

## 5. BUSINESS ENVIRONMENT

### Overview

- Indonesia's tariffs on imported food products are low—5% for most products. VAT is 10%. Some products are also liable for luxury taxes.
- Registration procedures and labelling requirements for imported foodstuffs are quite demanding. For example, each Indonesian importer of any food product needs to register the product, a process that can take as long as 6 months.
- Successful companies invest plenty of time in finding the right partner (agent/importer/distributor) to represent them on the ground in Indonesia.
- It is important to foster good personal relationships when doing business in Indonesia. However commonsense business principles should not be neglected for the sake of good relations per se and the business standing and skills of a potential partner should be carefully assessed.
- The basic ingredients of success in Indonesia, as elsewhere, are products that provide value for money and reliable servicing of customer requirements.
- The Indonesian business environment is not easy – payment risks, lack of transparency and security concerns all need careful consideration.

### Tariffs

Indonesia has cut its tariffs on food and other imports sharply during the last ten years. Effective from 1 February 1998, tariffs on all food items were reduced to a maximum of 5%, with just a few exceptions. A summary of current tariff rates on food products is set out in Table 5.1.

The rates summarised in Table 5.1 are so called 'applied' or actual tariff rates. The 'bound' rates, which are the maximum tariffs Indonesia has committed to as part of its membership of the WTO, are significantly higher.\* For most food products, the bound rate is between 27% and 60%, but the bound rates are significantly higher for rice (160%), milk and cream (210%) and alcoholic drinks (over 100%).

A gap between the bound and applied tariffs means that, in theory, the Indonesian Government has scope to raise applied tariffs at some point in the future.

Full details of bound tariffs can be found at the WTO website.<sup>32</sup>

➤ **Appendix 4 lists tariffs on food and beverage items in Indonesia.**

\* to be phased in by 2004.

<sup>32</sup> World Trade Organisation, *WTO Goods Schedules – Members' Commitments*, 2003, viewed 12 October 2003, <[http://www.wto.org/english/tratop\\_e/schedules\\_e/goods\\_schedules\\_e.htm](http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_e.htm)>.

Table 5.1 Summary of tariff rates on food imports

Tariff level	Items
0%	soybeans cereal flours, groats, meal and pellets vegetable fats and oils maize (corn) oil
5%	live animals (except for breeding) dairy products fruit and vegetables coffee oilseeds (other than soybean) processed meat and seafood cocoa and cocoa preparations preparations of cereals, flour, starch or milk, incl. pastry cooks products preparations of veg, fruit or nuts waters wheat flour* malt, inulin, wheat gluten animal fats and oils, prepared edible fats, animal or vegetable waxes
10%	fats of bovine animals, sheep or goats linseed oil castor oil sesame oil
30/35% <sup>†</sup>	raw sugar / refined sugar
40%	beer
90–170%	wine and spirits
specific duties	sugar, rice (see below for details)

Source: World Trade Organisation, *Trade Policy Review Indonesia – A Report by the Secretariat*, WTO, 28 May 2003.

\* lifted from zero for the period from May 2003 to December 2004.

† as of July 2002.

## Tariff quotas

The WTO sometimes permits the use of tariff quotas when, for a base volume of imports, tariffs are set at a lower level, but for imports above the base volume, a higher, sometimes much higher, tariff rate can be applied.

Indonesia has such a system for milk, cream and related products but, as of May 2003, this was not being applied.<sup>33</sup>

### Indonesia's Regional and Multilateral Agreements

*Indonesia's tariff reductions are the result of both unilateral decisions taken by its government and obligations under a number of international and regional agreements and arrangements. In recent years these have included:*

**AFTA (ASEAN Free Trade Agreement):** *under AFTA, Indonesia has cut tariffs on imports from Singapore, Thailand, Malaysia, Brunei and the Philippines to no more than 5%*

**APEC (Asia-Pacific Economic Cooperation):** *which has set the goal of open and free trade by 2020 for its developing country members, such as Indonesia*

**WTO (World Trade Organisation):** *Indonesia is an active member of the WTO and is implementing measures to liberalise trade and investment that were provided for in the Uruguay Round agreements and subsequently*

**IMF (International Monetary Fund):** *Indonesia's program of major reductions in import tariffs that had begun in 1995 was reinforced in the IMF program for Indonesia that was established in 1997–1998. Indonesia withdrew from its IMF program in December 2003.*

Sources: World Trade Organisation, *Trade Policy Review Indonesia – A Report by the Secretariat*; INSTATE research.

<sup>33</sup> World Trade Organisation, *Trade Policy Review Indonesia – A Report by the Secretariat*, p. 32.

