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Report Highlights:
According to a various industry sources, wine consumption in Indonesia has increased by 25 percent annually over the past five years. This is attributed to the expansion of international four and five hotels, and significant growth in up-scale dining establishments. Indonesia is also the home of a burgeoning middle class that is increasingly young, educated and urban. Last year the Government of Indonesia (GOI) adjusted the tariffs and taxes on alcoholic beverages, as well as raised the levels of import quotas and added a number of licensed importers.

General Information:

MARKET OVERVIEW

Indonesia is the world's fourth most populated nation with upwards of 240 million people. It is also home to the largest Muslim population of any one country. As a result, Indonesia has not been viewed as a significant market for U.S. wine and spirits. The GOI controls alcoholic beverage distribution on the grounds that they are protecting the religious beliefs of the majority of Indonesians. Wine and spirit consumption is only permitted in licensed four and five star hotels, upscale restaurants, bars, pubs, and night clubs. Duty free alcoholic beverages can only be sold through the appointed shops located in some Jakarta neighborhoods and international airports. However, Indonesia's tourism industry, which is politically powerful, has lobbied for more relaxed import regulations. The tourism industry has established itself as a significant economic and political stakeholder.

Tourism and the HRI sectors are important sectors of Indonesia's economy and are significant sources of revenue, foreign capital and employment. The total number of foreign tourists arriving in Indonesia increased to 6.5 million in 2009 from 6.4 million in 2008 [see Table 1]. The arrivals of tourists contributed $6.4 billion to the Indonesian economy in 2009 with an average expenditure of $129.6 per day and $995.9 per visit. In 2010 the number of tourists reached roughly 7.1 million people with an estimated $8.9 billion in local expenditures.

Table 1. Indonesian Tourism Facts

Description	Year							
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Number of foreign tourists (million)	4.5	5.3	5.0	4.9	5.5	6.4	6.5	7.1
Revenue (USD billion)	4.0	4.8	4.5	4.4	5.3	7.3	6.4	8.9
Occupancy Rate (%)**	45	45	45	46	48	48	49	50
Number of hotel rooms	263,000	273,000	280,000	285,530	361,358	325,218	na	na
Average expenditure per visit (USD)	903.7	901.7	904.0	913.1	970.9	1,178.5	995.9	1,000.0
Average length of stay (days)	9.7	9.5	9.1	9.1	9.0	8.6	7.7	8.0

***Star-rated hotels*

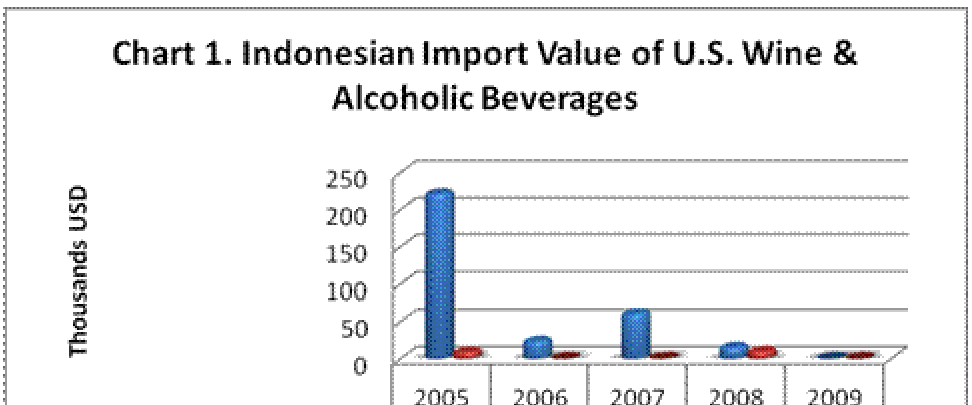
Bali remains the most visited tourist destination in Indonesia with an average of over 11,750 visitors daily. Since 2008, Singapore, Malaysia, Japan, Australia, China, South Korea, and Taiwan accounted for the majority of tourist arrivals by nationality. This was followed by the United States, the United Kingdom, Germany, the Netherlands, and France. Furthermore, over the past few years, more foreign and locally-owned boutique and resort hotels have been built in Bali and in other tourist destinations throughout the Indonesia.

