

END OF PROJECT REVIEW



Australian Centre  
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*IndoDairy*  
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# POLICY REVIEW OF DAIRY INDUSTRY IN INDONESIA

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# Presentation Outline

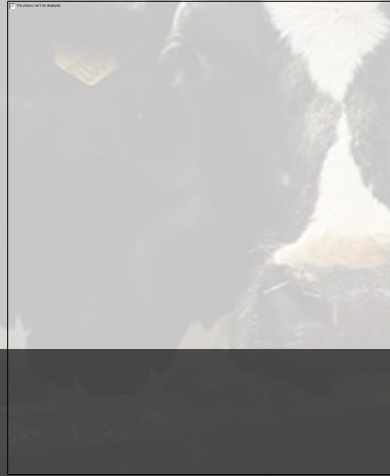
1. Dairy Inputs, Investment and Access to Credit for Key Players in the Dairy Industry
2. Additional Regulation due to Pandemic Covid-19
3. Prospects and Future Opportunities for Future Growth
4. Conclusion and Recommendations

# **Dairy Inputs, Investment and Access to Credit for Key Players in the Dairy Industry**



# A. Dairy Input Policy Review

## Challenges/Issues on Dairy Inputs



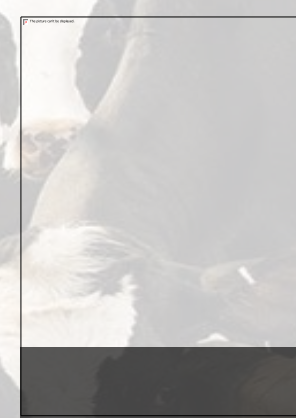
### Quality

Quality of feed raw materials in off- season, like brans is still low while the price is high



### Availability

Availability of feed raw material tend to fluctuate. In terms of forages, lands for forages are limited and keep decreasing



### Price

Factors affecting the feed price fluctuation are stock, demand, and weather

# Regulation Related to Dairy Input

## Regulation

Law Number 41 of 2014  
about Livestock and  
Animal Health

### Article 13

It regulates the provision and development of calf is carried out by prioritizing domestic production

### Article 15

It also regulates importation of calf

### Article 18

In order to meet the availability of calf, productive female ruminants are selected for breeding, whereas unproductive female ruminants are removed to be cut

## Regulation Related to Dairy Input

### “Law Number 6 of 2013 about Farmers Empowerment”

This regulation states that government or local governments are obligated to provide livestock services program.

In facilitating the program, government and local government in accordance with their authorities to provide facilities for: a) good farming, b) harvesting & post-harvest, c) distribution & marketing, d) storage of animal and fodder products.



