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Indonesia

Dairy and Products Annual

Indonesia Dairy and Products Annual Report 2011

Approved By:
Dennis Voboril

Prepared By:
Jonn Slette/Sugiarti Meylinah

Report Highlights:
Based on the actual import realization reported by major dairy products traders in the country, Post revised the calendar (CY) 2010 Indonesian imports of non-fat dry milk (NFDM) to 189,000 metric tons (MT) from previous estimate of 200,000 million metric tons (MMT). Post estimates that in CY 2011, Indonesia will import 220,000 MT of NFDM. Post import estimates for whole milk powder remain static at 50,000 MT. Post also forecasts that in CY 2011, Indonesian imports of U.S. NFDM will be roughly 50,000 MT, with further expectations that volume will to grow to 55,000 MT in CY 2012. Strong competition will continue from New Zealand and Australia due to their closer geographical proximity. A stable Indonesian political situation, continued economic growth, per capita consumption growth, increased consumer health awareness, and higher local dairy product production capacity are all

factors for this increase.

Executive Summary:

The Government of Indonesia (GOI) estimates that the Indonesian economy will grow by 6.5 percent in 2012. This, combined with a stable political situation, 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. Some of the major dairy manufacturers are also expanding their capacity. As a result, the Indonesian dairy industry is predicted to grow by 10-15 percent in CY 2011. Per capita consumption of milk will remain below consumption rates of neighboring countries, as many dairy products remain cost prohibitive for the majority of 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 milk products in their day to day diets.

Although several major dairy farms are expanding their dairy herds, overall 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 led to record exports for U.S. NFDM to Indonesia in CY 2011. Increased use of whey by Indonesian food manufacturers drives higher imports of whey from the United States.

Commodities:

Select

Production:

In CY 2011, Indonesian fresh milk production reached an estimated 1.5 million liters per day (65,700 MT). This level meets only 25 percent of domestic requirements. In CY 2012, Indonesian fresh milk production levels are expected to increase to 1.62 million liters per day (71,000 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 government run organizations located in Malang, East Java and Lembang, West Java. The Directorate General for Livestock and Animal Health Services within the Ministry of Agriculture (DGLAHS) has been conducting progeny tests since 2003 to produce prime quality dairy cattle genetics suitable for the Indonesian climate. DGLAHS plans to use the results of the tests 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

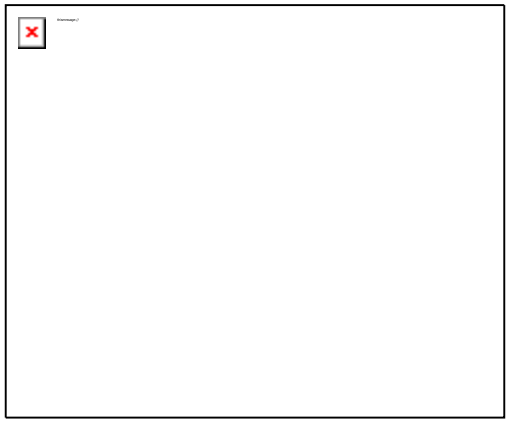
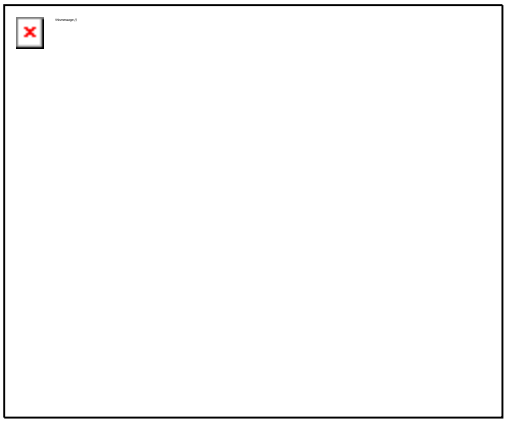
determined by the fresh milk productivity of the offspring. Indonesia is trying to meet international standards for progeny testing that requires the use of 10 participating cows for each bull. However, funding is a major problem for the project and the continuation of the program is questionable.

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 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. 6,000/straw ($0.68/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 GOI currently does not allow imports of semen, having declared that there is sufficient supply of domestically produced semen from the local AI stations. However, based on the Global Trade Atlas data, in CY 2010 Indonesia imported a total of 15,644 doses (DS) of bovine semen from the United States. During the period of January – August 2011, Indonesia has imported a total of 14,165 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.