Wine and spirits importers and their distributors expect that the tourism industry will continue to expand over the next five years, leading to an increased demand for quality wines. Prior to 2007, only two state-owned enterprises were allowed to import wine and alcoholic beverages. One was responsible for the duty-paid alcoholic beverages sold in HRI and retail markets, while the other imported products for the duty-free stores in Indonesia. In 2008 only one state-owned enterprise was assigned to import 350,000 cartons duty-paid and over 100,000 duty-free alcoholic beverages. In 2009, the Ministry of Trade's official quota was 280,468 cartons duty-paid and 160,000 cartons duty-free alcoholic beverages.

In April 2010, the strict government controls regulating alcoholic beverage imports were relaxed. A significant change included the permission for eight official distributors to import directly any duty-paid wine and alcoholic beverage. This effectively ended the state-owned enterprise monopoly system of imports.

However, the Minister of Trade continues to maintain a quota, although in 2010, the quota was increased by 43 percent to 400,000 cartons. Only one official importer is authorized under the Minister of Trade to oversee imports for duty-free outlets and they maintain a separate quota of 170,000 cartons.

The Center of Bureau Statistic (BPS) recorded a total import value of duty paid alcoholic beverages of $3.1 million in 2008, down to $848,914 in 2009 but increased substantially to $4.9 million between January and August of 2010 [1] . To measure volumes of imports, BPS used weight (Kg), while in practice liters or cartons [2] is more commonly used. This method of measuring was not consistent with the official quota. The records showed that imports were mainly from Singapore. As a result, U.S. statistics of wine and spirits to Indonesia is under represented (see Chart 1).



	2005	2006	2007	2008	2009
Wine & related Products (in thousands USD)	222	24	61	16	0
Alcoholic beverages, excl. wine (in thousands USD)	9	0	0	10	0

Source: U.S. Foreign Trade Export Statistic at www.census.gov

Note:
[1] *All data collected and estimated from Center of Bureau Statistic (BPS)" Export-Import Online" for the purpose of this report only under HS codes 2203009000 to 2208602000.*
[2] *One carton of wine consists of 12 bottles with 750 ml (0.75 liter) in volume per bottle. One carton of beer consists of 24 bottles/cans[@330ml per bottle or can]. Spirit is hard to measure due to various volume/bottle of different countries.*

Indonesia, one of the biggest economies in South East Asia, weathered the recent global recession well with 4.5 percent gross domestic product (GDP) growth in 2009 and six percent in 2010. Current expectations are that Indonesia could see growth levels as high as 6.8 percent in 2011.

Most of this growth is driven by domestic consumption, which contributes about 60 percent of DGP, with exports making up to 30 percent to the GDP. Young professionals are a growing demographic in Jakarta and other major cities. This demographic, which is expected to increase rapidly over the next decade, makes up an 'entry-level' group of consumers vis-à-vis wine consumption. Also, an ever increasing number of female wine drinkers present marketing opportunities for U.S. wine exporters. These 'entry-level' consumers tend to be interested in Western lifestyle trends, are higher educated, have travelled abroad, and have more disposable income.

TRENDS IN CONSUMPTION

Importer and HRI industry sources predict that wine imports will continue to increase by approximately 20 percent annually through 2015. Like other Southeast Asian markets, wine is becoming more and more popular. Indonesians perceive that wine is a healthier alternative to other alcoholic beverages. Plus, Indonesians believe that wine creates an image being well-healed and drinking wine is seen as a status symbol.

As of 2010, each importer is able to import most brands, although some brands remain exclusive to certain importers. Last year, the breakdown of the total import quota was about 70 percent wine, 10 percent spirits, and 20 percent beer. Approximately 80 percent of imported alcoholic beverages are sent to Jakarta and Bali. The remaining 20 percent goes to other major urban centers like Medan, Surabaya, and Bandung. Estimates show that the HRI sector accounts for 90 percent of total sales with retail outlets accounting for the remaining 10 percent.