## Specific duties

The percentage tariff rates summarised above are called *ad valorem* tariffs (or duties). However, Indonesia has applied fixed or specific duties on several imported food products. In some cases, the Indonesian Government has said this is in order to avoid under-invoicing practices. While rare, specific duties are in place on rice and sugar:

- For rice and rice flour, the import duty rate is currently set at Rp430/kg.
- Specific duties on raw sugar and white sugar were set at Rp450 and Rp534/kg respectively in June 2002 and were further increased to Rp550 and Rp700/kg respectively in March 2003.

## Import duty calculation and 'check price' system

Import duties and other domestic taxes (see below) are based on the CIF value; that is, the landed cost in an Indonesian port, including freight and insurance.

As a result of under-declaration of import values by some importers, Indonesian Customs implemented a 'check price' system in 2002 to assess duties on all food product imports. In addition they switched some *ad valorem* duties to specific duties (see above).

This system means that Indonesian officials have the discretion to assess what they consider a realistic valuation. This can be higher than the value declared by importers.

## Other taxes

An income tax is levied at 2.5% of the CIF value of imports.

Value added tax (VAT or PPN) is levied on almost all goods, including imports, at a rate of 10%. VAT applies to processed food products but not to fresh foodstuffs.

A luxury tax of between 10% and 75% is levied on certain products—whether imported or produced domestically. Food products subject to luxury tax are:

- Yoghurt, cheese and butter: 10% luxury sales tax
- Alcoholic beverages: 40–75%.<sup>34</sup>

As of early 2004, reforms to the tax system were under consideration.

## Importer registration and income tax

There are two type of importers, *producer importers* and *general importers*. All importers are required to register with the Ministry of Finance and Customs and Ministry of Industry and Trade and obtain a Tax registration number and an importers identity number (API) from the Ministry of Trade and Industry.<sup>35</sup>

As of late 2003, Indonesia had about 7 000 registered importers, although up to 20% were thought likely to lose their licenses as a result of their failure to report required company data during recent anti-smuggling checks.

Basic documentation requirements for import shipments include:

- import declaration
- pro-forma invoice
- commercial invoice
- certificate of origin
- Bill of lading legalised by the carrier
- insurance certificate
- further certification for specified products
- packing list.

<sup>34</sup> Austrade, Canberra, 2003, viewed 10 August 2003, <<http://www.austrade.gov.au>>.

<sup>35</sup> Indonesian Ministry of Industry and Trade, Jakarta, 2003, viewed 4 November 2003, <<http://www.dprin.go.id/>>.

### Alcoholic Beverages: A Special Case

Imports of alcoholic beverages are regulated more strictly than most other food and beverages. However, Indonesia is a significant market for Australian wine, especially for the hotel / food service and duty free sectors. Exports of Australian wine to Indonesia in the twelve months to January 2004 were valued at A\$3.51 million.<sup>36</sup>

Indonesia's Ministry of Industry and Trade maintains a quota system for imports of alcoholic beverages in each of the following categories:

- beverages with alcoholic content between 1–5%
- beverages with alcoholic content between 5–20%
- beverages with alcoholic content between 20–55%.

There is only one approved importer of wine, spirits and beer: PT Dharma Niaga, a State-owned trading company. It replaced the former private monopoly of PT Rajawali Nusantara in 1997.

As of late 2003, there were seven registered distributors. For details of these distributors, see Appendix 5. These new distributors are still relatively small and usually specialise in one category of alcoholic drinks, either by country of origin or by type. For example, Geka Narasutra specialises in only gin and vodka, Esham Dima on tequila, while Danisa Texindo specialises in wine and beer from Korea only. Trima Nunggal Mandiri Indonesia (formerly PT Tebet Indraya) is the longest established distributor and remains the only distributor that handles all kinds of alcoholic drink imports.

#### Taxation and duty levies on alcoholic drinks 2002

##### Import duty

beer	40%
spirits	170%
wine	170%

VAT	10%
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##### Sales Tax on Luxury Goods

drinks with up to 26% ABV	40%
drinks with over 26% ABV	75%

##### Per litre excise rates on imported alcoholic drinks (increased in 2002)

Up to 1%	Rp1 250
More than 1% and up to 5%	Rp2 500
More than 5% and up to 15%	Rp10 000
More than 15% and up to 20%	Rp20 000
More than 20%	Rp50 000

A number of regional administrations have imposed local restrictions on trading in alcoholic beverages. There may also be moves in the national Parliament to further restrict the trade, or at least to impose particular trading arrangements other than the present ones. Such arrangements are generally sought on religious grounds. Advertising and promotion of alcoholic drinks in Indonesia is severely restricted.

Source: INSTATE research, 2003.



Image 5.1 Australian cask wines, Hero supermarket, Kemang

### Prohibited imports

Indonesia prohibits the import of the following items:

- endangered species of wild flora and fauna and parts thereof
- certain dangerous species of fish and
- food and beverage items not registered with the Ministry of Health.

More detailed information on import prohibitions is available in the 'Customs Control' section of the website of the Directorate General of Customs and Excise <<http://www.beacukai.go.id/>>.

