

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Indonesia**

### **Dairy and Products Annual**

#### **Indonesia Dairy Annual 2013**

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**Report Highlights:**

Strong beef prices have led to dairy culling, with the Indonesian Agricultural Census forecasting a 33% percent drop in Indonesia's dairy herd. Despite a significant drop in milking cattle population (mostly amongst small-scale farmers), the growth of more efficient large-scale dairies in Indonesia is expected to prevent declines in overall dairy production. Whole milk powder imports are expected to remain stable or rise slightly, due to high prices and tight international supplies. These factors are encouraging Indonesian importers to maintain lower whole milk powder stocks and import on an as-needed basis. Indonesian per capita milk consumption is amongst the lowest in the ASEAN region, but growing.

**Commodities:**

Select

**Production:**

The Indonesian dairy cattle herd has declined in response to Indonesia's goal of beef self-sufficiency by 2014. Following the establishment of Indonesia's self-sufficiency goals, the Government of Indonesia (GOI) cut back on beef imports. This led to higher beef prices throughout 2012 and 2013 and resulted in culls of local dairy cattle. According to the Indonesian National Statistics Agency's (*Badan Pusat Statistik, BPS*) 2013 Indonesian Agricultural Census, the combined cattle and buffalo population (beef and dairy combined) declined to 14.2 million head from 16.7 million heads in 2011. Post estimates that the Indonesian dairy cattle population will fall to 395,000 head in CY 2013. This is a decline from the 597,135 dairy cattle reported by the 2011 BPS Census.

The growth of large dairy farms in Indonesia is bucking the trend to sell dairy cattle off for beef. Large-scale dairies milking up to 2,000 head are establishing themselves or expanding operations. These operations are able to achieve yields of up to 25 liters per cow per day using improved feed, sanitation, and reproduction practices. 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 is in the hands of smallholders, who produce 90 percent of Indonesia's milk. 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 11 liters per cow per day. Increased yields are hindered by limited farmer education, forage scarcity, high feed prices, small farm sizes, land scarcity, limited access to credit and high-quality genetics, and poor farm management practices. The majority of smallholder milk is marketed through local cooperatives. Approximately 97 percent of Indonesia's dairy cattle population is located on the island of Java. Most are Holstein-Friesian originating from Australia.

Despite a declining cattle population, total Indonesian production of all dairy products is expected to remain stable or rise minimally. This situation is made possible by large-scale, higher yielding farms which recognize that demand for alternative protein sources, rising health awareness, and a growing food processing sector and ingredient market will drive Indonesian consumption growth over the next decade. Post therefore estimates that in CY 2013, Indonesian fresh milk production will reach 1.62 million liters per day. In CY 2014, Indonesian fresh milk production levels are expected to increase to 1.68 million liters per day. While Indonesia does not produce nonfat dry milk (NFD), whole milk powder (WMP) is produced, mainly as an ingredient for sweetened condensed milk. Local WMP production is expected to remain stable in CY 2013 and 2014, with production estimated at 71 thousand MT and 72 thousand MT, respectively. The Ministry of Industry reports that domestic milk production only meets 20% of local demand for all dairy products, including fresh milk, milk powders, cheese, and butter.

**Consumption:**

Indonesia's per capita milk consumption currently stands at 12.83 liters, an increase from 11.95 liters in 2012. While growing, per capita milk consumption is lower than other ASEAN countries. (Per capita milk consumption is 22.1 liters in The Philippines, 50.9 liters in Malaysia, and 33.7 liters in Thailand). Growth is being driven by an expanding middle class, growing consumer awareness of milk's health benefits, and diverse marketing campaigns. Indonesia's middle class has expanded significantly over the last decade. In 2003, the middle class was estimated at 37.6 percent of the total population. By 2010, the middle class had expanded to 56.5 percent. (Middle class is defined as those spending between two and 20 USD per day). Based on these factors, industry sources forecast consumption growth to rise by six percent in 2014.

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. New players in Indonesia's dairy industry are focused on the fluid milk segment, which has expanded 17 percent annually over the past seven years. Consumers' preference for fresh products is expected to continue boosting fluid milk growth. Sweetened condensed milk, (blended from low grading local milk, sugar and imported dairy powders), is growing at approximately 4 percent per annum, despite prior industry comments that the market was mature and that growth is poised to decline. There are three major milk powder producers in Indonesia holding 57 percent of the market share.

