

## Food and Beverages

### 1. Business Prospects and Potential

#### 1.1 Indonesia

Indonesia, as the fourth most populous country in the world with a population of 235 million people, is a very large market for food and beverage products. The food and beverages industry is one of the industrial development priorities set by the Indonesian government and it is still promising for both domestic manufacturers and importers or suppliers of processing equipment and (semi-)finished products. The sector has proven to be very resilient during economic downturns, and for many multinational food companies, Indonesia is among their most important markets.

The turnover of the food and beverage industry has been growing at an average pace of close to 20% per year, to a total of around US\$ 60 billion in 2011. Indonesia import value for food and beverages has increased by an average of 19% per year, from US\$ 1,3 billion in 2005 to US\$ 2,5 billion in 2011. The share of the European Union in the food imports into Indonesia has remained very modest, with just US\$ 180 mln in 2011. It has also grown at a very low rate of 2.8% on average annually since 2005, whereas imports from the USA, Canada, and Australia grew by 27% annually and imports from Asia by 18% annually during the same period.

Both domestic investment and foreign investment in the food and beverage industry fluctuated from 2005 to 2011. Domestic investment in the food and beverage industry grew at an average rate of 13.66%, from US\$ 456 million in 2005 to US\$ 580 million in 2011. Foreign investment remained fairly stable.

The figures indicate a robust growth of trade and investment in Indonesia's food and beverages sector, creating many opportunities for European exporters of branded and specialty food



products, and of food processing machinery as well as for suppliers of food ingredients and packaging.

## **1.2 European Union**

Processed foods are increasing their participation of overall consumer expenditures in the European Union as people look for more convenient ways to store and prepare food. Key product groups include processed dairy products, frozen fruit and vegetables, confectionery industry products, various prepared foods and sauces, including pasta, ice-creams and soups, and processed starch products. Despite high tariffs and relatively strict requirements on imports, EU imports have expanded by an average of 10 percent annually in the last ten years.

Fruit and vegetable juices are the largest processed agri-food imported into the European Union. The imports of processed agri-foods is expected to grow by an average of 2% per year during the period 2011 - 2015, of with imports of fruit and vegetable juices are expected to grow by 4% per year.

In fishery products, the European Union is increasingly dependent on imports to meet its domestic consumption needs. In 2009 the European Union imported US\$17 billion worth of fishery products, which represented 2.5 times the volume of domestic production. Net imports in that year supplied one-half of domestic consumption. The most important fishery products imported into the European Union are shrimp and salmon, followed by cuttle fish, octopus, sturgeon, cod and scallops. Imports of fisheries products into the European Union are expected to grow by an average of 10% per year in the period 2011 – 2015. Indonesia is the tenth largest supplier of frozen shrimp and has a 4 percent market share of the EU market.

Indonesian exports of food and beverages are developing well, but exports to Europe are still hindered by food safety issues (fish), environmental and social issues (palm oil), quality control and logistical problems (in horticultural products).



Growing environmental awareness as well as packaging standards in export markets, are creating a growing demand for more environmentally friendly packaging systems, such as biodegradable sachets.

In summary, both Indonesia and the European Union market offer great potential for new trade and investment in the food sector, provided companies respond to the market trends.

### **1.3 What to do in Indonesia – EU Trade and Investment**

There is much potential for increased Indonesian- EU Trade and Investment in the Food and Beverages sector. This potential can be optimally used by:

- Expanding investment in Indonesia's natural resources, using with advanced technologies to produce higher value added products;
- Improving access to markets and expanding mutual recognition agreements;
- Expanded use of quality standards;
- Establish economic partnerships with SMEs around the countries to help minimize social status differences
- Capacity Building for Indonesia's food and beverages sector, especially SMEs, in the field of EU Food Regulations, hygienic standards and market access procedures such as REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), DMF (Dimethyl fumarate), SPS (Sanitary and Phytosanitary Standards), MRA (Mutual Recognition Agreements), RED (Renewable Energy Directive) and the most important voluntary codes applied by importers, processors and retailers in Europe.