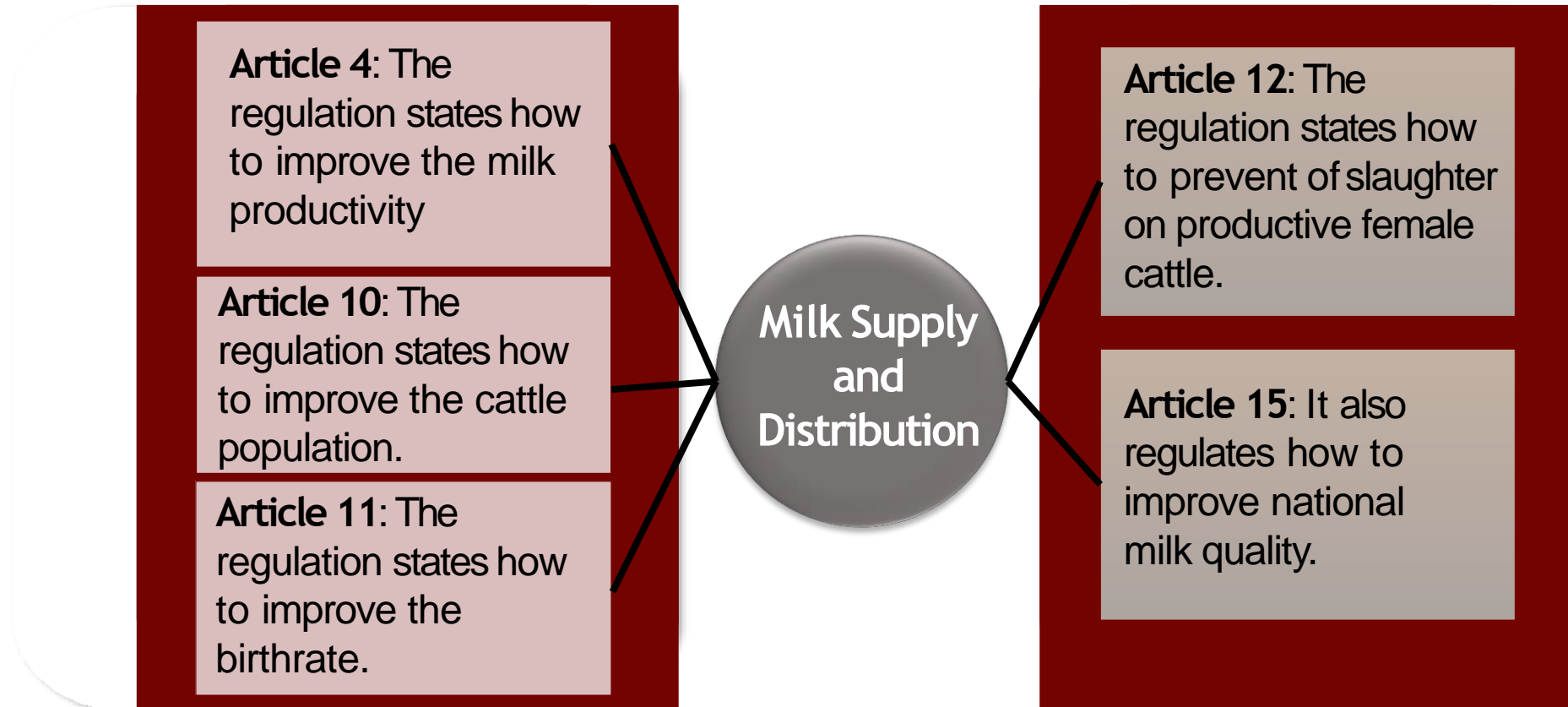
## Regulation Related to Dairy Input

“Minister of Trade Law Number 59/M-DAG/PER/8/2016 about Provision of Animal and Animal Products Export & Import ”

This regulation states about calf imports.

To obtain import approval, the owned companies must submit an application electronically

# Regulation Related to Dairy Input





## **B. Investment Policy Review**

### **Challenges/Issues on Livestock Investment**

**There are still challenges to accommodate investment opportunities that would lead to improve the functioning of dairy supply chains in West Java and to develop new and sustainable smallholder dairy supply chains in North Sumatra**

**There are still lack in the regulation and program implementation of the enhancement of investment activities both domestic and foreign investment to accelerate development in order to support micro, small and medium enterprises, and cooperatives in dairy industry.**

# Regulation Related to Livestock Investment

“President Decree Number 44 of 2016 about list of close and open business sectors with requirements in the capital investment sector”

There are some milk processing industries related to this regulation

## **Annex 2 Number**

**108:** Powdered Milk and Sweetened Milk Processing Industry (KBLI code: 10520)

## **Annex 1 No 8:**

Baby Food Industry (KBLI code: 10791)

## **Annex 2 No 42:**

Milk Processing Industry (MPI) for Powder and Condensed Milk (KBLI code: 10520)

## **Annex 2 No 41:**

Milk Processing Industry (MPI) for Fresh and Cream Milk (KBLI code: 10510)

# Regulation Related to Livestock Investment

“Law Number 9 of 2016 about Tax Allowance Facility for Investment in Certain Business and/or in Certain Regions”

This regulation states that to encourage foreign investment and domestic investment, for taxpayers who make new investments or expansions from existing businesses in certain business fields and / or in certain regions can be provided with **Tax Allowance Facility**.