#### **Trade:**

Indonesian imports of nonfat dry milk (NFDM), whole milk powder (WMP), and anhydrous milk fat (AMF) slowed in 2013 due to tight international supplies. Importers report that supply is poised to increase from Oceania by October, and larger shipments are expected throughout the last quarter of 2013. Based on these conditions, Post estimates CY 2013 NFDM imports to increase two percent over 2012 to 209,000 MT. Post anticipates that CY 2014 imports will continue to grow based on the expansion of dairy manufacturing in Indonesia. Major dairy expansion is expected to grow NFDM imports by an additional two percent to 213,000 MT.

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 grows and U.S. export prospects for U.S. NFDM remain positive. As a result, CY 2013 exports from the United States are estimated to jump to 60,000 MT, almost doubling the 32,000 MT exported in CY 2012. As of CY 2012 New Zealand is the largest NFDM supplier to Indonesia, followed by the United States and Australia with 27, 23 and 17 percent market share, respectively.

To supplement protein content in sweetened condensed milk, Indonesian dairy product manufacturers depend on imported whole milk powder. Post estimates CY 2013 Indonesian whole milk powder imports will increase slightly to 57,000 MT, followed by a two percent increase in CY 2014 to 58,000 MT. As of CY 2012, New Zealand remains Indonesia's largest WMP supplier with 65 percent market share, followed by Australia with 15 percent. The United States exported limited quantities of WMP in CY 2012.

The Indonesian dairy industry sometimes substitutes whey for NFDM when prices favor whey imports. NFDM is typically replaced substituted at a 3-1 ratio (three parts whey equal one part NFDM). Post

estimates CY 2013 Indonesian whey imports will reach 105,000 MT, an increase of four percent over 101,618 MT in CY 2012. High whey prices, as with most dairy ingredients, have slowed U.S. whey exports to Indonesia. In CY 2012, the Indonesia imported whey primarily from France (24 percent), the United States (21 percent), the Netherlands (12 percent), and Germany (12 percent).

**Stocks:**

Due to high commodity prices and weak foreign exchange rates, importers tend to import on an as-needed basis, thus minimizing stocks. WMP stocks are expected to remain low, with CY 2013 and 2014 WMP leveling at 7,000 MT. NFDM is expected to increase slightly to 11,000 MT in CY 2013, as importers will substitute whey for NFDM, thus stocking limited quantities of unused NFDM. CY 2014 NFDM stocks are expected to decline to 10,000 MT, although this will depend on whey and NFDM prices as well as exchange rates.

**Policy:**

On June 4, 2009, Indonesia announced Law 18/2009, requiring foreign companies that export animal derived products to Indonesia, including dairy products, to prelist their establishments with the Indonesian Ministry of Agriculture. Law 18 also requires audits on a plant-by-plant basis for all prelisted companies. To comply with this regulation, a delegation from the Directorate General for Livestock and Animal Health Services (DGLAHS) was invited to audit the U.S. food safety system. The audit took place in 2011, and led to GOI acceptance of the U.S. food safety system for U.S. dairy products and the elimination of plant-by-plant audits. New plants wishing to export dairy products are required to apply for an import permit from DGLAHS. New plants will be subject to future U.S. food safety system audits, and will be “prelisted” prior to future audits. Prelisted plants are allowed to export. As of October 5, 2013, 83 U.S. dairy plants are prelisted. 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 August 30, 2013, the Indonesian Ministry of Trade issued regulation No. 46/M-DAG/PER/8/2013, “Import and Export of Animal and Animal Products.” The regulation came into effect on September 2, 2013. The new regulation stated that imports of animal products, such as NFDM and whole milk powder, can only be performed by a company that has obtained import approval from the Ministry of Trade. The import approval will only be issued after the importer obtains a recommendation. To obtain import approval, the importer must submit an application electronically to the Ministry of Trade. The electronic application must be accompanied by a recommendation from the Head of the Agency of Drug and Food Control (BPOM) and a recommendation from the Minister of Agriculture.

The Ministry of Trade will:

- a. issue an import approval no more than two working days after the application is received completely and correctly, or
- b. reject the import approval within two working days after the application is received in cases where the application is incomplete and/or incorrect.

Import approvals are issued to animal product importers and copies are delivered to all related agencies within the GOI. An import approval is valid for three months commencing from the date of issuance of the import approval.

