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Prepared By: Carolus Darmawan

Approved By: Garrett Mcdonald

Report Highlights:

The United States will export a record volume of dairy products to Indonesia in 2020 and is on track to reach a record value exceeding $300 million. Surging demand, competitive pricing and effective trade promotion and facilitation have made Indonesia the fourth largest market by volume for U.S. diary products.

Production

The Indonesian dairy sector remains constrained by a lack of quality dairy genetics for its dairy cattle population. Smallholder dairy farmers continue to play an outsized role in Indonesia's milk production. Averaging just three cows per farmer with less than 10 liters average daily production per head, these farmers still account for 77 percent of Indonesia's fresh milk production. By contrast, Indonesia's modern dairy farms, which account for 23 percent of production, are able to reach daily yields exceeding 20 liters per animal through superior genetics, feed and livestock practices. These integrated producers also benefit from shorter calving intervals of 13-14 months, compared with 18-20 months among smallholder farmers.

The majority of Indonesian dairy cattle are of Friesian Holstein and Jersey breeds. All live dairy cattle are currently imported from Australia; the only country with live dairy cattle import protocol with Indonesia. Some local dairies augment their breeding programs with genetic imports from the United States. The overall shortage of dairy heifers, combined with the aforementioned farm management challenges, limit domestic fresh milk production.

Fig. 1 Farmers packing corn silage into bales in preparation for the dry season.

Most smallholder farmers are affiliated with one of 59 dairy cooperatives. All dairy cooperatives dairy cooperatives are located on the island of Java, where 98.5 percent of the dairy cow population is located. Small dairy cattle populations can also be found North Sumatera and Lampung Provinces of Sumatera island. Dairy cooperatives organize the collection of milk from farmers to dairy processors to which their cooperative have a contract. The fixed price agreements consider quality parameters (protein and fat content, bacterial count), management fees, animal health and artificial insemination (AI) services, and feed costs from the payment.

Maintaining quality feed remains a challenge for most cooperatives. Some cooperatives are collaborating with local plantation companies to grow forages in the latter's idle land, although early in the year due to a prolonged rainy season, farmers were able to get their forages cheaper than what the cooperative could offer. In addition to building partnerships with independent farmers to grow forages

on their own land, several large dairy farms are also known to utilize imported corn and alfalfa hay for cattle feed. Cooperatives manufacturing their own feed concentrate on using local ingredients (i.e. wheat pollard and copra meals), and sell them as feed supplementation for the cattle, with price varying from IDR 1,500-1,600/ kg to IDR 3,300-3,400/kg. Several large processors that already have long cooperation and partnership with the cooperatives play important role in assisting the cooperative's capacity to manufacture feed and perform good services for their members.

Despite challenges presented by COVID-19, several large cooperatives report that dairy processor demand for fresh milk has continued to increase. As a result, dairy cooperatives in West and East Java have had to balance the distribution of their milk production to satisfy all of their clients while at the same time sacrificing their own processing facilities. Based on the latest population data of the Union of Indonesian Dairy Cooperatives (GKSI), and the recent addition of 6,000 dairy cows to a new modern dairy farm in West Java, Post estimates fresh milk production will increase to 710 million liters in 2020, compared to 667 million liters in 2019.

Goat milk

Although it is still small, goat milk is increasing in popularity as an alternative to cow milk. Indonesia's dairy goat population is scattered throughout the five provinces of Java island with a higher concentration in the southern part of Yogyakarta and Central Java Provinces where a dairy goat cooperative has been established. There are four large goat milk processing facilities in Magelang, Tangerang, Yogyakarta, Sleman, and a smaller one in Surabaya. Combined, these facilities process approximately 1,520 tons of goat milk annually. The current population of dairy goat is predicted to be around 4,000 heads of Saanen and other mix-breeds. The dairy goat community is currently looking for ways to import genetics from countries other than Australia, with some expressing interest for U.S. Anglo Nubian and American La Mancha breeds.

