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Malaysia

Retail Food Sector

Report

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Report Highlights:

Malaysia has a large and increasingly sophisticated food and beverage market that is supplied by both local and imported products. Trade sources estimate the total retail sales, including non-food products, to be around US\$12.1 billion in 2002. The supermarket and hypermarket sector is forecasting a growth of up to 6% per annum over the next three years, providing good venues for most imported processed food products.

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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 61% of its population make up the middle to upper income group of consumers. Its economy has a firm foundation in a mixed economy that comprises strong manufacturing, service and agricultural sectors. Its GDP per capita in 2002 was US\$3,869. Malaysia's economy grew by 4.2% in 2002. The main impetus for growth in 2002 came from strong domestic demand, reinforced by positive export performance, with domestic demand driven by strong consumer spending, continued recovery in investment activities and expansion in public sector expenditure. Inflation in 2002 remained low at 1.8%. Based on the favourable internal and external economic environment, Bank Negara Malaysia expects economic growth to be sustained at 4.5% in 2003, based on the assumption of modest world economic growth, moderate growth in the global electronic industry, firm commodity prices and further expansion in intra-regional trade. The World Bank has forecast Malaysia's economic growth at 4.2% for 2003 and 5.5% for 2004, quite similar to Bank Negara Malaysia's forecast.

2. Food retail market summary

Malaysia has a large and increasingly sophisticated food and beverage market that is supplied by both local and imported products. Trade sources estimate the total retail sales, including non-food products, to be around US\$ 12.1 billion in 2002, excluding wet market, morning market, night market and other non-permanent retail facilities which can account for a very large proportion of food sales in Malaysia. Trade sources estimate that they may form as much as 50% of total food and beverage retail sales in Malaysia.

The Table below gives an indication of the total size of the retail sector over the past 5 years, covering food and non-food sales.

Total Retail Market Size*		
	Retail Sales (US\$ Billion)	% Change in Sales
1998	9.8	-19.7
1999	10.5	7.4%
2000	11.6	10.4%
2001	11.8	1.7%
2002	12.1	3.0%

*: Excludes wet market, morning market, night market and other non-permanent retail facilities. They account for a large proportion of food sales in Malaysia.

Source: Retail Group Malaysia

The Table above indicates that the retail sector has remained at similar levels to that seen in 2000. The slow economic growth experienced in 2001 and 2002, as a result of the global economic slowdown, impacted negatively on the retail sector in Malaysia. Retail sales increased by only 3% in 2002, a slight improvement on 2001.

Malaysia has a sizeable food manufacturing industry. Trade sources estimate the industry's total output in excess of US\$ 9 billion. In 2001, the industry exported around US\$ 3.7 billion

of processed products. The Table below shows the production of major manufactured food products in Malaysia

Production of Major Manufactured Food and Beverage Products (Tonnes/Litres)					
	1997	1998	1999	2000	2001
Sweetened condensed milk	174,673	154,096	165,119	156,766	149,878
Canned fish/seafood	34,598	35,459	34,754	35,819	40,103
Refined sugar	1,155,320	1,072,750	1,225,842	1,234,065	1,210,426
Biscuits	107,017	109,306	122,380	117,886	112,055
Soft drinks/carbonated drinks	513,347	418,362	351,317	403,129	501,564
Note: \$ value of production was not published. Source: Department of Statistics					

The Table below provides an overview of the size of the import market for food and beverage products. Food imports have been growing by 5% per annum over the past five years

Imports of Food and Beverage Products (US\$ million)					
For Home Consumption	1997	1998	1999	2000	2001
Primary products	484	500	536	551	597
Processed products	987	993	1,058	1,150	1,282
Total	1,471	1,493	1,594	1,701	1,879
Source: Department of Statistics					

Malaysia imported US\$ 1.9 billion of primary and processed food and beverage products for home consumption in 2001. Trade sources comment that imports of primary and processed food products will likely continue to increase over the next five years.

2.1 Malaysia's food retail sector in overview

The retail sector in Malaysia remains highly fragmented with a large number of small to medium sized players in the market. No official statistics are available on the current structure of the retail sector. Trade sources estimate that there are around 140,000 retailers and wholesalers in Malaysia, comprising shopping complexes, supermarkets, markets, specialised outlets and traditional retail shops. Trade sources estimate that there are around 20 hypermarkets, 1,500 supermarkets and minimarkets, 300 convenience stores, 2,300 petrol station stores and over 90,000 traditional food stores nationwide.

According to trade sources, over 80% of the retail establishments involved in the food and beverage trade are made up of small family-owned businesses or individual proprietors. The Table below provides trade estimates of the 2002 retail market shares by type of business.

Retail Sector Sales by Type of Business (2002)	
Store Type*	Sales (%)
Department stores, supermarkets and hypermarkets	28
Provision stores, grocery stores and alike	17
Convenience stores	11
Household, personal goods and other stores**	44
Total	100
<p>* : Excludes wet market, morning market, night market and other non-permanent retail facilities. They account for a large proportion of food sales in Malaysia.</p> <p>** : These establishments were not involved in the sale of food and beverage products.</p> <p>Source: Retail Group Malaysia</p>	

The food retail sector is made up of:

1. Modern retail stores such as supermarkets and hypermarkets which command around 28% of the total retail sales. These stores are mainly located in the major urban centres and are continuing to grow in numbers. The Government has recently introduced new guidelines on the opening of new hypermarkets in an attempt to slow down their rapid growth and to provide some level of protection for small retailers. Trade sources indicated that this new guideline would not deter the larger retailers from opening more hypermarkets in future. Appendix D provides a summary of the Government's guidelines on opening of new hypermarkets.