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# Regulation Related to Livestock Investment

“Minister of Agriculture Law Number 13/Permentan/PK.240/5/2017 about Livestock Business Partnership”

## Article 2

The types of livestock business that can be in partnership consist of:

- a) Livestock;
- b) animal products; and
- c) production facilities and infrastructure.

## Article 3

Production facilities and infrastructure are implemented from upstream to downstream.



## C. Access to Credit Policy Review

### Challenges/Issues on Livestock Investment

The farmers and farmers group in both provinces still have problem to get access financial and capital supports from government

Access to the credit is difficult as many farmers don't have collateral to meet the Bank requirements

The government also still have challenges to establish a good partnership between processing industries and farmers and / or cooperatives that produce livestock products.

# Regulation Related to Access to Credit

“Law Number 6 of 2013 Chapter II Part 1 about Access to Financial and Capital Sources”

## Article 4

Financial and capital sources for farmers' empowerment can come from the government and local government, the community, banking institutions, and other financial institutions non-bank, and other business entities

## Article 5

The regulation states that supports from the government and regional government can be financial or capital assistances for business development

# **Regulation** Related to Access to Credit

“Minister of Agriculture Law Number 26/Permentan/PK.450/7/2017”

## **Article 32**

It regulates that capital or financing partnerships be done through :

- Facilitation of business capital with affordable interest and
- Guarantee to obtain business credit

# **The latest regulation: of the Minister of Agriculture (Permentan) No.33 / 2018 as the second amendment of the Ministry of Agriculture No.26 / 2017**

- The Regulation of the Minister of Agriculture (Permentan) No.33 / 2018 as the second amendment of the Ministry of Agriculture No.26 / 2017 →, the milk processing industry (IPS) is no longer required to absorb milk produced by local farmers.
- Cons: The Ministry of Agriculture paid little attention to micro, small and medium enterprises (MSMEs). The government should provide business opportunities for SMEs.
- The Business Competition Supervisory Commission (KPPU) is waiting for the submission of a replacement program to be able to support domestic milk production.
- Although the industry's bargaining position is still very strong, he explained, the partnership program has been right. With this program, KPPU can still protect the position of farmers from the side of the partnership agreement.



# **Additional Regulation due to Pandemic Covid-19**

# Additional Regulation due to the Pandemic Covid-19

“Minister of Finance Number 82/PMK.03/2021 ”

## **The Income Tax Article 21 is borne by the Government on the income received by the employee with certain criteria including**

- a. Receive or earn income from an employer who:
    - have a Business Field Classification code
    - has been designated as a KITE Company (obtains Import Ease for Export Purposes); or
    - has obtained Bonded Zone Management Permit, Permit as Business Practitioner of Bonded Zone or PDKB (*Pengusaha Dalam Kawasan Berikat*);
  - b. have NPWP; and
  - c. during the Tax Period, the person concerned receives or obtains a Gross Income which is fixed and regular which is annualized not more than Rp. 200,000,000.00 (two hundred million rupiah)
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# The Regulation of the Minister of Finance Number 68/PMK.010/21

## Types of Goods and Materials Imported by Companies In Certain Industrial Sectors that Get BM DTP Must Meet the Following Conditions

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- a. Goods and Materials have not been produced domestically;
- Goods and Materials have been produced domestically but have not met the required specifications; or
  - Goods and Materials have been produced domestically but the amount is not sufficient for industrial needs in accordance with the recommendations of the relevant ministries/institutions.

