Indonesia’s Broilers Business Facing Oversupply Difficulties

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Abstract. Indonesian production of poultry meat has undergone significant expansion and modernization over recent years and, while there have been cyclical fluctuations, growth has been consistent throughout the past three decades. Between 1993 and 2013, for example, the Indonesian broiler industry was the sixth-fastest growing in the world. The aim of this article is to identify the Indonesia’s broilers business facing with oversupply difficulties and its evolution. Methods of information and data analyzes were descriptive, analytical or assessment based on evidence from the existing condition of the Indonesia’s broilers business and its evolution. Indonesia’s poultry sector continues to demonstrate strong growth, despite industry reports of oversupply. The government has taken some efforts to regulate the import of breeder stock in order to slow growth and strengthen prices, although the results are negligible. According to the survey conducted by Ministry of Agriculture based on monitoring of Market Information Service on June 25, 2019, the average price per kg live bird (LB) in the National is IDR 20,216, while the average price on Java Island is around IDR 11,327, and LB prices in Central Java and East Java are only around IDR 8,845 and IDR 10,736. The fall in the price of broilers meat in Java, due to not all of meat produced is absorbed in traditional markets. This situation occurs because the broiler farmers predicts there will be an increase in demand after period of Eid al-Fitr celebration, it turned out that such conditions did not occur so the product becomes abundant and finally the price down.

1. Introduction

Indonesian production of poultry meat has undergone significant expansion and modernization over recent years and, while there have been cyclical fluctuations, growth has been consistent throughout the past three decades. Between 1993 and 2013, for example, the Indonesian broiler industry was the sixth-fastest growing in the world. Among the world's fastest-growing broiler producers in recent decades, Indonesia’s broiler business may now need a more liberal policy environment to maintain strong expansion [1].

Recently Indonesia’s poultry sector key data indicated that the number of broiler flock is about 3.50 billions, layer flocks is about 200 millions, and breeding flock is about 24.80 millions. Annual per capita chicken meat consumption is about 12.70 KG and egg consumption is about 80. Indonesia’s broiler meat production in 2010 is about 1.25 million tons and increased in 2017 is about 3.53 million tons (181.10 % growth during 7 years period) [2].

The presence of big corporations has played an important role in allowing Indonesia to achieve a growing level of technological modernization and supply independence. It is estimated that 60% of poultry production comes from industrialized farms (closed housing system), while 40% remains in the
hands of small and medium players (open housing system) [3]. Among the small players, the role of independent farmers who are not bound to any bigger poultry company has sharply decreased. According to the Indonesian Public Poultry Association (PINSAR Indonesia), the number of independent farmers has fallen from 100,000 in 2008 to 6,000 today, corresponding with a decrease in the market share of independent farmers from 70% in 2008 to 18% in 2016 [4].

In order to understand why per capita poultry consumption has grown slower than per capita GDP, we have to consider that to some extent, chicken can be considered an inferior good, meaning its consumption may decrease, at the margin, as consumers become richer. Beyond a certain consumption level, consumers shift to more “prestigious,” expensive protein sources, such as beef. The objective of this study is to identify the Indonesia’s broilers business facing with oversupply difficulties and its evolution.

2. Materials and methods
This study was conducted with descriptive method through time series information and data analyzes using secondary data to analyze or assess based on evidence from the existing condition of the Indonesia’s broilers business facing with oversupply difficulties and its evolution.

3. Results and discussion
3.1. Supply side
From upstream to downstream, the Indonesia broiler business is possibly the most industrialized sector in livestock agriculture. The industry is dominated by a handful of large corporations that own the birds, feed mills, cooking operations, and transportation networks. These corporations do not, however, raise the chickens. Actually, all of Indonesia’s broiler chickens are raised by “growers” both independent and integrator farmers who operate under contracts with the large processing companies.

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Table 1. Evolution number of GPS importation from 2016 to 2019

| No. | Months     | 2016   | 2017  | 2018   | 2019   |
|-----|------------|--------|-------|--------|--------|
| 1.  | January    | 71,796 | na    | 15,395 | 42,097 |
| 2.  | February   | 28,487 | 61,234| 79,695 | 88,484 |
| 3.  | March      | 76,099 | 51,946| 78,516 | 98,219 |
| 4.  | April      | 52,920 | 69,916| 41,679 | 52,640 |
| 5.  | May        | 26,981 | 40,866| 83,660 | 80,632 |
| 6.  | June       | 62,039 | 52,230| 38,086 | 33,650 |
| 7.  | July       | 42,875 | 61,615| 72,349 | 12,480 |
| 8.  | August     | 128,031| 96,894| 38,268 | 14,080 |
| 9.  | September  | 36,763 | 34,565| 49,295 | na     |
| 10. | October    | 60,892 | 95,373| 93,985 | na     |
| 11. | November   | 61,515 | 74,367| 57,426 | na     |
| 12. | December   | 43,510 | 32,905| 51,207 | na     |
| Total|            | 691,908| 671,911| 699,561| 322,282|

FS/week 69,190,800 67,191,100 69,956,100 42,228,200

Source: Dirjen PKH [4]

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poultry production comes from industrialized farms (closed housing system), while 40% remains in the hands of small and medium players (open housing system) [3].

Among the small players, the role of independent farmers who are not bound to any bigger poultry company has sharply decreased. According to the Indonesian Public Poultry Association (PINSAR Indonesia), the number of independent farmers has fallen from 100,000 in 2008 to 6,000 today, corresponding with a decrease in the market share of independent farmers from 70% in 2008 to 18% in 2016 [5].

