185	176	0	180
Total Use	169	169	185	176	0	180
Ending Stocks	11	11	11	11	0	11
Total Distribution	169	169	185	176	0	191
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

**Attachments:**

No Attachments