### Import licences

Import licences are required for certain food products. These include:

- rice and sugar (since 2002)
- bulk dairy products including powdered milk, buttermilk and uncured cheese
- all chilled and frozen pork products
- alcoholic beverages.

<sup>36</sup> Australian Wine & Brandy Corporation, *Australian Wines Approved for Export*, Adelaide, 2004.

► Appendix 5 provides further useful contacts and information sources.

In January 2004, new regulations were introduced tightening the implementation of the rice licensing system.

Licenses for processed food and beverage products are issued by the Ministry of Trade and Industry, while those for unprocessed agricultural products are issued by the Ministry of Agriculture.

The WTO's May 2003 review of Indonesia's trade policy noted that Indonesia had not updated information on import licensing requirements available to the WTO since 1998.

### Restricted import rights

In addition to the state-owned importer of alcoholic beverages mentioned above, the other state trading organisation, which traditionally played an important role in food imports, is BULOG (Badan Urusan Logistik or the National Logistics Agency). This is a 100% state-owned trading enterprise. In 1999, BULOG's rice import monopoly was eliminated, however, it continues to stabilise domestic prices through its market intervention activities.

### Food regulation: overview

Indonesia's system of food regulation is based on:

- National standards including mandatory standards for selected products
- Sanitary / phytosanitary inspection of primary products
- Registration of processed food products by a specially constituted authority—the National Agency of Drug and Food Control (BPOM)
- Food labelling regulations.

### National standards

National standards, which are the responsibility of the National Standards Agency (BSN), are generally optional, but three products are the subject of mandatory standards: wheat flour, salt, and raw sugar. Wheat flour and salt are required to include specified nutritional supplements, while the standard for raw sugar is directed at preventing the sale of raw sugar for direct consumption, as distinct from further processing.

When the standard is mandatory, the Indonesian National Standards (SNI) mark must be carried on labelling.

Indonesia is a member of the Codex Alimentarius Commission.

### Sanitary and phytosanitary regulations

BPOM, which is an arm of the Ministry of Health, must test all processed food products and is also responsible for labelling and the issue of registration numbers (MLs) for imported food products (see below).

Control of imported fresh products, including fruit and vegetables, and meat is the responsibility of the Ministry of Agriculture (Pertanian)—except for marine products, which are handled by the Maritime and Fisheries Ministry.

Specific requirements are summarised in Table 5.2.

➤ **Further information can be found at** <http://www.austrade.gov.au/> – search 'Indonesia' and 'dairy'.

➤ **For further information on Codex Standards see** [www.bsn.or.id](http://www.bsn.or.id)

Table 5.2 Phytosanitary requirements for imports of agricultural and food products (selected)

Item	Requirement
All fresh produce	A phytosanitary certificate from the appropriate authority, such as the Australian Quarantine and Inspection Service (AQIS) in Australia, is the main prerequisite for importing of fresh produce into Indonesia. Upon arrival in Indonesia, such shipments are subject to quarantine inspection.
Fruit	All imported fruit must have accompanying certificates stating that the fruit is free from fruit fly.
Potatoes	All imported potatoes require certification that they are free from wart disease ( <i>Synchytrium endobioticum</i> ).
Horticultural seeds	Seed importers must obtain approval from the Food Crop and Horticulture Seed Control and Certification Body, ensuring that all imported seed is certified and labelled before entering the horticulture sector.
Chicken	Certificates assuring that chicken products are dioxin-free are also required—there was a temporary ban on certain Belgian and Dutch products in 1999 due to concerns over dioxin contamination.
Live cattle	All livestock is examined upon arrival and is required to undergo a minimum ten day quarantine period.
Food supplements	The production, importation and distribution of food supplements (defined as vitamins, minerals, extracts, plant substances, amino acids, concentrates or any combination) must, <i>inter alia</i> , be by licensed pharmaceutical companies or local-government-licensed food supplement companies, and be manufactured in compliance with food manufacturing practices. Hygiene and safety requirements have been set as well as maximum daily limits for vitamin and mineral amounts. <sup>37</sup>
Seafood	The Centre for Agricultural Quarantine requires that any importation of live fish, dead fish and fish products must be imported only through designated points of entry, accompanied by a Fish Health Certificate (FHC) and notified and submitted to the Fish Quarantine Inspector upon arrival of the consignment. Importation of live fish must also be covered by an Import Permit (IP) that may contain additional conditions for importation—these are determined on a case-by-case basis by the Director-General of Fisheries. <sup>38</sup>

Source: INSTATE research.

Full details of all phytosanitary restrictions notified by Indonesia to the WTO are contained at <[http://docsonline.wto.org/gen\\_home.asp](http://docsonline.wto.org/gen_home.asp)>.

AQIS provides information on import country requirements in the form of searchable databases on its website at <<http://www.aqis.gov.au>>.

