

Indonesia and Halal Certification

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1.0 EXECUTIVE SUMMARY

This paper attempts to understand the potential impact on trade for the Australian red meat industry by the introduction of the Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance (the Halal Law). It outlines the law's key elements, reviews other relevant laws and decrees, refers to available media on the matter and outlines discussions with senior officials of relevant departments, agencies and organisations.

The Halal Law mandates compulsory halal certification across consumable products, including food and beverages, medicines, cosmetics, chemicals and biological products and includes the manufacturing process, packaging, distribution, sales and serving. Additionally, non-halal products must be labelled 'non-halal'.

Halal certification was historically supervised by Majelis Ulama Indonesia (MUI), however, the Halal Law mandates the establishment of a new agency, the Halal Product Assurance Organizing Agency (BPJPH). This agency, which will be supervised by the Minister of Religious Affairs and controls halal product assurance, formulates policy, certifies and develops halal auditors, works with foreign institutes to organize halal assurance and issues halal certificates.

However, the law has received criticism, with many preferring a voluntary labeling system, citing escalating costs, uncertainty around services and transportation and increased bureaucratic processes. Consequently, several measures are ongoing, including the finalization of the Halal Product Assurance Organizing Agency (BPJPH), a Constitutional Court submission, a process to get the Law amended in 2018 and continual messaging from industry regarding their concerns. Meanwhile, implementation of the Halal Law has been delayed until at least 2019.

Additionally, and in the beginning of 2017 consumer confidence was down marginally, the Indonesian Government continued to place pressure towards reducing prices of staple foods, Indian buffalo was creating concerns for feedlotters and local producers alike and the government was warning the food industry about collusion and hoarding commodities. In the lead up to Ramadan (late May) few of these issues had dissipated. Furthermore, the Indonesian industry emphasised the difficulties of communicating industry issues with government due to considerably different mandates. However, despite concerns regarding the coming months, resulting from pressures placed on industry, there was also a general sense of optimism for the boxed beef industry into Indonesia over the long-term.

In all this though, there was a very clear message for Australia's beef industry. The quality, halalness, high standard of hygiene and disease-free status of Australia's production and processing systems should be emphasised. There are opportunities to ensure continued education and marketing of the Australian product and emphasising Australia's competitive advantage and clean green production systems is vital.

Engaging with the newly formed BPJPH to outline Australia's halal certification systems and processes, including the Australian Government's regulatory control, will go a long way to providing certainty for Indonesia about Australia's systems. Additionally, engaging with a broader section of government and industry was suggested to provide further understanding of the reforms underway in Indonesia. And to establish further linkages with like-minded agencies and organisations.

To this end, provision of regularly updated Australian pricing data was also suggested to alleviate some

of the misperceptions that Australia was taking advantage of Indonesia. Anecdotes continue to permeate all aspects of government and industry around Australia's ability to drop prices if they wished. These beliefs come from the knowledge that Australia has efficient production and processing systems and a misunderstanding concerning Australia's global market approach to pricing.

Following discussions with the Indonesian Government and industry in the beginning of 2017, and in the knowledge that the demographic conditions of Indonesia will likely continue to grow positively for the beef sector, key areas for consideration by the Australian industry as part of a strategic approach to Indonesia could be:

- Increased education and marketing of Australian product, especially towards the younger middle class.
- Engagement with the newly formed BPJPH officials.
- Provision of up-to-date and targeted Australian pricing data from critical points of interest to Indonesia (to alleviate the belief that Australia can provide different prices for different countries rather than as a global market).
- Engagement with like-minded industries and their associations.

Additionally, other aspects that could be considered include:

- Examination of dietary changes and whether there are additional opportunities in partnerships offering technology transfer re packaged, ready to eat meals ('value-add').
- Examination of investment opportunities in Australia for Indonesian businesses to further develop solid partnerships.

2.0 INTRODUCTION

An AMIC-MLA report of 2013 on non-tariff barriers (NTBs) to trade for Australian red meat highlighted China, the Middle East and North Africa (MENA), and Indonesia as high priority markets to resolve on-going issues with NTBs. In that report, a high priority was placed on resolving establishment listing restrictions and associated Halal certification to Indonesia.

The 2013 NTB report estimated that establishment listing restrictions, together with inefficiencies in halal certification services for the Indonesian market, was costing the industry around \$10.5 million.

Indonesia is a market that requires state-based accreditation of Australian Islamic Organisations (AIOs) and the list is limited in numbers, though no quota exists on the number of organisations. This state based monopoly system of Halal approval over recent years has generated considerable complexities, additional costs and increased uncertainties. For example, previously the whole trade out of Queensland was unable to get access to Indonesia because of the delisting of the only AIO certified in that state.

In June 2016, Majelis Ulama Indonesia (MUI) requested feedback from the Department of Agriculture and Water Resources (DAWR) on the draft Halal Product Assurance Law, which was due to come in effect in November 2016. Under the draft Halal Law, it was proposed that a new Executing Agency for Halal Product Assurance (BPJPH) be established in Indonesia to act as a coordinating body on all Halal matters in Indonesia including the accreditation and registration of foreign Islamic organisations.

Indonesia is an important market for any beef abattoir with a Halal program. The constant constraints and costs imposed by an inefficient market access policy will reach a “tipping point” where some processing facilities will decide that it is not worth the costs and effort of maintaining a Halal program thus reducing the ability of Australia to meet Indonesian demand.

Recent developments highlight the uncertain nature of Halal certification in Indonesia. In February 2016 five out of seven AIO’s saw their licenses expire with the Indonesian religious authority (MUI). This exacerbated the fact that Indonesia only allows state-based certification in Australia, which is a unique requirement amongst Muslim countries.

Clarity over what the Halal Law will mean for boxed beef shipments to Indonesia is paramount as well as whether the current situation in Indonesia is conducive to Australia’s vision of a stable trading environment and secure and profitable supply chain.

3.0 PROJECT OBJECTIVES

The key objective of this project is to understand the potential impact of the introduction of the new Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance (the Halal Law) on trade for Australian red meat and meat products into Indonesia.

A secondary objective of the project is to understand how the whole trade is tracking, with relaxation in secondary cut and offal restrictions, and pick up any in-market intelligence of use to industry.

4.0 METHODOLOGY

In order to progress the objectives at this report it has been necessary to:

- Review and understand the Law of the Republic of Indonesia Number 33, Year 2014
- Review other Laws and Decrees relevant to halal matters
- Refer to available news and media on the halal matter and beef markets in general.
- Meet with senior officials of relevant departments, agencies and organisations involved with the beef sector.

5.0 HALAL

The key objective of this section is to understand the potential impact of the introduction of the new Halal Law on trade for Australian red meat and meat products into Indonesia. Furthermore, understanding the Halal Law, its management and processes regarding halal certification in Indonesia, identifying the relationship between government, MUI and industry and understanding the current issues and concerns of interested parties is critical to understanding impacts to the Australian industry and the ability to develop sound strategies to ensure any possible impact is reduced, or better, current systems and processes are streamlined. This section also summarises the discussion with government officials, religious leaders, industry leaders and associations. It outlines the general issues raised, describes some of the interactions and relationships between agencies, and describes key ongoing processes relevant to the implementation or rejection of the Halal Law.

5.1 Halal Law

The Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance (referred herein as the Halal Law) was validated on 17 October 2014. This validated law mandated that it be fully implemented within a five-year time frame, undertaken gradually by product categories. Food and Beverage was to be implemented within the first year, drugs, cosmetics, chemical products, biological products, genetically engineered products and other products that are used or utilized by the general public in the second year, and biological drugs and products in the third. However, more than two years since the signing of the Halal Law and there remains significant uncertainty, grave concerns as to the impacts and a lack of clear structure for the process.

The crux of the Halal Law was to provide the Indonesian Government with greater oversight on matters of halal. Previously, Majelis Ulama Indonesia (MUI), the leading Muslim cleric body in Indonesia and its committees and agencies had full jurisdiction over all matters halal. This included the development of Fatwas (ruling on a point of Islamic law given by a recognized authority), the determination of what is considered halal, the testing of product and the certification process, including provision of certificates domestically.

The Halal Law, if summarized (Figure 1), outlines essentially five key groups that will be instrumental in delivering halal assurance. These include the Ministry of Religious Affairs, MUI, the Halal Product Assurance Organizing Agency (BPJPH), the Halal Examination Agency (LPH) and other Indonesian Ministries with control of drugs, food, industry, agriculture and standardization and accreditation (refer Appendix 1 and 2 for a list of terms and abbreviations).

For the most part there is little reference in the Halal Law (but refer Chapter VI, International Collaboration) and has been little public discussion in Indonesia about how the Halal Law will impact or affect foreign product imported into Indonesia —although the International Business Chamber (IBC) was seeking clarification of implementation processes throughout 2016 (and providing updates to the Indonesia Australia Business Council (IABC)). Notwithstanding this, the Halal Law highlights that halal certification will be regulated under the Law, that international collaboration can be in several forms and halal product must comply with the law.

