



INDONESIA: Safety and Security Equipment

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Summary

In 2007, Indonesia's gross domestic product (GDP) expanded at 6.3%, the fastest pace since the 1998 fiscal crisis. A slowdown in the global economy is expected to cause Indonesia's real GDP growth to slow slightly in 2008, to 6.1%. In 2009, the Indonesian economy is expected to decelerate further to 5.7%. In general, Indonesia's security situation has improved, with no terrorist bombings in the country in 2006 and 2007. Although terrorist cells continue to operate, the government has made vigorous and effective efforts to eliminate them.

The market demand for the safety and security industry in Indonesia remains strong with the increased levels of perceived insecurity by the population and the priority of improving commercial and public safety. Demand for security and safety equipment in industrial plants, commercial buildings, public facilities, oil/gas fields and mining operations, airports and seaports has increased substantially.

In 2006, the value of imported product reached US\$175 million, an increase of 12% from 2005. Although final data is not available, the estimated value of imported products in 2007 was \$210 million. Industry sources project a positive outlook for imports of safety and security equipment. Imports are expected to increase by about 10%-15% in the next two years.

Market Demand

Although, there were no major terrorist incidents in 2006 and 2007, the Indonesian National Police (POLRI) predicts that the security situation in Indonesia will remain unstable, and the crime rate will remain high over the next two years. In POLRI's 2007 year-end report, General Sutanto, the Chief of POLRI, reported a crime rate increase of 5% from 2006. Further, Sutanto said that crime with guns and terror activities will remain high in 2008. In addition, drug related crimes such as drug use and drug trafficking would also increase.

Indonesia, which has a population of about 230 million, is the fourth most populous country in the world. Air and sea transportation become important means for connecting thousands of islands spread throughout archipelago. However safety issue still remains a problem. Several accidents happened in 2006-2007 including aircraft, train, ferry and ship accidents. Data from Ministry of Transportation stated that in 2006, there were 46 aircraft accidents, 107 train accidents, and 143 ship accidents. While in 2007, there were 26 aircraft accidents, 116 train accidents and 145 ship accidents. The high record of aircraft accidents caused the European Union in July 2007 banned Indonesian airlines to enter their territories.

Efforts have been made to reduce the accidents. President SBY formed the National Team for the Evaluation of Transportation Safety and Security (EKKT) and appointed new Minister of Transportation, Jusman Syafie Djamal in January and May 2007 respectively. EKKT was tasked to conduct thorough investigations of transportation accidents and provided recommendations to GOI. Led by former Chief of Staff Air Marshall Cheppy Hakim, the team found that many safety procedures had been neglected. In the aviation industry, the team recommended the airline companies and GOI should work professionally by putting the right man in the right place, renovate and improve airport facilities, enforce sanctions and make the National Transport Safety Committee (KNKT) into a more independent agency directly under the President directly. The Ministry of Transportation made a safety road map in order to achieve zero

accident which should be implemented until 2009. MOT also issued several safety regulations which should be compiled by players in the transportation industry.

Industry sources predict a positive outlook for imports of safety and security equipment. Imports are projected to increase by about 20% in the next two years. Various products such as electronic access control systems, card technology systems, video surveillance system with digital video recording, x-ray or screening machines, and high effective detection systems will be mostly needed in the future. Increase in the demand for safety and security equipment can be attributed not only from the increased demand of the Indonesian National Police, but also from the management of public facilities, commercial, industrial and residential areas.

Market Data

The total value of imported products in security and safety equipment rose remarkably in recent years. In 2006, the value of imported product reached \$ 175 million, an increase of 12% from 2005. Although final data is not available, the estimated value of imported products in 2007 was \$210 million. Imports of U.S. products amounted to \$ 9.8 million in 2005 and increased slightly to \$ 11.5 million in 2006. The estimated value of imported products from US in 2007 in this sector was \$20 million. Other major suppliers are Japan, China, Germany, France, South Korea and Taiwan.

Best Prospects

The U.S. holds 10 -15% of the security and safety equipment market in Indonesia and is strong supplier of high-quality burglar alarm systems, video surveillance systems, detection systems and x-ray detection machines. U.S. suppliers are facing strong competition from Japanese firms that have established good relationships with end-users in the government sector. In general U.S. products are well accepted, but they are perceived as “high-priced.”

Various infrastructure projects such as the development of seaports, airports, public transportation facilities, oil and gas exploration fields, trade centers, apartments and office buildings will need high technology security equipment such as access control systems, alarm systems, video surveillance systems, metal detectors, and x-ray or screening machines. In addition, there is also an increased demand for security services. Instead of having their own security guards, many building management companies prefer to outsource to private security companies.

