



## EIBN Sector Reports



# Packaging Machinery

## Food and Beverage Industry



This Sector Report was created by the EIBN unit at:



**German-Indonesian Chamber of Industry and Commerce**

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## Methodology

This market study aims to provide an overview of business opportunities in Indonesia's Food and Beverage Packaging Machinery Industry. The present study focuses on information which can be useful for prospective European companies, highlighting relevant characteristics, structure, key players and future trends in the market.

In preparing this report, EIBN referred to prior knowledge regarding the Indonesian food and beverage industry and also to its broad network and partners on the ground. To compile all relevant information, the editors made use of a variety of literature, data, facts and methods. General information about the market and its main players was gathered from publicly available sources, such as news articles, official company websites, and academic papers.

Where updated official data was not yet publicly available, we referred to the latest data on hand. For example, for annual data, when results and figures were not entirely available for 2015, the data and figures for 2013 and 2014 were used. Following an academic approach, any data and references referred to are cited in the report.

## Executive Summary

In recent years, world-famous analysts and market research firms of the food and beverage industry have been highlighting Indonesia's encouraging numbers for the sector; food consumption is expected to grow by 9,1%, soft drink sales value by about 11,7% and mass grocery sales value by about 14,2% for 2014. Increasing urbanisation, a constantly rising income, a young population, and an emerging middle class ensures increases in domestic consumption. The food and beverage sector is traditionally one of the major pillars of Indonesia's economy, having contributed 32% of the national GDP in 2014 alone. With USD 4 billion (IDR 53,4 trillion) in investment flows in 2014, representing 11,5% of the total domestic and foreign direct investments, the sector is also proving to be a popular investment target.

In line with the rising demand in the food and beverages sector over the last years, the packaging industry significantly profited from changing consumption patterns in Indonesia, with customers looking for processed and packaged food in attractive and hygienic wrapping. This resulted in an average growth rate of 10% between 2005 and 2013. Since the Indonesian food and beverage industry requires 70% of the total packaging supply, it is the most important market for packaging machinery. However, the current Indonesian machinery production output is not able to satisfy the demand, thus most of the packaging machinery is currently being imported, and is estimated to continue to be in the medium-term. Despite competition from Asia, European suppliers of packaging machinery are the top exporters to Indonesia. Germany with USD 145,7 million and Italy with USD 118,1 million are clearly the leading players in the field, compared, for example, to the biggest Asian supplier, China, with an import volume of only USD\$ 24,5 million.

Consequently, conditions for European suppliers of packaging machinery in Indonesia's food and beverage sector are promising in regard to business opportunities. While it is true that market entry challenges, such as infrastructure deficiencies, high raw material and logistic costs exist, Indonesia's food and beverage packaging machinery market holds very big potential. Indonesia is a consumer market of a predicted eight to nine million affluent, middle-class consumers by 2020, while the number is estimated to hit 90 million by 2030.

# I. Packaging Machinery in the Indonesian Food and Beverage Industry: a Strongly Growing Market

Indonesia has been in the spotlight of many of the world's leading analysts from the food and beverage industry<sup>1</sup>. For instance, Frost & Sullivan revealed that the Asia-Pacific region's food industry is one of the fastest growing worldwide and expected it to hold a 33% market share in the global food and beverage market in 2014.<sup>2</sup> The Business Monitor International forecasted encouraging numbers for Indonesia in 2014, according to which food consumption was expected to grow 9,1%, the soft drink sales value by about 11,7% and the mass grocery sales value by about 14,2% for the same year.<sup>3</sup> Moreover, beneficial socio-economic factors (discussed here in chapter II.2) further consolidate the food and beverage sector as one of the major pillars of Indonesia's economy, contributing 32% of the national GDP (in 2014).<sup>4</sup> With USD 4 billion (IDR 53,4 trillion) in investment flows in 2014, representing 11,5% of total Domestic and Foreign direct investments<sup>5</sup>, the sector is proving to be a popular investment target.

In line with the rising demand for consumer goods and packaged food over recent years (see figure 4), the demand for packaging has been increasing as well. The packaging industry significantly profited from changing consumption patterns in Indonesia, resulting in an average growth rate of 10% between 2005 and 2013.<sup>6</sup> Since the Indonesian food and beverage industry consumes 70% of the total packaging supply, it represents the most important market for packaging machinery.<sup>7</sup> Together with beneficial developments in the food sector, packaging machinery has become a very promising market for suppliers. This sector brief aims to provide an overview of the upcoming opportunities in this Indonesian market.

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<sup>1</sup> Badan Koordinasi Penanaman Modal (BKPM, Indonesia Investment Coordinating Board), *Food and Beverage Investment*, idem, Jakarta, 2015, p.2. Available at: [http://www.bkpm.go.id/images/uploads/printing/150805\\_BKPM\\_Brosur\\_FB.pdf](http://www.bkpm.go.id/images/uploads/printing/150805_BKPM_Brosur_FB.pdf).

<sup>2</sup> Frost & Sullivan, *Asia Pacific's food industry demand to surpass North America and Europe combined by 2014*, idem, 2014. Available at: <http://www.frost.com/prod/servlet/press-release.pag?docid=288758712>.

<sup>3</sup> Business Monitor International (BMI), *Challenges for Foreign F&D players in Indonesia*, idem, 2014. Available at: <http://www.bmiresearch.com/news-and-views/challenges-for-foreign-fd-players-in-indonesia>.

<sup>4</sup> Simon, Lisa, *The Food Economy*, in: Sorotan. The Magazin of the Indonesian-German Chamber of Commerce and Industry, Vol. XXIV/2/2015, Jakarta, 2015, p.8. Available at: <http://www.ekonid.com/SOROTAN/XXIV-2-2015/files/assets/common/downloads/sorotan.pdf>.

<sup>5</sup> BKPM, *Domestic and Foreign Direct Investment Realization in Quarter IV and January – December 2014*, Idem, Jakarta, 2014, p.15. Available at: <http://www.indonesia-investments.com/upload/documents/BKPM-Investment-Realization-2014-Indonesia-Investments.pdf>

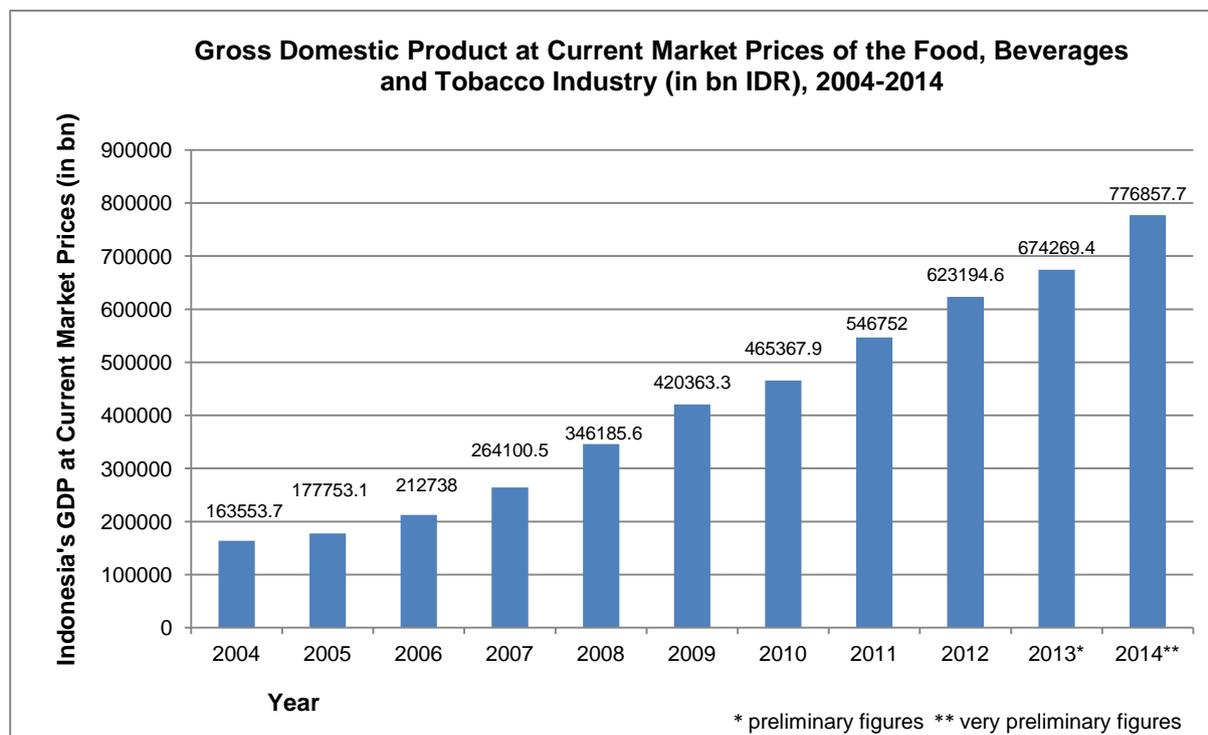
<sup>6</sup> Ekonid, *Zielmarktanalyse Indonesien 2015. Verarbeitungs- und Verpackungstechnik für die indonesische Nahrungs- und Genussmittelindustrie*, German Ministry of Economy and Energy's programme for market development for SMEs, Berlin, 2015.

