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Indonesia

DAIRY AND PRODUCTS ANNUAL

Dairy and Products Annual 2009

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Report Highlights:

ID9032, Post estimates that in CY 2009, Indonesia's global imports of non-fat dry milk and whole milk powder increased to 178,000 metric tons (MT) and 46,000 MT respectively. However, post forecasts that in CY 2009, Indonesia's imports of U.S. non-fat dry milk declined to 21,000 MT, primarily due to lower prices by competing suppliers. 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 producers are the factors behind these increases.

Executive Summary:

The Government of Indonesia (GOI) estimates that the Indonesian economy will grow by 5.5 percent in 2010. 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 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. Limited supplies from the United States have driven up U.S. non-fat dry milk prices making it less competitive compared to other suppliers. This may reflect a decline during CY 2009 for U.S. non-fat dry milk exports to Indonesia. CY 2009 exports of U.S. whey to Indonesia are estimated to decrease due to quality concerns and lower prices of whey from the EU.

Commodities:

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Production:

In CY 2009, Indonesian fresh milk production reached an estimated 1.3 million liters per day (56,000 MT). These levels meet only 25 percent of domestic requirements. In CY 2010, Indonesian fresh milk production is expected to increase to 1.41 million liters per day (62,000 MT). Price incentives will encourage better farm management, resulting in higher quality milk. Nonetheless, several fundamental problems hamper further improvements in Indonesian dairy cattle productivity. These problems include: limited farmer education; scarcity of forage; 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 bank loans; lack of technology for milking and processing the fresh milk; and limited access to high-quality genetics.

Semen for artificial insemination 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 bull genetics will be determined by the fresh milk productivity of the offspring. Indonesia is trying

to meet the international standards for progeny testing that requires the use of 10 participating cows for each bull. Reportedly, the quality of semen was evaluated last month. However, funding is a major problem for the project and the continuation of the program is questionable.

Indonesian National Standard (SNI) requires that mini semen straws with 0.25 ml volume contain a total of at least 25 million sperm cells, while medium semen straws with 0.5 ml volume contain at least 30-50 million sperm cells. The Dairy Cooperatives Union coordinates all its member farmers to buy semen from the local artificial insemination (AI) stations with the price of Rp. 6,000/straw (\$0.62/straw). Reportedly, the semen quality is sufficient to meet farmers' demand. However, some major dairy manufacturers demand higher quality, imported semen to increase yields. The Indonesian government currently does not allow imports of semen, declaring there is sufficient supply from the local AI stations.

Currently Indonesian fresh milk production is sourced from 320,000 dairy cattle located in the major fresh milk production areas, including all three provinces on Java. Cows owned by small farmers that are members of local Dairy Cooperative Unions produce most of this milk. The coops collect the milk and measure the bacteria content of fresh milk to determine the quality and price paid to the farmer.

