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Indonesia

Food Service - Hotel Restaurant Institutional

Indonesia Hotel, Restaurant and Institution Food Service Sector Update

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Report Highlights:

The Indonesian Hotel, Restaurant and Institution (HRI) sector experienced 6 percent growth in 2009. Additionally, the Indonesian tourism industry reached 6.4 billion dollars in revenue in 2009 and is expected to reach 7.0 billion dollars in 2010. In 2009, the HRI sector contributed approximately 16 percent to Indonesian overall economy. Growth in the HRI sector is attributed to the increased purchasing power of the urban Indonesians, the expansion of modern malls urban cities, and the 6.5 million foreign tourists currently visiting Indonesia each year. All of these factors have led to dramatic growth for major international hotels, restaurants, quick service restaurants, cafés, and bakery chains.

Post:
Jakarta

Executive Summary:

SECTION I: MARKET SUMMARY

Market Overview

Indonesia is the world's fourth-most populous nation, the third largest democracy, and the most populous Muslim majority country. The island of Java, roughly the size of New York State, is the most populous island in the Indonesia (124 million, 2005 est.) and one of the most densely populated areas in the world. The resort island of Bali sits next to Java and is readily accessible by air through its international airport

Indonesia weathered food, energy and global financial crisis reasonably well in 2008 and 2009. Strong macroeconomic fundamentals and a robust policy response enabled Indonesia to achieve real GDP growth of 6.2% (World Factbook). Real GDP growth was lower in 2009, at 4.4%. However, this level of growth was significantly stronger than most of Indonesia's neighbors.

Indonesia held its second direct democratic presidential election on July 8, 2009. President Yudhoyono won with an outright majority of ballots in all thirty provinces, and in the capital city of Jakarta. The President reassumed office on October 20 to fulfill his second five-year term. The expectations are that increased stability and security will help lead to expanded investments and economic growth, along with increased international tourism into Bali and other areas of tourism throughout the archipelago.

Indonesian imports of U.S. consumer-oriented food products declined by 56 percent in 2009. This was a direct result of September 2008 government regulations requiring product registration (ML) for all imported processed food items. Furthermore, on June 15, 2009, the Indonesian National Agency for Drug and Food Control's (BPOM) Directorate of Food Safety Assessment required all producers, importers, and distributors of food products to obtain a Letter of Import Permit (SPP) from Ministry of Agriculture's Directorate General for Livestock Services (DGLS) for imported dairy, egg, and meat products. According to BPOM, these regulations were for food safety assessment purposes and halal issues. These regulations apply to all animal-based packaged and processed products for retail and foodservice.

Table 1. U.S. Agricultural Exports to Indonesia 2004-2009

Year	U.S. Agricultural, Fish & Forestry Products Export (million of US dollars)	Consumer-oriented Agricultural Products Export (million of US dollars)
2004	987	145
2005	1,025	170
2006	1,157	189
2007	1,608	249
2008	2,268	352
2009	1,842	218

Source: BICO Report

The Indonesian HRI sector is extremely diverse, consisting of high-end hotels and restaurants that serve local and international cuisine, fast food outlets, cafés and bars, and low-end small restaurants, street-side restaurants known as *warungs*, and vendors that sell food to customers on the street. Catering operations serve airlines, factories, private social functions, cruise and military ships, offshore mining and oil operations with expatriate staffs, prisons, and hospitals. The sector is concentrated in the urban areas, with Jakarta having the highest number of food service outlets, followed by Surabaya, Bandung, Bali, Medan, and Makassar. In the past few years, the HRI industry in other tourist and Meeting Incentive Convention Event (MICE) destination cities has developed. These areas include Yogyakarta, Semarang in Java, Pekanbaru, Palembang, Batam in Sumatera, Manado in Sulawesi, Balikpapan in Kalimantan and areas Papua, the most eastern region of Indonesia.

Four and five-star hotels catering to tourist industry and up-scale restaurants, cafés and bars specializing in Western and other non-Indonesian cuisine are dominant users of imported food products. Local caterers and restaurants tend to purchase local products.

The number of foreign tourists has been stable and is expected to increase with the lifting of the U.S. Government travel warning for Indonesia. Bali remains the most visited tourist destination in Indonesia, with an average of 11,757 visitors daily. During 2002 to 2008, Singapore, Malaysia, Japan, Australia, China, South Korea, and Taiwan accounted for the highest numbers of tourists by nationality, followed by the United States, the United Kingdom, Germany, Netherlands, and France.

Over the past few years, more foreign and locally-owned boutique and resort hotels have been built in Bali and in other tourist destinations. New hotels are being constructed in other Indonesian cities to accommodate business visitors, MICE, and local cultural events. Specialty coffee shops, tea

shops, as well as franchise and independent cafes are being developed in large cities as a place for conducting business meetings, as well as for socializing.

The rapid expansion of franchise restaurants, such as fast food chains, casual dining cafés, international and family style restaurants, and food courts in various cities is expected to increase the demand for imported food products. International franchise outlets have a relatively strong presence, with local restaurant and bakery franchise outlets also increasing. The number of restaurants has increased in conjunction with the proliferation of new shopping malls and office buildings in recent years.

Western-style fast food outlets purchase imported foods, but demand is usually limited to items such as frozen french fries, mozzarella cheese, and condiments. Restaurants serving noodles, Japanese food, pizza, and fried chicken, bakery product outlets, and coffee shops are also prominent and tend to use imported frozen potato products, dressings, sauces, whipping cream, bakery ingredients and mixes, delicatessen products, and various coffee ingredients, including creamer, honey, and flavorings. Most Korean restaurants in Jakarta would prefer to serve U.S. beef.

Permanent and non permanent independent street stalls and kiosks are easily found throughout Indonesia and sell various local dishes such as fried noodles, rice, ketoprak (containing tofu, rice noodles, vegetables, soy sauce, peanut sauce), siomay (containing fish cakes, potatoes, tofu, vegetables, peanuts sauce), bakso (soup containing meat balls, noodles, shredded boiled or fried chicken), soto mie (soup containing noodles, cuts and broth of meat or chicken), sate (chicken or goat meat), sate padang (beef and offal), martabak (containing eggs, flour, condensed milk, chocolate sprinkle and cheese), hot dogs, hamburgers, fried chicken, and kebabs.

Caterers are typically small to medium-sized private enterprises that serve factories, mining and oil operations, offices, schools, hospitals, company events, private social functions, and weddings. Caterers use mostly local food products, although they are likely to use imported beef offal, fresh fruits, vegetables, dressings, and bakery ingredients and mixes.

