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Policy Reforms for Safe Online Access to Alcoholic Beverages in Indonesia

by Pingkan Audrine

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GLOSSARY

I. Recorded alcohol:

Licit alcoholic beverages produced and sold within a regulatory framework and reflected in official statistics of either the country where they are produced, the country where they are consumed, or both.

II. Unrecorded alcohol:

Alcohol that is not taxed in the country where it is consumed because it is produced, distributed and sold outside the formal channels under government control. It has several types, including:

A. Contraband/Smuggled alcohol:

Alcohol with original branding that has been illegally imported or smuggled into a jurisdiction and sold, evading tariffs and/or customs.

B. Counterfeit alcohol:

Fraudulent imitations of legitimate branded products, including refilling, falsification, and tampering.

C. Non-conforming alcohol:

Products that are not compliant with proper production processes, guidelines, or labeling legislation. Includes products produced with denatured alcohol or industrial alcohol.

D. Surrogate alcohol:

Alcohol or alcohol-containing products not meant for human consumption but being consumed as substitutes for alcoholic beverages.

III. Categorization of Alcoholic Beverages in Indonesia:

According to Presidential Regulation No.74/2013 on Control and Supervision of Alcoholic Beverages, there are three categories of alcoholic beverages:

A. Category A:

Contains up to 5% alcohol by volume

B. Category B:

Contains more than 5% up to 20% alcohol by volume

C. Category C:

Contains more than 20% up to 55% alcohol by volume

EXECUTIVE SUMMARY

The consumption of alcoholic beverages in Indonesia is relatively low at 0.8 litres per capita a year, including both recorded and unrecorded alcohol. This is merely one-sixth of the average consumption in Southeast Asia.

Despite low levels of alcohol consumption, the direct sale of alcoholic beverages in Indonesia is highly regulated, creating a lack of accessibility and affordability of recorded alcohol. This must be considered a reason for the consumption of cheaper and widely available unrecorded alcohol. Hundreds of mostly poor Indonesians have died of methanol poisoning consuming unrecorded alcohol in recent years. Moreover, in 2018 alone, the Indonesian government lost IDR 1,037.5 billion (USD 71.5 million) in revenues due to untaxed black market sales.

At the national level, the legal trade of alcohol is governed by Presidential Regulation No.74/2013 and the Ministry of Trade (MOT) Regulation No.20/2014. However, these regulations do not have provisions for e-commerce, which has been expanding fast in Indonesia, especially during the Covid-19 pandemic. In April 2020, the National Agency of Drug and Food Control (NA-DFC) issued Regulation No.8/2020. Article 29 generally banned the sale of alcoholic beverages on the internet. Three months later, a NA-DFC Circular Letter withdrew it but did not revoke that article. This created confusion about the legality of online alcohol sales.

Specific procedures for online sales of alcoholic beverages are needed mostly for two reasons. Consumers that choose products from a website find it particularly difficult to verify the origin of the drink and to avoid the consumption of unrecorded alcohol. Online sales of alcoholic beverages also increase the risk of underage drinking, if age verification processes during the purchase and delivery are not properly applied.

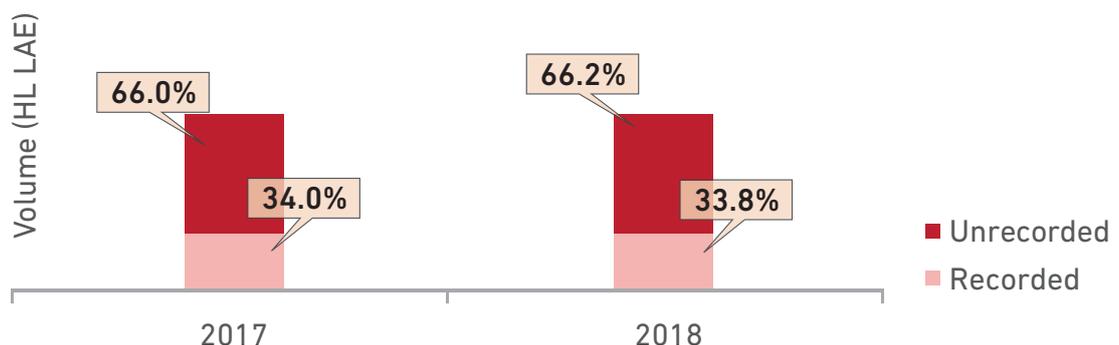
Instead of banning online sales of alcoholic beverages, a specific regulatory framework should consider the recommendations below:

1. NA-DFC should revoke Article 29 of Regulation No. 8/2020 to end confusion about the legality of online sales. Coordination with the Ministry of Trade remains crucial in the amendment process to harmonize regulations.
2. Technical systems to verify the age and identity of customers need to be put in place, following international best practices, in order to prevent purchases by, advertisement or delivery of alcohol to people below the legal drinking age.
3. Verification measures need to ensure that digital distribution system excludes any form of unrecorded alcohol. MOT should seek the cooperation of the private sector to develop and enforce a strict code-of-conduct.
4. MOCI should consider revoking online alcohol sales restrictions in its Circular Letter No. 5/2016 and cooperate with MOT and NA-DFC when drafting regulations that address liability issues for merchants and e-commerce providers. The liability should be with the merchants, who must remain fully responsible for their products.

SALES OF RECORDED AND UNRECORDED ALCOHOL IN INDONESIA

Consumption of alcoholic beverages in Indonesia is relatively low compared to other countries, and it is dominated by unrecorded alcohol. The Ministry of Health's national Basic Health Survey in 2018 reported that across Indonesia, only 3.3% of the population consumed alcohol in the past one month (Ministry of Health, 2019). Based on the latest WHO data between 2015-2017, the average pure alcohol consumption in Indonesia is 0.8 litres per capita, significantly lower than the average in Southeast Asia at 4.5 litres of pure alcohol per capita. Indonesia's alcohol consumption consists of 0.5 litres of unrecorded alcohol and 0.3 litres of recorded alcohol (WHO, 2018a). The dominant consumption of unrecorded alcohol has been confirmed by a study of Euromonitor International (Figure 1).

Figure 1.
Retail Volume of Spirits (HL LAE*) in Indonesia



Source: Retrieved from Euromonitor International (2020)
*: Hectolitres of Litres Alcohol Equivalent

According to the WHO, there are four categories of unrecorded alcohol (Rehm et al., 2003), which have been introduced in this study's glossary. Unrecorded alcohol stems from a variety of sources ranging from home production, illegal production and sales, illegal (smuggling) and legal imports (cross-border shopping), as well as other products of alcoholic beverages that are not taxed and/or are not included in official production and sales statistics (Giesbrecht, Greenfield, Lemmens, & Osterberg, 2000).

The prevalence of unrecorded alcohol may carry higher public health risks and increased mortality (Probst et al., 2019; Lachenmeier, 2012).

The prevalence of unrecorded alcohol may carry higher public health risks and increased mortality (Probst et al., 2019; Lachenmeier, 2012). The negative effects of unrecorded alcohol stem from the toxicity of particular components (such as methanol, propanol, butanol, polyhexamethylene guanidine— found in antiseptic liquids for disinfection) and general risks associated with the consumption of alcohol, such as cardiovascular diseases, cancer and cirrhosis (Lachenmeier, Gmel, & Rehm, 2013). Currently, beer accounts for the largest share of alcoholic beverages consumed in Indonesia (Ministry of Health, 2019). However, illegally produced

alcohol is more likely to cause these diseases due to the higher alcohol volume. Due to the toxicity of methanol, consuming unrecorded alcohol beverages also increases the risk of premature death. Moreover, since unrecorded alcohol tend to be cheaper than recorded alcohol, it also encourages higher rates of chronic and heavy drinking (Rehm et al., 2014). Finally, unrecorded alcohol undermines the government's ability to monitor what is actually being consumed and to anticipate the potential public health implications.

