



## EIBN Sector Reports

# Agribusiness



2015

# Table of Contents

Methodology .....	1
Executive Summary .....	2
I. Introduction .....	4
II. The Agribusiness Industry in Indonesia.....	5
1. Indonesian Government's Vision and Current Situation .....	5
2. Indonesia's Agricultural Production and Imports .....	6
3. . Agribusiness Trade.....	11
3.1. Agribusiness within ASEAN.....	11
3.2. Agribusiness with the European Union .....	15
4. Consumption of Agribusiness Products in Indonesia .....	16
5. The Main Challenges of Indonesia's Agriculture .....	17
III. Horticulture and Food Crops .....	19
1. Demand and Trend.....	19
2. Horticulture .....	19
3. Rice Seeds and Seedlings.....	20
3. Rice Seeds and Seedlings.....	20
4. Fertiliser.....	21
5. Machinery.....	23
6. Big Players .....	25
6.1. Seedlings .....	25
6.2. Machinery .....	26
6.3. Fertiliser .....	27
IV. Livestock .....	29
1. Demand and Trends.....	30
1.1. Dairy and Dairy Products .....	30
1.2. Cattle Husbandry .....	32
1.3. Processed Meat .....	36
1.4. Abattoirs.....	36
1.4. Abattoirs.....	36
1.5. Poultry.....	38
1.6. Vaccines and Medicine .....	40
2. Big Players .....	42
2.1. Feed.....	42
2.2. Dairy .....	43
2.3. Cattle and Feedlot.....	44
2.4. Vaccines and Medicines.....	44
V. National Policies and Relevant Regulations.....	45
1. Halal Regulation .....	45
2. Labeling.....	47
3. Horticulture .....	48

4. Livestock .....	50
5. Import Barriers.....	51
VI. Opportunities and Challenges.....	57
1. Challenges .....	57
1.1. Standar Nasional Indonesia (SNI) .....	58
1.2. Negative Investment List .....	58
1.3. Infrastructure Demand.....	58
1.4. Market Access.....	59
2. Opportunities .....	59
2.1. Indonesian Demographics.....	60
2.2. Changing of Consumption Patterns.....	61
2.3. Sub-Sectors with High Potential for EU Companies .....	63
2.4. Linkage to Other Sectors.....	64
VII. Conclusion.....	66
Relevant Contacts.....	67
Resources.....	69
Trade Fairs in Indonesia .....	70
Abbreviations .....	71
References .....	73
About EIBN.....	79

## Methodology

This sector report aims to highlight the potential of the agribusiness sector in Indonesia. It is an overview of the business opportunities for European companies and comprises characteristics of the agribusiness sector, including market structure, key players, future trends, as well as opportunities and challenges.

In the preparation of this report, EIBN made use of a variety of sources and methods, which are briefly explained herein. General information regarding the agribusiness industry was retrieved from publicly available sources, such as articles from the Jakarta Post, the Global Business Guide Indonesia, the Indonesian Commercial Newsletter, Gain USDA, the official website of the Indonesian Statistics Center (BPS), the Indonesian Investment Coordinating Board (BKPM), the Ministry of Trade, Ministry of Industry, Ministry of Agriculture of the Republic of Indonesia, the World Bank, and the World Trade Organization. Moreover, official homepages of certain companies have been used to provide a quick understanding of the companies' relevance within the market. Where it was appropriate and necessary, EIBN has taken into consideration the information gained from conducting interviews with government officials or officers attached to business associations.

Sources for figures mentioned within retrieved images, tables and graphs were repeated in the text only where it is crucial for the understanding of the content.

Where the latest official data were not yet publicly available, this report referred to the latest data on hand. If data and figures were still unavailable for 2014 and 2015 at the time of writing, relevant data and figures from the recent years were used. Other information provided was gathered from trade publications. We converted all Indonesian Rupiah to US Dollar using a rate of IDR 13,000 = USD 1.

This report has been developed using data available up until the third quarter of 2015.

To compile this report EIBN used its business intelligence and long-standing expertise in the Indonesian market, gained from its local network of five European bilateral chambers of commerce in Indonesia (BritCham, EKONID, EuroCham, IFCCI, INA).

## Executive Summary

The purpose of the following report is to present an overview of the agriculture industry in Indonesia and to highlight potential opportunities for European businesses. The agriculture industry (in this publication referred to generically as agribusiness) is defined as collective business activities that cover the supply of agricultural inputs, the production and transformation of agricultural products and their distribution to the end consumer.

The agribusiness industry is a complex but inevitably relevant sector in the Indonesian economy. This important role is reflected in the sector's substantial contribution to the economy in terms of employment and Gross Domestic Product (GDP), which are intrinsically related to the country's large population and its ongoing growth.

The sector's important role in the country's annual GDP, with a contribution of 10.3% in 2014, makes it an undeniably relevant industry for the local economy. The number of workers employed in agribusiness amounted to 1.71 million workers in 2013 and reached 2 million workers in 2014.

In addition to its strong domestic capacity, this sector also remains one of the main industrial development priorities set by the Indonesian government, as well as an important sector for both foreign and domestic investments. In 2014 imports and exports of agribusiness products amounted to US\$11.33 billion and US\$35.42 billion respectively, and are projected to reach US\$13 billion and US\$40 billion respectively in 2015. Based on current data, the EU export value to Indonesia has steadily increased; from EUR 634 million in 2012 to EUR 678 million in 2013.

Regarding agricultural food production, Indonesia has not yet reached its full potential, but is expected to become one of the world's largest food suppliers. The country mainly produces rice, corn, and soybeans. However, despite this local production, the country still has to import significantly in order to meet local demand. This is particularly true in the case of wheat, although this is caused by the inability to produce this commodity locally due to the tropical climate of Indonesia. Conversely, the growth in local consumption of packaged food is mainly driven by the increase of urbanisation, growing health consciousness, and changing lifestyles.

Indonesia has great potential for the horticulture subsector, but arable land is still limited; there is only 32 sqm per capita for fruit and 41.1 sqm per capita for vegetables. A big share of the obstacles to food crops optimization and the horticulture subsector in general are related to productivity and infrastructure; including seedlings, fertilisers, machinery, as well as roads and cold storage. The state owned enterprise for seed procurement, PT Sang Hyang Seri can only contribute 2% of national demand. Indonesia also needs to boost the use of organic fertiliser, since its agricultural land has been saturated by chemical fertiliser and needs to be reconditioned. Machinery and agricultural innovations are also required to overcome the decreasing number of agricultural workers and land.

The dairy cattle and beef cattle population in Indonesia are mostly held by small-scale farmers, who only raise livestock for future emergency cash. The Indonesian cattle population is mostly hand-fed with a mixture of grass, agricultural by-products, and added vitamins. Feedlots that allow cattle to freely feed on large grass fields is limited, scattered, and exists only in certain areas. Indonesia imports breeding cattle, feeder cattle, live cattle,

as well as frozen meat to fulfill its demand for beef. Poultry is still the most consumed meat in Indonesia and has the biggest market share for livestock. Day Old Chicks (DOC) and feed are two products that are mostly produced locally by major companies such as Japfa and Charoen Phokphand.

Future prospects and trends regarding the agriculture sector remain broadly positive for a number of reasons. Upward demand, coupled with a young, growing Indonesian population, result in positive growth. To the latter, we add increased urbanisation, a development that should support industry growth. Other trends such as a growing awareness of healthy lifestyle products cannot be overlooked. Additionally, the growing Indonesian tourism industry will also help to boost this sector. Due to a rise in demands within the hospitality sector the consumption of food and beverages is expected to grow, which certainly affects the agribusiness growth rate.

Challenges remain when conducting business in Indonesia. Firstly, it is important to take into consideration that cold storage facilities are not fully developed yet. Secondly, due to a dynamic regulatory environment, Indonesian provisions, laws and regulations issued in fields of agricultural trade and its linked sectors, tend to change frequently, even though some of them have been issued recently. Regulations that are particularly prone to frequent changes are regulations which are released by the National Agency of Food and Drug Control (BPOM), such as Halal food.

In conclusion, the dynamic agribusiness sector in Indonesia remains promising, driven by overall national growth, as well as demographics and consumption patterns. However, challenges and weaknesses still remain in the industry.

## I. Introduction

In a world of globalisation and economic crisis, many companies have been conquering international markets, and, more precisely, emerging markets that display important growth potential in terms of economy, population, and infrastructure. One of those developments includes people's demand for food. Agribusiness covers a wide range of subsectors including agriculture, livestock, fisheries, and forestry. This market study will cover both the supply side and the production side of the following agriculture subsectors: food crops, horticulture, and livestock (poultry and cattle husbandry).

In this respect, the main objective of this market study will be to provide an overview of the industry in Indonesia, while highlighting its existing opportunities and challenges for European companies.

Following an initial general overview of the industry, the study then focuses more precisely on each of the sub-sectors. In particular, it provides a closer look at the market structure, as well as the most relevant key players acting in the industry. Future prospects and opportunities in the Indonesian market, together with national policies and regulations, will be analysed, to provide European companies insights on the future potential of operating in Indonesia from a long-term perspective. Finally, we will delve into the challenges that persist in the agriculture sector and that foreign companies will have to face when conducting business in this archipelagic country.

## II. The Agribusiness Industry in Indonesia

### 1. Indonesian Government's Vision and Current Situation

The accelerated growth of the agriculture industry in Indonesia is triggered by the new government, which seeks to establish continuous industrial agriculture food production, and focuses on enhancing competitive capabilities, export, food self-sufficiency, and farmer's prosperity<sup>1</sup>. The government has committed itself to prioritising certain economic sectors in 2015, among others, these include: agricultural infrastructure; agricultural research; control, prevention, and eradication of animal diseases; and an enhancement program for agricultural productivity (rice, corn, soybeans, sugar cane, cassava, meat, horticulture products etc.).<sup>2</sup>

The agribusiness sector plays an important role in Indonesia. The table below shows that the agriculture sector contributed 14.3% to national GDP in 2014. The contribution to the GDP from this sector grew from 9.8% in 2012/2013 to 10.3% in 2013/2014. This means that the agribusiness sector in Indonesia is growing relatively fast. Table 1 also displays each subsector's figures from 2010-2014. Among other subsectors, food crops have the biggest contribution, as it accounts for 46.1% of the total agribusiness sector and 6.6% of national GDP.

**GDP at Current Market Price by Industrial Origin 2010-2014 (in Billion USD)**

Industrial Origin	2010	2011	2012	2013	2014
<b>1. AGRICULTURE, LIVESTOCK, FORESTRY, AND FISHERY</b>	75.8	83.9	91.8	100.8	111.2
<b>a. Food Crops</b>	37.1	40.7	44.2	47.8	51.4
<b>b. Plantation Crops</b>	10.4	11.8	12.5	13.4	14.8
<b>c. Livestock and Livestock Products</b>	9.1	9.9	11.2	12.7	14.1
<b>d. Forestry</b>	3.7	3.9	4.2	4.3	4.6
<b>e. Fishery</b>	15.3	17.4	19.6	22.4	26.1
<b>2. MINING AND QUARRYING</b>	55.3	67.4	74.8	78.9	81.4
<b>3. MANUFACTURING INDUSTRY</b>	123.0	138.9	151.7	165.6	184.1

<sup>1</sup> Ministry of Agriculture, *Visi dan Misi*, 2014. Available at:

[http://www.pertanian.go.id/ap\\_pages/detil/2/2014/04/11/09/38/19/Visi-dan-Misi](http://www.pertanian.go.id/ap_pages/detil/2/2014/04/11/09/38/19/Visi-dan-Misi)

<sup>2</sup> Kontan Online, *Inilah Program Prioritas Bidang Ekonomi di 2015*, 15th Aug 2014. Available at:

<http://nasional.kontan.co.id/news/inilah-program-prioritas-bidang-ekonomi-di-2015>

<b>4. SERVICES</b>	50.7	60.3	68.4	76.9	85.2
<b>5. CONSTRUCTION</b>	50.84	57.9	64.9	69.7	78.0
<b>6. TRADE, HOTELS, AND RESTAURANTS</b>	67.8	78.7	88.3	100.0	113.3
<b>Total Gross Domestic Products</b>	495.9	570.7	633.1	699	776.5

Source: BPS Statistics Indonesia, 2015

Based on the table below, both export and import of agribusiness products are also expected to show a slight improvement in 2015. Export of Indonesian agricultural products is dominated by plantation products, of which the four biggest subsectors are; palm oil, rubber, cocoa, and coffee. On the other hand, Indonesia mostly imports horticulture products. Imported vegetables and fruits usually enter the supermarkets and department stores, while only a small portion of them are sold at the traditional market.<sup>3</sup>

#### Indicators of Agribusiness in Indonesia

Indicators	2014*	2015**
<b>Export value (billion US\$)</b>	35.42	40
<b>Import value (billion US\$)</b>	11.33	13
<b>Utility level</b>	74.61	80
<b>Labour (million persons)</b>	1.71	2

Note: \*data until 3<sup>rd</sup> quarter of 2014, \*\*target in 2015

Source: Ministry of Industry, 2015

## 2. Indonesia's Agricultural Production and Imports

The production and import of several agricultural commodities are increasing. Along with the development of the food self-sufficiency program, Indonesia has improved its food production, even though these numbers are still unable to keep up with the growing Indonesian population and its demand. Indeed, imported products are filling the gap between production and demand. Five of these food products are mentioned below: rice, soybean, corn, sugarcane, and beef, which are the government's main focus in order to achieve self-sufficiency in food production by 2018.

<sup>3</sup> Kompas Online, *Ekspor Pertanian Masih Bergantung pada Empat Komoditas*, 14th Nov 2013.

Available at:

<http://bisniskeuangan.kompas.com/read/2013/11/14/1634126/Ekspor.Pertanian.Masih.Bergantung.pada.Empat.Komoditas>

## Production and Import of Food Agriculture Commodity in Indonesia

Production (in thousand tons)					
Year	Rice	Soybean	Corn	Sugarcane	Beef
2010	66,469	907	18,328	2,289	436
2011	65,757	851	17,643	2,224	485
2012	69,056	843	19,387	2,593	509
2013	71,280	780	18,510	2,555	505
2014*	70,607	921	19,127	n/a	540
Import (in thousand tons)					
Year	Rice	Soybean	Corn	Sugarcane	Beef
2010	250	1,343	421	1,660	67
2011	687	1,733	1,787	2,021	91
2012	2,744	2,125	3,311	2,717	65
2013	1,927	2,129	1,899	2,877	39
2014*	472	1,810	3,255	434	48

\*All numbers for 2014 are estimates

Source: BPS Statistics Indonesia, 2015

### Rice

Indonesian rice production grew between 2010 and 2013. However, rice production in 2014 declined by approximately 1.41 million tonnes from its total in 2013. According to the chairman of BPS (Indonesian Statistics Center), as stated on BPS's official website, this decline comes from a reduction in cultivated rice fields, by about 1.9% from the year before<sup>4</sup>. Unlike production, imports have been fluctuating, reaching the highest level in 2012 with 2.7 million tonnes and the lowest in 2010 with 250,000 tonnes. In 2014, the government was planning to prohibit the import of rice because of the production surplus in 2013. The table above also suggests a tighter government import quota, as indicated.

On the other hand, according to the Megawati Institute, Indonesian Badan Urusan Logistik (Bulog – The Indonesian Bureau of Logistics is responsible for ensuring sufficient supplies of basic food commodities) has imported as much as 50,000 tonnes of rice from Vietnam in 2014 and the Indonesian total rice import was even projected to reach 1.5 million tonnes in

<sup>4</sup> Pertani Online, *BPS : Produksi Padi Tahun 2014 Diperkirakan Turun*, 3rd Jul 2014. Available at: <http://www.bumn.go.id/pertani/berita/291/BPS.:.Produksi.Padi.Tahun.2014.Diperkirakan.Turun>

2014.<sup>5</sup> The figure may display the quota projection, but, in practice, imported rice enters Indonesia in a number of ways. For example, around 800 tonnes from 32 containers of illegal rice entered Indonesia in 2014, which was not the first such case in the country. In 2007 and 2012 rice imports for special usage by the government was made public. This 2014 illegal import was suspected to be due to a misuse of import permits obtained for other special usage of rice from Thailand by the government.<sup>6</sup> For 2015, the Ministry of Trade issued import permits for 229,488 tonnes of rice labeled as “special usage”.<sup>7</sup> This rice is to be used for certain purposes, mainly for diabetes patients, Tai Hom Malu rice, Basmati rice, and Japonica rice.<sup>8</sup>

### **Soybean**

Indonesia is the world’s second biggest consumer of soybean. About 90% of imported soybean goes to the production of soybean cake (tempe) and tofu, which form staple sources of protein in Indonesia. The production of soybean has fluctuated, but reached its highest estimated amount of production in 2014, at 921,000 tonnes. Soybean imports in 2014 dropped from 2.1 to 1.8 million tonnes from the previous year. Soybean is mostly imported from the USA.

### **Corn**

Production of corn has fluctuated, with an estimated total of 19 million tonnes in 2014, the second highest figure between 2010 and 2014. Despite the increase in local corn production, imports also rose, reaching 3.2 million tonnes in 2014. According to the Ministry of Agriculture, most corn imports go to the feed industry. In 2015 Indonesia is projected to import approximately 3.2 million tonnes for the members of the Indonesian Feed Millers Association (GPMT), and a total of 0.7 million tonnes for other industries.<sup>9</sup>

### **Sugarcane**

Sugarcane production has been increasing steadily, even though the 2013 figure was a little lower than the year before at 2.5 million tonnes. Meanwhile, the BPS projected figure from 2014 has not been realised. This is because, according to Berita Satu newspaper, the import quota from Indonesia’s Ministry of Trade was 2.8 million tonnes in 2014, yet as much

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<sup>5</sup> Ministry of State-Owned Enterprise, *Impor Beras Tahun Ini Bisa Capai 1,5 Juta Ton*, 9th Aug 2014. Available at: [http://www.cnnindonesia.com/ekonomi/20140809172146-92-1345/imp-or-beras-tahun-  
ini-bisa-capai-15-juta-ton/](http://www.cnnindonesia.com/ekonomi/20140809172146-92-1345/imp-or-beras-tahun-<br/>ini-bisa-capai-15-juta-ton/)

<sup>6</sup> Liputan6 Online, *Beras Vietnam Merembes ke Pasar, Siapa yang Salah?*, 4th Feb 2014. Available at: <http://bisnis.liputan6.com/read/818147/beras-vietnam-merembes-ke-pasar-siapa-yang-salah>

<sup>7</sup> Kompas Online, *Pemerintah Sudah Terbitkan Izin Impor Beras Khusus*, 9th Jun 2015. Available at: [http://bisniskeuangan.kompas.com/read/2015/06/09/230032426/Pemerintah.Sudah.Terbitkan.Izin.I  
mpor.Beras.Khusus?utm\\_source=news&utm\\_medium=bp-kompas&utm\\_campaign=related&](http://bisniskeuangan.kompas.com/read/2015/06/09/230032426/Pemerintah.Sudah.Terbitkan.Izin.I<br/>mpor.Beras.Khusus?utm_source=news&utm_medium=bp-kompas&utm_campaign=related&)

<sup>8</sup> Kontan Online, *Pemerintah sudah terbitkan izin impor beras khusus*, 9th Jun 2015. Available at: <http://nasional.kontan.co.id/news/pemerintah-terbitkan-izin-imp-or-beras-khusus>

<sup>9</sup> Bisins Online, *KEMENTAN: Perusahaan Pakan Ternak Impor 450.000 Ton Untuk Q-1*, 27th Apr 2014. Available at: [http://industri.bisnis.com/read/20140427/99/222688/kementan-perusahaan-  
pakan-ternak-imp-or-450.000-ton-untuk-q-1](http://industri.bisnis.com/read/20140427/99/222688/kementan-perusahaan-<br/>pakan-ternak-imp-or-450.000-ton-untuk-q-1)

as 2.1 million tonnes had already been imported by the first quarter and the remaining 635 thousand tonnes entered Indonesia in the second quarter.<sup>10</sup>

## Beef

Indonesia imports most of its breeding cattle, feeder cattle, and frozen beef from other countries, especially from Australia and New Zealand. The government is currently setting up projects to boost beef production. The figure in the table below displays the increasing volume of production and the decreasing volume of imports from 2010 to 2014. However, national demand cannot be fulfilled only by domestic supply; imported products still have a place in the market. The government of Indonesia keeps the possibility for imported beef open, to control price and demand, especially with regards to preparation for the Ramadan season, when the beef price skyrockets due to a shortage of supply.