Eating outside of the home is a more common activity across all socio-economic levels. Indonesians more frequently dine out with colleagues or for business luncheons. Eating out as a family during weekends has also become increasingly popular.

Industry Description

The demand for cafés, restaurants, and bars continues to increase in the main Indonesian cities. The growth rate of new cafés each year is currently about 5.1 – 5.5 percent. The hotel industry is currently growing at an annual rate of 21 percent, making it the second largest sector for growth after the real estate sector. Jakarta and Surabaya hotels depend largely on MICE visitors. Bali's ever increasing number of tourists has led to significant growth in international chain hotels, restaurants, and international food chains in the major Balinese tourist areas.

Indonesia's growing middle class has resulted in higher incomes, more middle class communities, and a new generation of people that demand socializing after hours and Western food products and brand names. Middle class consumers also demand easy access to media and internet facilities. These mediums further expose Indonesian consumers to various international products, activities and lifestyles. The total market value for food and beverages was 26.3 billion dollars in 2008, with an average expenditure of 113 dollars per capita. This figure represents a six percent annual increase since 2004.

Table 2. Total Market Value, Expenditure, and Import Value of Food and Beverage in Indonesia

	Year 2004	2005	2006	2007	2008	2009*
Market Value (Billion USD)	20.8	22.1	23.4	24.8	26.3	27.9
Expenditure per capita (USD)	92	96	101	105.8	110.9	113.8
Import Value (Billion USD)	4.4	4.6	5.2	7.9	9.1	9.7

**Estimate value*

Sources: World Trade Atlas, Market Profile for the Hotel, Restaurant and Institutions Sector Food & Beverage in Southeast Asia - New Zealand Trade and Enterprise, May 2009

Imported Food Products

There is strong demand for Western products in Indonesia, particularly as more people begin to associate Western products with high quality, consistent supply, and healthy lifestyles. Also, as the number of tourists and expatriates increase in areas beyond Java, the need for higher quantities of imported products is expected to increase. Unfortunately, the enforcement of ML product registration regulations and the global economic downturn have led to a sharp decline of imported products at both the retail and food service outlets. This often leads industries to source more locally produced products, which can result in lower quality goods.

Table 3. Variety of Imported Food Products in Indonesia Market for HRI Industry

Products	Description	Type of HRI Industry
Fruits	fresh, frozen, canned, dried	All types
Vegetables	fresh, frozen, canned, preserved	All types
Potatoes	Frozen	All types
Dairy products	milk, cheese, butter, whipping cream, yogurt, ice cream	High-end
Bakery ingredients	baking mix, dried fruits & nuts, fillings, chocolate, whey, NFDM, yeast, food coloring, etc	Middle & high-end
Soup, soup bases, broth	canned, dried/powder	Middle & high-end
Condiments	mayonnaise, salad dressings, sauces (barbeque, chili, soy, marinating), mustard, spices, etc	Middle & high-end
Seafood	fresh/chilled/ frozen salmon, crab, scallop, tuna	High-end
Preserved fruit, jam, spread		Middle & high-end
Cooking ingredients	vinegar, cider, vegetable oil (corn, sunflower, soybean, canola, olive), tomato paste and puree, etc	Middle & high-end
Non-alcoholic beverage	juices, coffee, tea, and soft drinks	Middle & high-end
Alcoholic beverage	liquor, beer and wine	High end type
Mixed drinks, blends	dried/powder	Middle & high-end
Beef (first grade)	fresh, chilled, frozen	High-end
Beef of secondary cuts/trimming, oxtail, tongue	frozen	All types
Beef offal/heart/liver	frozen	Small restaurants, street-side vendors and small catering services
Poultry	frozen duck, turkey	High-end
Delicatessen	processed meat and poultry	High-end

Indonesian bound tariff rates on major food and agricultural items generally range from five to 40 percent. Import duties for a number of processed food products range from five to 15 percent. The duty applied to all imported alcoholic beverages is 30 to 150 percent. The government levies a 10 percent value-added tax on the sale of all domestic and imported goods. A luxury tax ranging from 40 to 75 percent is also levied on alcoholic beverages. For imports, these taxes are collected at the point of import and are calculated based on the landed value of the product, including import duties. Sales tax is 2.5 percent and excise for alcoholic beverage

and alcoholic concentrate ranges between Rp.2,500-50,000/liter (approximately 0.25 to 5 dollars), depending on the percentage of ethyl alcohol content.

Tourism Industry

Indonesia's unique cultural diversity, tropical rainforests, exotic flora and fauna, marine species, and landscapes are tremendous assets for the tourism industry. Tourism accounted for 3 percent of total GDP in 2009 (6.9 billion dollars) generated primarily from Jakarta and Bali. Other areas of Indonesia are also working to develop their own tourism facilities. If these communities are successful, it could lead to greater opportunities for imported foods.

Table 4. Indonesian Tourism Facts

Description	Year							
	2003	2004	2005	2006	2007	2008	2009	2010*
Number of foreign tourist (million)	4.5	5.3	5.0	4.9	5.5	6.2	6.5	7.0
Revenue (USD billion)	4.0	4.8	4.5	4.4	5.3	7.3	6.4	7.0
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	n/a	n/a
Average expenditure per visit (USD)	903.7	901.7	904.0	913.1	970.9	1,178.5	995.9	1,000
Average length of stay (days)**	2.9	3.0	2.9	3.2	2.8	2.9	2.9	3.0

*Estimate number by Ministry of Culture and Tourism

**Star-rated hotels

n/a: not available

Infrastructure

1. Challenges/Constraints

Many areas of Indonesia's 17,500 islands remain underdeveloped in terms of tourism, transportation infrastructure, and port of entry facilities. The five main airports are located in major cities and tourism destinations including, Jakarta's Soekarno-Hatta International Airport, Bali's Ngurah Rai International Airport, Juanda Surabaya Airport in East Java, and Polonia Medan and Hang Nadim Batam Airports in Sumatera. Although Indonesia currently has about 200 seaports, only four can handle international passenger ships. About 25 of these same ports can be used for the inter-island transshipment of goods. The entry points for most imported food products destined for the HRI industry are the main airports and seaports in Jakarta, Surabaya and Bali. Also, the lack

of an integrated cold-chain system and associated infrastructure, often necessary for U.S. food products, continues to be one of the main obstacles to food distribution in the country.

The lack of infrastructure is the biggest challenge to food distribution in Indonesia, resulting in higher transportation costs. The transportation costs for a single container from Jakarta to Batam is about twice as expensive as it is to ship the same container from Singapore to California. The handling costs at Indonesian ports are among the highest in Asia. As a result, most imported products are sold only in major cities such as Jakarta, Bali, Surabaya and Bandung.

