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Indonesia

Dairy and Products Annual

Dairy and Products Annual Report 2010

Approved By:
Dennis Voboril

Prepared By:
Jonn Slette & Sugiarti Meylinah

Report Highlights:
Post estimates that in CY 2010, Indonesia will import 210,000 metric tons (MT) of non-fat dry milk. Post import estimates for whole milk powder will remain static at 50,000 MT. Post forecasts that in CY 2010, Indonesia's imports of U.S. non-fat dry milk will be 47,000 MT, which more than doubles U.S. exports of non-fat dry milk to Indonesia over 2009. This is primarily due to competitive prices and wider availability of exportable supplies. The stable Indonesian political outlook, continued economic growth, continued per capita consumption growth, increased consumer health awareness, and higher production capacity by major Indonesian dairy product producers are all factors for this increase.

Executive Summary:

The Government of Indonesia (GOI) estimates that the Indonesian economy will grow by 6.3 percent in 2011. This, combined with a stable political outlook, room for increased per capita consumption of milk, and a growing awareness of the health benefits from dairy products will continue to provide opportunities for the Indonesian milk processing industry. Several new dairy farms and new producers are entering the industry and some of the major dairy manufacturers are expanding their capacity. Per capita consumption of milk will remain below consumption rates of neighboring countries due to the increase of retail prices for dairy and dairy products. Growth in domestic fresh milk production will remain limited because of several fundamental factors. Whole fresh milk is mixed with imported milk powder, with Oceania being the preferred supplier due to closer proximity. Competitive prices and available exportable supplies have driven the United States to set another record for U.S. non fat dairy milk exports to Indonesia. Higher use of whey by Indonesian food manufacturers drives higher imports of whey from the United States.

Commodities:

Select

Production:

In CY 2010, Indonesian fresh milk production reached an estimated 1.41 million liters per day (56,000 MT). This level meets only 25 percent of domestic requirements. In CY 2011, Indonesian fresh milk production levels are expected to increase to 1.55 million liters per day (68,000 MT). 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.

Semen for artificial insemination (AI) is domestically produced by two agencies located in Malang, East Java and Lembang, West Java. Reportedly, the Directorate General for Livestock within the Ministry of Agriculture (DGLS) has been conducting progeny tests since 2003 to produce prime quality dairy cattle genetics suitable for the Indonesian climate. DGLS plans to use the results of the test to begin a dairy cattle record keeping system. There are four private companies providing 404 cows. Another government institution in Central Java is providing 51 cows, and small holder farmers are providing a total of 5,794 cows. Semen from eight prime quality bulls is used to artificially inseminate these cows. The quality of the genetics will be determined by the fresh milk productivity of the offspring. Indonesia is trying to meet international standards for progeny testing that requires the use of 10 participating cows for each bull. However, funding is a major problem for the project and the continuation of the program is questionable.

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 Dairy Cooperatives Union coordinates all its member farmers to buy semen from the local AI stations with the price of Rp. 6,000/straw ($0.62/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. The Indonesian government currently does not allow imports of semen, declaring that there is sufficient supply of domestically produced semen from the local AI stations.

In early October 2010, a group of Indonesian dairy industry stakeholders, consisting of representatives from the West Java AI Station; the Assistant Dean of Animal Husbandry from the University of Brawijaya; the Indonesian Science Institute; and a major dairy producer went to Wisconsin and Ohio under the USDA Cochran Fellowship Program. The primary objective of the program was to learn more about enhancing Indonesia's dairy industry through the use of better quality genetics, and herd and feed management techniques. This training is expected to increase the participant's knowledge of better dairy production methods and the benefits of improved dairy genetics.

Currently Indonesian fresh milk production is sourced from 345,000 dairy cattle located in the major fresh milk production areas, including all three provinces on Java. With the entry of new dairy farms and the expansion of some integrated major dairy manufacturers, the dairy cattle population is estimated to increase by seven percent to 370,000 heads. Cows owned by small farmers that are members of local Dairy Cooperative Unions produce most of this milk. 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 is between 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, large and efficient companies contribute significantly to the dairy production and manufacturing sectors. Several new producers are entering the market, and some of the major, more established dairy producers and manufacturers continue to expand their capacity. Several new brands of dairy products can also be found on retail market shelves. In line with Indonesian economic growth, dairy products sales are expected to grow approximately six percent in 2011.

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 5 percent in 2011.

Three types of consumer products that continue to dominate the market are liquid ready-to-drink milk, sweetened condensed milk, and powdered milk, with a total market share of 26 percent, 35 percent, and 39 percent respectively. During the five past years, liquid ready-to-drink milk grew the fastest by 17.39 percent per annum, 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. 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". Dairy manufacturers also package liquid milk products in small packages to maintain the price of the dairy products at Rp. 1,000/package ($0.1/package).

The United States Dairy Exports Council is also continuously educating the Indonesian dairy 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. However, there are still whey quality concerns, particularly over U.S. whey's color and its tendency to cake.

Conversely, consumers continue to prefer butter imported from Australia because of the familiarity with the yellow color, taste, smell, and performance in bakery formulations. Increased sales of U.S. butter will require more consumer education.

