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Laos

HRI Food Service Sector

(Vientiane and Luang Prabang Market)

2006

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Report Highlights:

The tourism sector is expanding as the tourist arrivals almost reached 1 millions in 2005, which is a 2.5 percent increase over 2004. The growth in tourism industry is creating a potential market for imported high value food and beverage products used by hotels and restaurants, especially in Vientiane and Luang Prabang, where the number of hotels and restaurants are springing up all over the time. This report will provide a brief overview of the Laos food service market for U.S. exporters who are interested in exporting their products to Laos.

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Market Summary

Laos is officially known as the Lao People's Democratic Republic (Lao PDR). The country is a landlocked country and about two-thirds of the country is mountainous. It shares a 505 km border with China to the north, 435km of border with Cambodia to the south, 2,069 km of border with Vietnam to the east, 1,835 km of border with Thailand to the west, and a 236 km border with Myanmar to the northwest. Around 80% of the population lives in rural areas and is engaged in agricultural activities. The agricultural and forestry sector is the dominant source of production in the Lao economy, accounting for 47 percent of GDP, while industry accounts for 27 percent and services 26 percent. Subsistence agriculture, dominated by rice, accounts for half of GDP and provides 80 percent of total employment. Rice production is found in Savannakhet, Saravene, and Champasak and Vientiane. Laos is one of the world's poorest countries. The economy continues to benefit from aid from the IMF and other donors and from new foreign investment in food processing (rice milling and beverage production) and mining. 7.1 percent in GDP growth is forecast for 2006, supported by the construction of a large dam and expected increases in gold and copper mining, which have attracted investments from Vietnam, China and Australia.

According to the IMF, the inflation should slow to 5.0 percent by the end of 2006, down from 8.8 percent last year. It is the policy of the government to make the country a transit route for the ASEAN region. The government has worked to change the country being a landlocked nation into a land-link connecting to other ASEAN countries. Work on strategic roads has been completed, reaching the Vietnamese and Thai borders. Another road under construction through the western part of the country will tie China to Thailand. Laos continues to improve relations with its neighbors, particularly Thailand and Vietnam, through growing trade and investment relations and the exchange of high-level official visits. Gross domestic per capita was US\$428 in 2004. The Lao People's Democratic Republic (Laos PDR) retains the authority to set minimum wages by sector and/or geographical region, and provides guidance for overtime pay calculation. Current minimum wage levels are 93,000 Kip per month (US\$9.48), which is insufficient to provide a decent standard of living for a worker and family. Most civil servants receive inadequate pay. Some employees, especially on construction sites, earn less than the minimum wage.

Laos's important agricultural products are rice, sweet potatoes, vegetables, corn, peanuts, tobacco, cotton, sugarcane, coffee, tea, cattle and poultry. In particular, coffee production has been viewed as an area of growth for the country. Coffee produced in the south is among the best quality in the world. Coffee cultivation is currently being promoted in Champasak, Saravane and Sekong. Forests cover about 47 percent of the country and are comprised of a wide variety of commercial species suitable for production of sawed timber, plywood, parquet and furniture. In late 2004, Laos gained Normal Trade Relations status with the U.S., as the Bilateral Trade Agreement (BTA) that the U.S. and Laos signed in September 2003 went into effect. The requirements of the Bilateral Trade Agreement are the same as those required for membership in the World Trade Organization. Thus, by taking steps to meet the BTA requirements, Laos also is preparing itself for membership in the World Trade Organization. At the same time, tariffs are being progressively lowered under Laos' obligations to the ASEAN Free Trade Area (AFTA). In December 2005, China signed a trade agreement with Laos conferring preferential trade tariffs on an additional 91 categories of goods exports from Laos, bringing the total number to 239. The kip is the official currency of Laos and the exchange rates have been relatively stable since 2003. The reference exchange rate for 2005 was kip 10,751 / US\$1.