Labels must be attached to imported animal products prior to entering the territory of the Republic of Indonesia. Labels must be printed clearly in Bahasa Indonesia and contain the following information:

- a. Product name
- b. List of ingredients used
- c. Net weight or net content
- d. Name and address of the producing or importing party
- e. Halal certification
- f. Production date and code
- g. Expiration date, month, and year
- h. Distribution permit number for processed food, and
- i. Origin of certain food ingredients

The use of language other than Bahasa Indonesia, Arabic numbers, and Latin letters is permitted if there is no equivalent.

Packaging materials for imported animal products must fulfill the following requirements:

- a. Packaging in direct contact with food must use food grade material
- b. Packaging that uses plastic must attach a food grade logo and a recycling code

Packaging must:

- a. Be accompanied by a certificate issued by a testing laboratory that is competent and recognized by the local government attesting that it meets the requirements above, or
- b. Be accompanied by a statement letter from the importer stating that the packaging is in accordance with Indonesia's packaging regulation.

In the case where there is a risk of the spread of zoonotic disease from the exporting country, the Ministry of Agriculture will issue a decree prohibiting animal product imports. Previously issued import approvals will be declared invalid, (as per the decree).

A company that has obtained an import approval must:

- a. Report to the Ministry of Trade the quantities of product that were imported through <http://inatrade.kemendag.go.id>
- b. Attach a photocopy of an Import Realization Control Card that has been signed and stamped by a Customs and Excise official.

Import quantity reports must be submitted by the 15<sup>th</sup> of every month to the Ministry of Trade's Director General of Foreign Trade with copies to:

- a. The Director General of Domestic Trade, Ministry of Trade,
- b. The Head of the Agency of Drug and Food Control,
- c. The Director General of Livestock and Animal Health Services, Ministry of Agriculture.

Animal product importers not in accordance with these regulations are subject to fines. Imported animal products that do not meet the import approval terms (with quantity, type, business unit, and/or country of origin) or are not in accordance with the regulation shall be re-exported. The cost of re-export is the responsibility of the importer.

For imports of dairy products from the United States, a Free Sale Certificate or Health Certificate from the U.S. Department of Agriculture (USDA)/Agriculture Marketing Service (AMS) must be provided to the Indonesian dairy importer in order to obtain the BPOM recommendation.

Semen for artificial insemination (AI) is domestically produced by two government run organizations located in Malang, East Java and Lembang, West Java. Indonesian standards require 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 AI Center in West Java sells unsexed semen at the price of Rp. 7,000 – Rp. 8,000 (\$0.60 – 0.70) per dose, while the price of sexed semen ranges from Rp. 36,000 – Rp. 40,000 (\$3.10 – 3.50) per dose. Major dairy producers prefer imported semen and are seeking to import sexed semen. Local dairy cooperatives have expressed interest in using imported semen to increase milk production, although most of their members are unable to access it due to its cost. Trade data indicates that Indonesia imported 45,000 doses of bovine semen in CY 2012 and 6,000 doses during the period of January – July 2013 from the United States. The United States was the unique supplier of bovine semen to Indonesia in CY 2012 and 2013.

**Production, Supply and Demand Data Statistics:**

**PSD: Non Fat Dry Milk**

Dairy, Milk, Nonfat Dry Indonesia	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	9	9		11
Production	0	0	0	0		0
Other Imports	205	205	215	209		213

Total Imports	205	205	215	209		213
Total Supply	215	215	224	218		224
Other Exports	1	1	1	1		1
Total Exports	1	1	1	1		1
Human Dom. Consumption	205	205	210	206		214
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	205	205	210	206		214
Total Use	206	206	211	207		215
Ending Stocks	9	9	13	11		9
Total Distribution	215	215	224	218		224
CY Imp. from U.S.	0	32	0	0		0
CY. Exp. to U.S.	0	0	0	0		0
TS=TD		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	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	6	6		7
Production	70	70	74	71		72
Other Imports	56	56	58	57		58
Total Imports	56	56	58	57		58
Total Supply	132	132	138	134		137
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	126	126	128	127		130
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	126	126	128	127		130
Total Use	126	126	128	127		130
Ending Stocks	6	6	10	7		7
Total Distribution	132	132	138	134		137
CY Imp. from U.S.	1	1	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 2, 2013: Rp. 11,593/US\$1.

