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**Report Highlights:**

Although Indonesian dairy production is still reeling from the 2022 Foot and Mouth Disease (FMD) outbreak, imports of dairy ingredients are expected to decline in 2023. Dairy importers are reporting a 10 to 20 percent drop in demand in 2023 due to a multitude of factors, including problems obtaining import recommendations and licenses, decreased consumer purchasing power, and election uncertainty. Post estimates Indonesia's total dairy consumption in 2022 and 2023 at 4.22 and 3.7 MMT respectively. Dairy consumption in 2024 is anticipated to rebound to 4 million metric tons as post-election economic conditions are expected to stabilize.

## Production

The Foot and Mouth Disease (FMD) outbreak that began mid-April 2022 has significantly decreased annual domestic milk production by 35 to 60 percent. According to the Indonesian Dairy Cooperatives Association (GKSI, Gabungan Koperasi Susu Indonesia), the outbreak caused the death of 11,581 of its members' dairy cows, bringing the mortality rate to around 4-5 percent. Post calculates that domestic milk production has dropped around 48 percent compared to the pre-FMD production rate. The dairy cooperative's artificial insemination services resumed in August 2022 and the first calves were born in the second quarter of 2023. However, many cows failed to produce milk upon giving birth due to irreparable damage to internal organs and milk ducts and had to be culled, contributing to the official FMD outbreak mortality count.

The majority of Indonesia's fresh milk is produced by the members of 59 dairy cooperatives under GKSI while several modern dairy farms produce the remaining balance. The current populations of dairy cooperative cows and modern dairy farm cows are approximately 227,615 and 32,000 heads respectively. The annual 2023 fresh milk production of the dairy cooperatives and the modern dairy farms are approximately 407,000 (71 percent) and 164,000 (29 percent) metric tons (MT) respectively, bringing total 2023 production to 571,000 MT. The FMD outbreak decreased the average daily yields of dairy cooperative cows to only 9-10 liters of fresh milk, while the modern dairy farms, which largely avoided the negative impact of the FMD outbreak through better farming management, maintained their daily fresh milk yields at 25 liters per head minimum. These modern dairy farms are vertically integrated dairy farm-processors of liquid milk and small quantities of cheese and cream.

Indonesia's fresh milk production is concentrated on the island of Java with 99 percent of total dairy cattle population. There is only one dairy farm in North Sumatera, a subsidiary of the largest dairy processor in Indonesia, which has around 4,000 heads of dairy cows. Another location with a notable number of dairy cows is South Sulawesi with around 1,000 heads of dairy cows, whose milk production is mainly used to produce local fresh cheese called "dangke."

Image 1. Fresh Cheese "dangke" from South Sulawesi



Currently there is no clear action plan from the Government of Indonesia (GOI) to restock the dairy cattle population. However, the Permanent Commission for Livestock Affairs of the Indonesian Chamber of Commerce (KADIN), in collaboration with the Indonesian Dairy

Processors Association (AIPS), has drafted a plan to increase the domestic dairy cattle population and fresh milk production. The proposal aims to recover the domestic fresh milk production back to the pre-FMD production amount by importing 17,889 pregnant heifers within three years to increase the dairy cattle population by 70,000 heads in five years. Assuming an 18-month calving interval, 12 liters-per-day milk yield, and a 60:40 female-to-male calf sex ratio, the proposal projects an additional daily production of 384 MT of fresh milk by the fifth year. The plan has selected 25 dairy cooperatives to take 45 percent of the imported heifers while several private dairy farming companies will take the remaining 55 percent. During a recent assessment trip to Indonesia, the U.S. Livestock Genetics Export (USLGE) found interest among private dairy farming companies and a few dairy cooperatives in importing around 24,000 heads of U.S. dairy cattle. Even if the dairy cooperatives and private companies receive dairy cattle allotments from the KADIN/AIPS plan, there would still be unmet import demand for around 15,000 heads of dairy cattle remaining.

Australia is currently the only country approved by the GOI to export dairy cattle to Indonesia. Other countries such as Brazil, Denmark, and the United States are reportedly in the process of obtaining approval to export dairy cattle to Indonesia. Based on communication with the GKSI and several primary dairy cooperatives, Post understands that dairy farmers can only afford to buy heifers at a maximum price of IDR 25 million (\$1,600) per head, while the current price of an imported heifer from the U.S. can be as high as IDR 65 million (\$4,200) per head. KADIN/AIPS is looking for alternatives to ensure the success of its plan as it is not likely the GOI will be able to subsidize 50 percent of the purchase price.

