

6. AUSTRALIAN FOOD EXPORTS

Overview

- Indonesia was Australia's second largest export market for food in 1996–97 but slid to eleventh in 1998–99 as sales halved in value. Indonesia has since rejoined the top tier of markets and was the sixth ranked export market for Australian food in 2002–03.
- Live cattle, beef, dairy products and fruit and vegetables remain the most important exports, however, exports of a range of niche products are growing fast.
- While Australia supplies about 5% of Indonesia's overall imports, its share of the Indonesian food import market is about 20%.
- Austrade sees food as one of the most promising sectors for growth in the Indonesian market. It sees opportunities in dairy, health foods, fruit and vegetables, seafood and a range of grocery items as well as certain ingredients for food processing.

Indonesia in context

In 2002–03, Indonesia was Australia's sixth largest market for food. It was third in 2001–02.

Australia's food exports to Indonesia fell sharply in the years after the 1997–98 Asian economic crisis but are now close to the peak levels of 1997 in dollar terms and Indonesia is now back in the top bracket of Australian food export markets (see Table 6.1).

Table 6.1 **Australia's major food markets: selected years (ranking / exports in A\$bn)**

1996–97	A\$bn	1998–99	A\$bn	2000–01	A\$bn	2001–02	A\$bn	2002–03	A\$bn
1. Japan	3.3	1. Japan	3.8	1. Japan	4.8	1. Japan	4.8	1. Japan	4.5
2. Indonesia	1.1	2. USA	1.7	2. USA	2.9	2. USA	3.5	2. USA	3.1
3. USA	1.1	3. Korea	0.8	3. Korea	1.0	3. Indonesia	1.2	3. Korea	1.2
4. Malaysia	0.8	7. China	0.7	4. Indonesia	1.0	4. Korea	1.1	6. Indonesia	1.0
13. China	0.3	11. Indonesia	0.6	11. China	0.7	7. China	1.1	9. China	0.8
Total	17.2	Total	18.8	Total	24.4	Total	26.6	Total	22.3

Sources: Australian Bureau of Agricultural and Research Economics, *Australian Food Statistics 2003*, Australian Government Department of Agriculture, Fisheries and Forestry, Canberra, 2003; Australian Bureau of Statistics, *International Merchandise Trade*, Australia, cat. no. 5422.0, ABS, Canberra, 2003.

Although its ranking as a major food market has recovered from the crisis years, Indonesia's share of Australia's food exports remains substantially less than it was in the mid-1990s. This is because Australia has diversified its food export markets significantly during the past decade.

The size of the market for Australian food in Indonesia and China is about the same, although trade with China is perhaps more subject to seasonal fluctuations in grain output.

Australian food exports to Indonesia: major items

Exports of live cattle and wheat dominate Australia's food exports to Indonesia. Details of wheat export volumes are kept confidential by the Australian Bureau of Statistics (ABS) but Indonesian Customs statistics suggest wheat exports of well over US\$300 million in 2002.

As noted above, total food exports to Indonesia have now returned to pre-crisis levels. But, within that overall picture, there has been considerable compositional change—see Table 6.2.

A new trade in wheat flour has begun since the lifting of Indonesia's ban on imports (previously in place to protect the domestic milling industry).

The fastest growing export items include milk powder, cheese, whey, offal, certain vegetables, and fruit juices.

Exports of fruit, butter and seafood have fallen somewhat since 1997.

The recorded figure for sugar exports has fallen because the data for raw sugar exports is now confidential (data recorded for 2002 in Table 6.2 refers to packaged sugar only).

Table 6.2 **Select Australian exports to Indonesia, 1992–2002 by value (A\$000 FOB)**

Commodity Classification	1992 A\$m	1997 A\$m	2002 A\$m	% change 1997–2002
Live cattle	9.7	210.4	254.4	21
Milk powder	11.6	47.3	114.4	142
Beef – frozen	2.9	52.4	49.2	–6
Fruit	18.3	49.5	36.5	–26
Flour	0.2	0.1	31.0	>1000
Cheese	1.9	11.0	25.3	130
Whey	3.2	2.6	12.5	375
Beef – fresh and chilled	3.0	8.5	12.2	45
Offal	3.8	7.8	12.1	57
Vegetables	2.2	6.0	11.2	87
Butter and other dairy oils	10.8	15.0	10.3	–31
Malt	2.9	5.3	9.0	69
Alcoholic beverages	2.1	4.4	6.4	47
Cocoa beans	0.0	0.0	4.7	NA
Fruit and vegetable juices	0.3	2.7	4.3	61
Chocolate, cocoa powder	1.3	3.7	4.1	10
Lamb	1.0	2.7	3.4	26
Cane sugar (incl. beet sugar)	0.0	21.0	3.3	–84
Honey	0.1	1.2	3.0	142
Fish and other seafood (unprocessed)	0.5	3.2	2.7	–14
Live cattle for breeding	0.0	2.2	2.2	–1
Milk and cream	0.7	1.8	1.7	–1
Pet food	0.4	1.9	3.2	771
Margarine	0.3	1.4	0.9	–34

Sources: Australian Bureau of Statistics, *International Trade Statistics – Exports AHECC 8 digit level – Indonesia 1992, 1997, 2002*, ABS, Canberra, 2003; INSTATE analysis.