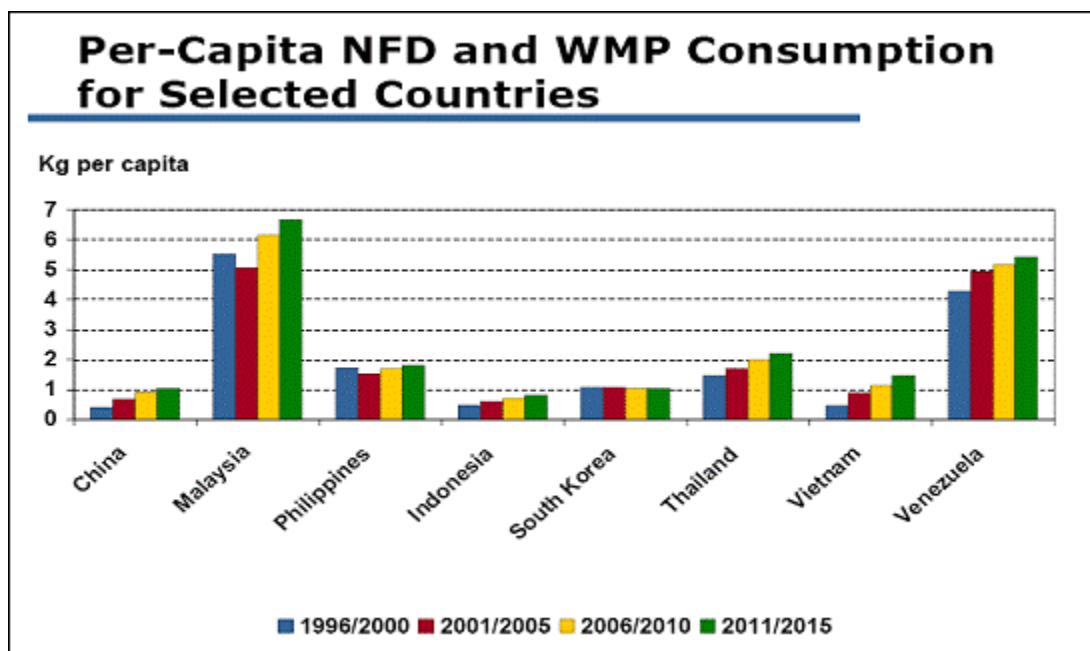


Average yield is between 10 and 12 liters per cow per day. Fresh milk quality is measured by the bacteria content (TPC=Total Plate Count), which ranges from 500,000-1 million. Indonesian fresh milk production with the lower bacteria content is combined with imported skim milk to produce full cream liquid 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, established dairy producers and manufacturers are expanding their capacity. Several new brands of dairy products can also be found in retail market shelves. In line with Indonesian economic growth, dairy products sales are expected to grow approximately five percent in 2010.

Consumption:

Annual Indonesian per capita milk consumption currently stands at 10.3 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 and in store promotions, and growing consumer awareness of the health benefits of drinking milk should increase overall Indonesian consumption volume of dairy and dairy products by 5 percent in 2010.



Source: FAPRI

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. Consumers' preference to consume more fresh and natural products will continue boosting the growth of liquid ready-to-drink milk.

To cope with relatively low 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 Food and Drugs Monitoring Agency (BPOM) recommended that these products be labelled as "beverages containing milk" instead of "milk beverages". Dairy manufacturers have also been packaging the liquid milk products in small packages to maintain the price of the dairy products at Rp. 1,000/package (\$0.1/package).

In line with the growing numbers of pizza outlets opening in almost all high-end malls and shopping centers in the country, including the opening of the first outlet of a prominent U.S. pizza brand, the prospects to promote the use of U.S. mozzarella cheese for pizza in the country is also growing. The California Milk Advisory Board is trying to access the Indonesian market for U.S. cheeses by conducting pizza and bakery workshops. Many Indonesian dairy and ingredients companies are expressing interest in these programs and prospects for U.S. cheeses in the Indonesian market looks bright.

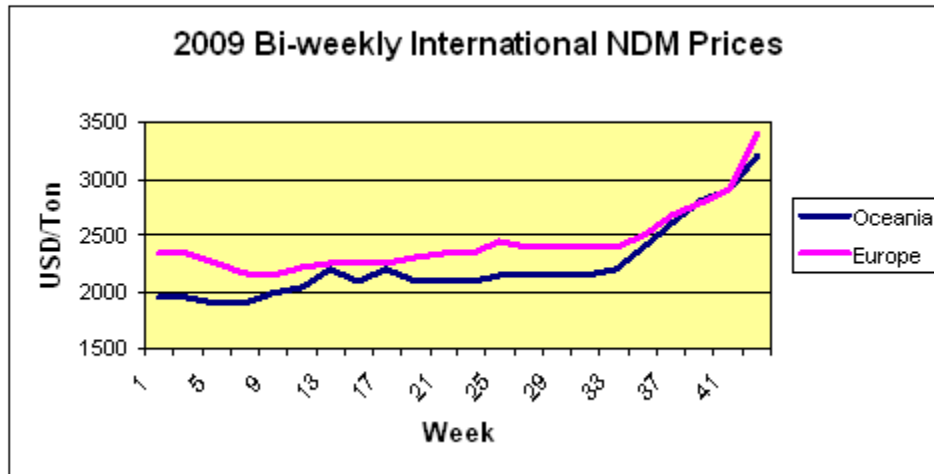
The United States Dairy Exports Council is also continuously educating the Indonesian dairy and ingredients industry of the use of U.S. whey. These programs have been successful in increasing the use of whey in products containing dairy such as energy drinks, bakery products, and cookies. However, there are still whey quality concerns, particularly over U.S. whey's color and its tendency to cake.

