FOOD AND BEVERAGES SECTOR BRIEF

INDONESIA

Country Overview

The Republic of Indonesia is the largest and most populous among the ASEAN countries, consisting of more than 17.000 islands, including several of the largest on earth - the western part of New Guinea, Borneo (Kalimantan), Sumatra, Java and Sulawesi. By land area, Indonesia is the 14^{th} largest in the world, while with over 270 million people, it is the 4^{th} most populous, with Java being the most densely populated island. Indonesia is a presidential, constitutional republic.

The archipelago has been known for its trade routes and valuable goods from at least the 7^{th} century AD. Its natural resources, despite former colonialism and recent exploitation are still vast and rich, which support a diverse agriculture.

In the last decade, Indonesia showed a formidable economic growth, with some remaining threats and weaknesses, that could be important factors during and after the COVID-19 pandemic. In the last quarter of 2019, GDP growth reached 5%, fuelled by government consumption and foreign investments, as private consumption slowed down, and imports fell accordingly. The latest available data showed early signs of downturn of the economy, with exports and imports falling, and consumer confidence declining. The government has adopted two economic stimulus packages in February and March 2020, fighting the consequences of the pandemic.

The economy likely contracted sharply in the second quarter of 2020 due to containment measures at home and abroad. Retail sales were down around 20% in May, and the Central Bank expects a further double-digit decline during the year, suggesting depressed private consumption. In addition, the manufacturing PMI was deep in contractionary territory throughout the quarter amid soft output and new orders. Moreover, administrative and communicative difficulties have hampered the rollout of the government's US$ 49 billion stimulus package, likely accentuating the downturn. While economic conditions should have improved at the tail end of Q2 and heading into Q3 thanks to the easing of social distancing restrictions in June and recoveries abroad, elevated new COVID-19 cases continued to dampen momentum.

The latest available macroeconomic indicators are shown in this table, with the note that most of the experts believe that after the COVID-19 crises, the Indonesian economy will find its way back to growth again.

Indicator	Population (million)	GDP per capita (USD)	Economic growth (GDP annual variation, %)	Inflation rate (%)	Trade balance (billion USD)	Exports (billion USD)	Imports (billion USD)
2016	258	3,607	5.0	3.0	9.5	145	136
2017	261	3,885	5.1	3.6	11.8	169	157
2018	264	3,946	5.2	3.2	-8.7	180	189
2019	267	4,194	5.0	2.6	-3.2	167	171

Sector Overview

Different investment promoters describe the Indonesian food and beverages industry in largely the same way, as a 'promising industry' and an 'over-achieving sector', which can be regarded as an optimistic outlook that also applies for the post-COVID-19 world. This has resulted from the following realities and trends of the country:

- **Demographics:** Indonesia has a young population of more than 260 million people, with the employment and consumer markets continually growing. This makes the industry promising even in the near future.

- **Natural resources:** the archipelago, with its inexhaustible diversity of natural resources can sustain a larger production of raw materials domestically.

- **Government's efforts** to keep raw materials available: all manufacturers who import necessary raw materials are exempt from import duties.

- **Supportive environment for innovation:** the Ministry of Industry has expressed support and need for innovation in the food and beverages sector, as a way to stay competitive on the global market.

- **Ability to adapt industry 4.0:** the food and beverages industry is ready to adapt industry 4.0. technologies, with the performance of the food manufacturing sector showing outstanding results.

According to the Ministry of Industry, in 2019, the food and beverages sector was among the top five industries with annual growth of around 9% and even higher increases in investments in food manufacturing, with 11% growth, year-on-year. The sector is the second largest contributor to the national GDP after oil- and gas.

The food and beverages market is estimated to have amounted to US$ 235 billion in revenue in 2020, with bread and cereal products as the largest segment.

Bread and cereals

The bread and cereal products segment includes fresh bread and bread rolls, as well as rice, pasta, breakfast cereals, and other cereal products such as flour, baking flour, semolina, couscous, and bulgur. The largest wheat end-product segment in Indonesia are instant noodles, followed by bread and baked products. Almost twice as much wheat is used to supply the instant noodle consumption compared with bread consumption.