## **Consumption**

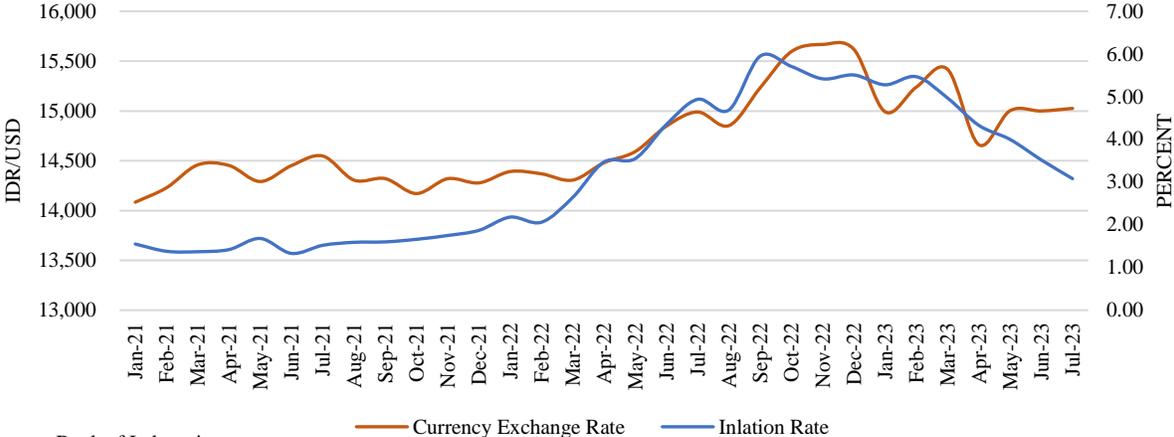
Following the FMD outbreak in 2022, dairy cooperatives stopped processing their own pasteurized drinking milk, yogurt, and cheese, and instead supplied all their milk production to dairy processors. However, since the second quarter of 2023, some dairy processors in East Java have reportedly reduced their fresh milk intake from dairy cooperatives due to decreased consumer demand, creating a glut in the cooperatives' fresh milk stocks in their cold storage. The cooperatives ended up having to send their fresh milk to be processed in West Java where one major dairy processor was still able to absorb fresh milk as the company was diversifying its production to include whole milk powder (WMP) for future use. Post estimates this situation is only temporary and will cease when economic conditions improve.

Indonesia's year-on-year dairy imports in general are lower compared to 2022. Dairy importers report a 10 to 20 percent drop in demand allegedly caused by several factors including problems obtaining import recommendations and licenses, halal certifications, decreased consumer purchasing power, and businesses taking a wait-and-see stance as Indonesia approaches the 2024 general election.

In 2022, Whole Milk Powder (WMP) imports had significantly increased to compensate for the decrease in fresh milk production due to the FMD impact. Post suspects the decline in 2023 imports is due to lower consumer demand or companies carrying over stock from 2022. Retail sales remain steady with the help of online ordering, while the foodservice sector continues to recover from the COVID-19 pandemic. Demand from the tourism industry is also contributing to this revival. The Euromonitor reports that the retail and foodservice sectors have increased four and five percent respectively in 2022 and are expected to increase eight and seven percent

respectively in 2023. However, consumers purchasing power seems not as strong as expected. This situation is expected to continue through a good part of 2024 as global dairy prices continue to increase while the Indonesian Rupiah weakens against the U.S. dollar. According to industry contacts, the upcoming general election is also making businesses wary of expanding investments due to political uncertainty.

Chart 1. Currency Exchange & Inflation Rates



Source: Bank of Indonesia

In 2022 importers pre-emptively increased inventories in response to government delays in issuing import licenses. Importers reported delays up to 3 to 4 months as issuances of licenses took longer than usual due to the technical and administrative issues associated with the commodity balance policy. This year, importers also expressed concerns about the uncertainty surrounding the acceptance of Halal certificates issued by U.S. halal certifying bodies (HCBs) as mutual recognition agreements with the Indonesian Halal Products Assurance Agency (BPJPH) in advance of the implementation of the Halal Law in October 2024 remain largely unsettled. Out of five U.S. HCBs that have applied for BPJPH recognition, only one has received full accreditation status. These constraints have hindered importers from securing future contracts for the first quarter of 2024 compared to previous years.

Indonesia does not produce skimmed milk powder (SMP) and the majority of imported SMP is recombined with local milk and other imported ingredients to form reconstituted milk. This product is generally cheaper than fresh pasteurized milk. SMP, along with lactose, are used as ingredients in food manufacturing and producing powdered milk beverages. Most of the imported whole milk powder (WMP) is repackaged and used in Indonesia’s retail market.

