

# **FUNDING HEIFER IMPORTATION IN INDONESIA**

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Workshop on Importing Dairy Heifers into Indonesia:  
Opportuniity and Challenges for Growing National Herd

Hotel Santika, Bogor

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# NOTES for APOLOGY

- So far, based on interviews and literature reviews, there is no specific (government) *funding scheme or regulation* on the importation of animal including dairy heifers into Indonesia.
- However, there are regulations and schemes which are related to the issues of (funding) heifer importation :
  - Regulations on export and import of animal and animal products (including dairy heifers).
  - Regulation on People's Business Credit Scheme and Regulation (Kredit Usaha Rakyat-KUR)
  - Indonesia-Australia Commercial Cattle (IACCB) Program
  - Stakeholders's Partnership in the Dairy sector (PISAgro-Dairy Working Group, ongoing IPS-Dairy Cooperatives partnerships)
- Presentation will be on KUR, IACCB, multistakeholder partnerships in dairy sector and lesson from Japan Dairy Association (J-Milk)

# Live Cattle and Heifer Import Regulations

## Ministry of Trade:

- Minister of Trade's Decree No 37 2016 Regarding Provisions on Export and Import of Animal and Animal Products → amending MOT Decree No 52016

## Ministry of Agriculture:

- Minister of Agriculture's Decree No 49 2016 Regarding Importation of Large Ruminants into the Territory of the Republic of Indonesia.
- Minister of Agriculture's Decree No 26 2017 Regarding Supply and Distribution of Milk → multi-stakeholder partnerships

## Coordinating Minister of Economic Affairs:

- Permenko Decree No 9/2016 regarding People's Business Credit Scheme (Kredit Usaha rakyat-KUR) → amendment is underway

# Indonesia-Australia Commercial Cattle Breeding

- The Indonesia Australia Commercial Cattle Breeding Program (IACCB) commenced in February 2016.
- It is a program established under the auspices of the Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector.
- The three-year, \$8 million IACCB project aims to pilot a range of different breeding partnership models and investment opportunities with private sector partners to assess commercially sustainable approaches that can be up-scaled to facilitate investment, innovation and expansion of the beef cattle breeding.
- Funding for this program is provided from the \$60million contribution towards the Partnership by the Australian Government, with co-contributions from included project Partners.

## Indonesia Australia....(Continued)

- The IACCB's key focus is to support the commercialization of cattle breeding in Indonesia.
- The IACCB program provides support to carefully selected partners and their breeding system.
- This support comes in the form of a management partnership, aims to improve the partner's capacity and capability (knowledge, skills and physical capacity) in commercially sustainable production and business practices.
- The outcomes of this program will be changes to the cattle breeding and farm management practices. This encourages partners to further invest in the expansion of their cattle breeding business beyond the pilot phase, which will lead to further expansion in the Indonesian cattle breeding sector.

## Indonesia Australia....(Continued)

- IACCB's responsibility is to provide sufficient support to each partner, tailored to their needs, so that their breeding system has a high probability of achieving sustainable commercial outcomes.
- IACCB technical assistance to partners will cover all aspects of a successful cattle breeding enterprise: pasture and feed supply development, cattle husbandry, herd management strategies, monitoring and evaluation systems, guidance, and staff training.
- For some Partners, cattle and physical infrastructure such as electric fences and cattle handling equipment will also be provided.
- Additional assistance will include support for the development of business management principles and practices.

## Indonesia Australia....(Continued)

- Each partnership with a commercial partner will also focus on co-investment. Partners must co-invest in the pilot to receive IACCB program support. Investments may include contributions of land, staff, infrastructure and other resources in-kind.
- The IACCB Program will also provide field staff for an initial period to assist Partners with the implementation of new initiatives, to provide timely feedback to the IACCB team to keep new initiatives and processes on track, and to manage key risks such as those associated with animal welfare.
- One of the support of the IACCB Project is to distribute imported Australian beef cattle (not dairy heifer?) to selected Partners for the purpose of collaboration of Cattle Breeding pilots in Indonesia.

# Indonesia Australia....(Continued)

## The IACCB indicators for success:

- Demonstrated commercially viable the cattle breeding business models
- Demonstrate increase in interest/investment in the sector; and
- Delivers a minimum target of 2,000 heifers and 100 bulls Australian sourced cattle.