More Malaysians are shopping at these stores, particularly the affluent middle to upper income consumers, because these large retail stores offer a wide range of sophisticated food and beverage products. Their products are mainly made up of high quality, branded goods sourced from both local and overseas suppliers. These retailers are increasingly sourcing from local sources to remain price competitive today. For example, trade sources indicated that the new entrant, Tesco Stores, sources 95% of the products from local suppliers.

These modern retail stores are also introducing new and additional services within their stores such as in-store bakeries, café/food service areas and ready prepared meals to attract more customers to their stores. Trade sources comment that, as a result of this growing trend in shopping at supermarkets and hypermarkets, more such modern retail stores are expected to open in future in Malaysia.

2. Traditional stores such as provision shops, grocery shops and alike which command around 17% of the total retail sector's sales. They form the largest number of stores in Malaysia and can be found everywhere throughout Malaysia, in urban and rural areas.

The majority of Malaysians continue to shop from traditional stores as these types of outlets are conveniently located near to their homes or places of work. These stores sell all the commonly demanded food and beverage products, both branded and unbranded, which are familiar to the majority of consumers in Malaysia. Most of these retailers continue to source their products from local suppliers to remain price competitive.

Traditional stores still continue to command a significant share of the retail market mainly because new stores are opening in new housing developments and new townships that are appearing in the Klang Valley and along the North-South highway, particularly in the states of Selangor, Negri Sembilan, Melaka, Johor and Penang.

3. Convenience stores and petrol station stores which are still a fairly new retail store concept in Malaysia. They have around 11% of the total retail sales. These stores are mainly located in major urban centres and along the North-South Highway to capture busy customers who seek convenience. They concentrate on selling a small range of convenience foods in medium to small sized packaging, usually single serve sizes. Imported products form a small proportion of their product lines.

Convenience stores have been growing slowly in numbers in recent years due to the negative effects of the recent economic slow down. However, more petrol station stores have been opening, particularly in major urban centres and along the North-South Highway. These store concepts are still at the early stage of introduction and most shoppers do not automatically turn to these stores for their shopping needs. The limited range of products offered by these stores also act as a barrier to attracting more customers to these stores.

The Table below provides an indication of the future growth rate of the retail sector by type, based on trade estimates.

Future Growth Rates of the Retail Food and Beverage Sector			
	2001	2002	2003
Supermarkets, hypermarkets, department stores	Up to 6%		
Convenience stores, petrol station stores	Less than 5%		
Traditional stores	Less than 3%		
Source: Trade estimates			

Trade sources comment that the large modern retail stores such as supermarkets and hypermarkets will continue to see the fastest growth over the next three years. The traditional stores will continue to grow but at a much slower rate compared to the large modern retail stores. Convenience stores will see a slow growth over the next three years.

2.2 Advantages and challenges for US exporters

The Table below summarizes the advantages and challenges for US products in the Malaysia food and beverage retail sector.

Advantages	Challenges
Malaysia's economy has been showing economic growth for the past three years, with 4.2% growth for the year 2002. In addition, the supermarket and hypermarket sector, where most of the imported processed food products are distributed, is forecasting a growth of up to 6% per annum over the next three years.	The Muslim population (around 60% of the total population) demands Halal products. US products will have to comply with their religious requirements.
New supermarkets and hypermarkets are continuing to open, providing greater opportunities for imported products to access the middle to high income consumers.	Strong local brands exist which dominate their markets to the near exclusion of imported products, e.g. soft drinks, mineral water, beer, cooking oil, noodles, chocolates, biscuits and cookies and some dairy products.
A wide variety of foreign products already "fit" into local food culture, e.g. temperate fruits and vegetables, french fries, burgers, soft drinks, dairy products, potato snacks.	Some new-to-market US products are not understood by local consumers, e.g. New Age drinks, snack products, sauces, dips and alike and so are ignored by consumers.
USA is a major supplier of many imported food products and leads in a number of market segments.	Competition from Australia and New Zealand with their very strong presence in a number of market segments covered under this study
A number of US businesses are well-known in the market, e.g. Kellogg's, Kraft, Heinz, Coca-Cola, Pepsico (Fritolay).	A large number of well known US brands/products are not known to Malaysians.
Aggressive US promotions in Malaysia have successfully raised the profile of a number of US products, e.g. fresh fruits, grocery items and wine.	US products are not always price competitive against similar quality products from Australia and New Zealand.

3. Road map for market entry

3.1 Supermarkets, hypermarkets and department stores

3.1.1 Company profiles

This retail sub-sector has very few large players involved in operating supermarkets and hypermarkets. The Table below provides information on the major retailers involved in the operation of supermarkets and hypermarkets.

