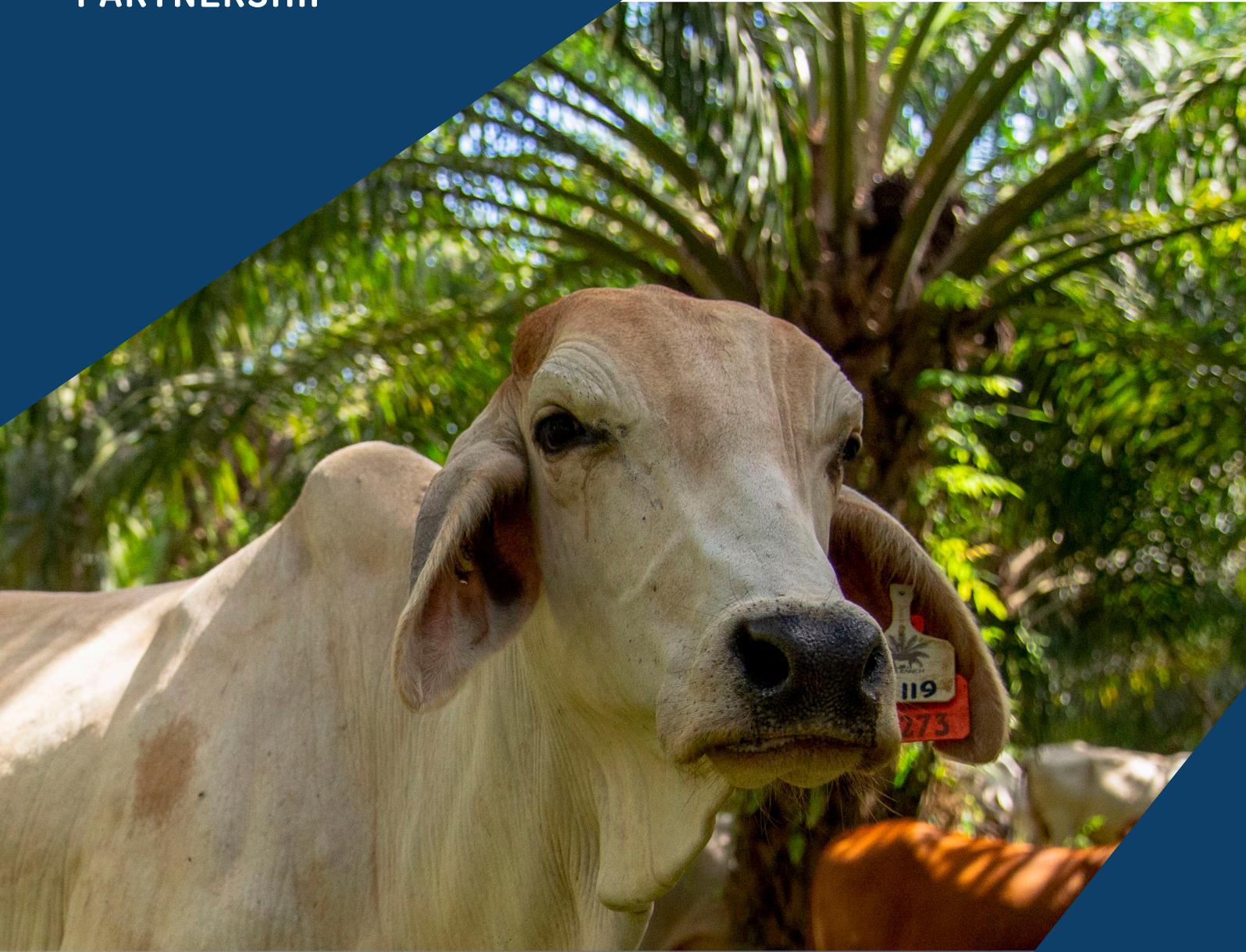


**INDONESIA AUSTRALIA
RED MEAT & CATTLE
PARTNERSHIP**



**Joint State of the
Industry Report
2020**

The Joint State of the Industry Report 2020 is a publication of the Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector (the Partnership). The publication is produced in both English and Indonesian.

This publication is freely available at redmeatcattlepartnership.org/publications

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Acknowledgements:

The Partnership would like to acknowledge the following organisations for their valuable contributions to this report: GAPUSPINDO (Indonesian Beef Cattle Farming Association), ASPIDI (Indonesian Meat Importers Association), Meat & Livestock Australia and LiveCorp