### Then, the Goods and Materials that receive BM DTP are not:

- a. Goods and Materials subject to import duty of zero percent;
- b. Goods and Materials subject to imposition of import duty of zero percent based on international agreements or agreements;
- Goods and Materials that are subject to Anti-Dumping Import Duties/Temporary Anti-Dumping Import Duties, Safeguard Measures Import Duties/Temporary Safeguard Measures Import Duties, Compulsory Import Duties, or Retaliatory Import Duties; or
  - Goods and Materials intended to be stockpiled in a bonded stockpile



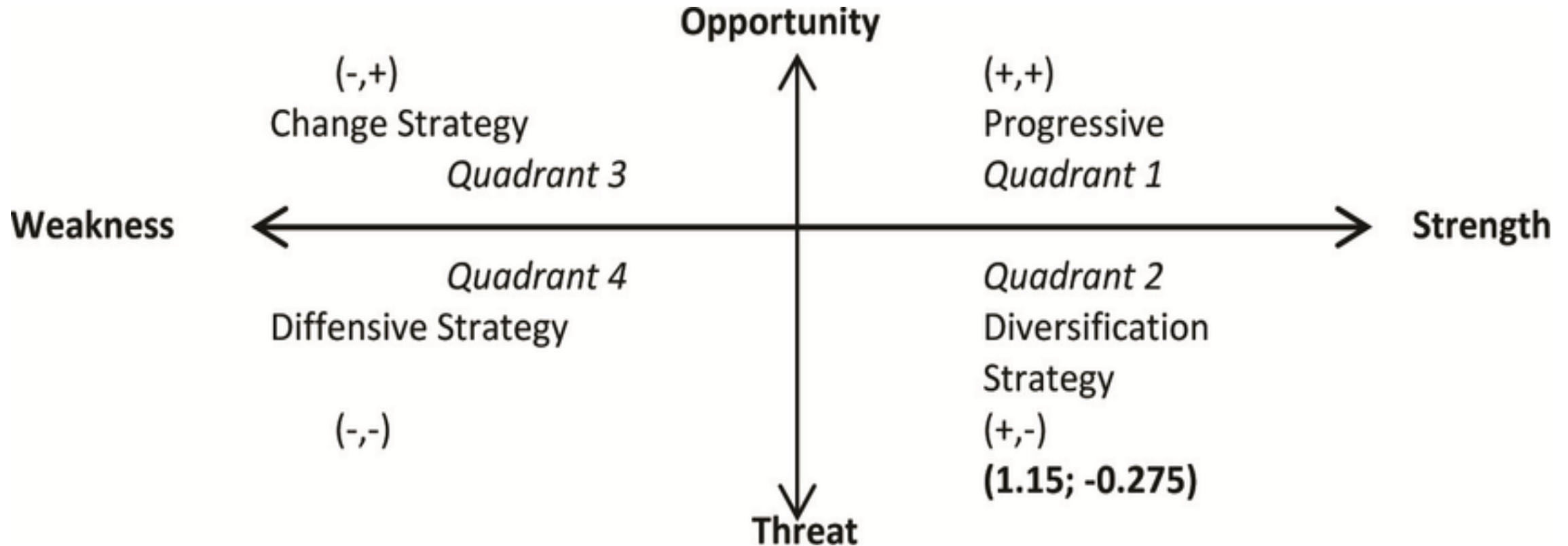
# Policies and Regulation Related to Dairy Industry in Indonesia

Regulation	Regulation
Law of the Republic of Indonesia No. 11 of 2020 on Job Creation (Revising Law Number 41 of 2014 and Law Number 18 of 2009)	Regulation of the Minister of Finance Number 9/PMK.03/2021 which was later revised in the Regulation of the Minister of Finance Number 82/PMK.03/2021
Central Government Law Number 78 of 2019 about Tax Allowance Facility for Investment in Certain Business and/or in Certain Regions (Replacing Law Number 9 of 2016)	The regulation of the Minister of Finance Number 68/PMK.010/21
Law Number 6 of 2013 about Farmers Empowerment	Regulation of The Agriculture Minister Number 13/Permentan/PK.240/5/2017 about Livestock Business Partnership
President Decree Number 49 of 2021 revise some of the regulations in the President Decree Number 10 of 2021 about the list of business sectors in investment (Replacing the President Decree Number 44 Of 2016)	Regulation of The Agriculture Minister Number 49/Permentan/PK.440/10/2016 about Large Ruminants Importation (Replace Number 16/Permentan/PK.440/5/2016)
Regulation of Minister of Agriculture Number 33/Permentan/PK.450/7/2018 which revise Regulation of Minister of Agriculture Number 30/Permentan/PK.450/7/2018 about Milk Supply and Distribution (Revising Regulation of Minister of Agriculture Number 26/Permentan/PK.450/7/2017)	Regulation of the Trade Minister Number 29 of 2019 about provision of animal and animal product Import (Replacing Regulation Number 59/M-DAG/PER/8/2016 and Regulation Number 05/M-DAG/PER/1/2016)



