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# Indonesia

# Wine

# Indonesian Wine Imports

# 1999

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**Report Highlights: Indonesia, a country with a largely Islamic population, has a history of low wine consumption among the local population. However, Indonesia's tourism sector has developed significantly over the past decade, leading to a concomitant jump in the demand for quality wines. The government has projected the number of tourists annually visiting Indonesia to double to 11 million by 2003. This positive outlook for tourism has led to high expectations among wine distributors for a rapidly expanding market over the next three to five years with annual growth estimated at 10-20 percent.**

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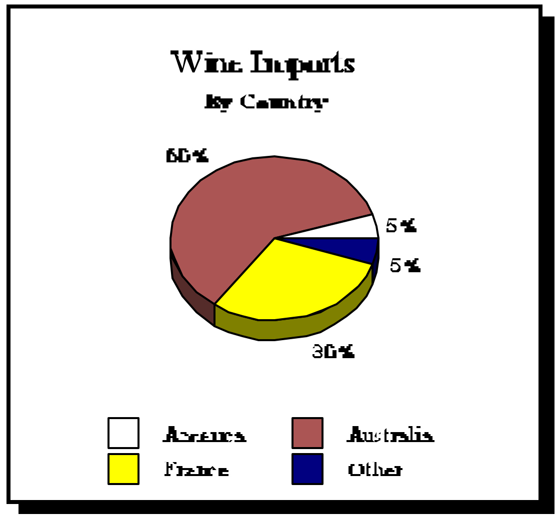
# MARKET BRIEF: INDONESIAN WINE IMPORTS
## A POTENTIAL GROWTH MARKET FOR U.S. WINES

***MARKET SUMMARY***

Indonesia, a country with a largely Islamic population, has a history of low wine consumption among the local population. However, Indonesia's tourism sector has developed significantly over the past decade, leading to a concomitant jump in the demand for quality wines.

The government has projected the tourism sector to recover from the current downturn with the number of tourists annually visiting Indonesia to double to 11 million by 2003. This would make tourism Indonesia's biggest foreign exchange earner with an estimated revenue of US$15 billion. This positive outlook for tourism has led to high expectations among wine distributors for a rapidly expanding market over the the next three to five years.




The toursim sector has experienced a downturn since mid-1997 as a direct result of the regional economic crisis and the political uncertainty within Indonesia. With a majority of the wine consumers being tourists or resident expatriates, this downturn has driven wine consumption below the peak levels reached in 1996. More recently, indications are that wine consumption is back on the rise as both the economic and political situation stablizes.

Despite the fact that most wine imports are intended for the tourism sector, the government continues to strictly regulate the importation of all wines and spirits. This is mainly in reaction to pressure from Islamic leaders within Indonesia. As a result, a restrictive quota for wine exists with an annual average of 100,000 cartons per year and a combined tax and tariff rate that approaches 300 percent.

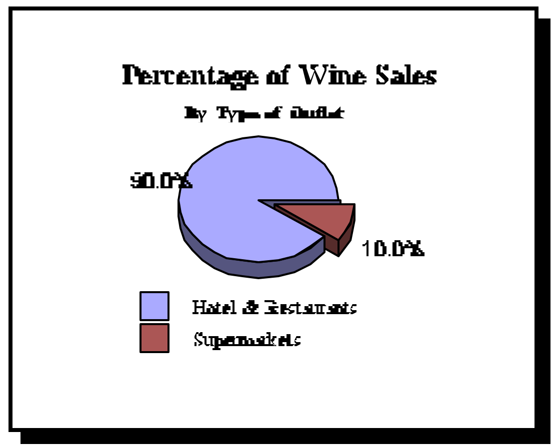
Even during the recent downturn within the tourism sector, some industry officials estimate the demand for wine is three to four times higher than the official quota. This large gap between demand and supply has predictably resulted in a substantial amount of illegal importation from neighboring countries - with reportedly most of the importation being sourced through Singapore.

Partially in response to the reports on smuggling, the government expanded the duty paid quota for the current year from 60,000 cases to 80,000 cases for wine and spirits. With this increase, the total wine quota for duty paid and duty free establishments has been set at 107,930 cases. As the tourism sector continues to recover, sources predict annual consumption to increase as much as 10-20 percent in 1999/2000.

As consumption increases, local distributors are increasingly seeking suppliers of U.S. wines in a market dominated by Australia and France. Australian wines have a market share of 60 percent, followed by France at 30 percent and the United States at 10 percent. The U.S. wines have a more positive showing in the duty free market with a 30 percent market share. The duty free market, however, only accounts for approximately 30 percent of total consumption.

