

EIBN Sector Reports



Dairy Products

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Methodology

This desk research highlights the opportunities for investors and outlines the industry's characteristics (i.e. market size, growth potential), the structure of the market, key stakeholders and major providers, future trends, regulations, and existing challenges.

In preparing this report, EIBN has made use of wide ranging literature, data sources, and methods including usage of other EIBN Sector reports. General information about the dairy sector market was gathered from publicly available sources; news articles, official company websites, publications, the Ministry of Industry and other state resources of the Republic of Indonesia, as well as websites providing predictions based on statistical data. In addition, we have also gathered information from local market stakeholders, conducting interviews where necessary.

In certain instances where the latest official data has yet to be published, we have used the most recent data available from previous years. References also denote from where the data was retrieved.

This report begins with an overview of Indonesia's dairy industry, including size and growth in the domestic industry, consumer profile, category classification, distribution channels and marketing, product trends and main trading countries for imports and exports. The report also identifies notable business players in the market, such as large domestic manufacturers, importers and distributors, toll manufacturing service providers and other brands that have considerable market share. Business opportunities in Indonesia's local market are examined and there is also discussion on the regulations and standards that apply. Finally, the report outlines relevant contacts and upcoming exhibitions.

Executive Summary

A diverse archipelagic nation of more than 300 ethnic groups, Indonesia is the largest economy in South-East Asia having charted impressive economic growth since recovering from the Asian financial crisis of the late 1990s. The country's GDP per capita has risen steadily, from USD 807 in the year 2000 to USD 3,877 in 2018.

Today, Indonesia is the world's fourth most populous nation, the 10th largest economy in terms of purchasing power parity, and a member of the G-20. An emerging middle-income country, Indonesia has made enormous gains in poverty reduction, cutting its poverty rate by more than half since 1999, to 9.8% in 2018.

As South-East Asia's largest economy, with a GDP of USD 1.016 trillion and a population exceeding 267 million with rising incomes, analysts predict that Indonesia will emerge as one of the world's top five markets.

Given the country's large and growing domestic market, as well as competitive labour costs, great opportunity exists in the Indonesian dairy sector.

By 2013, Indonesia's dairy industry had seen market demand rising more than 10% annually over the past decade due to changing consumer habits and population growth. Yet up until 2013, Indonesia's estimated per capita milk consumption was only 11.7 litres per annum.¹ However, recent data indicates that Indonesian per capita dairy consumption in 2019 had reached 16.5 litres.

On the production side, however, the majority of Indonesia's dairy farms are small with just two or three cows. These production units are characteristically inefficient, with low productivity and profitability. On average, milk yield is less than 10 litres per animal per day, and calving intervals are between 18 and 20 months. If the price of beef is reasonable, these smallholders often prefer to sell their cows for slaughter as beef rather than maintain them for their milk production.

In 2017, only 26% of the raw materials for milk supply were produced locally with the balance being met by foreign imports. Moreover, milk consumption is currently only 16.5 litres/capita, whereas the target for milk consumption in 2025 is 19.5 litres/capita. This consumption is the lowest in South-East Asia, compared with Brunei Darussalam at 129.1 litres, Malaysia with 50.9 litres, Singapore 46.1 litres per year. It's even less than Vietnam, which stands at 20.1 litres of milk per capita per year.²

Led by the Ministry of Agriculture, several Indonesian ministries have plans to help boost dairy production. All these plans recognize the need to enhance dairy genetics through live dairy heifer imports. The government also continues to encourage domestic milk processing industries to further increase their commitment to invest, especially in the development of integrated dairy cattle farms in order to reduce dependence on imported milk raw materials.

¹Badan Pusat Statistik - <https://www.bps.go.id/publication/2019/06/25/bbf8ec1716fb4583687996c3/kajian-konsumsi-bahan-pokok-tahun-2017.html>

² Konsumsi Susu Masyarakat Indonesia Terendah se-Asia Tenggara, 08 Mei 2019: <https://www.liputan6.com/health/read/3958636/konsumsi-susu-masyarakat-indonesia-terendah-se-asia-tenggara>

Introduction

The actual number of the 160,000 or so 'islands' in Indonesia varies with the rise and fall of the tides, but with the names of more than 16,000 having already been verified by the United Nations Group of Experts on Geographical Names (UNGEGN), it is recognized as the world's largest archipelagic nation. As such, Indonesia is home to not only more than 300 different ethnic groups, but also to the largest economy in South-East Asia with a GDP of USD 1.016 trillion.

One of the hardest hit by the Asian financial crisis of the late 1990s, Indonesia has made an impressive recovery as exemplified by the nation's GDP per capita, which has risen steadily from USD 807 in year 2000 to USD 3,877 in 2018. Today, Indonesia is the world's 10th largest economy in terms of purchasing power parity, and a member of the G-20.

With a population exceeding 267 million, Indonesia is also the world's fourth most populous nation, an emerging middle-income country that has taken enormous strides in poverty alleviation, cutting its poverty rate by more than half since 1999, to 9.8% in 2018. While more remains to be done, analysts predict that with rising incomes Indonesia will emerge as one of the world's top five markets.

Based on the Global Business Guide Indonesia report back in 2013,³ Indonesia's dairy industry has seen a rise in market demand of more than 10% annually over the past decade. This has been due not only to population growth but also changing consumer habits. Although not a traditional part of the Asian diet, the growth in popularity of dairy products has seen items such as milk in fresh and powdered form, as well as cheese and yogurt become regular features on the shopping list of middle income families. Up until 2013, Indonesia's estimated per capita milk consumption was only 11.7 litres per annum. ⁴ Recent data from BPS (Badan Pusat Statistik), however, shows that Indonesian per capita dairy consumption has reached 16.5 litre in 2017.⁵

The production side of things has yet to catch up with this growing demand, however, the majority of Indonesia's dairy farms being small with just two to three cows. Such production units are predictably inefficient, with low productivity and profitability. On average, the predicted milk yield is less than 10 litres per animal per day, and calving intervals are between 18 and 20 months. As such, these smallholders often prefer to take advantage of favourable beef prices and sell their cows for slaughter rather than maintain them for milk production. In 2017, just 26% of the raw materials for milk supply were produced locally with the balance being supplied by foreign imports.

Looking to the future, and led by the Ministry of Agriculture, several Indonesian ministries have plans to boost dairy production. All these revolve around recognition of the important need to boost the genetics in Indonesia's dairy industry through the import of live dairy heifers. The government also continues to encourage domestic milk processing industries to further increase their commitment to invest, especially in the

³Overview of Indonesia's Dairy Industry -

http://www.gbgindonesia.com/en/agriculture/article/2012/overview_of_indonesia_s_dairy_industry.php

⁴Milk Products - <https://www.statista.com/outlook/40010000/120/milk-products/indonesia>

⁵Badan Pusat Statistik - <https://www.bps.go.id/publication/2019/06/25/bbf8ec1716fb4583687996c3/kajian-konsumsi-bahan-pokok-tahun-2017.html>

development of integrated dairy cattle farms as these can help reduce current dependence on the import of milk raw materials.

I. THE DAIRY INDUSTRY IN INDONESIA

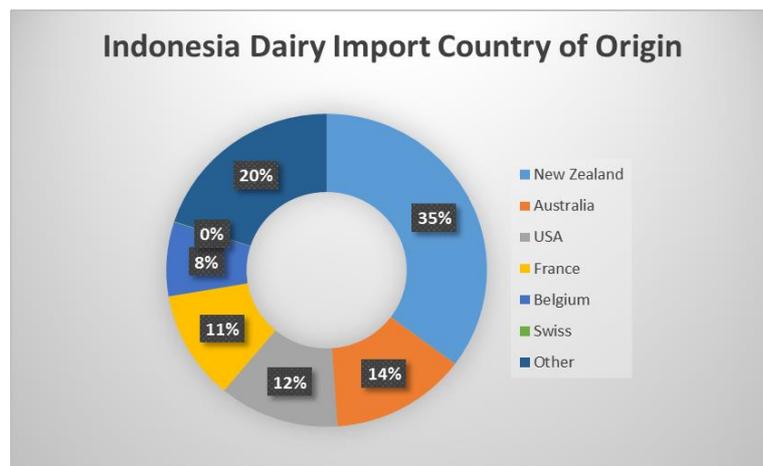
The term 'Milk Products' covers all types of dairy products that play a major role in the daily diet of consumers. In addition to drinking milk, the segment is split into Yogurt and Curdled Milk Products, Cream Cheese, Cheese, Probiotic Drinks.

Over the past four years, Indonesia has been experiencing a significant increase in the demand for dairy products. Domestic milk consumption per capita stood at 16.5 litres per annum⁶, and is expected to grow steadily in continuing the current trend.

1.1. Market overview

The use of dairy products is on the rise.⁷ Among the key drivers of this growth are the rising number of middle-class consumers, higher disposable household incomes, an evolving inclination towards western diet and an increasing health consciousness among Indonesian consumers.

Indonesia's local milk production is still limited and relies on milk imports. In 2017, 74% of the total demand for dairy products was imported, worth US\$ 973 million. The main import products are milk and cream.



New Zealand occupies first place as import country with 35.22% of the total share, or valued at US\$ 340 million, followed by Australia (13.72%), USA (12.1%), France (11.28%), Belgium (7.67%) and Switzerland (0.06%), respectively.

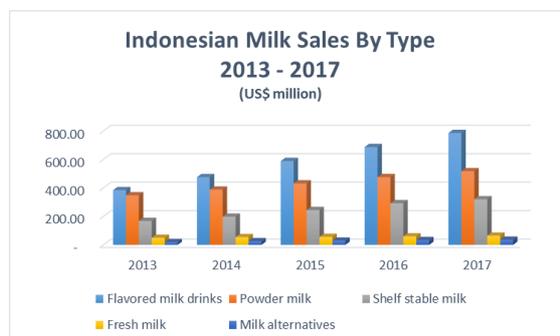
⁶ Badan Pusat Statistik - <https://www.bps.go.id/publication/2019/06/25/bbf8ec1716fb4583687996c3/kajian-konsumsi-bahan-pokok-tahun-2017.html>

⁷ Swiss Business Hub Indonesia – “A growing market for dairy products in Indonesia”, <https://www.sge.com/en/article/global-opportunities/20192-c3-indonesia-food-dairy>

Drinking Milk ⁸

Indonesian Historical Milk Sales (2013 to 2017, In US\$ million)

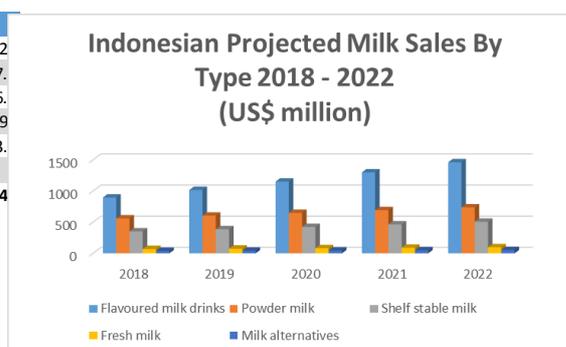
	2013	2014	2015	2016	2017
Flavored milk drinks	384.30	475.80	588.90	687.10	785.90
Powder milk	348.20	388.30	431.90	476.10	517.60
Shelf stable milk	167.80	198.20	244.90	292.40	320.40
Fresh milk	49.40	54.70	56.40	59.90	64.40
Milk alternatives	19.20	25.90	29.80	33.60	36.10
Total	969.00	1,142.90	1,352.00	1,549.20	1,724.40



The above table indicates that Indonesians favour flavoured milk drinks

Indonesian Projected Milk Sales (2018 – 2022)

	2018	2019	2020	2021	2022
Flavoured milk drinks	895.5	1,017.10	1,150.50	1,297.70	1,460.2
Powder milk	560.5	604.3	648.6	692.6	737.
Shelf stable milk	352.2	386.8	423.9	464	506.
Fresh milk	69.9	76	82.6	90	9
Milk alternatives	39.6	43.2	46.7	50.3	53.
Total	1,917.80	2,127.40	2,352.40	2,594.60	2,856.4



Powdered milk products⁹

Most of Indonesian dairy requirements rely on imported milk due to low selling price for domestic producers. The production consists of dairy farms (23.0%), as well as small-scale and inefficient producers (77.0%).

