

EIBN Sector Reports



Food & Beverage



CONTENTS

Methodology	3
Executive Summary.....	4
I. Introduction.....	6
II. The Food and Beverage Industry in Indonesia	7
2.1. Strengths & Positioning of the F&B sector in the Indonesian economy	9
2.2. The Indonesian Food Market	10
2.2.1. The Indonesian Food Industry in the Global Market	10
2.2.2. Indonesia's Agriculture Trade.....	12
2.2.3.Exports.....	14
2.2.4.Consumption.....	14
2.2.5.Packaged foods	15
2.3. The Indonesian Beverage Market	16
2.3.1. The Indonesian Beverage Industry Position in the Global Market	16
2.3.2. Non-Alcoholic Beverages	16
2.3.3. Alcoholic Beverages	19
2.4. Key Players	20
2.4.1. Local Companies	21
2.4.2.Foreign Companies	22
2.4.3.Retail Sector	23
III. National policies and relevant regulations	24
3.1. Food-related laws	24
3.2. Labeling	24
3.3. Halal Regulation	25
IV. Future Trends and Remaining Challenges.....	26
4.1. Future Trends	27
4.1.1. Demand and Growing Population.....	27
4.1.2. Changing food consumption patterns.....	28
4.1.3. Purchase power / Money spent per person / Growing confidence.....	29
4.1.4. New consumption behaviors: ready to pay a little extra for quality	30
4.1.5. Educated consumers are more aware of packaging labels	31
4.1.6. Growth of Modern Markets compared to traditional markets	31
4.1.7. Growth of domestic tourism.....	31
4.1.8. Halal Logistics Business Opportunities	32
4.2. Remaining Challenges.....	32
4.2.1. Partnerships & Foreign Trade Agreements.....	32
4.2.2. Infrastructures: The cold chain store system and food security	33
4.2.3. Rising cost of commodities.....	34
4.2.4. Product specificities	34
4.2.5. Market Access	34
V. Conclusion.....	35
VI. Relevant contacts.....	37
VII. Events.....	38
References	41
Disclaimer.....	42

Methodology

This sector report aims to highlight the potential of the Food & Beverage sector in Indonesia. It is an overview of the business opportunities for European companies and comprises the characteristics of the sector, the structure of the market, the key players, future trends and existing challenges.

In the preparation of this report, EIBN made use of a variety of sources and methods, which are briefly explained herein. General information regarding the Food & Beverage industry was retrieved from publicly available sources, such as: articles from Jakarta Post, the Global Business Guide Indonesia, the Indonesian Commercial Newsletter, USDA, and the official website of Indonesian Statistics Center (BPS), the Indonesian Investment Coordinating Board (BKPM), the Ministry of Trade and Industry of the Republic of Indonesia, World Bank and the World Trade Organization.

Sources for figures mentioned in retrieved images were not repeated below.

When the latest official data was not yet publicly available, we reverted to the latest data on hand. For example, for data and figures still unavailable for 2013 and 2014, the data and figures for 2012 and 2011 were used. Moreover, any data included has been specifically mentioned in the report. Other information provided was gathered from trade publications.

This report has been developed using data available until the first quarter of 2014.

Executive Summary

The purpose of the following report is to present an overview of the Food and Beverage Industry in Indonesia and to highlight potential opportunities for European businesses. The Food and Beverage market is a complex but inevitably relevant industry in the Indonesian economy. This important role is reflected in the sector's substantial contribution to the economy in terms of employment and GDP, which are intrinsically related to the country's large population and its ongoing growth.

The sector's important role in the country's yearly GDP, with a contribution of 7,42% and a contribution to the industrial manufacturing output of 31,32%, makes it an undeniably relevant industry for the local economy. Furthermore, the market structure of this industry is composed of local as well as foreign companies: key players such as Indofood and Garuda Food as well as Danone and Nestlé. In 2012, the numbers of manufacturing companies in the Food and Beverage Industry amounted to 5,865 companies with 832,830 employed workers. The retail sector is made up of both foreign and local companies, who benefit from a growing interest for modern retail stores, even though traditional markets remain important.

In addition to its strong domestic capacity, this sector also remains one of the main industrial development priorities set by the Indonesian government, as well as an important sector for both foreign and domestic investments. Regarding recent imports of Food and Beverage to Indonesia, the EU has had a relatively modest growth of 2.8%, compared to other countries such as the USA, Canada or Australia, who grew by 27%. The Food and Beverage Industry is estimated to keep growing, driven by demanding consumers.

Regarding agricultural food production, Indonesia has not yet reached its full potential, but is expected to become one of the world's largest food suppliers. The country mainly produces rice, corn and soybeans. However, despite this local production, the country also still has to import significantly in order to meet local demand. This is especially true in the case of wheat, although this is partly motivated by the unfeasibility of this producing this commodity locally due to the tropical climate of Indonesia. Conversely, local consumption growth towards packaged food is mainly driven by increasing urbanization, growing health consciousness, and changing lifestyles.

For the Indonesian beverage market, the prospects remain positive, motivated by increasingly-demanding consumers. With a population made up of a Muslim majority, Indonesia's soft drink industry share is substantial. The top 3 Indonesian favorite consumptions are hot coffee, tea and iced tea drinks. The situation is different regarding alcoholic beverages, whose consumption is conditioned by specific legal and cultural characteristics. It is important to note that this sector is classified as closed to investments, and is also subject to heavy taxes and excises duties. Nevertheless, there is a potentially profitable demand from a niche of local consumers, as well as from expatriates and the large number of tourists who visit Indonesia.

Future prospects and trends regarding the Food and Beverage sector remain broadly positive for a number of reasons. Upward demand coupled with a young, growing Indonesian population result in positive growth. To the latter, we add the growing confidence of Indonesian consumers and increased urbanization, developments that should support the industry growth. Moreover, other trends such as a growing awareness of healthy lifestyle products, a preference towards less packaging and the

shift of consumers towards modern retail stores cannot be overlooked. The growing Indonesian tourism industry will also help to boost the Food and Beverage Industry, leading to a more demanding Horeca sector.

Two main challenges remain when conducting business in Indonesia. Firstly, it is important to take into consideration that cold storage facilities are not fully developed. Secondly, many national policies regulate the trade of Food and Beverages and many requirements have to be complied with such as those regarding Halal food or labeling.

In conclusion, the Food and Beverage Industry remains promising, motivated by overall national growth and demographic and consumption patterns. However, challenges and weaknesses still remain in the industry.

I. Introduction

In a world of globalization and undergoing an economic crisis, with fast growing markets and threats of new rising competitors, companies have had little other choice than reacting fast in order to survive. Therefore, many companies have been conquering international markets, and more precisely emerging markets that display important growth potential in terms of economy, population and city infrastructure. During the last century, food consumption patterns around the globe have been constantly evolving, accompanied by changes in demography, noted particularly in emerging markets such as Indonesia. Developments in the population composition have brought many challenges to the Food and Beverage Industry, such as food safety, urbanized and better-off consumers and health awareness. Indonesia, home to the world's fourth largest population, has been largely influenced by rapid economic growth, triggering a shift in food and drinks consumption and an evolving retail sector.

In this respect, the main objective of this Market Study will be to present the industry, while highlighting its existing opportunities and challenges for European companies. In order to have a closer look into the Food and Beverage Industry of Indonesia, we will offer a general overview of the industry. We will then focus more precisely on each of the sub-sectors. More specifically, we will look into the market structure, as well as the key players acting in the industry. Future prospects and opportunities in the Indonesian market, together with the national policies and regulations, will also be briefly analyzed. Finally, we will delve into the challenges that persist for the Food and Beverage sector in the Indonesian market, resulting in information which has the potential to be of the utmost interest for European businesses.

II. The Food and Beverage Industry in Indonesia

The Food and Beverage Industry (F&B) plays an important role in the Indonesian economy. As shown in Table 1 below, the F&B sector's output has contributed to 7.42% of the GDP, as well as 31.32% of the total industrial manufacturing output. In addition, this sector is also of vital public concern to the Indonesian population.¹ In 2012, the Food & Beverage sector recorded a growth of 13.98%, while remaining at 8.2% in 2013, a level still surpassing the target set by the Strategic Plan of Ministry of Industry in 2010-2014 (7,9% annually).²

Furthermore, Table 1 displays the contributions of each industrial sector to the national GDP for the period 2010-2013, showing that the Food, Water and Tobacco sector accounted for 4% of the national GDP, making this sector one of the top contributors to the performance of the non-oil and gas industry.

However, despite the importance of the contribution of this industry to the Indonesian GDP, a large percentage of consumed food and beverages are imported. As can be observed on Table 2, imported consumer goods, as well as imported raw material F&B products, are significant every year. Even though the number of imported consumer goods has decreased between 2012 and 2013, raw material imports grew over the same time period.

Table 1: Gross Domestic Product at Current Market Prices By Industrial Origin (Billion Rupiahs), 2009-2013¹

Industrial Origin	2009	2010	2011	2012*	2013**
1. Agriculture, Livestock, Forestry and Fishery	857196.80	985470.50	1091447.10	1193452.90	1311037.30
2. Mining and Quarrying	592060.90	719710.10	876983.80	970823.80	1020773.20
3. Manufacturing Industry	1477541.50	1599073.10	1806140.50	1972523.60	2152592.90
a. Oil and Gas Manufacturing Industry	209841.10	214432.70	253078.60	254556.70	266793.60
b. Non-Oil & Gas Manufacturing Industry	1267700.40	1384640.40	1553061.90	1717966.90	1885799.30
1). Food, Beverages and Tobacco Industries	420363.30	465367.90	546752.00	623194.60	674269.40
2). Textile, Leather Products and Footwear Industries	116547.00	124204.20	143385.20	156634.10	172422.50
3). Wood and Other Products Industries	80197.90	80541.60	84481.40	85495.40	94651.10
4). Paper and Printing Products Industries	61154.60	65822.20	69339.60	67109.50	72781.30
5). Fertilizers, Chemical and Rubber Products Industries	162879.20	176212.40	189700.00	216863.80	230236.10
6). Cement, and Non-Metallic Quarr Products Industries	43530.70	45514.50	50790.50	57996.30	63973.80
7). Iron and Steel Basic Metal Industries	26806.60	26853.90	31101.10	33212.70	35746.10
8). Transport Equip.. Machinery & Apparatus Industries	346403.00	389600.10	426233.70	465889.10	529828.80
9). Other Manufacturing Products	9818.10	10523.60	11278.40	11571.40	11890.20
4. Electricity, Gas & Water Supply	46680.00	49119.00	55882.30	62234.60	70074.60
5. Construction	555192.50	660890.50	753554.60	844090.90	907267.00

¹BPS Statistik Indonesia (Growth rate has been calculated from the figures provided in the table)

² Op. Cit.

6. Trade, Hotel & Restaurants	744513.50	882487.20	1023724.80	1148690.60	1301506.30
7. Transport and Communication	353739.70	423172.20	491287.00	549105.40	636888.40
8. Finance, Real Estate and Business Services	405162.00	466563.80	535152.90	598523.20	683009.80
9. Services	574116.50	660365.50	785014.10	889994.40	1000822.70
Gross Domestic Product	5606203.40	6446851.90	7419187.10	8229439.40	9083972.20
Gross Domestic Product Without Oil and Gas	5141414.40	5941951.90	6795885.60	7588322.50	8416039.50

Source: Badan Pusat Statistik Indonesia, web site 2014

Table 2: Development of Goods Imports by Groups in Million USD\$ (2009 – 2014)

NO	Sector	2009	2010	2011	2012	2013	Trend(%) 2009- 2013	Change(%) 2013/2012	January	
									2013	2014
	TOTAL	96.829,2	135.663,3	177.435,6	191.689,5	186.628,7	18,03	-2,64	15.450,2	14.915,5
I.	CONSUMER GOODS	6.752,6	9.991,6	13.392,9	13.408,6	13.138,9	17,65	-2,01	911,2	986,5
1.	Food and Beverages Mainly for Household (primary)	955,6	1.166,9	1.847,8	1.541,4	1.385,6	10,75	-10,11	84,9	104,7
2.	Food and Beverages Mainly for Household (processed)	1.367,3	2.439,6	3.626,1	2.836,9	2.443,0	14,02	-13,89	140,0	163,9
3.	Processed Fuel and Lubricants	591,2	970,3	1.625,5	1.435,3	1.350,9	22,68	-5,88	128,2	103,9
4.	Passenger Car	451,2	918,1	1.029,0	1.515,3	1.192,4	27,70	-21,31	98,3	59,2
5.	Transport Equipment not for Industry	228,3	254,3	286,7	350,3	386,1	14,69	10,22	14,2	18,3
6.	Consumption Goods Durable	818,3	1.075,0	1.288,3	1.584,7	1.599,5	18,87	0,94	115,7	129,5
7.	Consumption Goods Semi Durable	941,1	1.367,7	1.774,2	1.953,9	2.164,0	22,41	10,75	152,4	177,4
8.	Consumption Goods Non Durable	1.189,4	1.541,5	1.699,0	1.926,5	2.165,1	15,27	12,39	148,2	159,4
9.	Unclassified Consumption Goods	210,3	258,2	216,5	264,4	452,2	16,82	71,04	29,3	70,2