## *TRENDS IN CONSUMPTION*

The peak years for wine consumption in Indonesia were during the mid-1990's. Because of the economic crisis that hit the region and the concomitant political uncertainties, the market for wine during the past two years has slumped. Industry sources predict that wine imports will begin to improve as the tourism sector rebounds, and that the consumption rate will increase by 10-20 percent annually through 2003. Like many markets in Asia, wine has become increasingly popular and - because of it elegant taste and reputation as a healthier alternative to other alcoholic beverages - has evolved as a status symbol of upperclass Indonesians.




Location is a major factor within the Indonesian wine market. A clear majority of the market is located in the capital city of Jakarta and the popular tourist destination of Bali. One distributor estimates that 80 percent of his business is in Bali and the other 20 percent in Jakarta. A second distributor estimates that 70 percent of his sales are equally distributed in Bali and Jakarta, with the remainder going to Surabaya and other smaller cities. All representatives agree that a majority of their business comes from the hotel and restaurant industry (HRI). Estimates show that HRI account for 90 percent of total sales with supermarkets accounting for the remaining 10 percent.

The restrictive taxes and tariffs on wine imports has resulted in a highly price-sensitive market. Table and pouring wines are reportedly the most popular. Some sources say that red and white wines are equally popular among consumers, while others indicate that red wines are the prefered choice.

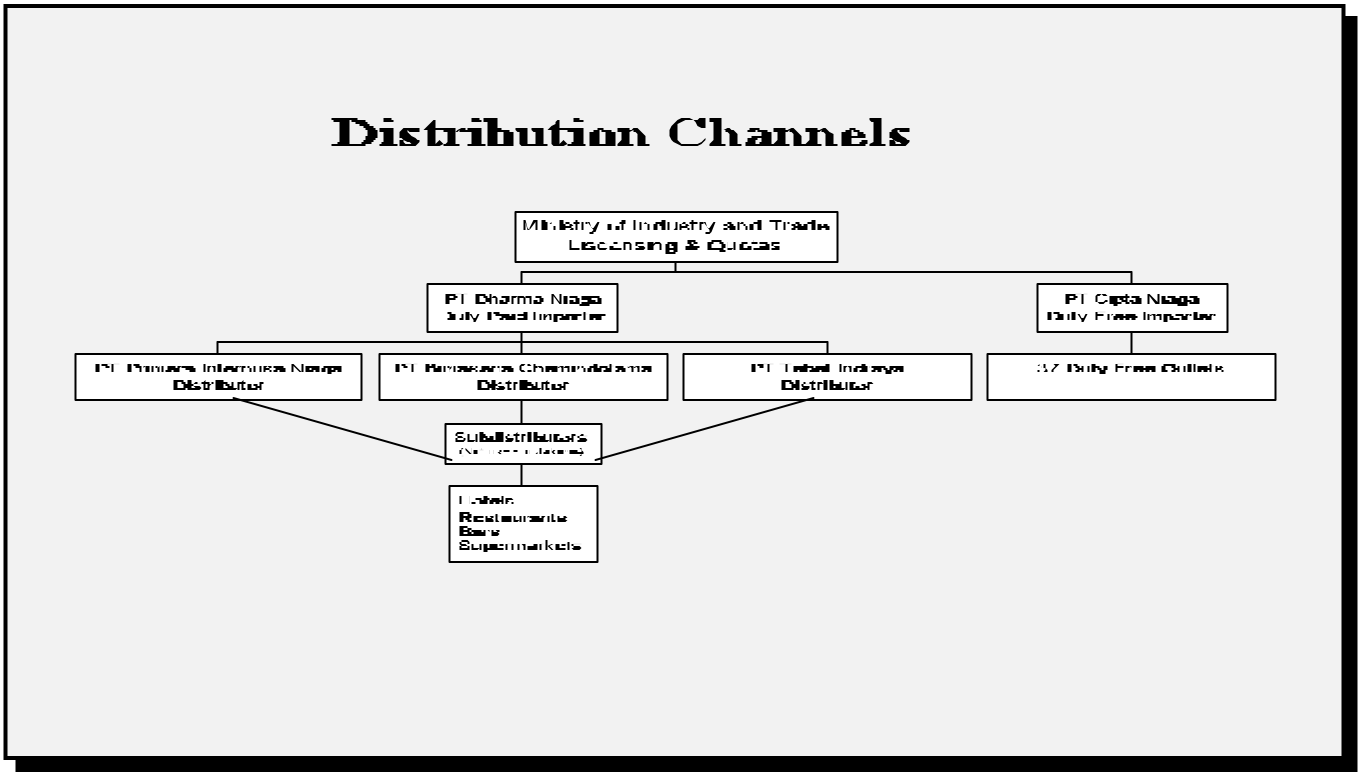
## *ROAD MAP FOR MARKET ENTRY*

### ***Import Distribution Channels***

The process for importing wine to Indonesia begins with the Ministry of Industry and Trade, which maintains a significant role in the importation of wine. The ministry issues the import license and each year establishes the annual quota. There are currently only two licensed importers of wine, PT Dharma Niaga, which imports wine for duty paid establishments; and PT Cipta Niaga, which imports wine for duty free establishments. Both companies are appointed by the government; are 100 percent state owned; and primarily serve as importers or brokers for the distributors.

