

MARKET BRIEF

INDONESIA

Dairy consumption in Indonesia is growing and the market is becoming more important to dairy exporters.

Global Exports to Indonesia in 2018–2019

- Rank at #6 in the global dairy market (by volume).
- Destination for 485.3 thousand tonnes of dairy product, worth US\$1,015.5 million (March 2018 to February 2019).
- Exports to Indonesia have increased by 13.8 per cent over five years.
- The biggest volume growth (product categories exceeding US\$20 million) has been in: Ice Cream (361%), Cream (107%), Cheese (28%), WMP (26%) and Lactose (15%).
- The biggest volume decline (product categories exceeding US\$20 million) has been in: Infant Powder (-47%), Butter Oil (-24%) and Casein (-16%).

Australian Market Share in 2018–2019

- Rank at #4 in the share of the Indonesia import volume.
- Destination for more than 52.8 thousand tonnes of Australian dairy product, worth US\$114.3 million (March 2018 to February 2019).
- Exports to Indonesia have increased by 16.4 per cent over five years.
- The biggest volume growth (product categories exceeding US\$1 million) has been in: Condensed Milk (11819%), Whey Powder (105%), Buttermilk Powder (102%), SMP (43%) and Cheese (9%).
- The biggest volume decline (product categories exceeding US\$1 million) has been in: Butter (-64%).

Market developments

Indonesia is a large, but under-developed, market for dairy exports and has grown in importance for global exporters. The Indonesian economy has grown significantly which has led to rising household incomes and a growing middle class within the country. This, combined with an increase in urbanisation, has resulted in an increase in household food expenditure and consumption of dairy products. As a result over the past five years dairy exports to the market has grown 6.9 per cent.

The growing middle class is leading the increase in demand for dairy as these products are considered to provide an easy and convenient way to stay healthy. Sweetened and flavoured single-serve yoghurts have grown substantially in popularity with both local producers and exporters increasing production capabilities, exports and sales. Even 'natural style' yoghurts are sweetened to appeal to the taste preference of local consumers. Dairy products are primarily sold in small, single-use pack sizes as cold chains and storage opportunities still are largely under-developed.

As more people enter the middle class in Indonesia demand for animal derived products such as dairy is expected to continue to grow. However, exporters wishing to capture this demand continue to face a number of challenges in doing business in the market. The distribution of the population in Indonesia across numerous islands and the often poor infrastructure make distribution difficult. Most companies are limited to Java (which contains both Jakarta and Surabaya) and Bali (more focused on tourism and hotel channels).

Domestic policy setting may also present challenges for exporters. The Indonesian Government has committed to improving port processing times and streamlining inspection and approval processes for agricultural imports. Nonetheless, the Indonesian Government also remains subject to protectionist and economic nationalist influences. In 2015 tariffs were raised on imported foodstuff citing 'food sovereignty' as a reason and the Government has also placed other non-tariff restriction on trade with little prior consultations.

A combination of reduced consumer purchasing, government trade restrictions and importer uncertainty has seen the value of dairy imports fall since 2014/15. Whilst demand for dairy is expected to grow significantly, Australia's position in Indonesia will depend on overcoming non-tariff and technical barriers to trade, underscoring the importance of the ongoing CEPA (Indonesian-Australian-Comprehensive-Economic-Partnership-Agreement) initiative. In September 2018 the Australian Government and Indonesian Government declared the negotiations for the CEPA concluded.

In March 2019 both countries signed the agreement, however it is yet to be finalised until both countries transpose the agreement into law. Once this agreement is ratified Australian dairy exports will face reduced tariffs in the markets.

In mid-2019 Indonesia announced intentions to increase import tariffs to eight to 18 per cent (currently five to 10 per cent) on EU dairy products in retaliation to the EU's plan to impose anti-subsidy duties of the same rate on Indonesia's palm biodiesel. This comes after the EU highlighted reservations on the use of palm oil in biodiesel over concerns of deforestation. However, Indonesia has warned the EU that this jeopardises the country's ability to fight against poverty. The Indonesian trade minister has encouraged importers to look for dairy products from other regions, including Australia, until the trade dispute with the EU is resolved.

Tariff environment

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) entered into force in 2010. Indonesia is the sole signatory not to have implemented the First Protocol. In 2010 the Australian Government and the Indonesian Government also commenced negotiations for IA-CEPA (Indonesian-Australian-Comprehensive-Economic-Partnership-Agreement) which is yet to be ratified. A summary of current tariffs for the six major dairy categories imported by Indonesia can be found in Figure 7*.

Key international marketing programs and activities

Dairy Australia runs or is involved in a number of marketing programs and activities in Indonesia. These include the South East Asia Dairy Scholarship program aimed at familiarising dairy and food industry professionals from the region with aspects of the Australia dairy industry and the South East Asian Alumni Program for past scholars. Dairy Australia regularly visits Indonesia and presents seminars to local industry players in key markets.

