MARKET SNAPSHOT | BEEF

Indonesia

MEAT & LIVESTOCK AUSTRALIA

Indonesia's expanding population, rapid urbanisation and rising household incomes have increased demand for high quality food and evolved protein consumption habits. These trends have supported beef consumption. Affordable beef prices and increasing self-sufficiency remain a top priority of the Indonesian government. A number of measures have been introduced to achieve its objectives.

Challenges and opportunities in Indonesia for Australian beef include:

- The Indonesian government is seeking to grow supplier competition to stabilise beef prices. This has included granting access to Indian buffalo meat (IBM) in August 2016 which can now be found across wet markets, small and medium meat and *bakso* (meatball) manufacturers, and foodservice outlets. It is also currently assessing Brazil as a potential supplier, which would further intensify competition.
- Continued regulatory uncertainty as the government is expected to closely monitor measures imposed on both boxed beef and live cattle imports in line with its food security goals.
- With a large population and rapid rise in household incomes, Indonesia's total household spending on food and beverages is amongst the world's highest and is forecast to grow continuously, highlighting strong growth potential for Australian beef.
- A young, increasingly urban population with rising disposable incomes is creating opportunities for Australian beef within modern foodservice and retail outlets. Australian beef has a strong, well-established reputation in Indonesia and is perceived as the most superior meat by consumers, indicating a strong foundation for expansion in the premium segment.

Population

264.0 in 2017 | **274.9** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning* >US$35,000/year

1.0 in 2017 | **2.6** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast
* Disposable income

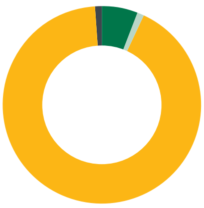
Households earning* >US$50,000/year

0.4 in 2017 | **1.1** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast
* Disposable income

Australian beef exports – volume

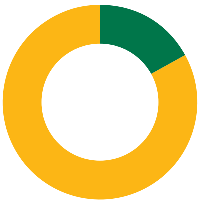


- Chilled grass – **6%**
- Chilled grain – **1%**
- Frozen grass – **91%**
- Frozen grain – **1%**

Total 49,698 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2017

Australian beef exports – value

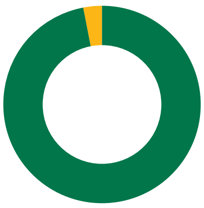


- Chilled – **17%**
- Frozen – **83%**

Total A$304.0 million

Source: ABS/GTA, MAT (Moving Annual Total) November 2016 to October 2017

Australian live cattle exports



- Feeder – **97%**
- Breeder – **3%**

Total 512,871 head

Source: DAWR, CY 2017.

Australian export value

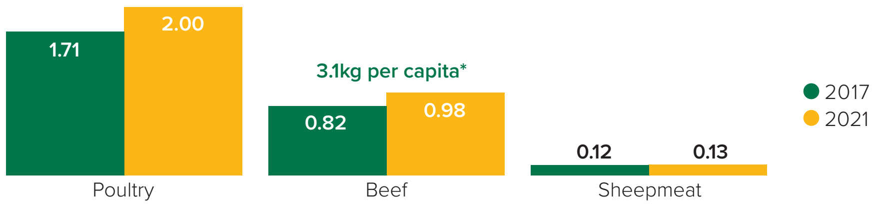
- Live cattle – **65%**
- Boxed beef* – **35%**

Total A$1.1 billion

Source: ABS/GTA, MAT November 2016 to October 2017.
* Includes boxed beef offal

Meat consumption

12.6kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, OECD (includes goatmeat), 2017 estimate and 2021 forecast

*2017e per person per year **Excluding fish/seafood

Consumers

- Beef is the third most consumed protein in Indonesia behind chicken and fish. However, it is perceived to be the most important source of protein and is used widely in a variety of traditional dishes, such as *bakso* (meatball) and *rendang* (meat dish cooked with coconut milk).