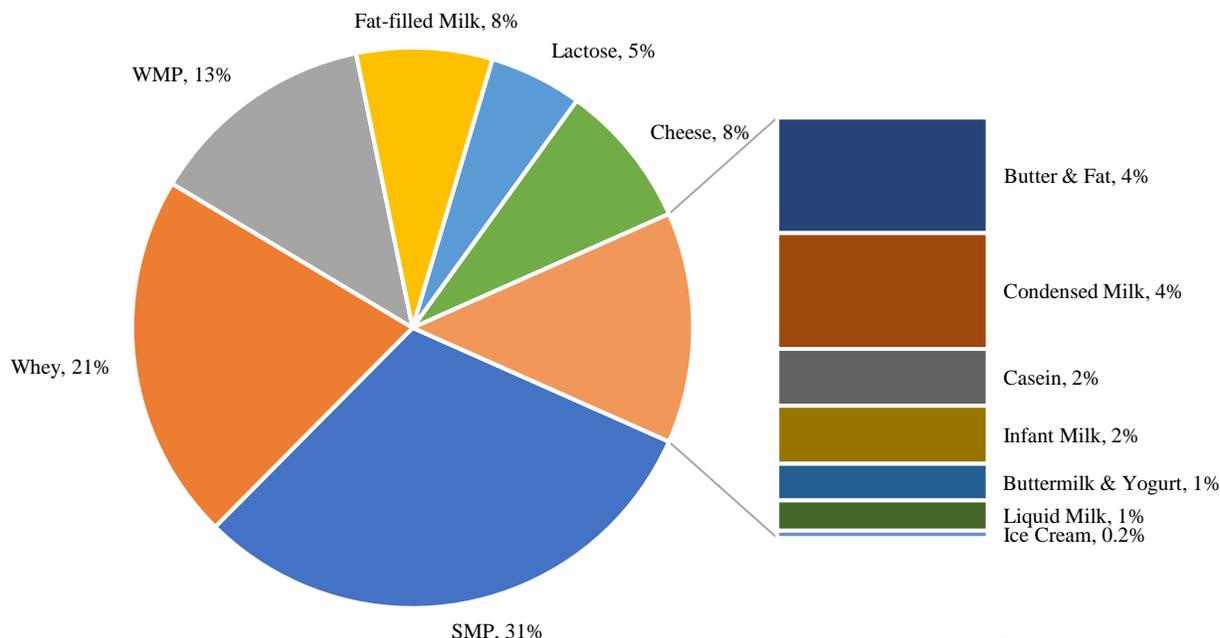
The GOI estimates dairy consumption at 4.4 and 4.6 million metric tons (MMT) in 2022 and 2023 respectively. However, based on current constraints and existing trade data, Post estimates Indonesia’s total dairy consumption in 2022 and 2023 at 4.22 and 3.7 MMT respectively. Dairy consumption in 2024 is anticipated to rebound to 4 MMT as post-election economic conditions are expected to stabilize.

Approximately 60 percent of dairy consumption is in the form of fresh and Ultra High Temperature (UHT) pasteurized milk, flavored/fermented milk, and evaporated/condensed milk. The remaining 40 percent of consumption includes powdered milk, cheese, food service, confectionary goods, bakery, and pharmaceutical uses.

## Trade

In 2022, higher imports of WMP and SMP (60 and 8 percent increases respectively) compensated the drop in domestic fresh milk production. Indonesia relies heavily on imported dairy ingredients to meet 84 percent of dairy product demand and only sources 16 percent from domestic fresh milk production. The total 2022 imports of dairy ingredients increased five percent, lower than the previous year's six percent increase.

Chart 2. Global Dairy Products Exports to Indonesia, by product, January - July 2023



Source: Trade Data Monitor

Skimmed milk powder (SMP) is the largest dairy product exported by volume followed by whey, and whole milk powder (WMP). Global exports of dairy ingredients to Indonesia between January and July of 2023 reached approximately 340,000 MT, an 18 percent decrease compared with the same period of 2022.

Imports of fat-filled milk (i.e., HS code 190190) are also decreasing due to competition from local producers, who can supply products 40 percent cheaper than imported products. This dairy ingredient product is used mainly in bakeries and the production of dairy beverages.

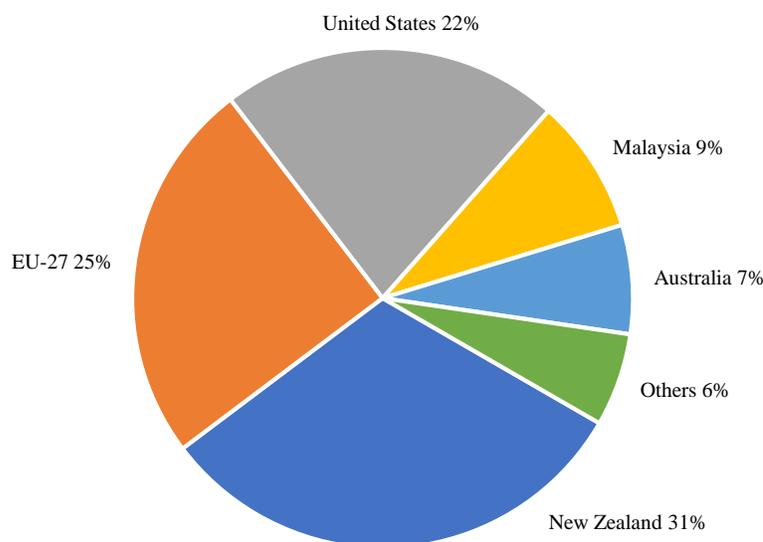
Table 1. Global Dairy Products Export to Indonesia 2019-2023 (MT)

	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Diff.
SMP	186,713	206,670	201,053	217,092	139,711	109,176	32%	-22%
Whey	116,451	112,635	135,848	123,512	79,985	75,096	22%	-6%
WMP	56,578	50,492	63,824	102,072	62,227	46,715	14%	-25%
Fat-filled Milk	57,193	66,437	68,374	53,406	34,523	27,805	8%	-19%
Lactose	26,543	38,403	34,392	39,676	25,063	19,009	6%	-24%
Cheese	28,720	25,733	28,277	27,622	17,036	14,840	4%	-13%