Consumption

Approximately 15 percent of the 710 million liters of domestic fresh milk production is processed and marketed by a few vertically integrated dairy farm-processors as fresh pasteurized milk, and the rest is processed by dairy processors, predominantly as whole milk powder (WMP). Indonesia does not produce skimmed milk powder (SMP), and the majority of imported SMP is used by dairy processors to be recombined with local milk and other imported ingredients to form reconstituted milk, which is generally cheaper than fresh pasteurized milk. SMP is also used in powdered milk beverages products, and along with lactose, as ingredients in food manufacturing.

The COVID-19 pandemic and resulting large-scale social distancing measures have caused a shift in consumer consumption trends for dairy products. Unsurprisingly, cooperatives and other processors report declining sales to the food service sector. Dairy sales in the sector are expected to decline by 16.5% in 2020. Conversely, retail sales of dairy products have remained strong, led by an overall 8 percent growth in liquid milk sales. On whole, retail dairy product sales are expected to grow by 5.8

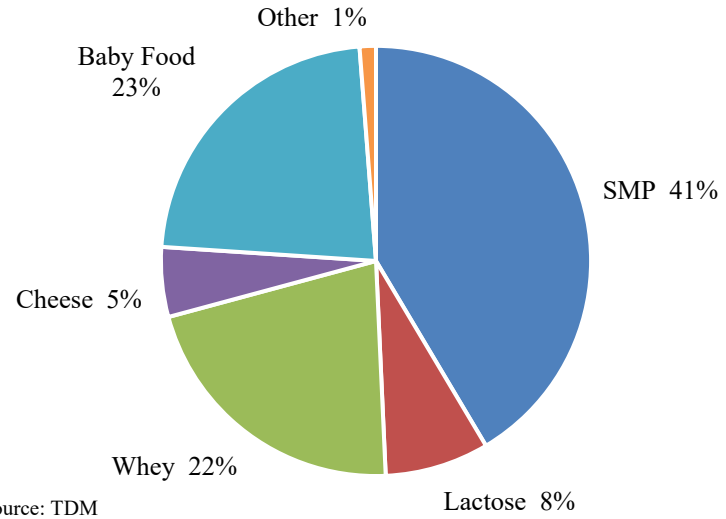
percent in 2020. As more families prepare food at home, sales of larger sized packaged products have increased, while sales of smaller size or single serving packaging has decreased. Industry reports a shift to larger-sized containers (500 ml – 1 liter) of fresh milk and milk-based beverages, noting that although the sales volume is not as high as the small containers previously used, the larger packaging constitutes about the same volume of liquid milk sales.

Despite challenges in the food service sector, total dairy consumption in 2020 is expected to increase 1.1% percent to 4.03 billion liters, or 4.13 million tons. Approximately 62 percent (2.50 billion liters or 2.56 million tons) of the dairy products consumption is in the form of liquid fresh pasteurized milk, UHT milk, flavored/fermented milk, and evaporated/condensed milk. *Note: Post uses 1.024 (specific gravity of bovine milk) as the conversion factor in calculating the milk volume and weight.* The remaining 38 percent of consumption includes powdered milk, cheese and food service uses. Post estimates dairy consumption will increase 5 percent in 2021 based on continuing strong retail demand and the expected relaxing of social distancing measures benefiting restaurants and the food service sector.

Trade

Indonesia continues to rely on imported dairy products to meet local demand. Approximately 80 percent of all dairy products consumed are imported, with the largest products including Skim Milk Powder (SMP), Whey, Baby Formula, Lactose and Cheese.