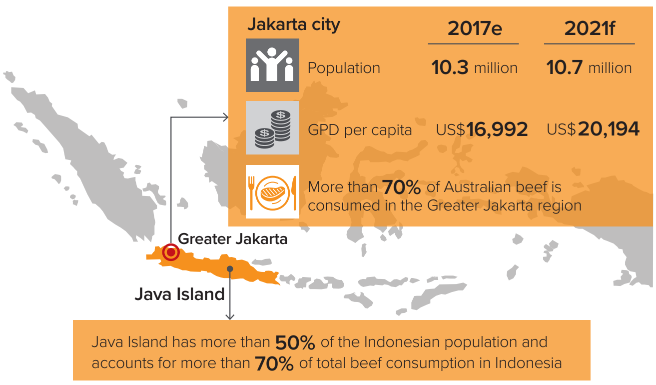
Attributes important for all proteins and beef associations

What attributes are important for Indonesian consumers (all proteins)?	What associations do consumers have to beef?
My/my family's favourite meat	Most superior meat
Environmentally sustainable	Willing to pay more for this meat
Easy and convenient to prepare	My/my family's favourite
Willing to pay a bit more for this meat	Can be used in many different meals
Essential part of children's diet	Consistent quality standards

Source: MLA Global Consumer Tracker Indonesia, 2017

- The island of Java – the most populated island in Indonesia – accounts for the largest proportion of the country's total beef consumption. Australian beef, in particular, is consumed mostly in Greater Jakarta.

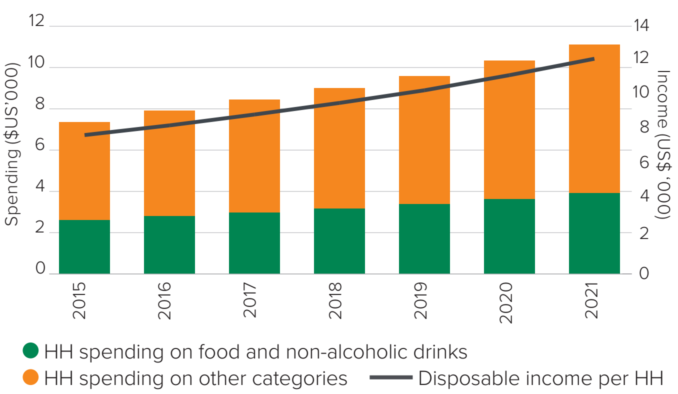
Jakarta city profile



Source: GlobalData, Statistics Indonesia, QASA, MLA estimate

- Indonesia has a large, young and diverse consumer base, with more than 60% of its population under 40 years old (approximately 180 million people). It is also undergoing rapid urbanisation. The proportion of people living in urban areas is expanding continuously. An additional 10 million people are expected to live in urban areas by 2021 *(Source: BMI Research)*.

Indonesian household (HH) income and spending

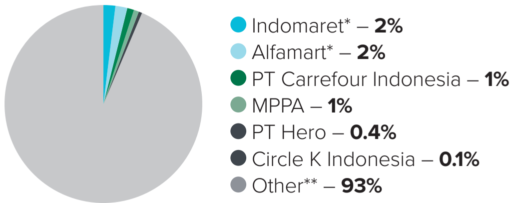


Source: BMI Research

Retail

- Indonesia's modern grocery retail market is highly fragmented and only accounts for approximately 7% of the market; however, it is continuously expanding.

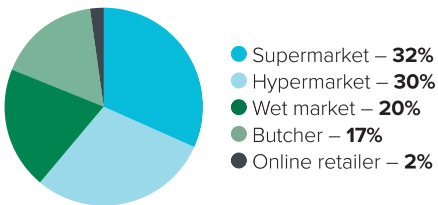
Grocery retail market share – 2017



Source: IGD. 2017 estimate
* Convenience store ** Include wet markets

- In Greater Jakarta, where the majority of Australian beef is consumed, consumers generally visit multiple retail channels from modern to traditional outlets to purchase beef. Australian beef is also sold across a range of different retail channels in the region, however supermarkets and hypermarkets remain the most common places of purchase.
- The expansion of modern retail to second-tier cities such as Surabaya (the capital of East Java province), Bandung (the capital of West Java province) and Semarang (the capital of Central Java province) presents growth potential for Australian beef beyond the Greater Jakarta region.