	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Diff.
Butter & Fat	24,408	18,380	20,927	30,940	20,055	12,982	4%	-35%
Condensed Milk	18,167	20,470	21,392	18,455	11,964	13,014	4%	9%
Casein	5,593	7,315	8,499	10,109	6,017	6,388	2%	6%
Infant Milk	7,927	8,584	11,187	14,990	8,409	6,520	2%	-22%
Buttermilk & Yogurt	8,641	7,379	7,785	6,231	3,508	4,115	1%	17%
Liquid Milk	6,481	5,027	6,872	5,924	3,814	3,396	1%	-11%
Ice Cream	11,687	18,684	15,529	5,139	2,514	828	0.2%	-67%
<b>TOTAL</b>	<b>555,102</b>	<b>586,209</b>	<b>623,959</b>	<b>655,168</b>	<b>414,826</b>	<b>339,884</b>	<b>100%</b>	<b>-18%</b>

New Zealand is the largest dairy exporter to Indonesia followed by the European Union (EU) and the United States. WMP and SMP are the largest exports from New Zealand at 39 and 37 percent respectively of the country’s total dairy exports to Indonesia. New Zealand and Australia capitalize on their Free Trade Agreement with Indonesia, which eliminated import duties on dairy products, making their products at least five percent lower compared with the prices of other global dairy exporters. Their proximity to Indonesia also makes their dairy product prices very competitive.

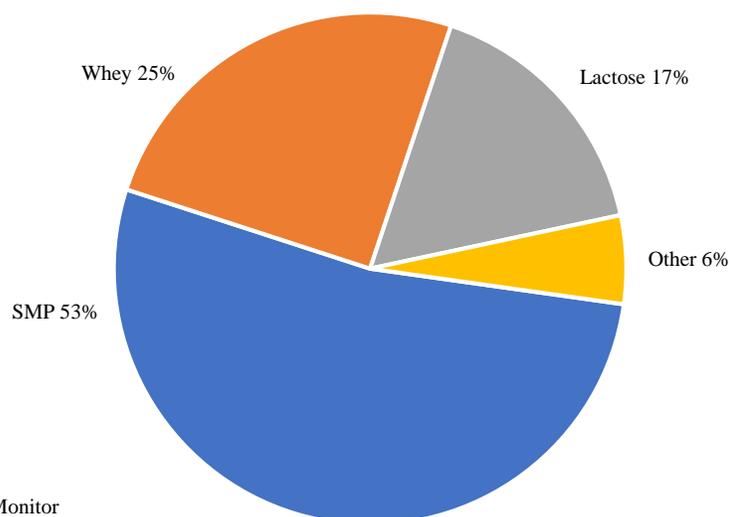
Chart 3. Global Dairy Products Exports to Indonesia, by country of origin, January - July 2023



Source: Trade Data Monitor

U.S. dairy exports between January and July 2023 decreased 18 percent compared with the same period last year. The United States retains its market share lead for SMP (38.4 percent) but is facing fierce competition from New Zealand, whose market share is almost the same at 38.1 percent.

Chart 4. U.S. Dairy Products Exports to Indonesia  
January - July 2023



Source: Trade Data Monitor

Table 2. U.S. Dairy Products Export to Indonesia (in MT)

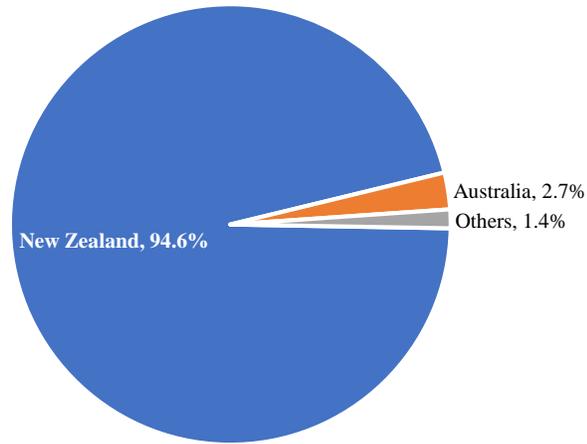
	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Share (%)	Difference (%)
SMP	67,283	97,383	76,621	80,120	51,541	41,890	53%	-19%
Whey	24,297	30,392	27,436	35,297	21,898	19,931	25%	-9%
Lactose	16,862	23,482	21,351	26,346	17,150	13,115	17%	-24%
Other	8,329	10,395	8,298	10,305	6,439	4,426	6%	-31%
<b>Total</b>	<b>116,771</b>	<b>161,652</b>	<b>133,706</b>	<b>152,068</b>	<b>97,028</b>	<b>79,362</b>	<b>100%</b>	<b>-18%</b>

Source: Trade Data Monitor

### *Whole Milk Powder*

In 2022, WMP exports to Indonesia increased 60 percent from 2021 imports as the result of dairy processors' increasing demand for WMP to compensate the decrease of domestic fresh milk production due to the FMD outbreak. WMP exports to Indonesia from January-July 2023 decreased 25 percent compared to the same period last year. New Zealand increased its market share to 96 percent from 92 percent in 2022. Due to the continued decline of the rupiah, dairy imports have not increased as expected following the impact of FMD on the local cattle population.