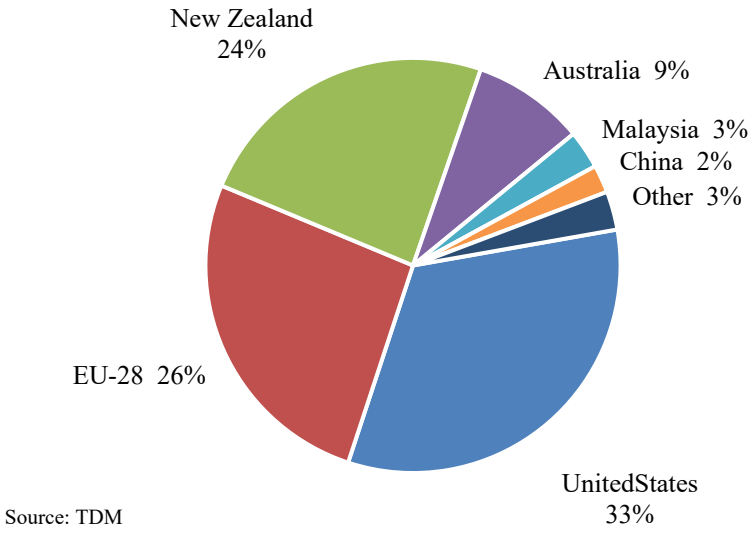
Chart 1. Global Dairy Product Exports to Indonesia, January-July 2020



Source: TDM

Continuing growth in demand and ongoing challenges for local dairy production are expected result in an increase market share for imported products. Currently, the top exporters of dairy products to Indonesia are the US (33%), EU (26%), New Zealand (24%), Australia (9%), Malaysia (3%) and China (2%).

Chart 2. Dairy Product Exports to Indonesia, By Exporting Country, Jan. -July 2020



Source: TDM

Table 1. Global Export of All Dairy Products to Indonesia

Origin	Unit	2017	2018	2019	Jan-Jul 2019	Jan-Jul 2020	Δ
United States	MT	68,349	96,257	116,711	59,802	100,938	69%
EU 28	MT	169,572	170,185	188,701	120,411	80,613	-33%
New Zealand	MT	101,969	103,241	111,763	70,243	73,796	5%
Australia	MT	51,598	51,373	40,146	25,606	26,951	5%
Malaysia	MT	17,131	16,944	18,591	9,115	9,207	1%
China	MT	24,367	23,549	7,555	4,361	6,653	53%
Other	MT	22,172	16,993	14,943	9,370	9,211	-2%
Total	**MT**	**455,158**	**478,541**	**498,409**	**298,908**	**307,368**	**3%**

As Indonesia's dairy import market has expanded to include a variety of small and large trading companies as well as processors and multi-national businesses, the importance of competitive pricing has increased. Throughout 2020, the US has maintained competitive pricing over both EU and Oceana competitors for several key dairy products.

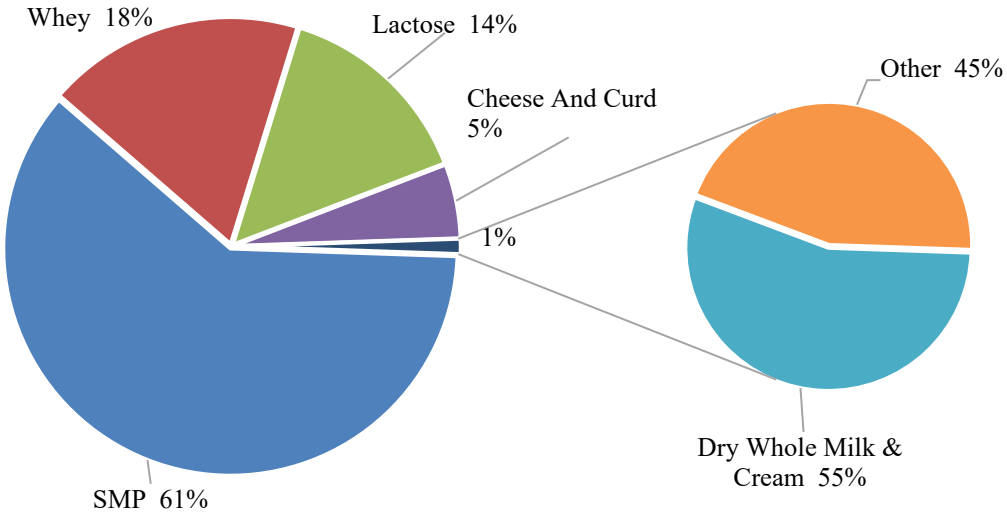
Table 2. Global Dairy Price of 2020 (USD/ton)