The consumption of red and white wines is of equal amount in general. Red wines tend to be favored more among consumers in Jakarta and other Indonesian cities, while white wines are the preferred choice of consumers in Bali, which tend be mostly tourists.

Most imported wines in Indonesia come from South Africa (30 percent), Chile (20 percent), Australia (20 percent), France (10 percent), and other European countries like Italy, German, and Spain (10 percent), and the United States (10 percent). Spirits most generally come to Indonesia from Europe (50 percent), the United States (15 percent), Russia (15 percent) and other countries (20 percent). Imported beer accounted for 70,000 cartons in 2009. The most popular imported beer is from Mexico (40 percent) followed by European countries like Belgium, German, Italy, and Austria (40 percent), others include Australia and the United States (20 percent).

MARKET ENTRY

1. **Market Access**

Importation of wines and spirits prior to April 2010 was limited by an official quota calculated each year by the Minister of Trade. Input is provided by one importer and several major distributors, and the Hotel and Restaurant Association - including the estimated consumption of wine and spirits for the following year. Any importation, distribution, selling, and licensing of wine and spirit was highly monitored and controlled by the Minister of Trade under a decree No: 15/M-DAG/PER/3/2006.

After negotiating for two years with other GOI and private sector stakeholders, the Ministry of Finance issued Regulation No. 62/PMK.011/2010 in March 17, 2010 which stated that luxury taxes will no longer be applied to beverage products containing ethyl alcohol and concentrates containing ethyl alcohol as of April 1, 2010. In May 2010, the Minister of Trade granted eight distributors to direct import duty paid wine, spirit and alcoholic beverages by approving the lists as stated on letter of Minister of Trade No. 431/M-DAG/SD/4/2010. The main objective of these policy changes was to support Indonesia's tourism industry and to curb illegal importations. Industry sources indicated that the actual demand for wine and spirit is estimated about three to four times higher than the official quota each year.

An importer reported that his 2010 net sales were $790,000. This was based on his quota of 45,000 cartons. This particular importer's quota broke down accordingly: 30,000 cartons of wine; 5,000 cartons of spirits; and 10,000 cartons of beer. In this case the actual value of alcoholic beverages of all categories was $6.3 million. In 2010 the single largest importer brought in 80,000 cartons of wine, beer and spirits. Each importer is permitted to distribute and sell the wines and spirits to their respective distributors, retail outlets, and customers. Each major Indonesian city has at least 20 alcoholic beverage distributors, which are licensed by the local authorities to sell the products to the HRI industry. Several of the importers have their own retail outlets and distributors.

In addition to the annual import quota, industry sources indicate a significant volume enter the country through informal channels.

Table 2. The Category, Classification, and Type of Alcoholic Beverage Controlled under The Minister of Trade Decree No: 15/M-DAG/PER/3/2006, March 29, 2006

Category	Classification	Type
A	Alcoholic beverage with 1-5% ethanol (C_2H_5OH) content	Beer, Lager, Ale, Stout, Low Alcohol Wine, Carbonated Alcoholic Beverage, Glutinous Rice Wine (*Brem*)
B	Alcoholic beverage with 5-20% ethanol (C_2H_5OH) content	Wine, Sparkling Wine, Champagne, Carbonated Wine, Reduced Alcohol Wine, Cocktail Wine, Quinine Tonic Wine, Meat Wine or Beef Wine, Malt Wine, Fruit Wine, Cider, Perry, Rice Wine, Vegetable Wine, Honey Wine (Mead), Palm Wine/Toddy, Aromatic Alcoholic Beverage, Rice Wine with Greater Galingale (*Beras Kencur*), and Ginseng Wine
C	Alcoholic beverage with 20-55% ethanol (C_2H_5OH) content	Brandy, Fruit Brandy, Gin/Genever, Liquor, Rum, Vodka, Whiskey, *Samsu* Alcohol (Spirit)

According to with the National Agency for Drug and Food Control (BPOM) decree number HK.00/05.1.2569, 2004 on "Criteria and Guideline on Food Product Assessment" all imported, duty-paid wine, spirits, and beer must receive a product registration (ML) number. In order to obtain the ML registration number for each SKU (Stock Keeping Unit), the importer must submit complete documentations to BPOM prior to importation of alcoholic beverages. Duty free alcoholic beverages with a quota of 170,000 cartons in 2010, accounts for 30 percent of total alcohol beverages imported into this country, require no ML number. The only licensed importer is responsible in obtaining the excise/custom label (*LTPC – Label Tanda Pengawasan Cukai*) indicating that the products are under special duty-free control. The duty free stores are the only outlets allowed to sell B and C category alcoholic beverages in packages less than 187 ml. All sales and trade activities in these stores are closely monitored by the Ministry of Trade as stated in the decree No: 15/M-DAG/PER/3/2006.