# Loan Disbursement of People's Business Credit (Kredit Usaha rakyat-KUR)

Sectors	2016 (%)	Aug 2017 (%)
Trading	66.3	55.6
Agriculture and forestry	17.4	23.1
Services	11.0	13.0
Processing and manufacturing	4.1	6.4
Fisheries	1.2	1.7
Construction	0.0	0.2
Loan Disbursement (Rp Trillion)	94.4	61.2
(US\$ billion)	7.1	4.6
Total available Loans (Rp Trillion)	100.0	110.0
(US\$ billion)	7.5	8.3

Source: Data Realisasi Kredit Usaha Rakyat ([kur@ekon.go.id](mailto:kur@ekon.go.id))

# Proposed Changes in KUR

- The government has decided to increase the allocation of KUR to Rp110-120 trillion in 2017.
- The government has also planned to increase farmers' access to KUR, following up President Joko Widodo's orders who are disappointed at the low distribution of KUR to the agricultural sector.
- In a Cabinet Meeting (Dec 6, 2016), President Joko Widodo requested that there should be a special scheme in the distribution of KUR to the sector. He hopes this can encourage farmers to increase production, productivity and quality as well as the development of agricultural machinery.

# Proposed Changes on Coordinating Minister of Economic Affairs (Permenko) Decree No 9/2016 regarding KUR

No	Description	Micro-KUR		Small KUR	
		Current	Changes	Current	Changes
1.	Interest rate	9	<b>7</b>	9	7
2.	Subsidized Interest rate	9.5	11.5	4.5	6.5
3.	Credit Ceiling	Rp 25 million	Rp 25 million	Rp 500 million	Rp 500 million
4.	Total credit Ceiling	Rp 75 million	Rp 75 million	Rp 500 million	Rp 500 million

Source: Bahan Draft Permenko KUR (6 September 2017)

# Proposed New Scheme of KUR for Cattle Breeding

No	Description	KUR for (Dairy) Cattle Breeding and Farms
1.	Interset rate	3% per year
2.	Targeted business	Beef (and dairy) cattle breeding and farms
3.	Targeted beneficiaries	Livestock Farmers, Farmers' Group, Livestock (Dairy) Cooperative
4.	Credit ceiling	Rp. 2 milliar (US\$ 150.000)
5.	Time period	Maximum of 10 years. Payment of subsidized KUR maximum 7 years (according to Ministry of Finance decree-PMK), the remaining interest rate is non-subsidized KUR interest of 9% per year (maximum 3 years)
6.	Grace Period	3 years.
9.	Collateral	1. The principal collateral is the feasibility of the business and the object being financed 2. Additional collateral is adjusted to bank analysis.
10.	Implementation	Further provisions are set out in the implementation guidelines by the Technical Ministry.

Source: Usulan Kredit Usaha Rakyat sektor Peternakan (Ditjen PKH, Sep 2017)

# Partnerships for Indonesia's Sustainable Agriculture (PISAgro)

- The Partnership for Indonesia's Sustainable Agriculture (**PISAgro**) is a collaborative platform between the Indonesian government, public and the private sector to support the Government of Indonesia's ambition to increase agriculture productivity sustainably as part of the effort to develop food security.
- **PISAgro** was founded in June 2011 at the World Economic Forum on East Asia in Jakarta and was officially operational in 2012. The partnership is fully supported by the Coordinating Ministry for Economy, Ministry of Agriculture and Ministry of Trade.
- PISAgro 2020 Visions are:
  - 20% increase in the production of selected commodities (rice, soybean, corn, palm oil, coffee, cocoa, potatoes, horti, dairy, rubber, beef cattle),
  - 20% increase in the welfare of farmers,
  - 20% reduction in greenhouse gas emissions

# PISAgro-Dairy Working Group

## Targets:

- By 2020, 5,000 graduates from un-professional to “progressive farmers (increase cows ownership from average 3,5 to 8) and productivity improvement by 40%.
- 1,000 farmers run profitable medium size farm with 20 cows and productivity of 18 lt/ d/ cow (over 5,000 lt/ cow/ lactating) 100 “agripreneur” dairy farming with over 50 cows per farm, applying TMR as feeding system.
- A total of 200 ha of profitable fodder agriculture models across East Java (initial crowding to drive future scaling up.

# PISAgro-Dairy Working Group

## **Activities:**

- Fodder replanting program and nurseries
- Corn silage program
- Feeding / animal nutrition improvement program
- Feed center on complete feed
- Model farms for productivity and hygiene
- Biogas program
- Water ad-libitum program

## **Results:**

- Farmers engaged: 20,000
- Numbers of coops: 25

# PISAgro-Dairy Working Group

## Partners:

- Nestlé Indonesia
- Cargill Indonesia
- Brawijaya University
- ARISA
- *Balai Inseminasi Buatan Singosari*
- Invivo Indonesia
- Dairy/ milk cooperatives

