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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 the World Bank, the United States Department of Agriculture (USDA), the Indonesian Statistics Center (BPS), the Indonesian Investment Coordinating Board (BKPM), the Ministry of Trade and Industry of the Republic of Indonesia and the World Trade Organization.

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 2016 and 2017, the data and figures for 2014 and 2015 were used. Please note, 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 2017.

Executive Summary

The purpose of the following report is to present an overview of the Food and Beverage (F&B) Industry in Indonesia and to highlight potential opportunities for European businesses. The F&B market is a complex but indisputably 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 F&B sector plays an important role in the Indonesian economy. In the primary sector, production of raw material for the F&B industry by agriculture, plantation and fisheries accounted for 15% of Indonesia's GDP in 2015. In the secondary sector, manufacturing of F&B beverages accounted for 5% of GDP and 27% of all manufacturing output. Overall, F&B related services contributed 2% to GDP.

Most companies in the F&B manufacturing industry are micro (less than 4 employees) and small enterprises (5-20 employees); in total, respectively, they had 2.92 million (micro) and 737,596 (small) employees in 2015. However, large companies such as Nestlé, Indofood or DANONE strongly influence and shape the market. As for retail outlets, traditional grocery stores still dominate the market, but have lost sales shares mostly to convenience stores and supermarkets in recent years.

Backed by continuing economic development, rising incomes and population growth, sales of F&B are still growing. While the sales volume was USD 89.55 billion in 2015, estimates for 2017 foresee the number increasing to USD 104 billion. These increases are further accompanied by shifts in consumption towards packaged and prepared food due to changing lifestyles among the young and urban population as well as to food safety and health concerns. Thus sales of packaged food products, ranging from baby food and dairy to noodles, ice cream and snack bars, have increased. Similarly, sales of beverages, particularly ready-to-drink products, rose. This is so despite the market for alcoholic beverages having become even more restricted in recent years.

Indonesia's position in the global F&B market is ambiguous. On the one hand, Indonesia is one of the largest producers of, for example, palm oil, fish, cocoa and coffee, exporting its production surpluses abroad. On the other hand, Indonesia relies on imports of products that cannot be produced (either at all or in sufficient quantity) locally, such as wheat, dairy or processed food products. However, in an attempt to transform the Indonesian economy, the government is pursuing policies both to reduce the country's reliance on imports and to strengthen the manufacturing sector, which also benefit the F&B sector.

While trade in F&B mostly focusses on other Asian countries, some EU member states such as the Netherlands, Italy and Germany are nevertheless among the top trading partners for Indonesian exports and imports of F&B. In terms of export value, the top commodities exported to the EU include palm oil, fish products, vegetable oils and unroasted coffee, while the top commodities sourced from the EU are dairy products, prepared food, vegetable oils and chocolate and cocoa products. For some commodities, trade with the EU accounts for more than 20% of total imports (e.g. wine and beer, dairy products, vegetable oils), and of exports (e.g. fruit juices, processed fruits, chocolate and cocoa products, unroasted coffee) of 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) results in positive growth. To the latter, the growing confidence of Indonesian consumers and increased urbanization can be added as developments that should support industry growth. Moreover, other trends, such as a growing awareness of healthy lifestyle products, concerns about food security and the shift of consumers towards modern retail stores cannot be overlooked.

Thus it can be argued that it is worthwhile for EU companies to expand to or source from Indonesia's F&B sector. The already naturally large F&B market and its positive outlooks are convincing arguments to consider an expansion of sales to the archipelagic nation. At the same time, besides being a supplier of raw commodities, Indonesia could become a supplier of more value-added, processed F&B products, as the government is initiating a shift towards becoming a manufacturing base.

However, despite all the promising potential, EU companies looking at Indonesia need to be aware of the remaining challenges. Firstly, as an emerging market, Indonesia does not currently possess the infrastructure necessary for certain types of products. For example, the cold-chains particularly in the remote regions outside of Java, can still not be relied on. Secondly, the legal landscape governing the F&B sector is complex, at times not transparent and subject to constant changes. Cooperation with reliable local partners is recommended.

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, with fast-growing markets and threats from new rising competitors, companies have had little other choice than to react fast in order to survive. Consequently, many such companies have been doing well in 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 demographic changes, noted particularly in emerging markets such as Indonesia. Developments in population composition have brought many challenges and opportunities to the F&B 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 sector report is to present the F&B industry, while highlighting market opportunities and challenges for European companies. The report is therefore divided into three parts. Firstly, there is a detailed description of the food and beverage industry in Indonesia including F&B production, market, Indonesia's positioning in the global F&B market and the key players. Secondly, relevant national policies and regulations are outlined including regulations on packaging, additives, labelling and halal practices. Thirdly, an outlook for the F&B sector depicts the most important trends, opportunities and challenges. In doing so, this sector report aims to serve as a detailed source of information for European businesses interested in the Indonesian F&B market.

II. The Food and Beverage Industry in Indonesia

The F&B sector plays an important role in the Indonesian economy, as exemplified by its contributions to the overall economy. In the primary sector, production of raw materials for the F&B industry by agriculture, plantations and fisheries accounted for 15% of Indonesia's GDP in 2015. In the secondary sector, manufacturing of food products and beverages accounted for 5% of GDP and 27% of all manufacturing output. Finally, F&B related services contributed 2% to GDP (Bank Indonesia, 2017).

Table 1: Gross Domestic Product by Industrial Origin (in USD billion)

Industrial Origin	2013	2014	2015
Agriculture, Forestry And Fishery	94.45	104.42	115.59
Agriculture, Livestock, Hunting And Agriculture Services	**73.69**	**80.71**	**87.89**
Food Crops	24.60	25.43	29.14
Horticultural Crops	10.18	11.89	12.98
Plantation Crops	26.53	29.50	30.51
Livestock	10.96	12.37	13.59
Agricultural Services And Hunting	1.42	1.52	1.68
Fishery	**15.61**	**18.18**	**21.64**
Mining And Quarrying	77.83	77.25	65.14
Manufacturing	148.70	164.40	178.18
Manufacturing Of Food Products And Beverages	**36.38**	**41.63**	**47.93**
Electricity And Gas Supply	7.31	8.49	9.72
Water Supply, Sewerage, Waste Management, Remediation	0.53	0.58	0.64
Construction	67.11	77.18	88.40
Wholesale And Retail, Repair Of Motor Vehicles And Cycles	93.42	105.19	113.63
Transport And Storage	27.80	34.59	42.89
Accommodation And Food Service Activities	21.44	23.78	25.32
Food And Beverages Service Activities	**16.74**	**18.28**	**19.30**
Information And Communication	25.26	27.36	30.14
Financial And Insurance Services	27.42	30.25	34.42
Real Estate Activities	19.58	21.82	24.43
Business Services	10.71	12.30	14.09
Public Administration And Defense, Compulsory Social Security	27.57	29.97	33.39
Education	22.80	25.34	28.79
Human Health and Social Work Activities	7.18	8.08	9.14
Other Services Activities	10.39	12.11	14.12
Total Gross Domestic Product	707.12	782.65	854.87

Source: (Bank Indonesia, 2017)

Output of F&B related activities of the primary, secondary and tertiary sectors increased between 2013 and 2015. The contribution of agriculture and to GDP grew by 8% on average per year from USD 73.69 billion in 2013 to USD 87.89 billion in 2015. The output from fisheries increased by about 19% on average per year, from USD 15.61 billion in 2013 to USD 21, 64 billion in 2015. Similarly, in the same period, manufacturing as well as services related to F&B expanded by almost 16% on average per year, from USD 36.38 billion to USD 47.93 billion and by about 7.5% on average per year, from USD 16.74 billion to USD 19.30 billion respectively (Ibid). This stable expansion of F&B related activities in all economic sectors in recent years is a sign of the overall sector's healthy and promising condition.

Next to the contributions of the F&B sector to GDP, several other indicators also confirm the strength of the Indonesian F&B market. Firstly, F&B sector turnover grew by 7.5% between 2015 and 2016, reaching about USD 30.3 billion in 2016 (Investment Indonesia, 2016). Moreover, investment in the sector continues to be high. For example, foreign direct investment in the food industry amounted to USD 1.5 billion in 2015, making the sector the third largest recipient of FDI in the manufacturing sector. Additionally, the sector received USD 1.8 billion of domestic investment, making it the largest recipient of domestic investment (Oxford Business Group, 2017). These figures indicate a robust growth of trade and investment in Indonesia's F&B 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 (EIBD Conference, 2013).

These trends can be expected to continue in the upcoming years, as the F&B sector can benefit from economic and demographic developments in the country and from government initiatives. In 2016, Indonesia's economy grew by 5.02%, a development that is forecast to continue in 2017 (The World Bank, 2017). With a still-growing population of currently 260 million people and still-rapid economic development, Indonesia is a large and promising market for F&B products (United Nations Data, 2017). The sector has proven to be very resilient during economic downturns. The reason for the steady performance of the Indonesian market is strongly linked to the particular preferences of Indonesian consumers, which are explored further in the final section of this sector report under "Future Trends and Remaining Challenges".

The F&B sector was established as one of the ten industrial groups prioritized by the Indonesian government to be supported under the Master Plan of National Industry Development 2015-2035 (Oxford Business Group, 2017). The government particularly intends to develop the downstream industry as Indonesia moves from being a commodity-based to a manufacturing- and service-based economic (Hidayat, 2016). F&B production in the primary and secondary sector, as well as food services, are outlined in in greater depth in the following sections of this chapter.

2.1 Food and Beverage Production in Indonesia

This section firstly takes a look at food production in the primary sector, i.e. agriculture, plantation and fisheries, before secondly describing the Indonesian F&B processing industry.

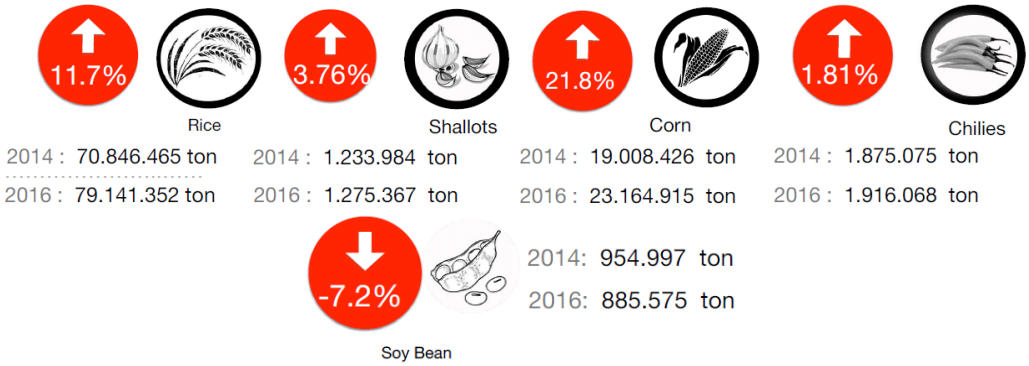
2.1.1 Food Production in the Primary Sector

Agricultural land in Indonesia increased in the last decade. In 2006, 28.42% of the 1.811.570km^2 of Indonesian land was agricultural, whereas by 2014 the share had increased to 31.5%. In 2014, furthermore, 13% of total land in Indonesia was arable,

suitable for growing crops. The share of crop land (2014: 12.4% of all Indonesian land) proves that land suitable for growing crops is almost completely in use.

The increase in land used for agriculture is reflected in increases in production of agricultural commodities. Latest data proves that, between 2014 and 2016, the volume of production of rice, shallots, corn and chilies increased. As figure 1 shows, production volume of rice increased by 11.7% to 79 million tons of rice, which makes Indonesia the third largest rice producer in the world after China (2014: 208 million tons) and India (2014: 155 million tons) (Investment Indonesia, 2016). Moreover, the production of shallots increased by 3.76%, of corn by 21.8% and of chilies by 1.81%.

