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**THE ABILITY OF THE INDONESIAN DAIRY SECTOR
TO RESPOND TO GLOBAL AGRICULTURAL
TRADE REFORM**

**A thesis presented in partial fulfillment
of the requirements for the degree of
Master of Business Studies in Agribusiness**

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ABSTRACT

Although there has been a considerable increase in the agricultural trade studies since the process of the Uruguay Round, insufficient attention has been given to the contents of a country's individual schedule commitments that are attached to the Round's Agreements, particularly those which are developing country food importers.

This study assesses the ability of the Indonesian dairy sector to respond to global agricultural trade reform resulting from the Round's Agricultural Agreement. Indonesia is among the countries which import dairy products. As required by the Agreement, the Indonesian government is committed to gradually phasing-out the mixing ratio policy which requires importers to absorb local fresh milk, within a 10 year implementation period (1995-2005). From the beginning of 2005 imports of dairy products will be governed by tariff-only protection.

Using unit value differentials and dynamic partial equilibrium analysis, the gradual removal of the mixing ratio operations in the mid-term of the implementation period, *i.e* the year 2000, and at the end of the period, *i.e* the year 2005, was modelled with 1994 as a base. By assessing changes in consumption, production, and trade, as well as prices resulting from the scenarios' simulations over the both period, the different welfare effects of the new solutions and the base situation can be estimated and attributed to the likely gradual removal of the mixing ratio policy. The product focused on in this study comprised local fresh milk and its imported substitutes in producing local wholemilk powder such as skim milk powder and anhydrous milk fat.

The results indicate that even though the expansion, followed by the removal, of the mixing ratio policy is estimated to greatly increase the flows of imported dairy products - particularly the intermediate ones - as the gap between consumption growth and the growth of local fresh milk production seems to widen, Indonesian fresh milk producers are still likely to enjoy greater welfare through improved productivity and local price changes induced by the movements of world dairy prices. Milk processors and consumers would indeed become beneficiaries as well under all scenarios.

In addition, government revenues collected from import tariffs are expected to increase due to increased quantities of imports and changes in world dairy prices. These results leave a wide range of possible choices for the Indonesian government in mapping out dairy trade reform following her commitments in the Uruguay Round.

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