In essence, the Halal Law provides a formal structure whereby the BPJPH controls Halal Product Assurance (JPH), formulates policy, certifies and develops halal auditors, works with foreign institutes to organize Halal Product Assurance and issues halal certificates. MUI stipulates the ruling on Islamic law in relation to halal (the Fatwa) and the LPH examines the halalness of a product through halal auditors. What is immediately unclear is the role of the Assessment Institute for Foods, Drugs and Cosmetics of the Indonesian Council of Ulama (LP-POM MUI) who has had the key responsibility of providing halal certificates, testing halalness of products and providing assurance of halal matters since 1989.

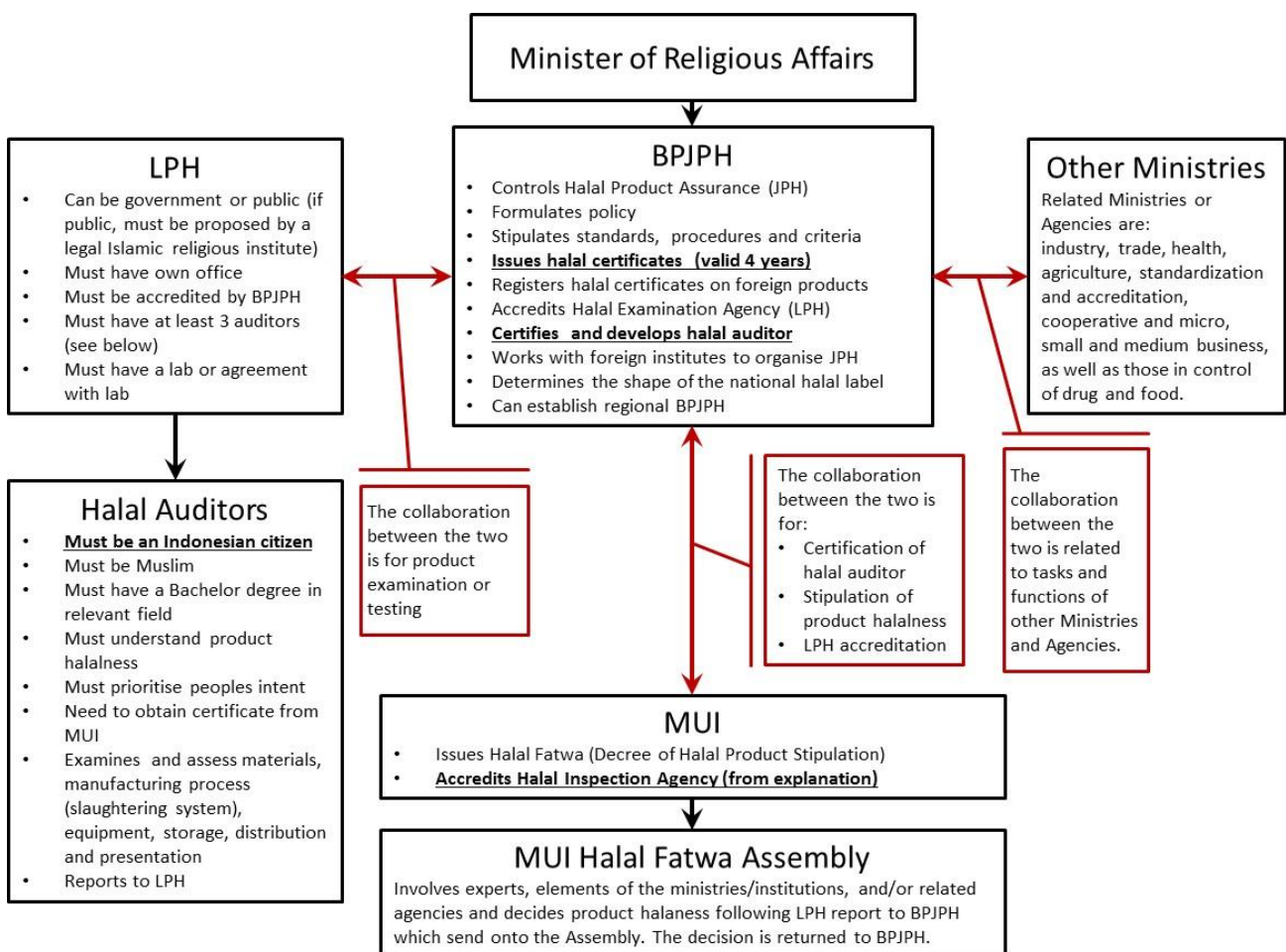


Figure 1: Description of the responsibilities, linkages and bodies involved with Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance (the Halal Law).

5.2 Other Relevant Regulations

There are a number of other relevant regulations concerning red meat in Indonesia with either reference to halal matters, either directly related to the Halal Law, or indirectly related as they are a matter of course for trade and food assurance aspects. These regulations include:

- Ministry of Agriculture Number 58/Permentan/PK210/11/2015 Regarding Importation of Carcass, Meat, and/or its Derivatives into the Territory Of The Republic Of Indonesia
- Ministry of Agriculture Number 17/Permentan/PK.450/5/2016 Regarding Importation of Boneless Meat in Certain Circumstances From A Country or a Zone Within a Country
- Ministry of Agriculture Number 34/Permentan/PK 210/7/2016 Concerning Importation of Carcass, Meat, Offal and/or Their Processed Products into the Territory Of The Republic Of Indonesia
- Ministry of Trade of The Republic Of Indonesia Number 59/M-Dag/Per/8/2016 Regarding Provisions of Animal and Animal Products Exportation and Importation
- Ministry of Religious Affairs of The Republic Of Indonesia Number 42, Year 2016 on the Organisation and Functioning of the Ministry of Religion

For the most part, the Ministry of Agriculture and Ministry of Trade regulations provide importation requirements for carcass, meat, offal and their processed products outlining, specifically concerning halal matters, that:

- The establishments have a permanent employee in charge of slaughtering, cutting, handling and processing in a halal manner.
- There is a halal slaughter person who is supervised by a halal certification institution and recognized by the Indonesian halal authority.
- Product has a halal label.
- Storage and transportation separates halal and non-halal products.
- A halal assurance system is in place in the establishments.
- A risk analyses is performed, including a desk review and on site review of the animal product safety and halal assurance system at the establishments by representatives from the Ministry of Agriculture.

It is only the Ministry of Religious Affairs Regulation No 42/2016, signed in late September 2016, which relates directly to the Halal Law as it outlines the function and structure of the BPJPH. In summary, the function is described in the regulation as:

- Coordinating policy formulation, planning and technical programs regarding implementation of Halal Product Assurance (JPH)
- Implementing JPH
- Monitoring, evaluating and reporting on the implementation of JPH
- Conducting supervision of the implementation of JPH
- implementing administrative affairs relevant to the BPJPH
- implementing other functions as assigned by the Minister

The structure will consist of:

- A secretariat
- A Halal Certification and Registration Centre
- A Development and Supervision Centre for Halal Product Assurance
- A Halal Cooperation and Standardization Centre

At the time of writing it was unknown who would be appointed as the Head of the BPJPH (although refer Appendix 3 for a list of officials inaugurated into BPJPH in early May 2017). However, this will likely be an important aspect when considering the relationship with other relevant bodies, including MUI, LP-POM MUI, other government Ministries, overseas government officials, industry and overseas Islamic Organisations involved in certification.

5.3 Reports and Press

There have been numerous press reports, interviews and commentary regarding the Halal Law and its implementation. For the most part, critics of the Halal Law have been quoted in the press, arguing that despite the length of the deliberations (8 years), the law remains problematic and will be impossible to implement without having a negative impact on a wide range of industries, and the economy as a whole.

They note that the regulation goes further than halal laws in many other countries, with a key component and criticism of the law being that it is mandatory¹. Furthermore, because it covers not only goods, but services, including transportation, it will be extremely difficult to implement. Government officials from the Ministry of Industry have said publicly that the process of publishing the entire halal certification of food and beverages products alone will not be finished for decades.

Additionally, due to the mandatory nature and the broad spectrum that the Halal Law covers—including non-halal labels for products that are not halal—Indonesian industry representatives believe that it presents a significant challenge for the local industry, especially the small and medium enterprises who will be the hardest hit. Larger industries will simply pass on the cost to consumers. Smaller sized businesses however, may find their enterprises in jeopardy. With reports of nearly 90 percent of domestic food and beverage coming from small to medium players, a large proportion of Indonesia's food industry may not be able to deal with the additional cost.

Of interest was a report implying that LP-POM MUI had received approximately Rp480trillion (AUD\$48billion) in 2014 through domestic halal certification processes. However, the Director of LP-POM MUI, Lukmanul Hakim, has since publicly denied the amount, highlighting that it was during a meeting with Commission VIII (Religious, Social, and Women's Empowerment Affairs) of the House of Representatives where one member came at the number by performing a quick calculation based on the number of products with certificates and the cost per certificate (AUD\$250-\$500). Lukmanul outlined that it was not based on a charge per product, that there were companies with several products, so figures could not be calculated based on a one-by-one basis. Furthermore, he joked that if the figure was true, MUI could have purchased a few real estate towers in the central business district

¹ An online report (Johnson, 2014) from early 2014 conveyed that the then Minister for Religious Affairs was against the law mandating halal matters, but that it was MUI seeking mandatory certification.

of Jakarta.