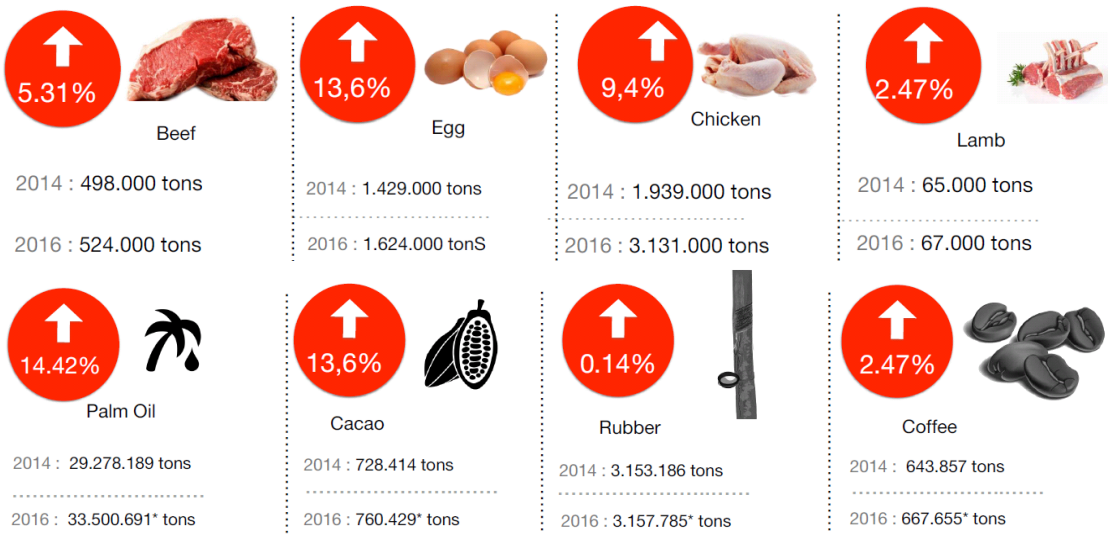
Figure 1: Volumes of Production of Selected Agricultural Commodities in Indonesia



Source: (Hendriadi, 2016)

Only the volume of production of soy beans decreased, by 7.2%, mainly due to the climate conditions of *La Nina*, limited availability of land and lower interest in soy beans by farmers due to relatively low commodity prices. It is important to note that the tropical climate of Indonesia makes it impossible to grow wheat. Nevertheless, food products based on wheat are part of 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. Therefore, wheat and wheat-based products are among the top F&B imports, as outlined later in this report.

Figure 2: Volumes of Production of Selected Animal and Plantation Products in Indonesia



Source: (Hendriadi, 2016)

As for animal products, production volumes increased as well. As figure 2 shows, between 2014 and 2016 volumes of production of beef grew by 5.31%, of eggs by 13.6%, of chicken by 9.4% and of lamb by 2.47%.

Comparing the volumes of production depicted in figure 2 to data of the OECD-FAO Agricultural Outlook 2016 (Organisation for Economic Co-operation and Development, 2016) on demand for foodstuffs in Indonesia, it becomes apparent that production of animal products does not meet domestic consumption needs. For beef, consumption in 2016 was 714,000 tons, which requires 190,000 tons to be imported. For poultry, in 2016 domestic production exceeded domestic consumption, 1.93 million tons, by 1.19 million tons. For lamb, in 2016, local production was 50,800 tons short of meeting the domestic consumption of 117,800 tons (Development, 2016).

Further to that, between 2014 and 2016 production of palm oil increased by 14.4%. With a production of 33 million tons in 2016, Indonesia is the biggest producer of palm oil in the world, followed by Malaysia (2015: 19 Million tons). These two countries jointly account for about 85% of global palm oil production (Investment, 2016). Production of cacao also increased by 13.6% to 760,429 tons between 2014 and 2016, which makes Indonesia the third largest cacao-producing country behind Cote d'Ivoire (2016: 1.69 Million tons) and Ghana (2016: 835,466) (Atlas, 2016).
In the same period, coffee production increased by 2.47% to 667,655 tons. With this level of coffee production, Indonesia became the world's fourth largest producer, following Brazil (2016: 2.59 million tons), Vietnam (2016: 1.65 million tons) and Colombia (2016: 810,000 tons) (Sharma, 2016).

2.1.2 The F&B Processing and Manufacturing Industry

In 2015, manufacturing of F&B accounted for 5% of GDP and 27% of all manufacturing output in Indonesia. This made F&B processing the largest subsector of manufacturing. Indonesian F&B manufacturing is mainly focused on the processing of fish, milk, fruit and vegetables as well as on flour and sugar cane (Growth Driver: Sustained Growth Makes the Food and Beverages Industry a Priority for Spending and Investment, 2017).

Despite continuing rapid growth of the F&B sector in recent years, in 2015 the food manufacturing industry saw a slowdown. While the growth rate of the sector hovered around 9.49% in 2014, it fell to 7.54% in 2015. Moreover, foreign direct investment decreased from USD 3.1 billion in 2014 to USD 1.5 billion in 2015. Alongside an unfavorable macroeconomic environment, with an overall cooling of the Indonesian economy and depreciation of the Indonesian Rupiah, a government regulation on water rights explains this development. For private companies gaining access to water, an essential commodity in the F&B industry, became more complicated. However, the government changed its stance on this matter at the end of 2015. In addition, as the Indonesian Rupiah depreciated, imports, and thus inputs to F&B manufacturing, got more expensive, putting a burden on the sector. As overall conditions improved again in 2016, the growth rate of the F&B manufacturing sector recovered to 8.46% (Ibid).

The Indonesian food manufacturing industry, defined as an economic activity processing basic, lower value food commodities into higher valued, final or intermediate products, can be divided into three categories, comprising in total four types of enterprises.

First category is micro enterprises that have up to four employees. Secondly, there is the category of small enterprises that have between 5 and 19 employees. Thirdly, there

is the category of medium and large enterprises that have 20 to 99 employees and more than 100 employees respectively.

As table 2 shows, micro enterprises comprise those with most in terms of number of enterprises, number of workers, gross output and value-added to the food manufacturing sector in 2015. Moreover, the category of micro enterprises developed significantly between 2013 and 2015. In this period, the number of enterprises increased from about 1 million to almost 1.5 million, while the number of workers increased from about 2 million to almost 3 million. Moreover, gross output and added value, of micro enterprises engaging in the food processing, grew from about USD 55 billion to USD 101 billion and USD 17 billion to USD 35 billion respectively.

Table 2: Market Structure of the Indonesian Food Manufacturing Industry

Micro Enterprises (1-4)	**2013**	**2014**	**2015**
Number of Enterprises	1,008,890	1,125,425	1,473,205
Workers	2,050,205	2,252,729	2,926,612
Gross Output (in billion USD)	5.54	7.29	10.12
Value Added in Market Prices (in billion USD)	1.71	2.38	3.60
Small Enterprises (5-19)			
Number of Enterprises	158,651	73,066	93,815
Workers	1,248,771	574,288	737,596
Gross Output (in billion USD)	8.87	5.64	8.27
Value Added in Market Prices (in billion USD)	2.72	1.39	2.23
Medium Sized (20-99) and Large Enterprises (+100)			
Number of Enterprises	5,795	5,974	5,438
Workers	901,550	877,771	719,116
Gross Output (in billion USD)	64.97	62.78	89.83
Value Added in Market Prices (in billion USD)	21.82	24.08	31.39

Source: (Indonesia, 2017, pp. 294 - 320)

In contrast, although they were the leading type of enterprise in food manufacturing in terms of numbers of workers, gross output and added value in 2013, the category of small enterprises experienced a recession in 2014 on all four indicators and only partly recovered in 2015. In 2015, there were about 93,000 small enterprises employing about 737,000 workers and adding about USD 22 billion in value. Gross output was approximately USD 82 billion.

Finally, the category of medium-sized and large companies steadily increased in terms of gross output and added value, while steadily decreasing in terms of the number of workers. The number of enterprises also decreased in 2015 compared to 2013. In 2015, there were 5,438 medium-sized and large enterprises employing around 719,000 workers and adding a value of around USD 31 billion. Gross output was approximately USD 93 billion.

Despite the majority of companies being micro-sized enterprises contributing most in terms of gross output and added value, the market is dominated by a few large companies, such as Indofood, Wings, Mayora and GarudaFood (Growth Driver: Sustained Growth Makes the Food and Beverages Industry a Priority for Spending and Investment, 2017). In recent years, these domestic players were able to consolidate and expand their position in the market against international companies such as Nestle, Heinz, Kraft, Unilever or Danone. Alongside undercutting market prices of international companies, local companies have developed their own products, tailored around the needs and preferences of Indonesian consumers, thus getting a competitive advantage. Nevertheless international companies are likely to benefit from further rising incomes and standards of living as well as urbanization and westernization of the consuming class.

Table 3: Market Structure of the Indonesian Beverage Manufacturing Industry

Micro Enterprises (1-4 Employees)	**2013**	**2014**	**2015**
Number of Enterprises	45,508	43,293	45,922
Workers	76,509	71,483	73,894
Gross Output (in billion USD, USD 1 = IDR 15,000)	1.32	1.66	1.56
Value Added (in billion USD)	0.62	0.92	0.88
Small Enterprises (5-19)			
Number of Enterprises	1,962	1,401	1,208
Workers	14,366	9534	11,273
Gross Output (in billion USD)	0.68	0.22	1.09
Value Added (in billion USD)	0.20	0.14	0.30
Medium Sized (20-99) and Large Enterprises (+100)			
Number of Enterprises	367	374	310
Workers	51,628	51,681	46,379
Gross Output (in billion USD)	2.03	2.58	2.52
Value Added (in billion USD)	1.21	1.54	1.55

Source: (Statistics Indonesia, 2017)

For the beverage manufacturing industry, the market structure is more divided. As table 3 shows, micro enterprises lead in terms of numbers of establishments and workers, while most added value and gross output comes from medium-sized and large enterprises. It is not possible to perceive any clear developments in the available data. In 2015, there were almost 46,000 micro enterprises in the beverage manufacturing industry, employing almost 74,000 people and adding USD 880 million of value. Gross output was USD 1.56 billion. As for small enterprises, there were 1,208 enterprises, employing around 11,500 people and adding USD 300 million of value. Gross output was USD 1.09 billion. Finally, there were 310 medium sized and large manufacturers of beverages that employed around 46,500 workers and added about USD 1.55 billion of value in total. Gross output was about USD 2.52 billion.

2.2 The Indonesian Food and Beverage Market

As Indonesia's economy, population and middle class continue to grow, consumption expands as well, as the annual development of turnover of the modern retail industry proves. As table 4 indicates, total turnovers of the Indonesian modern retail industry expanded by more than 50% between 2013 and 2017, which translates into an annual, average growth of 13%.

Table 4: Turnover of the Indonesian Modern Retail Industry (in billion USD)

	2013	2014	2015	2016	2017*
Turnover	10.96	12.44	13.40	14.81	16.66

* Forecast

Source: (Investment Indonesia, 2016)

This trend can also be discerned in the F&B sales in Indonesia between 2015 and 2017. Sales of foods and beverages increased by 16.1% in these years, which translates into an average increase of more than 8% per year.