In terms of total imports, Australia (25.8%) is one of the largest powdered skimmed milk suppliers to Indonesia. Others are the EU countries (36.6%), the U.S. (20.7%) and New Zealand (13.8%).

Currently, a 5% import tariff is charged on dairy products, although New Zealand and Australian dairy products have duty free access through Association of Southeast Asian Nations (ASEAN) agreements. Canada represents 1.9% of total imports, although imports from Canada fell annually by 9.1% between 2013 and 2017.

The fall in powdered milk imports was largely due to a general sluggishness in consumer

⁸Dairy in Indonesia, August 2018: <https://www.euromonitor.com/dairy-in-indonesia/report>

⁹ Agriculture and Agri-Food Canada – “Customized report service – Powdered milk in Indonesia” December 2018, <http://www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/reports/customized-report-service-powdered-milk-in-indonesia/?id=1542836456288>

demand as well as uncertainty created by the now rescinded import requirement under regulation 26/2017, which would have required local procurement of milk a condition for import approval. To remove this import requirement, regulation 26/2017 was revised in July 2018 to ease restrictions on companies importing dairy products (e.g. cheese, yogurt, etc.) for sale to the retail and/or food services sector

Leading powdered milk brand in Indonesia

The leading foreign powdered milk brands in Indonesia are Dancow (Nestle), Frisian Flag (Royal Friesland Campina), and Anlene (Fonterra Co-operative Group Ltd) with 26.7%, 26.2%, and 20.0% market shares for a combined market share of 72.9%.

Leading national brands by market share (%)

	2013	2014	2015	2016	2017
Dancow (Nestlé SA)	24.8	25.4	25.9	26.3	26.7
Frisian Flag (Royal Friesland Campina NV)	24.3	24.9	25.3	25.8	26.2
Anlene (Fonterra Co-operative Group Ltd)	17.8	18.4	18.9	19.4	20
Indomilk (Indofood Sukses Makmur Tbk PT)	8.2	7.7	7.3	7	6.7
Hilo (Nutrifood Indonesia PT) (in Indonesian only)	1.9	2.2	2.4	2.7	3

Dairy categories

Curdled Milk¹⁰

- In 2019:
US\$15,181 million (revenue)
US\$ 56.10 (per person revenue relating to population figures)
16.5 litre (the average consumption per capita)
- Annually (CAGR 2019-2023), the market is expected to grow by 4.8%.

Cream Cheese¹¹

- In 2019:
US\$15 million (revenue)
US\$0.05 (per person revenue relating to population figures)
0.01 kg (the average consumption per capita)
- Annually (CAGR 2019-2023), the market is expected to grow by 6.4%.

Cheese¹²

- In 2019:
US\$24million (revenue)
US\$0.09 (per person revenue relating to population figures)
0.009 kg (the average consumption per capita)
- Annually (CAGR 2019-2023), the market is expected to grow by 6.1%.

¹⁰ Statista – “Yogurt & Curdled Milk”, <https://www.statista.com/outlook/40010200/120/yogurt-curdled-milk/indonesia>

¹¹ Statista – “Cream Cheese”, <https://www.statista.com/outlook/40010300/120/cream-cheese/indonesia>

¹² Statista – “Cheese”, <https://www.statista.com/outlook/40010400/120/cheese/indonesia>

Butter and Margarine¹³

- In 2018, margarine and spreads dominated sales of butter and spreads in Indonesia in both retail value and volume terms.
- Unilever Indonesia Tbk dominated margarine spreads attributable to its widespread distribution of Blue Band; meanwhile, Fonterra Brands Indonesia led butter in Indonesia in value terms in 2018.

Yogurt and Sour Milk Products

- Yogurt is becoming increasingly accepted by Indonesians, especially Greek yogurt because it is perceived as a healthier option.
- Flavoured yogurt is also preferred to the plain products, these being considered bitter to Indonesian consumers who are partial to sweeter tastes.
- The leader in the probiotic market is Yakult Indonesia, but there are also new players such as Megniu Dairy and Yili.
- In 2018, Heavenly Nutrition had the highest growth in retail value due to its new Greek-style drinking yogurt.
- Competition from other drinking yogurts is likely to shift consumer attention away from traditional market leader Yakult.

Market Shares of Top Probiotic Producers (%)¹⁴

Brand	Year				
	2012	2013	2014	2015	2016
Yakult	78.90	81.80	82.50	80.60	80.50
Cimory	3.90	4.30	6.50	7.00	10.40
Vitacharm	2.10	3.30	2.30	3.40	1.90
Calpico	2.00	1.80	1.40	2.20	1.90

1.2. Consumer profile

Indonesia is the largest consumer market in South-East Asia with a population of 267 million. However, more than 219.2 million Indonesians (84% of the population) own less than USD 10,000 per capita wealth and 93 million live on or below the World Bank's 'moderate' poverty line of USD 3.10/day; in addition over 20 million live below the 'extreme' poverty line of US\$1.90/day.

Government social spending, especially on education, is partly driving higher economic growth and higher wages. Those who finish post-secondary education are finding higher

¹³ Dairy in Indonesia, August 2018: <https://www.euromonitor.com/dairy-in-indonesia/report>

¹⁴ Pergeseran Pangsa Pasar Produk Susu Fermentasi Bermerek Dalam Kemasan Di Kota Makassar, April 2017: https://www.researchgate.net/publication/316325712_PERGESERAN_PANGSA_PASAR_PRODUK_SUSU_FERMENTASI_BERMEREK_DALAM_KEMASAN_DI_KOTA_MAKASSAR

paying jobs and increasingly joining Indonesia's burgeoning middle class, which numbers some 28.7 million people. This figure is expected to increase to 78.1 million by 2030. Over half of the country's population is under 30 years old and total gross income is concentrated among consumers in the 15-34 year old age range. Given the large size of this age group, budget and middle class consumers in this demographic are expected to drive strong economic growth.

Average annual Indonesian disposable income is USD 10,914 per household; in comparison, the average disposable income for Malaysia is USD 15,009 per household, for Australian USD 30,011 per household.¹⁵

Given the province's large population, West Java constitutes Indonesia's largest consumer market, while DKI Jakarta – the capital of Indonesia – has the highest spending power. Regions like Papua and Sulawesi are expected to have the fastest growth in total consumer spending, driven mainly by population growth.

Cash is the most common method of payment among Indonesians due to a large unbanked segment of the population. Credit card usage is increasing in parallel with middle class growth but bank transfers via ATMs and cash on delivery are more commonly used for online shopping.

1.3. Key players in the dairy product market¹⁶

Based on Euromonitor, four key players dominate the dairy product market in Indonesia: PT Frisian Flag (Dutch), Nestlé (Switzerland), PT Ultrajaya (local) and PT Indolacto (local). However, several new players entering this market in recent years have increased the competition. Among them are Fonterra Indonesia, Kalbe Morinaga, Nutrifood Indonesia, Danone Dairy Indonesia (France), Sari Husada, Greenfield Indonesia (New Zealand), ABC Dairy Indonesia, Diamond Cold Storage, and Home Town Dairy (GGP). PT Ultrajaya with its Ultra Milk brand dominates the drinking milk (UHT) market with 40.60% market share. Meanwhile, Frisian Flag is the market leader for condensed milk. The market share of yogurt and probiotic drink segment is dominated by PT Yakult Indonesia (Japan) with more than 70% for its Yakult brand.

1.4. Distribution channels¹⁷

Most Indonesians shop at traditional grocers. These traditional stores make up the largest distribution channel for milk products, at 51.3% of all grocery outlets. Reasons for their popularity are that they offer products in small package sizes that are affordable to all pockets, and are generally within short distances. The vast majority of consumers

¹⁵ Agriculture and Agri-Food Canada – “Customized report service – Powdered milk in Indonesia” December 2018, <http://www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/reports/customized-report-service-powdered-milk-in-indonesia/?id=1542836456288>

¹⁶ Swiss Business Hub Indonesia – “A growing market for dairy products in Indonesia”, <https://www.s-ge.com/en/article/global-opportunities/20192-c3-indonesia-food-dairy>

¹⁷ Ibid

in Indonesia do not own cars and prefer local stores and markets where they can bargain with sellers to negotiate a price acceptable to both.

Powdered milk is widely distributed across both modern (super/hyper markets, convenience stores) and traditional grocery retailers in urban and rural areas. Due to long shipping time and lack of stability in electricity supply, traditional grocery stores mostly carry powdered and shelf stable milk.

As wealth and living standards rise in Indonesia, supermarkets, hypermarkets, and convenience stores are becoming more prevalent. Following the introduction of Alfamart and Indomaret stores in Indonesia, modern grocery retailers have grown in popularity, especially among young consumers, for their selection of foodstuffs that require controlled temperatures, such as fresh milk.

In 2017, the retail industry was under pressure with a number of retailers already closing outlets, such as 7 Eleven (Sevel), which ceased operations on 30 June 2017, Hero Supermarket has also closed six of its stores in July 2019. The competition between retailers is considered to be intense because people are gradually moving to online shopping. The top key players in the hypermarkets section are Hypermart (107 outlets), Carrefour-Transmart (110 outlets), Giant (160 outlets)¹⁸ and Lottemart (51 outlets). In the supermarket section Superindo (168 outlets), Food Mart (58 outlets), Hero (31 outlets), Food Hall (26 outlets), Farmers Market (20 outlets), Ranch Market (14 outlets) and Giant Mart (3) are among the best-known retailers.

Other important distribution channels include 4- and 5-stars hotel chains and high-end restaurants (HORECA). These foodservice providers have a high demand for premium western-style food items thus fuelling the growth for imported products. As of 2018 (latest available year), there are about 3,314 star-rated hotels¹⁹, 100,540 full-service restaurants as well as more than 6,000 cafes and bars in Indonesia. Both hotel and restaurant chains primarily receive their supplies from importers or distributors.

