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Malaysia

Retail Foods

Annual 2010

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Report Highlights:
Malaysia is a regarded as an upper middle income group country. Forecast economic growth for 2010 is estimated at around 6.5%, with rates of between 5% and 7% being forecast for 2011 and 2012 under more stable global economic conditions. Malaysia's retail market for food and drinks is currently valued at more than US$ 10 billion. Annual growth in the sector in the 5 years prior to the 2008-2009 slow down was at between 5% and 6% per annum.

Post:
Kuala Lumpur

I. MARKET SUMMARY

1. Malaysia in summary

Malaysia is a regarded as an upper middle income group country (GDP per capita: US$ 6,800 on a nominal basis).

Its population is currently around 29 million persons and is growing at a rapid rate of about 2.1% per annum. Over 60% of the population is regarded as middle income consumers, and poverty has virtually been eliminated. Over 70% of the population now lives in the urban areas. The adult literacy rate is high at around 92%.

These factors underpin a consumer market that is becoming increasingly sophisticated at the level of demand. Having stated this, price is very important to most Malaysian shoppers, especially when it comes to imported products which are expensive when compared to locally produced food and drinks. In addition to this, halal certified products are very important because around 60% of Malaysia’s population is Muslim and these consumers are growing in numbers and seeing rising disposable household and personal incomes.

Malaysia did not see a major negative impact from the global economic crisis. 2009 saw a slight recession, i.e. 1.7%, which resulted from a major fall in exports to the Developed World. It also saw a decline in the value of food imports for two different reasons, namely lower world market prices and more cautious demand because of uncertainties over the potential impact of the economic crash in the Developed World.

The 2009 recession did cause a decline in retail sales of food and drinks. The Lehman Brothers collapse of September 2008 and the ensuing crisis across the Developed World sparked off fears in Malaysia that another crisis on the scale of the Asian Economic Crisis of 1997-98 was coming. This did not happen.

Economic analysts comment that Malaysia has a positive future. Forecast economic growth for 2010 is estimated at around 6.5%, with rates of between 5% and 7% being forecast for 2011 and 2012 under more stable global economic conditions.

2. Malaysia’s food retail market

Malaysia’s retail market for food and drinks is currently valued at more than US$ 10 billion. Annual growth in the sector in the 5 years prior to the 2008-2009 slowdown was at between 5% and 6% per annum.

Fears amongst the population that the spin off from the collapse of Lehmann Brothers on the Developed World economies would create another crisis for Malaysia similar to the Asian economic crisis of 1997-

98 led to a temporary collapse of consumer confidence in late 2008. This impacted negatively on the performance of the retail sector in 2009, especially in the first half of the year.

Retail food and drink sales for 2009 declined by between 3% and 5% because of the challenges that arose in the first half of the year. Although lower food prices assisted the retailers, there were negative impacts on sales of some non-essential products with local alternatives, and also luxury products, e.g. sunflower seed oil (25% decline), imported chocolate (18% decline), wine (17% decline), ice cream (14% decline) and butter (5% decline).

When consumer fears were alleviated, the retail sales in the second half of 2009 rebounded, with sales growth continuing forward into 2010. Although cautious about the possibility for further problems arising from Europe, or a double dip recession in the USA, retailers generally believe that their sales in 2010 with rebound by between 4% and 8% from their 2009 results.

At present, there is a high degree of focus on value-for-money and supplying best deals to attract the consumers to spend at a time when caution still exists in the Malaysian population.

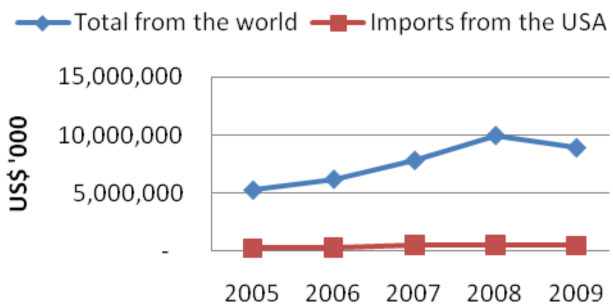
Longer term forecasts indicate that food retail sales will grow by between 5% and 7% per annum, if the economy continues to grow at forecast rates.

3. Malaysia's food imports

Malaysia's imports of food and drinks have grown significantly over the past 5 years. Total imports were valued at US$ 8.9 billion in 2009, up from US$ 5.3 billion in 2005. Imports peaked at around US$ 10 billion in 2008, when global commodity prices also peaked.

This growth has arisen in all market categories and is underpinned by annual economic growth averaging at 5.8% between 2005 and 2008, and longstanding inherent shortages in local food supplies.

Malaysian Imports of Agrifoods, Food and Drinks – 2005 to 2009



As can be seen from the Chart above:

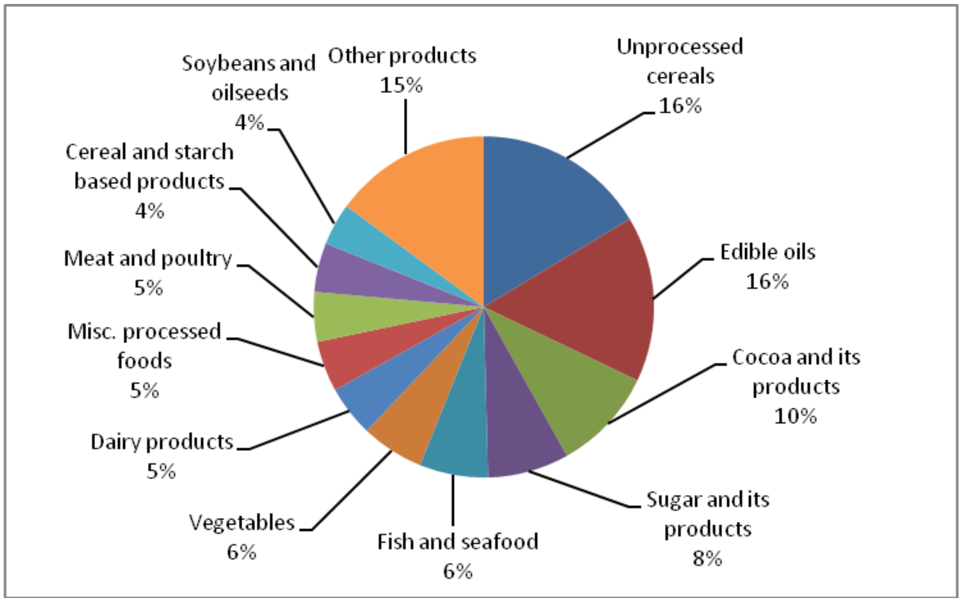
- There was a sizeable decline in the value of imports in 2009. Trade sources comment that this arises from two very different factors, namely the lower world market prices of agrifood commodities and also lower demand for some products due to weaker economic conditions and consumer confidence; and,

- The USA is a minor supplier of food and drinks to Malaysia.