Another infrastructure challenge for tourist destinations, including Bali, Lombok, Kupang, the Riau Islands off Sumatera, Kendari in Sulawesi, and Papua, has been consistent shortages of water and electricity. Also, airport runway lengths are inadequate for regular jet service in some tourist destinations.

Advantages and Challenges for U.S. HRI Food Products in Indonesia

Advantages	Challenges (<i>Barriers to US Export</i>)
U.S. products are popular for best quality products, taste, and consistent supply.	Price in general is more expensive compare to other countries and domestic products.
American food products popularity set trend and new style for the HRI industry.	Sensitivity to local culture and life style is important to market the products and consumer awareness. Lack of promotion support on HRI products.
Some food items cannot be produced locally for instance few types of dairy products, tree nuts, temperate zone fresh fruit and vegetables	Global economy crisis impact in consumer purchasing power to switch from expensive imported items.
Import tariff is 5 percent for most high-value products	More introductions of new-to-market products are required.
Significantly high market potential, around 22-33 million of upper and middle income consumers.	Lack of infrastructure and transportation for food distribution.
The increasing number of international restaurants, hotel chains, boutique hotels, and specialized cafés	Competition from other countries like Australia, New Zealand, France, Japan and China
Relatively high number of expatriate community and tourists that look for specialty U.S. food products and dine in Western-style restaurants	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 has established, the importation gets easier.	U.S. suppliers have not familiarized with local system, culture, constraints, and lack of good long term relationship with their agents.
Reputable importer/distributor exist for any	Complexity and uncertainty in import

U.S. food products for an expanding HRI industry	regulations, procedures, and custom clearance continues to be a major obstacle for U.S. food products to enter this market.
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2. Future Development

Limited land transportations options, such as railways, hampers the development of the tourism sector on the islands outside of Java and Sumatera. Although in 2007, new regulations were imposed to end the monopoly of a state-owned railway company, which has led to the expansion of 300 km new railway lines through private initiatives. These measures could be significant in the future, provided more tracks are commercially developed.

The recent development of Trans Theme Park in Makassar, South Sulawesi last year is expected to attract about two million visitors annually. As one of the largest in Southeast Asia, its integrated tourism and entertainment centers will include shopping malls, five-star resorts and hotels within the 24 hectare land area. Similar projects will be developed in 20 other major Indonesian cities by 2020. The government in collaboration with private companies aggressively plans to develop 3,000 km highway in Kalimantan, 2,100 km road in Sulawesi, and 11 highways in Papua in 2010.

Four star chain hotels continue to increase in number and draw both MICE oriented visitors and tourists. Swiss-Belhotel International plan to expand the business to Medan and Batam in Sumatera; Banjarmasin, Samarinda, Tarakan, Palangka Raya, and Balikpapan in Kalimantan; Palu and Kendari in Sulawesi; Manokwari and Jayapura in Papua; and Segara in Bali. The opening of new Aryaduta Hotels in Palembang, Bali, Bogor, Bandung, is followed by Aston in Bali. Harris Hotel plans to open seven more outlets in addition to its five hotels. Budget hotels like Tune plans to have 24 outlets across the country by 2015. In 2009, U.S. chain Best Western five just opened six hotels in Bali, along with three others in Padang, Solo, and Jakarta respectively.

Bali continues to improve its infrastructure. Bali's Benoa port will double in size (to 80 hectares, 543 million dollars) and will be used as cruise terminal by a Korean consortium. The future plan is to build 120 hectares access for international cruise ships. More construction (217 million dollars) for roads, flyover, and five-star accommodations is being developed in the surrounding areas.

Coverage of Bali in international television and film by National Geographic, the Discovery Channel, BBC Knowledge films, and U.S. film production companies have a positive impact on the growth of tourism and the HRI industry in the Eastern part of Indonesia.

The Malacca Strait suspension bridge development which connects Riau, the second richest Indonesian province and Malaysia will benefit Indonesia's tourism, as well as the country's general

economy. The project will provide an incentive for the Government of Indonesia to upgrade the infrastructure in Riau and other provinces in Sumatera.

Indonesia's five major domestic airlines have upgraded their support services, aircraft maintenance, and number of new aircrafts, which significantly benefits the tourism industry. The airline industry experiences an annual increase of 10 – 15 percent in the number of passengers. In 2010 they expect an increase of up to 43 million passengers. The private charter-jet fleet and passengers using private jets tripled in size since 2006. The return of KLM after a 12 year absence to Bali and Jakarta will increase the number of Dutch and European visitors to Indonesia by an estimated 140,000 people.

An innovative visa issuance program, *Visa-on Board*, began in December 2009 for Japanese visitors from Tokyo to Bali via Garuda Indonesia. It is part of improving immigration services for foreign visitors to Jakarta and Bali during peak hour loads at the airports. Additionally, there is a new Visa on Arrival program that provides a 30 day visa window for travelers visiting Indonesia for tourism, social, cultural, business, and governmental purposes. These visas are available to travelers from 64 countries and may be obtained at Indonesian international airports and seaports at a cost of \$25.

Promotional efforts by the Indonesian Board of Tourism are expected to increase the flight frequencies, ground transportation improvement, as well as hotel and restaurant services. The opening of 24 hour Tourism Information Offices in 2010 will provide easier access tourist information and activities in Jakarta, Bali, Batam, and Sulawesi. The onset of free trade agreement between Indonesia, ASEAN nations and China in January 2010 will also force Indonesia to make improvements to its infrastructure and HRI industries in order to keep Indonesia competitive with those nations.

BARRIER FACTS

- The country best, Soekarno-Hatta Airport Jakarta has level-two facility with runway lights occasionally not working properly. Malaysia has level four while Bangkok is higher. Other airports in the country are in serious conditions for planes safety during takeoffs and landings.
- 250 ships passed daily in Philip Strait between Batam and Singapore, none dock at Batam to refuel or take supplies though the price is lower than Singapore.
- Transporting a container from Jakarta to Batam costs USD 80, the highest in Asia (half the cost).
- One kilometer of toll road construction costs between USD 1.1 – 6.1 million depending on each 33 provincial regulation. Ratio of built road to highway in Indonesia is 12% huge gap in comparison to 84% in Malaysia and 76% in Thailand.

