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Indonesia

Product Brief

Snack Foods

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Report Highlights:

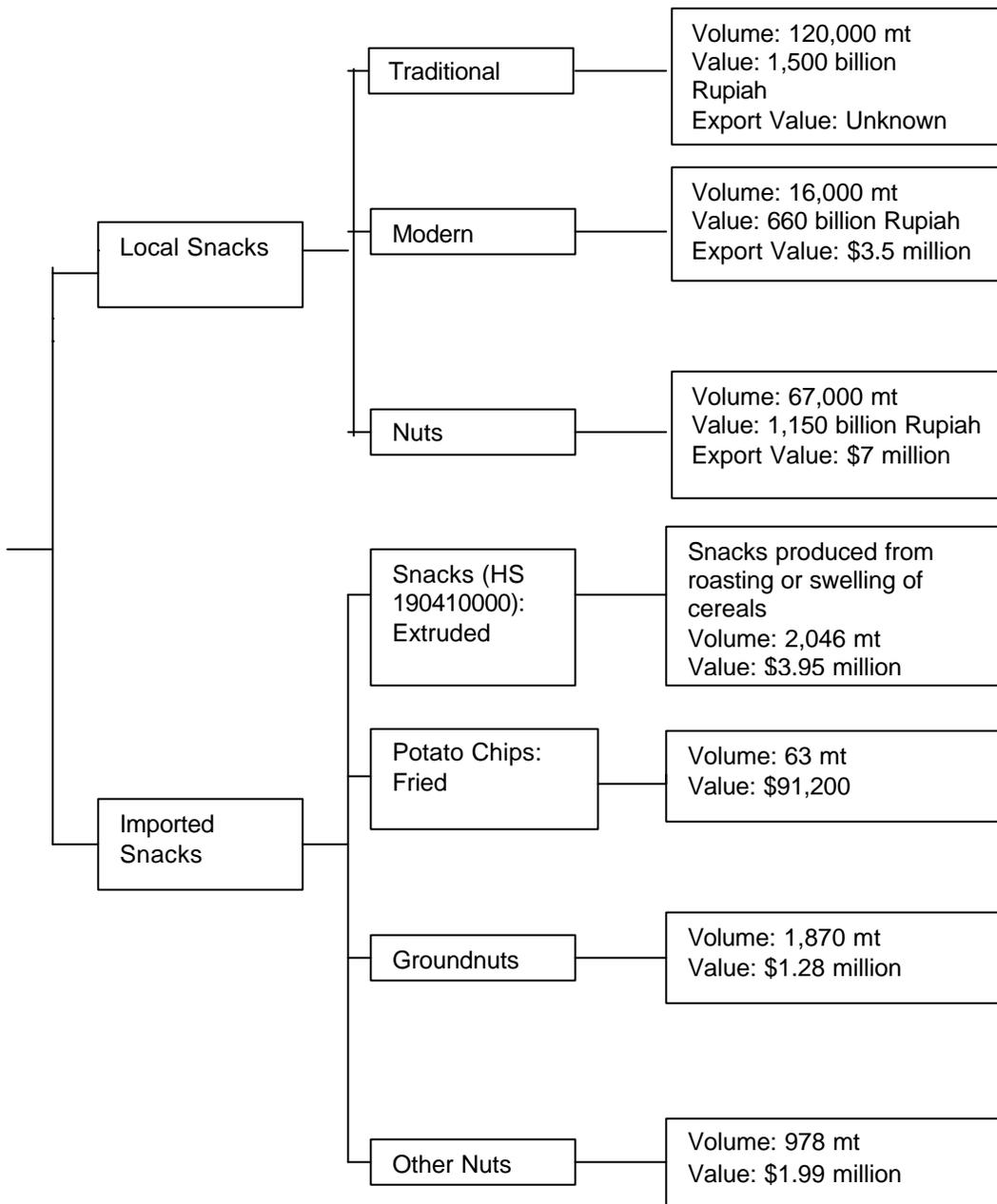
Indonesia's snack food market has experienced rapid growth in recent years, and expansion in retail distribution and improvements in processing promises continued expansion in the future. Popcorn and potato chips currently lead U.S. processed snack food sales, while potato flakes is the leading U.S. raw material imported for the snack sector. As local distribution and production systems continue to evolve, additional opportunities will be created for U.S. exporters, particularly those that supply raw materials.

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SECTION I. MARKET OVERVIEW

Estimates of the value of Indonesia’s snack market vary considerably, but it is generally considered to be in the range of \$450 million. Of this total, traditional snacks account for about 50 percent of the total, while Western snacks comprise about 20 percent. The remaining 20 percent of the market is peanuts and other nut snacks.

