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Wine

Product Brief

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Report Highlights:

This report provides background of the Malaysian wine market and its future prospects; consumers taste and preferences; distribution patterns and import regulations affecting wine. It also provides recommendations for U.S. wine exporters on market penetration. An in-depth market study is recommended for U.S. wine exporters who wish to develop a long term market in Malaysia.

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1. Malaysia in profile

Malaysia is the third wealthiest country in Southeast Asia with a population of around 23.2 million people. About 56% of its population reside in urban centres with the balance living in rural areas. Around 61% of its population make up the middle to upper income group of consumers with the balance forming the lower income group of consumers.

The Table below provides the population structure of Malaysia today with projections up to the year 2010.

Population Structure, 2000 - 2010 ('000 persons)				
	2000	%	2010	%
Total Population	23,265.9		28,904.2	
Malaysian Citizens	22,032.8	100.0	27,348.6	100.0
Bumiputra (Muslims)	14,564.5	66.1	18,668.2	68.3
Chinese	5,583.8	25.3	6,509.0	23.8
Indian	1,628.6	7.4	1,941.7	7.1
Others	255.9	1.2	229.7	0.8
Non-citizens	1,233.1		1,555.6	
Age group				
0-14	7,705.2	33.1	8,595.9	29.7
15-39	9,776.8	42.0	11,793.6	40.9
40-64	4,847.1	20.9	7,201.8	24.9
+65	936.8	4.0	1,312.9	4.5
Source: Department of Statistics				

Its economy has a firm foundation in a mixed economy that comprises strong manufacturing, service and agricultural sectors. Its GDP per capita in 2000 was US\$3,850, up from US\$3,208 in 1998 when it suffered adverse effects from the regional economic downturn. The country achieved economic growth of 8.5% in 2000. The trend of economic growth in 1999 and 2000 indicates that the economy is on its way to resume its growth rates of the pre-1997-1998 crisis period. Inflation in 2000 remained low at 1.6%. Based on the favourable external and domestic economic environment, analysts forecasts economic growth ranging from 5% to 7% for the year 2001.

2. Malaysia's wine market

2.1 Market size

Malaysia imports all of its wine requirements as it does not produce any wine. The Malaysian wine import market was valued at around US\$ 13 million (CIF value), amounting to 3.0 million litres, in 1999. The market for wine is estimated at anywhere between RM 270 million (US\$ 71 million) and RM 300 million (US\$ 79 million).

2.2 Imports and future prospects

The Table below shows the volume of wine imported into Malaysia over the past five years.

Wine Imports - Million Litres (Net of re-exports)				
1995	1996	1997	1998	1999
1.2	1.0	1.2	1.6	3.0
Source: Malaysia Department of Statistics				

Wine imports have been growing at around 30% per annum over the past five years. In 1999, wine imports increased by 1.4 million litres. This increase was mainly the result of increased imports from France (increased by 0.4 million litres), USA (increased by 0.7 million litres) and Australia (increased by 0.2 million litres).

Trade sources comment that the import market is likely to continue to grow at high rates of around 20% for the next three years. In particular, price competitive red wines of the New World varieties are likely to see greater growth than Old World wines.

2.3 Competition

The Table below shows the total CIF value of wine imported from major countries for the three years to 1999.

Wine Imports (US\$ '000)			
	1997	1998	1999
USA	537	1,059	2,237
France	2,273	3,655	4,794
Australia	1,261	1,851	2,976
Others	1,989	1,597	2,794
Total	6,060	8,162	12,801
Source: Malaysia Department of Statistics			

The Table below shows the volume of wine imported from major supply countries for the three years to 1999.

Wine Imports (Litres)			
	1997	1998	1999
USA	171,541	323,966	1,099,006
France	382,487	619,965	1,039,234
Australia	246,485	472,134	598,450
Others	394,955	241,767	452,391
Total	1,195,468	1,657,832	3,189,081
Source: Malaysia Department of Statistics			

Wine imports from the USA grew significantly, at around 180% per annum over the past three years, compared to France's 57% growth and Australia's 48% growth over the same period.

The table below shows the market shares of the major country sources for imported wine in 1999.

Wine Import Market Shares - 3.1 Million Liters (1999)	
	%
USA	34.5
France	32.6
Australia	18.8
Chile	2.7
Others	11.4
Source: Malaysia Department of Statistics	

In 1999, the USA had the largest share of the wine import market with 34.5% (1.1 million litres) while France was a close second with 32.6% share (1.04 million litres). Australia had 18.8% share (0.6 million litres) of the wine market in that year.