Average mid year population by province and sex, 2002-2004 (in thousands)

Province	2002		2003		2004	
	Female	Male	Female	Male	Female	Male
Vientiane Capital	316	317	325	326	334	335
Luang Prabang	222	218	229	224	235	231
Savannakhet	414	398	425	409	437	420
Champasack	310	296	319	304	328	312
Other	1,533	1,502	1,574	1,544	1,618	1,586
Total	2,795	2,731	2,872	2,807	2,952	2,884

Source: National Statistics Center

The population of Laos reached 6.07 million in 2004, and is growing at about 2.4 percent per annum. The average population density is 21 per square kilometer, giving Laos the lowest population density in Asia. About 55.2 percent of population is between 15-64 years of age. The education sector has grown strongly as about 70 percent of the population is literate. The official language of the Lao PDR is Lao. Thai is commonly spoken in the country, French is also spoken, but English is emerging as the readily used language in business. Vientiane, the capital city, is in the west on the Thai border. It is the center for business and government. Other large cities include Luang Prabang in the north and Champasak and Savannakhet in the south. There are more than eight airports in Laos but the only two international airports are in Vientiane and Luang Prabang. The other 6 domestic airports are in Xiengkhuang, Savannakhet, Champasack, Bokeo, Oudomxay and Huaphanh.

Major Economic Indicators, Lao People's Democratic Republic, 2004-2007, percent

Item	2004	2005	2006	2007
GDP growth	6.5	7.0	6.5	5.8
GDI/GDP	22.0	22.0	20.7	20.7
Inflation (CPI)	10.6	7.0	5.0	5.0
Money supply (M2) growth	21.3	18.0	20.0	20.0
Fiscal balance ^a /GDP	-4.8	-5.3	-3.9	-3.8
Merchandise export growth	7.6	27.4	17.8	3.0
Merchandise import growth	9.5	12.7	13.1	6.6
Current account ^b /GDP	-0.5	-1.8	-13.3	-13.5
Exchange Rate, Average (kips/US\$)	10,820	10,751	n/a	n/a

A Excluding grants. B Excluding official transfers

Source: Bank of the Lao PDR; Committee for Planning and Investment; Ministry of Finance; National Statistical Center; International Monetary Fund, ADB and Global Insight

Currently Laos has trade relations with more than 30 countries. In addition, it has signed a trade agreement with 14 countries and is currently negotiating with number of countries. The main trading partners with Laos are the Asia and Pacific countries, such as China, Japan, Singapore, Thailand, Vietnam and Malaysia. A number of European countries also do business with Laos and the EU, USA and Canada are the main importers of Laos's products such as garments and coffee. As a landlocked country with limited food production and natural resources, Laos is dependent on imports to satisfy some of its food needs. Imports include fuel, food, and machinery, along with vehicles and various consumer goods. Thailand is a source for around 60 percent of Laotian imports; other import partners included Vietnam, Japan, Hong Kong, and China. The major exporters of food and beverage

products to Laos food service market are Thailand (US\$16 million in 2005), China (US\$3 million in 2005), Vietnam (US\$2 million in 2005), and France (US\$85,140 in 2005).

Major Trading Partners, 2004

Exports	Million US\$	Share (%)	Imports	Million US\$	Share (%)
Thailand	104.28	18.96	Thailand	639.44	60.45
Vietnam	90.18	16.40	China	97.17	9.19
France	43.18	7.85	Vietnam	91.68	8.67
Germany	30.55	5.56	Singapore	42.30	4.00
UK	26.85	4.88	Germany	26.66	2.52
Belgium	13.37	2.43	Australia	18.31	1.73
China	12.43	2.26	Finland	15.72	1.49
Italy	11.16	2.03	Japan	15.40	1.46
Netherlands	9.95	1.81	Belgium	11.24	1.06
Japan	7.29	1.33	France	10.50	0.99

Source: IMF, Direction of Trade Statistics

Laos cuisine, like that of some other Southeast Asian countries, revolves around rice. Laos food is traditionally eaten with glutinous, or sticky, rice. Its neighbors and the colonial French have influenced the food eaten in Laos. Dishes are generally cooked with fresh ingredients including vegetables, chicken, duck, pork, beef and buffalo. Sample Laos' dishes are Laap (spicy chopped meat mixed with dry fried uncooked rice grains), Tam Mak Houn (papaya salad), Som moo (fermented pork sausage), etc. French Baguettes are found in the business and tourist cities and mostly served for breakfast. Fresh fruits such as mango, papaya, coconut, rambutan, custard apple, watermelon, jackfruit and bananas can be found in Laos. International brand soft drinks like Cola and Pepsi are available everywhere. Even though Carlsberg, Heineken, Tiger, Singha and Chang beers are available in this market, it is very difficult to compete with low price local "Beer Lao". French wines dominate the Laotian HRI market while Californian wines carried by hotels and restaurants are at minimum levels. Traditional wet markets still play a dominant role for local Laotian people. This is where most local people go on a daily basis to pick up their fresh produce, anything from chicken, cow's stomachs, or buffalo meat to fresh fish.