General Structure of Indonesia’s Snack Industry, 2002

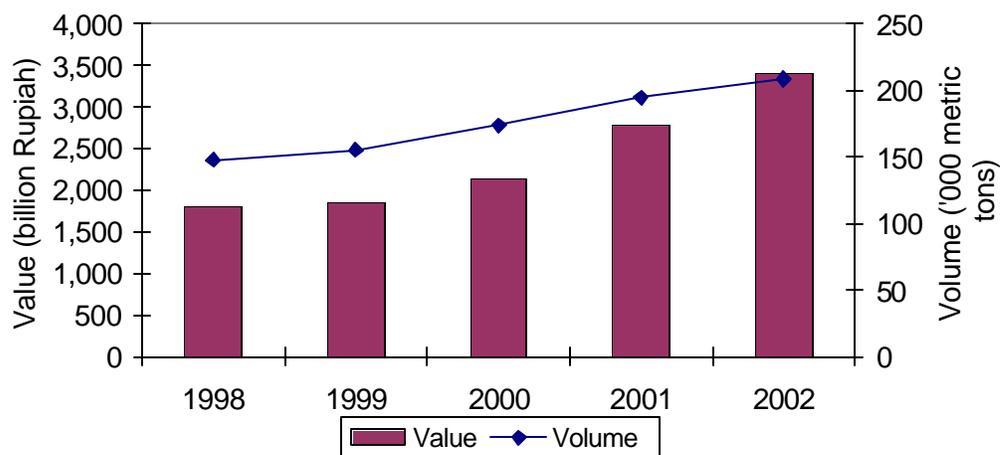


Despite differing views estimates of the overall market size, unquestionably Indonesia's snack market has grown significantly in recent years. According to figures provided by industry members used in the chart below, the market almost doubled in value and volume from 1998 to 2002.

Both large snack producers and Small & Medium Enterprises (SMEs) play key roles in the snack market. Generally, larger firms produce Western style snacks for middle and upper income consumers, while SMEs produce mainly traditional snacks for lower income consumers. Snacks produced by SMEs are often not branded and sold in bulk without packaging. However, these snacks are popular and compete very strongly against snacks produced by large-scale manufacturers.

Continued strong growth in the snack food market is expected. If the current rate of growth continues, the Indonesian snack market could reach a value of 6,000 billion Rupiah (\$723 million) or more by the year 2007.

Estimated Value and Volume of Indonesia's Snack Market, 1998-2002



Source: Indofood Frito-Lay; Garudafood; and Agrisource Research

I.1 Traditional Snacks Dominate Indonesian Snack Market

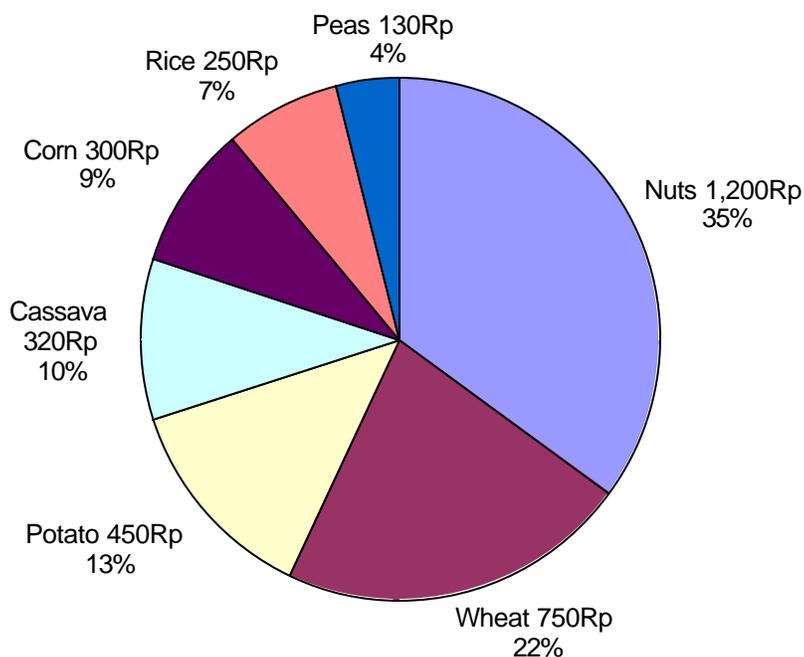
Snacks are a major part of the daily diet for many Indonesians as can be seen in the abundant variety of traditional local snacks available throughout the country. The wide availability of these snacks is due to the large numbers of SMEs and home industries operating in the snack industry. The majority of these snack producers often market their snacks only in the local area.

The wide availability of traditional snacks gives this segment of the snack industry an advantage over western snacks, which are mainly found only in modern retail outlets in urban areas. Traditional snacks made by local SMEs, on the other hand, can be found in almost any outlet nationwide, from larger retail outlets down to small village shops and kiosks. Very few SME snack producers sell their products through modern retail outlets because the fees charged are usually too high. The vast majority of snacks produced by SMEs are nuts, crackers, and chips, which make up almost 70 percent of the entire snack market.

I.2 Prospects for Growth in Modern Snacks

As the modern trade channel continues to expand throughout the country, this will also bring increasingly good sales prospects for modern snacks. Sales volume has returned to pre-1997/98 economic crisis levels, and the ever-expanding distribution network through the modern retail sector will fuel future growth. However, this growth will be limited largely to urban areas as the retail expansion is occurring primarily in major cities.

Estimated Market Shares By Raw Materials (Billion Rupiahs) 2002



Source: AgriSource Research

As a result of on-going economic challenges, many snack food producers have cut costs by reducing imported ingredients. Many, particularly SMEs, have stopped using imported ingredients altogether, unless the raw materials and ingredients for their production are unavailable locally. Imported materials and ingredients such as peas, potato flakes, and wheat for milling, account for a rather small portion of the overall snack market. However, some larger producers of modern style snacks still rely heavily on imported ingredients due to their quality and quantity requirements. Furthermore, the gradual economic recovery and relatively strong growth in the snack food market is again enhancing prospects for imported ingredients.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Following table summarizes the opportunities and constraints of U.S. Exporters to the Indonesian Snacks Market.

