

# Market brief Indonesia

## Calendar year 2022

### GLOBAL EXPORTS TO INDONESIA

Rank at #4 in the global dairy market (by volume)

Destination for over 625,000 tonnes of dairy product, worth close to US\$2,164 million (in 2022)

Exports to Indonesia have increased by 30% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$20 million) has been in:

- WMP 139%
- Lactose 96%
- Infant Powder 92%
- Casein 87%

The biggest volume decline (product categories exceeding US\$20 million) has been in:

- Buttermilk Powder -24%
- Cheese -3%

### AUSTRALIAN MARKET SHARE

Ranked #4 in the share of Indonesia's import volume

Destination for close to 56,000 tonnes of Australian dairy product, worth almost US\$221 million (in 2022)

Exports to Indonesia have increased by 9% over five years (2018 – 2022)

The biggest volume growth (product categories exceeding US\$1 million) has been in:

- WMP 1743%
- Condensed Milk 464%
- Milk 29%

The biggest volume decline (product categories exceeding US\$1 million) has been in:

- Whey Powder -12%
- Cheese -11%
- Butter -10%

### Market developments

Demand for dairy in Indonesia is growing, with the market presenting many opportunities for exporters. Post pandemic, the Indonesian economy has grown at a faster rate than has been observed in some developed countries, expanding by 5 per cent annually. This growth, alongside increased urbanisation, steady middle-class growth, and a rise in household incomes, has supported increased food expenditure and dairy consumption.

Per capita consumption of dairy products in Indonesia is higher than other ASEAN countries, and there are significant Government targets in place aiming to increase this through to 2025. Paired with rising demand for dairy among the population, global exports to Indonesia have increased 30 per cent over the past five years.

As the sixth largest dairy export market, Indonesia imported over 625,000 tonnes of dairy product in 2022, worth US\$2,164 billion. Indonesia's dairy landscape consists of both members of small dairy cooperatives, who make up around three quarters of total milk production, and a growing proportion of larger corporate farms from increased investment over the last decade.

Dairy cooperatives are active in the Indonesian dairy processing sector, typically selling 90 per cent of collections to milk processing companies and utilising the remainder to manufacture yoghurt, cheese and drinking milk. However, since the Foot and Mouth Disease (FMD) outbreak in April 2022, all milk collected by dairy cooperatives is sold to the processing companies.

With a national herd of around 500,000 cows, Indonesia produces less than 1 billion litres of milk each year. This output has been fairly steady in recent years, however the FMD outbreak caused a contraction in the national herd, subsequently disrupting Indonesia's milk production. After an initial acute drop in production, FMD continues to undermine local milk production through transmission among older cows and high mortality rates in young animals.

Offsetting Indonesia's declining milk production, Australia's dairy exports to Indonesia jumped 20 per cent between 2021 and 2022, supporting the gradual rise of imported Australian dairy products over the past five years. Over this time, whole milk powder (WMP), condensed milk and ultra-high temperature (UHT) milk, have grown 1,743 per cent (albeit off a low base), 464 per cent and 29 per cent respectively. A large portion of Australian dairy exports are utilised as ingredients, with less than 10 per cent of imported product destined for retail. Intense competition among importers and a weaker Australian presence in the retail space have contributed to exports of retail type dairy products to Indonesia following a downward trend. Indonesia's imports of Australian ingredient type dairy products, however, have been bolstered by Australia's strong reputation for food safety standards and quality.

While skim milk powder (SMP) remains Australia's largest dairy export to Indonesia, accounting for 55 per cent of all Australian dairy products sent to this market, exports have decreased 5 per cent over the last five years. A significant rise in competition from the United States (US) and New Zealand (NZ) has shrunk Australia's market share over this period, to now represent 16 per cent (per cent US\$) of all SMP exported to the market, from 23 per cent in 2018.

Recent export growth out of Oceania and the US is reportedly being driven by Indonesian buyers looking to capitalise on cost efficiency and assurance of meeting production demand. While volumes imported from the European Union and United Kingdom (EU-28) have demonstrated modest growth, the European expansion was previously halted by the Indonesian government's decision to block new import arrivals in retaliation against anti-subsidy tariffs imposed on Indonesian biodiesel from the European Union. As a result, exports to Indonesia from the EU-28 declined 8 per cent between 2018 and 2020.

Exporters looking to capitalise on Indonesia's robust demand for dairy, are often faced with several challenges when entering the market. The population is dispersed across multiple islands, and poor infrastructure, particularly around cold storage, can make product distribution difficult. Consequently, most companies are limited to areas such as Java, including both Jakarta and Surabaya, and Bali to service the tourism and hotel industries.

Some domestic policies have presented challenges for exporters, with the Indonesian Government remaining subject to protectionist and economic nationalist influences. In the past, tariffs have been raised on imported foodstuff citing 'food sovereignty' as a reason, as well as placing other non-tariff restriction on trade with little prior consultations. Nevertheless, the Indonesian Government has committed to improving port processing times, alongside streamlining inspections and approval processes for agricultural imports.

## Tariff environment

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA) provide significant market access advantages for Australian dairy exporters. Under these agreements all Australian dairy products, except liquid milk, now enter Indonesia duty free.