<sup>7</sup> Simon, op. cit., p.10.

## II Packaging Machinery in Indonesia's Food and Beverage Industry

### 1. The Food and Beverage Industry in Indonesia and its Key Players

Figure 1: Development of Indonesia's Food and Beverage Industry's Gross Domestic Product (incl. Tobacco) in IDR (billions) 2004-2014



Source: Illustration by EIBN with data from Badan Pusat Statistik (BPS, Statistics Indonesia)<sup>8</sup>

The food and beverage industry in Indonesia has been seeing expansion and high dynamics during the last few years and shows good prospects for further growth. It is one of the major drivers of Indonesia's economy and is a popular investment target.

The food and beverage sector saw a total revenue of about USD 82 billion in 2014, which is 8,5% more when compared to 2013.<sup>9</sup> This performance exceeded the expectations of the industry, which, according to Simon, had forecasted only a 6% increase for the same year.<sup>10</sup> As shown in figure 1, the sector has seen constant and impressive growth during recent years, representing 32% of the contribution of all manufacturing industries to Indonesia's GDP in 2014, the food and beverage industry is one of the most important economic sectors in the country.<sup>11</sup> With this share in the country's GDP, the food and beverage sector over-

<sup>8</sup> Badan Pusat Statistik (BPS, Statistics Indonesia), *Gross Domestic Product at Current Market Prices By Industrial Origin (Billion Rupiahs), 2000-2014*, idem, 2015. Available here: <http://www.bps.go.id/linkTabelStatis/view/id/1199>.

<sup>9</sup> Simon, op. cit. p.5.

<sup>10</sup> Ibid., p.4f.

<sup>11</sup> Ibid., p.8.

takes even the automotive and the machinery sector – historically the fastest growing industry in Indonesia.<sup>12</sup> The relevance of the sector becomes even more obvious when considering that Indonesia's economy experienced more than 6% annual growth during the last 10 years overall, putting the country just behind China and India in terms of the speed of economic growth.<sup>13</sup>

The food and beverage industry is one of the most popular investment targets: in 2014, USD 4 billion (IDR 53,4 trillion) were invested, the equivalent to 11,5% of the total direct investments in the Indonesian economy.<sup>14</sup> Moreover, the investment in production equipment also increased, representing USD 1,1 billion of the total investment volume in the sector.<sup>15</sup> Due to the rising purchasing power of Indonesian consumers, the sales volume of the retail industry has grown by 12% annually between 2008 and 2012.<sup>16</sup> From 2013 to 2017, these numbers are predicted to grow even further up to 12,9%.<sup>17</sup> The Indonesian market for consumer goods is expected to reach a market volume of USD 1,83 billion by 2030.<sup>18</sup>

The food and beverage sector itself is expected to grow 9,8% per year on average, from 2015 to 2019.<sup>19</sup> More specifically, the food sector is predicted to grow by 9,4% in 2015, while the beverage sector is predicted to increase up to 11,4 %.<sup>20</sup> The whole food and beverage sector is expected to grow even further.

### **Key Regional and Global Players in Indonesia's Food and Beverage Market**

Indonesia has not gone unnoticed amongst world's leading food and beverage sector players, with Cargill, Unilever, Nestle and Coca Cola having an established and longstanding presence in the Indonesian market. Often in cooperation with local companies, these actors have been showing readiness to raise their stakes in Indonesia's growing and consumer-driven industry.<sup>21</sup> For example, Nestle set up a factory worth USD 300 million in 2013, and has further projects scheduled already.<sup>22</sup>

Indofood Sukses Makmur is one of the biggest local players in the food and beverage field in Indonesia and is the market leader for packaged food.<sup>23</sup> Other important local companies in

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<sup>12</sup> Simon, op. cit., p.8.

<sup>13</sup> Ekonid, *Zielmarktanalyse*, p.14.

<sup>14</sup> BKPM, *Domestic and Foreign Direct Investment Realization 2014*, p.15.

<sup>15</sup> Simon, op. cit., p.5.

<sup>16</sup> Lee, Wei Hsien, *Indonesia's Consumer Sector: Tapping the Consumer Dollar in Food and Retail*, International Enterprise Insights, Vol. 13, 2013, Singapore, p.6. Available at: <http://www.iesingapore.gov.sg/~media/ie%20singapore/files/publications/ie%20insights/vol%2013%20indonesia%20tapping%20the%20consumer%20dollar%20in%20food%20and%20retail%20nov%202013.pdf>.

<sup>17</sup> Ibid.

<sup>18</sup> Ekonid, *Zielmarktanalyse*, p.14.

<sup>19</sup> Ekonid, *Food for Thought – The potential for F&B processing and packaging machinery in Indonesia. Findings of an EKONID study on the Indonesian market*, Bundesministerium für Wirtschaft und Energie (BMW), Ministry for Economic Affairs and Energy, Berlin, n/a.

<sup>20</sup> Simon, op. cit., p.8.

<sup>21</sup> Ibid., p.9.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

the sector include Wings Group, Mayora and Garuda.<sup>24</sup> All of them are currently expanding their production facilities.<sup>25</sup>

Overall, the food and beverage industry in Indonesia provides one third of all employment in the manufacturing sector, and consists of approximately 6000 large and medium-sized companies.<sup>26</sup>

## 2. Rising Demand for Packaging Machinery in the Food and Beverage Sector of Indonesia

In general, two main factors driving the rising demand for packaging machinery in the Indonesian food and beverage sector should be highlighted; the rising consumption of food and beverages in general and the consumer demand for processed and hygienically safe products in particular.

### Urbanisation and a Young Population in Indonesia

Rural emigration and economic growth have led to higher job creation rates and productivity, along with increases in income per capita.<sup>27</sup> The consumption of food and beverages is growing faster within cities than in rural areas.<sup>28</sup> With estimations predicting urbanisation as an ongoing trend, it is also expected that purchasing power will keep growing and consumer's behaviour will continue to shift. For example, McKinsey sees the percentage of the Indonesian population living in cities as growing from 53% in 2012 to 71% in 2030.<sup>29</sup> With these numbers, Indonesia holds the second highest urbanisation levels among ASEAN states, behind Malaysia.<sup>30</sup> The urban population generated almost two thirds of the GDP (74%) in 2013 and trends predict growth to continue.<sup>31</sup>

Indonesia's population is very young, with an average age of 30.<sup>32</sup> The country's younger fringes of society are showing a strong propensity for consumption and rising real income provides them with the necessary purchasing power to do so.

### The Rise in Indonesia's Food and Beverage Consumption

The increase in real income<sup>33</sup>, and therefore in purchasing power, creates a growing middle class. According to the Boston Consulting Group, the number of Indonesians belonging to this financially strong group is expected to double, from 74 million in 2014, to 141 million in

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<sup>24</sup> Simon, op. cit., p.9.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Ekonid, *Zielmarktanalyse*, p.14,

<sup>28</sup> Ibid.

<sup>29</sup> McKinsey & Company, *The evolving Indonesian Customer*, Asia Consumer Insight Center, n/a, 2013, p.4.

<sup>30</sup> Ekonid, *Zielmarktanalyse*, p.14.

<sup>31</sup> McKinsey & Company, op. cit.

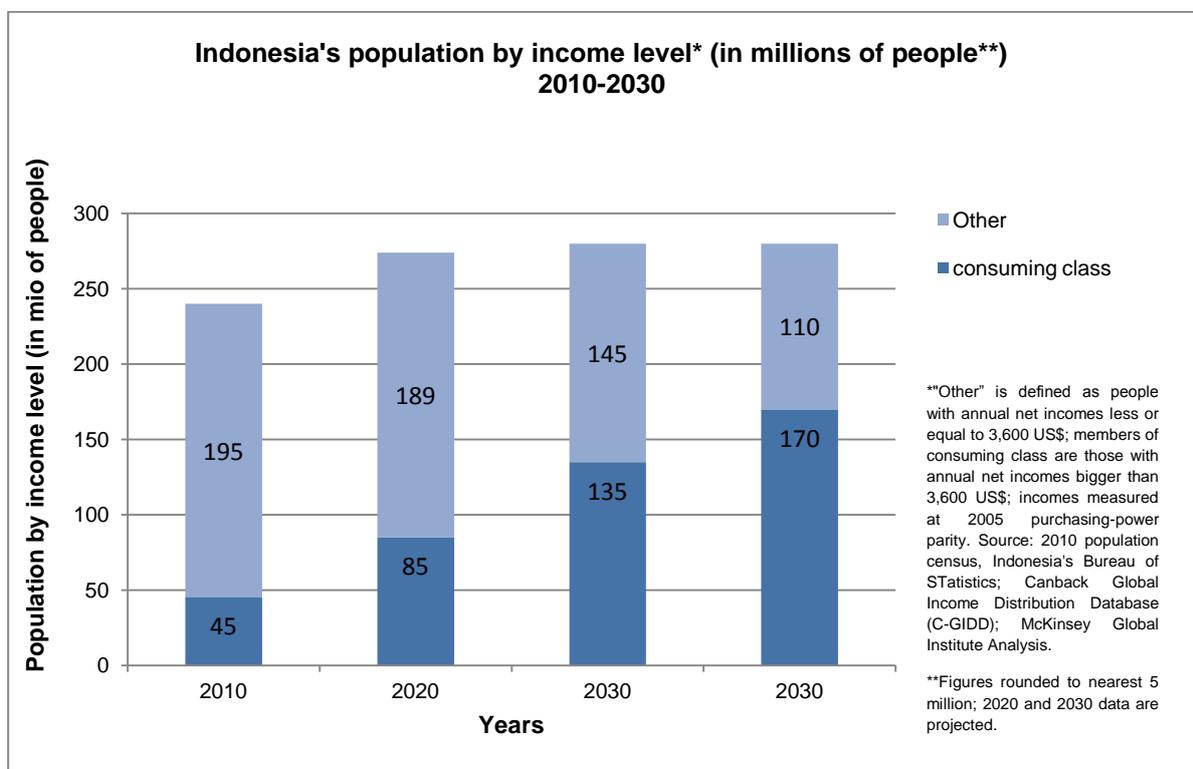
<sup>32</sup> Ekonid, *Zielmarktanalyse*, op. cit.