Since 2018, the number of e-commerce visitors to online shopping platforms has grown and created a competitive market. The big five players are Tokopedia, Bukalapak, Lazada, Shopee and Blibli. E-commerce accounted for 8% of total retail sales in Indonesia last year and is on course to reach 18% by 2023, being fuelled by changing behaviour among tech-savvy customers.²⁰

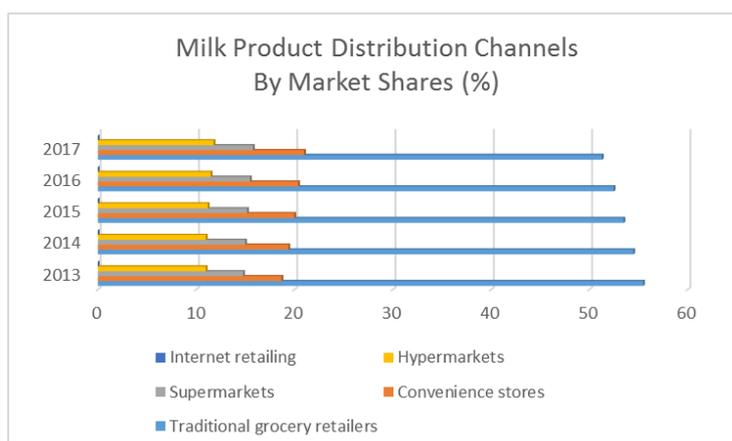
Internet user penetration is high in Indonesia with 171.17 million of its 264 million population, or 64.8% being connected to the internet. This is expected to grow considerably among young urban consumers, in line with increased adoption of the internet and smartphones.

The following graphic shows how Indonesians buy their milk products.

¹⁸ Berapa Jumlah Gerai Giant, Desember 2018 <https://databoks.katadata.co.id/datapublish/2019/06/25/berapa-jumlah-gerai-giant>

¹⁹ Statistik Hotel dan Akomodasi Lainnya di Indonesia 2018, www.bps.go.id

²⁰ Indonesia's E-commerce Market Larger Than Estimated; Consumer Habits Changing: Study, 5 February 2019: <https://jakartaglobe.id/context/indonesias-ecommerce-market-larger-than-estimated-consumer-habits-changing-study/>



Transportation infrastructure²¹

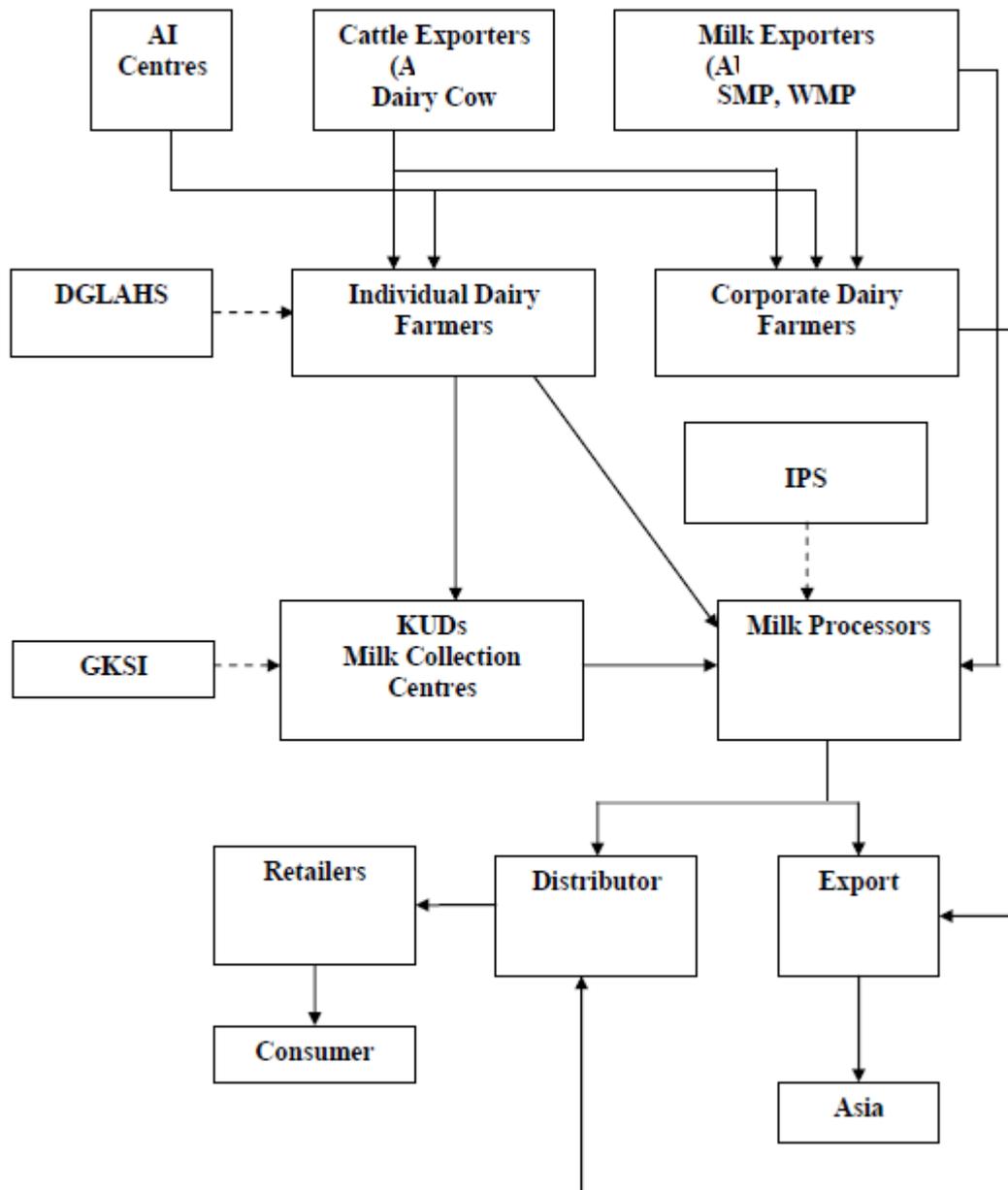
Approximately 85% of passenger transport and 90% of freight are served by road infrastructure. The national road network (481,100 kilometres [km]) bears the transport burden to support the country's rapid economic growth, as the country's aging railway is mainly a single-track network that transports only around 0.6% of goods. The road network, meanwhile, includes 39,900 km of national roads and 48,122 km of provincial roads, comprising 8% and 10%, respectively, of the total network. The remaining 393,078 km, or 82% of the network, meanwhile, consists of county/city/village roads of varying quality. Numerous key road links are overloaded, jammed at peak hours, and in dire need of maintenance and repairs, a cause of poor road safety and slow average running speeds of lower than 40 km/hour. Improving all roads in order to keep pace with population and economic growth, the government has earmarked approximately USD 87.4 billion. Key projects include rehabilitating and widening existing roads and building new national and regional roads, as well as new urban and intercity expressways.

There are more than 100 commercial seaports, which in the main cater to small vessels on domestic routes within Indonesia. In preparation for the ASEAN single market, Indonesia is striving to upgrade 14 of the country's largest ports to handle international as well as trans-oceanic vessels. Two-thirds of Indonesia's imports and exports are handled by Jakarta's Tanjung Priok port, but this port is unable to accommodate giant container ships. Compared to neighbouring Singapore's annual throughput of more than 31 million twenty-foot equivalent units (TEU), Priok's current throughput capacity of 5 million TEU a year is modest. The long-term plan for expansion covers handling container vessels of up to 18,000 TEU in capacity.

1.5. Indonesia's dairy supply chain and stakeholders

The major participants in the dairy supply and marketing chain are presented in the following diagram:

²¹ Agriculture and Agri-Food Canada – “Customized report service – Powdered milk in Indonesia” December 2018, <http://www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/reports/customized-report-service-powdered-milk-in-indonesia/?id=1542836456288>



Source: IFC

*Notes:

DGLAHS – The Directorate General of Livestock and Animal Health Services at the Ministry of Agriculture oversees the national strategy and government policy issues affecting Indonesia’s dairy industry

GCSI - The Indonesian Association of Dairy Cooperatives (GCSI) oversees the industry development including policies regarding accessing funding for infrastructure and cattle. The activities of GCSI are mainly handled by branches in East Java, Central Java and West Java.

KUDs – Koperasi Unit Desa (KUD) is the local dairy centre known as the primary village cooperative of GCSI. KUDs supply farmers with advice and services on production, animal health (veterinarian), etc. The KUDs can also act as the local milk collection

centre and are the key link between farmers and milk processors. Some of the KUDs have exclusive arrangements to supply a major milk processor and some have established their own milk products and brands for the local market.

IPS – The Indonesian Association of Milk Processors (IPS) represents the milk processing sector. IPS members buy milk from GKSI members and direct from some large farmers, and import powdered milk to supplement their needs.

AI Centres – Semen for artificial insemination in cattle is domestically produced by two Artificial Insemination (AI) centres located in Malang, East Java and Lembang, West Java.

1.6. Dairy roadmap – Department of Industry Republic of Indonesia²²

Director General of Agro and Chemical Industry of the Department of Industry of The Republic of Indonesia (“DGACI”) has issued Dairy Roadmap in 2009.

SWOT Analysis of Indonesia Dairy Industry

In the road map, DGACI lays out the following SWOT analysis on Indonesia’s Dairy Industry:

Strengths

- Indonesia's sizeable population of 267+ million has strong market potential.
- Government support for the development of the milk processing industry, which is included in the priority industrial scale.
- Support from human resources and other resources that have suitable potential.
- The domestic market is extremely large and still growing, thus providing a solid opportunity to develop the national milk industry in the future.

Weaknesses

- Low economics of scale of dairy farmers (2-3 cattle/per farm), due to lack of capital and feed, causing business inefficiency and leading to low income.
- Low dairy production level (8-12 lt / head / day) compared to overseas farmers who reach 20 lt / head / day.
- Lack of awareness in implementing Good Farming Practices (GFP) resulting in low quality domestic fresh milk.
- Dairy products from other types of animals (goat milk, buffalo milk and wild horse milk) have not proven popular
- Public lack of awareness of the benefits in drinking milk.

²² Roadmap Industri Susu – Kememperin <http://agro.kememperin.go.id/421-ROADMAP-INDUSTRI-SUSU>

Opportunities

- The average level of milk consumption in Indonesia is still low. This can be increased, therefore, by means of, among others, socialization of the importance for school age children to drink milk.
- Opportunities to increase production / consumption of liquid milk by using a cheaper type of packaging through targeted advertising campaigns.
- Development of dairy farming outside of Java.
- Reward and penalty policies implemented by IPS when receiving fresh milk from plasma farmers will encourage them to produce higher quality milk. Plasma farmers are farmers who took part in the Plasma Transmigration Program (Perkebunan Inti Rakyat, also known as PIR-Trans, which was set up by the Indonesian government in 1987)
- Increase in the livestock industry and medium-scale dairy farms will prove a working partner for dairy farmers and dairy cooperatives.

Threats

- Limited land area for providing forage food, especially in Java, due to the lack of certainty of planting land. While land is available outside of Java, there appears to be a lack of investment interest.
- Reproductive diseases such as Brucellosis, IBR, BVD due to low birth rates.
- High number of cases of subclinical mastitis causes economic losses (decreased production) in addition to the number of somatic cells, which also affect the quality of processed milk products.
- Possible ban on large scale imports of processed dairy products
- Threats to branded dairy products from the main producers of milk raw materials such as New Zealand and Australia

Targets for development of dairy processing industry

Based on the analysis DGACI has established Achievement Targets for Development of Dairy Processing Industry, as follows:

Long-term (2015 - 2025)

- Increase the growth of the processed milk industry by 10% / year.
- Increase the population of dairy cattle.
- Increase the ownership of dairy cows by breeders to more than 10 cattle / breeders. Increase the productivity of dairy cows to yield over 20 litres / head / day.
- Increase national milk consumption to 23 kg / capita / year.
- Increase the supply of fresh domestic milk to 50%.
- Increase the mastery of technology in an effort to improve the quality of small and medium scale processed milk.
- Develop diversification of dairy products in competitive areas.
- Increase cooperation in efforts to develop process technology and product diversification.