On the other hand, 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.

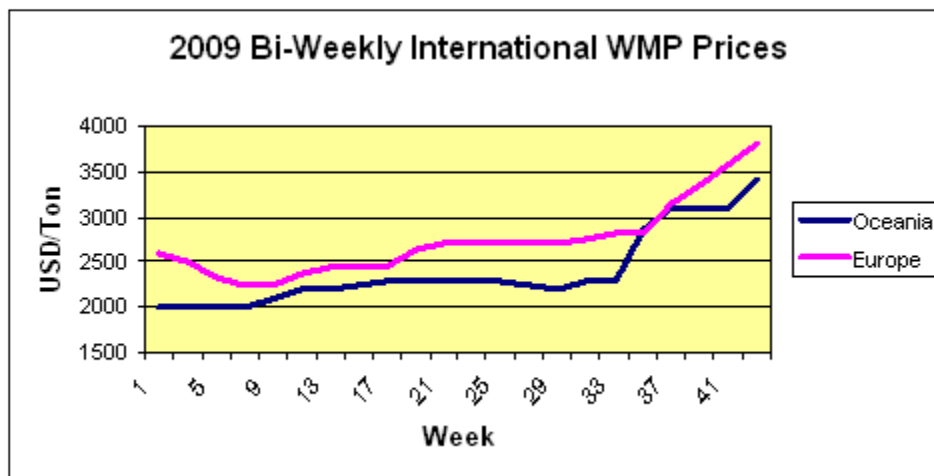
Trade:

The 2008 global financial crisis affected CY 2009 Indonesian imports of dairy products from the international market. Major Indonesian dairy manufacturers struggled to import products. A gradual recovery from the impact of crisis resumed imports by mid 2009. However, recent and higher dairy product prices on the international market may slightly inhibit overall CY 2009 imports. In addition, continued demand from newly expanded, major dairy manufacturers will increase Indonesian imports of non-fat dry milk by twelve percent to 178,000 MT (CY 2009) from 159,000 MT (CY 2008). Due to limited supplies and less competitive prices compared to other suppliers, CY 2009 U.S. non-fat dry milk exports to Indonesia are estimated to decline to 21,000 MT, as compared to 45,000 MT from the previous year. U.S. market share is 12 percent while Oceania market share is 60 percent due to long-standing relationships with sources and geographic proximity. Consumption will continue to increase, and Indonesian imports of non-fat dry milk are forecasted to further increase to 187,000 MT in CY 2010. The supply from Oceania is expected

to continuously dominating the market unless U.S. non-fat dry milk is available at lower prices.



Source: USDA Dairy Market News.



Source: USDA Dairy Market News.

Post estimates CY 2009 Indonesian imports of whole milk powder to increase to 46,000 MT due to major dairy manufacturer expansion. It will further increase to 48,000 MT in CY 2010. New Zealand has the largest market share at 68 percent, followed by Australia with 25 percent of market share. Indonesia imported only a small amount of whole milk powder from the United States in CY 2009.

Post estimates CY 2009 Indonesian imports of whey to reach 56 TMT, an increase of 34 percent, as compared to 42 MT from the previous year. Quality concerns hinder the growth of U.S whey exports to Indonesia. The Indonesian dairy industry imports its whey from Netherlands (26 percent), France (23 percent), the United States (15 percent), Argentina (11 percent), and Germany (eight percent).

