

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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Indonesia

Dairy and Products Annual

Indonesia Dairy and Products Annual Report 2012

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Report Highlights:

Based on levels of actual imports reported by major Indonesian dairy traders, Post revised Indonesian imports of non-fat dry milk (NFD) to 196,000 metric tons (MT) from previous estimate of 220,000 metric tons (MT) calendar year (CY) 2011. Post estimates that in CY 2012, Indonesia will import 205,000 MT of NFD. Post import estimates for whole milk powder slightly increase to 56,000 MT in CY 2012. Post also forecasts that in CY 2012, Indonesian imports of U.S. NFD will be roughly 40,000 MT, with further expectations that volume will continue to grow to upwards of 50,000 MT in CY 2013. Strong competition continues from New Zealand and Australia due largely to their closer geographical proximity. Political stability, continued economic growth, per capita consumption growth, increased consumer health awareness, and an increasing capacity for local dairy and food processors are all factors for this increase.

Executive Summary:

EXECUTIVE SUMMARY

The Organization of Economic Cooperation and Development (OECD) estimates that Indonesia's gross domestic product (GDP) will grow by 6.0 percent in 2013. This, combined with Indonesia's stable political climate, stronger per capita consumption of milk, and greater awareness of the health benefits from dairy products will continue to provide opportunities for the Indonesian milk processing industry. Some of the major dairy manufacturers are expanding their capacity. As a result, the Indonesian dairy industry is currently growing at an annual rate of eight to 10 percent. Per capita consumption of milk remains below consumption rates of neighboring countries, as milk and other dairy products are cost prohibitive for many Indonesian consumers. Parents usually prioritize buying milk products for their infants, toddlers, and children who need the best nutrients for their growth. Adult Indonesians generally do not include dairy products in their daily diets.

Although several major dairy farms are expanding their dairy herds, Post expects that the overall growth in domestic fresh milk production will remain limited. Currently in Indonesia, locally produced whole fresh milk is typically mixed with imported milk powder, with Oceania being the preferred supplier due to closer proximity. Less competitive prices, especially over the last three months, have led to lower levels of U.S. NFDN exports to Indonesia in CY 2012. The increased use of whey by Indonesian food manufacturers drives higher imports of whey from the United States.

Commodities:

Select

Production:

In CY 2012, Indonesian fresh milk production reached an estimated 1.6 million liters per day (70,000 MT). In CY 2013, Indonesian fresh milk production levels are expected to increase to 1.68 million liters per day (74,000 MT). The Ministry of Industry reported that relatively stagnant domestic milk production have reduced its contribution to meet demand from growing dairy industry to 20 percent. Price incentives will encourage better farm management, resulting in higher quality milk. Nonetheless, several fundamental problems continue to hamper further improvements to Indonesian dairy cattle productivity. These problems include: limited farmer education; scarcity of forage; the high price of dairy cattle feed; small farm size; scarcity of land with suitable elevation for dairy cattle farming; poor farm management practices; limited access to commercial credit; poor technology for milking and processing the fresh milk; and limited access to high-quality genetics.

The Government of Indonesia (GOI) is actively pursuing a primary policy objective of achieving self-sufficient in beef production by 2014. The GOI is trying to drive demand and increase prices for local cattle farmers by reducing imports of beef. Recently post has learned that the current high prices for slaughter cattle have attracted some dairy farmers to send cows to slaughter. As a result, cooperatives

report that their cattle population in CY 2012 their member's dairy cow population as decreased to roughly 20,000 head, over 22,000 head of dairy cattle in CY 2011.

Fortunately, the declining population of dairy cattle in the hands of small holder farmers is off-set by the expansion of larger dairy farms. The Indonesian Ministry of Agriculture in cooperation with the Indonesian National Statistics Agency (BPS) conducted a Beef Cattle, Dairy Cattle, and Water Buffalo Census throughout Indonesia since June 1 to June 30, 2011. Based on the early release of result from the census, currently there are 597,135 heads of dairy cattle in Indonesia. Approximately 99.21 percent of the dairy cattle population is located on Java. The census reported that the annual average growth of both beef and dairy cattle population during the period of 2003-2011 is 5.32 percent per annum. In CY 2012, Indonesian dairy cattle population is estimated to reach 603,000 heads. Small farmers that are members of local Dairy Cooperative Unions mostly own the cows with an average cows ownership of two or three cows per farmer.