II.	RAW MATERIALS	69.638,1	98.755,1	130.934,3	140.126,0	141.957,9	19,41	1,31	11.928,6	11.297,6
1.	Food and Beverages Mainly for Industry (primary)	2.640,9	3.074,8	4.186,7	4.101,0	4.354,4	13,75	6,18	277,0	345,4
2.	Food and Beverages Mainly for Industry (processed)	1.582,0	2.165,8	3.330,2	3.349,3	3.685,2	23,70	10,03	313,8	243,6
3.	Raw Materials for Industry (primary)	2.901,7	4.539,3	6.813,2	5.639,7	6.299,3	19,33	11,70	568,3	481,4
4.	Raw Materials for Industry (processed)	29.248,8	41.714,3	53.409,6	59.437,0	58.353,6	18,95	-1,82	4.762,7	4.776,3
5.	Fuel and Lubricants (primary)	7.387,3	8.553,5	11.173,5	10.853,3	13.673,1	15,83	25,98	1.187,4	919,9
6.	Fuel	5.135,1	8.464,6	11.962,4	14.061,7	14.839,2	30,08	5,53	1.230,5	1.330,6
7.	Fuel and Lubricants (processed)	5.750,5	9.270,0	15.771,2	15.835,5	14.977,2	27,76	-5,42	1.371,4	1.190,4
8.	Spare Parts and Accessories for Capital Goods	11.000,0	14.815,6	16.937,8	18.126,1	16.803,3	11,06	-7,30	1.484,0	1.394,5
9.	Spare Parts and Accessories for Transportation Equipment	3.991,9	6.157,0	7.349,7	8.722,3	8.972,6	21,75	2,87	733,5	615,5

Source: Indonesian Ministry of Trade

2.1. Strengths & Positioning of the F&B sector in the Indonesian economy

In 2013, Indonesia boasted an economic growth of approximately 6% and remains a very large market for F&B products. In connection with this, the sector was established as one of the industrial development priorities set by the Indonesian government for its potential for both domestic manufacturers and importers or suppliers of processing equipment and (semi-) finished products. The sector has proven to be very resilient during economic downturns and remained amongst the most important markets for many multinational food companies. The reason for the steady performance of the Indonesian market is strongly linked to the particularities of the Indonesian consumers, which are explored further in the section of this paper titled "Future Prospects/Opportunities".

"The turnover of the Food and Beverage Industry has been growing at an average pace of close to 8-9% up to a total of US\$70 billion in 2012. The Indonesian import value for Food and Beverages has increased by an average of 1.3% during 2012. This comes after a bumper year in 2011, when imports grew 30% to a value of US\$5.9 billion".³

"Both domestic investment and foreign investment in the Food and Beverage Industry fluctuated between 2005 to 2011. Domestic investment in the Food and Beverage Industry grew at an average rate of 13.66%, from US\$456 million in 2005

^h<http://www.eibd-conference.com/assets/files/Food%20&%20Beverages%202013/Food%20Beverages.pdf>

to US\$580 million in 2011. Foreign investment realization reached US\$5.7 billion, an increase of 30% year on year”.⁴

“The figures indicate a robust growth of trade and investment in Indonesia’s Food and Beverage sector, creating many opportunities for European exporters of branded and specialty food products and food processing machinery, as well as for suppliers of food ingredients and packaging”.⁵

In 2014, the Indonesian Food and Beverage Producers Association (GAPMMI) has estimated that overall Food and Beverage sales nationwide will rise by 6% to IDR 750 Trillion (US\$61Billion).

The F&B industry continues to face a demanding market environment that requires companies to adjust and actively manage change. The impact of public policy and regulatory changes also affected the sales and performance of companies. Therefore, the adoption of risk policies is important to take into consideration regarding the positioning of F&B.

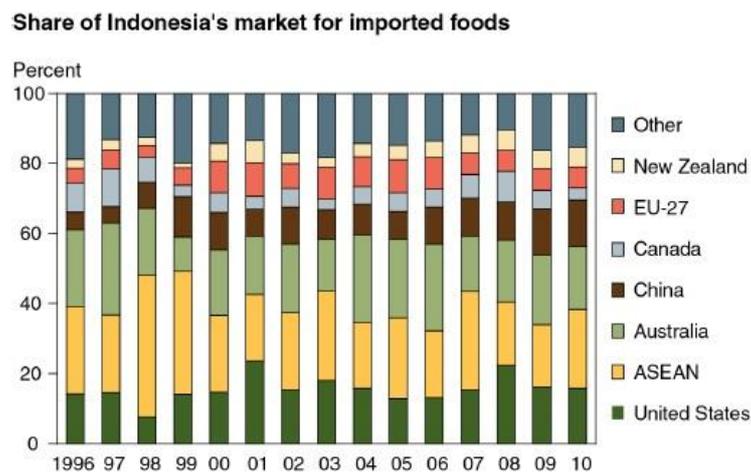
2.2. The Indonesian Food Market

2.2.1. The Indonesian Food Industry in the Global Market

The European Union share of food imports into Indonesia has remained very modest at just US\$180 million in 2011. It has grown at a very low rate of 2.8% on average annually since 2005, whereas imports from the USA, Canada and Australia grew by 27% and imports from Asia by 18% during the same period.

“The Chinese share increased and the EU share fell. Ownership of the modern retail chains does not appear to have translated into an increased tendency to source from the home market in this case. Similarly, the share from ASEAN did not rise, despite the activity of the Southeast Asia-oriented Dairy Farm group in Indonesia.”

Figure 1: Share of Indonesia's market for imported foods (1996-2010)



NZ = New Zealand; ASEAN = Association of Southeast Asian Nations.

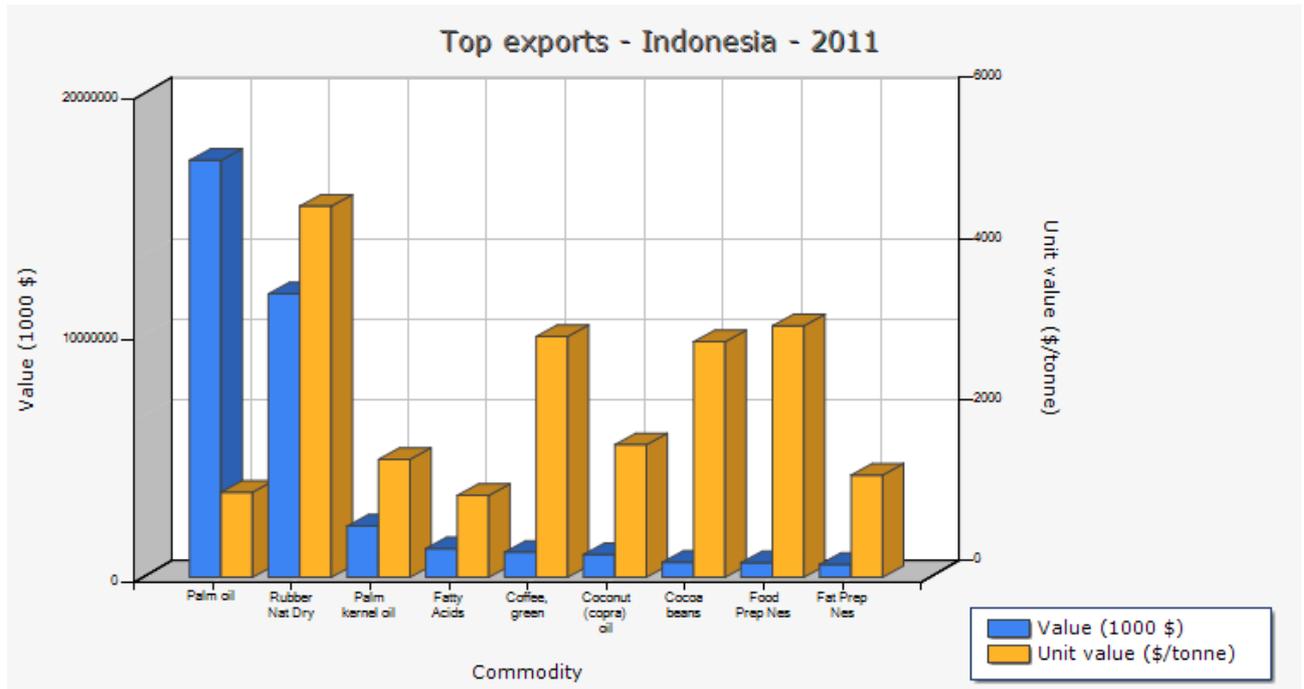
Note: Food imports defined in Harmonized System chapters 2-4, 7-13, and 15-21, less feedgrains (corn and sorghum) and certain inedible products.

Source: USDA, Economic Research Service Calculations, using Indonesia's trade data from the World Trade Atlas

⁴Ibid

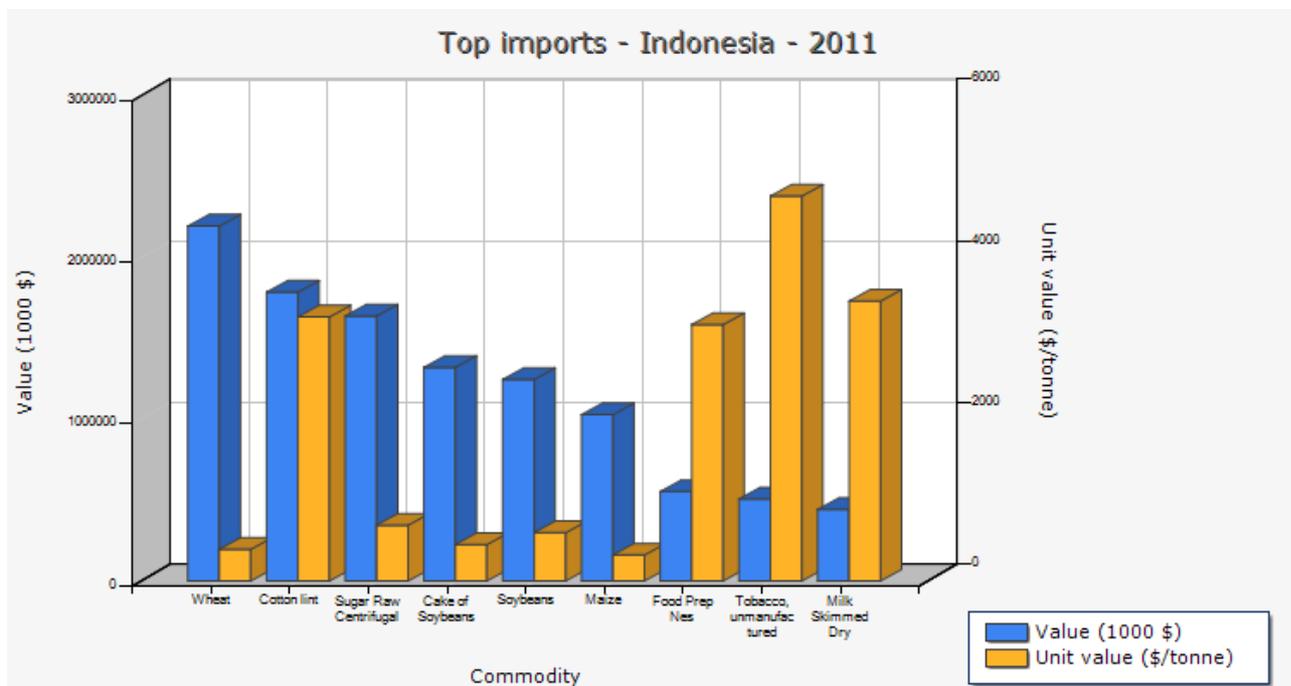
⁵Ibid.

Figure 2: Top food exports of Indonesia (2011)



Source: USDA, Economic Research Service Calculations, using Indonesia's trade data from the World Trade Atlas

Figure 3: Top imports and top exports of Indonesia in 2011



Source: USDA, Economic Research Service Calculations, using Indonesia's trade data from the World Trade Atlas

According to the World Bank, the Food, Beverage and Tobacco Industry in Indonesia amounted to 23% of value added to manufacturing in 2009. As this sector is expected to grow in the coming years, it is expected that related employment should grow at a rate of c.68,000 workers per year (according to *Kelly*, a service company providing workforce solutions)⁶.

2.2.2. Indonesia's Agriculture Trade

As we can observe in Table 1 on page 7, the Agriculture, Livestock, Forestry and Fishery Industry also accounted for a major part of the GDP. Indeed, in 2013, the contribution of this sector to the yearly GDP amounted to Rp1,311,037.30., which represents 14.43% of the national GDP.⁷ In addition to latter, the forecasted growth for the last two years has pointed to an increase in the share of this industry, which recorded a growth of 9.34% in 2012 and 9.85% in 2013.