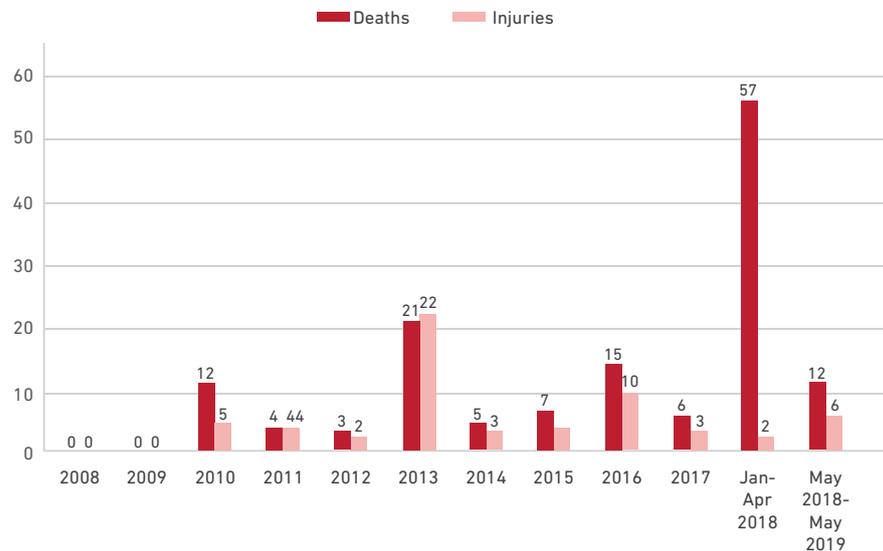
The danger of unrecorded alcohol was tragically evident in the Greater Bandung Area in 2018. A study showed that from the start of 2008 through 10 April 2018¹, the ratio of deaths in the Greater Bandung area was significantly higher compared to national data. 16.3 deaths from unrecorded alcohol per 1 million people in Bandung, compared to 3.4 deaths per 1 million nationwide (Respatiadi & Tandra, 2018). In early 2018, the numbers in Bandung spiked to 57 deaths, compared to six deaths during the previous year (Figure 2). The deaths received widespread media attention and were caused by poisoning from unrecorded alcohol. They were deemed a critical public health incidence, in accordance with Ministry of Health Regulation No. 949/2004.

The danger of unrecorded alcohol was tragically evident in the Greater Bandung Area in 2018.

Bandung had introduced a City Regional Regulation No. 11/2010 on the Ban, Supervision and Control of Alcoholic Beverages, which limited the sale of alcoholic beverages to top hotels, luxury restaurants as well as entertainment establishments. This restriction led to less availability and higher prices of recorded alcohol for consumers, especially for the youth and low-income consumers. As Skehan, Sanchez, and Hastings (2016) argued, reduced accessibility and affordability of recorded alcohol expands unrecorded alcohol markets. Based on a CIPS survey (Respatiadi & Tandra, 2018) conducted among 100 randomly chosen alcohol consumers in early 2018, the Bandung regional regulation has been largely ineffective in controlling the distribution of alcohol and protecting consumers from illicit products. Instead, a broad unlicensed black market sold unrecorded alcohol at low prices. Of the 100 alcohol consumers surveyed, 58% confirmed they had consumed unrecorded alcohol and 45% had obtained alcoholic drinks from unlicensed kiosks. Underage drinking was found to be an additional problem as 21% of the respondents were between 14 and 20 years old.

¹ The calculation was done by dividing the total death with total population in respective areas. For the Greater Bandung area, it consists of Bandung City, Cimahi City, Bandung Regency and West Bandung Regency. The average population in 2008 - 2017 has been recorded at 7,987,847 people while there were 130 reported deaths from January 2008 until 10 April 2018. Meanwhile, for the nationwide calculation, the total population of Indonesia was 250,094,647 people while there were 840 reported deaths from unrecorded alcohol within the same period.

Figure 2.
Total Number of Deaths and Injuries Caused by the Consumption
of Non-Conforming Alcohol (*Oplosan*) in Greater Bandung
(January 2008 - May 2019)



Source: Center for Indonesian Policy Studies (CIPS) Media Monitoring

The Ministry of Trade (MOT) Regulation No. 6/2015 on the Control and Supervision on Procurement, Distribution, and Sale of Alcoholic Beverages banned small retailers or minimarkets from selling alcoholic beverages of category A containing less than 5% alcohol by volume.² A previous study by Uddarojat (2016) has shown that after the ban was invoked, the police reported an increase of confiscated bottles of unrecorded alcohol in Jakarta, from 23,875 bottles in 2014 to 37,633 bottles in 2015. It appeared that consumers sought unrecorded alcohol as a substitute for recorded alcohol.

A study in Brazil has shown that, if unrecorded alcohol is more widely available than its recorded alternative, there is a higher consumption of unrecorded alcohol. Easy access and availability is the primary reason for their consumption (International Center for Alcohol Policy, 2012). Fergusson & Boden (2011) argued that, instead of limiting the availability of alcohol, it is better to regulate the locations and the times of when alcohol can be purchased and to strictly enforce the legal drinking age.

“ Besides the lack of availability, unaffordability of recorded alcohol can also lead to increased consumption of unrecorded alcohol. ”

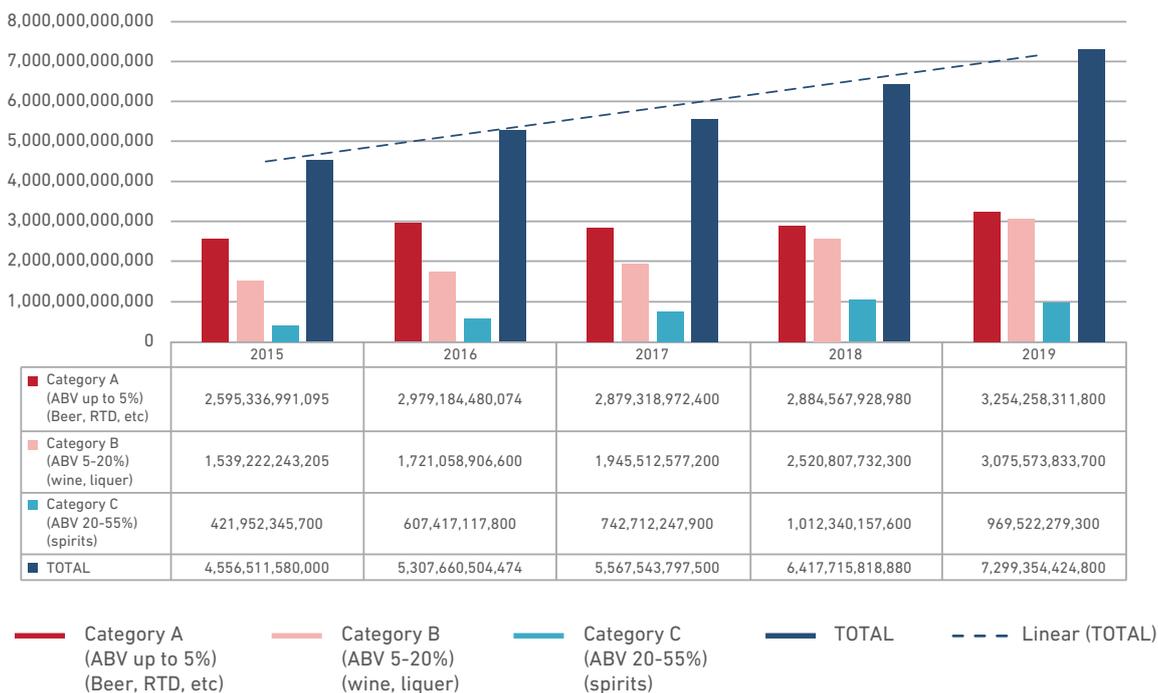
Besides the lack of availability, unaffordability of recorded alcohol can also lead to increased consumption of unrecorded alcohol. While several studies have concluded that taxation is an effective strategy to reduce alcohol consumption (Babor, et al., 2010; Chisholm, Rehm, Van Ommeren, & Monteiro, 2004) there is also a concern that increased taxation will lead to an increase in unrecorded alcohol consumption (Probst et al., 2019). According to Skehan, Sanchez, & Hastings (2016) unrecorded alcohol trade flourishes in countries that reduced disposable income or with pricing policies to limit the affordability of regulated alcohol.