## Areas of work:

- East Java Province



# Partnerships between Frisian Flag Indonesia (FFI) and KPSBU Lembang

1. Dairy village (2013-2018) with a total cost of Rp 11 billion
  - A cage with a capacity of 130 cow heads
  - Silage bunker 6 unit with capacity of 300 tons
  - Training place and facilities 1 unit
  - Milking machine 1 unit
  - Balloon for liquid waste with capacity of 500 cubic meters
2. Dairy cows rolling project with a total cost of Rp 400 million
3. Training for officers of cooperatives and farmers (farmer to farmer)

# Partnerships between FFI and KPBS Pangalengan...(Continued)

1. Milk Collecting Point (MCCP-1) consists of:
  - Buildings
  - Cooling unit capacity of 6,000, 2 units
  - Computer
  - Milk balance
  - Breeder's milk-can washing machine
  - Total cost of Rp 3.2 billion is 100% financed by FFI
  - Other MCP (No 2-4) 65% KPBS, 35% FFI
2. Training of cooperative officers and farmers (farmer to farmer)

**HEIFER IMPORTATION IN JAPAN:  
LESSON JAPAN DAIRY ASSOCIATION  
(J-MILK)**

# Heifer Import Subsidies in Japan

- In response to skyrocketing prices for replacement heifers across Japan, J-Milk (previously known as the Japan Dairy Association) announced a roughly \$1.4 million program to reduce the purchase price for imported replacement dairy cattle through 2019.
- J-Milk anticipates program funds supporting the importation of 1,000, primarily Holstein, cattle from Australia in 2017, including 600 heifers and 400 first-bred heifers.
- The current estimated delivery price for a first-bred heifer, upon arrival by air freight at a Japanese quarantine station, is between \$6,800 – \$7,300.
- The J-Milk program will underwrite \$1,400, of the total cost per head of imported replacement dairy cattle.
- Japan currently imports approximately 10,000 live cattle (both beef and dairy breeds) from Australia each year.

## Heifer Import Subsidies...(Continued)

- Dairy farmers applying for the subsidy will be required to have at least five years of dairy farming experience, to increase utilization of artificial insemination with Holstein semen, and to calve imported replacement cattle at least three times.
- Program beneficiaries will be eligible to import up to ten head of cattle per farm.
- JA Zennoh (National Federation of Agricultural Cooperative Associations) and Zenrakuren (National Federation of Dairy Farmer Cooperatives) manage the program budget on behalf of J-Milk.
- Trading firms with experience in importing breeding animals will be contracted to execute the importation.

# Background of Heifer Import Subsidies

- Strong domestic demand for Japanese beef coupled with a government support to increase exports of Japanese beef have driven Wagyu and F-1 beef prices significantly higher since 2014.
- As the Japanese beef cow-calf industry continues to contract, primarily due to aging farmers retiring without successors, beef feeder cattle prices have risen between 80 and 120 percent across major beef breeds over the last five years.
- This rapid increase in prices has led dairy farmers to increase utilization of Wagyu genetics to produce valuable F-1 offspring for beef production, reducing the annual Holstein calf and driving live auction prices for replacement dairy cattle higher across Japan.

## Background.....(Continued)

- The shortage of replacement heifers has been particularly acute in dairy producing areas outside of Hokkaido, where milk production has declined by nearly 30 percent over the last twenty years.
- J-Milk represents dairy farmers, dairy cooperatives, dairy processors and milk retailers in their efforts to promote dairy consumption and to maintain a stable supply of domestic milk and milk products.
- In 2013, the Japan Dairy Association was re-instituted as “J-Milk” following domestic reforms, although the composition and mission of the organization remain the same.
- The Japan Dairy Association was comprised of the National Dairy Promotion and Research Association, the National Council of School Milk Supply and the National Dairy Intelligence Center Japan.

# Understanding J-Milk

## J-Milk

- J-Milk is a unique organization, which brings dairy farmers, dairy businesses and retailers together to represent Japan's whole milk supply chain.

## J-Milk's Mission

- In order for the dairy farming and business of the country to contribute to the health of the nation and their rich eating habits through the stable supply of domestic milk and milk products and to build a strong trusting relationship with the public, it is indispensable that the people concerned constituting a milk supply chain maintain their reciprocal and stable relationship.
- J-Milk provides milk influencers and the people concerned with dairy farming and business with the information, which leads to the solution to common challenges of the dairy farming and business and to the value improvement of milk & dairy products.