	Region	2020								
		Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
SMP	*US*	2,745	2,745	2,460	2,106	1,872	2,007	2,142	2121	2210
	Europe	2,890	2,806	2,563	2,065	2,150	2,428	2,440	2413	2518
	Oceania	2,998	2,856	2,697	2,490	2,434	2,581	2,670	2606	2758
Whey	*US*	742	814	826	823	842	802	758	736	706
	Europe	830	844	756	708	781	819	793	781	815
Lactose	*US*	657	671	685	764	886	1009	1140	1132	1114
	Europe	775	800	800	800	875	1000	1100	1075	1100
Cheddar Cheese	*US*	3,989	3,943	3,768	3,092	2,864	4,884	5,704	4,652	3,894
	Europe	3,890	3,847	3,856	3,580	3,366	3,394	3,585	3,828	3,923
	Oceania	3,938	4,294	4,300	4,340	4,075	3,775	3,795	3,675	3,675
WMP	*US*	3,987	3,994	3,926	3,696	3,705	3,728	3,743	3,685	3,720
	Europe	3,408	3,322	3,200	2,863	2,794	2,966	3,093	3,219	3,218
	Oceania	3,165	2,953	2,831	2,735	2,656	2,763	3,070	3,025	2,915

Source: USDEC

However, pricing alone cannot account for the surge in US exports to Indonesia. US gains in market share have come almost exclusively at the expense of the EU, which recently moved forward with renewable energy policies that prohibit, restrict or otherwise disfavor the use of palm oil (Indonesia's largest commodity export) and its derivative products. In turn, Indonesia began an active campaign to disfavor several EU exports to Indonesia, including dairy. Recognizing an opportunity, US industry, with the support of Post, expanded its outreach to Indonesian importers beginning in September 2019. The increased engagement has facilitated the switch of processors from EU products to US origin products. Additionally, efforts to increase the number of US establishments approved for export to Indonesia have greatly expanded access for US products. As of October 2020, the Ministry of Agriculture listed 108 U.S. dairy plants as approved to export to Indonesia, with twenty-two new plants currently in process for approval.

Chart 3. U.S. Dairy Exports to Indonesia, January - August 2020



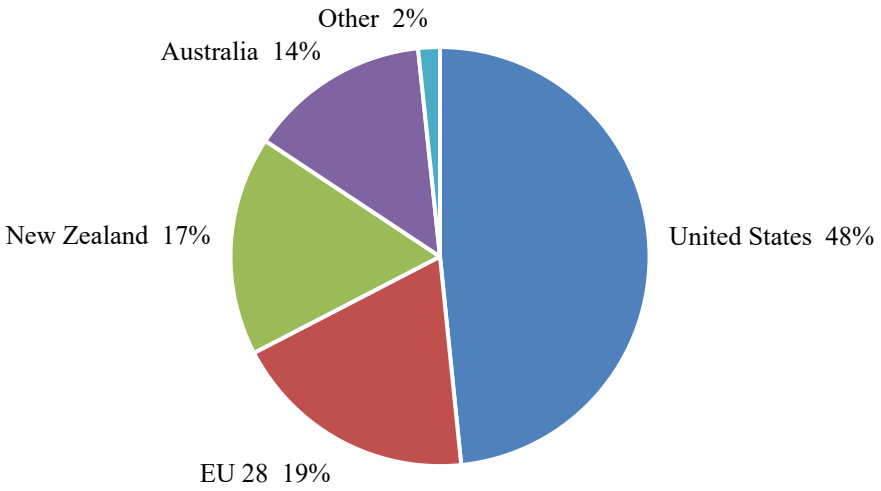
Source: U.S. Census Bureau Trade Data / USDA FAS