The bulk of imports are food ingredients, rather than retail packed products because Malaysia has a large and strong processed food and drinks industry that supplies both the local market and export markets in Asia and the Middle East.

The main imports are unprocessed cereals, edible oils, cocoa and its products, sugar and its products and fish and seafood, which comprised 56% of total imports in 2009 (see Chart below).

Malaysian Imports of Agrifoods, Food and Drinks – US$ 8.9 Billion in 2009



4. Advantages and challenges for U.S. exporters in Malaysia's retail market

Advantages (Sector Strengths and Market Opportunities)	Challenges (Sector Weaknesses and Competitive Threats)
• Malaysia has a growing population and economy. • Over 60% of Malaysians are middle income consumers who can afford some imported food and drink products. • Malaysians have a modernised diet, which is still expanding, that contains many foreign concept food and drinks. They are generally open to products and concepts from the Developed World. • Malaysians have demand for high quality products that they perceive are value-for-money. • The USA is perceived as a producer of high quality foods by Malaysians, and as a country which has a good range of products to choose from. • U.S. cooperators and some brand owners have good shares in some food market segments in Malaysia.	• Malaysia's population is majority Muslim and there are weaknesses in U.S. abilities to supply halal certified products. • There has been a major bout of imported food price inflation over the past 3 years, which has priced some imported products out of the market. • Malaysia's currency is weak against the US$. • Malaysians are generally price sensitive. • U.S. products are generally viewed as expensive by importers. • Malaysia is part of the ASEAN Free Trade Area and multinationals with factories in the area are competing with U.S. mass market products, as are some Malaysian food processors. • An upgrading and price competitive China continues to take market share in some of the USA's target markets in Malaysia. • Australia, New Zealand and some EU countries are key direct competitors for U.S. products in some segments.

	• The USA does not always service Malaysia to meet closely with its demand requirements, e.g. on order and packaging sizes and for promotional support, and this is viewed negatively by importers.

II. ROAD MAP FOR MARKET ENTRY

5. Entry strategy

U.S. exporters have to mindful of the fact that Malaysia's market for consumer ready and retail packed foods is underpinned by price sensitivity at all levels in the distribution channel, ranging from the importer through to the end consumer.

This trait has long been in the Malaysian market but it strengthened considerably after the Asian economic crisis of 1997-1998 and the devaluation of the Ringgit (local currency). Added to this are the dramatic increases in the world market prices of 2008, which resulted in very large increases of between 40% and 70% in the Ringgit pricing of imported food and drinks from the Developed World. The market is still suffering from the impact of these price increases.

These factors have changed the structure of the market and the locations from which Malaysia sources imported foods. Today, ASEAN, China, some South American countries and South Africa have strong positions in the market, as do Malaysian food manufacturers that have upgraded their products and displaced imports from their markets.

While there are prospects that the Ringgit's value will strengthen against the US$ over the next 5 years, the competitive state of the market tends to marginalise U.S. opportunities to segments where there are clear shortages in products and also niches for higher quality products.

In view of this, it is very important that U.S. exporters:

- Perform research on their specific opportunities to confirm and clarify exactly where in the market they are for their products;

- Develop an export strategy under which their products can be well differentiated from the competition, which is increasingly including an upgraded China; and

- Identify and appoint an appropriately qualified and resourced importer and distributor as a strategic partner to activate the export strategy in the Malaysian market.

Some export marketing benchmarks do exist in Malaysia for U.S. exports. They include U.S. dried fruits, U.S. wines, U.S. cereal bars and breakfast cereals, and certain U.S. fresh fruits and fruit juices. These should be studied by other exporters to identify what their critical success factors are in the

Malaysian market. Some of these factors include unique products, high product quality, strong brands, and strong Malaysian distribution partners.

The USA has a good image in Malaysia as a supplier of good quality products, but this does not guarantee U.S. exports or sales in the market because U.S. products are also viewed as expensive and, in some cases, poorly serviced and supported.
There are also significant concerns over the halal status of U.S. products, with the general impression that U.S. products are not halal products. This works against U.S. products when in competition with Australian and New Zealand products.

The segments in which trade sources believe the U.S. food and drink products will have unique selling points and can be more easily differentiated from the competition include: cookies, confectionery, jams and jellies, honey, sauces, soups, soft drinks, fruit juices, coffee, beer, breakfast cereals and cereal bars, and some meats and poultry. Some of these segments already have U.S. involvement.

In addition to this, sources with retailers targeting expatriates comment that there is demand for consolidated shipments of a wide range of items, including organic products, healthy choice products and higher quality conventional products.