<sup>33</sup> Ibid.

2020.<sup>34</sup> This equals eight to nine million additional affluent consumers.<sup>35</sup> McKinsey suggests a more moderate development of the consuming middle class, expecting 135 million people in this group by 2030.<sup>36</sup> Still, price sensitive, lower income customers represent the lion's share of the consumer's market for food and beverages.<sup>37</sup> Nevertheless, according to McKinsey, an overall total of 90 million Indonesians will enter the consumer class by 2030 (see figures 2 and 3), making up the third biggest group after China and India.<sup>38</sup>

In general, the purchasing power of Indonesian households has been constantly rising in recent years and is expected to keep growing; it experienced an annual growth of 12% from 2008 to 2012.<sup>39</sup> Lee suggests that this spending capacity will further increase up to 12,9% annually until 2017.<sup>40</sup> Statistics also show that over 50% of the rising income of Indonesians is, and will be, spent on food and beverages instead of non-food products.<sup>41</sup>

**Figure 2: Indonesia's population by income level\* (in millions of people\*\*)**



Source: Illustration follows data and graphs of McKinsey Global Institute<sup>42</sup>

<sup>34</sup> The Jakarta Post, *The emerging middle class*, Apr. 12 2014. Available at: <http://www.thejakartapost.com/news/2014/04/21/the-emerging-middle-class.html>.

<sup>35</sup> The Jakarta Post, *The emerging middle class*, op. cit.

<sup>36</sup> McKinsey Global Institute, *The archipelago economy: Unleashing Indonesia's potential*, idem, n/a, 2012. Available at: <http://www.mckinsey.com/global-themes/asia-pacific/the-archipelago-economy>.

<sup>37</sup> Simon, op. cit., p.9.

<sup>38</sup> McKinsey Global Institute, op.cit.

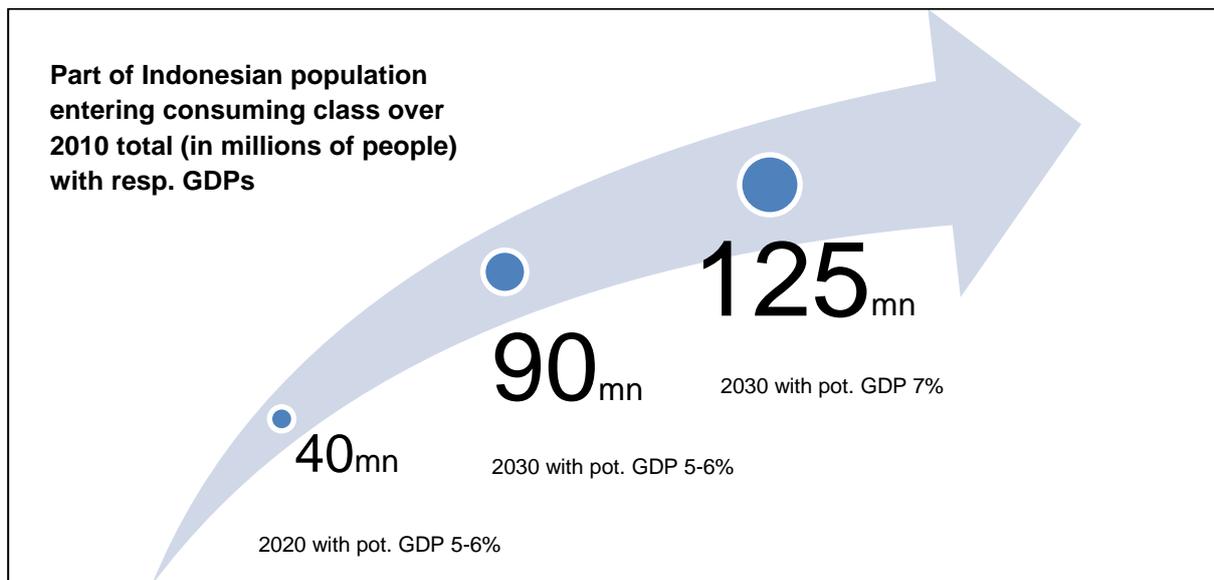
<sup>39</sup> Ekonid, op. cit.

<sup>40</sup> Lee, op. cit., p.6.

<sup>41</sup> BPS, *Average Monthly Expenditure per Capita in Urban and Rural Areas by Province and Commodity Groups (rupiahs)*, 2011-2014, ibid., n/a, 2015. Available at: <http://www.bps.go.id/linkTabelStatis/view/id/945>.

<sup>42</sup> BPS, *Average Monthly Expenditure per Capita in Urban and Rural Areas by Province and Commodity Groups (rupiahs)*, op. cit.

**Figure 3: Part of Indonesian population entering consuming class over 2010 total (in millions of people) with resp. GDPs**



Source: Illustration by EIBN follows data and figures of McKinsey Global Institute<sup>43</sup>

### Changing Consumer Behaviour

The upcoming profile of the Indonesian consumer projects a young, urban shopper that is part of the middle class. This trend is mirrored in current changes in Indonesian consumption behavior; adapting to a more modern and western life style, many Indonesians are increasingly interested in high priced lifestyle products.<sup>44</sup> Also, Indonesians in general tend to have less time to prepare fresh food and beverages.<sup>45</sup> As a consequence, not only will the general consumption of food and beverages increase, but so will the demand for processed products that fit these new life style conditions, helping save time and energy in preparing and consuming everyday meals. Therefore, processed food and beverages are the preferred form of groceries for Indonesian consumers (see figure 4).<sup>46</sup> Since an average of over IDR 80,000 per month have been spent for processed goods in 2011 and then almost IDR 95,000 just two years later, the rising demand of processed food in Indonesia is clear.<sup>47</sup>

<sup>43</sup> McKinsey Global Institute op.cit.

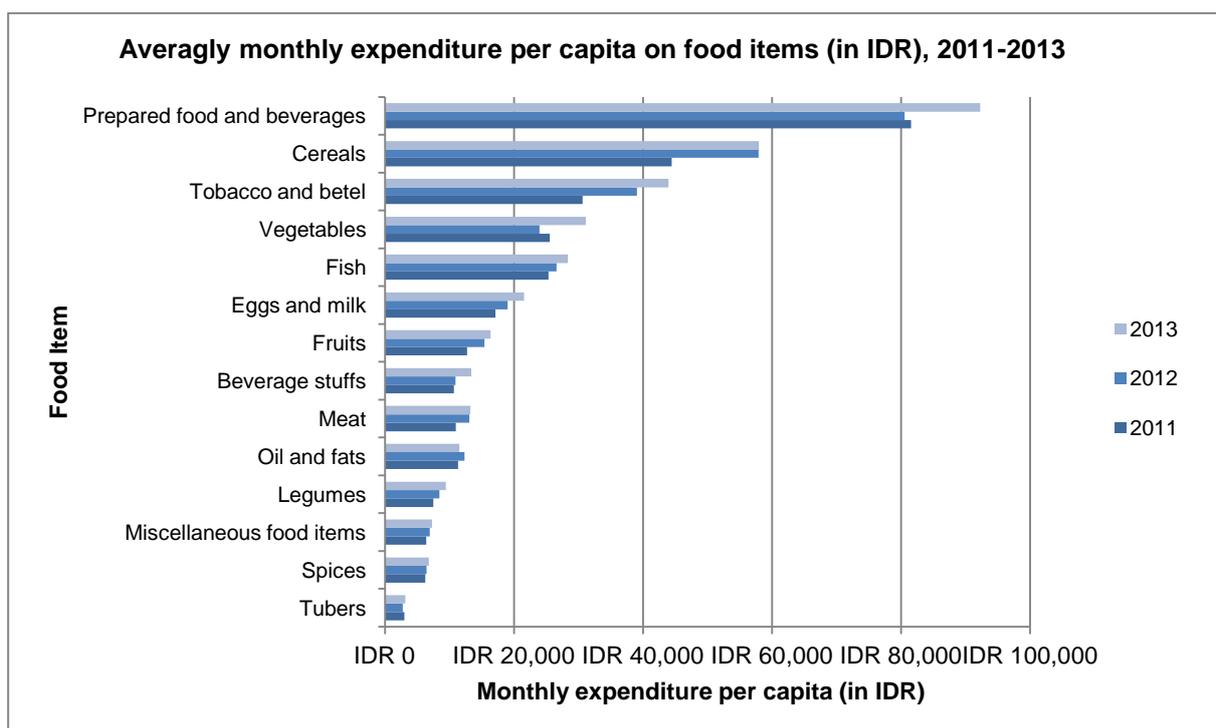
<sup>44</sup> Ekonid, *Zielmarktanalyse*, p. 14.