## Cocoa

Indonesia is the third biggest producer of cocoa in the world after Ghana and Ivory Coast. Like the other agricultural commodities, small-scale farmers are the main contributor to national cocoa production; approximately 1.5 million hectares of cocoa plantations in Indonesia are mostly managed by smallholders.<sup>11</sup> The major cocoa export is in the form of raw cocoa beans, which are then bought by other countries to be processed further as value added products. Malaysia is the biggest importer of Indonesia's raw cocoa beans; it imports 126,000 tonnes or 67% of the Indonesia's total average production per annum.<sup>12</sup> The government initiated a National Cocoa Movement in 2013 to increase Indonesia's production, aiming to be the largest cocoa producer in the world, with a budget of US\$253.8 million. The total production of raw cocoa beans in 2013 was as much as 800,000 tonnes, twice as much as 2012.<sup>13</sup>

## Palm Oil

The most consumed vegetable oil in Indonesia is palm oil, which is used for food, cosmetics, cleaning products, biofuel, and biodiesel. Production of palm oil is dominated by Malaysia and Indonesia which supply 85-90% of total global production. Approximately 70% of palm plantations are located in Sumatra, while the remaining 30% are located in Kalimantan. Based on current data, Indonesian palm oil production is steadily increasing from year to year: 27 million tonnes in 2013 and 31 million tonnes in 2014. Palm oil export has also increased by volume and value; 21.2 million tonnes, or US\$19 million in 2013 and 20 million tonnes, or US\$18.4 million in 2014.<sup>14</sup>

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<sup>10</sup> Berita Satu, *Pemerintah Pastikan Tak Ada Penambahan Impor Gula Mentah*, 30th Nov 2014. Available at: <http://www.beritasatu.com/industri-perdagangan/229198-pemerintah-pastikan-tak-ada-penambahan-impor-gula-mentah.html>

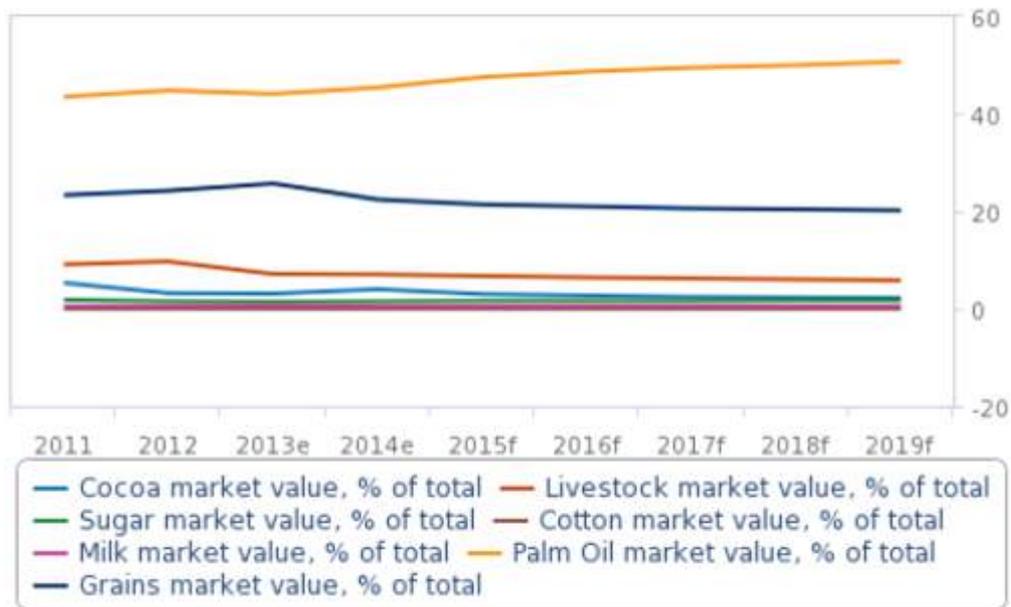
<sup>11</sup> Indonesia Investments, *Cocoa*, (n.d.). Available at: <http://www.indonesia-investments.com/id/bisnis/komoditas/kakao/item241>

<sup>12</sup> Detik Finance, *Serap 67% Ekspor Kakao RI, Malaysia Jadi Produsen Cokelat Dunia*, 15th Apr 2014. Available at: <http://finance.detik.com/read/2014/04/15/121232/2555516/1036/serap-67-ekspor-kakao-ri-malaysia-jadi-produsen-cokelat-dunia>

<sup>13</sup> Ministry of Industry, *Pemerintah Genjot Produksi Kakao*, n.d. Available at: <http://www.kemenperin.go.id/artikel/7474/Pemerintah-Genjot-Produksi-Kakao>

<sup>14</sup> Indonesia Investments, *Minyak Kelapa Sawit*, n.d. Available at: <http://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>

### Market Value by Economy (2011-2019)



Source: Business Monitor International (BMI) Research, Indonesia Agribusiness Report, 2015

The Business Monitor International (BMI) study, above, suggests that Indonesia's palm oil market share remains at the top. It almost reached a 50% share in 2015, and is forecasted to be above 50% in 2019. The grains market value follows in second place, with around 20% of market share in 2015. Other commodities such as cocoa, sugar, milk, cotton, and livestock are forecasted to be smaller than 20% and remain stagnant until 2019.

The BMI study also forecasts that consumption and production of agriculture products will increase in the next four years. For example, corn consumption will increase by around 28.7% to 15 million tonnes until 2019, due to the growing production of the poultry feed industry in Indonesia. Regarding sugar, BMI forecasts that production will increase by 32.5% to reach 3 million tonnes in 2018. Regardless of the increase in production, Indonesia will still be the biggest importer of sugarcane, mainly because the supply of cane from domestic producers cannot fulfill the huge demand for sugar. Beef production is also forecasted to grow by around 14.3% and reach 686,000 tonnes in 2018, pushed by the Government's target and to meet national demand.<sup>15</sup>

<sup>15</sup> BMI Research, *Indonesia Agribusiness Report*, 19th Oct 2015. Available at: <http://store.bmiresearch.com/indonesia-agribusiness-report.html>

## 3. . Agribusiness Trade

### 3.1. Agribusiness within ASEAN

The Association of South East Asian Nations (ASEAN) is currently working to become an integrated region, mainly driven by economic cooperation. By the end of 2015, the ASEAN Economic Community (AEC) will be implemented. The AEC implementation's main objective is to establish a single market to boost ASEAN economic competitiveness. This includes the reduction of tariffs to zero on most products traded between member states, as well as the identification and removal of non-tariff barriers, such as product characteristic requirements, rules of origin and customs surcharges. Those measures are expected to free the flow of capital, goods and services, skilled labour, and raw materials among ASEAN member countries. At the time of writing, more than 85% of those trade liberalisation and facilitation measures have been accomplished.<sup>16</sup>

The ASEAN has very good performance in agribusiness and has become one of the most productive regions in the world. As a global production base of agribusiness products, it produced 129 million tonnes of rice, 40 million tonnes of corn, 171 million tonnes of sugarcane, 1.44 million tonnes of soybean, and 70.43 million tonnes of cassava in 2012.

On the export side, it is argued that Indonesia benefits from the implementation of the ASEAN Free Trade Agreement (AFTA), since some multinational companies, such as Unilever, are relocating their production facilities to Indonesia. Therefore, the net export of agriculture in Indonesia has increased since the implementation of AFTA in 2003.<sup>17</sup> The AEC most likely will bring an additional benefit for Indonesia's agribusiness exports once it is fully implemented.

Based on data from the Ministry of Agriculture, there are 24 HS Codes of agribusiness commodities that Indonesia has exported in high amounts to its ASEAN neighbours in recent years.. On average, between 2003-2012 the highest value of Indonesian agribusiness exports into ASEAN came from the plantation subsector; palm kernel (89.81% market share) and raw cocoa beans (93.64% market share). Indonesia does not have any major competitor for those two commodities. Other main exported products of Indonesian agribusiness are coffee, pineapples, vegetable fats, starches, and others.

If we compare Indonesia to other ASEAN countries' agribusiness export figures within intra-ASEAN trade, Indonesia holds second position, below Thailand and above Malaysia, with approximately US\$6.207 billion in 2012.<sup>18</sup>

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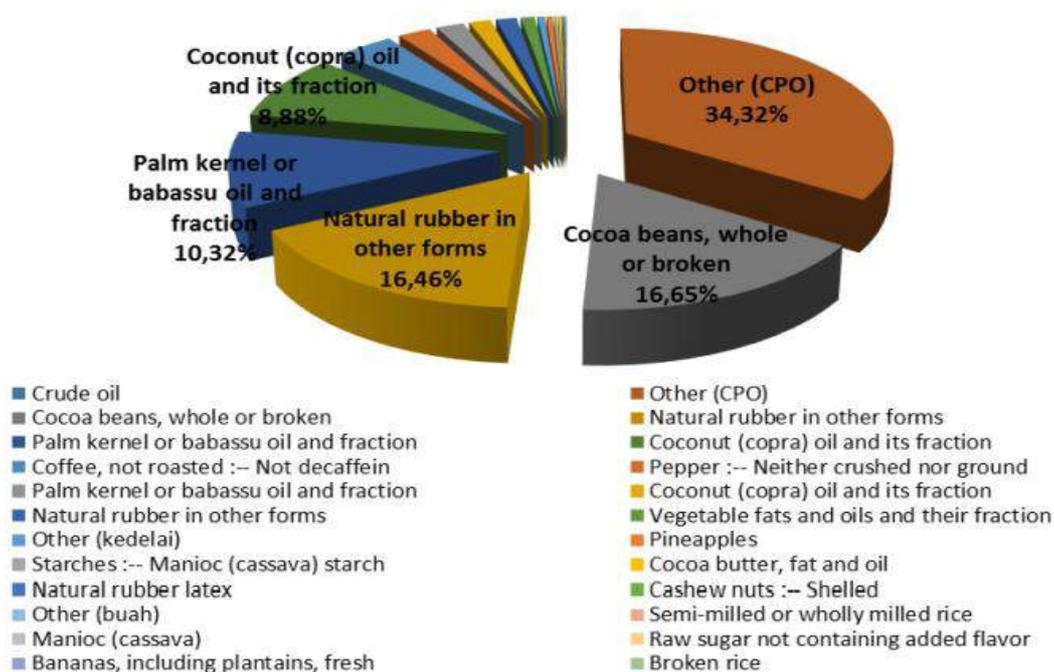
<sup>16</sup> KPMG International, *ASEAN Economic Community 2015*, 2014, p. 8.

<https://www.kpmg.com/SG/en/IssuesAndInsights/ArticlesPublications/Documents/Tax-Itax-The-ASEAN-Economic-Community-2015.pdf>

<sup>17</sup> SEK Indonesia Legal consultants, *Impact of ASEAN Economic Community and ASEAN Free Trade Area on Indonesia*, 26th Jun 2014. Available at: [http://blog.ssek.com/index.php/2014/06/impact-of-asean-economic-community-on-indonesia/#\\_ftnref7](http://blog.ssek.com/index.php/2014/06/impact-of-asean-economic-community-on-indonesia/#_ftnref7)

<sup>18</sup> Directorate General of Processing and Marketing of Agricultural Products (DGPMAP), *Market intelligence - Situasi Pasar Komoditi Pertanian Wilayah ASEAN*, Jurnal Pengolahan dan Pemasaran Hasil Pertanian Vol II No 2, 2014. Available at: [http://pphp.pertanian.go.id/upload/pdf/Jurnal\\_Edisi\\_Feb\\_14.pdf](http://pphp.pertanian.go.id/upload/pdf/Jurnal_Edisi_Feb_14.pdf)

## Average Export Value of Main Agribusiness Commodities of Indonesia to Internal ASEAN Member Countries Year 2003-2012



Source: Ministry of Agriculture, 2014

## Export Value of Agriculture Commodities of Internal ASEAN Countries (in Thousand USD)

Country	Export Value to ASEAN		
	2010	2011	2012
Brunei	a/n	a/n	2,732.0
Cambodia	25,154.4	49,815.5	67,865.9
Indonesia	5,422,113.8	6,664,525.1	6,207,973.4
Laos	a/n	a/n	a/n
Malaysia	4,350,500.5	5,823,194.0	5,826,992.8
Myanmar	295,090.1	a/n	a/n
The Philippines	476,413.9	654,041.2	673,038.2
Singapore	2,832,422.3	3,923,081.8	4,004,865.9
Thailand	5,134,650.5	6,788,555.8	7,122,782.6

<b>Vietnam</b>	2,488,341.8	3,112,084.6	3,092,137.7
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Source: International Trade Centre in the Journal of Ministry of Agriculture, 2015

The importation of agribusiness products to Indonesia from other ASEAN counterparts and the partners within the 'ASEAN+6-process' (primarily China, Japan, Australia) is considerably high as well, as shown above. For instance, Indonesia imported vegetables valued at US\$23.07 million from Thailand, US\$37.9 million from Myanmar, and US\$304.85 million from China.<sup>19</sup>

The table below displays the average growth in export value of some agribusiness commodities from countries outside ASEAN between 2003 and 2012. The biggest annual growth rate of ASEAN imports has been witnessed with raw sugar, followed by boneless frozen beef. Regarding Indonesia, the biggest import growth rate has occurred in flours, meals, pellets, meat and raw sugar.

Indonesia is the biggest importer in ASEAN of agribusiness commodities from developing countries, with a steady annual growth. The five top commodities imported by Indonesia from developing countries between 2003 and 2012 were; wheat (HS 100190), soybean (HS 120100), raw sugar (HS 170111), dairy products (HS 040210) and wheat products (HS 010590). Indonesia's average import value of wheat and meslin, as the biggest commodities imported, are around US\$100 billion per year. Imports of soybean, which is the second biggest commodity imported, is approximately US\$47.35 billion.

#### Average Growth of Import Value of Main Agribusiness Commodities from Outside ASEAN, Year 2003-2012 (in %)

HS Code	Description	ASEAN	IDN	MYS	PHL	SGP	THA	VNM
<b>230110</b>	Flours, meals, and pellets of meat or meats offal (non edible); greaves	9.0	48.7	-5.8	37.4	0.0	27.2	35.3
<b>170111</b>	Cane sugar; raw sugar not containing added flavouring or colouring matter	18.1	39.1	19.1	243.2	-4.8	107.1	-36.9
<b>400122</b>	Technically specified natural	11.2	34.5	58.6	906.8	27.3	-35	37.1

<sup>19</sup> SupplyChainIndonesia, *Tantangan Agribisnis Indonesia Menghadapi Masyarakat Ekonomi ASEAN 2015*, 20th May 2014. Available at: <http://supplychainindonesia.com/new/tantangan-agribisnis-indonesia-menghadapi-masyarakat-ekonomi-asean-2015-1/>

rubber (TSNR)								
<b>040229</b>	Milk and cream powder sweetened exceeding 1.5% fat	7.9	27.8	-10.5	15.0	-3.2	-9.7	-34.3
<b>020230</b>	Bovine cuts boneless	12.9	25.0	16.3	11.0	16.1	59.4	65.5
<b>090111</b>	Coffee, not roasted, not decaffeinated	-3.5	21.5	33.7	6.1	41.8	27.5	19.9
<b>240120</b>	Tobacco, unmanufactured, partly or wholly stemmed or stripped	11.7	19.9	14.7	2.6	10.1	1.8	21.9
<b>040221</b>	Milk and cream powder unsweetened exceeding 1.5% fat	-190.1	19.3	6.0	3.2	21	8.8	13.2
<b>010290</b>	Bovine, live except pure-bred breeding	10.9	17.3	-4.4	-4.6	-26.1	25.0	190.9
<b>100190</b>	Wheat nes and meslin	11.7	15.9	9.6	8.5	7.2	20.7	23.0
<b>040210</b>	Milk powder not exceeding 1.5% fat; in powder, granules, or other solid	8.9	15.9	19.6	6.8	15.8	5.5	17.8
<b>120100</b>	Soya beans, whether or not broken	11.1	15.2	8.7	-10.9	8.8	12.5	84.2
<b>400100</b>	Natural rubber latex, whether or not prevulcanised	11.2	14.0	51.2	-34.7	35.5	29.9	9.4
<b>100590</b>	Maize (corn) nes	11.7	13.2	20.3	1.0	21.1	10.7	31.7
<b>110710</b>	Malt, not roasted	8.8	13.1	9.1	-5.6	15.0	8.2	11.5
<b>080810</b>	Apples, fresh	9.9	11.9	15.5	22.1	6.9	12.1	8.4
<b>110100</b>	Wheat or meslin	10.8	11.3	54.5	57.1	13.0	29.8	0.2

flour								
<b>151190</b>	Palm oil and its fractions refined, but not chemically modified	-17.1	8.9	46.6	-9.2	68.5	37.8	-13.8
<b>100630</b>	Rice, semi-milled or wholly-milled, whether or not polished or glazed	10.1	7.6	23.1	11.7	19.1	-0.6	52.2
<b>081090</b>	Fruits, fresh nes	8.4	4.6	27.6	31.9	3.3	35.8	10.9
<b>151321</b>	Palm kernel or babassu oil, crude	9.3	3.1	163.3	0.0	0.0	0.0	0.0
<b>180100</b>	Cocoa beans, whole or broken, raw or roasted	7.2	0.2	36.6	-13.9	9.3	7.6	0.0
<b>151110</b>	Palm oil, crude	11.8	0.0	70.5	0.0	16.7	19.5	-18.4
<b>100510</b>	Maize (corn) seed	11.2	-6.1	11.1	18.1	340.1	4.2	-2.2
<b>170199</b>	Refined cane or beet sugar, solid, without flavouring or colouring matter	3.9	-12.1	-0.6	-11.1	11.9	24.7	63.5

Source: Directorate General of Processing and Marketing of Agricultural Products, 2014

The need to improve product competitiveness as well as human resources development is fundamental to prepare ASEAN to achieve the goals of the AEC. However, this upcoming economic community will be a tremendous opportunity for all ASEAN member countries to further power their economies, if they can ensure the readiness of all participating parties.

### 3.2. Agribusiness with the European Union

EU-Indonesian trade in agricultural products remains at a stable rate of growth. The trade volume of agriculture products between Indonesia and the EU, as shown in the table below, has been rising by an average of 11% (Import) and 10.4% (Export) annually. Indonesia's abundance of natural resources, such as vegetable oils, has proven to be in demand in Europe. The EU is Indonesia's second largest palm oil market. However, there are concerns in Indonesia over the impact of the EU's environmental regulations. EU businesses are most likely to export dairy, leather, machinery and technology related to the agribusiness sector, such as for abattoirs.

The EU exported EUR 678 million and 719 million in 2013 and 2014 respectively, and imported as much as EUR 4,420 million and 4,518 million in those years. These numbers might increase in light of the renegotiation of the Comprehensive Economic Partnership Agreement (CEPA), for which negotiations may resume in 2016. According to key experts, CEPA will increase trading for both Indonesia and EU even further.

#### EU Trade with Indonesia on Agriculture Products (in Millions of Euro)

Indicator	2009	2010	2011	2012	2013	2014	Annual Growth Rate (average)
<b>Imports</b>	2,907	3,161	3,781	4,079	4,430	4,518	11%
<b>Exports</b>	323	440	515	634	678	719	10.4%
<b>Balance</b>	-2,584	-2,721	-3,266	-3,446	-3,743	-3799	- 8.19%

Source: European Commission, *Trade in Goods with Indonesia*, 2015<sup>20</sup>

#### 4. Consumption of Agribusiness Products in Indonesia

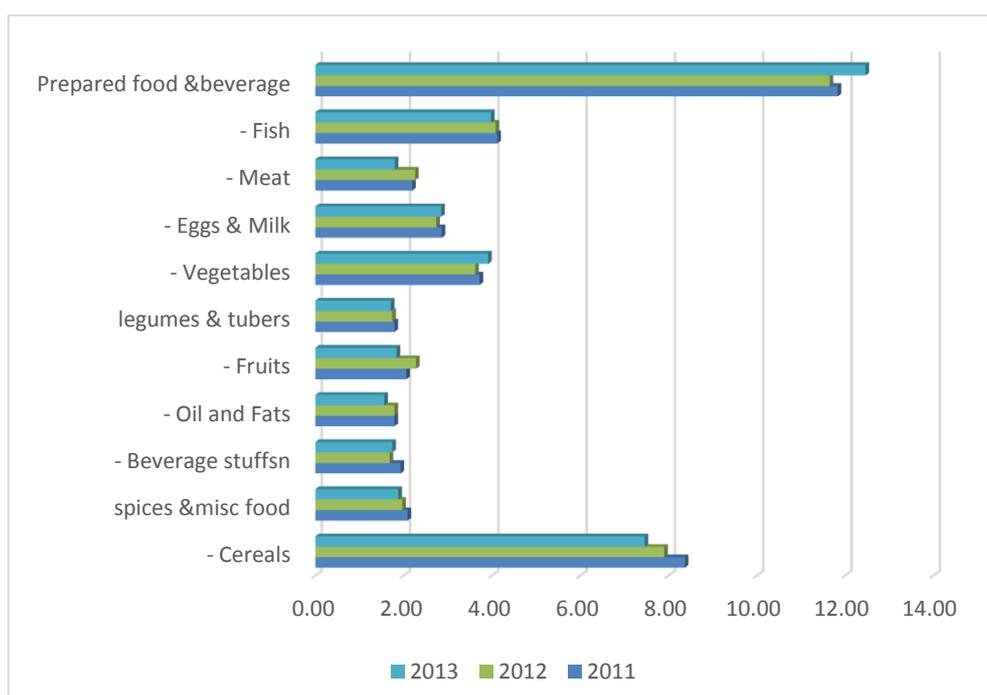
According to the table below, the Indonesian monthly average per capita consumption of certain commodity groups is still dominated by prepared foods and cereals with 12.46% and 7.46% respectively in 2013. Vegetables contributed 3.91% in 2013. Eggs and milk together made up 2.85% of 2013's monthly average food consumption. Meanwhile both fruits and meat monthly average consumption declined from 2.28% and 2.26% in 2012 to 1.84% and 1.80% in 2013, respectively.

Consumption surges by almost 10% during Ramadan; lower income consumers increase their spending by 30%, the middle income by 15%, and the upper income by 13% (Nielsen, based on 2010 figures). This happens because employees receive their Ramadan bonus, which is usually worth as much as one month's salary. The Ramadan season, the month in which Muslims traditionally fast from dawn until dusk, is essential for the food and beverage sector. This period is often the key to reaching annual sales targets, as people tend to spend more, contributing almost 45% of total food and beverage annual sales, including in food agriculture products.<sup>21</sup>

<sup>20</sup> European Commission, *EU – Trade in Goods with Indonesia*, 2015. Available at: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113391.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113391.pdf)

<sup>21</sup> Food Navigator-Asia, *Look to Indonesia for Opportunities during Ramadan*, says Nielsen, 31st Aug 2011. Available at: <http://www.foodnavigator-asia.com/Markets/Look-to-Indonesia-for-opportunities-during-Ramadan-says-Nielsen>

## Percentage of Monthly Average per Capita Expenditure by Commodity Group



. Source: BPS Statistics Indonesia 2014

## 5. The Main Challenges of Indonesia's Agriculture

Based on our interview with an officer in the Ministry of Agriculture, one of the biggest problems faced by Indonesia in its agricultural development, is irrigation infrastructure. There is a strong need for major improvements, as the irrigation infrastructure in Indonesia has not been upgraded for more than 30 years. Most of them now are in poor condition and little maintenance has been done, meaning around 3 million crop fields are poorly irrigated. The current government plans to construct 65 reservoirs for irrigation in order to boost Indonesia's agricultural production. In 2015, the government began the first phase of the project with 13 reservoirs, requiring US\$901.5 million of investment, which is due to provide 894.2 million cubic meters of water in the near future.<sup>22</sup>

Another challenge is mechanisation and utilisation of agricultural machinery. Since Indonesian farmers are mainly smallholders, they are lack understanding of the importance of machinery to maximise crop production. As mentioned by the interviewed officer, poor infrastructure, such as roads, warehouses, and cool storage, also leads to loss and damage of post-harvest crops, often reaching 30% to 50% of the total harvest.