2. **Import Distribution Channels**

The Ministry of Trade maintains a significant role in the importation of wine. The ministry issues the import license and each year establishes the annual quota. This year the process for importing wine to Indonesia has been slightly different from previous years (see Appendix A). There are now eight licensed importers, seven in Jakarta and one in Bali, of duty paid wine, spirit and other alcoholic beverages with a total quota of 400,000 cartons in 2010. Only one company is appointed by the government to import alcoholic beverages for duty-free establishments. The company was provided a quota of 170,000 cartons in 2010, with products to be distributed equally to the duty-free stores.

The duty-paid wine market is limited to eight importers and over twenty distributors that sell to various HRI establishments from four and five star hotels, bars, night-clubs, independent wine lounges, and upscale supermarkets in Indonesia. The duty free market involves approximately 15 companies with duty free stores across Indonesia. These outlets sell only to the diplomatic communities, expatriates, and tourists.

Various types and brands of alcoholic beverages from around the world either duty-paid or duty-free are imported mainly from Singapore. They arrive in Indonesia in small quantity in a mixed container loads, primarily due to quota limitations. Only few items in large amounts are imported directly from the country of origin.

3. Market Opportunities

As consumption increases, importers are interested in securing suppliers of U.S. wines. The demand for wines has remained steady during the past decade. Although Australia, Chile, New Zealand, South Africa and European countries have been much for aggressive and consistent with wine promotional activities in Indonesia. Indonesian wine importers and merchants expect the U.S. wine industry to work with them to introduce and create awareness of U.S. wine. Currently the U.S. wine industry is yielding market share to third country exporters in Indonesia.

The Indonesian Sommelier Association works closely with importers and distributors - particularly in Jakarta - to aggressively promote wine and spirits that target the higher-end consumers and expatriates. Individual importers or distributors sometime organize free wine tasting to target new costumers, while at the same time introducing new varieties and labels. A single wine store in Jakarta can carry between 800 – 1,000 labels.

One well established Jakarta-based importer and wine retailer has been sponsoring the wine promotional events for over 16 years in South Jakarta (the area with the highest concentration of expatriates). This organization has established the Wine and Spirits Circle, which now boasts 1,000 members. This wine club's members are mixed between expatriates and Indonesians. Five years ago the same company also established Klub Wine, which was intended more for Indonesian nationals. Currently Klub Wine has about 350 members. This company keeps expanding the business by opening more wine shops in Jakarta, Surabaya, Bali, and Bandung in the past decades serving the expatriates and increasing number of upper class communities.

Jakarta's annual Wine and Cheese Expo has been held 2004 by six wine distributors in northern Jakarta. This event targets high-end consumers and Asian expatriates (Korean and Taiwanese) living in that area. The continuous support of foreign diplomats and embassies at the expo has attracted between 2.1 to 2.6 million visitors each year. Other wine oriented events are being held more regularly in Jakarta and include wine workshops, wine tastings, wine and food pairing classes, and sommelier competitions.

4. Constraints

It is arguable that the primary constraints against U.S. wine exporters are the tariffs, taxes and quotas on U.S. wine entering the Indonesian market. However, a significant constraint is the lack of U.S. wines in the market. Indonesian wine consumers tend to be highly educated, well employed, and very often they are well traveled. Wine is a high-end product in Indonesia and it generally consumed by high income consumers. Many Indonesian wine consumers are familiar with the United States, many of them have traveled to the United States, and many of them are fully aware of the quality of U.S. wines.