- Electricity shortage across the country affects company position to expand. In Jakarta alone, an estimated of 3.2 million dollars are lost daily due to power shut down. Riau islands and Tanjung Pinang loss 90% of Singaporean and Malaysian tourists, 50% of their total income in HRI industries, 83% of ships arrival per day.
- In 2008, Indonesia attracted 6.5 million foreign visitors while neighboring countries like Singapore drew 10 million, Thailand 15 million and Malaysia 22 million tourists.
- Indonesia is at the position 91 compare to 183 countries as one of the longest time in starting the business. It takes 60 days, 9 procedures and over USD2000 to start a business in Indonesia (including company certification, business and/or trading license, man power registration). It takes 39 procedures to enforce a contract, 160 days to obtain construction permits, and 22 days to register the property. This results in an average of 60% of unregistered economic activities. It also takes 21 days to export any products and 27 days to import them.

Sources: Globe Asia Vol. 3 No. 10-Oct 2009, Kompas Newspapers 2009, Bisnis Indonesia Online, and Baliupdate

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Most imported products for the HRI industry enter Indonesia by local reputable importers or distributor agents. They represent imported products, obtain import licenses, understand customs clearance procedures, and distribute the products all over Indonesia. It is important that U.S. exporters appoint reliable local importers/agents, as to stay current on any new import requirements or regulations. Most regulations related to distribution and marketing of imported food and beverage products are either unenforceable or are only enforced in an ambiguous manner.

Food imports require product registration with BPOM and some products require additional approvals. For instance, animal based products such as frozen meat and offal, processed meat, poultry, and dairy products, are also required to have Halal certificate, and Letter of Import Permit - SPP from the DGLS.

Due to the finding of a second Bovine Spongiform Encephalopathy (BSE) case in the United States, as of 1 July 2005, U.S. beef imports were banned. Currently, only products from a handful of DGLS recognized plants produce beef allowed to enter Indonesia. The importation of animal based products can be challenging due to shifting regulations and requirements.

Exporters interested in shipping to Indonesia should visit and research the market, and build long-term relationship with local importer/distributor for the success of your business. Understanding the complexity of distribution system, inadequate infrastructure, especially if requiring refrigeration and cold storage facilities is also critical. Exporters should familiarize themselves with local tastes

and work closely with chefs, food and beverage professionals, and purchasing staff to modify any food items as becomes necessary. It is also important for exporters to educate themselves on product knowledge, handling, preparation, pricing, and specific promotion strategies.

Jakarta and Bali remain the ideal locations to target the HRI food service sector. These cities have a large number of five star and boutique hotels and up-scale international restaurants that purchase imported goods to cater to sizeable expatriate communities, large numbers of foreign visitors, and higher income consumers. Bali remains the 'trendsetter' in specialized cafés, chain hotels, and restaurants; thus, other large potential cities like Surabaya, Bandung, Medan, Batam, Balikpapan and Makassar are most likely to follow suit.

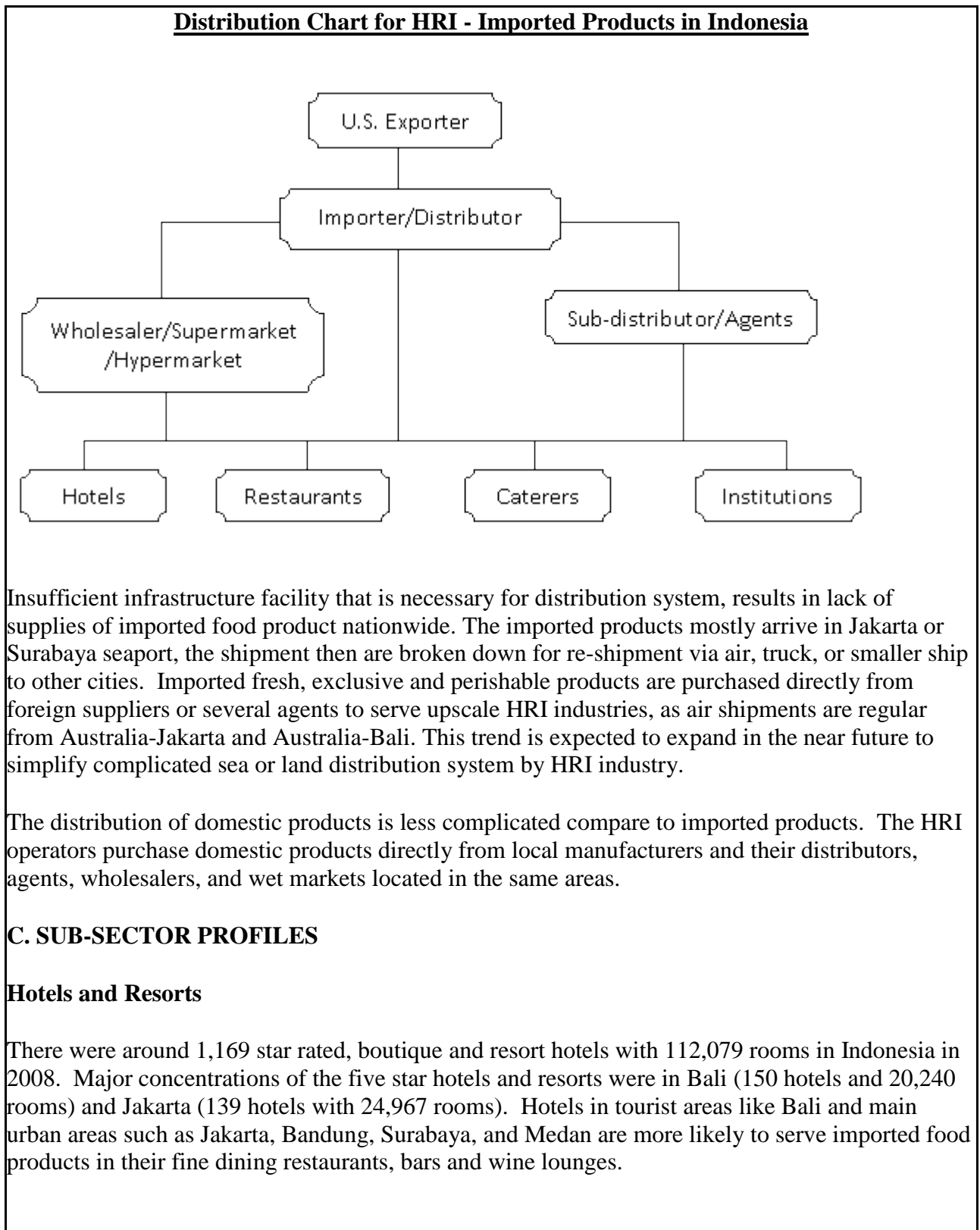
B. MARKET STRUCTURE

The distribution system of most imported products is rather simple (see Distribution Chart). Once U.S. products arrive in the country through an importer or distributor, those products are delivered directly to HRI operators. Sub-distributors, agents or wholesalers may be necessary for HRI operators located outside Jakarta. Medium and small HRI operators normally purchase products through local agents, wholesalers, regular supermarkets and hypermarkets.