A summary of current tariffs for the major dairy categories imported by Indonesia can be found in Table 2.

## Key international marketing programs and initiatives

Dairy Australia runs or is involved in a number of marketing programs and activities in Indonesia. These include the Southeast Asia dairy scholarship program aimed at familiarising dairy and food industry professionals from the region with aspects of the Australian dairy industry and the Southeast Asian Alumni Program for past scholars. Outside of COVID-19 travel restrictions, Dairy Australia regularly visits Indonesia and presents seminars to local industry players in key markets.

Figure 1 Dairy imports

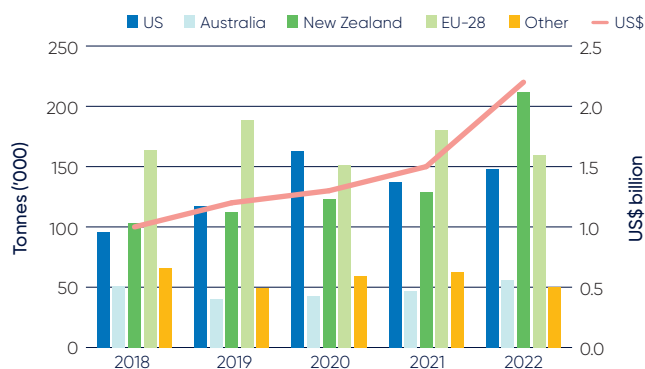


Figure 2 Top dairy exports to Indonesia by volume

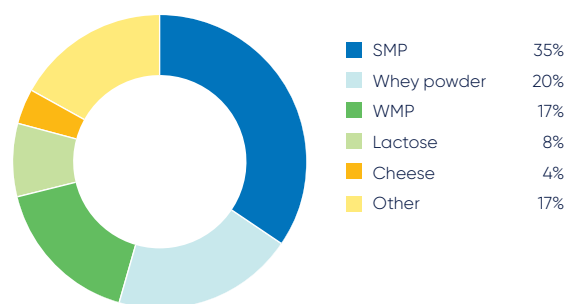
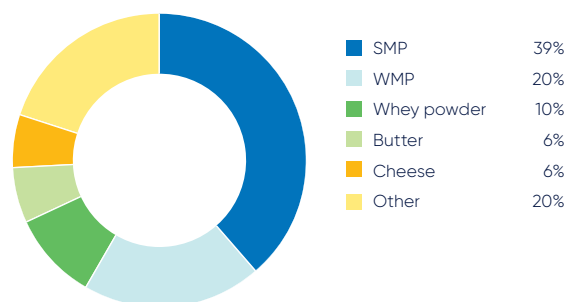
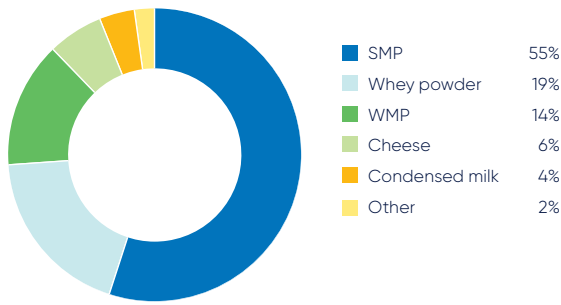


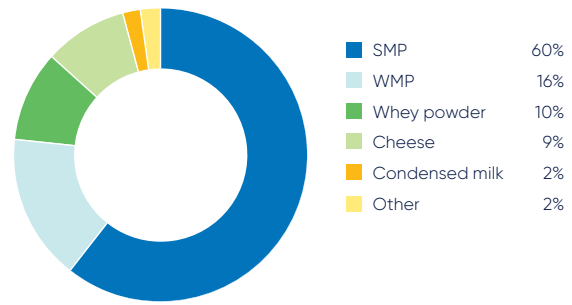
Figure 3 Top dairy exports to Indonesia by US\$ value



**Figure 4** Top Australian dairy exports by volume



**Figure 5** Top Australian dairy exports by US\$ value



**Table 1** Australia exports

Product group	Market share (US\$ %)		Volume ('000)		Value (million US\$)	
	2018	2022	2018	2022	2018	2022
SMP	23	16	32.8	31.1	69.9	131.8
Whey Powder	13	11	12.3	10.8	16.0	23.1
WMP	1	8	0.4	7.6	1.3	36.0
Cheese	18	15	3.8	3.4	20.3	19.8
Condensed Milk	5	19	0.4	2.1	0.8	5.0
<b>Total</b>	<b>11</b>	<b>10</b>	<b>51.3</b>	<b>56.2</b>	<b>114.3</b>	<b>220.7</b>

**Table 2** Dairy tariffs

Tariff category	Product category	Applied tariff %
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter	0.0
0403	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.	0.0
0404	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.	0.0
0406	Cheese and curd	0.0

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: China (ChAFTA), Indonesia (AANZFTA), Japan (JAEPA), The Republic of Korea (KAFTA), Malaysia (MAFTA), Philippines (AANZFTA), Singapore (SAFTA), Philippines (TAFTA), and the USA (AUSFTA).

### FURTHER INFORMATION

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