The whole bread and cereals segment amounted to US$ 42.7 billion in 2020, and a slight growth of approximately 1.3% per annum is expected in the near future. The average per capita consumption of bread and cereal products stands at around 130 kg.

Compared to instant noodles, bread and other baked goods are treated as premium snacks, which are eaten for pleasure rather than satiation. In future, the segment is expected to be split into 'everyday cereal products' and 'premium breads and bread-like-snacks'.

Confectionery and snacks

Snacks are a regular part of people's day, and this market segment is as large as vegetables and fruits. The expected growth rate is 2-3 times higher than that of meat or fruit segment, 6.6% annually, until 2025.

The confectionery and snacks segment covers sweet, savoury, and salty foods such as chocolate confectionery, sugar confectionery, ice cream, preserved pastry goods, and cakes, as well as potato chips, tortilla chips, flips, pretzels, cookies and crackers. Local production and imports are growing neck and neck. Malaysia, Thailand, Italy, Germany and Korea are the largest exporters to Indonesia, but the increase in cereal imports has also fuelled local production.

Vegetables and fruits

The frozen vegetables segment is growing slightly faster than the fresh segment, although in terms of revenue it is still smaller. It is expected that fresh frozen vegetables will slowly become more popular among the consumers, as the current level of consumption, at 10.9 kg per capita per annum, is very low in comparison with other countries in the region. The fresh and processed vegetables market combines approximately US$ 26-27 billion in revenue, with an expected annual growth lower than that of the GDP. The average per capita consumption was 72.4 kg in 2020.

The processed and frozen nuts segment has the strongest outlook, despite having the smallest market size, at US$ 880 million. However, the segment is predicted to grow 5% annually and the per capita consumption is expected to increase from the current 1 kg.

Dairy and Dairy Products

Indonesia's annual milk consumption is 16.62 litres per capita, which is still below the ASEAN regional average of 20.58 litres per capita, although the volume of milk consumption is expected to grow between 2020-2023. The demand for dairy products is also expected to grow by approximately by 5% annually, resulting from increasing health awareness and higher-income consumers. The majority of dairy supply in Indonesia is used in industrial production, with only a third used for direct dairy consumption, and even less is used for animal feed. The overall national demand is around 4.5 million tonnes, but local production can only supply less than 1 million litres, with imported products filling the gap. Australia and New Zealand are the main exporters, but intra-ASEAN trade is also increasing slowly.

Packaged dairy products, mostly cheese and yoghurt, are growing in popularity as consumers' awareness of their nutritional value is rising. The most popular retail products in this segment are cheddar and parmesan-type cheeses, fortified and flavoured UHT-milk drinks, fortified milk powder, condensed milk and dairy-based drinking yoghurt.

Meat and Processed Meat

Local poultry production sufficiently satisfies the demand for whole chicken with bones. Imported chicken is used mainly for industry purposes, usually in the form of mechanical deboned meat (MDM), which is very rarely supplied by local production. Poultry remains the top protein source in Indonesia, and the total national meat productions is 2/3 poultry.

Between 2011 and 2016, Indonesia saw the highest growth in the processed meat segment among developing countries, with market grew to 26.7% in 2016. For comparison, the second highest growth was in India, 22%, followed by Viet Nam, 15.5%. Since then, the pace of growth has somewhat slowed down, but this is still a very lucrative segment for local and foreign investors.

Other segments in this category include beef, veal, mutton, goat and other fresh meat, as well as processed meats, such as different types of ham, bacon and cold cuts.

Fish and processed seafood

One of the most important social policies of the Indonesian government is to improve the living standards of fishermen and coastal communities based on fishing and aquaculture. The plan to boost this sector includes opening up several sub-sectors in the fish processing industry to foreign investments, including the provision of fishing equipment, storage and cold storage, modern ships and access to financing.

The total annual revenue from fish and processed seafood segment's is approximately US$ 23 billion. The market is expected to grow 2.1% year-on-year until 2025. The average per capita consumption in 2020 was 6.0 kg, which is a relatively low figure compared to other ASEAN countries, but is also due to the size of the market in Indonesia being much bigger than in neighbouring countries, and it therefore still remains a lucrative sector. Looking only at processed fish, such as all types of canned, dried, smoked fish and seafood, the expected annual growth is 3.5% and per capita consumption is expected to exceed the current level of 2.7 kg. .