Some U.S. chain and upscale HRI operators import items directly from a U.S. exporter. In this case the consumers either purchase certain products in large quantities or specialty/exclusive gourmet products. Freight forwarder or other intermediary commonly is used for custom clearance purposes. Quick Service Restaurants/fast food operators have exclusive contracts with importers/distributor to get their desired products. For instance, frozen potatoes (french fries/crinkle cuts), fried chicken coating mix, doughnut mix, and pizza cheese are brought in through exclusive importers as these businesses must ensure that their products meet strict international franchise standards.

The distribution of food products becomes more complex beyond Jakarta and Bali. Supermarkets, hypermarkets, and small scale agents play important roles in the distribution of imported products for medium and small HRI operators. Such products are limited to canned and fresh fruits, canned vegetables, frozen potatoes, preserved fruits/jams, butter, yogurt, condiments, sauces, and dried fruits (raisins).

Distribution Chart



Insufficient infrastructure facility that is necessary for distribution system, results in lack of supplies of imported food product nationwide. The imported products mostly arrive in Jakarta or Surabaya seaport, the shipment then are broken down for re-shipment via air, truck, or smaller ship to other cities. Imported fresh, exclusive and perishable products are purchased directly from foreign suppliers or several agents to serve upscale HRI industries, as air shipments are regular from Australia-Jakarta and Australia-Bali. This trend is expected to expand in the near future to simplify complicated sea or land distribution system by HRI industry.

The distribution of domestic products is less complicated compare to imported products. The HRI operators purchase domestic products directly from local manufacturers and their distributors, agents, wholesalers, and wet markets located in the same areas.

C. SUB-SECTOR PROFILES

Hotels and Resorts

There were around 1,169 star rated, boutique and resort hotels with 112,079 rooms in Indonesia in 2008. Major concentrations of the five star hotels and resorts were in Bali (150 hotels and 20,240 rooms) and Jakarta (139 hotels with 24,967 rooms). Hotels in tourist areas like Bali and main urban areas such as Jakarta, Bandung, Surabaya, and Medan are more likely to serve imported food products in their fine dining restaurants, bars and wine lounges.

Restaurants

Around 70 percent of the 1,212 upscale chain and independent restaurants are located in Bali and Jakarta. 408 restaurants in Bali and 146 in Jakarta are considered high-end and serve Western and international cuisine made with imported food products. The rapid growth of Western-style, specialized coffee shops, café, bars and wine lounges have also resulted in an increase of imported specialty and gourmet food and beverage products.

Fast food outlets continue to thrive, despite the domination of roadside stalls and vendors in the food service industry. Currently, over thirty percent (41 million people) of Indonesia's urban population eats fast food once a week. The most prevalent fast food outlets include Kentucky Fried Chicken, McDonald, A&W and Pizza Hut. These outlets will remain popular due to affordable prices, high standards and quality, and their widespread throughout Indonesia.

Institutional

Imported food products are used by in-flight, mining and offshore international standard catering services, and by star rated hotels and independent restaurants for outside-catering to serve private social events and weddings. However, three-star or low budget hotels, independent medium and small scale caterers (over 6,500) that serve factories, offices, schools, hospitals, and majority outer island mining and oil operations use only local food items. The main imported items use for this services area beef offal and trimmings, fresh and canned fruits, frozen potatoes and vegetables, dressing, sauces, and bakery ingredients.

Table 5. Food Service Outlets

Description	Value sales growth % 2007/2008	Value Sales in IDR billion/ (USD million)					
		2003	2004	2005	2006	2007	2008
Cafes/bars	9.3	13,855.4 (1,625)	16,134.8 (1,876)	19,121.8 (1,970)	21,463.8 (2,348)	23,750.5 (2,465)	25,965.8 (2,551)
Full-service restaurant	8.7	112,025.8 (13,139)	130,599.3 (15,186)	151,998.4 (15,662)	177,738.6 (19,444)	208,488.7 (21,636)	226,678.7 (22,269)
Fast food	9.0	5,014.9 (588)	5,865.4 (682)	6,739.9 (694)	7,646.0 (836)	8,732.04 (906)	9,519.3 (935)
100% Home delivery	-	-	-	-	-	-	-
Self-service cafeterias	7.8	699.1 (81)	826.6 (96)	979.7 (101)	1,148.3 (126)	1,300.5 (135)	1,401.9 (138)
Street stalls/kiosk	5.6	5,290.4 (621)	6,296.6 (732)	7,600.3 (783)	8,624.8 (944)	10,386.5 (1,078)	10,966.2 (1,077)

Source: Euromonitor

HRI Trends

Despite of the global economic crisis, the Indonesian economy experienced 5 percent growth in 2009 with a per capita gross national income of 2,229 dollars (purchasing power parity of 3,800

dollars). The growth of HRI industry in large cities like Jakarta, Surabaya and Bali will remain high and this is reflected in vast expansion in Western type of fast food outlets, family-style restaurants, coffee shops, bakeries, ice cream/frozen yogurt parlors, and boutique hotels. Official statistics reflected 2,861 cafés and 376 specialist coffee shops were open for business in 2008. The growth rate of 1,651 popular fried chicken, burger, and pizza, fast food chains and independent restaurants remain strong at between 3 to 6 percent annually.