Live cattle and beef

Meat exports to Indonesia are significant and growing.

Live cattle are shipped to Indonesia for fattening and slaughtering. During the Asian economic crisis of 1997–98, live cattle imports fell from 400 000 head/year to 40 000 head/year, slowing in December 1997 and then to zero in January, February, May, June and August 1998. However, the trade has since recovered.

Live cattle are shipped around the country, fattened up and slaughtered locally according to *halal* specifications. Beef slaughtered locally is purchased through wet markets, while



Image 6.1 Capilano Honey, Hero supermarket, Kemang

imported chilled and frozen beef is generally purchased at supermarkets. As of 2003, only three abattoirs across the country supply beef to supermarket specifications.

Indonesia is also an important market for a range of Australian beef cuts and offal, both chilled and frozen.

Australia, the United States and New Zealand are the primary suppliers of beef to Indonesia and Australia is the largest supplier of live cattle. As of early 2004, Indonesia has banned imports of virtually all cattle-related products from the United States and Canada due to the reported occurrence of BSE in those countries.

Indonesia's reliance on Australian feeder cattle is growing, although the Government of Indonesia has set a goal of increased self-sufficiency.⁴⁷

Dairy

Indonesia imports large volumes of powdered milk, both for domestic consumption and to be re-packaged for export. Decentralisation has enabled the trade at the sub-district level to grow, making dairy products more accessible and affordable to middle and low-income earners in rural areas. Growing nutrition awareness has also played a role in lifting consumption, which is growing by around 10% per annum.⁴⁸ Powdered milk is packaged to *halal* specifications for export to Middle Eastern countries, Nigeria, Southeast Asia, Taiwan and Hong Kong.

Indonesians also consume ready-to-drink milk, sweetened condensed milk and other dairy products in increasing volumes, including butter, cheese and whey. Australia is a key supplier, exporting over A\$10 million of butter* and A\$12 million of whey in 2002. Exports of cheese as cheddar, uncured and processed cheese has risen from less than A\$2 million in 1992 to over A\$25 million in 2002. Infrastructure problems are one constraint on imports of chilled dairy products.

Indonesia's major suppliers of dairy products are Australia, New Zealand, the Netherlands, the Philippines and Germany.

The local industry produces approximately 50 000 tonnes annually of dairy products. There are 120 dairy co-operatives in Indonesia, which consist of roughly 100 000 farmers with two or three cows each.⁴⁹ Demand for powdered milk and dairy products in general have, however, outstripped domestic production in recent years. Local supply shortages were made worse by the reduction in herd size during the Asian economic crisis.

Fruit

Consumption of temperate fruits in Indonesia has risen, reflecting changing lifestyle and increased nutrition awareness. Imports are playing a larger role with better access to the market.

The increase in volume of imported fruit has created a new market structure—street markets that specialise in fresh fruit. Street markets consist of around a dozen vendors selling both imported fruit and local tropical fruit at competitive prices. According to GAPMMI, around 70% of imported fruit is sold this way. A further development is the emergence of modern specialised fruit shops.

Fruit imports from Australia jumped from A\$18 million in 1992 to almost A\$50 million in 1997, but have not yet recovered to the 1997 level.

Nevertheless, Indonesia remains an important market for grapes (A\$14 million in 2002) and pears (A\$7.5 million).

* Including other dairy oils, fats and spreads.

⁴⁷ INSTATE interview, October 2003.

⁴⁸ United States Department of Agriculture Foreign Agricultural Service, *Indonesia Dairy and Products Annual 2003*, Global Agriculture Information Network Report #ID3009, Jakarta ATO, 2003, p. 2.

⁴⁹ United States Department of Agriculture Foreign Agricultural Service, *Indonesia Dairy and Products Annual 2003*, p. 1.



Image 6.2 Australian yoghurt, Hero supermarket, Kemang



Image 6.3 Berri Juice Counter, Kelapa Gading Mall

Growth in niche markets

Table 6.2 above shows major Australian exports in broad categories. Table 6.3 shows that fast export growth has been achieved during the past 5 years for a range of niche products.