More specific recommendations are set out for a number of the main issues are set out in the chapters below. This list is not exhaustive and more details on each issue and the recommended solutions are available separately.



## 2. Issues and Possible Solutions

### 2.1 Indonesia

Like other sectors, the food and beverages sector in Indonesia has seen high growth with regulations and institutions struggling to keep pace. This has contributed to problems in food safety and quality standards, illegal imports but also overregulation and customs clearance delays.

Some of the factors affecting the growth of the food and beverages industry are of general nature, such as bottlenecks in general infrastructure. Some problems are however specific to the food and beverages industry.

Indonesia's agriculture sector, being an important supplier of food products, faces a number of challenges which at the same time offer opportunities to foreign and domestic companies. Agriculture, along with fisheries and forestry, accounts for 41% of total employment in Indonesia. However, productivity in the sector is low, with underemployment of workers and negligible levels of capital investment. As a result the sector accounts for just 14% of GDP. Although Indonesia has been successful at developing export-oriented crops such as tea, coffee, cocoa, coconuts, palm oil and pepper, domestic supplies of staple food products have not been secured. The country still needs to import large amounts of staple food products, particularly maize, wheat, sugar, peanuts and soybeans. Initiatives are being taken to develop the production of these commodities domestically.

#### **2.1.1 Decree of Chairman of BPOM No. HK.00.05.52.4040 regarding Food Categories.**

This Decree has been used as standard reference for the registration of food and beverages (MD & ML), but it is still incomplete and does not yet cover all food categories in Indonesia. This situation has created difficulties for the food and beverage industry in registering products with Indonesia's Food and Drug Administration (BPOM), due to the implementation of the standard reference of food categories. BPOM should be requested to review the regulation that



implements the standard reference for food categories, since according to the regulation, product standards are set by the Indonesian National Standard (SNI).

**Issue :** The standard reference for the registration of food and beverages (MD & ML) is still incomplete and does not yet cover all food categories in Indonesia.

**Impact :** This creates difficulties for the food and beverage industry in registering products with BPOM

**Proposed Solution :** BPOM is requested to apply a wider list of food categories, to allow all newly developed food products to be registered.

**Who should take action :** BPOM

**2.1.2 Regulation No. 22/M-DAG/PER/5/2010 of 21 May 2010 of the Minister of Trade to amend the existing regulation on Labelling Obligation (“MoT Regulation No. 62/2009).**

The MoT Regulation No. 22/2010 is effective from 1 September 2010. Companies that produce or import goods for the domestic market in Indonesia are obliged to attach labels written in Bahasa Indonesia which also mentioned on regulation No. 7/ 1996 about Food Act and PP No. 69/ 1999 about Label and Advertisement. This regulation applies to all local and foreign businesses. The labelling regulation requires imported products to have the labels before such products enter the Indonesian Customs Area (effective on 1<sup>st</sup> of January 2013). Before an importer can import products, he has to submit an example of the label written in Bahasa Indonesia to the Ministry of Trade for prior approval. The labels can be in the form of stickers attached to a package, until further notice (waiting for the approval of this regulation). If the ban of using stickers is apply, it will causes entire production chains to have to be redesigned solely for the Indonesian market, especially if entire packages need to be redesigned. This will increase cost for Indonesian consumers and cause some producers to withdraw from the Indonesian market.



Indonesia is encouraged to apply a similar system to the EU, where the labelling must be attached in the form of a sticker prior to placing the product on the market and not prior to import. This to ensure that trade continues to be facilitated whilst protecting consumer health and safety.

**Issue :** The obligation to attach labels in Bahasa Indonesia prior to import

**Impact :** This causes entire production chains to have to be redesigned solely for the Indonesian market, which will increase cost for Indonesian consumers

**Proposed Solution :** Companies should be allowed to put stickers prior to placing the product on the market and not prior to import.

