



Customized Backgrounder

Brief Market Analysis of Imported Bovine Meat in Indonesia

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I. Introduction

The recent beef price hike exposes once again Indonesia's dependence on imported bovine meat, especially from Australia. Indonesia has long been dependent on imported bovine meat as domestic supplies could not catch up with rising demand. The combination of rising needs for imports and highly regulated importation of bovine meat has attracted rent seekers, often with support from political parties.

Indonesia's importation of bovine meat has a long history, dated back to the colonial time when the Dutch East Indies imported cows from India in 1917 to mate with local cows to improve the latter's quality. After independence, the importation of cows continued, again to improve the quality of local cows. In the early years of the New Order government under then president Soeharto, Indonesia managed to export 34,541 cows in 1968. The cow export increased in the following years to 72,490 cows in 1970.¹

Soon after that, however, Indonesia started to import cows, again to improve the quality of local cows, and later to meet rising demands as people's welfare increased markedly since early 1990s. And Indonesia's imports of bovines continued to increase from only 8,061 cows in 1990 to 429,615 cows in 2002. Since then Indonesia has become dependent on imported bovines, both as feeder cattle as well as frozen meat, and Australia has eventually emerged as the dominant supplier. Most recently, imports of bovine meats consistently increased year after year, from 146,000 tons in 2016 to 160,190 tons in 2017, 207,420 tons in 2019, 262,250 tons in 2019, and 324,019 tons in 2020.

The Agriculture Ministry estimates the demand for bovine meat this year (2021) to reach 696,956 tons. The estimate has taken into account the domestic production, which is expected at 425,978 tons, and the carry-over of imported beef, buffalo, and the meat equivalent of feeder cattle from 2020 totaling 47,836 tons, so domestic bovine meat stock in 2021 is 473,814 tons.² There is a deficit of 223,142 tons bovine meat to meet the country's demand.

¹ Detik.com, "Sejak Kapan Indonesia Mulai 'Ketagihan' Daging Impor?" Jan. 24, 2021. <https://tinyurl.com/ypsdbkyf>

² CNBC Indonesia, "Awas! Usai Kedelai & Daging, Bawang Putih Bisa Bikin Pusing," Jan. 22, 2021 <https://tinyurl.com/y23cojzm>

The ministry's Animal Health director Fadjar Sumping Tjatur Rasa said in an official statement on Jan. 21 that the government will import 502,000 feeder cattle (equivalent to 112,503 tons of beef), 85,500 tons of beef, and 100,000 tons of Brazilian beef and Indian buffalo meat in certain circumstances. Stocks at the end of 2021 are estimated to be 58,725 tons and is expected to be able to meet the demand in January 2022.

Without any improvement in domestic cattle business, Indonesia's bovine imports will continue to increase in the coming years as domestic supplies could not catch up with rising demand. According to the Indonesian Beef Cattle Farmers Association (Gapuspindo), beef demands increase by 8.1% per annum, while domestic supplies only grows by 5%.³ Meanwhile, the demand room to grow is still big, considering Indonesia's low beef and veal consumption per capita of 2.2 kilogram in 2019, compared to 3.2 kg in the Philippines, 5.3 kg in Malaysia, 11.8 in South Korea and 25.2 kg in Brazil.⁴

II. Exporting countries

Australia is the biggest bovine exporter to Indonesia, supplying more than half of the country's import needs, mostly in the form of feeder cattle. Correspondingly, Australia also sends more than half of its feeder cattle export to Indonesia. However, Australia is facing a strong competition from India since the latter started exporting buffalo meat to Indonesia in 2016. Since then, Australia's beef share in Indonesia's imported bovine meat market has gradually decreased to below 50%.