Market Prices for Food Commodities 2000-2004

Item	Unit	2000	2001	2002	2003	2004
Rice:						
- Glutinous rice	1kg	1,871	2,002	2,200	2,648	2,763
- Ordinary rice	1kg	2,348	2,338	2,640	3,470	3,959
Vegetable:						
- Morning glory	1kg	1,949	2,230	2,599	2,809	3,130
- Spinach	1kg	3,132	3,453	4,099	3,349	3,789
- Cucumber	1kg	2,033	2,058	2,378	2,504	2,387
Meat:						
- Pork	1kg	15,240	15,423	17,232	18,479	21,557
- Buffalo	1kg	16,354	16,789	18,469	21,063	24,073
- Beef	1kg	17,091	17,453	19,279	21,690	24,799
- Chicken	1kg	14,267	13,467	15,283	15,023	19,015
Fish:						
- Fresh fish	1kg	16,471	16,714	17,938	18,812	21,273
- Fermented fish	1kg	7,784	8,384	9,076	9,745	9,948

Chicken egg	1 unit	506	495	551	548	759
Sugar	1kg	2,811	3,374	3,859	4,073	4,132
Condensed milk	1 can	4,084	4,200	4,720	5,342	5,616

Source: National Statistics Center

Proportion of Consumption by Type of Products (%)

Products	1997/1998	2002/2003
Rice	46.2	35.4
Flour and Bread	2.3	2.3
Meat	16.1	22.3
Fish	12.9	13.3
Milk, Cheese and Eggs	0.9	1.1
Oils and Fats	0.2	0.3
Fruits	1.7	5.6
Vegetable and Potatoes	9.1	8.6
Sugar and Sweets	1	1.3
Beverage, coffee and tea	1.4	1.5
Take away food	4.1	4.8
Others	4.1	3.5

Source: National Statistics Center

Tourism Industry

Tourism is considered to be the biggest sector that has generated the most income at about US\$119 million, followed by the textile industry, which ranks second and produced about US\$ 99 million, and third is export of power electricity bringing about US\$86 millions. The tourism sector is expanding as the tourist arrivals almost reached 1 million in 2005, a 2.5 percent increase over 2004. According to the statistic report for 2005, of the total number of tourist arrivals, over 80 percent are regional and Pacific region, and the remaining 20 percent are long-haul tourists that come from the Americas and Europe. There are four major tourist destinations in Laos, which are Vientiane, Luang Prabang, Xiengkhuang and Champasack. Tourist sites include Lao temples, historical sites, ancient ruins, French-style architectures, Laos' culture and way of life, as well as well-known night markets. Recently, the government has moved to expand agro-tourism as part of the country's efforts to eradicate poverty. Luang Prabang is promoted as the major tourist attraction for its natural beauty and the interesting history as the former royal capital. The city is renowned as the cultural and religious capital of Laos. On the 2nd December 1995, UNESCO inscribed the town on to its World Heritage List, ensuring the preservation of a mixture of traditional Lao and French colonial architectures. The unique character and charm of Luang Prabang helps to make it the one of the most popular tourist destinations in the country.

Number of tourist arrivals to Laos, 2000-2005

Continent	2001	2002	2003	2004	2005
Asia & Pacific	553,249	579,031	498,185	730,107	748,187
Europe	80,736	101,924	93,960	112,092	114,868
America	34,370	46,704	39,453	47,153	48,321
Africa and other	5,468	8,003	4,763	5,454	5,589
Total	673,823	735,662	636,361	894,806	916,965

Source: National Statistics Center

The growth in the tourism industry is creating a potential market for imported high value food and beverage products used by hotels and restaurants, especially in Vientiane and Luang Prabang, where the number of hotels and restaurants are continually increasing. First class hotels can only be found predominantly in Vientiane (Novotel, Settha Palace, the Lao Plaza, and Don Chan Palace) and Luang Prabang (The 3Nagas, Phousi, La Residence Phou Vao, and Villa Santi). About 35 percent of hotel revenue is generated from food and beverage sales; and average cost per meal for each restaurant visit is US\$15.