The USA has been competing very aggressively in the market in recent years by supplying price competitive high quality New World wines. It has also actively invited and sponsored visits to its vineyards in the USA for major retailers to familiarise themselves with US wine. These activities have successfully created large market shares for US wines in Malaysia.

France actively supports its wines through SOPEXA, a French Government sponsored organisation which markets and promotes French food and beverage products. Annually, it runs wine promotions as well as provides wine courses targeted at staff of major retailers. Such courses are paid for by the retailers who may send several staff members a year as part of their training programs.

Australia competes by supplying competitively priced high quality New World wines. Trade sources comment that Australia does not organise any marketing/promotional activity on its wines. However, trade sources comment that the newly formed Association of Australian Wine Importers in Malaysia has strong support from the Australian wine industry. Most of the Australian wine promotional activities were carried out by individual wine importers.

3. Consumer tastes and preferences

Wine consumption in Malaysia is very low compared to western countries. Excluding the Muslim population, which make up 66% of the total population, the per capita consumption of wine is currently around 0.4 litres. Wine consumption is still at an infant stage of development. The majority of the non-muslim Malaysians do not drink wine. Those who have acquired a taste for wine have only done so in the past three years or so.

A large proportion of the wine drinkers have switched from drinking spirits, such as brandy, to wine mainly due to:

- S** the significant increase in the retail price of brandy in the recent few years arising from recent increases in excise duties imposed on these products as an effort by the Government to discourage the consumption of alcoholic drinks.
- S** the media reports about the health benefits of drinking red wine.

According to trade sources, around 60% of the wine is consumed in food service outlets such as middle to high end restaurants and bars while 40% is purchased off the shelves at retail outlets such as supermarkets/hypermarkets and a small number of specialist wine shops.

Trade sources comment that the majority of wine consumed at food service outlets are by local consumers, mainly high income middle-aged Chinese men who may or may not be highly educated or sophisticated wine consumers. Some Chinese women also consume wine. They consume wine at food service outlets such as high end Chinese restaurants and high end hotel restaurants. Wines at such establishments can cost anywhere from RM 66 per bottle of fine wine to as much as RM 3,800 per bottle of rare wine. They drink wine because of its health benefits but mainly because it is trendy for corporate dinners, weddings and other functions.

In addition, locals who frequent bars and alike, aged in their 20s, are new wine consumers. They are adventurous trend followers who often try various inexpensive wines by the glass available at such establishments.

Western style restaurants and hotel restaurants serve quality French wine as well as high quality

New World wines, mainly from Australia and Chile, mostly to western expatriates. Western expatriates are usually well informed wine drinkers and seek French wines while the local consumers tend to drink New World wines which have been introduced to them while abroad.

The majority of purchasers of wine at retail outlets such as high end supermarkets and hypermarkets are western expatriates who include wine in their normal grocery shopping. A large proportion of purchasers of wine at wine specialist shops are Malaysian Chinese who generally demand Australian wines. These Chinese wine consumers have traveled or studied abroad, particularly in Australia, and have acquired a taste for Australian wine. For this reason, more Australian wines are stocked at wine specialist shops than at high end supermarkets and hypermarkets.

New World red wines which are price competitive have greater demand than other types of wines in the market. Prices can range from RM 26.75 per 75 cl bottle of Carlo Rossi California Red to RM229 for a 75cl bottle of Burgundy such as Jean Gagnerot Echezeaux Grand Cru.

Trade sources comment that red wines are preferred by most of the local wine consumers because of media reports on the health benefits of red wines. In addition, New World wines are better understood by these wine consumers than Old World wines. Trade sources comment that, for this reason, wines such as Merlot, Cabernet Sauvignon, Cabernet Blend and Shiraz are in popular demand today.

4. Distribution patterns

The table below gives an overview of the distribution patterns for imported wine into Malaysia.

Malaysian Importer	
Food Service Sector (60 % of imports)	Retail Sector (40% of imports)

Trade sources comment that off-premise sales command 60% of the wine market while retail sales have around 40% of the market. They estimate that the market is made up of 50% local consumers, mainly Chinese Malaysians, and 50% expatriate residents, mainly Western expatriates. Chinese wine consumers consume more wine at food service establishments such as high end restaurants and hotel restaurants than at home. Trade sources comment that home consumption of wine by them is low. In contrast, more Western expatriate wine consumers consume more wine at home than at food service establishments. For this reason, Western expatriate residents are the main purchasers of wine at retail outlets.

