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Malaysia

Poultry and Products

Annual

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Report Highlights:

The broiler production for Malaysia is projected to reach 922 thousand metric tons, an increase of 2% from 2005. The projection is partly due to the entrance of new broiler players in the market. The existing balance of supply and demand has not favored the producers with ex-farm prices lower than break-even. The market is also flooded with old stock and smuggled poultry. Domestic per capita consumption has already reached a saturation point and new export market needs to be built. Imports of chicken meat in 2006 are estimated at 16,000 metric tons, lower than 2005. Other than limited imports of chicken wings, Malaysia generally uses import licensing to place a defector ban on chicken meat imports, especially in times of surplus. Such use of import licensing appears to be inconsistent with Malaysia's WTO obligations.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Malaysia has one of the highest per capita consumption rates in the world for chicken at 32 kg. Malaysia is self-sufficient in meeting the country's demand for broiler meat. With the H5N1 outbreak in mid February/March this year, the balance of supply and demand has not favored the producers so far. The current ex-farm price is hovering on the average of \$2.80/kg (average) compared to RM3.7/kg in 2005. According to industry sources, the market is flooded with frozen chicken, not only the old stocks from the period of H5N1 outbreak when the demand was low, but also from smuggling. Producers will eventually need to scale down production. With the per capita consumption already reaching saturation point at about 32 kilograms, new export markets need to be built as well.

The best prospects for U.S. exporters will be in supplying day-old chicks (DOC), broiler grandparent stock, frozen turkey/turkey parts and frozen chicken parts. There are also limited opportunities for sales of processed poultry meat.

Exchange rate: US1.00 = RM3.67

Production

1. Poultry meat - Broiler
- Breeding Stock (Broiler)

The Malaysian poultry sector relies solely on high quality exotic grandparents breeds from the United States, Europe, Canada, and Australia. According to a survey conducted by the Malaysian Department of Veterinary Services (DVS), the standing parent-stock population was estimated at 4.4 million birds in 2005, of which 58% are locally produced. The remaining parent stock is imported mainly from the Netherlands, Luxembourg, United Kingdom and United States.

There are five fully integrated and twenty-four non-integrated parent-stock breeder farms in the country. The Cobb and Ross are the predominant breeds used, and account for 89 percent of the total parent stock. Other breeds are Arbor Acres and Hubbard.

Broiler Meat

In 2005, the day-old chick production was about 462 million birds and is projected to reach 480 million chicks in 2006. The weekly production ranged from 8.35 million to 9.5 million chicks. The contribution by integrators to the total day-old chick production was about 62%. They were no day-old broiler chicks imported into the country.

There are about 2,500 broiler farms producing over 400 million birds. The largest broiler operation can house about 300,000 broilers while small ones house about 5,000 broilers in one farm. The productivity measures are very close to global standards. The total chicken meat production for Malaysia in 2005 was at 904 thousand metric tons and is estimated to reach 922 thousand metric tons in 2006. The projection is partly due to the entrance of new broiler players in the market.

2005 was a favorable year for the broiler industry. The RM4.00 ceiling price (ex-farm) set by the government in October 2004 brought profit to the industry. In West Malaysia, the average traded ex-farm price of day-old chicks and live broilers was at RM1.48/per chick and RM3.7/kg respectively. The average cost of production of broilers was at RM3.17/kg. The balance in supply and demand has also contributed to the profit.

Export of live broilers in 2005 was at 38 million birds, a 9% increase compared to the previous year. Meanwhile, export of chicken meat dropped to 2,590 metric tons from 3,780 metric tons. Singapore is the largest export market for live poultry and poultry products from Malaysia. However, industry sources believe that this is a far cry from the level of imports before the H5N1 outbreak in the Northeast of Peninsular Malaysia in August 2004 and the State of Selangor and Perak in February-March 2006. This is because Singapore has since looked to other countries to meet the country's demand for chicken with the H5N1 outbreak in Malaysia. In addition, it is mandatory for meat and poultry traders in wet markets in Singapore to have chillers, propelling the growth of chilled and frozen chicken, thus affecting the demand for warm poultry meat and therefore live birds.