Although tourism development and promotion in Laos is expanding and the government has implemented several methods to help promote the country for several years. There are still some limitations in promoting tourism in Laos, such as limited financial resources for both private and public tourism related industry development, a lack of skilled professionals in marketing and promotion, a lack of infrastructure and tourist facilities, and most importantly, most visitors to Laos are still low-spending tourists with an average length of stay only 4.3 days.

Number of Hotels, Guesthouses, and Resorts in Laos, 2002 – 2005

Province	Hotel				Guesthouse and Resort			
	2002	2003	2004	2005	2002	2003	2004	2005
Vientiane Capital	28	37	46	59	85	126	143	162
Luang Prabang	14	14	15	8	102	123	105	108
Xiengkhuang	3	10	11	20	10	20	22	24
Bolikhamsay	10	10	10	5	13	15	15	16
Savannakhet	9	8	11	7	21	45	49	53
Champasack	20	22	22	12	45	84	83	82
Other	27	31	33	24	173	342	382	463
Total	111	132	148	135	449	755	799	908

Source: National Statistics Center

In Vientiane, there are more than ten restaurants and about five upper class hotels using imported food and beverage products. A similar number of restaurants and hotels serve mostly tourists in Luang Prabang. Most imported products come into Vientiane via road or air from Thailand. Some importers, hotels and restaurants in Laos source imported food products from Makro, BigC, and Tesco Lotus located in Nong Khai, Udonratchathani and Ubon Ratchathani (Northeastern part of Thailand), as well as from some suppliers in Chiang Mai. Importing food and beverage products into Laos is quite complicated and difficult due to problems with transportation, infrastructure and Customs officials. Meats are sourced locally and from other countries through Thailand and Vietnam. Even though there is demand for imported seafood, fish is usually bought from local sources. There are good opportunities for U.S. food and agricultural products to capture a greater share of this market. For example, U.S. beef is highly regarded, but it is not widely marketed due to strong competition from Australian and New Zealand beef and lamb. U.S. scallops have been introduced into some hotels and restaurants in Luang Prabang while U.S. wines and other alcohol beverages also have good potential in this Laos HRI market. Wine turnovers are about 2 cases per day during high season and slow down to 5 bottles per day in low season per establishment. However, price is still a major determinant in buying decisions. As a result, these products deserve higher levels of marketing and promotion in order to compete with similar products from other origins.

Number of Restaurants in Laos, 2002 – 2005

Province	2002	2003	2004	2005
Vientiane Capital	85	85	61	52
Luang Prabang	43	65	32	32
Xiengkhuang	16	16	12	11
Bolikhamxay	20	20	54	100
Savannakhet	14	47	47	47
Champasack	9	12	11	12
Other	147	344	294	331
Total	334	589	511	585

Source: National Statistics Center

Advantages and Challenges Facing U.S. Products in Laos

Advantages	Challenges
High growth in tourism industry leads to an increasing number of hotels, restaurants and food stores in major tourist destinations, represents a potential market for U.S. exports	A limited number of Laos importers and high cost of U.S. food and beverage products comparing to other exporting origins.
Import business tends to multiply because of the increasing expansion of transportation	Price factor is determinant when sourcing food and beverage products for the HRI sector.
Consumer attitudes towards imported food products are generally positive.	Average low wage levels determine that most of the population still cannot afford imported food and beverages.