Rice: In 2012, Indonesia's rice production was already more than enough to meet domestic consumption. Indeed, the local production reached 38,564 million tons for a local consumption of 33,035 million tons. However, 1.5 million tons of foodstuffs from Vietnam were imported that same year in order to strengthen national stock and ensure food security.

Corn: The adoption of a new technology resulted in the growth of Indonesia's corn production, reaching 18.96 million tons in 2012. An objective to reach self-sufficiency regarding corn in 2014 has been outlined.

Soybeans: Indonesia is the second largest soybean consumer in the world. Indonesians consume considerable amounts of tofu and soybean cake, and the US Foreign Agriculture Service estimated that nearly 90% of soybeans are used for tempe and tofu production. Indeed, in 2012, the local production amounted to 851,647 for a local consumption of 2,769,814: therefore, the country had to import soybeans in order to meet the local demand.

Wheat: The tropical climate of Indonesia makes it impossible to produce wheat domestically. Nevertheless, food products based on wheat are part of the day-to-day consumption in Indonesia, as it is the main component of instant noodles, one of the most popular processed foods in rural and urban areas.

In general, the country's production of farm foodstuffs have been increasing and the prospects are encouraging. Harvest areas have expanded year on year. Total harvest areas for paddy fields in Indonesia have reached 13.44 million hectares in 2012, up 237,000 hectares from 13.20 million hectares in 2011. The majority of harvest areas are in Java, totaling 6.17 million hectares (65.9%) and the remainder (7.27 million hectares or 54.1%), are situated outside Java.

Table 3: Imports of Foodstuffs (2008-2012)

Year	Rice		Corn		Soybean	
	Volume (tons)	Value (\$mIn)	Volume (tons)	Value (\$mIn)	Volume (tons)	Value (\$mIn)
2008	289,688	124,142	252,106	76,457	1,169,016	694,746

⁶ http://www.kellyocg.com/Knowledge/Employment_Outlook_2012/Employment_Outlook_2012_-_Indonesia/

⁷ Figures from BPS Statistik Indonesia (Growth rate has been calculated from the figures provided in the table).

2009	250,472	108,154	333,932	69,920	1,265,182	599,072
2010	687,581	360,078	1,521,773	363,160	1,737,528	837,964
2011	267,000	196,179	3,144,421	1,002,243	2,087,986	1,245,665
2012	239,560	140,689	1,687,075	493,362	1,920,490	1,210,848

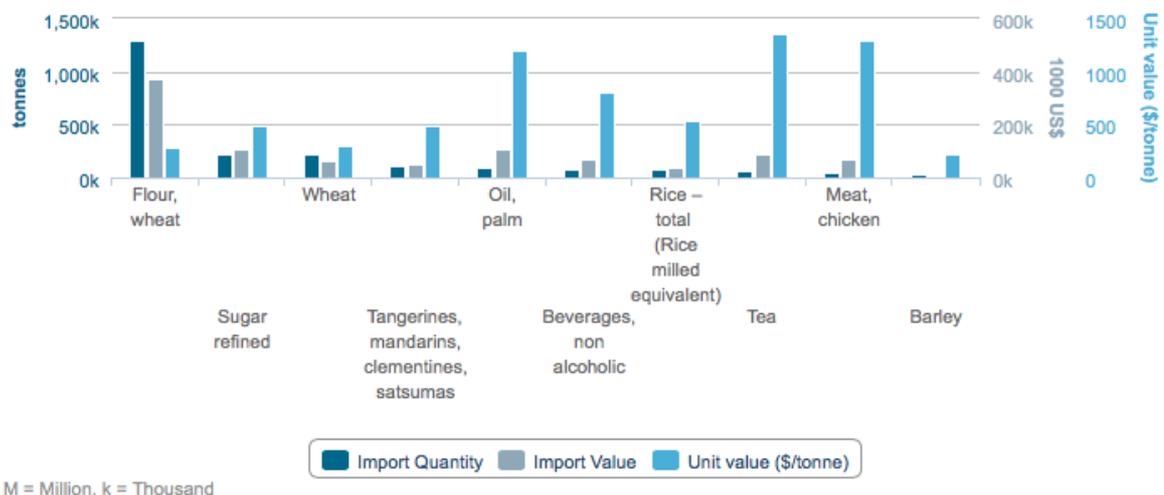
Source: BPS cited on Indonesian Commercial Newsletter Report no.4/2013

In 2012, rice imports totaled 239,000 tons worth \$140 million. Imports come mainly from Vietnam (119,200 tons valued at 63.7 million US\$) followed by Thailand (114,700 tons corresponding to 74 million US\$). The largest imports of soybeans to Indonesia in 2012 came from the United States, reaching 1.8 million tons, followed by Malaysia (56,000 tons) and South Africa (31,000 tons).

Although presently an importer, Indonesia has the potential to become a rice exporter. Indonesia hopes to take part in the program *Feed the World* to meet the world's food requirements.

Regarding wheat: as mentioned above, Indonesia fully relies on foreign exporters to supply its local demand, as it cannot be produced locally. This is the reason why, according to the data from *FAO Stat*, flour wheat is the top imported commodity in Indonesia in terms of value and quantity (See figure 3). This level of imports is considered worrying: Indonesia, is likely to become the 4th largest buyer in the world with 7.2 million tons⁸ of wheat imported for the period of 2013-2014, and 7.1 million tons for 2012-2013, which outpaced the amount that was allocated to agricultural development by the State during the same period.⁹

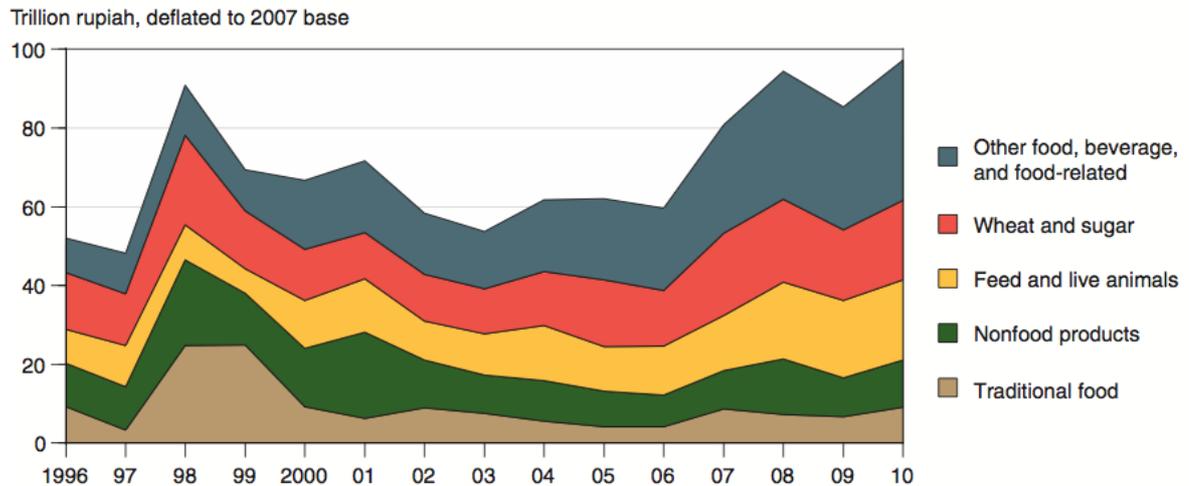
Figure 4: Top 10 Commodities



Source: FAO of the United Nations Statistics

⁸Bloomberg, *Indonesians Buying Bread to Spur Wheat Imports Like Egypt's*, 5th March 2014.

⁹The Jakarta Post, *Indonesia Caught In Wheat Trap*, 11th July 2013.

Figure 5: Indonesia's Agriculture Imports (1996-2000)

Source: USDA, Economic Research Service calculations using official Indonesian trade data in Global Trade Information Services, World Trade Atlas.

Efficient reading of Figure 4 (presented above) might be facilitated if a division is considered between two different categories of products. The first type agricultural commodities, make up more than half the imports, and are generally raw materials still requiring processing by the acquiring companies. These commodities can be sub-divided into four different categories: traditional food (soybeans and rice), non-food products (chiefly cotton), feed and live animals and wheat and sugar.

The other category, "other food, beverage and food related", is becoming increasingly important. It consists of packaged foods, dairy and meat products, beverages, fresh or frozen fruits and vegetables and raw ingredients.

2.2.3. Exports

In 2012, Indonesia's rice exports dropped from 378 to 318 tons, valued at US\$469,000, including 287 tons to Singapore and 19 tons to the United States. Exported amounts of corn and soybean were residual.

Table 4: Indonesia's Paddy, Corn and Soybean Exports (2010-2012)

Year	Paddy		Corn		Soybean	
	Volume (tons)	Value (\$)	Volume (tons)	Value (\$mln)	Volume (tons)	Value (\$mln)
2008	876	864	92.236	21.446	1.025	1.406
2009	2.455	1815	56.795	10.702	446	342
2010	344	452	41.016	9.508	385	339
2011	378	837	9.830	2.974	547	342
2012	318	469	31.390	9.084	2.323	1.594

2.2.4. Consumption

The country's food consumption grows with the growing population. Indonesia's rice consumption reached 33.035 million tons in 2012. Consumption of rice per capita in a population of 245 million in 2012 equates to around 139 kg.

Corn consumption in 2012 reached 20.6 million tons, down 0.8% from 20.7 million tons in 2011. Around 50% of the corn consumption is for animal feed. Soybean consumption in the country reached 2.9 million tons in 2011, down to 2.7 million tons in 2012. Around 50% of the consumption is for soybean cake (tempe) 40% for tofu and 10% for other food products (bean paste, ketchup etc).

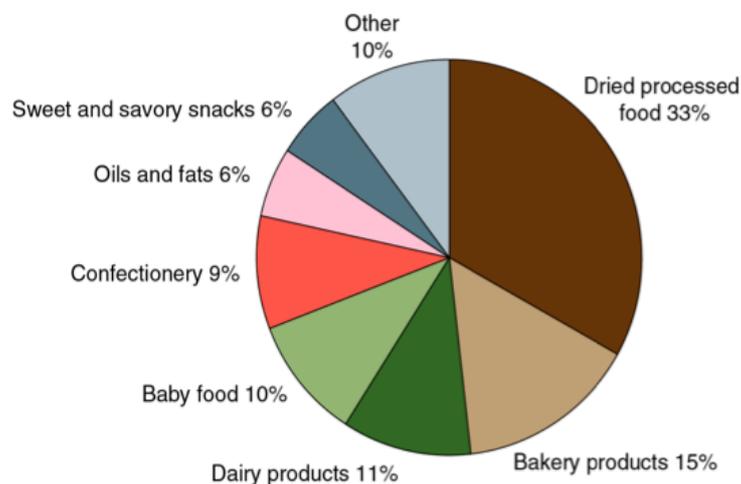
As Indonesia's food system continues to evolve, an increasingly modern food retail sector and changing consumer tastes are likely to increase the market for higher value foods, beverages and food processing and logistics equipment. Some of this increase in market demand will be satisfied by imports, particularly through improvements in the cold chain store system, often implemented by modernized food retailers.

2.2.5. Packaged foods

Consistent with the increased share growth of prepared and miscellaneous categories in the food consumption data, retail sales of packaged food have grown rapidly. The increase in packaged food purchases likely corresponds in part to the urban consumers' need for timesaving convenience and desire for variety.¹⁰ Packaging acts as a partial guarantor of food safety and allows storage for some time.

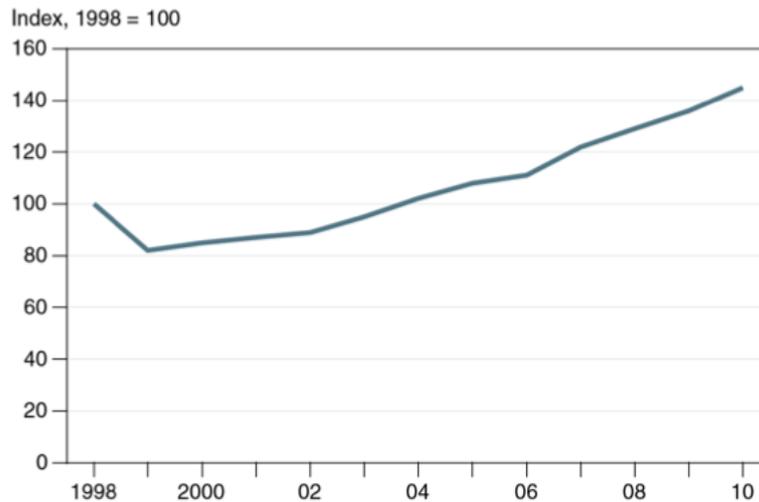
In Figure 5, we can see the most popular packaged foods among Indonesian people. In the top 3, we can find dried processed food, bakery products and dairy products.