This may change since the Indonesia-Australia Comprehensive Economic Partnership Agreement has come into force on July 5, 2020. The agreement allows Australia to export 575,000 male cattle per year free of tariffs, with that figure to increase 4 percent per year to 700,000 in 2026. The male cattle import tariff outside of the quota is charged at 5%. Female cattle can be imported free of tariff, from previously 5%, with no quota or import permit restrictions. Frozen bone-in beef import tariff is reduced to 2.5% from previously 5% and will be eliminated after five years. Frozen boneless beef and frozen beef offal, which were subject to

³ Kompas.com, "Mengapa Indonesia Terlalu Bergantung Impor Sapi dari Australia?" Jan. 25, 2021. <https://tinyurl.com/cnygq9u2>

⁴ OECD.org, "OECD-FAO Agricultural Outlook (Edition 2020)." <https://tinyurl.com/8nz3btuc>

5 percent tariffs, are now free from tariffs with no quota or import permit restrictions for all boxed beef and offal product lines.⁵

Indonesia opens its door to Indian Buffalo Meat (IBM) as an effort to bring beef price down. However, the practice has met criticism because of two reasons. First, foot and mouth disease (FMD) is endemic in India. Indonesia has been declared FMD-free since 1986. Therefore, the arrival of ruminants from countries that are not free of FMD concerns the public and policymakers over risk of infection spread to domestic stock. The same concern was also raised when the government announced that they would open beef imports from Brazil in 2019. The government responded by saying the Veterinary Public Health directorate has a list of exporters from FMD-free states in Brazil and would work together with the Agricultural Quarantine Agency to monitor the imported products upon arrival.⁶ However, until the end of 2020, the Brazilian beef import was not realized due to fall in demand for beef amid COVID-19 pandemic. Second, IBM fails to bring beef price down.

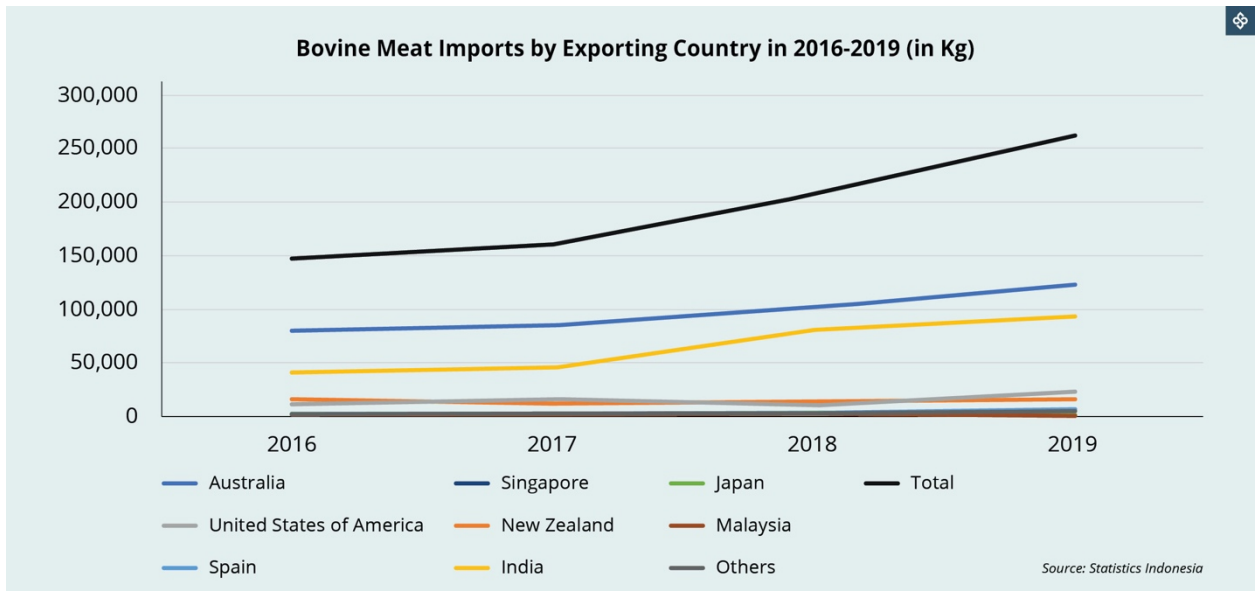
President Joko “Jokowi” Widodo said during his first presidential term that he would stabilize beef price at Rp 80,000/kg in 2015-2016. However, what happened was that instead of beef price falling, the IBM price increased along with beef price. IBM price, which is expected to stay around Rp 80,000/kg increased to more than Rp 90,000/kg nearing Idul Fitri 2019 when beef price usually surpasses Rp 120,000. IBM fails to bring beef price down because for Indonesian households generally do not consider the two as substitutes. However, IBM attracts the interest of processing industry that consider mixing beef and buffalo meat in their products.