² Referring to Presidential Decree No. 74/2013, there are three categories of alcoholic drinks based on ethanol content, including: A (contains < 5% alcohol), B (5% - 20% alcohol), and C (> 20%).

Consistent with Skehan, Sanchez and Hastings' research, a study conducted by Pribadi (2017) showed that market prices influences consumers in their choice of alcoholic beverages. Lower middle-income consumers prefer to purchase unrecorded alcohol due to the affordability of the products. Similar studies in Russia also found a positive correlation between the level of unrecorded alcohol and excise tax rates on vodka (Razvodovsky, 2017). The combination of increasing excise tariffs and limited accessibility to recorded alcohol, when coupled with demand for alcoholic beverages, presents a breeding ground for black-markets.

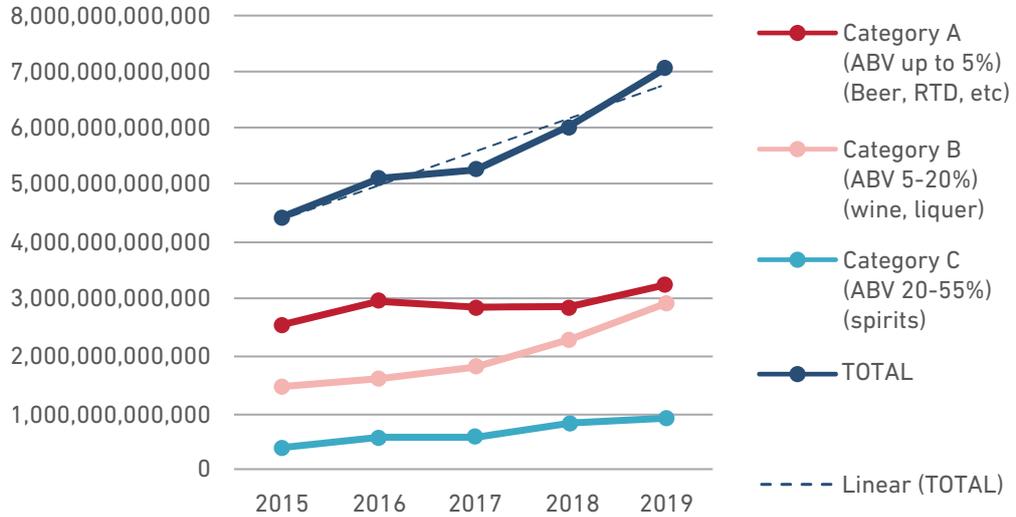
The revenue from excise tax on alcoholic beverages rose between 2015 and 2019 from IDR 4.6 trillion to IDR 7.3 trillion, as shown in Figure 3. The biggest revenue came from Category A sales, which comprises products such as beer and stout, contributing 44.6% of total alcoholic beverages excise in 2019. In this category, excise from domestic alcoholic beverages (Figure 4) rose while that from imported ones (Figure 5) fell in 2018 and 2019. In 2019, the excise tax for Category A alcoholic beverages increased from IDR 13,000 to IDR 15,000 per litre.

Figure 3.
Total Alcoholic Beverages Excise In Indonesia 2015-2019



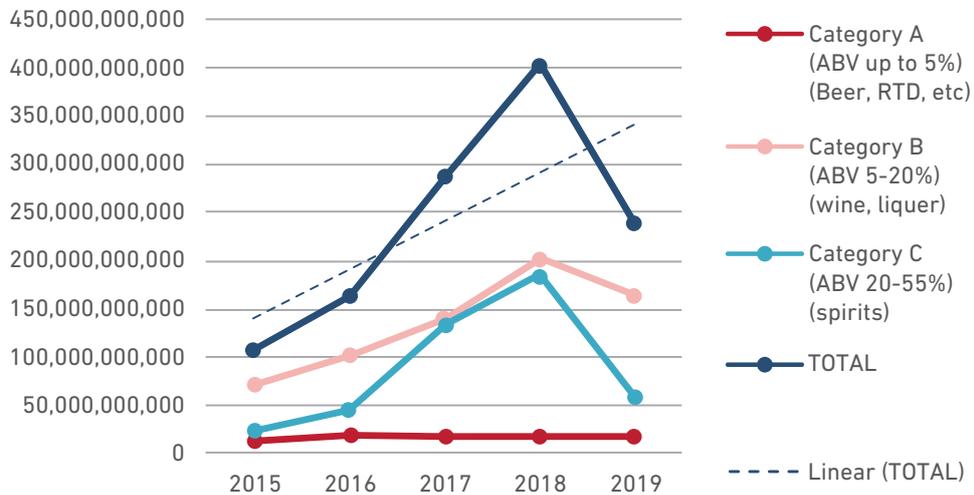
Source: MOF Excise Report 2015-2019

Figure 4.
Domestic Alcoholic Beverages Excise 2015-2019



Source: MOF Excise Report 2015-2019

Figure 5.
Imported Alcoholic Beverages Excise 2015-2019

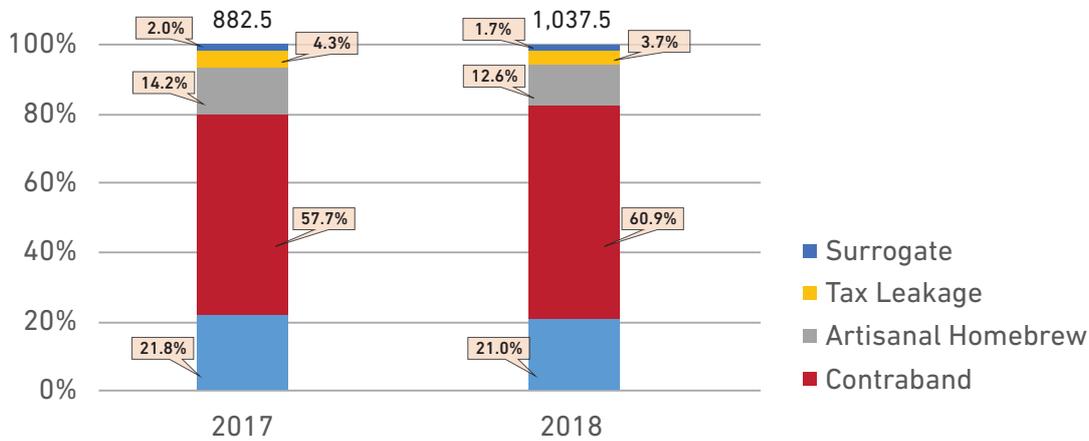


Source: MOF Excise Report 2015-2019

A study from Euromonitor shows that the government lost up to IDR 1,037.5 billion (USD 71.5 million) in 2018 due to black markets

Due to the consumption of unrecorded alcohol, the excise revenue does not reach its full potential. A study from Euromonitor shows that the government lost up to IDR 1,037.5 billion (USD 71.5 million) in 2018 due to black markets, a 17.56% increase from IDR 882.5 billion the previous year. Contraband alcohol was the biggest contributor of these losses, with 57.7% in 2017 and 60.9% in 2018 (Figure 6).