- Improve food security and community nutrition to prevent a 'lost generation'.

Strategy and policy

Vision:

To create a sustainable, competitive, independent and prosperous milk processing industry for the community.

Development direction:

- Increasing added value, investment, and employment.
- Optimization and improvement of existing production capacity.
- Developing the milk processing industry (product diversification) by utilizing the potential of raw materials.
- Strengthening the partnership programme between the milk processing industry and breeders.
- Increasing productivity and quality of fresh milk to support the supply of raw materials for the milk processing industry.
- Developing supporting factors in the form of raw materials, energy, and infrastructure.
- Investment promotion of dairy products that have high added value.

Achievement Indicators

- Increased levels of consumption of fresh milk, especially for children of school-age.
- Increased facilities and infrastructure to meet the needs of the milk processing industry.
- Increased awareness of farmers in implementing Good Farming Practices (GFP) which will have an impact on the quality of fresh milk.
- Increased productivity of dairy cattle to more than 15 litres / head / day.
- Demonstrated support from research and financial institutions in increasing investment in the milk processing industry.

Implementation Stages

- The central government coordinates with relevant agencies and the regional governments of the provinces of West Java, Central Java and East Java and related stakeholders through the Communication Forum.
- The central government provides machinery / equipment assistance in the form of cooling units to support cluster development, coordination of promotions and marketing planning.
- Companies dominating the milk cluster are medium and large entities
- Developing industrial businesses having increased networking with other economic sectors.

Programme/Action Plan

Long-term (2015 - 2025)

- In conjunction with related institutions, create a business climate that is conducive to encouraging the growth of the dairy industry. Together with relevant stakeholders, seek low-cost funding to secure the import of superior dairy cows with higher milk yields at affordable instalment prices, plus also to increase farmer ownership of dairy cows. Working with related institutions, develop a low-interest credit system for the procurement of superior dairy cows. Improve management of livestock at both small and medium scale operations in order to reduce fixed costs at the farmer's level. Improve the capacity of human resources, plus provide higher-quality animal feedstock, which will help increase the productivity of dairy farmers.
- Expand research and development into efforts to improve quality, plus provide useful and integrated milk processing products.

II. BUSINESS OPPORTUNITY AND CHALLENGES

2.1. Large and growing domestic market

Indonesia offers many great opportunities given its vast domestic market and availability of qualified human resources.

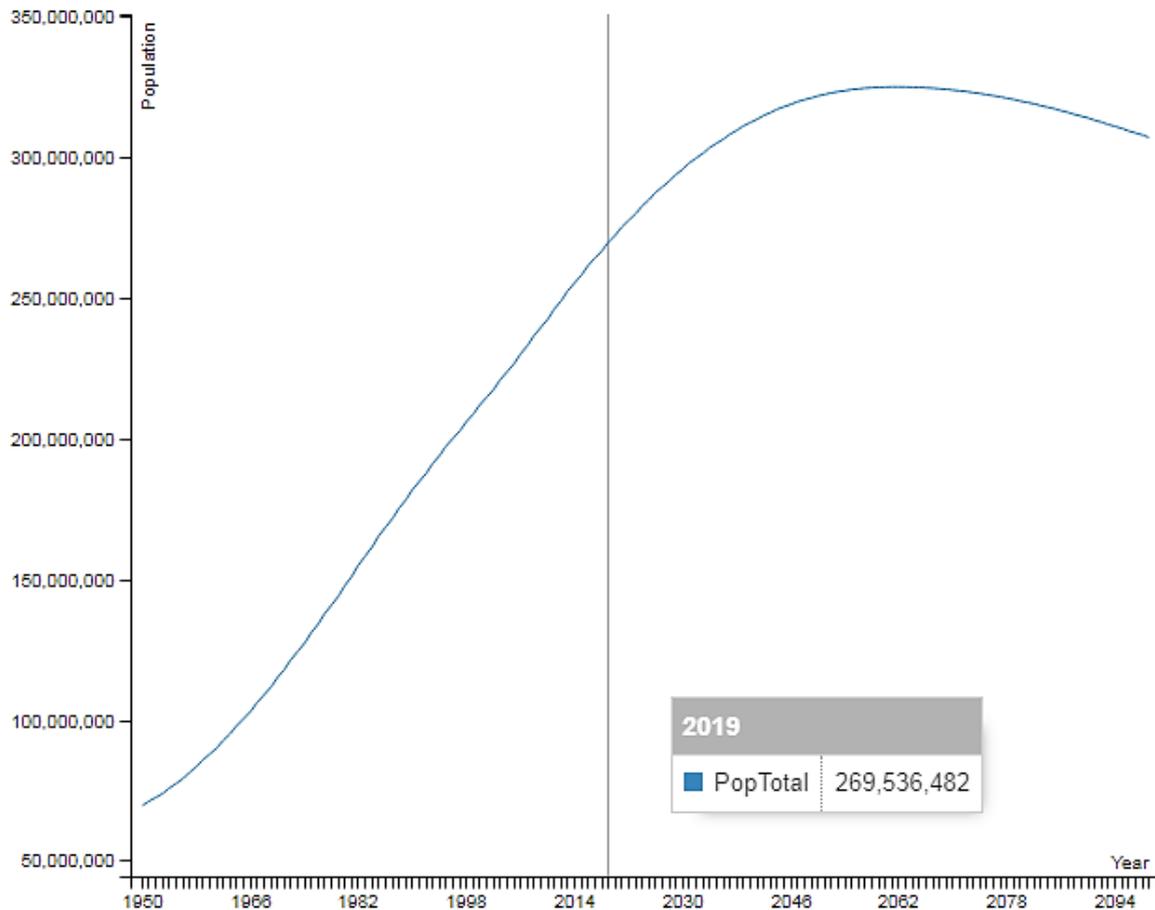


Figure 1: Population Data via United Nations WPP (2015 Revision, Medium Variant)

Source: World Population Review 2019

The only ASEAN member of the G20, Indonesia has been experiencing impressive economic growth over the past few years, touching 5.1% in 2017, and is likely to attract a growing number of people, especially in regard to business. At over 260 million, Indonesia is the world's fourth most populous nation and offers a wide range of opportunities. Moreover, renewed focus on the education sector has seen a narrowing of the social gap with the growth of labour capability. Together, these factors position Indonesia as a key gateway to access an increasingly educated market plus a qualified local talent pool.²³

With a median age around thirty, Indonesia has a young population, 80% of which is mostly spread among the main Indonesian cities located in Java and Sumatra. In retail,

²³ Indonesia: Growing Market, Growing Opportunities. Lincoln Group. 12 Feb 2019. Available at: <https://lincoln-group.com/indonesia-growing-market-growing-opportunities/>

luxury, e-commerce, as well as Fintech and IT with the digital transformation, the large urban groups that exist in Jakarta (10 million plus) and Bandung (2.5 million) offer promising markets. Bandung with more than 80 universities seems to be the cradle of the young population, especially those aware of the IT sector, plus students of the renowned Institut Teknologi Bandung.

However, other big cities are emerging across the archipelago. Provincial capitals such as Surabaya (2.8 million), Medan and Bekasi (both 2.5 million), Tangerang and Semarang (both 2.1 million), Depok (1.8 million people) and Palembang (1.5 million)²⁴ consist of large market populations with a wide range of resources to serve a variety of industries including retail, agriculture and tourism.

2.2. Competitive cost of manufacture

According to Deloitte's 2016 Global Manufacturing Competitiveness Index, the manufacturing labour costs in Indonesia are less than one-fifth of those in China.²⁵ While China's labour costs have seen the steepest rise in Asia over the past 10 years, Indonesia's costs have remained relatively flat, drawing the attention of manufacturers looking for a stable low-cost alternative.

Although paling in comparison to China's growth over the same period, Indonesia's overall 10-year growth in productivity (50%) exceeds that of fellow ASEAN members Thailand, Malaysia, and Vietnam. Although not predominant, a significant portion of Indonesia's overall GDP is represented by the manufacturing sector. Thus coupled with the sheer size of its population, Indonesia remains high on the list of alternatives for manufacturers looking to shift production capacity away from China in the future.²⁶

Indonesia minimum labour salary nationwide lies in the range of IDR 1.57 million to IDR 4.21 million.²⁷ In contrast to a number of other ASEAN countries who generally only revise their wage standard at least once every five years, Indonesia amends it every year based on indicators of economic growth and inflation. Standard labour minimum wages in Indonesia have wide variations based on location. The industrial regencies of Bekasi and Karawang in West Java, for example, are the highest minimum pay regions at IDR 4.21 million or EUR 270, followed by the Capital Province Jakarta at IDR 3.94 million per month. Yogyakarta, meanwhile, is the province with the lowest minimum wage of IDR 1.57 million per month.²⁸ Some of the largest factories or manufacturers in Indonesia are indeed located in Jakarta, West Java Province (i.e. Bogor, Tangerang, Bekasi), East Java (i.e. Surabaya, Sidoarjo) and South Sulawesi (i.e. Makassar).

²⁴ Indonesia Population 2019. World Population Review. 12 Feb 2019. Available at: <http://worldpopulationreview.com/countries/indonesia-population/>

²⁵ 2016 Global Manufacturing Competitiveness Index. Deloitte. 11 Feb 2019. Available at: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/manufacturing/us-gmci.pdf>

²⁶ Ibid

²⁷ <https://wageindicator.org/salary/minimum-wage/indonesia>

²⁸ Segini Besaran Resmi UMR Jakarta, 30 Agustus 2019: <https://www3.moneysmart.id/umr-jakarta-dan-upah-minimum-lainnya/>

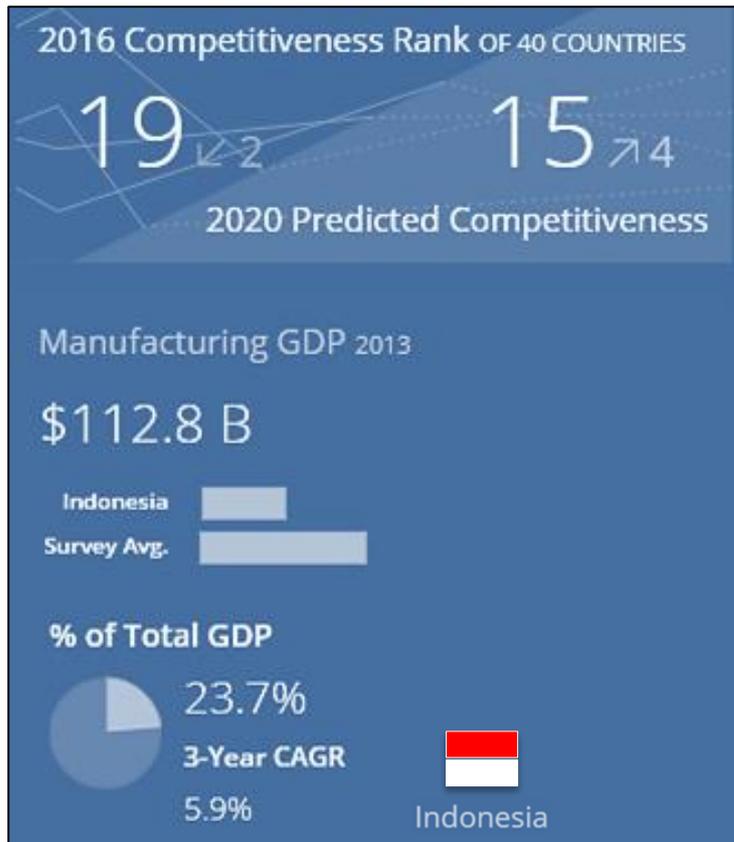


Figure 2: Indonesia in Global Manufacturing Competitiveness Index

Source: Deloitte 2019

2.3. Challenges

Ministry of Agriculture Regulation No. 30/2018 on Dairy Provision and Distribution