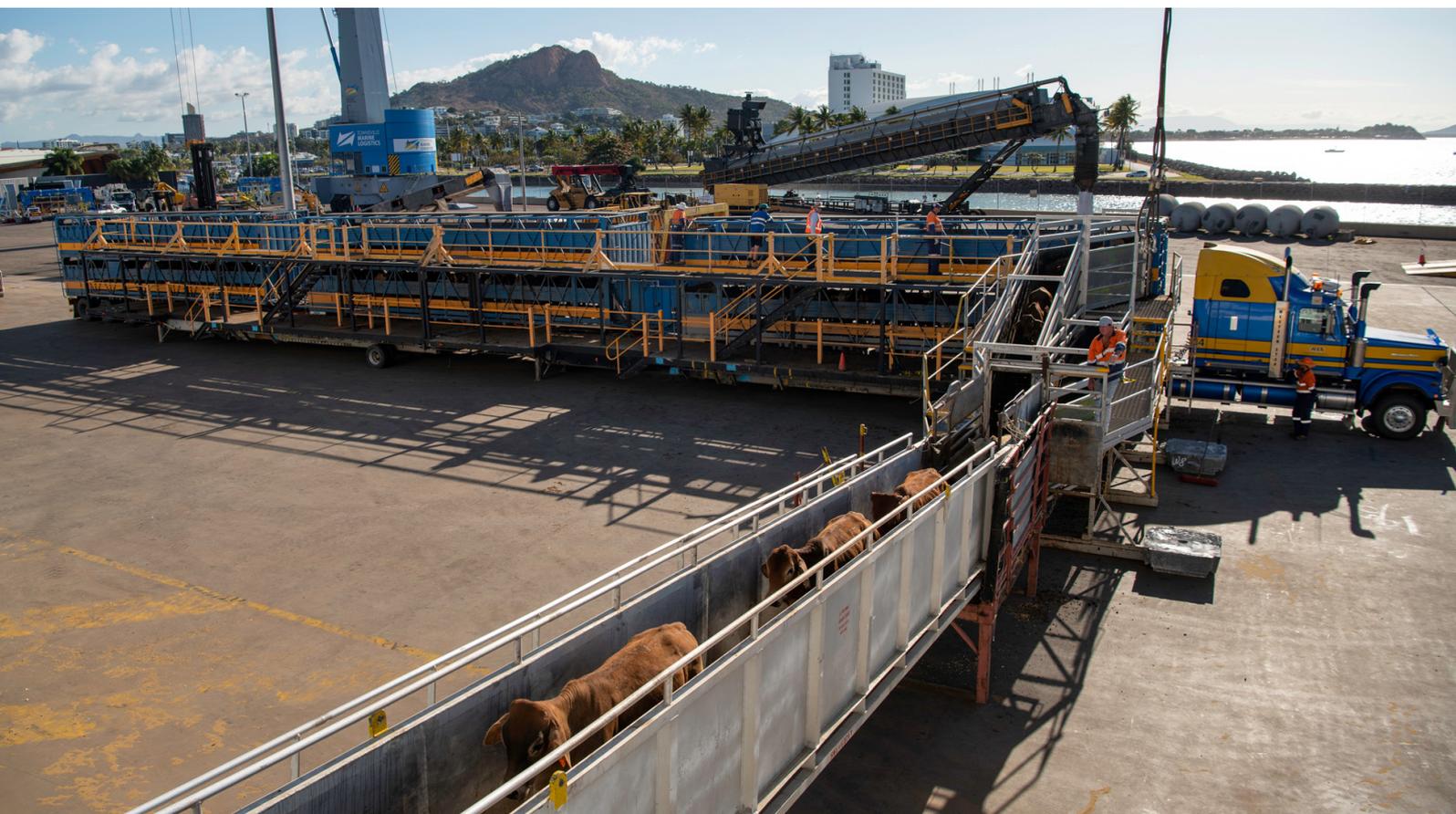


Photo Credit: Livecorp

Introduction

Indonesia and Australia enjoy a unique partnership with respect to trade in beef cattle and red meat. The market is underpinned by northern Australia's ability to efficiently produce feeder cattle on its extensive rangelands, balanced by Indonesia's ability to fatten these cattle through to slaughter weight on agricultural by-products. Australia also exports significant quantities of fresh and frozen beef, along with trim and offal, to manufacture bakso balls, rendang, and other staple foods that provide a valuable source of protein to many Indonesians. This bilateral trade in red meat and cattle between Australia and Indonesia, valued at around \$1.2b annually, has successfully taken place for more than 30 years. It directly employs about 29,000 Indonesians and supports an

additional 708,000 people in associated industries such as cattle feed supply, compost production, and transportation.

This Joint State of the Industry Report provides a summary of the red meat and cattle trade between Australia and Indonesia for 2020, concluding with an industry outlook for 2021 and beyond. The report is published at an opportune time—around one year after the emergence of COVID-19 across the globe. It gives a summary of key industry impacts and trends, highlighting the strong relationships between Australian and Indonesian enterprises along the supply chain and the very strong influence of global economic conditions on the bilateral trade.

Key messages

Tight Australian supply sees record-high cattle prices: The combination of a long-term drought and floods in early 2020 took a toll on the Australian national herd, which ended the year at its lowest level in more than two decades. The Australian industry is now in a rebuilding phase, with Australian exporters, abattoirs, lotfeeders, and farmers, as well as Indonesian lotfeeders, all competing for a very limited pool of cattle. This, together with a strong Australian dollar, has driven the export feeder cattle price to a historic high. Australian feedlots and abattoirs are now severely constrained by tight supply and high cattle prices, with many reporting operating losses.