Additional concerns reported on the Halal Law are around the likelihood of an increasingly bureaucratic process and whether there will be the ability to not only certify, but to guarantee halal matters under the Law. With so many products (services and transportation) to certify, it has been questioned how the implementing body will guarantee the halalness.

Of further concern, has been the halal certification of medicines and the process to investigate the manufacturing process and ingredients of medication. The increased cost of this Law, the disruption to businesses and the distribution of food and medicine may cause issues for many. Consequently, some critics are simply calling for a halt to the deliberations.

While there appears to be few reports with anything positive to say about the Law, the issue of keeping an NGO—such as MUI—in a position of authority over an increasingly sensitive and important matter as halal certification without government intervention has been noted.

5.4 Issues Raised

There is without doubt significant concerns and a belief there would be negative economic impacts amongst all involved. However, the Ministry of Religious Affairs is currently aware and concerned that small and medium enterprises will be affected. Consequently, it is now becoming apparent to many that the cost to government and industry has been underestimated. A senior industry representative suggested that with 2,150,000 company brands and a cost of approximately Rp5million for a company's certification process, there is the potential for receipt of approximately AUD\$1.1billion every 4 years (the certification cycle). However, we were informed that products from small-medium enterprises (SME) needing certification would originally be paid for by the government. And with estimates of 50million SMEs at approximately AUD\$200 per certificate (minimum), it would cost the government at least AUD\$10billion for that alone. Add to this the administrative costs, including offices throughout the region, staff and logistics, the implementation budget of such a mandatory system would be significant.

Officials from the Employers' Association of Indonesia (APINDO) were not just worried about food and beverages, nor pharmaceuticals and cosmetics, but also other consumer goods (clothes etc.) the service industry and transportation. Industry representatives highlighted the issue of containers and whether they needed to be permanently separated into halal and non-halal products only. The Ministry of Religious Affairs informed us that they did not see this as an issue. While the Ministry noted that transportation was a challenge and the economic cost of separating was acknowledged, they outlined that separation of halal certified product with non-halal product would be necessary. They further went on to suggest its practice may be as simple as "placing a plastic sheet between products". However, it was highlighted several times by Ministry officials during the meeting that they understood and were concerned that the cost would be passed onto consumers.

It was also remarked by some that the issue of confidentiality could be a problem, simply because the administration process will increase in size and number of bodies. Although there are sanctions whereby any Halal Examination Agency (LPH) failing to satisfy confidentiality will be subject to a possible two years imprisonment and a maximum AUD\$200,000 fine.

Currently the Law outlines halal and non-halal labelling to be mandatory, but the industry is pushing

hard for it to be voluntary. Their point is that if you are willing and able to put a halal logo then get certified. But they believe government should be the regulators of the process and application of certification. To this end, they have written and spoken to the current Indonesian President, Joko Widodo, the Vice President, Jusuf Kalla, and the Vice President's Advisor and Chair of his Economic Team, Sofjan Wanandi about the issues they perceive the Halal Law will create (refer Appendix 4).

One perception is that for the first time it could be construed that an NGO has been provided a mandate to oversee a Presidential Law. While the Law's process reads as if BPJPH is the key organisation under the Indonesian Government and Ministry of Religious Affairs, it could also be interpreted that MUI have a direct responsibility under the Law.

It was suggested that other Ministries are now not as supportive of the Halal Law as they once may have been. For example, the Ministry of Health is apparently extremely concerned about the far reaching consequences for pharmaceuticals. Especially when 99 percent of the 930 active drug substances in Indonesia are imported and the formulation of a drug is extremely complex.

At this point most disagree with the mandatory aspect, including the Industry Minister, and how this flows into other sectors such as services and transportation. However, the Minister of Religious Affairs remains dedicated to the mandatory approach. The Ministry of Religious Affairs officials pointed out to us several times that the issue remains with the definition of halal. What products to certify and ensuring small enterprises could be certified? However, senior industry representatives from GAPMMI and APPINDO did not see how the Law, in its current form, could in fact take effect.

The only positive aspect that anyone suggested during our discussions was the development of multiple LPHs. Suggesting that the development of competition for certification (multiple LPHs) rather than relying on one body (i.e. MUI) was beneficial.

5.5 Relationships and Interactions

Because of the complex nature and the revelations of a significant number of issues there are currently many officials, government, religious and industry, providing input into the matter. Furthermore, it was pointed out that several political parties have been influential in the making of the Halal Law and continue to exhibit interest.

A senior religious figure suggested that the Ministry's involvement would certainly decrease MUI's authority in the halal certification process. Historically, LP-POM MUI were the scientific side of the halal certification process. The MUI Komisi Fatwa the authority where halal matters were discussed based on the Fatwa. The latter will remain, but the position of the former is not so clear. Consequently, it was suggested there may be some within LP-POM MUI that will be unhappy about the loss of authority if it were to be substantial. However, their (his) concern was focused on ensuring society was being protected and that Muslims were consuming halal product. Whether one body or another had responsibility was not a concern. He also felt that a positive development of the Halal Law was that it would increase the level of legality for halal, as MUI really had no authority with respect to upholding law, as it was an NGO, but now the Ministry of Religious Affairs would begin to be the administrators and regulators.

Some suggested that the government will not only regulate, but also become the 'stamper of paperwork'. That is they will be the fundamental certifying body. Additionally, for many years the

Ministry has had the laboratory facilities to perform LP-POM MUI's responsibilities, so it was implied that there was reason to assume there would be a competitive environment for the assessment, accreditation and certification process.

Given the future formation of BPJPH and its new administrative role it could be hypothesized that it would free up LP-POM MUI to focus on the scientific evaluation of halal matters. However, this was not the general consensus, especially that of the LP-POM MUI Director. He and others believe that the administrative process will become much more complex. Notwithstanding the enormity of the task, but because of the involvement of many more bodies and associations, including those throughout, what can only be described as, extremely diverse regions.

Of note was the commentary surrounding other ministries performing halal inspections as part of their audits (refer Section 6.1.2). Officials in the Ministry of Religious Affairs were adamant that halal certification or inspection by the Ministry of Agriculture was not part of the process.

5.6 Ongoing Processes

The first tranche of the process to ensure food and beverage certification was in place by Oct 2016 (refer Section 6.1.1). However, all our discussions, including those with the Ministry of Religious Affairs, religious leaders and industry noted that the operational regulation (Peraturan Pemerintah) was still being drafted in early 2017. Apparently a draft of the PP was circulated last year, and Australia provided comment following a round of consultations with industry. However, we were further informed by the Ministry of Religious Affairs that they were still in the process but they would have a further consultation/socialization process in the future, including notifying the World Trade Organisation (WTO). Consequently, it was stated across all of our discussions that no implementation of the Halal Law will happen until at least 2019, the same year as the Parliamentary and Presidential elections.

To this end, APINDO has written a letter to the President suggesting that the Halal Law not be implemented. They have identified nine key reasons why the Law should not be progressed, all detrimental to the economic growth and well-being of Indonesia (refer Appendix 4). They have also promoted other associations to do likewise. They noted that approximately 30 associations had written similar letters addressed to the President.

APINDO and GAPPMI have also put together presentations, and continue to do so, which they have addressed to Parliament and other groups. However, their concerns over the direction of the Law remain at this stage because they are unaware of the direction of the internal discussions in Parliament following any presentation. We were also informed that LP-POM MUI have employed an economic team to look into the impacts. The results are yet to be distributed.

Furthermore, we are aware that there has been a Constitutional Court submission presented this year (2017), by Paustinus Siburian, a lawyer in Jakarta, with unknown affiliations. However, the concern of the industry associations is that if the submission is thrown out of court there will be no further ability for further submissions. Yet the associations that are currently considering the effects and impacts of the law were not consulted in the submission.

The Ministry of Religious Affairs stated that the BPJPH will be formed in early 2017. They further noted emphatically that they would become the certifiers and not MUI. Apparently, a position for Director

General (DG) has been approved for the BPJPH and will likely be advertised/put in place early this year, possibly to align with budgets.

Furthermore, and to introduce clarity into what halal actually means, the National Standardisation Agency (BSN) are currently developing a halal standard, as this is also one of the issues of the Halal Law. Questions have been raised by industry associations as to how the LPH will maintain the same sentiment and processes across the country. As regional offices are developed and local LPH functions expanded many are likely to display differences reflecting regional diversity. This is not without precedence where halal matters are concerned. In 2011, with the introduction of stunning in many abattoirs in Indonesia, regional MUI officials took a different viewpoint towards non-penetrative stunning, despite the overarching support of this method by the national MUI authorities. We are of the understanding that this regional diversity in what is deemed halal is on the rise in specific locations, and with the development of regional BPJPH and regional LPHs this is only likely to be compounded.