However, the U.S. wine industry and the importers face challenges in obtaining required documentations on product specifications and ingredients for the purpose of obtaining Certificate of Analysis and Health Certificate from origin country as the wines have been transshipped through Singapore. It certainly becomes more time consuming and costly in registration process at BPOM. The importer must ask its supplier in Singapore to request the supplier of origin country. U.S. suppliers have a tendency not to follow the requirements due to small quantity items purchased either directly or indirectly.

Among other things the BPOM staff lack of knowledge on wine, spirit and other alcoholic beverages including the ingredients and product specification, results in the delay of registration process. For a long period of time, these beverages were categorized as highly controlled products. Basically the products are relatively 'new' to most of BPOM's staff.

Advantages and Challenges for U.S. Wine in Indonesia

Advantages	**Challenges *(Barriers to US Export)***
In general, U.S. products are well-known to be high quality products, taste, and consistent supply.	Price in general is more expensive compare to other countries products.
Indonesian consumers see U.S. food	Lack of promotional support. A common misconception

products as 'trend setting'.	among Indonesian wine consumers is that "good" wine comes from France or Italy.
Indonesia does not have the capacity to produce wines.	Consumer purchasing power is generally low. Many Indonesian consumers do not consume wine because of religious beliefs.
New import duties and excise tax based on volume and alcohol content.	Aggressive introduction of new-to-market product is required.
High market potential, 14 million of upper and middle income local consumers and tourists.	Lack of infrastructure and transportation for distribution. However, the overwhelming majority of Indonesian wine drinkers are in major urban areas or Bali.
The increasing number of international restaurants, four-five stars hotel chains, boutique hotels, and specialized upscale clubs.	Competition from other countries like Chile, France, Australia, New Zealand, and South Africa is strong, as these countries' wine industries have already established themselves in the Indonesian market.
A high number of U.S. expatriates and tourists dine in Western-style restaurants and stay in four and five star resorts throughout Indonesia.	U.S. suppliers have not been very flexible in term of specialty products of smaller quantities required by the industry.
Once a long-term relationship with U.S. suppliers is established, the importation process becomes easier.	U.S. suppliers are not familiar with local systems, cultures, constraints, and they tend to lack long term relationships with Indonesian wine importers.
Reputable importers and/or distributors exist for any U.S. wines willing to enter this market - especially the HRI industry.	Complexity and uncertainty in import regulations, procedures, and custom clearance continues to be a major barrier for U.S. wine to enter this market.

GOVERNMENT POLICY

1. **Import Duty and Excise Taxes**

The Custom Office establishes the import duty rates, while the Ministry of Finance establishes the excise tax rates to be applied to all imported alcoholic beverages, which is based upon the percentage of ethyl alcohol content that fall under three categories as listed on Table 3. The government levies a 10 percent state tax (*PPN*) and an additional 2.5 percent on the sales tax (*PPH*) of all imported alcoholic beverage.

In 2007 only one government owned company was permitted to import alcoholic beverages. The officials imposed high rates of excise of over 300 percent at retail price. Since April 2010 the current total cost of import duty, excise tax, and government state and sales taxes for the beverage, based on the category.

Table 3. The Import Duty and Excise Fee Based on the Category and Classification of Alcoholic Beverage

Category	Classification	Import Duty	Excise Tax

A	Alcoholic beverage with 1-5% ethanol (C_2H_5OH) content	USD 1.57/liter [IDR 14,000/liter]	USD 1.25/liter [IDR 11,000/liter]
B	Alcoholic beverage with 5-20% ethanol (C_2H_5OH) content	USD 6.18/liter [IDR 55,000/liter]	USD 4.50/liter [IDR 40,000/liter]
C	Alcoholic beverage with 20-55% ethanol (C_2H_5OH) content	USD 14.00/liter [IDR 125,000/liter]	USD 14.61/liter [IDR 130,000/liter]

Sources: The Minister of Trade Decree No: 15/M-DAG/PER/3/2006, March 29, 2006; Ministry of Finance Regulation No. 62/PMK.011/2010, March 17, 2010; and licensed importers in Jakarta areas.