This new regulation amends the previous regulation from 2017, with a relaxation of requirements for farming and dairy-processing business units. Regulation 26/2017 had mandated that importers establish “partnership agreements” with local entities to procure local milk, invest in local milk production, and/or invest in promoting local fluid milk consumption. However, that revision retained a section on sanctions for failing to comply with the partnership requirement and also included some language that could be interpreted that the partnerships were still required for domestic processors. This second revision eliminates any notion that the partnership agreements are compulsory, deletes mandatory reporting requirements, removes all remaining sanctions associated with non-compliance, and deletes the clause stating that dairy processors must within three years establish their own plants that only procure milk locally²⁹

Not surprisingly, perhaps, this has resulted in a backlash of criticism from the domestic producer organization about rescinding the local purchase and promotion mandate, The Ministry of Agriculture (MOA) has stated publicly that they will continue to “encourage” dairy processors to form partnerships to buy local milk, invest in dairy production and to promote local fluid milk consumption. Meanwhile, the local dairy processors association has stated that although no longer mandatory, they will continue to buy milk from local dairy producers, just as they did long before the requirements of the 26/2017 agreement. Nevertheless, this still raises concern among some importers that MOA does indeed have an implicit requirement that importers must demonstrate they are doing something to promote the local industry as a condition for obtaining a permit to import dairy products.

Indonesian dairy production is also challenged by low productivity and high impact on the environment. In 2018, out of 260 million Indonesians, only 30 million have high purchasing power³⁰. With Indonesia’s topography of 17,000 islands, it is also makes for logistical difficulties in the distribution process. This challenge will become increasingly demanding with a milk consumption target of 19.5 litres/capita and meat consumption of 3.5 kg/capita by 2025. Nevertheless, this could be an enticing opportunity for the development of the dairy industry,

Another challenge is in reading consumer trends. Currently, over 90% of the dairy market is dominated by processed as opposed to fresh milk, i.e. UHT milk and that in powdered or sterilized form. Annual consumption of powdered milk is expected to grow by over 7% and sweetened condensed milk average growth is expected to be 4.8% annually.³¹ Changes in retail habits and the shift towards modern retailing is opening up further opportunities, although both local and multinational downstream producers face the challenge of adjusting their dairy products to local consumer tastes. For example, the preference for sweet tasting dairy beverages and the addition of more traditional ingredients to cream or cheese based products such as chili and curry is seeing the

²⁹Global Agricultural Information Network, 24 August 2018

https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Dairy%20Regulation%20Revision_Jakarta_Indonesia_8-24-2018.pdf

³⁰ Opportunities and Challenges of the Indonesian Livestock Industry, 11 October 2018:

<https://fapet.ugm.ac.id/new/en/opportunities-and-challenges-of-the-indonesian-livestock-industry/>

³¹Global Business Guide:

http://www.gbgingonesia.com/en/agriculture/article/2012/overview_of_indonesia_s_dairy_industry.php

production of dairy products that are particular to the Indonesian market. This presents the opportunity for local dairy players to gain an inside track in crafting innovative products and brands, yet the technology, know-how and downstream production facilities remain a hurdle to realizing such potential.

III. REGULATIONS AND STANDARDS³²

3.1. Product registration process

It is important to note that all imported processed food products must be registered with the National Agency for Drug & Food Control (Badan Pengawasan Obat dan Makanan – BPOM) and carry the appropriate sticker before clearance through customs. BPOM will issue a registration approval number (a 12-digit licensing number) for products that meet the necessary requirements for distribution by issuing a ML (Makanan Luar) number for imported products and a MD (Makanan Dalam) number for domestically produced products. The time needed to register goods is also significant - up to six months, or even longer in some cases. Importers, retailers or distributors involved in unregistered products are in breach of the regulations and may be subject to penalty.

The most recent registration procedures are cited in BPOM Regulation No. 27/2017, where the food product registration process can be conducted online through <http://e-reg.pom.go.id>. The registration process is categorized based on risk level: high risk, medium-risk, low-risk and very low-risk. The risk level is determined by various factors such as target consumers, statement claims, use of food additives, certain production processes, and certain raw materials/ingredients. Product registration is valid for five (5) years. Importers wishing to renew registration may submit a request within one year before the expiry date.

Food and beverage products produced by home industries; with a shelf-life of seven (7) days or less; ingredients (for further processing); samples for the purpose of requesting a registration approval letter, and for research, are exempt from BPOM product registration. Small quantities for personal consumption do not require registration. The registration process is also required for products that have identical composition but do not share similar packaging. A new registration is thus required for products with different sized retail packages, different labelling designs, different names and production addresses, and different names and/or addresses of importers and distributors.

Unless you decide to import yourself, a local agent or importer typically handles the registration process. Depending on the product, the process may take longer than the officially reported timeframe. Detailed requirements from the food manufacture/supplier and product samples are required for the registration process. This may include information considered proprietary in nature.

Imported Food Product Registration

Importers of processed food products must obtain an import permit before the product is shipped to Indonesia. There are three ministries responsible for issuing the permit:

Import of products and processed products of animal origin is regulated by:

³² Various sources including BPOM

a. The Minister of Agriculture Regulation Number 34/2016 regarding The Import of Carcass, Meat, Offal, and/or Its Processed Products into the Territory of the Republic of Indonesia; and its amendment, The Minister of Agriculture Regulation Number 23/2018. This regulation is not applicable for dairy products, however; and,

b. The Minister of Trade Regulation Number 59/2016 regarding The Provisions of the Export and Import of Animal and Products of Animal Origin; and its amendments, The Minister of Trade Regulations Number 17/2017, Number 20/2018, and Number 65/2018;

In order to be able to import animal or products of animal origin, the registered importer requires an import permit (SPI- Surat Persetujuan Impor) from the Ministry of Trade, which based on Minister of Trade Regulation Number 59/2016, requires import recommendation (SRP – Surat Rekomendasi Pemasukan) from the Ministry of Agriculture, and, exclusively for processed products, entry permit (SKI – Surat Keterangan Impor) from the National Agency for Food and Drugs Control (BPOM – Badan Pengawas Obat dan Makanan). Products in retail packaging must have a registration (ML) number as obtained from BPOM.

There are three (3) registration types: new registrations, variation registrations (changing of data) and re-registrations (to be conducted from 1 year up to 10 days prior to the registration number's expiry).

Registration Procedure

The registration can be carried out through E-Registration (e-reg).

Obtaining an ML number typically will take between 4 –6 months, though this often depends on the associated risk level as well as how fast suppliers/applicants are able to submit the additional data once this is requested by BPOM. BPOM head office in Jakarta has the responsibility to review the application and make a final decision.

Risk Level Category:

- Very Low: contains few ingredients, no food additive, no animal derivative, and is minimally processed (pasta, honey, olive oil, frozen vegetables, etc.)
- Low: jam, sausage, instant noodles, cereal, cheese flavoured snacks, crackers, seasoning, fruit juice, other food additives, etc.
- Medium: carried out for certain processed foodstuffs undergoing a process of sterilization, pasteurization, irradiation, organic, GMO, alcoholic beverages, flavour, foods with claims, such as milk, canned food, cheese, no sugar, gluten, etc.
- High: certain processed foods for specific target consumers and specific health conditions such as baby food, baby formula, food for pregnant women, special diet foods, etc.

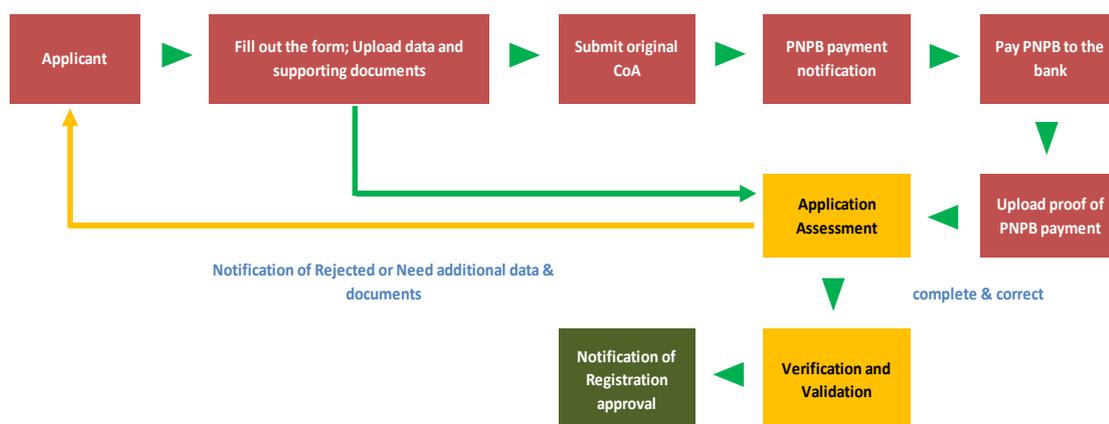
Importers must register the food and beverage manufacturer from which they are importing prior to applying for product registration. Food and beverage

manufacturer registration includes submitting hard copies of their Letter of Appointment (legalized by Indonesian Embassy/Chamber of Commerce/Notary Public), HACCP/ISO 22000/GMP/FSS Certificate or equivalent and Free Sale Certificate (FSC).

Phases in e-registration

PHASE I: REGISTRATION OF BUSINESS ACCOUNT (IMPORTER)

- a. Fill out the on-line Business Registration Form at <http://e-reg.pom.go.id>
- b. Upload the administrative documents
- c. Submit a hardcopy of administrative documents to the BPOM counter to be verified
- d. Wait for verification process. This includes data verification by the BPOM on-line system (4 -7 working days)
- e. Once verification is complete and correct, applicant will receive a “User ID” and “Password”. The applicant is ready to begin the product registration process.
- f. If data is incomplete or incorrect, all documents will be returned to the applicant to be completed or corrected for re-submission to BPOM



Indonesia’s business license registration system is undergoing system restructuring with the aim of providing better service. Much inter-ministerial integration is also under process. The same holds true for BPOM e-reg, the food registration approval will be made available to the Indonesian Single Windows systems (INSW can be accessed through insw.go.id). **Note: It is, therefore, advisable for the importer to seek a local partner or competent advisor prior to entry into the Indonesian market.**

PHASE II: APPLY FOR PRODUCT REGISTRATION AND PAY NON-TAX STATE REVENUE

- a. Fill out the on-line registration form at <http://e-reg.pom.o.id> using the given “User ID” and “Password”
- b. Upload data and supporting documents and submit the original Certificate

- of Analysis (CoA)
- c. Make a payment of Non-Tax State Revenue (Penerimaan Negara Bukan Pajak or PNPB) (within 10 days maximum after receiving a pay order)
 - d. Upload proof of PNPB payment
 - e. BPOM will assess the application (14 - 30 working days depending on the complexity of documents and BPOM workload)
 - f. If the application is rejected, requires additional documentation or the data is unclear, BPOM must notify the applicant no later than 30 days after receiving the application. Applicant must submit additional documents or data within no more than 60 days from receiving the notification for incomplete document and unclear data.
 - g. For successful applications, BPOM will conduct a verification and validation process
 - h. The result of the verification and validation process will be notified on-line a maximum of 35 working days from when the application, with complete and correct documents and data, was received. Notification of registration approval and product registration number may be issued at such time.
 - i. The applicant for low-risk and very-low risk products may receive the product registration within as little as 10 working days from the application being declared complete and correct.