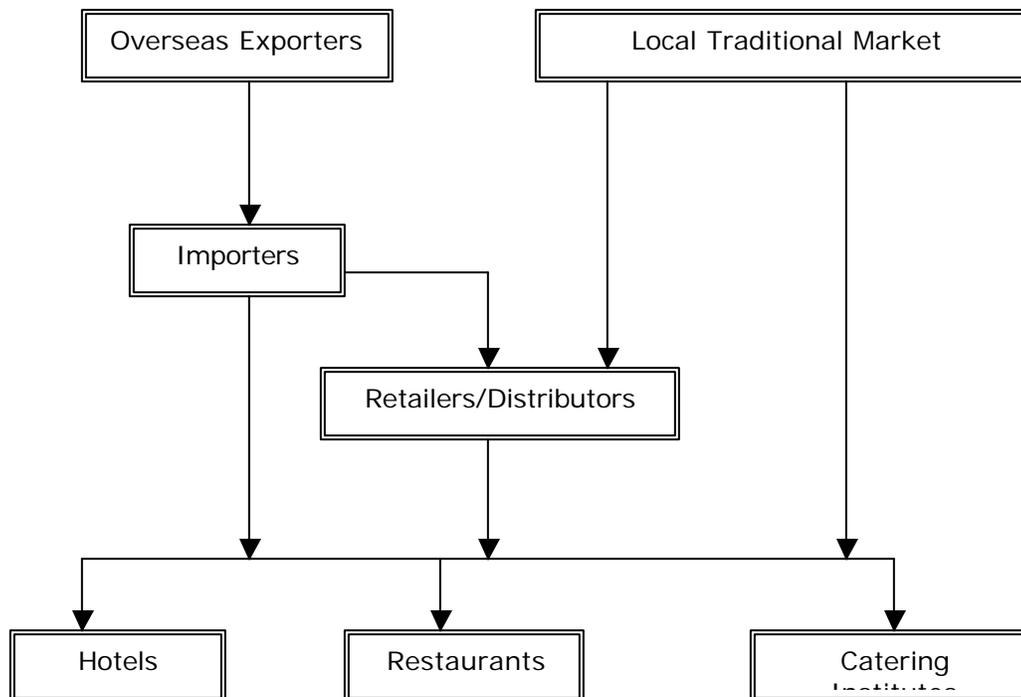
Road Map for Market Entry

U.S. exporters entering the Laos food service market are advised to get an experienced local importer, with a suitable background, experience and extensive distribution network, who can offer full support to HRI customers. These importers have already established reliable and efficient distribution channels and have the expertise in food import procedures and know how to deal with the government officials. Laos' commercial food distribution system is not well established and the cold storage system is not well developed. This is mainly due to a wide range of domestic and imported products being traded via many various channels. This complexity is compounded by the fact that so many products are traded unofficially along the borders, with Thailand, Vietnam and China in particular.

Traditional wet and dry markets still play a dominant role in the distribution of most food products for local people on a daily basis. The major importers who supply imported food and beverage products to Laos' HRI sector are located in Vientiane. Only small grocery and convenience stores are found in both Vientiane and Luang Prabang. These grocery stores provide a wide range of mainly imported products to middle and higher income urban consumers, expatriates, and tourists. Phimphone Minimart is one of the popular outlets in Vientiane. Thansamay and Chithanh stores are well known among hotels and restaurants as sources of some imported food and beverage products. These grocery stores also act as distributors supplying food products to the HRI industry in both Vientiane and Luang Prabang. Limited import quantities and high import cost are major hurdles limiting keep importers from importing directly from the original exporting sources. Most of these retailers arrange their own imports but some products are also sourced from importers. Some U.S., French, and other premium brands are carried in these stores. Most imported

food products sold in these stores are from Thailand and Vietnam since they are cheaper. Product knowledge and other hospitality related trainings are essential for developing this market. The appropriate timeframe to conduct trainings for importers, retail and HRI contacts is during May-October, which is the low season period.

Distribution Channel for HRI Food Service in Laos



Regulation on Importing Food and Beverages

The government regulates the import of products by systematically classifying them into groups or type of products, which are encouraged, controlled and/or prohibited by the state through a taxation and duties scheme. The encouraged imported products are machinery and equipment required for the construction of the basic economic infrastructure. Raw materials and intermediate products needed for export production are exempt from import taxes. The importers of foreign products must be enterprises registered correctly under the relevant laws of Laos and operating in the authorized business sectors. Imported products legally enter into Laos when shipments have arrived at the port of entry, estimated duties have been paid, and delivery of the products has been approved by the customs. There are many possible trading methods include L/C and T/T.