Figure 6.
Illicit Spirits Total Fiscal Loss (in IDR Billion)



Source: Euromonitor International Report on Illicit Spirits in Indonesia (2020)

A. The Problem of Underage Drinking

Underage drinking commonly poses public health risks among the youth (NIH, 2017; US DHHS, 2007). MOT Regulation No. 20/2014 sets the minimum legal drinking age and purchasing age at 21 years old. According to the 2018 national Basic Health Survey by the Ministry of Health, 0.3% of children age 10 to 14 and 3.7% of adolescents age 15 to 19 reported consuming alcohol (Ministry of Health, 2019). Those age groups are more likely to consume counterfeit or non-conforming alcohol known as *oplosan*, which are alcoholic cocktails mixed with other ingredients like energy drinks, soft drinks, herbal medicines. Sometimes they even contain dangerous substances, like methanol, which can lead to seizures, organ failures, or deaths (Purwanti & Aryadnyani, 2020; Respatiadi & Tandra, 2018). *Oplosan* takes a share of 8.4% in the total alcohol consumption of the 10 - 14 years age group and 5.6% of the 15 - 19 years age group. It only reaches 2 - 4% among the other age groups (Ministry of Health, 2019). Lakpesdam NU conducted a survey among teenagers aged 12 - 21 years old and reported that of those who had consumed alcohol, 65% drank *oplosan* (PWNU, 2017).

A survey by the Center for Indonesian Policy Studies among alcohol consuming university students in Bandung found that 48% of respondents started drinking when they were between 15 and 17 years old, while 32% started even younger (Respatiadi & Tandra, 2018). Young people in Indonesia are easily tempted to drink unrecorded alcohol, such as *oplosan*, because it is more readily available at cheaper prices than recorded alcohol (IARD, 2017, p. 5; PWNU, 2017).

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B. Online Sales of Alcoholic Beverages

Many sectors of the Indonesian economy have enjoyed the rapid growth of the digital economy, including the food and beverages business. From 2015 to 2019, the volume of online sales in Indonesia quadrupled to USD 40 billion, the most in Southeast Asia and equivalent to 3.57% of Indonesia's total GDP (Google, Temasek, and Bain Mobile, 2019). In 2018, a total of 27.85% of sales on the internet involved food and beverages, making it the biggest category (Statistics Indonesia, 2019). Among these, alcohol is one of the products utilizing online channels.

A global survey of 30,000 people in 63 countries including Indonesia found that on average, online sales made up 8% of purchases of alcoholic beverages (Profitero, 2017). The countries with the highest online sales were China (27% of all sales), Japan (22%), and the United Kingdom (21%). According to the survey, Indonesian online sales accounted for only 3% of sales, the same percentage as in Canada and the lowest among the countries surveyed.

According to alcoholic drinks markets analyst IWSR, the consumption of alcoholic beverages did not increase during the Covid-19 pandemic. Instead, the IWSR mid-year assessment 2020 on the outlook for the global beverage alcohol industry indicates a decrease of beverage alcohol sales volumes across 19 countries by minus 8% in 2020 (IWSR, 2020a). However, the pandemic appeared to have increased online sales of alcoholic beverages in some countries. A study published by Rabobank in April 2020 (Nesin, 2020) found that online alcohol sales in the US were booming. Due to the lockdown measures during the pandemic, off-premise sales increased from 40% to 60% year-on-year during the 3rd week of March 2020. Similar trends were seen in the United Kingdom (Carruthers, 2020) and Australia (Waters, 2020).

There are no data available yet on the size of the online market for alcoholic beverages in Indonesia, but a brief search online conducted for this study identified thirteen online platforms that sell alcoholic beverages online. Half of them are general e-commerce platforms which allow merchants including official liquor stores to sell their products online. Four of the avenues are online liquor marketplaces and the other three are offline liquor stores that provide online services delivery.

“ The market for counterfeit alcohol is comparatively hard to track but *oplosan* and other types of illicit alcohol are readily available. ”

The market for counterfeit alcohol is comparatively hard to track but *oplosan* and other types of illicit alcohol are readily available. This causes concern regarding their potential impact on public health.

Meanwhile, another concern is the potential access of underage consumers, given the aforementioned prevalence of underage drinking in Indonesia. Without proper age verification method and control, these children may be able to easily procure alcohol through online channels. A study of online sales of alcohol in the US found that 45% of orders placed by underaged buyers were successfully received due to weak age verification procedures (Williams & Ribisl, 2012).

A need for regulatory reforms and stricter enforcement efforts in Indonesia is evident. In the absence of that, some e-commerce platforms have stopped allowing merchants to sell alcoholic beverages. They prefer not to take any business risk and thereby expose consumers to the potentially fatal risk of consuming unrecorded alcohol sold offline.

REGULATIONS CONCERNING THE OFFLINE SALE OF ALCOHOLIC BEVERAGES

A. National Level

Alcoholic beverages in Indonesia are legally traded and circulated within a strict and complex regulatory framework (Glorya & Sigit, 2019). Direct sales of alcoholic beverages are regulated nationally under Presidential Regulation No. 74/2013 on Control and Supervision of Alcoholic Beverages and MOT Regulation No. 20/2014 on Control and Supervision of the Procurement, Distribution and Sales of Alcoholic Beverages as amended by the MOT Regulation No. 6/2015. Neither of these regulations have any provisions on online sales, but they regulate where alcohol can be sold offline.

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When it comes to licensing of retail sales and direct sales of category A products containing up to 5% alcohol by volume, MOT will issue Alcoholic Beverages Retailer Permits (*Surat Keterangan Pengecer Minuman Beralkohol* or SKP-A) and Alcoholic Beverages Direct Seller Permits (*Surat Keterangan Penjual Langsung Minuman Beralkohol* or SKPLA) in accordance with Art. 20 (1) (a), *juncto* Art. 21 (1) of MOT Regulation No.20/2014. These two documents are valid for a single shop or outlet selling alcoholic drinks. Supermarkets and hypermarkets planning to sell alcoholic beverages of category A also need to obtain a SKP-A, according to Article 22 of MOT Regulation No.6/2015.

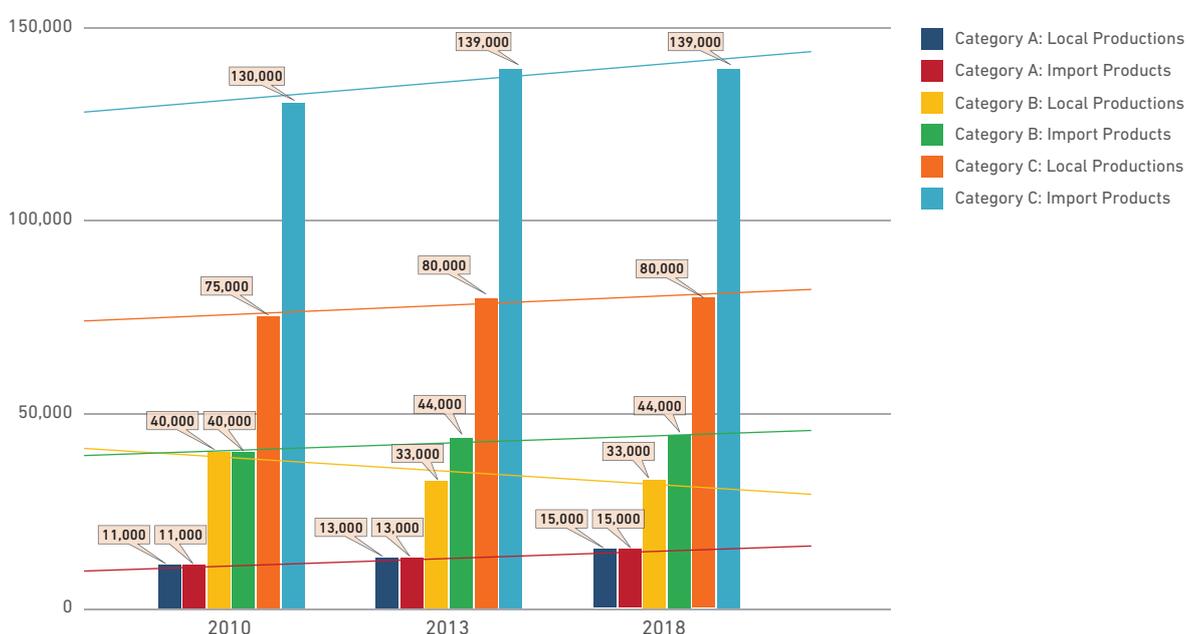
Meanwhile, Art. 18 (1) of MOT No. 20/2014 stipulates that distributors, retailers and direct sellers of alcoholic beverages of category B and C need an Alcoholic Beverages Trading Business License (*Surat Izin Usaha Minuman Beralkohol* or SIUP-MB). To obtain a SIUP-MB license also requires distributors to appoint sub-distributors for specific regions in Indonesia. Local SIUP-MB will be issued by governors for duty-free sales and by mayors or heads of rural districts (regents) for retailers and direct sellers.