Before exporting any agricultural or fisheries products to Indonesia, exporters should consider and check through their importer in Indonesia whether Indonesian authorities require any government certification.

The Australian Quarantine and Inspection Service (AQIS) provides inspection and, where required, government-to-government export certification for a number of agricultural and fisheries exports, e.g. meat (including game, poultry and rabbit), dairy products, fish (including crocodile meat), eggs and egg products, dried fruit, mung beans, grains, plants and plant products, processed fruit and vegetables, fresh fruit and vegetables and products labelled as organic. For further information on exports of these products please contact the nearest AQIS office or check the AQIS website.

Other products, e.g. pasta, breakfast cereals and confectionery, are generally exported without AQIS export certification because countries importing these products, including Indonesia, do not require any government-to-government certificates. Should an exporter be informed that a government certificate is required for imports into Indonesia of products not regulated by AQIS, AQIS may still be able to help. Exporters can contact the AQIS Export Facilitation Officer at the nearest AQIS office or check the AQIS website.

In late 2002, a Presidential Decree provided for the imposition of quarantine fees on import, export and inter-island movements for a range of domestic and imported agricultural products. At the time of writing, implementing regulations had not been issued by the Ministry of Agriculture.

<sup>37</sup> World Trade Organisation, *Trade Policy Review Indonesia – A Report by the Secretariat*, p. 55.

<sup>38</sup> Centre for Agricultural Quarantine, Jakarta, 2003, viewed 20 October 2003, <<http://www.deptan.go.id/CAQ/index.htm>>.

► **Further information can be found at <<http://www.austrade.gov.au/>> – search ‘Indonesia’ and ‘horticulture’.**

► **Appendix 5 provides further useful contacts and information sources.**

## Labelling

New food labelling requirements were introduced in 1999\* and are the responsibility of the Food and Drug Control Body (Badan POM or BPOM).

Labelling requirements are designed to ensure that the consumer can be accurately informed about the ingredients in processed food and its status as a *halal* or non-*halal* product. Post market control is maintained through sampling and testing food products. Where discrepancies occur there are powers to reprimand, order withdrawal of products from sale, or prosecute through the courts.

Key points of the current labelling requirements include:

- All packaged food products distributed in Indonesia must be labelled exclusively in Bahasa Indonesia language, Arabic numbers and Latin letters.
- The use of any other language, number and letters is permitted only where there are no substitute Indonesian words or if there is a difficulty in finding Indonesian words with a similar meaning; such approval must be obtained from the Indonesian Attorney-General.<sup>39</sup>
- The use of stickers was authorised temporarily (until new legislation was enacted).
- Specific wording regarding content is required for labels of certain food items including milk products, baby food, alcoholic beverages, and *halal* food.
- If the product is *halal*, it must be certified by an approved authority (see *halal* certification section below for details).
- The expiration date of perishable food items must be shown (and products must be landed in Indonesia with at least 2/3 of their stated shelf life remaining).
- Food additives must be identified.
- The name and address details of the importer must be stated.
- There are specific requirements for labelling of products with GMO content greater than 5% and also for irradiated products.
- SNI marks must be shown when relevant compulsory standards exist (these apply to sugar, salt and wheat flour).

Non-compliance with labelling regulations can result in a fine of up to A\$400 000.

### Ecolabelling on the way

*The Indonesian government is planning to implement a national eco-labelling program for domestic agricultural and manufactured food products. A coalition of government agencies, industry and consumer bodies have reached agreement on a standard to be used to certify and label environmentally friendly products.*

*The scheme, which will be voluntary, will reportedly be based on the ISO 14 000 standard on environmental management systems and is expected to commence some time in 2004.*

Source: U Hudion, 'Government to implement national ecolabeling plan', *The Jakarta Post*, Jakarta, 27 November 2003.

► **Further information can be found at** <http://www.austrade.gov.au/> – search 'Indonesia' and 'food retail'.

## Overseas brand registration: the ML system

Under the Consumer Protection Law (No. 8 of 1999), a registration system covers all processed food products. Its key elements are:

- Details of products, including their ingredients, must be submitted to BPOM, together with samples and evidence of testing by authorities in the country of origin
- Upon approval, a registration number is issued (for imports the ML<sup>†</sup> number, which must be printed on food package labels)
- Products must be re-registered every five years
- The ML numbers are importer specific.

Strict implementation of the registration requirements since 2003 has increased exporters' costs. Previously, firms could land small quantities to test in the market and apply for

\* Consumer Protection Law (No. 8 of 1999) and Government regulation No 69 / 1999 on Food Labelling and Advertisement.

† Abbreviation of Makanan Luar or 'imported food'.