Chart 5. Global Whole Milk Powder Exports to Indonesia  
January - July 2023



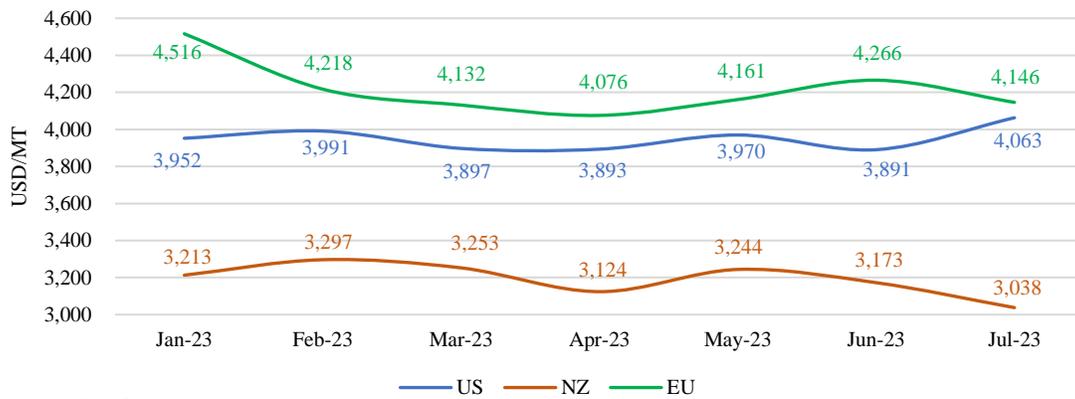
Source: Trade Data Monitoring

Table 3. Global Whole Milk Powder Exports to Indonesia (in MT)

	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Difference
New Zealand	52,526	47,079	57,674	93,613	56,950	44,817	96%	-21%
Australia	2	4	2,434	7,627	4,660	1,260	3%	-73%
Others	4,050	3,411	3,721	834	619	640	1%	3%
<b>TOTAL</b>	<b>56,578</b>	<b>50,494</b>	<b>63,829</b>	<b>102,074</b>	<b>62,229</b>	<b>46,717</b>	<b>100%</b>	<b>-25%</b>

Source: Trade Data Monitoring

Chart 6. WMP Monthly Average Price

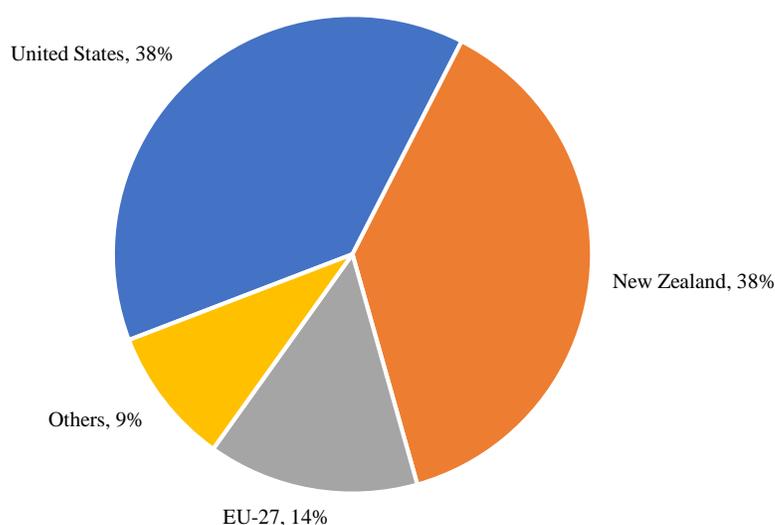


Source: USDEC

### Skimmed Milk Powder

Compared to the same period last year, SMP exports to Indonesia from January-July 2023 decreased 22 percent with U.S. exports decreasing by 19 percent while New Zealand's exports increased 13 percent. New Zealand's lower SMP prices are making it more competitive vis-à-vis other global suppliers. Its proximity to Indonesia as well as the weakening of Indonesian Rupiah currency exchange are other factors contributing to these changes.

Chart 7. Global Skimmed Milk Powder Exports to Indonesia  
January - July 2023



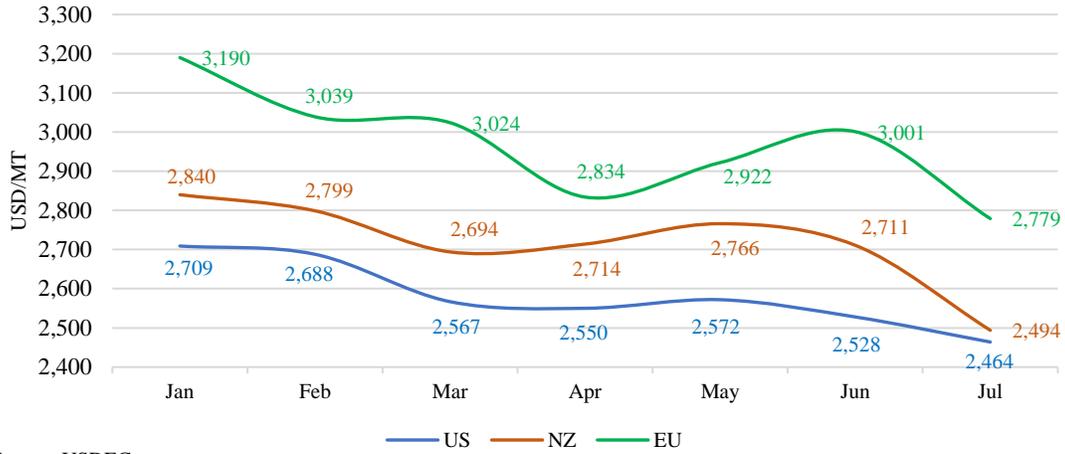
Source: Trade Data Monitor

Table 4. Global Skimmed Milk Powder Exports to Indonesia (in MT)