<sup>45</sup> Ibid.

<sup>46</sup> Ekonid, *Food for Thought*, op. cit.

<sup>47</sup> Ibid.

**Figure 4: Average monthly expenditure per capita by food items (in IDR), 2011-2013**



Source: Illustration by Ekonid, *Food for Thought*<sup>48</sup>

A higher demand for processed food inevitably leads to a higher demand in packaged food, as the processed items need to be stored and transported. Therefore, more packaging machinery is essential for the growing food and beverage industry. For now leading local companies in the food and beverage sector still mainly focus on appealing to the price sensitive, lower income customers, since they currently still represent the lion's share of the country's market.<sup>49</sup> However, they are already aware of changes in Indonesian consumer desires and therefore not only pay attention to price, but also to innovation.<sup>50</sup> Therefore the industry responds to the new consumption patterns with tailored, value added products, for instance an instant form of low fat milk with added calcium is now available, instead of just traditional milk.<sup>51</sup> Additionally, Indonesian consumers are increasingly aware of health issues.<sup>52</sup> In terms of packaging, this means that food and beverages bought or preserved in plastics, paper, cans or other packaging materials, are increasingly considered to be more hygienic and to represent greater food safety than unpackaged food.<sup>53</sup>

<sup>48</sup> Ekonid, *Food for Thought*, op. cit.

<sup>49</sup> Simon, op. cit., p.9.

<sup>50</sup> Simon, op. cit., p.9.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Ekonid, *Zielmarktanalyse*, p.15.

### 3. Indonesia's Packaging Machinery Subsector

Factors such as urbanisation, growing purchasing power, increasing preferences for packaged goods and changing consumer's behavior, have led to a growing demand for packaging machinery within the food and beverage industry. Since the lion's share of machinery to package foods and beverages is imported from European countries, the subsector for respective machinery offers a big potential for European companies. Although suppliers of other Asian companies are a popular source for machinery, European companies are in the top position for importing packaging technology, for reasons such as cost-efficiency, product quality and ease of machinery operation. The previous development of the packaging industry and the most recent numbers in the field create a positive and promising picture for European suppliers of machinery to enter this Indonesian subsector.

#### 3. 1 The Packaging Industry in Indonesia – an Introduction

Since it demands 70% of the total packaging machinery supply, the Indonesian food and beverage industry is the most important market for packaging machinery.<sup>54</sup> These numbers are not surprising, because the packaging industry is strongly linked to the consumer goods sector.<sup>55</sup> One of the functions of packaging is to attract the customer's attention and to persuade him/her to buy the product.<sup>56</sup> The impressive increase in modern retail stores<sup>57</sup> facilitates the Indonesian consumer's access to packaged goods, such as frozen foods, snacks, dairy products and chilled processed foods. The customer's demand for aesthetic and sophisticated packaging has led to a demand for more advanced and more innovative machinery.<sup>58</sup> Increasing demand for dairy products calls for packaging that retains the quality of the products while facilitating consumption on the go.<sup>59</sup> Consequently, packaging machinery is also required to ensure the quality of the goods being packaged.<sup>60</sup> Accordingly, the Indonesia Business and Investment Yearbook of 2008 sees the best sales prospects for the Indonesian market in carbonating machines for soft drinks and beverages, flexible packaging machinery, cartooning and palletizing machines, liquid dairy, drinks, edible oil filling machines, vacuum packing machines, packaging machinery for fruit and vegetable juice processing, high and medium capacity bottling and labeling equipment.<sup>61</sup>

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<sup>54</sup> Simon, op. cit., p.10

<sup>55</sup> Lischer, Dennis P./ Nasution, Iwan, *The Indonesian Packaging Industry: Consumerism vs Cost Efficiency*, Sorotan. The Magazine of the Indonesian-German Chamber of Commerce and Industry, Vol. XXIV/2/2015, Jakarta, 2015, p.14-15, here p.14. Available at: <http://www.ekonid.com/SOROTAN/XXIV-2-2015/files/assets/common/downloads/sorotan.pdf>.

<sup>56</sup> Lischer/ Nasution, op. cit.

<sup>57</sup> Rangkuti, F.Y./ Wright, T., *Retail Foods 2014*, USDA Foreign Agricultural Service, n./a., 2014. Available at: [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods\\_Jakarta\\_Indonesia\\_12-19-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Jakarta_Indonesia_12-19-2014.pdf).

<sup>58</sup> Simon, op. cit., p.10

<sup>59</sup> Ibid.

<sup>60</sup> Lischer/ Nasution, op. cit., p.15.

<sup>61</sup> Global Investment Center USA, *Indonesia Business and Investment Opportunities Yearbook*, idem, 4<sup>th</sup> ed., Washington, 2008, p.241.

**Table 1: Types of Packaging Machinery in Demand by Indonesia**

Types of Packaging Machinery in Demand by Indonesia
carbonating machines for soft drinks and beverages
flexible packaging machinery
cartooning and palletizing machines
liquid dairy, drinks, edible oil filling machines
vacuum packaging machines
packaging machinery for fruit and vegetable juice processing
high and medium capacity bottling and labeling equipment

Source: illustration by EIBN with data from the Global Investment Center USA<sup>62</sup>

### Positive Development of the Packing Industry in Indonesia

The packaging industry in Indonesia has been continuously growing; it increased its value from USD 2,5 billion in 2005 to USD 5,3 billion in 2013 (see figure 5).<sup>63</sup> According to the Indonesian Packaging Federation (IPF) the overall value of the sector in 2014 was 5,6% and industry experienced a growth of 10% on average between 2005 and 2013.<sup>64</sup> The Federation also claims that the sector saw a 23% growth, to USD 2,1 billion (IDR 26 trillion), in the first half of 2014, compared to USD 2,6 billion (IDR 32 trillion) in the year before.<sup>65</sup> For 2014 an overall growth forecast for the industry was 7%, reaching USD 5,6 billion (IDR 70 trillion).<sup>66</sup> Since the packaging industry is highly dependent on imports of raw materials such as plastics, expectations of a weak Indonesian Rupiah led to lower expectations from 10 to 8% for growth in 2015.<sup>67</sup> According to industry experts, in general, 90% of the packaging produced stays in the Indonesian market, whereas 10% is exported.<sup>68</sup>

<sup>62</sup> Global Investment Center USA, op. cit.

<sup>63</sup> Ekonid, *Zielmarktanalyse*, p.27.

<sup>64</sup> Ibid.

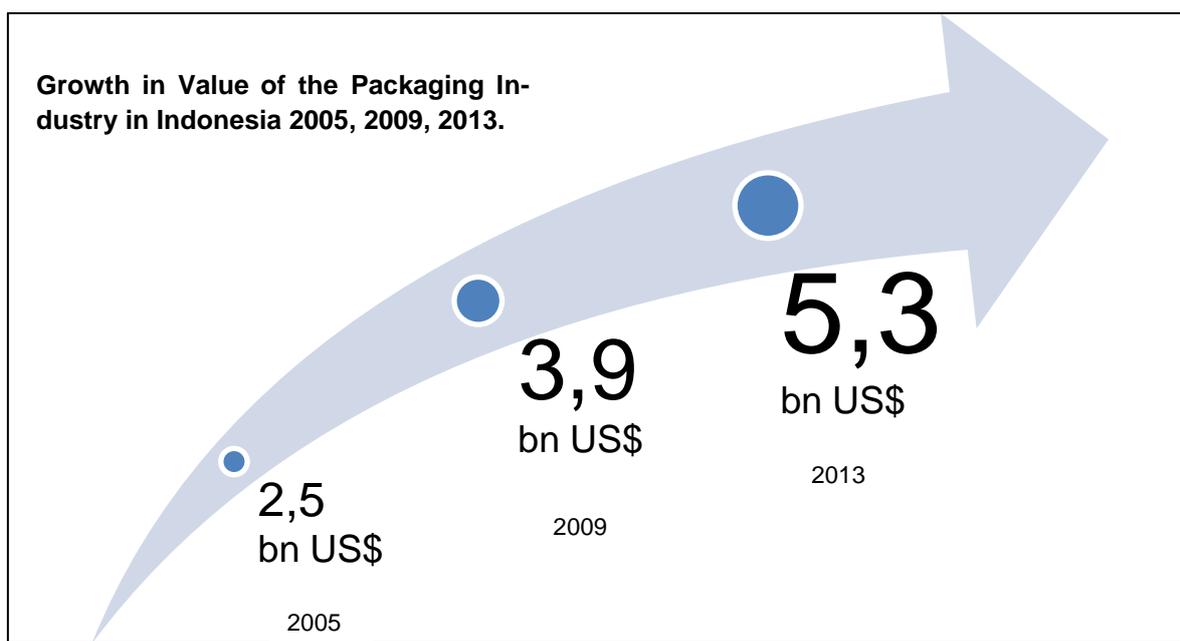
<sup>65</sup> Kontan, *Omzet industri kemasan semester I 2014 melonjak*, *idem*, August 12 2014. Available at: <http://industri.kontan.co.id/news/omzet-industri-kemasan-semester-i-2014-melonjak>.

