

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Indonesia

Dairy and Products Annual

Indonesia 2016 Dairy and Products Annual Report

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Report Highlights:

Fully integrated dairy operations are leading growth in Indonesia's dairy sector. Less efficient small scale dairies (cooperative producers) operate the majority of Indonesia's dairy herd, but are struggling to keep pace with Indonesia's growing demand for dairy. Food manufacturers, faced with limited supplies from Indonesian cooperatives, seek low-cost dairy ingredient substitutes. Despite the need for imports, nonfat dry milk and whole milk powder imports are stagnant due to food manufacturer's price sensitivity. As a result, whole milk powder and nonfat dry milk powder imports are relatively unchanged in 2016 and 2017.

Commodities:

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

Production:

Indonesian dairy production continues to grow. Fully integrated dairies, producing and marketing their own milk and dairy products, are at the forefront. Post contacts report that dairies milking cattle in excess of 4000 head continue to come online or expand capacity, targeting milking herds of 8000 head per dairy. These dairies report yields exceeding 30 liters per animal per day. Small-scale subsistence farms, who sell through Indonesian cooperatives, milk the vast majority of Indonesia's dairy herd yet only achieve estimated yields of 10 liters per animal per day. Growth is driven by new demand in Indonesia for dairy products, led by an expanding middle class that is seeking new sources of high quality proteins. While integrated dairies are able to supply their own milk, other companies purchase milk from Indonesia's coops or reconstitute imported milk powders. Indonesia does not produce nonfat dry milk (NFDM), although it does produce small amounts of whole milk powder (WMP).

Indonesia's small scale dairy producers declined in numbers following a large herd sell-off in 2013 due to high beef prices, which drove down coop milk production by about 20 percent. The coop has struggled to return to its previous production levels, estimating that herd size has only grown by three percent annually. Indonesian coop officials report that low production levels, combined with growing demand for dairy, has led to strong buyer competition. As a result, more milk is leaving the high production area of East Java for deficit areas in West and Central Java. Food manufacturers in East Java thus report declining milk collection and increased dependence on milk powder imports. Given these factors, WMP production is expected to remain unchanged from the previous year, at the low level of 73 thousand metric tons. Food and dairy manufacturers further report that businesses relying on increasingly tight milk supplies from cooperatives continue to blend lactose, whey powder and anhydrous milk fat as a substitute for fresh milk. They note that the growth the fluid milk category is being led by flavored milk products, which are suitable for blending with various dairy powders.

Large scale, integrated dairies are optimistic on the potential of the Indonesian market. Existing dairies are reporting efforts to double the size of their operations, and Post is additionally aware of at least two new dairies with milking herds exceeding 4000 cows that will come online within the next two years. Industry reports that despite this growth, they are unable to keep up with demand. Post thus estimates that Indonesian fresh milk production will reach 1.71 million liters per day in CY 2016 compared to 1.67 million liters in CY 2015.

Consumption:

Indonesian per capita milk consumption is currently much lower than other ASEAN countries (Indonesia: 14.3 liters; The Philippines: 22.1 liters; Malaysia: 50.9 liters; and Thailand: 33.7 liters). Consumption growth however, is strong, with some dairy processors reporting as much as 15 percent increases in some product categories. This is supported by Indonesia's growing middle class, which has expanded significantly over the last decade. World Bank estimates indicate that the middle class will reach 68.2 percent of the total population in 2020, an increase from 56.5 percent in 2010. Indonesian GDP growth is also driving dairy consumption, with current estimates expecting a rebound of GDP growth to 5.3 percent in 2017, despite an expected global decline.

Although integrated dairies and coop buyers report strong growth in Indonesian dairy consumption and slow growth from cooperative milk producers, NFDM and WMP consumption is only expected to increase slightly. Producers relying on coop milk suppliers note that despite the fresh milk shortage, flavored milk and other fast growing dairy products are adaptable to blending with alternate powders, and that food manufacturers are highly price sensitive. As a result, growth of WMP and NFDM consumption are only expected to increase slightly. Post therefore sets 2017 WMP consumption at 128 thousand metric tons and NFDM at 210 thousand metric tons. Integrated dairies report that their production is sufficient, and that blending is not required. Fresh fluid milk, flavored milk and cheese products are reported to be the fastest growing product segments.

Trade:

Indonesian imports of NFDM, and WMP are expected to increase slightly in CY 2017. As described in the production and consumption sections, robust demand is only being met by nominal production increases from Indonesia's cooperative dairy farmers. Although this would logically imply more imports, dairy manufacturers report that NFDM and WMP imports will remain relatively unchanged, as these manufacturers are able to use alternate, more cost-effective ingredients. As a result, Post expects CY 2017 NFDM imports to reach 210 thousand metric tons and WMP to reach 55 thousand metric tons. 2016 NFDM is revised from the initial estimate of 215 thousand metric tons down to 205 thousand metric tons, based on trade data. 2016 WMP is unchanged at 53 thousand MT.

According to CY 2015 trade data, New Zealand remains Indonesia's largest WMP supplier with 80 percent market shares followed by France (French exports rose by 57 percent in 2015), and Australia, both less than 5 percent in market share. U.S. WMP exports in CY 2015 decreased 51 percent compared to CY 2014 export, but year-to-year data shows that U.S. export is set to rebound in CY2016). CY 2016 Indonesian whey imports are slightly ahead of 2015 import pace.

Stocks:

Dairy manufacturers import on an as-needed basis. All locally-produced WMP (about 20 percent of industry demand) is used in country. As a result, WMP and NFDM stocks are expected to remain low and relatively unchanged. Specifically, CY 2016 WMP stocks are expected to grow to 7,000 MT from to 6,000 MT in CY 2015. CY 2017 WMP stocks will remain unchanged at 7000. NFDM will remain unchanged at 11,000 MT in CY 2015, 2016 and 2017.

Policy:

As of October 1, 2016, a total of 97 U.S. dairy plants have been listed by Indonesia's Ministry of Agriculture as approved for export to Indonesia, an increase from 90 in October 2015.

The ASEAN-Australian-New Zealand Free Trade Agreement will remove import duties Australia and New Zealand origin milk products starting in 2019. Milk products are currently charged a five percent import tariff.

Feed millers report that the GOI will only issue corn import licenses to state owned companies. This limits access to corn and constrains integrated dairy businesses' ability to expand operations.

Production, Supply and Demand Data Statistics:

PSD: Whole Milk Powder

Dairy, Dry Whole Milk Powder	2015		2016		2017	
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	7	7	0	7
Production	74	73	73	73	0	73
Other Imports	60	51	53	53	0	55
Total Imports	60	51	53	53	0	55
Total Supply	140	130	133	133	0	135
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	133	123	126	126	0	128
Other use, Losses	0	0		0	0	0
Total Dom. Consumption	133	123	126	126	0	128
Total use	133	123	126	126	0	128
Ending stocks	7	7	7	7	0	7
Total Distribution	140	130	133	133	0	135
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	2015	2016	2017
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Dry						
Market Begin Year	Jan 2015		Jan 2016		Jan 2017	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	11	11	0	11
Production	0	0	0	0	0	0
Other Imports	220	205	205	205	0	210
Total Imports	220	205	205	205	0	210
Total Supply	230	215	216	216	0	221
Other Exports	1	0	0	0	0	0
Total Exports	1	0	0	0	0	0
Human Dom. Consumption	217	204	205	205	0	210
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	217	204	205	205	0	210
Total use	218	204	205	205	0	210
Ending stocks	12	11	11	11	0	11
Total Distribution	230	215	216	216	0	221
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						