RESTO & CAFÉ FACTS:

- Coffee Beans and Tea Leaf serves 750 packs/day during weekdays and 1,200 packs/day on weekends in their Jakarta top two outlets out of 34 outlets in Indonesia. Since the first opening 2001 its annual increase is up to 20%.
- After 30 years in Indonesia, Kentucky Fried Chicken (KFC) with 370 outlets and over 12 thousands employees in 78 cities is still going strong with 8.5% annual increase reaching over USD1.7 billion annual sales in 2009. In 2010, they plan to open 30-35 more outlets targeting sales increase up to 18%.
- Dunkin Donut marks its 25th anniversary this year with its 200 outlets across Indonesia
- Indonesia has 2,227 hotels and 1,212 restaurants, 70 percent of restaurant industry are mostly in the two major areas of Jakarta and Bali. There are about 146 high-rated hotels in Jakarta and 311 in Bali. About 441 high-end restaurants are located in Jakarta and over 408 restaurants in Bali.
- The Bali Hotel Association consists of professional group of over 100 star rated, boutique hotels and resorts representing 15,000 hotel rooms (30,000 employees). A great potential of utilizing imported food products.
- McDonald's new franchise holder, PT Rekso National Food (Sosro), plans to open 75 new outlets within five years in addition to existing 97 outlets in Indonesia, which previously generated income of USD 846 million in 2007.
- Forty percent of 800 franchise business in Indonesia belongs to foreign investors with total revenue of USD 8 billion in 2008, an increase of 11% compared to USD 7 billion in 2007. One of the largest franchise holder is PT Mitra Adiperkasa with 700 stores in 22 provinces [USD33 million net profit in 2008] including: Sogo, Seibu, Debenhams, Mark & Spencer, Foodhalls and Harvey Nichols retail outlets; US chain: Starbucks, Burger King, Domino's Pizza, Coldstone Creamery, Krispy Kreme; UK chain: Pizza Marzano, Social House Bars & Wine shops (300 wine labels); Asian: Spice Garden, Courtyard, and Chatter Box.
- Red Crispy with its 300 cafés and restaurants has been the market leader in using organic rice, organic chicken, less fat and low cholesterol ingredients in its Indonesian and western style menus.
- California Fried Chicken is one of the most successful local chain fast food restaurants and since 1983 has established over 150 outlets throughout Indonesia. PT Pioneer Indo Gourmet International also runs 7 Sapo Oriental Chinese restaurants and 50 Cal Donut outlets in malls throughout Jakarta.

SECTION III. COMPETITION

High demand food items for the HRI industry includes chicken, beef, processed meat, seafood, and frozen potatoes.

Since 2000 the Indonesian Council of Ulama (MUI) has not recognized any U.S. chicken slaughter facility as eligible for producing halal chicken for export to Indonesia. As a result, Indonesia has effectively maintained an import ban on the imports of all U.S. chicken meat. This action has forced the HRI industry to rely on locally produced chicken products.

As of 2005, most U.S. meat processing plants have not been permitted to export to Indonesia due to BSE and halal issues. Only several plants are permitted by DGLS to export top quality U.S. beef to Indonesia which cater five-star hotels and high-end restaurants. The industry made an adjustment by using 10 percent imported meat and 90 percent local products. Three and four star hotels, most restaurants, and cafes using only 5 percent of secondary cuts imported meat products. Therefore, Australia and New Zealand benefited even more in serving the entire HRI industry.

Local dairy manufacture Natura began daily production of 167 kg of aged mild-cheddar cheese in 2005, with an additional storage capacity of 18 ton cheese. At the beginning of 2009, PT Cimory started producing fresh mozzarella and processed cheddar cheese, along with set yogurt following PT Yummy, the pioneer of fresh Indonesian cheese for the HRI industry.

Australia holds the largest market share in dairy products, beef, seafood, fresh fruits and vegetables, wine, and few processed products. New Zealand's main exports are dairy products, beef, and lamb. Geographically, both countries have the advantage of shorter shipping time in comparison to the United States, which enables these countries to provide quality products with lower shipping costs.

Irreplaceable food ingredients for French, Italian, Japanese and Korean restaurants depend greatly on imported products (cheese, condiments, oils, sauces, rice, and canned foods).

South Africa has recently gained a stronger market share in fresh fruits, juices, and wine. China is another U.S. competitor in fresh fruits, including apples and oranges.

Canadian frozen potatoes/french fries are the main competitor for similar U.S. products.

U.S. dairy and non-dairy based beverage mixes for cafes, fast food outlets, and beverage vendors has gained stronger market share in the past five years. Main competitors of these products come from Taiwan and Korea.

France and Chilean wines have also been very competitive. The past few years, local wine makers produced wines from both local grapes and imported Australian grapes. These wines have become readily available and more affordable for Indonesia's HRI establishments.

The market for U.S. exports remains strong with high potential for fresh fruits, frozen potatoes, dairy products, bakery ingredients, and beverage ingredients. 80 percent of chain fast food,

restaurant, and café outlets are U.S. based franchises and these establishments generally have a preference for U.S. produced goods.

SECTION IV. BEST PRODUCTS

Many U.S. food products have great potential in the Indonesian market, provided that Indonesian regulations are transparent and not overly burdensome. There are good market prospects for U.S. suppliers of duck, turkey, seafood, french-fries, bakery ingredients, sauces and seasonings, oil and vinegars, canned food, fresh fruits, soft drinks, juices, tree nuts, ice cream, snacks, beer, reasonably-priced wines, sprits, beef, and beef offal.

Prior to the September 2000 DGLS ban on U.S. chicken leg quarters, breast meat, and wings, consumption of U.S. chicken was 12,641 tons, valued at 7.21 million dollars. The majority of U.S. chicken went wet markets (42 percent) and HRI industry (41 percent).

The alcoholic beverage sector in Indonesia with 86 percent Moslem is relatively small. However, the wine consumption, 1 liter per person per year, is growing among the ten percent of Indonesian population mainly in Jakarta and tourist island of Bali for HRI industry. The alcoholic beverage industry, importation, duty free and duty-paid outlets are strictly regulated by the government. The importer and distributor must submit quotas for approval twice a year before the government announces the quota amount for certain areas only. In other regions such as the sale and consumption of alcoholic beverage is totally banned due to moral and social reasons.

Future Trends

The trend of eating out has become normal for upper and middle class Indonesians, as incomes have increased and more consumers have some disposable income. This is reflected in the significant growth in number of restaurants, coffee shops and cafés, bakery-café outlets, and fast food franchises.

Chains such as *Shabu Auce* Japanese-Thai-Indonesian restaurant, *Sen-Ryo Genki Sushi* authentic Japanese restaurant, *Blue Elephant* Thai restaurant, *Toreore Chicken & Joy* South Korean fast food, *Pizza Marzano* U.K. restaurant, *Dominos Pizza* U.S. take-away concept fast food, *Burger King* U.S. fast food, and *Excelso Café* western style coffee shops (92 outlets) are rapidly opening new outlets throughout the country. The success of these establishments requires the Indonesian HRI industry to improve management, hygiene, food quality, and healthy food awareness.

