EXECUTIVE SUMMARY

Herlambang, Tedy. Cattle Fattening and Slaughter Houses Business in Indonesia: Players, Volume, Consumption, Investment and Forecast (Supervised by E. Gumbira Sa'id, Soeksmono B. Martokoesoemo and Hieronymus Jacobus Cornelis Jozef Nijsen)

Several tough questions that are still hotly debated on cattle fattening industry are the government interference in case of self-sufficiency policies or release beef market to market mechanism and the profitability of cattle fattening and slaughter houses business in Indonesia. The answers of those questions have strong implications for players, investor and the government itself. Its implications are the chance of small-cattle farmers, the risk that may be faced by feedlot companies, consumers loss or advantage and competitive position on free trade era. The government should set out a clear strategy towards free trade era. The increase of imported beef and feeder cattle is a highlight concern about Indonesian cattle fattening industry competitiveness.

The objectives of this study were to analyse market mechanism i.e. supply and demand, players, investment and to conduct environmental assessment including field research to evaluate strengths, weaknesses, opportunities and threats on cattle fattening and slaughter houses business in Indonesia. The results were then used to examine strategies and business implications to develop and to improve cattle fattening and slaughter houses business in Indonesia that may be useful for government and business practitioners.

Market mechanism was analysed following the econometric method to build a model of beef cattle market in Indonesia. Survey was also conducted at PT Tippindo, PT INKUD Satwa Nusantara and PT Great Giant Livestock Co. For completing reliable data, actual information was also collected from key magazines, journals and newspapers. SWOT Matrix was used to conduct environmental assessment.

International economy condition shows various meaning developments. ASEAN countries whereby Indonesia involved have the highest economy growth rate and its inflation rate decreases continuously. This provides greater space for Indonesia to take part in the world economical arena. Globalisation due to AFTA/APEC/WTO has put pressure on the business environment in Indonesia. In
spite of the successful economic development, the business climate in Indonesia is still coloured by a distorted market structure, an unconducted market structure, a high cost economy, and tight bureaucracy (Damanhuri, 1996), in which weakening Indonesia’s competitive position in the international market. However, several policies have been implemented to improve Indonesia’s position in the area of globalisation (the May 25, 1996 deregulation policy package and the June 26, 1996 deregulation policy package and will be soon released the July 1997 deregulation package). Some developments namely strong government commitment to deregulate and debirocratise in order to create a more suitable business environment, lowering high cost economy, cutting illegal levies, a political will to increase openness and Indonesia’s position in fast growing and dynamic region can be considered as good prospect on Indonesian economy.

Livestock business, especially beef cattle has experienced a long history in Indonesia. This was shown by number of beef cattle household. During 1983-1993, beef cattle household accounted for more than 50 percent of the total livestock household. Most of them were small-scale farms with characteristics of: (1) no official business license, (2) the farming operator was also the manager, (3) using traditional methods and (4) mainly uses family labour if available. They are geographically concentrated in the densely areas namely East Java, Central Java, West Java and Lampung. They usually grow cattle not for business purpose. Some handle cattle for hobby and saving purposes only. Because of low capital input, low technology contents and poor management, beef cattle in Indonesia have low average daily gain.

It is difficult to conclude whether cattle fattening farms are still profitable or not to small scale farmers. According to Pepehani (1996), it needs 3 years for cattle to reach 300 kg weight in Indonesia, compared to Australia only 6 months. During 1990-1994, cattle population in Indonesian relatively constant at 10 million heads (Central Bureau of Statistics, 1996). The most recent data, however, show that there is a significant decline in some provinces by as much as 20-30 percent over the past five years (Far Eastern Economic Review, May 22, 1997). This decline due to demand increases higher than beef cattle population increases. There is a tendency that the portion of smallholders to national beef market to
decrease. Thus, feedlot companies associated in APFINDO (The Association of Producers and Feedlot companies of Indonesia) and meat importers associated in ASPIDI (The Association of Meat Importers of Indonesia), new comers in Indonesian beef industry, play a more important role.

Feedlot companies were characterised by: (1) official business, (2) mainly uses hired labour, (3) using modern production method and (4) the manager is not necessarily the owner of the enterprise. There are now 40 feedlot companies associated in APFINDO and other 40 companies in waiting list to be registered (Directorate General of Livestock Services/DGLS, 1997). Indonesian feedlots import live cattle mainly from Australia with composition 80 percent slaughter cattle/ready to be slaughtered and the rest are young cow to be fattened.

They have different opinion on the profitability of their operations. Some of the larger feedlots acclaim that cattle fattening businesses gave slight return only because of high prices paid for imported cattle, high operating costs and competitive market pricing. They stated that it is more profitable to import slaughter cattle than import young cattle and undergo fattening activities. Because of this reason, it is not surprising that some of them sold young cattle to "back yard" market without conducting fattening (Far Eastern Economic Review, May 22, 1997). Exchange-rate movements are pointed as a major risk for Indonesian feedlot companies. Meanwhile they did their businesses in Rupiah and at the other side they have to buy "inputs" in dollar.