Trade:

Continued demand from newly expanded, major dairy manufacturers increased Indonesia's imports of non-fat dry milk in CY 2010 by approximately 18 percent to 210,000 MT. It is expected to further increase to 260,000 MT in CY 2011. Despite New Zealand's resurgent levels of milk production and the prospects of Australia's recovery from the drought that limited Australian exports in the final months of 2010. As prices are more competitive, Oceania non-fat dry milk exports to Indonesia have been displaced by product from the European Union and the United States. As a result, U.S. exports of non-fat dry milk to Indonesia are estimated to set another record. An increase of 124 percent to 47,000 MT compared to 21,000 MT in CY 2009 will likely be achieved in CY 2010. Based on the Global Trade Atlas data, The United States overtook Australia as the second largest supplier of non-fat dry milk to Indonesia, with a total market share of 20.17 percent, following New Zealand with 47.7 percent market share. EU stood at ranking number 3 with 15 percent market share.

Post estimates CY 2010 Indonesian imports of whole milk powder to remain at 50,000 MT, with a 20 percent increase to 60,000 MT in CY 2011. In CY 2009, New Zealand continued becoming the largest supplier of whole milk powder to Indonesia with 39 percent market share, followed by Australia with 28 percent and EU with 13 percent of the market share. Indonesia imported only a small amount of whole milk powder from the United States in CY 2010.

Post estimates CY 2010 Indonesian imports of whey to reach 76,000 TMT, an increase of 18 percent, as compared to 64,000 MT from the previous year. Quality concerns hinder the growth of U.S whey exports to Indonesia. In CY 2009 the Indonesian dairy industry imports its whey from France (31 percent), Netherlands (23 percent), and the United States (16 percent).

Stocks:

Although there are signs that global dairy prices are set to ease in the final months of 2010, Indonesian importers are expected to continue keeping only pipeline stocks in storage. It reflects in estimates of relatively stagnant CY 2010 ending stocks of whole milk powder at approximately 6,000 MT. It is forecast to slightly increase to 7,000 MT in MY 2011. The CY 2010 ending stocks of non fat dry milk is estimated to marginally increase to 10,000 MT, and further increase to 13,000 MT in CY 2011.

Policy:

The GOI hopes to become self sufficient in beef and to meet 50 percent of the domestic demand for milk through domestic production by 2014. Therefore, the GOI supports the procurement of 800,000 beef cattle and 200,000 dairy cattle within the next five years by issuing the Ministry of Finance Decree no. 131/PMK.05/2009, which provides for loan for breeding cattle. This decree provides a five percent loan subsidy by the government to any businessman who expects to purchase beef or dairy cattle. To become eligible for the subsidy, the businessman must partner with dairy or beef cattle farmers. Four national banks, namely Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), and Bank Bukopin are involved in this program. Reportedly, East Java Dairy Cooperatives Union (GKSI) was importing 6,000 dairy cattle from Australia using this loan subsidy scheme. The cattle were expected to arrive by the end of 2009. However, due to difficulties in meeting the banks' loan requirements, the East Java GKSI recently reported that the planned cattle imports failed to occur.

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 with the Indonesian Ministry of Agriculture. Law 18 also requires

audits on a plant-by-plant basis to follow for all prelisted companies. Finally, Law 18 stipulates that these products will require halal certification by a U.S. based Islamic center, approved by the Indonesian Ulama Council (MUI). However, Indonesia would provide 12 months from June 4, 2009, the inception date of the Law 18, before full implementation. Due date of the implementation of the law was supposedly fell in last June. However, until today GOI has not given any certain clarification on the status of the law. Industry reports that trade continue as normal.

Author Defined:

Price

2010 Indonesian Fresh Milk Buying Prices

Product	Price	
	(IDR)	(USD)
Local fresh milk Grade 1 (farm gate – 12% TS, 0 – 250,000/ml TPC)	3,3500/kg	392/ton
Local fresh milk Grade 2 (farm gate – 12%TS, 250,000 – 500,000/ml TPC)	3,300/kg	370/ton
Local fresh milk Grade 3 (farm gate – 12% TS, 500,000 – 1 million/ml TPC)	3,200/kg	358/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.

PSD: Non Fat Dry Milk

Dairy, Milk, Nonfat Dry Indonesia	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	7	7	7	8		8			10
Production	0	0	0	0		0			0
Other Imports	178	172	178	187		210			260

Total Imports	178	172	178	187		210			260
Total Supply	185	179	185	195		218			270
Other Exports	5	5	5	6		6			7
Total Exports	5	5	5	6		6			7
Human Dom. Consumption	172	167	172	181		202			250
Other Use, Losses	0	0	0	0		0			0
Total Dom. Consumption	172	167	172	181		202			250
Total Use	177	172	177	187		208			257
Ending Stocks	8	7	8	8		10			13
Total Distribution	185	179	185	195		218			270
CY Imp. from U.S.	21	62	21	28		47			58
CY. Exp. to U.S.	0	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	2009			2010			2011		
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	6	6	6	8		6			6
Production	56	51	56	62		62			68
Other Imports	46	44	50	48		50			60
Total Imports	46	44	50	48		50			60
Total Supply	108	101	112	118		118			134
Other Exports	0	0	0	0		0			0
Total Exports	0	0	0	0		0			0
Human Dom. Consumption	100	95	106	105		112			127
Other Use, Losses	0	0	0	0		0			0
Total Dom. Consumption	100	95	106	105		112			127
Total Use	100	95	106	105		112			127
Ending Stocks	8	6	6	13		6			7
Total Distribution	108	101	112	118		118			134
CY Imp. from U.S.	0	0	0	0		2			2
CY. Exp. to U.S.	0	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 27, 2010: Rp. 8,928/US$1.