The duty paid wine market is officially limited to three distributors that sale to various restaurants, hotels, bars, and supermarkets in Indonesia:

- PT Primera Internusa Niaga
- PT Bimasena Chemindotama/Ben Tradevine
- PT Tebet Indraya (TIS)




The duty free market involves approximately 22 companies who operate 37 duty free outlets across Indonesia. These stores sale to the diplomatic community, expatriates and tourists.

***Market Access***

Importation of wines and spirits is limited by an official quota calculated each year by the Ministry of Industry and Trade. Input is provided from the importers, distributors, and the PHRI (the Indonesian-language abbreviation for the hotel and restaurant association) - including their predicted consumption of wine and spirits for the coming year. The actual decision-making process for establishing the quota is confidential, and thus, non-transparent.

The government allocates the quotas for the coming year to the two state-owned importers, who are then responsible for dividing the quota among the various distributors. This quota is what each distributor can import for both wines and spirits. Each distributor is then permitted to divide that quota among wines and spirits as they choose for sales to their customers. All three duty paid distributors receive an equal share of the quota, but the duty free stores are not equally distributed, as some stores are larger and request more supply than others.

***Duty Paid Wine Imports***

Nearly 90 percent of the total quota will be used for wines in 1999 compared to only 40 percent in 1997 and 1998.

This translates into 70,930 cases of wine that will be imported into the country for duty paid distribution. When considering the consumption of wine in Indonesia, however, one can not overlook the "black market," or illegal importation of wine. Many industry sources say the overall consumption of wine for Indonesia will be three to four times larger than the quota for wine imports, or somewhere around 250,000 total cases consumed for duty paid operations.

Although the overall demand for wine has decreased over the past three years, it is expected to rebound by as much as 10-15 percent in 1999. Some predict that the market could increase at this rate through at least 2003. Sources claim the Indonesian market is still ten to fifteen years behind the Singapore and Hong Kong markets. Future growth will largely depend on the growth of the tourism sector. Efforts to reduce the restrictive import regime would also have a significant impact. This matter is reportedly being considered within the Ministry of of Industry and Trade as a result of the liberalization scheme within the Asean Free Trade Association (AFTA).

***Duty Free Wine Imports***

Duty free importers indicate that 37,000 cases of wines can be imported for sales in duty free stores. Prior to 1996, duty free stores represented 70 percent of the total quota. Over the past two years, however, the percentages have reversed - with duty paid now accounting for more than 70,000 cartons or 65 percent of the total quota. Prior to the crisis, the duty free quota was triple the current level. The drop in consumption through duty free stores is a direct result of a 1997 regulation that prohibited non-diplomatic expatriates from purchasing through duty free stores. These expatriates represented approximately 70 percent of the market for duty free stores. One duty free store in Jakarta reported that their overall sales dropped 50 percent due to the new regulation.

**WINE & SPIRIT QUOTAS: 1999**

| | Duty Free (cases) | Duty Paid (cases) | TOTAL (cases) | Total (%) |
|---|---|---|---|---|
| **Wine** | 37,000 | 70,930 | 107,930 | 79.9% |
| **Spirits** | 18,000 | 9,070 | 27,070 | 20.1% |
| **TOTAL** | 55,000 | 80,000 | 135,000 | 100.0% |
| **Total (%)** | 40.74% | 59.26% | 100.00% | |

**WINE CONSUMPTION**

| Category | 1998 | 1999 |
|---|---|---|
| Duty Free (cases) | 52,758 | 37,000 |
| Duty Paid (cases) | 51,000 | 70,930 |
| TOTAL | 103,758 | 107,930 |

***Taxes and Tariffs***

In addition to issuing the import license, the Ministry of Industry and Trade establishes the tariff rates while the Ministry of Finance establishes the tax rates. The total cost of taxes, tariffs, and importer's fee for wine approaches 300 percent. If we assume the FOB value of a bottle of standard quality wine is US$5.00, its final cost before the retailer margin would be approximately $18.50. The retail prices, therefore, easily reach US$30-$50.