Having feedstuff supply is an advantage for feedlot companies such as PT Great Giant Livestock Co., which uses pineapple wastes for feed. To increase efficiency and to secure feeder steers supply, some feedlot companies make a joint venture company with Australian feedlots such as PT INSAN and PT Tippindo. Event PT Tippindo invested about USD 60 million in Australia to acquire 16,705 sq. km of cattle grazing pasture in Northern Territories of Australia together with various stations and facilities. Eastern regions of Indonesia which have disposability of land is not interesting because of transportation and infrastructure problems. The main problem faced by Indonesian feedlot companies is higher dependency on feeder cattle import. The cost of developing the local herd will restrict the growth of the grazing industry and favouring feeder steer imports.
Beef import constituted about 6 percent to total national demand in 1996 (DGLS, 1997). The imported beef mainly came from New Zealand and Australia. The increasing of imported beef is spurred by the development of tourism sector, number of expatriates and business travellers who need prime beef. Although there are informal controls being imposed by DGLS, these are infrequent and do not appear to have excessively prevented imports from growing.

The slaughter houses, the next phase in the chain production do not have the right condition and composition. Most of the slaughter houses are traditional and of old age with low capacity. However, there is a contradiction that some large slaughter houses are under utilised. This is due to difficulties at maintaining the continuity of standard cattle to be slaughtered and the presence of “backyard” slaughter house. Investment in slaughter houses are however still prospective in case of there is a close linkage with feedlot companies to secure slaughter cattle supply.

Livestock product including beef is one of the most heavily business controlled by the government. The government divided beef market into three segments: (1) traditional (wet) market, (2) special market and (3) industry market. Traditional market are prioritised to local meat produced by small farmers, while special market and industry market are provided to import beef and feedlot companies. This regulation gives high priority to small domestic farms in national beef market, although market power seems to have bigger influence. At some wet markets, import beef was found and sold at a lower price than that of local beef.

There is no doubt that demand for beef will continue to increase in the future. Demand analysis shows that during 1975-1994, demand increases are mainly caused by income percapita and population growth. Consumers of beef cattle are insensitive to price changes. Positive sign for coefficients of buffalo and goat price show substitution relation between buffalo and goat with beef cattle. Complementary relation presents between chicken and beef cattle since coefficient of chicken price is negative.

Elasticity of demand of beef cattle during 1975-1994 is -0.54. Therefore, there is a large opportunities for small producer and feedlot companies since price
elasticity of beef cattle is low. Cross price elasticity of beef cattle to goat is similar to that of buffalo (0.48). It means that both of mutton and buffalo have similar position to Indonesian people as substitute of beef. Chicken meat has strong complementary relationship with beef (10.21). This strong complementary relationship is due to large availability of chicken. Therefore when there is price change on beef, consumers can easily change their consumption composition on beef and chicken.

Positive income elasticity of beef demand but lower than 1, showed that beef for Indonesian is a basic goods. Consumers will purchase a certain amount of beef at low levels of income and for any given percentage increase in income per capita, they will spend on beef by a lower proportion. A lower increasing of Indonesian spending on beef for any given percentage increase in real income is due to beef is not the mainly source of protein in daily menu. Fishery product and vegetables are also an important source of protein of Indonesian meal. The rise of real income was not fully used to spend on beef, but replaced by other protein sources.

Forescasting shows that there will be a larger shortage of beef cattle supply in Indonesia for 1997-2003. This declining is not due to a lower population growth rate. Demand growth rate that surpasses population rate is the main reason. The consequence is that the imported beef will have more important role to fulfil demand of beef.

Of the total bank credits for agriculture both investment credit and working capital credits are mainly provided by the state banks, followed by the private banks, foreign and joint banks and lastly the regional government banks. Of the total approved domestic investment projects and foreign direct investment projects in 1996, the livestock sector was in fourth place after plantation, food crops and fishery. The livestock development credits in the future will be dominated by the general commercial credits and foreign aid projects. This is partly due to the weakening government financing ability. Moreover, the subsidy content of the credit will be sharply reduced as the government budget problem along with the economic deregulation campaign.
The key strengths and opportunities on Indonesian beef industry are the growing population, rising income per capita, the development of tourism sector, number of expatriate and business travelers that will eventually spur demand for beef. Shortage of supply open up opportunities for local fatteners, feedlot companies, importer of beef and feeder cattle. Many indigenous cattle species such Sapi Bali, Sapi Madura and Sapi Sumbawa to be specially developed to any specific species were a potential strength. The disposability of agricultural solid wastes and land were also a potential strengths for developing beef industry. The critical threats and weaknesses of the beef cattle industry in the area of free trade are higher dependency on feeder steer, poor breeding management and uncompetitive processing cost.

Several policies were implemented by the government such as Artificial Insemination and Forage Intensification to boost production of good breed and feedstuff. Facilities and institutions were also developed to support. Nevertheless, these policies do not give efficient results as domestic supply can not fulfill demand rise. The government can not release beef industry to free market mechanism because it will hit a large number of small-scale farmers and will affect deficit current account position. There is still time for Indonesian feedlot companies in preparing free trade era.

In spite of complains of some feedlot companies, to enhance the development of the beef cattle industry especially those of small scale farmers, the PIR model is suitable. The system opens opportunity to integrate three factors namely feed, breed and farm management and cooperation between small-scale farmers with large/feedlot companies. Those three key factors must also be given more attention to improve the industry’s competitive position, increase quality and value added of Indonesia’s beef industry.

The critical success factors needed by Indonesian feedlot companies to compete in the international beef industry are: (1) Conservative Financial Management, (2) Cost Competitive Processing Industry, (3) Strategies to deal with price volatility, (4) Aggressive Marketing Strategy and (5) Improved Quality and Value Added. Moreover, shortage of capital is a key factor limiting the progress towards developing feedlot companies in Indonesia.