Currently, the price of imported Australian cows is rising steeply as an aftermath of the drought and bushfires in the country that have killed more than 100,000 cattle. The natural disasters have brought Australian cattle to the lowest level in 30 years. Therefore, their farmers are restocking and holding back exports to build up their lost herds. The Indonesian government is considering importing from countries further afield such as Mexico and Brazil. Indonesian Ambassador to Panama Sukmo Harsono even offered cow imports from Nicaragua to solve the beef

5 Meat and Livestock Australia, “Market Snapshot: Indonesia,” October 2018
<https://tinyurl.com/y64324qn>

6 Tirto.id, “Brasil Belum Pasti Bebas PMK, Kok Pemerintah Mau Impor Daging Sapi?” Aug. 17, 2019
<https://tinyurl.com/yy4xoeeb>

scarcity issue. However, the government has yet to decide which countries they will import cows or beef from.



III. Domestic key players

3.1 Government

The government is sure the most dominant player in importation of bovine meat. Two ministries are apparently most powerful in licensing importation of bovine meat: The Agriculture Ministry and the Trade Ministry. The government does not impose import tariffs for imported bovine meat but adopt quotas licensing. And licensing entails rent seeking practices, and these rent seekers are often dubbed as “beef mafia,” which brought down then agriculture minister Luthfi Hasan Ishaq from the Prosperous Justice Party.

To obtain the licenses to import bovine meat, importers must apply for import recommendations from the Agriculture Ministry, followed by the submission to apply for import permit to the Trade Ministry. The process to get import recommendation and the import permit often take a longer time than those prescribed in the regulation. Although the Trade Ministerial Regulation (Permendag) No. 29/2019 concerning provisions for the import of animals and animal products stipulates that the import director on behalf of the director general of international trade issues the import permit by using an electronic signature (digital signature) no later than 2 (two) working days from the time the

application is received completely and correctly, in reality, the import permit may take up to eight months to issue.

In the Agriculture Ministry, as Minister Syahrul Yasin Limpo comes from the Nasdem Party, the dominant actors behind the scene are those from the party. The key players in the Agriculture Ministry's first and second echelons include Animal Husbandry and Health director general Nasrullah, Food Security Agency (BKP) head Agung Hendriadi, Animal Health director Fadjar Sumping Tjatur Rasa, Animal Product Quarantine head Iswan Haryanto.

Meanwhile, in the Trade Ministry, the key players were then trade minister Agus Suparmanto and Deputy Trade Minister Jerry Sambuaga. Agus came from the National Awakening Party (PKB), and therefore, the special staffers from PKB were influential. And yet, after the Cabinet reshuffle, Agus was out and replaced by businessman Muhammad Lutfi, and Lutfi so far has no political affiliation.

The key players in the Trade Ministry's first and second echelons are Foreign Trade Director General Didi Sumedi, Domestic Trade Director General Syailendra, and Import Director Johni Martha.

3.2. Business players, associations

The recent soaring price of beef reveals two key players in the beef business community. They are those grouped in the Indonesian Beef Cattle Farmers Association (Gapuspindo) and the Indonesian Association of Meat Traders (APDI). In addition, the importers grouped in the Indonesian Meat Importers Association (Aspidi) also played an important role, although not as prominent as Gapuspindo and APDI.