Key Suppliers

Based on discussions with agents/distributors/suppliers, it is apparent that both medium- and high-level, sophisticated security and safety equipment will sell well in Indonesia. Presently, equipment of medium-level quality is generally imported from Japan, South Korea, Taiwan, and China. Products with higher, more sophisticated quality are imported from the United States and some West European countries. Both groups of imported product categories are well represented by aggressive agents or distributors in Indonesia. Generally, aside from promoting their represented products in the Yellow Pages, magazines and newspapers, the agents also visit potential end users on a “door-to-door basis”. Normally, using this method, they demonstrate and clearly explain the strengths of their represented products.

In general, except for simpler items, security and safety equipment is not yet produced in Indonesia. Accurate information on the number of security equipment factories in Indonesia and their production capacity is currently not available. Local manufacturers mainly produce low-tech and mechanical-based products such as locks, safes, strong room boxes and doors, personal safety equipment and fire extinguisher. It should be noted that local companies could also produce some of the components of safety equipment on a special order basis.

Prospective Buyers

The Indonesian National Police

The GOI is dedicating more time and money toward better training and equipment for law enforcement. In 2005, the government allocated US\$ 1.1 billion from the state budget for POLRI, an increase of 5% from the 2004's budget. In 2006 and 2007, the government allocated US\$ 1.6 billion and \$ 2.3 billion respectively from the state budget for POLRI. In 2008, POLRI received \$2.3 billion. In 2008, POLRI plans to buy equipment such as vehicles, patrol boats, helicopters, communication equipment, GSM intercept equipment, forensic laboratory equipment, detection equipment, identification equipment and anti-riot equipment.

In addition to the Indonesian National Police, other key end-users in the public sector are:

- Ministry of Defense
- Directorate General of Immigration
- Directorate General of Tariff and Duty
- Ministry of Justice
- The National Intelligence Bureau
- The National Search and Rescue Agency

Airports

There are 186 airports located throughout Indonesia, managed by the state-owned airport management companies PT Angkasa Pura I (PAP I) and PT Angkasa Pura II (PAP II), the Directorate General of Air Communication (DGAC), Ministry of Communication and local governments (provinces/districts). PAP I and PAP II manage 25 airports. Directorate General of Air Communication manages 25 airports and the local governments manage the other 136 airports. Twenty-four airports have been classified as international. Most major airports are already equipped with airport security equipment such as baggage x-rays, walk-through metal detectors, hand held metal detectors, and explosive detectors. Smaller airports are equipped with hand held metal detectors and handheld radios or handy talky. In the safety road map, the GOI plans to install and operate ADS-B radars, install the instrument landing systems (ILS), develop runway, taxiway, apron, and airstrips in some airports.

In the next five years, the GOI has plans to develop several airports: Kuala Namu – Medan new airport development \$250 million (North Sumatra), extension of Soekarno-Hatta airport terminal \$178 million (Jakarta), cargo processing facilities and integrated industry development at Soekarno-Hatta airport \$48 million (Jakarta), Hassanudin- Makassar airport development \$94 million (South Sulawesi) and Lombok new airport development \$139 million (West Nusa Tenggara)

Ports

There are approximately 656 "public" ports, of which 91 are managed by four state-owned port operators known as PT. Pelabuhan Indonesia (Pelindo) I, II, III and IV. In addition, there are over 1,000 "special industrial" ports, which are run by public or private industrial companies. The major ports in Indonesia are Tanjung Priok in Jakarta, Belawan in Medan, North Sumatra, Tanjung Mas in Semarang, Central Java, and Tanjung Perak in Surabaya, East Java.

Recently, sixteen port facilities have been exempted from the Port Security Assessment. After being checked by the U.S. Coast Guard, these ports had already implemented the ISPS Code. Ships which are departing from these ports will be allowed to stop in any U.S. ports. These ports are: PT Terminal Peti Kemas Surabaya, Banjarmasin Port, PT Pertamina Unit Pemasaran III, Pertamina Unit Pengolahan V Balikpapan, Senipah Terminal Total E&P Indonesia Balikpapan, Caltex Oil Terminal Dumai, Pelindo II Conventional Terminal Jakarta, Jakarta International Container Terminal, PT Pupuk Kaltim Bontang, PT Badak Bontang, PT Indominco Mandiri Bontang, Pertamina Unit Pengolahan II Dumai, PT Pelabuhan

Indonesia I Cabang Dumai, Semarang International Container Terminal, Belawan Multi-Purpose Terminal, PT Multimas Nabati Asahan.