Retailer Name and Outlet Type	Ownership	Sales (US\$ million)	No. of Outlets	Location
Tops Retail Malaysia Sdn Bhd, supermarket	Royal Ahold, Netherlands. Dairy Farm International will take over in late 2003.	79 (2001)	34	Nationwide
Dairy Farm Giant Retail Sdn Bhd, formerly Giant TMC Bhd, Supermarket and hypermarket	Dairy Farm International, Hong Kong	402 (2001)	13	Nationwide (Peninsula Malaysia)
The Store Corporation Bhd, supermarket and department store	Listed on the KLSE	323 (2002)	37	Nationwide (Peninsula Malaysia)
Carrefour Malaysia Sdn Bhd, hypermarket	French	213 (2002)	6	Key urban centres (Peninsula Malaysia)
Ocean Capital Bhd, department store, supermarket and property development	Public listed	64 (2002)	17	Nationwide (Peninsula Malaysia)
Jaya Jusco Stores, superstore chain and shopping centre operation	Listed on the KLSE	316 (2002 retail sales)	8	Key urban centres (Peninsula Malaysia)
Tesco Stores (Malaysia) Sdn Bhd	Tesco PLC, UK holds the majority share.	79 (2002 sales estimated by trade sources)	4	Key urban centres (Peninsula Malaysia)

3.1.2 Entry strategy

At first sight, supermarkets and hypermarkets appear to be the easiest entry target for new-to-market US exporters as they already sell a wide range of imported food and beverage products which are targeted at the sophisticated middle to high income urban customers. However, US exporters should carefully select major retailers that are best positioned to sell imported US food and beverage products. The US exporters should consider the following when selecting major retailers:

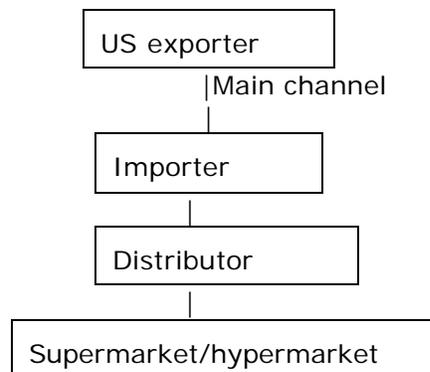
- ◆ The financial strength of the company.
- ◆ The number and location of retail outlets.
- ◆ The marketing and promotional strategy and programme of the store.
- ◆ The target customers of the store.
- ◆ The level of interest by the retailer in selling imported US products.
- ◆ The retail management's policy towards:
 - new imported products and brands.
 - premium and basic lines and niche products.
 - volume of sales expected.
 - promotional support expected of US exporters.
 - pricing.
 - listing fees and other costs, if any.
- ◆ The store's purchasing policy, i.e. whether they purchase directly from overseas suppliers or via local importers/distributors. It is important to note that some supermarkets and hypermarkets buy directly from overseas suppliers as well as from local importers and distributors. All other types of retailers buy from local importers and distributors.

In addition, US exporters should consider the following matters when planning to enter this retail sub-sector:

- ◆ Location of their target customer base.
- ◆ Price competitiveness of the US products compared to local brands and other major imported brands.
- ◆ US products which can be accepted as alternatives to local and other imported products.
- ◆ US products which can easily fit into local food culture.
- ◆ US products which can be easily/readily registered as *Halal* products.
- ◆ US products which provide convenience for customers.
- ◆ The level of promotion and consumer education necessary for successful long term presence in the market.
- ◆ Ability to meet retailer purchasing requirements and specifications.

3.1.3 Distribution channel

The Chart below gives an overview of the distribution channel for imported food and beverage products from US exporters to supermarkets and hypermarkets.



It should be noted that some sub-distributors are used to distribute products to the sub-urban and provincial towns.

3.2 Convenience stores and petrol station stores

3.2.1 Company profiles

This retail sub-sector is still at an early stage of development. The main convenience store is 7-Eleven although other smaller local convenience stores exist.

The Table below provides information on the major retailer involved in the operation of convenience stores.

Retailer Name and Outlet Type	Ownership	Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
Convenience Shopping Sdn Bhd, 7-Eleven convenience stores	Local company	56 (2002)	190	Nationwide	Local distributors

3.2.2 Entry strategy

Convenience stores are mainly located in major urban centres while petrol station stores are located largely along the North-South Highway. This sub-sector commands a very small share of the total food and beverage retail market, targeting busy customers who seek convenience.

7-Eleven also targets the student population that seeks quick meals for lunch and snacks.

US exporters should treat this sub-sector as providing incremental business for them rather than as a mainstream retail sector target.

The new-to-market US exporters should consider the following matters when planning to enter the convenience store sector:

- ◆ Price competitiveness of the US products compared to local brands and competitive imported brands.
- ◆ Appropriate product packaging size which should be small to medium to target the needs of the customers.
- ◆ US products which can be easily/readily registered as *Halal* products.

Innovative products to meet customers' demand for convenience, e.g. ready prepared foods which can be heated up using a microwave oven or oven toaster.

3.2.3 Distribution channel

The Chart below gives an overview of the distribution channel for imported food and beverage products from US exporters to convenience stores.



3.3 Traditional food stores

3.3.1 Entry strategy

The traditional stores sub-sector is large but highly fragmented. Imported food and beverage products have a low presence in these stores.

New-to-market US exporters should carefully select major local distributors that have wide distribution capabilities nationwide, e.g. Dutch Baby Milk, Yeo Hiap Seng and Fraser & Neave which have successfully penetrated into the provincial areas with their products.

In order to maintain a successful long-term presence, US exporters need to take advantage of these local companies' distribution capabilities and experience as well as the close relationships that have been built up between them and the traditional retailers.

