



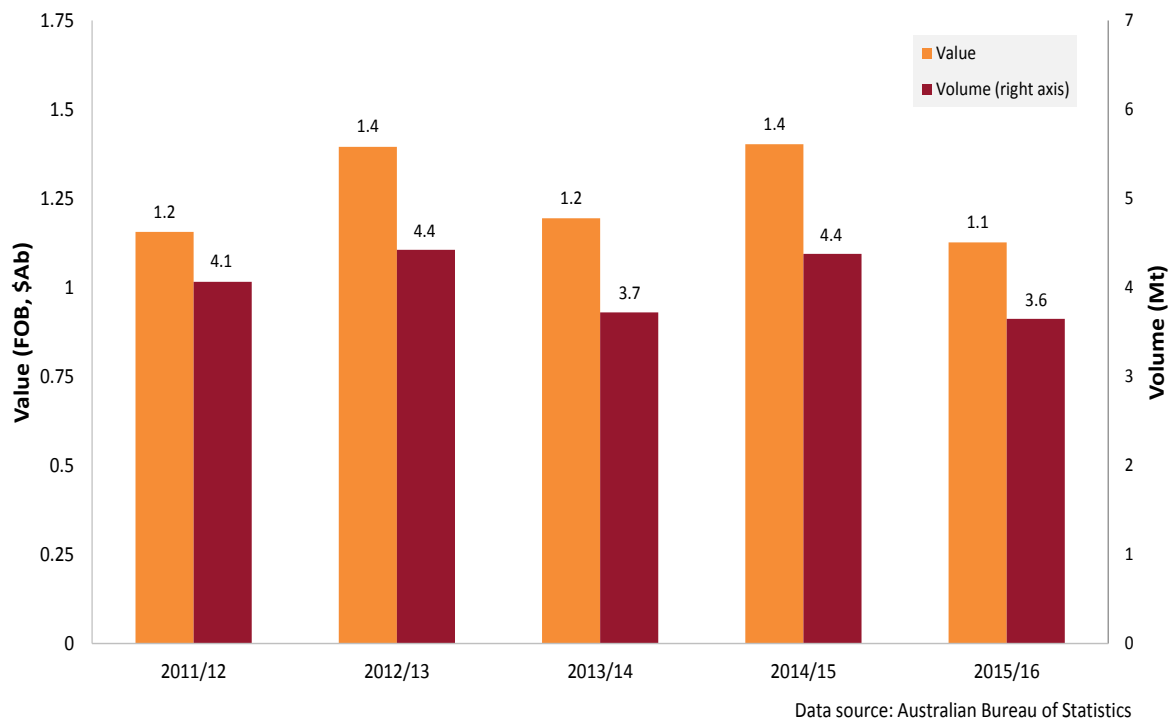
The Indonesian Market for Australian Grains:
An Overview
September 2016



Australian grain exports to Indonesia are almost exclusively of wheat

- Total Australian grain exports to Indonesia were valued at \$1.37 billion in calendar year 2015.
- Wheat accounts for 97-99 per cent of Australian grain exports to Indonesia annually.
- Australia exported an average of 4.0 million tonnes of wheat to Indonesia over the past five years, making it Australia's largest single market. In 2015/16, 3.6 million tonnes of wheat were shipped from Australia to Indonesia, down from a near-record volume on the previous marketing year
- Typically, more than 90 per cent of this wheat is exported in bulk. The proportion of exports by container has fallen to as low as 3 per cent in recent years.
- Small volumes of other grains exported consistently to Indonesia, by container, include faba beans, mung beans and sorghum.
- Very small volumes of oats, canola, barley as well as a range of niche pulses are exported to Indonesia either sporadically or in experimental quantities.