Non-alcoholic drinks

The non-alcoholic drinks market includes bottled water, soft drinks and juice. The market for non-alcoholic drinks is includes retail sales for at home consumption and on-premise or foodservice sales for out-of-home consumption. The at-home market, also called off-trade market, covers all retail sales via super- and hypermarkets, convenience stores or other similar sales channels. The out-of-home market, also called on-trade market, away-from-home market or HORECA, encompasses all sales to or via hotels, restaurants, catering, cafés, bars and similar hospitality service establishments.

The segment's revenue amounted to US$ 23.3 billion in 2020 and the growth potential of this market is considerable, with pre COVID-19 annual revenue growth at 8%. The largest sub-segment is soft drinks, accounting more than half of the revenue from non-alcoholic drinks.

One particular product group, with a prominent market opportunity and growth is instant drinks. Since 2016, per capita consumption of most types of instant drink grew over 60%. Within this segment, ready to drink (RTD) tea is the most popular drink among Indonesian consumers, followed by RTD juice, health and energy drinks, and carbonated drinks.

Alcoholic drinks

The alcoholic drinks segment shows even higher growth potential than non-alcoholic drinks, with US$ 12.9 billion in revenue in 2020 and an annual revenue increase of 9.1% expected until 2023. Wine sales are driving this segment, but there's a continuous risk that regulations and prohibition-laws in certain areas may suddenly affect alcohol import and consumption.

Although there is no general prohibition on alcohol, one key challenge for alcohol producers is the Trade Regulation No. 06/M-DAG/PER/1/2015 on the "Control and Supervision of Procurement, Distribution, and Sale of Alcoholic Drinks". From 16th of April 2015, this regulation bans the sale of alcoholic beverages in all Indonesian minimarkets and kiosks.

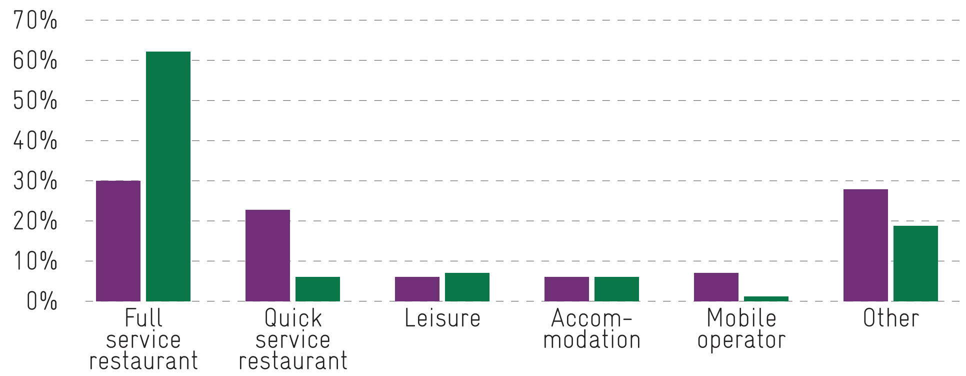
There is significant alcoholic drink, especially beer, production in Indonesia, with PT Multi Bintang being the largest domestic brewery, followed by Anker Beer and Bali Hai. Global brands such as Diageo, Pernod Ricard or Bacardi are also present in the country.

Food Service

The food service segment in Indonesia is very diverse: from high-end international restaurants to local family-owned kiosks (warungs) and street vendors. The first category is limited to major cities and tourist destinations like Bali. Small-scale foodservice operators, and even larger, locally owned establishments are very price sensitive, especially in terms of imported products.

The Indonesian food service market is forecast to grow by 5% within the three years post-COVID-19. Strong growth is fuelled by continuing urbanisation, rising incomes and tourism. The evolving e-commerce sector is also driving the food service market. Gojek and Grab are the leading players expanding home delivery services.