<sup>66</sup> Harian Ekonomi Neraca, *Industri Kemasan Targetkan Penjualan Naik 10*, March 03 2015. Available at: <http://www.neraca.co.id/article/51370/industri-kemasan-targetkan-penjualan-naik-10>.

<sup>67</sup> Ibid..

<sup>68</sup> Ibid.

**Figure 5: Growth in Value of the Packaging Industry in Indonesia (in billion USD)**



Source: illustration by EIBN with data from Ekonid, *Zielmarktanalyse*<sup>69</sup>

**Table 2: Economic Indicators for Indonesia's Packaging Industry 2005-2014**

Economic Indicators	produced value 2014,	Annual growth in value between 2005-2013, p.a.	Annual growth in value between 2013-2014	Expected growth in value for 2015
Indonesia's Packaging Industry	US\$ 5,6bn	10%	7%	8%

Source: Illustration by EIBN with data from Ekonid<sup>70</sup> and Harian Ekonomi Neraca<sup>71</sup>

In 2015 Henky Wibawa, President Director of the Indonesian Packaging Federation (IPF), claimed the packaging industry has a total value of USD 5,8 – 6 billion.<sup>72</sup> He said the industry saw average growth rates between 7 and 9 % for rigid packaging, while two digit increases can be observed for flexible packaging.<sup>73</sup> For the first quarter of 2015 he expected only a 5% growth for both the rigid and the flexible plastic sector, due to the global economic situation.<sup>74</sup>

<sup>69</sup> Ekonid, *Zielmarktanalyse*, p.27.

<sup>70</sup> Ibid.

<sup>71</sup> Harian Ekonomi Neraca, op. cit.

<sup>72</sup> Lischer/ Nasution, op. cit., p.14.

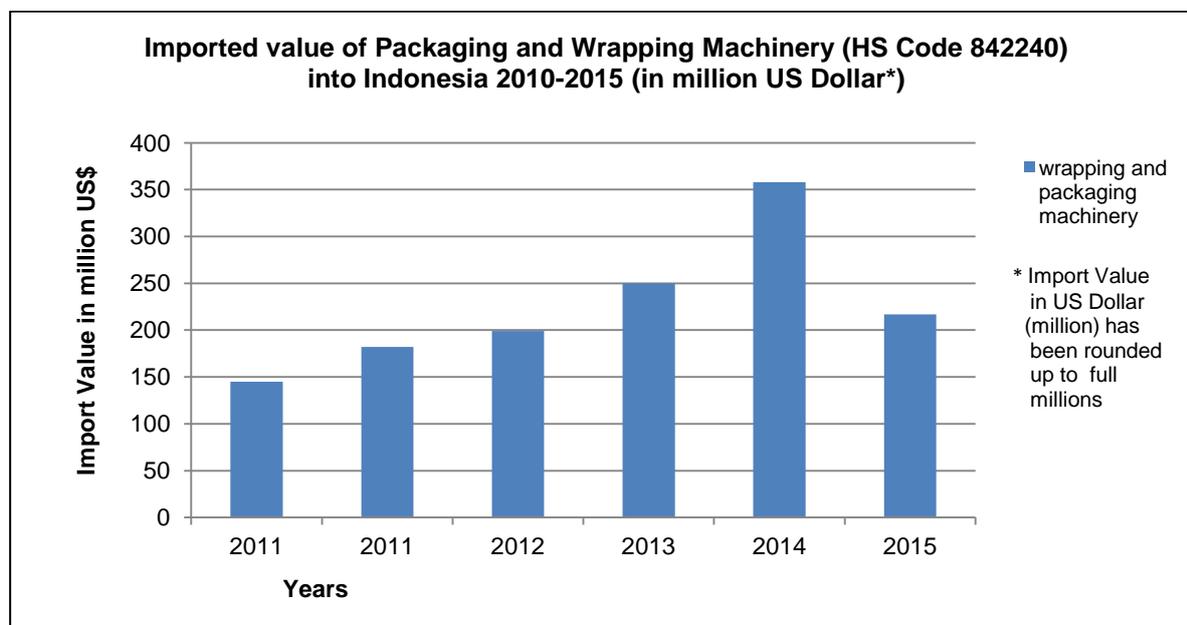
<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

### 3.2 Import-Export Flow, Suppliers and Material of Packaging Machinery in Indonesia

#### Increasing Import of Packaging Machinery into Indonesia

Figure 6: Development of Import Value of wrapping and packaging machinery into Indonesia 2010-2015 (in million USD)



Source: illustration by EIBN with data from Trademap<sup>75</sup>

The steadily growing import of packaging machinery during the last five years shows that demand is high and continuously increasing. Nevertheless, there are only a few local companies producing packaging machinery in Indonesia. Most of the country's machinery needs to be imported. Europe is the main source for packaging machinery in Indonesia.

The import of cleaning, filling and packaging machinery (HS Code 8422) into Indonesia grew steadily in the last decade; it made up more than USD 654,6 million in 2014, more than double compared to 2010 (USD 268 million).<sup>76</sup> In 2015, however, imports only reached USD 445,6 million (see table 3).<sup>77</sup>

<sup>75</sup> Trademap, *Import of HS 842240 into Indonesia from 2010-2014*, *ibid.*, n/a, 2015, *ibid.*, *Import of HS 842240 into Indonesia from 2011-2015*, *ibid.*, n/a, 2015. Both available at: [www.trademap.org](http://www.trademap.org).

<sup>76</sup> Trademap, *Import of HS 8422 into Indonesia from 2010-2014*, *ibid.*, n/a, 2015. Available at: [www.trademap.org](http://www.trademap.org).

<sup>77</sup> Trademap, *Import Trade Indicators for HS 8422 into Indonesia 2014*, *ibid.*, n/a, 2015. Available at: [www.trademap.org](http://www.trademap.org).

**Table 3: Trade Indicators for Import of Cleaning-, filling-, and packaging machinery and of packing and wrapping machinery into Indonesia (2010-2015)**

Indonesia's Import Trade Indicators	Imported value 2014	Imported value 2015	Annual growth in value in between 2010-2014, p.a.	Annual growth in value in between 2011-2015, p.a.	Annual growth in value between 2013-2014, p.a.	Annual growth in value between 2014-2015, p.a.
Cleaning, filling and packaging machinery (HS 8422)	US\$ 654,6mn	US\$ 445,6mn	6%	7%	-5%	-43%
Packing and Wrapping Machinery (HS 842240)	US\$ 357,7mn	UD\$ 216,7mn	24%	11%	43%	-53%

Source: illustration by EIBN with data from Trademap<sup>78</sup>

In 2014 the import volume of wrapping and packaging machinery (HS 842240) was USD 357,7 million (see table 3). Indonesia continuously increased its import values; annual imports of wrapping and packaging machinery grew 24% between 2010 and 2014.<sup>79</sup> In between 2013 and 2014 machinery imports even grew by 43%.<sup>80</sup> In 2015 a total volume of USD 216,7 million of wrapping and packaging machinery was imported into Indonesia, experiencing the first slowdown after years of growth (see figure 6). The decrease in machinery imports might be due to the global economic situation.<sup>81</sup>

According to experts' estimations, 70% of the imported packaging machinery is used in the food and beverage sector, while the rest is used for pharmaceutical products, cosmetics and tobaccos.<sup>82</sup> Consequently, the value of Indonesia's imported packaging machinery for the food and beverage sector was about USD 250,4 million in 2014 and about USD 151,7 million in 2015. As statistics show, the demand for foreign packaging machinery in Indonesia has

<sup>78</sup> Trademap, *Import Trade Indicators for HS 8422 into Indonesia 2014*, op. cit.; *ibid.*, *Import Trade Indicators for HS 8422 into Indonesia 2015*, *ibid.*, n/a, 2015, *ibid.*, *Import Trade Indicators for HS 842240 into Indonesia 2014*, *ibid.*, n/a, 2015, *ibid.*, *Import Trade Indicators of HS 842240 into Indonesia 2015*, *ibid.*, n/a, 2015. All available at: [www.trademap.org](http://www.trademap.org).

