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Report Highlights:

1998/99 brought cheers to the Malaysian grain/feed industry with both domestic consumption and imports showing upward trends. Despite a temporary hiccup in corn consumption and imports during the Nipah virus outbreak, total 1998/99 imports rose 14%. Demand for wheat-based products jumped 10% and wheat imports rose 14%. GSM program helped U.S. to improve market share in the corn as well as wheat import markets. Continued growth is expected in 1999/2000 but U.S. sales will face an uphill task. Malaysian imports of rice are expected to decline in view of increase in local production in 2000.

Includes PSD changes:Yes
Trade Matrix:Yes
Annual Report
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Executive Summary

-TOTAL GRAINS --

1998/99 brought much cheers to the Malaysian grain/feed industry with both domestic consumption and imports showing upward trends. With no significant domestic production of wheat or corn, increased demand for feed corn and wheat-based products translated to sharp increases in corn and wheat imports. Domestic rice production took an upturn and resulted in a small decline in rice imports in 1999. The Malaysian economy is recovering fast from the economic turmoil and we expect consumption of grains to increase by 5 to 6 percent in 1999/2000. Except for rice, Malaysian grain imports are expected to show significant increases. Current world market conditions are working against US sales and some declines are expected in 1999/2000. In addition, current low domestic interest rate has reduced the attractiveness of the GSM program.

-- CORN --

Despite a temporary decline in corn consumption and imports during the outbreak of the Nipah virus which destroyed more than one million pigs in Malaysia, domestic consumption recovered rapidly for the rest of 1999. Malaysia's imports rose almost 14% in 1998/99 with China capturing 57% market share. Partly due to the utilization of GSM credit facilities, U.S. sales of corn amounted to 369 TMT, about 15% market share.

The outlook for the Malaysian livestock sector during 1999/2000 looks bright. We expect domestic corn consumption to increase 7 to 8 percent for the next two years. China with its bigger harvest, continues to be U.S.'s biggest competitor in the Malaysian corn market. In addition, Argentina is also having a bigger crop this season. U.S. corn sales face an uphill task and probably fall slightly to 350 TMT in 1999/2000.

-- WHEAT --

Domestic consumption of wheat recorded a hefty 10 percent jump in 1998/99. With the help of GSM credits, U.S. market share rose from less than one percent 1997/98 to 3% in 1998/99. Australia, with a large exportable surplus, dominated 68% of the Malaysian wheat market. The only other big supplier was Canada with 21% share.

The outlook for wheat imports in 1999/2000 is bright with an expected 6 percent increase in consumption of wheat-based products. We expect total imports to increase by 6.5 percent to 1.35 MMT. Although Australia continues to be the major player in the soft wheat, Canada, with an increase in exportable surplus, will be the main competitor for U.S. in the Malaysian hard wheat market. A decline in U.S. exports is expected in 1999/2000.

-- RICE --

Milled rice production is estimated to increase to 1.3 MMT for 1999 and 1.4 MMT in 2000. Malaysia's imports slipped 2.7 percent to 640 TMT in 1999. Thailand dominated 45 percent of the rice import market, followed by China (24%), Vietnam (22%) and Pakistan (8%). The U.S. managed to export only 1,000 tons. As for 2000, Malaysia is likely to decrease rice imports in view of further improvement in domestic rice production as well as working down stocks.

		Production	Imports	Exports	Domestic. Disappearance
			(In 1,000 MT)		
Corn	1998/99	50	2443	0	2450
	1999/00	57	2600	0	2640
	2000/01	65	2830	0	2850
Wheat	1998/99	0	1268	106	1139
	1999/00	0	1350	120	1220
	2000/01	0	1430	130	1290
Rice	1998	1255	658	0	1910
	1999	1365	640	0	1970
	2000	1430	550	0	2020