Indonesia also faces problems with its soil, which has been polluted with chemical residues from synthetic fertilisers. Farmers in Indonesia prefer to use synthetic fertiliser since it delivers faster results than organic products. One way for farmers to revitalise the soil in

<sup>22</sup> Ministry of Public Work and Public Housing, Bangun 13 Bendungan di 2015, Kementerian PUPR Siapkan SDM, 2nd Mar 2015. Availabe at: <https://www.pu.go.id/berita/10002/Bangun-13-Bendungan-di-2015--Kementerian-PUPR-Siapkan-SDM>

Indonesia is to learn and understand how to use organic fertilisers. This revitalisation process takes around a year, but production will surely be improved.

The progressing conversion of agricultural land to industrial and residential purposes is also one of many core challenges in Indonesia. Before Law 41/2009 was introduced, the conversion of agricultural areas reached 100,000 hectares per year. After the enactment of the law, it declined only slightly. According to data from the Indonesian Statistic Agency (BPS), Indonesia loses 27,000 hectares of its agricultural land per year. The total area of soybean fields in Indonesia declined by 42,306 hectares from 2014 to 2015. Total area of rice fields declined from 7.28 million hectares to 6.87 million hectares between October 2014 and February 2015.<sup>23</sup> Indonesia needs to open more agricultural lands to slow the increasing conversion of traditional farming areas for industrial and residential purposes. Indonesian farmers could benefit from learning about new technologies and techniques to help them to maximise the efficiency of their land.

Agricultural labour has suffered the same decline as agricultural lands. The table below shows the numbers of Indonesian citizens over 15 years old, grouped according to business sector. More and more Indonesian families are changing their occupations from farmers to other professions, such as manufacturing, as the wages are believed to be better than in farming. This trend is due to the high production costs of agribusiness, which most small scale farmers cannot afford.

#### Indonesian Citizens over 15 Years Old According to Business Sectors

Main Working Field	2010	2011	2012	2013	2014
Agriculture, Forestry, and Fishery	43,243,111	39,088,271	39,590,054	39,220,261	38,973,033
Mining	1,280,889	1,434,961	1,602,706	1,426,454	1,436,370
Manufactures	13,474,059	14,541,562	15,615,386	14,959,804	15,254,674
Electricity, Gas, and Water	240,126	234,347	251,162	252,134	289,193
Construction	5,485,338	6,263,797	6,851,291	6,349,387	7,280,086
Trade, Restaurant, and Accommodation	22,421,821	22,297,686	23,517,145	24,105,906	24,829,734
Transportation, Storage, and Communication	5,486,719	5,006,473	5,052,302	5,096,987	5,113,188
Financial Institution, Real Estate, Rental and Service	1,664,016	2,577,847	2,696,090	2,898,279	3,031,038
Civil Service, Social, and Individual	16,293,636	15,971,365	17,328,732	18,451,860	18,420,710

Source: BPS Statistics Indonesia, 2015

<sup>23</sup> Bisins Online, *Masa Tanam Molor, Lahan Padi Pun Menyusut*, 16th Mar 2015. Available at: <http://industri.bisnis.com/read/20150316/99/412448/masa-tanam-molor-lahan-padi-pun-menyusut>

### III. Horticulture and Food Crops

#### 1. Demand and Trend

The Indonesian government's efforts to achieve food self-sufficiency provides a promising opportunity for foreign businesses in Indonesia. Due to the lack of quality of materials and technology, Indonesia is forced to import agricultural equipment and machinery. Looking at those problems, the government's target of being self-sufficient in agricultural production is still far from reality, with the exception of rice and corn.

#### 2. Horticulture

Horticulture is a sector with a great potential in Indonesia, but hard work needs to be done in order to maximise production. Despite the big population, Indonesia's average vegetable and fruit consumption are only 43 kg, per capita, per year and 34 kg per capita per year respectively; this is less than the FAO standard recommendation which is 70 kg per capita, per year for vegetables and 73 kg, per capita, per year for fruit. Like in other subsectors in agribusiness, horticulture faces the same issues of small planting areas. The planting area for cultivation of fruit is only 32 m<sup>2</sup> per capita and 41.1 m<sup>2</sup> per capita for vegetables. Imported horticultural products remain large in volume, even though the number is declining. Around US\$1.6 million of horticultural products were imported annually between 2011 and 2013.<sup>24</sup>

The important players in the distribution network of horticulture products are farmers, traders, wholesalers, processors, transporters, and importers. Farmers usually sell their products to traders or wholesalers, who bring those products to the processors. The process can be shortened if the farm has a cooperation agreement with the processors, or if the farm is owned by the manufacturer or the processor.

Distribution channels are at the core of the market system. Even though distribution channels, as well as supply and demand activities, are the main engine of the horticulture market system, other elements such as supporting functions and rules cannot be neglected. Those complementing elements should run together in order to maximise this industry. The market system shows that the five supporting actors; government, private sector, informal networks, business membership organisations, and the not-for-profit sector, perform and influence all activities in supporting functions and rules in a dynamic way.

The biggest challenge in the development of the horticulture sector in Indonesia is regulation, which sometimes contradicts the main goal of sufficiency in Indonesia. For example, the Horticulture Law requiring foreign investors to limit their investment only to 30%, at a time in which the government is focussing on increasing foreign investment in Indonesia to motivate local production and increase export.

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<sup>24</sup> Indonesian Netherlands Association (INA), *Indonesia's Horticulture: A Challenge*, INA Magazine, 1st Issue January - March 2015, Available at: <http://www.ina.or.id/images/stories/magazine/2015-March/02-Agriculture.pdf>

Indonesian importers have limited the import of fruit by up to 30-40 % since the start of 2015, due to the Rupiah depreciation against the Dollar.<sup>25</sup> As many as 40 importers' permits have been revoked in the first quarter of 2015, due to their lack of capacity to achieve the value of import that has been assigned by the government, based on the importers' prior request. Based on regulation, due to their failure to meet their import target, they will not be allowed to import goods and services for two years. Import realisation is projected to be just 620,000 tonnes in 2015, which is around 255,000 tonnes lower than the figure in 2014.<sup>26</sup> As a result, the stock of imported fruit and vegetables has depleted and the price for these products has increased by about 20% from the previous price. Currently there are at least three big fruit exporters to Indonesia: China exporting oranges and pears; Thailand exporting durian and longan fruit; and the US exporting apples and grapes.<sup>27</sup>

### 3. Rice Seeds and Seedlings

#### 3. Rice Seeds and Seedlings

The main state owned enterprise (SOE) working on seed procurement, PT. Sang Hyang Seri (SHS), can only contribute a relatively small amount of the total demand for seeds in the Indonesian market. As of August 2014, SHS supplied only 35% of a national demand of 10,000 tonnes of hybrid rice seeds, and 10% of a national demand of 99,000 tonnes of hybrid corn seeds. In the hybrid horticulture sector, this SOE represents an even smaller number; it only contributes 2% of the 7,000 tonnes of national demand for seeds.<sup>28</sup> There is thus a big opportunity for foreign investors to conduct business in the seed sector. Foreign investors have, however, been deterred by the Horticulture Law, which requires even already established companies to sell at least 70% of its shares to local shareholders. In the government's deregulation package of September 2015, the implementation of this requirement will be limited to investors in the horticulture sector who invested after 2010, when the law was passed by parliament.

While local Indonesian seeds cannot fulfill all national demands, imported seeds are still required to fulfill the shortage. For example, the horticulture seeds production of Indonesia in 2011 was only 6,000-7,000 tonnes, whereas demand in the same year reached 10,000-11,000 tonnes.

To date, the Indonesian government has also removed many of the duties and import barriers related to the seedling industry. The rejection of seed imports has been reduced, in order to tackle the lack of availability of quality seed stock. This approach is believed to

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<sup>25</sup> Kontan Online, *Merugi, importir buah turunkan kuota impor 30%-40%*, 22th Mar 2015. Available at: <http://industri.kontan.co.id/news/merugi-importir-buah-turunkan-kuota-impor-30-40/2015/03/22>

<sup>26</sup> Kontan Online, *Izin impor buah tahun ini dipangkas*, 24th Feb 2015. Available at: <http://industri.kontan.co.id/news/izin-impor-buah-tahun-ini-dipangkas/2015/02/24>

<sup>27</sup> Kontan Online, *Harga buah impor kian mahal*, 22th Apr 2015. Available at: <http://industri.kontan.co.id/news/harga-buah-impor-kian-mahal>

<sup>28</sup> Ministry of Finance, *Kedaulatan Pangan dan Kecukupan Pangan*, n.d. Available at: [http://www.kemenkeu.go.id/sites/default/files/2014\\_kajian\\_pprf\\_Kedaulatan%20Pangan%20dan%20Kecukupan%20Pangan.pdf](http://www.kemenkeu.go.id/sites/default/files/2014_kajian_pprf_Kedaulatan%20Pangan%20dan%20Kecukupan%20Pangan.pdf)

protect food industries in Indonesia, by importing seeds as cheap raw materials, rather than importing the crop products.<sup>29</sup>

Imported hybrid rice seeds mostly come from China, since China's rice seeds have a good productivity yield, reported to reach up to 12 tonnes per hectare. The seed procurement was proposed by the Indonesia SOE, PT Sang Hyang Seri. This SOE also proposed the purchase of rice seeds from the Philippines. So far, Indonesia, through Badan Penelitian dan Pengembangan Pertanian (Balitbang Pertanian – Agency for Agricultural Research and Development), has released seven hybrid rice varieties: Galur CMS A1, Galur CMS A2, Galur Restorer R 17, Galur Restorer R 32, Hipa 5 Ceva, Hipa 6 Jete, and IR 8025A/BR827-35. But the productivity is less than seeds that originate from China, as the average productivity for local rice seeds is only 6-7 tonnes per hectare.<sup>30</sup>

Badan Penelitian dan Pengembangan Pertanian worked on seed breeding to invent the so-called “amphibian” hybrid rice seed, which is productive both in the dry and wet season. This is to prepare for climate change, which will endanger Indonesian rice agriculture, since the agriculture system still relies on a pattern of normal seasons in Indonesia. The amphibian seed will be available in several varieties: Situ Bagendit, Situ Patenggang, Inpari, Batutegi, Towuti, Inpago, and Inpagi. Situ Bagendit, one of the amphibian hybrid rice seed varieties released in 2003, is capable of producing up to 8.5 tonnes per hectare of dried unhulled rice, and has a production cycle of around 110 to 120 days.

For seed breeding, Balai Besar Penelitian Padi (one of the working units for paddy in Balitbang Pertanian) requires 6 to 7 years to invent a new improved variety (Varietas Unggulan Baru).

#### 4. Fertiliser

Fertiliser production in Indonesia is dominated by SOE's. Under Pupuk Indonesia Holding Company, there is usually one supplier per area. Petrokimia, Sriwijaya, and Kujang are the biggest SOE producing fertilisers. These enterprises receive subsidies from the government. The government hopes this investment will help small-scale farmers to obtain cheaper prices for fertilisers, but the lack of monitoring systems caused these subsidies to flow to other non-smallholders entities. Domination of SOEs can be found in the manufacturing of specific fertilisers whose inputs are attainable in Indonesia, such as urea. These enterprises do not focus on mixed compounds with various nutrient types. Instead, they have doubled the production of single compound types alone. As a result, the Indonesian market depends on imported fertiliser, including mixed compound. Around 80% of fertilisers are imported. Some fertilisers other than urea (such as NPK, KCL, ZA, and SP3) are only partially provided by domestic companies, the KCL type totally depends on imports.

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<sup>29</sup> Tempo Online, *Pengusaha: Mending Impor Benih Daripada Pangan*, 14th Oct 2014. Available at: <http://bisnis.tempo.co/read/news/2014/10/14/090614347/pengusaha-mending-impor-benih-daripada-pangan>

<sup>30</sup> Detik OTO, *RI Masih Impor Benih Padi Hibrida dari China dan Filipina*, 4th Jun 2015. Available at: <http://oto.detik.com/read/2015/06/04/152146/2933467/4/ri-masih-impor-benih-padi-hibrida-dari-china-dan-filipina>

As can be seen in the table below, the only type of fertiliser exported by Indonesia is urea, which is a single compound fertiliser. Around 16-17% of the total production in 2013 and 2014 was exported. On the other hand, domestic demand of mixed compound fertilisers cannot be provided by domestic production: total production of Indonesia's mixed compound fertiliser is still around 2.5 million tonnes per year, while the demand reaches about 7.8 million tonnes.<sup>31</sup> For example, phosphate production reached about 62% of its domestic demand in 2013 and decreased to 50% in 2014. According to Global Business Guide Indonesia (GBG), demand for NPK in 2012 reached 5 million tonnes and only 2.89 tonnes was produced by local producers. The International Fertiliser Association also claimed that Indonesia will be the biggest market for NPK, with 10% growth in demand per year, due to a rapid development of the palm oil industry.<sup>32</sup>

### Supply and Demand in Indonesia's Fertilizer Market (in tonnes)

Year	2013		2014	
Fertilizer	Production	Domestic and Export Market*	Production	Domestic and Export Market*
Urea	6,698,349	6,575,906	6,742,366	6,697,364
Phosphate/SP-36	517,757	830,638	400,508	798,816
ZA/AS	827,225	1,106,362	816,001	1,011,141
NPK	2,528,347	2,443,456	2,715,098	2,672,052
ZK (K <sub>2</sub> SO <sub>4</sub> )	8,440	n/a	8,326	n/a
Organic	787,516	766,691	580,120	753,761

\*Only Urea was exported for 1,359,109 and 1,107,880 tonnes in 2013 and 2014 respectively

Source: Fertilizer Producer Association (APPI), 2014

Indeed, the demand for mixed compound fertilisers has been growing in Indonesia and cannot be satisfied by SOE's supply, which only concentrates on the single compound types. Against this background, the gap can be an opportunity for investors to enter the fertiliser business (especially mixed compound fertilisers) in Indonesia. Wilmar Group has seen this opportunity, establishing Sentana Adidaya Pratama plant, producing 120,000 tonnes per year of granulated compound fertilizer and 330,000 tonnes per year of ammonium

<sup>31</sup> Antara News, *Saraswanti Group Gandeng Tiongkok Percepat Bangun Pabrik Pupuk*, (18th Nov 2014). Available at: <http://www.antarajatim.com/lihat/berita/145762/saraswanti-group-gandeng-tiongkok-percepat-bangun-pabrik-pupuk>

<sup>32</sup> Global Business Guide Indonesia, *Harvest Time for Indonesia's Fertiliser Industry*, Business Update, 27th Jan 2014. Available at: [http://www.gbgingonesia.com/en/main/business\\_updates/2014/upd\\_harvest\\_time\\_for\\_indonesia\\_s\\_fertiliser\\_industry.php](http://www.gbgingonesia.com/en/main/business_updates/2014/upd_harvest_time_for_indonesia_s_fertiliser_industry.php)

phosphate at its plants in Dumai, Sumatra.<sup>33</sup> Besides Wilmar Group, Saraswati Group also operates in the mixed compound fertiliser business. It already has a 2-3% of share in the Indonesia fertiliser market and plans to expand its production capacity from 420 million tonnes to 860 million tonnes by 2016.<sup>34</sup>

According to Ministry of Agriculture officials, the government of Indonesia plans to decrease the amount of subsidised fertiliser and shift the budget to the other useful elements that will support the farmers to be independent. The government also has plans to endorse organic fertiliser in order to revitalise the land. Nevertheless, the implementation of these plans will surely face big challenges from the Indonesian market for producers, suppliers, distributors and farmers. In 2010, Indonesia tried to implement 'Go Organic 2010', a plan to boost organic agriculture and become the biggest organic fertiliser producers in the world. Unfortunately, this movement has not worked out as planned. The development progress of organic agriculture is still low and the output is still limited. The obstacles of organic agriculture, according to the Agriculture Social Economic and Policy Center, are the lack of capacity relating to knowledge and expertise, as well as the weakness of certification monitoring. The certification process for organic agriculture in Indonesia, for instance, is still not affordable for small scale farmers and consumers are often ignorant regarding certification issues. This most likely makes the small scale farmers hesitate to register their organic products.<sup>35</sup>

The new administration of Joko Widodo (Jokowi) and Jusuf Kalla brings this organic movement back as a working program. By planning to build 1000 pilot project 'organic villages' around Indonesia, Jokowi is trying to stimulate organic agribusiness through the use of organic fertilisers and biogas as a waste management solution.<sup>36</sup> If the program runs well, it might help to establish a new trend in Indonesian agribusiness of using organic fertiliser as a product deriving from smart waste management.

## 5. Machinery

Based on our interview with an officer at the Ministry of Industry, 80% of Indonesian agricultural machinery is imported. Imported products are far cheaper than local products because the tariffs on imported raw materials are higher than the tariffs on the imported machines.

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<sup>33</sup> Ibid.

<sup>34</sup> Antara News, *Saraswanti Group Gandeng Tiongkok Percepat Bangun Pabrik Pupuk*, 18th Nov 2014. Available at: <http://www.antarajatim.com/lihat/berita/145762/saraswanti-group-gandeng-tiongkok-percepat-bangun-pabrik-pupuk>

<sup>35</sup> Indonesian Center for Agricultural Socio Economic and Policy Studies, *The Development of Organic Agriculture in Indonesia*, Agro Economic Forum Vol 30 No 2, 2012. Available at: [http://pse.litbang.pertanian.go.id/eng/index.php?option=com\\_content&view=article&id=670:the-development-of-organic-agriculture-in-indonesia&catid=24&Itemid=146](http://pse.litbang.pertanian.go.id/eng/index.php?option=com_content&view=article&id=670:the-development-of-organic-agriculture-in-indonesia&catid=24&Itemid=146)

<sup>36</sup> Kaber Indonesia, *Kelola Sampah Dalam Program Jokowi-JK untuk Indonesia Go Organik*, 3rd Oct 2014. Available at: <http://www.kabarindonesia.com/berita.php?pil=20&jd=Kelola+Sampah+Dalam+Program+Jokowi-JK+untuk+Indonesia+Go+Organik&dn=20140930103304>

Indonesia produces most of the components for agricultural machinery, but is still limited to low technical specifications only (especially the plates-based components, cutting machines, and hummer mills). Core engine technology and engineering steel are two of the most needed raw materials which cannot be produced locally. Big steel companies in Indonesia, such as Krakatau Steel, only produce steel for construction and not for machines. The market for machinery steel is still dominated by Chinese imports offering competitive prices. In addition, Indonesia still depends on core engines from other countries because most of the producers still have no capacity to develop their own technology.

Types of agricultural in Indonesia can vary greatly from one area to another, causing each to require different treatment. Companies must have a serious strategy to address this issue in order to enter the Indonesian market. Japan, after occupying Indonesia between 1943 and 1945, took advantage of its acquired knowledge, by learning and understanding the agricultural and industrial systems in Indonesia and its land specifications. As a result, the three biggest players in the Indonesian agricultural machinery market are Japanese: Kubota, Yanmar, and Karya Hidup Sentosa. Kubota and Yanmar are Japanese companies, while Karya Hidup Sentosa uses Japanese core engines. A new player producing four-wheel tractors, Iseki, is a cooperation between Agrindo and Kubota.

There have been signs that the Government intends to claim additional agricultural land over the coming years. As a reaction, machine producers under the Association for Agriculture Tools and Machines (Alsintani) asked to increase its output ahead of an estimated increase in demand for agriculture machines. The Ministry of Agriculture plans to distribute 100,000 units of machinery in 2016<sup>37</sup>. Imported products will also be included because of the various machine specifications requested.

Indonesia has cooperated with Japan and Korea for Research and Development under the supervision of the Ministry of Industry. It is conducted through JICA (Japan International Cooperation Agency) and Korea Academy of Industrial Technology (Kaitek). The scope of cooperation is mainly in molding and welding technology as a basic process of agricultural machinery production. The project includes technology transfer training and skill improvement. Experts from Japan come to Indonesia to teach and assist Indonesian farmers, while the Ministry of Industry provides the funding and organises the industries that intend to cooperate as part of the program.

In order to boost agricultural production, the Government of Indonesia gives support to farmers in the form of machines, water pumps, and irrigation repairs. Around 3,000 tractors and 149,000 hectares of irrigation repairs have been provided by the current government. There are technical trainings and adaptation time for farmers to get to know the machines, especially for bigger machines such as harvester-transplanters. This year, the government will focus on enhancing pre-harvest processes to increase production.

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<sup>37</sup> Republika Online, *Mentan Janjikan Pembagian Alsintan untuk Petani di Januari 2016*, 4<sup>th</sup> January 2016. Available at: <http://www.republika.co.id/berita/kementan/berita-kementan/16/01/04/o0f5af359-mentan-janjikan-pembagian-alsintan-untuk-petani-di-januari-2016>

## 6. Big Players

By stating initial information the following abstract provides an overview of the most important players within this sub-sector.