Proportion of outlet number and value by key foodservice channel



Regulations

Tariffs

Indonesia's average most-favoured-nation applied tariff is 6.9%. This rate is not too stable, and in the last five years Indonesia increased its applied tariff rates for a wide range of agricultural and food products such as milk products, animal and vegetable oils, fruit juices, coffee and tea. These steps are clearly intending to hold off foreign competitors.

The simple bound tariff rate is different, and much higher than the applied tariff: more than 1300 agricultural products have the bounding tariff of over 40%. Tariffs on fresh potatoes are bound at 50%, although the applied rate is only 20%. The high bound tariff rates, with unexpected and frequent changes in applied rates, create uncertainty for foreign traders seeking to enter the Indonesian market.

Indonesia, on the other hand, has a very extensive preferential trade relationship with many countries. Most importantly, duties on imports from ASEAN countries generally range from 0-5%, except items on the exception list. On ASEAN or bilateral basis, Indonesia also provides preferential market access to Australia, China, Japan, Korea, India, Pakistan and New Zealand.

As extensive documentation is needed prior to importation of goods, it is advisable to use local custom brokers' services, as they are acquainted with the procedures and required format of documentation. The process of providing the documentation includes a requirement that the importer notifies the customs office prior to the arrival of goods and submits import documents electronically through the electronic data interchange (EDI) in a standardised format placed on flash drives. In addition to providing the import documentation, the Custom Office will conduct physical inspection of imported goods.

Non-Tariff Measures

Non-tariff measures are legal tools of a country's trade regulation, other than ordinary custom tariffs. These measures have an economic effect on international trade in goods, especially in quantities and prices, or both. Not all of these legal instruments work as a barrier, but many of them can keep foreign SMEs away from the market entry.

The three main categories of NTMs:

- Measures imposed on imports, such as import quotas, prohibitions and custom procedures and import administration related fees
- Measures imposed on exports, like export taxes, quotas, or subsidies
- Measures imposed internally on the market, in the domestic economy.

Indonesia is among the top ten countries in terms of the quantity of imposed non-tariff measures.
The most commonly used types are:

- Registration requirement for importers, often with traceability information requirements
- Inspection requirements like pre-shipment inspection
- Export registration and export price control measures
- Product quality or performance requirements
- Licensing or permit requirement.

Regarding animal products, 100% of the imported goods are affected by non-tariff measures, while in vegetables it is 99.27%.

In Indonesia, no fewer than 14 different government agencies can issue non-tariff measures, and complying with all regulations is a challenge for smaller traders or producers. The total number of non-tariff measures was 638 in 2018, according to a recent study. Of these 14 government bodies, the Ministry of Trade, the Ministry of Industry and Ministry of Agriculture are the most active, responsible for almost 90% of the relevant regulations. A further difficulty from the traders' point of view is that Indonesia is imposing multiple NTM on many goods, making compliance even more complicated. A local advisor or logistic partner might be necessary for most foreign companies.

Packaging and Labelling Requirements

Legislation concerning packaging stipulates that it must be free from risks of contamination. There is no mention of any ecological requirements. The 'best before' or 'use by' date must appear on the packaging or the label.

Generally, from 2013, the use of any other language than Indonesian is prohibited, and units of measure must be the metric system.

Other compulsory requirements are:

- ‘Made in’ geographical information is compulsory, with a sign indicating the region of origin.
- Labels must be in Bahasa Indonesia, and include the following information: name of the product, list of ingredients, net weight or volume, name and address of both the producer and the importer, the ‘use by’ date and the logo that shows if the product is halal.
- Nutritional information is optional.
- All imported meat, with the exception of pork, must be halal.
- Some distributors or end-buyers, restaurants, also require the halal label.

Food additives

Food products that are manufactured using food additives must comply with the Ministry of Health regulation 033/12. In addition, food additive production, import and circulation also requires a special licence from the National Agency for Food and Drug Control.

Market Entry

Setting-up a business in Indonesia

It is not necessary to set-up a legal entity in Indonesia to sell agri-food products, but the country is offering excellent investment opportunities in the broader agricultural sector, especially in the field of technology transfer, agro-IT and the food processing industry.