With the H5N1 outbreak in mid February/March this year, the balance of supply and demand has not favored the producers so far. The current ex-farm price is hovering on the average of \$2.80/ kg (average) compared to RM3.7/kg in 2005. According to industry sources, the market is flooded with frozen chicken, not only the old stocks from the period of H5N1 outbreak when the demand was low, but also from smuggling. Producers will eventually need

to scale down production. With the per capita consumption already reaching saturation point at about 32 kilograms, new export markets need to be built as well.

The industry produces more than RM4 billion worth of broilers and eggs, at farm gate prices annually. This industry is regarded as the most successful segment of the livestock sector and perhaps has the highest output value per worker in the agriculture sector. About 30 percent of broilers are channeled through modern processing plants while the remaining 60 percent sold as live or dressed birds in wet markets.

With the looming threat of Highly Pathogenic Avian Influenza (HPAI) in the region and the potential negative impact in the poultry business, Malaysia remains vigilant to fight the disease at all cost. Malaysia tackled the H5N1 outbreaks (in 2004 and 2006) with confidence and was declared freed of AI on June 21, 2006. With the recent outbreaks in Indonesia and Thailand, Malaysia remains on high alert. The veterinary authorities are still continuing its nationwide surveillance and chicken farms are constantly checked for unusual deaths. Industry sources indicated that the lack of manpower, such as surveillance officers, is a worrying situation.

Porous borders between Malaysia and Thailand continue to pose a great challenge to Malaysian authorities to fend off poultry smuggling. In view of the upcoming Ramadhan holidays, foreign Indonesian workers are expected to travel back to their villages to celebrate the religious holidays. The surge in border traffic is a grave concern because epidemiological evidences pointed to movement of infected poultry, poultry products and pet birds into the country as the source of the outbreaks.

Consumption

Malaysia has one of the highest per capita consumption rates in the world for chicken. Per capita consumption of chicken is reported at 32 kg. Chicken meat is the most popular and cheapest source of meat protein among Malaysians, largely because there are no dietary prohibitions or religious restrictions against chicken consumption.

Over the years, quick service restaurants (QSR) such as Kentucky Fried Chicken (KFC), McDonald's, A&W, Kenny Rogers, Nando's Chickenland (a South-African based chain) have propelled the growth of chicken consumption in Malaysia.

Malaysian consumer today demands safe and high quality food at reasonable price from the industry. They are very sensitive towards issues arising out of health and halal matters. It is important to note that the majority of the Muslim consumers will not accept poultry products that are not certified halal by the Malaysian religious authority. In recent years, quite a number of meat and poultry products with questionable halal status have received wide and negative publicity from the Malaysian media. The foodservice industry only purchases halal certified poultry.

The Malaysian consumers are also price-sensitive and look for value-for-money products. The poultry industry is increasingly challenged to produce new innovative products at lower costs without compromising on the quality.

Trade

In 1983 the Government of Malaysia began limiting imports of frozen chicken into Peninsular Malaysia by instituting import licensing. The action was taken to protect domestic chicken producers, with the justification that Malaysia is self-sufficient in broiler production. The states of Sabah and Sarawak in East Malaysia implemented similar restrictions on chicken imports in 1991. It also important to note that the veterinary authorities in East Malaysia has autonomy in establishing policies related to import and exports of poultry. Malaysia reserved the right to implement a TRQ in the Uruguay Round, but has never done so. The current use of import licensing to restrict imports appears to be inconsistent with Malaysia's WTO obligations.