6. Distribution channels

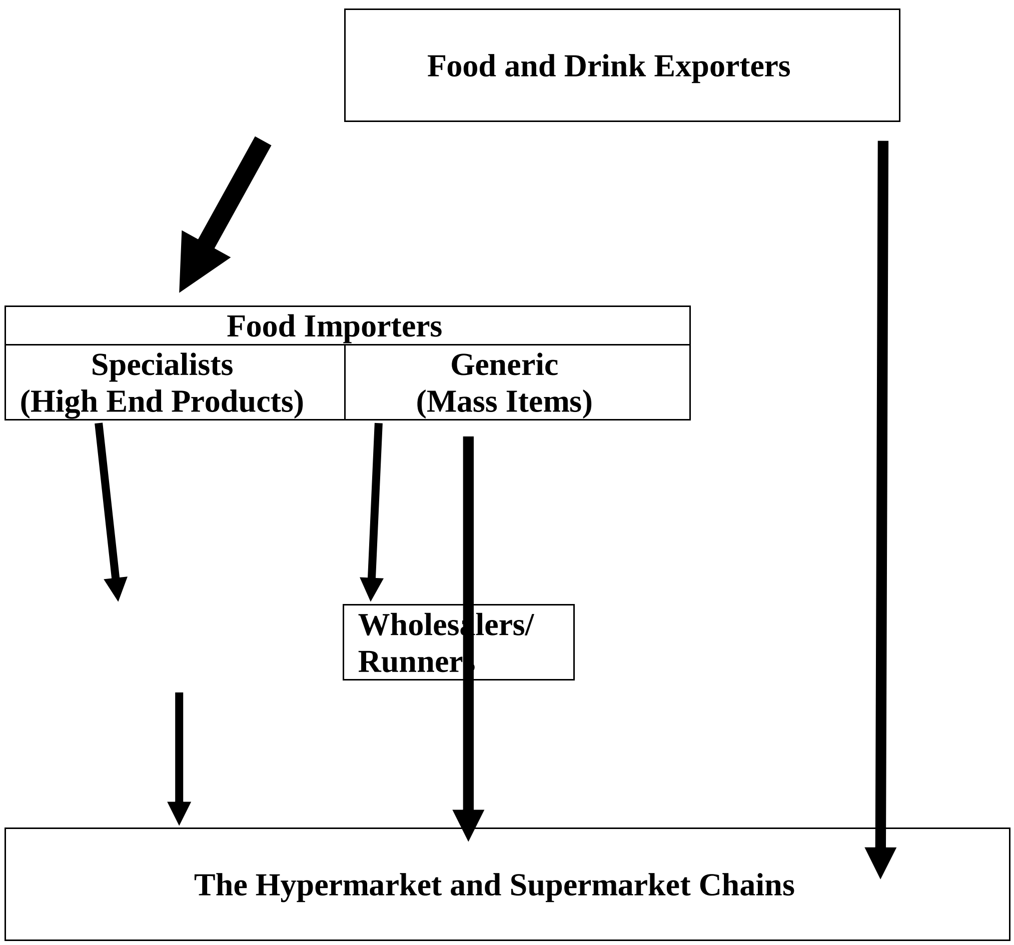
Malaysia's food and drink retail industry has been consolidating around larger business groups over the past 15 years. Today, the modern trade controls about 53% of food and drink retail sales, excluding fresh produce, which has been a highly problematic market for the sector to take control of.

The bulk of consumer ready food and drinks are imported by importers rather than retailers. Having stated this, the volume of direct imports by the major retailers has been increasing over the past 5 years.

Retailers are now importing a range of different products, including products that are in high demand, products with strong seasonal demand, e.g. dates for the Muslim fasting month, and, even, consolidated shipments of niche products for sale to expatriates (e.g. Cold Storage and Tesco). This activity is also seeing an increase in the number of retailer label products in the Malaysian market.

At retail level, the bulk of imported retail packed products are retailed through supermarkets and hypermarkets. Convenience stores and traditional shops rarely carry any imported food and drinks.

Distribution of Consumer Ready Food and Drinks in Malaysia



7. The retail industry and market structure

7.1 Large format stores

Retailer Name and Ownership	Outlet Type	Annual Sales in US$ Millions	No of Outlets	Locations	Procurement Method
Giant (GCH Retail / DFI Group)	Hypermarkets and supermarkets.	1,400 (Group Sales)	102	Nationwide	Direct from overseas and through local importer.
Cold Storage (GCH Retail / DFI Group)	High end supermarkets		18	Nationwide	Direct from overseas and through local importer.
Tesco (Tesco UK joint venture)	Hypermarkets.	480	33	Peninsula Malaysia only	Direct from overseas and through local importer.
Carrefour (Carrefour, France)	Hypermarkets	350	23	Peninsula Malaysia only	Direct from overseas and through local importer.
Jaya Jusco (Aeon Group, Japan linked)	Higher end supermarkets in Department Stores	US$ 1,200 (All retail operations).	19	Nationwide	Mainly through local importer
Mydin (Local company)	Hypermarkets, supermarkets and other formats.	516	55	Peninsula Malaysia only	Local importer.
The Store group of retailers (Local company)	Department stores and supermarkets	594	74 under different store chain names.	Nationwide, but not Sarawak state.	Local importer.

A number of other sizeable supermarket operators exist that have regional focuses in Malaysia. They include Econsave (38 outlets with annual sales estimated at around US$ 300 million), UO Superstore, KipMart, Bintang and others, e.g. Gama, in regional cities and towns.

At the time of writing (September 2010), there are quite widespread rumours that Carrefour is attempting to sell its operations in Malaysia as part of a strategic restructuring of its global operations.

Trade sources comment that there is now significant concern amongst food manufacturers, distributors and importers that the exit of Carrefour from Malaysia will create an oligopoly in the food retail industry under which two very large retailers will develop extremely strong bargaining power over food distributors and importers. This would make it even more difficult to develop markets for imported food and drinks in future.

7.2 Convenience stores and other small format stores

Malaysia has a number of small format (convenience) store operators, which control about 3% of total retail food and drink sales today.

Malaysia's convenience stores do not carry much in the way of imported branded food and drinks, especially from the Developed World. The bulk of products carried are Malaysian-made.

Most foreign products are ASEAN-content products supplied by the factories of the multinationals, e.g. Nestlé, Unilever, and Kraft Foods. At the time of writing (September 2010), products carried from the Developed World were very limited and all sourced from the EU e.g. Ferraro and Kinder Bueno (chocolates), Loacker (wafers) and Toblerone (chocolate).

This arises because their strategy focuses on conveniently supplying items that are in very high demand by Malaysians, in particular the younger generation.

Trade sources comment that it is very difficult for importers to get foreign products into these outlets. Additionally, the cost of pushing products in will very high because the product has to displace another from the limited shelf space that exists in these outlets. While this is a growing channel for food and drinks, it is not a major target for U.S. origin food and drinks.