5.7 Specific Consideration for the Australian Meat Industry

Of importance to the Australian meat industry was the commentary from the Director LP-POM MUI that the process under the Halal Law won't change for Australia. He noted that the LPH process was essentially a domestic one, so the system will remain for imported meat. Furthermore, he added that the Australian certification process should benefit Australia as it would be able to meet any criteria easily, but that competitors may not be in such a strong position. Although he subsequently noted that the BPJPH process will create some further administration, but that it shouldn't be a problem for foreign processes. The Ministry of Religious Affairs outlined that Australia will be able to remain with their certifiers, but certifiers would need to register with BPJPH to obtain their licence, which would need to be renewed ever four years.

The Ministry of Religious Affairs believed there was solid ground to progress government to government discussions. The assumption of the Ministry official was that it would be simpler and faster working G-G than Australia to MUI. They noted that Japan and USA have already approached the Ministry to begin working together and expressed interest in doing more with Australia.

Of note, the Ministry of Religious Affairs also emphasized the notion of *halalan toyyiban* as a key aspect of the Halal Law—which in the most simplistic fashion means permissible (halal) and wholesome i.e. safe, clean, nutritious and quality (toyyib). In the context related to food, some religious academic authors have suggested this also relates to; good taste and smell, being fresh, beneficial, natural, distinct in taste to a particular ethnic group or nation, the preparation or processing procedure and how the food is served (Yunus et al, 2010). Consequently, Australia will need to be cognisant of the possibility that the examination of halal aspects may move into the realms of food safety.

With regards to the state-based system of certification processes for Australia, the Director of LP-POM MUI made the comment that the AIOs agreed to the state based system in 2010. He went on to say that their competitive nature lessened their ability to perform halal certification with any rigour. Furthermore, no other option had since been proposed and there had not been any change in the competitive aspects between AIOs and therefore the system as it was now would remain.

The competitive aspect of AIOs and the negative impact this created on the Australian meat industry was further raised with Islamic Leaders. It was noted that this created significant complexities to the

whole system—including continued difficulties with the whole process between the two countries. They envisaged that if processing companies themselves had Muslims involved in the process—as was necessary—and in some way worked with or included Muslim communities, there may be an alternative mechanism. [NOTE: this was in a discussion with a senior Islamic leader, who himself by admission acknowledged that he was not involved, nor necessarily interested, in the details of the certification process and only involved in the high-level aspects of Islamic matters. And that it was only his thoughts rather than a considered approach.]

6.0 BEEF MARKET

6.1 Reports and Press

6.1.1 Prices During Ramadan

During 2017 it was widely reported that food prices were, as usual, expected to rise before and during Ramadan (which begins 27 May in 2017). The key concern was that the increasing food prices would affect the affordability of access to a nutritious diet. It has been stated that, at the national level, 62 percent of Indonesian households are usually able to afford a nutritious diet, meaning that even without seasonal price increases, 40% of households cannot afford balanced and nutritious food.

The reason often provided for the price rises before Ramadan is because of limited availability and poor distribution. However, in the beginning of 2017, the Indonesian Government often declared that the availability of basic food commodities would be more than enough to meet public demand—although the price was still expected to increase.

In 2017, it was expected that these seasonal, albeit usual, rises would heavily influence communities because of their low economic capacity. In the lead up to Ramadan consumers had been quieter than usual and therefore there was an assumption that those with low incomes would be further affected (see section below on consumer confidence). In April, one trader in Pasar Muka noted the already rising prices of vegetables, such as garlic from Rp37,000 to Rp42,000/kg, tomatoes from Rp5,000 to Rp10,000/kg, chilies from Rp25,000 to Rp30,000/kg and potatoes from Rp10,000 to Rp16,000/kg. Additionally, beef prices were expected to rise from approximately Rp100,000/kg to above Rp140,000/kg.

Beef price rises are not surprising as quantities of beef purchased at this time can increase by at least five times (an average person purchasing 1kg of beef is expected to increase their purchases to at least 5 kg during Ramadan). Furthermore, the Central Statistics Agency (BPS) has recorded that meat production in Indonesia in 2017 will only reach 468.369 tonnes while consumption is expected to reach 729.911 tonnes. In the days leading up to the start of Ramadan reports were indicating fresh meat was selling for Rp120,000/kg but some were expecting it to rise further. Consequently, the State Logistics Agency (BULOG) informed the public they will hold market operations in the surrounding areas of Jakarta during Ramadan in which they would sell low grade frozen beef at approximately Rp65,000/kg and higher grade for Rp75,000/kg. [Note: BULOG currently focuses on all staple foods, not just beef, reporting to have stocked 2 million tons of rice, 320,000 tons of sugar, 207,000 liters of vegetable oil, 62 tons of garlic, 60 tons of shallots and 37,500 tons of meat—almost all of which is buffalo meat from India—for their market operations during Ramadan 2017.]

Economists have pointed to the marked difference between prices of beef in Indonesia compared with

Malaysia. Also emphasizing the difference in price increases during the month of Ramadan, with Indonesia often exhibiting higher multiples compared with Malaysia. Given the annual price rises around this religious period it has been noted that the government would do well to learn from previous years so they can make better and more informed public policy on food pricing.

Despite this and the expected and actual rise in prices, government officials continue to report on the success of food self-sufficiency programs and continued efforts to build food security programs. These often include increased production figures emphasizing the rise compared with previous years, and the further preparation of land to be used for food production. This success is impressive as the Ministry of Agriculture's budget has decreased over the last three years. Of significant relevance to these success stories is the often-stated tag line of being able to 'decrease imports'—at least 95% of beef purchases in the Jakarta and surrounding areas are reportedly from imported sources.

At the time of writing, MLA reported the Ministry of Trade were releasing a new Decree (No. 27/2017) regarding purchasing prices at the farmer level and selling prices at the consumer level. Reportedly, there are nine staple foods to be regulated, including beef, and again the focus of the decree is to guarantee the availability, stability and price certainty for these food commodities. According to the reports, the reference price of purchase, at the farmers' level, will be set by the Minister of Trade, having considered the production and distribution costs, profits and other expenses. At the consumer end, the price for frozen meat will be set at Rp80,000/kg, fresh forequarters at Rp98,000/kg, hindquarter at Rp105,000/kg, brisket at Rp80,000/kg and trimmings at Rp50,000/kg. The focus by government on price and the resulting actions to control it will likely continue to affect market conditions into the future.

6.1.2 Consumer Index

The Bank of Indonesia (BI) reported early in the months of 2017 that there had been a slight decrease in consumer optimism, which was reflected across the country. They suggested the reduction was because of the reduced spending rate of the lower economic classes (see section above on Prices During Ramadan). Additionally, and at the time, they noted consumers were likely predicting price increases in the coming months—with Ramadan and holidays approaching—and at the same time savings had not increased. However, by April 2017, BI were reporting that consumer optimism had returned and was expected to continue to increase significantly over the coming three-month period—especially because of the increased demand during Ramadan.

6.1.3 Buffalo Meat

In early 2017 the government was highlighting that the reason for allowing Indian buffalo meat imports into Indonesia was simply because of high beef prices. According to the government's data, the price of imported beef in Indonesia was around 30 to 40 percent higher than in neighboring countries. These reports came amidst the Constitutional Court's decision on the judicial review of Law No. 41/2014 on tightening import from countries that are not foot and mouth disease free. The decision, suggesting that imports of buffalo meat from India could occur if there was a natural disaster or excessively high prices of red meat, resulted in the government temporarily stopping imports of buffalo meat from India. In response, the government noted they had only opened Indian buffalo meat to BULOG (who at the time held import recommendations and permits for a total of 100,000 tons of buffalo meat). BULOG subsequently outlined that they were prepared to permanently stop Indian buffalo imports according to the Court's decision and the regulation.

However, by March and early April BULOG had proposed to import a further 51,000 tonnes of Indian buffalo meat to stabilize beef prices, especially during Ramadan. Thomas Sembiring (Executive Director of the Indonesian Meat Importers Association (ASPIDI)) assessed that the policy was not fair for local breeders, nor was it reasonable as the process was operating as a monopoly. During the same period, local Indonesian cattle breeders began to outline their concerns, as local sales of beef were being affected. It was reported that market traders preferred to buy Indian buffalo as it was cheaper than fresh beef from local abattoirs. Joni Liano (Executive Director of the Indonesian Association of Feedlotter and Beef Producers (GAPUSPINDO)) added to the reports, outlining that it was not only local breeders who were affected, but also feedlotter.

By May 2017 reports were being provided that the impact to cattle farmers and feedlotter threatened to see them out of business by the end of the religious period (after July). Indian buffalo distribution had spread out of Jabodetabek (Jakarta and surrounding areas)—as permitted under the government regulation—but it had caused traders to preferentially buy Indian buffalo from BULOG rather than beef meat from local abattoirs. Furthermore, additional problems were occurring as some traders were reportedly selling both Indian buffalo and local beef at the same price, or under the same title. This complicated the issue as buffalo meat had not reduced the price of beef in the market, but rather buffalo prices had settled at just below beef prices.