Opportunities & Advantages	Constraints & Weaknesses
Population is over 200 million with snacking as part of traditional culture.	Majority of population has weak purchasing power as middle to upper class consumers comprise 15-20% of total population.

The increasing amount and popularity of modern trade channels make imported products more readily available.	U.S. suppliers are often unable to meet "Halal" food requirements.
Many middle and upper income consumers are consuming more western style snacks.	Modern snacks only hold about 13% of volume market share due to high price.
Modern retail sector becoming more efficient.	Internal transport and storage infrastructure still weak.
Growing health awareness fueling demand for higher quality products.	Prices for imported products are much higher local products prices.
Local ingredients unavailable or insufficient, while US products considered high quality.	Shipping time from U.S. may be an impediment as products will need a relatively long shelf life.

SECTION III. Key Market Trends, Products, Players, and Performance

III.1 Consumer & Product Trends

Indonesia's population of about 220 million is spread across over 18,000 islands, but the majority of the population resides on the islands of Java (58 percent) and Sumatra (21 percent). An estimated 65 percent of the population resides in rural areas, while 35 percent lives in urban area, including the major cities of Jakarta, Surabaya, and Bandung. About 85 percent of the population is Muslim, making Indonesia the largest Muslim country in the world. Approximately 55 percent of the population is under the age of 25. These demographic factors have a tremendous impact on the consumption of both locally produced and imported snacks and ingredients.

The average Indonesian consumer spends roughly 60 percent of total expenditures on food products. Of this 60 percent, only an estimated 25 percent is spent on processed foods or beverages. Generally, processed food products are too expensive for most Indonesian consumers. The main consumers of processed foods are middle-income consumers, which represent less than 20 percent of the population. These consumers are now more price conscious and more likely to choose a lower priced traditional snack over a more expensive western snack.

In general, Indonesian snack consumers do not exhibit product loyalty, regardless of their buying power, and are always changing brands and flavor preferences. However, brand recognition and loyalty can still play a major role in the purchasing decisions of some Indonesian consumers. Many higher-income consumers still choose to purchase products from major producers such as Indofood Frito-Lay and Garudafood over lesser-known brands that may be less expensive. These companies are the market leaders in advertising and also in providing new types of snacks.

As Indonesia's market for snacks becomes larger and more complex with more competitors, consumers are increasingly relying on product image when making their purchasing decisions. This does not necessarily mean that consumers will purchase well known brands, but rather that they will purchase snacks that "look good." Packaging and advertising thus play an important role in affecting consumers' purchasing decisions. Companies in the modern snack trade are expected to increase their use of advertising and promotional activities, while small companies with limited resources are more likely to promote their products by giving out free samples and discounting prices. Many SME snack producers insert small cheap toys in their packages to boost sales to young school children.

To address the price concerns of consumers, companies are providing smaller pack sizes and no-frill products in order to reduce costs. This will make the products more affordable and hopefully expand the market for snacks to a wider range of customers. Promotions and free give-away items in snacks are also key drivers of sales.

There is small but growing demand for healthy snacks. Children usually buy whatever snack they desire, but offering or promoting healthier snacks has been proven to be effective in marketing to mothers and adults.

The third and fourth quarters (July-September and October-December) are usually the biggest demand periods for snacks. July is a big demand month because schools open during that month. As in other Asian countries, the fourth quarter is a peak demand period due to many public and religious holidays. To more effectively balance peak demand and production capacity, large-scale producers of western snacks use high quality metalized foil packaging to maintain and extend product shelf life during some periods.

III.2 Import of Snack Products for Retail Market

Imports of ready to eat snack products of cereal based snacks, potato chips, and nuts in 2002, according to Indonesian official statistics, was about US\$ 7.31 million. Industry sources estimate that the actual figure for snack imports is higher. However, the total value of imported snack products is still considerably small compared to the total value of Indonesia's snack market. Imported snack products with high potential in the Indonesian market are noted below.

Prepared Foods Obtained by the Swelling or Roasting of Cereals (HS 190410000)

The Philippines was by far the leading supplier for cereal-based snacks during the past several years with a market share of over 70 percent. The primary supplier of these snacks was URC Snacks. However, URC Snacks has recently established a base of operations in Indonesia, thus imports from the Philippines is expected to decline significantly in the future. The second leading suppliers were Thailand and Germany.

Prepared Potatoes (HS 200520000)

Imports of potato chip snack products have been minimal. Australia has been the leading supplier. China and the U.S. also supply chips. Potato chips are the leading prepared snack food import from the United States, totaling about \$881,000 in 2003.

Prepared Unroasted Groundnuts (HS 200811900)

Imports of prepared/preserved unroasted groundnuts (peanuts) and other snack nuts have been significantly greater than potato chip imports. Growth in total imports in this category is being driven by significant increase in imports from China. Australia and Vietnam are also important suppliers.

Popcorn (HS 1005.904.040)

U.S. exports of popcorn have grown significantly over the last five years. Total export value has increased steadily from 1998 (\$176,000) to 2003 (\$755,000). After potato chips, popcorn is the most significant processed snack food product imported from the United States. Brand name micro-wave popcorn has proved to be quite popular.