1/ Exchange Rates: 1998 US1.00 = Rm3.92

1999 US1.00 = Rm3.80

February 15 2000 US1.00 = Rm3.80

Corn

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Corn				(1000 HA)	(1000 MT)
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Harvested	27	27	27	27	0	28
Beginning Stocks	148	263	148	306	148	323
Production	50	50	57	57	0	65
TOTAL Mkt. Yr. Imports	2500	2443	2600	2600	0	2830
Oct-Sep Imports	2500	2443	2600	2600	0	2830
Oct-Sep Import U.S.	475	369	0	350	0	400
TOTAL SUPPLY	2698	2756	2805	2963	148	3218
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	2330	2300	2500	2480	0	2680
TOTAL Dom. Consumption	2550	2450	2657	2640	0	2850
Ending Stocks	148	306	148	323	0	368
TOTAL DISTRIBUTION	2698	2756	2805	2963	0	3218

Production

Domestic corn production in Malaysia is insignificant

Consumption

The outbreak of the Nipah virus destroyed more than one million pigs in Malaysia during the first half of 1999 and resulted in a temporary decline in corn consumption and imports. However, domestic consumption recovered rapidly for the rest of the year as poultry farmers increased poultry meat and egg output, and pig farmers in unaffected areas also increased pork production. Demand for eggs from neighboring Indonesia has been on the increase due to the near collapse of the Indonesian poultry industry. Egg exports to Indonesia rose 13,000 percent in 1999. For the whole of 1998/99, domestic corn consumption rose 11 percent to 2.45 MMT.

The Malaysian economy is recovering faster than expected from the South East Asian economic turmoil (started in July 1997). GDP growth is expected to increase 6.0 to 6.5 percent in year 2000 and consumers are feasting again at restaurants. The outlook for the Malaysian livestock sector during 1999/2000 looks bright. At this point, we expect domestic corn consumption to increase 7 to 8 percent for the next two years.

Trade

Malaysia's imports rose almost 14% in 1998/99. China again dominated the Malaysian corn market by capturing 57% market share. Partly due to the utilization of GSM credit facilities, U.S. sales of corn amounted to 369 TMT, about 15% market share compared to only 5% in 1997/98. Argentina managed to take 17% while imports from Indonesia were much lower. Vietnam and South Africa were still out off the market in 1998/99.

In line with the increase in feed consumption, we estimate Malaysia's imports to rise 6.4% to 2.6 million tons of corn for the current (1999/2000) marketing year. China with its bigger harvest, continues to be U.S.'s biggest competitor in the Malaysian corn market. China has been selling more corn to Malaysia in smaller vessels which work well in the current economic situation. In addition, Argentina is also having a bigger crop this season. Current low domestic interest rate has also reduced the attractiveness of the GSM program. U.S. corn sales face an uphill task and probably fall slightly to 350 TMT in 1999/2000 and a small increase is forecast for the following year.

Corn Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Corn		
Time period	Oct98/Sep99 for 1998, Data for Oct 99/Sep00 - Not Available	Units:	1000MT
Imports for:	1998		1999
U.S.	369	U.S.	
Others		Others	
China	1392		
Argentina	414		
Indonesia	116		
Thailand	42		
U.A.E.	38		
Burma	36		
Hungary	30		
Australia	3		
India	2		
Netherlands	1		
Total for Others	2074		0
Others not Listed			
Grand Total	2443		0

Stocks

While the Malaysian economy is on better footing, corn traders are still cautious on cash-flow problems and prefer to keep stocks to a minimum in order to reduce exposure to risk. With more supplies coming from China, stock level could be reduced to one and a half months.

Policy

Production Policy

The GOM has no definite plans to develop a viable domestic field corn industry. Domestic corn production is unlikely to expand significantly in the foreseeable future.

Marketing

Market Development Opportunities

The Malaysia swine industry has been hard hit by the Nipah (Japanese Encephalitis) Virus with more than one million pigs culled during the first half of 1999. There are opportunities for USGC in cooperation with ASA to assist in rebuilding the industry with modern swine technology. One critical impediment to the reconstruction of the industry is the waste disposal problem. Ag Office has requested EMO funds to sponsor pig farmers to attend the 'Livestock Waste Management Training' course at the US sponsored Center for Livestock Waste Management in southern Taiwan. Malaysian farmers are also keen in the possibility of launching joint-ventures with American investors. Ag office has advocated the adoption of US technology and use of US genetic stock to supply new integrated swine facilities which should enhance the demand for US grains and meal.

