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Malaysia

Food Processing Ingredients

Annual 2014

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Report Highlights:
The overall food processing sector is growing at about 5 percent per year, with dairy, bakery, and processed fish products among the leading sectors. New manufacturing facilities are being built both to meet domestic needs as for export. Best U.S. prospects include dairy powders, dried and preserved fruits and vegetables, wheat, soybeans, pollock, and nuts.

Post:
Kuala Lumpur

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SECTION I: EXECUTIVE SUMMARY

Malaysia's Food Processing Industry

Malaysia is politically and economically stable and open to foreign trade. Transportation, communications, banking and health services are modern and efficient. With a population of around 29 million, it is one of the most developed nations in Southeast Asia. About 61 percent of its population falls into the middle to upper income group of consumers, with GDP per capita income of $10,500. Its economy has a firm foundation that includes strong manufacturing, service and agricultural sectors. GDP growth is estimated at 5.4 percent in 2014 and projected at 4.6 percent in 2015.

Around 6,000 small and medium-sized establishments are involved in food manufacturing, accounting for nearly 10% of manufacturing output. In addition, several multi-nationals have regional production facilities, with production focused on both export and domestic demand. The Government of Malaysia (GOM) has identified the food processing sector as one of the critical industries for the overall economy and as a potential contributor to exports.

Value of imported raw materials Vs domestic produced raw materials (in Billion Dollar)

Food Processing	Value of imported raw materials	%	Value of domestic produced raw materials	%	Total value
2010	4.02	11	32.88	89	36.9
2011	4.63	12	38.58	88	43.21
2012	5.09	11	46.27	89	51.36

**Malaysian Department of Statistics*

The following sub-sectors are the most important in the overall food processing industry: 1) fish processing and canning; 2) processed meats; 3) confectionary; 4) canned fruits and vegetables; 5) dairy products; 6) noodles, bread and other bakery products; and 7) processed meat. Fish processing, which includes surimi, is the leading sub-sector. Most of fish and fish-based products are for export. Noodle manufacturing is the second leading sub-sector. Meat processing is the third largest. Malaysia is self-sufficient in poultry, pork and eggs, but must import about 80 percent of its beef for any processing needs. Almost all dairy product ingredients are imported, including nonfat and whole milk powder, whey, and other dairy solids. These imported products are then used to produce sweetened condensed milk, yoghurt, and reconstituted fluid milk, and as ingredients in many other food processing plants. All wheat for noodle and bread manufacturing must be imported. Malaysia is the largest cocoa processor in Asia, but 95 percent of cocoa beans are imported, as is most sugar and sweeteners for confectionary. Malaysia is a major producer of spices, being the world's sixth largest exporter of pepper and pepper-related products (specialty peppers, processed pepper and pepper sauces). Other spices such as coriander, turmeric, lemongrass, cinnamon, clove and fennel are also produced.

Import and export of processed foods in Malaysia ($Billion)

	2011	2012	2013	Average annual growth
Processed food imports	8.6	9	10	7.8%
Processed food exports	4.4	4.41	4.45	0.55%

**Data from Malaysia's Department of Statistics and GTA*

Key imported materials for the food processing sector include basic commodities such as wheat, soybeans, potatoes, corn, and beans; semi-processed food materials such as dairy powders, dried fruits and nuts, and preserved vegetables, and highly processed ingredients such as flavorings and additives.

Market Drivers of Malaysia's Food Processing Industry

- Positive business climate and GOM incentives encourage investment in manufacturing both for domestic needs and export.
- Changes in consumer lifestyles, rising per capita income, increasing urban population raises demand for processed convenience foods.
- Increasing awareness of international food provides opportunities for food manufacturers to develop and introduce new food products.
- Established infrastructure, including cold storage and port facilities allows companies to establish supply chain.
- Modern retail sector offers pathways to complete supply chain and venues to display and market processed dry goods, and chilled and frozen goods, and perishables.

