

Indonesia Market Update

March 2015

Welcome to the March 2015 edition of “Indonesia Market Update”. The Indonesian economy continues to expand with 100’s of cranes dotting the Jakarta skyline. However Indonesia’s food security and trade policies are impacting on food imports and resulting in higher food prices for consumers. Selamat membaca!

ECONOMY / INVESTMENT

RI to resume free-trade talks - Indonesia will resume free trade and economic partnership negotiations with some key trading partners as the President’s administration steps up efforts to boost exports amid the country’s economic slowdown. Among the resumed negotiations on free trade agreements (FTAs) and comprehensive economic partnership agreements (CEPAs) include those with Australia, Chile, the European Union (EU), India, Iran, South Korea and Turkey.

RI to allow foreign ownership in some sectors - Indonesia is set to open a wide range of its business sectors — including communications and transportation — to foreign ownership, with an eye on the rolling out of the ASEAN Economic Community (AEC) later this year. Foreign entities can have ownership in 74 subsectors in Indonesia as part of the ASEAN Framework Agreement on Services. Based on the framework agreement, ASEAN members are required to allow foreign ownership up to 70 percent next year, an increase from 51 percent at present.

Tax breaks for labor-intensive industries – according to the Investment Coordinating Board (BKPM), the government may make existing tax allowances applicable to labor-intensive industries in an effort to reach its 2-million-a-year job-creation target. The labor-intensive industry covers firms that employ at least 200 workers and whose labor costs account for 15 percent of total production costs; they include manufacturers of food and beverages, tobacco, textiles and garments, leather and leather products, footwear, toys and furniture.

Reforms on table to boost port efficiency - The government is planning reforms in the pre-customs clearance process at major seaports in order to reduce the nation’s high logistics costs. The dwelling-time target is 4.7 days, from the current six days. In Indonesia, logistics costs account for approximately 24 percent of the country’s gross domestic product (GDP), among the highest in Asia, with the inefficiency attributed to red tape.

Stability and Growth Good News for Indonesia’s Rich – according to a report by the property consultancy Knight Frank, the number of Indonesian billionaires is projected to double over the next decade on the back of the country’s economic growth and political stability, fuelling a demand for property both in the country and abroad. Knight Frank’s “The Wealth Report,” showed there were 24 billionaires in Indonesia last year, followed by 192 centa-millionaires — those with a minimum net worth of \$100 million, excluding their primary house and 650 individuals regarded as having “ultra-high” net worth, with net assets exceeding \$30 million.

New visa policy to aid rupiah - The government will waive visa requirements for 30 countries (including New Zealand but not Australia) as early as next month to boost the country’s foreign exchange income from the tourist industry, as President Joko “Jokowi” Widodo broadens the size of his economic package to support the ailing rupiah.

US, NZ challenge RI at WTO over import rules - the US and New Zealand Governments have requested the establishment of a dispute settlement panel at the World Trade Organization (WTO) to resolve their disagreements with Indonesia over horticulture and animal trade. The proposed panel would examine Indonesia’s wide-ranging import rules, which both countries consider “import restrictions”, on fruits and vegetables, such as apples, grapes and potatoes, animal products, particularly beef and poultry, and other agricultural products. Among the measures it pointed to were a ban on imports of poultry and certain meat products and an import licensing system for horticultural products.

RETAIL

Indonesian modern retail sector continues to present opportunities – Business Monitor Indonesia (BMI) forecasts Indonesian food consumption to grow 9.4 percent in 2015, with annual average growth between 2014 and 2019 to reach 9.8 percent. Contributing to the higher food consumption will be the expanding modern retail sector, with growth predicted to reach 14 percent y-o-y in 2015 and an annual average of 13.6 percent to 2019. The modern retail sector to account for 32 percent of total grocery sales in 2021, compared to 24 percent in 2012.

January retail sales strong growth – according to a Bank Indonesia survey, Indonesia's retail sales in January grew at a much faster pace of 10.4 percent, bolstered by information and communication equipment, food, beverages and tobacco.

Fast Food Indonesia eyes 16 percent growth - Fast Food Indonesia, the operator of KFC, is targeting an income of US\$383 million this year, an increase of 16 percent from the previous year. For the first quarter the company expects a 7-10 percent increase, over last year's US\$74.6 million. To achieve this, it will launch new menus and to setup new outlets. The company is planning for 10-13 new outlets in Q1, in Jakarta, Bandung, Surabaya and other cities in East Java. By the end of this year, the company targets to open 45 new outlets and 20 KFC Box (smaller outlets).

AGRIFOOD

Indonesia's Tiga Pilar to purchase Vietnamese milk company - Indonesia's Tiga Pilar Sejahtera Food plans to invest US\$80 million towards acquiring stakes in food processors in Vietnamese milk company Hanoimilk and Malaysian biscuit maker this year. Indonesia in recent years has a 5 percent annual growth in demand for dairy products.

Indonesia's beef self-sufficiency push will drive up price - plans by Indonesia's new President to make the nation self-sufficient in beef could cause the price to soar by 50 percent in the next few months. Beef imports are around 12,000 tonnes so far in Q1, versus 170,000 tonnes for the whole of 2014. The live cattle quota for the same period is just 100,000 head compared with a total of 720,000 last year. The Indonesian Beef Cattle Feedlotter's Association is lobbying the government to issue 250,000 import permits for Australian cattle in Q2 so cattle can get into the feedlotting system and be ready for Ramadhan, which starts on 18th June.