Reporter	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Difference
United States	67,283	97,383	76,621	80,120	51,541	41,890	38%	-19%
New Zealand	19,977	33,820	29,703	62,302	36,866	41,591	38%	13%
EU-27	70,841	45,044	64,505	42,926	32,635	15,551	14%	-52%
Others	28,612	30,423	30,224	31,744	18,669	10,142	9%	-46%
<b>TOTAL</b>	<b>186,713</b>	<b>206,670</b>	<b>201,053</b>	<b>217,092</b>	<b>139,711</b>	<b>109,174</b>	<b>100%</b>	<b>-22%</b>

Source: Trade Data Monitoring

Chart 8. 2023 SMP Monthly Average Price

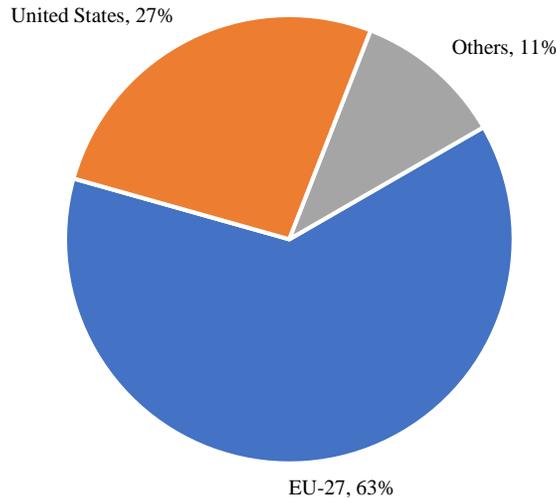


Source: USDEC

### Whey

Global whey exports to Indonesia from January – July 2023 decreased six percent. U.S. and EU whey exports decreased nine and five percent respectively. Despite a \$200 difference in U.S. whey prices, Indonesia continued to import EU whey due to the difficulty processors face in swiftly changing their production formulas.

Chart 9. Global Whey Exports to Indonesia  
January - July 2023



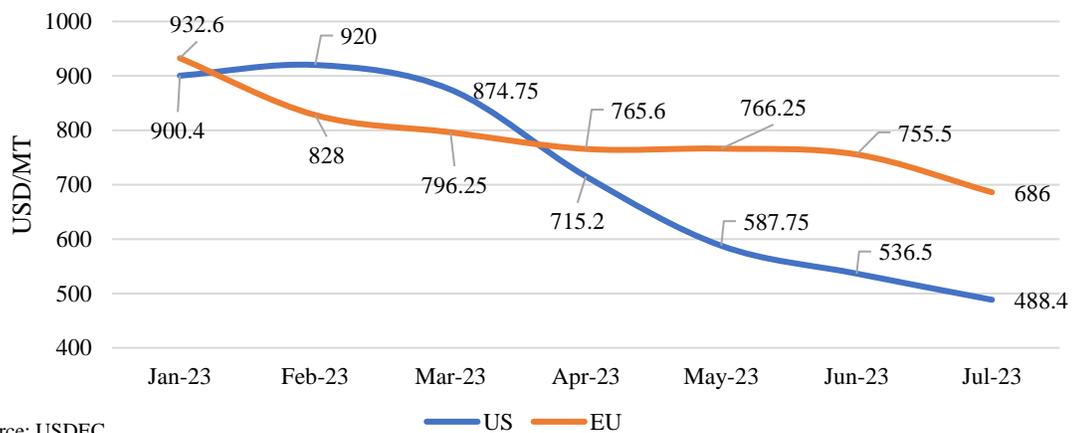
Source: Trade Data Monitor

Table 5. Global Whey Exports to Indonesia (in MT)

	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Difference
EU-27	81,644	67,844	93,939	75,965	49,449	47,089	63%	-5%
United States	24,298	30,392	27,436	35,298	21,898	19,931	27%	-9%
Others	10,510	14,398	14,474	12,249	8,639	8,076	11%	-7%
<b>TOTAL</b>	<b>116,452</b>	<b>112,634</b>	<b>135,849</b>	<b>123,512</b>	<b>79,986</b>	<b>75,096</b>	<b>100%</b>	<b>-6%</b>