**Who should take action :** Ministry of Trade, BPOM, Customs

### **2.1.3 Decree of Chairman of BPOM No. HK. 00.05.52.6291 regarding Reference of Nutrient Label for Food Products.**

In the food product registration process, BPOM requires that the nutrient value attached in the product label should be precisely the same as the value from the analysis result. This is impossible, because analysis results may vary, influenced by raw material variations, production processes, storage and analysis procedures. As a consequence of this requirement, the registration process is problematic. The nutrient value information attached on the label is impossible to be the same as the value in the COA (Certificate of Analysis). The follow-up action to solve this problem is that BPOM should apply a tolerance value in the determination of nutrient values in line with the provisions that are internationally applicable.

**Issue :** The requirement for nutrient values attached in the product label to be precisely the same as the value from analysis result

**Impact :** The registration process becomes problematic, because the analysis results may vary.

**Proposed Solution :** BPOM should apply a tolerance value in the determination of nutrient values in line with the provisions that are internationally applicable

**Who should take action :** BPOM



#### **2.1.4 GMO Regulations**

The regulation regarding products containing genetically modified organisms (GMO) is refer to PP 69/1999 part 12 article 35; Peraturan Kepala BPOM No HK.03.1.5.12.11.09955 year 2011, pasal 14 PP No. 28 year 2004, Peraturan Pemerintah No. 21 year 2005, and also refer to approval from Komisi Keamanan Hayati, on the label for food resulting from genetic engineering it is obliged to attach the wording “PANGAN REKAYASA GENETIKA”, allowing the food products containing GMO to be distributed (selected products). Raw materials containing minimum 5% of GMO is required to put “containing GMOs” on the label (the regulations is on progress).

*Issue* : All product registrations containing GMO raw material will not be approved by BPOM and are not allowed to be distributed.

*Impact* : Obstacles for new investment in products containing GMO, and obstacles to new ML/MD extensions containing GMO substance.

*Proposed Solution* : A regulation regarding a minimum/maximum threshold of GMO in products allowed in Indonesia

*Who should take action* : BPOM, Ministry of Agriculture (Litbang), Biosecurity Commission.

#### **2.1.5 Halal Regulation**

Regulations on halal have been included in the Consumer Protection Act no.8 of 1999, PP No., 66/1999 on labeling and advertising, and the Law. 7/1996 on food. In Indonesia halal certification is issued by the Research Institute for Food Drugs and Cosmetics Indonesian Ulema Council (MUI LPPOM.) All products that use animal ingredients and derivatives circulating in Indonesia, whether local or imported, shall have the halal certification of its products. The attachment of the halal label is voluntary.

*Issue* : The food industry sees a growing tendency for mandatory halal certification of food and beverages in Indonesia.

*Impact* : High cost and reduced variety of available food products



**Proposed Solution :** Halal certification and labelling should be voluntary so that consumers can choose to buy halal products. Mandatory halal certification creates additional trade barriers for domestic and foreign food products.

**Who should take action :** Ministry of Trade, Ministry of Agriculture, Ministry of Industry, and Ministry of Religious Affairs.

### **2.1.6 Decree of Minister of Health No. 033/2012 on Food Additives**

Food manufacturing technology has developed, so the number of different types of food additives is continuously increasing. Therefore, a new list of food additives is needed that accommodates this development as long as it is in line with the International Food Security Standard (CODEX). Therefore the regulation of Minister of Health No. 772/Menkes/Per/IX/88 regarding Food Additives is no longer be valid and replaced by the regulation of Ministry of Health No. 033/ 2012. In this regulations, the list of food categories are divided in 27 categories

**Issue :** A new list of food additives is needed in line with the technological developments.

**Impact :** The industry will find it difficult to carry out innovation, which will hamper national industry competitiveness in the global market

**Proposed Solution :** A new list of food additives is needed that accommodates this development as long as it is in line with the International Food Security Standard (CODEX)

**Who should take action :** Ministry of Health, BPOM.





### 2.1.7 Horticulture

Horticulture is a subsector of agriculture that has particular potential in Indonesia to contribute to a nutritious food supply in Indonesia and to exports of high value products. It can however only thrive with innovation and well-functioning distribution systems.