Fall in rice output tests Jokowi's food vision - the latest Central Statistics Agency (BPS) data show that total rice-production estimates declined 450,000 tons y-o-y to 70.8 million tons in 2014 (due to mostly to seasonal factors such as bad weather), a sharp turnaround from a 2.2 million ton increase posted the previous year. The president goal is to secure domestic rice supply without imports with one of his plan is an ambitious project to build 49 new dams over five years to improve irrigation for local farmers.

Tiga Pilar to spend Rp7 trillion on new rice-processing plants - publicly listed food company Tiga Pilar Sejahtera (TPS) is ready to disburse up to US\$538 million to have 17 rice-processing plants in operation by 2020 and boost its market share in the country's staple food.

Bumpy road to achieving self-sufficiency in sugar production - demand for sugar will surely increase in the future in line with the increasing need for food and drinks. Indonesia food and beverages sales in 2015 are forecasted to grow 10 percent year-on-year, reaching Rp1.036 quadrillion (US\$78.57 billion). Indonesian sugar consumption per capita is high (23.3 kg/year — Bloomberg) which means 250 million Indonesians will consume around 5.8 million tons of sugar in 2015. Unfortunately, this huge domestic market is not supported by adequate domestic production due to inefficient production processes in the 62 sugar mills in Indonesia. The government will continue restricting imports of raw sugar and has only allowed 600,000 tons of raw sugar imports in the first quarter of this year, as opposed to the 3.4 million tons for the full year demanded by the Indonesian Sugar Refiners Association (AGRI).

Goodman Fielder to extend reach in Asia - Wilmar International Ltd and First Pacific Company Ltd have acquired 100% of Australian food processor Goodman Fielder. The new owners want to turn the consumer foods giant into a leading food company in Asia. The first brand to start selling in Asian supermarkets and convenience stores will be New Zealand-made Goodman's Meadow Fresh UHT milk. The company hopes to leverage on the extensive distribution footprints of Wilmar and First Pacific in China, Indonesia, the Philippines and Southeast Asia to export Goodman

Fielder's brands. Wilmar and First Pacific are also investigating opportunities to bring some of Indofoods' brands to Australia.

Efficiency, high demand boost Indofood profits – publicly listed food giant PT Indofood Sukses Makmur ended last year with a boost in both revenue and net profits, mainly driven by cost efficiency and sales of instant noodles that remained a national favorite. Indofood net sales rose by 14.4 percent to US\$4.9 billion in 2014.

MANUFACTURING

Kimia Farma Builds Rp 1.3t Factory in West Java - Kimia Farma, a state-controlled pharmaceutical company, has begun construction of a new factory in Banjarnegara, West Java, in anticipation of higher drug demand following last year's launch of a national healthcare program. The new facility with an estimated investment of US\$99 million, spanning five hectares is targeted to be completed by September 2016.

ICT

Govt to launch e-commerce law framework this year - Indonesia's e-commerce was forecast to grow to around \$20 billion this year. In an effort to create a more conducive climate for the e-commerce industry, the government plans to issue an "e-commerce roadmap" in the next three to six months to provide clear guidelines on logistics services, payment gateways and taxes for the e-commerce industry.

BPOM to crack down on unscrupulous online traders - responding to the increasing number of unlicensed food, drugs and cosmetics sold online, the Food and Drug Monitoring Agency (BPOM) is planning to work with logistics companies and e-commerce outlets to curb the distribution of illegal products and protect local consumers from potential harm. Advisory firm Redwing has predicted that the number of Internet users in Indonesia will surge from 55 million in 2012 to 125 million this year, providing a huge consumer base for e-commerce players, including those with little concern for consumer safety standards.

Elevenia plans aggressive growth - E-commerce marketplace Elevenia, jointly run by telecommunications operator PT XL Axiata and South Korea's SK Planet Ltd., has targeted its transaction value to reach US\$83.5 million this year, a four-fold increase from last year, thanks to growing demand for online transactions. As of February, Elevenia had 20,000 merchants and 2 million listed products, meaning that it aimed to have a total of 40,000 to 60,000 merchants by year-end.

Indonesians buy with a little help from the Net - according to a recent study by Google and TNS dubbed the "Consumer Barometer Survey", the most common online purchase for Internet users in Indonesia is flight tickets (24 percent), followed by apparel (13 percent) and hotel booking (12 percent).

Lazada Group aims to double freight hubs in Indonesia - E-commerce giant Lazada Group is set to spend more to develop its logistical system, planning to double its supply hubs in the country by year-end. The Group had secured a total of US\$749.4 million since its establishment in 2012.

CONTACT DETAILS

For further information or inquiries about this "Indonesia Market Update", please contact:

Phillip Morey

Director - Morelink Asia Pacific
M + (61) 417 322 190 (Australia)
M + (62) 816 198 0002 (Indonesia)
P + (62 21) 5708086 / 5707209
E phillip@morelink.com.au

Sources: The information in this newsletter is a summary of various articles from Indonesian newspapers, magazines and other media outlets. A copy of any of the articles is available by emailing "Morelink".

Disclaimer: "Indonesia Market Update" is published for the information of readers only. The information in this market update is published with due care and attention to its accuracy, but the authors accept no liability if, for any reason, the information is inaccurate, incomplete or out of date.