Genetics for artificial insemination (AI) is domestically produced by two government run facilities located in Malang, East Java and Lembang, West Java. Indonesian National Standards (SNI) requires that mini-semen straws with 0.25 ml volume contain a total of at least 25 million sperm cells per straw. Medium semen straws with 0.5 ml volume must contain at least 30-50 million sperm cells per straw. The required amount of sperm cells in each straw is for pre-thaw frozen semen. Post thawing examination under 37 degrees Centigrade for 30 seconds must show a minimum of 40 percent live spermatozoa and two sperm individual movements. The Dairy Cooperatives Union coordinates all its member farmers to buy semen from the local AI stations with the price of Rp. 7,500/straw (\$0.78/straw). Reportedly, the semen quality is sufficient to meet farmers' demand. However, the major dairy producers demand higher quality, imported semen to increase their yields. These larger farms are looking for opportunities to import sexed semen as well. Dairy cooperatives are interesting in using imported semen to increase milk production. However, the higher price of the imported semen is unaffordable to them. Based on the Global Trade Atlas data, in CY 2011 Indonesia imported a total of 20,256 doses (DS) of bovine semen from the United States. During the period of January – July 2012, Indonesia has imported a total of 33,035 DS of bovine semen from the United States. The United States holds the largest market share of around 83 percent of bovine semen imports, with the balance held by Australia.

The small producer's cows produced 90 percent of Indonesian milk. Most of Indonesian small dairy farmers manually milk their cows twice a day, while larger dairy farms milk their cows twice a day using more modern milking machinery. The co-ops collect the milk and measure the bacteria content of fresh milk to determine the quality and price paid to the farmer. The average yield remains relatively low at the range of 10 and 12 liters per cow per day. Fresh milk quality is measured by the bacteria content (TPC=Total Plate Count), which ranges from 500,000-1 million. Indonesian fresh milk production with the lower bacteria content is combined with imported skim milk to produce full cream liquid milk and powdered milk. Fresh milk with higher bacteria content is processed into sweetened condensed milk.

In contrast to the small-scale fresh milk producers, a number of large and efficient companies contribute significantly to the dairy production and manufacturing sectors. Several new producers have recently established themselves and some of the major, more established dairy producers and manufacturers are also expanding their capacity. To ensure a consistent supply of fresh milk for the domestic market,

some of the larger manufacturers establish partnerships with small farmers by providing production inputs, training and basic extension. Several new brands and new dairy products can also be found on retail market shelves. In line with Indonesia's economic growth, expanding population and increased product awareness, the local dairy industry expects dairy sales will achieve eight percent growth in 2012.

Consumption:

Annual Indonesian per capita milk consumption currently stands at 11 kg per capita annually, relatively lower than other ASEAN countries. GOI efforts to maintain economic and political stability, intensive advertising on printed and electronic media, in store promotions, and a growing consumer awareness of the health benefits of drinking milk will increase overall Indonesian consumption volume of dairy and dairy products by 7 percent in 2012.

Three types of consumer products that continue to dominate the market are liquid ready-to-drink UHT milk, sweetened condensed milk, and powdered milk, with a total market share of 26 percent, 35 percent, and 39 percent respectively. During the past six years, liquid ready-to-drink UHT milk grew the fastest by 17.39 percent annually, while sweetened condensed milk grew by 4.74 percent per annum. Consumers' preference to consume more fresh and natural products will continue boosting the growth of liquid ready-to-drink milk.

To cope with a relatively low level of consumer purchasing power, some major dairy manufacturers introduced new liquid milk products into the market in smaller packaging. A major consumer products manufacturer also introduced candies containing milk. These products, such as acidified milk, contain less milk than regular liquid milk product. Therefore, the Indonesian National Agency for Drug and Food Control (BPOM) recommends that these products be labeled as "beverages containing milk" instead of "milk beverages".

The U.S. Dairy Exports Council is also continuously educating the Indonesian dairy processing and ingredients industries on the use of U.S. whey. These programs have been successful in increasing the use of whey in products containing dairy such as energy drinks, bakery products, and cookies.