Stocks:

Some Indonesian importers are reportedly responding to the recent price increases of dairy and dairy products on the international market by delaying purchases. They learned from past experiences, when they immediately bought and held abundant stock during price hikes, with subsequent decreases which forced them to sell the stock at loss. As a result, CY 2009 Indonesian non-fat dry milk and whole milk powder ending stocks are estimated to only marginally increase to 8,000 MT.

Policy:

In order to support the development of domestic dairy industry and to adjust with the decreased price of dairy products on international market during that time, in May 2009, GOI increased the import duty for six dairy products and butter as follows:

IMPORT DUTY OF DAIRY PRODUCTS AND BUTTER
(Based on Min. of Finance Decree No. 101/PMK.011/2009)

No.	HS Code	Description	Import Duty (%)
	04.02	Milk and cream, concentrated or containing added sugar or other sweetening matter	
	0402.10	- In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%	
1.	0402.10.30.00	-- In containers or a gross weight of 20 kg or more	5
2.	0402.10.90.00	-- other	5
		- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%	
	0402.21	-- Not containing added sugar or other sweetening matter	
3.	0402.21.20.00	--- In containers of a gross weight of 20 kg or more	5
4.	0402.21.90.00	--- Other	5
	0402.29	-- Other: --- In containers of a gross weight of 20 kg or more	
5.	0402.29.90.00	--- Other	5
		- Other	
6.	0402.93.00.00	-- Not containing added sugar or other sweetening matter	5
7.	0403.90.10.00	Buttermilk	5

The GOI hopes to become self sufficient in beef and to meet 50 percent of the domestic demand for milk from 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 on Loan for Breeding Cattle. This decree provides a five percent loan subsidy given from 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) is importing 6,000 dairy cattle from Australia using this loan subsidy. The cattle are expected to arrive by the end of 2009.

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 also 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.

Production, Supply and Demand Data Statistics:

PSD: NON-FAT DRY MILK

Dairy, Milk, Nonfat Dry Indonesia	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		Old Post Data	USDA Official Data		Old Post Data	USDA Official Data		Jan Data
Beginning Stocks	9	9	9	7	7	7			8
Production	0	0	0	0	0	0			0
Other Imports	159	159	159	172	172	178			187
Total Imports	159	159	159	172	172	178			187
Total Supply	168	168	168	179	179	185			195
Other Exports	5	5	5	5	5	5			6
Total Exports	5	5	5	5	5	5			6
Human Dom. Consumption	156	156	156	167	167	172			181
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	156	156	156	167	167	172			181

Total Use	161	161	161	172	172	177			187
Ending Stocks	7	7	7	7	7	8			8
Total Distribution	168	168	168	179	179	185			195
CY Imp. from U.S.	48	48	45	62	62	21			28
CY. Exp. to U.S.	0	0	0	0	0				
TS=TD			0			0			0

Note: Post data are not official USDA data.

PSD: WHOLE MILK POWDER

Dairy, Dry Whole Milk Powder Indonesia	2008		2009		2010	
	2008		2009		2010	
	Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
	USDA Official Data	Old Post Data	USDA Official Data	Old Post Data	USDA Official Data	Jan Data
Beginning Stocks	5	5	5	6	6	8
Production	48	48	48	51	51	62
Other Imports	44	44	44	44	44	48
Total Imports	44	44	44	44	44	48
Total Supply	97	97	97	101	101	118
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	91	91	91	95	95	105
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	91	91	91	95	95	105
Total Use	91	91	91	95	95	105
Ending Stocks	6	6	6	6	6	13
Total Distribution	97	97	97	101	101	118
CY Imp. from U.S.	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0
TS=TD			0		0	0

Note: Post data are not official USDA data.

Author Defined:

PRICE

2009 Indonesian Fresh Milk Buying Prices

Product	Price	
	(IDR)	(USD)
Local fresh milk Grade 1 (farm gate – 12% TS, 0 – 250,000/ml TPC)	3,400/kg	282/ton
Local fresh milk Grade 2	3,200/kg	261/ton

(farm gate – 12%TS, 250,000 – 500,000/ml TPC)		
Local fresh milk Grade 3 (farm gate – 12% TS, 500,000 – 1 million/ml TPC)	3,000/kg	250/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.