They should target the following types of stores:

- ◆ Mini markets as they target the more adventurous customers from the middle to upper income groups. They generally sell the widest variety of imported food and beverage products within this sub-sector.
- ◆ Provision and grocery stores located in larger towns and suburban areas. These retail stores serve customers who also shop at modern retail stores such as supermarkets and hypermarkets.

US exporters should supply products that:

- ◆ can be accepted as alternatives to local products and brands.
- ◆ can be easily/readily registered as *Halal* products.
- ◆ can easily fit into the local food culture.

3.3.2 Distribution channel

The Chart below gives an overview of the distribution channel for imported food and beverage products from overseas exporters to traditional stores.



Some sub-distributors are commonly used to distribute products to the sub-urban areas, provincial towns and rural areas.

4. Competition in the sector

4.1 Local companies with a strong position in the food and beverage market

Malaysia has a strong local food and beverage industry which supplies products that dominate the markets for snack foods (potato and cereal based products), poultry, dairy products, eggs, fresh tropical fruits and vegetables, soft drinks, mineral water and beer.

While businesses competing in the fresh produce segments compete on being able to supply competitively priced locally known products, the processed food and beverage businesses are generally competing in markets where brands are important.

It should be noted that there are a number of Malaysian businesses with a strong position in their markets. The largest companies are:

- Nestlé Malaysia, which has a wide range of local and imported products in the market.
- Dumex Malaysia, a powdered milk specialist.
- Dutch Baby Milk Industries, a dairy processing company.
- Fraser & Neave, a beverage company with strong links to Coca-Cola.
- Unilever Malaysia, with its Wall's ice cream imported from Thailand.
- Britannia Brands, with its biscuit products.
- Spritzer, Malaysia's biggest water bottler with its mineral water.
- Tong Garden, a subsidiary of a leading Singapore based snack producer.
- Permanis, the largest Pepsi-Cola bottler in Malaysia.
- Yeo Hiap Seng, a large local food company and bottler of Schweppes soft drinks.
- Guinness Anchor, a large brewery.
- Carlsberg, a large brewery.

All of these businesses have brand-driven business strategies, strong and knowledgeable management teams, products which meet closely with local demand requirements, strong physical distribution networks and the financial resources to support their dominant market shares in the segments in which they operate.

These companies, their products and brands are a key challenge for any products competing in their market segments. They are aggressive brand-driven competitors that support their products in the market. New entrants generally find it difficult to enter the market segments in which these companies are the dominant players.

4.2 Competition in the import market

The table below shows the major supply sources for the products covered under this study.

Selected Products Import Market Shares - US\$937.5 Million (2001)

Country	Import Market Share
New Zealand	22.9%
Australia	21.6%

USA	9.6%
India	9.5%
China	5.9%
Thailand	5.3%
South Africa	4.7%
Indonesia	4.1%
France	2.9%
Other Countries	13.5%
Source: Malaysia Department of Statistics	

The above table shows that the import market is dominated by New Zealand (22.9% import market share) and Australia (21.6% import market share). USA has the third largest share of the import market with 9.6%.

It should be noted that in 2001:

- New Zealand was the leading supplier of dairy products and second largest supplier of fresh/chilled beef, lamb, infant food and frozen vegetables.
- Australia was the leading supplier of fresh/chilled beef, lamb, fresh temperate vegetables, fruit juice, wine (tie with the USA) and second largest supplier of dairy products and fresh temperate fruits.
- The USA was the leading supplier of frozen poultry, potato based snack products, frozen vegetables, wine (tie with Australia) and the second largest supplier of breakfast cereals, pet food, dried fruits, edible nuts and fruit juice.
- China was the leading supplier of canned vegetables, fresh temperate fruits, dried fruits, canned fruits and edible nuts and second largest supplier of frozen poultry, fresh vegetables and beer.
- India was the leading supplier of beef (frozen).
- Thailand was the leading supplier of pet food and the second largest supplier of non-alcoholic beverages.
- France was the largest supplier of non-alcoholic beverages and the second largest supplier of wine and spirits.
- Indonesia was a major supplier of dairy products and non-alcoholic beverages.
- South Africa was a major supplier of fresh temperate fruits and canned fruits.
- Breakfast cereals imports were largely from the Philippines, manufactured by Nestlé.

Appendix A provides further details showing the comparative advantages and disadvantages of major supply sources covering the products under this study.

5. Best product prospects

It should be noted that this market attractiveness review has been developed from a broad study of the Malaysian market and not detailed market studies of each segment. As a result, the reader should not construe it as the results of a full and detailed market study into opportunities for U.S. products. This assessment considers in broad terms the likely strategic

direction of each market segment but does not consider or provide advice on the strategies or tactics that will be needed by US exporters to develop viable markets. The summary of findings is as follows:

Category A retail market segments are:

- Frozen turkey.
- Breakfast cereals.
- Infant foods/milk.
- Snacks, potato and cereal based.
- Frozen vegetables.
- Fresh temperate fruits.
- Dried fruits.
- Canned fruits.
- Edible nuts.
- Fruit juices.
- Premium bottled fruit drinks, e.g. Snapple.
- Wine.
- Pet food.

Category B retail market segments are:

- Beef and lamb.
- Canned vegetables.
- Fresh temperate vegetables.
- Beer.
- Premium ice cream.

Category C retail market segments are:

- Dairy products (retail packed).
- Egg products.
- Poultry other than frozen turkey.
- Spirits.

