



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 9/2/2005

GAIN Report Number: MY5036

Malaysia

Poultry and Products

Annual

2005

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Report Highlights:

In 2005, the industry has largely recovered with the lower feed prices and freight charges. The de-pegging of the Malaysian ringgit (to the U.S. dollar) in July will also assist in reducing the cost of raw material imports. In 2006, growth is likely to slow somewhat in line with a slower pace of economic growth and rising production costs. However, if Malaysia is successful in opening new overseas markets for chilled/frozen or processed product, the domestic broiler industry would be able to respond.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Kuala Lumpur [MY1]
[MY]

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Executive Summary

Malaysia has one of the highest per capital consumption rates in the world for chicken at 35 kg. Malaysia is largely self-sufficient in meeting the country's demand for broiler meat. The country also has a high per-capita egg consumption level of 280 eggs per person per year.

In 2005, the industry has largely recovered with the lower feed prices and freight charges. The de-pegging of the Malaysian ringgit (to the U.S. dollar) in July will also assist in reducing the cost of raw material imports. In 2006, growth is likely to slow somewhat in line with a slower pace of economic growth and rising production costs. However, if Malaysia is successful in opening new overseas markets for chilled/frozen or processed product, the domestic broiler industry would be able to respond.

The industry produces more than RM4 billion worth of broilers and eggs at farm gate price annually. This industry is regarded as the most successful segment of the livestock sector and perhaps has the highest output value per worker in the agriculture sector.

The best prospects for U.S. exporters will be in supplying day-old chicks (DOC), broiler grandparent stock, frozen turkey/turkey parts and frozen chicken parts. There are also limited opportunities for sales of processed poultry meat.

Exchange rate: US1.00 = RM3.77

Production

1. Poultry meat - Broiler
- Breeding Stock (Broiler)

The Malaysian poultry sector relies solely on high quality exotic breeds from the United States, Europe, Canada, and Australia. According to a survey conducted by the Malaysian Department of Veterinary Services (DVS), the standing parent-stock population was estimated at 4.4 million birds in 2004, of which 58% are locally produced. The remaining of the parent stocks is imported mainly from the Netherlands, Luxembourg, United Kingdom and United States.

There are five fully integrated and twenty-four non-integrated parent-stock breeder farms in the country. The Cobb and Ross are the predominant breeds used, account for 87 percent of the total parent stock. Other breeds are Arbor Acres and Hubbard.

Broiler Meat

In 2004, the day-old chick production was about 440 million birds and is projected to reach 468 million chicks in 2005. The weekly production ranged from 7.53 million to 8.9 million chicks. The contribution by integrators to the total day-old chicks production was about 62%. They were no day-old broiler chicks imported into the country.

There are about 2,500 broiler farms producing over 400 million birds. The largest broiler operation can house about 300,000 broilers while small ones house about 5,000 broilers in one farm. The productivity measures are very close to global standards. The total broiler production for Malaysia was about 454 million birds in 2004 and is projected to reach 480 million birds in 2005. The average daily output was 1.15 million birds.

The poultry industry dealt with a higher cost of production last year due to weak ex-farm prices for day-old chicks and broilers and higher cost of feed. In West Malaysia, the average traded ex-farm price of day-old chicks and live broilers was at RM0.97/per chick and RM2.94/kg respectively. The average cost of production of broilers was at RM3.06/kg. The average feed prices in 2004 was RM206.35/metric ton, an increase of 22% from the year before. In October, the government allowed a new ceiling price for broilers at RM4.00/kg ex-farm in view of the rising costs of production.

The industry also believed that increased production and lower demand in chicken meat in the domestic and export market were probably the two main reasons for the unfavorable ex-farm prices. When the region was plagued with the H5N1 avian flu early last year (Kelantan, the Northeastern state, did not have an HPAI outbreak until August 2004), the industry claimed that chicken demand was down 50%.