Despite some reports suggesting food self-sufficiency was well underway, and key commodities were sufficient for the Ramadan period, by late May it was acknowledged by government officials that the availability of local beef production was not yet sufficient to meet national demand. Based on the prognosis, the local beef production would reach approximately 354,770 tonnes throughout 2017, while the estimated national beef demand would likely be 604,968 tonnes. [Note: See above for comparison with BPS figures and although there is a disparity in reported quantities, the difference between production and consumption is similar with a discrepancy for both reports of approximately 250,000tonnes.]

The Ministry of Agriculture has confirmed Indian buffalo meat can only be imported through assignment from the government to BULOG and that the aim was not to shake up the beef price but to provide an affordable alternative to the market. In addition, the distribution of the Indian buffalo meat would be prioritized for central area consumers, although it can still be distributed to other areas if there are no rejections from the local government. Additionally, there are now indications that they believe the beef price, at Rp120,000 (at the time of writing), sold in the wet markets, was considered reasonable, as it was providing value for farmers. Despite the slight change in messaging, the government appears eager to continue encouraging local cattle production.

In the weeks prior to Ramadan, reports were highlighting that at least 10,000 tonnes of Indian buffalo meat would arrive in the middle of Ramadhan (late June). The Commercial Director of BULOG, told the press that BULOG's warehouses were storing approximately 35,700 tonnes of Indian buffalo meat and 274 tonnes of Australian beef—which was believed to be adequate to fulfil the demand throughout Ramadan. BULOG had calculated there would be a 50–60% increase of buffalo meat during Ramadhan and Idul Fitri—up from the average demand of 6,000–7,000 tonnes per month (with 3,000–4,000 being for the Jakarta and surrounding area).

Reports have concluded that together with BULOG, the prices of beef have been set Rp100,000 for frozen beef and Rp120,000 for fresh beef. And based on the Ministry of Agriculture data, the imported

meat stocks up to 18 May 2017 was approximately 70,518 tonnes, consisting of 116,417 ready-to-slaughter cattle (equivalent to 23,167 tonnes of beef), 12,025 tonnes of beef and approximately 35,000 tonnes of buffalo meat.

6.1.4 KPPU

Following the ‘success’ of the Commission for the Supervision of Business Competition (KPPU) in 2016 to fine feedlotter and chicken producers because of alleged price fixing or hoarding (the KPPU found 32 feed lotter and 12 poultry companies guilty of cartel practices), inter-agency meetings were held in January 2017 aimed at solving the problem of ‘skyrocketing’ beef prices in Indonesia. [Note: As part of the solution the Ministry of Trade arranged for the increase of live cattle import weight restrictions to be lifted from a maximum of 350kg to 450kg and the duration of import permits was increased.] By early March the Ministry of Finance (MoF) and the KPPU had signed a Memorandum of Understanding (MoU) to enable the two agencies to work together to ensure ‘a healthy economy’. The focus of which is the ability to engage in joint investigations and to exchange data. The Minister of Finance stated that her Ministry would focus on tax aspects, especially in the food sector, as the level of received tax was reportedly low. Additional reports have continued to suggest the alleged cartel practices in the food sector are resulting in an inefficient national economy, ‘soaring’ prices and rising inflation figures.

Beef is often used as an example in these reports, which note that despite relaxed import requirements, greater volumes of beef and stable beef demand, prices have not reduced significantly. The conclusion, therefore, is there are still ongoing cartel practices. Furthermore, the relevant agencies currently suspect that most beef importers are avoided paying tax because income tax from their sector declines every year. However, global demand and worldwide beef prices are rarely mentioned, if at all.

At the end of April 2017, the Chairman of the KPPU was publicly reminding businesses not to ‘play’ with the price of basic food commodities to reap increased profits ahead of and during Ramadan. He noted that the price increases occurred because of the undertakings of ‘bad’ businesses inhibiting supply of basic commodities. He went on to say that there are usually 11 food commodities whose prices are vulnerable, including beef, chicken, eggs, onions and chilli. Consequently, he has warned industry that the KPPU will be taking steps to supervise the actions of business, including manufacturers, distributors and retailers. In the example of beef, surveillance points during Ramadan would include feedlots, slaughterhouses and retailers. He highlighted that “if the price in the market was not in accordance with that stipulated by government it means there is a game.”

Further to the MoU between the KPPU and the Finance Ministry, in early May the Indonesia Police (POLRI) outlined their additional commitment to participate in maintaining stable food prices ahead of Ramadan. To this end, and under President Jokowi’s instruction, a unit of food officers was formed to monitor the stability of food prices. It was reported that there were several measures POLRI could take to ensure continuity of food distribution and to reduce food stockpiling practices. They reported this was but one step towards the government’s strategy to reduce the burden on society due to increasing food prices. Additional cooperation mechanisms have therefore been established with other related institutions such as the KPPU, the Ministry of Trade, Ministry of Internal Affairs and the Ministry of Agriculture.

By the end of May 2017, it was reported that senior officials from the Ministry of Trade were again warning importers who delayed their import realization. Any importer who had imported less than

20% of their allotted permit allocation could see their import permits revoked. The Executive Director of ASPIDI highlighted that permits were of six months duration and therefore any evaluation should wait until after the period had expired.

6.1.5 Other Matters

Further to reports concerning food prices, consumer trends, buffalo meat imports and allegation of tax evasion and price fixing, the government often outlines their concerns regarding the declining share of Indonesia's GDP that comes from the agriculture sector. Last year the share fell to only 13.5% compared with 22.0% in 1990. Furthermore, the number of local people working in the agriculture sector has dropped steeply from 55.1% in 1990 to 31.9% in 2016. The main reasons reported include conversion of land from traditional farming use and poor advancement in farming methods. Bank Indonesia have highlighted the declining contribution of the agricultural sector is a major concern because it is caused by low production growth.

To offset this in the beef sector the Ministry of Agriculture continues to explore the possibility of importing beef and cattle from other locations. Reports in early May suggested that 30,000 head of cattle were due to arrive from Mexico, however, there were still 'problems' with the shipment. According to reports the policy was in place and Mexico had been selected to 'reduce Indonesia's dependency of importing cattle from Australia'.

The resultant 'fresh' beef from the importation of live cattle has always been considered as occupying a certain market preference. However, in the lead up to Ramadan, and with government stockpiling large amounts of frozen buffalo meat, it has been interesting to see reports regarding the change in the nation's beef consumption patterns. Government reports have suggested that society's preferences have been changing gradually, with people nowadays preferring frozen beef, rather than fresh beef. One reason provided is because of the price difference and that the former is more affordable. The government claims this is beneficial as this pattern enables control of beef prices.

On a separate note, but interestingly, the Trade Minister, Enggartiasto (Enggar) Lukita recently floated an idea of requiring Australian wine, sold in Indonesia, to pass halal certification. The comments were tongue-in-cheek retaliation for Australia "undermining" the selling of Indonesian tobacco and paper. At a time when both countries are in the process of negotiating a Comprehensive Economic Partnership Agreement (IA-CEPA), it should be mentioned that Indonesia has reported this matter as 'not in the spirit of the negotiations'.

6.2 Industry Discussions

Discussions with the Indonesian beef and cattle industry in the lead up to Ramadan emphasized a few key areas of concern, including, but not limited to market prices and Indian buffalo meat imports. However, despite concerns regarding the months ahead, resulting from pressures placed on industry, there was also a general sense of optimism for the long-term.

6.2.1 Price

The Ramadan month was perceived as being the saving grace for both beef and cattle importers as demand and consequently sales usually increase during this period. Despite the focus on keeping the prices down it was reported by some that the government was generally relaxed with the price at or below Rp120,000 (Jakarta prices in the wet market in early May). However, with sales during Ramadan

being critical for industry, the expectation of larger volumes of buffalo hitting the market remains a key concern.

Additional difficulties for live cattle importers have made the overall situation more complex. With the higher prices of Australian cattle late 2016 and early 2017, in combination with pressure to implement breeding programs (1 breeder for every 5 feeder cattle) and pressure to keep the market price down, some feedlotter have reduced the amount of cattle imported (with reports some had not imported any at all in 2017). Those that have done so believe it is better to lose a little income by not operating, rather than to lose more by being involved. However, as above, government has taken notice and have threatened licence suspensions or licence loss if they don't improve their realization rates.

This continued focus on price—cost of supply is considered too high and market price not low enough—has created an expectation that Australia can help. Repeated comments amongst industry, State Owned Enterprises (SOEs) and government officials, including the Minister of Trade, suggests there is not only an expectation Australia will reduce price, but **there is a real 'belief' that Australia can reduce price.** This misunderstanding has been borne by not only the knowledge that Australia's production and manufacturing sectors are efficient, but the belief that Australia's efficiencies are so good, prices could be reduced (refer Conclusions/Recommendations for an approach to alleviate this issue). On top of this, it remains a strong belief of many—outside of the industry—that beef and cattle importers continue to receive extremely high margins.