Finally, the regulation also mandates that importers of alcoholic beverages need to be licensed as Registered Importers of Alcoholic Beverages (*Importir Terdaftar Minuman Beralkohol* or IT-MB). They are also required to obtain a SIUP-MB.

To prevent underage drinking, Chapter 15 of the aforementioned MOT Regulation stipulates that alcoholic beverages can only be sold to consumers who are able to prove through ID verification that they are of the legal drinking age. The regulation asserts that on-trade and off-trade premises licensed to sell alcoholic drinks are prohibited from selling to underaged persons. Violations carry sanctions including revocation of licenses, fines, and legal prosecution. That regulation also set out that premises of licensed traders must not be located in the proximity of youth centers, bus terminals, stations, small kiosks, street vendors, camping grounds, youth hostels, places of worship, schools, and hospitals. However, a case study by Glorya & Sigit (2019) in Greater Bandung Area revealed that law enforcement agencies face serious challenges to enforce these restrictions, ranging from the lack of human resources, insufficient budget allocation, to lack of sufficient technical equipment.

The Ministry of Finance (MOF) is responsible for determining customs and import duties as well as excise rates for alcoholic drinks. The provision of excise tariff on ethyl alcohol was first regulated in 2010, and the tax has since continuously increased (Ministry of Finance, 2010) except for Category B. Tariffs are equal for both domestic and import products, except for Category C. In this category of beverages with high alcohol content, imported products are charged 75% more than domestically produced ones (Figure 7).

Figure 7.
Excise Tariff of Beverages Containing Ethyl Alcohol 2010-2018
(per liter in IDR)



Source: MOF Regulation No.62/PMK.011/2010, MOF Regulation No. 207/PMK.011/2013, and MOF Regulation No. 158/PMK.10/2018

B. Regional Level

There are inconsistencies in the regulations of central and regional government agencies and between different parts of Indonesia. In national regulations, alcoholic drinks are a legal commodity that can be accessed with limitations applied. Meanwhile, various local governments have put further restrictions on alcoholic beverages or even prohibit them (Aisyah, Irianto, Saleh, Djatmiati, & Sebayang, 2019). Areas with a total ban on the sale of alcoholic beverages include the cities of Cirebon and Magelang, as well as Cianjur and Tangerang districts.

Some local authorities have issued local ordinances that either entirely ban the production and sale of alcohol, or create restricted zones where the sale of alcohol remains permitted (Respatiadi & Tandra, 2018). Between 1998 and 2003, 377 regional regulations were issued by Indonesian provinces, cities and districts inspired by Sharia Law. More than half of them regulate alcoholic beverages with varying provisions that cover either a partial or total prohibition, address licensing and permits, tax retributions, or open and restricted areas (Buehler, 2016).

REGULATIONS CONCERNING THE ONLINE SALE OF ALCOHOLIC BEVERAGES

The nature of online sales of alcohol differs from offline sales because online sales are borderless as customer in one city can procure alcohol from seller located in another city. This issue presents a complication on the current alcohol licensing process that depends on local regulations. While offline stores carry SKP-A and SKPLA that are valid for a particular location given by the authority of the respective local governments, there is no equivalent licensing for online stores. At the moment some e-commerce platforms ask merchants of imported liquor to submit their SIUP-MB and IT-MB as the prerequisite upon registering to their platform, after which the merchants will be recorded as “official stores”.

“While offline stores carry SKP-A and SKPLA that are valid for a particular location given by the authority of the respective local governments, there is no equivalent licensing for online stores.”

Selling alcoholic beverages online goes against stipulations of a circular letter by the Ministry of Communication and Informatics (MOCI), which categorizes alcohol as content that is prohibited from being sold on e-commerce platforms. Circular Letter No.5/2016 by MOCI sets the Limitations and Responsibilities of Platform Providers and Merchants in E-Commerce Using User-Generated Content Platforms. The letter obliges platform providers to remove prohibited content, such as alcohol. However, there is no evidence that sanctions have been applied against any merchant or platform provider. The obligation to take down alcoholic beverage appears to apply only in response to customers' complaints. E-commerce platforms must take action by removing reported content within one day. The providers are also being encouraged to regularly monitor merchant activities on their platforms.

In practice, the circular letter by MOCI created uncertainty in the market, because alcohol is legally traded offline and the business is regulated by Government Regulation No.19/2004, Presidential Regulation No. 74/2013, and MOT Regulation No.20/2014.

Uncertainties grew further when the National Agency of Drug and Food Control (NA-DFC) enacted Regulation No. 8/2020 on the Control of Drugs and Food Circulated Online, which covers distribution permits, supervision of food and drugs' circulation, provisions on delivery, product safety measures, guidance to business actors, prohibitions as well as sanctions (NA-DFC, 2020). Article 29 fully prohibited the online sale and distribution of alcoholic beverages.

Article 29 of NA-DFC Regulation No. 8/2020 met with public concerns and on 7 July 2020, NA-DFC put the article on hold in Circular Letter No. HK 077.1.5.07.20.21/2020 (Interview 2, 2020). Since then, NA-DFC stated it was working on revising regulation No.8/2020 (NA-DFC & Interview 1, 2020).

In the hierarchies of Indonesia's regulatory framework, circular letters rank lower than a regulation and legal experts do not even regard them as legally binding (Ali, 2008). When those of MOCI and NA-DFC appear to contradict existing regulations, it becomes difficult for e-commerce platforms and the business community to interpret, which rule to apply. This becomes a matter of concern when it comes to legal liabilities.

LEGAL LIABILITIES FOR SELLING ALCOHOLIC BEVERAGES ONLINE

Those who are selling alcoholic beverages online will be legally liable if they violate relevant government orders. These include specific regulations concerning the online sale of alcoholic beverages, but also general provisions regulating e-commerce in Indonesia. Since legal liabilities are particularly important in a market that features significant uncertainties, it is important to clarify whether liabilities remain with merchants, or whether they also involve e-commerce providers and intermediary services online.

The responsibility to take down reported illegal content was outlined in MOCI Circular Letter No. 5/2016. However, since this circular is not an implementing regulation, it does not provide a clear guideline on how the obligations and responsibility of providers over contents uploaded on their platforms will be enforced. The circular also does not provide clear parameters on how the intermediary should actively monitor uploaded content. Further, it is not clear whether the obligation to “actively evaluate and monitor merchants’ activities in their platforms” will require the platform to establish an advanced content filtering system.

Government Regulation No. 80/2019 on E-Commerce Article 1 identifies three different e-commerce business actors: merchants, e-commerce providers, and intermediary services. Merchants are defined as business actors that engage in e-commerce transactions. E-commerce providers supply electronic communication platforms that are used for electronic transactions such as online retail, marketplace, online advertising, price comparison platform, and daily deals. Meanwhile, intermediary services provide electronic communication facilities (except telecommunication providers) that function solely to electronically link a sender and the recipient. The facilities include search engines, hosting services and caching.