<sup>39</sup> Kejaksaan Agung, Jakarta, 2003, viewed 3 November 2003, <<http://www.kejaksaan.go.id/>>.

registration subsequent to importation. This is no longer possible. Products must be registered with BPOM before clearance through Customs and carry the appropriate sticker. Importers, distributors or retailers dealing in unregistered products are in breach of the regulations and subject to penalty.

Importers are hesitant to register every product they would like to trial in the market because of the cost of registration. The time it takes to register goods is also significant—up to six months, although some cases can take longer.

### **The ML system: an Australian consolidator's perspective**

*The CEO of one large Australian consolidator active in the Indonesian market sees the cumbersome nature of the ML system as the major market access issue facing Australian exporters. It is costly and time-consuming (six months) to register each product: 'I have over 500 lines, and not all of them are going to take in the market.' Some exporters will simply shift their focus to elsewhere in South East Asia. Those who persevere face additional cost and uncertainty.*

Source: INSTATE interview, October 2003.

## **Halal certification**

The Indonesian authorities do not require *halal* certification for all imported foodstuffs. But while certification is not compulsory, 88% of the Indonesian population is Muslim and the Indonesian Islamic Council (MUI) prefers all food products to be *halal* accredited.

### **What is halal?**

*Halal is an Arabic word meaning lawful or permitted. The opposite of halal is haram, which means unlawful or prohibited. Halal and haram are universal terms that apply to all facets of life. However, in Indonesia, these terms are used only in relation to food products, meat products, cosmetics, personal care products, food ingredients, and food contact materials.*

*While many products are clearly halal or haram, there are some that are not clear. Where more information is needed to categorise a product as halal or haram they are often referred to as mashbooh, which means doubtful or questionable.*

*All foods are considered halal except the following, which are haram:*

- Swine/pork and its by-products
- Animals improperly slaughtered or dead before processing
- Animals killed in the name of anyone other than Allah (God)
- Alcohol and intoxicants
- Carnivorous animals, birds of prey and land animals without external ears
- Blood and blood by-products
- Foods contaminated with any of the above products

Source: The Islamic Food and Nutrition Council of America, *What is Halal*, Chicago, 2003, viewed 5 January 2004, <<http://www.ifanca.org/halal.htm>>.

The following Australian Islamic Councils are approved by the MUI and may issue *halal* certificates:

- The Islamic Coordinating Council of Victoria Inc (ICCV)
- The Australian Federation of Islamic Council Inc (AFIC) and
- The Supreme Islamic Council of Halal Meat in Australia Inc (SICHMA).

The Indonesian Government requires that all beef exports to Indonesia must have a *halal* certificate along with a health certificate and come from *halal* slaughter establishments listed with the Indonesian Ministry of Agriculture.

In late 2003, an on-line Australian *halal* directory was launched.

## **Options for representation**

Some Indonesian trade opportunities do come knocking on Australian suppliers' doors. But sustainable business usually requires effective representation on the ground. An active agent, importer and/or distributor is almost always needed to manage the physical process of

► **For food exporters interested to learn more about having their products certified, further information is set out under the 'ask us' button at <[www.halalaustralia.com](http://www.halalaustralia.com)>.**

customs clearance and represent products to buyers on a regular basis. Companies have a range of options to consider, depending on their circumstances (Table 5.3).

Table 5.3 Representation options

Option	Comment	Pros	Cons
Agent	Role is to maintain continuous contact with distributors and end-buyers for a commission on sales	Can keep in touch with the market and changes especially changes of executive in larger (buying) companies	Role is limited to representation and adds a layer to the communication process
Agent / importer		Can perform representation and manage import procedures	Still need physical distribution unless sales are to major supermarket groups that handle their own logistics
Importer / distributor	Common for consumer products —big importer / distributors with their own sales forces that often distribute for multinational corporations	Can provide a single service package	May not be ideal for smaller suppliers who may be neglected in favour of larger suppliers. Not every importer / distributor has national coverage
Own on-ground representative	Dedicated company rep on the ground to manage importer / distributor relationships	Similar to an agent except that remuneration might be a retainer rather than a commission on sales	Cost which is not directly related to sales unless some sort of bonus system is introduced
In market operations (packing processing)	More necessary as scale of business grows	Permits refining of packaging and presentation for local tastes and quicker reaction to market shifts	Substantial investment may be required increasing exposure to

Source: INSTATE research.

The right choice for an Australian exporter will depend on:

- Its size and resources, including its capacity to provide in-market support
- The nature of its product and supply chains for those products (see Chapter 4 for examples of different supply chains in the Indonesian market).

In general, though, understanding the way that in-country partners will manage the marketing and physical distribution of product is essential. The more that is known about potential partners' positions in the supply chain and the number, type and nature of clients they deal with, the better positioned a business is to decide on the right partner or partners.

## Finding the right partner

Good importers are committed to trade and importing; they are engaged in landing and clearing products all the time. Finding the right importer and building a strong relationship with them will ultimately mean better access to the market.