Some industry members believe the government and Parliament are 'contaminated' with their focus on price, and that they were unaware of the necessary details regarding beef production, processing, supply chains and global conditions to know any different. There is without doubt a need for a far greater understanding of the reality of market conditions.

6.2.2 Buffalo Meat

The Indonesian cattle producing, feeding and beef importing industries were clear that imports of Indian buffalo meat had the potential to seriously undermine their industries. It was mentioned repeatedly that approximately 75,000 tonnes of buffalo had been imported into Indonesia in a relatively short time span. It was also a concern to many that approximately 50,000 tonnes remained in storage—and more coming—which could be released into the market at any time, especially if prices spiked during Ramadan.

As discussed, BULOG is the only institution permitted to import Indian buffalo meat. Initially, BULOG purchased the buffalo at approximately Rp45.000/kg and in May 2017 were selling it for around Rp61.000/kg to wet markets and Rp80.000/kg to retail. Of note is that when BULOG initially started selling buffalo meat the price was approximately Rp50,000/kg. But that had already crept up to at least Rp61,000/kg by mid-May, and was expected to rise further. Even though BULOG maintains the monopoly on Indian buffalo imports, they are apparently struggling to break even. Consequently, there is increased likelihood the price will continue to increase.

The main form of distribution of Indian buffalo is through to the importers and distributors with the expectation that it will go through to retail at less than Rp80,000/kg. There is little doubt there is a market for it, and while it is moving into regional areas, questions remain as to who would want to distribute through to areas such as NTB as it still costs too much to deliver. However, we were informed that Indian buffalo had made its way into high end hotels in Bali, as they were able to use it

for the beef dishes in the buffet.

In all this though, it should be recognised that the President remains committed to Indian buffalo in the market place, simply to provide red meat for those that can't afford beef. And therefore, it is expected to stay (assuming India remains an exporter). However, concerns were raised by industry as to the preparedness should there be an FMD outbreak. Any lapse in process or systems would create significant issues for Indonesia, due to questions whether there were sufficient vaccines readily available. Any outbreak would obviously affect Indonesia's smallholders, of which a large part of the production system is reliant.

Despite the price of Indian buffalo meat, we were, not surprisingly, continually informed that Australian beef still holds much higher prestige. Australia is well known for being disease free, having high standards of food safety and a good quality product. However, there was little understanding by consumers in Indonesia regarding the process of production and processing in India, and in some ways, this was viewed as a disadvantage to Australia.

6.2.3 Government & Politics

It has been outlined that the Ministry of Agriculture has been focused on other food commodity matters, rather than beef and cattle, and therefore did not recognise the full realities of the beef and cattle situation. It was often stated by the industry that the government rarely made actual calculations regarding the cost of raising cattle, hence the belief remains that beef and cattle are extremely profitable businesses. However, the situation becomes more complex when considering that the Ministry of Agriculture continues take a lead role in Indonesia's food security needs, but the beef and cattle sector are not necessarily the sole mandate of the Ministry of Agriculture. Other ministries are also involved, such as the Ministry of Industry—who have a directive of providing the supply of raw materials—and therefore in order that government can fully understand industry matters, including their processes and visions, they too should be engaged.

It is without doubt that some in Indonesia still believe the country is too reliant upon Australian beef (and cattle). Consequently, opening of other markets appears to have political resonance in some circles. Other markets have been mentioned in conjunction with Indian buffalo, including Mexico (as above), Brazil and Spain—the latter of which has already imported beef into Indonesia. Recently, Africa was mentioned in a conversation as a location in which Indonesia could diversify its beef and cattle supply. Diversifying markets is important for Indonesia to provide assurances they are not relying on one country to any great degree. This should be somewhat disappointing to the Australian industry, as there are good reasons to have confidence in Australia. However, again the seemingly high price and the belief Australia is not providing a best price for Indonesia is one aspect that drives some of this political sentiment.

Of importance are recent politicking throughout the Jakarta elections (including the sentencing of the Jakarta Governor, Ahok, a candidate for re-election in the Jakarta elections, found guilty of blasphemy) and early discussions surrounding the 2019 elections. While politicking can be expected to present itself a year before the Parliamentary and Presidential elections, it is unusual to observe it so far out (Parliamentary elections in April 2019 and Presidential elections in July of the same year). To this end, many business players, not just limited to the beef sector, feel that there is too much control and therefore pressure on business at present. However, cheaper commodities, especially food, will be one aspect that will resonate well with voters and therefore it shouldn't be presumed that the pressure

will release anytime soon.

For Indonesia, there are obviously production challenges, but the beef and cattle is as much a social issue as anything. Small holders don't have financial plans, and yet they will feel rich if they own 2-3 head of cattle. It provides them with confidence and stature, which in turn provides a feeling of well-being. With 5.5 million smallholders who rely on cattle for approximately 30% of their income, it is presumed that a small amount of assistance could go a long way to increasing their incomes. The economic dependency of imports is one thing, but the social aspect of the smallholders is something that should never be underestimated, despite it remaining an issue largely unaddressed.

6.2.4 Outlook

The increasing population, current economic conditions and growth of the middle class with disposable income (at least 20% of the population and increasing) is often highlighted amongst industry members as a reason for optimism for the future of the beef sector. Low consumption rates and the ability to increase this significantly provide further reason for the outlook to seem positive. It was suggested that Malaysia and its beef consumption rates was a good example of what Indonesia may look like in the future. However, as the Indonesian Agriculture Minister and government was still focused and in charge of various policies, such as 'self-sufficiency' it is expected that the challenges will continue. Although it was highlighted the Agriculture Minister was more focused on rice and other staples, rather than beef and India, as one would presume from the reports. Additionally, it is telling that many are considering the next six months to be critical to the future of their businesses, a make or break period—although this is more pronounced in the feedlot section rather than boxed beef. Because of this, continued engagement and partnerships with importers and industry associations will be critical to maintain and improve.

The processing and manufacturing sector is one area where value-add is seen to be of significant potential. Developing packaged products, ready to eat Rendang for example, is believed by some to be where the future lies. With middle class growth comes busier lifestyles, more time at work, more time in traffic and less time for meal preparation. It is expected that this part of the food industry will expand by at least 2-3 times in the next 10 years, with a growth rate of the food manufacturing sector at 8.6% and increasing. Furthermore, consumption is expected to be in the order of 6kg/person/year (as opposed to just over 2-2.8kg/person/year as it is currently) in the future. It is this sector that has seen the uptake of Indian buffalo meat as a positive, predominately driven by growing demand in conjunction with lower prices and the ability to increase margins. However, some in this sector believe they could benefit from improved food technology and appropriate packaging material and would welcome Australian input should any company be interested in exploring this option. In this manner, Australia could help build the market at the same time as benefitting from a 'value-add' process. Provision of technology to make it efficient, marketing to ensure its uptake, efficiencies in shelf life, cheaper manufacturing processes and cheaper materials are all needed and therefore further research is required. Additionally, packaging materials, processes and visual attributes for marketing are all in demand.

Further to this, some in the industry believe there is a need to focus on 'taste' and 'innovation'. Keeping in mind the strong focus on price, they believe it would be beneficial to look at alternative (cheaper) cuts to produce good tasting, nutritious meals that are easy to prepare. The focus on innovation should keep in mind three key aspects. It needs to be convenient, healthy and ethically appreciated (i.e. match

local palates and cuisine).

Of fundamental importance, according to the Indonesian industry is the continuation or increase of education and marketing programs into the middle class. This is especially so for the quality, nutrition, food safety and halal aspects of Australian beef. It cannot be underestimated the importance, benefits and positive impacts that can be gained by education and marketing campaigns.

As the middle class rises, consumers will be the ones that make more and more decisions about their family's nutritional needs. And it is important to help consumers make those decisions. As Indian buffalo is relatively new to the market there is a general lack of awareness of whether the product can match the food safe, disease free, halal nature of Australian beef. Australia has a distinct advantage in this given the long term targeted campaigns in the past. This is imperative, as buffalo meat is believed to have already displaced the market by up to 50% (we were unable to deduce whether this was correct, or whether there were other factors, including consumer confidence. But some sources suggested buffalo was only encompassing 15% of the market).

In focusing on consumers, it was emphasized that government and regulatory matters should not consume the industry, nor should it hold them back. Additionally, continual reminders were provided to not treat Indonesia simply as a 'market', as the focus on trade creates discomfort with some in Indonesia.

Despite the optimism, there remains a focus on selling local products at cheaper prices, including into the higher end retail, not just the wet markets. High end retail was being pressured to sell frozen beef for less than Rp80,000/kg, however, they were unsure exactly how they would achieve this. Furthermore, we were informed there was a Taskforce providing advice to the Trade Ministry, of whom some believed in the benefits of requiring retail to stock at least 80% local product within a sector. This was apparently being discussed as an 'incentive' to exporters of products to invest in Indonesia, and to begin producing locally. This is not a new idea and has been floating around for some time. Whether the regulation ever comes into fruition is unknown, but it highlights the continual thought process to promote or induce foreign investment in local production and manufacturing of food products.