Under the terms of Indonesia's Law No. 25/2007 on investment, a foreign investment in the country is defined as an activity conducted by a foreign investor for the purpose of running a business within the territory of Indonesia. The legal entity through which a foreign person, foreign company, or foreign government body can conduct a business and generate revenue is called PT PMA. The establishment of a PT PMA is regulated by Law No. 40/2007 on Limited Liability Companies (Company Law). Such a company can either be partially or 100% foreign owned.

Traditional agri-food distribution

Cruising the streets of any city in Indonesia, one might think that every house has its own grocery. An official estimation showed that there were 4,589,800 traditional small outlets. Convenience stores, supermarkets and even hypermarkets are growing in large numbers, but the market is still dominated by traditional groceries and wet markets. Exporters cannot usually reach this segment directly, and often a chain of importers and distributors is the only method simple or processed food can reach consumers. The overall packaged food market is growing, and it was expected that it will reach US$ 40 billion by 2021, though growth rates have been affected by the COVID-19 pandemic.

Convenience stores are expanding rapidly in Indonesia and differ from Indonesian minimarkets in that they offer fewer SKUs than minimarkets while offering ready-to-eat foods and a dining area. Minimarkets are in direct competition with traditional independent small grocers - warungs, on the basis of price, cleanliness, food safety, and comfort.

Hypermarkets and supermarkets offer a wide range of food and beverage products and are generally located as anchor stores in shopping centres. Indonesian middle- and upper-income level consumers are increasingly shopping at these stores. Hypermarket and supermarket retailers usually contain in-store bakeries, cafés and restaurants, and prepared meals, with grocery products typically contributing about 65% of total sales.

Minimarkets, convenience stores, and other shops carry a wide range of convenience food items such as readymade meals, bakery products, processed foods, ice cream, and beverages. They sometimes carry a limited offering of fresh fruits and are open 24 hours. These stores are found throughout Indonesia's major urban centres and are also co-located with gasoline stations, such as Bright, Circle K, Bonjour, Indomaret and Alfamart; and railway stations. The number of minimarkets and other small stores will continue to grow.

E-commerce

There were 175.4 million internet users in Indonesia in January 2020, 17% more than in the previous year and giving an internet penetration rate of 64%. More importantly, there were 338.2 million mobile connections in Indonesia at the same moment, which is equivalent to 124% of the total population. These figures show how great potential e-commerce has in Indonesia, which is why most of the global IT-companies, as well as local heavyweights are competing for market shares. Still accounting for only a few percentages of all sales, e-commerce is expected to expand with double digits in the coming years. The only obstacle in front of further growth is the state of infrastructure: delivery, especially in geographically remote areas is very difficult.

The COVID-19 crisis may give a new momentum to the agrifood e-sales, as it is now essential for retailers and producers to sell their products through e-commerce platforms in order to survive the lockdown. Online shopping is starting to become habitual for consumers, so this momentum might keep up for years.

Trends and Recommendations

Indonesia is likely to be the 4th largest economy in the world by 2050. It is expected that leading up to 2030, the food and beverages sector, especially food manufacturing, will grow in higher figures than the whole national economy of Indonesia.

There are many segments and industry branches where it is important to keep momentum, therefore a Country Strategic Plan was adopted by the Indonesian government. Recommendations for increased development include:

- Reducing severe food insecurity by 1% per annum, prioritising the most vulnerable people and regions.
- More Indonesian consumers should adopt a more balanced diet; therefore, a promotion campaign is needed to show undernutrition and problems related to being overweight.
- The emergency logistics capacity should be upgraded by enhancing emergency preparedness and response through the establishment of an integrated network of logistics hubs.

- **Further development of e-commerce**
  The COVID-19 pandemic showed a promising future in e-commerce for both the food retail and food service segments. The next few years will be critical in terms of further development: can logistics keep up with increasing demand, what will be the long-term effect of mass e-retail in terms of prices and product availability, and how can importers and distributors adapt to a different model?

- **Innovation and following global trends**
  Food production can no longer survive solely by relying on traditional methods. Global trends, such as organic production as a preferred way of manufacturing, the increased attention to allergens, and the unstoppable growth in the functional food segment, should all be considered.