Chicken parts are imported periodically depending on local supply situation. Some are shipped through Singapore for East Malaysian states of Sabah and Sarawak. These imports mainly cater to the further processing industry. In 2005, total imports of frozen chicken (parts) were 17,000 metric tons. The major suppliers were the Netherlands (7226 metric tons) and Denmark (4622 metric tons), mainly wings and mechanically de-boned chicken) MDM. The Department of Veterinary Services (DVS) generally approved chicken wing imports due to their popularity and short supply. The size of US chicken wings is considered to too large for this market. Malaysia has yet to lift the ban on poultry from Thailand and China.

The level of imports for 2006 is estimated to be at 16,000 metric tons, down from 2005. With the current oversupply of chicken meat in the market and the stagnant export market, domestic chicken is sufficient to fill the raw materials needs of the processing industry. With the impending US-Malaysia FTA negotiations, the local producers are anxious on the prospect of the market opening-up to imports from U.S., hence affecting their livelihood and competitiveness.

Malaysia has a robust further processing industry. Chicken frankfurters, cocktail sausages, burgers and nuggets that were exclusively imported before, are now locally produced. Major players, who are also integrators, invest heavily on brand names for their further processed products such as *Ayamas* (by Ayamas Food Corporation), *Ayam Dindings* (Dindings Poultry), and *Farm's Best* (Sinmah Food Industries). Local processed products command about 90% of the market and it is difficult for imported processed products to compete on the basis of price. However, there are some premium processed chicken products that have found favors with chefs of international hotels and with consumers at the upper income levels.

With Malaysian's aim to become a *halal* food hub, the poultry industry is well positioned to supply *halal* processed poultry to other Islamic countries and Muslim consumers worldwide. However, relatively high chicken prices hurt Malaysia's competitiveness on the world market. Most Malaysian approved foreign plants consist of abattoirs supplying raw materials for manufacturing needs. Every two to three years, DVS and the Islamic Development Department (JAKIM) inspect and approve U.S. abattoirs and further processed plants for exports of *halal* products to Malaysia. Accreditation of foreign plants for *halal* purposes has become part and parcel of the Malaysian industry. However, the main issue associated with *halal* inspection is the sudden disruption in supply when the eligibility of the abattoirs or plants to supply *halal* products is terminated immediately, based on the inspection results.

All turkey meat is imported. In 2005, imports of frozen whole turkey and turkey parts were 260 metric tons. The United States is the dominant supplier. Due to the business decisions of the two currently approved turkey plants, which no longer plan on exporting whole turkey to Malaysia, the market is not likely to have any turkeys for the festive holidays this year. This posed a significant problem to the food service trade since the demand for turkey is generally

high during the Thanksgiving and Christmas seasons. Various parties concerned are currently working to address the situation.

Marketing Infrastructure/Channels

About 70% of chickens in the country are sold in the wet markets as most Malaysian consumers still believe freshly slaughtered chickens are better than frozen ones. Although the local councils are enforcing health laws to prohibit chicken slaughter in wet markets, it is a tough battle. Some wholesalers arrange to slaughter the birds in designated slaughterhouses and bring dressed chicken to the marketplace. The remaining 30% of sales occur in modern supermarkets and mini markets as well as numerous retail outlets operated by some of the integrated poultry companies.

Further-processed products, both local and imported, are distributed to wholesalers, supermarkets, hypermarkets, catering institutions, restaurants and hotels. Integrators such as KFC Holdings, Dinding Poultry and Sinmah Resources have their own marketing and distribution arms. Since processed products are not subject to government price controls, other integrators are moving into the business. Processed products like nuggets and frankfurters come in colorful, attractive packages to attract customers, especially children. Packages of one-kilo and 340-grams are popular consumer sizes.

Currently, there is no import duty on poultry meat. Further processed poultry attracts 20% tariff. Import permits from DVS are required for all shipments of poultry products into the country.

All poultry shipments must be accompanied by import license (to be applied by the importer before consignments sails), Veterinary Health Certificate (signed or endorsed by a competent veterinary officer of Animal and Plant Health Inspection Service), Meat Inspection Certificate (endorsed by the meat inspector of Food Safety and Inspection Service) and Halal Certificate (issued by the approved U.S. Islamic Centers for that slaughterhouse). All meat must be properly labeled indicating establishment number of the abattoir and packing plant; lot number, date of production and *halal* slaughter. Since Malaysia has a large Muslim population, all poultry products must be certified *halal* and must originate from slaughterhouses that have been inspected and approved by DVS and Malaysia Islamic Development Department (JAKIM).