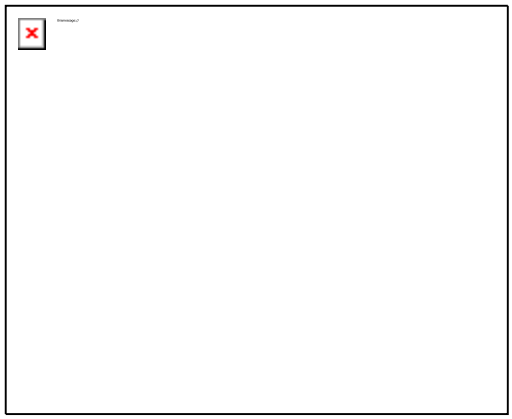
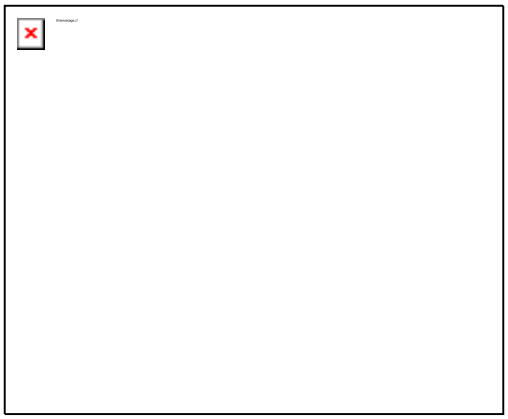
The Indonesian Ministry of Agriculture in cooperation with the Indonesian National Statistics Agency (BPS) conducted a Beef Cattle, Dairy Cattle, and Water Buffalo Census throughout Indonesia since June 1 to June 30, 2011. Based on the early release of result from the census, currently there are 597,135 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. A new player in the dairy farming sector is expected to establish its dairy farm in South Sulawesi and plans eventually build a herd size totalling 15,000 dairy cattle starting next year. This company's entry combined with the expansion of some integrated major dairy manufacturers is estimated to increase Indonesian dairy cattle population by about seven percent to 638,930 heads. Small farmers that are members of local Dairy Cooperative Unions mostly own the cows with an average cows ownership of 2 – 3 cows per farmer.

The small producer's cows produced the majority of this milk. Most of Indonesian small dairy farmers milk their cows twice a day manually, while larger dairy farms milk their cows twice a day using more modern milking machinery.

Left picture: a farmer at a small dairy farm in East Java is manually milking his cow.
Right picture: the milk is then filtered using a screen fabric into milk can.

Left picture: a small dairy farm in East Java.
Right picture: a cow is eating corn stalks that are not chopped to the size easily eaten by cows. This is the typical way of Indonesian small dairy farmers feeding their cows with forages.

Left picture: rows of cows at a large Indonesian dairy farm on Java.
Right picture: a milking parlor at the large farm.

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, large and efficient companies contribute significantly to the dairy production and manufacturing sectors. Several new producers continue entering the market, and some of the major, more established dairy producers and manufacturers are also expanding their capacity. To ensure supply of fresh milk from domestic market, some of these large manufacturers establish partnership with small farmers by providing some production inputs and farming practice

training. Several new brands and new dairy products can also be found on retail market shelves. In line with Indonesian economic growth, Indonesian population growth, and increase health awareness motivating more dairy consumption, the Indonesian dairy industry expects Indonesian dairy products sales to grow by approximately 15 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 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 five 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. However, processors report that there are still whey quality concerns, particularly over U.S. whey's color and its tendency to cake.

Trade:

Based on the import realization reported by Indonesian major dairy products importer, Post revised CY 2010 Indonesian NFDM imports to 198,000 MT. Continued demand from newly expanded, major dairy manufacturers increased Indonesia's imports of NFDM in CY 2011 by approximately 16.4 percent to 220,000 MT. It is expected to further increase to 240,000 MT in CY 2012. Indonesia continue resourcing its dairy products from New Zealand and Australia mainly because of the closer proximity and longstanding existance in the country. Relatively new marketing strategy of New Zealand dairy suppliers has also supported it in maintaining the market share in Indonesian market. As prices are more competitive, major Indonesian dairy products importers reported that some Oceania NFDM exports to Indonesia have been displaced by product from the European Union and the United States. As a result, U.S. exports of NFDM to Indonesia are estimated to remain prospective. An increase of 16.3 percent to 50,000 MT compared to 43,000 MT in CY 2010 will likely be achieved in CY 2011. The United States export of NFDM to Indonesia is forecast to further increase to 55,000 MT in CY 2012. Based on the Global Trade Atlas data, in CY 2010 the United States overtook New Zealand and Australia as the largest supplier of NFDM with a total market share of 31 percent followed by New Zealand with 25 percent, and Australia with 13 percent. Conversely, China is absorbing more dairy