Table 5: F&B Sales in Indonesia (in billion USD)

	2015	2016	2017*
Sales	89.55	96.29	104.0

*Forecast

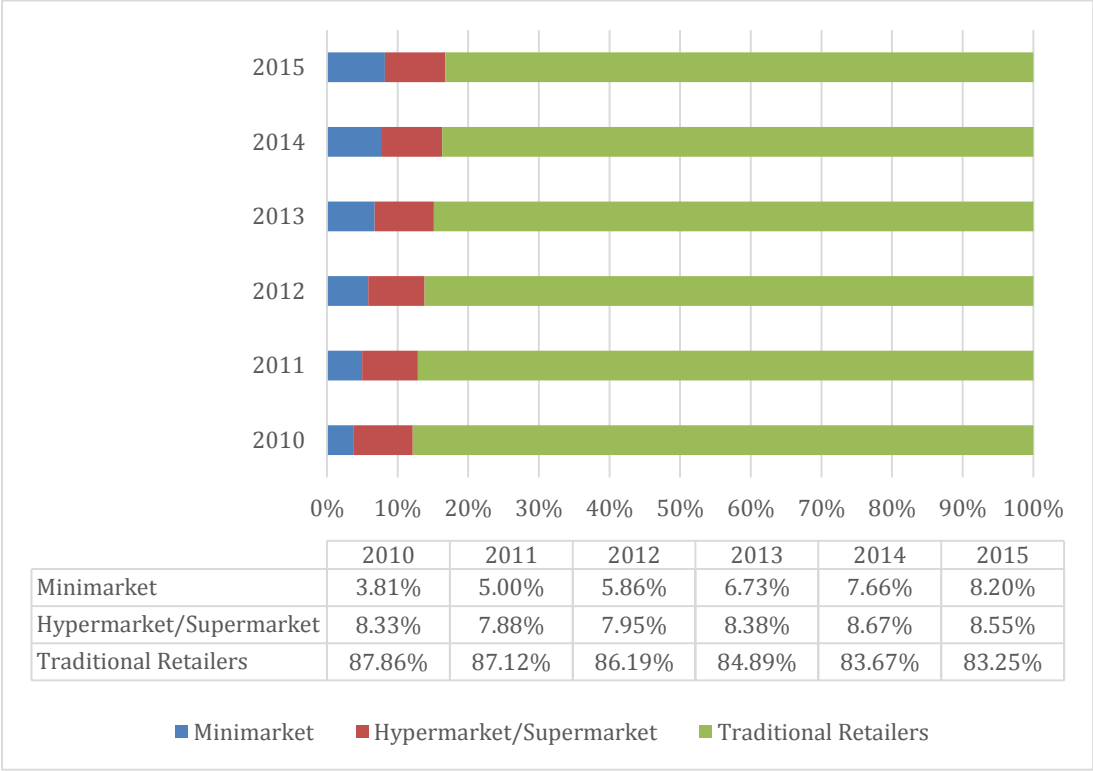
Source: (Ibid)

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 as well as food processing and logistics equipment. This increase in market demand will be partly met by imports, particularly through improvements in the cold chain store system, often implemented by modernized food retailers, as well as by local producers.

At the moment traditional grocery retailers are still the dominant sellers of F&B. Even so, as figure 3 illustrates, they have been losing market shares to modern retailers, such as convenience stores, supermarkets and hypermarkets, in recent years. In 2010, traditional grocery retailers still had a retail sales value share of 87.8%. Until 2015, that share decreased to 83.2%. In the same period, the share of minimarkets, such as convenience stores, in retail sales increased from 3.8% to 8.2%. Fluctuating between around 7.9% and 8.7%, the share of super- and hypermarkets in retail sales did not change significantly in this period.

These dynamics are also to be found in the change in the number of grocery retail outlets. Between 2010 and 2015, the number of convenience stores increased annually, on average by almost 17% to 26,700, and the number of hypermarkets grew annually, on average by 11.8% to 300. The number of supermarkets increased less quickly, but still experienced an annual average growth rate of 4%. In 2015, there were 1,400 supermarkets in Indonesia. While the number of modern grocery retail outlets increased, the number of traditional grocery retailers decreased by 0.1% annually on average. Yet in 2015 there were still 4.5 million traditional grocery sellers (USDA Foreign Agricultural Service, 2016).

Figure 3: Shares of Retail Outlets in Total Retail Sales Value



	2010	2011	2012	2013	2014	2015
Minimarket	3.81%	5.00%	5.86%	6.73%	7.66%	8.20%
Hypermarket/Supermarket	8.33%	7.88%	7.95%	8.38%	8.67%	8.55%
Traditional Retailers	87.86%	87.12%	86.19%	84.89%	83.67%	83.25%

Source: (USDA Foreign Agricultural Service, 2016)

2.2.1 Packaged Food Sales in Indonesia

As a consequence of rising expenditures on food and shifts in consumption patterns towards packaged food, sales of these are increasing. The shift in consumption patterns towards packaged and processed food is caused by urbanization, which is leading to more consumer demand for time-saving and safe food. 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.

As table 6 illustrates, all sub-categories of packaged food, ranging from baby food to sweet and savory snacks, grew in terms of sales volumes in tons. Growth rates were highest for ice cream and frozen desserts (9.45%), breakfast cereals (9.42%) and processed meat and seafood (8.84%). Highest sales in terms of value were achieved

in the categories of baby food (USD 2.4 billion), noodles (USD 2.2 billions) and baked goods (USD 2.1 billion).

Table 6: Sales Volume and Value of Packaged Food (2015)

Product	Volume in 1000 tons	Growth 2014-2015	Value in million USD
Baby Food	295.71	5.91%	2,465
Noodles	1,506	4.01%	2,241
Baked Goods	590.77	4.52%	2,106
Dairy	1,004.08	5.92%	1,928
Confectionary	297.39	4.32%	1,886
Sweet and Savory Snacks	305.29	6.3%	1,261
Processed Meat and Seafood	230.43	8.84%	1,253
Oils and Fat	766.3	0.4%	1,188
Biscuits	282.08	3.79%	1,160
Sauces, Dressings, Condiments	525.82	6%	1,104
Ice Cream and Frozen Desserts	68.91	9.45%	357
Spreads	18.08	6.23%	93
Breakfast Cereals	9.62	9.42%	63
Ready Meals	1.09	6.2%	53
Soups	0.64	6.51%	53
Processed Fruit and Vegetables	10.31	3.34%	36
Pasta	5.99	6.8%	22
Snack Bars	0.88	15%	12
Total	**5,919.39**		**17,281**

Source: (USDA Foreign Agricultural Service, 2016)

2.2.2 Beverage Sales in Indonesia

The market for beverages in Indonesia can be divided into non-alcoholic and alcoholic beverages. As Indonesia is a Muslim majority country, the latter only plays a minor role, particularly outside the urban and tourist centers and regions with a Muslim minority. On average Indonesians consume less than one liter of alcohol per head annually (The Economist, 2017). In comparison, OECD data shows that average annual alcohol consumption per capita is 13.8 liters in Russia, 12.6 liters in Belgium and 12.3 liters in Austria. Even in Turkey, another Muslim majority country, alcohol consumption has been about 50% higher than in Indonesia with 1.5 liters per capita annually (Organisation for Economic Co-Operation and Development, 2016).

Moreover, stricter rules on sales of alcoholic beverages, introduced in 2015, constitute a challenge for the subsector. For example, in addition to the ban of liquor sales in minimarkets and kiosks, these outlets are additionally no longer allowed to sell beer. Although still available in larger supermarkets and hypermarkets, as well as bars, restaurants and hotels, the market for alcoholic drinks is heavily restricted (Indonesia Investment, 2016).

Due to the aforementioned reasons, sales of beer experienced a 13% slump in 2015 and have not recovered since. With a total share in sales volumes of 64%, the market for beer is still led by Bintang, the majority of whose shares are owned by Heineken. The company managed to be less severely impacted by the new regulation, as it offers different flavored and non-flavored, non- and low alcoholic products (Euromonitor, 2016).

Although more conservative parties, which currently hold about a third of seats in the DPR (parliament) are pushing for stricter regulations or even for a total ban on alcohol in the country, experts do not see this happening in the near future. The Economist argues that such a policy would actually increase alcohol-related deaths, as even more people would turn to *oplosan*, an unlicensed, often toxic home-brew that uses non-food ingredients such as methanol. Already at the present time 80% of alcohol consumed in Indonesia is *oplosan,* particularly in regions where local authorities sternly restrict alcohol trading by law. Moreover, Indonesians are particularly proud about the cultural diversity of the country, which would be undermined by a total ban on alcohol (The Economist, 2017).

The two main 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.

However, despite the above mentioned restrictive environment, there seems to be a growing interest in 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.

With regard to non-alcoholic beverages, bottled water and ready-to-drink tea dominate retail sales of beverages in Indonesia in terms of volume, with 18.15 billion and 2.26 billion liters sold respectively. Despite the great volumes of water sold, ready-to-drink tea dominates in terms of total sales value. In 2015, the total sales value of ready-to-drink tea was USD 2.1 billion, followed by bottled water (USD 1.8 billion) and carbonates (USD 1.2 billion).

Table 7: Sales of Non-Alcoholic Beverages by Volume and Value (2015)

Product	Volume in million liters	Volume Growth 2014-2015	Value in million USD
Ready-to-Drink Tea	2,262	5.5%	2138
Bottled Water	18,157	4.3%	1,883
Carbonates	1.03	4%	1,190
Sport and Energy Drinks	655.9	6.4%	689
Concentrates	106.6	1.8%	688
Juice	179.6	7%	231

Ready-To-Drink Coffee	17.9	11%	36
Total	**21,380.03**		**6,854**

Source: (USDA Foreign Agricultural Service, 2016)

2.2.3 Food Services in Indonesia

Food services in Indonesia are offered by a diverse set of service providers, ranging from high-end hotels and restaurants serving international and local dishes to small street side restaurants (warungs) and vendors selling only a small selection of dishes. Besides these, there are local and international fast food outlets, cafes, bakeries and bars. Moreover, catering services have become more and more prominent, serving, for example, large companies, air- and cruise lines, prisons and hospitals (USAD Foreign Agricultural Service , 2016).

As table 8 illustrates, in terms of number of outlets, full-service restaurants (100,170 outlets), particularly those offering Asian cuisine (97,689 outlets), and traditional food sellers (92,256) dominated the food service market in 2015. In terms of sales value, again full service restaurants, including those belonging to chains as well as independent ones, took the lead with sales of USD 2.8 billion. Within the category of full service restaurants, those offering Asian cuisine again dominated with a total sales value of USD 2.6 billion. Moreover, in 2015 there were 4,944 bars and cafes with a total sales value of USD 207 million and 5,915 fast food outlets with a total sales value of USD 148 million.

Table 8: Number, Sales and Forecast for Food Outlets by Category in 2015

Description	State of Affairs in 2015		Annual Forecast % Growth 2015-2020	
	Number of Outlets	Sales in million USD	Number of Outlets	Value of Sales
Cafes and bars (Total)	**4,944**	**207.84**	**6.5**	**6.9**
Full-Service Restaurants (Total)	**100,170**	**2,819.17**	**2.5**	**5.3**
Asian	97,689	2,661.10	0.2	3.5
European	390	32.59	2.3	4.7
Latin American	48	3.03	3.9	5.0
Middle Eastern	63	3.33	3.0	7.0
North American	888	41.23	1.8	4.7
Pizza	486	34.60	3.0	5.9
Others	606	43.30	3.2	6.3
Fast Food (Total)	**5,915**	**148.43**	**4.8**	**6**
Asian	1,490	44.73	1.8	4.4
Bakery	1,059	14.88	2.2	5.7
Burger	612	34.52	3.3	4.0
Chicken	1,238	46.78	3.9	4.9
Convenience Store	988	3.61	15.0	14.0
Ice Cream	502	3.61	3.6	3.0
Middle Eastern	26	0.29	3.8	6.0
Traditional Food Seller (Total)	**92,256**	**116.64**	**0.1**	**1.9**

Source: (USAD Foreign Agricultural Service , 2016)

Although forecasts predict positive growth rates for every type of food service outlet until 2020, there are some which stand out from the rest. According to the US Foreign Agricultural Service, prospects for the convenience stores as food service providers are particularly good. Predictions see them growing annually by 15% in terms of numbers and 14% in terms of sales value between 2015 and 2020. On the other side of the spectrum, the number of traditional food sellers is forecast to increase by only 0.1% annually, while the value of sales is forecast to increase by 1.9% annually. Full-service restaurants serving European dishes range in the middle with predictions that the number of outlets will grow by 2.3% per year and the value of sales by 4.7% per year.