### 6.1. Seedlings

#### PT DuPont Indonesia (Pioneer)

The company was established in 1988 and started to market its pioneer hybrid corn seeds in Indonesia within the same year. This company released 23 varieties of hybrid corn in total. PT. DuPont has a cooperation with BB Padi (Balai Besar Penelitian Tanaman Padi) by receiving a license to produce and sell MARO hybrid paddy seeds, which are developed by BB Padi.

#### PT Syngenta

PT Syngenta was established in Indonesia in 2001, as the result of a merger of the previously existing companies PT Novartis Agribisnis and Agrokimia Zeneca. The products of PT Syngenta are seeds, fertilisers, pesticides, and other plant nourishment products. In 2011, PT Syngenta built a new plant in Pasuruan, East Java. This plant was targeted to produce 6000 tonnes of corn seeds per year. Currently, the plant has succeeded in producing 5000 tonnes after its establishment.<sup>38</sup> Devgen NV which was acquired by Syngenta, developed the hybrid rice seeds accustomed to environmental conditions in Indonesia and the specific requirements of the consumer. In conducting the project, Devgen built a partnership with PT Sang Hyang Seri, an Indonesian state-owned seed procurement company.

#### Cargill

Cargill's first business activity in Indonesia began with the establishment of a production factory in Bogor, West Java. Cargill Indonesia manages several agribusiness sectors; animal feed, sugarcane, cereals, vegetable oil, coconut oil, and the newest; cocoa. Each of those sectors has several factories; its animal feed unit alone has five factories in Medan, Semarang, Makassar, Pasuruan, Serang and Bogor. In 2015, Cargill plans to enter the poultry industry in Indonesia, now under the discussion at Cargill Inc. Headquarters in Minnesota. This plan includes the establishment of a facility and partnership search. Last year, this company announced its plans to invest as much as US\$1 billion for various sectors in Indonesia in the next three to four years. Cargill Indonesia is also looking to expand its starch and sweetener business by building a US\$70 million factory in West Java.<sup>39</sup>

#### Monsanto Indonesia

Indonesia is the second largest market for Monsanto in Asia, with a market share of approximately 25%. Monsanto Indonesia owns 7,000 hectares of cornfield in Mojokerto,

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<sup>38</sup> Kontan Online, *Usai dirikan pabrik, Syngenta genjot bikin benih*, 30th Mai 2012. Available at: <http://industri.kontan.co.id/news/usai-dirikan-pabrik-syngenta-genjot-bikin-benih>

<sup>39</sup> The Wall Street Journal, *Cargill Seeking Poultry Play, Building Palm Oil Mills In Indonesia*, 20th Apr 2015. Available at: <http://www.wsj.com/articles/cargill-seeking-poultry-play-building-palm-oil-mills-in-indonesia-1429533058>

East Java. Monsanto's plant has the capacity to produce up to 13,000 tonnes of hybrid corn. In 2013 the sales of Mosanto Indonesia's hybrid corn seeds reached 6,000 tonnes and was expected to reach between 6,900 tonnes and 7,200 tonnes in 2014.

In 2012, Monsanto, Cargill, and the Indonesian government built a partnership that aims to double corn production in Indonesia. It is called PISAgro (Partnership for Sustainable Agriculture), a part of the New Vision Agriculture Initiative (initiated by the World Economic Forum). Around 100 farmers from Mojokerto were involved in its pilot project in June 2014. Monsanto would supply its high-quality seeds, BRI (Bank Rakyat Indonesia) facilitated finance to farmers, and Cargill would buy the harvested crops. According to The Jakarta Globe, Monsanto aimed to increase its business by 15% and has targeted the expansion of the program to other crops on a further 5,000 hectares. Currently, with members including big companies in Indonesia such as Indofood, Sinarmas, TPS Food, East West Seed Indonesia, Unilever, Nestle, Syngenta, and McKinsey, PISAgro has expanded its program to other crops such as soybean, cocoa, palm oil, rubber, rice, potato, coffee, and dairy. Each of them has its own working groups.

#### **PT. East West Seed Indonesia**

PT. East West Seed was established on 1982 in the Philippines by Simon Groot, a Dutch agriculturalist who managed to adapt agricultural practices to the conditions in Southeast Asia. PT. East West Seed Indonesia (EWINDO) became the first integrated seed breeding company in Indonesia for more than 20 years, producing and selling hybrid vegetable seeds including tomatoes, peppers, and cucumbers, under the name of Cap PanahMerah. EWINDO released more than 150 varieties of high quality seeds and has built a partnership with around 7,000 production farmers, more than 35,000 pollinators, and around 10 million commercial farmers.

## **6.2. Machinery**

#### **PT Kubota Indonesia**

Kubota Indonesia was established in 1972; 84% of the shares are held by Kubota Corporation in Japan and 16% by CV Karya Hidup Sentosa in Indonesia. The company employs approximately 340 people. Kubota produces diesel engines which can be built into agricultural machinery, such as hand tractors, power threshers, and water pumps. Kubota Indonesia produces horizontal diesel engines, as well as generators, and distributes vertical diesel engines imported from Japan. With its 495 official dealers and 449 workshops, Kubota Indonesia produces engines and exports to more than ten countries around the world. In 2013, Kubota Indonesia sold 69,000 units of Kubota engines, but suffered a 20% decline in 2014. It is forecasted to reach 55,200 units by the end of 2015. This company seeks to increase its production this year from 60,000 units to 120,000 units per year, by investing US\$23.07 million to expand its factory in Semarang, Central Java.

#### **CV. Karya Hidup Sentosa**

CV. Karya Hidup Sentosa (KHS) was first established in 1953 in Yogyakarta. This company produces agricultural machinery under the name of QUICK. KHS claims to be a market leader and exports to several countries. Agricultural machinery produced by KHS include cultivators, combine harvesters, power threshers, and hand tractors. It has more than 400

dealers around Indonesia. KHS also established a joint venture with Kubota Corp. Japan to establish a factory in Semarang, Central Java. In 2013, KHS built a new factory in Yogyakarta and began its operation in 2014. This new factory was built in order to increase the production capacity by 20%-30%, up to 50,000 units per year.<sup>40</sup>

### 6.3. Fertiliser

#### Saraswati Group

Saraswati Group began its business by producing mixed compound fertiliser in 1998, managing five business divisions; fertiliser, property, plantation, laboratory, and other businesses. There are several types of NPK fertiliser produced by Saraswati Group under this company's subsidiaries: PT. Saraswati Anugerah Makmur and PT. Anugerah Pupuk Lestari which produce NPK briquettes; PT. Dupan Anugerah Lestari which produces Granulated NPK; PT. Anugerah Dolomit Lestari and PT. Anugerah Dolomit Makmur which produce dolomite fertilisers; PT. Anugerah Sarana Hayati which produces liquid fertilisers; and PT. Arya Supra Nugraha, which acts as trading company for Saraswati Group's products. Saraswati Group is currently expanding its fertiliser factories. It will increase its total production capacity from 420 million tonnes to 860 million tonnes by 2016. Expanded factories in Medan, Riau, and Central Kalimantan have been finished and began operations in October 2015.<sup>41</sup> This company contributes to 2-3% of the fertiliser market in Indonesia, projected to rise to 10% in the next five years.<sup>42</sup> In 2013, the Saraswati Group managed to sell 107,032 tonnes of fertiliser and gained as much as US\$176.9 million (60% of the holding's total income) from its fertiliser revenue alone.<sup>43</sup>

#### PT. Pupuk Indonesia Holding Company

PT. Pupuk Indonesia is a state owned holding company that has several subsidiaries such as PT. Petrokimia Gresik, PT. Pupuk Kujang, PT. Pupuk Kaltim, PT. Pupuk Sriwidjaja, and other companies. PT. Pupuk Indonesia was once named PT. Pupuk Sriwidjaja and it was the first company that produced urea fertiliser in Indonesia. Pupuk Indonesia is the biggest fertiliser producer in Asia with total assets of US\$4.9 billion in 2013 and a total production capacity of 12.6 million tonnes a year. The range of fertiliser products from Pupuk Indonesia includes urea, NPK, ZK, ZA, and SP-36. The company has facilities around Java, Sumatra,

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<sup>40</sup> Kontan Online, *Pasar traktor masih berputar meski sulit modal*, 5th Apr 2013. Available at: <http://industri.kontan.co.id/news/pasar-traktor-masih-berputar-meski-sulit-modal>

<sup>41</sup> Antara News, *Saraswanti Group Gandeng Tiongkok Percepat Bangun Pabrik Pupuk*, 18 Nov 2014. Available at: <http://www.antarajatim.com/lihat/berita/145762/saraswanti-group-gandeng-tiongkok-percepat-bangun-pabrik-pupuk>

<sup>42</sup> Kabarbisnis, *Ijin turun lebih cepat, Grup Saraswanti majukan jadwal produksi pabrik NPK*, 18th Nov 2014). Available at: <http://kabarbisnis.com/read/2852416>

<sup>43</sup> Antara News, *Saraswanti Utama Tingkatkan Kapasitas Produksi Pupuk*, Available at: <http://www.antarajatim.net/lihat/berita/141454/saraswanti-utama-tingkatkan-kapasitas-produksi-pupuk-440000-to>

and Kalimantan. Pupuk Indonesia also has their own supporting facilities, such as ports, freighter ships, and their own storage facilities.<sup>44</sup>

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<sup>44</sup> Pupuk Indonesia, *Sekilas PT Pupuk Indonesia (Persero)*, n.d. Available at: <http://pupuk-indonesia.com/id/profile-pupuk-indonesia/sekilas-pihc>

## IV. Livestock

Indonesia needs more than the immediate supply of livestock, as the transfer of know-how and technology will be essential to enhance the quality and quantity of livestock production.

Below are tables of livestock population and foreign trade. The biggest population groups are poultry and goats, reflecting the preference of Muslim small-scale farmers in choosing small livestock rather than large. Both import and export volumes of livestock remain at the lowest number, compared to the other subsectors like horticulture, food agriculture, and plantations. However, there is positive development for both import and export figures, reflecting the increase in the demand for cattle, poultry, and other livestock products. Export growth from 2010 to 2013 was bigger than import growth, although the volume and value were far smaller compared to imports.

**Livestock Population in Indonesia (in thousand heads)**

Specification	2012	2013	2014*
<b>Beef Cattle</b>	15,981	12,686	14,703
<b>Milk Cattle</b>	612	444	483
<b>Buffalo</b>	1,438	1,110	1,321
<b>Horse</b>	437	434	455
<b>Goat</b>	17,906	18,500	19,216
<b>Sheep</b>	13,420	14,926	15,716
<b>Pig</b>	7,900	7,611	7,873
<b>Poultry</b>	1,706,979	1,779,605	1,975,842

\*Latest estimate

Source: Directorate General of Livestock Services, 2014

## Foreign Trade in Livestock 2012-2013

Measurement	Export		Average Growth Rate Export (%)	Import		Average Growth Rate Import (%)
	2012	2013		2012	2013	
<b>Volume (in tonnes)</b>	185,675	196,300	26.49	1,201,742	1,244,994	0.36
<b>Value (in thousand US\$)</b>	556,527	568,244	15.79	2,698,100	3,029,311	2.93

Source: Ministry of Agriculture, 2014

## 1. Demand and Trends

### 1.1. Dairy and Dairy Products

Indonesia's total annual milk consumption per capita is only 11.09 liters. This is considerably lower than other ASEAN countries (Singapore, Malaysia, Thailand, and the Philippines) which have at rate of around 20 liters per capita annually.<sup>45</sup> However, the volume of Indonesia's milk consumption is expected to grow gradually due to the increasing health awareness amongst middle-income and upper-income consumers. The demand for dairy products in Indonesia itself is expected to grow approximately 5% annually until 2020.<sup>46</sup>

According to *Jurnal Indonesia*, Indonesia's total demand for raw milk reached 3,300 million tonnes per year in 2014, while its domestic supply only contributes 21% with 690 million tonnes per year. The other 79% or 2,610 million tonnes was imported in various forms. The imported raw milk mentioned earlier includes non-fat dry milk (NFDM), whey, anhydrous milk fat (AMF), and whole milk powder. Raw milk is mainly imported from only a few countries, namely Australia, New Zealand, the United States, and the European Union. Later on, it is usually blended with fluid milk production in Indonesia. It is worth noting that Indonesia's import of NFDM, whey, and AMF declined in 2013 due to shortages on the international market.<sup>47</sup>

<sup>45</sup> Ministry of Industry, *Konsumsi Susu Masih 11,09 Liter per Kapita*, n.d. Available at:

<http://www.kemenperin.go.id/artikel/8890/Konsumsi-Susu-Masih-11,09-Liter-per-Kapita>

<sup>46</sup> Food Navigator-Asia, *Fonterra breaks ground on its biggest SE Asia site*, 26th Mar 2014. Available at:

<http://www.foodnavigator-asia.com/Business/Fonterra-breaks-ground-on-its-biggest-SE-Asia-site>

<sup>47</sup> United States Department of Agriculture (USDA), *Indonesia Dairy and Products Annual Report 2014*, 2014. Available at:

Packaged dairy products such as cheese, drinking milk products, yoghurt and sour milk have become more popular due to rising nutritional value awareness. For example, cheese and yoghurt is believed to be a high source of calcium, and sour milk is believed to support the digestive system.

One of the obstacles involved in milk production in Indonesia is the lack of knowledge and technology, both in the milking process and upkeep. The percentage of Indonesian cattle farmers (both for milk and beef) who have not passed elementary school is 25% and 37% have graduated just elementary school. This shows us that more than a half of Indonesian cattle farmers come from low educational background.<sup>48</sup> Meanwhile, according to livestock population figures for 2012-2014, the milk cattle population in 2013 was only 444,000 heads, smaller than the population in 2012, which amounted to 612,000 heads. This factor has been worsened by the behaviour of many farmers who slaughtered milk-producing cattle due to rising beef prices and declining milk prices in 2013.

According to the table below, Indonesia's milk production from cattle companies has been rising between 2010 and 2013, both in terms of volume and value, with a marginal decline of 5.92 million liters in volume, once, from 2011 to 2012. This does not include the production of individual and small scale farmers, whose contribution is much bigger than the companies. This year, according to Livestock Review, total milk production in 2015 is forecasted to reach 1.7 million tonnes.<sup>49</sup>

#### Total Milk Production of Milk-Producing Cattle Companies, 2010-2013

Milk Production	2010	2011	2012	2013
<b>Volume (in million liter)</b>	16.24	36.46	30.54	58.81
<b>Value (in million USD)</b>	3.7	9.6	18.6	19.8

Source: BPS (Indonesian Statistics Center, 2014)

Indonesian cows mostly came from Friesian crossed cattle and imported frozen semen from Australia or New Zealand. Farmers feed their cows with grass and other feed, including the waste from industry (barley and soya bean). Smaller farmers are still majority owners of the total cattle population and they often milk their cows by hand, while only larger farmers use portable

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual\\_Jakarta\\_Indonesia\\_10-15-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Dairy%20and%20Products%20Annual_Jakarta_Indonesia_10-15-2014.pdf)

<sup>48</sup> Mandala Livestock Magazine, *Dinas Peternakan Provinsi Jawa Barat*, Q2 2014

<sup>49</sup> Livestock Review, *Produksi susu domestik tahun ini 1,7 juta ton*, June 2014

<http://www.livestockreview.com/produksi-susu-domestik-tahun-ini-17-juta-ton/>

milking machines. The biggest milk cattle population in Indonesia is located in East Java with a total estimation of 238,000 heads in 2014. In 2012, the average daily milk production of a cattle was 11.5 L/head and the average lactation length was 271 days, while the average production is 3,139 L/lactation.<sup>50</sup>

By the end of 2015, the Ministry of Agriculture migrated the center of milk cattle farmers to Sumatra, due to high feed costs and limited area for feedlots in Java. In 2015, approximately 99.47% of Indonesia's total cattle population which was located in Java.<sup>51</sup>

## 1.2. Cattle Husbandry

The government's optimism regarding its target to be self-sufficient in beef production by 2018 is considered impossible by certain parties, including associations like the Indonesian Meat Producer and Feedlot Association (APFINDO), which works directly on the ground. By their estimates Indonesia needs at least thirty years before beef self-sufficiency may be achieved. Moreover, the government is rushing its program, with new quotas and regulations that will be issued every quarter starting in 2015<sup>52</sup>. According to APFINDO, the regulations in Indonesia often change and sometimes contradict the vision of the government. This has to be considered as one of the significant factors slowing the development of beef production in Indonesia. Urgent measures need to be taken to tackle this problem, due to its impact on the agribusiness climate in Indonesia.

According to a study by the Australian Center for International Research, there are at least three different groups of cattle processors in Indonesia; the small to medium cattle farmers, the cattle fattening farms, and corporate feedlots.

Small to medium sized farmers can be found in almost every region in Indonesia. This type of cattle is fed by hand or grazes on grass fields or open fields. Hand-fed cattle usually feed on rice bran and wheat millings. This is usually supplemented with forage and silage. Other cheap materials such as tapioca, brewery waste, and pineapple pulp are also added. Up to 95 % of this diet is produced locally. The only imported materials are minerals and vitamins. Smallholders have two to three cattle on average, while medium-sized cattle farmers own around 10 cattle. Small holders often sell their cattle once it has reached a certain weight, or if the farmer needs cash immediately. The majority of this type of cattle are usually of lower quality and are often used for labour support (for example plowing, or pulling a cart) before being sold for meat, which has an effect on quality and often leads to weight loss.

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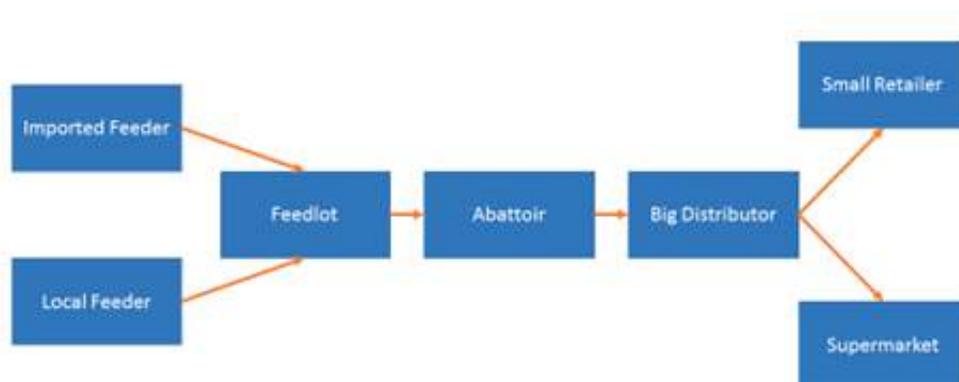
<sup>50</sup> Tjeppy D. Soedjana, *Sustainable Livestock Production in the Perspective of National Food Security Policy*, Indonesian Center for Animal Research and Development, 2013. Available at: <http://peternakan.litbang.pertanian.go.id/fullteks/semnas/pro-int12-3.pdf?secure=1>

<sup>51</sup> Kontan Online, *Kementan ingin pindahkan peternakan sapi perah*, 26th Oct 2014. Available at: <http://industri.kontan.co.id/news/kementan-ingin-pindahkan-peternakan-sapi-perah>

<sup>52</sup> Lewatmana News, *Pejabat Kementan: RI baru bisa swasembada daging 30 tahun lagi*, 1<sup>st</sup> June 2015. Available at: <http://news.lewatmana.com/pejabat-kementan-ri-baru-bisa-swasembada-daging-30-tahun-lagi/>

There are two subtypes of cattle fattening farms: partnership and non-partnership fattening. Partnership fattening farms establish a partnership with smallholders and invest in their feeder cattle or/and other supplies. Thus, the parties will split the profit based on a contract. The cattle fattening farms, both partnership and non-partnership, have between three and 200 heads, depending on capital available. The initial weight of feeder cattle before entering fattening farms is between 200 to 350 kilograms. At a weight of 400 to 600 kilograms and after 90 days at the feedlot, the cattle are usually ready for the slaughterhouse. The corporate feedlot was pioneered by the company Great Giant Livestock (GGL) operating under the Gunung Sewu Group, which was established in 1990 after the Government of Indonesia allowed the importation of feeder cattle from Australia. The GGL partners with Great Giant Pineapple (GGP) which is also a company under the same group. While GGP provides the by-products of pineapple waste as feed ingredients for livestock, GGL provides manure for GGP as organic fertiliser. GGL currently holds 100,000 cattle per year on 32,000 hectares of pineapple plantation.<sup>53</sup> Below is the flowchart of supply chain for beef cattle in Indonesia.

### Flowchart of the beef Cattle Supply Chain



Source: APFINDO, 2015

The majority of cattle fattening companies in Indonesia use feeder cattle to be fattened. Only a few of them develop their own breeders by purchasing good quality semen both from local and imported sources. Around 60 % of the feeders are usually fertilised through injection. Only around 40% of the parent stock's population is fertilised naturally. On average, female cattle in Indonesia can give birth up to five times. Normally it needs an interval of 14 months from one pregnancy to the next.

<sup>53</sup> Australian Center for International Agricultural Research (ACIAR), *Improving Indonesia's Beef Industry*, 2002. Available at: <http://ageconsearch.umn.edu/bitstream/114076/2/mn95.pdf>

The Government of Indonesia is currently embracing private companies to help establish a 30,000 breeder cattle program in order to boost the production of cattle in Indonesia. According to APFINDO, however, developing a breeder company in Indonesia has not yet been proven profitable. Breeding cows should be fed in advance, around 23.5 months before they can be inseminated. The average amount to be invested before local feeder cattle can enter the fattening process amounts to US\$1,307.6 in total. Imported feeder cattle cost around US\$923. With an additional cost of more than 40%, the incentive to develop Indonesian breeder farms is almost non-existent.