The cardinal rule about forming partnerships in Indonesia is 'take the time to get it right first time'. This is especially important as breaking a business relationship may result in a degree of humiliation of the rejected partner and this can have adverse implications for the exporter if the breach becomes known in the broader business community. The exporting company may, for example, be described as 'unreliable' or simply be seen as having been incompetent in making its original selection—especially by companies with a potential interest in the business. So exporters need to be thorough in asking questions of and about a prospective partner:

- What businesses is it in?
- What capacity does the company have?
- What is its track record?
- Does it have the right distribution channels for the product?

- What can Austrade say about the company?
- Does it handle lines that directly compete?
- What do experienced people in the market, including industry associations, say about the standing of a company?
- Who is the right person in the organisation to deal with?

On the final point, it is worth noting that Indonesian organisations work on a very hierarchical basis. Except in the case of very large companies, an export manager should be talking to the head of the Indonesian company or at least to a director or, in the case of large companies, to the head of division or President Director of the relevant subsidiary company. At times, it is also very helpful to involve more senior Australian executives to gain access to senior counterparts in Indonesian organisations.

## Relationships

The way forward is not by one-off contracts, but by long-term relationships. Maintaining personal relationships is the key to long term success in the region. <sup>40</sup>

Personal relationships are important in business in Indonesia. Indeed, some people suggest that Indonesia is the country in which they are most important. <sup>41</sup>

But, while it is usually helpful to foster good personal relationships with business partners in Indonesia, commonsense business principles should not be neglected for the sake of good relations *per se*.

Care also needs to be taken not to rush into relationships on the basis of big claims about influence alone.

### **Keeping the relationship issue in perspective**

*It is true that relationships are important in Indonesia—so it's good if you have an agent or representative with the right contacts especially if you are doing business with government—but you need something more, says a trade consultant with wide experience in the Indonesian market.*

*'You will meet people who claim to be and perhaps are the cousin or brother of a Minister, even the President or the CEO of a big company. Sometimes such people can lead you to business but some don't really have the influence they claim and some are simply 'rent seekers' wanting a rake-off but with little capacity to really facilitate business,' he said.*

*In summary, you should check a potential partner's business credentials as well as the reality and usefulness of their 'connections'. The big lesson is: don't rush in to a partnership arrangement. Take time to 'suss out' the options and get good advice, concludes the consultant.*

Source: INSTATE interview, October 2003.

A recent survey looked at partnerships and alliances between Australian companies and their local counterparts in Indonesia, Thailand and Malaysia and reviewed the key to successfully weathering the 'Asian economic crisis' in 1997–99. It found that:

- Australian exporters successful during that period viewed their intermediaries as strategic partners.
- Empathy is important. Understanding the local partners' situation and helping out where possible goes a long way towards maintaining and strengthening relationships.
- Trust, communication and commitment are the top three relationship factors linked to business performance. These involve more than just words: they required tangible actions, clear signals and regular contact.

<sup>40</sup> M Abrahams, *Indonesia country profile*, Presentation, Austrade, Canberra, 2003, viewed 15 December 2003, <<http://www.austrade.gov.au/>>.

<sup>41</sup> United States Department of Agriculture Foreign Agricultural Service, *Indonesia Exporter Guide Annual 2002*, p. 5.

### Relationships: choose carefully

Some years ago, a major Australian industry body was planning a big promotion in Indonesia. They needed a local representative in Jakarta who could be a focal point both for organising the promotion and as the key local personality in the event and for the longer term. A senior executive from Australia with limited experience in Indonesia heard of a particular person who was said to be well connected and selected him on the spot. As it turned out, this person was a very small player in Indonesia and did not have much capacity to help. More importantly, he was not respected in Indonesian business circles. This had a major negative effect upon the whole event.

Source: INSTATE interview, October 2003.

## Other cultural issues

### Religion

The majority of Indonesians are Muslim, whilst there are also Christians, Buddhists, Hindus and animists.

In Indonesia, there is an expectation that everyone has a religion. Therefore it is important to be respectful and accommodating where religion is concerned. Some Muslims (the more devout) pray five times a day and will interrupt other activities to do so. This is especially so at Friday midday prayers and so it is best not to organise important meetings at this time.

Very few Indonesian Muslims support or approve of violence in the name of Islam, which they (like most Muslims) regard as a religion of peace. They are nevertheless generally sympathetic about what happens to Muslims in other places, such as the people of Afghanistan and Iraq, and may be critical of policies and actions of 'the West' in general and individual countries, sometimes including Australia, in particular.

### Ramadan and fasting

It is very helpful for visitors to have at least a basic understanding of Muslim practices, including the annual fasting period known as *Ramadan*, which ends in the feast of *Idul Fitri* or *Lebaran*.

This period changes each year and lasts a month. During *Ramadan*, most Muslims rise at 3 am, eat breakfast and say their morning prayers. They do not then eat and drink again until around 6 pm, regardless of what they have to do during the day.