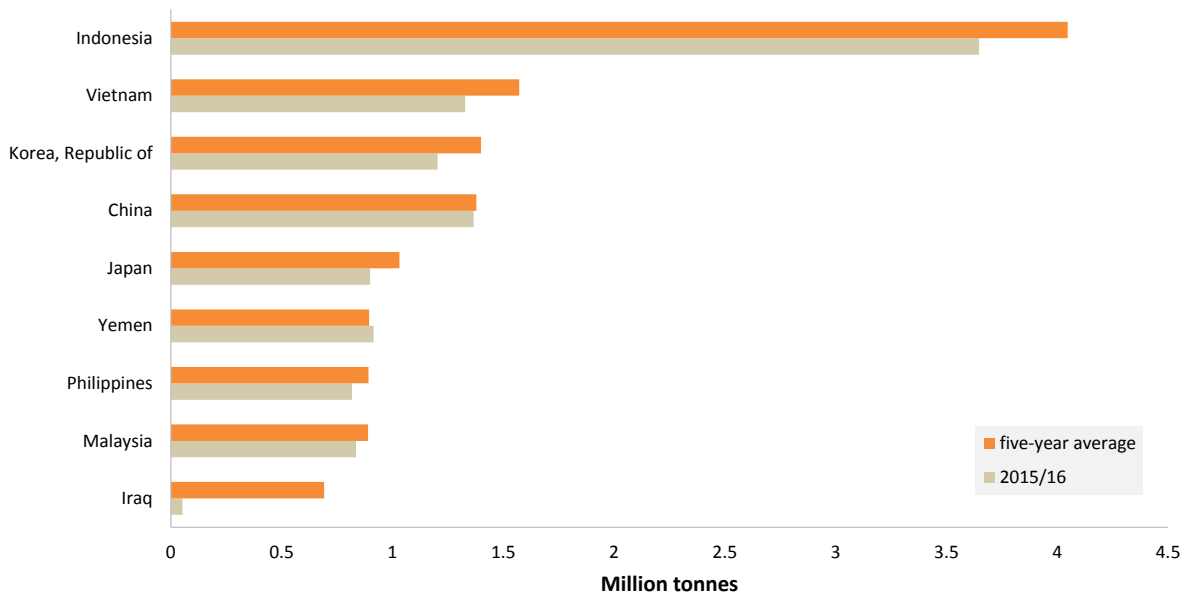
FIGURE: Australian wheat exports to Indonesia



Indonesia is Australia's most important wheat market

- Over the past five years, the Indonesian market has accounted for 21 per cent of Australian wheat exports, by volume, followed by exports to Vietnam (8 per cent), South Korea (7 per cent), China (7 per cent) and Japan (5 per cent).

FIGURE: Australian wheat exports by destination

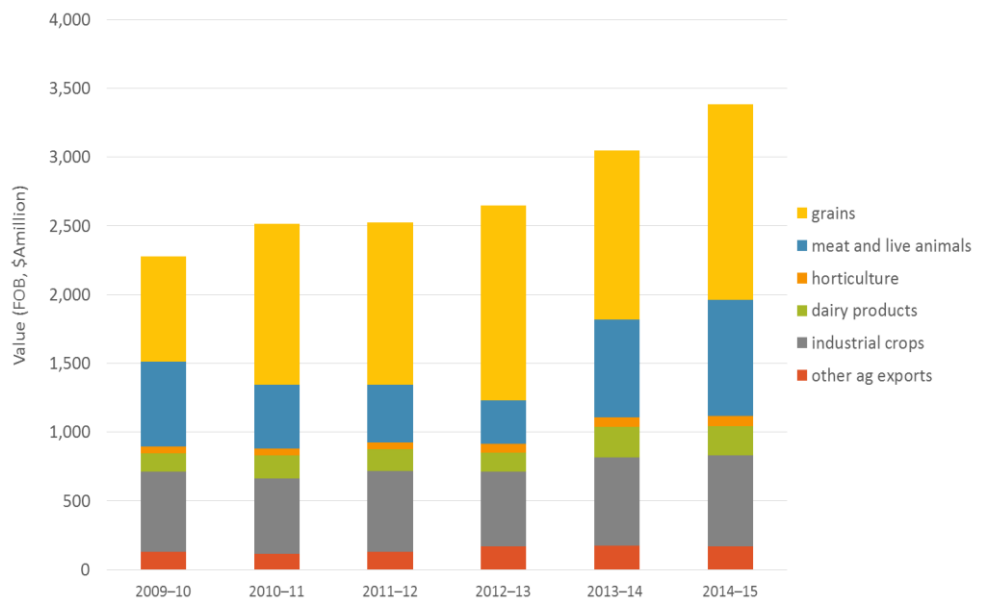


Data source: Australian Bureau of Statistics

Wheat is also Australia's most valuable export to Indonesia

- Australian wheat exports to Indonesia were worth an average of \$1.3 billion a year over the past five years.
- In 2015, wheat accounted for over 40 per cent of total agricultural, fishery and forestry exports to Indonesia and 25 per cent of total Australian merchandise exports to Indonesia.