Figure 1. Evolution number of monthly importations of GPS from 2016 to 2018

3.2. Demand side
In order to understand why per capita poultry consumption has grown slower than per capita GDP, we have to consider that to some extent, chicken can be considered an inferior good, meaning its consumption may decrease, at the margin, as consumers become richer. Beyond a certain consumption level, consumers shift to more “prestigious,” expensive protein sources, such as beef.

Ministry of Agriculture sets the number 60 million for per week chicks. That is, inside one production, the Ministry determines the farmer to raising 60 million chicks in need 5-6 weeks to be ready to cut. Indonesia’s poultry sector continues to demonstrate strong growth, despite industry reports of oversupply. The Government of Indonesia has taken some efforts to regulate the import of breeder stock in order to slow growth and strengthen prices, although the results are negligible.

Based on data held by the Ministry of Agriculture until September 2019, the demand for broiler meat in 2019 is 3,251,745 tons or an average of 270,979 tons per month. Meanwhile, the supply for broiler meat in 2019 is 3,829,663 tons or an average of 319,139 tons per month. From these data there is a surplus of 577,918 tons or 17.77% during the 2019 period.

According to survey of the Directorate of Processing and Marketing of Animal Product, that based on monitoring of Market Information Service, on June, 2019, national average price per KG live bird (LB) is IDR 20,216, while the average price on Java Island is around IDR 11,327, and in Central Java and East Java are only around IDR 8,845 and IDR 10,736. While the price per KG of chicken meat (carcass) in Java Island reach an average of IDR 30,808, and at Central Java and East Java reach from IDR 29,600 and IDR 25,200, and in Jakarta is IDR 40,000.
The price fall of broilers in Java means that not all of broiler produced by farmers is absorbed in traditional markets. This excess supply occurs due the broiler farmers predicts there will be an increase in demand post-Eid al-Fitr, it turned out that such conditions did not occur so the product becomes abundant, and the second reason is there are excess supply of day old chicks (DOC) in the market as a result of relatively massive importation of grandparent stock (GPS) in the recent years.

The selling behavior of broiler meat of integrator broiler farmers tend to boils down to traditional markets with broiler carcasses and live bird. That situations are vulnerable to create oversupply and profited by certain parties which resulted in a big price disparity between producers and consumers. Business actors in the poultry industry are diverse. Their strength is not balanced. First, the integrator company. In these companies, all business is carried out by integrated companies, from upstream to downstream. Second, companies that produce DOC to on farm. Both companies have strong capital, use modern technology, are vertically integrated, and control the market.

Third, plasma/integrator farmers or partners from the first and second companies. They get easy market access and production inputs (DOC, feed, vaccines, and medicines). Fourth, independent farmers. Usually their business scale is small, using their own capital, low market access, and without direct affiliation with integrated companies. Fifth, intermediary traders (brokers). Brokers are the foundation of all business actors, from independent farmers to integrators, in marketing their livestock products to consumers in traditional markets. Brokers have great power, even dominating, in determining prices in the market.

Integrator companies certainly tend to don't want prices to fall. However, because of its strong position, falling prices may be part of the practice of price war (predatory pricing). Especially if the goal is not to turn off competitors. At present there are 12 poultry conglomerate companies. They repeatedly demonstrated the practice of price war. They can lose for months to destroy competitors. The "burn money" strategy is carried out for the long-term target: to dominate the market. This is evident from two indications. First, a few decades ago, smallholder broiler farmers controlled around 80 percent of the broiler market share, but now only 20 percent. The rest has been controlled by integrators and partners. Second, in the midst of bankruptcy of independent/small farmers, integrators are able to record significant profits. For example, in 2018, Japfa, one of the integrators, earned a profit of IDR 2.17 trillion, up 132.4 percent from profits in 2017. The profit was hoisted by the price of feed and DOC. Thus, the price of falling chicken is compensated by feed and DOC [7].

4. Conclusion

In order to understand why per capita poultry consumption has grown slower than per capita GDP, we have to consider that to some extent, broiler meat can be considered an inferior good, meaning its consumption may decrease, at the margin, as consumers become richer. Beyond a certain consumption level, consumers shift to more “prestigious,” expensive protein sources, such as native chiken meat or beef. Indonesia’s broiler sector continues to demonstrate strong growth, despite industry reports of oversupply. The government has taken some efforts to regulate the import of GPS in order to slow growth and strengthen prices, although the results are negligible. Some government efforts to regulate broiler business:

a. Integrator producers are asked to maximize the capacity of chicken slaughtering at RPHU and then store it in cold storage at least 30% of production.

b. Business actors/integrators are asked to make DOC production planning properly and correctly by considering market needs based on the balance of supply and demand.

c. The Ministry of Agriculture requests that all business actors and integrators can send correct and transparent data to the online reporting system at the link http://bitpro.ditjenpkh.pertanian.go.id/unggas. This is necessary, because the PKH Directorate General will only use data reported online to analyze production and demand.

d. Integrator producers and their partner are prohibited to sell live birds to traditional markets.

e. Integrator producers and their partner are required to cut 100% of their livebirds production in chicken slaughterhouses and sell to modern markets channel.
f. Integrator producers and their partner who have livebirds population of 300 thousand per week are required to have an RPA with a minimum cutting capacity of 50% of production.

g. DOC producers must sell a minimum of 50% doc to independent smallholder broiler farmers at a reasonable price and good quality.

h. Ensuring the availability of corn at reasonable prices, so that independent smallholder broiler farmers can enjoy affordable and reasonable feed prices with good quality.

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