The Horticulture Law of 13/2010 limits foreign ownership of companies in the horticulture sector to 30% and requires foreign investment companies to reduce their shareholding to 30% within 4 years. Not only does this send a signal to foreign investors that ownership regulations can be changed at any time, it will also deter foreign investment and the technological expertise that comes with it. The result will be counterproductive to increase Indonesia's competitiveness in growing fruits and vegetables.

Imports of horticultural products are severely limited by a limitation of the ports through which horticultural products are allowed to enter Indonesia and by extensive and often unwarranted testing of horticultural products (Permendag 60/2012 and Permentan 60/2012). Moreover, the testing requirements are not applied equally to all supplying countries. Facilities at major airports are often insufficient to support Indonesian exports of horticultural products.

**Issue :** Limits foreign ownership of companies in the horticulture sector to 30%, limited ports for horticulture products, extensive product testing

**Impact :** It will deter foreign investment in general and in the horticulture sector in particular, as well as the technological expertise that comes with it. It will also limit the supply of horticultural products on the Indonesian market, which are essential to a nutritious diet

**Proposed Solution :** Article 100 of the Horticulture Law on Foreign Ownership must be amended. There should be no restrictions on foreign ownership in horticultural companies and changes in ownership regulations should not be applied to companies established before 1 October 2010. All ports and airports should have sufficient facilities for the imports and exports of horticultural products and there should be no limitations on the ports through which horticultural products can be imported. Testing of horticultural products should be applied



equally to imports from different countries, based on warranted sanitary and phyto-sanitary standards.

**Who should take action :** DPR Commission IV and Ministry of Agriculture

### **2.1.8 Alcoholic Beverages**

There is a legitimate demand for alcoholic beverages in many parts of the society and among tourists and expatriates. In the market for alcoholic beverages, there is a big difference between the companies complying with all regulations and taxes, and a large share of the market that is being supplied by illegal imports and production. The widespread smuggling and illegal production cause very large losses in revenue from taxes and excise duties to the Indonesian government, as well as severe health risks to the consumer. The very high import and excise duties as well as the severe local restrictions on distribution make alcohol very expensive and contribute to illegal supply. Compliant established companies in Indonesia should be allowed to expand local production to meet demand from the growing population and number of tourists, without the need to review the current Negative List on Investment.

**Issue :** High taxation and severe restrictions on distribution contribute to widespread smuggling and illegal production.

**Impact :** Major financial losses to the government, related crime and health risks for consumers.

**Proposed Solutions :** Streamlined taxes and excise duties on alcoholic beverages, crackdown on smuggling and illegal production and bringing them under the regular tax and excise system, revocation of local restrictions on distribution that are not compliant with national legislation, and allowing established and compliant companies to increase production to meet demand.

**Who should take action :** Ministry of Finance and Directorate General for Customs, Ministry of Trade.



## 2.2 European Union

For Indonesian exporters shipping fresh and processed agri-food products to the EU markets, the following are the general and specific market access issues in agri-food products:

### 2.2.1 Tarriffs

Import duties are applied to specified goods imported into the European Union in order to raise the world market price to the EU target price. Duty rates vary between 0 and 16.9% across individual products. Import quotas restrict the amount of food imported into the European Union.

**Issue** : high import tarrif for Indonesian cocoa product of 7.7% - 9% compared to African cocoa bean 0 %) without any justifications

**Impact** : Indonesia is struggling to export cocoa products to the EU and cocoa farmer schange into more profitable crops such as palm oil

**Proposed Solution** : EU need to release strict rules of Tariffs and non Tariff barriers

**Who should take action** : EU DG Trade.

### 2.2.2 General Sanitary and Phytosanitary Measures in Spices

General Sanitary and Phytosanitary Measures, setting control standards over food and food product hygiene, animal health and welfare, plant health. It also provides rules on appropriate labeling for these foodstuffs and food products. This policy follows a so-called 'From the Farm to the Fork' approach that ensures a high level of safety for foodstuffs and food products at all stages of the production and distribution chains. Indonesian exporters however face difficulties in complying with these requirements. Problems exist for example in the spices sector, due to low quality and unsafe products as a result of aflatoxin content above the EU maximum limit standard.