Requirements for imported products

Administrative requirements

- Trade Business License (SIUP) or Importer Registration Number (API) or Letter of Appointment as registered importer for alcoholic beverages
- Audit results of distribution facilities.
- GMP Certificate/HACCP/ISO 22000/Risk Management Programme Charter/Similar certificate issued by the competent authority/accredited and/or the result of local government audit in the country of origin
- Notarized deed of establishment of the importer company
- Letter of Appointment from company of country of origin.
- Health Certificate or Free Sale Certificate from country of origin
- Authorization letter to register the processed food products. Authorization letter can be issued by
 - Producer: granting direct authorization to an importer to register, import, distribute and sell its products
 - Brand owner: if the product is not produced by the brand owner, but produced by another company, then BPOM will ask for two types of authorization letter :
 - A letter from Brand Owner granting authorization to importer to register, import, distribute and sell in Indonesia
 - A letter from Brand Owner to confirm that its products are produced by (listing the producer's name, address and product they produce)

- Exporter: BPOM will ask for two authorization letters :
 - A letter from the Exporter that grants authorization to an importer to register, import, distribute and sell the product into Indonesia
 - A letter from the Producer that grants authorization to an exporter to distribute and sell the products worldwide or to Indonesia
 - Or the letter can be provide by a Producer to appoint :
 - (Stating the exporter name and address) to export its products into Indonesia
 - (Stating the importer name and address) to register, import, distribute and sell its products in Indonesia

Technical requirements for determining risk level

- Target consumer.
- Information on temperature and time of Commercial Sterile Food that is sterilized after packaging or processed with aseptic process.
- Information on certain processes such as organic, irradiation, and genetic engineering
- Information about the ozonation process, pasteurization and new technology (non-conventional)
- Information on cold and frozen storage
- Inclusion of claims and/or information about nutrition value on the label
- The use of food additives especially those with Average Daily Intake (ADI) and/or maximum usage.
- Certain raw materials

Technical requirements based on risk level

- Composition or ingredients list including origin of certain raw materials and/ or food additive information.
- Manufacturing processes
- Shelf life information.
- Production code information.
- Label design (in colour)
- Photograph of the product showing clear information on the label
- Translation of the label in other than English from sworn translator
- Certificate of Analysis

Additional requirements

- Trademark Certificate (for product with TM and or ® logo on the label)
- Certificate of product using Indonesia National Standard mark (SPPT SNI) for SNI-mandatory products or product that have SNI logo on the label
- Organic Certificate (for organic products that have organic logo on the label)

- Information on GE/GMO for raw materials such as potato, soybean, maize, tomato and sugarcane). Note: Derivative products that have undergone multiple refining processes at high temperature such as fat or oil (including lecithin) do not need non-GMO statement.
- Information on food irradiation (for irradiated products)
- Halal certificate for product with Halal information on the label
- Other supporting documents

Food supplement registration must be accompanied by several documents such as:

- safety and test certificate for organoleptic, physical-chemical, microbial, heavy metal, chemical drugs and psychotropic-narcotic contaminants from laboratory appointed by NADFC.
- toxicity test certificate from country of origin and/ or from laboratory appointed by NADFC

Approval conditions for importing food products

Food products imported into Indonesia are required to meet the quality standards and not be prohibited in the country of origin. Some of the limitations for the import of food products are listed below.

Food cannot:

- Be putrid, repugnant, dirty, decayed or decomposed
- Contain diseased vegetable or animal substances
- Contain or have parts or excrement of insects in excess of the maximum limit
- Contain pesticides or other insecticides in excess of the maximum limit
- Contain poisonous chemicals, minerals, metalloids, or additives in excess of the maximum limit
- Contain pathogenic micro-organisms in excess of the maximum limit
- Be unfit for human consumption or harmful to human health

Shipping requirements

Food must arrive in Indonesia (by at the latest) according to the following time schedule:

- 18 months before the expiry date for foods with a shelf life of 2 or more years
- 8 months before the expiry date for foods with a shelf life of one year
- 4 months before the expiry date for food with a shelf life of 6 months
- 2 months before the expiry date for food with a shelf life of 3 months

Documents to be forwarded to the Minister of Health in order to land product.

- Photocopy of L/C, invoice, packing list, and bill of lading

Certificate of Health

- A Certificate of Health issued by the authorized body in the country of origin must accompany all food products

Pre-shipment Inspection Requirement

- All shipments (including foodstuffs) to Indonesia valued at or above \$5,000 must be inspected in the country of origin. These inspections are carried out on behalf of the Indonesian government by SGS (PT Surveyor Indonesia) at no charge to the exporter. Shipments valued at less than \$5,000 are inspected by Indonesian customs when they arrive at an Indonesian port.

3.2. Food additives

The Indonesian authorities determine those substances that are banned as food additives and those which may be used in food production, plus also the limits to their content. Approval is the prerogative of the Director of Food Safety Evaluation, a subordinate of the Deputy of Agency for the National Agency of Drugs and Food Control (BPOM). The regulation states that approval will be based on assessment against guidelines prepared by the Head of Agency.

A food additive product from an animal source must also have a halal certificate. That certificate is to be issued by the responsible authority in the country of origin. Food additives produced, imported or distributed must comply with the Indonesian Food Codex or conditions approved by the National Agency of Drugs and Food Control (BPOM). For food additives not listed in the Indonesian Codex, or not having conditions determined by the National Agency of Drugs and Food Control (BPOM), the international standards issued by FAO/WHO Codex Alimentary Commission or Food Chemicals Codex are applicable.

Some of the food additives permitted include: antioxidants, anti-caking agents, acidity regulators, artificial sweeteners, flour treatment, emulsifying agents, stabilizers, thickener preservatives, firming agents, colourings, flavours or flavour enhancers.

A full list of food additives permitted in Indonesia can be obtained from the National Agency of Drugs and Food Control (BPOM).

3.3. Halal law and certification

The Government of Indonesia enacted the Halal Product Assurance Law No. 33 of 2014 (“Halal Law”) on October 17, 2014. According to this law, the government is required to issue the implementing regulations within two (2) years and effectively implement the

law within five (5) years from its date of enactment. This means that by 17 Oct 2019,³³ halal labelling will officially be mandatory for all products circulated in Indonesia. The government is now in the final stages of preparation for implementing this law.

Companies looking to tap into Indonesia’s dairy industry are strongly advised to fully comprehend the need to satisfy the halal certification requirements. Halal is an Arabic word meaning ‘lawful’ or ‘permitted’; the opposite to halal is haram, which means ‘unlawful’ or ‘prohibited’. Halal and haram are universal terms that apply to all facets of life. Considering that 88% of the Indonesian population is Muslim, the Indonesian Islamic Council (MUI) prefers that all food products and cosmetics be accredited.

It is not only dairy products that are subject to the Halal Law, as it also requires mandatory halal certification and labelling for food, beverages, drugs, chemical products, biological products, genetically engineered products, as well as consumer goods that are distributed or traded in Indonesia. All products can be certified halal except the following, which are haram: a) swine/pork and its by-products; b) animals improperly slaughtered or dead before processing; c) animals killed in the name of anyone other than Allah (God); d) alcohol and intoxicants; e) carnivorous animals, birds of prey, and land animals without external ears; f) blood and blood by-products; g) foods contaminated with any of the above products.

The halal certification is an important provision implemented by the Government of Indonesia to provide convenience, security, safety, as well as certainty for Indonesian customers; and to add more value to goods produced and sold in Indonesia. However, the wide scope and complexity of the Halal Law are of particular concern to various stakeholders, including businesses, sectorial associations and international chambers of commerce and industry (Indonesian: *KADIN*).

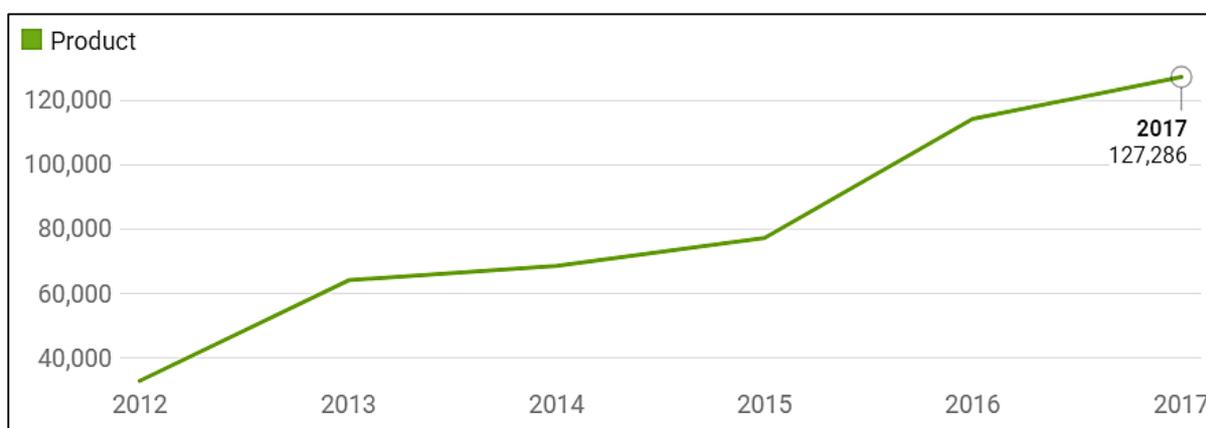


Figure 3: Number of Products Certified as Halal by Indonesian Ulema Council (MUI)

Source: The Indonesia Ulema Council (MUI) 2018

This rapid growth of Indonesia’s halal awareness and precaution has led to an increasing number of products with the halal label each year. The number of halal certified products

³³ Non-food products tap into huge Muslim market in halal boom. Jakarta Post. 28 May 2018. Available at: <https://www.thejakartapost.com/news/2018/05/27/non-food-products-tap-into-huge-muslim-market-in-halal-boom-1527421126.html>

in 2017 was 127,286, rising from just 32,890 in 2012.³⁴

In regard to products with a foreign halal certificate, Article 47 of the Halal Law provides that halal-certified products and materials that come from overseas will only have to be registered at the National Body of Halal Assurance (Indonesian: *BPJPH*) and can then be sold and distributed in Indonesia without any change in their halal registration status. However, not all foreign certificates will be allowed to pass through this convenient process and those certification institutions that are not on the approved list will have to be assessed by BPJPH.

Steps that need to be followed by companies to register under the MUI halal certification process:

³⁴ Non-food products tap into huge Muslim market in halal boom. Jakarta Post. 28 May 2018. Available at: <https://www.thejakartapost.com/news/2018/05/27/non-food-products-tap-into-huge-muslim-market-in-halal-boom-1527421126.html>

1. Companies that apply for certification, whether new registration, development (product / facility) and renewal, can register online through the LPPOM MUI website (www.halalmui.org) or directly to the website: www.e-lppommui.org.



2. Fill in the registration data: certification status (new / development / renewal), halal certificate data, SJH status (if any) and product groups.