The main store chain is 7-Eleven, which has 1,100 stores, and operates as part of the Berjaya Retail group of companies. The other large chains of small format stores are run by:

- Petrol (gas) station operators, namely Petronas (600 Mesra stores), Exxon Mobil (250 stores under different names), BHPetromart (200 outlets), Caltex (300 stores), and Shell Select (more than 600 outlets). These outlets mainly carry Malaysian and ASEAN-made products;

- Watson Personal Care, which has 216 outlets on a nationwide basis which carry certain food items, e.g. confectionery and food gift items, which includes a very small range of non-ASEAN imports; and,

- The myNews.com chain of outlets, which number around 140 stores operating in all areas of Malaysia, except Sabah, a Malaysian Borneo island state. These outlets only carry Malaysian and other ASEAN-content food and drinks.

While there are a number of convenience store businesses operating in Malaysia, none have been as successful as 7-Eleven in building their networks of stores. Examples of these chains include Carrefour Express (15 outlets) and the smaller chains of D-Lima and 99 Speed Mart.

Tesco was given permission by the government to open 3 small format stores, which used the name Tesco Express. To-date, all have failed and been closed down. This is not the only failure to develop this sub-sector as the government has attempted on a number of occasions to help local businesses and co-ops to set up convenience store chains, and all have failed.

Trade sources comment that the Malaysian government is currently debating whether to liberalise the laws on convenience store chains to allow the large retailers, such as Giant and Tesco, to become directly involved in the sector. The Carrefour Express chain remains small because it is a franchise operated by a local business rather than an in-house Carrefour group operation.

7.3 The traditional channels

Malaysia has around 25,000 retail outlets involved in food and drink retailing and the bulk of them are smaller traditional businesses. The traditional channels are still important in Malaysia, although their importance varies from product to product and location across the country. They include small supermarkets, grocery shops (mom and pop outlets) and traditional markets.

Trade sources comment that while the large format stores have made huge efforts to attract shoppers to buy fresh produce from them, this has been very difficult. Such stores only accounted for around 15% of fresh produce sales in 2009, indicating that Malaysians still prefer to purchase fresh products from wet markets. Consequently, a small range of imported fruits and vegetables are still retailed through wet markets, e.g. apples, oranges, grapes and celery.

The small supermarkets and grocery outlets rarely carry any products that are imported from outside the ASEAN region because their focus is generally on the middle to lower income group shoppers in their vicinity. Consequently, they are generally not a target for U.S. origin food and drinks.

While this is the case, in the Kuala Lumpur area and some other cities across Malaysia there are some small supermarkets that cater specifically to expatriates and upper income group Malaysians, e.g. Hock Choon Supermarket and Ampang Minimart in Kuala Lumpur, and Tong Hing Supermarket in Kota Kinabalu, Sabah State. These specialist retail outlets tend to compete with Cold Storage Supermarkets for the expatriate market and they have a very fragmented portfolio of products on their shelves that are imported from all over the world.

III. Competition in the retail market

8. Overview of the nature of competition

Competition for U.S origin products now comes from:

- ASEAN-content processed food and drinks, including Malaysian-made products because Malaysia has fully implemented the tariff reduction provisions of the ASEAN Free Trade Area (AFTA). AFTA is now a core part of Southeast Asia's push to establish an ASEAN Economic Community by 2015. These products have becoming an increasing source of competition over the past 15 years;

- Products from other Asian countries, in particular China, which now also has duty free access under the ASEAN-China Free Trade agreement that Malaysia has signed. China is becoming increasingly important as it has upgraded its products over the past 10 years;

- Products from lower income temperate climate countries, e.g. low cost products from some South American countries and South Africa (e.g. for wine); and,

- Products from the Developed World, e.g. Australia, New Zealand, the EU and Canada. The products from these countries are very important because they are active competition in the expatriate and the Malaysian upper income group segments, which are serviced by Cold Storage, Jusco and some specialty food retailers.

The basis of competition is complex, although price is a key factor in competition between U.S. products and ASEAN-made processed food and drinks, and products from other countries, e.g. China, some South American countries and South Africa.

Trade sources comment that this situation has tended to marginalise some Developed World products, including U.S. products, which could be in retail channels, to the food service channels, where quality is more of a factor in purchase decision-making.

9. Competition matrix

Imports from the ASEAN member states are very important competition in some market segments and have been grouped together under the heading "ASEAN" in the Table below.

Market and Its Size	**Major Supply Sources**	**Strengths of the Key Supply Countries**	**Advantages and Disadvantages of Local Suppliers**
Beef, fresh/chilled and frozen: 108,000 tonnes valued at US$ 280 million.	• India – 81%. • Australia – 10%. • Uruguay – 4%. • New Zealand – 3%. • USA – Negligible.	Indian carabeef is in very high demand in the mass market "curry beef" segment. Australia through its Aussie Beef marketing campaign has a very high profile in supermarkets and hypermarkets.	Malaysia has a small and growing beef industry that is being developed under a government funded cattle industry development program that has private sector involvement.
Poultry meat: 28,500 tonnes valued at US$ 50.8 million.	• China – 55%. • Denmark – 27%. • Netherlands – 8%. • USA – 5%.	Price competitiveness, especially for China's products.	Very strong professionally managed poultry production businesses.
Pork: 4,000 tonnes valued at US$ 11 million.	• Netherlands – 30%. • Canada – 23%. • Vietnam – 21%. • USA – 11%. • Australia – 9%.	Price competitiveness, with the main target being in food service, not retail channels.	The local pork industry is strong but has been under pressure for around 10 years from disease outbreaks (Nipah virus) and also policies on pig farm zoning and environmental pollution issues.
Cheese: 9,600 tonnes valued at US$ 40 million.	• Australia – 46%. • New Zealand – 36%. • USA – 5%. • Singapore – 3%.	Fonterra, which supplies cheese from both Australia and New Zealand, is the market leader with a very strong distribution operation in Malaysia.	No substantial local supplies exist.
Butter: 5,000 tonnes valued at US$ 16 million.	• New Zealand – 49%. • Australia – 40%.	New Zealand and Australian suppliers have very strong and longstanding distribution links to Malaysia for their own brands and OEM packed	Malaysian edible oil companies supply alternative dairy spreads, which contain vegetable oil. These are well