III.3 Import of Snack Raw Material/Ingredients for Indonesian Snack Manufacturers

As previously noted, imported materials and ingredients account for a rather small portion of the overall Indonesian snack market. However, the gradual economic recovery and relatively strong growth in the snack food market is raising the prospects for imported ingredients. Raw material imports range from fresh and processed potatoes, wheat, corn, seeds and nuts, to flavorings and seasonings.

Potato Based Snacks

Potato based snacks include all snack products using fresh potatoes, potato flakes, potato flour and starch as their basic ingredients. Demand for potato chips has been increasing in recent years. Total sales in this segment are estimated at about 24,000 metric tons valued at approximately 440 billion Rupiah (approximately \$53 million). This gives the segment approximately a 13 percent share of the overall value of the snack market. Although domestic potato supply is relatively abundant, less than one percent of domestic potato supplies are suitable for snack manufacturing, and potato imports have been continuously increasing.

Indofood Frito-Lay is the market leader in this market and relies on both local and imported raw materials and ingredients. Siantar Top is another leading user of processed potatoes, mainly for extruded snacks. Significant volumes of processed potatoes are also used by other food processors, particularly in the biscuits and baking industry.

Given the local supply situation for fresh and processed potatoes, the rising demand for all types of snacks, and the relatively low tariff rates on potatoes and products, it seems likely that demand will continue to grow. The greatest opportunity over the next five years or more for U.S. and other foreign suppliers is to tap into the huge potential demand among smaller scale snack processors that are not yet utilizing potato flour, flakes, starch, and other processed potato products. Although larger players producing mainly Western style snacks are likely to maintain their dominant role, smaller snack makers, collectively, offer significant long term potential.

- *Fresh Potato Imports (HS 070190000)*

Major suppliers for potatoes include: Australia, China, Taiwan, U.S., India, UK, Netherlands, and New Zealand. Australia has been the leading supplier with market shares of between 70 and 80 percent.

Imports of fresh potatoes are a good year-round supplement to local sources. From September to February, Australia is out of the market, but China and Taiwan are able to supply. The situation is reversed in the other six months of the year. The supply of lowest priced products varies each year for potatoes. At times, U.S. potatoes have been the lowest priced among the major suppliers. However, buyers report that U.S. potatoes often have quality problems on arrival due to the long ocean transit time.

- *Potato Flour Imports (HS 110510000)*

Imports of potato flour increased from 437 tons in 1999 to 7,268 in 2002. The large increase has been driven by the growing demand for potato-based snacks and food products. Leading flour suppliers include Germany, China, Japan, and Australia.

- *Potato Flakes Imports (HS 110520000)*

Potato flake imports have increased significantly in recent years, with imports jumping by over 700 percent in value terms from 1999 to 2002. In 2002, imports totaled 2,200 metric tons. The significant increase in potato flake imports has been driven by the increasing demand for potato-based snacks and food products. Similar to potato flour, most of Indonesia's potato flake imports are used in the snack (particularly Western snacks), biscuits, and baking industries. The U.S. has been the leading supplier each year, with around 80-85 percent of the market, with Canada second. U.S. potato flakes, especially those from Oregon, are considered to be high in quality as it gives more volume, better texture and shelf life.

- *Potato Starch Imports (HS 110813000)*

Potato starch imports totaled 4,750 metric tons in 2002. The Netherlands has been the leading supplier in most years. Germany has consistently held second place until it became the leading supplier in 2002. There are also many Thai companies that export extruded potato-based snacks to Indonesia. These companies include World Food International and Big One. However, these companies are not considered to be very large players in the total market.

Wheat Based Snacks

Wheat based snacks comprise the second largest segment in the Indonesian snack market after nut snacks, with an estimated 22 percent overall market share. Total sales in this segment are estimated at around 45,000 tons in 2002. The main products in this segment include various extruded snacks using wheat flour as the base material, or a combination of wheat flour and other ingredients.

Another important product in this segment is dry snack noodles. Demand has grown to very large volumes and many companies now compete in this business. Several snack noodle suppliers noted that demand is so large that manufacturers must often break good quality noodles to supply the snack segment. There is also a wide range of snack biscuits and crackers in the market.

Indonesia imports about 4 million tons of wheat annually, consuming about 3.2 million tons of wheat flour equivalent. The majority of wheat flour usage in Indonesia is for the fresh and instant noodles industry (60 percent), and bakeries (35 percent). The snack sector uses only about 0.6 percent of total wheat supply.

- *Wheat Grain (HS 100190190)*

Indonesia's wheat and wheat flour total imports continue to hover around 4 million tons (wheat grain equivalent) annually. Australia is consistently the major supplier, accounting for over 50 percent market share recent years. Canada has also been a major supplier and usually claims a 20-25 percent share. The U.S. has also been a major but less consistent supplier, with market shares ranging from 7 to 29 percent over the past four years. Depending on supplies, India, China, and the FSU have also been important suppliers in recent years.

- *Wheat Flour (HS 110100000)*

Wheat flour imports over the past few years have ranged from 200,000 to 300,000 tons. The U.A.E, Australia, Belgium, China, and India have been leading suppliers. The amount of imported wheat flour used in the snack industry is unknown, but is estimated to be a similar percentage as local wheat flour, or about one percent. Based on this estimate, demand is considered to total about 3,500 metric tons annually.