Indonesian consumers are also becoming more health conscious; with the availability of new such as Hoshi Healthy Bread, which does not use any preservatives or flavorings in their breads and pastries. Kentucky Fried Chicken has begun to offer consumers the choice of organic or regular rice. Red Crispy café and restaurant offers organic rice, organic chicken, lower fat and cholesterol options. Zula Restaurant, located in Bali, has a strictly vegan menu, and Healthy Choice with its New Chapter restaurants in Jakarta maintain food stores selling organic vegetables and food products. New vegetarian restaurants like Koufu Food Mall, Loving Hut Vegan Cuisine, Ahimsa, and Mom's Veggie fast food outlet have also opened in Jakarta and Medan.

The demand for U.S. dairy and non-dairy based beverage mixes and blends for cafés, fast foods, and beverage vendors will continue to grow along with the new café outlets across the country at the rate between 18 to 20 percent annually. Imported healthy flavored ice drinks like green-tea and fruit ice blends, pure chocolate and non-fat milk drinks, fresh and concentrated fruit juices are expected to increase dramatically over the next few years. Some fast foods like Kentucky Fried Chicken and McDonald have started opening cafés for young adults with free Wi-Fi services.

The latest trend in café business is to combine with bookstores, a trend which been established for decades in other Asian countries and elsewhere. This trend will likely be copied throughout the country from Medan to Manado. The major players are Starbucks Coffee and Kinokuniya, Fab Café and Gramedia, Canteen and Aksara, Imperial Bakery and Times Bookstores. They serve mainly pastries and desserts, sandwiches, salads, light pasta dishes, and long list of coffee drinks and blends, and fresh juices. The imported ingredients include bakery mix, dried fruits and nuts, salad dressings and condiments, specialty cheeses, fresh fruits and vegetables, coffee mix and blend, syrup and liquor.

Frozen yogurt boutiques or bars have taken off in the past four years as a new trend of healthy style living in Jakarta, Surabaya and Bandung. Each year, an average of four new single brand frozen yoghurt outlets opens up in malls for high-end consumers. Reports indicate that frozen yoghurt chains will expand to Medan, Makassar, Banjarmasin, and Semarang. The frozen yoghurt chains compete using a variety of fresh and frozen fruits, canned fruits, preserved fruit and jam, dried nuts, M&M, and other for toppings from New Zealand, Australia and the United States. The first major outlet was Yogen Fruz (Canada), which started in 1991. Current brands like Sour Sally, Icy Blue, Heavenly Blush, and Red Mango and others have set new trends in big cities targeting youth and young adults.

The U.S. franchise such as Kentucky Fried Chicken, McDonalds, Wendy's, A&W, Texas Fried Chicken, as well as local California Fried Chicken provide more services to their family type outlets with Kids Program or Party Club packages, safe playgrounds for children, free Wi-Fi and computers for youth. These outlets, along with the other market leaders like Dunkin Donut, Starbucks, and local franchise Solaria, started to open outlets in gas stations and/or rest areas on the main inter-province highways in Java and will likely open similar outlets on islands, such as Sumatera, South Kalimantan and South Sulawesi.

Throughout Bali, 24 hour convenience stores like Circle K provide tourists and expatriates with hot coffee, tea, cold beverages, burgers, hotdogs, fresh pastries, bread and cookies. Seven Eleven has also begun operations in Indonesia, with their first store south of Jakarta, opening in 2009. As the convenience store sector increases its presence, the consumption of imported food ingredients, products, and beverages (soft drinks, local and imported beer/liquor) will increase.

General Recommendation

We recommend that U.S. suppliers work closely with U.S. cooperators in the United States and in Southeast Asian region. We also recommend that suppliers establish a dialogue with FAS Jakarta. U.S. suppliers can also take the following measure to effectively promote their HRI products:

- Organize a group of importers and distributors to travel to the United States so they may get better a better understanding of U.S. products, new potential product lines, and new U.S. trends in HRI industry.
- Encourage and support the participation of Indonesian importers and distributors to in trade shows and/or local HRI exhibitions, as their participation may lead to expanded markets outside Java and Bali. These activities may also benefit importers in identifying their distributors and agents in other islands throughout the countries.
- Organize seminars and training for food service operators, chefs, food and beverage personnel, and purchasing managers on appropriate applications, handling and preparing food and/or beverage products.
- Maintain a continuous relationship with Indonesian importers by supporting promotional and brand awareness activities targeting the HRI industries.
- Understand which government regulations create trade barriers against your imported food products. These may be more easily identified by working closely with importers and distributors. Familiarize yourself with local systems, cultures, market situations which lead to the success of your product lines in this market.

SECTION V. POST CONTACT INFORMATION

FAS 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 FAS Jakarta at the following local or U.S. mailing address:

Foreign Agricultural Service

U.S. Embassy Jakarta
Jl. Medan Merdeka Selatan # 3-5
Jakarta 10110 - Indonesia
Tel: +62 21 3435-9161
Fax: +62 21 3435-9920
E-mail: agjakarta@usda.gov
Home page: <http://www.usembassyjakarta.org/fas>

Foreign Agricultural Service

U.S. Embassy-Jakarta
Box 1, Unit 8129
FPO AP 96520-0001

Please contact our home page for more information on exporting U.S. food products to Indonesia and to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

APPENDIX 1. Statistic**TABEL A. Major Hotels, Restaurants, Cafes, and Fast Foods Consuming US Imported Food Products via Importer and/or Distributor**

Outlet Type & Name	Location
HOTEL CHAIN	
Ayana Resort	Bali
Bvlgary Resort	Bali
Best Western	Bali (3), Padang, Solo, Jakarta
Conrad	Bali
Four Seasons	Jakarta, Bali (2)
Hard Rock Hotel	Bali
Hilton	Bali
Hyatt	Jakarta, Bandung, Yogyakarta, Surabaya, Bali (2)
Intercontinental Hotel	Jakarta, Bali
JW Marriot	Jakarta, Surabaya
Kempinski	Jakarta
Laguna Resort and Spa	Bali
LeMeridien and Nirwana Resort	Jakarta, Bali
Nikko	Jakarta, Bali
Oberoi Resort	Bali, Lombok
Ritz Carlton	Jakarta (2)
Sheraton	All over Indonesia (8)
Shangri-La	Jakarta, Surabaya
Westin	Surabaya, Bali
BOUTIQUE HOTEL	
Alila - Group	Jakarta, Bali (3)
Aman - Group	Bali (3), Yogyakarta, Sumbawa
Almarik Villa	Gilis-Lombok
Banyan Tree	Ungasan Bali
The Bale	Bali
Begawan Giri	Bali
Cangkringan Yogya Villa & Spa	Yogyakarta
Chedi Club	Bali
Devatas Villa	Bali
The Haven	Bali
Kalyana Resort	Yogyakarta
Karma Kandara	Bali (3)
Kayumanis	Bali (2)
Kemang Icon by Alila	Jakarta
Kupu kupu Barong	Bali
Komaneka	Bali (3)