Various offices have approached the Ministry of Industry and Trade with requests to liberalize the importation of wines and spirits. The basic argument is that the current system of a restrictive quota combined with high tariffs has led to the reportedly high levels of illegal imports, which results in lost tax revenue for the government. The relevant ministries have not responded to these requests in an official manner, citing pressure from Islamic leaders who maintain a strong belief in abstention from alcoholic consumption.

It has also been noted that under Indonesia is not in full compliance with its Country Schedule commitments under the Wold Trade Organization (WTO). Under the WTO, Indonesia has commited to tariff reductions from 170 percent to 150 percent over the implementation period 1995-2004. This means that Indonesia is committed to reducing its tariff rates by a minimum of 2 percent each year beginning in 1995, which it has not done.

| INDONESIAN DUTY STRUCTURE FOR IMPORTED WINES: 1999 | | | |
|---|---|---|---|
| Tariffs (Import Tax) | 170% | | |
| Luxury Goods Tax | 35% | | |
| PPH (Income Tax) | 2.5% | | |
| Value Added Tax (VAT)* | 10% | | |
| Excise Tax | A | < 2% | 750 Rp/L |
| | B | 2-5 % | 1,250 Rp/L |
| | C** | 5-15 % | 2,000 Rp/L |
| | D | 15-25 % | 5,000 Rp/L |
| | E | > 25 % | 20,000 Rp/L |

* Tax assessed on total excise tax
** Wines fall into Category C

***COMPETITION***

***<u>Third Country Competition</u>***

U.S. wine exporters face strong competition from both Australia and France. Australian wines dominate Indonesia's wine market with an estimated 60 percent market share, due mainly to their ability to provide quality wines with lower distribution costs. French wines, although priced similarly with California wines, reportedly maintain larger market share due to the consumers' perception that French wine is the best quality. Although price is a major factor, it becomes distorted due to the restrictive and non-transparent import regime.

| MARKET SHARES IN INDONESIA & SINGAPORE | | | |
|---|---|---|---|
| INDONESIA | | SINGAPORE | |
| America | 5% | America | 9% |
| France | 30% | France | 45% |
| Australia | 60% | Australia | 22% |

| AUSTRALIAN VS. CALIFORNIAN WINES INDICATIVE RETAIL PRICES | | |
|---|---|---|
| | **Australian** | **Californian** |
| Cabernet Sauvignon | 1,650,000 Rp | 2,200,000 Rp |
| Chardonay | 1,650,000 Rp | 2,200,000 Rp |
| *Exchange Rate for end-August, 1999 at Rp 7,550/US$1.00 | | |

## ***Domestic Production***

Domestic wine production in Indonesia is insignificant, though a small company in Bali has started a viticulture operation. The operation produces "Hatten" rose wines from their vineyards in Singaraja Bali and Malang East Java. Ninety percent of their ingredients are local, importing only the bottles and corks from Australia. There are also reports that a second group is producing wine domestically by importing the grapes from Australia. Though no official data exist, industry sources say domestic production accounts for less than one percent of the total consumption with limited prospect for growth due to quality and taste factors.

### *RECOMMENDATION*

Comments from local distributors regarding U.S. wine exports to Indonesia as compared to competitors:

- The American wine industry must initiate long term partnerships with distributors.
- U.S. suppliers must come to Indonesia themselves and work with the distributors in training the hotel and restaurant representatives.
- U.S. suppliers must offer promotional opportunities.
- The Australians are more aggressive in not only forming relationships with the buyers , but they also have numerous wine tasting promotions.
- Distributors are very interested in importing some California wines but lack awareness of product availability, pricing, contact lists, and promotional activities.
- Marketing opportunities exist, especially in resort areas like Bali and through the Wine and Spirit Circle in Jakarta that is a prime target for a monthly show to over 100 members.

### *CONCLUSION*

Although the Indonesian wine market is complex and highly non-transparent, it has the potential to grow by 10-15 percent through at least 2003. The strong recovery in the tourism sector is creating optimism for the future of wine imports into Indonesia. Although the current import regime is highly restrictive, there appears to be some movement towards liberalization through AFTA. While it is unlikely that Indonesia will agree to lower the tariffs below their WTO commitments, changes within Indonesia's political structure may give movement towards compliance in terms of the import quota.

### *POST CONTACT AND FURTHER INFORMATION*

The U.S. Agricultural Trade Office 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. ATO 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 "Food Processing Sector Report: Indonesia", "The Retail Sector Report: Indonesia", "Imports of U.S. Fresh Fruit: Indonesia" and “Hotel and Restaurant Industry: Bali”. As of November 1999, the following reports are available: "The HRI Food Service Sector Report: Indonesia"; "Market Brief - Indonesian Bakery Industry"; Market Brief - Indonesian Beverage Industry"; and "Market Brief - Indonesian Meat Processing Industry".

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

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