Indonesia's meat cattle are concentrated on Java, with a total population of approximately 4 million heads. Nowadays, land in Java is too contested by other industry sectors to realistically increase the livestock industry. However, there is no doubt about the potential for the rest of Indonesia. According to Mandala magazine, Indonesia has more than 15 million hectares of potential green fields, which are able to feed around 45 million heads of cattle. Particularly, the areas outside of Java have strong potential in terms of installing wide cattle feedlots, since plenty of green field areas are available.

In West Sumatra, Padang Mengatas breeding lot is located in 280 hectares with 600 cattle living unfenced. A lot of this size can accommodate a maximum cattle population of 2,000 heads. Padang Mengatas is often visited by local and international tourists as well as researchers from Thailand, Malaysia, and Australia. Aside from feeder cattle, Indonesia imports live cattle, and frozen beef. Law No 41 of 2014 Art 36 (b) on Farm and Veterinary activities, stipulates that the import of livestock and livestock products are allowed in case domestic supply is not sufficient.<sup>54</sup> Following this logic, the import quota will be announced by the government quarterly. In 2015's first quarter, the government limited the quota on feeder cattle to a maximum of 100,000 heads, which is 31% less than 2014. This policy is supposed to protect the local industry and push the domestic production of livestock. At present, however, results from this policy shift are marginal.

Since this situation was expected to result in a serious shortage of beef during the preceding weeks before Ramadan,<sup>55</sup> the government increased the quota of cattle feeders to 250,000 heads in the second quarter of 2015.<sup>56</sup> Meanwhile for live cattle, the quota was set by to 290,000 heads for the second quarter of 2015.<sup>57</sup>

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<sup>54</sup> Industri Bisnis, *IMPOR DAGING & JEROAN: Stok Akhir Tahun Tak Cukup, Izin Dikeluarkan*, 6th Feb 2015. Available at: <http://industri.bisnis.com/read/20150206/99/399486/imp-or-daging-jeroan-stok-akhir-tahun-tak-cukup-izin-dikeluarkan>

<sup>55</sup> Industri Bisnis, *Impor Sapi Bakalan Hampir Mencapai 100.000 Ekor*, 27th Mar 2015. Available at: <http://industri.bisnis.com/read/20150206/99/399486/imp-or-daging-jeroan-stok-akhir-tahun-tak-cukup-izin-dikeluarkan>

<sup>56</sup> Beef Central Online, *Indonesian lot feeders confident of meeting Lebaran beef demand*, 11th June 2015. Available at: <http://www.beefcentral.com/live-export/indonesian-feedlots-confident-of-meeting-lebaran-beef-demand/>

<sup>57</sup> Tempo Bisnis Online, *Hadapi Lebaran, Kuota Impor Sapi Australia Meningkatkan*, 6th Apr 2015. Available at: <http://bisnis.tempo.co/read/news/2015/04/06/090655725/hadapi-lebaran-kuota-imp-or-sapi-australia-meningkat>

Even though the recently released Trade Ministry Regulation No 2/2015 restricts imports of beef to only prime cuts and manufacturing meat, other cuts, such as offal, knuckles, and topsides are banned. However, Indonesian State Logistics Agency (BULOG) was granted a permit by the Ministry of Trade to import secondary cuts. Still, this is limited to SOEs and for special purposes only, aiming to stabilise the domestic beef price.<sup>58</sup>

The demand for beef in 2015 is projected to rise by 8%, which amounts to 640,000 tonnes in total.<sup>59</sup> With a yearly average of 2.5 kilograms per capita in 2013, Indonesian consumption is still considerably lower than its counterparts within ASEAN. Using the total population as the denominator, the aforementioned figure provided by the government is questioned by a researcher from Indonesian Center for Animal Research and Development (Balai Penelitian dan Pengembangan Peternakan). He argues that the consumption number should be based on the commodity consumer cluster rather than on total population. This idea is based on consumption participation of beef and buffalo meat, which is considered to be small and limited, since Indonesian people prefer other types of meat, due to their diverse culture and income. For other agricultural commodities, such as rice, vegetables, oil, salt, sugar, and others, the consumption participation is almost 100%, which makes it logical to use the total population as the denominator in order to estimate the consumption figure. Following this approach the consumption of beef and buffalo per capita per year is 6.71 kilogram in 2002 and has been rising ever since to 13.11 kilograms in 2011.<sup>60</sup>

Until May 2013 the Indonesian cattle population amounted to only 14.24 million heads (12.69 million beef cattle, 444,220 milk cattle, and 1.11 million buffalos). Compared to the rate of domestic consumption this is very low. With an assumption of a per capita consumption rate of 20 kilograms per year, Indonesia still requires 60 million heads of beef cattle a year.<sup>61</sup>

However, it should be noted that on special holidays the consumption pattern, as well as the price pattern, are not regular. In some areas sales increase 50-100% before Idul Adha, the Islamic Feast of the Sacrifice, where people sacrifice livestock such as cattle, goats, or sheep. According to APFINDO, the price of beef and related products struggles to stabilise after this season and other demand surges, due to the domestic supply gap and constant increasing demand.

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<sup>58</sup> Kompas Online, *Jelang Ramadhan, Bulog Diberi Izin Impor Daging Sapi 1.000 Ton*, 16th Jun 2015. Available at:

<http://bisniskeuangan.kompas.com/read/2015/06/16/132639226/Jelang.Ramadhan.Bulog.Diberi.Izin.Impor.Daging.Sapi.1.000.Ton>

<sup>59</sup> Tempo Bisnis Online, *Hadapi Lebaran, Kuota Impor Sapi Australia Meningkatkan*, 6th Apr 2015. Available at: <http://bisnis.tempo.co/read/news/2015/04/06/090655725/hadapi-lebaran-kuota-impor-sapi-australia-meningkat>

<sup>60</sup> Tjepny D Soedjana, *Partisipasi Konsumsi Sebagai Alat Ukur Status Ketahanan Pangan Daging*, Wartazoa Vol 23 No 4, 2013. Available at: <http://download.portalgaruda.org/article.php?article=278123&val=7169&title=Participation%20Rate%20as%20A%20Basis%20for%20Measuring%20Food%20Security%20Status%20of%20Meat>

<sup>61</sup> Viva News, *Konsumsi Daging Sapi RI Lebih Rendah dari Malaysia*, 15th Jan 2014. Available at: <http://m.news.viva.co.id/news%20read/473299-konsumsi-daging-sapi-ri-lebih-rendah-dari-malaysia>

### 1.3. Processed Meat

According to the National Meat Processor Association of Indonesia (NAMPA), the processed meat market in Indonesia is currently growing by 15% each year, with a share of 65% of processed meat mainly going to wet-markets, 30% sold by retailers and only 5% labeled as a premium cut, sold to high-end consumers. Additionally, 80% of the processed-meat products in Indonesia are produced locally.

Among all meat-processed products, poultry has the biggest popularity. The processed poultry sector contributes to 60% of the market and is still predicted to grow for the next two years. It is projected to have doubled to 2.5 tonnes by 2018. Middle-to upper-income consumers have begun to shift their demand to packaged chicken products rather than fresh meat available in wet markets, referring to the awareness of hygiene issues.

One of the most significant factors of the growing demand for processed poultry products, is the expansion of modern and retail food services. Multinational food retailers like McDonald's and Kentucky Fried Chicken set high hygiene and food safety standards for their raw meat, majorly contributing to an overall improvement of food hygiene in Indonesia.<sup>62</sup>

During Ramadan season, food demand slightly increases, noted as the period with the highest amount of Indonesian meat consumption in the year, where processed meat products, such as sausages and meatballs, experience a 34% growth. During the same time, canned fish and meat increases to 119%, due to the popularity of faster meals during fasting month.<sup>63</sup>

The processed meat business is fascinating not only in terms of income improvement, but also of its effect on Indonesian urban lifestyle which is becoming more mobile and busy.

### 1.4. Abattoirs

#### 1.4. Abattoirs

Slaughterhouses in Indonesia are mostly owned by small-scale private owners and are often far from complying with the minimum hygiene requirements. Unfortunately, butchers prefer those slaughterhouses, rather than the medium-scale abattoirs, despite them being well-equipped with modern technology. This follows simple market logic of lower costs involved in the small-scale slaughterhouses. Additionally, the locations are much closer to the butchers. According to APFINDO there are approximately 850 abattoirs in Indonesia, from which around 240 of them are supply chain abattoirs, and 40% of them are in poor condition. 50% of the abattoirs are owned by the government, while the other 50% are owned by private companies.

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<sup>62</sup> Food Navigator-Asia, *Growing middle-class will lead poultry demand to double by 2018*, 6th Aug 2014. Available at: <http://www.foodnavigator-asia.com/Markets/Growing-middle-class-will-lead-poultry-demand-to-double-by-2018>

<sup>63</sup> Ibid.

As an outcome of the scandal regarding animal welfare with an Australian cow in 2013, some Indonesian abattoirs have been revitalised to meet the standard for sanitation and technology, particularly those abattoirs that process cattle from Australia. Every imported Australian cattle is tracked until the end of its fattening process. The abattoirs were audited and upgraded with current technology to comply with animal welfare standards, like the provision of restraining boxes to keep the cattle calm while being processed.

Therefore, the medium-sized abattoirs, equipped with modern technology, more often process the imported breeding cattle (mainly from Australia), which is fattened locally. Meat produced by the medium-sized slaughterhouses usually enters the medium to high end market such as restaurants, hotels, and supermarkets. However, this kind of premium product only counts as a relatively small part of the Indonesian meat market.

In the FAO's 2008 report, only 19% of all abattoirs in Indonesia complied with minimum hygiene requirements and provided appropriate technology for producing high-quality meat.<sup>64</sup> The broad ignorance of hygiene issues may lead to the contamination of local meat products with high levels bacteria. Additionally, low technology in the abattoir processing system affects the efficiency of production, which decreases the capacity of the slaughterhouses. A further problem has roots in the lack of knowledge of the slaughterhouse staff about the importance of stringent hygiene standards while processing. In particular, small-scale abattoirs mostly employ low skilled workers, as well as temporary butchers or meat dealers. The fact that domestic meat production fails to meet the growing demand and consumption patterns, is not solely connected to the shortage of domestic meat cattle, but also to a technology gap in the abattoirs, the hygiene standards, the quality of the cattle, and the knowledge of the farmers.

In Indonesia, abattoirs for cattle and poultry are separated. Poultry abattoirs tend to have the same problem as cattle abattoirs. The majority of abattoirs are traditional and therefore do not comply with proper technical and hygiene standards. Workers in traditional abattoirs slaughter the animals manually using a knife, hence the quality of meat cannot be guaranteed. Meanwhile, modern abattoirs are mostly automated, similar to those that process cattle. However, they are by far the minority. More awareness-raising and investment is needed, to disseminate higher hygiene and animal welfare standards, which can in turn increase the production of healthier and higher quality meat.<sup>65</sup> Most modern poultry abattoirs are connected to big companies, such as Japfa and Charoen.

In the future, it is crucial for Indonesian authorities to concentrate on regulations that aim to upgrade slaughterhouses' technology and infrastructure. Upcoming public abattoir projects need to improve knowledge, technology, and hygiene standards. Since local capacity is low, technical assistance is required both from inside and outside the country. One success story can be found in Payakumbuh West Sumatra, where, with technical support from Spain, the regional government implemented a modern abattoir, which will soon start its operations. Provided with

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<sup>64</sup> FAO, *Abattoir Development - Recommendations, Indonesia Overview*, 2008. Available at: <http://www.fao.org/docrep/010/ai410e/AI410E08.htm>

<sup>65</sup> Ayam Karkas, *Mencermati Perbedaan Rumah Potong Ayam Tradisional Dan Modern*, n.d. Available at: <http://ayamkarkas.com/mencermati-perbedaan-rumah-potong-ayam-tradisional-dan-modern/>

local resources it will be able to handle a capacity of 100 cattle per day. Most of the slaughtering machines and technology in the abattoir are imported. The restraining boxes are imported from Australia and the US. Stunning equipment, running carts, automatic injection, and waste treatment machines are imported from Germany, the US, and China. The supervision of the abattoir and its equipment, as well as regulations on imports, falls under the authority of the Ministry of Agriculture.

## 1.5. Poultry

Poultry in Indonesia is still the top protein source, with 67% of total Indonesian meat production coming from poultry meat. As stated in Livestock Review, poultry production value reached US\$4.84 billion in 2012. Thus poultry related industries in Indonesia, such as poultry feeds and Day Old Chicks (DOC), are developing strongly. Three new factories were built in 2013 and 5 new factories<sup>66</sup> in 2014. The total consumption of poultry meat, according to Kontan Newspaper, was still around 8 kilograms per capita per year in 2014.<sup>67</sup> However, this figure would be significantly higher, if the ratio was based on the consumption participation cluster as a denominator.<sup>68</sup> Therefore, due a big portion of market share, the poultry market is already saturated, leaving gaps only for those who can compete with innovative and competitive products.

As stated by Poultry Indonesia magazine, the price for Day Old Chicks (DOC) dropped to under US\$0.23 per chick since Ramadan 2014, the lowest price in the last 5 years. According to Kontan, the price drop was caused by the surplus of stock. Even though the DOC price rose from US\$0.33 to US\$0.36 in the first quarter of 2015, it is still under the normal price range, which is, on average US\$0.38..<sup>69</sup>

Indonesia also imports 100% of Grand Parent Stock (GPS) for its poultry industry, which will be cut off to 665,000 units by the government this year. Regarding live bird supplies, the price in several areas of Indonesia dropped to US\$0.46-0.53, but finally increased to US\$1.3 -1.34 at the end of the year. Meanwhile the egg price has continued to increase over the last four years and reached its all time high from January to August 2015 The demand for eggs and DOC in Indonesia is indeed increasing. In 2003 the consumption of chicken eggs ended the year at 62 eggs per capita. By 2013 the figure had risen to 100 eggs per capita, while the demand for DOC has been recorded at 41 million heads per week.<sup>70</sup> Both eggs and DOC production in Indonesia

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<sup>66</sup> Kontan Online, *Rupiah loyo, produsen pakan ternak was-was*, 10th Mar 2015. Available at: <http://industri.kontan.co.id/news/rupiah-loyo-produsen-pakan-ternak-was-was/2015/03/10>

<sup>67</sup> Kontan Onlin, *Ekspor daging ayam dan telur mulai tahun 2015*, 27th Oct 2014. Available at: <http://industri.kontan.co.id/news/ekspor-daging-ayam-dan-telur-mulai-tahun-2015>

<sup>68</sup> Please refer to the section Cattle Husbandry above (p.38) for more details on consumption ratio based on the consumption participation cluster.

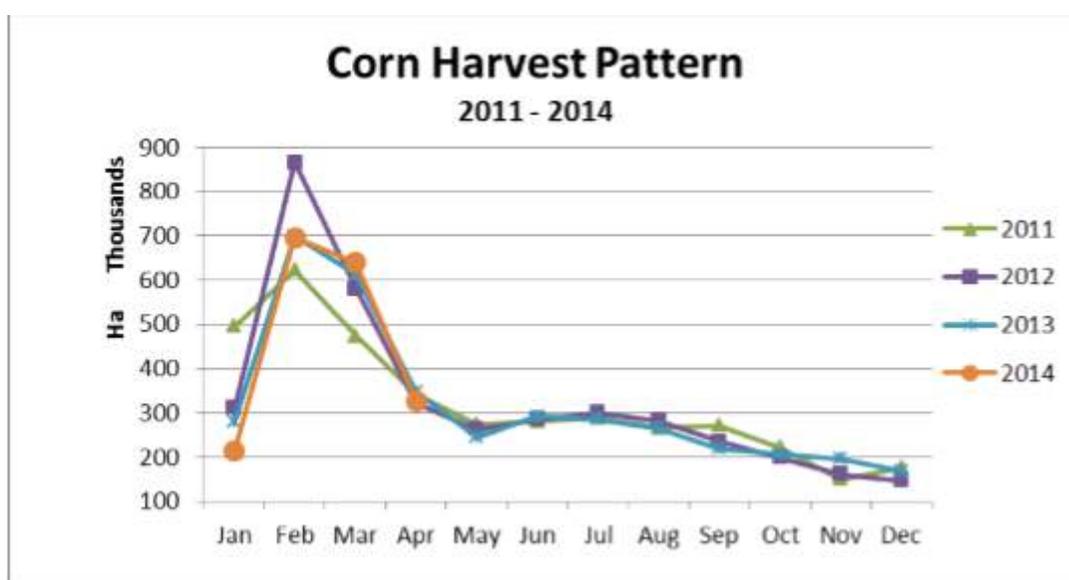
<sup>69</sup> Kontan Onlin, *Ekspor daging ayam dan telur mulai tahun 2015*, 27th Oct 2014. Available at: <http://industri.kontan.co.id/news/ekspor-daging-ayam-dan-telur-mulai-tahun-2015>

<sup>70</sup> Poultry Indonesia, *Persiapan Indonesia Menghadapi MEA 2015*, 2nd Feb 2015. Available at: <http://www.poultryindonesia.com/category/edisi-cetak/februari-2015/?lang=en>

has exceeded the national demand, with a production of 2.4 million eggs per year and 50 million DOC per week.<sup>71</sup>

This regression is also connected to increased production costs caused by the devaluation of Rupiah over the last few years. Indonesia is still importing corn as raw material for both poultry and livestock feed. Even though the world market price of corn dropped, this could not compensate for the strong devaluation, since the price of imported corn only decreased by US\$0.076 /kg. As stated in Agrofarm, Indonesia imports approximately 3.5 million tonnes of corn each year for its feed industry, while nationally only around 19 million tonnes of corn was produced in 2014, which is projected to slightly increase up to 20.3 million tonnes in 2015.

### Indonesia's Seasonal Corn Harvest Pattern



Source: BPS Statistics Indonesia, 2014

As the graph above shows, the necessity of importing corn is rooted in seasonal stock change, where, during the planting time in October to December, the local corn supply takes a dramatic downturn. The production before and after the harvest months (February to April), is shaped by shortages. This is due to the lack of storage facilities for the harvested crops. Moreover, the corn distribution system also requires improvements in order to ensure the domestic supply of corn throughout the year throughout Indonesia.<sup>72</sup>

<sup>71</sup> Kontan Onlin, *Ekspor daging ayam dan telur mulai tahun 2015*, 27th Oct 2014. Available at: <http://industri.kontan.co.id/news/ekspor-daging-ayam-dan-telur-mulai-tahun-2015>

<sup>72</sup> Agrofarm, *Persoalan Jagung Kompleks Indonesia masih impor 3,5 juta ton*, <http://www.agrofarm.co.id/read/pertanian/2657/persoalan-jagung-kompleks-indonesia-masih-impor-35-juta-ton/#.VX5PiPmqgko>

## 1.6. Vaccines and Medicine

The Indonesian animal medicine industry has huge potential. This sector is already exporting globally, although most of the products are basic. Based on our interview with the Head of Indonesia Veterinary Drugs Association (ASOHI), Indonesia has exported several animal medicine products to 37 other countries. However, most of the raw materials for these medicines are imported. According to ASOHI the veterinary industry players are not interested in producing raw materials, even though resources to produce such raw materials can be sourced domestically. The reason behind this rationale is that their research and technology capacities are insufficient to produce raw materials on a reasonable economic scale. So Indonesia imports almost 80% of its raw materials for vaccines, pharmaceuticals, and other drugs. Most of the pharmaceutical raw materials are sourced from China and India, while raw materials for the vaccine industry are imported from European countries like Germany, France, and the Netherlands. Several end products, such as vaccines for certain diseases (e.g. chicken anemia), certain bacteria (e.g. salmonella) and innovative animal drugs, are products that are domestically in high demand, but are not produced locally.

The value of the animal medicine market in Indonesia reached US\$246.1 million in 2013, which is 7% higher than the previous year. Within that, poultry medicine, with more than 70%, contributes the most. At the end of 2014, the market value for animal drugs is expected to reach US\$307.6 million, with the poultry sector having an 80% market share. The rest is divided between 10% for cattle, 5% for pigs and 5% for other types of livestock<sup>73</sup>. ASOHI also mentioned that the market potential for cattle and pet drugs is currently growing, since the current important players are limited and the announcement of the self sufficiency program for beef by the government. The market share in 2014 for poultry feed additives, or premix, will settle at around 55% with a market value of US\$169.2 million, while the market share for poultry pharmaceuticals is expected to be 45% with a market value of around US\$138.4 million.

The animal medicine industry has a high potential due to the growing domestic demand for meat and aligned-products. This is expected to set economic incentives to expand the local poultry and cattle population, which should increase the needs for veterinarian medicines. Currently, there have been reports of issues connected to Antibiotics Growth Promoters (AGP) for poultry, which are used as feed additives from 1 to 50 ppm per ration. Antibiotics are treatments given to livestock, but have a negative impact on long-term poultry health and humans at the end of consumer chain.<sup>74</sup> According to our interview with ASOHI, this issue will be addressed by the Ministry of Agriculture within this year, based on the existing Law No. 18 of 2009. ASOHI is also lobbying for a replacement of AGP with natural products, such as herbal, probiotics, and adicifiers.