In addition to certifying the plants for *halal* export, JAKIM will also approve and appoint U.S. Islamic Centers to monitor and audit the *halal* status of the approved plants and to issue halal certificates for all export consignments. Halal approval is granted for specific Islamic Centers to carry out and certify slaughter at an individual plant. For this purpose, each individual plant has an approved Islamic Center or multiple Islamic Centers authorized to issue the halal certificate. Exporters are advised to check with the individual plant on their authorized Islamic Centers. The Islamic Centers are duty-bound to record all monitoring and auditing activities of the approved plants and to submit these reports to JAKIM upon request. Guidelines on the appointment of foreign Islamic organizations are found in JAKIM website at <http://www.islam.gov.my/e-halal/glossary.php>.

Currently, there are 8 U.S. poultry facilities approved by the Malaysian authorities. U.S. suppliers who are interested in exporting to Malaysia should contact USA Poultry and Egg Export Council (USAPEEC) to coordinate inspection visits by Malaysian authorities to approve their facilities for *halal* exports to Malaysia.

PSD for Poultry, Meat, Broiler

PSD Table						
Country	Malaysia					
Commodity	Poultry, Meat, Broiler					(1000 MT)(MIL HEAD)
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2005		01/2006		01/2007
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	896	904	920	922	0	931
Whole, Imports	0	0	0	0	0	0
Parts, Imports	20	17	23	16	0	17
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	20	17	23	16	0	17
TOTAL SUPPLY	916	921	943	938	0	948
Whole, Exports	1	1	1	1	0	1
Parts, Exports	4	2	5	3	0	4
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	5	3	6	4	0	5
Human Consumption	911	918	937	934	0	943
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	911	918	937	934	0	943
TOTAL Use	916	921	943	938	0	948
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	916	921	943	938	0	948
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Exports Trade Matrix for Poultry, Meat, Broiler

Export Trade Matrix			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Time Period	2005 Jan-Dec; 2006 Jan-Apr	Units:	Metric Ton
Exports for:	2005		2006
U.S.		U.S.	
Others		Others	
Singapore	2500	Indonesia	2
Brunei	88	Nigeria	1
Thailand	37		
Indonesia	11		
Philippines	3		
Total for Others	2639		3
Others not Listed			
Grand Total	2639		3

Imports Trade Matrix for Poultry, Meat, Broiler

Import Trade Matrix			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Time Period	2005 Jan-Dec; 2006 Jan-Apr	Units:	Metric Ton
Imports for:	2005		2006
U.S.	1707	U.S.	364
Others		Others	
Netherlands	7226	Denmark	3050
Denmark	4622	Netherlands	1764
France	2787	France	673
Germany	679	Germany	50
United Kingdom	51	Dominica	38
Dominica	27	United Kingdom	25
New Zealand	26	India	24
Total for Others	15418		5624
Others not Listed			
Grand Total	17125		5988

Price Table for Poultry, Meat, Broiler

Prices Table			
Country	Malaysia		
Commodity	Poultry, Meat, Broiler		
Prices in	Ringgit	per uom	Kilogram
Year	2005	2006	% Change
Jan	4.5	3.3	-27%
Feb	4	3.3	-18%
Mar	4	3.3	-18%
Apr	4	3.15	-21%
May	4	4.1	2%
Jun	4	4.1	2%
Jul	4	3.15	-21%
Aug	4	3.7	-8%
Sep	4		-100%
Oct	4		-100%
Nov	3.9		-100%
Dec	4.5		-100%
Exchange Rate	3.67	Local Currency/US \$	
Date of Quote	8/30/2006	MM/DD/YYYY	

End-of-Report