Live cattle imports slump, while Indonesian feedlots and abattoirs struggle to remain profitable: To counter the record-high cattle prices, Indonesian feedlots and abattoirs have dramatically reduced throughput, driving a 31% reduction in the importation of Australian live

cattle in 2020. Most operators reported losses in late 2020 and early 2021. The Indonesian industry is now advocating for access to lower-priced feeder cattle from Mexico and Brazil, although addressing import and quarantine protocols has proved challenging.

Industry challenges will likely remain throughout 2021: The Indonesian red meat and cattle industry expects 2021 to be the year in which pandemic impacts will be most acutely felt. Rabobank predicts that Australian feeder cattle prices will remain high, driven by ongoing restocking, strong domestic and international demand, and low herd numbers. Indonesian industry and government efforts to import cheaper Mexican and Brazilian live cattle, and frozen meat from India and South America, will likely intensify. Australian boxed meat products will also face increasing competition from other suppliers.



Photo Credit: Meat & Livestock Australia

The Supply Side - Australia

Australian herd in rebuilding phase

A five-year drought—one of Australia’s worst on record—and floods in early 2020 took a heavy toll on the country’s national herd, which declined from 26.4 million head in 2018 to 24.6 million head in June 2020, its lowest level in 25 years. For successive years, many cattle properties experienced critically low supplies of feed and water, so were forced to aggressively destock. With fewer livestock and higher feed costs, most cattle businesses entered a protracted period of loss-making.

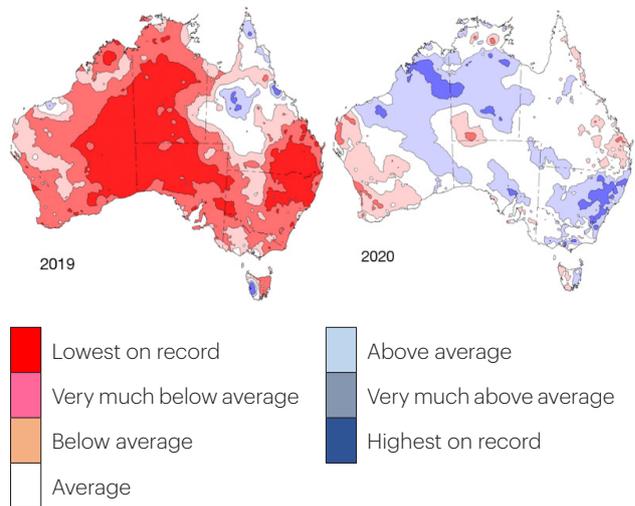
Thankfully these challenging environmental conditions started to abate in 2020 (Figure 1). Good rains in the southern and eastern states, as well as in northern Australia, produced an abundance of pasture in all major cattle-producing regions, along with a good grain harvest. Producers took the opportunity to restock by purchasing breeders and retaining their female cattle, and by holding their steers to higher weights prior to sale to take advantage of the abundant pastures. Meanwhile, Australian lotfeeders were able to finish cattle on grain.

All of these measures significantly restricted the supply of cattle for sale, including for export.



Photo Credit: Meat & Livestock Australia

Figure 1: Australian Rainfall Averages 2019 Compared to 2020



Source: Australian Bureau of Meteorology

With Australia’s limited supply and small breeding base, herd rebuilding is likely to take time, with the herd expected to grow by only 2% by the end of 2021 (Figure 2). Cattle supply is therefore expected to tighten further in 2021 as producers retain stock for breeding. Buyers, such as processors, exporters, and restockers, can expect to compete for an even more limited pool of cattle.

Figure 2: Australian Cattle Herd, Past 20 Years and Future Projections



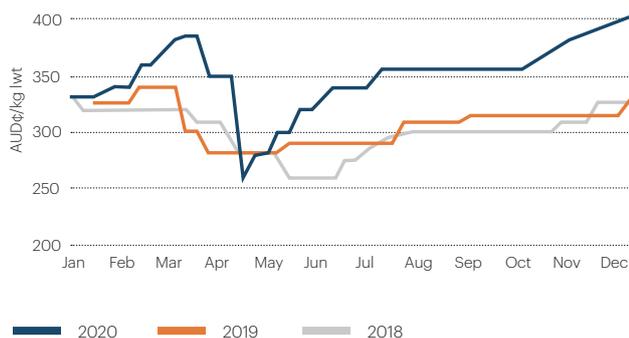
Note: Herd turnover rate is the rate at which cattle are finished on a property and sold for processing or export.

Source: Australian Bureau of Statistics; Meat & Livestock Australia

Australian cattle prices at historic highs

Australian cattle prices were highly variable throughout 2020 and ended the year at an historic high (Figure 3).

Figure 3: – Darwin Feeder Steer Prices, 2018 – 2020



Source: Beefcentral

The price of feeder steers shipped from Darwin started 2020 at AU\$3.30 per kilogram (kg) liveweight, before rising to AU\$3.85 per kg in March. Prices then plummeted to a low of AU\$2.60 per kg in late April due to the immediate impacts of COVID-19.

With improved weather conditions favouring herd retention and rebuilding, the price rose steadily from May and levelled off at AU\$3.55 per kg from July through to October. The strengthening of the Australian dollar against major currencies late in 2020, combined with restocking on Australian farms and increased demand from Vietnam for heavier cattle, further increased feeder cattle export prices through to Quarter 4 (Q4). By December 2020, Darwin feeder steer prices were firm at AU\$4.00 per kg liveweight, with sales as high as AU\$4.18 per kg. These record high prices have persisted into Q1 of 2021.