Export of live broilers in 2004 was at 34 million birds, a 22% decreased compared to the previous year. Exports of broiler meat were at 2,554 metric tons compared to 5,195 metric tons in 2003. Broilers were in excess supply in the local market as Singapore, the largest export market for live poultry and poultry products, imposed a temporary suspension on all Malaysian poultry when the H5N1 virus was discovered in Kelantan in August 2004. In September 2004, Singapore resumed imports of poultry from certified plants from Malacca and Johore. In January 2005, Malaysia declared the country free of bird flu. Subsequently, in April 2005, Singapore allowed entry of poultry from the states of Selangor and Negeri Sembilan. However, Japan still has not lifted the suspension on Malaysian poultry.

In 2005, the industry has largely recovered with the lower feed prices and freight charges. The de-pegging of the Malaysian ringgit (to the U.S. dollar) in July will also assist in reducing the cost of raw material imports. In the first half of 2005, big integrators such as Farm's Best Bhd and Leong Hup have recorded good profits. The industry believed that the avian flu has scared the farmers and they, especially the small-scaled ones, became cautious in expanding production. Sources from the industry believe that the cost of production is likely to increase to RM3.40/kg (because of the increased in day-old-chick delivered price and feed delivery costs due to increased gasoline prices) but the ceiling price of RM4 will help to offset the cost.

In 2006, growth is likely to slow somewhat in line with a slower pace of economic growth and rising production costs. However, if Malaysia were successful in opening new overseas markets for chilled/frozen or processed product, the domestic broiler industry would be able to respond. It is important to note that Malaysia's ability to open more export market are impacted by Thailand's ability to open its own export market, now closed due to Highly Pathogenic Avian Influenza (HPAI).

The industry produces more than RM4 billion worth of broilers and eggs at farm gate price annually. This industry is regarded as the most successful segment of the livestock sector and perhaps has the highest output value per worker in the agriculture sector.

With the looming threat of Highly Pathogenic Avian Influenza (HPAI) in the region and the stake it has in the poultry business, Malaysia remains vigilant to fight the disease at all cost. With the increasing reports of HPAI infecting humans in Southeast Asia, the GOM is putting in place action plans, although a dengue fever outbreak is currently a higher priority for the health system. The possibility and risk of HPAI entering Malaysia via smuggled infected poultry (especially along the Thailand-Malaysia border) and migratory/wild birds are quite high. The challenge remains with Malaysia's rural population where backyard and small-scaled farms are prevalent. Intermingling between animal species and human are common in these farms. Monitoring outbreaks and exercising strict control measures including disease surveillance and movement control needs to be strengthened.

Consumption

Malaysia has one of the highest per capita consumption rates in the world for chicken. Per capita consumption of chicken is reported at 35 kg. Chicken meat is the most popular and cheapest source of meat protein among Malaysians, largely because there are no dietary prohibitions or religious restrictions against chicken consumption, unlike pork and beef for the minority Hindu population and pork for the majority Malay Muslim population.

Over the years, quick service restaurants (QSR) such as Kentucky Fried Chicken (KFC), McDonald's, A&W, Kenny Rogers, Nando's Chickenland (a South-African based chain) have propelled the growth of chicken consumption in Malaysia.

Malaysian consumer today demands safe and high quality food at reasonable price from the industry. They are very sensitive towards issue arising out of health and halal matters. Consumer sentiment has improved after Malaysia declared itself free of bird flu in January this year. It is important to note that the majority of the Muslim consumers will not accept poultry products that are not certified halal by the Malaysian religious authority. In recent years, quite a number of meat and poultry products with questionable halal status have received wide and negative publicity from the Malaysian media. The foodservice industry only purchases halal certified poultry.

The Malaysian consumers are also price-sensitive and look for value-for-money products. The poultry industry is increasingly challenged to produce new innovative products at lower costs without compromising on the quality. Price controls on whole broilers also encourage the industry to push processed chicken products, as well as to vertically integrate into food service.

Trade

In 1983 the Government of Malaysia began limiting imports of frozen chicken into Peninsular Malaysia by instituting import licensing. The action was taken to protect domestic chicken producers, with the justification that Malaysia is self-sufficient in broiler production. The states of Sabah and Sarawak in East Malaysia implemented similar restrictions on chicken imports in 1991. It also important to note that the veterinary authorities in East Malaysia have autonomy in establishing policies related to import and exports of poultry, as well as quarantine.

