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FEASIBILITY ASSESSMENT OF A BEEF PROCESSING BONDED ZONE IN INDONESIA

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PURPOSE OF THE STUDY

To explore the viability of establishing a beef feedlot and processing plant in a bonded zone in Indonesia.

In theory, the bonded zone could:

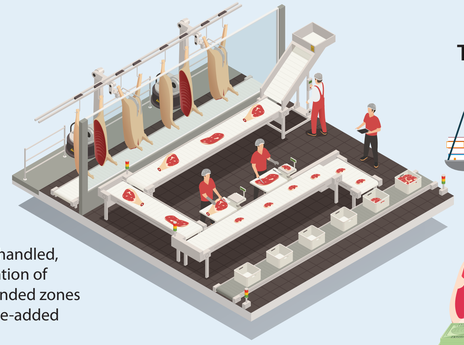
- Enable the operator to leverage Indonesia's low labour costs.
- Maintain consistent feed availability.
- Leverage high returns for exported products to enable lower-value cuts to be sold at lower prices on the domestic market.
- Leverage the potential to re-export high-value cuts / beef products into third country markets.

What is a Bonded Zone?

A bonded zone is a physical location that allows goods to be landed, handled, manufactured or reconfigured, and re-exported, without the intervention of customs authorities and the payment of normal in-country duties. Bonded zones can offer delayed payment of import duties and exemption from value-added and sales taxes on imported intermediary goods, in order to improve competitiveness.

KEY FINDINGS

The construction of facilities to feed, slaughter and debone Australian cattle in Indonesia and with the intention of exporting a percentage of the product is unlikely to be financially viable.



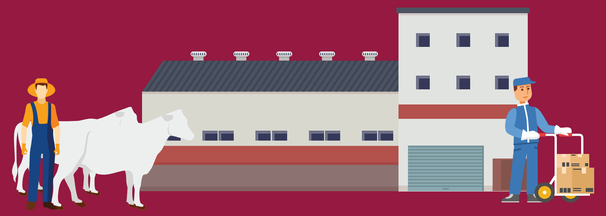
This conclusion is based on the following observations:

Potential to export beef products to markets with which Indonesia currently has favourable tariff arrangements could be short-lived because bi-lateral and multi-lateral tariff provisions change continually.

The cost of beef produced through the bonded zone is still higher than the cost of beef processed in Australia.

Current regulations in Indonesia require 50% of production to be exported in order to qualify for tariff exemptions. This is not compatible with the likely business model the processing business would use.

Costs and benefits of establishing a bonded zone for cattle production and processing



- At entry to the slaughter plant, the price of the cattle was AUD402 to AUD631 per head more expensive in Indonesia than in Australia.

  The higher cost in Indonesia is due to the cost of transport, import duties and trading margins. This difference cannot be overcome by low labour costs nor by lower feed costs in Indonesia.

- Even after 30 years (and even with a zero discount rate) the operation would not break even and would have a negative rate of internal return.

  *the analysis was modelled on a new bonded zone facility located in central Java. It took account of all costs using net present value (NPV) calculations at a discount rate of 12%.

- While there are existing domestic processing facilities near Jakarta that are well-established and might be able to be converted into export-compliant facilities and be part of a bonded zone, the financial modelling indicated the savings would not be sufficient to change the overall viability of the business.

Four preliminary business concepts were developed to consider how the enterprise might operate and where the products might go:

1. Manufacturing beef processing into consumer ready products.
2. Primal cuts processing into retail ready/portion control products.
3. Bone-in beef processing into boneless cuts.
4. An integrated cattle feeding and beef processing enterprise producing boneless beef products.

The study concluded that:

- Options 1 – 3 were high risk in terms of achieving product consistency and safety. There are also challenging to achieving access to overseas markets for these types of products.
- The fourth option was determined to be the most viable.