Figure 6/7: Packaged Food Sales in Indonesia; Indonesia's Packaged Food Retail Sales (2010-2012)



Source: USDA, Economic Research Service calculations using Euromonitor data.

¹⁰Rada, Nicholas, and Anita Regmi, 2010, Trade and Food Security Implications from the Indonesian Agricultural Experience, WRS-10-01, Economic Research Service, U.S. Department of Agriculture, May, pp. 19.



Note: Index calculated from data in trillion rupiah, deflated to a 2010 base.

Source: USDA, Economic Research Service calculations using Euromonitor data.

The reason for this growing interest in packaged and processed food is urbanization, which is leading to more consumer demand for timesaving, safe food¹¹. Packaged foods are found mainly in modern food retail establishments, for which Indonesian consumers have shown a growing interest in recent years. Indeed, smaller traditional establishments rarely have the infrastructure to store a large variety of packaged and prepared foods and beverages. As modern stores are often better equipped with refrigerators and pay greater attention to food contamination prevention, food safety is more likely guaranteed.

2.3. The Indonesian Beverage Market

2.3.1. The Indonesian Beverage Industry Position in the Global Market

The global beverage industry is estimated to amount to \$US1.7 trillion in 2013 and is expected to keep growing at an annual rate of between 3% and 4%¹². The beverage industry is divided into non-alcoholic beverages (such as coffee, tea, water, soft drinks and juices) and alcoholic beverages (including beer, wines and spirits).

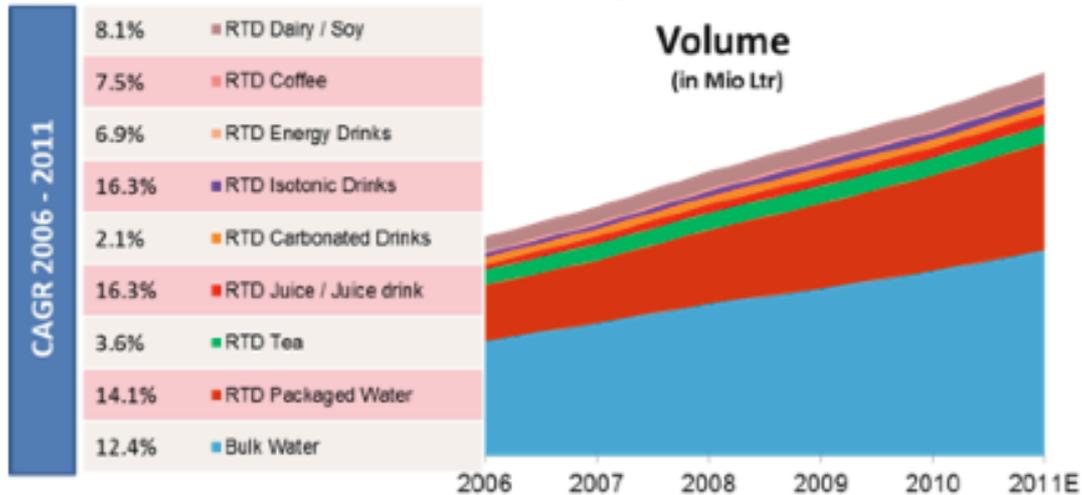
2.3.2. Non-Alcoholic Beverages

According to a report made by Canadean, a leading consumer market research company, commercial beverage production in Indonesia continues to rise in order to meet the expanding consumer demand. In 2013, the non-alcoholic drinks industry of Indonesia was estimated to be worth \$US8.5 billion with a growth rate of 10%. There are increasing foreign direct investments in this sector as the large Muslim population makes it largely profitable.

¹¹Ibid.

¹²Natasha Telles D'Costa, *Asia Pacific Beverage Industry : brewing up a storm*, Foodreview International Vol. 1, Indonesia, 2013

Figure 8: Compounded Annual Growth Rate of the Volume and Growth of Indonesia Beverage Products

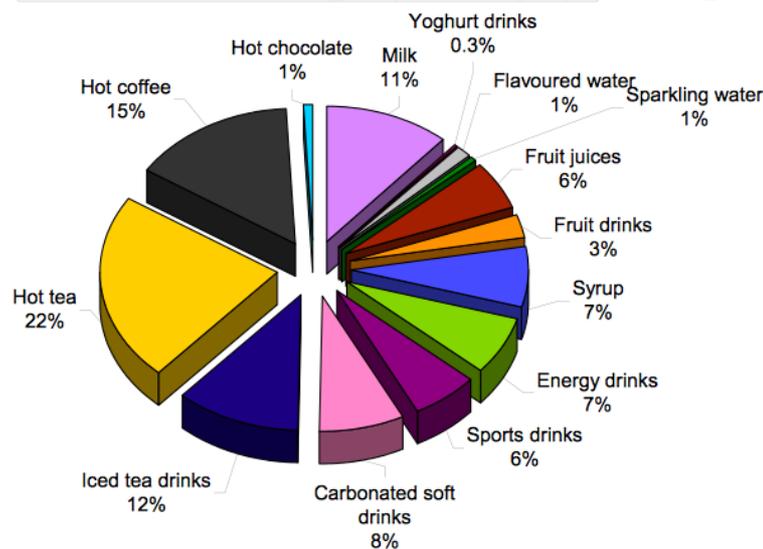


Source: Canadean

Figure 7 shows that the growth of isotonic drinks sales expanded by 16.3% between 2006 and 2011. This increase can be explained by consumer concern with the health effects of beverages¹³. As isotonic drinks help the body rehydrate and replace lost fluids and electrolytes, they are closely linked to a seemingly increasing trend whereby consumers opt for products that will improve their health and fitness. On the other hand, carbonated drinks recorded the slowest growth in the same period, which indicates awareness regarding the health issues commonly associated with these products.

The following chart depicts the Indonesians’ drinking habits and highlights the top 3 most consumed beverages in the country: hot tea, hot coffee and iced tea drinks. In the table below, we can see a few examples of the wide range of beverages to which the Indonesian population has access.

Figure 9: Non-Alcoholic Beverages per 7 days (excluding still water)



Source: Roy Morgan research

¹³<http://www.euromonitor.com/health-and-wellness-in-indonesia/report>

Figure 10: Non-Alcoholic Beverages Available on the Indonesian Market

CSD		RTD TEA					
 <p>Zero Sprite Fanta Coca Cola Big Cola</p>		<p>Jasmine</p>  <p>Frestea TBS T Kotak Pucuk Harum</p>		<p>Green</p>  <p>Frestea Zestea Joy Tea Nu Tea</p>		<p>Fruit-Flavored</p>  <p>Frestea Fruitea Fruitea</p>	
ISOTONIK		RTD JUICE					
 <p>Powerade Isotonik Pocari Sweat Mizone Vitazone</p>		 <p>MMPO Buavita Frutang Tipco Country Choice Nutrisari</p>					
Milk/Dairy		Energy/ Functional Drink					
 <p>Ultra Milo Frisian Flag Yes Nice Yoghurt</p>		 <p>Kratingdaeng Clickz Lipovitan M150 UC1000</p>					
Water		Cheap Cups					
 <p>AdeS Aqua Purelife</p>		<p>RTD Juice Still Tea Still with jelly Still</p>  <p>Freso Frutang Mount Tea Oky Jelly Ale-ale</p>					

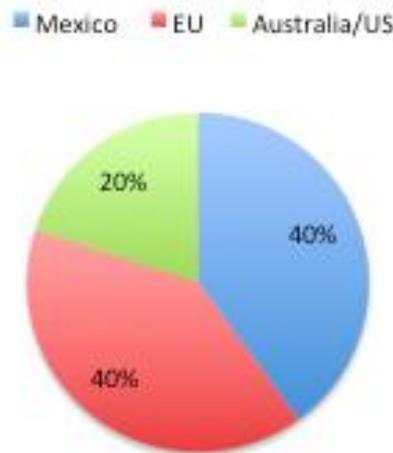
2.3.3. Alcoholic Beverages

The alcohol market in Indonesia is more regulated, partly due to several legal and cultural associations related to drinking alcohol. Since 1993, alcoholic beverages have been classified as closed to investment, meaning that the industry is not allowed to expand and develop in Indonesia. Despite the fact that Indonesia has the world's largest Muslim population, alcoholic beverages are consumed not only by upper-income bracket local people, but are also in high demand by expatriates and tourists. Duties that are payable based on the harmonized system of classification can amount to 170% for alcoholic drinks, steeply increasing the price of alcohol.

Beer: The two main key players on the beer market are Multi Bintang Indonesia and Delta Djakarta Tbk. In 2012, Multi Bintang Indonesia was leading the beer market due to Bintang beer, the sales of which contributed considerably to its sales volume. Nevertheless, the company also produces Guinness and Heineken, as well as Bintang Zero, a non-alcoholic beer.

Figure 11: Origin of Imported Beers in Indonesia in 2009

Origin of imported beers in Indonesia (2009)

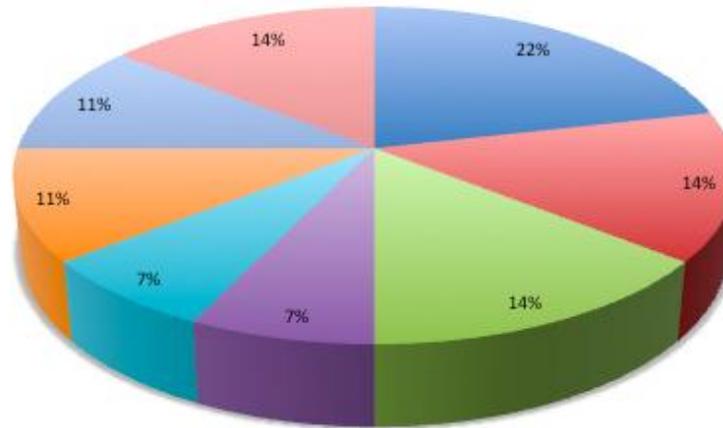


Source: USDA

Wine: There seems to be a growing interest for wine, as local consumers begin to integrate it into their lifestyle, influenced by globalization and an increasing foreign presence in the country, leading to the integration of some Western elements into Indonesians' urban lifestyles. One of the main local providers is Ultra Prima Abadi PT, also known as Orang Tua Group, which produces a non-grape herbal fruit wine. This wine is more traditional and mostly consumed during important festivities, for example at Christmas or Easter.

Figure 12: Origin of Imported Wines in Indonesia in 2009**Origin of imported wines in Indonesia (2009)**

■ South Africa ■ Chile ■ Australia ■ France ■ Italy/Germany/Spain ■ US ■ Russia ■ Others



Source: USDA

2.4. Key Players

The Food & Beverage sector as a whole is estimated to encompass over 6,000 companies, of which approximately 90% are classified as large or medium sized. Most are appealing to price-sensitive lower income customers. The Indonesian F&B market is clearly influenced by the presence of large local companies, but also important international and foreign companies, such as Nestlé and Unilever.

Table 5: Key Players in the F&B Market in Indonesia (2009)

Indonesia: Key Players in the food and beverage market				
Company	Sub-sector	Sales (US\$mn)	No. of employees	Year Established
Nestlé Indonesia	confectionery and dairy	23,238**	1,232	1971
Indofood Sukses akmur Terbuka	miscellaneous food	4,493	64,200	1990
Unilever Indonesia	dairy and tea	2,303	3,308	1933
PT Charoen Pokphand Indonesia	meat and Fish	1,764	7,095	1972
Mayora Indah Tbk	confectionery	845	4,407	1977
Sari Husada	formula and baby food	317e	902	1954
PT Malindo Feedmill Tbk	miscellaneous food	238	2,144	na
PT Siantar Top	Snack food	89	4,292	1970
Tiga Pilar Sejahtera Food	Snack food and instant noodles	83	1,925	na

Source: Company Investor Relations, BMI (NB: e = estimate, na = not available, **Includes Papua New Guinea)

French-based firm Carrefour dominate hypermarket retailing, and the Belgian-based Delhaize own a large stake in the biggest supermarket operator.

Table 6: F&B Companies and Output in Indonesia

	2009	2010	2011	2012
Number of Companies	5.871	5.579	5.777	5.865
Value-Added (Production Factor Cost)	135.303	163.452	193.269	223.721
Total Workers	714.824	715.648	781.581	832.830
Value-Added (Market Price)	138.211	166.232	198.462	228.939
Production Indices	276.30	294.01	318.52	N.A.

2.4.1. Local Companies

i. PT Indofood CBP (ICBP)

Indofood is a public food manufacturing company, established in 2010. It has five main divisions: instant noodle, good flavor, snack and nutrition, and special foods. Its total production of instant noodles amounted to 15 billion packs in 2011, produced by 17 factories around the country, mainly in Jakarta, Bandung, and Lampung. Three of these factories received the Good Quality Certificate ISO 9002.