- *Wheat Starch (HS 110811000)*

Indonesian imports of wheat starch have steadily declined in recent years. Japan has consistently been the major supplier, with Australia and Singapore providing lesser amounts. The amount of wheat starch used in the snack industry is unknown, but trade sources indicate that the volume is very small in comparison to wheat flour and other starch sources.

Corn Based Snacks

Total sales of corn-based snacks are estimated at approximately 20,000 tons. This segment accounts for about nine percent of the overall market.

Most of the corn used is domestically produced yellow type. Some imported yellow corn may also find its way into the snack industry, but there is no evidence that any millers or snack makers are using exclusively imported corn. Regardless of origin, the corn is degerminated and milled to various size grits and flour, and then used in making extruded snacks. Snack processors report that there are four key corn millers supplying this market.

There is also some whole yellow and white corn used in making whole puffed corn snacks. This snack is similar to popcorn, but does not expand as much as popcorn. Most, if not all, of this whole corn is being produced and supplied from various sources in East Java. There is also reportedly some production of special types of white corn near Bogor in West Java, which is being used exclusively in the snack industry.

- *Corn Flour (HS 110220000)*

Corn flour is used in a wide range of food processing applications, primarily as a thickener in sauces and in the baking industry. Its use in the snack industry is much less than for milled corn grits or whole corn, but some extruded snack makers reportedly use corn flour in their ingredient mix. The annual usage for snacks is difficult to determine, but is estimated at less than 200 metric tons. Imports have not been significant.

- *Corn Starch (HS 110812000)*

Corn starch is an important food processing ingredient and is used to some extent in the snack industry. However, the bulk of Indonesia's usage is for textile, paper, and other manufacturing processes. Imports of corn starch have approached 35,000 tons in recent years, supplied primarily by Japan, South Korea, and China. However, it is very unlikely that corn starch imports will continue at recent levels. In 2003, a local corn miller, PT Subah Indah Tbk, began operations at a new corn wet milling facility near Jakarta. This plant is the largest of its kind in Southeast Asia and should be able to supply most, if not all, of Indonesia's requirements for corn starch and other corn-based products. However, the plant will rely mainly on imported whole corn to meet its 1,000 metric tons per day capacity to produce corn starch and various derivatives, such as glucose syrup and maltodextrines, as well as corn oil.

Dry Peas and Nuts Based Snacks

Total sales of peanut snacks in 2002 were approximately 70,000 tons. Pea imports for use in the snack industry are estimated at about 12,000 tons. A large portion of this segment of the snack market is dominated by SME and home-based processors, so total sales value is difficult to estimate.

- *Peanuts (HS 120210000 and 120220000)*

Historically, only about 7 percent of Indonesia's total peanut production is used in the snack industry, with the balance used in a wide range of other traditional foods. Despite the relatively large domestic supply of peanuts, Indonesian snack producers and other food processors rely on imports of shelled and in-shell peanuts to meet seasonal demand and quality requirements. Imports have been over 100,000 tons per year. India, China, and Vietnam have been the primary suppliers.

- *Dry Peas (HS 071310000)*

Dry peas are used to produce mainly fried whole pea snacks, a popular item that is commonly sold throughout Asia. Some dry pea raw material is also used to make extruded pea snacks, although this type of end product is less popular than fried whole pea snacks. Dry pea production requires a long growing season (typically 100 days) and long photoperiods, so this crop is not produced in Indonesia and other tropical countries. Thus, all dry pea raw materials used in the snack industry are imported.

All fried and extruded pea snacks that appear in the retail market are dyed green in color to appeal more to consumers. However, a wide range of dry pea types and colors are imported for processing. The most common types of dry peas used include green, yellow, marrowfat, Dun, and maple peas.

The level of imports is difficult to determine, but leading importers and end-users indicate the level may have been close to 12,000 tons in 2003. New Zealand, Canada, and Australia have been the primary suppliers.

Tapioca, Rice, & Soybean Snacks

- *Tapioca Snacks*

Indonesia is a major producer of tapioca (cassava), with annual production of tapioca roots totaling about 16 million tons. Only a small fraction of total output, estimated at about 0.1 percent of production is used in the snack industry each year. Krupuk, or traditional fried shrimp crackers, is the primary end use for most tapioca flour used in snacks. There are hundreds of SME krupuk producers operating throughout the country.

Most of the demand for tapioca in packaged modern snacks is to produce pelleted snacks. Manufacturers use mainly tapioca starch mixed with some wheat flour (or other types of flour) to produce a thick paste that is machine-stamped into pellets. The pellets are then dried and later fried to make the snacks.

- *Rice Snacks*

Rice production in Indonesia has averaged about 50 million tons each year over the last five years, making it the country's most important crop. However, only about 0.03 percent of total rice production is used in the snack industry each year. Rice is often used as a

secondary ingredient to improve texture and flavor, or to reduce costs, in many extruded snacks manufactured by larger processors. Overall though, production of rice-based snacks is dominated by smaller processors located throughout the country.