Many Australian feedlots and abattoirs are now operating at a loss due to limited supply and high cattle prices, with many operators substantially reducing throughput.

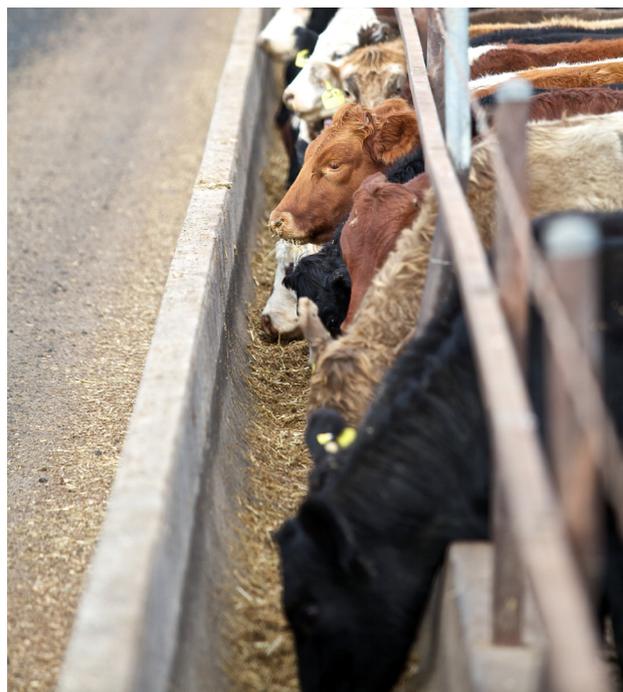


Photo Credit: Meat & Livestock Australia

Australia's global beef exports decline

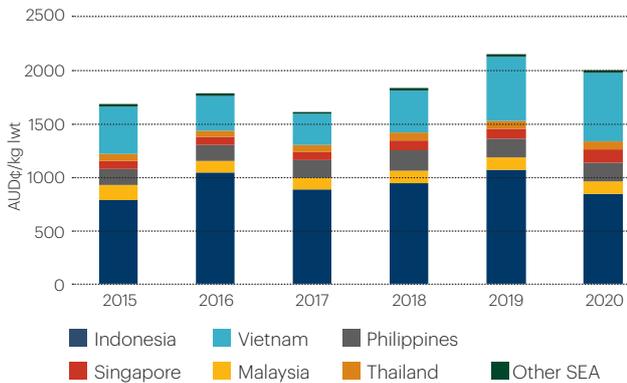
During 2020, Australian boxed beef exports fell below 2019 levels, declining 11% to AU\$8.68 billion for the year. Australia ended 2020 as the world's second-largest exporter of beef by weight, equalling India but behind Brazil. Live cattle exports, valued at over AU\$1.64 billion, were also down 8% compared to 2019.

In real terms, live feeder cattle export volume from Australia to Indonesia declined by 31% in 2020, compared to 2019 levels, partly offset by growth in Australia's slaughter cattle exports to Vietnam (up 11%) and Malaysia (up 27%).

Indonesia retained its position as the largest Southeast Asian export market for Australian live cattle, with 47% of all exports to the region (Figure 4). Indonesia may however soon fall to second place behind Vietnam where there has been strong growth in demand for slaughter

ready cattle. Indonesian regulations on cattle import weight and days on feed prevent the importation of slaughter ready cattle.

Figure 4: Total Value of Australian Beef Exports (Live and Boxed) to Southeast Asia



Source: International Market/ABS, Calendar year

Live export costs under review

On 17 February 2021, the Australian Government published a Cost Recovery Implementation Statement (CRIS) for live animal exports, which outlined the cost of providing export regulatory services in 2020-21. Consistent with the Australian Government’s Congestion Busting for Agricultural Exports package in the 2020-21 Budget, the CRIS foreshadows fee increases from July 2021, including for live cattle exporters, and an approach to full cost recovery by 2023-24. The Australian Government is now accepting industry submissions on the proposed changes.¹ There will be a stepped return to full cost recovery by 2023-24, with no increase to fees for 2020-21.