The soaring price of imported Australian feed cattle has led half of Indonesian Beef Cattle Farmers Association (Gapuspindo) members to stop operating. Gapuspindo executive director Joni P. Liano said out of 42 members, only 22 members are still in business.⁷ The high feeder cattle price from Australia forces them to sell their lot-fed cattle at a higher price too. However, they also get the pressure to keep price low because meat retailers have not been able to sell beef since the price has become prohibitive for consumers.

⁷ CNBC Indonesia, "Harga Daging Terbang, Puluhan Perusahaan Sapi di RI Bangkrut," Jan. 28, 2021 <https://tinyurl.com/y6jg34nt>

The low sales turnover prompted the Indonesian Association of Meat Traders (APDI) to send a letter to their members to stage a strike calling for government's intervention, particularly opening imports. According to the regulation, imports for market intervention purpose to stabilize supply and price are assigned to State-Owned Enterprises, which is in this case are the State Logistics Agency (Bulog), PT Berdikari, and PT Perusahaan Perdagangan Indonesia (PT PPI).

In the meantime, the Business Competition and Supervisory Committee (KPPU) has been observing the price hike to make sure that there is no business competition violation involved. KPPU commissioner Guntur W. Saragih said the observation so far has shown that the price hike is indeed caused by increasing price in exporting country.⁸ Beef imports due to price hike is a sensitive issue and has the attention of the House of Representatives (DPR) Commission IV and Regional Representatives Council (DPD). The policy is controversial partly because of a precedent which took place in 2015.

In 2015, beef price in Greater Jakarta reached Rp 170,000/kg. The KPPU found that members of the Indonesian Beef Producer and Lot Feeder Association (Apfindo), now called Gapuspindo, were behind the price hike. The KPPU reported that the feed lotters, facilitated by the association, agreed to reschedule sales and not meet the 50,000 feeder cattle import quota to push down supply in Greater Jakarta.⁹ As a result, beef price skyrocketed. Thirty-two importers that were sentenced to a fine for beef cartel practice are listed below.¹⁰

Companies fined by KPPU for adopting cartel-like practices

	Company	Fine in rupiah		Company	Fine in rupiah
1	PT Andini Karya Makmur	1.9 billion	17	PT Santosa Agrindo	5.4 billion
2	PT Andini Persada Sejahtera	1.2 billion	18	PT Sadawijaya Niaga Indonesia	1.8 billion
3	PT Agro Giri Perkasa	4.5 billion	19	PT Septia Anugerah	1.1 billion

⁸ Kontan, "Harga daging sapi melonjak di pasar, ini yang dilakukan KPPU," Jan. 22, 2021 <https://tinyurl.com/y2tsskyo>

⁹ Bisnis Indonesia, "MA Tolak PK Kartel Sapi Impor, 12 Importir Didenda Rp59,6 Miliar," July 24, 2020 <https://tinyurl.com/yxwm3tfv>

¹⁰ DetikFinance, "KPPU Denda 32 Perusahaan Kartel Daging Sapi, Tertinggi Rp 21 Miliar," Apr. 22, 2016 <https://tinyurl.com/y6qvlh7o>

4	PT Agrisatwa Jaya Kencana	6.5 billion	20	PT Tanjung Unggul Mandiri	21 billion
5	PT Andini Agro Loka	1.5 billion	21	PT Kariyama Gita Utama	1.4 billion
6	PT Austasia Stockfeed	8.8 billion	22	PT Sukses Ganda Lestari	505 million
7	PT Bina Mentari Tunggal	2.8 billion	23	PT Nusantara Tropical Farm	3.8 billion
8	PT Citra Agro Buana Semesta	3.8 billion	24	PT Karya Anugerah Rumpin	194 million
9	PT Elders Indonesia	2.1 billion	25	PT Sumber Cipta Kencana	71 million
10	PT Fortuna Megah Perkasa	856 million	26	PT Brahman Perkasa Santosa	803 million
11	PT Great Giant Livestock	9.3 billion	27	PT Catur Mitra Taruma	1.3 billion
12	PT Lembu Jantan Perkasa	3.3 billion	28	PT Kadila Lestari Jaya	2.05 billion
13	PT Legok Makmur Lestari	3.9 billion	29	CV Mitra Agro Sampurna	967 million
14	PT Lemang Mesuji Lestary	651 million	30	CV Mitra Agro Sangkuriang	852 million
15	PT Pasir Tengah	4.7 billion	31	PT Karunia Alam Santosa Abadi	441 million
16	PT Rumpinary Agro Industry	3.3 billion	32	PT Widodo Makmur Perkasa	5.8 billion