Source: Trade Data Monitor

Chart 10. Whey Price 2023

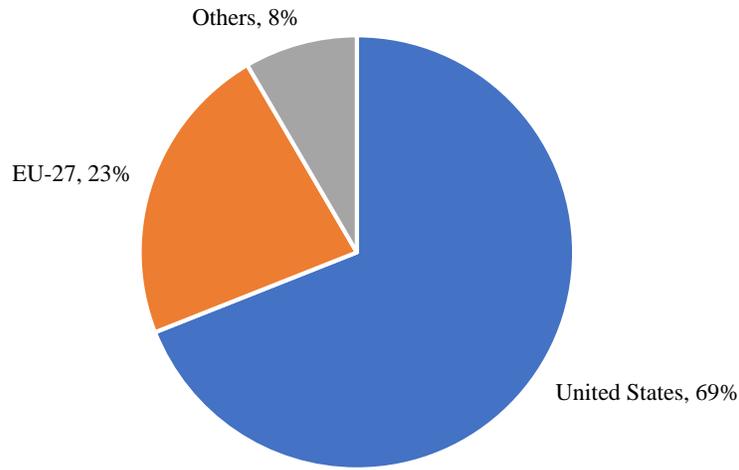


Source: USDEC

### Lactose

Lactose exports to Indonesia from January – July 2023 decreased 24 percent with U.S. and EU exports falling 24 and 33 percent respectively. New Zealand exports to Indonesia increased ten percent as a result of lower lactose prices.

Chart 11. Global Lactose Exports to Indonesia  
January - July 2023



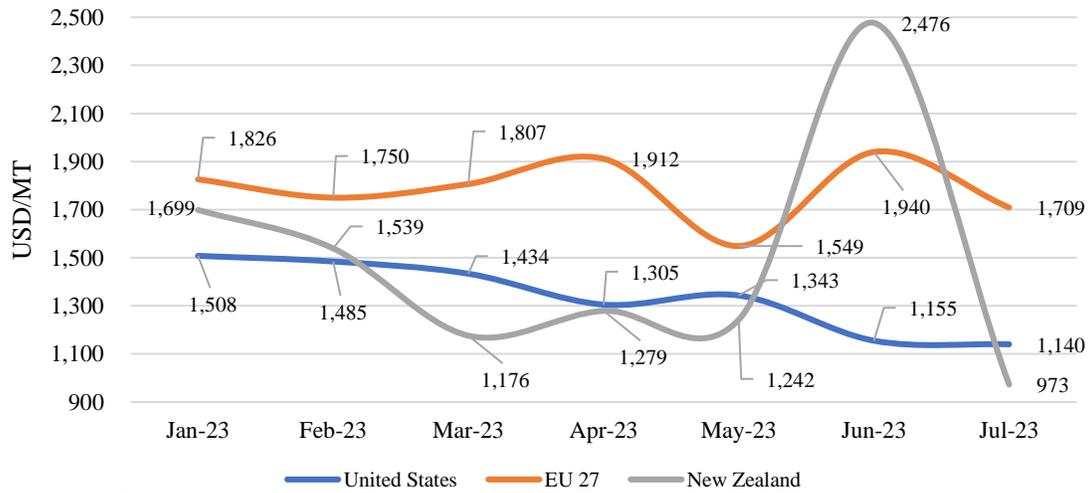
Source: Trade Data Monitor

Table 6. Global Lactose Exports to Indonesia (in MT)

	2019	2020	2021	2022	Jan-Jul 2022	Jan-Jul 2023	Market Share	Difference
United States	16,862	23,482	21,351	26,346	17,151	13,115	69%	-24%
EU-27	7,753	12,731	9,985	11,219	6,451	4,293	23%	-33%
Others	1,927	2,190	3,056	2,111	1,462	1,601	8%	10%
<b>TOTAL</b>	<b>26,542</b>	<b>38,403</b>	<b>34,392</b>	<b>39,676</b>	<b>25,064</b>	<b>19,009</b>	<b>100%</b>	<b>-24%</b>

Source: Trade Data Monitor

Chart 12. Lactose Price 2023

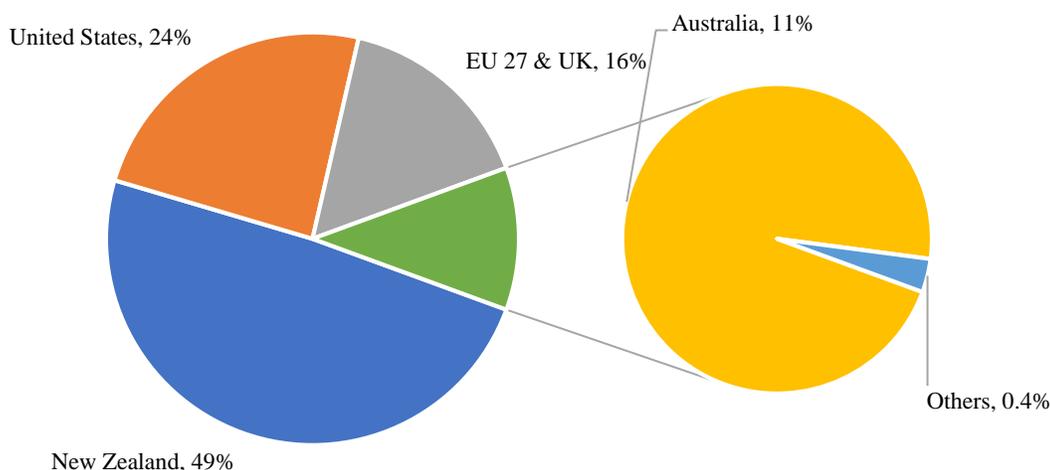


Source: Trade Data Monitor

## Cheese

New Zealand remained the largest exporter of cheese products from January – July 2023 with a 49 percent market share through its export of cheddar (69.1 percent) and fresh cheese (32.5 percent) products. New Zealand’s exports represented a 2 percent increase while U.S. cheese exports decreased 37 percent compared to the same period last year. Despite relatively lower U.S. cheese prices, New Zealand’s proximity and consumers’ familiarity with New Zealand products enable it to remain the top cheese supplier to Indonesia. Euromonitor reports an increase in the number of locally produced artisanal cheeses and the emergence of local cheesemakers who offer distinctive flavors and craftsmanship, reflecting growing cheese demand and sophistication in Indonesia.