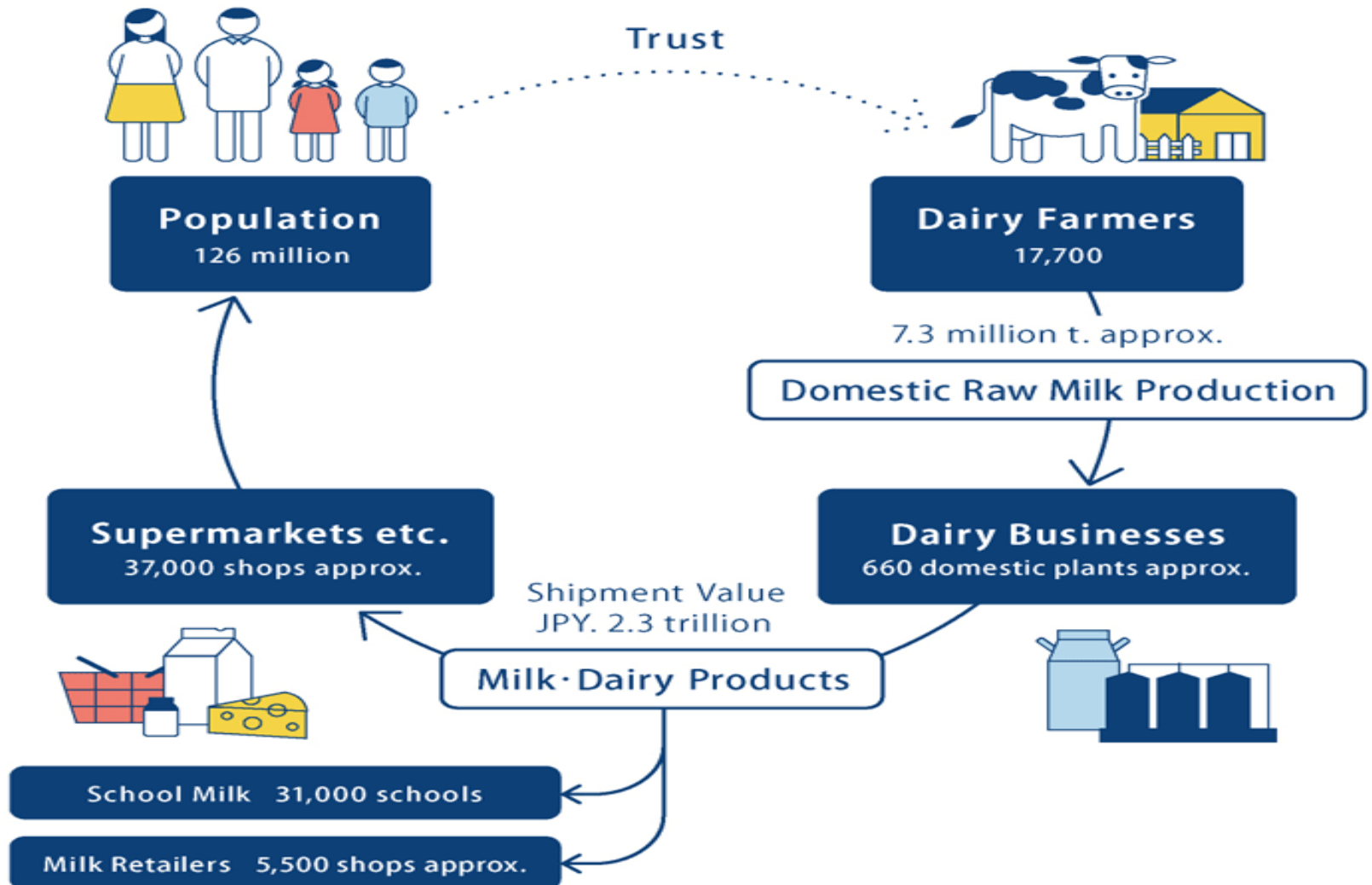


# Understanding J-Milk....(Continued)

## J-Milk's role in the milk supply chain:

- *Milk supply chain* is the flow of the milk and dairy products from the producers to the consumers' table such as the raw materials  $\Rightarrow$  production  $\Rightarrow$  circulation  $\Rightarrow$  sales.
- A more stable supply can be obtained by smoothly relaying milk from a dairy farmer to the dining table.
- J-Milk is formed by the representatives from the dairy farmers, dairy businesses and dairy products retailers, who are the core of the milk supply chain.

# J-Milk



## Concluding Remark

- In order to be efficient (to achieve economies of scale), specific funding scheme and regulation for importing dairy heifers are critically important to successfully build a commercially breeding, increase dairy cattle population and in turn domestic milk production.
- Mutual beneficial multi-stakeholder partnership in the dairy sector is needed to develop Indonesia's whole supply chain of the dairy industry → Indonesia Dairy (Industry) Association.
- Experiences from different countries show that a more stable supply of milk and dairy products can be obtained by strengthening domestic dairy farming.