Key business, association actors

State-owned importers	Importers	Associations
State Logistics Agency (Bulog)	PT Indoguna Utama	Indonesian Beef Cattle Farmers Association (Gapuspindo)
PT Berdikari	PT Sukanda Djaya	Indonesian Association of Meat Traders (APDI)
PT Perusahaan Perdagangan Indonesia (PPI)	PT Agroboga Utama	National Meat Producer Association (Nampa)
	PT So Good Food Manufacturing	Indonesian Traditional Market Traders Association (IKAPPI)
	PT Anzindo Gratia International	Indonesian Market Traders Association (APPSI)
	PT Bumi Maestro Ayu	Indonesian Meat Importers Association (Aspidi)
	PT Catur Caraka Sempurna	Indonesian Retailers Association (Aprindo)
	PT Lentera Dunia	Meat Merchant Entrepreneurs (Gappenda)
	PT Adib Global Food Supplies	Indonesian Cattle and Buffalo Breeders Association (PPSKI)
	PT San Miguel Pure Foods Indonesia	Indonesian Hotel and Restaurant Association (PHRI)
	PT Dua Putra Perkasa Pratama	Indonesian Restaurant and Café Entrepreneurs Association (Apkrindo)

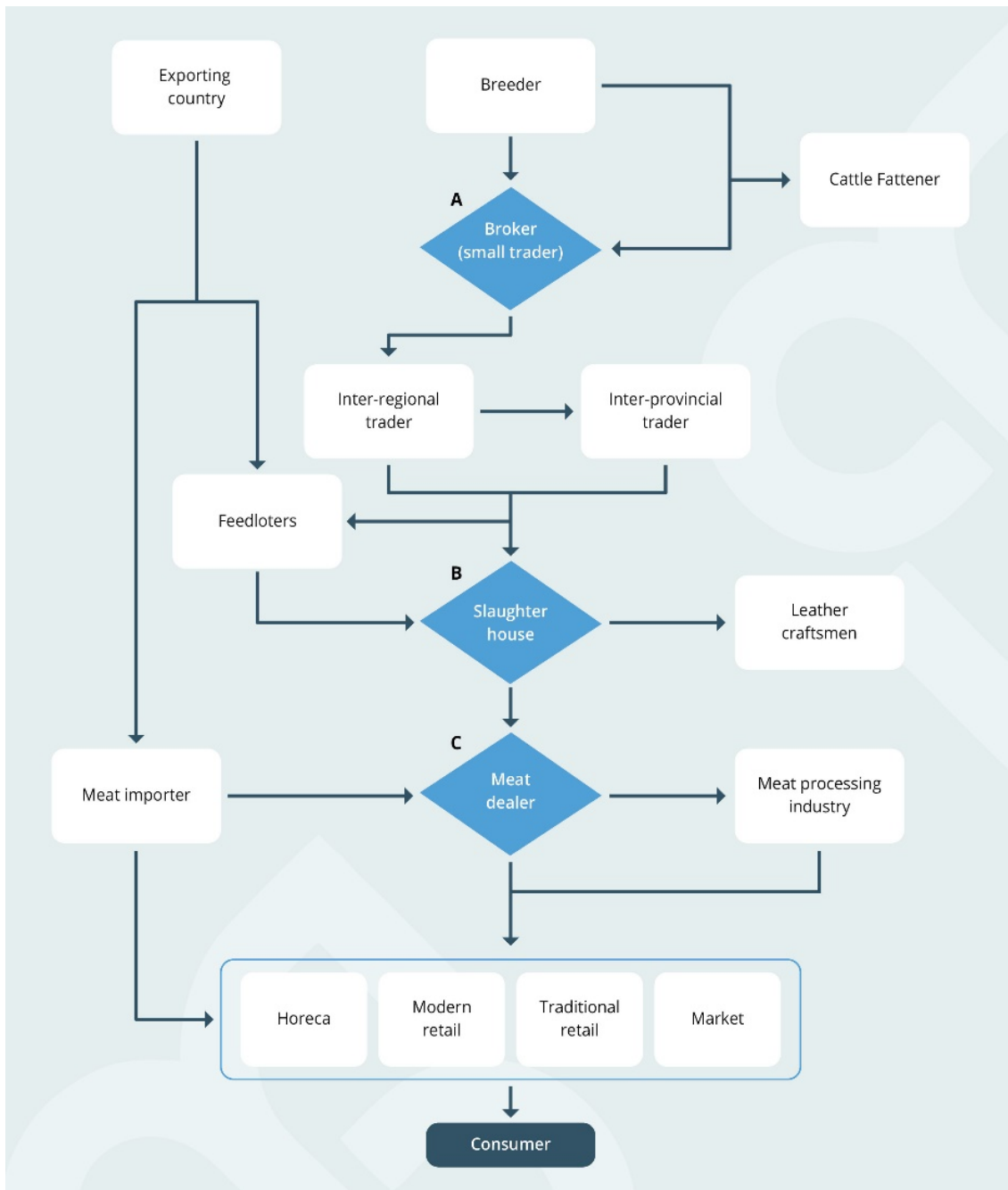
	PT Berkat Mandiri Prima	Indonesian Chamber of Commerce and Industry (Kadin)
	PT Bayu Jaya Lestari Sukses	Indonesian Employers Association (Apindo)
	PT Estetika Tata Tiara	
	PT Suri Nusantara Jaya	
	PT Sumber Agro Semesta	
	PT Rita Jaya Beef	

IV. Distribution channels

The supply chain of bovine meat is different between local and imported meat and for meat imported as live cattle and frozen product. Feeder cattle imported must stay in a local feed lot for 120 days before it can be transported for sale to slaughterhouses and then to meat dealers. From here, the meat can be sold to processing industry or straight to industrial consumers, such as hotel, restaurant, and catering (horeca). Meanwhile, imported frozen meat can be sold straight to meat dealers for sale to processing industry then to industrial consumers, or bypass to the whole chain to sell directly to industrial consumers.