The company also produces biscuits, baby food, food seasoning and food flavors. Regarding the food seasoning division, it is important to mention that many products are produced through PTNestle Infood Citarasa Indonesia, a joint venture between Indofood and Nestle SA. As a result of the successful supply of all these different products, Indofood managed to achieve a 36% market share in the country, while also exporting mainly to Japan, Hong Kong and the Middle East.

ii. Wings Group

The Wings Group initially produced soap and detergent 60 years ago in East Java but today is an important company, exporting its products around the world. The company expanded gradually by increasing its product lines. As a result, the same enterprise now operates in the real estate sector, personal care and F&B products. Wings produces 3 categories of beverages: powder drinks (Jasjus, Ice Milkjus), Ready-to-drink (The Rio, Ale Ale, Power F) and coffee (TOP Coffee). The company's branding emphasizes family values and the happiness of their customers.

iii. Mayora

The MAYORA group is one of the most renowned names in the Fast-Moving Consumer Goods industries (FMCG). Initially founded in 1977 as a home biscuit business, it became a publicly listed company in 1990 and then continued to grow, expanding its structure to cover the ASEAN region, having acquired several marketing offices and production facilities. Recently, the company was awarded the "Best Manufacturer of Halal Products Award" in the sectors of Biscuit and Wafer, Candy and Chocolate, Cocoa, Coffee and Health foods. The MAYORA group specialises in biscuits, candy, wafers & chocolates, nutrition, coffee, and the brands Torabika Café & Corner. In addition, the MAYORA group has managed to gain market shares internationally, with exports operations to countries such as Australia,

Germany, Sweden and South Africa. With marketing support, it also exports to the UK, Hong Kong, Cambodia and Lebanon. The group has distribution offices in countries such as China, India and Thailand.

iv. Garuda Food

The Garuda Food Company is a Food and Beverages Company that originated from PT Tudung and was established in Pati, Central Java. At its early stages, the company traded in peanut products under the brand known as Kacang Garuda. Today, the Garuda Food Group consists of 3 main divisions: the food division, the beverage division and the distribution division. In the beverage division, they specialize in tea-based beverages, coffee-based beverages, juices and fruit flavored drinks, as well as jelly cup and jelly milk beverages. The Garuda Food Group is an international holding exporting its products worldwide to countries such as India, the Netherlands, Thailand and the USA.

v. REKSO

REKSO is a diversified company that focuses its activities on tea, food and beverages, property, plantation, printing and packaging. It has a majority shareholding in three companies: PT. SINAR SOSRO, one of Indonesia's largest beverage companies; PT REKSO NASIONAL FOOD, the master franchisee of the McDonald's Corporation in Indonesia; and PT GUNUNG SLAMAT, the country's largest tea manufacturer. These three entities represent REKSO's core businesses, while the company also owns the largest private tea plantation in Indonesia. The drinks sold by this company are divided into 3 categories: Ready-to-drink products, such as Tebs, Fruit Tea Prim A or Happy Jus; Ready-to-serve products, such as Sosro, Tasseo or The Cap Botol; and finally Bulk tea, originating from its own plantation.

2.4.2. Foreign Companies

vi. Nestlé Indonesia

Nestlé Indonesia is a subsidiary of Nestlé S.A., which started to operate in Indonesia in 1971 and has now more than 2,600 employees. The different brands owned by Nestlé can be divided as follows: confectionery and chocolate, coffee (powder coffee such as Nescafé Tubruk, Nescafé Classic or Nescafé Mochaccino), beverages (Milo, Nestea and Nesfruta), nutrition for children and families, complimentary feeding, breakfast cereals, cooking products, ready-to-drink beverages (Nescafé can, Milo UHT, Bear Brand) and healthy nutrition products.

vii. DANONE

DANONE arrived in Indonesia in 1990, making a strategic alliance with Aqua, an Indonesian water brand established in 1973, which became the largest producer of bottled mineral water in Indonesia. In 2004, the brand Milkkuat was launched, and in 2007 DANONE extended its fresh dairy product activity by opening a new plant. In 2007, DANONE implemented its baby nutrition division with the acquisition of Numico (Sari Husada and PT NIS). Finally in 2009, the Gizi Kita brand was brought onto the Indonesian market, aiming to target the 100 million Indonesians living on less than €3 per day. Indonesia ranks as the 6th country in terms of contributions to the 2012 worldwide sales for DANONE.

viii. AJE Indonesia

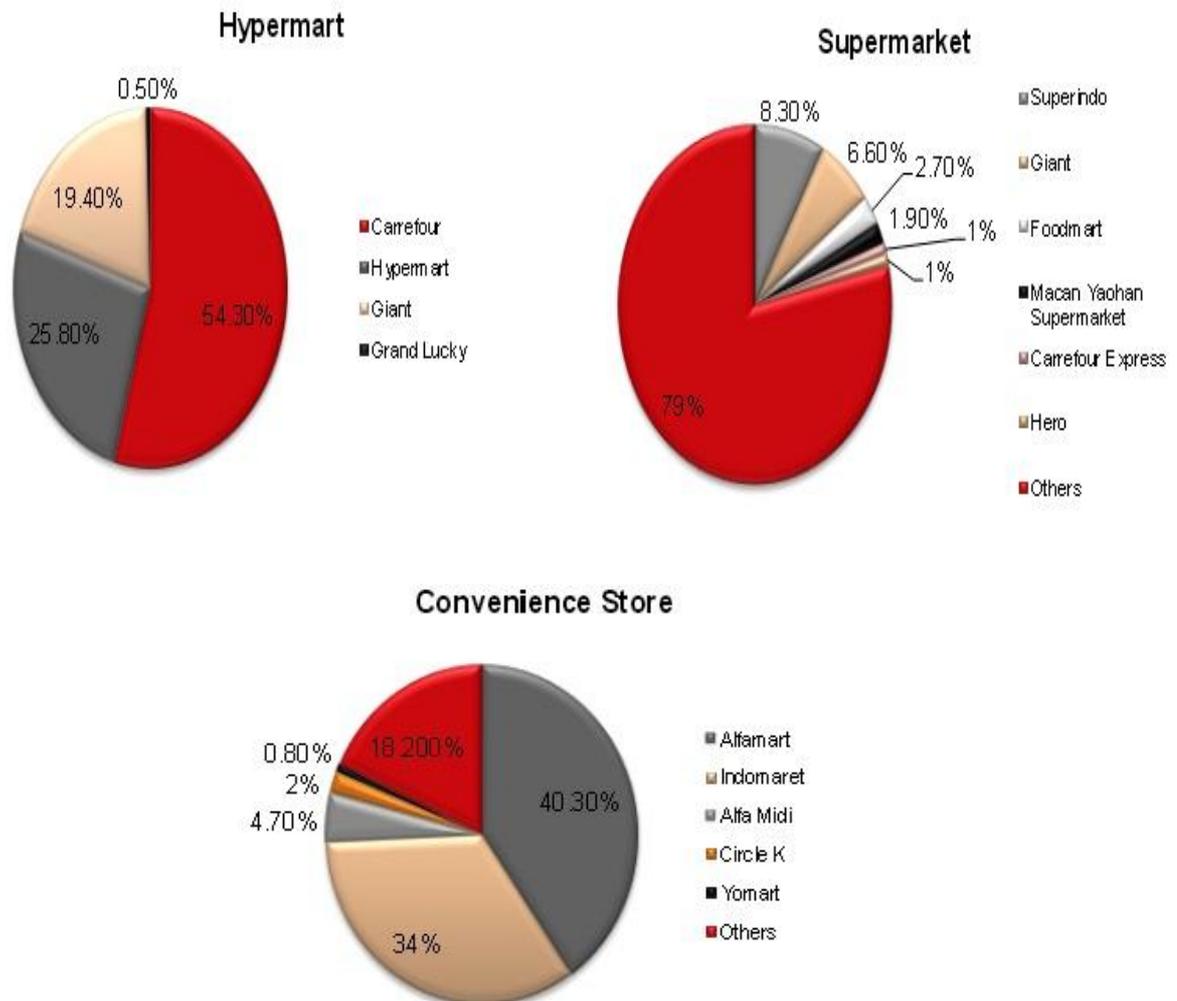
In July 2010, AJE began its activities on the Indonesian market with its beverage brand *Big Cola*. This brand is AJE's core product, as its top seller all over the world. The AJE Group has a large variety of brands allocated across different drinks

categories: carbonates, water, juices, beer, tea, sports drinks and energy drinks. So far the company has limited its Indonesian position to the Big Cola product, but other steps might be taken in the future to introduce its other brands.

2.4.3. Retail Sector

Convenience stores, hypermarkets and supermarkets characterize the Indonesian market. Local companies like Alfamart and Indomaret mainly represent convenience stores, while Carrefour dominated the hypermarkets sector. The food retail sector is not only composed of domestic companies but also of foreign stakeholders like Giant & SuperIndo. Despite the growing interest in modern retail stores, it is important to mention that traditional stores such as “wet markets” and “independent small groceries” continue to play an important role.

Figure 13: Modern Retail Markets - Market Share Concentration Across Modern Retail Stores



Source: USDA, from Euromonitor data

III. National policies and relevant regulations

Due to its huge market, Indonesia is very attractive for investors and exporters. In order to protect their market, the Indonesian government has recently been regulating the F&B sector in a determined fashion, a trend that can create some challenges and customs clearance delays.

Some of the relevant regulations for food and beverages sector are as follows:

3.1. Food-related laws

- *Decree of Chairman of BPOM No. HK.00.05.52.4040 on Food Categories.*

The *Badan Pengawasan Obat dan Makanan* (BPOM) is the Indonesian Food and Drug Administration body. They introduced this decree as the standard reference for the registration of food and beverages; however, it does not cover all food categories in Indonesia. It also divides food into those using foreign brands (ML) and those using local brands (MD) in their registration. This ML/MD number has to be displayed on the packaging.

Given that the list for the standard reference of food categories is not complete, it can become challenging for companies while undergoing the registration process for their products with the BPOM.

It must be noted that this registration can only be done by a local distributor or agent.

- *Decree of Ministry of Health No. 033/2012 on Food Additives.*

In this regulation, the list of food categories is divided into 27 categories. In accordance with this ministerial decree, BPOM has issued 25 regulations to limit included food additives.

- *Ministry of Agriculture regulation 60/2012 and Ministry of Trade regulation 60/2012*

In order to import horticulture products into Indonesia, an import-licensing regime is being imposed by the Ministry of Agriculture and the Ministry of Trade. All Indonesian importers are required to obtain an import recommendation for horticulture products (RIPH) from the Ministry of Agriculture, a prerequisite for applying for the Import Permit Letter (SPI) from the Ministry of Trade. One RIPH is valid for one HS code, one country of origin, one port of entry, one port of loading and one supplier. The horticulture products to be imported must be verified by Indonesian surveyors and/or their authorized agents in their country of origin.

In order to import animal products (dairy, meat, etc), a similar import-licensing regime is also applicable. An importer must first receive an Import Approval Recommendation from the Ministry of Agriculture, after which they must seek an Import License from the Ministry of Trade, which grants licenses based on domestic production and need.

3.2. Labeling

Regulation No. 22/M-DAG/PER/5/2010 of 21 May 2010 of the Ministry of Trade to amend the existing regulation on Labeling Obligation (Ministry of Trade Regulation No. 62/2009)

According to this regulation all local and foreign companies that produce or import goods for the Indonesian market are obligated to attach labels written in Bahasa Indonesia. This also applies to the Food and Beverages sector as it is also mentioned in Regulation No. 7/ 1996 about Food Act and PP No. 69/ 1999 about Label and Advertisement. As of January 1st 2013, the labeling regulation requires imported products to have such labels before entering the Indonesian Customs Area. Before an importer can import any products, he has to submit an example of the label written in Bahasa Indonesia to the Ministry of Trade for prior approval. Starting on January 2014 labels have to be in Bahasa Indonesia, however there is a grace period, in which labels can be in the form of a sticker attached to a package. For raw materials, product labels are still allowed to use the native language.

- *Decree of Chairman of BPOM HK.03.1.23.11.11.09605 year 2011 regarding guidelines on Nutrition Information panel in the label.*

In this guideline BPOM regulates the tolerance limit for nutrient analysis results.

Note: *Decree of Chairman of BPOM No. HK. 00.06.51.0475 year 2005 regarding Reference of Nutrient Label for Food Products.*

In the food product registration process, BPOM requires that the nutrient value included on the product label should be precisely the same as the value from the analysis result.

- *Ministry of Health Regulation No.30 Year 2013 regarding the Inclusion of Informational Content including the Fat, Sugar and Salt content and health messages regarding processed food and fast food.*

Due to increasing of health awareness, the Ministry of Health stipulates that food labels must contain information on how much sugar, fat and salt is contained in the product, along with a message on health risks on the packaging of processed food and ready-to-eat products.