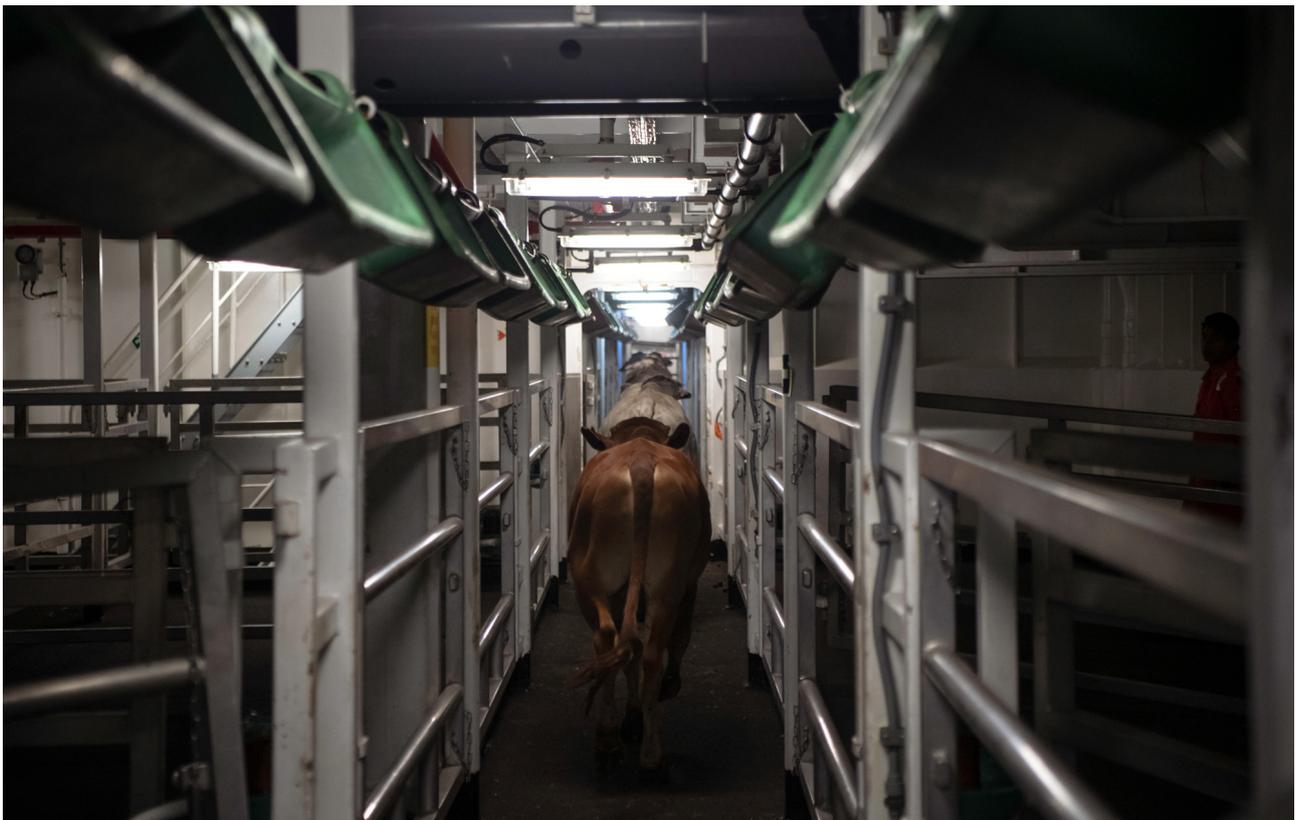


Photo Credit: Livecorp

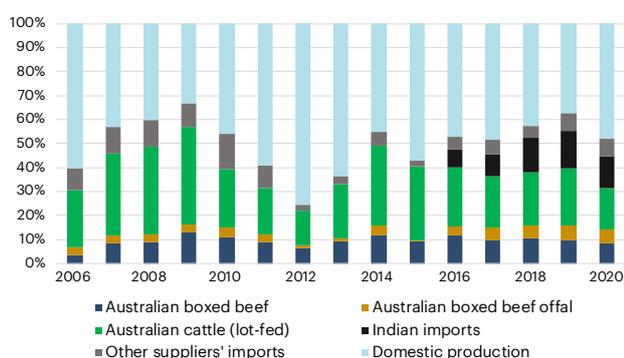
¹ <https://haveyoursay.awe.gov.au/export-cost-recovery-implementation-statements>

The Demand Side - Indonesia

Government of Indonesia broadens beef supply

Indonesian domestic beef production meets approximately 48% of the country's demand. Production is dominated by smallholder farmers breeding Bali cattle (*Bos javanicus*). The remainder is supplied through imports of live cattle and boxed beef from an increasingly diverse range of markets, with imports from Australia filling around 36% of Indonesia's beef demand (Figure 5). Beef derived from Australian live cattle is mostly sold through Indonesian wet markets—an increasingly competitive channel due to the growing penetration of cheaper products, including Indian Buffalo Meat (IBM).

Figure 5: Sources of Indonesian Beef Supply



Source: Meat & Livestock Australia

The Government of Indonesia, through a Ministry of Trade Regulation, maintains stable commodity prices for beef, rice, corn, soy, sugar, cooking oil, shallots, eggs, and chicken, by setting a reference price for each commodity. There are no penalties for producers and sellers if they deviate from the reference price but the Indonesian Government may investigate and intervene.

The Government of Indonesia has also developed policies and plans to boost the

national herd to 24 million head by 2024. The Indonesian Statistics Agency estimates the national herd to be currently sitting at approximately 17.4 million head.

As of March 2021, the feedlot sector has halved its capacity to 130,000 head due to restricted supply and record-high Australian prices. Consequently, there is likely to be a large shortfall in cattle and beef supply for the religious holidays of Eid al-Fitr and Eid al-Adha, when demand usually peaks. Supply and price factors have also seen productive female cattle in Indonesia sold for slaughter, with pressure on the national herd likely to continue throughout 2021. If female cattle continue to be sold for slaughter at current rates, it will be very difficult to achieve the national herd growth targets.