**Issue** : Indonesia spices (nutmeg) need to sampling and testing upon imports to the EU.



**Impact:** Nutmeg producers got lower income from nutmeg, cost burden for Indonesian spices exporter, Indonesian spices exporters losing market share in the EU.

**Proposed Solutions :**

Ministry of Agriculture should take into account the findings of the FVO mission and establish effective Official Controls for nutmeg that include correct sampling procedures and analysis of those samples.

At the same time the farmers, traders, exporters should implement improved practices to minimise the risks of mould contamination and subsequent formation of aflatoxin.

**Who should take action :** Ministry of Agriculture; Company, TSP II EU, EU DG Trade.

### **2.2.3 Environmental Regulations**

The principal components of the environmental legislation relating to the processed foods industry are (a) Integrated Pollution Prevention and Control Directive; (b) Directive on Packaging and Packaging Waste; (c) Framework Directive on Waste; and (d) Climate Change known as the Emission Trading Scheme (ETS). The current ETS is compulsory for large food and drink companies, and is intended to reduce greenhouse gas (GHG) emissions caused by large installations at least cost. Indonesian exporters however face difficulties in complying with these requirements. Residue standards that the EU applies in tropical fruits and wooden packaging, which are in some cases very strict and prohibitively difficult to comply with for Indonesian companies.

**Issue:** Strict environmental regulations hamper market access for Indonesian exporters

**Impact:** Indonesian Farmers have less opportunity to get good prices for tropical products. Consumer in the EU have less tropical fruits available.

**Proposed solutions:**

Technical assistance to farmers to comply with environmental regulations on the EU market.

**Who should take action:** Government of Indonesia and EU



### **2.3.4 NGO activities on Palm Oil**

*NGO activities* in Europe against environmental issues in some products are counterproductive in that they lead to disruptions in trade without offering realistic solutions. Examples include palm oil, cocoa and the traceability of eggs used in biscuits. The legal basis of applying labels such as “Free of Palm Oil”, as has occurred in France, should be questioned. Voluntary standards for food products applied by importers, processors or retailers, should not be in violation of trade regulations and should be based on generally accepted scientific evidence.

**Issue** : Aggressive negative campaigns by NGOs

**Impact** : Producers of palm oil receive low prices; palm oil companies lose export market share. EU importer use long chains to buy Indonesian palm oil at more expensive prices

**Proposed Solutions** : Observance by NGOs of a Code of Conduct to disseminate only truthful information. Government sanctions against distribution of untrue information. Reduction of import duties on products that comply with sustainability standards.

**Who should take action** : Government of Indonesia; EU and NGOs.

### **2.3.5 Fish**

There are also a number of specific issues brought forward by the Indonesian fisheries and aqua-culture industry as affecting the Indonesian exports of fishery products to the European Union:

**Tariffs**: The GSP rates range from a low of zero for some products to a high of 14,5 for canned tuna and 24 percent for loin tuna such as chilled or frozen sardines, some tunas like long-finned and yellow-fin tuna, and skipjack or stripe-bellied bonito.

**Issue** : High taxes for fisheries products to EU, such as 24 percent for canned tuna from Indonesia as opposed to 0 percent from many other countries.

**Impact** : Competitive disadvantage for Indonesia on the EU market and higher prices for EU consumers.

**Proposed Solution** : renegotiate the tariffs and non tariff barrier to EU



**Who should take action:** EU and Government Indonesia

*Control over Illegal Fishing:* Imports of fishery products must be accompanied by a catch certificate to demonstrate that the products concerned do not originate from Illegal, unreported and unregulated (IUU) fishing.

**Issue :** RFMO questioning the supply chain process to prevent illegal fishing.

**Impact :** Problems for small fishermen to comply with administrative procedures

**Proposed Solution :** Strict buying standards by fish processing companies, trainings of fishermen, monitoring of compliance by senior officials from Ministry of Marine Affairs and Fisheries

**Who should take action :** Fish processing companies, Ministry of Marine Affairs and Fisheries, EU.