Agatt office has devoted much time to promote GSM -102 export credit programs, persuading potential users to attend GSM presentations organized by Post at key cities in the country. As a result, sale of US corn under GSM program rose significantly to US\$16 million in 1998/99. Unfortunately, current low domestic interest rate has reduced the attractiveness of the GSM program.

Buyers/end users lack knowledge on how to maintain the quality of imported corn in tropical conditions (especially in view of the installation of bigger facilities to cater for Panamax size imports). Ag Office has suggested that U.S. Grain Council use funds to conduct seminars for major feedmillers and importers throughout Malaysia. For longer term development, we suggest a scientific collaboration to initiate grain inspection/handling simulation studies in the U.S. & based on info learned, initiate grain storage trials with one or two feedmillers in Malaysia.

Promoting combination shipments as well as the use of GSM-102 financing, are all crucial in its attempts to recapture market share. USGC 's cooperation with ASA in holding joint Southeast Asian Grain Marketing Conferences in the region is welcome as a cost reducing effort.

GMO/Biotech Safety Issue: At the present moment, the Malaysian Government has no negative reaction to GMO. However on the consumer level, there has been a strong call to have 'labeling' for GM foods. Acceptance of GM products could be a limiting constraint that need to be addressed properly. ASA and USGC can team up together to educate consumers about the safety of these products.

One challenge for the US Grain Council is to increase corn consumption in the food, beverage, brewery and industrial sector. The snack and breakfast cereal food industry has been growing fairly rapidly. This growth should continue in the near term. There is also some likelihood of expansion in the production of modified starches. Thus, technical seminars to transfer technology in corn processing and corn food manufacturing would help to accelerate demand in these areas.

Wheat

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Harvested	0	0	0	0	0	0
Beginning Stocks	156	147	150	170	150	180
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	1300	1268	1200	1350	0	1430
Jul-Jun Imports	1300	1268	1200	1350	0	1610
Jul-Jun Import U.S.	37	42	0	30	0	40
TOTAL SUPPLY	1456	1415	1350	1520	150	1610
TOTAL Mkt. Yr. Exports	85	106	85	120	0	130
Jul-Jun Exports	85	106	85	120	0	130
Feed Dom. Consumption	50	0	50	1220	0	1290
TOTAL Dom. Consumption	1221	1139	1115	1220	0	1290
Ending Stocks	150	170	150	180	0	190
TOTAL DISTRIBUTION	1456	1415	1350	1520	0	1610

Production

Wheat is not produced in Malaysia.

Consumption

Domestic consumption of wheat recorded a hefty 10 percent jump in 1998/99. The biscuit sector performed very well with output showing a 14 percent increase in CY1999. Exports of biscuits rose 35 percent in 1999. Consumption of noodles was also impressive, reflecting the shift to substitute meat protein with wheat-based products during the outbreak of the Nipah virus which destroyed more than one million pigs in Malaysia during the first half of 1999.

The Malaysian economy has improved and its stock market index is approaching the pre-financial crash level in 1997. Domestic consumers seem to be willing to spend more on essential items and exports of wheat-based products such as biscuit and noodle to the region are expanding. In addition, more households are purchasing bread-making machines, pointing to an increase in consumption of wheat-based products in the coming year. We expect a 6-7 % growth in wheat consumption in 1999/2000 and 2000/01.

Domestic wheat prices are controlled by the Malaysian Government under the Supplies Regulation Act (1974). The retail flour price remained at RM1.20 (US\$0.32) per kilo since 1997.

Trade

In 1998/99, total wheat imports rose 16 percent to 1.3 MMT. Thanks to the lower exportable surplus from Canada and a bigger usage of GSM credits, U.S. wheat managed to regain some of its market share. Total imports from U.S. reached 42 TMT compared to 8 TMT in the previous year. As in the past years, Australia dominated almost 68% of the Malaysian wheat market. Imports from Ukraine more than doubled while Poland emerged as a new competitor. Malaysia also imported some wheat flour from Australia, Netherlands, Japan and China.