FIGURE: Australian Agricultural Products Exports to Indonesia

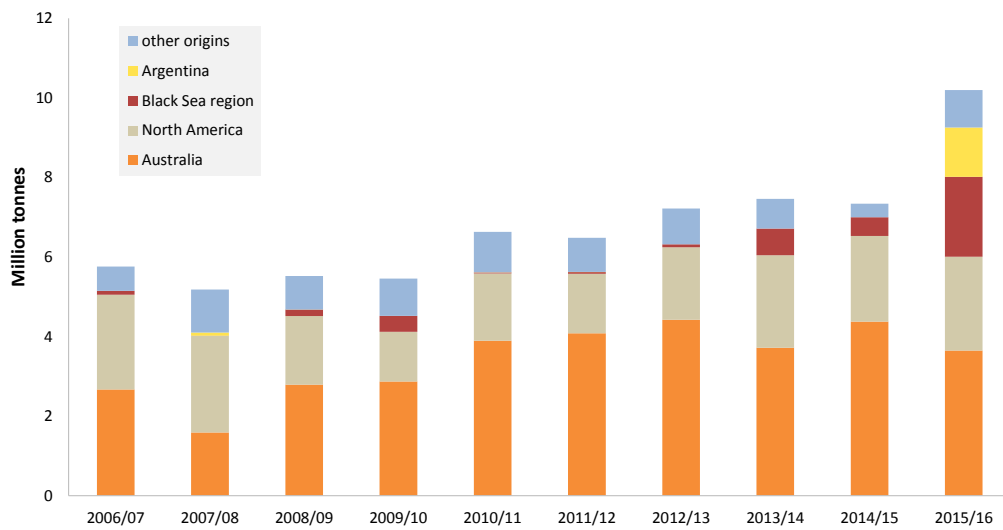


Data source: ABARES

Australian wheat exports are important to Indonesia

- Australian wheat generally accounts for 40-60 per cent of annual Indonesian wheat imports.
- North America has also been a traditional source of wheat for Indonesia, while imports from certain other origins have increased in recent times.
- Australian wheat is sought after for its high flour extraction rates, bright white flour colour, low moisture content, white seed coat, fit-for-purpose protein levels and starch qualities.
- In particular, Indonesian buyers consider Australian white wheat as a superior choice for noodles, with its colour, colour stability and texture properties.
- Australian wheat also enjoys a proximity advantage for exports to Indonesia compared with wheat from other origins.

FIGURE: Indonesia wheat imports by origin

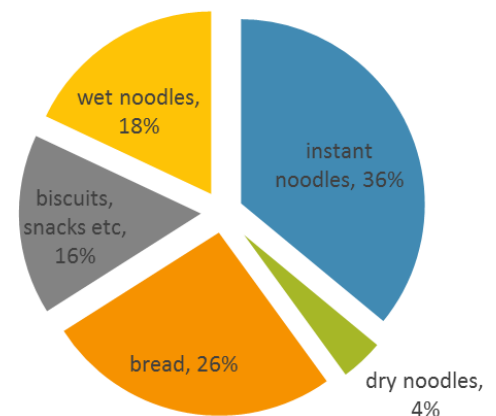


Data sources: Australian Bureau of Statistics; International Grains Council; GrainGrowers analysis

Flour end use in Indonesia is varied and increasing over time

- Indonesian per capita flour consumption is 22 kilograms a year, which compares with the world average of more than 50 kilograms a year. This indicates significant potential for flour consumption to increase with changing dietary preferences as well as with population growth.
- Flour consumption is dominated by noodles, but bread and biscuit consumption has been increasing over time. Bread and biscuit consumption is more highly correlated with the prevailing economic conditions than noodles. Increasingly, flour-based products are displacing rice as a breakfast option.