Food services provided by high-end food service outlets, which are concentrated in tourist and urban centers such as Bali or Jakarta, often rely on imported food products to ensure that their customers' expectations are satisfied. At the opposite end of the spectrum of food services, food outlets tend to rely on local products (USAD Foreign Agricultural Service , 2016).

2.3 The Indonesian Food Industry in the Global Market

As a large, emerging economy with suitable climatic conditions for certain F&B commodities and a developing F&B processing industry, Indonesia holds an important position in the global production of F&B commodities and products. For example, Indonesia is the world's number one producer of crude palm oil, crude palm kernel oil, dried seaweed and coconut. For other food and beverage related commodities, it ranks among the top ten producing nations. It is the second largest producer of fish and shrimp, the third largest producer for cocoa as well as pepper, the fourth largest producer of coffee and the seventh largest producer of tea in the world (Tagnaningtyas, 2016).

However, at the same time Indonesia is the fourth most populous country in the world. As incomes and consumer expectations rise, local production can only partly satisfy Indonesia's demand for F&B products. While there are surpluses of some commodities that are exported, there are as well shortages of some commodities that need to be filled by imports. The following section looks at the position of Indonesia in the global F&B market, shedding light on its trade in F&B, particularly with the EU.

2.3.1 Import and Exports of Indonesian F&B Products

Imports of F&B products to Indonesia serve one of three purposes. Firstly, imports add to existing stocks from domestic production, which are not sufficient to meet demand in Indonesia, for example soy beans. Secondly, imports fill a gap in demand for products, which cannot be produced locally, for example wheat. Thirdly, imports could theoretically be locally produced, but are not, for reasons such as insufficient domestic demand or an underdeveloped F&B manufacturing industry.

As table 9 shows, in 2015, the main imports of the food and beverage industry, namely those with a total import value of more than USD 500 million, were wheat (USD 2.08 billion), soy bean meals (USD 1.81 billion), sugar and sweeteners (USD 1.43 billion) and soy beans (USD 1.03 billion). Moreover, there were significant imports of dairy products (USD 998 billion), prepared foods (USD 728 million), corn (USD 687 million), fresh fruits (USD 640 billion) and live animals (USD 549 million).

As a trend it should be noted that, with few exceptions, imports of these commodities were shrinking between 2013 and 2015. Only imports of live animals significantly increased, by 60%, in those three years. However, during the same period imports of soy bean meals (5%), soy beans (6%), prepared food (12%), wheat (14%), corn (24%), sugars and sweeteners (24%) and of dairy products (31%) decreased. These decreases can be attributed to the government's plan to make Indonesia more self-sufficient in terms of food production (Hendriadi, 2016).

Table 9: Indonesia's Imports of F&B between 2013 and 2015 (in thousand USD)

	2013	2014	2015
Product	**Value**	**Value**	**Value**
Wheat	2,439,937	2,387,248	2,082,765
Corn	914,374	803,045	687,129
Coarse Grains (Ex. Corn)	11,256	11,079	11,754
Rice	246,002	388,178	351,602
Soybeans	1,101,531	1,176,921	1,034,367
Rapeseed	421	557	268
Oilseeds Nesoi	17,650	14,559	21,016
Peanuts	332,256	284,615	204,220
Pulses	111,763	111,664	61,475
Coffee, Unroasted	29,669	39,378	27,031
Cocoa Beans	77,422	341,437	169,735
Soybean Meal	1,933,390	2,200,561	1,819,495
Oilseed Meal/Cake (Ex. Soybean)	79,741	64,315	40,785
Soybean Oil	34,933	29,200	24,943
Palm Oil	46,717	303	4,650
Vegetable Oils NESOI	180,210	167,311	159,164
Live Animals	341,969	682,320	549,697
Animal Fats	2,166	1,409	2,015
Essential Oils	210,781	214,944	190,797
Sugars & Sweeteners	1,897,128	1,489,943	1,430,494
Fish Products	219,578	223,942	212,168
Beef & Beef Products	249,604	443,837	251,239
Pork & Pork Products	1,664	2,202	2,771
Poultry Meat & Prods. (Ex. Eggs)	3,742	4,276	4,522
Meat Products NESOI	16,252	19,076	27,803
Eggs & Products	10,801	9,721	16,583
Dairy Products	1,456,389	1,472,695	998,800
Fresh Fruit	637,936	764,502	640,818
Processed Fruit	49,819	49,187	54,072
Fresh Vegetables	490,520	492,803	459,588
Processed Vegetables	106,484	103,865	106,018
Fruit & Vegetable Juices	30,556	30,188	26,104
Tree Nuts	19,819	16,509	16,559
Chocolate & Cocoa Products	126,582	127,190	123,845
Snack Foods NESOI	71,308	83,403	79,650
Condiments & Sauces	59,378	55,072	55,627
Prepared Foods	830,712	757,392	728,972
Spices	59,707	99,027	70,254
Tea	41,817	38,134	39,618
Coffee, Roasted And Extracts	102,522	100,019	101,587
Non-Alcoholic Bev. (Ex. Juices, Coffee, Tea)	85,274	101,271	93,003
Wine & Beer	2,481	3,643	2,382

Legend

Imports with an import value of more than USD 500 million

Source: (USDA Foreign Agricultural Service, 2017)

Table 10: Indonesia's Exports of F&B between 2013 and 2015 (in thousand USD)

	2013	2014	2015
Product	**Value**	**Value**	**Value**
Wheat	0	0	0
Corn	1,305	11,039	53,797
Coarse Grains (Ex. Corn)	40	33	70
Rice	1,191	760	630
Soybeans	459	24,415	166
Rapeseed	117	32	52
Oilseeds NESOI	31,418	66,239	44,328
Peanuts	3,536	4,349	7,256
Pulses	16,926	35,910	46,669
Coffee, Unroasted	1,166,244	1,030,807	1,189,725
Cocoa Beans	446,095	196,492	114,978
Soybean Meal	2,550	168	65
Oilseed Meal/Cake (Ex. Soybean)	577,816	604,347	437,734
Soybean Oil	1	6	7
Palm Oil	17,140,836	19,005,595	16,951,557
Vegetable Oils NESOI	2,073,716	2,091,474	1,757,567
Live Animals	74,034	66,723	56,129
Animal Fats	58	289	220
Essential Oils	143,940	182,845	207,447
Sugars & Sweeteners	100,040	152,404	98,469
Fish Products	3,781,941	4,187,482	3,542,613
Beef & Beef Products	7	4	13
Pork & Pork Products	1	43	9
Poultry Meat & Prods. (Ex. Eggs)	15	-	137
Meat Products NESOI	176,521	152,787	124,292
Eggs & Products	3	2	105
Dairy Products	95,271	116,788	75,486
Fresh Fruit	15,651	33,339	40,420
Processed Fruit	170,241	203,131	232,763
Fresh Vegetables	30,930	22,199	27,835
Processed Vegetables	83,196	79,982	78,698
Fruit & Vegetable Juices	26,203	31,285	43,762
Tree Nuts	395,553	614,910	725,619
Chocolate & Cocoa Products	701,605	1,043,805	1,189,488
Snack Foods NESOI	421,354	490,110	515,948
Condiments & Sauces	106,010	119,624	120,498
Prepared Foods	604,329	676,909	662,228
Spices	617,016	660,871	872,111
Tea	160,782	141,495	130,231
Coffee, Roasted And Extracts	302,126	329,473	354,362
Non-Alcoholic Bev. (Ex. Juices, Coffee, Tea)	55,843	57,216	62,359
Wine & Beer	21,075	10,513	21,658

Legend

Imports with an import value of more than USD 500 million

Source: (USDA Foreign Agricultural Service, 2017)

The F&B commodities, for which Indonesia is a globally leading producers, can be rediscovered amongst Indonesia's main F&B export commodities. As table 13 illustrates, in 2015, the main export commodities of F&B related industries, namely those with a total export value of more than USD 500 million, were palm oil (USD 16.95 billion), fish products (USD 3.5 billion), vegetable oils (USD 1.75 billion), unroasted coffee beans (USD 1.18 billion) as well as chocolate and cocoa products (USD 1.18 billion). Moreover, there were significant exports of spices (USD 872 million), tree nuts (USD 725 million), prepared food (USD 662 million) and snacks (USD 515 million).

For these main export commodities, it can be observed that while exports of raw materials only grew slightly between 2013 and 2015 (coffee: +2%; palm oil: +1%) and exports of intermediate products decreased (vegetable oils: -15%), exports of processed food products increased strongly. Between 2013 and 2015, exports of prepared food (+9%), snacks (28%), spices (41%) as well as chocolate and cocoa products (69%) grew greatly. This can at least be partly attributed to, as the Dutch investment company *Van der Schaar Investments B.V.*, puts it, *"support from the central government to curb Indonesia's traditional reliance on (raw) commodity exports, while raising the role of the manufacturing industry within the economy"* (Indonesia Investment, 2017).

2.3.2 Trade Partners of Indonesian F&B Imports and Exports

Indonesian trade in F&B products is not limited to neighboring countries, but spread across the globe. Besides ASEAN member countries and other Asian countries, there are countries from North and South America, Europe and the MENA region among Indonesia's top 20 trading partners for F&B commodities and products.

As presented in table 11, in 2014, the list of destination countries for Indonesian F&B exports was headed by India (Export value: USD 4.1 billion), China (USD 3.7 billion) and the United States (USD 3.3 billion). EU countries present among the top 20 export destinations are the Netherlands, ranked fourth (USD 2.2 billion), Italy, ranked eighth (USD 1.2 billion), Spain, ranked eleventh (USD 878 million) and Germany, ranked seventeenth (USD 522 million). The high rank of the Netherlands is due to the historically close ties between the two countries from the colonial era.

In 2014, most of the F&B imports to Indonesia came from Australia (Import Value: USD 3.1 billion), the United States (USD 2.7 billion) and China (USD 1.6 billion). EU countries present among the top 20 countries of origin for Indonesian F&B imports are France, thirteenth rank (USD 223 million), the Netherlands, fifteenth rank (USD 152 million), Belgium, sixteenth rank (USD 115 million) and Germany, nineteenth rank (USD 101 million).

In the future, trade with EU member states could increase, as a free trade agreement between the EU and Indonesia is currently under negotiation. For further information on Indonesia's free trade agreements consult "4.1.5 Free Trade Agreements".