### Language and communication

The Indonesians that most visitors meet are speaking in a language (English) that they do not use every day. Many nuances will escape them and they may have no familiarity with the Australian idiom. Visitors should use plain English—and should speak slowly and clearly. They should repeat important points in different words. They should always listen carefully and be ready to say: 'I did not quite understand your last point, do you mean...?' They should take time to discuss proposed arrangements and confirm them in writing. They should ask for a written response but should not be too concerned if it takes time to come. The situation may be clarified on a subsequent visit. Amongst other things, Indonesians will want to know how serious their counterparts are about developing business linkages. They work in a challenging business environment and are very conscious of making the best use of their time and effort.

### Hospitality and gifts

It is always polite to return hospitality or at least offer to do so. The custom about gifts is variable but, again, reciprocity is important.

### When yes means ...

Be aware of the fact that 'yes' does not always mean 'yes I agree to sign up to your proposition'. It may merely mean 'yes I heard what you said'. Indonesians are polite and very conscious of 'face'.

➤ Chapter 2 provides further information about Indonesian consumers.



Image 5.2 Lebaran gift packs, hypermarket, Bekasi, Jakarta



Image 5.3 Indonesian syrups and noodles, Ramadan stock

### Preaching

Indonesia sometimes gets bad press in Australia but Indonesians, no less than Australians, are proud of their country and its achievements. Critical comments by Australians about Indonesia, as well as unsolicited advice or ‘preaching’ (there is a special word for this in Indonesian—*mengguru*) will be seen as bad manners or worse.

### Some dos and don’ts

Indonesia is a diverse country—so it is risky to generalise too much about dos and don’ts. Nevertheless, the following points are worth using as a guide when visiting Indonesia: <sup>43</sup>

- Use the right hand in social encounters e.g. to offer or receive something from another person.
- On average, Indonesian handshakes are softer than the Australian average—so it is better not to use bone-crushing handshakes.
- Keep both feet on the floor when sitting; don’t sit with legs crossed.
- Avoid sitting on a table or desk.
- Avoid showing the sole of the foot or pointing the toe at another person.
- When pointing, use a generalised gesture of the hand (not a finger).
- Don’t touch a person’s head.
- Avoid raising the voice unnecessarily.
- Don’t express anger or frustration physically.
- When eating or drinking as the guest of others, don’t start until invited.
- Make way for more senior / older people in doorways and at formal gatherings.
- If you discuss politics or religion, do so in a respectful way.

### When in doubt

Indonesia is a multi-cultural country with many different languages and customs. The general rule is to be friendly, courteous and respectful. It rarely, if ever, fails and will be returned in kind.

### Getting the basics right

As noted elsewhere in this guide, relationships are very important in Indonesian business and there are some special cultural issues that need attention. But there are many universal principles about operating in or selling to the Indonesian market that should not be forgotten:

- Offer value for money – Indonesian buyers expect the right quality, packaging and delivery, as well as a competitive price.
- Be consistent and reliable – Indonesian buyers look for suppliers who are competitive, consistent and reliable. They expect the best service, as well as the best products and prices, and will instantly recognise poor performance or presentation and judge suppliers accordingly.
- Don’t dump – some suppliers try to pass off second-grade products to Indonesian buyers on the basis that Indonesia is just a ‘developing country’, but its buyers shop the world market for the best products available at a given price. Any attempt to pass off second-rate products will reflect badly on the supplier and be long remembered.

### Doing the basic things well

*One Australian exporter of processed food products has worked hard on the Indonesian market for the last few years. It has focused on selecting the right products for the market and makes the effort to get the packaging ‘right’. This might seem elementary, but its major United States rivals are just sending their standard product into the market making no effort to meet the specific market needs. As a result, the Australian company is now the category leader in Indonesian supermarkets.*

Source: INSTATE interview, October 2003.

<sup>43</sup> W Forrest & M Bidgood, *Cultural Aspects of Business*, American Indonesian Chamber of Commerce, New York, 2003, viewed 24 November 2003, <<http://www.aicusa.org/cultas.htm>>; INSTATE research.

## Payment risk

Indonesia is a risky trading environment. Indonesia's banking sector remains weak in the aftermath of the economic crisis. This constrains lending and it has increased bank charges on local companies. Accordingly, selecting the right partners is critically important and undertaking thorough due diligence is recommended.

Austrade stresses to Australian companies that any business should be on a fully secured basis and recommends that companies can get further information from the Export Finance and Insurance Corporation on country risk:

New exporters, or exporters new to Indonesia, need to be particularly careful. We are seeing a greater use of advance payments at present (good for the exporter) ... Terms usually apply after a healthy relationship of trust and mutual benefit has been established. <sup>44</sup>

EFIC, the Export Finance and Insurance Corporation, <<http://www.efic.gov.au>> has a range of services designed to assist the export of Australian capital goods and services and investment in overseas projects, including medium to long term finance facilities and political risk insurance. EFIC also has Export Working Capital Guarantees to assist smaller Australian exporters in securing working capital finance from financial institutions. <sup>45</sup>

In June 2003, Indonesia was given a market grade of 5 by EFIC (in a rating system whereby 1 is Low Risk, and 6 is High Risk).