- *Soybean Snacks*

Soybean-based foods, including tofu, tempe, and other products, are consumed in large quantities in Indonesia. However, fried soybean snacks are a relatively more recent addition to the diet, but popularity is growing, particularly among lower income consumers. Most of these snacks are produced by SMEs and sold locally or regionally. In 2003, PT Garudafood launched a high quality modern soybean snack called "Snack Kedele" and is marketing it as a nutritious, high-protein snack. The product is a fried or roasted whole soybean that is coated with tapioca flour and then fried in vegetable oil and seasoned with salt, sugar, garlic, coriander, and pepper. The packaging quality is equal to or better than their peanut-based snacks.

Local soybean production is inadequate to meet demand, so large volumes of imported food-grade soybeans enter from the U.S., Argentina, and Brazil. The import level is about 1.4 million tons per year. The amount of soybeans used in snacks is estimated to be about 10,000 metric tons per year.

Seasonings, Flavorings, Vegetable Oils

Imported seasonings and flavorings are used primarily in the Western style snacks produced by larger firms, while the majority of SMEs obtain their seasonings and flavorings locally. Accurate data for individual types of seasonings and flavorings is difficult to estimate, as there are a large number of different types of seasonings and flavorings used by each company. Most snack producers use palm oil, palm olein, or coconut oil, all of which are available in Indonesia.

III.4 Key Players

Indofood Frito-Lay Makmur

Indofood Frito-Lay Makmur is a joint venture between Indofood Sukses Makmur and Frito-Lay. Indofood Sukses Makmur Tbk (Indofood) is by far the number one processed foods company in Indonesia, with a leading market share for most of its products. Besides snack foods, the company also produces instant noodles, wheat flour, branded edible oils and fats, baby foods, and seasoning products. Indofood Sukses operates the world's largest flour mill and is also the world's largest instant noodles manufacturer. Indofood also operates the largest distribution network in the country, with its products available in more than 150,000 retail outlets throughout the country. Indofood dominates the instant noodle market (75 percent market share) wheat milling (68 percent), cooking oil (60 percent), and snacks (55 percent).

The company's joint venture with Frito-Lay makes it the largest snack manufacturer in the country. Indofood Frito-Lay is a snack importer, distributor, producer, and marketer. Its main target market is middle-income consumers and up. Indofood Frito-Lay claims to hold a 60 percent share of the modern snack segment, which comprises about 20 percent of the overall snack market value. The company produces mainly extruded snacks and fried potato chips. They expect to produce more fried products in the future.

Siantar Top

Siantar top is a major competitor to Indofood Frito Lay in many snack segments, particularly in corn-based products. The company has a history of being very innovative in providing new flavors and products. They are also integrated into other businesses, such as the production of snack packaging machines. The majority of Siantar Top's snack products are extruded.

Garuda Food

PT Garudafood is the market leader in the snack nuts segment, with an estimated 40 percent share. The company's products include popular coated peanuts and roasted peanut snacks. This company is a market leader in developing new products and using modern technology in producing snacks, and has spent a large amount on the research and development of equipment that is best suited for production of their products.

URC Indonesia

Universal Robina Corporation, a Philippine-based company, has recently establish PT URC Indonesia and has opened a factory in Cikarang near Jakarta to manufacture its snacks. URC had been the leading importer of snacks into Indonesia, but with the opening of this factory, the company's import totals should decline significantly. The production capacity for the new factory will be around 18,000 tons per year. The company plans to use the newest technology and machinery in producing high quality products at competitive prices. URC will be partnering with Garudafood's subsidiary, PT Sinar Niaga Sejahtera, for the distribution of its products.

ABC President Enterprises

ABC is one of the leading food companies in Indonesia, with subsidiaries producing drinks and syrups, instant noodles, sauces, canned goods, candies and confectionery items, snacks, and other products.

Pacific Food

The company is a joint venture between PT Mamee Pacific Buana and Pacific Food Sales & Service Sdn. Bhd (Malaysia). The company's products include noodles, biscuits, candies, and snacks. Pacific Food's most popular snacks include Double Decker, Smax, and Best. The company's factory is located in Manis Industrial Estate and has an estimated production capacity of 5,000 tons per year.

Sumber Sari Pangan

This company is typical of a medium size snack producer in Indonesia, relying mainly on local raw materials, distributing mainly through traditional channels (not much modern retail), and targeting middle and low-income consumers. This medium size snack producer is the second or third largest in the Surabaya area. The company is currently producing mainly extruded snacks, as well as some pellets.

Candi Jaya Amerta

This company produces various types of cracker products, including Shrimp Crackers, Vegetable Crackers, Prawn Sticks, Soy Bean Crackers, Hot and Spicy Shrimp Crackers, and Cassava Crackers. The company began as a home industry using traditional production methods and marketed its products only to the domestic market.

The company began to grow and started to develop new products and improve production methods. In 1985, the company began exporting its products, initially to Saudi Arabia. The company has continued to grow and has added more snacks to its product line, as well as investing in modern processing equipment. It now exports products to several countries, including the Netherlands, Belgium, Spain, the United Kingdom, U.S., Australia, Taiwan, Malaysia, Egypt, and the United Arab Emirates.