Where do consumers go and buy Australian beef?



Source: MLA Global Consumer Tracker Indonesia, 2017

Top five important themes motivating beef purchase

1	Halal
2	Freshness
3	Safety
4	Natural
5	Value

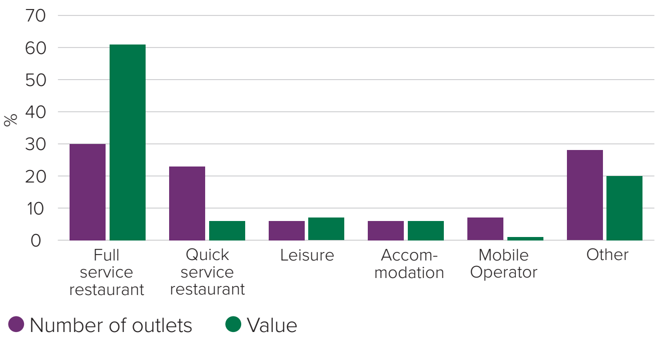
Source: MLA Global Consumer Tracker, 2017, Indonesia

- Outside of wet markets, Indian buffalo meat can also be found in modern retail outlets. Its presence is partly propelled by the government's policy that modern retail has to provide cheap frozen meat offering of maximum IDR 80,000/kg (about A$7.8/kg), in place since April 2017.

Foodservice

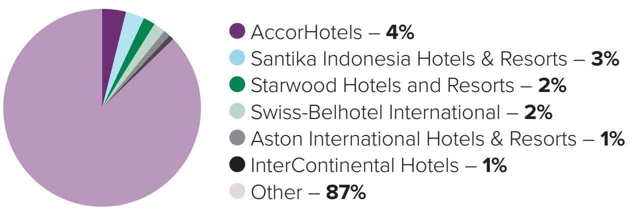
- The foodservice channel in Indonesia is diverse, ranging from high-end international restaurants to local family-owned kiosks, known as *warungs*, and street vendors.
- Beef * is mostly consumed in full service restaurants (68%) and quick service restaurants (24%). These are expected to remain the largest channels for beef consumption in this sector *(Source: GlobalData)*.
- Australian beef is widely used in Indonesia's foodservice sector, mostly within medium to high end restaurants. These are typically limited to major cities and tourist destinations, with Jakarta and Bali the key markets.
- Since the legal entry of Indian buffalo meat, small foodservice operators have exhibited increased preferences towards cheaper Indian buffalo meat as it can be used in place of beef in a variety of traditional dishes, particularly slow-cooked dishes.
- The Indonesian foodservice market is forecast to grow strongly, supported by continued urbanisation, rising incomes and growing tourism.

Proportion of outlet number and value by key foodservice channel – 2017



Source: GlobalData. 2017 estimate

Market share of major hotel chains by foodservice sales – 2016



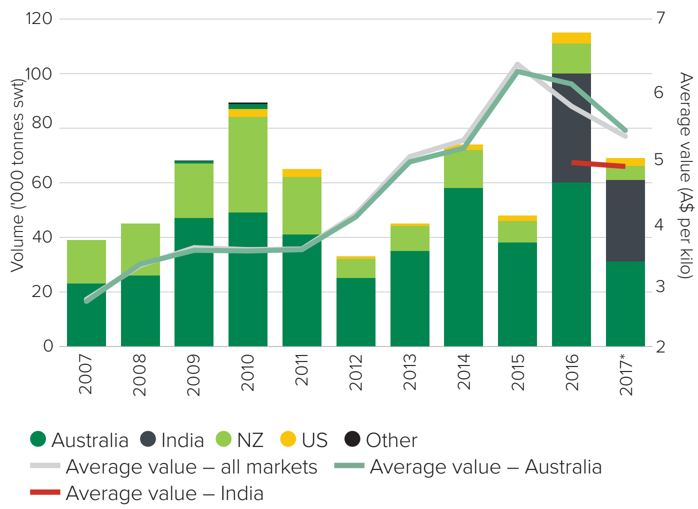
Source: GlobalData

* Beef excludes processed and cooked beef products.