The Government of Indonesia has responded to these supply issues by increasing the provision to import IBM (with an approved import quota of 80,000 tonnes for 2021) and Brazilian beef (20,000 tonnes), effectively covering a large proportion of the country's demand for low-cost beef.

GAPUSPINDO, the Indonesian Beef Cattle Business Association, is currently working with the Government of Indonesia to access alternative and cheaper sources of live cattle and aspires to import 200,000 to 300,000 head of cattle from Mexico in 2021. Brazil is also actively advocating for increased access to the Indonesian market, offering capped feeder cattle prices from areas free of Foot and Mouth Disease (FMD).²

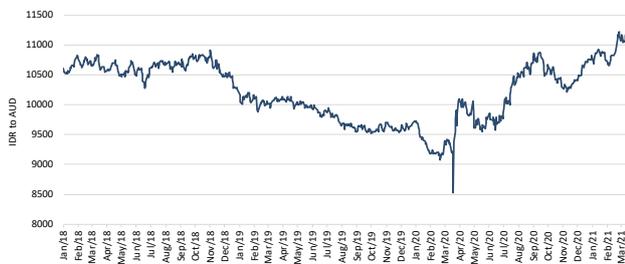
² The intention is to identify options to source cattle deemed "FMD-free without vaccination" as these areas have lower risk. Mexican and Brazilian cattle prices are 10%-15% lower than Australian landed cattle prices. The sea voyage from the east coast of Mexico to Indonesia's ports in West Java is at least 26 days. A single vessel with a maximum capacity of 20,000 head could complete a delivery every two months.

There are however significant challenges for Indonesia to import cattle from Central and South America. Their importation will require a relaxation of Indonesia’s health and quarantine protocols, particularly in relation to Brazil’s FMD status. Mexican suppliers have yet to be fully approved, causing uncertainty about whether the country’s cattle will be imported into Indonesia in the short to medium term.

Indonesian imports of Australian cattle and beef decline sharply

In 2020, live Australian feeder cattle imports into Indonesia fluctuated, largely in line with the landed cattle price and the appreciation of the Australian dollar against the rupiah in Q3 and Q4 (Figure 6).

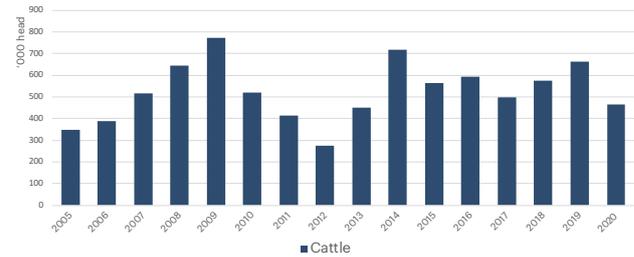
Figure 6: Australian Dollar Exchange Rate against the Rupiah (IDR), 2020



Source: RBA

Compared to 2019 levels, imports of Australian feeder cattle decreased by 200,000 head (Figure 7), while frozen beef import volumes were down by about 17% and chilled beef by 20%. Offal imported from Australia remained relatively stable at 34,587 tonnes, with Indonesia retaining its position as Australia’s single-largest offal market by volume.

Figure 7: Annual Live Cattle Imports from Australia into Indonesia

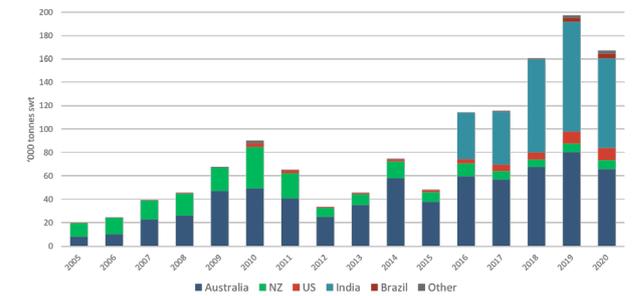


Source: Meat & Livestock Australia

Frozen beef gaining a firm foothold

Australia remains the major supplier (by value) of boxed beef (frozen and chilled) to Indonesia, followed closely by India (Figure 8).

Figure 8: Importation of Boxed Beef from All Sources, 2012 - 2020



Source: IHS Markit (Indonesia beef import data)

Indonesia imported just over 47,733 tonnes of Australian boxed beef (frozen and chilled) in 2020, down 17% from 2019 levels. This year-on-year contraction may have been greater had the first seven months of 2020 not seen a sustained demand for Australian product due to the absence of IBM and the honouring of existing beef import contracts.



Photo Credit: Transjet Cold Chain Logistics

Indonesia imported 76,365 tonnes of IBM in 2020, short of the planned 170,000 tonnes, mainly because of pandemic-related export controls in India. The Government of Indonesia's reference price for IBM, remained at IDR80,000 per kg, a significant saving in comparison to the current fresh beef reference price of IDR130,000 per kg.³ The impact of Brazilian meat on the market was limited with only 4,003 tonnes imported in 2020.