FIGURE: Indonesian flour consumption, 2015



Data source: Australian Export Grain Innovation Centre

The Indonesian wheat processing industry has changed during the past decade

- Flour milling in Indonesia was deregulated in 1998, prior to which imports of wheat flour were prohibited.
- Since 1998, the industry has periodically experienced issues with flour dumping and illegal labelling, with low-cost flour imports from Turkey having been particularly problematic. Various trade restrictions have been applied over this time, including a temporary 20 per cent import duty between December 2012 and May 2014, and a quota between May 2014 and December 2014.
- Flour imports declined in 2015, partly reflecting the weak Rupiah, and despite the expiration of the import quota in December 2014. The Indonesian Flour Mills Association (APTINDO) has been unsuccessful to date in advocating for an anti-dumping duty for imports of Indian and Turkish flour (in excess of the current import duty of 5 per cent).
- The Indonesian flour milling industry comprises more than 30 flour mills, mostly located on the densely-populated island of Java.
- Indonesian flour mills vary greatly in size. The largest flour mill in Indonesia and the world is the PT ISM – Bogasari Flour Mill in Jakarta, with a capacity of almost 4 million tonnes a year.
- Total installed flour milling capacity in Indonesia is over 11 million tonnes, with the number of mills and milling capacity having increased rapidly over the past decade. Capacity has grown more quickly than the demand for flour, with average utilisation estimated to be around 50 per cent.

Flour processing is an important employer and a source of export revenue

- Around one-third of flour mill output is purchased by large commercial operations, mostly instant noodle manufacturers, middle and upper end bakeries, and cookie and biscuit manufacturers.
- The remaining two-thirds of flour mill output is accounted for by small and medium sized wheat-food producers, including small-scale wet noodle makers, street food vendors, low end bread and bakery businesses, and traditional Indonesian cake makers.
- The Indonesian Wheat Flour Mills Association (APTINDO) has reported that approximately 200,000 small and medium scale enterprises are operational in Indonesia, employing some two million workers.
- Since deregulation of the flour milling industry, there has been an increase in exports of flour-based products, such as instant noodles and biscuits. In 2015, Indonesia exported around US\$80 million worth of flour-based products.

Indonesia is expected to remain one of the world's largest wheat importers

- Indonesian wheat consumption and imports have been growing at an average annual rate of more than 5 per cent over the past decade, making Indonesia one of the world's largest wheat importers.
- Imports are estimated to have reached 10.2 million tonnes in 2015/16, with only Egypt having imported more wheat.
- The particularly large volume of imports in 2015/16 reflected a sudden increase in demand for feed wheat, in addition to the ongoing growth in demand for milling-quality wheat.
- Wheat has not traditionally been a major stockfeed in Indonesia, with the recent increase in feed wheat imports reflecting plentiful supplies of competitively-priced feed wheat on international markets as well as a response to import restrictions for corn.

- Feed wheat imports are expected to decline in 2016/17 but will likely remain larger than was the case prior to 2015/16. Demand for milling-quality wheat is expected to continue growing, in response to population growth and changing dietary preferences.
- Projections vary but there's a strong possibility of Indonesia becoming the world's largest wheat importer within the next 10 years.

Key Issues

- There is an awareness and concern in Indonesia about over-reliance on Australian wheat.
- Food security discussions at the parliamentary level have in the past favoured self-sufficiency rather than trade solutions.
- Higher protein wheats from United States and Canada are considered to perform better in South East Asian baking systems. The systems, based on the North American sponge and dough method of baking bread favours North American wheat, and have been introduced and promoted in Asia by the North American wheat industries.
- United States and Canada are furthering strategic efforts in Indonesia through considerable international promotion and marketing efforts.
- Australia is also increasingly facing competition in the Indonesian market from non-traditional suppliers, including the Black Sea region, Argentina and the European Union.
- Large production volumes of export quality grains in these non-traditional suppliers, and the continuing low costs of ocean transportation (freight and fuel) have led to increased contestability in the Indonesian market.
- Competitively-priced wheat from the Black Sea region in particular is replacing Australian wheat in some baking grist blends. Indonesian millers are becoming increasingly familiar with the characteristics and performance of wheat from the Black Sea region. While there is still a perceived value in the greater functionality of Australian wheat, market reports suggest that the price differential has narrowed in recent times.
- Wheat from non-traditional suppliers has also accounted for the majority of feed wheat imports in the past year.

Such an important market deserves Australia's attention

GrainGrowers is committed to making a difference in the recognition of the value of Australian grains in international markets, particularly Indonesia given its critical importance to the Australian industry. Maintaining and enhancing the market position of Australian wheat, and grains more broadly, as quality, reliable, functional and safe is critical to the sustainability of the Australian grains industry.

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