In the next five years, the GOI plans to develop several port projects, such as Lamong Bay container terminal, \$275 million (Surabaya, East Java), Margairi-Ketapang ferry terminal \$100 million (South Sumatera-Java), and Bojonegara port (West Java).

Security services

There is an increased demand for security services from the management of commercial buildings and public facilities. In anticipating the development of these services, POLRI issued a decree for regulating the security business in Indonesia in 1999. Companies have to register with POLRI before they can operate in Indonesia. According to this regulation, there are six categories of security businesses, which are security consultancy, security devices, security training and education, cash in transit, guard services and rescue services. POLRI requires that the company should report its activities every three months. POLRI will inspect and supervise the company regularly.

There are around 300 security service companies currently registered with the Indonesian National Police (POLRI). However, according to the Asian Professional Security Association, only 75 companies are really operating in the security business in Indonesia. Most of their businesses simply provide security guards (SATPAM). Only a few provide security training and education, cash transfer service, and security consultancy. The number of security guards in Indonesia now is 330,000 people, servicing office complexes, banks, malls, supermarkets, residential complexes, apartments, hospitals, industrial complexes and other areas.

Multinational and Large Companies

These companies are usually very concerned about security and safety in their facilities. Companies such as PT Freeport Indonesia, Newmont, Kaltim Prima Coal, Caltex, ExxonMobil, Unocal and Pertamina are installing high quality security systems such as new and innovative access control systems, card technology systems, video surveillance systems, intruder alarms, smoke detectors, fire alarms, and personal safety equipment. They have their own emergency response teams that have high-quality capability in handling security and safety. For supplying to these companies, U.S. manufacturers should sell their products through agents or local distributors. Companies open tender regularly and only local companies, which are registered, can bid at these tenders.

Commercial, Industrial, Residential, and Hotel Buildings

The need for security and safety equipment is directly related to the existence of residential, commercial and industrial buildings as well as the overall plan for various new building constructions. Therefore, the current market size for this equipment may presumably be estimated based on the total of existing units and those under development. Various security and safety equipment such as CCTV, safety locks, central locks, early warning security system, fire detector, smoke detector and alarm will be needed to provide a secure environment for residents. There is a growing tendency of the management for apartment and residential areas to outsource for security services.

Market Entry

The Presidential Decree No.80/2003 regulates the procurement process for government agencies, which includes the state-owned companies, the Indonesian military and the Indonesian Police. Although it may be possible in some cases to sell directly to the Government, there is good reason to use the services of an agent or distributor for the early stages of project development, delivery, installation and service needs. Traditionally, most government procurement decisions have been based on long-established

relationships. This does not necessarily mean illegal payments are involved, but these relationships often exclude participants not well known in the market.

Small and medium sized U.S. firms that would like to enter the Indonesian market would be well advised to use an agent or distributor. U.S. companies need to visit the Indonesian market in order to properly choose an appropriate agent or distributor. Appointment of a representative requires care, since it is difficult to get out of a bad relationship. Qualified representative will not take U.S. principals seriously unless they make a commitment to visiting the market on a regular basis. Patience and presence are key success factors.

Key factors in purchasing decisions in Indonesia are pricing, financing, technical skills, and after-sales service. Firms should be prepared to invest capital and manpower into making their local representative a first-class service provider.

Market Issues & Obstacles

On March 22, 2006, the U.S. Department of State issued the Public Notice No. 5354 which stated that the U.S. government would consider on a case-by-case basis applications for the export of lethal defense articles and related defense services to Indonesia. The new regulation brings opportunities for U.S. defense manufacturers to export their products to Indonesia again.

There are no non-tariff barriers inhibiting the importation of safety and security equipment. Import duties have been progressively reduced over the years in a number of deregulation measures by the government. The import tariffs on safety and security products are 0 – 10 percent. In addition, a Value Added Tax (VAT) of 10 percent is imposed on all imported products.

Trade Events

Name: Securitex and Fire Indonesia 2009
Date: 14 October – 17 October 2009
Location: Jakarta International Expo, Kemayoran
Website: www.pamerindo.com

Resources & Contacts

The Indonesian National Police, www.polri.go.id

Airport management companies:
PT Angkasa Pura I, www.angkasapura1.co.id
PT Angkasa Pura II: www.angkasapura2.co.id

Port management companies:
PT Pelindo I, www.inaport1.co.id
PT Pelindo II, www.inaport2.co.id
PT Pelindo III, www.pp3.co.id
PT Pelindo IV, www.inaport4.co.id

For More Information

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