In the context of online sales of alcohol, merchants are alcohol sellers and e-commerce providers refer to any marketplace or online retail platform that allows merchants to sell alcohol. It can be compared to the brick and mortar liquor store of a merchant in a department store that has now been replaced by an online marketplace. Government Regulation No. 80/2019 on E-Commerce puts the liability on the merchant. However, e-commerce providers are liable for taking follow-up action when consumers report the sale of illegal content or false information about the products. Under Article 22, e-commerce providers are responsible for any consequences that arise from the presence of illegal electronic information³ and/or illegal content⁴ in their system. To avoid sanctions, platforms must take prompt actions to remove or take down illegal content that has been reported.

³ As stipulated in the explanatory provision of the first clause of Article 22, electronic information is defined as one or a set of electronic data, including but not limited to writing, sound, images, maps, drafts, photographs, electronic data interchange (EDI), electronic mail, telegram, telex, telecopy or the like, letters, signs, numbers, access codes, symbols, or perforations that have meaning or can be understood by those who are able to understand them.

⁴ As stipulated in the explanatory provision of the second clause of Article 22, illegal electronic information content is content that is prohibited or illegal in accordance with the provisions of the legislation.

Administrative sanctions will be enforced for the violation of rules concerning regulated conduct, such as misleading or incomplete information of the product being sold by the merchants or not having the proper licenses. Administrative sanctions begin with warning letters, then escalate to inclusion in the supervisory priority list, blacklisting, being blocked temporarily by the authority, and ultimately revocation of business license for all of the three regulations being mentioned.

According to Government Regulations No. 80/2019, e-commerce providers need to ensure that their platforms are safe from illegal content or illegal information. Article 80, No. 2, Point D states that e-commerce providers will receive administrative sanctions in the form of the platform's temporary blocking by relevant authorized agencies. Meanwhile there is no information whether the merchant that sells the alcoholic beverages within the platform will be liable as well. NA-DFC Regulation No. 8/2020, Chapter IX, Article 32 (2) lists sanctions that will be applicable progressively for those who were found in violation.

Existing regulations for online alcohol sales in Indonesia appear contradicting and remain unclear how they hold merchants and e-commerce platforms liable. There is an international debate whether the liability should be imposed platforms at all (Park, 2020). Park (2020) argued that problems arise when e-commerce platforms are liable for content that is not reported or unknown to them. They cannot possibly know everything posted on their platforms, given the rapid and vast scale of contents submitted. They cannot be held responsible for illegal acts of their merchants, because otherwise they will protect themselves by conducting excessive filtering and censoring content. An approval system for all the content prior to being uploaded on the provider platforms is unrealistic considering there are millions of transactions every day

Even though Government Regulation No.80/2019 already set out the liability provisions, the online sellers or merchants are not equipped with proportional responsibility and sanctions compared to the providers. To support the competitive yet safe business environment, liability issue should indeed be placed on the merchants. The liability should not be weighted to the e-commerce providers. For the illustration, when one of the merchants breaks the regulations by selling unrecorded alcohol online, then the liability shall become the responsibility of the merchant itself. The merchants would get a warning letter and failure to comply with the procedural requirement in the designated timeframe will result in temporary suspension from the platform. This rationality resonates with the brick and mortar sales of alcoholic beverages or other commodities selling offline, like in the mall. When there is a problem that arises from one of the kiosks in that mall, the consequences will be imposed to the kiosk not the entire mall management.

Even though Government Regulation No.80/2019 already set out the liability provisions, the online sellers or merchants are not equipped with proportional responsibility and sanctions compared to the providers.

Measures to Prevent Unrecorded Alcohol from being Sold on E-commerce Platforms

Given the extensive distribution of unrecorded alcohol in Indonesia and its adverse effects on public health, it is important that e-commerce actors verify the authenticity of products being sold online. This needs to be a key concern for the government when regulating safe online access to recorded alcoholic beverages.

“An effective system of verifying the authenticity of drinks sold online involves different parties within the supply chain and remains a challenge not just in Indonesia, but also in other markets with a strong presence of unrecorded alcohol, like in Latin America and China.”

However, an effective system of verifying the authenticity of drinks sold online involves different parties within the supply chain and remains a challenge not just in Indonesia, but also in other markets with a strong presence of unrecorded alcohol, like in Latin America and China. Addressing the complexity of this problem requires a multi stakeholder approach (Interview 3, 2020). Besides the relevant government agencies, it needs to involve legal producers of alcoholic beverages, retailers, e-commerce platforms, and also delivery services. Their cooperation involves the following four areas.

Firstly, alcoholic beverage producers create branded “homes” on market places by setting up official stores on e-commerce platforms operating in a particular country. These stores operate under the official brand of the producer and guarantee the authenticity of products sold.

Secondly, e-commerce platforms should issue licenses only to those online sellers or merchants that can guarantee to exclude the distribution of unrecorded alcohol. In Malaysia, for instance, e-commerce platform Lazada issues these licences and provides information on its Lazada Seller Center website. It requires of merchants to obtain an online license and also outlines merchants’ liabilities (Lazada Malaysia, 2020). This co-regulating mechanism involves the active involvement of e-commerce actors in the market regulation for alcoholic beverages.

Thirdly, more room for co-regulatory efforts between governments and companies can be explored to combat unrecorded alcohol. As explained below, co-regulatory efforts consist of a clear and conducive rules and policy roadmaps developed by government agencies. They also involve the commitment of the business sector to enforce a strict code-of-conduct that flexibly responds to market trends and technological changes. Chinese e-commerce giant JD.com partnered, for example, with the market supervisory agency in Beijing and four e-commerce players namely Alibaba, Pinduoduo, Suning, and Weidian. Together, they launched an information sharing platform targeting the activities of illegal merchants online. The partners share lists of merchants that violate regulations and remove them from all their websites. Violations include price hikes, false advertising and the sale of illicit products (Li, 2020).

Fourthly, delivery services need to be included in efforts to prevent unrecorded alcohol from reaching consumers through online sales. This requires clear agreements between merchants and delivery services as well as regular checks that couriers are not engaged in any form of malpractice. With a high level of vertical integration, i.e. when merchants maintain their own delivery services, this is easier to implement. The more independent actors are involved in the distribution chain, the more complex it is to identify liabilities and to ensure that only recorded alcohol is being distributed to online customers.

RESTRICTING UNDERAGE ACCESS TO ALCOHOL SOLD ONLINE

In Indonesia, it is prohibited to sell alcohol to anyone under 21 years old based on MOT Regulation No. 20/2014. A study by the Center for Indonesian Policy Studies 2018 in Bandung has shown, however, that enforcing the ban of underage access to alcohol faces significant challenges. Drinking alcohol as a young person is closely related to fact that they are especially sensitive when they feel they are being evaluated by the people around them and their strong desire to be a part of a peer group (Silk et al., 2011, p. 93). Of 100 alcohol consumers surveyed in Bandung, 21% were between 14 and 20 years old. Another survey in Bandung included 100 alcohol drinking university students. More than half of the respondents (58%) stated that curiosity was their main reason for trying alcohol for the first time. Once they began drinking, they continued to socialize with others, according to 33% of the respondents (Respatiadi & Tandra, 2018).

The challenges to prevent underage access to alcohol exists offline and online. Nearly half of the respondents in the survey among alcohol drinking university students in Bandung stated there was no dissemination of information about the danger of underage drinking and unrecorded alcohol by schools and universities, and another third claimed they were not aware of such information. In the end, the problem can only be solved with proper age verification procedures during the purchase and delivery of alcoholic beverages.

A. Age Verification on Online Platforms

Not all e-commerce platforms apply surveillance systems for ID-checking and age verification that enable sellers to prevent underage access to alcohol. From 13 platforms observed in this study, only seven general e-commerce platforms required customers to provide ID-card data for age verification when completing the transaction process and proceeding to the payment function. Apparently there are data privacy issues related to uploaded information on customers' ID cards. In December 2020, four platforms had official liquor stores selling their products online. They provided warnings that customers must be of legal drinking age, but this happened only when merchants added this warning to their product description.