The market for drugs for poultry is already saturated. Even though the market is huge, many players are already operating within a very competitive market. This also applies to the basic

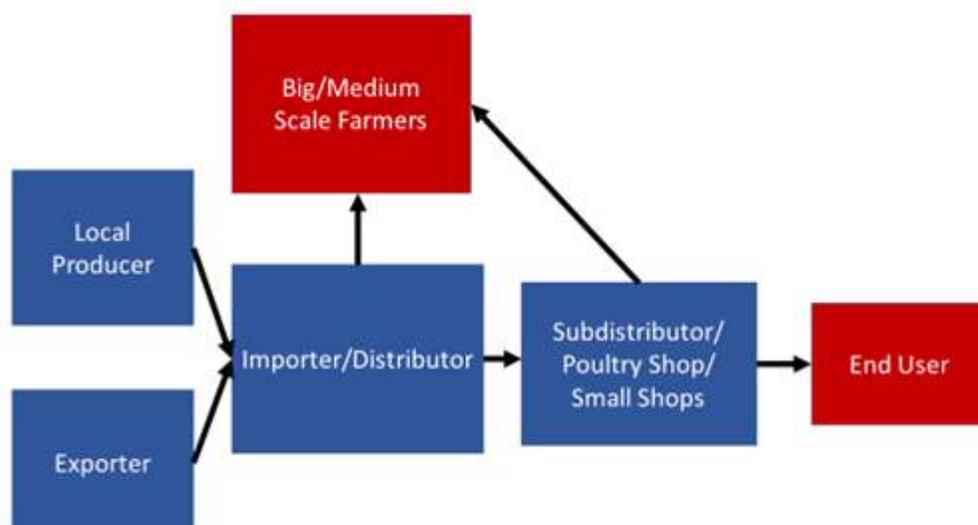
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<sup>73</sup> Republika News, *Bisnis Obat Unggas Menggiurkan*, 27th Nov 2013. Available at: <http://www.republika.co.id/berita/nasional/umum/13/11/27/mwx3np-bisnis-obat-unggas-menggiurkan>

<sup>74</sup> Poultry Indonesia, *Lika-Lilu Penggunaan AGP*, 8th Mai 2015. Available at: <http://www.poultryindonesia.com/news/utama-2/likaliku-penggunaan-agp/>

animal medicine market. Currently, the open and still profitable markets are pet and cattle drugs, innovative treatment, and the organic (herbal products) market.

### General Supply Chain Scheme for Animal Drugs



Source: ASOHI, 2015

### Registration Procedures

According to ASOHI, the importation of animal drugs is supposed to go through the steps under the registration regime of the products handled by the Ministry of Agriculture. Within the first step the submission of all documents is required, which ends in the verification of the submitted documents by the authorities. These two sub-steps may be repeated several times, until the documents are correctly completed. After the verification, the importer is required to attend a meeting with the animal drugs assessor committee, formed by the Ministry of Agriculture, which is held once in a month. The last step required is a quality test by Animal Drugs Quality Testing and Certification Agency (BBPMSOH), after which the Letter of Import Prior Approval will be issued. This may take six to twelve months after the committee meeting has been held. The costs involved are around US\$155. In each shipment, the products are supposed to bear the recommendation letter for import permits issued by the Ministry of Agriculture.

However, there is a draft regulation that requires an on-site review of the manufacture infrastructure in the origin country. This is still pending, but it will be decided within this year whether this will be issued or not. If the government decides to issue this regulation, the on-site review to be conducted before importing animal drugs will increase the cost of registration to around US\$2,307.

It should be noted that the market for animal insecticides/pesticides is still limited in Indonesia, since livestock do not require insecticides/pesticides as much as crops. Insecticides are usually

used only to clean animal cages. Similar as described above, the registration procedure of insecticides/pesticides is handled by a special commission under the Ministry of Agriculture and will also take three to five months before obtaining the prior approval of importation from the Ministry of Agriculture.

## 2. Big Players

### 2.1. Feed

#### **PT. Charoen Pokphand Indonesia Tbk.**

Charoen Pokphand Indonesia is the subsidiary company of its parent company based in Thailand. It was established 1972 and is one of the biggest animal feed producers in Indonesia. Not only limited to animal feed, Charoen Pokphand Indonesia also produces DOC and meat based processed food. Two of its most popular brands in Indonesia are Fiesta and Champ. In 2011, its sales reached US\$1.063 million for animal feed, US\$184.6 million for DOC, and US\$102.7 million for processed food.<sup>75</sup> According to Kontan newspaper, this company's net revenue reached US\$134.6 million in 2014, a decline of 31% compared to 2013 (US\$194.6 million). This cutback is mainly caused by the drop of the DOC price in the last quarter of 2014 (US\$0.19-0.26).

#### **Japfa Comfeed**

Established in 1917, Japfa Comfeed works in the cattle and poultry feed industry, and now has become one of the well-known animal feed and integrated agribusiness companies in Indonesia. It operates in five divisions; poultry, aquaculture, beef cattle, consumer products, and supporting businesses. Its poultry business comprises three subdivisions; poultry feed, poultry breeding, and commercial farming.<sup>76</sup> Japfa also holds other companies operating in beef cattle breeding and aqua culture; PT. Multibreeder Adirama Tbk and PT. Suri Tani Pemuka. Japfa has a production capacity of 1.73 million tonnes of animal feed per annum since 2008, and therefore it dominated the Indonesian animal feed industry with a market share of 45% (US\$596.1 million) in the third quarter of 2012.<sup>77</sup> At the end of 2014, Japfa's revenues reached US\$1.6 billion and it has grown by 14.25% compared to 2014, with its feed division contributing more than one-third.<sup>78</sup>

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<sup>75</sup> Ciputra Entrepreneurship Online, *Charoen Pokphand, Produsen Pakan Ternak Terintegrasi*, 22th Sep 2012. Available at: <http://www.ciputraentrepreneurship.com/domestic-company/charoen-pokphand-produsen-pakan-ternak-terintegrasi>

<sup>76</sup> Reuters, *Japfa Comfeed Indonesia Tbk PT*, n.d. Available at: <http://www.reuters.com/finance/stocks/companyProfile?symbol=JPFA.JK#KWIUppIYxgpcQJtG.97>

<sup>77</sup> Kontan Online, *Japfa incar pertumbuhan pendapatan 15% di 2013*, 20th Mar 2013. Available at: <http://investasi.kontan.co.id/news/japfa-incar-pertumbuhan-pendapatan-15-di-2013>

<sup>78</sup> Britama Online, *Japfa Comfeed Indonesia cetak laba bersih Rp332,39 miliar tahun 2014*, 27th Feb 2015. Available at: <http://www.britama.com/index.php/2015/02/japfa-comfeed-indonesia-cetak-laba-bersih-rp33239-miliar-tahun-2014/>

## 2.2. Dairy

### Frisian Flag Indonesia

Frisian Flag Indonesia is the biggest producer of sweetened condensed milk, milk powder, and milk based drinks in Indonesia. Friesland Campina, the Dutch mother company, is also marketing its series of premium milk products for pregnant woman and growing children (Friso) in Indonesia. Frisian Flag Indonesia's sales went up to US\$538.4 million, which keeps it on top of the dairy market with a share of around 60%.<sup>79</sup> In 2013, Frisian Flag Indonesia signed a MoU with PTPN VIII and Bandung Dairy Cooperative to establish a pilot project of a 'Dairy Cattle village' in order to support the government's plan to increase milk sufficiency. The project aims to address the shortage of agricultural land, as well as the lack of Indonesian farmers' economic competitiveness.

### PT. Greenfields Indonesia

PT Greenfields Indonesia was established by Indonesian and Australian entrepreneurs and has been cooperating with Austasia as their distributor since 1997. This company is part of agriculture and food giant PT Japfa Comfeed Indonesia. The first milk processing facility started its operations in June 2000 in Malang, East Java. It claims to be the biggest milk producing farm in Indonesia. Currently, Greenfields Indonesia has more than 6,000 Friesian Holstein cows and produces more than 20 million liters of fresh milk annually. Greenfields exports their products to Hong Kong, Singapore, Malaysia, the Philippines, Cambodia, and Myanmar. According to its company profile, each cow produces 27 liters of milk each day. Greenfields processes its milk into various dairy products, such as fresh milk, Ultra-High-Temperature Milk (UHTM), cheese, and whipping cream. They target the premium market and sell a liter of fresh milk for US\$2.5. In 2014, Greenfields expanded its business to China and doubled its number of farms by investing millions of dollars in 2014. Greenfields Indonesia has established a joint venture with Mengniu, supplying fresh milk to two major companies; Nestle and Mengniu, since 2007. It is stated in the Financial Times that Greenfield's raw milk production will increase from 250 million liters to 350 million liters by the end of 2015.<sup>80</sup>

### PT Ultra Jaya Milk Industry & Trading Company Tbk

Ultrajaya's dairy is located in Pangalengan, West Java. On 35 hectares, it keeps around 3,000 cattle, of which 1,500 are dairy cows. Ultrajaya is currently expanding its business, building a mega farm in Berastagi, North Sumatra, to be completed in 2016. This farm is planned to operate with 23,000 cows, with an initial 12,000 heads in the first phase.<sup>81</sup> According to Kontan,

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<sup>79</sup> Tribun Bisnis Online, *Frisian Flag Optimis Raih Penjualan Rp 7,84 T*, 5th Oct 2012. Available at: <http://www.tribunnews.com/bisnis/2012/10/05/frisian-flag-optimis-raih-penjualan-rp-784-t>

<sup>80</sup> Financial Times, *Indonesian dairy seeks to emerge from shadows of larger producers*, 15th June 2014. Available at: <http://www.ft.com/intl/cms/s/0/a26e6508-f21d-11e3-9015-00144feabdc0.html#axzz3sw75bloD>

<sup>81</sup> Kontan Online, *ULTJ garap peternakan susu kapasitas jumbo*, 10th Feb 2015. Available at: <http://investasi.kontan.co.id/news/ultj-garap-peternakan-susu-kapasitas-jumbo>

Ultrajaya reached revenues of US\$215.3 million in 2014's third quarter. Ultrajaya currently holds a 47% share in the UHT sector, selling products such as Ultramilk, Ultra Mimi, and Cap Sapi.

## **2.3. Cattle and Feedlot**

### **PT. Berdikari (Persero)**

PT Berdikari was first established under the name of PT Pilot Proyek Berdikari (PT PP Berdikari) in 1966 and its status was changed into a state owned enterprise, called PT Berdikari (Persero). Now, PT Berdikari's facility in West Nusa Tenggara has capacity to process 20 beef cattle on average per day. In February 2015, PT Berdikari signed an MOU with the regional Government of Parepare to take over the state-owned abattoir as a processing facility for their cattle. The amount invested was US\$115,380 to renovate and improve the abattoir infrastructure. For 2015, PT Berdikari set its revenue target at US\$69.23 million, which corresponds to a 33.3% increase compared to the previous year. Additionally, the company's production of frozen meat is expected to grow from 5,000 tonnes to 6,500 tonnes this year. The company also plans to import 2,000 breeding cattle from Australia to strengthen its breeding sector.

### **PT. Santosa Agrindo and PT. Austasia Comfeed (Santori)**

In the red-meat sector, Japfa Comfeed cooperates with its affiliates PT. Santosa Agrindo and PT. Austasia Stockfeed selling its brand Santori. These affiliates conduct business in beef cattle breeding, fattening and meat processing. In Lampung they manage a project which embraces cattle breeding facilities and feedlots. They purchase by-products from surrounding farmers and food producers to be used as their animal feed to maintain the quality of their cattle's nutrition. Japfa's Beef Division produces in excess of 150,000 tones of beef annually. Japfa's affiliates also operate a facility in Banten, which has adopted Halal methods for producing beef, offal, meatballs, and sausages. PT. Santosa Agrindo and PT. Austasia Comfeed's beef business contributes US\$500 million per year to Japfa revenues, which ensures that Japfa has the second largest share in this sector.<sup>82</sup>

## **2.4. Vaccines and Medicines**

### **PT. Sanbe Farma**

PT. Sanbe Farma is one of the biggest pharmaceutical manufacturers in Indonesia, with more than 8,000 employees in total. Sanbe operates in both human and animal pharmaceuticals. It also possesses nine manufacturing and related facilities in Indonesia, specialising in different sub-sectors. Sanbe claims to be a global player, as it operates in eleven countries in Asia and Africa, including Malaysia, Singapore, Thailand, South Africa, Sri Lanka and Ethiopia. Sanbe Farma also sells veterinary vaccines and animal health products (probiotics and

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<sup>82</sup> JAPFA Comfeed Indonesia, *Beef Division*, n.d. Available at: <http://www.japfacomfeed.co.id/beef.html>

pharmaceuticals) under the label Caprifarmindo Laboratories, which owns a plant in Bandung, West Java.<sup>83</sup>

### **Medion Indonesia**

Medion Indonesia has been producing, manufacturing, and selling pharmaceutical products, vitamins, vaccines, and poultry equipment for more than 46 years, also operating in other Asian countries and in Africa. Medion has implemented Good Manufacturing Practices (GMP) in their manufacturing facilities. Their products are divided into vaccines, pharmaceuticals, and also equipment for animal husbandry of various kinds, such as poultry, cattle, pigs, horses, and fish. Medion also produces Avian Influenza (AI) vaccines for poultry; chickens, birds and ducks, which aims to tackle pathogens that occur in Indonesia and other Asian countries. Under the name of Meditech, Medion also provides a wide range of equipment for indoor poultry breeding, such as drinkers, feeders, brooders, cage equipment, syringes, as well as debeakers and incubators.<sup>84</sup>

## **V. National Policies and Relevant Regulations**

Due to its huge market size, Indonesia is very attractive for investors and exporters. The government has been regulating the market to protect local businesses and consumers, attempting to encourage fair competition while promoting investment security.

A special regulatory measurement in Indonesia, as in the case of food and beverages, is that import of animals and animal products, as well as other organic and genetically modified products sold in Indonesia, must be in accordance with halal and labeling regulations.

### **1. Halal Regulation**

With the biggest Muslim population in the world, the Indonesian government acknowledges the concept of *Halal*. *Halal* in Arabic means permitted or lawful. This term covers not only food and drink, but also all matters of daily life and routine. Halal foods are those that are allowed under Islamic dietary guidelines, including restrictions on food preparation. Until recently, the regulation addressing Halal products has been included in the Consumer Protection Act no.8/1999, PP No. 66/1999 on labeling and advertising, and the Food Act 7/1996 on food. The institution that issues Halal certifications is the Indonesian Council of Ulama (MUI).

In September 2014, the government passed Law No 33/2014 on Halal Product Guarantee (UU JPH) which stipulated that halal certification is mandatory for all food, beverages, drugs, cosmetics, chemicals, organic products, and genetically modified products sold in Indonesia. This is also applicable for machinery and equipment used in processing these products.

Within the three years since the enactment of this law, the government will establish a new institution called the Halal Product Guarantee Agency (Badan Penyelenggara Jaminan Produk

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<sup>83</sup> Sanbe Farma, official homepage. <http://www.sanbe-farma.com/>

<sup>84</sup> Medion Bandung – Indonesia, official homepage. Available at: <http://www.medion.co.id/>

Halal-BPJPH) in charge of issuing halal certificates. Once formed, the BPJPH will replace the role currently fulfilled by the Indonesian Council of Ulama (MUI). Although halal certification will be issued by BPJPH, the process of verification of a product will be carried out by the Halal Inspection Institution (Lembaga Pemeriksa Halal – LPH). Accreditation by BPJPH LPH will check and verify whether the raw materials and manufacturing process are in accordance with the halal requirements. Such processes may be carried out inside and outside the manufacturing facility. Once obtained, halal certification is valid for four years.

During the transition period, companies still follow the existing MUI (Majelis Ulama Indonesia) halal certification procedures. The current Halal certificate that has been issued by MUI before this law applies will remain valid until the expiration of the current Halal certificate.

As stated in the Animal Husbandry and Animal Health Act No. 18/2009, all products that use animal ingredients and derivatives circulating in Indonesia, whether local or imported, shall bear the Halal certification if it abides by those guidelines.<sup>85</sup>

It has to be noted, MUI (Majelis Ulama Indonesia) also recognises halal certificates issued by any approved halal certification body in Europe, such as Halal Quality Control in the Netherlands. To date, there are eight approved European halal certification bodies. However, LPPOM MUI might still ask for supporting documents to clarify the critical points of certain certified products.

**The approved European Halal Certification Bodies:**

European Certification Body	Country	Slaughtering	Processed Food	Flavouring
Halal Food Council of Europe (HFCE)	Belgium	•	•	•
The Grand Mosque of Paris	France	•	•	
The Muslim Religious Union in Poland (MRU)	Poland	•	•	
Halal Quality Control (HQC),	The Netherlands	•	•	•
Instituto Halal De Junta Islamica (Halal Institute of Spain)	Spain	•	•	

<sup>85</sup> EIBN, *Food & Beverage Sector Report*, 2014. Access available after registration on [eibn.org](http://www.eibn.org)

Halal International Authority (HIA)	Italy	•	•	
Total Quality Halal Correct (TQHC)	The Netherlands	•	•	•
Halal Control e.k	Germany		•	•
The Muslim Food Board (U.K).	United Kingdom		•	
Halal Feed and Food Inspection Authority (HFFIA)	The Netherlands		•	•

Source: PUBinfo, 2015

## 2. Labeling

### **Regulation No 22/M-DAG/PER/5/2010 of 21 May 2010 of the Ministry of Trade to Amend the Existing Regulation on Labeling Obligation (Ministry of Trade Regulation No. 62/2009)**

According to this regulation all local and foreign companies that produce or import goods for the Indonesian market are obliged to attach labels written in Bahasa Indonesia starting from January 2014. However there is a grace period, in which labels may be attached on the package in the form of a sticker. For raw materials, product labels are still allowed to use the native language.<sup>86</sup> This also applies to the agriculture sector, which is also mentioned in Regulation No. 7/1996 about Food and PP No. 69/1999 about Labels and Advertisements. As of January 1st 2013, the labeling regulation requires imported products to have such labels before entering the Indonesian Customs Area. Before importing any products the importer has to submit a sample of the label written in Bahasa Indonesia to the Ministry of Trade for prior approval. Starting from January 2014 labels have to be in Bahasa Indonesia.

### **Regulation No. 14/M-DAG/PER/3/2007 on Indonesian National Standard and Regulation 20/M-DAG/PER/5/2009 on the Provisions and Procedures for Surveillance of Goods and Services**

For each product subjected to Indonesian National Standard (SNI) it is compulsory for them to carry the SNI logo, Product Registration Number (NRP), or Registration Number Item (NPB) and a label in Bahasa Indonesia when being traded.<sup>87</sup>

<sup>86</sup> Ibid

<sup>87</sup> Ministry of Trade, *Kemendag Pertegas Aturan SNI, 215 Produk dalam Pengawasan*, 7th Nov 2014. Available at: <http://ditjenspk.kemendag.go.id/files/pdf/2015/01/12/kemendag-pertegas-aturan-sni-215-produk-dalam-pengawasan-id0-1421036964.pdf>

There are several SNI related to agribusiness.<sup>88</sup>

Fertiliser:

- SNI 02-0086-2005 triple superphosphate fertiliser
- SNI 02-1760-2005 ammonium sulfate fertiliser
- SNI 02-2581-2005 fertiliser ammonium chloride
- SNI 02-2800-2005 triple superphosphate fertiliser plus-Zn
- SNI 02-2804-2005 dolomite Fertiliser
- SNI 02-2805-2005 potassium chloride fertiliser
- SNI 02-2809-2005 potassium sulphate fertiliser
- SNI 02-2810-2005 monoammonium phosphate fertiliser
- SNI 02-2811-2005 urea ammonium phosphate fertiliser
- SNI 02-2858-2005 fertiliser diammonium phosphate
- SNI 02-3769-2005 Fertiliser SP-36
- SNI 02-3776-2005 natural phosphate fertilisers for agriculture
- ISO 2801-2010 Urea fertiliser
- ISO 2803-2010 NPK solid
- ISO 6246-2010 Single super phosphate fertiliser

Seedlings

- SNI 01-6232.4-2003 Spread seeds of open pollinated corn (Zea mays)
- SNI 01-6944-2003 Hybrid corn (Zea mays) seeds
- SNI 01-6232.1-2003 Breeder seeds of open pollinated corn (Zea mays)

Agriculture Machinery:

- SNI 02-0050 -1994 Liquid spray equipment
- SNI 02-0050 -1994 Farm tractor plow disc

### 3. Horticulture

#### Regulations Related to Importation of Horticultural Products into Indonesia

Law No 13/2010 about Recommendations on the Importation of Horticultural Products (RIPH) mainly elaborates on the procedures of importing horticultural products to Indonesia. Companies willing to import horticultural products must obtain an official Recommendation to Import Horticultural Products (RIPH) from the Ministry of Agriculture and an Import Agreement from the Ministry of Trade. Moreover, the imported products must also possess a food safety guarantee. The requirements and procedure of importation is regulated under Chapter II of this Law. Horticultural imports are only allowed to enter Indonesia via certain ports. Testing requirements, as for most imported products, are not applied equally to all supplying countries.

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<sup>88</sup> National Standardization Agency of Indonesia, official homepage. Available at: <http://sisni.bsn.go.id/>

Under Article 100 number (2), (3), (4), and (5); foreign ownership of horticulture companies will be limited only to 30%, previously this was 95% before this regulation was issued. Therefore, foreign investors with a share of more than 30% must reduce and transfer their shares to domestic investors within the next four years. As another protection measure imposed by the government, this limitation of foreign ownership is going to deter much needed investment in the horticulture sector, as well as the technological transfer coming with it. Following those events, it is expected that the supply of nutritious food will also decrease noticeably.<sup>89</sup>

### **Ministry of Agriculture Regulation No. 60/2012 and Ministry of Trade Regulation 60/2012**

In order to import horticulture products into Indonesia, an import-licensing regime has been imposed by the Ministry of Agriculture and the Ministry of Trade. Accordingly, all importers are required to obtain an import recommendation for horticulture products (RIPH) from the Ministry of Agriculture as a prerequisite for applying for the Import Permit Letter (SPI) from the Ministry of Trade. One RIPH is valid for one HS code, one country of origin, one port of entry, one port of loading and one supplier. The horticulture products to be imported must be verified by Indonesian surveyors and/or their authorised agents in the importer's country of origin. It has been reported that extensive and often unwarranted testings may occur.