Table 11: Top 20 Trade Partners of Indonesia for F&B by value in 2014 (in million USD)

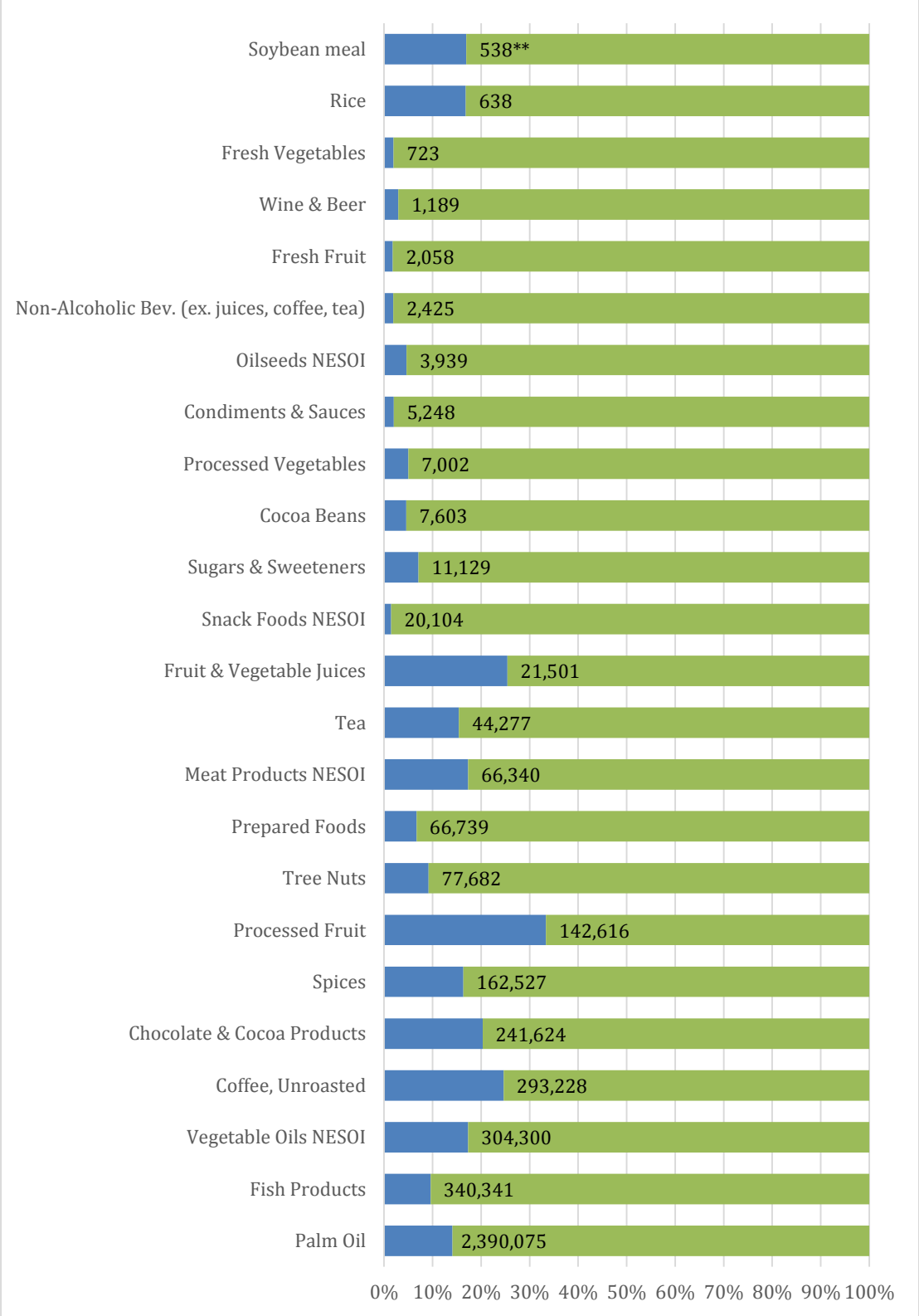
	Destination Country	Export value		Country of Origin	Import value
1	India	4,105.26	1	Australia	3,128.28
2	China	3,773.10	2	United States	2,750.71
3	United States	3,390.09	3	China	1,615.90
4	Netherlands	2,146.00	4	Brazil	1,463.95
5	Malaysia	2,140.08	5	Argentina	1,362.66
6	Pakistan	1,539.02	6	Thailand	1,200.51
7	Singapore	1,475.64	7	India	914.93
8	Italy	1,219.43	8	Canada	588.68
9	Japan	1,109.32	9	New Zealand	583.73
10	Bangladesh	921.37	10	Malaysia	531.83
11	Spain	878.84	11	Vietnam	277.50
12	Egypt, Arab Rep.	874.07	12	Singapore	254.90
13	Philippines	724.76	13	France	223.64
14	Vietnam	638.69	14	Cote d'Ivoire	192.55
15	Korea, Rep.	636.74	15	Netherlands	152.20
16	Russian Federation	626.96	16	Belgium	115.32
17	Germany	522.13	17	Korea, Rep.	114.54
18	Thailand	508.08	18	Ukraine	103.70
19	Saudi Arabia	440.88	19	Germany	101.29
20	Brazil	383.08	20	Russian Federation	87.76

Source: (The World Bank, 2014)

A closer look at Indonesian F&B exports to the EU reveals a diverse picture. For some F&B commodities, exports to the EU account for a large share of total exports, while for others the EU is not an important export destination. Figure 4 shows the share of F&B exports to the EU in relation to total F&B exports from Indonesia in 2015. The figure includes those commodities, where the exports to the EU accounted for more than 1% of total exports. Additionally, the commodities are ranked from lowest to highest according to the value of exports to the EU, which is stated in thousands.

As figure 4 illustrates, palm oil is the most important F&B related commodity exported to the EU in terms of export value (USD 2.39 billion). Moreover, fish products (340 million), vegetable oils (304 million) and unroasted coffee (293 million) are among the important export commodities in EU-Indonesian trade. At the same time, having the largest export value does not directly translate into a large share of F&B exports to the EU in the context of total F&B exports from Indonesia. In this regard, the EU forms an important export market for Indonesian processed fruits (33.37% of total exports), fruit and vegetable juices (25.43%) and unroasted coffee (24.65%).

Figure 4: Values of F&B Exports to the EU* and their Share of Total F&B Exports of Indonesia in 2015 (in thousand USD)

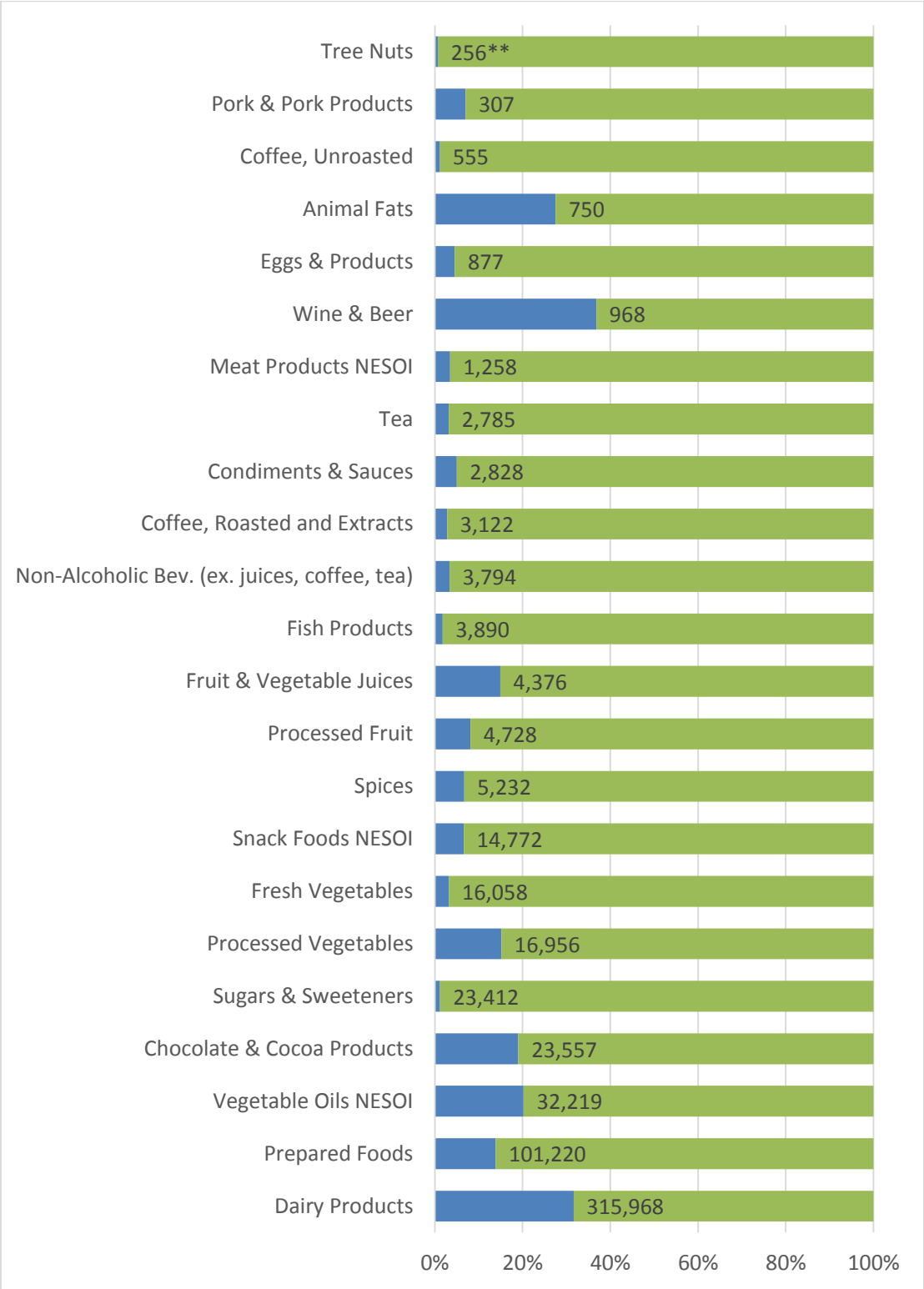


*Includes only commodities with a share larger than 1%

** Value of exports of the respective commodity to the EU (in thousand USD)

Source: (USDA Foreign Agricultural Service, 2017)

Figure 5: Values of Imports from the EU* and their Share of Total F&B Imports of Indonesia in 2015 (in thousand USD)



*Includes only commodities with a share larger than 1%

** Value of imports of the respective commodity from the EU (in thousand USD)

Source: (USDA Foreign Agricultural Service, 2017)

Similarly structured as with figure 4, figure 5 shows the value and share of F&B imports from the EU to Indonesia. In terms of value, dairy products (USD 315 million) followed

by prepared food (USD 101 million), vegetable oils (USD 32 million) and chocolate and cocoa products (23 million) are the most important traded commodities. Yet the picture partly changes when looking at the share of F&B imports from the EU in total F&B imports of Indonesia. Imports of wine and beer from the EU achieve a share of 36.82%, followed by dairy products (31.63%), animal fats (27.54%), vegetable oils (20.24%) and chocolate and cocoa products (19.02%).

2.4 Key Players

The majority of companies and enterprises engaging in the Indonesian F&B market are small or micro-sized. However, large local companies such as Indofood, Wings, Mayora and GarudaFood, as well as large multinational companies, such as Nestlé and Unilever, have had great influence on the development of the F&B market (Oxford Business Group, 2017). This section presents the leading local and foreign companies shaping the Indonesian F&B market.

2.4.1 Local Companies

Indofood is one of the largest Indonesian food companies and involved in all stages of food processing from the production of raw materials to the production of consumer products. The company offers a diverse range of products, including, for example, noodles, dairy, snack foods, food seasonings, nutrition and special foods, and beverages. It is listed on the stock market with its stock value rising from 1,160 points in 2005 o 8,100 points in 2017 on the Indonesian Stock Exchange. In 2015 its net sales reached approximately USD 4.7 billion and its gross profits reached approximately USD 1.2 billion (Indofood, 2016).

The **Wings Group** initially produced soap and detergent 60 years ago in East Java, but today it is an important company, exporting its products around the world. The company expanded gradually by increasing its product lines. As a result, the enterprise now operates in the real estate sector, personal care and F&B products. Wings produces instant noodles, sauces and three 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 (Wings Group, 2017).

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 continued to grow, expanding its structure to cover the ASEAN region, where it has acquired several marketing offices and production facilities. Nowadays, the company sells its products even to Europe, Australia and South Africa. The MAYORA Group specializes in biscuits, candy, wafers & chocolates, nutrition and coffee. In 2016 it had a net revenue of USD 1.3 billion and a net income of USD 100 million (Financial Times, 2017).

The **GarudaFood Company** is an F&B company that originated from PT Tudung. At its early stages, the company traded in peanut products under the brand known as Kacang Garuda. Today, the GarudaFood Group consists of 3 main divisions: the food division, the beverage division and the distribution division. In the food division, it produces peanut products, snacks, confectionaries, biscuits and basic food. In the beverage division, they specialize in tea-based beverages, coffee-based beverages, juices and fruit-flavored drinks, as well as jelly cups and jelly milk beverages. The GarudaFood Group is an international holding exporting its products worldwide to countries such as India, the Netherlands, Thailand and the USA (Garuda Food, 2017).

REKSO is a company with diverse activities in F&B, real estate, 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. Drinks sold by the 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 (Rekso International, 2017).