Advantages and Challenges for US Exporters

The market for food materials used in the food processing industry poses both advantages and challenges for US exporters. Local production supplies only a limited quantity of the needed food manufacturing inputs, so many opportunities for U.S. exporters exist.

Advantages and Challenges for U.S. Suppliers

Advantages	Challenges
Many key inputs for food manufacturing must be	Strong competition from China,

imported, including wheat, soybeans, sugar, dairy products, nuts, dried fruits, and flavorings.	Thailand, Australia, and New Zealand in certain key sectors.
Relatively free and open market, with low duties, and no quantitative restrictions for most products. .	Many foods must be certified *halal* (beef, lamb, poultry and dairy products).
Changing lifestyles and rising incomes are creating demand for processed foods.	Importers generally purchase based on price, and consumers are also quite price sensitive.
Very dynamic food manufacturing sector with new food products creating demand for new materials.	Interest suppliers must spend time to become familiar with market and key players.
About 6,000 food manufacturers operate, comprising both multinational and local companies, who are need of a diverse blend of food inputs.	Key regional suppliers have a freight advantage.
Local manufacturers target exports, using imports as raw materials.	US exporters' products must meet specifications for third-country markets.
GOM is encouraging investment in the sector.	Labor and other production costs are rising.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

U.S. exporters must first become familiar with the food manufacturers' requirements and specifications, purchasing policies, expected purchase volumes, and the relative competitiveness of products from alternative suppliers. In addition, suppliers must be aware of all import requirements. And finally, it may be best to appoint a local representative.

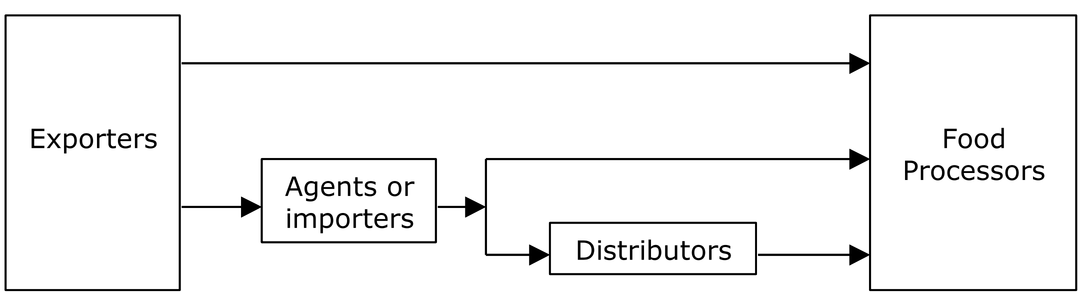
Key Entry Strategies for US Exporters	
Strategy	**Reasons**
Obtain *halal* certification for the product.	Most processors will demand that all their inputs be halal *halal* certified.

Focus on the key competitive attributes of the product.	It is a very competitive market; thus, U.S. exporters must explain the advantages of using their products such as uniqueness, consistency of supply and delivery, technical support, and customer service.
Ensure quality of the raw food materials to instill manufacturers' confidence.	Food manufacturers are both price sensitive quality conscious. Furthermore, manufacturers have to ensure the quality of their food products for export markets.
Provide information to food manufacturers through direct calls and via promotional events.	Local manufacturers may be unaware of many U.S. ingredients, so it is important to do promotional activities to increase awareness.
Establish an efficient distribution network.	Having a good local agent and several distributors will increase market exposure and enhance customer service.

B. Market Structure

Raw food materials are imported either directly by the food manufacturers, through importers, or agents. Generally, products purchased in high volume are imported directly by the food manufacturers while those purchased in smaller volume are imported through importers or agents. Importers and agents in turn sell directly to the food manufacturers or through distributors. Distributors are generally used to supply to smaller food manufacturers often located far away from the importers' or agents' business operations. Local producers of raw food materials generally sell directly to the food manufacturers but will use distributors to supply to the smaller food manufacturers.