<sup>79</sup> Trademap, *Import Trade Indicators for HS842240 into Indonesia 2014*, *ibid.*, n/a, 2015. Available at: [www.trademap.org](http://www.trademap.org).

<sup>80</sup> Trademap, *Import Trade Indicators for HS842240 into Indonesia 2014*, *ibid.*, n/a, 2015. Available at: [www.trademap.org](http://www.trademap.org).

<sup>81</sup> Lischer/ Nasution, op. cit., p.14.

<sup>82</sup> German Trade and Investment (GTAI), *Indonesiens Nahrungsmittelsektor baut Kapazität stark aus*, *ibid.*, n/a, 2014. Available at: <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte.did=1035676.html>; The Jakarta Post, *Packaging industry sees double digit growth*, April 10, 2012. Available at: <http://www.thejakartapost.com/news/2012/04/10/packaging-industry-sees-double-digit-growth.html>.

increased steadily over recent years, providing a promising market for respective suppliers. Imports of wrapping and packaging machinery (HS 842044) into Indonesia made up 4,3% of the import volume of this machinery worldwide in 2014.<sup>83</sup>

Wrapping and packaging machinery (HS 842240) is exported only in small amounts (see table 4). In 2014, wrapping and packaging machinery worth USD 16,6 million was exported, mostly to Singapore.<sup>84</sup> For 2015, exports dropped to just USD 5,6 million in value.<sup>85</sup>

**Table 4: Trade Indicators for Export of wrapping and packaging machinery (HS 842240) into Indonesia (2010-2015)**

Indonesia's Export Trade Indicators	Exported value 2014	Exported value 2015	Annual growth in value between 2010-2014, p.a.	Annual growth in value between 2011-2015, p.a.	Annual growth in value between 2013-2014, p.a.	Annual growth in value between 2014-2015, p.a.
Packaging and Wrapping Machinery (HS 842240)	US\$ 16,6mn	US\$ 5,6mn	34 %	13 %	71 %	-68 %

Source: illustration by EIBN with data from Trademap<sup>86</sup>

### Top Position of European Suppliers for Packaging Machinery in Indonesia

The structure of the import-export flow of packaging machinery in Indonesia benefits European suppliers; only a small share of the packaging machinery used in Indonesia is produced by local companies.<sup>87</sup> Most of the packaging machinery needs to be imported from foreign countries.<sup>88</sup> European suppliers are the main sources for Indonesia's growing demand for packaging machinery, with German and Italian companies being in the top two positions (see figure 7). Historically speaking, the majority of the machines required by the Indonesian packaging sector are sourced in Germany and Italy, followed by Asian countries such as China, Japan and South Korea (see figure 8).<sup>89</sup>

<sup>83</sup> Trademap, *Import Trade Indicators of HS842240 into Indonesia 2014*, op cit.

<sup>84</sup> Trademap, *Export of HS 842240 into Indonesia from 2010-2014*, ibid., n/a, 2015. Available at: [www.trademap.org](http://www.trademap.org).

<sup>85</sup> Trademap, *Export Trade Indicators of HS 842240 into Indonesia 2015*, ibid., n/a, 2015.

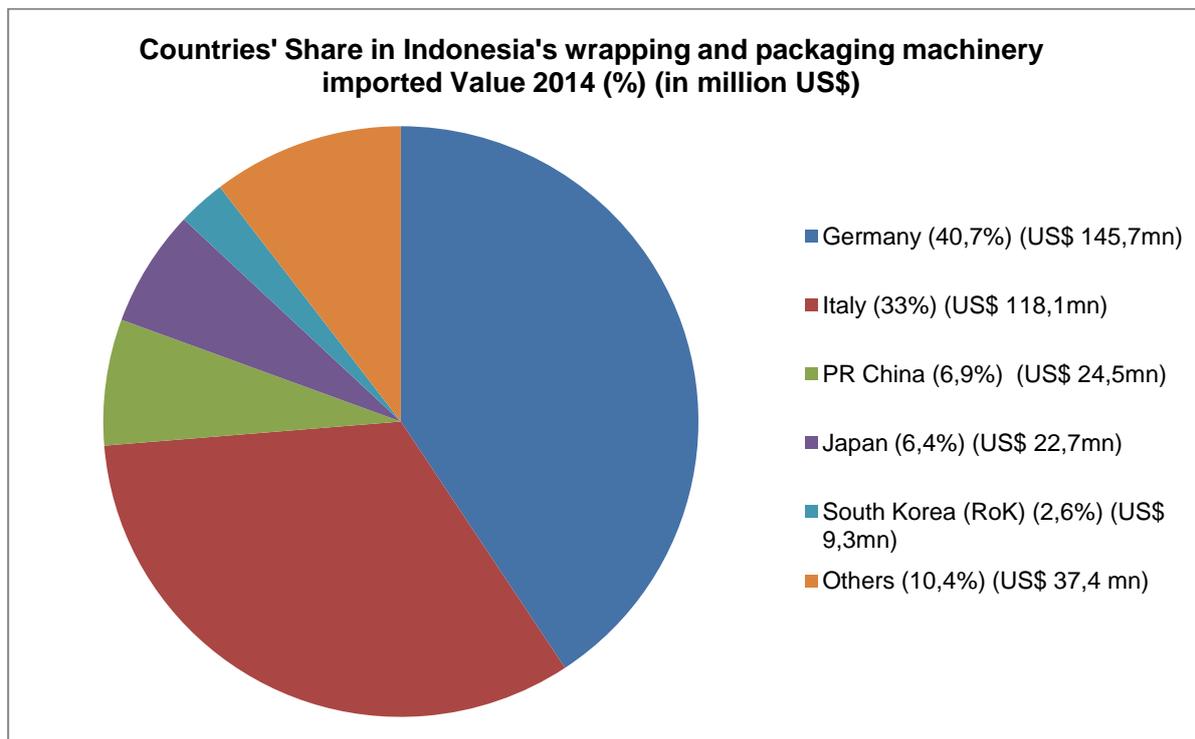
<sup>86</sup> Trademap, *Export Trade Indicators of HS 842240 into Indonesia 2014*, ibid., n/a, 2015; ibid., *Export Trade Indicators of HS 842240 into Indonesia 2015*, op. cit.. Both available at: [www.trademap.org](http://www.trademap.org).

<sup>87</sup> Ekonid, *Zielmarktanalyse*, p. 26.

<sup>88</sup> GTAI, op. cit.

<sup>89</sup> Simon, op. cit., p.10.

**Figure 7: Suppliers of imported wrapping and packaging machinery by Country in 2014**



**Source: illustration by EIBN with data from Trademap.<sup>90</sup>**

As figure 8 shows, the competition between suppliers of packaging machinery has been increasingly dominated by Germany and Italy since 2012. Since 2013, the Italian companies exporting packaging machinery show a distinctive growth in the value imported into Indonesia. Nevertheless, in 2014, Germany is still in the lead, with an import value of USD 145,7 million, closely followed by Italy with USD 118,1 million, leaving China as the biggest Asian supplier in third place with USD 24,5 million. In 2015, the respective import value per country of origin is lower than in 2014.