### **Ministry of Agriculture Regulation No 86/2013 on Import Recommendation of Horticulture Products**

The import process of horticulture products has a similar licensing regime as the import of animal and animal products (dairy, meat, etc.). The product should obtain an import agreement from the Ministry of Trade, which requires a recommendation for agricultural products by Ministry of Agriculture (RIPH) and a letter of agreement from National Agency of Drug and Food Control (BPOM) for processed food products. In order to gain the recommendation from the Ministry of Agriculture the imported horticulture products require documents such as; good agricultural practices, packing house registration, storage device statement, and the suitability of storage capacity.

### **Ministry of Agriculture Regulation No. 4/2015 on Fresh Food of Plant Origin (FFPO) Recognition Procedures**

Providing an alternative to acquiring the FFPO recognition through FFPO lab testing, this new regulation replaced the Ministry of Agriculture Regulation No 88/2011 on the former import and export of FFPO Recognition Procedures. However, exporters or importers may continue to apply for FFPO country recognition. The countries with testing laboratory recognition may provide the Certificate of Analysis (COA). The COA is not required for countries with country recognition. Shipments from all countries, regardless of its laboratory or country recognition, have to provide the Prior Notice of Shipment after the FFPO products have been loaded onto the vessel. There are 103 types of FFPO regulated by this law, including apples, raisins, citrus

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<sup>89</sup> EIBD, *Recommendation for Increased Trade and Investment between Indonesia and the European Union*, 2012. Available at: <http://www.eibd-conference.com/assets/files/Recomendation2012/EIBD%20Recommendation%20Book%20Content%20FINAL%20for%20web.pdf>

fruit, cranberries, bananas, tomatoes, sweet potatoes, lima beans, wheat, rice, maize, almonds, macadamia nuts, pistachio nuts, peanuts, as well as many other types of vegetable, fruit, grain, and nut.<sup>90</sup>

### **Presidential Decree No. 39/2014 on the List of Business Fields Closed and Open for Investment**

This regulation limits foreign ownership in the agriculture sector for seedlings, cultivation, processing and research for horticulture products (such as grapes, apples, oranges and vegetables) up to a maximum of 30%. For horticultural tourism and other horticulture related services, such as post harvesting, consultancy and landscaping, the same threshold applies. The regulation also states that foreign ownership in the utilisation of agricultural genetic resources and Genetically Modified Products (GMO) are now limited to a maximum of 49% foreign ownership.

### **Regulations of Intellectual Property Rights**

Government regulation No 20/2005 indicates that intellectual property rights include the license, co-operation, science and technology services and publications of agriculture research and development results. Minister of Agriculture regulation No. 6/2012 states the guidelines to obtain legal protection of Intellectual Property Rights.

## **4. Livestock**

### **Regulation Related to Importation**

#### **Law No. 41/2014 as Amendment for Law No. 18/2009**

Pursuant to Law No. 18/2009, all ruminant livestock is allowed to enter Indonesia based on country of origin. In Law No. 41/2014 Article 36C, it is now permissible to import ruminants to Indonesia from certain zones of a country. Therefore it opens up imports from certain zones of Brazil, for example, and not only from Australia, New Zealand or USA. In Article 36D, the ruminant cattle coming from a certain zone of a country must be quarantined on a specific island for certain amount of time.

Since the release of this regulation a partnership program between big agribusiness companies and small-scale farmers has been developed. Within the partnership, often established under a contract between two parties, the bigger company provides the inputs such as breeding cattle, DOC, feeds, vaccines, and drugs, while the small-scale farmer provides the cultivating cost and cages/stalls. The sale income will be divided based on their agreements.

### **Ministry of Trade Regulation No. 17/2014 as the Second Amendment of Ministry of Trade Regulation No. 46/2013 on Import Regulation of Animal and Animal Products**

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<sup>90</sup> United States Department of Agriculture (USDA), *MOA 4 2015 New FFPO Recognition Procedures*, 2014. Available at:  
[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/MOA%204%202015%20New%20FFPO%20Recognition%20Procedures%20\\_Jakarta\\_Indonesia\\_4-10-2015.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/MOA%204%202015%20New%20FFPO%20Recognition%20Procedures%20_Jakarta_Indonesia_4-10-2015.pdf)

The importation of Animal and Animal Products is only permitted from countries which are free from foot and mouth disease.

Before exporting to Indonesia, all exporters are required to cooperate with a local partner or importer already certified as a Registered Importer of Animal and Animal Products. All imported animal and animal products (including livestock, poultry, and their products) require the Import Permit issued by the Ministry of Trade. Before the Import Permit can be issued, the product is obliged to carry the recommendation for animal and animal products from Ministry of Agriculture. Moreover, the products need to possess a Certificate of Health which will be granted after obtaining a statement regarding the condition of the livestock as free of diseases.

Another amendment was made by Article 12A, which states that the renewal of Import Agreements can be granted after the approval from the Minister of Trade through the Directorate General of the Trade Service Unit.

### **Ministry of Agriculture Regulation No. 65/2014 on Animal Quarantine Measure**

The Ministry of Agriculture issued this regulation on consumable products of animal origin (consumable HBAH) on May 2014. This consumable HBAH includes processed meat, dairy products, processed eggs, and other processed materials from animal origin.

This quarantine can be conducted as inspection, detention, rejection, eradication, and releasing of products. The inspection itself aims at both documents (Halal and Sanitation) as well as physical inspection (temperature, packaging, labelling, and conditions). In case the need arises, the product may be brought to the laboratory for further confirmation. An essential requirement for animal products to enter Indonesia is a sanitation certificate issued by a quarantine veterinarian at the exit point and a sanitation statement letter authorised by a veterinarian in the area of origin.

## **5. Import Barriers**

All input products for agriculture, such as fertilisers, seeds and machines, go through the testing and certification office in Indonesia, which closely cooperates with the Indonesian Institute of Science (LIPI) and the Ministry of Industry. The import process for high-standard countries, for instance European countries, will be easier than those for developing countries. Usually, products imported from Europe will not have to go through a facility inspection in their countries of origin.<sup>91</sup>

All other agribusiness products also go through the Quarantine Agency of the Ministry of Agriculture, based on Law Number 16, 1992. This process also involves several examinations, observations, and laboratory tests in order to find out whether the country of origin and the product are able to comply or not.

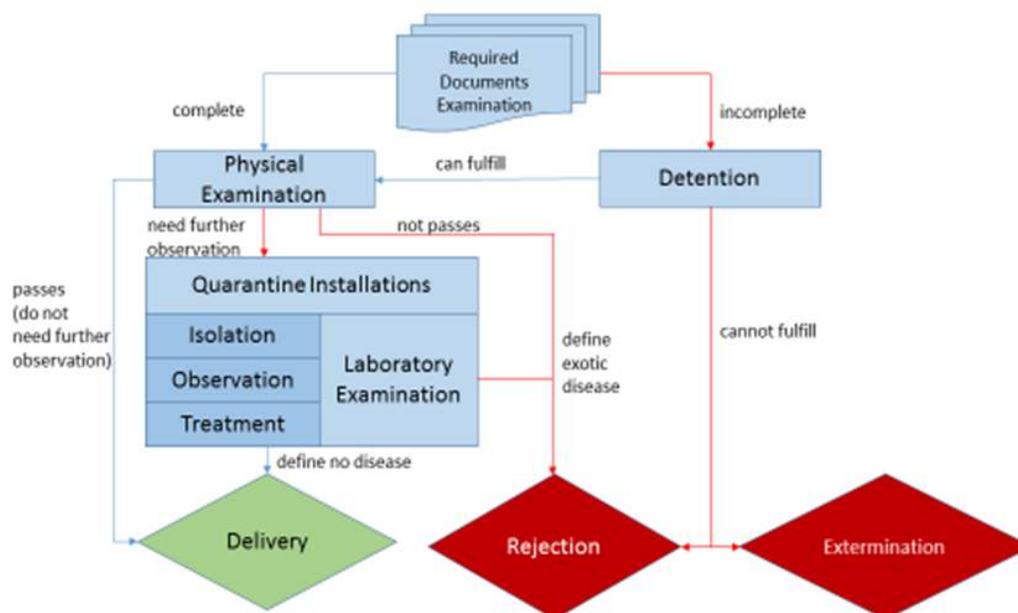
This quarantine process is conducted at the entry gate of the country, i.e. airports, seaports, post offices or state border posts. The flowchart below displays the aforementioned procedure

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<sup>91</sup> Interview with an official of the Ministry of Agriculture. Source anonymized.

for agribusiness products, including livestock and agriculture products. The products might be rejected if the documents have not been completed correctly, or if it fails the quarantine examination.

## Flowchart of Quarantine Treatment



Source: Ministry of Agriculture 2015

In order to understand which types of certification are needed for which purpose and what authority is in charge of issuing it, please refer to the table below.

### List of All Export Certificates Required by Authorities

Products	Title of Certificates	Purpose	Requesting Ministry
<b>Bovine genetics</b>	Certificate of Health and Origin	Animal health	Ministry of Agriculture
<b>Live animals</b>	Certificate of Health and Origin	Animal health	Ministry of Agriculture

<b>Animal by-products</b>	Certificate of Health and Origin	Animal health	Ministry of Agriculture
<b>Poultry, meat, and products derived from poultry and meat</b>	Sanitary Health Certificate	Food safety	Ministry of Agriculture
<b>Milk, milk powder, milk products &amp; cream, poultry egg</b>	Sanitary Health Certificate		Ministry of Agriculture
	Certificate of Free Sale	Food safety	National Agency of Drug & Food Control (BPOM)
<b>Plant Products</b>	Phytosanitary Certificate	Plant safety	Ministry of Agriculture
<b>Fresh Meat, Dairy Products, Other Processed Food, and Food Additives</b>	Halal Certificate	Product Meets Religious Standards	Indonesia Council of Ulama (MUI)

Source: USA GAIN Report 2014

Below is the list of some agribusiness products with their related HS codes, tariffs, and income tax in Indonesia.

#### Products by HS Code and Corresponding Tax

Product	HS Code	Tariff	VAT	Income Tax
<b>Fertilizers</b>				
Animal or vegetable origin	3101	5%	10%	7.5% without API or 2.5% with API
Mineral or chemical, contains nitrogen	3102	0 (except for Urea and Mixture of Urea and Ammonium Solution:5%)	10%	7.5% without API or 2.5% with API
Mineral or chemical, contains phosphate	3103	0	10%	7.5% without API or 2.5% with API

Mineral or chemical, contains potassium	3104	0 (except for potassium sulphate:5%)	10%	7.5% without API or 2.5% with API
Mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus and potassium; other fertilisers; goods of this Chapter in tablets or similar forms or in packages of a gross weight not exceeding 10 kg.	3105	5% (except for diammonium phosphate, monoammonium phosphate, and fertilizers containing nitrogen and phosphate in other classification than those containing nitrates and phosphate:0)	10%	7.5% without API or 2.5% with API
<b>Agriculture Machinery</b>				
Seeders, Planters, and Transplanters	8432300000	5%	10%	7.5% without API or 2.5% with API
Ploughs	8432100000	7.50%	10%	7.5% without API or 2.5% with API
Harrows, scarifiers, cultivators, weeders, and hoes	843220	5%	10%	7.5% without API or 2.5% with API
Manure spreaders and fertiliser distributors	8432400000	5%	10%	7.5% without API or 2.5% with API
Parts	843290	5%	10%	7.5% without API or 2.5% with API
<b>Farming Machinery:</b>				
Milking machines and dairy machinery	8434	5%	10%	7.5% without API or 2.5% with API
Poultry-keeping machinery; poultry incubators and brooders	843620	5% (Except for electrical operated incubators or brooders:0)	10%	7.5% without API or 2.5% with API
Other machines	843680	5%	10%	7.5% without API or 2.5% with API
Parts		5% (Except for non-electrical operated machinery for poultry-keeping, incubators and brooders:0)	10%	7.5% without API or 2.5% with API
<b>Breeding Animal</b>				
Live horses	0101210000	0	10%	7.5% without API or 2.5% with API
Live mules, hinnies, asses	0101301000	0	10%	7.5% without API or 2.5% with API

Live cattle	0102210000	0	10%	7.5% without API or 2.5% with API
Live male cattle (including oxen)	01022910	0 for oxen and 5% other cattle	10%	7.5% without API or 2.5% with API
Live buffalo	0102310000		10%	7.5% without API or 2.5% with API
Live other bovine animals	0102901000		10%	7.5% without API or 2.5% with API
Live swine	0103100000	0	10%	7.5% without API or 2.5% with API
Live sheep	0104101000	0	10%	7.5% without API or 2.5% with API
Live goat	0104201000	0	10%	7.5% without API or 2.5% with API
Live poultry (breeding goslings, breeding ducklings, breeding fowls, breeding turkeys)	Under HS Code 0105...	0 (except for breeding guinea fowls and fighting cocks: 5%)	10%	7.5% without API or 2.5% with API
<b>Meat</b>				
Bovine meats; frozen	Under HS Code 0202...	5%	10%	7.5% without API or 2.5% with API
Meat of swine; frozen	Under HS Code 020320...	5%	10%	7.5% without API or 2.5% with API
Other meat of sheep; frozen	Under HS Code 020440...	5%	10%	7.5% without API or 2.5% with API
Meat of goats	0204500000	5%	10%	7.5% without API or 2.5% with API
Meat and edible offal of poultry	Under HS Code 0207...	5% (except for thighs of Gallus domesticus: 20%)	10%	7.5% without API or 2.5% with API
<b>Dairy and dairy products</b>				
Milk and cream	Under HS Code 0401...	5%	10%	7.5% without API or 2.5% with API
Milk and cream	Under HS Code 0402...	5% (except for product other than post 040220, 040210, 0402910000: 10%)	10%	7.5% without API or 2.5% with API
Buttermilk, curdled milk and cream, yogurt, kephir and other	Under HS	5%	10%	7.5% without API

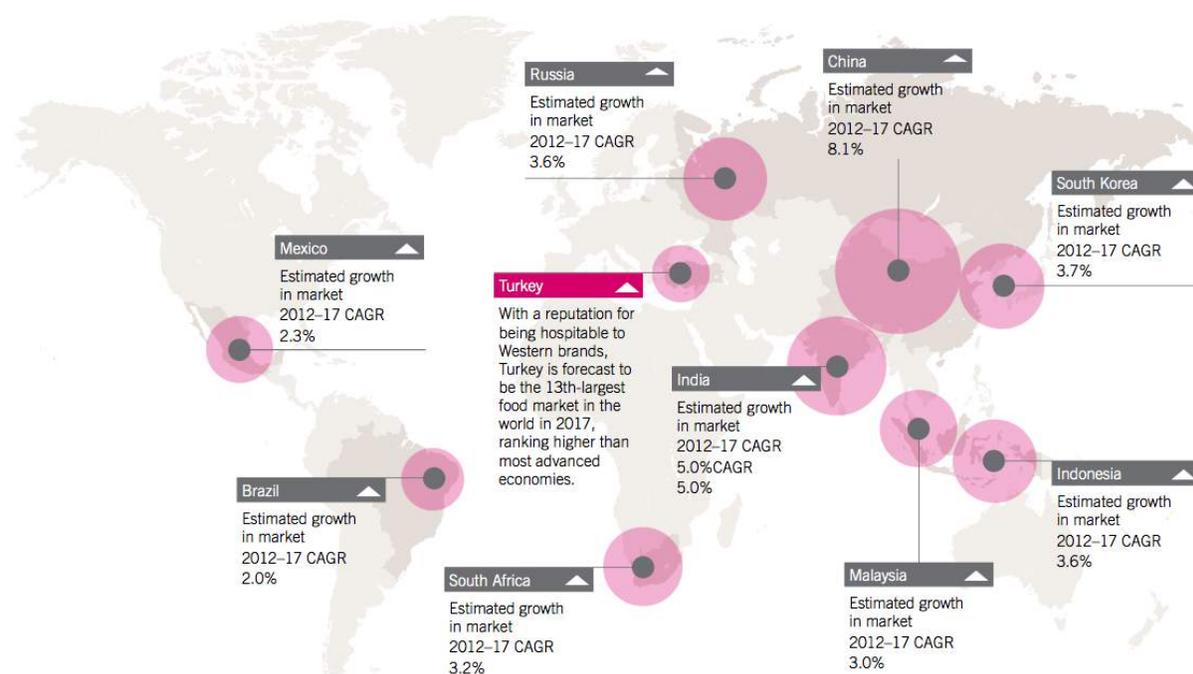
fermented or acidified milk and cream	Code 0403...	(except for yoghurt: 10%)		or 2.5% with API
Whey	Under HS Code 0404...	5%	10%	7.5% without API or 2.5% with API
Butter and other fats and oils derived from milk; dairy spreads	Under HS Code 0405...	5%	10%	7.5% without API or 2.5% with API

Source: Indonesia National Trade Repository, 2015

## VI. Opportunities and Challenges

Based on Linklaters' Emerging Opportunity Index, Indonesia ranks at number five among the most attractive emerging markets for food and beverages investment. The index aims to identify the top emerging markets globally, by taking into account the opportunities as well as the risks an economy is facing. Currently, Indonesia's economy has been generally displaying a certain degree of immunity to global economic risks, as shown during the Eurozone crisis and the 2015 surge in oil prices..<sup>92</sup>

### Food and Beverage: Linklaters Emerging Opportunity Index



Source: Linklaters Food and Beverage Network, 2013

### 1. Challenges

Even though the country shows good future prospects for the agribusiness market, this report would not be complete without mentioning the local challenges to doing business in Indonesia. This report has selected the challenges which either heavily influence the Indonesian market, or tend to have a certain influence on foreign companies conducting business in this archipelagic country.

<sup>92</sup> Linklaters, *Food and Beverages – The Linklaters Emerging Opportunity Index*, 2013. Available at: <http://www.linklaters.com/pdfs/mkt/london/Linklaters-Emerging-Opportunity-Index-Food-Beverage.pdf>

## 1.1. Standar Nasional Indonesia (SNI)

Pursuant to Government Regulation No 102/2000 Art. 1(3), SNI is the standard stipulated by Badan Standardisasi Nasional (BSN) and is applicable nationally. While not all products are obligated to have meet an SNI, each product subjected to Indonesian National Standard (SNI) is required to carry SNI logo, Product Registration Number (NRP) or Registration Number Item (NPB) and a label in Bahasa Indonesia, when being traded.<sup>93</sup> The list of SNI can be seen at BSN website and is updated regularly.

Taking into account the SNI, European companies planning to conduct business in Indonesia are highly recommended to meet those regulations, since post-steering can be very expensive. Consulting a market entry expert in advance is therefore essential.

## 1.2. Negative Investment List

Based on Art. 12 (1) of the Investment Law No. 25/2007, the Negative Investment List (NIL) is compiled by the Indonesian Investment Coordinating Board (BKPM) stipulating which sectors are open to foreign investment in Indonesia, as well as the percentage of foreign ownership permitted. There are two categories: closed business fields, which are prohibited from conducting any investment activities; and certain business fields which are open for investment activities under certain requirements such as:

- Reserved for Micro, Small and Medium Enterprises and Cooperatives
- Partnership
- Capital Ownership: Domestic, Foreign, ASEAN
- Location
- Special Permits

The latest NIL is stated in Presidential Regulation No 39/2014 which is in line with the treaties on the ASEAN Economic Community. The NIL allows higher caps for ASEAN-based investors in certain sectors. Unlike in its previous versions, the current one stipulates that any sector not stated as closed or partially closed will in fact be 100% open to FDI.

## 1.3. Infrastructure Demand

When doing business in Indonesia, foreign companies must bear in mind that infrastructure related to food transport and food preservation are under-developed, particularly outside Java. Frozen and chilled products still face crucial challenges due to a lack of access to refrigeration facilities in Indonesian households, but most importantly within the entire food supply chain. The EIBN Food & Beverage Sector Report points out that the Indonesian Cold Chain Association

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<sup>93</sup> Ministry of Trade, *Kemendag Pertegas Aturan SNI, 215 Produk dalam Pengawasan*, 7th Nov 2014. Available at: <http://ditjenspk.kemendag.go.id/files/pdf/2015/01/12/kemendag-pertegas-aturan-sni-215-produk-dalam-pengawasan-id0-1421036964.pdf>

Development Project, funded by the U.S. Department of Agriculture, aims to improve Indonesia's cold chain facilities by building up effective networks and rising awareness about the crucial role a unbroken cold chain plays with regards to food security and community's health in the country.

As a result, refrigerated pasteurised milk is only available in the bigger cities in Indonesia which have sufficient cold chain facilities. Outside those cities, only Ultra High Temperature milk or condensed milk is available.

Closing the gaps within the cold chain is a tremendous challenge for a huge archipelagic country like Indonesia. Therefore, investment in transport infrastructure, not only related to food preservation, between the thousands of Indonesian islands is in high demand (roads, ports, railroads, and shipping) and makes it challenging to provide easy and fast access to food products.

For instance, dragon fruit farmers have difficulties in selling their product when their location is far from the bigger cities and they have no suitable cold chain transportation to carry their product. As dragon fruit has a limited shelf life, most of their harvest can only be sold locally.

The current government is focusing on the development of a more sophisticated and robust maritime connection within the archipelago, in order to lower the transportation costs between the western and eastern part of the country. Additionally, the government is investing in the development of trans-Sumatra and trans-Sulawesi highways to connect those consumer markets.

#### **1.4. Market Access**

Corruption and bureaucracy remain a large part of the Indonesian market. These issues not only affect the agribusiness sector, but also all other sectors of the Indonesian economy. Therefore, companies must be aware of the risks and difficulties they face when investing or conducting business in Indonesia. Thus, involving professional consultants, such as the EU-Indonesia Business Network (EIBN), or other foreign Chambers of Commerce and Industry and Trade Agencies, is highly recommended due to their knowledge of national and local procedures, regulations and market insights.

In addition to this, particular regulations regarding agribusiness products might also be challenging for foreign companies, such as Indonesian language labeling and the notification of genetically modified ingredients, as mentioned in the "National Policy and Relevant Regulations" section above.