Indonesian feedlots struggle to maintain profitability

Throughout 2019, Indonesian feedlots had been commercially constrained by rising costs, lower beef market prices, and competition from IBM and other imported frozen beef. Perhaps surprisingly, all feedlots reported Q1 and Q2 of 2020 as being challenging but better than expected. The trading environment was aided by reasonable feeder cattle prices and exchange rates, delays in importing IBM, the Government of Indonesia's pandemic stimulus measures, and the benefits of increasing feedlot efficiencies.

In contrast, Q4 was very challenging due to much weaker consumer demand and the record-high feeder cattle prices. Feedlots reported achieving modest profits across Q1 to Q3 and losses in Q4 and early 2021. Several



Photo Credit: Meat & Livestock Australia

³ The average unit price for Australian boxed frozen beef imported into Indonesia in 2020 was AU\$4.18/kg

feedlots reported that they had significantly reduced production (some by over 50%) and had postponed long-term maintenance due to the challenging economic conditions.

Indonesian feedlots did benefit from a reduction in feed costs of approximately 10% due to the increased availability of forage and agricultural by-products following good rainfall. However, since the procurement of cattle constitutes approximately 70% of feedlot operating costs, this marginal fall in feed prices had minimal impact on profitability.

Feedlots attempted to counter the high cost of imported feeder cattle by significantly reducing cattle imports and/or improving efficiencies. Many have adopted efficiency measures, such as increasing automation and staff training, while continuing to import feeders at approximately 80% of 2019 throughput. Most of these feedlots already had inherent advantages over their competitors, including access to cheap feed, proximity to abattoirs, and good relationships with Australian exporters. The remaining feedlots have opted to dramatically reduce throughput to between 40% and 60% of 2019 levels, anticipating significant operating losses.

Several of the larger, more diversified companies are continuing to expand their capacity, with the expectation that the price of feeder cattle will revert to more normal levels during 2021. In contrast, the membership of the Indonesian industry association, GAPUSPINDO, decreased from 26 in 2019 to 24 members at the end of 2020, and four companies have stated their intentions to permanently cease operating due to the unfavorable business environment.

Cost pressures flow on to abattoirs

The fortunes of Indonesia's beef processing sector are closely linked to the country's feedlot sector as costs are passed along the supply chain. Abattoirs reported a drop of 20%–30% in processing throughput in 2020 compared to 2019, reflecting the lower demand, restricted supply, and higher cost of slaughter-ready cattle.

With limited ability to increase their wholesale beef prices due to the Government of Indonesia's price ceiling, abattoirs absorbed increased production costs. To maintain parity with costs, Indonesian abattoir owners believe that retail fresh beef prices need to be at or above IDR140,000 per kg—a price usually only reached during the Indonesian religious periods. However, Jakarta's wet market meat sellers report significant consumer resistance to beef prices of IDR130,000 or higher.



Photo Credit: PT Pramana Pangan Utama

Similar to their feedlot counterparts, Indonesia's more sophisticated abattoirs responded to the challenging market conditions by improving operational efficiencies through staff training and increased mechanisation. Some increased production of value-added products, such as sausages and meat balls, and the use of lower-cost ingredients, such as IBM. However, two large firms closed their operations after failing to overcome the adverse financial conditions.

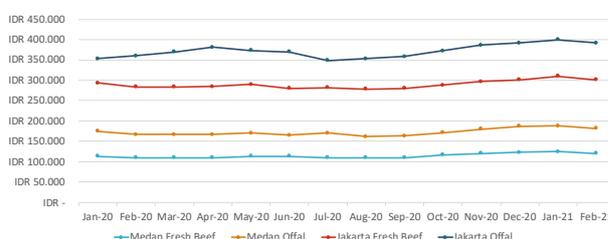
Feedlots and abattoirs now absorbing higher costs

Throughout most of 2020, Indonesian beef prices were relatively stable (Figure 9) and generally in line with the Ministry of Trade's reference price. During the festive period of Ramadan and Eid al-Fitr—traditionally the peak period for beef consumption—abattoirs and market sellers increased beef prices to cover their increased processing costs. Once demand returned to normal, consumers, with lower purchasing power, moved to cheaper protein sources, such as fish, chicken, and IBM.

December 2020 saw another slight increase in price in line with the increasing costs of imported cattle. These prices were however quickly dampened by consumers' soft purchasing power and the government's price ceiling policy.

Following a meat seller strike in January 2021, an agreement was reached between the Association of Meat Traders and the Ministry of Trade to increase the regulated price of beef from IDR105,000/kg to IDR130,000/kg. Most feedlots and abattoirs are now absorbing their current high operational costs to support meat traders and to increase demand.

Figure 9: Fresh Beef and Offal Wet Market Price



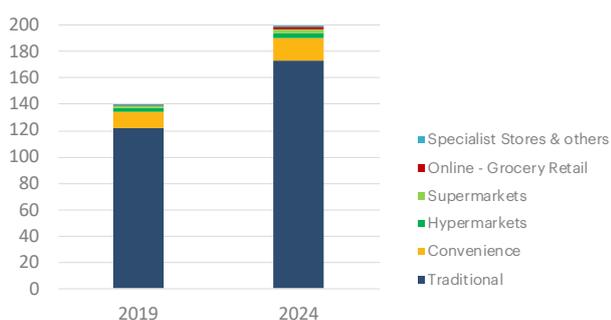
Source: Meat & Livestock Australia

Shifts in consumer behaviour may guide recovery

Recovery strategies in the red meat and cattle sector might take their lead from shifts in consumer behaviour over 2020/21.