Chicken parts are imported periodically depending on local supply situation. Some are shipped through Singapore for East Malaysian states of Sabah and Sarawak. These imports mainly cater to the further processing industry. In 2004, total imports of frozen chicken (parts) were at 16,000 tons. The major suppliers were Denmark (6838 tons) and Netherlands (5848 tons). The Malaysian government has banned imports of chicken products from China in since May 2003. In 2004, a similar ban was imposed for poultry from Thailand and the suspension is expected to stay for the remaining of 2005.

Malaysia has a robust further processing industry. Chicken frankfurters, cocktail sausages, burgers and nuggets that were exclusively imported before, are now locally produced. Major players, who are also integrators, invest heavily on brand names for their further processed products such as *Ayamas* (by Ayamas Food Corporation), *Ayam Dindings* (Dindings Poultry), and *Farm's Best* (Sinmah Food Industries). Local processed products command about 90% of the market and it is difficult for imported processed products to compete on the basis of price. However, there are some premium processed chicken products that have found favors with chefs of international hotels and with consumers at the upper income levels.

With the Malaysian's aim to become the *halal* food hub, the poultry industry is well positioned to supply *halal* processed poultry to other Islamic countries and Muslim consumers worldwide. As Malaysia's domestic chicken parts prices are relatively high (about RM 7.80/kg), local processors, trying to compete in the export markets of the Middle East and Asia, need reliable sources of low cost chicken meat. DVS is generally willing to approve import licenses for product used by manufacturers, but sometimes a situation of local oversupply may cause DVS to withhold licenses. This limits the ability of local exporters of *halal* products to become reliable sources of supply.

Most Malaysian-approved foreign *halal* plants consist of abattoirs supplying raw materials for manufacturing needs. Every two to three years, the Malaysian Department of Veterinary Services and the Islamic Development Department (JAKIM) inspect and approve U.S. abattoirs and further processed plants for exports of *halal* products to Malaysia. Accreditation of foreign plants for *halal* purposes has become part and parcel of the Malaysian industry. However, the main issue associated with *halal* inspection is the sudden disruption in supply when the eligibility of the abattoirs or plants to supply *halal* products is terminated abruptly. Pipeline shipments are denied entry, unless an import license has already been issued.

All turkey meat is imported. In 2004, imports of frozen whole turkey and turkey parts were 305 metric tons. The United States is the significant supplier. However, imports have dropped because the Malaysian authorities suspended US poultry for six months last year due to the HPAI outbreak in Texas. Although the temporary suspension was lifted in August, it was too late to place significant orders for the festive season. The *halal* production of turkey is limited and this is compounded by the fact that there is only one U.S. turkey abattoir approved by the Malaysian authorities.

The demand for turkey is generally high during the Thanksgiving and Christmas seasons. However, the trend in turkey consumption is changing among Malaysian urban dwellers. Retail promotions featuring turkey parts and cooking demonstrations using turkeys in everyday cooking have helped the urban population appreciate the bigger and meatier bird.

Marketing Infrastructure/Channels

About 70% of chickens in the country are sold in the wet markets as most Malaysian consumers still prefer freshly slaughtered chickens to frozen ones. Though local councils are enforcing health laws to prohibit chicken slaughter in wet markets, wholesalers arrange to slaughter the birds in selected areas and bring dressed chicken to the marketplace. The remaining 30% of sales occur in modern supermarkets and mini markets as well as numerous retail outlets operated by some of the integrated poultry companies.

Further-processed products, both local and imported, are distributed to wholesalers, supermarkets, hypermarkets, catering institutions, restaurants and hotels. Integrators such as KFC Holdings, Dinding Poultry and Sinmah Resources have their own marketing and distribution arms. Since processed products are not subject to government price controls, other integrators are moving into the business. Processed products like nuggets and frankfurters come in colorful, attractive packages to attract customers, especially children. Packages of one-kilo and 340-grams are popular consumer sizes.

Import Licensing and Halal Issues

Currently, there is no import duty on poultry meat. Further processed poultry attracts 20% tariff. Import permits from the Malaysian Department of Veterinary Services are required for all shipments of poultry products into the country. Perhaps uniquely, the East Malaysia States of Sabah and Sarawak require import licenses for poultry meat from Peninsular Malaysia, as well as from each other. After lifting a six-month ban on chicken parts imports in June, the State of Sarawak recently announced a restriction on parts imports to product in 2 kg or 5 lb hermetically sealed bags.