Appendix B provides further details supporting the above findings

Appendix A: Review of competition I individual market segments

Product	Major import market supply sources	Strengths of key supply countries	Advantages and disadvantages of local companies
<p>Beef</p> <p>Net import: 89,966 tonnes in 2001</p> <p>US\$ 116 million (FOB value)</p>	<p>1. India - 79%</p> <p>2. New Zealand - 10%</p> <p>3. Australia - 10%</p> <p>USA - Minor supplier (1% share)</p>	<p>India competes on price and leads in the frozen sector; used by the mass market food service.</p> <p>National branding as a high quality Halal product by Australia and consistent presence in retail stores has created its market leadership in the food retail sector.</p> <p>New Zealand specialises in servicing the high end food service businesses</p>	<p>Local supply of beef is large, at around 20,000 tonnes, with a ready mass market. It competes with Indian beef and not the higher quality Australian and New Zealand products demanded by high end food service operators.</p>
<p>Lamb</p> <p>Net import: 15,263 tonnes in 2001</p> <p>US\$ 26 million (FOB value)</p>	<p>1. Australia - 57%</p> <p>2. New Zealand - 43%</p> <p>USA - Negligible supplier (0.2% share)</p>	<p>Australia leads in the market with its high quality price competitive Halal products.</p>	<p>Local lamb/goat meat supply amounted to around 1,000 tonnes targeted at the Muslim population, especially during the Hari Raya Haji celebration when live animals are demanded for slaughter.</p>
<p>Whole Poultry, mainly frozen</p> <p>Net import: 321 tonnes in 2001.</p> <p>US\$ 0.6 million (FOB value)</p>	<p>1. USA - 58%</p> <p>2. China - 26%</p> <p>3. Denmark - 10%</p>	<p>The USA is the major supplier of turkey.</p>	<p>The main supply for poultry is from local source, of around 766,000 tonnes. Consumers still prefer freshly slaughtered chicken and ducks to chilled or frozen poultry products.</p>

<p>Poultry Offal & Cuts, mainly frozen</p> <p>Net import: 38,900 tonnes in 2001.</p> <p>US\$ 41 million (FOB value)</p>	<ol style="list-style-type: none"> 1. China - 32% 2. Denmark - 23% 3. Netherlands - 20% 4. Thailand - 17% <p>USA - Minor supplier (5% share)</p>	<p>China, Denmark, the Netherlands and Thailand are all major exporter of chicken parts supplying competitively priced products. Their processing plants have been approved by the Malaysian Authority and the products from these plants are "halal" certified for export to Malaysia.</p>	<p>The main supply for poultry is from local source, of around 766,000 tonnes. Consumers still prefer freshly slaughtered chicken and ducks to chilled or frozen poultry products.</p>
<p>Dairy</p> <p>Net import: 245,286 tonnes in 2001</p> <p>US\$ 377 million (FOB value)</p>	<ol style="list-style-type: none"> 1. New Zealand - 28% 2. Australia - 21% 3. Indonesia - 21% <p>USA - Minor supplier (4% share)</p>	<p>Australia and New Zealand are price competitive, geographically close and have developed a long standing in the market. They target the food retail, food service and local dairy manufacturing sectors. Indonesia supplied sweetened condensed milk to the lower end food service sector.</p>	<p>Local companies are very strong in liquid milk, sweetened condensed milk, canned milk powders, infant formula, ice cream, yogurt and cultured milk drinks. They are all very strong companies with dominant shares within their market segments.</p>
<p>Breakfast cereals</p> <p>Net import: 4,891 tonnes in 2001</p> <p>US\$ 8.7 million (FOB value)</p>	<ol style="list-style-type: none"> 1. Philippines - 60% 2. USA - 11% 3. Thailand - 9% 	<p>Branded market dominated by Nestlé, Kellogg's and Quaker. Nestlé is supplied from the Philippines while Kellogg's mainly from Thailand. Post is from the USA, targeting the niche high end market.</p>	<p>Local production is negligible.</p>
<p>Infant food, including dairy products</p> <p>Net import: 24,235 tonnes in 2001</p> <p>US\$ 82 million (FOB value)</p>	<ol style="list-style-type: none"> 1. Netherlands/New Zealand - 28% each 2. Australia - 20% <p>USA - Minor supplier (1% share)</p>	<p>Branded market. Close to 90% of the market is dominated by dairy products.</p> <p>About 10% of the market is made up of baby cereals, canned and bottled baby foods. Canned and bottled Heinz and Gerber</p>	<p>Nestlé, Dutch Lady, Dumex and New Zealand products are all major players in this market segment.</p> <p>Nestlé, locally produced, dominates the infant formula</p>

