



Client Update

Balancing traditional markets versus modern shopping in Indonesia's retail sector

21 February 2014

In brief: During the process of introducing more competition into the retail sector, the Indonesian Government has issued a new regulation that attempts to balance the needs of traditional markets and small businesses against those of modern shopping developments. Widyawan Partner Yolanda Hutapea and Senior Associate Indra Allen look at the new regulation and its implications.

How does it affect you?

- A business owning or managing more than 150 'Modern Stores' (*Toko Modern*), a term which includes supermarkets, minimarkets, department stores, hypermarkets and grocery stores, will need to restructure their operations to comply with the new 150-outlet cap.
- Fast-growing Modern Store businesses, which are currently below the 150-outlet threshold, will need to look at the implications of the new regulation when planning any expansion.
- Co-investment opportunities will present themselves as businesses comply with the regulation and restructure their operations.

Background

On 12 December 2013, the Ministry of Trade (the **MOT**) issued Regulation No. 70 of 2013, which will come into force on 12 June 2014 and will revoke the previous regulation on guidelines of arrangement and development of traditional markets, shopping centres, and modern stores (MOT Regulation No. 53 of 2008).

The new regulation on the arrangement and development of Modern Stores was issued to encourage competitiveness in the retail sector while at the same time protecting small businesses (especially the traditional markets). The regulation limits a business from owning more than 150 Modern Store outlets, with any

additional outlets needing to be co-owned. The Indonesian Trade Minister was quoted as saying:

*'the business of traditional markets, shopping centres and modern stores growth rapidly and in 2013 the estimated income from these businesses is Rp. 375 trillion. Given this amount the Government must regulate these businesses properly so that the income can distributed evenly so that the Indonesian locally produced goods and Indonesian small and medium enterprises can proportionally benefit from it.'*¹

Key provisions

The key provisions of Regulation 70 are:

- 1. A cap on the number of Modern Store outlets:** The maximum number of Modern Store outlets that can be owned and managed by a single company will be 150. If a company already owns 150 outlets and intends to establish more outlets, Regulation 70 requires it to enter into a partnership with a small or medium enterprise local partner.²
- 2. Additional outlets held in partnership:** The type of partnership between the Modern Store owner and the local partner may take the form of:
 - a marketing partnership;
 - providing a business premises; or
 - a partnership in respect of the supply of goods.

Regulation 70 does not expressly require that this partnership involves equity participation and there is a five-year transition period until 12 June 2019 to comply with this requirement.

- 3. Cap on sale of self-branded goods:** Only Modern Stores will be allowed to sell self-branded goods, subject to a cap of 15 per cent of all goods sold. This cap excludes:
 - goods not made in Indonesia, and
 - high-quality goods and/or high-technology goods.

There is a two-year transition period until 12 June 2016 to comply with this requirement.

1. <http://industri.kontan.co.id/news/gita-wiryawan-terbitkan-permendag-ritel-modern>

2. Based on Law No 20 of 2008 on Micro, Small and Medium Business, an entrepreneur will be categorized as: (a) a small scale entrepreneur if it has (i) net assets of more than Rp50 million (approximately US\$5,263) and up to Rp500 million (approximately US\$52,632) (not including land and building for its business operation), or (ii) annual sales of more than Rp300 million (approximately US\$31,579) and up to Rp2.5 billion (approximately US\$263,158); and (b) a medium scale entrepreneur if it has (i) net assets of more than Rp500 million (approximately US\$52,632) and up to Rp10 billion (approximately US\$1,052,632) (not including land and building for its business operation), or (ii) annual sales of more than Rp2.5 billion (approximately US\$263,158) and up to Rp50 billion (approximately US\$5,263,158).

4. **Cap on sale of foreign goods:** At least 80 per cent of all goods sold at each Modern Store must comprise locally produced goods.³ There is no exemption for high quality/high tech or foreign goods. Again, there is a two-year transition period until 12 June 2016 for compliance. Relief from this requirement may be sought on a case-by-case basis from the MOT which will consider recommendations from Communication Forum of Structuring and Development of Traditional Markets, Shopping Centres, and Modern Stores (*Forum Komunikasi Penataan dan Pembinaan Pasar Tradisional, Pusat Perbelanjaan dan Toko Modern*).
5. **Selling area:** Regulation 70 categorises the selling area of Modern Stores as follows:
- (a) Minimarkets: less than 400 m²;
 - (b) Supermarkets and department stores: more than 400 m²; and
 - (c) Hypermarkets and grocery stores: more than 5000 m².
6. **Operational licences:** Regulation 70 requires that all existing operational licences be amended and re-submitted and such changes must be made within six months of 12 June 2014 (ie by 12 December 2014).
7. **Sanctions:** Failure to comply with the requirements of Regulation 70 will result in the following actions:
- (a) up to three warning letters to be issued at weekly intervals by the MOT;
 - (b) if still no compliance, a temporary suspension of the Modern Store Business Licence (*Ijin Usaha Toko Modern* or **IUTM**) for a period of three months; and
 - (c) if not rectified within that period, revocation of the IUTM.
- Please do not hesitate to contact us if you need more detailed advice or have a specific question related to the above. For further information, please contact either of the following:

3. The 80 per cent threshold will be calculated from the number and type of goods sold.

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