	• USA – Negligible.	butter.	distributed.
Ice cream: 11,700 tonnes valued at US$ 20 million.	• ASEAN – 89%. • Canada – 5%. • France – 2%.	The ASEAN ice cream production bases of Unilever (Walls) and F&N dominate the market for imports. Other products are niche items. Canada and France supply premium and super premium ice creams.	Nestlé has an ASEAN production base for ice cream in Malaysia and there are some smaller local producers that have a strong competitive impact on the market.
Yoghurt: 350 tonnes valued at US$ 0.8 million.	• Australia – 61%. • New Zealand – 18%. • Switzerland – 13%. • USA – Negligible.	Australia's dominance in the market arises because of its lower market entry price. Imported products operate in niches. The bulk of demand is in high end hotels for imported yoghurt from the Developed World.	Locally produced yoghurts made by Friesland, Nestlé, Malaysia Milk and Fonterra have a very strong presence in the market.
Liquid milk: 6.6 million litres valued at US$ 5 million.	• Australia – 70%. • New Zealand – 35%. • ASEAN – 4%.	Imported liquid milk is pulled in mainly by Friesland's Malaysian operations under the government's Tariff Rate Quota management system for non-ASEAN products.	Very strong market positions exist for the local products of Friesland (Dutch Lady), Fraser & Neave Dairy Group, Malaysia Milk, Fonterra and Susu Lembu Asli.
Apples and pears: 137,000 tonnes valued at US$ 67 million.	• China – 50%. • South Africa – 32%. • USA – 11%. • New Zealand – 4%.	China's price competitiveness in the northern hemisphere marketing season. In pears, China is mainly involved with inexpensive Chinese varieties.	No local supplies.
Citrus fruits, temperate climate only:	• China – 52%. • South Africa	China's price competitiveness in the northern hemisphere	No significant direct competition for temperate climate citrus fruits from

148,000 tonnes valued at US$ 39 million.	– 14%. • USA – 13%. • Australia – 11%. • Egypt – 5%.	marketing season. China's weakness is in the small range of products it is exporting.	local tropical citrus varieties.
Grapes and raisins: 33,000 tonnes valued at US$ 21 million.	• USA – 34%. • South Africa – 16%. • Australia – 16%. • Chile – 12%. • China – 11%.	Branding and strong physical distribution.	No local supplies.
Soft fruits: 750 tonnes valued at US$ 1 million.	• USA – 31%. • South Korea – 29%. • Egypt – 13%.	Strong distribution in the marketing season.	Strawberries from Malaysia's highlands are available and competing with imported products in some channels.
Stone fruits, including avocado: 5,000 tonnes valued at US$ 3 million.	• USA – 32%. • Chile – 22%. • South Africa – 17%. • Australia – 13%. • China – 10%.	Strong distribution in the marketing season, combined with promotional activities.	No local supplies.
Dates, Middle Eastern type only: 11,500 tonnes valued at US$ 21 million.	• Egypt – 28%. • Iran – 19%. • Tunisia – 17%. • UAE – 16%. • Saudi Arabia – 13%. • USA – Negligible.	Strong trading links and demand-pull to cover traditional seasonal price driven demand for dates, e.g. in the Muslim fasting month of Ramadan.	No local supplies.
Potatoes, fresh	• China –	China and Pakistan dominate	Local supplies have

table varieties: 162,000 tonnes valued at US$ 53 million.	68%. • Pakistan – 17%. • Australia – 3%. • USA – 3%.	the market because of the low market entry price of their products, which are aimed at the Malaysian mass market.	limited competitive impacts on this market.
Broccoli and cauliflower: 39,000 tonnes valued at US$ 36 million.	• China – 97%. • Australia – 1%. • USA – Negligible.	China price competes its way into this market, under circumstances where its product quality has been improving.	Local supplies from the highlands have a very limited impact on this market.
Lettuce, head type: 6,800 tonnes valued at US$ 5.5 million.	• China – 88%. • Thailand – 7%. • USA – 3%.	China price competes its way into this market, under circumstances where its delivered quality has been improving.	Local supplies from hydroponic growers have a significant impact on this market.
Asparagus: 600 tonnes valued at US$ 0.5 million.	• Thailand – 87%. • USA – 5%. • Australia – 4%.	The market includes two qualities, the local/Thai product, which is smaller, and the larger seasonal variety imported from the Developed World that has a small niche market.	Local supplies from the highlands have a competitive impact on this market.
Celery: 6,900 tonnes valued at US$ 5.6 million.	• China – 59%. • USA – 30%. • Australia – 7%.	China price competes its way into this market.	No significant local supplies.
Coffee, roasted ground: 1,300 tonnes valued at US$ 6.4 million.	• Switzerland – 36%. • Indonesia – 18%. • USA – 10%. • Italy – 7%.	Brands, quality and demand-pull from European origin coffees for sales through high end retailers and food service channels.	Malaysia produces coffee and its products are mainly mass market traditional items, which are in high demand.

Tea, leaf and bags: 14,000 tonnes valued at US$ 24 million.	• Indonesia – 47%. • Vietnam – 25%. • China – 9%. • Sri Lanka – 7%. • USA – 1%.	Unilever has one of its Asian region production bases in Indonesia. It supports its Lipton tea brand in the Malaysian market through very strong distribution and A&P activities.	Malaysia produces tea and is the leader in this market.
Sunflower oil: 1,700 tonnes valued at US$ 2.6 million.	Turkey – 39%. Netherlands – 16%. Singapore – 15%. France – 10%. UK – 8%. USA – Negligible.	Refined oils are mainly imported through demand-pull from Malaysian bottlers that are bottling under their own brand names and for some foreign brands, e.g. Mazola.	Malaysian produced palm oil dominates the edible oil market because it is inexpensive, readily available and the subject of high levels of promotion in retail channels. Foreign packed oils, are marginalised to small niches in a very large market. The local oil companies also imported sunflower, corn and soybean oil in bulk for processing packing under their own brands in Malaysia.
Corn oil: 3,900 tonnes valued at US$ 4.8 million.	China – 76%. Japan – 13%. Singapore – 9%.		
Soybean oil: 2,000 tonnes valued at US$ 2 million.	Brazil – 89% Japan – 11%. USA – Negligible.		
Processed meats, not chilled (canned products): 6,900 tonnes valued at US$ 9 million.	China – 71%. Denmark – 11%. France – 7%. Netherlands – 5%. USA – Negligible.	China is dominant because its non-halal products are generally price competitive versus imports from the EU, e.g. the Tulip brand.	The bulk of imports are non-halal products. Halal products are very important competition for halal imports, which are now minimal in terms of volumes.