Table 6.3 **Australian food exports to Indonesia: growing niche markets**

8 digit AHECC Codes	Commodity Classification	1992 A\$'000	1997 A\$'000	2002 A\$'000
18063110	Chocolate confectionery	775	1 364	2 484
20091910	Orange juice	130	727	1 315
20097000	Apple juice	34	354	1 038
17049000	Sugar confectionery	36	408	941
23099039	Poultry	NA	402	586
07031011	Brown onions	55	391	488
11041290	Rolled oats	65	179	477
07061000	Carrots and turnips	350	103	372
08029022	Macadamia nuts	27	88	355
20079900	Jams	67	220	340
20095000	Tomato juice	12	1	259

Sources: Australian Bureau of Statistics, *International Trade Statistics – Exports AHECC 8 digit level – Indonesia 1992, 1997, 2002*; INSTATE analysis.

Other niche products which Austrade reports having recently facilitated sales of, include chutneys and preserves, hydroponic tea and frozen potato cakes.

Table 6.4 shows the estimated share of the Indonesian import market achieved by Australian food products in 2002. Australia now supplies just 5% of Indonesia's total imports, but about 20% of its total food imports.

Table 6.4 **Australian product shares of the Indonesian market, 2002**

Item(s)	Value (US\$m)	Share by volume (%)	Share by value (%)
Wheat and meslin, unmilled	332	53	54
Milk and cream and milk products other than butter or cheese	58	28	27
Live animals other than fish	48	99	80
Sugar, molasses and honey	21	8	9
Fruit and nut, fresh or dried	17	8	8
Feeding stuff for animals	16	3	3
Meal and flour of wheat and flour of meslin	15	19	21
Meat of bovine animals fresh, chilled or frozen	12	65	67
Other meat, other edible meat offal, fresh, chilled or frozen	12	49	47
Cheese and curd	9	61	59
Cereal preparations and preparations of flours/starch of fruit	6	56	26
Vegetables, fresh chilled, frozen or simply preserved	5	4	6
Butter and other fats from milk	5	30	30
Edible product and preparations	2	3	2
Fruit juices and vegetable juice	2	57	44
Chocolate and other food preparations containing cocoa n.e.s.	2	7	10
Rice	1	0	0
Margarine and shortening	1	67	62
Alcoholic beverages	NA	31	47
TOTAL	568		

Sources: Directorate General of Customs and Excise, *Indonesia*, 2003, viewed 10 September 2003, <<http://www.beacukai.go.id/english/>>; INSTATE analysis.

Opportunities for Australia

Table 6.5 summarises the areas in which AUSTRADE, Australia's trade promotion agency, sees good potential for further growth in Australian food exports.

Table 6.5 **Austrade assessment of opportunities in the Indonesian market**

Product	Comment/details
Processed food and beverages	Dairy products (cheese and milk powders) Groceries (fruit juice, energy drinks, honey, snacks, confectionery, cooking chocolate, coffee, peanuts, jam and biscuits) Health foods, such as gluten free whole grain organic breakfast cereals, organic wheat flour Wine
Fresh produce	Fruit and vegetables (eg brown onions) Seafood (eg oysters)
Ingredients	Potato and corn starch

Source: Austrade, Canberra, 2003, viewed 10 August 2003, <<http://www.austrade.gov.au>>.

By way of comparison, Tables 6.6 to 6.8 provide United States of America, Canadian and New Zealand assessments of opportunities in the Indonesian markets. Although each country's competitive strengths are somewhat different from Australia's, their experts' views on where opportunities lie provides useful food for thought for Australian exporters.

Table 6.6 **United States of America assessment of opportunities in the Indonesian market**

Segment	Items
Retail – mainstream	Fresh fruit, frozen french fries, sauces and seasonings, canned foods, beans, pastas, salad dressings and snack foods.
Retail – niche	Frozen pizzas, frozen meat and poultry, delicatessen items, biscuits, confectioneries, breakfast cereals, tomato paste, cooking/salad oils, and non-alcoholic beverages
Food processing	Soybeans, beef, dairy products, flavourings, processed poultry products, processed potato products, fruit concentrates, and peas and lentils
Food service	<i>Items that are already available in the Indonesian market:</i> beef cuts and beef livers, duck and turkey, french fries, pastry products, sauces and seasonings, oils and vinegars, cereals, canned seafood and canned food, reasonably-priced wines, fresh fruits, liquor, beer, soft drinks, and juices, tortillas and Mexican products, tree nuts, and ice cream. <i>Items that are not present in the Indonesian market in significant quantities, but have potential are:</i> smoked salmon, veal, gourmet meats and specialty foods (such as olive oils, canned clams, caviar) prepackaged foods (including chicken nuggets, fish fillets, pies, sausage rolls, frozen vegetables) specialty non-alcoholic beverages and juices, soft drinks, and bakery ingredients (including ready-mixed custards, pastry, butter fat, and instant mixes)

Sources: United States Department of Agriculture Foreign Agricultural Service, *Indonesia Exporter Guide Annual 2002*; United States Department of Agriculture Foreign Agricultural Service, *Indonesia HRI Food Service Sector Report 2003*.