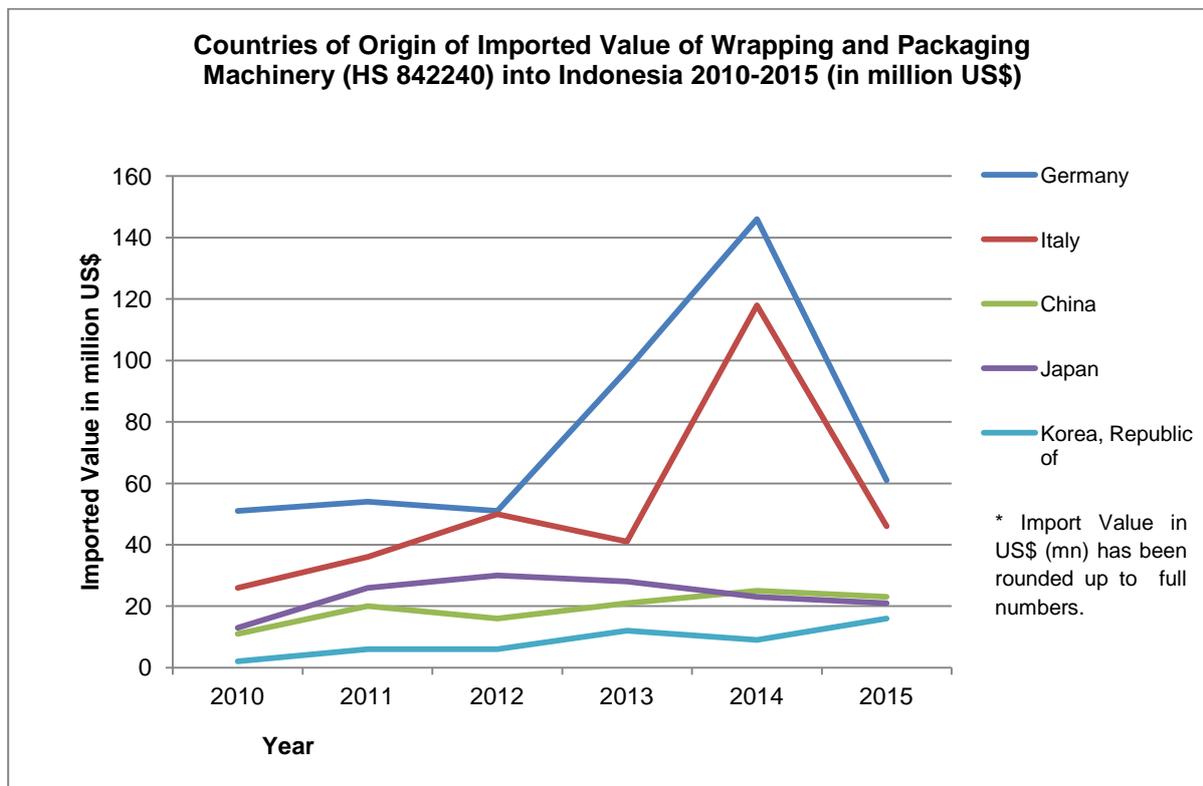
European machinery is especially popular with large producers in the food and beverage industry in Indonesia, since they are considered to be more energy efficient, to provide better product quality and are easier to operate and maintain than the alternatives.<sup>91</sup> Smaller producers tend to favour Asian models for financial reasons.<sup>92</sup>

<sup>90</sup> Trademap, *Import Trade Indicators of HS 842240 into Indonesia by country of origin 2014*, *ibid.*, n/a, 2015. Available here: [www.trademap.org](http://www.trademap.org).

<sup>91</sup> EKONID. *Zielmarktanalyse*, S. 26.

<sup>92</sup> *Ibid.*

**Figure 8: Countries of Origin of Wrapping and Packaging Machinery imported into Indonesia 2010-2015 (in million USD)**



Source: illustration by EIBN with data from Trademap.<sup>93</sup>

### Import-Dependency on Plastics versus Flexible Plastics as Favored Material in Indonesia's Packaging Industry

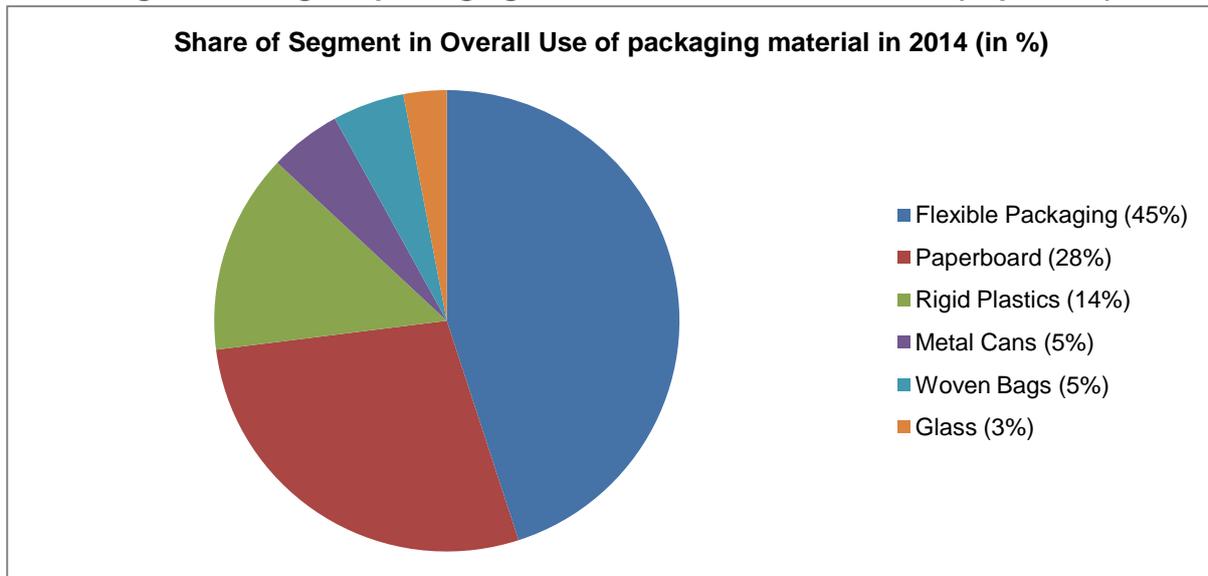
Typical materials used for packaging are plastics, paper, metal and fabrics. Flexible packaging made of plastics, such as bags, makes up the largest share of materials used in Indonesia (see figure 9). Together with hard plastics, flexible materials have conquered the market.<sup>94</sup> Flexible packaging made up 45% of packaging material in Indonesia in 2014. With 28%, paper is the second most popular material.<sup>95</sup> Compared to the aforementioned material, metal cans, woven sacks and glass are less popular within the industry.

<sup>93</sup> Trademap, *Import of HS 842240 into Indonesia by Country of Origin from 2010-2014*, ibid., n/a, 2015; ibid., *Import of HS 842240 into Indonesia by Country of Origin from 2011-2015*, ibid., n/a, 2015. Both available at: [www.trademap.org](http://www.trademap.org).

<sup>94</sup> Ekonid, *Zielmarktanalyse*, p.27f.

<sup>95</sup> Ibid.

**Figure 9: Usage of packaging materials in Indonesia in 2014 (in percent)**



Source: illustration by EIBN with data from Ekonid<sup>96</sup>.

Plastics, especially in flexible form, might be the most popular packaging material in Indonesia, but its annual per capita usage of only 17kg thereof, is much lower than in neighbouring countries such as Malaysia and Singapore, which have a yearly per capita plastics consumption of 35 and 40 kg respectively.<sup>97</sup> Nevertheless the demand for plastics cannot be satisfied by local producers, supplying only 50% of the necessary amount.<sup>98</sup> Therefore the material is imported from Indonesia's neighbours; Thailand, Malaysia and Singapore, as well as from the Middle East.<sup>99</sup> The high dependence on plastic imports, as well as environmental concerns, has led to initial efforts to introduce a recycling system for plastic waste.<sup>100</sup> Currently, the prices for raw materials in packaging make up about 60% of the production costs.<sup>101</sup> Prices for plastic packaging in Indonesia are highly dependent on the exchange rate.<sup>102</sup> Consequently, efficient processing of plastics is of special importance when talking about packaging machinery for the Indonesian food and beverage sector.

<sup>96</sup> Ekonid, *Zielmarktanalyse*, p.28.

<sup>97</sup> Ibid., p.28.

<sup>98</sup> Global Business Guide Indonesia. *Plastic Packaging Opportunities in Indonesia*, ibid., n/a, 2014. Available at:

[http://www.gbgingonesia.com/en/manufacturing/article/2014/plastic\\_packaging\\_opportunities\\_in\\_indonesia.php](http://www.gbgingonesia.com/en/manufacturing/article/2014/plastic_packaging_opportunities_in_indonesia.php); Ekonid, *Zielmarktanalyse*, op. cit., p.28.

<sup>99</sup> Global Business Guide Indonesia. *Plastic Packaging Opportunities in Indonesia*, ibid., n/a, 2014. Available at:

[http://www.gbgingonesia.com/en/manufacturing/article/2014/plastic\\_packaging\\_opportunities\\_in\\_indonesia.php](http://www.gbgingonesia.com/en/manufacturing/article/2014/plastic_packaging_opportunities_in_indonesia.php); Ekonid, *Zielmarktanalyse*, op. cit., p.28.

<sup>100</sup> Global Business Guide Indonesia, op. cit.; Simon, op. cit., p.10.

<sup>101</sup> Harian Ekonomi Neraca, op. cit..

<sup>102</sup> Ibid.

### III National Policies and Regulations concerning Packaging in Indonesia

Indonesia provides several laws regulating packaging in the country. Law No. 18/2012<sup>103</sup> defines packaging for food and beverages as all materials used to surround and pack goods that have direct or indirect contact with the content. It also forbids specific materials to be used for packaging which are considered to be damaging to human health. The list of materials allowed and forbidden to come into contact with food and beverages can be found in the regulation HK.03.1.23.07.11.6664<sup>104</sup> of the National Drug and Food Agency (Badan Pengawas Obat dan Makanan, BPOM). The National Standard SNI 7626.1<sup>105</sup> by the National Standardisation Agency (Badan Standardisasi Nasional, BSNI) describes the procedures required to analyse the substances set free by packaging food and beverages. At the agency's website, further packaging standards in Indonesia are listed (<http://sisni.bsn.go.id/>). Also, all packaged goods to be sold in Indonesia have to have a label in Bahasa Indonesia. According to Law No. 18/2012 it is the responsibility of the producers to take care of the appropriate disposal of the residues of packaging.<sup>106</sup> The Indonesian Ministry of Industry (Kementerian Perindustrian, KEMPERIN) determined in 2010 that all packaging for food and beverages must have a logo and all materials for packaging that can be recycled have to be marked accordingly. Finally, Law No. 33/2014<sup>107</sup> regulates that the packaging of food and beverages has to be in line with Islamic rules on cleanliness, called halal. This law contains all information on how a halal certificate can be obtained. If products don't comply with halal rules, they are to be labelled as "non-halal".