5. Import regulations affecting wine

Malaysia's Customs Duty Order and Sales Tax (Rate of Tax) Order imposes import duties, taxes and licensing requirements on the import of wines into Malaysia. A valid import license is required for the importation of wine into Malaysia, issued by the Royal Customs and Excise Department, Malaysia.

All imported wines must be declared in writing on Customs No. 1 Form, to be submitted together with the import license. All declarations should indicate a full and true account of the number and description of goods and packages, value, weight, measurement or quantity, and the country of origin of the goods imported. Declarations must be submitted to the Customs station at the place where the goods are to be imported. Import duties of RM 120 per decalitre for still wines and RM 425 per decalitre for sparkling wines are payable before such goods can be released. Sales tax of 20% is payable on the gross value of the imported wines.

The Food Regulations 1985 and related food regulations cover all food and beverage products and are enforced by the Ministry of Health. It is designed to protect the public from health hazards and fraud in the preparation, sale and use of food and drinks. It governs the standards and specific labelling for wines, language to be used (English or Bahasa Malaysia), food additive and packaging.

Labels on imported wines must include the name and address of importers, country of origin and the minimum contents by volume. The label must give a specific description of the product, the alcoholic content in bold-faced lettering of a non-serif character not less than 12 point size lettering, stating the words "ARAK MENGANGUNGI- % ALKOHOL" as well as the primary ingredients used in production.

US exporters should check with their appointed importer on the detailed regulations surrounding the import and sale of wines in Malaysia. They should also note that the laws and regulations affecting imported food and drink products are continually updated and amended. For this reason, we advise US wine exporters to check on the most recent legislation as there are likely to be changes in future.

6. Recommendations for US wine exporters on market penetration

US exporters should consider the following matters when planning to enter the Malaysian wine market:

- S** Careful selection of local wine importers that are best positioned to sell imported US wine. These importers should be specialist wine importers with the abilities and experience to market wine to the food retail and food service sectors.
- S** Target both the retail and food service sectors.
- S** Target both the Chinese and expatriate wine consumers to meet their specific demands, e.g. New World red wines such as Merlot, Cabernet Sauvignon, Cabernet Blend and Shiraz which are popular with the Chinese Malaysians and Old World wines with Western expatriates.
- S** Consider the price competitiveness of their products compared to other major imported wines.
- S** Work very closely with the appointed local importers to regularly promote and market US wine.
- S** Consider the level of promotion and retail trade education as well as consumer education necessary for successful long term presence in the market.

In addition, US wine exporters who wish to develop a long term market in Malaysia should consider conducting an in-depth market study to better understand the real opportunities available to them in future.

It should be noted that this Malaysian Wine Market Study has been developed from a broad study of the Malaysian wine market and not a detailed market study. As a result, the reader should not construe it as the results of a full and detailed market study into opportunities for U.S. wines. This study provides US wine exporters with broad suggestions on the matters that they should consider when planning to enter the market but does not consider or provide advice on the strategies or tactics that will be needed by US exporters to develop a viable market for their wines in Malaysia.

Appendix A: Retail price samples (Price per 75 cl bottle)

Carlo Rossi California Red (USA)	RM 26.75
Lindeman Shiraz (Australia)	RM 46.19
E&J Gallo Cabernet Sauvignon (USA)	RM 63.45
Robert Mondavi Woodbridge Merlot (USA)	RM 51.90
Ricasoli Orvieto Classico (Italy)	RM 38.39
Jacob's Creek Riesling (Australia)	RM 42.49
Windham Estate Cabernet Sauvignon (Australia)	RM 53.69
Sunrise Cabernet Sauvignon (Chile)	RM 34.75
Chateau Teroe Blanque (France)	RM 28.90
Chateau Mayne Cass (France)	RM 47.50
Chateau Artiques (France)	RM 87.50
Brown Brothers Shiraz (Australia)	RM 45.90
Lindemans Bin 99 Pinot Noir (Australia)	RM 43.90
Mount Pleasant Hunter Valley Merlot (Australia)	RM 60.50
Yarra Ridge Reserve Cabernet Sauvignon (Australia)	RM 125.00
Rhone Valley Jean Baptiste Duchesne Hermitage (France)	RM 99.50
Burgundy Jean Gagnerot Puligny Montrachet (France)	RM 159.50

End of report.