3. Pay the registration fee and halal certification contract fee through the Treasurer of LPPOM MUI at email: bendaharalppom@halalmui.org

• *Components of the halal certification contract fee include:*

- Honour Audit
- Halal Certificate Fee
- Cost of evaluationg SJH implementation
- Cost of publication of the Halal Journal Magazine

****) These costs are outside the transportation and accommodation borne by the company***



4. Fill out the required documents in the registration process in accordance with the registration status (new / development / renewal) and business processes (processing industry, slaughterhouse, restaurant, and service industry), including: SJH manual, production process flow chart, factory data, data products, material data and material documents used, as well as product matrix data.



5. After completing the required documents, the next step is in accordance with the halal certification process flow chart as above, namely checking the adequacy of documents ----- Issuance of Halal Certificates.

3.4. Import provisions for complementary goods, goods for market-testing and goods for after-sales service

In December 2015, the Ministry of Trade issued Regulation No. 118/2015 on Import Provisions for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service (MoT Regulation No. 118/2015). The regulation sets the strict requirements to which producers or holders of API-P should comply in respect to the import of manufactured goods that are to be traded or transferred to third parties as complementary goods, used for the purpose of market testing, or which are to be used for the purpose of after-sales service.

To ensure its smooth implementation, the government then issued guidelines under

Ministry of Industry (MoI) Regulation No. 19/2016 on Provisions for the Granting of Import Recommendations for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service, which are also regulated under Ministry of Health (MoH) Regulation No. 14/2016 on Recommendations for the Acquiring of Import Approvals for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service.

Under the MoI regulation, import approval from the Minister of Trade will only be granted once an import recommendation from the supervising Directorate General has first been obtained. Meanwhile, under the MoH regulation, import recommendations must first be obtained from the National Agency of Drug and Food Control (BPOM).

In December 2016, the BPOM issued Head of BPOM Regulation No. 27/2016 on Guidelines and Procedures for the Granting of Import Approval Recommendations for Medicines, Traditional Medicines Cosmetics and Health Supplements as Complementary Goods, which has been effective since 29 January 2017.

This regulation stipulates that certain criteria must be met for a company to import complementary goods. For example, the goods cannot be produced in Indonesia by the applicant and there must be no production facilities located in Indonesia that are engaged in the manufacture of the complementary goods (Article 3/1.a). However, this obligation to submit information relating to the availability of production facilities is not in line with MoT Regulation No. 118/2015, which does not set any limitations for cosmetics products. Moreover, MoI Regulation No. 19/2016 stipulates import quotas of up to a maximum of 10% per year of any given two-year average production realization.

The reason for companies engaging in the import of products can usually be linked to company policy in deciding to divide its production line across several countries in order to maintain the quality standards of its products. This is in line with standard global supply-chain policy for increasing production efficiency in order to produce high-quality products at affordable prices.

Non-aligned policies such as this may hamper business operations and even engender reluctance by companies to invest in the country. Investment is a vital component of modern economies and is considered key to the forthcoming CEPA negotiations that seek to expand direct investment in order to facilitate and create new market access and thus increase two-way trade between the EU and Indonesia.

3.5 Provisions on import of animals and animals products

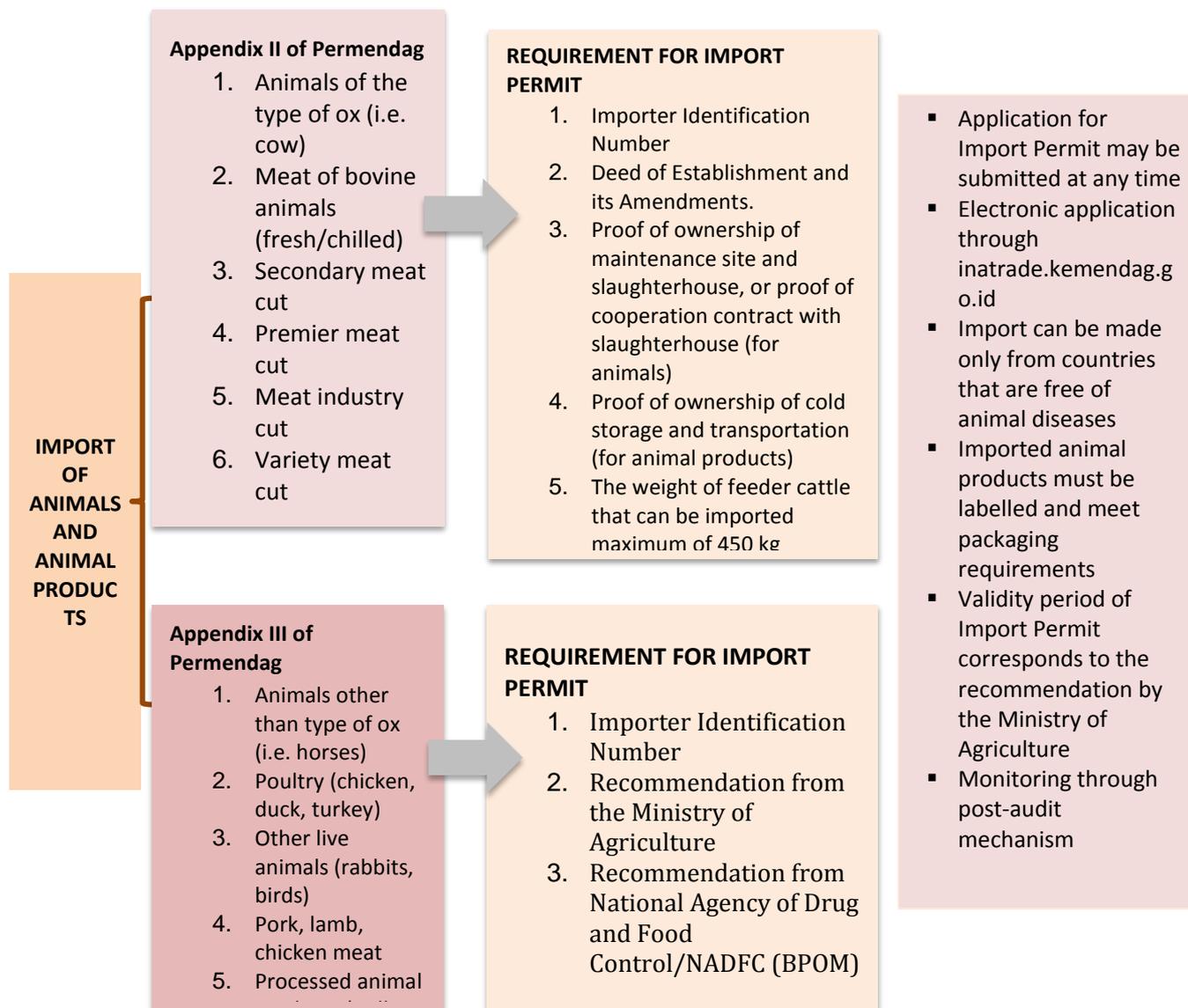
Based on Ministry of Trade Regulation No. 59/M-DAG/PER/8/2016 (Permendag 59/2016) as last amended by Permendag 65/2018, inspections related to animals and animal products are carried out after passing the customs area (Post Border). Importers must submit a self-declaration stating that the import requirements are fulfilled before the imported goods are used or traded. Animals and animal products are competitive and sensitive commodities in Indonesia and are subject to inspections by quarantine.

Health and food safety considerations are regulated by related ministries, such as Ministry of Agriculture and National Agency of Drug and Food Control/NADFC (BPOM)

Permendag 59/2016 as last amended by Permendag 65/2018m which also covers milk and dairy products. The increasing demand for milk is a positive sign of economic growth

in Indonesia. Imported milk is one way to meet this demand, together with domestic supply that has yet to be improved.

Another solution is to import dairy cows that are productive in producing fresh milk. Under the current regulation, dairy cows may be imported into Indonesia with no prohibition, as long as the requirements in the application for import permit are fully filed.



3.6 Certification of veterinary control (NKV)



Based on Regulation of Minister of Agriculture No. 381 of 2005 concerning Guideline of Certification of Veterinary Control on Business Unit of Food of Animal Origin, NKV must be held by animal origin food businesses carried out by individual Indonesian citizens or legal entities that are engaged in:

- Slaughterhouse (RPH-R),
- Poultry slaughterhouse (RPH-U),

- Pig slaughterhouse (RPH-B);
- Laying poultry farming business;
- Import business (Importers), dispensing business (exporters)
- Distribution and retail businesses, namely:
 - a. Business operators managing cold storage and meat shops
 - b. Business operators managing milk cooling units and milk cooler warehouses
 - c. Business operators who package and label eggs

NKV is a certificate as valid written proof that sanitation hygiene requirements have been fulfilled as a basis for guaranteeing the safety of food of animal origin in the business unit.

Requirements to obtain an NKV certificate:

1. Administrative requirements:

- a. Resident Identity Card / Company Deed of Establishment
- b. Domicile Certificate
- c. Trading Business License (SIUP)
- d. Taxpayer Identification Number (NPWP)
- e. HO (Hinder Ordonnantie) Permit
- f. Submit an application to the Head of the Provincial Service with a copy to the Director General of Animal Husbandry by attaching administrative and technical requirements, as well as a recommendation letter for NKV application from the Head of Service in charge of animal husbandry and veterinary public health functions in the district / city.
- g. Complete the general data field and special data

2. Technical requirements

- a. Environmental Management Efforts (UKL) document/ Environmental Management Efforts (UPL) specifically required for the RPH, RPU, and Animal Origin Food Processing Unit.
- b. Buildings, infrastructure and business facilities that meet the technical requirements for hygiene and sanitation
- c. Technical workforce and/ or technical person in charge who has expertise / skills in the veterinary public health field
- d. Implementation of hygienic handling and/ or processing (Good Hygienic Practices)
- e. Implementation of good farming methods for poultry breeding (Good Farming Practices)
- f. Slaughterhouses, Poultry Slaughterhouses and Pig Slaughterhouses that will carry out the activities of removing meat and/ or processed products, must meet technical requirements in accordance with the provisions of SNI RPH (SNI 016159-1999) and SNI RPU (SNI 01-6160-1999)

Hygiene-Sanitary Requirements:

- Cold Storage
- Meat Shop
- Milk storage unit

Validity period of NKV certificate: Valid for as long as there are no irregularities in monitoring and surveillance.

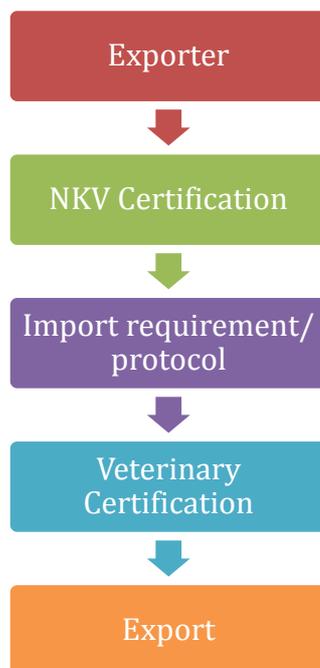
Surveillance and verification by the central inspectorate team

1. May be carried out at any time
2. In the event of irregularities or special occurrences (for example; pre-audit in the framework of an audit by the inspectorate of the importing state)
3. Consequences: can be extended, extended with notes, or revoked.