3.3. Halal Regulation

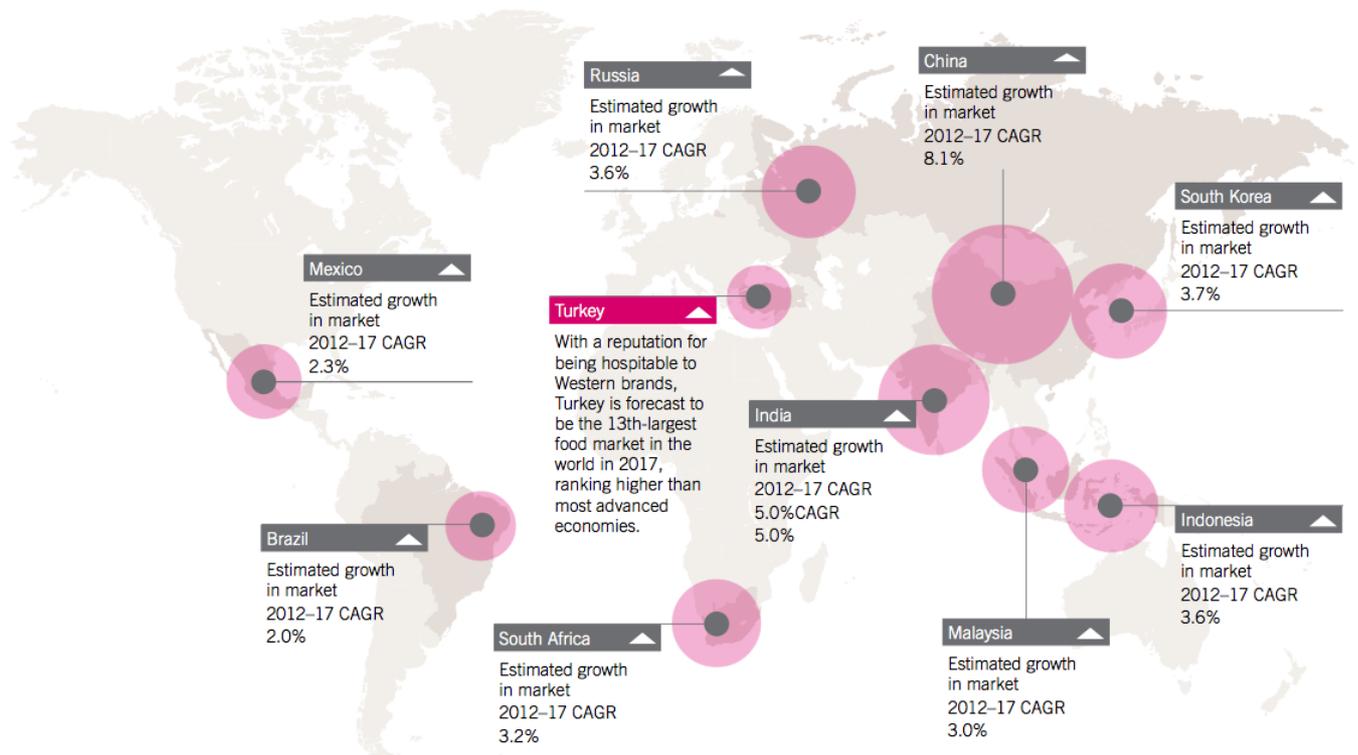
Having the biggest Muslim population in the world means the Indonesian government has to cater Halal diets. Halal in Arabic means permitted or lawful. Halal foods are those that are allowed under Islamic dietary guidelines, including restrictions on food preparation. However, it has not yet been established whether it is compulsory or voluntary to put the Halal label. Currently, a bill on Halal certification is under discussion in the Indonesian parliament that may insist on mandatory Halal certification. For the time being, the regulation pertaining to Halal products has been included in the *Consumer Protection Act no.8 of 1999, PP No., 66/1999* on labeling and advertising, and the *Food Act 7/1996* on food. The institution that issues Halal certification is the Council of Ulama (MUI).

It must be noted that, as stated in *Animal Husbandry and Animal Health Act no. 18 of 2009*, all products that use animal ingredients and derivatives circulating in Indonesia, whether local or imported, shall bear the Halal certification if it abides by those guidelines.

IV. Future Trends and Remaining Challenges

According to the Business Monitor International Report on Food and Beverages in Indonesia, food and beverage consumption is expected to keep rising in the coming years, mainly due to wage growth prospects coupled with strong domestic demand and a young population (approximately 40% of people are below 24 years of age). Indeed, the food consumption forecast growth in 2014 is set at +7.5% and +6.9% for 2017. For alcoholic drinks, growth is expected to amount to +11.7% in 2014 and +8.4% in 2017. Soft drinks value sales growth in 2014 should increase by 9.5%, and by 8.8% in 2017. Finally, mass grocery retail value sales are expected to grow 11.7% in 2014 and 10.0% in 2017.

Figure 14: Food and Beverage: Linklaters Emerging Opportunity Index



Source: Linklaters Food&Beverage Network¹⁴

The Linklaters Emerging Opportunity Index has set its focus on emerging markets, considering that those economies should be showing the fastest growth rates for food and non-alcoholic beverages in the next five years.

This index has ranked Indonesia as number 5 of the most attractive emerging markets for food and beverage investment, considering the opportunities as well as the risks of each country.

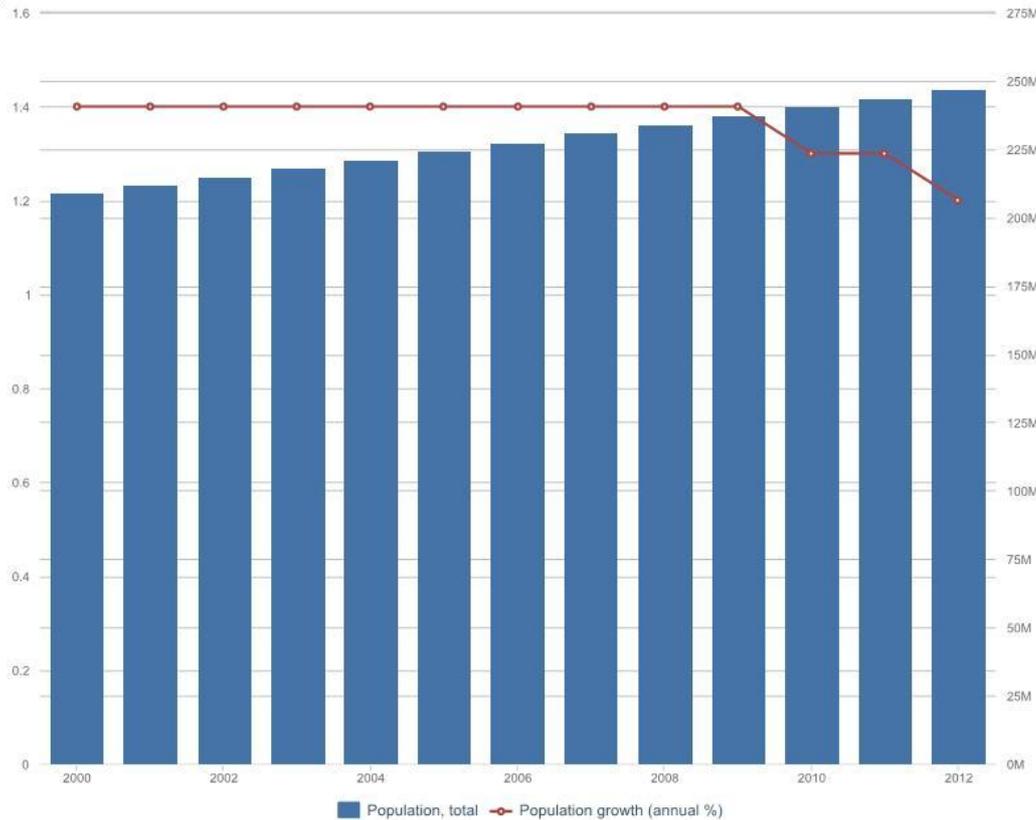
¹⁴<http://www.linklaters.com/pdfs/mkt/london/Linklaters-Emerging-Opportunity-Index-Food-Beverage.pdf>

4.1. Future Trends

4.1.1. Demand and Growing Population

Taking a closer look at Figure 14, which depicts the evolution of demographic composition in Indonesia, we can see that over the last decade, the Indonesian population has been growing at a constant pace, with a lower pattern starting from 2009. In 2012, the Indonesian population reached 246,864,191 people, with 124,205,731 (50.31%) men and 122,658,460 (49.68%) women.

Figure 15: Indonesian Demographic Evolution 2000-2012



Source: World Bank

Furthermore, according to the World Bank, the projected population increase (in %) between 1995 and 2050 places it in the top 10 most populated countries, experiencing an increase of 58% over the selected period. In addition to a steady population growth, Indonesia has a very young, urbanized population. Almost 60% of Indonesia's consumers are under 30 years old, while more than 50% of the total population lives in urban areas (54% in 2010 according to the World Bank database).¹⁵

This urbanization process is expected to continue, with the UN forecasting that 2/3 of Indonesian consumers will be urbanized by 2050.¹⁶ It is also important to bear in

¹⁵World Bank Data Base, 2010

¹⁶World Bank Data Base, 2010

mind that an important share of the population, approximately 60%¹⁷, is located across the island of Java.

Figure 16: World Bank Population Projection (In Millions) and Projected Population Increase (in %) 1995-2050

	1995	2000	2025	2050	% increase 1995-2050
<i>Ten most populous countries in 1995</i>					
China	1199	1255	1471	1556	30
India	934	1016	1370	1623	74
U.S.A.	263	276	323	335	27
Indonesia	193	206	265	304	58
Brazil	161	172	224	254	57
Russia	149	150	153	152	2
Pakistan	130	148	243	316	144
Japan	125	127	124	115	-8
Bangladesh	121	132	182	218	80
Nigeria	111	128	217	288	159
<i>Other populous ASEAN countries</i>					
Vietnam	74	82	117	142	92
Philippines	69	77	115	143	107
Thailand	61	65	81	91	51

Source: World Bank

4.1.2. Changing food consumption patterns

In recent decades, Indonesia's grain consumption has been declining on a per-person basis.

Conversely, increasing wheat consumption has not made up for a declining consumption of rice and white corn. The per-person food consumption rate of cassava and other tubers has also fallen. As starch-based calorie sources have declined, meat, dairy, and egg consumption have risen¹⁸. Simultaneously, the prevalence of the prepared food and miscellaneous food categories has also grown very quickly, much of which consisting of packaged foods.

Both the decline in starch consumption and an increase in packaged food consumption are consistent with global trends. Growth in the consumption of fish, vegetables, fruits, and oils has been modest and total caloric intake per person has shown little change. Indonesia's level of animal product consumption (meat, fish, dairy, eggs, etc.) per person is quite low when compared to other rapidly developing countries.

Animal product consumption is at the same level as in India, but at a lower level than in the rest of Southeast Asia or when compared to the rates of Brazil, Russia, and China.

¹⁷World Bank Data Base, 2010

¹⁸Rada, Nicholas and Anita Regmi, 2010, Trade and Food Security Implications from the Indonesian Agricultural Experience, WRS-10-01, Economic Research Service, U.S. Department of Agriculture, May

Table 7: Average Daily Per Capita Consumption of Protein (Gram) By commodity Group 1999, 2002-2012

No.	Commodity	2010	2011		2012	
			March	September	March	September
1	Cereals	21.76	21.57	20.96	21.00	20.80
2	Tubers	0.32	0.36	0.30	0.27	0.28
3	Fish	7.63	8.02	7.66	7.49	7.85
4	Meat	2.55	2.75	2.76	2.92	3.41
5	Eggs & Milk	3.27	3.25	3.06	2.94	3.01
6	Vegetables	2.52	2.43	2.34	2.40	2.36
7	Legumes	5.17	5.17	4.85	5.00	5.28
8	Fruits	0.47	0.42	0.37	0.44	0.39
9	Oil and Fats	0.34	0.31	0.28	0.27	0.27
10	Beverage stuffs	1.05	1.07	1.04	0.86	0.85
11	Spices	0.69	0.69	0.69	0.58	0.60
12	Miscellaneous food items	1.21	1.21	1.11	1.04	1.05
13	Prepared food	8.03*)	9.01*)	7.71*)	7.93*)	7.99*)
14	Alcoholic beverages	-	-	-	-	-
15	Tobacco and betel	0.00	0.00	0.00	0.00	0.00
	TOTAL	55.01	56.25	53.12	53.14	53.14

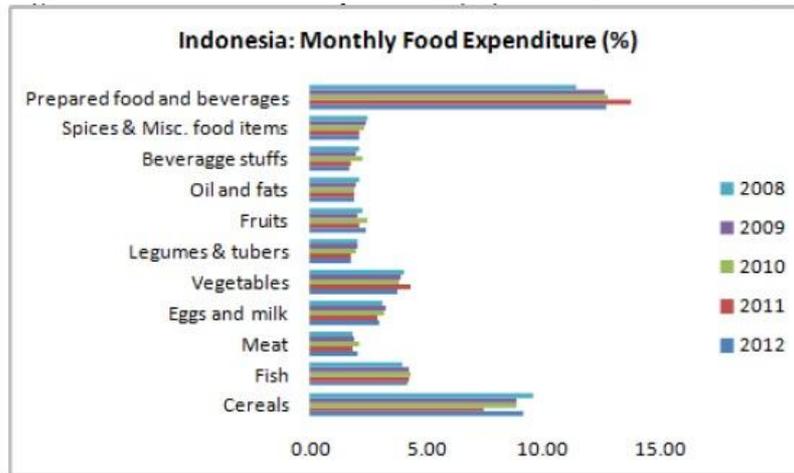
Source: BPS Statistik Indonesia

As Indonesian incomes are expected to grow in the coming years, food consumption is likely to also rise. The rise of income will imply a change in consumption pattern, leading to greater demand for animal products, meat and dairy products, especially if those products are to be offered at a lower price as a result of a higher abundance of refrigeration facilities and improvements in the supply chain.