Conflicts between the application of age-verification technologies and the data privacy of customers, as well as inconsistencies in the application of warnings to prevent underage drinking, indicate a need for Indonesia to co-regulate online alcohol sales. Finck (2017) emphasized that, due to the evolving nature of the digital economy, there is much uncertainty in digital markets. When coupled with ill-suited legal frameworks, policymaking can stifle innovative solutions. A continues process of feedback and adaption is needed on both sides of the public and private sector.

Co-regulation provides suitable answers in this domain. It involves dialogue and cooperation between government agencies and non-governmental actors in policy making and enforcement (Latzer et al., 2013; Finck, 2017; Torfing et al., 2016; & Hirsch, 2010). First of all, public - private engagement and dialogue are at the core of the success of co-regulation in policy making. They

allow for an evolving regulatory framework that addresses technological changes and responds to opportunities that help to ensure that only persons of legal drinking age can receive alcohol sold online and delivered to consumers.

Secondly, the regulatory framework that has evolved in a co-regulation process partially delegates policy enforcement from the government to the private sector through mutually agreed standards in a code-of-conduct that is developed and strictly enforced by the private sector.

“ Problems with ensuring a robust age verification method are not unique to Indonesia. Other countries with online alcohol sales also experience similar challenges on e-commerce platforms.”

Problems with ensuring a robust age verification method are not unique to Indonesia. Other countries with online alcohol sales also experience similar challenges on e-commerce platforms. A study by Rezkinov (2007) recommended four ways for online liquor stores to comply. They should place warnings on their sites that customer must be above the legal minimum age for alcohol consumption. When stores deliver groceries with their own drivers, they should verify that the recipient is above the legal age. Alternatively, they pay a delivery company to verify the legal age of the recipient. Lastly, the stores should use an online age verification system such as BirthDateVerifier.com, which requires users in the USA to create an electronic affidavit by giving a sworn statement that they are of legal age for the consumption of alcohol.

Studies in North Carolina (Williams & Ribisl, 2012) and Australia (Mojica-Perez, Callinan, & Livingston, 2019) concluded that age verification procedures by online alcohol vendors did not adequately prevent online alcohol sales to minors. In North Carolina, individuals younger than 21 years were able to buy alcohol online without presenting their ID in about half of their attempts (Williams & Ribisl, 2012). When the Alcoholic Beverages Control Commission of Massachusetts (ABCC) found three online liquor stores guilty of selling alcohol to minors in 2004 they were each fined USD 5,000 and had to install a mechanism on their websites that would automatically reject orders placed by underage buyers in Massachusetts.

Similar to dealing with the complexities of preventing the distribution of unrecorded alcohol through online sales, the age verification of customers is also affected by a multitude of supply chains that exist in the online market for alcoholic beverages (IWSR, 2020b). It appears easier to control the entire supply chain when a company is vertically integrated. The Chinese e-commerce platform JD.com maintains its own web portal and mobile app while it has also developed its own nationwide delivery infrastructure (Harvard Business School, 2015). JD.com's integrated age verification process allows it to monitor and ensure that alcoholic beverages only reach people of legal drinking age (Interview 3, 2020).

“ Liabilities needs to be clearly stipulated in contractual arrangements between the corporate parties involved.”

If different parts of the supply chain are controlled by different actors, the task of age verification becomes complex. If beverages are being delivered by an external deliverer, the responsibility of serving underage consumers may lie with the delivery service, if they fail to ask for proper identification of the recipients. Liabilities needs to be clearly stipulated in contractual arrangements between the corporate parties involved. Drivers also need to be trained how to properly conduct the age-verification process. Efforts in this regard are being undertaken by the industry-financed International Alliance for Responsible Drinking (IARD), which has developed training material in cooperation with industry partners (Interview 3, 2020).

The problem of underage drinking also exists in India where the Community against Drunken Driving surveyed 1,000 youth. 62% of the respondents in the age group of 14 - 21 years have consumed alcohol before they reached the legal drinking age that varies between 21 - 25 years in different states (CADD India, n.d.). To prevent people from violating lockdown policies during the Covid-19 pandemic, India lifted its ban and started trials of online alcohol sales on 4 May 2020 (IWSR, 2020). Participating marketplaces such as Ziggy, Zomato, Amazon, and Big Basket secured clearance to make deliveries of alcoholic beverages during a trial period (India TV, 2020). They had to have proprietary apps to verify the age of the buyer and they have to ask for ID cards of recipients upon delivery, as well as limit the volume of orders (IWSR, 2020).

The Indian online marketplace for alcoholic beverages HipBar tries to prevent sales to minors. They have age-gated their platform, which is only accessible by entering the customer's ID. This comes with the witty statement that "For people over a certain age, this will be a compliment." Customers must prove to be of legal purchase age when they access the app, when they make the purchase, and when they receive the order. HipBar also announced a strict policy related to the infringement of their policy. If a recipient is found underage, the company will cancel the order and return the product to the retail store. The agent will then report the matter to the support team to blacklist the accused user from using the HipBar app any further (HipBar, 2020).

When Deliveroo takes alcoholic beverages to their customers in the European Union, they request from clients to enter their date of birth into the app to verify their age. Drivers will also be obliged to cross-check the age of the customer when delivering the purchase (IWSR, n.d.).

Efforts to prevent the sale of unrecorded alcohol and the age-verification of customers require investments into technical solutions from e-commerce actors and delivery service providers. They need to be able to trust that the regulatory environment will keep online sales of recorded alcohol to consumers of legal drinking age open. Otherwise, those actors determined to find suitable and necessary solutions will withdraw and leave the space to other actors that are more reckless because they aim for short-term profits only.

B. Keeping Advertisements for Alcoholic Beverages Out of Sight of Minors

As stated earlier, curiosity is often the dominant reason for minors to start drinking alcohol. They continue because it has become part of their behaviour in social groups. Advertisements for alcoholic beverages increase the curiosity of potential customers and also highlight the social aspect of drinking with friends. However, a study by the Berkeley Media Study Group (Chester, Montgomery, & Dorfman, 2010) found that online marketing of alcoholic beverages evolved without significant regulatory oversight. A more recent study found that, among Southeast Asian nations, Indonesia applies an almost comprehensive ban on alcohol advertising, promotion, and sponsorship. Meanwhile, the governments of the Philippines, Singapore, Cambodia, Malaysia and Vietnam rely mostly on voluntary regulation (Amul, 2020). There are suggestions to examine the appropriateness of age-verification technologies and potentially enhance their use in online marketing of alcoholic beverages (Lim, Hare, Carrotte, & Dietze, 2016).

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To prevent the access of minors to the advertisement of alcoholic beverages, it is essential to carefully analyse the digital marketing of online sales through direct marketing and influencer marketing.

The difference between direct marketing and influencer marketing lies in the approach to attract and influence people. Direct marketing actively prospects potential clients. It tries to convert them into customers by collecting information about them and using direct response advertising (Bauer & Miglautsch, 1992). In this approach, there is a direct relationship between those who communicate and distribute their products and the targeted consumers (Hoekstra & Schijns, 1995).

Influencer marketing is an indirect approach that involves third-party endorsers. They seek to guide audience attitudes through websites and the use of social media without necessarily disclosing their intention to promote a particular product. Influencer posts are considered marketing when the influencer receives compensation through financial remuneration and/or editorial control by the brand or the advertiser (EASA, 2018). Social media platforms have been found to promote alcohol brands through context association, sales promotions, participation, and co-creation (Moraes, Michaelidou, & Meneses, 2014).

Given the rapid development of social media and diverse marketing channels, there is a general concern among stakeholders how brands, products and services are increasingly influencing the behaviour of users in social media. Besides the intended benefits of increasing product exposure and creating market penetration, this also puts minors at risk of being exposed to advertisements for alcoholic beverages, even when they are not aware that they are being targeted.