For high-risk markets, 100% indemnity is not currently available from EFIC. However, EFIC assesses each proposed transaction individually, with the market grade not a conclusive factor in its decision making.

There are a number of credit reference services available in Indonesia although their reliability varies. Exporters should check with their bank or Austrade for advice on suitable services.

► **Appendix 5 provides useful contacts and information sources.**

## Transparency

Transparency International (TI), an international NGO that monitors corruption in over 100 countries, ranked Indonesia 122 out of 133 in its most recent 2003 survey (See Table 5.4).

Describing the rating system, the 2003 TI report stated that corruption in countries with a CPI score of less than 2 is considered to be pervasive.

Table 5.4 **Transparency International corruption perceptions index, 2003**

Country Rank	Country	CPI Score
1	Finland	9.7
2	Iceland	9.6
3	Denmark New Zealand	9.5 9.5
5	Singapore	9.4
6	Sweden	9.3
7	Netherlands	8.9
8	Australia Norway Switzerland	8.8 8.8 8.8
14	Hong Kong	8.0
37	Malaysia	5.2
66	China	3.4
70	Thailand	3.3
122	Indonesia	1.9
133	Bangladesh	1.3

Source: Transparency International, Berlin, 2003, viewed 12 December 2003, <<http://www.transparency.org/>>.

<sup>44</sup> M Abrahams cited in Harcourt, 2003.

<sup>45</sup> Export Finance and Insurance Corporation, Sydney, 2003, viewed 10 December 2003, <<http://www.efic.gov.au/>>.

Exporters face problems with import regulations that are complex, often non-transparent and at times open to interpretation by officials at the wharf. An experienced, well-positioned importer can help clear products quickly, often with less expense.

Under invoicing is also widespread in Indonesia. Its basic purpose is to reduce tax and duty payable on the landed goods by the importer. Companies should be aware that under-invoicing, although common practice, is illegal.

## Security

As of April 2004, travel advice from the Department of Foreign Affairs and Trade was that:

*'We continue to advise Australians to defer non-essential travel to Indonesia, including Bali. The August 2003 attack at the JW Marriott Hotel in central Jakarta is a reminder that terrorist groups are active in Indonesia and that attacks could occur at any time. We continue to receive reports that further attacks are being planned against a variety of targets, including embassies, international schools, international hotels, churches, shopping centres, transport hubs or identifiably western interests, including businesses. Security at the Australian Embassy in Jakarta remains at a high level as a precautionary measure. Australians in Indonesia who are concerned for their security should consider departing.'*

*Australians who remain in Indonesia should continue to exercise extreme caution throughout the country, especially in commercial and public places frequented by foreigners including—but not limited to—clubs, restaurants (including international fast food outlets), bars, places of worship, hotels, schools, shops, shopping centres, housing compounds, outdoor recreation events and tourist areas.*

*This caution should be exercised in particular in Jakarta, including the central business and embassy districts, in other metropolitan and tourist centres in Java and Sumatra, and around premises and symbols associated with the Indonesian Government.*

*The recommendation that Australians defer non-essential travel applies to Indonesia as a whole. We advise Australians to avoid all travel to Aceh, and those in Aceh are advised to depart. We further advise Australians to read carefully the sections below on travel to west Timor, Maluku and North Maluku, North, South and Central Sulawesi, and Papua. There remains a potential risk to foreigners of kidnapping in areas close to the Philippines, such as the outlying islands of North Sulawesi, and the border regions of Kalimantan.*

*We also caution about 'sweeping' operations (raids) by militant Islamic groups against bars, nightclubs and other public places which might seek to identify Australians. Australians should take particular care to avoid public demonstrations.*

*Australians should note that new visa rules were introduced on 1 February 2004, and seek advice from the nearest Indonesian Embassy or Consulate prior to arrival. Australians in Indonesia should register with the Australian Embassy (contact details in Appendix 5).*

► **Further details and updates are available on the DFAT website at <<http://www.dfat.gov.au/zw-cgi/view/Advice/Indonesia>>.**

Security concerns have led Australian firms to rely more heavily on Austrade services. Austrade is helping companies by monitoring the situation and helping with logistics, and 'has now started focussing more resources on customer-facing activities in the market, expanding our customer base and improving the quality and convertibility of realistic market opportunities.'<sup>46</sup>

<sup>46</sup> Michael Abrahams, Senior Trade Commissioner in Jakarta, cited in Austrade 2003.