2.4.2 Foreign Companies

Nestlé Indonesia is a subsidiary of Nestlé S.A., which started to operate in Indonesia in 1971 and now has more than 3,400 employees. The different brands owned by Nestlé can be divided into the following categories: 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 (Nestle Indonesia, 2017).

DANONE in Indonesia is represented by four companies and three categories of business: PT Tirta Investama (Waters), PT Sarihusada Generation Mahardika, PT Nutricia Indonesia Sejahtera (both Early Life Nutrition), and Nutricia Medical Nutrition (Medical Nutrition). Currently, Danone has more than 14,000 employees and 21 facilities and offices across the country. In 2014, Indonesia was the fifth largest contributor to the worldwide sales of DANONE.

ABC Heinz is a subsidiary of Kraft Heinz Company in the United States. The company specializes in the production of soy and chili sauce, which it exports to markets in Asia, Europe, Australia and North America. It employs more than 3,000 people in 3 production and 8 packaging facilities.

Established in 1933, **Unilever Indonesia** has over time evolved into one of the leading F&B companies in the country. The company engages in the manufacturing, marketing and distribution of soaps, detergents, margarine, ice cream, savory, soy sauce, cosmetic products, tea based beverages, and fruit juice amongst others. F&B account for about 23% of the company's total sales, which were approximately USD 2.7 billion in 2015. The company operates 9 factories and the biggest warehouse in Indonesia, which is also the biggest Unilever warehouse in the world. In 2015, gross profit was at about USD 1.4 billion (Unilever Indonesia, 2017).

III. National Policies and Relevant Regulations

The Indonesian market is very attractive for investors and exporters. Therefore, to protect the market and local companies, the Indonesian government is regulating the F&B sector in a determined fashion, a trend that can create some challenges, such as customs clearance delays.

The most important legislation for F&B is Indonesia's Food Law 18/2012, which is a comprehensive regulation covering all food and food products. These are defined as all foods coming from biological/agricultural sources including agriculture, plantations, forestry, fishery, livestock and water. The definition further includes processed and unprocessed products intended as food additives, raw material or food or beverages for human consumption.

According to Law 18/2012 food supply has to be sufficient, safe, of high quality, affordable and not in conflict with religion, beliefs and culture. Against this background, the law demands that increases in production shall not negatively affect sustainability as well as the producer's welfare and business. Moreover, domestic food production is prioritized over imports.

Next to Law 18/2012 there are several acts and government regulations as well as presidential instructions, ministerial regulations and decisions, and departmental determinations on the production, import and distribution of food. These are meant to implement the provisions of the law. However, apart from the sheer amount of regulations, lack of updating old regulations and enacting new ones has created an unclear and confusing regulatory environment. Close cooperation with local importers/agents with extensive expertise and up-to-date information is therefore recommended (USDA Foreign Agricultural Service, 2016).

This chapter is to be understood as a non-exhaustive introduction to the respective stipulations.

3.1. Food Categories

Regulation No. 21/2016 by the National Agency for Food and Drug Control (BPOM) of Indonesia relates to food categories, of which there are 16. If an F&B product does not fall under one of the categories stated in the regulation, written approval by the head of BPOM is needed to produce and distribute the respective product in Indonesia. Next to the food categories, Regulation No. 21/2016 governs the standards, assessments, inspections and certifications for food safety controls. All food products sold in retail packaging, no matter whether domestically produced or imported, have to comply with the regulation (USDA Foreign Agricultural Service, 2016).

3.2. Registration of F&B Products

The distribution of processed food in retail packaging, produced domestically or imported, requires prior registration with BPOM to ensure compliance of the product with relevant safety, quality, nutrition and labelling regulations. Exemptions from the registration are possible for food products produced by home industries, food with a maximum room temperature shelf-life of 7 days, ingredients, bulk packaged foods, and samples imported for registration with BPOM. Note that products with identical composition but different packaging (e.g. size, labelling, name, production address etc.) have again to be registered with BPOM.

Regulation No. 12/2016 by BPOM outlines the latest registration procedures. The procedure applies to new registrations, variation of registrations or re-registrations before the expiration of the initial registration.

The registration procedure used for special foods and food additives, for example those products having high risks or nutritional claims, requires the provision of hard copies of the following documents prior to the online registration:

- Letter of Appointment (LoA)
- Free Sale Certificate (FSC)
- Laboratory Text Results
- Product Specifications
- Raw Material Specifications

Once these documents are provided to BPOM and approved, the respective product can be registered online.

Note that an easier e-registration is possible for products with low risk levels, which are determined by factors such as targeted consumers, use of food additives and production processes. The online registration can be found under http://e-reg.pom.go.id.

For imported products, importers have to register the manufacturers of the F&B product that they are importing, prior to the product registration. This registration requires the provision of hard copies of a letter of appointment and a free sale certificate to BPOM (USDA Foreign Agricultural Service, 2016).

3.3. Imports of F&B Products

As outlined above, any processed F&B products packaged for retail must be registered with BPOM ahead of the import. After successful registration the product receives an Imported Product Registration Number (ML).

In addition, importers of any animal-based food product need to have an import recommendation from the Directorate General of Livestock and Animal Health Service of the Ministry of Agriculture. It is required to have such a recommendation to apply for the ML for animal-based food products.

The following products have to comply with the Indonesian National Standard (SNI): Bottled water, instant coffee, palm cooking oil, wheat flour, and cocoa powder. For biscuits, an SNI has been issued but not implemented yet. The SNI applies to both domestically produced products as well as imported ones. Obtaining an SNI for imported products requires a product quality conformance test result from an assigned domestic or foreign accredited laboratory.

Moreover, as outlined in Regulation No. 12/2015 and Regulation No. 13/2015 by BPOM, all imported food materials and ingredients must obtain an entry permit (SKI) from the head of BPOM for every shipment. Without an entry permit, the products are not allowed to be released from customs.

There is a 5% import duty on most food and agricultural products. Note, however that import duties on some products such as coffee, tea, cocoa, sausages, seafood or pasta can be as much as 30%. In addition, a value added tax of 10% and a sales tax

of 2.5% are imposed on most imported products (USDA Foreign Agricultural Service, 2016).

3.4. Food Additives

According to Regulation No. 033/12 by the Ministry of Health, any production, import and circulation of food additives requires a distribution license from BPOM.

Regulations No. 4 - 25/2013 and No. 36 - 38/2013 by the head of BPOM state the maximum limits of the use of food additives. In addition, Regulation No. 4/2014 by BPOM specifies the limits of the use of sweeteners, while Regulation No. 22/2016 by BPOM lays out the requirements for flavors.

Food additives from animal sources are required to have a “Halal” certificate issued by the responsible authorities in the country of origin of the additive. Any use of food additives has to be reported in the labelling of the respective product (USDA Foreign Agricultural Service, 2016).

3.5. Food Packaging

Food packaging is defined by Indonesian law as all material used to contain or pack food, no matter whether the material is in direct contact with the food or not. Commercial food producers are not allowed to use packaging material prohibited by law or harmful to the consumer.

A list of permitted and prohibited packaging material is provided in Regulation No. HK 03.1.23.07.11.6664 issued in 2011 and amended by Regulation Bo. 16/2014 issued in 2014. The list includes, among other materials, active food packages, smart food packages, adhesives, ceramics, Styrofoam, rubber and elastomer, glass, ion exchange resin, metal and metal alloys, paper and cardboard, plastic, regenerated cellulose, silicon, fabric, wax, wood, polisher and coatings.

Regulation No. 18/2012 by the government stipulates*, inter alia,* that producers are required to use biodegradable packaging with as little waste as possible and use raw materials that can be recycled (USDA Foreign Agricultural Service, 2016).

There are no industry regulations or practices applicable to package size.

3.6. Labelling

Chapter VIII Articles 96-107 of the afore-mentioned Law 18/2012 include provisions on F&B labelling and advertisement. In addition, Regulation No. 13/2016 by BPOM restricts the use of advertisement and claims for processed food, while Regulation No. 12/2016 regulates labelling requirements for processed food.

Indonesian Law defines F&B label information as any picture, writing or other form of information that is placed in, affixed to or constitutes part of the food packaging in any other way. Producers and importers of food packaged for sale in Indonesia have to put a label on the packaging of the respective food product in such a way that it is visible, readable, not easily damaged and does not come off quickly. The label has to be affixed before arrival in Indonesia, meaning before customs clearance. Statements and claims about the benefits of the respective product are only to be included if they are backed by accountable scientific evidence.

The label must contain:

- The name of the product
- A list of ingredients
- Net weight or net volume
- The name and address of manufacturer or importer
- The Halal logo (if applicable)
- Date and production codes as well as the expiry date
- The Registration Number (ML for imported food products)
- The source of certain foodstuffs

Further requirements for labels for F&B products are that the labelling is to be written in Bahasa Indonesia, Arabic numerals and Roman text. Foreign terms are only allowed, if there is no such or no better term in the Indonesian language. Moreover, any background, be it picture, color or any other form, obscuring the writing of the above mentioned information is prohibited.

Next to these general requirements for the labelling of food products, there are specific requirements for certain types of F&B products. For example, labels for processed food have to include nutritional facts and indicate whether the products have been irradiated, are organic or contain GMOs.

Moreover, for products such as baby formula, food for pregnant women and special diet foods, preparation instructions are to be included. Storage instructions are to be included for products such as ice cream, bottled water and processed meat. In addition, labelling for certain products may require serving suggestions, intended use and warnings (e.g. allergens).

Against the background of Indonesia being a Muslim majority country, any food containing pork (e.g. meat, gelatin etc.) has to indicate such content by the words "MENGANDUNG BABI" ('contains pork'), written in red and surrounded by a rectangle form next to a pictogram of a pig. Furthermore, labels for alcoholic beverages have to state the alcohol content and type of beverage, as well as including a warning that consumption by people under 21 and pregnant women is prohibited (USDA Foreign Agricultural Service, 2016).

3.7. Alcoholic Beverages

All alcoholic beverages are "goods under supervision", meaning that distribution and sales are controlled by the government in accordance with Presidential Decree No. 74/2013. Alcoholic beverages are not allowed to be advertised and sold directly to people younger than 21.

Every first of April, the Ministry of Trade sets the type and amount of alcoholic beverages that are allowed to be imported. Certain ports in the major cities of the archipelago's main islands and all international airports are declared as legal entry points for alcoholic beverages. Imports of alcoholic beverages must be conducted by registered importers, who have been granted an Imported Alcoholic Beverages Permit (IT-MB) by the Directorate General of Foreign Trade of the Ministry of Trade. The permit is valid for three years but can be extended. Since 2015, an import duty of 90% ad valorem is applied on imports of wine, cider and mead and of 150% *ad valorem* on imports of spirits and liqueurs.

There are three categories of alcoholic beverages: Beverages with zero to five percent alcohol (Category A), beverages with more than 5 percent and less than 20 percent alcohol (B), and beverages with 21 - 55 percent alcohol (C). Duty-paid alcoholic beverages of all categories may be sold for on-site consumption at hotels, restaurants, bars, pubs and night clubs, while duty-free sales of alcoholic beverages of all categories are only allowed by duty-free shops in certain locations. As explained earlier, selling category A alcoholic beverages in mini-markets and other retail shops has been prohibited since 2015 by Regulation No. 6/2015 by the Ministry of Trade. The sale of category B and C alcoholic beverages by such outlets has already been prohibited. (USDA Foreign Agricultural Service, 2016).

3.8. Halal Regulations

Having the biggest Muslim population in the world, Indonesia has to cater for 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. Although parliament passed Law No. 33/2014 on Halal products in 2014, it has so far not been implemented (March 2017).