The outlook for 1999/2000 wheat imports is bright and we expect total imports to increase by 6.5 percent to 1.35 MMT. While Australia continues to be the major player in the soft wheat market, Canada with an increase in exportable surplus, will be the main competitor for U.S. in the Malaysian hard wheat market. In addition, current low domestic interest rate has reduced the attractiveness of the GSM program. At this point, we estimate U.S. wheat exports to Malaysia to fall to 30 TMT in 1999/2000 before rebounding to 40 TMT in 2000/01.

Exports of wheat flour rose 15% percent in 1998/99 with increased demand from Indonesia, Thailand and Burma.

Wheat Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time period	Jul98/Jun99 for 1998,Jul99/Oct99 for 1999	Units:	1000 MT
Imports for:	1998		1999
U.S.	42	U.S.	6
Others		Others	
Australia	863	Australia	232
Canada	266	Canada	102
Ukraine	54	Poland	1
Poland	25		
Singapore	18		
Total for Others	1226		335
Others not Listed			
Grand Total	1268		341

Wheat Exports

Export Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time period	Jul98/Jun99 for 1998, Jul/Sep99 for 1999	Units:	1,000MT
Exports for:	1998		1999
U.S.		U.S.	
Others		Others	
Singapore	50	Singapore	12
Thailand	34	Thailand	8
Indonesia	11	Indonesia	4
Burma	8	Burma	2
Brunei	3	Brunei	1
Total for Others	106		27
Others not Listed			
Grand Total	106		27

Marketing

Market Development Opportunities

The short supply of Hard White Winter (HWW) for making noodles restricts its usage as a substitute for soft wheat from Australia. More effort is needed to ensure the availability of HWW for the Malaysian market. In addition, Quality Samples Program should be useful for the Malaysian market as flour millers have voiced the need to obtain a reasonable amount of HWW in order to perform trials/tests both in the mills and noodle markets.

US wheat has not been price competitive and virtually lost all its market share - not only to Canada but also to new comers such as Ukraine and Hungary in recent years. In addition, wheat boards in Australia and Canada offer price discounts which render US as a residual supplier. For the immediate term, activities which encourage split-cargo with U.S. soybean/corn and the use of GSM-102 should help reduce cost. Agatt office has devoted much time to promote GSM -102 export credit programs, persuading potential users to attend GSM presentations organized by Post at key cities in the country. As a result, sale of US wheat under GSM program rose significantly to US\$14 million in 1998/99. Unfortunately, current low domestic interest rate has reduced the attractiveness of the GSM program.

In 1999, Post received a complaint of a shipment of US wheat infested with live insects. Perceived poor quality image of US wheat need to be addressed by USWA and FGIS.

Post suggests a new market strategy aiming at a new target audience. Since U.S. wheat essentially competes in the high-protein category, promotion aiming at the end users of wheat-based products such as 'Roma' bread, breakfast wheat cereal/muesli may help to increase demand.

Competitor Activities

The Australian and Canadian Wheat Boards are known to provide exceptional service in all aspects of trade. Having control over both pricing and marketing activities, the boards can offer attractive discounts as well as respond quickly to Malaysian complaints about grain quality or other issues related to sales. The AWB even has its own ships to provide low cost and efficient transportation for its products. Both Boards make regular trade servicing trips to the various mills in the country.

Rice

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Harvested	625	640	660	660	0	665
Beginning Stocks	526	526	486	529	516	564
Milled Production	1230	1255	1290	1365	0	1430
Rough Production	1890	1928	1982	2100	0	2200
MILLING RATE (.9999)	6508	6508	6508	6499	6500	6500
TOTAL Imports	593	658	650	640	0	550
Jan-Dec Imports	650	658	675	640	0	550
Jan-Dec Import U.S.	0	1	0	1	0	0
TOTAL SUPPLY	2349	2439	2426	2534	516	2544
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	1863	1910	1910	1970	0	2020
Ending Stocks	486	529	516	564	0	524
TOTAL DISTRIBUTION	2349	2439	2426	2534	0	2544

Production

In contrast to a decline in rice output in 1998, preliminary estimates indicate a 8.8 percent increase in 1999. Increased planted area as well as improved weather conditions in key rice growing areas contributed to an increase in yields. There has been no adverse reports of pest and disease during 1999.