4.1.3. Purchase power / Money spent per person / Growing confidence

According to a report from Nielsen on global consumer confidence, Indonesia has the highest consumer confidence index for Q4 of 2013, the fourth consecutive quarter, establishing it as a world leader in this regard. The Nielsen Consumer Confidence Index actually measures the perception of local job prospects, personal finances and immediate spending intentions. This growth of confidence parallels the growth of the Indonesian economy and the increase in the minimum wage level.

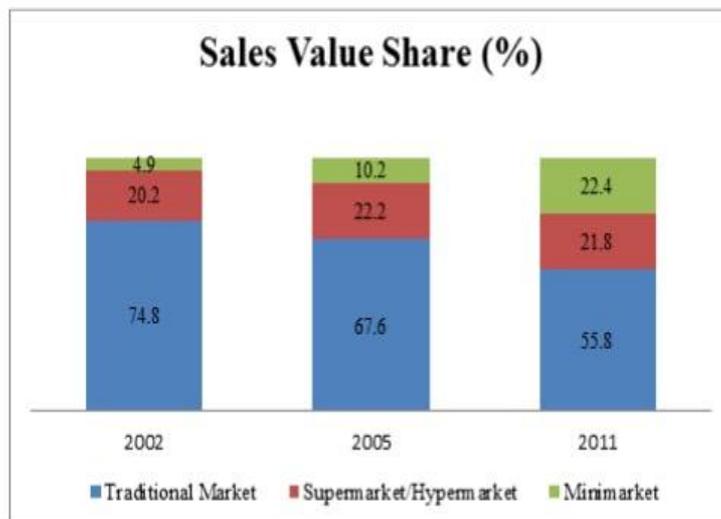
In 2012, the monthly average expenditure per capita for food was Rp 323,478 (\$34.32). This averaged to be about 51.0 percent of the total monthly expenditure per capita. As can be seen in Figure 15 [from the national statistical Agency (BPS)], this monthly average expenditure applies to different categories of F&B products. As such, packaged food and beverages occupies the first position, followed by cereals, and finally fish and vegetables.

Figure 17: Indonesia Monthly Food Expenditure (%)

Source: National Statistical Agency BPS

4.1.4. New consumption behaviors: ready to pay a little extra for quality

In recent years, it seems that a more educated class has emerged in the Indonesian population, with a clear increase in health-conscious individuals and consumers who tend to make more “intelligent” choices. In this sense, it can be said that there is a growing awareness of healthy lifestyles, leading to a growing consumption of healthy food and drinks¹⁹.

Figure 18: Sales Value Share – by retail type (2002, 2005, 2011)

Source: Kompas, March 4-10, 2013

This new consumption pattern is mainly due to the rise of the middle class and a new lifestyle resulting from smaller, working families. Therefore, there is a global trend towards private label brands by retailers, whose success tends to be determined by high quality and not by low price²⁰. There is also a rising interest in niche areas such

¹⁹ « Health and Wellness in Indonesia », Euromonitor, October 2013.

²⁰ « When Do Private Labels Succeed? », HOCH, S.J. & BANERIJ, S., *Sloan Management Review*, 1993.

as organic and diet foods. In this respect, Carrefour is planning on increasing in private label products (every three months) due to the increasing annual demand, increasing from 5 to 10% growth²¹. Also for this reason, many marketing campaigns are using healthy motivations to attract consumers. One example is the use of the term “Superfruit” in marketing, to describe berries and other fruits containing high antioxidant levels. Furthermore, there is a growing trend in Asia to consume dairy-free, sugar-free and gluten-free products as a way to lower cholesterol and prevent chronic diseases. Even though this market is still considered to be emerging, an increase in the popularity of these products might be worthy of consideration. In addition to a greater attention to quality and health, a new consumption pattern has emerged as a result of a reduction in household size.²² Economic development, coupled with a growing level of education, has increased the number of “labor-active” households; which are in turn have less children, and manifest different needs and consumption patterns.

4.1.5. Educated consumers are more aware of packaging labels

According to the Director of Marketing Food, for CorbionPurac Asia Pacific, “Consumers are increasingly concerned with what goes into their food, prompting manufacturers to find natural alternatives. Consumers want products made with simple, wholesome ingredients and minimal processing”.²³ For this reason, the Clean Label Movement seems to have become more popular in recent years, an example of consumer power influencing manufacturer behavior.

4.1.6. Growth of Modern Markets compared to traditional markets

As a result of all these changes in consumption patterns and population composition, buying behaviors are evolving. Smaller working families have increased concerns regarding food safety and food quality and pay greater attention to health. This results in reduction of the use of traditional markets, and a move towards purchasing products from super- and hyper-markets.

However, despite this growing trend towards modern supermarkets, traditional markets retain a dominant position in Indonesian consumer activity, and are still the main source of food purchases.

4.1.7. Growth of domestic tourism

According to a survey made by Skyscanner, a global travel search website, tourism in Indonesia will sharply increase in 2014, which will generate opportunities regarding food and beverage consumption.

Indeed, estimations suggest that the number of tourists using air travel will rise due to the creation of 12 new airports in 2013. In 2014, seven new airports are expected to be opened, and further five in 2015. According to the National Statistics Bureau, the number of trips made by Indonesians yearly has been growing annually by approximately 15%, with 245 million trips in 2012, up from 236 million in 2011.

²¹ « Carrefour Indonesia to Strengthen Private Labels », SIPAHUTAR, T., The Jakarta Post, January 2013, website : <http://www.thejakartapost.com/news/2013/01/12/carrefour-indonesia-strengthen-private-label.html>

²² Agriculture and Agri-Food Canada: <http://www.ats-sea.agr.gc.ca/ase/pdf/5715-eng.pdf>

²³ Food and Beverage Asia, December 2013/January 2014, p17: http://www.foodbeverageasia.com/ebook/FBA_DecJan2014/files/assets/seo/page17.html

In addition to the expansion and development of air travel infrastructure, improved routes and the introduction of more local airlines has also increased travel possibilities within Indonesia. There has also been increased construction of luxury hotels across the country, which has also influenced this trend.

A growing trend for domestic tourism will also be supported by the rising average income of the Indonesian population, coupled with increased availability of more accessibly priced.

As a result of the expansion of tourism, hotels, restaurants and institutional sectors will continue and increase their demand for specific food products, and to meet demand, some may need to be imported. Some examples of required food products could be: beef, processed meat, bakery ingredients, snacks, beer, and wines.

4.1.8. Halal Logistics Business Opportunities

Considering the fact that more than 80% of the Indonesian population is Muslim, the Halal industry is promising. Recently, a new term has emerged in the logistics sector in relation to the Halal economy: “Halal Logistics”. This concept actually applies the Shariah to the logistics sector, meaning that a basic logistical requirement would be to separate Halal food and non-Halal food products. By doing this, cross contamination is avoided, while transport is guaranteed in accordance with the consumers’ expectations.

According to Frost & Sullivan, the revenues for “Halal Logistics” on the Indonesian market were estimated to amount to USD 29.2 billion in 2011.

4.2. Remaining Challenges

4.2.1. Partnerships & Foreign Trade Agreements

Over the last decade, Indonesia has been taking part in a number of trade agreements with its neighbors from Asia, but also with Australia and New Zealand. Although these agreements facilitate access to the Indonesian market for neighboring countries, negotiations for a EU–ASEAN Free Trade Agreement have not yet started. The absence of such an agreement can represent a real challenge for European exporters, as businesses from countries within the scope of the aforementioned agreements have easier and faster access to ship to the Indonesian Market.

ASEAN

The Association of Southeast Asian Nations (ASEAN) is composed of ten Member States: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Viet Nam, Laos, Myanmar and Cambodia. The ASEAN Declaration sets out the main purposes of the association as follows:²⁴

- The acceleration of economic growth, social progress and cultural development in the region;
- The promotion of regional peace and stability and respect for justice and the rule of law in the relationship between members;
- A more effective collaboration for a better use of agricultural resources and local industries, but also for the improvement of trade.

²⁴<http://www.asean.org/asean/about-asean/overview>

ASEAN also has its Free Trade Area (AFTA), a Trade Agreement that aims to foster local manufacturing in all ASEAN countries. This is being pursued through the elimination of tariff and non-tariff barriers within ASEAN.

By 2015, ASEAN Members have committed themselves to establish the ASEAN Community, which will be based on three pillars: the ASEAN Political-Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community.

Indonesia–Australia Comprehensive Economic Partnership Agreement (CEPA)

The IA-CEPA has as its main objective the enhancement of economic cooperation between Australia and Indonesia, including trade and investment.

ASEAN-Australia-New-Zealand Foreign Trade Agreement (AANZFTA)

The AANZFTA is “a comprehensive and single-undertaking economic agreement that opens up and creates new opportunities for (...) ASEAN, Australia and New Zealand”²⁵. Progressively, the Agreement will implement lower tariffs in order to reach a tariff reduction of 90%. Moreover, it also foresees more simple custom procedures and flexible rules of origin, which will help to improve the movement of goods between those countries.

ASEAN–China Foreign Trade Agreement (ACFTA)

The ASEAN–China strategic Partnership for Peace and Prosperity, established in 2002, comprises a new plan of action for the period 2011-2015 and focuses on political and security cooperation, socio-cultural cooperation, as well as economic cooperation.

ASEAN–Japan Comprehensive Economic Partnership (AJCEP)²⁶

The AJFTA was established in 2003 and has as its main purpose the facilitation of trade in goods between concerned countries and the promotion of cooperation in information and communications technologies, intellectual property, as well as SMEs.²⁷

4.2.2. Infrastructures: The cold chain store system and food security

When doing business in Indonesia, it is important to keep in mind that some infrastructures related to food transport and food conservation might be poorly developed, especially outside the main island of Java. Cold storage facilities are important for food security and are sometimes under-provided in Indonesia. Therefore, clear instructions regarding storage are required, as well as adapted packaging and shipping procedures commensurate with operations in a tropical climate. In fact, few cold storage or air-conditioned facilities or even delivery vehicles exist in comparison to the size of Indonesia’s economy. Nevertheless, the Indonesian Cold Chain Association Development Project, funded by the USDA (U.S. Department of Agriculture), is working to improve Indonesia’s cold chain by building an effective network and recognizing the major role that it plays in the food security of the country.

In order to address this lack of local infrastructures, shelf-stable products are a good solution. Conversely, frozen and chilled products will face important challenges due to the lack of access to refrigeration facilities for the Indonesian population.

²⁵ <http://aanzfta.asean.org/index.php?page=description-of-aanzfta>

²⁶ <http://www.mofat.gov.bn/index.php/free-trade-agreements-ftas/agreements-in-force/asean-japan-comprehensive-economic-partnership-ajcep>

²⁷ <http://www.mofat.gov.bn/index.php/free-trade-agreements-ftas/agreements-in-force/asean-japan-comprehensive-economic-partnership-ajcep>

Finally, it is also important to bear in mind that the high number of islands that make up the Republic of Indonesia make it difficult to provide easy and fast access to all F&B products, as transportation is protracted due to the lack of transportation infrastructure facilities such as roads, ports, railroads and others.

4.2.3. Rising cost of commodities

“Over the past decade, high commodity prices tilted investment incentives in favor of the resource sector and the non-tradable sectors (e.g. the real estate sector) against manufacturing and other tradable sectors” stated the World Bank.²⁸

In fact, it is a common opinion that a diminution of commodity prices will help to foster investment in the manufacturing sector and provide a good basis for local industrial development. There are growing opportunities in the manufacturing sector for ASEAN countries, also taking into account wage increases in China and the appreciation of the Chinese Yuan.

Despite this recent improvement, commodity prices have been rising since 2013, due to the knock-on effect of fuel subsidies. The government failed to act at that time by reducing its fuel subsidies and keeping an affordable fiscal and external balance.