III.5 Distribution

Distribution is a constant challenge in Indonesia due to the country's vast distances, many islands, rather undeveloped transportation infrastructure, and the huge number of consumers living in rural areas far from larger cities and the main island of Java. These and many other factors make distribution a highly complex and important process for snack makers and others active in the food business. One of the major complaints among many wholesalers and retailers nationwide is the inadequate ports throughout the country. Existing ports are also often not up to standards. Drafts in many of these ports are often too shallow, thus requiring products to be unloaded onto smaller ships so they can be taken to the port. The inadequate number of facilities also results in frequent congestion, causing shipping times to be much long.

The distribution system includes approximately 10 national distributors who service the entire country and numerous agents/distributors with a more local penetration. There are also hundreds of wholesalers and millions of retailers. Many companies, both large and small, maintain their own distribution systems directly or via subsidiary companies. Costs of shipping by air are prohibitive and the rail system is limited and inefficient, so most snack products are distributed by truck and inter-island ships.

East Java, particularly the Surabaya area, is an important snack producing, repacking, and distribution center. The region is an important source of corn and other raw materials, which is why many snack producers choose to locate in this area. In addition, Surabaya is a major port city and is well located to serve both Java and the eastern islands. Its location makes it a major transshipment port for domestic and imported products, which must be offloaded from deep draft vessels and on to shallow draft vessels for distribution in the eastern islands. The process works in reverse for products arriving into Surabaya from the eastern islands.

Distribution System for Imported Snack Products

Distribution of imported snacks is often a difficult undertaking, even for larger importers and local producers. Snack products usually are imported into the two major ports of Jakarta and Surabaya by importer-distributors or agents. After importation, the products are usually trucked to the modern retail outlets in the major cities and other urban areas. Imported snacks are rarely found in traditional distribution outlets due to their relatively higher prices. Smaller importers still rely on local distributors and agents in order to sell their products. Some larger retailers may obtain the products directly from these exporters, bypassing the distributors entirely.

Imported products being sold in traditional trade channels are forced to go through a number of distribution hubs in key cities throughout the country. Most products move through these hubs before they make their way to distributors and wholesalers before being delivered to local retailers.

Retailers

Indonesia's food retail system is still dependent on traditional wet and dry markets in smaller towns and villages but modern trade channels are growing in numbers and importance, particularly in the snack industry. The number of supermarkets is approaching 900 and mini-marts total more than 3,000. An estimated 25 percent of retail food sales in Jakarta are through modern trade channels.

Large stores such as Carrefour, Hero & Giant, Alfa, Matahari, Lion, Super Indo, Indomart, and Makro have expanded their presence in Jakarta, Surabaya, and throughout Indonesia. These outlets have become very popular among the middle to high-income consumer groups. As store numbers increase, these new retail outlets are drawing an increasing amount of middle-income and low-income consumers, as well as small shop owners.

Sales of modern snacks are expected to increase along with the development of modern trade channels. This is also likely to bring an increasing emphasis on product quality, which should tend to favor imported ingredients and higher quality local raw material suppliers.

Packaging

Products produced by large-scale manufacturers are usually packed in poly-metalized foil packages. The shelf life for snacks packaged in this material is approximately three to four months. Most SMEs package their products in clear plastic bags, often without a brand name. The shelf life for chips packaged in plastic bags is usually one month or less. This difference in shelf life is one reason why snacks with better packaging can be distributed to all areas of the country, while small-scale produced snacks are often sold near where they are produced.

III.6 Procurement

Many of the larger snack companies are vertically integrated. Some have created subsidiaries from which they obtain a large share of their basic raw materials and some also have formed partnerships with local farmers to obtain raw materials. Larger companies that use imported ingredients tend to buy directly from foreign suppliers, perhaps working through a local agent or distributor. SMEs generally use few, if any, imported raw materials except for some seasonings and flavorings. For these items, they usually rely on importer-distributors who hold distribution agreements with foreign suppliers.

Strength of Current Supplier

Snack producers report that the primary strengths of their current suppliers include good pricing, availability of supply, and on-time delivery. However, price is still the key determinant for choosing a supplier, particularly for SMEs who seek to obtain the lowest priced raw materials and ingredients at the expense of quality.

Weakness of Current Supplier

The Indonesian snack market is highly competitive, so companies that cannot keep their manufacturing costs low will have difficulty maintaining sales and profits. As a result, and contradicting the supplier strengths noted above, poor pricing is the main supplier weakness mentioned by the majority of snack companies, particularly SMEs. However, many of the companies who choose lower price suppliers often suffer the consequences in contaminated and low quality products.

A weakness of foreign suppliers noted by manufacturers is the slow response time to communications and lack of customer service. Many snack companies also complain that they receive little or no technical assistance from their foreign suppliers. Another weakness of foreign suppliers is their inability to offer a Halal certificate for certain products.

The higher cost for locally milled wheat flour compared to imported wheat flour is another frequent complaint.

III.7 Trends and Outlooks

Although the modern trade channels have been rapidly expanding, traditional trade channels are expected to remain the dominant snack distribution channel. Even Jakarta, the largest city in the country, still relies mainly on the traditional trade channels, which account for approximately 70 percent of all retail food sales in the city. The traditional trade channel's share of retail food sales is expected to decline to not less than 60 percent over the next five years, even as modern trade channels expand.

In the coming decade, there will be more retailers who will import raw materials and finished products directly from foreign exporters, whereas in the past they tended to obtain products from local importer-distributors. Many of these retailers will establish new factories, which will use modern technology and equipment, in or near major cities. They will operate central warehousing and distribution systems in the larger cities, while opening more outlets in the smaller cities in order to make their distribution systems more efficient.