Until the implementation of the new law, the regulations pertaining to Halal products are included in the Consumer Protection Act No. 8/1999 and government Regulation No. 66/1999 on labeling and advertising, and the Food Act No. 7/1996 on food. The institution that issues Halal certification is the Indonesian Council of Ulama (MUI). Within MUI there are two bodies responsible for halal certification. The Food, Drug and Cosmetics Assessment Agency (LPPOM) conducts halal examinations, audits and assessments and the MUI Fatwa Committee issues fatwas and sharia decrees based on examinations by LPPOM.

At present obtaining Halal certification is still voluntary. However, as stated in the Animal Husbandry and Animal Health Act No. 18/2009, all products that use animal ingredients and derivatives circulating in Indonesia, whether local or imported, shall bear the Halal certification if they abide by those guidelines. For other products there is still no obligation to do so. Nevertheless it can be a competitive advantage to have such a certification, as many consumers consider halal requirements in their purchasing decisions.

Under the new Law No. 33/2014, the Halal Product Assurance Organizing Agency (BPJPH) has been established and tasked with developing new procedures and standards for a national Halal certification. Even so, relevant implementation regulations have still not been decided nor taken effect so far. The new, as yet unimplemented, system demands that all imported, distributed and traded goods and services related to food, beverages, medicine, cosmetics, chemical products, biological products, genetically modified products, and associated products that are worn or used by the public be Halal and certified (Conventus Law, 2016).

IV. Future Trends and Remaining Challenges

As outlined at the beginning of chapter II, the Indonesian F&B sector is strong and healthy. Food and beverage consumption in Indonesia is expected to keep growing in the coming years, mainly due to wage growth prospects coupled with strong domestic demand from a young and urban population. However, challenges besides the confusing regulatory environment mentioned above still remain. Therefore this chapter firstly sheds light on developments that will impact and shape the sector in the coming years. Secondly, it points to challenges for companies engaging in the sector. Although these are increasingly being addressed, they will remain important points to consider for the foreseeable future.

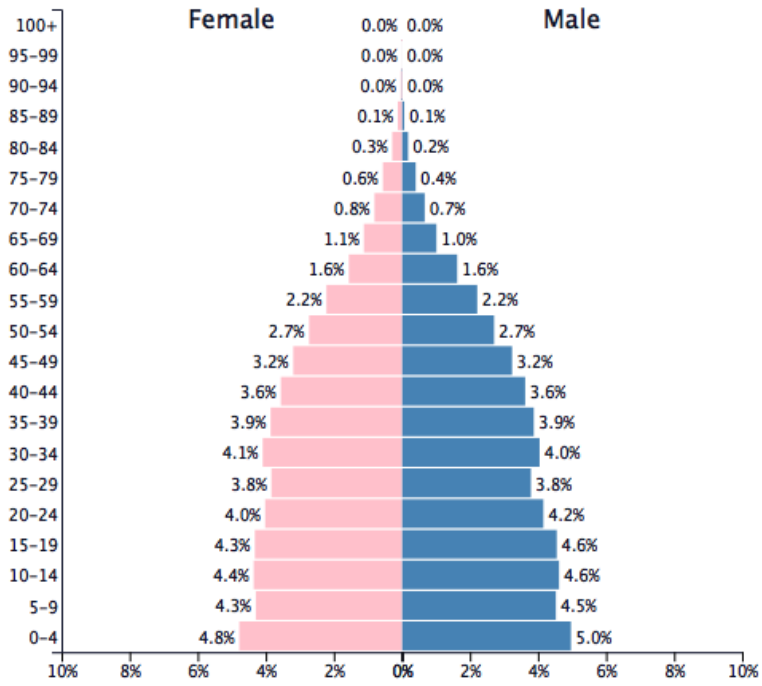
4.1. Future Trends

In the upcoming years Indonesia, its society and economy are expected to experience further developments that will have an impact on the F&B market and benefit the F&B industry. Among the most important trends for the future are population growth, urbanization, rising incomes and shifting consumption patterns.

4.1.1 Demand of a Young and Growing Population

Indonesia is a young country. More than 44.7% of the population are under 24. Ambitious and better educated than any previous generation in Indonesia, these young Indonesians will be the pillar of continuing economic progress and rising consumption. Their demand, consumption patterns and expectations of F&B products already shape the F&B market and will continue to do so.

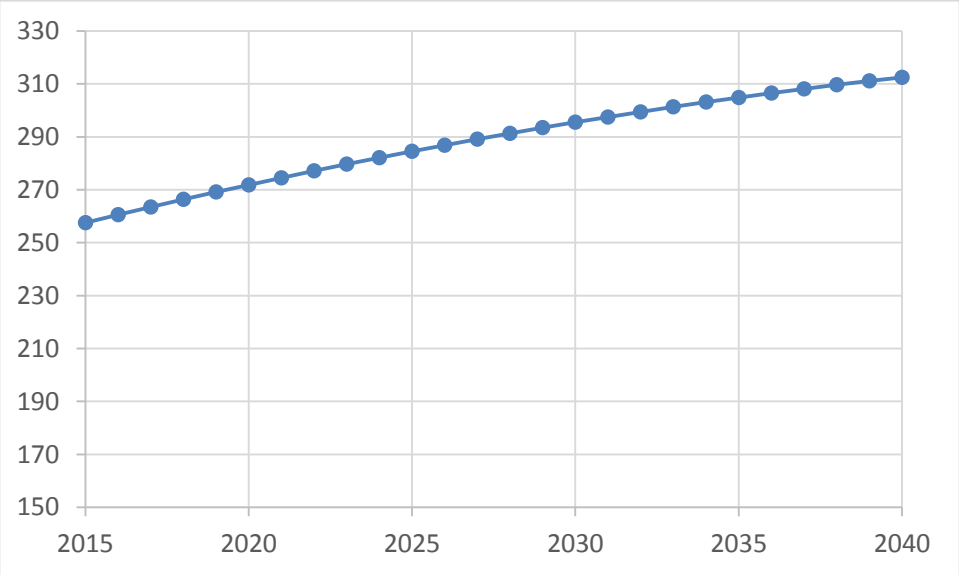
Figure 6: Composition of the Indonesian Population (2016)



Source: (Population Pyramid, 2016)

Indonesia is the fourth most populous country in the world and expected to grow further (The World Bank, 2017). Although population growth has slowed down since the 1980s, the population of Indonesia is projected to continue to increase, from currently around 260 million people to more than 310 million people by 2040. In addition, the country is experiencing rapid urbanization. In 2015 the country's cities were growing faster than in other Asian country at a rate of 4.1% per year. By 2025 Indonesia can expect to have 68% of its population living in cities (The World Bank, 2016). This expansion of the population and urbanization will make Indonesia one of the largest consumer markets in the world. Having been ranked as the seventeenth largest consumer market by the World Bank in 2015 (Twenty-fifth in 1970) (The World Bank, 2017), Indonesia is predicted to climb the ranks further in the upcoming years. It is also important to bear in mind that an important share of the population, approximately 60%, is located on the island of Java.

Figure 5: Population Development Projection for Indonesia by the UN



Source: Own Figure Based on (Roser, 2017)

4.1.2 Indonesian Consumers

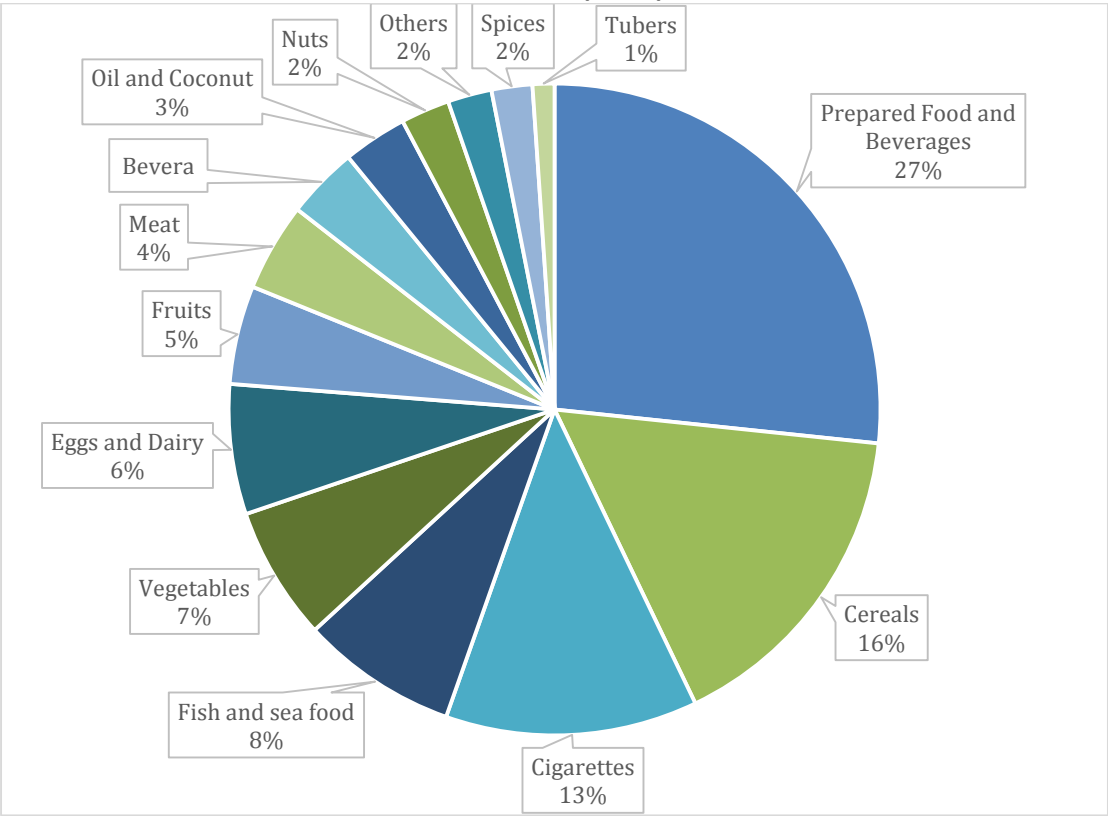
Indonesian consumers are amongst the most confident in the world. With a score of 122 on the Nielsen consumer confidence index in the third quarter of 2016, only India (133) and the Philippines (132) are ahead of Indonesia. In the index, which measures perceptions about local job prospects, personal finances and immediate spending intentions. Scores of more than 100 indicate consumer optimism, while scores lower than 100 indicate consumer pessimism. Global average in the third quarter of 2016 has been 99 (Nielsen, 2016).

High consumer confidence and its underlying drivers, such as economic growth and rising incomes, positively affect expenditures by the population. Between 2014 and 2015, monthly average expenditures per capita increased by 11% to USD 64.36 with expenditures for food increasing by 6% to USD 30.55 and non-food expenditures increasing by almost 18% to USD 33.80.

Taking a closer look at average monthly expenditures per capita on F&B reveals the great share of expenditures on prepared F&B and on cereals. As figure 8 illustrates, in 2015, the largest part of average food expenditures per capita involved prepared food and beverages (27%), followed by cereals (16%) and cigarettes (13%). Other

significant contributions come from fish and sea food (8%), vegetables (7%) and eggs and dairy products (6%).

Figure 6: Distribution of Average Monthly F&B Expenditures per Capita in Indonesia (2015)



Source: Own Figure based on (Statistics Indonesia, 2017)

However, there are great regional differences in Indonesia, particularly between more affluent urban centers and less developed rural areas that remain unclear when looking at the national average only. Total expenditures of people living in the countryside are only 60% of those of people living in the urban centers, namely USD 48.85 compared to USD 79.61. Moreover, the shares of food and non-food expenditures are diametrically different. While people in the city spend around 42.5% of total expenditures on food and around 57.5% on non-food matters of expense, for people in the country side it is the other way around. For them, food expenditures account for 55.5% of total expenditures, while the remaining 44.5% goes on non-food expenditures. On a closer look, it is evident that in rural areas expenditures for cereals (11.4% vs. 5.5%) and cigarettes (8.8% vs. 4.8%) are much higher than in urban areas.