Other beef suppliers

- The competitive landscape has become more complex since market access was granted to Indian buffalo meat (IBM) in August 2016 – a government's measure aimed at reducing high beef prices.
- Between August 2016 and July 2017, IBM imports to Indonesia totalled 69,596 tonnes swt, 25% greater than the volume of Australian beef imports (55,823 tonnes swt), making India the largest supplier of bovine meat (excluding offal) in the market. However, including offal, Australia maintains a greater market share.
- The majority of IBM is used in wet markets, followed by small and medium *bakso* manufacturers and foodservice operators. A very small proportion of IBM is sold in modern retail outlets.
- Despite the small proportion (4%, or 5,023 tonnes swt), US beef imports grew significantly from August 2016 to July 2017, up 78% compared to the same period last year.
- In addition to permitting IBM imports, the Indonesian government is looking to further broaden its sources of imported beef. Brazil is being assessed as a potential supplier of beef and cattle for 2018, potentially adding further competition to Australian exports.

Indonesia beef imports by supplier



Source: GTA/ABS * YTD Jan-Jul

Indian frozen buffalo meat being sold at special price of IDR 69,000/kg (about A$6.7/kg) during the opening of the Lulu Hypermarket, Indonesia.

Live cattle exports

- Indonesia is Australia's largest destination for live cattle exports. In 2017, 512,871 cattle were shipped to the market, down 17% year-on-year. The decline was influenced by a range of factors including tight supply and strong livestock prices in Australia, coupled with increasing regulatory complexity surrounding the live cattle import permit system, the presence of cheaper buffalo meat imports, and the 5:1 feeder to breeder import policy of the Indonesian government.
- Australian lot-fed cattle in Indonesia have played an important role in meeting the growing consumer demand for beef. It is estimated to account for more than 10% of the Indonesia's total beef consumption volume.
- The 5:1 feeder to breeder policy, which requires importers to import one breeder for every five feeder cattle, came into effect in October 2016. The first audit to evaluate its performance is expected to occur in December 2018, and subsequently every two years thereafter.
- Australia has been the sole trade partner supplying live cattle to Indonesia. However, the Indonesian government is exploring additional sources including Mexico and Brazil.

Australian live cattle exports

Source: ABS, GTA, DAWR. 2007-2014 export volumes are based on ABS, 2015-2017 are based on DAWR. 2017 average values are Jan-Oct figures..
There might be minor differences between the ABS/GTA data above and other reports published by DAWR owing to differences in the data extraction dates and source.

Ramadan

- Beef consumption spikes during festive seasons, particularly around the months of Ramadan and *Idul Fitri*. Ramadan dates are based on a lunar calendar, and migrate throughout the seasons. Subsequently, the timing for beef demand changes every year.

Ramadan schedule

Year	First day	Last day
2018	**May 16**	**Jun 14**
2019	May 6	Jun 4
2020	Apr 24	May 23
2021	Apr 13	May 12

Note: Ramadan's start day may vary by country as it depends on when the new moon is first sighted.

Trade access

- The Indonesian government is intensifying its efforts to achieve stable beef prices and boost domestic beef production capacity. A number of measures have been introduced, including the opening of trade with foot and mouth disease (FMD) countries; revisions to import permit conditions and removal of quota; the 5:1 feeder to breeder import policy; and the relaxation of restrictions on boxed beef cuts and weight limits for live cattle that can be imported to the country.
- In 2016, the government relaxed its regulations on the importation of secondary cuts of beef and offal which were imposed in the previous year. Under the new regulations, most beef cuts are now allowed to be imported into the market.
- In early 2017, the government introduced revised regulations on the weight and age limits of imported feeder cattle. Under the revision, the average weight limit for feeder cattle imports has been increased from 350kg to 450kg, with a maximum age of 48 months (up from 36 months).
- The Indonesian government has also put in place a maximum ceiling price policy for a number of commodities including fresh and frozen beef. To stabilise prices and provide consumers with access to affordable meat, modern retailers are also required to sell frozen beef at maximum IDR 80,000/kg (about A$7.80/kg) as part of its policy.
- The tenth round of Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations was held in November 2017. The IA-CEPA will address impediments to bilateral trade, and explore ways to enhance economic cooperation in specific sectors identified as key drivers of economic growth. The agricultural sector is one of the key discussion items in the negotiations.