Chart 13. Global Cheese Export to Indonesia  
January - July 2023

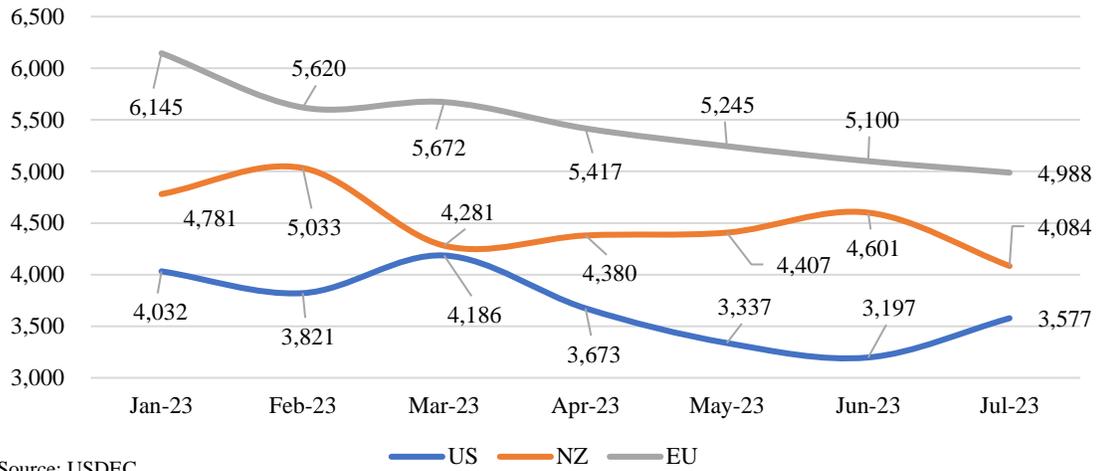


Source: Trade Data Monitor

Table 7. Global Cheese Exports to Indonesia (in MT)

	2019	2020	2021	2022	Jul-22	Jul-23	Share	Diff.
New Zealand	13368	12907	14480	11059	7132	7270	49.0%	2%
United States	6927	8543	6885	8612	5627	3564	24.0%	-37%
EU-27 & UK	3576	1950	3671	4519	2542	2347	15.8%	-8%
Australia	4639	2257	3141	3360	1693	1600	10.8%	-5%
Others	210	76	100	72	42	59	0.4%	40%
<b>TOTAL</b>	<b>28720</b>	<b>25733</b>	<b>28277</b>	<b>27622</b>	<b>17036</b>	<b>14840</b>	<b>100%</b>	<b>-13%</b>

Chart 14. Cheese Price 2023



### Policy

On June 8, 2023, the Ministry of Agriculture (MOA) issued a decree regarding the “Road Map for Foot and Mouth Disease Eradication from the Territory of the Republic of Indonesia,” which includes a plan to restock the dairy cattle population, among others, through the import of livestock from abroad.

### Stocks

Dairy manufacturers import milk powder on an as-needed basis, and any inventory can be considered pipeline stocks. All locally produced WMP or its equivalent are used in-country. As a result, WMP and SMP stocks are expected to remain low and unchanged.

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

**PSD: Skimmed Milk Powder**

Dairy, Milk, Nonfat, Dry	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
Indonesia (000MT)	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	11	13	0	10
Production	0	0	0	0	0	0
Other Imports	215	217	175	187	0	202
Total Imports	215	217	175	187	0	202
Total Supply	226	228	186	200	0	212
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	214	214	174	189	0	201
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	214	214	174	189	0	201
Total Use	215	215	175	190	0	202
Ending Stocks	11	13	11	10	0	10
Total Distribution	226	228	186	200	0	212
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: Whole Milk Powder**

Dairy, Dry Whole Milk Powder	2022		2023		2024	
Market Begin Year	Jan 2022		Jan 2023		Jan 2024	
Indonesia (000MT)	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	8	16	0	20
Production	59	59	61	57	0	57
Other Imports	94	102	95	83	0	85
Total Imports	94	102	95	83	0	85
Total Supply	163	171	164	156	0	162
Other Exports	1	1	1	0	0	0
Total Exports	1	1	1	0	0	0
Human Dom. Consumption	154	154	154	136	0	149
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	154	154	154	136	0	149
Total Use	155	155	155	136	0	149
Ending Stocks	8	16	9	20	0	13
Total Distribution	163	171	164	156	0	162
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						

**Attachments:**

No Attachments