In future, continuing economic development and rising incomes will lead to further increases in overall expenditures as well as in expenditures on F&B. Moreover, if combined with adequate policies, these developments might shrink the gap between urban and rural areas as well as between the poor and more affluent parts of Indonesian society. Forecasts about the consuming class, overall consumption and consumption of F&B in particular are positive at least.

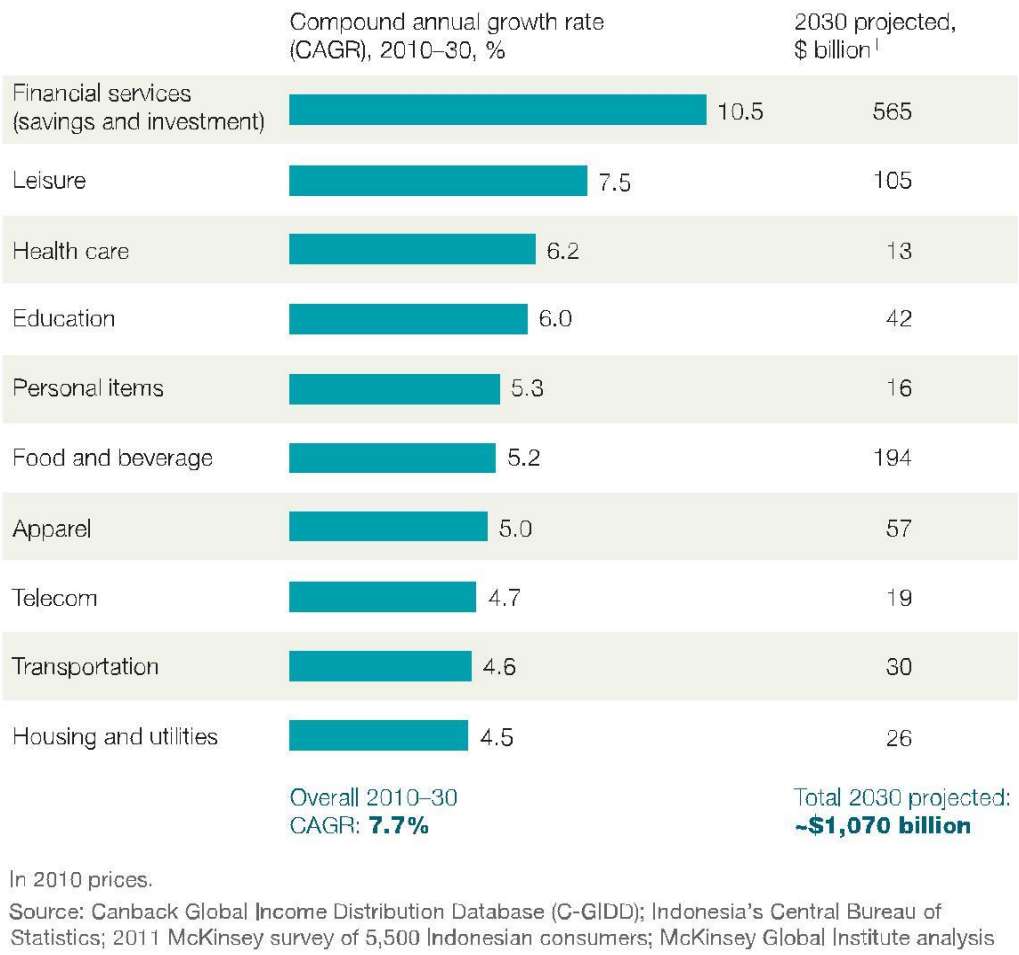
Table 12: Monthly Average Expenditure per Capita in 2015 (in USD, USD 1 = IDR 13.000)

	Urban		Rural		Total	
Commodity Group	In USD	*Percentage*	In USD	*Percentage*	In USD	*Percentage*
Cereals	4.35	*5.47*	5.57	*11.41*	4.96	*7.70*
Tubers	0.28	*0.36*	0.38	*0.78*	0.33	*0.51*
Fish and sea food	2.47	*3.10*	2.27	*4.66*	2.37	*3.69*
Meat	1.75	*2.19*	0.92	*1.89*	1.34	*2.08*
Eggs and Milk	2.52	*3.17*	1.41	*2.89*	1.97	*3.06*
Vegetable	2.03	*2.55*	2.02	*4.14*	2.03	*3.15*
Nuts	0.80	*1.00*	0.68	*1.40*	0.74	*1.15*
Fruits	1.80	*2.27*	1.18	*2.42*	1.49	*2.32*
Oil and Coconut	0.92	*1.16*	0.95	*1.95*	0.97	*1.51*
Beverages	1.03	*1.30*	1.15	*2.35*	1.09	*1.70*
Spices	0.61	*0.77*	0.62	*1.28*	0.62	*0.96*
Others	0.72	*0.90*	0.62	*1.26*	0.67	*1.04*
Prepared F&B	10.77	*13.53*	5.47	*11.21*	8.15	*12.66*
Cigarettes	3.81	*4.79*	3.84	*7.85*	3.82	*5.94*
Food	33.87	*42.55*	27.17	*55.63*	30.55	*47.47*
Non-Food	45.73	*57.45*	21.67	*44.37*	33.80	*52.53*
Total	79.61	*100.00*	48.85	*100.00*	64.36	*100.00*

Source: (Statistics Indonesia, 2017)

For example *McKinsey* predicts that by 2030 the consuming class will include an additional 90 million Indonesians, which means they will have an annual income of more than 3,600 USD or above, in terms of purchasing power parity. *McKinsey* further predicts that as a consequence an additional USD 1 trillion will be spent annually by Indonesian consumers (Arief Budiman, 2013). This will of course benefit the food and beverage industry as well. As table 13 forecasts, consumer spending for food and beverages will increase by more than 5% annually until 2030. By 2030, projected spending on food and beverages will reach 194 billion USD.

Table 13: McKinsey's Outlook on Indonesian Annual Consumer Spending by 2030



Source: (Arief Budiman, 2013)

4.1.3 Changing F&B Consumption Patterns

Consumption patterns in Indonesia are shifting, which does not leave F&B consumption unaffected. The main drivers of these shifts are the expansion of the middle class and rising household incomes. In general, the middle class no longer merely spends its income on necessities. As incomes rise, consumers spend more on supplementary goods and are less sensitive to prices. Instead, consumers, even below middle class levels, become more sophisticated and start to value trust in the brand and quality of products over prices (Deloitte, 2015). As a result, consumption of F&B products that were previously considered as luxuries and too expensive, such as meat, wheat, dairy or processed food products is increasing.

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 that promise better quality of food due to, for example, more reliable cold chains.

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.

4.1.4. Indonesia's Free Trade Agreements

Indonesia has signed several Free trade Agreements with important trading partners. Most importantly, Indonesia is part of the ASEAN community, which is composed of ten member states: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia. The latest step in the economic and political integration of ASEAN member states was the creation of the ASEAN Economic Community (AEC) in 2015. The AEC objective is to promote further economic, political, social and cultural integration of the ASEAN Member States. The final goal is the creation of a Southeast Asian globally competitive single market and production base with free flow of goods, services, labor, investment and capital (Lehmacher, 2016).

As a member of ASEAN, Indonesia participates in the following trade agreements:

- ASEAN Free Trade Area
- ASEAN - China Comprehensive Economic Cooperation Agreement
- ASEAN - Australia and New Zealand Free Trade
- ASEAN - India Comprehensive Economic Cooperation Agreement
- ASEAN - Japan Comprehensive Economic Partnership
- ASEAN - Korea Comprehensive Economic Cooperation Agreement

Moreover, Indonesia has signed a preferential trade agreement with Pakistan and takes part in the preferential tariff agreement of the D-8, which are Indonesia, Malaysia, Bangladesh, Pakistan, Iran, Egypt, Turkey and Nigeria. It has signed the Trade Preferential System of the Islamic Conference, which included 35 countries but has not been implemented yet (Global Business Guide Indonesia, 2016).

Negotiations between Indonesia and the EU were launched in July 2016. If successfully completed the agreement will facilitate trade and investment and address non-tariff barriers to trade, trade in services and investment, public procurement, competition rules, intellectual property rights and sustainable development (European Commission, 2017).

4.2. Remaining Challenges

Notwithstanding the positive developments of the past years and positive forecasts for the future, there are still challenges remaining in the F&B sector. As already discussed in the chapter on policies and regulations, the legal landscape of the F&B sector can be confusing, particularly for non-Indonesian companies. Beyond that, there are challenges with regards, for example, to infrastructure.

4.2.1. Infrastructures: The Cold Chain 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 government as well as other organizations such as the Indonesian Cold Chain Association Development Project, funded by the USDA, 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 greater challenges due to the lack of access to refrigeration facilities for the Indonesian population.

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.

4.2.2. 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 local tastes (International Enterprise Sinagepore, 2013). For instance, Indonesian consumers tend to prefer products that are sweeter and that are available in smaller packaging. 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.

4.2.3. Market Access

Even though the country shows good future prospects for the F&B market, this report would not be complete without mentioning local challenges to doing business in Indonesia. Corruption and bureaucracy remain a challenge to doing business in 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 chapter "National Policy and Relevant Regulations" above.

V. Conclusion

The objective of this market study was to introduce the Indonesian F&B sector and highlight the challenges and opportunities 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 fulfil. However, in spite of strong local food and beverage production outputs, a large percentage remains imported to meet local demand. 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 the fact 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, particularly of ready-to-drink tea and increasingly of isotonic drinks, shows solid sales volumes and growth. The alcoholic drinks market, however, has been increasingly restricted, as alcohol is still frowned upon by large parts of the Muslim majority population. Yet a total ban of alcohol is unlikely to happen.

The F&B industry is expected to keep growing in the future, mainly driven by a growing population and an increasing demand from 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 and time-saving food and beverages.

Finally, it is important to bear in mind that, despite local opportunities, challenges remain when doing business on the Indonesian market. First and foremost, the legal requirements and bureaucratic procedures remain burdensome. Cooperation with a local importer/distributor is advised, in order to navigate the complex market and fulfil the many legal requirements. In addition, the lack of available infrastructure, such as cold chain storage systems, harbors and maritime transportation, are also challenges that may persist in the medium-term.

In conclusion, it is undeniable that F&B sector is and will continue to be an important sector and market in 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 all that, 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)

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Phone: (+6221) 70322626
Fax.: (+6221) 70322627
Email: gapmmi@cbn.net.id
Website: www.gapmmi.or.id

National Agency of Food & Drug Control (BPOM)

Address: Jl. Percetakan Negara No.23
Jakarta 10560 Indonesia
Phone: (+6221) 4244691/42883309/42883462
Fax: (+6221) 4263333
Email: ulpk@pom.go.id
website: www.pom.go.id

Ministry of Trade of the Republic of Indonesia

Address: M. I. RidwanRais Road, No. 5 Central Jakarta 1011
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Directorate General for Livestock Animal Health Service of Ministry of Agriculture

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List of Abbreviations

BPOM	National Agency of Drugs and Foods Controls (*Badan Pengawas Obat dan Makanan*)
BPS	Indonesian Bureau of Statistics (*Badan Pusat Statistik*)
EIBN	EU-Indonesia Business Network
EU	European Union
F&B	Food and Beverages
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
OECD	Organization for Economic Co-Operation and Development
SKI	Certificate of Import (*Surat Keterangan Import*)
SNI	Indonesian National Standard (*Standar Nasional Indonesia*)
USA	United States of America
USD	Dollar of the United States (of America)
USDA	United States Department of Agriculture

About EIBN

The EIBN is a partnership project between five European bilateral chambers of commerce in Indonesia (BritCham, EKONID, EuroCham, IFCCI, INA) and two counterparts in Europe (EUROCHAMBRES, CCI Barcelona). The EIBN's aim is to promote Indonesia and ASEAN as high potential trade and investment destinations among companies from allEU28 member states – especially SMEs – and support them in their endeavor to explore the full market potential in Indonesia. The project was initiated and co-founded by the EU.

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