Trade:

Based on information reported by Indonesian major dairy products importer, Post revised the CY 2011 Indonesian NFDI imports to 198,000 MT. Continued demand from newly expanded, major dairy manufacturers increased Indonesia's imports of NFDI in CY 2012 by approximately 3.5 percent to 205,000 MT. It is expected to further increase to 220,000 MT in CY 2013. Indonesia continues sourcing significant levels of dairy products from New Zealand and Australia, mainly because of the closer geographical proximity. Relatively new marketing strategies from New Zealand dairy suppliers have also assisted in maintaining the marketshare in Indonesian. As prices are more competitive, major Indonesian dairy products importers reported that some Oceania NFDI exports to Indonesia have been displaced by product from Europe and the United States. The quality of U.S. dairy products is recognized by Indonesian end users and U.S. dairy has become more accepted in Indonesia. As a result, U.S. exports of NFDI to Indonesia are estimated to remain prospective. However, the drought that hit the United States in the recent months has lowered the price competitiveness of the U.S. dairy products

in Indonesian market. As a result, CY 2012 Indonesian imports of dairy products from the United States are estimated to decrease to 40,000 MT. Assuming U.S. dairy products prices become more competitive, Post expects that U.S. exports could increase by 25 percent increase to 50,000 MT in 2013, over 40,000 MT in CY 2012. Based on the Global Trade Atlas data, in CY 2011 the United States overtook New Zealand and Australia as the largest supplier of NFDM with a total market share of 36 percent followed by Australia with 20 percent, and New Zealand with 19 percent. Conversely, China is absorbing more and more dairy products from New Zealand and Australia, which limits the amount of milk powder that can ship to Indonesia. Although U.S. opportunities to increase market share will depend on how New Zealand and Australia respond to higher Chinese demand, sources indicate that both countries have fewer available supplies to meet Indonesian growth.

To supplement low protein content of domestically produced fresh milk used in producing sweetened condensed milk, Indonesian dairy products manufacturers still need to import whole milk powder. Post estimates CY 2012 Indonesian imports of whole milk powder to slightly increase to 56,000 MT, with a four percent increase to 56,000 MT in CY 2013. Based on the data from the Global Trade Atlas, in CY 2011, New Zealand continued becoming the largest supplier of whole milk powder to Indonesia with 46 percent market share, followed by Australia with 24 percent and the Philippines with 9 percent of the market share. Indonesia imported only a small amount of whole milk powder from the United States in CY 2012.

Post estimates CY 2012 Indonesian imports of whey to reach 97,000 TMT, an increase of 10.8 percent, as compared to 87,540 MT from the previous year. In CY 2011, the Indonesian dairy industry imports its whey from France (22 percent), the United States (20 percent), Netherlands (20 percent), and Germany 12 percent.

Stocks:

Post expects Indonesian importers to continue keeping only pipeline stocks in storage; which is reflected in estimates of relatively stagnant CY 2012 ending stocks of whole milk powder at approximately 6,000 MT. Post forecasts a slight increase to 10,000 MT in MY 2013. The CY 2012 ending stocks of NFDM is estimated to marginally decrease to 9,000 MT, and is forecast to increase to 18,000 MT in CY 2013.

Policy:

On June 4, 2009, Indonesia announced Law 18/2009, requiring foreign companies that export animal derived products, including dairy products and eggs to Indonesia, to prelist their establishments with the Indonesian Ministry of Agriculture. Law 18 also requires audits on a plant-by-plant basis to follow for all prelisted companies. To comply with this regulation, the United States Under Secretary for Agriculture invited a delegation from the DGLAHS to conduct a system audit of U.S. dairy processing plants. The audit took place from September 17 – 24, 2011. The delegation visited five plants in the United States. As the result from this dairy audit, the GOI accepted the U.S. food safety system for dairy production.

In order to get an import permit, DGLAHS requires any U.S. dairy plant wishing to export U.S. dairy products to Indonesia to complete and submit a questionnaire form. DGLAHS officials will then do a

desk review of the questionnaire and add the name of the plant onto a 'prelist'. Once the plant's name is on the prelist, the Indonesian importer can continue to the process for obtaining an import permit. As of September 12, 2012 a total of 62 U.S. dairy plants are already on the list. The list is expected to continue expanding as there are still some questionnaires waiting to be reviewed on the DGLAHS desk. It is important that the importer verify the eligibility of their supplier's establishments. Law 18 also stipulates that these dairy products will require halal certification by a U.S. based Islamic center, approved by the Indonesian Ulama Council (MUI).