Sausages: 2,600 tonnes valued at US$ 1.9 million.	China – 56%. Denmark – 25%. France – 11%. USA – Negligible.	China's sausage supplies are mainly traditional products. The USA's main competitors are Denmark (Tulip) and France, which have quite good distribution for their products	Locally made halal sausages are dominant in the market and are powerful competitors for imports.
Processed fish, mainly canned: 26,000 tonnes valued at US$ 52 million.	• ASEAN – 54%. • China – 41%. • USA – Negligible.	Asian-origin products dominate the market because of their strong distribution support, ready availability and competitive pricing.	Local brands, some of which are ASEAN in orientation, are very strong competition for imported products.
Processed seafood, mainly canned: 2,800 tonnes valued at US$ 11 million.	• ASEAN – 44%. • China – 16%. • Chile – 16%.	Asian-origin products dominate the market because of their strong distribution support, ready availability and competitive pricing.	Local brands, some of which are ASEAN in orientation, are very strong competition for imported products.
Sugar confectionery: 17,000 tonnes valued at US$ 43 million.	• ASEAN – 55%. • China – 40%. • USA – Negligible.	Asian-origin products dominate the market because of their strong distribution support, ready availability and competitive pricing.	Local players have a very strong presence in the market.
Chocolate confectionery: 13,000 tonnes valued at US$ 77 million.	• ASEAN – 46%. • Australia – 17%. • USA – 10%. • Italy – 6%.	Although producing in Malaysia, Cadbury also pulls-in products from its operations in Australasia and Indonesia. Other successful foreign are heavily promoted and have very strong physical	Local players, which include the Nestlé group's ASEAN chocolate production operations, and Cadbury have a very strong presence in the market.

		distribution.	
Cookies (Sweet Biscuits): 8,900 tonnes valued at US$ 18.7 million.	• ASEAN – 59%. • China – 18%. • UK – 7%. • Italy – 2%. • USA – Negligible.	Asian-origin products made by multinationals dominate the market based on a strategy of strong brand management and distribution. The UK (McVities) and Italy (Loacker) are strong niche players.	Local products aggressively compete with imports because Malaysia has one of Asia's strongest biscuit industries.
Breakfast cereals and cereal/muesli bars: 6,300 tonnes valued at US$ 16 million.	• ASEAN – 69%. • USA – 7%. • UK – 7%. • Germany – 7%. • Australia – 6%	Nestle (59% share) and Kellogg's (12%) have ASEAN regional plants whose branded products are heavily promoted in Malaysia. Other countries products are higher end niche items, e.g. Post and Weetabix.	The local products compete with the ASEAN products rather than imports from the Developed World.
Snack foods 1,000 tonnes valued at US$ 2.5 million.	• ASEAN – 60%. • USA – 40%.	ASEAN products compete on price. U.S. brands are strong niche players in a small market for imports.	The local snack producers, which include Kraft Foods, control well over 95% of the Malaysian snack market. The players in the industry have very strong brands and distribution and a sizeable range of products, which has been expanding.
Frozen potato products 43,000 tonnes valued at US$ 41 million.	• USA – 35%. • Belgium – 18%. • New Zealand – 14%. • Netherlands – 13%.	European products are dominant in the retail channels, where they supply Malaysian private labels as well as EU branded products.	None exist.

	• Canada – 11%. • Denmark – 5%.		
Other frozen vegetables 9,500 tonnes valued at US$ 6.9 million.	• China – 64%. • Denmark – 16%. • New Zealand – 8% • Netherlands – 4%.	China has become the dominant player because it is a price competitive supplier to Malaysian private labels.	None exist.
Non-Asian sauces 6,800 tonnes valued at US$ 14 million.	• USA – 68%. • Australia – 7%. • UK – 6%.	Campbell Soup has a subsidiary in Malaysia that is pulling in its U.S. made sauces (pasta). The other countries are supplying the pasta sauce segment (e.g. Australia) or are unique products with niche demand, e.g. UK.	Tomato sauce and some lower end pasta sauces are produced in Malaysia.
Soups 320 tonnes valued at US$ 0.8 million.	• UK – 39%. • ASEAN – 27%. • Japan – 17%. • USA – 9%.	The UK is a niche player in the higher end supermarkets with Heinz and Baxter's products. Campbell is pulling in some U.S. specialty soups for the same niche market.	Campbell Soup has a regional soup manufacturing operation in Malaysia and is a strong market leader in the canned soup market. Ajinomoto and Unilever are also strong in dehydrated soup segment.
Fruit juices 21 million litres valued at US$ 43 million.	• ASEAN – 29%. • USA – 11%. • Taiwan – 8%. • China – 8%.	Imported fruit juices are a small niche in a large market dominated by Malaysian-made products.	Malaysian companies dominate the chilled and ambient fruit juice markets. They include Coca-Cola, which bottles in Malaysia for some ASEAN countries.
Soft drinks, not fruit juices 30 million litres	• ASEAN – 91%. • China – 2%.	Imported soft drinks have a small niche in a large market dominated by Malaysian-made products.	Very strong players. They include the Coca-Cola, Pepsico, Pokka and some local brands.

valued at US$ 32 million.	• USA – Negligible.		
Beer (Not included in AFTA). 27 million litres valued at US$ 32 million.	• Singapore* – 37%. • China – 18%. • Mexico – 7%. • Netherlands – 6%. • USA – Negligible.	Strong physical distribution to licensed retail outlets and aggressive promotional activity by the key brand-owners in such outlets. A&P activity is quite low profile because Malaysia is a Muslim-majority country.	Very strong in the mass market for beer, including Carlsberg and Tiger.
Wine 6.7 million litres valued at US$ 47.5 million.	• Australia – 38%. • Singapore re-exports – 17%. • France – 12%. • Chile – 8%. • USA – 6%.	Strong physical distribution to licensed retail outlets and aggressive promotional activity in such outlets. A&P activity is low profile because Malaysia is a Muslim-majority country.	None.
Spirits, including brandy, whisky, rum, gin, vodka and liqueurs (Not included in AFTA). 17 million litres valued at US$ 168.9 million.	• UK – 32%. • Philippines – 17%. • France – 16%. • Singapore re-exports – 15%. • USA – Negligible.	The multinational spirits companies are dominant players in this market with a share of around 70%. This situation is underpinned by strong physical distribution and aggressive marketing activity within licensed drinking establishments. Other products are niche players.	They play at the lower end of the alcoholic drinks market and are in the retail market.
*: Includes some re-exported products. Source: Malaysian Government External Trade Statistics			