7.0 DISCUSSION

7.1 Halal Law

There remains a significant amount of uncertainty and criticism around the Halal Law and its implementation, despite assurances the Law will not be implemented until at least 2019. There also appears to be diminishing support for a mandatory approach, however, it should not be assumed this will occur. In the meantime there are a number of aspects clearly in play. These include the as yet formation of the BPJPH, a Constitutional Court process, a process underway to get the Law amended in 2018 and continual messaging from key organisations and some government departments concerning the difficulties of implementing a mandatory law.

With the formation of the BPJPH and the selection of the DG BPJPH, greater clarity may occur once this is finalized. The outcomes of the Constitutional Court submission will also provide for further clarity, especially whether the key associations, industry bodies and organisations are able to present

themselves as witnesses. Additionally, the process to get the Law amended in 2018 will be of critical importance.

Consequently, it would be prudent to continue observations and discussions with key representatives as the BPJPH forms, further domestic discussion is held publicly and privately and the Constitutional Court process becomes clearer. And, the development of a considered approach by the Australian meat industry towards improving halal administrative matters should not wait for the outcomes above, nor wait to see whether the Law is updated or altered. There are without doubt aspects that could be considered even as these processes are ongoing. Even on the assumption that we will not see any significant changes to the process soon, the possible registration of AIOs to the BPJPH, once formed, will be critical.

7.2 Beef Market

Beef price has remained a key factor of concern for Indonesia and a driving force for many of the requirements and regulatory changes that have happened over the recent past. With Ramadan starting towards the end of May in 2017 there has been specific interest in the price aspect to ensure all consumers have a chance to buy the staple foods during the religious period. This has been compounded by the concern of some over the loss of consumer confidence earlier in the year—although spending was up again by April

These high beef prices, the desire to provide economically challenged consumers with access to cheaper red meat and the apparent desire to reduce dependency on one nation for beef products has provided the incentive to open access to other markets, including Indian buffalo meat. But it can be assumed further efforts to open the market to other nationalities are also in effect or under consideration.

Despite this, there is a growing disgruntlement amongst feedlotters and local cattle farmers as Indian buffalo meat continues to impact their businesses. Suggestions that approximately 50,000 tonnes of buffalo meat was in storage prior to Ramadan with the option of releasing large amounts to keep prices down during the fasting month provided for some uncertainty for industry. A period where industry can often improve sales. Reports of up to 50% displacement are circulating, although others are suggesting the impact as only about 15% of the market. Either figure is significant if cattle are the sole source of income, or as a small holder, it represents stature in the community, capital reserves and therefore feelings of well-being. With reliance on the local industry to provide a significant proportion of demand, it is difficult to understand how the balancing act will continue as it currently does. Reducing the price in the market does not provide incentive to simultaneously increase production throughout Indonesia.

Other disincentives for the industry have been the combined focus on the industry by several government agencies implying there are many ongoing 'bad' practices, including collusion and price setting, hoarding and tax avoidance. 'Skyrocketing' beef prices have been reported as the reason for the inter-agency focus. Little consideration towards global supply and demand, foreign prices or international supply chains seems to occur.

Emphasis was placed on the difficulties of communicating industry issues with government due to considerably different mandates. However, this shouldn't detract from engaging with the Indonesian

Government, but it does highlight the need for reasonable expectations regarding outcomes and it places emphasis on ensuring relevant Ministries with similar focus and outlook are engaged.

There is a good reason why emphasis was placed on ensuring Australia continues to think long term, remains with, or increases, the consumer education and marketing programs, and simultaneously doesn't "expect too much". Australia can expect the continued push for investment, and there is a very real desire for improved technologies, improved skills and ideas for the beef cattle processing sector. To this end, price and consumers are key and therefore improved efficiencies, competitiveness and technology is what the Indonesian industry desires. Education and marketing campaigns, especially to the young and the upcoming middle class were deemed essential. Providing clear and updated information regarding price, food safety, health and halal aspects of Australian product, especially under the current climate, cannot be underestimated. Indian buffalo meat imports shouldn't distract Australian programs, but rather Australia should continue to focus and promote their comparative advantage.

It is also important to keep an eye out for opportunities to partner with Indonesian businesses in Australia. While there is a focus of investment in Indonesia by the Indonesian Government and community, opportunities to foster partnerships by developing joint ventures should not be taken lightly.

8.0 CONCLUSIONS/RECOMMENDATIONS

It is clear and not surprising that the Cabinet under the current President has a reform agenda. Ministers have clear mandates across a range of sectors including, mining, banking, trade and food and agriculture—and consequently the beef sector. Many of which are creating uncertainties for these sectors and consequently many (both senior government officials and industry representatives) are spending time working through problems that are arising which is distracting effort from progressing long-term beneficial outcomes. This aligns with many of the comments from industry which was essentially "don't get caught up, but work on what's possible".

Aspects such as the Halal Law, introduction of Indian buffalo, clear pressure placed on selling prices of food and inter-agency collaboration to ensure food prices are at levels considered reasonable are all examples of not only the reforms but also examples of the challenges that a nation such as Indonesia faces. Compounding this is the difficulty for industry to consult with various government agencies to articulate their challenges, convince them of current circumstance and to collaborate on progressing beneficial outcomes.

However, with these challenges there was a very clear message for Australia's beef industry. The quality, halalness, high standard of hygiene and disease-free status of our production and processing systems should be emphasised. With a young and growing population, there are opportunities to ensure continued education and marketing of the Australian product. Emphasising Australia's competitive advantage and clean green production systems is vital.

Furthermore, in continuing the education push into the Indonesian market the matter of price and its importance should not be dismissed. Providing up-to-date information regarding price points along Australia's market chain would be considered valuable to industry and government officials alike. Rumours regarding what prices Australia could offer (i.e. lower than market price) will persist—given

the efficient production systems and high level of research and technology supporting these systems— if some effort is not applied to disbanding this narrative.

These approaches to further educate consumers on Australian systems should also focus and emphasise the Australian Halal system. It will be imperative that the Australian industry takes some time to meet and talk with senior members of the newly formed BPJPH, the responsible agency under the Halal Law. Presenting the Australian process, government oversight, including regulatory control, and rigorous certification process will go a long way to providing certainty for Indonesia about Australia's systems. Especially as there will be a range of senior officials involved in the process who may not be familiar with Australia's halal processes.

Reducing any increased bureaucracy, because of the development of Indonesia's new Halal system should be the primary goal. However, providing assurance to the new agencies formed under the Halal Law may also provide for strategic discussions to assist in lessening the State-based mechanism currently imposed on Australia. Furthermore, engagement of this nature should provide for more in-depth discussions to develop a coordinated communication strategy. This will be important, not only for those visiting Indonesia, but also for those in the Australian industry visiting halal forums world-wide. The final objective of this approach could then be the examination of a single halal criteria which may be applied globally for Australia. Indonesia has an interest in establishing global halal aspects and therefore there is likely a place for further discussions between Australia's industry and relevant officials.

At this stage, we would caution industry requesting any significant G-G negotiations regarding a Memorandum of Understanding re recognition of Halal systems as there are still several steps to be finalised (e.g. final formation of the BPJPH).

Given the reforms underway in Indonesia, and the ongoing challenges faced by many industries, it would be of great benefit for the Australian industry to align with other like-minded and similarly challenged industries. While the trade of Australian beef is not currently as restricted as it was a few years ago there would still be benefits gained from such an approach. Many associations in Indonesia are currently coordinating efforts and developing strategies to improve engagement in the hope of better industry outcomes. Therefore, it is an appropriate time to work collaboratively with the large food and agriculture associations and commerce councils. In taking this approach there is also a greater likelihood of engagement with other Ministries that the Australian industry would not necessarily have engaged with in the past.

In summary, key areas for consideration by the Australian industry as part of a strategic approach to Indonesia could be:

- Focused education and marketing of Australian product, especially towards the younger middle class.
- Engagement with the newly formed BPJPH officials.
- Provision of up-to-date and targeted Australian pricing data from critical points of interest to Indonesia (to alleviate the belief that Australia can provide different prices for different countries rather than as a global market).
- Engagement with like-minded industries and their associations.

Additionally, other aspects that could be considered include:

- Examination of dietary changes and whether there are additional opportunities in partnerships offering technology transfer re packaged, ready to eat meals ('value-add').
- Examination of investment opportunities in Australia for Indonesian businesses to further develop solid partnerships.