2. The Registration

The registration of imported food and/or beverage products has been regulated and enforced in by BPOM. The following documentations are required for imported item:

- Letter of appointment (sole agent/distributor) from the company of origin country (original letter).
- Health Certificate from the authorities of the country of origin (original letter).
- Certificate of Analysis (CoA) from origin country.

In the past alcoholic beverage were categorized as 'highly controlled product', and were therefore exempt from the ML registration process. However, as of April 2010, BPOM changed these requirements. The registration requirements are basically the same as any other imported beverage, although some ambiguity remains due to lack product knowledge of BPOM staff. The official registration fee for each SKU of alcoholic beverage under categories A, B, and C is $112.00 (IDR 1,000,000) as stated in BPOM Tariff Guide for Non-Tax Fee of Food Safety Assessment 2003. The importers take *Proses Registrasi Jalur Khusus* (rapid assessment registration process) which takes about a month to get the ML number with the fee of $337.00 (IDR 3,000,000) per SKU.

A letter of appointment, health certificate, and Certificate of Analysis from the country of origin can be somewhat cumbersome to obtain, as most importers do not import directly from the United States, but via Singapore traders. They must request to the suppliers of origin countries which is more time consuming and result in high cost of registration process.

However, the CoA can be obtained from government owned and/or accredited laboratories locally. The laboratory must be accredited by any Accreditation Agency that is appointed by the National Accreditation Committee (*KAN*). The test takes between 7 to 10 working days. The costs of laboratory test ranges between $112.00 (IDR 1,000,000) and $270.00 (IDR 2,400,000) per item.

In the meantime only about 16 to 20 percent of total SKU have been registered. It may take a few years to register the entire wine selections and other alcoholic beverages currently imported.

COMPETITION

This market is dominated by South Africa, Australia, Chile, and France. Chilean and South African wines are gaining favor as the result of aggressive promotions and less expensive price in the past few years in comparison to Australian and French wines. Australian wines are popular due to their good quality and lower distribution costs. Higher-priced French wines are perceived as the best quality by Indonesian consumers. Indonesia has a culture of conspicuous consumption and often times a high priced product sells well because of its perceived status.

A company in Bali started a viticulture operation ten years ago but the wine production has not yielded a competitive product according to industry sources. Ninety percent of their ingredients are locally produced. They also produce wine domestically by using imported wine must from Australia. However, no official data exists; the domestic production is rather insignificant compared to the total consumption of imported wine.

RECOMMENDATIONS

The U.S. wine industry should work to initiate stronger, long-term relationships with local importers and distributors.

The U.S. wine industry should encourage importers to purchase products in large quantities directly from U.S. suppliers instead of consolidators/traders. Importing directly from the United States could provide cost benefits and make the ML registration smoother.

U.S. suppliers are highly encouraged to participate in any FAS/Jakarta promotional events and local International Food Shows. Importers and distributors are very interested in importing more U.S. wines, but lack awareness of product availability, pricing, contact lists, and promotional activities.

Marketing opportunities exist - especially in Jakarta, resort areas like Bali and through organizations like Wine and Spirit Circle and *KlubWine*. The annual Wine and Cheese Expo draws over 2 million visitors every year. In 2010, U.S. wines were extremely under represented at the Wine and Cheese Expo. The Indonesian Sommelier Association, together with importers, regularly holds wine tasting in hotels and independent wine lounges.

POST CONTACT AND FURTHER INFORMATION

The U.S. Foreign Agricultural Service in Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exports and entry to the Indonesia market. Questions or comments regarding this report should be directed to the U.S. FAS in Jakarta at the following address:

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Please contact our home page for more information on exporting U.S. food products to Indonesia, including *Exporter Guide: Indonesia*; *Food Processing Sector Report: Indonesia; The Retail Sector Report: Indonesia; The HRI Food Service Sector Report: Indonesia; Market Brief – Bakery Products Ingredients*; *Market Brief – Snack Products Ingredients; Market Brief – Healthy Beverage Ingredients*; and *Market Brief – Processed Chilled and Frozen Meat, Chicken and Fish Products Ingredients.*

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: http://www.fas.usda.gov

Appendix A. The Wine and Alcohol Beverages Distribution System in Indonesia