Point A, B, and C from the diagram below shows players who have the influence to control price because they are the ones who can predict, and therefore control, supply. Therefore, imported feeder cattle is exposed to two points. slaughterhouse and meat dealers, risking higher freight and trade margin (MPP) fee. Meanwhile, imported frozen meat should only worry about meat dealers. However, big frozen meat importers have their own distribution channel straight to industrial consumers such as restaurants, hotel, or processing industry under the same group. This way, importers can bypass the meat dealers so the final price that reaches consumers can be more efficient.

National cattle commodity supply chain



Source: National Development Planning Agency (Bappenas) and Japan International Cooperation Agency (JICA) 2014¹¹ with modification

¹¹ National Development Planning Agency (Bappenas) and Japan International Cooperation Agency (JICA), "An Identification Study of Food Security & Consumer Preference on Staple Food Consumption," 2014

4.1 Wider distribution channels

Agriculture Ministerial Regulation (Permentan) No. 42/2019 regarding the importation of carcass, meat, edible offal, and/or their processed products for food into Indonesian territory expands the bovine meat distribution channels to a wider market. In the old regulation, Permentan No. 95/2013 only allowed the selling of imported carcass, meat, edible offal, and/or their processed products to hotels, restaurants, catering, and industry, while prohibiting them to be sold in traditional and modernized market. Then, Permentan No. 139/2014 allowed them to be sold in modernized market. In Permentan 34/2016, the products are finally allowed to be sold in traditional and modernized market. Then, in the most recent regulation, the government allows other places to sell the products, which includes virtual spaces such as online marketplace.