products from New Zealand and Australia, limiting the amount of milk powder that can ship to Indonesia. U.S. opportunities to strengthen market share will depend on how New Zealand and Australia respond to higher Chinese demand.

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 2011 Indonesian imports of whole milk powder to slightly increase to 52,000 MT, with a 10 percent increase to 57,000 MT in CY 2012. Based on the data from the Global Trade Atlas, in CY 2010, New Zealand continued becoming the largest supplier of whole milk powder to Indonesia with 36 percent market share, followed by Australia with 24 percent and the Philippines with 12 percent of the market share. Indonesia imported only a small amount of whole milk powder from the United States in CY 2011.

Post estimates CY 2011 Indonesian imports of whey to reach 86,700 TMT, an increase of 22.7 percent, as compared to 70,667 MT from the previous year. Quality concerns hinder the growth of U.S whey exports to Indonesia. In CY 2010, the Indonesian dairy industry imports its whey from France (28 percent), the United States (24 percent), and Netherlands (23 percent).

Stocks:

Indonesian importers are expected to continue keeping only pipeline stocks in storage. It reflects in estimates of relatively stagnant CY 2011 ending stocks of whole milk powder at approximately 7,000 MT. It is forecast to remain stagnant at 7,000 MT in MY 2012. The CY 2011 ending stocks of NFDM is estimated to marginally increase to 12,000 MT, and further increase to 16,000 MT in CY 2012.

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 Acting 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. It is expected that the result from the audit will be found out within one month to two months from the audit date. So far, no result from the audit has been received yet.

In order to get an import permit, the DGLAHS requires any U.S. dairy plant wishing to export U.S. dairy products to Indonesia to submit a fulfilled questionnaire form. DGLAHS officials will then do a desk review of the questionnaire and put the name of the plant into a prelisting. Once the plant's name is on the list, the importer can proceed with the procedure to obtain an import permit. 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. 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 U.S. Department of Agriculture (USDA)/Agriculture Marketing Service (AMS) must be attached to the other document provided to Indonesian dairy importer to obtain BPOM recommendation.

Production, Supply and Demand Data Statistics:

PSD: Non Fat Dry Milk

Dairy, Milk, Nonfat Dry Indonesia	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8	8	10	12		11
Production	0	0	0	0		0
Other Imports	200	189	230	220		240
Total Imports	200	189	230	220		240

Total Supply	208	197	240	232		251
Other Exports	6	1	7	1		1
Total Exports	6	1	7	1		1
Human Dom. Consumption	192	184	220	220		235
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	192	184	220	220		235
Total Use	198	185	227	221		236
Ending Stocks	10	12	13	11		15
Total Distribution	208	197	240	232		251
CY Imp. from U.S.	28	43	0	50		55
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	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	6	6		6
Production	62	62	68	66		71
Other Imports	50	50	60	52		57
Total Imports	50	50	60	52		57
Total Supply	118	118	134	124		134
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	112	112	127	118		127
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	112	112	127	118		127
Total Use	112	112	127	118		127
Ending Stocks	6	6	7	6		7
Total Distribution	118	118	134	124		134
CY Imp. from U.S.	2	2	2	1		1
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

Note: Exchange rate as of Oct 24, 2011: Rp. 8,883/US$1.

Author Defined:

PRICE

2011 Indonesian Fresh Milk Buying Prices

Product	Price	
	(IDR)	(USD)
Local fresh milk Grade 1 (farm gate – 12% TS, 0 – 250,000/ml TPC)	3,850/kg	433/ton
Local fresh milk Grade 2 (farm gate – 12%TS, 250,000 – 500,000/ml TPC)	3,750/kg	422/ton
Local fresh milk Grade 3 (farm gate – 12% TS, 500,000 – 1 million/ml TPC)	3,650/kg	411/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.