# **Prospects and Future Opportunities for Future Growth**

# An Analysis of the Strengths, Weaknesses, Opportunities, And Threats (SWOT)



SWOT Analysis Diagram, (Rangkuti, 2016 : 20)

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# An Analysis of the Strengths, Weaknesses, Opportunities, And Threats (SWOT)

Regulation	Strength (S)	Weakness (W)	Opportunity (O)	Threat (T)	Strategy
Dairy inputs	Cow adaptability into the tropical climate	Inadequate milk farmers competencies (skills & knowledge)	Inseminator availability	Animal diseases	SO
Price of domestic and imported of dairy products	The business partnership between dairy/cooperative farming groups with industry	Premium prices have not been applied at the breeder level	Increased income and lifestyle changes due to health awareness	Ability to cope with price volatility	SO
Investments in the dairy industry	Tax Allowance Facility for Investment (Reduction in net income, depreciation and accelerated amortization, Income Tax, Loss Compensation)	Weak skills in managerial business	Develop strategies to inform the development of extension programs	Dairy farms are dominated by small ranchers	SO

# An Analysis of the Strengths, Weaknesses, Opportunities, And Threats (SWOT)

Regulation	Strength (S)	Weakness (W)	Opportunity (O)	Threat (T)	Strategy
Access to credit	The partnership between processing industry with farmers groups/cooperatives in capital or financing	Access to credit is difficult because many ranchers do not have collateral to meet bank requirements.	Central and local governments should provide financial and capital support to farmers to buy dairy cows, equipment, and other dairy inputs through partnerships.	The limited information that can be accessed by dairy farmers	SO
Importation of live dairy cattle and	The Central Government and/or Local Government in accordance with its authority is obliged to conduct breeding repair development, and nursery business by involving the participant of the community to ensure the availability of feeds	Large ruminant import permits are hard to come by breeders	Product development and marketing support policy for KUD or SHD	Lack of socialization from the government related to import regulations for cattle	SO



# An Analysis of the Strengths, Weaknesses, Opportunities, And Threats (SWOT)

Regulation	Stength (S)	Weakness (W)	Opportunity (O)	Threat (T)	Strategy
Importation of dairy products	Importers/brand owners need to apply for "establishment approval" from the Ministry of Agriculture	Regulation of dairy imports in Indonesia contributes less to the domestic dairy industry	A significant increase in demand for dairy products. Domestic milk consumption per capita reached 11.8 liters in 2017, since 2015 demand has continued to increase by 5% per year and is expected to continue that trend.	Food safety reputation such as unmonitored labeling (fresh dairy products vs UHT milk/reconstitution)	SO

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# Conclusion and Recommendations

# Conclusion and Recommendation

There are many regulation related to dairy industry, especially related to dairy inputs, investment in dairy industry, and access to credits for key stakeholders. However, there is still lack of regulation implementation and synchronization among the regulation and stakeholders



**Conclusion**



**Recommendation**

A progressive policy strategy related to **dairy product** importation could include the increase of the government roles in strengthening the domestic powdered milk market through policies that can provide incentives for the processing milk industry (Industri Pengelohan Susu-IPS) to be able to produce domestic powdered milk that can compete with imported product.

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# Thank You!

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