The Legian	Bali (2)
Lembongan Island Resort	Bali-Lembongan Island
Omah Dhuwur	Yogyakarta
Lorin	Solo, Bali
The Samaya Bali	Bali
Serai – Group	Bali
Tugu Resort and Hotel	Malang, Bali, Lombok
Viceroy	Bali
Waka – Group	Bali (3)
Warwick Ibah	Bali
RESTAURANT	
American Grill	Jakarta (11), Surabaya
Amigos	Jakarta (2)
Angus House	Jakarta, Surabaya
California Pizza Kitchen	Jakarta
Cork and Screw Fine Dining	Jakarta (2)
Euphoria	Jakarta
Hard Rock Café	Jakarta, Bali
Izzi Pizza (Local)	Jakarta (10)
Loewy's	Jakarta
Outback	Jakarta (2)
Papa Rons Pizza	All over Indonesia (11)
Planet Hollywood	Jakarta, Bali
Potato Head	Jakarta
Social House Restaurant, Bar & Wineshop	Jakarta
Terrazzo	Bali
Tony Roma's	Jakarta (2)
CAFÉ	
Black Canyon Coffee (Thailand)	All over Indonesia (22) est. 2005
Canteen (Local)	Jakarta
Coffee Bean and Tea Leaf (USA)	All over (34)
Dunkin Donat & Coffee	All over Indonesia (200) est. 1985
Fab Café (Local)	Jakarta
Krispy Kreme Donut and Café (USA)	Jakarta (3)
Gloria Jean's Coffees (Australia, US Origin)	Jakarta (6), Surabaya, Bali
J.Co Donuts and Coffee (Local)	All over Indonesia(63) incl. Jakarta (36) est. 2005
Starbucks Coffee (USA)	All over Indonesia (70) est. 2002
ICE CREAM PARLOR	
Baskin Robbins (USA)	All over Indonesia (18)
Coldstone Creamery (USA)	Jakarta (7) est. Nov 2007
Cold Rock Ice Creamery (Australia)	Jakarta (3) est. 2008
Cream & Fudge Factory (Swiss)	Jakarta (4)

Dairy Queen (USA)	Jakarta (10)
Häagen Dasz (USA)	Jakarta (8), Bali, Surabaya, Medan
FROZEN YOGURT (FRO-YO) BAR	
Heavenly Blush (Local)	Jakarta (4) est. Dec 2008
Red Mango (USA)	Jakarta (3) est. Nov 2009
Icy Blue (Local)	Jakarta, Surabaya (Total 7)
Sour Sally (Local)	Jakarta, Surabaya (Total 10) est. 2008
Yogen Früz (Canada)	All over Indonesia (29) est. 1991
QUICK SERVICE RESTAURANTS (QSR)	
A&W (USA)	All over Indonesia (200)
Burger King (USA)	Jakarta (8) est. April 2007
California Fried Chicken (Local)	All over Indonesia (150) est. Dec 1983
Domino's Pizza (USA)	Jakarta (6) est. Aug 2008
Kentucky Fried Chicken (USA)	All over Indonesia (370) est. 1979
McDonald (USA)	All over Indonesia (76) est. 1991
Pizza Huts (USA)	All over Indonesia (180) est. 1984
Popeye Chicken & Seafood (USA)	All over Indonesia (56)
Red Crispy (Local)	All over Indonesia (300)
Toreore Chicken & Joy (South Korea)	All over Indonesia (25) est. March 2008
Wendy's (USA)	All over Indonesia (21)

Notes:

- All over Indonesia at least includes: Bandung, Semarang, Yogyakarta, Surabaya, Medan, Bali, Balikpapan, Manado, and Makassar. Some major QSR chains have the stores from Aceh to Papua.
- Each star-rated and boutiques located in major cities has few fine dining restaurants, café, bar and wine lounge. The common restaurants type can be one or more of these types: International, European, American, Italian, Indonesian, Chinese, and Japanese. Some hotels may have Indian, Tex-Mex, Spanish, Mediterranean, and Korean restaurants.

APPENDIX 2. Calendar of Trade Show in Indonesia

Name of Event	FOOD INGREDIENT ASIA 2010
Event location	Jakarta International Exhibition Center, Kemayoran - Indonesia
Industry theme	The only exhibition that unites the growing ASEAN food ingredients community in one place and alternate with FiA Bangkok. The fair encompasses all ingredients which makes the food and beverage we consume today, such as sweeteners, emulsifiers, flavoring, coloring, etc
Date of Event	September 29 - October1, 2010
Type of Event	International Exhibition
Name of Organizer	PT Media Artha Sentosa
Phone of Organizer	(62-21) 7060-8638
Fax of Organizer	(62-21) 5830-1097
Email of Organizer	maria@excomindo.com
Website	www.ingredientsnetwork.com

Name of Event	FOOD & HOTEL INDONESIA 2011
Event location	Jakarta International Expo, Kemayoran - Indonesia
Industry theme	The 11th International Hotel, Catering Equipment, Food and Drink Exhibition; The 9th International Retail Technology, Equipment, Display and Storage Exhibition.
Date of Event	April 16 – 19, 2011
Type of Event	International Exhibition
Name of Organizer	PT Pamerindo Buana Abadi
Phone of Organizer	(62-21) 316 2001
Fax of Organizer	(62-21) 316 1981
Email of Organizer	wiwiek@pamerindo.com
Website	www.pamerindo.com

EXCHANGE RATE

Exchange Rate [IDR per USD] on Period Month Ending Basis

Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2005	9250	9291	9417	9587	9527	9665	9848	10038	10284	10144	10091	9907
2006	9369	9280	9117	8826	9212	9353	9124	9119	9205	9110	9165	9020
2007	9090	9160	9118	9083	8828	9054	9186	9410	9137	9379	9376	9419
2008	9304	9051	9199	9234	9318	9225	9118	9153	9378	9708	11770	11382
2009	11223	11912	11909	11080	10445	10258	10162	10028	9950	9530	9517	9505

Sources: Central Bureau of Statistic, Business Indonesia Daily Newspaper, and Bank of Indonesia

Indonesia GDP Projection 2009-2014

	2009	2010	2011	2012	2013	2014
GDP per capita (USD)	2,229	2,540	2,667	2,800	2,948	3,108
GDP growth (%)	4.3	5.5	6.2	6.6	7.1	7.2

Sources: Ministry of Finance, Globe Asia Vol.3 #10 Oct. 2009