



British Plastics Federation

Plastics Industry in Indonesia

BPF Report

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Indonesia – Opportunities for UK Plastics Firms

With a population of nearly 250 million, Indonesia is the 4th most populous country globally with a large proportion of the affluent middle class. According to the Boston Consulting Group (BCG) forecast published in the Plastics and Rubber Asia magazine, by 2020 Indonesia's middle class will double from the current 74 million to 141 million. By then, slightly more than half of the population will be categorised as affluent.

With the Indonesia's GDP recorded in 2013 at 5.6% growth, this fast developing market offers huge potentials to the plastics industry. Currently, according to World Bank report based on 2011 data, the Indonesian economy was the world's 10th largest by nominal GDP (PPP based) with the industry sector as the largest share at 46.4% of GDP (2012), followed by services (38.6%) and agriculture (14.4%). According to a report by McKinsey Global Institute, the country is predicted to become the world's 7th largest economy by 2030, with around 90 million consumers fueling the country's economy, ranking it amongst the top world economies.

The local Government has initiated a scheme where 70% of plastics products must be produced domestically, as quoted by the Plastics and Rubber Asia, which opens huge possibilities for skills development, machinery and materials exporters.

Plastics industry in Indonesia

Last year, a statement from the Office of the Chief Economist, which was published by the country's Bank Mandiri, indicated that plastic is considered as a key material given its advantages of light weight, practicality, durability and resistance to certain substances.

Plastic consumption in Indonesia, according to the Indonesian Olefin, Aromatic and Plastic Association (INApLas) is still relatively low on a per-capita basis at just over 17 (kg) per year, compared to around 35 kg in Malaysia 40 kg in Thailand and Singapore and around 100 kg in Western Europe. This highlights the scope for future growth, as personal income continues to rise in Indonesia's consumption-led economy.

The domestic industry supply contributes to 3.6 million tonnes of plastics a year towards the total demand of 4.3 million tonnes, with the rest of the material imported. Besides the food and beverage industry, which accounts for the bulk of plastic use in Indonesia, agriculture and the construction sector as well as the automotive and electronics industries are the main buyers of plastics.

Raw materials

Local plastic makers rely on imports due to raw material shortages in Indonesia. Currently over 40% of the petrochemicals used in the plastics industry comes from abroad.

Most of the nation's plastics imports, comprising principally propylene and polyethylene, come from neighboring countries, including Singapore, Malaysia and Thailand, as well as from Europe, the US and the Middle East.

With a high demand for raw materials, local companies are getting more interested in recycling process and use of recycled material in their production.

Recycling

The increasing use of recycled materials is one way to address the local plastic industry's dependence on imports while at the same time tackling the pressing issue of municipal waste. Recycling is still in its early stages in Indonesia due to a lack of supporting infrastructure of waste collection, etc and it is handled mostly by small businesses on a fairly small scale.

However, interest in building modern and larger-scale recycling facilities is growing as illustrated by the case of PT Enviro Pallets, which recently set up a plant in Bali to turn some 30 tonnes of household and industrial waste into plastic pallets every day. With most plastic waste still disposed of in landfills and private consumption increasing fast, there is plenty of room for growth. Investing in environmentally sustainable solutions is also a prudent measure for plastic manufacturers in anticipation of growing environmental awareness among the Indonesian population. Regulations are likely to become more supportive, as large Indonesian cities struggle to deal with heaps of waste as quoted by the Global Business Guide.

Packaging sector

Indonesia's plastic packaging industry grew by 8% to around 55 trillion RP (\$5.3 billion USD at the time) in 2013, according to the Indonesian Packaging Federation (FPI). The shift from traditional markets to modern supermarkets and convenience stores creates a lot of demand for packaging of fast-moving consumer goods (FMCG), particularly food and beverages. Almost 70% of the total plastics use was accounted for by the food and beverage packaging sectors.

According to the Indonesian Packaging Association, more than half the demand is made up of plastic flexible/rigid packaging, driven by increased packaging requirements from the domestic food, beverage and pharmaceutical industries.

As reported by the Jakarta Post, the secretary-general of the Indonesian Olefin, Aromatic and Plastic Industry Association (INAPLAS), Fajar Budiyo, said that local producers anticipated that domestic sales of raw materials and finished products would be US\$4.8 billion this year, which would be up 7 percent from last year.

"Sales will be driven principally by demand from the industrial sector, mainly the food and beverage industry," Fajar said on the sidelines of an industry conference in Jakarta. The food and beverage industry would comprise 40 percent of the industry's sales this year, followed by agriculture packaging (15 percent), automotive and electronics makers (7.5 percent) and the construction sector (7.5 percent), according to Fajar.

The Indonesian Food and Beverage Association (Gapmmi) has said that sales would top Rp 770.96 trillion (\$80.1 billion) this year, which would be up 8 percent from last year's Rp 712 trillion, helped by robust consumption and price increases.

Arianna Susanti, business development director of the Indonesian Packaging Federation, said that the industry wanted to book Rp 51.06 trillion in revenue this year, which would be up 11 percent from last year, boosted by food and beverage industry demand, which comprises 70 percent of sales.

Other sectors, such as pharmaceutical and cosmetics, would also push up demand, she said.

Separately, vehicle sales, a key consumption indicator in Southeast Asia's largest economy, have been tipped to increase to 1.2 million, which would be up 7.5 percent from last year, boosted by solid economic growth bolstering people's purchasing power according to the Jakarta Post.