Malaysia has a very large market for fish and seafood. The bulk of sales through retail channels are warm water (tropical) fish rather than cool water fish as is supplied by the USA. Malaysia's supermarkets and hypermarkets supply a small range of cool water products, most of which have developed demand over the past 10 to 15 years:

- Fresh/chilled products, which are dominated by Atlantic salmon and salmon trout; and,
- Frozen products, which have a wider range including Atlantic salmon, smoked salmon, cod, Pollack, mackerel (Saba), mussels, and scallops.

Market and Its Size	**Major Supply Sources**	**Strengths of the Key Supply Countries**	**Advantages and Disadvantages of Local Suppliers**
Salmon, fresh/chilled and frozen: 1,200 tonnes valued at US$ 9 million.	• Norway – 69%. • Australia – 12%. • Chile – 7%.	Norway has a very strong marketing and distribution stance in Malaysia for its fresh/chilled salmon. Chile is supplying lower cost frozen salmon.	None exist.
Smoked salmon: 8 tonnes value at US$ 9,000.	• China – 94%. • Norway – 6%.	China is price competing with frozen products in this market that are reported to be made from North American salmon.	None exist.
Cod, frozen: 400 tonnes valued at US$ 1.9 million.	• France – 46%. • USA – 34%. • Singapore re-exports – 8%.	French exporters links to Malaysian importers. The USA is price competitive versus France.	None exist, although local fish are very strong alternatives and much better known by consumers.
Mackerel, frozen: 3,900 tonnes valued at US$ 4.9 million.	• Japan – 58%. • South Korea – 34%. • Norway – 4%.	Supply push from Japanese and South Korean suppliers with good distribution channels in Malaysia, underpinned by demand from the food service industry. Retail is a niche in this market scenario.	Local warm water mackerel exists but do not interact directly with the cool water product because it has different uses.
Mussels, frozen:	• New Zealand – 70%.	New Zealand has very strong marketing and distribution for its mussels, in shell and meat in	Local supplies do exist but these are mainly sold as fresh collected though

600 tonnes valued at US$ 2.5 million.	• Vietnam – 12%. • Chile – 11%.	Malaysia.	traditional wet markets.
Scallops, frozen: 850 tonnes valued at US$ 5.9 million.	• China – 24%. • Indonesia – 15%. • USA – 13%. • Australia – 12%. • Vietnam – 10%.	The Asian suppliers work on price when developing their market. The USA (in large format retail stores) and Australia are focused on quality.	Limited local supplies do exist but these are mainly sold as fresh collected though traditional wet markets.

Some other points to note are as follows on competition:

- There is a China paradox in the Malaysian market.

  Trade sources comment that many Malaysians are *"very scared of China-origin foods"*, which are viewed as high risky to consume because of there is *"no control in China over food health and safety"*. They comment that consumer surveys conducted over the past 5 years have consistently found that Malaysians actually view China as the most unsafe country in the world to import and consume foods from.

  This situation also exists for India in the beef market because middle income housewives have long questioned the safety of Indian beef, e.g. there are some suspicions that it is BSE infected.

- For higher end niche products imported from the Developed World there is some competition in Cold Storage from retailer labelled products.

  Cold Storage, which services expatriates, uses the Waitrose (UK) retailer labelled products as its own higher end specialty food and drinks brand in its Malaysian stores. The Waitrose branded products are imported directly from the UK by Cold Storage.

IV. Best product prospects

10. Products present in the retail market which have good sales potential

Product	Market Size in 2009	Market Growth Rate Per Annum *	Regulatory Barriers for U.S. Origin Products	Key Constraints to Market Development	Market Attractiveness for the USA
Poultry	28,500 tonnes valued at US$ 50.8 million.	More than 10%.	An active Tariff Rate Quota exists on chicken, both whole and parts, from all non-ASEAN countries. Entry of turkey and duck is at 0%.	Local competition and competition from lower cost producers in China and the EU.	An attractive growing niche for frozen chicken parts.
Pork	4,000 tonnes	More than	A Tariff Rate Quota exists on	Local pork is very strong and	An attractive growing niche for

	valued at US$ 11 million.	10%.	pork carcasses. Pork cuts and offal enter at 0%.	price competition exists from EU frozen pork cuts and offal.	frozen pork and pig's offal.
Cheese	9,600 tonnes valued at US$ 40 million.	7% to 10%	0% import duty.	The strengths of Australia and New Zealand in the distribution channels and their product pricing and packaging sizes.	Low level in retail, with demand only in the highest end supermarkets. (Note: The main demand for U.S. cheese is in food service channels).
Apples and pears	137,000 tonnes valued at US$ 67 million.	2% to 3%	None, except a 5% import duty.	Very strong competition from China.	Attractive for products that can be differentiated from Chinese products.
Citrus fruits	148,000 tonnes valued at US$ 39 million.	Around 5%.	None, except a 5% import duty for non-tropical varieties.	Very strong competition from China.	Attractive for products that can be differentiated from Chinese products.
Grapes and raisins	33,000 tonnes valued at US$ 21 million.	5% to 8%	None, except a 5% import duty on fresh grapes. 0% for raisins.	Price sensitivity amongst consumers.	Very attractive for U.S. exporters.
Soft fruits	750 tonnes valued at US$ 1 million.	2% to 3%	None, except a 5% import duty.	Price sensitivity amongst consumers. In strawberries competition from South Korea and local highlands products.	A fairly attractive niche for U.S. exporters.