Table 6.7 **Canadian assessment of opportunities in the Indonesian market**

Best prospects	Wheat (durum wheat) Soybeans Fruit and vegetables esp. fresh apples and potatoes Oilseeds Dairy products (esp. milk powder) Eggs Honey
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Sources: Agriculture and Agri-Food Canada, *Indonesia – at a glance: Trade Statistics, Agriculture and Agri-Food Canada*, Ottawa, 2004, viewed 5 January 2004, <http://ats.agr.ca/stats/indonesia_e.htm>; Canadian Department of Foreign Affairs and International Trade, *Opening Doors to the World: Canada's International Market Access Priorities – 2003*, DFAIT, Ottawa, 2003, viewed 24 November 2003, <<http://www.dfait-maeci.gc.ca/tna-nac/2003/cimap-en.pdf>>, p. 101–103.

Table 6.8 New Zealand assessment of opportunities in the Indonesian market

Best prospects	<ul style="list-style-type: none"> Live cattle Secondary cuts of meat and offal Premium meat cuts Dairy products (milk) Seafood Consumer foodstuffs
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Source: New Zealand Trade and Enterprise, *Indonesia Country Brief August 2003*, New Zealand Trade and Enterprise, Wellington, 2003, viewed 12 November 2003, <<http://www.marketnewzealand.com/common/files/indonesia-cb.pdf>>.

The view from Austrade Jakarta

Australia's current Senior Trade Commissioner in Indonesia, Michael Abrahams, says that food is one of the most promising sectors for Australian exports to Indonesia. There are shortages of key commodities in the market including rice and meat as meat consumption returns to pre-crisis levels or higher. Beef consumption is at 350 000 tonnes and expected to reach 500 000 tonnes by 2005. With Indonesia's herd size more or less static, domestic sources cannot meet this demand.

'In recent years, pent-up demand has been released', he says, 'and this has been accelerated further by the rising use of credit cards—over 60% increase in the past 12 months—and the greater availability of personal credit and housing loans with the recovery of the banking sector'. Michael adds, 'Mobile phones are an indicator of consumer demand. In March 2002 mobile phones exceeded the number of fixed lines for the first time—at over 7.6 million'. He said that there are expected to be 25 million mobile phone subscribers in Indonesia by 2005.

The Indonesian economy and GDP is driven 70–80% by consumer demand. There are some issues in the trading environment including sometimes capricious application of laws and regulations and the failure of the legal system and these can inhibit business growth, especially in relation to foreign direct investment. Michael says such factors are also contributing to a weakening of Indonesia's competitive position in the region. 'We are also seeing some growth in protectionist sentiment', Michael says, 'which is often expressed in broad nationalistic terms'.

'If you are looking for a competitive advantage in the market, look for something that can be value-added in Indonesia. Live cattle are in this category as fattening, slaughtering and distribution is done in-country. Around 80% goes into the wet markets and the remainder to supermarkets and food service. Your Indonesian customers are looking for products that can be value-added for the domestic market or for export, including the Middle East, where Indonesia is opening up new market channels.'

Asked about the foreign investment environment, Michael said that there were essentially three points to be made. The first was that the authorities were trying to entice owners of an estimated US\$5–100 billion that had flowed out of the country, to bring it back. The second related to foreign direct investment sources. There was declining interest from traditional sources such as Europe and the United States of America but increased interest from the region—especially Singapore and Malaysia as well as from China. This was evident in the oil and gas, telecommunications and finance industries, for example. The third point to be made was that 'mega projects' and greenfield investments generally were down, with more activity on the SME front in recent times.

Since the crisis, Austrade's strategy has been to keep the trade channels open. Food and beverage exporters from Australia have been doing well in the market. Since the bombings—Bali and Marriott—which have reduced the flow of business visitors, Austrade has been working more closely with Indonesian importers and recently sent a buying mission numbering 47 to the Fine Foods exhibition in Sydney and another, of 27, to Western Australia. As a consequence, Austrade's performance indicators for trade with Indonesia—covering both activities and export outcomes—are strongly positive.

Source: INSTATE interview, October 2003.