Customs regulations cover more than 3,500 products, with rates ranging from 5 percent to 40 percent. Tariff rates on high-value food and beverage products range between 20-30 percent. Besides the import tariff, the government also imposes excise taxes on a wide range of products: 50 percent on beer and cigarettes and 60 percent on other alcohol beverages. The policy of the Lao government is to develop and strengthen bilateral trade relations with neighboring countries: Vietnam, Thailand, China, Myanmar and Cambodia further using border trade as a mechanism for trade expansion.

For more information about Laos customs procedures, please visit Lao PDR Customs at <http://laocustoms.laopdr.net>

Best Market Prospects

Frozen meats, poultry and seafood (beef, lamb, salmon, scallop, etc.), canned fruits and vegetables, cereal, cheese, chocolate, dried fruits and nuts, fruit juices, jam, milk powder, olive oils, pasta, pickles, sauce and seasoning, vinegar, syrup, snack foods, bakery ingredients, wine, and liquor.

U.S. Exports of Consumer-Oriented Agricultural Products to Laos, 2001-2005 (US\$)

Item	2001	2002	2003	2004	2005
Snack Foods (excl nuts)	9,000	37,000	27,000	18,000	32,000
Red Meats (Fresh, Chilled and Frozen)	58,000	138,000	0	0	0
Fresh Fruit	12,000	0	0	0	0
Processed Fruit and Vegetables	87,000	0	0	0	0
Wine and Beer	161,000	152,000	109,000	196,000	189,000
Other	0	0	0	306,000	0
Total	326,000	327,000	136,000	520,000	220,000

Source: The United States Department of Agriculture

Hotels Contact Information

Don Chan Palace Hotel Vientiane
 Unit 6 Piavat Village,
 Sisatanak District,
 Vientiane, Lao PDR
 Tel: (856)21 244 169
 Fax: (856)21 244 111-2
 Email: fb@donchanpalacelaopdr.com
 Website: www.donchanpalacelaopdr.com
 Contact: Mr. Titirat Chuenchimplee, Food and Beverage Manager

Lao Plaza Hotel
 63 Samsenethai Road
 PO Box 6708
 Vientiane, Lao PDR.
 Tel: (856)21 218 800-1
 Fax: (856)21 218 808 - 9
 Email: lph@laoplazahotel.com
 Website: www.laoplazahotel.com
 Contact: Mr. Fukuda Nobuyuki, General Manager

Settha Palace Hotel
 6 Pang Kham Street, PO Box 1618,
 Vientiane, Lao PDR
 Tel: (856)21 217 581-2
 Fax: (856)21 217 583
 Email: gm@setthapalace.com
 Website: www.setthapalace.com
 Contact: Mr. Eric Howe, General Manager

La Residence Phou Vao
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Luang Prabang, Laos
Tel: (856)71 212 530-3
Fax: (856)71 212 534
Email: khunsadis@yahoo.co.th
Website: www.pansea.com
Contact: Mr. Sadit Changnganiam, Food and Beverage Manager

Le Elephant Restaurant
Ban Vat Nong,
P.O. Box 812,
Luang Prabang, Lao PDR
Tel: (856)71 252 482
Fax: (856)71 252 492
Email: contact@elephant-restau.com
Website: www.elephant-restau.com
Contact: Mr. Yannick Upravan, the owner

The Apsara Restaurant
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Email: info@theapsara.com
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Contact: Mr. Ivan Scholte, the owner

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Website: www.grandluangprabang.com
Contact: Mr. Patrarakrit Sangumpai, Food and Beverage Manager

Post Contact And Further Information

The Foreign Agricultural Service in Bangkok maintains up-to-date information covering food and agricultural import opportunities in Thailand and would be pleased to assist in facilitating U.S. exports and entry to the Thai market. Questions or comments regarding this report should be directed to the Foreign Agricultural Service in Bangkok at the following local or U.S. mailing address:

<u>Local:</u>	<u>U.S. Mail:</u>
Office of Agricultural Affairs U.S. Embassy 120-122, Wireless Road Bangkok 10330 Tel. +662-205-5106 Fax. +662-255-2907 Email: agbangkok@usda.gov Home page: www.usdathailand.org	Office of Agricultural Affairs U.S. Embassy, Box 41 APO AP 96546

End of Report.