On September 7, 2011, the Indonesian Ministry of Trade issued the Minister of Trade Regulation no. 24/M-DAG/PER/9/2011 on the Import and Export of Animal and Animal Products. (NOTE: MOT Reg. No. 24/2011 has not been fully implemented at the date of publication.) The new regulation stated that imports of animal and animal products, such as NFDM and whole milk powder, can only be done by registered importer of animal and animal products. Imports of animal products can only be carried out if the domestic production and supply are not sufficient to meet consumers demand at an affordable price level. A registered importer of animal and animal products wishing to import must obtain an import permit from the Indonesian Minister of Trade. The Minister of Trade will delegate the authority to issue import permit to the Director General (DG) for Foreign Trade of the Indonesian Ministry of Trade. Indonesian authorities have committed to explain the new regulations to Embassy representatives for key exporting countries. However, this meeting has not yet occurred.

To obtain an import permit for dairy products or other animal processed products, a registered importer must submit a written application to the DG for Foreign Trade completed with:

1. A copy of certification letter of registered importer of animal and animal products.
2. Six months import plan, and
3. A recommendation letter from Head of National Agency for Food and Drugs Control (BPOM) or any appointed authorized official by BPOM and recommendation from the Ministry of Agriculture for import of processed animal products that may still have zoonotics risks.

The DG for Foreign Trade will issue an import permit within five working days after an application submitted. Import permit will be issued twice a year:

- a. First period which will be valid since January 1 to June 30;
- b. Second period which will be valid since July 1 to December 31.

The application for the first period import permit must be submitted prior to November 1 of each year, while for the second must be submitted prior to May 1 of each year. The import permit will become the basis to issue Health Certificate for animal and animal products at the country of origin. Import permit number must be stated on the Certificate of Health. The Agricultural Quarantine Agency (AQA) at the Indonesian Ministry of Agriculture will review the information about the volume, type, description, business unit, country of origin, loading port, and import permit number provided on the Health Certificate. The result of the review will be announced by the AQA to the DG for Foreign Trade of the Ministry of Trade and be put on <http://inatrade.kemendag.go.id>. Should there be a contagious animal disease outbreak at the country of origin, the import permit that's already been issued can be revoked.

For imports of dairy products from the United States, a Free Sale Certificate or Health Certificate from the USDA's Agriculture Marketing Service (AMS) must be attached to the other document provided to Indonesian dairy importer to obtain BPOM recommendation.

PRICE

2012 Indonesian Fresh Milk Buying Prices

Product	Price	
	(IDR)	(USD)
Local fresh milk Grade 1 (farm gate – 12% TS, 0 – 250,000/ml TPC)	4,000/kg	417/ton
Local fresh milk Grade 2 (farm gate – 12% TS, 250,000 – 500,000/ml TPC)	3,800/kg	396/ton
Local fresh milk Grade 3 (farm gate – 12% TS, 500,000 – 1 million/ml TPC)	3,600/kg	376/ton

Source: Union of Dairy Cooperatives.

The Dairy Cooperatives Union reports that a major dairy manufacturer who buys local fresh milk from cooperatives pays a premium for better quality fresh milk and a bonus and feed if a farmer consistently provides fresh milk to the manufacturer.

Production, Supply and Demand Data Statistics:

PSD: Non Fat Dry Milk

Dairy, Milk, Nonfat Dry Indonesia	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	12	12	11	10		9
Production	0	0	0	0		0
Other Imports	220	196	240	205		220
Total Imports	220	196	240	205		220

Total Supply	232	208	251	215		229
Other Exports	1	1	1	1		1
Total Exports	1	1	1	1		1
Human Dom. Consumption	220	197	235	205		210
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	220	197	235	205		210
Total Use	221	198	236	206		211
Ending Stocks	11	10	15	9		18
Total Distribution	232	208	251	215		229
CY Imp. from U.S.	0	45	0	40		50
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	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	6	6		6
Production	66	66	71	70		74
Other Imports	52	52	57	56		58
Total Imports	52	52	57	56		58
Total Supply	124	124	134	132		138
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	118	118	127	126		128
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	118	118	127	126		128
Total Use	118	118	127	126		128
Ending Stocks	6	6	7	6		10
Total Distribution	124	124	134	132		138
CY Imp. from U.S.	2	1	0	1		1
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 24, 2011: Rp. 9,585/US\$1.