		<p>products are imported from the USA.</p> <p>New Zealand and Australia mainly supply ingredients for re-packing in Malaysia.</p>	<p>market and follow-up milks. Mothers prefer the baby cereals to baby food in cans or bottles.</p>
<p>Snacks; potato and cereal based</p> <p>Net import: 1,788 tonnes in 2001</p> <p>US\$ 3.9 million (FOB value)</p>	<p>1. USA - 78%</p> <p>2. Japan - 9%</p>	<p>Branded market USA dominates the import market with its Pringles and Fritolay products.</p>	<p>Local products dominate this snacks market with very widespread national distribution reach. Malaysia's locally produced branded products such as Jack & Jill and Roller Coasters compete on price against imports</p>
<p>Fresh vegetables, temperate</p> <p>Net import: 173,529 tonnes in 2001</p> <p>US\$ 74 million (FOB value)</p>	<p>1. Australia - 43%</p> <p>2. China - 20%</p> <p>3. Indonesia - 16%</p> <p>USA - Minor supplier with 3% of market but a leading supplier of celery</p>	<p>Australia's high quality produce and its proximity with frequent air-links are its key advantages.</p> <p>95% of Indonesia's export is for its very price competitive potatoes.</p> <p>China competes on price.</p>	<p>Malaysia dominates the market with its consistent ability to supply good quality, competitively priced temperate vegetables. It is a major supplier to Singapore.</p>
<p>Frozen vegetables</p> <p>Net import: 31,172 tonnes in 2001</p> <p>US\$ 23 million (FOB value)</p>	<p>1. USA - 42%</p> <p>2. New Zealand - 29%</p> <p>3. Canada - 9%</p>	<p>USA dominates the market with its frozen potato products, mainly to the food service, although it also supplies other frozen vegetable products (peas, sweet corn, mixed vegetables). New Zealand dominates the mixed vegetables segment. New Zealand and Canada compete on price against the USA</p>	<p>Malaysia does not produce frozen vegetables.</p>
<p>Canned vegetables</p> <p>Net import: 20,481 tonnes in 2001</p>	<p>1. China - 38%</p> <p>2. Turkey- 31%</p> <p>3. USA - 10%</p>	<p>China supplies competitively priced canned tomatoes to the food industry as well as canned Asian products</p>	<p>Malaysia is strong in supplying baked beans and peas. Most of its vegetable</p>

<p>US\$ 17 million (CIF value)</p>		<p>(mushrooms) which are well known to local consumers. 99% of Turkey's export was for high quality canned tomatoes/puree targeted at the local food industry. USA leads with its processed potatoes and its branded canned sweet corn, tomato and other products.</p>	<p>ingredients are imported from the USA.</p>
<p>Fresh fruits, temperate</p> <p>Net import: 292,384 tonnes in 2001</p> <p>US\$ 82 million (FOB value)</p>	<p>1.China - 44% 2. Australia - 20% 3. USA - 15%</p>	<p>China leads the market with its Fuji apples, Chinese pears and mandarins/oranges. Australia and USA are key seasonal suppliers of apples, oranges, grapes, berries and stone fruits. Their products are trusted by consumers</p>	<p>Malaysia does not produce fresh temperate fruits.</p>
<p>Dried fruits</p> <p>Net import: 13,303 tonnes in 2001</p> <p>US\$ 13 million (FOB value)</p>	<p>1. China - 31% 2. USA - 20% 3. Egypt - 19%</p>	<p>99% of China's and Egypt's exports are for dates. Dates formed 70% of total imports, with major product demand by the Muslims during Hari Raya.</p> <p>USA dominates the market for branded retail packed raisins and prunes with its well known brands (Sun-Maid, Del Monte, Ligo</p>	<p>Malaysia does not supply dried fruits</p>
<p>Canned fruits, excluding canned pineapples</p> <p>Net import: 1,838 tonnes in 2001</p> <p>US\$ 1.3 million (FOB value)</p>	<p>1. China - 38% 2. Greece - 19% 3. USA - 17%</p>	<p>Over 90% of China's exports were for citrus fruits and apricots while all of Greece's exports were for peaches. China and Greece compete on price and quality. USA's major exports were for canned cherries, apricots and peaches demanded by</p>	<p>Canned pineapple dominates the canned fruits market and local products dominate.</p>

		the food service sector.	
<p>Edible nuts</p> <p>Net import: 6,858 tonnes in 2001</p> <p>US\$ 1.8 million (FOB value)</p>	<p>1. China - 52%</p> <p>2. USA - 25%</p> <p>3. India - 11%</p>	<p>China supplies nuts that have a traditional demand from ethnic Chinese such as walnuts and mixed nuts, targeting the food industry.</p> <p>The USA leads in the retail sector with its branded almond, hazelnut and pistachio nuts.</p> <p>India leads with its competitively priced cashew nuts.</p>	<p>Local brands such as Tong Garden, Camel and Tai Sun have a very strong presence in the retail market.</p>
<p>Fruit juices</p> <p>Net import: 5,010 tonnes in 2001</p> <p>US\$ 3.7 million (CIF value)</p>	<p>1. Australia - 25%</p> <p>2. USA - 23%</p> <p>3. Thailand - 11%</p>	<p>Australian juices dominate the retail market. Its products are of high quality and price competitive.</p> <p>US do not have as high a profile in the retail sector although their mixed juices are more price competitive compared to Australia.</p> <p>Thailand's products are high quality and competitively priced in the market.</p>	<p>Malaysian pineapple juice dominates this segment of the market, competing on quality and price.</p>
<p>Other non-alcoholic beverages, including mineral water and soft drinks</p> <p>Net import: 3.3 million litres in 2001</p> <p>US\$ 5 million (FOB value)</p>	<p>1. France - 32%</p> <p>2. Thailand - 15%</p> <p>3. Indonesia - 9%</p> <p>USA - Minor supplier (2% share)</p>	<p>France exports mainly mineral water to Malaysia, dominating the premium mineral water market. The French brands of Evian, Volvic and Perrier are brand managed and well known in the market as high quality premium products.</p> <p>Thailand's products were very price competitive.</p> <p>Indonesia supplies commodity-style lower end mineral water to Malaysia.</p>	<p>Local mineral water and soft drinks dominate the market Malaysia is a major exporter of soft drinks and mineral water to Singapore.</p>
<p>Wine</p>	<p>1. USA/Australia -</p>	<p>USA and Australia</p>	<p>Malaysia does not</p>