Table 3. U.S. Dairy Exports to Indonesia

HS Code	Product	Unit	2019	Jan-Aug 2019	Jan-Aug 2020	Jan-Aug Difference
040210	SMP	MT	67,283	35,447	68,906	94%
0404	Whey	MT	24,298	16,021	20,834	30%
170211	Lactose	MT	16,862	11,722	16,320	39%
0406	Cheese & Curd	MT	6,926	4,661	5,998	29%
040221/29	Dry Whole Milk & Cream	MT	-	-	676	
	Other	MT	1,505	1,713	549	-68%
		Total	**116,873**	**69,563**	**113,397**	**63%**

Source: U.S. Census Bureau Trade Data / USDA FAS

Chart 4. Global SMP Export to Indonesia January-July 2020

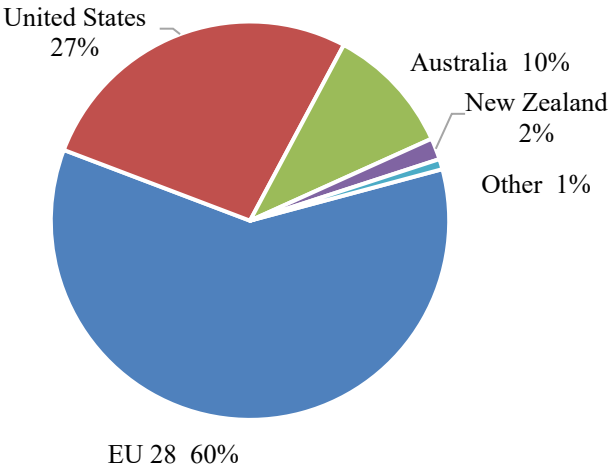


Source: TDM

Table 4. Global Export of SMP to Indonesia

Exporter	Unit	2017	2018	2019	Jan-Jul 2019	Jan-Jul 2020	Δ
United States	MT	31,977	55,684	67,283	31,242	61,648	97%
EU 28	MT	58,827	55,860	71,136	54,713	24,226	-56%
New Zealand	MT	19,815	20,600	19,977	12,727	21,562	69%
Australia	MT	35,388	32,864	25,109	16,714	17,849	7%
Other	MT	3,103	3,617	3,383	2,306	2,134	-7%
Total	**MT**	**149,110**	**168,626**	**186,888**	**117,702**	**127,418**	**8%**