9.0 BIBLIOGRAPHY

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10.0 APPENDICES

10.1 Appendix 1: Terms and Abbreviations in the Report

AIO	Australian Islamic Organisations
APINDO	Employers' Association of Indonesia
ASPIDI	Indonesian Meat Importers Association
BI	Bank of Indonesia
BPJPH	Halal Product Assurance Organizing Agency: an agency that is formed by the government to organize JPH.
BPS	Central Statistics Agency
BSN	National Standardisation Agency
BULOG	State Logistics Agency
DAWR	Department of Agriculture and Water Resources
DG	Director General
FMD	Foot and Mouth Disease
GAPUSPINDO	Indonesian Association of Feedlotters and Beef Producers
IABC	Indonesia Australia Business Council
IA-CEPA	Indonesian-Australia Comprehensive Economic Partnership Agreement
IBC	International Business Chamber
JPH	Halal Product Assurance: the legal certainty of the halalness of a Product that is proven with halal certificate.
KPPU	Commission for the Supervision of Business Competition
LPH	Halal Examination Agency: an agency which examine and/or test the halalness of a Product.
LP-POM MUI	Assessment Institute for Foods, Drugs and Cosmetics of the Indonesian Council of Ulama
MENA	Middle East and North Africa
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MUI	Majelis Ulama Indonesia
NTB	Non-Tariff barriers
POLRI	Indonesia Police
PPH	Halal Product Process: a series of activities to ensure the halalness of the Product including material procurement, process, storage, package, distribution, and presentation of the Product.

SME Small-Medium Enterprises
SOE State Owned Enterprises
WTO World Trade Organisation

10.2 Appendix 2: Terms and Abbreviations in the Halal Law

Halal Law terms from the Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance.

BPJPH	Halal Product Assurance Organizing Agency: an agency that is formed by the government to organize JPH.
Business Operator	An individual or business entity in the form of legal entity or not that organized business activities in the territory of Indonesia.
Decree of Halal Product Stipulation	Form of the stipulation of halal Fatwa (edict) issued by MUI
Halal Auditor	The person that is authorized to examine the halalness of a Product
Halal Certificate	The recognition of the halalness of a Product, issued by BPJPH, based on the written halal Fatwa (edict) that is issued by MUI.
Halal Label	The mark of a Product's halalness
Halal Supervisor	The person responsible of PPH.
JPH	Halal Product Assurance: the legal certainty of the halalness of a Product that is proven with halal certificate.
LPH	Halal Examination Agency: an agency which examine and/or test the halalness of a Product
MUI	Indonesian Ulama Council: a deliberation forum for Muslim ulema, zuama, and scholars.
PPH	Halal Product Process: a series of activities to ensure the halalness of the Product including material procurement, process, storage, package, distribution, and presentation of the Product.

10.3 Appendix 3: Officials Inaugurated into BPJPH on 2 May 2017

1. Siti Aminah as Head of Supervision of Halal Product Guarantee at Center for Guidance and Supervision of Halal Product Guarantee
2. Puji Kusbandari as the Head of Finance and General at the Secretariat of the Organizing Body of Halal Product Guarantee
3. Khotibul Umam as the Head of Bina Halal Auditor and Business Actor at the Center for Guidance and Supervision of Halal Product Guarantee
4. Giri Cahyono as Head of Sub Division of Halal Product Data Management at the Planning and Information System Division of BPJPH Secretariat
5. Ngatmanto as Head of Legal Sub Division at the Organization, Personnel and Legal Division of BPJPH Secretariat
6. Ali Fauzan as Head of Sub Division of MUI Cooperation and Ministry / Institution in the Field of Cooperation of JPH Center for Cooperation and Halal Standardization of BPJPH
7. Mohammad Zein as Head of Administration Sub-Division at Center for Cooperation and Halal Standardization BPJPH

10.4 Appendix 4: APINDO Analysis of the Impact of the Halal Law

Unofficial translation of the attachment to the letter to the President from the Employer's Association of Indonesia (APINDO) regarding the impact and analysis of the Law of the Republic of Indonesia Number 33, Year 2014 on Halal Product Assurance.

No	Issues	Analysis and Impact
1	<p>Article 1, Paragraph 1. Products are goods and / or services related to food, beverage, medicine, cosmetics, chemical product, biological products, products of genetic engineering, as well as the use of used goods, used, or used by the community.</p>	<p>Too broad a definition resulting in all goods and services being classified on the criteria of halal and non-halal, so it is not possible to be implemented.</p> <p>This definition resulted in not only food and beverage products, but also pharmaceuticals, cosmetics and other use of the goods, such as computers, cars, mobile phones, whether mandatory to be certified halal?</p> <p>Also, the definition of the product according to the Act are categorized as services, and services will be associated with the profession i.e. for example professional builders, drivers, security guards, lawyers, civil servants, military and police, Parliament, doctors, teachers, engineers, banking, that all of these services utilized by the community, so whether mandatory to be certified halal?</p>
2	<p>Article 1, paragraph 3 The Process of Halal Products, hereinafter called PPH is a series of activities to ensure the halal products include the supply of materials, processing, storage, packaging, distribution, sales, and product presentation.</p>	<p>The definition of the business process (series of events) is very broad, resulting in the government interfere too deeply in the private spheres both individual and corporate professions.</p> <p>This would lead to massive chaos in the business process and the process of governance and security assurance in Indonesia.</p>
3	<p>Article 4. Products that enter, circulate, and traded in the Indonesian territory shall be certified halal.</p>	<p>The shift from the initial spirit of voluntary (voluntary) becomes mandatory (compulsory), resulting in an overall obligation halal certification applies to all products manufactured in the country, partly or wholly imported, marketed or distributed in Indonesia.</p> <p>It lowers the intelligence of Indonesian Muslim consumers suggesting that they don't know which one is halal and which one is not halal, that the State should interfere in detail.</p> <p>Very more elegant and simpler if this law mandates the halal certification obligations for companies that have products that</p>

No	Issues	Analysis and Impact
		<p>claimed halal, as done by the state of South Korea and Malaysia.</p> <p>Mandatory requirement for all products and services in Indonesia resulted in the incredible complexity for both domestic and foreign.</p>
4	<p>Article 47 Paragraph 1 Halal products abroad which are imported into Indonesia applies the provisions stipulated in this Law.</p>	<p>The chaos also will happen to other countries as the origin of imported products to Indonesia, given that Indonesia is still extremely dependent mostly basic commodities, secondary and tertiary, so it will be very difficult to verify the halal certificates in other countries which in fact none of the other State has a Halal Act.</p> <p>For example, if the rice or car components imported from other countries shall be certified halal?</p>
5	<p>Article 5 Paragraph (3) To perform the implementation of JPH (Halal Product Assurance) referred to in paragraph (2), formed BPJPH (Halal Product Assurance Agency) located under and responsible to the Minister.</p> <p>Article 12 and 13 Government and society can form LPH (Halal Guarantee Institutions).</p> <p>Article 33 Paragraph 1 The establishment/determination of halal product is made by the MUI.</p>	<p>The authority of these institutions will bring more bureaucracy length from the central to the Region, because according to this Act, MUI is the only institution who have the authority to determine the halal product.</p> <p>While BPJH organize another authority in terms of the secretariat, the costs of the certification process, establish and oversee the LPH.</p> <p>The length of the chain of this certification process would bring extortion and uncertainty in public services.</p> <p>Not unusual for a country that is sovereign and dignified, delegating authority in the realm of strategic on economic and social interests to NGOs.</p>
6	<p>Article 42 Halal certificate is valid for 4 (four) years since the issuance by BPJPH, unless there is a change in the composition of the material.</p>	<p>Resulting in repetitive processes and consequences of the addition of the costs of certification constantly.</p> <p>Contrary to the spirit of friendly investment in World level competition, where products and services need the speed of product innovation.</p>
7	<p>Article 44 Halal certification fees is charged to the business communities who apply for the halal certificate.</p>	<p>Meaning, the costs incurred will be charged to all companies and professional services throughout Indonesia, because they are obliged to do the certification.</p>

No	Issues	Analysis and Impact
	<p>In terms of business communities are small and micro businesses, the cost of certification can be facilitated by other party</p>	<p>This would lead to discrimination structured in terms of treatment of the State to obtain halal certification to large enterprises, medium and small, as well as to professional services, so that in the end will lead to the potential for social conflict.</p>
8	<p>Article 45 BPJPH in managing the finances is using financial management of the Public Service Agency.</p>	<p>The principle of management BLU (Public Service Agency) is allowed to take payment from public funds directly to be managed to meet the budget requirements BLU institution itself.</p> <p>This will lead to uncertainty business costs, since a large part of the extra costs issued by the business communities to take care of certification cannot be accountable and transparent.</p> <p>BPJPH financial model in the form of this BLU shift the philosophy of spirit to protect Muslim consumers into a certification process held by the State, resulting in a high cost economy.</p>
9	<p>Article 24, Paragraph c Entrepreneurs who apply for halal certification are required to have halal supervisor.</p> <p>Article 43 Everyone involved in the implementation of JPH process shall maintain the confidentiality of formula stated in the information which submitted by the business communities</p>	<p>Their halal supervisors in each of the company's products and services give rise to extra costs and consequences of changes in the fundamental business processes and redundant with modern operating management system with guarantee hygiene, comfort and safety of international class.</p> <p>With the obligations of halal certification, resulting in all processes of production, distribution, presentation of which are supposed to be the realm of private enterprise and professional services, to be open, making it very vulnerable to be misused, falsified and potential copyright infringement by people who are not responsible, which is not easily investigated by law enforcement and court procedural law.</p>