Figure 1 Dairy imports

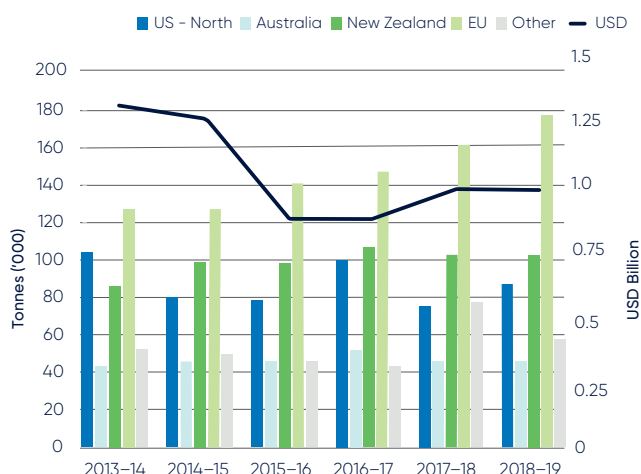


Figure 2 Top dairy imports by volume

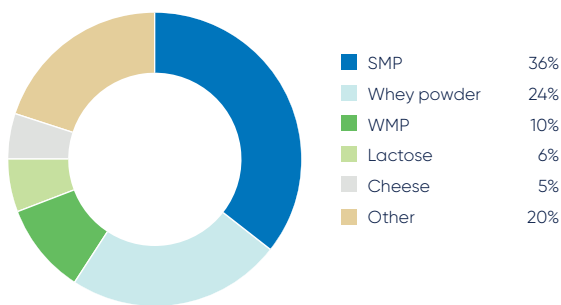


Figure 3 Top dairy imports by USD value

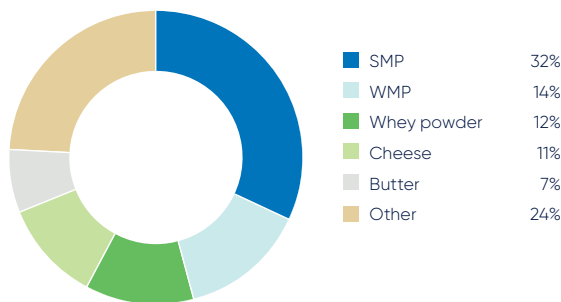


Figure 4 Top Australian dairy exports by volume

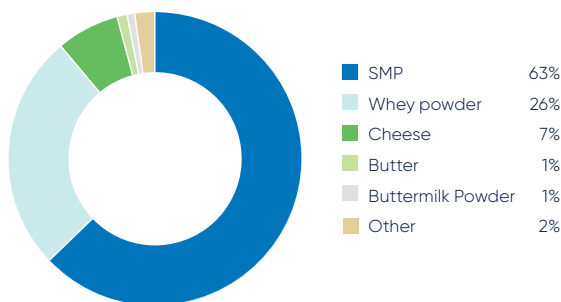


Figure 5 Top Australian dairy exports by USD value

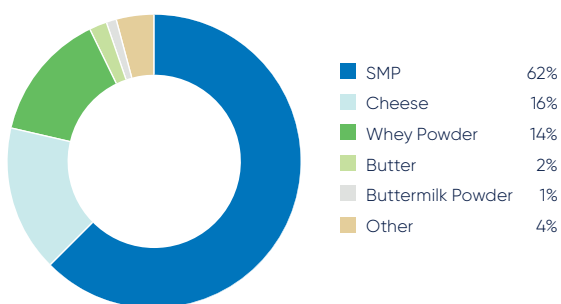


Figure 6 Australia's exports

Product group	Market share (USD)		Volume (1000 of tonnes)		Value (Million USD)	
	2014–15	2018–19	2014–15	2018–19	2014–15	2018–19
SMP	28	22	38.0	33.3	150.5	70.9
Whey Powder	8	14	5.0	13.5	14.2	16.5
Cheese	16	17	2.7	3.6	15.7	18.9
Butter	4	4	0.6	0.5	2.5	2.8
Buttermilk Powder	10	6	0.3	0.5	0.9	1.0
Grand Total	15	11	49.9	52.8	197.3	114.3

Figure 7 Dairy tariffs

Tariff category	Product category	Applied tariff %
402	Milk and cream, concentrated or containing added sugar or other sweetening matter.	4–5
403	Buttermilk, curdled milk and cream, yoghurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.	0
404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.	4
406	Cheese and curd	0–4

FOR FURTHER INFORMATION

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Applied Tariffs are drawn from Integration Point. Where Australia does not have a specific tariff agreement in place, the Applied Rate for qualifying product is the MFN rate. Where a specific tariff agreement exists, the Applied Rate for qualifying product is as per that agreement. The countries with specific agreements in place are: India (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA) The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Thailand (TAFTA), and the USA (AUSFTA).

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