Stone fruits, including avocado	5,000 tonnes valued at US$ 3 million.	Around 5%.	None, except a 5% import duty.	Price sensitivity amongst consumers.	Attractive for U.S. exporters.
Celery	6,900 tonnes valued at US$ 5.6 million.	Around 5%.	0% import duty.	Competition from China.	Fairly attractive for U.S. exporters, if they can differentiate from China.
Asparagus	600 tonnes valued at US$ 0.5 million.	5% to 10%	0% import duty.	Price sensitivity amongst consumers.	Attractive niche for U.S. exporters.
Roasted coffee	1,300 tonnes valued at US$ 6.4 million.	8% to 10%	0% import duty.	Competition from local alternatives and from Italy and Singapore.	Fairly attractive niche for U.S. exporters.
Chocolate	13,000 tonnes valued at US$ 77 million.	6% to 8%	None, except a 15% import duty.	Very strong competition from local, ASEAN and other countries, e.g. Australia and Belgium. Halal requirements.	Attractive niche for U.S. exporters, if their products are well differentiated from the competition.
Breakfast cereals and cereal/muesli bars.	6,300 tonnes valued at US$	3% to 5%	None, except a 5% import duty.	Price sensitivity amongst consumers. Halal	Attractive niche for U.S. exporters.

	16 million.			requirements.	
Frozen potato-based products	43,000 tonnes valued at US$ 41 million.	6% to 8%.	0% import duty.	Competition from the EU, which is being driven by Malaysian private labels pulling in product from Belgium.	Generally attractive as a target because Malaysians are eating more fast food and consuming more French fries and other products at home.
Non-Asian sauces	6,800 tonnes valued at US$ 14 million.	5% to 10%	None, except a 5% import duty.	Food culture barriers to using non-Asian sauces in homes. Halal requirements.	Generally attractive because Malaysians are expanding their diets.
Wine	6.7 million litres valued at US$ 47.5 million.	5% to 7%	US$ 2.30 per litre in import duty and very high excise duties to discourage alcoholic drink consumption.	Very crowded and confusing market. Lack of clear demand traits from consumers and price sensitivity.	Good amongst the middle and upper income group non-Muslims who like to drink wine.
Salmon, frozen	230 tonnes valued at US$ 1.3 million.	More than 8%.	0% import duty.	Strong competition from Chile and Norway.	Quite good prospects for price competitive frozen salmon cuts.
Mussels, frozen	600 tonnes valued at US$ 2.5 million.	Around 10%.	0% import duty.	Strong competition from New Zealand, the market leader.	Quite good prospects. The middle and upper income have demand for value-for-money, quality and safe

					mussels.
Scallops, frozen	850 tonnes valued at US$ 5.9 million.	8% to 10%	0% import duty.	Price sensitivity and price competition from Asian suppliers.	Good prospects. IQF frozen scallops are in demand in mid to high end supermarkets.

*: Trade estimate on the basis of Malaysia's economy growing at a normal rate of 4% to 6% per annum, as forecast.

11. Products not present in significant quantities in the retail market but that have good sales potential

Trade sources comment that are a number of markets where the demand from more affluent Malaysians have established quite good niche demand that could be targeted by U.S. exporters of specialty products.

Product	**Market Size in 2009 (Estimated)**	**Market Growth Rate Per Annum ***	**Regulatory Barriers for U.S. Origin Products**	**Key Constraints to Market Development**	**Market Attractiveness for the USA**
Ice cream, specialty	1,000 tonnes valued at US$ 5 million	5% to 8%	None, except a 5% import duty	Very strong competition from local and ASEAN made products.	The opportunities in these markets are to build niches on the back of demand from more affluent consumers in Malaysia as the economy continues to grow at between 4% and 6% per annum over the next 5 years.
Sugar confectionery, specialty	700 tonnes valued at US$ 4.3 million	Around 5%.	None, except a 15% import duty		
Cookies, specialty	1,500 tonnes valued at US$ 6.5 million.	5% to 7%	None, except a 6% import duty		
Potato-based snacks, specialty	400 tonnes valued US$ 1 million.	3% to 5%	None, except a 5% import duty	Very strong competition from locally made products.	
Soft drinks, specialty	1 million litres valued	Around 5%.	None, except a 20% import	Very strong competition	

	at US$ 1.5 million.		duty	from local and ASEAN made products.	
Beer, specialty	6.5 million litres valued at US$ 12 million.	5% to 10%	US$ 1.70 per litre, plus very high excise duties to discourage alcoholic drink consumption.	Very strong competition from local beers and price sensitivity.	
*: Trade estimate on the basis of Malaysia's economy growing at a normal rate of 4% to 6% per annum, as forecast.					

It should be noted that standard versions of the above products come under severe or very severe competition from local products and products from other ASEAN member states and, in some cases, from China. For this reason, U.S. exporters have to ensure that their specialty items have well defined USPs (unique selling points) and can be well differentiated from the standard items already in the market.

12. Products not present because they face significant barriers in the retail market

A sizeable number of U.S. products now face a range of barriers to developing viable retail market segments in Malaysia. These barriers include:

- Regulatory barriers, which are limited but do have an impact on beef and chicken, for example;
- Competition, which is complex. This arises from multinationals with factories in ASEAN, price competition from other Asian countries, e.g. China, and strong trading links between Malaysia and Australia and the EU;
- Price sensitivity, which is well entrenched at all levels in the distribution channels, and is very important in some of the USA's key targets, e.g. fresh table potatoes and apples;
- The continued weakness of the Ringgit (local currency) against the US$; and,
- Food culture, which includes halal requirements (as mentioned earlier in this report).

The U.S. origin retail products that fall into this category include beef, butter, yoghurt, liquid milk, ice cream (non-specialty), dates, potatoes, other vegetables except some specialty items (mentioned in earlier sections of this report), tea, edible oils, processed meats, sausages, processed fish and seafood, cookies (non-specialty), frozen vegetables, cereal-based snacks (extruded items), soups, fruit juices, soft drinks (non-specialty), spirits, fresh salmon, smoked salmon, frozen cod and frozen mackerel.

It should be noted that:

- There are small to very small niches for some of the above listed products in the high end retail outlets, e.g. Cold Storage Supermarkets, which service the expatriate population and Malaysian higher income group families.

- Some of the above listed products also have demand in the HRI/food service industry supplies market and also as ingredients for processed food and drinks.