All poultry shipments must be accompanied by import license (to be applied by the importer before consignments sails), Veterinary Health Certificate (signed or endorsed by a competent veterinary officer of Animal and Plant Health Inspection Service), Meat Inspection Certificate (endorsed by the meat inspector of Food Safety and Inspection Service) and Halal Certificate (issued by approved U.S. Islamic Centers). All meat must be properly labeled indicating establishment number of the abattoir and packing plant; lot number, date of production and *halal* slaughter. Since Malaysia has a large Muslim population, all poultry products must be certified *halal* and must originate from slaughterhouses that have been inspected and approved by the Malaysian Veterinary Services and Malaysia Islamic Development Department (JAKIM).

In addition to certifying the plants for *halal* export, JAKIM will also approve and appoint U.S. Islamic Centers to monitor and audit the *halal* status of the approved plants and to issue halal certificates for all export consignments. The Islamic Centers are duty-bound to record all monitoring and auditing activities of the approved plants and to submit these reports to JAKIM upon request. Guidelines on the appointment of foreign Islamic organizations are found in JAKIM website at <http://www.islam.gov.my/e-halal/glossary.php>.

Currently, there are 10 U.S. poultry facilities approved by the Malaysian authorities. U.S. suppliers who are interested in exporting to Malaysia should contact USA Poultry and Egg

Export Council (USAPEEC) to coordinate inspection visits by Malaysian authorities to approve their facilities for *halal* exports to Malaysia.

PSD for Poultry, Meat, Broiler

PSD Table						
Country	Malaysia					
Commodity	Poultry, Meat, Broiler					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	850	862	910	896	0	920
Whole, Imports	0	0	0	0	0	0
Parts, Imports	35	16	37	20	0	23
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	35	16	37	20	0	23
TOTAL SUPPLY	885	878	947	916	0	943
Whole, Exports	1	1		1	0	1
Parts, Exports	3	3	5	4	0	5
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	4	4	5	5	0	6
Human Consumption	881	874	942	911	0	937
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	881	874	942	911	0	937
TOTAL Use	885	878	947	916	0	943
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	885	878	947	916	0	943
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Exports Trade Matrix for Poultry, Meat, Broiler

Export Trade Matrix			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Time Period	2004 Jan-Dec; 2005 Jan-Apr	Units:	Metric Ton
Exports for:	2004		2005
U.S.		U.S.	
Others		Others	
Japan	1389	Brunei	18
Singapore	1033	Thailand	16
Brunei	65	Indonesia	6
Hong Kong	53	Philippines	1
Bangladesh	7		
Thailand	7		
Total for Others	2554		41
Others not Listed			
Grand Total	2554		41

Imports Trade Matrix for Poultry, Meat, Broiler

Import Trade Matrix			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Time Period	2004 Jan-Dec; 2005 Jan-Apr	Units:	Metric Ton
Imports for:	2004		2005
U.S.	417	U.S.	735
Others		Others	
Denmark	6838	Netherlands	3680
Netherlands	5848	Denmark	967
France	2181	France	875
Germany	205	Germany	216
Japan	176	United Kingdom	35
China	68		
United Kingdom	27		
Dominica	26		
Taiwan	24		
Hong Kong	2		
Total for Others	15395		5773
Others not Listed			
Grand Total	15812		6508

Price Table for Poultry, Meat, Broiler

Prices Table			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Prices in	Ringgit	per uom	Kilogram
Year	2004	2005	% Change
Jan	3.1	4	29%
Feb	2.6	4	54%
Mar	3.1	4	29%
Apr	3.4	4	18%
May	3.5	4	14%
Jun	3.5	4	14%
Jul	3.5	4	14%
Aug	3.2	4	25%
Sep	3.5		-100%
Oct	3		-100%
Nov	3.7		-100%
Dec	3.5		-100%
Exchange Rate	3.77	Local Currency/US \$	
Date of Quote	9/2/2005	MM/DD/YYYY	

End-of-Report