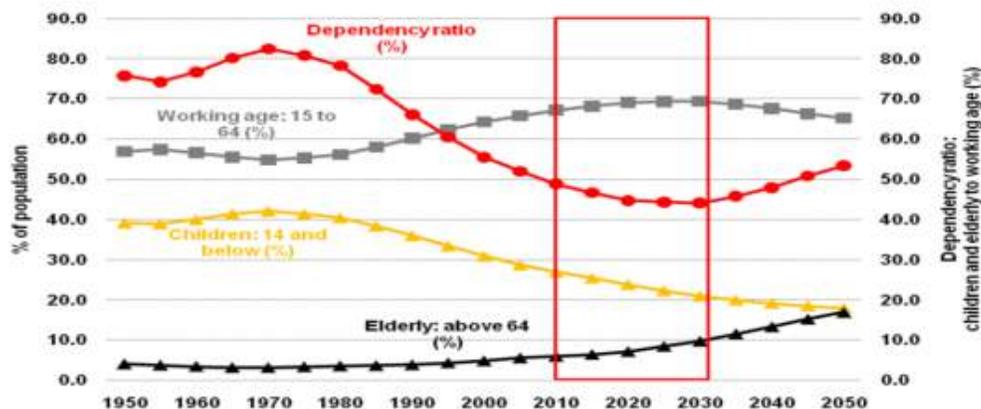
## **2. Opportunities**

Besides these challenges, Indonesia still bears a lot of potential for European companies eager to tap into the Indonesian market. The market opportunities listed below range from certain demographic development to an overview of relevant cross-linkages between agribusiness and other sectors influencing this industry.

## 2.1. Indonesian Demographics

As the fourth most populated country in the world, Indonesia's population has been growing at a constant pace reaching 253,609,643 in July 2014. Approximately 43% of the population is aged between 0 and 24 years old, showing a similar picture as other emerging markets. Indonesia's population distribution is shifting, however, due to lower birth rates, accompanied by an increase in average life expectancy, resulting in a higher share of population in the working age-group. It is expected that 70% of the population will be in the working age-group by 2025. With higher incomes and a steadily increasing number of middle income households, Indonesia has become a more attractive market than ever before.

### Indonesian Demographic Transition;



Source: Master plan of acceleration and expansion of Indonesia's Economy 2011-2025, 2011

According to the World Bank, more than 50% of the total population lives in urban areas. This urbanisation process in Indonesia is expected to continue, underlined by UN forecasting that 2/3 of Indonesian consumers will be urbanised by 2050. It is also important to bear in mind that an important share of the population, approximately 60%, are located on the island of Java.<sup>94</sup>

<sup>94</sup> The World Bank, *Population Estimates and Projections*, 2015. Available at: <http://data.worldbank.org/data-catalog/population-projection-tables>

**World Bank Population Projection (In millions) and  
Projected Population Increase (in %) 1995-2050**

	1995	2000	2025	2050	% increase 1995-2050
<i>Ten most populous countries in 1995</i>					
China	1199	1255	1471	1556	30
India	934	1016	1370	1623	74
U.S.A.	263	276	323	335	27
<b>Indonesia</b>	<b>193</b>	<b>206</b>	<b>265</b>	<b>304</b>	<b>58</b>
Brazil	161	172	224	254	57
Russia	149	150	153	152	2
Pakistan	130	148	243	316	144
Japan	125	127	124	115	-8
Bangladesh	121	132	182	218	80
Nigeria	111	128	217	288	159
<i>Other populous ASEAN countries</i>					
Vietnam	74	82	117	142	92
Philippines	69	77	115	143	107
Thailand	61	65	81	91	51

Source: World Bank, 2015

## 2.2. Changing of Consumption Patterns

Regarded as an essential influence on the current and future business environment, Indonesian consumption patterns have been changing from the traditional towards a more westernised consumption pattern. That leads to an increase in imported goods, mostly those which are not produced locally or produced on a small scale, such as certain kinds of dairy products, wheat and beef.

While Indonesia's per capita grain, cassava and other tuber consumption has been declining, wheat consumption, fueled by the consumption of instant noodle products and bread, has been

increasing steadily over the years. Additionally, the consumption of meat, dairy and eggs has increased.<sup>95</sup>

Based on the Indonesian Statistics Center, the growth in the consumption of fish, vegetables, fruit and oils has been modest and total caloric intake per person has shown little change. Indonesia's level of animal product consumption (meat, fish, dairy, eggs, etc.) per person is still quite low compared to other emerging markets in the ASEAN region.

### Average Daily per Capita Consumption of Protein (in gram) by Commodity Group 2002-2013

No.	Commodity	2010	2011		2012		2013	
			March	September	March	September	March	September
1	Cereals	21.76	21.57	20.96	21.00	20.80	20.57	20.4
2	Tubers	0.32	0.36	0.30	0.27	0.28	0.27	0.29
3	Fish	7.63	8.02	7.66	7.49	7.85	7.34	7.56
4	Meat	2.55	2.75	2.76	2.92	3.41	2.47	2.38
5	Eggs & Milk	3.27	3.25	3.06	2.94	3.01	3.08	3.07
6	Vegetables	2.52	2.43	2.34	2.40	2.36	2.27	2.31
7	Legumes	5.17	5.17	4.85	5.00	5.28	4.93	4.51
8	Fruits	0.47	0.42	0.37	0.44	0.39	0.4	0.34
9	Oil and Fats	0.34	0.31	0.28	0.27	0.27	0.25	0.24
10	Beverage stuffs	1.05	1.07	1.04	0.86	0.85	1.04	1.04
11	Spices	0.69	0.69	0.69	0.58	0.60	0.62	0.63
12	Miscellaneous food items	1.21	1.21	1.11	1.04	1.05	1.09	1.04
13	Prepared food	8.03*)	9.01*)	7.71*)	7.93*)	7.99*)	8.75*)	8.62*)
14	Alcoholic beverages	-	-	-	-	-	-	-
15	Tobacco and betel	0.00	0.00	0.00	0.00	0.00	0	0
	<b>TOTAL</b>	<b>55.01</b>	<b>56.25</b>	<b>53.12</b>	<b>53.14</b>	<b>54.14</b>	<b>53.08</b>	<b>52.44</b>

Source: BPS Statistics Indonesia, 2014

Linked to the fast growing middle class, Indonesian incomes will increase in the coming years. Therefore, food consumption is very likely to continue this growth, leading to a greater demand for animal products, meat and dairy products. This is likely to further increase if those goods reduce in price as a result of the higher availability of refrigeration facilities and supply chain improvements, which are expected within the next years.

Consumption behaviour is also changing due to an improvement in education. This leads to an increase in health-conscious consumers, which in turn leads to growing awareness of healthy

<sup>95</sup> USDA, *Trade and Food Security Implications from the Indonesian Agricultural Experience*, Report from the Economic Research Service, 2010. Available at: [http://www.ers.usda.gov/media/146661/wrs1001\\_1\\_.pdf](http://www.ers.usda.gov/media/146661/wrs1001_1_.pdf)

lifestyles and organic food and beverages.<sup>96</sup> Clearly, this target market focuses more on middle-to-upper-income consumers who can afford the premium pricing of imported goods, as the unstable Indonesian currency has resulted in some uncertainties short-term.

## **2.3. Sub-Sectors with High Potential for EU Companies**

### **Horticulture and Food Crops**

In order to reach the goals established by the government to achieve self-sufficient food production, Indonesia urgently needs to modernise its agribusiness sector. Therefore, foreign companies with expertise and experience in agribusiness, as well as with access to efficient technology, can expect great opportunities to conduct business in this country.

Indonesia needs to train its farmers in order to produce more efficiently, including utilising the available land more effectively. The constraints of smaller and smaller areas open for planting, means that small-scale farmers need to develop a strategy to increase the productivity of their land, not only by using good quality seedlings, but also by investing in modern machinery to improve planting and harvesting.

Facing the issue of degraded soil caused by excessive use of fertiliser, farmers need to learn how to revitalise their soil, for example by using organic fertiliser. Domestically, there has been a trend driven by an emerging middle class to consume healthier products, such as organic vegetables. This also applies to related industries and markets, for instance eco-friendly/organic cosmetic and beauty products, which certainly offers new business opportunities linked to the agribusiness sector.

### **Cattle – Livestock**

In emerging economies, the average per capita beef consumption tends to follow per capita GDP. Since Indonesia has been growing the last decade, the demand for beef has been increasing steadily over the years. This has reached a stage where the domestic producers are unable to keep up with demand.. To bridge this gap in demand, Indonesia has been increasingly importing live cattle and frozen beef from abroad since 2006. As part of a broader goal to achieve self-sufficiency in beef, the government has highlighted its plans to develop the domestic beef industry further, in order to adapt to the current consumer pattern.

While it is becoming more common to find organic vegetables in Indonesia, organic meat is still an untapped market in this country. This obviously points to the potential for European companies, experienced in producing organic meat, to support and enter the Indonesian domestic market.

As there are few certified abattoirs in Indonesia, it also opens up the prospect of consultations, facilitation, and training in this sub-sector.

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<sup>96</sup> Euromonitor International, *Health and Wellness in Indonesia*, 2015. Available at: <http://www.euromonitor.com/health-and-wellness-in-indonesia/report>

## **Dairy**

The consumption of milk and dairy products in Indonesia continues to grow. The trend clearly shows that Indonesians, mostly those obtaining a middle or higher income, are consuming more cheese, as well as yoghurt, due to its reputation for aiding digestion. Western style cakes and puddings also raise the consumption of cream.

Farmers have always been the weakest link in the domestic dairy production chain, as they are often small-scale farmers with a lack of market power. On average, they own less than five cows and poor, if any, equipment. To address this issue, upgrading farm equipment, importing high-yielding parent stocks and capacity building for farmers needs to be implemented. The Government of Indonesia can play a vital role through subsidising and investing in support for farmers to improve their production processes. In particular the dairy market is limited by the current lack of sufficient cold storage facilities, which is a significant opportunity for European companies. This also applies to the entire transportation process of dairy products across the country.

## **Poultry – Livestock**

Chicken has been in high demand in Indonesia as source of cheap protein and it will continue to increase in the coming years. To meet this growing demand, investment in additional capacity and productivity are required, mainly by introducing more knowledge-intensive production systems.

Farmers usually buy Day Old Chicks, as the cost of hatchery equipment is significantly higher. The lack of knowledge in embryology and hatchery management, as well as in managing fertility, results in a need for topic-related capacity building for the poultry farmers. Unfortunately, use of antibiotics is widely accepted due to a lack of understanding of avian health. Alternative treatments solutions are needed, which could be provided by European companies.

## **Vaccines and Medicine**

Due to insufficient technology, Indonesian companies are only able to process a limited number of veterinary drugs. Therefore, the usual procedure is to import most raw materials from abroad, making it more expensive to produce, as well as more vulnerable to foreign exchange rate volatility. As the resources for most raw materials are available locally, European companies are provided with the opportunity to invest in facilities to process these raw materials into more advanced products, with their technology and know-how. In Indonesia, the biggest vaccine and medicine market is poultry, due to its high share of the Indonesian livestock market. Cattle and pet related drugs are also growing steadily, but have not reached a comparable size. The latest regulations restrict the usage of Antibiotic Growth Promoters for poultry, which opens up the opportunity for alternatives such as herbal, probiotics and adicifiers.

## **2.4. Linkage to Other Sectors**

### **Tourism and Food Industry**

As it was pointed out in the EIBN Food & Beverage Sector Report, the tourism sector and the food industry is closely linked. The contribution of travel and tourism, including effects from symbiotic sectors such as investment and supply chain, to the Indonesian GDP grew 9.5% compared to last year and the outlook for 2016 is also promising. This is going to generate opportunities within the food and beverage sector, particularly in relation to the Western diet, to cater to tourists from abroad.<sup>97</sup>

Additionally, the expansion and development of air travel infrastructure and improved land and sea routes will boost tourism, but also reduce the logistic costs for commodities, leading to lower prices and a higher availability of goods and services.

This growing trend for tourism is also supported by the rising average income of the Indonesian population. With an increase in expenditure on travel, the share of domestic tourism within the tourism sector is expected to grow in the next decade, which can clearly be linked to the infrastructural expansion recently witnessed within the local low cost airline industry.

The hospitality sector, in particular, will continue to expand its supply for specific food products to meet the growing demand. Many products connected to specific Western consumer patterns currently need to be imported, which offers opportunities, especially for EU companies.

### **Cosmetics and Beauty Products**

Growing consumer awareness on the importance of healthy products creates new opportunities for cosmetics and beauty product manufacturers that use natural ingredients in their products. Research of indigenous herbs such as turmeric and tamarind, has resulted in more demand for those raw materials to be used in cosmetics and beauty products.

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<sup>97</sup> World Travel & Tourism Council, *Travel & Tourism – Economic Impact 2015 Indonesia*, 2015, p. 3. Available at: [www.wttc.org/-/media/files/reports/economic impact research/countries 2015/indonesia2015.pdf](http://www.wttc.org/-/media/files/reports/economic%20impact%20research/countries%202015/indonesia2015.pdf)

## VII. Conclusion

The objective of this market study is to provide an overview of the sector, but at the same time to offer market-related and regulatory insights relevant for European companies conducting business in Indonesia. Balancing existing challenges and promising opportunities, the agribusiness sector in Indonesia bears potential and is worth consideration.

Undeniably, agribusiness is an essential industry for the Indonesian economy. With the fourth largest population in the world, Indonesia has a huge demand to supply, in particular regarding primary goods, such as food and beverages. Even though Indonesia has a strong domestic food and beverage production output, a large percentage is still imported to meet the local demand.

Despite the strong local production of rice, soybeans, and corn, Indonesia is not self-sufficient when it comes to supplying its 250 million people and thus still needs to import in order to meet local demand. Self-sufficiency policies have been implemented, but wheat imports, for instance, will remain high, as the Indonesian climate is not favorable enough to produce it locally.

It should be noted that the agribusiness sector is already reasonably saturated, as local and foreign companies have been competing with each other for years. However, the agribusiness industry is expected to keep growing in the future, mainly driven by a growing middle class and an increasing demand for commodities. Additionally, increasing tourism will also contribute to higher consumption, particularly regarding foreign food products. Challenges still remain when doing business within the Indonesian agribusiness market. Indeed, existing partnerships with neighboring Asian countries, as well as with Australia and New Zealand, foster and facilitate trade between those countries and Indonesia. In addition, the lack of marine and land infrastructure, as well as broken cold storage chains are one of the main obstacles in the short-medium term perspective. Furthermore, policies, regulations and legislation also inhibit foreign companies. Most important are those related to the concept of halal, which is a fundamental part of all matters of daily routine, particularly related to food and drinks consumption and production. Additionally, Indonesian language labelling and the notification of genetically modified ingredients, as mentioned in the section “National Policy and Relevant Regulations” above, requires careful consideration.

However, the Indonesian agribusiness market has great potential and offers many business opportunities. First and foremost, the changing consumption pattern and the growing consumer class are the most promising signs of a vital long-term perspective for conducting business within this sector. With the Master Plan to achieve accelerated economic success and stability (MP3EI), the Indonesian government plans to foster a fertile regulatory environment to consolidate Indonesia’s potential as a production base for both export oriented companies and those focusing on the domestic market.

## Relevant Contacts

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Email: [asohipusat@gmail.com](mailto:asohipusat@gmail.com)  
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### **Indonesian Fertilizer Producer Association (APPI)**

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Phone: (021) 548 4057, 548 1208 Ext.: 476  
Fax: (021) 548 3313  
Email: -  
Website: <http://www.appi.or.id/>

### **National Agency of Food & Drug Control (BPOM)**

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## Resources

### Health Certificate of Origin

Ministry of Agriculture  
Directorate of Animal Health  
Director General for Livestock Services (DGLS)  
Address: Building C, 9th Fl.  
Jl. +Harsono RM No. 3 Ragunan  
Jakarta 12550  
Ph/Fax: +6221-781-5783

### Health Certificate for Food Products

National Agency of Drug and Food Control (BPOM)  
Sub-Directorate of Certification for Food Products  
Directorate of Inspection and Certification for Food Products  
Deputy III for Dangerous Materials and Food Safety Control  
Building F, 2nd Fl.  
Jl. Percetakan Negara No. 23  
Jakarta 10560  
Ph/Fax: +6221-424-1781  
Fax: +6221-425-3857  
Email: insertipangan@pom.go.id

### Phytosanitary Certificate

Ministry of Agriculture  
Agency for Agricultural Quarantine  
Building E, 5th Fl.  
Jalan Harsono RM No. 3 Ragunan  
Jakarta 12550  
Ph/Fax: +6221-782-1367

### Sanitary Certificate (Meat Products)

Directorate of Veterinary Public Health  
Directorate General for Livestock Services (DGLS)  
Ministry of Agriculture  
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Jakarta 12550  
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Fax: +6221-782-7466

## Trade Fairs in Indonesia

### **Indo Livestock 2015 Expo & Forum**

Venue: Grand City Convex, Surabaya, Indonesia

Date: 29-31 Jul 2015

INDO LIVESTOCK Expo & Forum is today a 'must attend' event for decision makers and buyers across Asia. More than 12,000 trade visitors and delegates are expected to attend the Expo, Seminar and Technical Presentation in 2015. More importantly, Over 400 exhibitors from 40 countries are expected to once again participate in Indo Livestock Expo & Forum. INDO LIVESTOCK 2015 is proven to be the preferred venue for buyers to source for new technology and equipment.

### **INAGRITECH 2015**

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia

Date: 6-8 Aug 2015

INAGRITECH 2015 is the third Indonesia international agriculture equipment and machinery equipment; it is the only event in Indonesia which is dedicated to agriculture equipment and machinery. This event will be taking place on 6-8 August 2015 in JIExpo Jakarta and co-locating with INAPALM ASIA 2015, INAgriChem 2015, and INAgardenTech 2015. It is considered as one of most prospective exhibition for agriculture supporting industries supply chain. INAgritech is held by PT. Global Expo Management (GEM Indonesia).

### **International Farming Technology 2015 (IFT 2015)**

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia

Date: 15-17 Oct 2015

International Farming Technology Expo is the first major event in Indonesia that focuses on farming and agriculture industry. This exhibition will be free from admission for the professional and trader visitors upon registration. IFT 2015 will be held on 15 to 17 October 2015 at JIExpo, with PT. Pelita Promo Internusa as the organizer.

### **Agri Indo 2015**

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia

Date: 11-14 Nov 2015

Agri Indo is an International trade Exhibitions on agriculture which covers major element of agribusiness. Held in conjunction with Interfood Indonesia. Agri Indo Expo 2014 will be held at Jakarta Convention Center from 11 to 14 Nov 2015, and held by PT. Krista Exhibitions.

## Abbreviations

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Agreement
AGP	Antibiotics Growth Promoters
AMF	Anhydrous Milk Fat
ALSINTANI	Indonesian Agriculture Tools and Machinery Association (Asosiasi Pengusaha Alat dan Mesin Pertanian Indonesia)
ASEAN	Association of South East Asian Nations
APFINDO	Indonesian Meat Producer and Feedlot Association (Asosiasi Produsen Daging dan Feedlot Indonesia)
APPI	Fertilizer Producer Association Indonesia (Asosiasi Produsen Pupuk Indonesia)
ASOHI	Indonesia Veterinary Drugs Association (Asosiasi Obat Hewan Indonesia)
BBPMSOH	Animal Drugs Quality Testing and Certification Agency (Balai Besar Pengujian Mutu dan Sertifikasi Obat Hewan)
BPJPH	Halal Product Guarantee Agency (Badan Penyelenggara Jaminan Produk)
B POM	National Agency of Drug & Food Control (Badan Pengawas Obat dan Makanan)
BPS	Indonesian Statistics Center (Badan Pusat Statistik)
BULOG	Indonesian State of Logistics Agency (Badan Urusan Logistik)
BKPM	Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal)
CMS	Cytoplasmic Male Sterile
COA	Certificate of Analysis
EIBN	EU-Indonesia Business Network
EU	European Union
EWINDO	PT. East West Seed Indonesia
FFOP	Fresh Food of Plant Origin
DOC	Day Old Chicks
GBG	Global Business Guide
GDP	Gross Domestic Product
GGL	Great Giant Livestock
GGP	Great Giant Pineapple
GMO	Genetically Modified Products

GMP	Good Manufacturing Practice
HBAH	Product of Animal Origin Material
IDN	Republic of Indonesia
INA	Indonesian Benelux Chamber of Commerce
JICA	Japan International Cooperation Agency
Kaitec	Korea Academy of Industrial Technology
KCL	Fertilizer – Potassium Chloride
LIPI	Indonesian Institute of Science
LPH	Halal Inspection Institution (Lembaga Pemeriksa Halal)
KHS	CV. Karya Hidup Sentosa
MUI	Indonesian Council of Ulama (Majelis Ulama Indonesia)
MP3EI	Masterplan for Acceleration and Expansion of Indonesian Economy (Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia)
MYS	Federation of Malaysia
NFDM	Non-Fat Dry Milk
NAMPA	National Meat Processor Association Indonesia
NPB	Registration Number Item (Nomor Pendaftaran Barang)
NPK	Fertilizer – Nitrogen, Phosphorus, Potassium
NRP	Product Registration Number (Nomor Registrasi Produk)
PHL	Republic of the Philippines
RIPH	Recommendation to Import Horticultura Products
SGP	Republic of Singapore
SNI	Indonesian National Standard (Standar Nasional Indonesia)
SHS	PT. Sang Hyang Seri
SOE	State-Owned-Enterprise
SPI	Import Permit Letter (Surat Persetujuan Impor)
SP3	Fertilizer – Sub Project 3
THA	Kingdom of Thailand
PT	Limited Liability Company (Ltd. – Perseroan Terbatas)
UHTM	Ultra-High-Temperature Milk
UU-JPH	Halal Product Guarantee (Undang-Undang tentang Jaminan Produk Halal)
VNM	Socialist Republic of Vietnam

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