Chart 5. Global Whey Export to Indonesia, January-July 2020

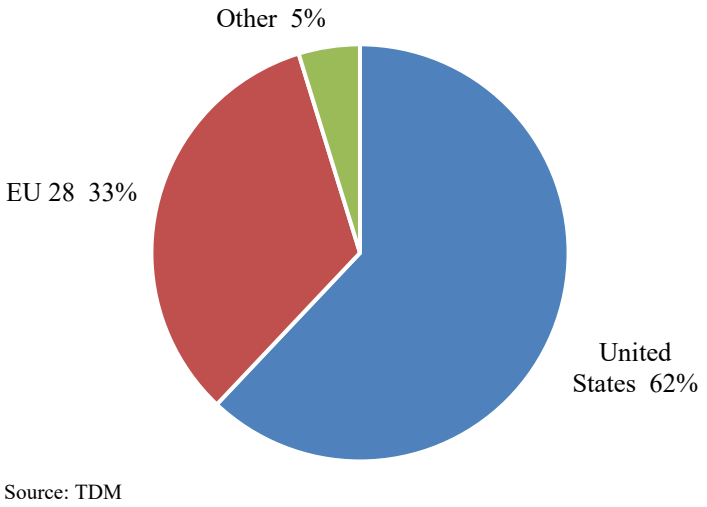


Source: TDM

Table 5. Global Export of Whey to Indonesia

Exporter	Unit	2017	2018	2019	Jan-Jul 2019	Jan-Jul 2020	Δ
EU 28	MT	85,567	87,428	81,644	45,408	39,660	-13%
United States	MT	14,401	18,027	24,298	13,702	17,880	30%
Australia	MT	8,769	12,056	8,177	5,223	6,912	32%
New Zealand	MT	1,030	1,622	1,335	786	1,156	47%
Other	MT	5,918	1,596	997	394	552	40%
Total	**MT**	**115,686**	**120,730**	**116,451**	**65,514**	**66,160**	**1%**

Chart 6. Global Export of Lactose to Indonesia, January-July 2020

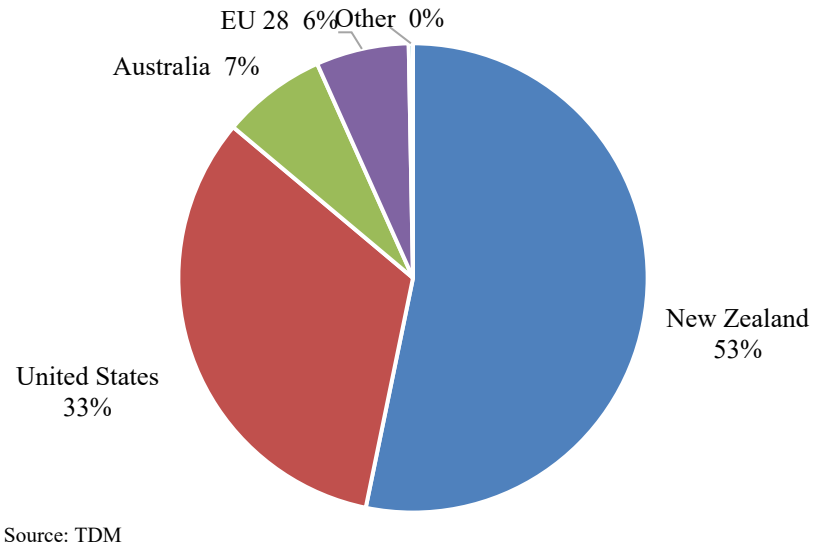


Source: TDM

Table 6. Global Export of Lactose to Indonesia

Exporter	Unit	2017	2018	2019	Jan-Jul 2019	Jan-Jul 2020	Δ
United States	MT	15,655	15,713	16,862	10,385	14,923	44%
EU 28	MT	2,225	3,855	7,753	4,743	7,984	68%
Other	MT	2,548	2,655	1,927	983	1,144	16%
Total	**MT**	**20,428**	**22,222**	**26,541**	**16,111**	**24,051**	**49%**

Chart 7. Global Cheese Exports to Indonesia, January-July 2020



Source: TDM

Table 7. Global Cheese Exports to Indonesia

Exporter	Unit	2017	208	2019	Jan-Jul 2019	Jan-Jul 2020	Δ
New Zealand	MT	17,738	15,572	13,368	9,146	8,576	-6%
United States	MT	5,284	5,016	6,926	3,777	5,298	40%
Australia	MT	4,693	3,785	4,640	2,552	1,159	-55%
EU 28	MT	2,116	2,768	3,586	1,877	1,032	-45%
Other	MT	465	486	211	27	47	71%
Total	**MT**	**30,295**	**27,627**	**28,731**	**17,380**	**16,112**	**-7%**

Policy

Free Trade Agreements

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) entered into force on July 5, 2020. The agreement, which provisions covering tariffs, customs procedures, and technical barriers to trade among other areas, expands upon the existing ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

Under IA-CEPA, Australian dairy products enjoy a 0% import tariff, with the exceptions for:

1. Dairy products of HS codes 04.01.10 (Milk and cream, not concentrated nor containing added sugar or other sweetening matter - Of a fat content, by weight, not exceeding 1 %):
    a. 0401.10.10 (in liquid form): tariff is decreased from 5% to 4% until year 2032, then 0% beginning year 2033;

   b. 0401.10.20 (other): tariff is decreased from 5% to 4% until year 2025, then 0% beginning year 2026; and
2. Dairy products of HS codes 0401.20 (Milk and cream, not concentrated nor containing added sugar or other sweetening matter - Of a fat content, by weight, more than 1% but not exceeding 6%):
   a. 0401.20.10 (in liquid form): tariff is decreased from 5% to 3.75% then decreased 0.25% annually until year 2032, then 0% beginning year 2033;
   b. 0401.10.20 (other): tariff is decreased from 5% to 4% until year 2025, then 0% beginning year 2026.

Omnibus Legislation

On October 5, 2020, the Indonesian Parliament ratified the “Cipta Kerja” Omnibus Law, which amends several provisions of Law 18/2009 and Law 41/2014 regarding Animal Husbandry and Animal Health. Apparently, this law will simplify the dairy business process since it removes the requirement to obtain recommendation for the import of animal products, and removes partnership requirements for the animal products processing industry. However, the full scope and implication of the law will only be understood once relevant implementing regulations are issued.

Duties

In order to improve the economic growth and state revenue, as well as maintaining economic stability, the Government of Indonesia issued Minister of Finance Regulation Number 134/2020 regarding "Duty Paid by the State on Import of Goods and Materials for the Production of Goods and/or Services of Certain Industries Affected by Corona Virus Disease 2019 (Covid-19) Pandemic" as fiscal incentive. Under the regulation, several ingredients of the dairy processing industry have been established as eligible to have their duties paid by the Government of Indonesia until December 31, 2020:

No.	Description	Specification	Tariff Post / HS Code
1.	Milk and cream, not containing added sugar or other sweetening matter, in containers of a net weight of 20 kg or more	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 %	0402.10.41
2.	Milk and cream, containing added sugar or other sweetening matter, in containers of a net weight of 20 kg or more	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 %	0402.10.91
3.	Milk and cream, not containing added sugar or other sweetening matter, in containers of a net weight of 20 kg or more	In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 %	0402.21.20
4.	Buttermilk	-	0403.90.10

No.	Description	Specification	Tariff Post / HS Code
5.	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	In powder	0404.10.10
6.	Maize, other than seed and popcorn (for feed)	Of aflatoxin level ≤ 20 ppb; ≤ 14.5% humidity; ≤ 5% damaged kernel	1005.90.90

Stocks

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

Production, Supply and Demand Data Statistics:

PSD: Skimmed Milk Powder

Dairy, Milk, Nonfat, Dry	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
Indonesia (000 MT)	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	11	11	11	11	0	11
Production	0	0	0	0	0	0
Other Imports	188	187	210	182	0	191
Total Imports	188	187	210	182	0	191
Total Supply	199	198	221	193	0	202
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	187	186	209	181	0	190
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	187	186	209	181	0	190
Total Use	188	187	210	182	0	191
Ending Stocks	11	11	11	11	0	11
Total Distribution	199	198	221	193	0	202

Dairy, Milk, Nonfat, Dry	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
Indonesia (000 MT)	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
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	2019		2020		2021	
Market Begin Year	Jan 2019		Jan 2020		Jan 2021	
Indonesia (000 MT)	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	5	5	5	5	0	5
Production	82	82	84	87	0	91
Other Imports	54	57	47	48	0	50
Total Imports	54	57	47	48	0	50
Total Supply	141	144	136	140	0	146
Other Exports	1	1	1	1	0	1
Total Exports	1	1	1	1	0	1
Human Dom. Consumption	135	138	130	134	0	140
Other use, Losses	0	0	0	0	0	0
Total Dom. Consumption	135	138	131	134	0	140
Total Use	136	139	132	135	0	141
Ending Stocks	5	5	5	5	0	5
Total Distribution	141	144	136	140	0	146
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