Specifically, Permentan No.42/2019 stipulates the use of imported carcass, meat, edible offal, and/or their processed products using cold chain handling for general use, which are designated for hotels, restaurants, catering, industry, markets and/or other places, and special use, which are for sending gifts or grants for religious, social, or disaster management purposes, the needs of representatives of foreign countries/international institutions and their officials who work in Indonesia, scientific research and development needs, or samples that are not traded (for exhibition purposes) up to 200 kg.

However, although imported bovine meat is now allowed to be sold in traditional market, consumers in traditional market still prefer local meat because the latter is perceived as being fresher, thus having higher quality.¹² Imported meat must be kept in cold boxes when being sold in traditional markets and is not allowed to stay out in open air for more than 2-3 hours to prevent bacterial infection. Imported offal in traditional markets is often perceived as not being edible so it is mostly sold to meat-processing industry. Although sellers are quite happy to sell imported meat for its lower price compared to local meat, the consumers' perception limit them from doing so. However, the opposite perception applies to imported meat sold in restaurants and supermarkets, in which imported meat is perceived as having higher quality. Therefore, a substantial proportion of imported meat is sold to restaurants, including the ones that are small businesses, and supermarkets/hypermarkets.

¹² EY Sweeney, "Study into Indonesia's beef consumption trends and preferences," Nov. 15, 2018 <https://tinyurl.com/yyu4dsg8>

Industrial Consumer Demand for Beef in Indonesia (2013)

Industry Category	Demand for Local Beef per Year (in tons)	(%)	Demand for Imported Beef per Year (in tons)	(%)	Total Demand for Beef per Year (in tons)	(%)
Four- and five-star hotel	2,368	0,40%	1,648	0,20%	4,016	0,6%
Big industry	10,704	1,60%	2,021	0,30%	12,725	1,9%
Supermarket/ Hypermarket	8,348	1,30%	8,070	1,20%	16,418	2,5%
Three-star hotel	1,709	0,30%	1,400	0,20%	3,109	0,5%
Restaurant	141,800	21,40%	76,012	11,50%	217,812	32,9%
Catering	16,795	2,50%	566	0,10%	17,361	2,6%
SMEs	181,295	27,40%	17,596	2,70%	198,891	30,0%
Traditional Market	191,005	28,80%	1,446	0,20%	192,451	29,0%
Total	554.024	83,60%	108.759	16,40%	662.783	100,0%

Source: National Development Planning Agency (Bappenas) and Japan International Cooperation Agency (JICA) 2014¹³

4.2 COVID-19 impact on distribution channels

The distribution channels market share may have shifted against the backdrop of the COVID-19 pandemic, but demand for bovine meat remains strong. The implementation of the large-scale social restrictions (PSBB)–now the public activity restrictions (PPKM)–has caused hotel, restaurant and catering businesses to suffer decline in business by 60-70%, driving down their demand for meat. However, the pandemic also drives up demand for meat through supermarket/hypermarket and online sales as people are staying at home to avoid human contact in the other distribution channels. Sellers with online meat shop and restaurants are offering pre-cooked meal packages consisting of raw meat and marinate sauces. The government has also initiated partnerships between meat business players and delivery companies such as Grab and Gojek, and this helps boost meat online sales by 300%.¹⁴

¹³ National Development Planning Agency (Bappenas) and Japan International Cooperation Agency (JICA), "An Identification Study of Food Security & Consumer Preference on Staple Food Consumption," 2014

¹⁴ Indonesia Australia Red Meat & Cattle Partnership, "Joint State of the Industry Report Update: July 2020," July 2020, <https://tinyurl.com/y2md3x5n>

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