A clear change was the move by middle and high-income Indonesian consumers away from wet market meat purchases to modern supermarkets, driven by pandemic-related health concerns and social distancing regulations. However, wet market sales rapidly rebounded after social distancing restrictions were eased and street vendors and small restaurants, who are the country's largest purchasers of wet market beef, reopened. The initial trend towards supermarkets requires ongoing monitoring given the strong cultural and economic importance of traditional markets in Indonesia. Growth in all market segments, including wet markets, is expected to be robust in the coming years (Figure 10).

Figure 10: Projected Indonesian Grocery Retail Market Size in US\$ Billion



Source: IGD

A further change in consumer behaviour was a 30% spike in online meat sales compared to 2019 levels (although the comparison is made from a very low base). According to a consumer survey conducted in late 2020, nearly 70% of respondents intended to continue purchasing beef online.⁴

⁴ https://redmeatcattlepartnership.org/images/editor/files/AM4575_Digital_Technologies_Project_Final%20Report%20210215.pdf



Photo Credit: Meat & Livestock Australia

Online grocery sales are also surging by an impressive 30 percent year-on-year, putting Indonesia firmly in the world's five fastest-growing online grocery markets.⁵ Online shopping will account for less than two percent of Indonesia's total grocery spend by 2022, offering substantial growth potential.⁶

In 2020, well-established meat businesses responded to these positive signals by developing marketing strategies that integrated online and offline channels, and business-to-business and business-to-consumer communications, underpinned by fully integrated online systems for warehousing operations, sales and payments, and customer services.

In addition to integrating with popular motorcycle distribution systems, such as Gojek and Grab, online strategies will need to include the display of Halal certifications, varied payment methods, and appropriate e-commerce features, such as user reviews and delivery tracking status.

The ability of Indonesia's red meat and cattle sector to capture online sales may provide entry points to a global digital market for food and beverages estimated to be valued at US\$236.5 billion.

⁵ <https://www.globalwebindex.com/>

⁶ <https://datareportal.com/reports/digital-2019-ecommerce-in-indonesia>

Outlook for the bilateral trade

The COVID-19 pandemic has produced an unprecedented and uncertain red meat and cattle trading environment between Australia and Indonesia. Positive drivers include more streamlined Indonesian regulatory requirements, an increase in supermarket and online sales, and the accelerated uptake in production efficiencies and supply chain innovation. Negative drivers include potentially higher regulatory costs at the Australian end, reduced consumer spending power in Indonesia, lower demand for food service in restaurants and hotels, and increased supply competition from countries such as India, Mexico, and Brazil. After almost one year of sustained pressure on household incomes in Indonesia, consumers also appear to be switching to cheaper protein sources, such as IBM, chicken, eggs, and fish. Uncertain exchange rates and country-specific economic recoveries place another level of uncertainty on the outlook for 2021 and beyond.

The World Bank does however expect Indonesia's economy to rebound in 2021 with Gross Domestic Product expanding by 4.4% if mobility restrictions are gradually eased and safe and effective COVID-19 vaccine distribution improves consumer and business confidence. In contrast to this relative optimism, most stakeholders in Indonesia's red meat and cattle sector expect 2021 to be the year in which the impacts of the pandemic are most acutely felt at a business level.

Rabobank's Australian Agribusiness Outlook for 2021⁷ predicts that Australian feeder cattle prices will remain high during 2021 driven by ongoing restocking, low national herd numbers,



Photo Credit: Livecorp

and strong domestic and international demand. Prices should ease from the current historic highs in the second half of 2021 as herd rebuilding slows and cattle numbers increase in Australia.⁸ Beyond 2021, ABARES predicts that cattle prices may continue to decline based on a complex mix of supply, weather and exchange rate factors in the major cattle producing countries, particularly USA and Brazil. The rate of China's recovery from its African swine fever epidemic may also affect global beef prices.

Ongoing high cattle prices, potentially kept high by a persistently strong Australian dollar, will likely see the Indonesian red meat and cattle industry continue to advocate for an expansion of lower priced imports from Mexico and Brazil. The Government of Indonesia will seek to provide year-round consistency in beef supply by expanding its domestic supply and broadening its international suppliers. The Philippines, the People's Republic of China, and Vietnam will continue to pay significantly higher prices for live Australian cattle compared to Indonesia.

⁷ <https://research.rabobank.com/far/en/sectors/regional-food-agri/au-agribusiness-outlook-2021.html>

⁸ <https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/beef>

INDONESIA AUSTRALIA RED MEAT & CATTLE PARTNERSHIP

Contact

Advisory and Support Group (ASG)

Coffey International Development
Office 88 Kasablanka - Tower A Lt 27 Unit C
Jl Casablanca Raya Kav 88,
Jakarta Selatan 12870 Indonesia



+62 21 2283 6028



info@iapasg.org



@IAredmeatcattle



@IAredmeatcattle



@IAredmeatcattle



@IA.redmeatcattle

www.redmeatcattlepartnership.org