<p>Net import: 2.0 million litres in 2001</p> <p>US\$ 9.2 million (FOB value)</p>	<p>29%</p> <p>2. France - 23%</p>	<p>dominate with their supply of New World wines at very competitive prices. France, which continues to supply traditional Old World wines, dominates the food service market and competes on quality and price.</p>	<p>produce any wine.</p>
<p>Beer</p> <p>Net import: 3.5 million litres in 2001</p> <p>US\$ 10.4 million (FOB value)</p>	<p>1. Singapore - 67%</p> <p>2. China - 7%</p> <p>3. Philippines/USA - 4%</p>	<p>Singapore is a major re-exporter of foreign beer into Malaysia. Grolsch's and other Belgium beers, Foster's from Australia and Tsing Tao from China are re-exported from Singapore into Malaysia. Niche players include Budweiser and San Miguel (Philippines).</p>	<p>The market is dominated by local beers. Malaysia has two major breweries that are aggressive brand driven businesses which protect its market.</p>
<p>Spirits</p> <p>Net import: 2 million litres in 2001</p> <p>US\$ 27.4 million (FOB value)</p>	<p>1. UK - 40%</p> <p>2. France - 29%</p> <p>USA - Minor supplier (4% share)</p>	<p>The market is dominated by whiskey and brandy. France dominates the brandy and bitters sectors with its well known brands. UK dominates in the whiskies sector with its well known brands.</p>	<p>Local production is negligible.</p>

Appendix B: Best product prospects review

Product Category	2001 Imports	1999 Imports	% Change	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness For USA
Beef and lamb	105,579 tonnes	93,385 tonnes	4% growth per annum	No import duties are levied on beef and lamb.	Segmentation between a small market for fresh/chilled products dominated by Australia and a large frozen market dominated by India.	Category B retail market segment. High attractiveness for major exporters that are willing and able to compete with Australia (fresh and chilled) and India (frozen).
Poultry, mainly frozen	321 tonnes	28,825 tonnes	Decline	No import duties are levied on poultry imports.	The local poultry industry is very strong. Malaysians generally prefer fresh poultry, which is widely available.	Category A retail market segment for frozen turkey only. Niche retail demand exists for frozen turkey.
Dairy	248,412 tonnes	191,302 tonnes	10% growth per annum, largely ingredient imports	25% import duty charged on yogurt products. 5% import duty is charged on ice cream, condensed milk,	High levels of existing competition for market share amongst key local suppliers make entry difficult and costly. Competition is very strong from Australia and New	Category C retail market segment, except for premium ice cream. This segment is not particularly attractive for U.S. exporters of retail packed dairy products

				butter, 10% on cheese	Zealand	
Egg products	340 tonnes	302 tonnes	Niche market growth	5% import duty charged	Local egg producers are very strong in the market. Fresh eggs are preferred.	Category C retail market segment No retail market for imports, imports are mainly food ingredients.
Breakfast cereals	4,952 tonnes	5,153 tonnes	Decline, mainly due to recent economic slowdown	5% duty charged except on products containing cocoa, which incur 10% duty.	Nestlé and Kelloggs breakfast cereals and their strengths in the market.	Category A retail market segment. An attractive market for long term development based on higher disposable incomes and related changing eating habits.
Infant food, including dairy products	24,296 tonnes	17,871 tonnes	12% growth per annum	No import duties are levied on infant milk /food	Food cultural barriers exist. Malaysian mothers appear to prefer cereal based infant foods. Locally prepared and packed dairy products of Nestlé, Dumex and Dutch Baby have a strong hold on the market.	Category A retail market segment for cereal based infant food. This market should not be ignored in future. The USA is already the major supplier for bottled infant food and the market is upgrading on the back of higher disposable incomes.

Snacks; potato and cereal based	1,812 tonnes	1,525 tonnes	Growth market	0% to 20% duty is charged depending on product type.	Local products command a huge share of the market and are well known by Malaysian consumers.	Category A retail market segment. Attractive to stronger U.S. businesses willing to compete with strong local businesses.
Fresh vegetables, temperate	174,495 tonnes	154,099 tonnes	Growth of about 4% per annum	No import duty is charged.	Competition from key established suppliers from Australia, Indonesia and China. Competition also comes in the form of products from Malaysia's own highlands and some Asian countries.	Category B retail market segment. Demand for temperate vegetables will continue to rise on the back of rising disposable incomes. This will provide opportunities for U.S. suppliers able to compete with Australia, Indonesia and China.
Frozen vegetables	31,172 tonnes	23,618 tonnes	Around 11% growth per annum.	Nil except sweet corn which incurs 10%	Demand is not very varied and revolves around potatoes, peas, sweet corn and mixed vegetables	Category A retail market for segment. Good prospects exist for certain frozen vegetables supplied by the USA that are in demand from Malaysian consumers. Note: Food service demand is also

						important.
Canned vegetables	20,901 tonnes	16,316 tonnes	9% growth per annum.	0% to 20% import duty is charged depending on product type	Demand is very specific and does not include many products. Mushrooms, sweet corn, tomatoes (food service demand), baked beans, peas and some Chinese products comprise the bulk of demand. The bulk of vegetables consumed by Malaysians	Category B retail market segment. US suppliers are likely to find some future opportunities exist for certain products which "fit" in Malaysian food culture.
Fresh fruits, temperate	294,586 tonnes	204,861 tonnes	15% growth per annum	5% for strawberry, raspberry and gooseberry and 10% for other fruits except kiwi fruit which incur 30% import duty.	Few barriers exist for popular products such as apples, pears, oranges and grapes.	Category A retail market segment. This is one of the most attractive market segments for the USA to develop. Demand for temperate fruits will rise on the back of rising disposable incomes.
Dried fruits	18,381 tonnes	9,843 tonnes	29% growth per annum	10% except for Dates,	Mature traditional demand exists	Category A retail market segment.