### IV Future Trends and Opportunities for European Companies in Packaging Machinery in Indonesia

#### High Logistic Costs and Dependency on Import of Raw Materials as Main Challenges

Logistic costs are a challenge for potential European suppliers of packaging machinery, due to Indonesia's infrastructure<sup>108</sup>; ports and road systems in the country are not in the best condition and in Jakarta, it is often only possible to visit up to two customers a day due to traffic.<sup>109</sup> This leads to logistic costs in Indonesia of up to 20% of the total costs, compared to

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<sup>103</sup> Food & Fertilizer Technology Center for the Asian Pacific Region. *The Law No. 18/2012 Governing Food Security in Indonesia*, *ibid.*, n/a, Jan 15, 2014. Available at: [http://ap.fttc.agnet.org/ap\\_db.php?id=182](http://ap.fttc.agnet.org/ap_db.php?id=182); Keller and Heckman LLP, *The Regulation of Food Packaging in the Pacific Rim*. Available at: [http://packaginglaw.com/3591\\_.shtml#\\_ftnref15](http://packaginglaw.com/3591_.shtml#_ftnref15).

<sup>104</sup> Clark, Mitzi Ng/ Nielsen, Catherine R., *The Regulation of Food Packaging in the Pacific Rim*, Keller and Heckman LLP, n/a, sep 24 2013. Available at: [http://packaginglaw.com/3591\\_.shtml#\\_ftnref15](http://packaginglaw.com/3591_.shtml#_ftnref15).

<sup>105</sup> Clark/ Nielsen, *op. cit.*.

<sup>106</sup> Keller and Heckman LLP, *op. cit.*.

<sup>107</sup> Yudhoyono, Susilo, Bambang/ Syamsudin, Amir, Law of the Republic of Indonesia Number 33 2014 about Halal Product Certification, Oct. 17, 2014, n./a., Jakarta, 2014. Available at <http://www.indolaw.org/UU/Law%20No.%2033%20of%202014%20on%20Halal%20Product%20Certification.pdf>

<sup>108</sup> Simon, *op. cit.*, p.9

<sup>109</sup> Lischer/ Nasution, The Indonesian Packaging Industry, in SOROTAN 2/2015, p.14f.

8% in China.<sup>110</sup> Also fuel and electricity are not consistently available<sup>111</sup>, creating difficulties, especially for large-scale productions.

All imports into Indonesia can easily be subject to price increases, since they are highly dependent on the exchange rate of the Indonesian Rupiah.<sup>112</sup> Consequently, the country's import dependency on raw materials such as wheat and sugar lead to a food and beverage sector that is not yet self-sufficient.<sup>113</sup> The shortage in plastics sees prices for raw materials in the Indonesian packaging industry making up around 60% of production costs.<sup>114</sup> Finally, the appropriate disposal of plastics remains a challenge, as an increasing amount of non-degradable plastic ends up in the environment. According to the Global Business Guide Indonesia, only about 40% of all plastic packaging is currently recycled in the country<sup>115</sup>. The Indonesian government has started initial attempts to encourage companies to go "green".<sup>116</sup> Recycled raw materials could become more interesting in the future of the Indonesian packaging industry.

### **Beneficial Trends for European Companies in Packaging Machinery in Indonesia: favoring Socio-Economic Conditions, rising Demand of Packaged Food and Dominance of European Suppliers in the Indonesian Market**

Increasing demand for packaged foods and beverages, for example in the form of modern lifestyle products, together with more health awareness amongst Indonesian consumers, challenges the packaging machinery industry to combine attractive appearance with hygienic packaging. Since the number of Indonesian suppliers of packaging machinery is too small to fulfill the demand for technology, and Indonesian producers of packaged food and beverages are already aware of the high quality of European machines, the packaging industry provides a profitable target market for European companies. High costs due to plastic imports into Indonesia are counter-balanced by very low plastic consumption per capita. The growing foreign and direct investments in the food and beverage sector also provide a beneficial surrounding for European packaging machinery suppliers in Indonesia.

According to IPF, the best performing sectors in the food and beverage Industry are; dairy items, bottled beverages such as instant coffee or tea, culinary products such as instant noodles, as well as cooking oil, spices and frozen foods.<sup>117</sup> Accordingly, the Indonesian Business and Investment Yearbook of 2008 states that the best sales prospects in the Indonesian market lie in; carbonating machines for soft drinks and beverages, flexible packaging machinery, cartooning and palletizing machines, filling machines for liquid dairy, drinks and edible oils, vacuum packing machines, machinery for fruit and vegetable juice processing, as well as with high and medium capacity bottling and labeling equipment.<sup>118</sup>

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<sup>110</sup> Lischer/ Nasution, op. cit.

<sup>111</sup> Simon, op. cit.

<sup>112</sup> Ibid.

<sup>113</sup> Ibid.

<sup>114</sup> Harian Ekonomi Neraca, op. cit..

<sup>115</sup> Simon, op. cit., p.10

<sup>116</sup> Ibid.

<sup>117</sup> Lischer/ Nasution, op. cit., p.14.

<sup>118</sup> USA International Business Publications, Indonesia Yearbook Business Opportunities 2008, ibid., Washington, 2008, p.241.

## **V The Promising Market of Packaging Machinery in Indonesia's Food and Beverage Sector**

Economic analysts around the world have increasingly put a spotlight on Indonesia's food and beverage market and give positive outlooks on its current and potential future development. Packaging machinery is one of the biggest beneficiaries of this promising performance, since the food and beverage market demands 70% of the packaging technology.

Constant growth rates in food and beverage consumption of 8,5% in 2014 and positive developments of social economic factors, such as rising real incomes and urbanisation, has led to an increase in purchasing power. Changing consumer patterns in Indonesian society has increased demand for processed, packaged and attractively wrapped food. Therefore, according to the Indonesian Packaging Association IPF, the packaging industry saw stable growth rates of 10% over recent years, producing a value of USD 5,6 billion in 2014. Stable growth rates are also expected for the coming years.

The current Indonesian market is not able to provide the necessary amounts of machinery needed to satisfy the demand for packaged food, including specifics like attractive, cost-efficient and hygienic wrapping. Most of the packaging machinery is and, for the years to come, will need to be, imported. In 2014 the country imported technology worth USD 250,4 million, from which the lion's share of machinery worth USD 145,7 million came from Germany. Along with Italy providing imports worth USD 118,1 million, Germany is the main supplier of packaging machinery to Indonesia.

Overall there is a positive outlook for the packaging industry, which has expected an 8% growth in 2015. The steadily rising investments in the sector, the stable dominance of European suppliers of packaging machinery and low plastics consumption, currently provides beneficial conditions and promising business opportunities for European companies looking to export their packaging machinery to Indonesia's constantly growing food and beverage sector.

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## Abbreviations

ASEAN	Association of South-East Asian Nations
BKPM	Badan Koordinasi Penanaman Modal (Indonesian Investment Coordinating Board)
BMI	Business Monitor International
bn	Billion
B POM	Badan Pengawas Obat dan Makanan (National Drug and Food Agency)
BPS	Badan Pusat Statistik (Statistics Indonesia)
BSNI	Badan Standardisasi Nasional (National Standardisation Agency)
EIBN	EU - Indonesia Business Network
Ekonid	Indonesian-German Chamber of Commerce and Industry
EU	European Union
F&B	Food & Beverages
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTAI	German Trade and Investment
IDR	Indonesian Rupiah
IPF	Federasi Pengeman Indonesia (Indonesian Packaging Federation)
ibid.	ibidem (the same)
i.e.	in exemplum (for example)
incl.	including
KEMPERIN	Kementerian Perindustrian (Indonesian Ministry of Industry)
kg	kilogramm
mn	Million
op. cit.	opera citato (in the reference already mentioned)
p.	page
tn	Trillion
US	United States of Amerika
USD	US Dollars

## About EIBN

The EIBN is a partnership project between five European bilateral chambers of commerce in Indonesia (BritCham, EKONID, EuroCham, IFCCI, INA) and two counterparts in Europe (EUROCHAMBRES, CCI Barcelona). The EIBN's aim is to promote Indonesia and ASEAN as high potential trade and investment destinations among companies from all EU28 member states – especially SMEs – and support them in their endeavor to explore the full market potential in Indonesia. The project was initiated and co-founded by the EU.



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