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN*- Australia-New Free Trade Agreement **(AANZFTA)** Indonesia-Australia Comprehensive Economic Partnership Agreement **(IA-CEPA)** under negotiation	**Boxed beef – 5%** on chilled & frozen bone-less beef** **Live cattle – 5%** (0% for purebred breeding cattle)	**India** (buffalo meat): India-ASEAN FTA. 5% tariff	Volumes managed by the Indonesian government's import permit system	Highly regulated market, with complex import conditions and regulations. The government controls type of meat and offal products that can be imported into the country

Best access ⟶ Major challenges

Source: Trade agreements, DFAT, MLA
* Association of Southeast Asian Nations. Members include Indonesia, Malaysia, Singapore, the Philippines, Thailand, Vietnam, Brunei, Myanmar, Laos and Cambodia.
** Removed by 2023. Chilled and frozen carcase, and chilled bone-in exports are at 0%. Frozen bone-in exports are fixed at 5%.

Australian beef exports to Indonesia – summary table

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**49,698**	**100**	**61,676**	**100**	**44,093**	**100**	**13**	**5,606**
Storage	Chilled	3,752	8	4,667	8	3,448	8	9	305
	Frozen	45,946	92	57,009	92	40,645	92	13	5,301
Meat type	Grassfed	48,517	98	60,525	98	43,343	98	12	5,174
	Grainfed	1,181	2	1,151	2	750	2	57	431
Storage/meat type	Chilled grassfed	3,048	6	4,139	7	2,988	7	2	60
	Chilled grainfed	704	1	528	1	460	1	53	244
	Frozen grassfed	45,469	91	56,387	91	40,355	92	13	5,114
	Frozen grainfed	478	1	622	1	291	1	64	187

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**304,017***	**100**	**346,877**	**100**	**236,694**	**100**	**28**	**67,324**
Storage	Chilled	50,208*	17	49,540	14	36,022	15	39	14,186
	Frozen	253,809*	83	297,336	86	200,671	85	26	53,137

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

Volume – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Manufacturing	15,313	31	36,143	59	24,134	55	-37	-8,821
Thick flank/Knuckle	7,513	15	3,165	5	2,957	7	154	4,556
Brisket	5,579	11	4,031	7	1,541	3	262	4,038
Other	21,294	43	18,337	30	15,461	35	38	5,833
Total	**49,698**	**100**	**61,676**	**100**	**44,093**	**100**	**13**	**5,606**

Source: DAWR.

Australian BEEF OFFAL exports to Indonesia (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Manufacturing*	8,578	33	6,155	34	2,656	27	223	5,922
Heart	3,788	15	2,481	14	2,237	22	69	1,551
Liver	3,224	12	1,383	8	1,228	12	162	1,996
Other	10,490	40	8,136	45	3,858	39	172	6,633
Total	**26,080**	**100**	**18,155**	**100**	**9,979**	**100**	**161**	**16,101**

Source: DAWR. * Manufacturing includes tongue root, tongue root meat and tongue trimming.

Value – in A$ 000

	2017		2016		5-year average (2012-2016)		%	in A$ 000
Total	**67,243***		**38,367**		**22,522**		**199**	**44,721**

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

Australian LIVE CATTLE exports to Indonesia

Live cattle exports	2017		2016		5-year average (2012-2016)		%	head/value
Volume - in head	512,871		615,604		538,711		-5	-27,968
Value – in A$ 000	694,656		698,913		459,643		51	235,013

Source: DAWR/ABS (CY2016, CY2017 volume figures), ABS/GTA (5-year-average volume, and value with 2017 value being Moving Annual Total (MAT), November 2016 to October 2017).