Similar changes are also expected to occur in the traditional trade channels. Major distributors operating nationwide are expected to set up centralized distribution systems in order to increase direct delivery of products to traditional market outlets. More major snack producers are expected to follow this pattern.

Sales of modern snacks are expected to increase significantly in tandem with the increase in modern retail and distribution systems. This should bring greater emphasis on product quality.

Value-for-money will remain important to consumers, but they will also be looking for greater variety in snacks. There is also likely to be greater concern with the nutrition aspects of snacks and other food products.

SECTION IV. POLICIES & REGULATIONS

IV.1 Tariffs & Quotas

Majority of snack ingredients mentioned in this report has 5 percent tariff, except for wheat grain which 0 percent tariff.

IV. 2 Customs and Product Registration Regulations

Indonesia's food regulation and labeling requirements are governed by Government Regulation No. 69 year 1999. However, many local importers and distributors often ignore some of these regulations such as the GMO & irradiation requirements, as they are not usually strictly enforced. The regulations also often act as a non-tariff barrier to imports due to the amount of detailed information that is required for registration.

It is recommended that companies exporting products to Indonesia have reliable freight forwarding and customs clearing companies represent them in the goods clearing process and with customs relations. Product registration procedures are usually carried out by the

importer, distributor, or an agent on behalf of the exporting company. Product registration must be completed before the product can be imported into Indonesia. Product approvals are issued by the National Agency for Drug and Food Control of the Department of Health. The NADFC will provide a registration number that must be printed on each individual product label.

All producer and importers of food products intended for retail sale in Indonesia must place a label on all their products. These labels must be attached on each item where they are easily visible and legible. This label should provide all required information about the product, such as: the name of the product, a list of contents and their total weight, name and address of the producer and importer, and date of expiry. The food production batch codes should also be placed on the product label, container, or package.

Any information, statements, or other details placed on the label must be true and cannot be misleading. Any health claims placed on the label must be supported by documented scientific findings. These statements should also be printed in Bahasa.

Any producer or importer who claims that their food is safe for consumption by Moslems are required to have Halal food certification.

Product labels should also include nutritional facts. This information should include, in the following order: Total calories from fat, protein and carbohydrate and total values of fat, saturated fat, cholesterol, total carbohydrate, fiber, sugar, protein, vitamin and mineral. Genetically modified products must bear the words Genetically Modified Food in the label. Irradiated food products must bear the words Irradiated Foods on the label. The label for irradiated food should contain the name and address of the irradiating agency (if not producer), month and year of irradiation, and the name of the country where the irradiation took place.

SECTION V. COMPETITION

The U.S. is a leading player for some processed food products and ingredients. U.S. ingredients have a positive quality image and many Indonesians are familiar with American products from study, travel, or relatives abroad. They have also been exposed to American foods and lifestyles through movies. However, due to its closer proximity, Australia enjoys a freight advantage in terms of shipping times and rates.

Products from China, Korea, Malaysia, Thailand, and Taiwan are especially strong in retail outlets that serve middle and lower income groups. Products from these countries are also more common in stores outside of Jakarta. Low price is a major selling point for these items.

The United States will remain a leading supplier of snacks and other imported high value food products to Indonesia. This is due largely to the favorable image of American products among consumers. However, Australia will be a major threat to the US market position. By 2004, due to the ASEAN Free Trade Agreement) there will be new opportunities for Malaysia, Thailand, and the Philippines to be new competitors in the Indonesian market.

Following are comments from snack producers regarding U.S. imports compared to other supplying countries:

- Prices for U.S. raw materials and ingredients are usually higher.
- U.S. suppliers often require more demanding and limiting contract terms and conditions.
- U.S. suppliers often require a minimum order quantity that is much higher than what producers need.

- Many producers commented that the response time to requests was often very slow. In some cases no response was received.
- Time zone differences makes communications difficult, as business hours do not match up
- U.S. suppliers often cannot meet special requirements for Muslim foods, including Halal certification.
- The U.S. supplier has no representative office in the region.
- Many snack producers also noted that prices for imported raw materials have been too unstable. Constant fluctuations in exchange rates make it difficult to accurately determine the costs of production in advance.

SECTION VI. CONCLUSIONS

VI.1 Conclusions

Indonesia's demand for many snack products and ingredients is relatively high and has significant potential to expand, particularly as the country's economy recovers, disposable incomes improve, and as modern snack production and distribution systems continue to develop.

There are opportunities for U.S. snacks and ingredients in the Indonesian market. However, some of these factors, such as poor price competitiveness with other international suppliers, are difficult or impossible for U.S. suppliers to influence. Nevertheless, there are also several key constraints that U.S. suppliers can immediately focus on that will help them to gain a larger share of the market. These constraints include:

- Inadequate technical support and timely sales service.
- Lack of knowledge concerning U.S. products.

Many of the most interesting and valuable shows and events to snack producers are held in the US. These are excellent venues to introduce buyers to U.S. products and suppliers, and for U.S. suppliers to gain a better understanding of Indonesian buyers' needs. Often, Indonesian buyers are not aware of these events, or they do not have the resources to attend. Supporting Indonesian buyers' attendance to these trade show would act to overcome some of the constraints listed above.