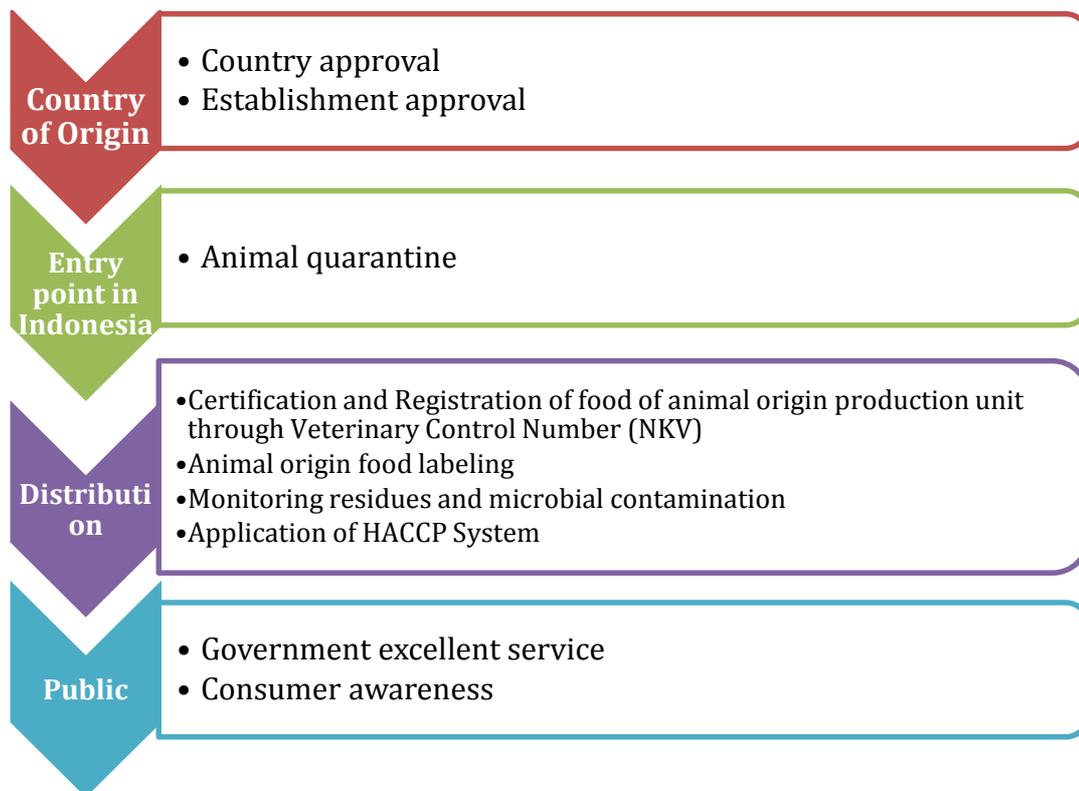
NKV certificate can be revoked by the Head of the Provincial Office for the following reasons:

1. Request of the applicant
2. No longer meets administrative and technical requirements
3. A deviation in the implementation of the production, handling and or processing is identified
4. Business units have no longer carried out their business activities for six (6) consecutive months
5. The business unit is declared bankrupt
6. Change in the location of business units to a different province
7. Recommendation from the Director General of Animal Husbandry based on the results of verification and surveillance of the Audit Team of the Directorate General of Animal Husbandry

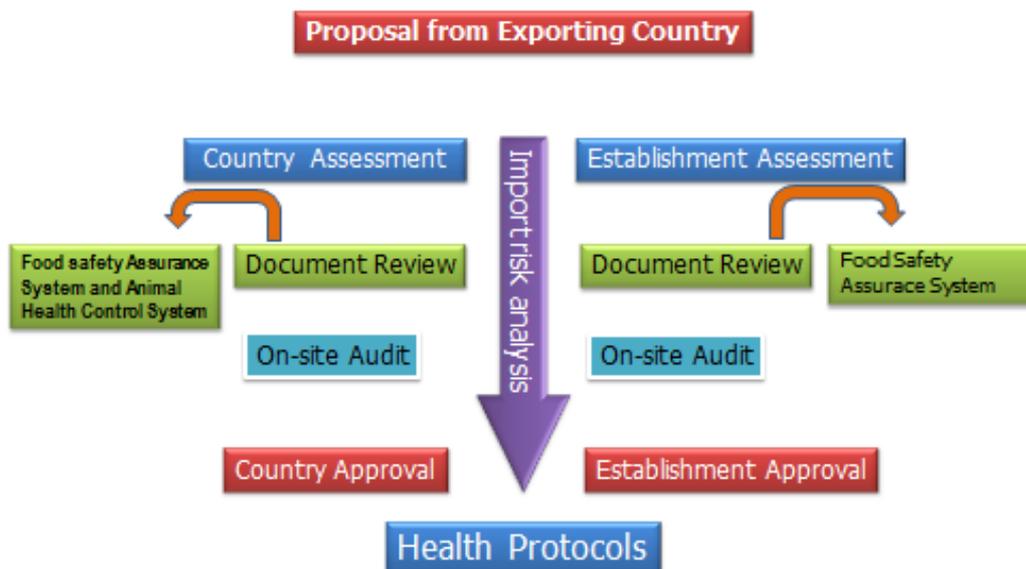
• **Foodstuff of animal origin safety assurance for export:**



- **Foodstuff of animal origin control system (import)**



- **Procedure of country and establishment approval**



- **Conclusion:**

All animal products to be distributed to the public are required to undergo the process to ensure they are safe, healthy, wholesome, and halal. Indonesia has regulations and a control system in regard to assurance of food safety for animal product foodstuffs, including AMR issues.

IV. RELEVANT CONTACTS AND TRADE FAIRS

4.1. Relevant contacts

Indonesian Ministry of Health

Address : Gedung Dr. Adhyatma Jl. HR Rasuna Said Blok X-5 Kav. 4-9 Jakarta
12950

Website : <http://kemkes.go.id/>

National Agency of Drug and Food Control (Badan Pengawas Obat dan Makanan – BPOM)

Jl. Percetakan Negara No. 23

Jakarta 10560

Phone: +6221 4244691 / 42883309 / 42883462

Fax: +6221 4263333

Email: ppid@pom.go.id ; halobpom@pom.go.id

Website: www.pom.go.id

Indonesian Ministry of Industry

Gedung Kementerian Perindustrian

Jl. Jend. Gatot Subroto Kav. 52-53

Jakarta Selatan 12950

Phone: +62 21 5 25 55 09 ext. 2666

E-mail : humas@kemenperin.go.id

Indonesian Ministry of Agriculture

Address : Jl. Harsono RM No.3, RT.5/RW.7, Ragunan, Kec. Ps. Minggu, Kota Jakarta Selatan, Daerah Khusus Ibukota Jakarta 12550

Website : <https://www.pertanian.go.id/>

Phone : 0812-8237-0137

Email : humas-ip@pertanian.go.id

Indonesia Investment Coordinating Board (BKPM)

Jl. Gatot Subroto No.44, RT.5/RW.4, Kecamatan Setiabudi

Jakarta Selatan 12930, DKI Jakarta

Phone : +62 21 5252008 or +62 807 100 2576 (Contact Centre)

Fax +62 21 525 4945

Email: info@bkpm.go.id

Website: <https://www.investindonesia.go.id/> and <https://www.bkpm.go.id>

Association of Indonesia Food and Beverage Businessmen (Gabungan Pengusaha Makanan dan Minuman Seluruh Indonesia - GAPMMI)

ITS Office Tower 8th Floor, Unit 16, Nifarro Park

Jl. Raya Pasar Minggu Km. 18

South Jakarta 12510

Phone/fax: +62 2951 7511

Email: gapmmi@cbn.net.id

Website: <http://gapmmi.or.id/>

Dairy Processing Industry Association (Asosiasi Industri Pengolahan Susu-AIPS)

GF, Bintaro Trade Centre

Jl. Bintaro Utama Sektor VII,

Pondok Jaya, Pondok Aren, Tangerang,

Banten 15224

Indonesian Ulama Council (MUI)

Jl. Proklamasi 51, Menteng, Jakarta Pusat

Phone: 021-3917853, 021-31905266

Email: mui-online@mui.or.id ; admin@mui.or.id

Website: <https://mui.or.id>

4.2. Trade fairs

The 12th International Exhibition for Equipment, Food, Beverages & Services to Support Indonesia's Tourism and Hospitality Industries

Website: <https://fhtbali.com/>

Venue: Bali Nusa Dua Convention Center, Bali, Indonesia.

Date/Time: 16-18 April 2020.



Organizer:

FHT Bali is recognized as the platform for Indonesia's food, hospitality and tourism industry, and provides the perfect opportunity to meet face to face with potential clients and reconnect with existing customers.

Now in its 12th edition this premier international food, hospitality and tourism event attracts key trade-only buyers from the region's leading resorts, hotel chains, restaurants, and importers and provides an undisputed entry point into this thriving and lucrative tourism market.



Source: <https://fhtbali.com/>

Food & Hotel Indonesia 2021

Website: <https://www.foodhotelindonesia.com/>

Venue: Jakarta International Expo (JI Expo) Kemayoran, Jakarta.

Date/Time: 28 – 31 July 2021



Organizer:

The 16th edition of Indonesia's Leading Trade International Exhibition for Food, Beverage & Hospitality Industry.

Food & Hotel Indonesia is the key to your sales success. As the country's leading international food and hospitality event, attracting key trade-only buyers from all sectors of the hospitality and retail industry, FHI gives international companies an undisputed entry point into this thriving and lucrative market.

The 2021 edition will be largest in the show's history with over 35,000 m² exhibition space, providing a platform for 1,000 international exhibitors to connect with over 30,000 qualified buyers.



Source: <https://www.foodhotelindonesia.com/>

Abbreviations

BPOM	Indonesia's National Agency of Drug and Food Control.
CAGR	Compound Annual Growth Rate.
EUR	European Union Euro currency.
HS Code	Harmonized System Code.
IDR	Indonesian Rupiah currency.
KADIN	Chambers of commerce and industry (Indonesian: <i>Kamar Dagang dan Industri</i>).
KBLI	Standard Classification of Business Fields (Indonesian: <i>Klasifikasi Baku Lapangan Usaha Indonesia</i>).
LP POM	Commission for the Study of Medicine and Cosmetics (Indonesian: <i>Lembaga Pengkajian Pangan Obat-obatan dan Kosmetika</i>).
Masstige	Mass and Prestige (refers to a category that is more expensive than mass-produced products, but more moderately priced compared to prestige products).
MoH	Ministry of Health.
Mol	Ministry of Industry.
MSMEs	Micro, Small and Medium-sized Enterprises (Indonesian: <i>Usaha Mikro, Kecil dan Menengah-UMKM</i>).
MUI	Indonesian Ulema Council (Indonesian: <i>Majelis 'Ulama Indonesia</i>).
PPH	Import income tax (Indonesian: <i>Pajak penghasilan barang impor</i>).
PT	Limited liability company (Indonesian: <i>Perseroan Terbatas</i>).
SMEs	Small and Medium-sized Enterprises.
USD	United States Dollar currency.

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About EIBN

The EIBN is a partnership project between six European bilateral chambers of commerce in Indonesia (BritCham, IBAI, Dancham, EKONID, EuroCham, IFCCI) and two counterparts in Europe (EUROCHAMBRES, CCI Barcelona). The EIBN’s aim is to promote Indonesia and ASEAN as high potential trade and investment destinations among companies from all EU28 member states – especially SMEs – and support them in their endeavours to explore the full market potential in Indonesia. The project was initiated and co-founded by the EU.

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