In 2012, some leading alcoholic beverage brands signed a set of commitments to reduce harmful drinking. One of the commitments was to develop a set of global guiding principles for alcohol beverage marketing in digital media. 12 brands then launched global guidelines for alcoholic beverages producers in 2014. Those *“Digital Guiding Principles: Self-Regulation of Marketing Communications for Beverage Alcohol”* cover five areas: age affirmation, transparency, user-generated content, forward advice notice, and responsible drinking messages. They aimed set benchmarks for direct marketing as well as influencer marketing of alcoholic beverages on social media. Standards were supposed to follow those of traditional marketing activities (IARD, 2014).

Later, the International Alliance for Responsible Drinking (IARD) and the World Federation of Advertisers (WFA) prepared a tutorial how to safeguard minors from seeing alcohol advertisements online. The tutorial provides videos with practical steps for alcohol producers and their marketing agencies to apply the “Digital Guiding Principles” (DGP). They cooperated with Facebook, Instagram, Snapchat, and YouTube and explain how to choose preventive settings on these platforms (IARD, 2019) so that alcoholic beverage marketing only reaches persons of legal drinking age.

The latest assessment by WFA, the European Advertising Standards Alliance (EASA), and IARD (2019) found an increasing compliance rate in all five areas of the DGP. From 2,088 items being monitored in over 14 countries and on five social media platforms, 11 companies increased their compliance from 67% in 2018 to 81% in 2019.

Still, more efforts are needed to prevent minors from being exposed to alcohol marketing online. Google users are able to control their personalised advertisement settings (Google, 2020). An opt-out feature includes alcohol advertisement. The action is considered a response to complaints by users about the number of ads for alcohol and online gambling (Davies, 2020). However, the opt-out feature will not filter out all alcohol advertising. If users opt out from personalised ads, they will not receive advertising that responds to their browsing history on the Google platform. However, they will still receive alcohol advertisement, if they are being targeted by individual websites. If users access, in particular, websites related to alcohol consumption there is a chance that alcohol advertisement will appear on their screen.

Moving forward, Google also plans to allow users of YouTube and third-party services to opt-out from personalised advertising. This new initiative started in the and should expand to the UK and other countries by 2021. Critiques argue, instead, that alcohol adverts should be blocked as part of the standard settings and request an opt-in solution.

The complexity of this situation requires a close cooperation between government agencies, non-governmental organisations and the private sector to continue developing suitable government regulations, which allow the private sector to adopt and enforce a code of conduct for the protection of minors.

C. Indonesia's Restrictive Alcohol Advertisement Policy

The Indonesian government has imposed restrictions on the promotion and advertisement of alcoholic beverages. Article 30 of MOT Regulation No. 20/2014 prohibits registered alcoholic beverage importers, distributors, sub-distributors, direct sellers, and retailers from advertising alcoholic drinks in any mass media. While not being allowed in the mass media, advertisement may be placed in nightclubs or bars/pubs where people can order alcohol and are ready to drink. Those found guilty of violating the ban of alcohol advertisement in mass media will be subject to administrative sanctions. They may face the revocation of their license to import (IT-MB), their business license (SIUP-MB), their certificates as direct sellers or retailers, and/or their technical license.

A new regulation intends to include social media platforms in the ban of advertisement. NA-DFC is currently drafting a new regulation on the Advertisement of Processed Food, amending the Head of NA-DFC Regulation No.2/2016. They have conducted a virtual consultation forum with expert staff of NA-DFC and representatives from several ministries, the National Consumer Protection Agency, non-governmental organizations as well as business associations (NA-DFC, 2020). Article 15 of the draft regulation bans the advertisement for alcoholic beverages on all mass media platforms, include digital media and social media. An exemption is made only for alcoholic beverages with a pure alcohol volume below 1%. The annex to the draft regulation clarifies that e-commerce platforms are categorized as digital media and social media platforms include Instagram, Facebook, and Twitter.

“Article 15 of the draft regulation bans the advertisement for alcoholic beverages on all mass media platforms, include digital media and social media.”

POLICY RECOMMENDATIONS

Amid the growth of e-commerce in Indonesia, regulations concerning online sales of alcohol remain contradicting. This creates uncertainty for merchants, e-commerce providers, intermediaries and ultimately also consumers. Uncertainty increases costly risks and this potentially results in the departure of well-established, but risk-adverse companies, which play safe, try to follow the laws, and produce or distribute recorded alcohol. Instead, the situation leads to the adverse selection of risk-taking business actors, who do not shy away from selling unrecorded alcohol and pose an ultimately higher threat to public health.

Four key reforms are needed to address the problem of unrecorded alcohol and make legal alcohol safely available online: regulatory reforms, verification of alcohol merchants for digital sales, ID-checking for age verification, licensing regulations for sales, and shifting the liability to the merchants instead of the e-commerce providers or the intermediaries.

A. Regulatory reforms to ensure access to recorded alcohol

Regulatory reforms are needed to ensure that online access to recorded alcohol remains open. It is recommended that NA-DFC revokes Article 29 of Regulation No. 8/2020, which banned the sale of alcohol online. Likewise, MOCI also should revoke the online alcohol sales prohibition in its Circular Letter No. 5/2016. Both agencies should cooperate with MOT, particularly the Directorate General of Consumer Protection and Trade Order as well as Directorate General of Domestic Trade, to harmonise regulations and ensure the regulated access to recorded alcohol. This should be done in order to reduce the dangerous dominance of unrecorded alcohol in the Indonesian market. A meaningful and effective public-private dialogue in the regulatory process should continue to involve all relevant stakeholders.

B. Official registration/licensing of merchants to prevent sales of unrecorded alcohol

The sale of alcoholic beverages on digital platforms should only be allowed for registered accounts from businesses that have been verified by e-commerce platforms. This registration needs to request evidence proving that alcoholic beverages sold online are recorded alcohol. A specific regulation for licensing online sales of alcoholic drinks is needed and should be established by MOT. It can be modelled after the Alcoholic Beverage Trading Business License (SIUP-MB) for offline sales. If an unverified merchant sells alcoholic beverages, the platform has the right to delete their listing or freeze their account. Currently, there are no mandatory rules for merchants selling alcohol in online marketplaces to be registered as “official stores”. Therefore, e-commerce platforms need to regularly check their marketplaces to ensure no unverified merchants are selling alcohol. To support the supervision of the marketplaces, online sellers that directly cooperate with delivery services should establish a complaint mechanism for consumers, similar to that of e-commerce providers. Having these mechanisms allows customers and e-commerce platforms to hold the merchants liable, which is in line with Government Regulation No. 80/2019 Article 27.

C. Co-regulation between the government and the private sector to prevent underage drinking and to limit exposure of minors to online alcohol advertisement

It is essential to regulate and incorporate a feasible verification system to check whether customers of alcoholic beverages have reached the minimum drinking age. Before a customer finalizes an online purchase of alcohol, there should be a step where the customer needs to upload their ID card and wait for approval to complete the purchase. If their age did not meet the requirement or if the customer's name and address did not match the ID card uploaded, the order should be automatically cancelled. The store can deliver the product with their own driver or by involving third parties through partnered companies. Both methods should include ID verification checking to ensure that the buyer is of the legal age. The store can cancel the purchase if the customer is not at least 21 years old, or failed to provide ID verification during the delivery. Moreover, the industry needs to continue working on solutions to limit the exposure of minors to online alcohol advertisement. Digital Guiding Principles have been developed by the industry and should be considered as a base for a code of conduct agreed between government regulators and the private sector. Systems of age verification and advertisement control require the application of new technologies that flexibly respond to new products, services and market trends. Only co-regulatory efforts between the government and the industry can ensure the development and enforcement of an effective protection of minors.

D. Putting the legal liability on merchants

Finally, regulations on the online sale of alcoholic beverages need to put the liability on merchants or sellers instead of the e-commerce providers or intermediaries. In existing regulations on e-commerce, liability is still going to the platforms, while merchants have the first control over their products and should be liable if they have been reported to target minors or to sell unrecorded alcohol. Contractual agreements with external delivery services need to clearly outline and delineate the liabilities between merchants and couriers in each business transaction.

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