The outlook for 2000 is bright. Water is in abundance on the east coast of the Peninsula and the dams on the west side are filled to the brim. In order to save on expenditures on rice imports, the GOM is encouraging farmers to increase planted area. We expect harvested area to expand to 665,000 hectares and rice output to increase to 1.4 MMT in 2000. In the later half of 1999, the Agriculture Ministry introduced two new varieties - MRQ50 (a cross between MRQ34 and "Khaw Dawk Mali" from Thailand) and M211 (a cross between MR84 and 'Hoshiyutaka from Japan). The former variety claims to have similar qualities as the 'Basmati' variety while the latter has a better yield than the current MR84 variety.

Consumption

We estimate domestic consumption to increase by about 3.1 percent in 1999 and 2.5 percent in 1999. The increase in consumption is above the average population growth rate, reflecting an increase in inflows of

migrant workers from neighboring countries. Rice retail prices remain unchanged since 1993. The ceiling price structure is as follows (in RM per kg):

Zone	Standard Grade	Premium	Super
A) Kedah, Kelantan, Perlis, Seberang, Krian K. Selangor & S. Bernam	0.98	0.01	1.65
B) Trengganu, Penang & Perak	0.99	1.06	1.70
C) Federal Territory & Selangor	1.01	1.07	1.75
D) N. Sembilan & Malacca	1.03	1.09	1.75
E) Johor, Gua Musang & Pahang	1.04	1.11	1.80

The support prices for padi rice also remained at RM55.00 per 100 kg for long grain and RM51.69 per 100 kg for medium grain since December 1997. In addition, all rice farmers receive a subsidy of RM25 per 100 kg of padi delivered to a licensed mill or drying facility.

Trade

With an increase in domestic rice output, Malaysia's rice imports slipped 2.7 percent in 1999. From available statistical data, Thailand dominated 45 percent of the rice import market, followed by China (24%), Vietnam (22%) and Pakistan (8%). India dropped out off the market. The U.S. managed to export only 1,000 tons. As for 2000, Malaysia is likely to decrease rice imports in view of further improvement in domestic rice production as well as working down stocks.

Rice Imports:

Import Trade Matrix			
Country	Malaysia		
Commodity	Rice, Milled		
Time period	Jan-Dec for CY98 and Jan-Oct for CY99	Units:	1000MT
Imports for:	1998		1999
U.S.	1	U.S.	1
Others		Others	
Thailand	361	Thailand	236
Vietnam	166	China	127
China	91	Vietnam	113
India	25	Pakistan	43
Pakistan	14		
Total for Others	657		519
Others not Listed			
Grand Total	658		520

Stocks

In normal years, Malaysia needs to keep only two to two and a half months of stocks. Being an election year, there was a build-up in stocks during 1999. We expect a work-down on stocks in 2000.

Policy

Production Policy

In 1999, the GOM signed two Memoranda of Understanding (MOU) to barter trade with China and Burma. Under the MOU with China, Malaysia will be allowed to trade palm oil up to the value equivalent of 150,000 tons of rice from China. As with Burma, the MOU enables both parties to trade export commodities of both countries particularly agricultural produces up to a value of US\$10 million per annum.

In order to cut cost of imports, the GOM is reviewing its rice policy to increase self sufficiency from 65 percent to 72 percent. However, the target is not within sight unless the GOM is able to address the various issues such as varietal and yield improvements, the restructuring of farm production systems including greater mechanization, improved farm management practices, and the reduction of post-harvest losses. It will take some time before any significant increase in hectares take place.

Marketing

Rice imports from the United States are mainly Calrose rice consumed by Japanese and Korean expatriates. Contributing factors to the U.S. absence from the market include lower prices, the desire to enhancing regional relationships, cheaper freight, and shorter shipping times for competitors' rice. While the opportunities for sales of U.S. rice in Malaysia are still very limited, the absence of a price ceiling on imported high grade rice and the incorporation of LPN, the Malaysian Rice Authority, may help to create a small niche market for imports of branded, packaged rice from the United States. Now may be the right time for the U.S. Rice Council to reestablish contacts with the newly incorporated organization — Syarikat Padi Beras Nasional (BERNAS) — to explore potential sales opportunities.