Automotive industry

Both the Indonesian car and motorcycle market is dominated by foreign brands, particularly Japanese such as Toyota and Honda. Motorcycles are the dominant mode of transport for Indonesians due to their ready availability through credit schemes that require low down payments as well as being cheap to run and a faster method of wading through Jakarta's gridlocked traffic.

Developing a domestic production base for environmentally friendly and low cost cars has been a key goal of the government through the Ministry of Industry. A program is being put together that will incentivise manufacturing of 'green' hybrid cars. Such cars would be locally made, with 80% of components being both engineered and produced in Indonesia. Fuel consumption would not exceed 22 km per litre and would meet Euro 3 emission standards with a target of 400,000 units to be produced annually. Two Japanese car companies namely Daihatsu and Suzuki have already signed on to the program which could potentially carve out a highly profitable niche for Indonesia's auto manufacturing sector at a key time before the ASEAN single market. The test will really be at home, where Indonesian consumers themselves have been distrustful of locally made products, preferring to opt for foreign brands in most of their consumer habits.

The industry confidence in rising sales of both motorcycles and cars appears justified when looking at growth figures in the past 2 years.

Exporting to Indonesia

Import tariffs on basic petrochemical products for the plastics industry, while intended to protect local raw material producers jeopardize Indonesia's odds of becoming a regional hub for the industry. Duties vary between 0% and 20% depending on origin and the nature of the product. Local industry representatives are especially concerned about plastic imports from Thailand and have appealed to the government to improve upstream incentives and remove all import duties on petrochemical feedstock.

Both the upstream and downstream plastics industry will be hard-pressed to defend their home turf against foreign competition, but curtailing imports of petrochemical feedstock or plastics is becoming hard to justify amid tightening economic integration within the ASEAN region and between ASEAN and other countries. A protectionist stance would also burden the local food and beverage industry, which itself faces tough competition from imports. The only realistic option is to boost the competitiveness along the entire hydrocarbons-to-packaging production chain. This will require local firms to upgrade their equipment and enhance their production methods, which in turn creates investment opportunities and an appealing market for foreign machinery manufacturers.

Booming demand for consumer products and plastic packaging, an anticipated easing of feedstock import restrictions and the need to modernise equipment make a compelling case for investment in Indonesia's plastics and plastic packaging industry. The restructuring needed to make the local industry competitive on a global scale will require significant investment and innovation.

The recycling business offers particularly alluring opportunities for experienced foreign companies to put to use their knowhow and technology. The country's competitive advantages in manufacturing, such as affordable industrial land and a large and competitively-compensated workforce create attractive opportunities for the packaging industry.

Trade associations

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Plastics and Rubber Indonesia 2015 with a FREE stand for UK exhibitors

Last edition of Plastics and Rubber (P&R) Indonesia, which was held alongside Plaspak Indonesia, DrinkTech Indonesia and Mould & Die Indonesia, took place in November 2014 in Jakarta. The show covered over 21,600 sqm floor space and attracted over 650 exhibitors from 30 countries. Amongst those there were six international group pavilions from China, Germany, Italy, Korea, Singapore and Taiwan.

As reported by Plastics and Rubber Asia Magazine, many of the exhibitors established sales and distribution networks in Indonesia. Dutch auxiliary equipment specialist, Movacolor Engineering, has its Indonesian distributor, Jakarta-based RIA Engineering, to position its machines in the market. Anders Olsson, Sales Director Asia Pacific, appraised the event positively as it generated a number of sales leads for the company during the four days.

A Swiss thermoforming machinery manufacturer, WM Wrapping Machinery displayed its INTEC series at the last year's show. A spokesperson said that a majority of local manufacturers buy European machines for efficiency, stability and quality of production.

South Korean LS Mtron, another frequent exhibitor at the show, displayed its LGE series machines for electronic/electrical and automotive parts production. Speaking for the company, Sales Manager Chris Song surmised that the Indonesian market is "developing fast and it is highly likeable that Indonesia would have become Asia's biggest market in ten years time," he said.

Japanese/German injection moulding machine maker Sumitomo Heavy Industries (SHI) also confirmed the raising demand for high quality machines, especially for the food and beverage sector, according to its Indonesian sales representative Zulkarnain.

The next edition of Plastics and Rubber Indonesia will take place in Jakarta between 18th and 21st November 2015 and **UK exhibitors can apply for a grant of £2,500 towards their stand cost, meaning a 9sqm stand cost would be covered by the grant.** Also, being part of a Pavilion means the British companies will have a better presence at the exhibition. For more information on the UK Pavilion at Plastics and Rubber Indonesia please visit www.bpfevents.co.uk

Source:

1. <http://www.plasticsandrubberasia.com/dec2013/leadfeature2.html>
2. http://www.gbgingonesia.com/en/manufacturing/article/2014/plastic_packaging_opportunities_in_indonesia.php
3. <http://www.thejakartapost.com/news/2013/01/23/strong-demand-keeps-plastic-industry-growing.html>
4. http://www.gbgingonesia.com/en/manufacturing/article/2012/indonesia_s_plastic_and_packaging_industry.php
5. http://www.gbgingonesia.com/en/manufacturing/article/2011/automotive_industry_driving_manufacturing.php
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