4.2.4. Product specificities

One of the main challenges when selling food on the Indonesian market is appealing to Indonesian customers' tastes and habits. Indeed, it is important to adapt the product, if necessary, to the local tastes²⁹. For instance, Indonesian consumers tend to prefer products that are sweeter³⁰ and that are available in smaller packaging³¹. In addition to this, brand awareness also seems to be an important element when doing business in Indonesia, as it can be a driver for sales. Therefore, marketing efforts are necessary to ensure local product awareness.

4.2.5. Market Access

Even though the country shows good future prospects for the F&B market, this report would not be complete without mentioning the local challenges to doing business in Indonesia. Corruption and bureaucracy remain a large part of the Indonesian market: therefore, companies should be patient and ready to face those challenges, which are a part of the business environment.

In addition to this, particular regulations regarding F&B products might also be challenging for foreign companies, such as Indonesian language labeling and the notification of genetically modified ingredients, as mentioned in the section “National Policy and Relevant Regulations” above.

²⁸ <http://blogs.wsj.com/economics/2014/03/18/falling-commodity-prices-a-blessing-in-disguise-for-indonesia-world-bank/>

²⁹ <http://www.iesingapore.gov.sg/~media/ie%20singapore/files/publications/ie%20insights/vol%2013%20indonesia%20tapping%20the%20consumer%20dollar%20in%20food%20and%20retail%20nov%202013.pdf>

³⁰ http://www.daff.gov.au/__data/assets/pdf_file/0009/183564/indo_chapter2.pdf

³¹ http://www.daff.gov.au/__data/assets/pdf_file/0009/183564/indo_chapter2.pdf

V. Conclusion

The objective of this market study was to highlight the challenges and opportunities of the Food and Beverage Industry in Indonesia for European companies. Indeed, considering the changing and evolving globalized market and current economic conjuncture, the F&B sector in Indonesia is one worthy of consideration.

First of all, it is undeniable that F&B is an important industry for the Indonesian economy. With the fourth largest population in the world, Indonesia has an important demand to fulfill regarding primary goods such as F&B. However, in spite of strong local food and beverage production outputs, a large percentage remains imported to meet local demand.

Regarding market structure, local and foreign companies are already competing for the F&B market in Indonesia, with approximately 6,000 companies acting in this sector in 2012.

Despite the strong local production of rice, soybeans and corn, Indonesia still has to import in order to meet its local demand for these products. Self-sufficiency policies are being put in place, but wheat imports will remain high, as Indonesia does not have the appropriate climate to produce it locally. Furthermore, this study also highlights that packaged food consumption has also been growing in Indonesia, illustrative of a growing concern for food safety, changing lifestyles and urbanization.

The beverage market also represents a major industry in Indonesia. The non-alcoholic drinks market has recorded important growth of isotonic drinks, mainly due to a higher health consciousness amongst the population. Considering the important Muslim population in Indonesia, alcoholic drinks are mostly demanded by expats and upper-income bracket local consumers. Beer producers, as well as wine producers, have managed to gather market shares in Indonesia, despite the fact that this sector is closed to foreign investment.

The F&B industry is expected to keep growing in the future, mainly driven by a growing population and an increasing demand of local consumers. Changing food consumption patterns will also characterize future trends, as a young and urbanized population tends to have a greater concern for healthy food and beverages. In addition to this, increasing local tourism will result in a higher demand for specific foreign food products. However, the important Muslim population also represents undeniable opportunities, such as the aforementioned "Halal Logistics" field.

Finally, it is important to bear in mind that despite local opportunities, challenges remain when doing business on the Indonesian market. Indeed, existing partnerships with neighboring Asian countries as well as with Australia and New Zealand foster and facilitate trade between those countries and Indonesia. In addition, the lack of available infrastructures, such as a cold chain store system, harbors and other transportation, are also challenges that may persist in the medium-term. Furthermore, regulations and additional policies are also playing an important role in the F&B sector, especially regarding Halal regulations and labeling.

In conclusion, it is undeniable that Indonesia's Food and Beverage Industry is and will continue to be an important industry for the country. However, local specificities and patterns, as well as domestic regulations and legislation, will have to be faced in a creative and dynamic fashion by companies willing to enter the Indonesian market.

Notwithstanding, it should again be stressed that the Indonesian market has great potential regarding business opportunities. Thus, it is recommended that European companies seek local partners and local business support services, such as the ones provided by the European Union-Indonesia Business Network (EIBN), the European Chambers of Commerce, Embassies and other representations, in order to guarantee that their investment and operations are effective in making the most of the promising possibilities that the Indonesian market has to offer.

VI. Relevant contacts

Indonesian Food and Beverage Producers Association (GAPMMI)

Building: Gedung Annex Lantai 2 (Kompleks PPM Manajemen)
 Street: Jl. Menteng Raya No. 9-19
 Jakarta Pusat 10340
 Tel: (021) 70322626
 Fax.: (021) 70322627
 Email: gapmmi@cbn.net.id
 Website: www.gapmmi.or.id

National Agency of Food & Drug Control (BPOM)

Street: Jl. Percetakan Negara No.23
 Jakarta 10560 Indonesia
 Tel: (021) 4244691/42883309/42883462
 Fax: (021) 4263333
 Email: ulpk@pom.go.id
 website: www.pom.go.id

Directorate General of Customs & Excise (BEA CUKAI)

website: www.beacukai.go.id

Ministry of Trade of the Republic of Indonesia

Street: M. I. RidwanRais Road, No. 5
 Central Jakarta 1011
 Tel: +62 - 021 – 3858171
 Email: contact.us@kemendag.go.id

Directorate General for Livestock Animal Health Service of Ministry of Agriculture

Mr. Syukurlwantoro MS, MBA
 Directore General
 Gedung C Lantai VI
 Jl. Harsono RM No. 3 PasarMinggu,
 Jakarta 12550 - Indonesia
 phone: 021 7815580 - 83
 Email : ditjennak@deptan.go.id
 fax: 021 7815783

VII. Events

Asia Healthy F&B Expo

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia
Date: 04-06 Apr 2014

Asia Healthy F&B Expo is a 3 days event which is typically held in April 2014 at the Jakarta International Expo (JIExpo) in Jakarta, Indonesia. This event showcases products related to healthy Food & Beverage, healthy and isotonic drinks, natural & organic food, healthy snacks, energy food and energy drinks, diet products, nutritional products, dairy products, fruits and juices, among other.

Food & Hotel Indonesia

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia
Date: 15-18 Apr 2015

Food & Hotel Indonesia 2015 is an international Hotel, Catering Equipment, Food and Drink Exhibition. The show a well disseminated platform for exhibitors to launch new products and promote existing products and brand loyalty. This four day expo is organized by P.T. Pamerindo Buana Abadi at Jakarta International Expo, Kemayoran from 15 Apr. to 18 Apr. 2015

Jakarta Food and Fashion Festival 2014

Venue: Sentra Kelapa Gading, Jl. Boulevard Kelapa Gading, North Jakarta
Date: 1 May 2014 - 31 May 2014

The celebrated annual Jakarta Fashion & Food Festival features three main highlights: the Fashion Extravaganza, the Food Festival, and the Gading Nite Carnival. The Food Festival is an appreciation of the abundance of Indonesia's traditional culinary delights, at the same time a media to taste various international cuisines. The mix of traditional and international tastes is presented at the "*Kampoeng Tempo Doeloe*" or the "Old Village", which offers authentic Indonesian traditional cuisines from across the Indonesian archipelago, placed side by side with the Wine and Cheese Expo.

Wine & Cheese Expo 2014

Venue: La Piazza's Multifunction Room
Date: 09 May 2014

The expo features wine and cheese from various countries all over the world, including France, Germany, Italy, Australia, Chile, United States, South Africa, Argentina, Canada, New Zealand, Portugal, and also Indonesia. It includes wine and food tastings, as well as discount sales on selected products. Many cheese manufacturers are frequently present, Its event programme also includes cooking demos and wine workshops, as well as various B2B sessions.

Food Ingredients Asia Indonesia

Venue: Jakarta International Expo (JIExpo), Jakarta, Indonesia
Date: 24-26 Sep 2014

Food Ingredients Asia Indonesia is the best known tradeshow for the F&B industry in the Southeast Asian region. This premier event has to its credit some of the most renowned companies and organizations in their list of exhibitors and generates what is considered to be a global forum, where international market players enjoy the chance of exploring the consumer market in this region.

Food Ingredients Asia Indonesia offers one of the best and the most comprehensive platforms for the F&B gather and explore the possible areas of development in future..

Food Industry Makassar Expo

Venue: Celebes Convention Center, Makassar, Indonesia
Date: 01-04 May 2014

Food Industry Makassar Expo is centered on the food and hospitality industries and related products, equipment and technologies. Its Indonesian edition provides the opportunity to end-consumers to purchase various premium and fresh-made food products, such as baked goods, cold cereals etc. The companies present find here a good occasion to make contacts and networking.

Bakery Makassar Expo

Venue: Celebes Convention Center, Makassar, Indonesia
Date: 01-04 May 2014

Bakery Makassar Expo is dedicated to the bakery and confectionery industry. The exhibitors of the show are given the chance to network effectively among the visitors and fellow businesses. Many international companies frequently participate in this trade fair.

Horeca Makassar Expo

Venue: Celebes Convention Center, Makassar, Indonesia
Date: 01-04 May 2014

The growing importance and the expanding profits in the hotel and restaurant industry have contributed significantly in the growth and development of the sector. The Horeca Makassar Expo provides a great platform to all the professionals and experts of the industry and also helps them to share their ideas and to discuss about the latest developments and new trends that have been introduced in the sector. This four day international trade show will be held at Makassar and presents itself as a great platform to the exhibitors to connect and interact with each other and to know and understand the sector efficiently.

Packpro Makassar Expo

Venue: Celebes Convention Center, Makassar, Indonesia
Date: 01-04 May 2014

Packpro Makassar Expo will be a deals with the international industry of food packaging and processing. The exhibitors of the show are given the opportunity to engage with visitors and find new business opportunities throughout their presence. The show concentrates the major players of the segment, along with many international stakeholders.

References

BPS Statistiks Indonesia

EIBD Conference 2013: <http://www.eibd-conference.com>

Kelly OCG, *Employment Outlook Indonesia 2012*: <http://www.kellyocg.com/Home/>

Bloomberg, *Indonesians Buying Bread to Spur Wheat Imports Like Egypt's*, 5th March 2014

The Jakarta Post, *Indonesia Caught In Wheat Trap*, 11th July 2013

Rada, Nicholas, and Anita Regmi, *Trade and Food Security Implications from the Indonesian Agricultural Experience*, WRS-10-01, Economic Research Service, U.S. Department of Agriculture, May 2010. p. 19

Euromonitor, *Health and Wellness in Indonesia*, October 2013:
<http://www.euromonitor.com/health-and-wellness-in-indonesia/report>

Linklaters, *Emerging Opportunity Index Food & Beverage*:
<http://www.linklaters.com/pdfs/mkt/london/Linklaters-Emerging-Opportunity-Index-Food-Beverage.pdf>

Hoch, S.J.; Banerij, *When Do Private Labels Succeed?*, Sloan Management Review, 1993.

The Jakarta Post, Sipahutar, *Carrefour Indonesia to Strengthen Private Labels*, January 2013: <http://www.thejakartapost.com/news/2013/01/12/carrefour-indonesia-strengthen-private-label.html>

Agriculture and Agri-Food Canada: <http://www.ats-sea.agr.gc.ca/ase/pdf/5715-eng.pdf>

Food and Beverage Asia, December 2013. P.17:
http://www.foodbeverageasia.com/ebook/FBA_DecJan2014/files/assets/seo/page17.html

Natasha Telles D'Costa, *Asia Pacific Beverage Industry : brewing up a storm*, Foodreview International Vol. 1, Indonesia, 2013

Other Electronic Resource hyperlinks :

- <http://www.asean.org/asean/about-asean/overview>
- <http://aanzfta.asean.org/index.php?page=description-of-aanzfta>
- <http://www.mofat.gov.bn/index.php/free-trade-agreements-ftas/agreements-in-force/asean-japan-comprehensive-economic-partnership-ajcep>
- <http://blogs.wsj.com/economics/2014/03/18/falling-commodity-prices-a-blessing-in-disguise-for-indonesia-world-bank/>
- <http://www.iesingapore.gov.sg/~media/ie%20singapore/files/publications/ie%20insights/vol%2013%20indonesia%20tapping%20the%20consumer%20dollar%20in%20food%20and%20retail%20nov%202013.pdf>
- http://www.daff.gov.au/__data/assets/pdf_file/0009/183564/indo_chapter2.pdf

- http://www.daff.gov.au/__data/assets/pdf_file/0009/183564/indo_chapter2.pdf

Disclaimer

The figures in this report correspond to EIBN's best estimate of the value of the corresponding variables. Although due care was taken in the preparation of this report, EIBN makes no warranty as to its accuracy or completeness and is not to be deemed responsible for any error or loss resulting from its use. Other organizations quoted herein are in no way responsible for the content of the report or the consequences of its use