				which incur no import duty.	except for dates which is growing rapidly on the back of rising disposable incomes.	Attractive to U.S. suppliers with market driven approach to business with Malaysia.
Canned fruits, excluding canned pineapples	1,838 tonnes	777 tonnes	45% growth per annum	20% import duty	Fresh fruits, both tropical and temperate varieties, are very widely available and are generally preferred by Malaysian consumers	Category A retail market segment. Changes in the diet and an increase in demand for convenient products should underpin long term prospects for U.S. canned fruits, which are supplied by committed businesses.
Edible nuts	6,895 tonnes	4,156 tonnes	21% growth per annum	Nil, except roasted groundnuts which incurs 20% import duty	Major demand growth is from the food industry	Category A retail market segment. This market should not be ignored. The USA is already the major supplier and the market is upgrading on the back of higher disposable incomes.
Fruit juices	5,085 tonnes	3,121 tonnes	21% growth per annum	20% except for pineapple juice which incurs	The retail market for fruit juices is growing, the market is upgrading from	Category A retail market segment. This market is likely to become more

				30%.	cordials on the back of higher disposable incomes	dynamic in future as Malaysians start to understand these products. Opportunities will exist for development by the U.S. pure juice suppliers.
Other non-alcoholic beverages, including mineral water and soft drinks	5.5 million litres	5.9 million litres	Decline	20% to 30% import duty depending on product type.	The dominant status of the large local soft drink and mineral water manufacturers which include strong Coca-Cola and Pepsico bottlers.	Category A retail segment for premium fruit drinks. This market is attractive for U.S. exporters of premium fruit drinks as the market is upgrading on the back of higher disposable incomes.
Wine	2.2 million litres	3.0 million litres	Decline due to impact of recent economic slowdown.	RM 120.00 (about US\$ 32) per Decalitre for still wines. Sparkling wines incur RM 425.00 (about US\$ 112) per Decalitre. Sales tax is levied at 20%	Duties on alcoholic drinks moderate consumption. Wine may have benefited from a switch from use of spirits, e.g. brandy, at celebrations, e.g. ethnic Chinese weddings.	Category A retail market segment. This is an attractive market for U.S. exporters underpinned by increasing disposable incomes as well as the apparent switch away from spirits
Beer	11.2 million	2 million	25% growth	RM 89.00	The two key local	Category B retail market

	litres (7.7 million litres re-exported, mainly to Singapore)	litres	per annum	(about US\$ 23) per Decalitre Sales tax is levied at 20%.	brewers, Guinness Anchor (a Heineken company) and Carlsberg Malaysia are very aggressive businesses. Most of Malaysia's foreign beers are imported by these businesses from Singapore and Hong Kong. Other imported beers are niche products.	segment. This is an attractive market for U.S. exporters underpinned by increasing disposable incomes. However, duties and taxes imposed on alcoholic drinks are high and local competition is very strong.
Spirits	2.8 million litres	3 million litres	Slow decline.	Between RM 553.00 (US\$ 145) and RM 587.00 (US\$ 154) per Decalitre, depending on spirit type. Sales tax is levied at 20%.	High duties on these products and adverse exchange rates have damaged this market. Demand is very specific. Brandy/ cognac and Scotch whisky are the key products demanded and consumed.	Category C retail market segment. Unattractive for U.S. exporters due to well entrenched local demand traits and strong brand managed competition.
Pet food	9,181	10,890	Decline,	No	Few	Category A

	tonnes	tonnes	due mainly to impact of recent economic slowdown	import duties are levied on dog or cat food.	constraints/barriers exist under conditions where disposable incomes are growing.	retail market segment. Attractive for committed suppliers wishing to actively develop markets on a long term basis.
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Source: Information from trade sources and government data

Appendix C: Summary of New Guidelines on the Opening of New Hypermarkets

The minimum capital required to operate a hypermarket is RM 50 million (US\$13.2 million).

- Hypermarkets will not be allowed to operate within a 3.5 km radius (2.2 miles) of a housing area or town centre.
- Hypermarkets must operate as free-standing on their own sites at a town's fringes and not inside another business complex.
- Only one hypermarket is permitted to operate for every 350,000 residents.
- The business floor plan must not be less than 8,000 sq. metres in size.
- One payment counter must be available for every 1,000 sq. meters.
- The sales site must provide 50 car parking spaces for every 1,000 sq. meters.
- The hypermarket should provide supporting businesses with rental areas at a reasonable rental rates.
- An impact study on the existing local retailers must be performed before setting up the hypermarket.
- All the above criteria must be applied fully, and not individually.
- Application for operating a hypermarket must be submitted to the Ministry of Domestic Trade & Consumer Affairs.

END OF REPORT