Distribution Channel for Imported Food Ingredients



Both Malaysian and multinational companies are active in the sector. Multinational companies are often joint investments between foreign and Malaysian investments. Some foreign brands of food products are produced under license by Malaysian companies with the rights to market within specific geographical markets.

C. Company profiles

Company (Foods Produced)	Sales in 2013 (US$ Mil)	End Use Channel	Production Location	Procurement Channels
Nestle (Malaysia) Bhd (Baby food, confectionary, snack foods, bakery products, cereals, dairy products, ice-cream, pasta, noodles, milk, yogurt, beverages, sauces, and soups)	1,496	Retail and HRI	Malaysia (8)	Importers, Direct
Yeo Hiap Seng Sdn Bhd (Curry, canned fish, jam, condensed milk, instant noodles, sauces, vinegar, and beverages)	70	Retail and HRI	Malaysia (4)	Direct
Dutch Lady Milk Industries Bhd (Sweetened condensed milk, milk powder, infant formula, pasteurized & UHT milk, yogurt, and fruit juice)	307	Retail and HRI	Malaysia (1)	Importers, Direct
Fraser & Neave Bhd (Soft drinks including carbonated drinks and juice),	1,096	Retail and HRI	Malaysia (6)	Importers, Direct
Mamee Double-Decker Bhd (Snacks, dairy products, confectionary, and beverages)	203	Retail	Malaysia (7) China (1) Myanmar (1)	Importers, Direct
Hup Seng Industries Bhd (Bakery products including cookies, wafer rolls, crackers, and sandwich cookies)	78	Retail	Malaysia (3)	Importers, Direct
Apollo Foods Holding Bhd (Chocolate wafers, chocolate peanuts, chocolate biscuits, and nougat)	70	Retail	Malaysia (2)	Importers, Direct
Hwa Tai Industries Bhd (Bakery products including cookies, cake rolls, and digestive biscuits)	21	Retail	Malaysia (1)	Direct
Yee Lee Edible Oils Sdn. Bhd (Vegetable fats and oils including cooking oil, margarine, and shortening)	205	Retail and HRI	Malaysia (1)	Direct
Oriental Food Industries Holding SdnBhd (Snack foods including potato chips, rice crackers, cheese balls, crackers, and wafers)	66	Retail	Malaysia (3)	Importers, Direct
Khee San Bhd	30	Retail	Malaysia (4)	Importers,

(Confectionaries including hard and soft candies, wafers, chewing gum, and chocolate products)				Direct
Qaf Food Ltd Gardenia Bakery Sdn Bhd (Bread, bakery, confectioneries products)	223	Retail and HRI	Malaysia (4) Singapore (1) Australia (1) Philippine (1)	Importers, Direct
High-5 Conglomerate Bhd (Bread, bakery, confectioneries products)	25	Retail and HRI	Malaysia (1)	Importers, Direct
Dewina Food Industries Sdn Bhd (Ready-to-eat meals, ready-to-use cooking sauces/curries, stocks, seasonings, condiments, and spreads)	31	Retail	Malaysia (1)	Importers, Direct

Source: Published company information including websites, trade sources, and The Star newspaper.
*Note:*Foreign companies operating in Malaysia have Malaysian investments*

D. Sector Trends

Growth in both domestic and export demand is driving growth in food processing industry. The major foods achieving growth include:

- ***Dairy Products.*** Malaysia is one of the world's leading sweetened condensed milk producers and demand is growing for milk drinks, ice cream, yogurt, infant formula, and milk powder for other processing sectors. Almost all dairy ingredients are imported.
- ***Bakery Products.*** Consumption of bread and pastries is growing steadily, and all wheat and many key bakery ingredients (dried fruit and nuts) are imported.
- ***Seafood Products.*** Canned fish includes mackerel in tomato sauce and tuna in oil or brine. Pollack is used to make surimi and a variety of breaded fish products.
- ***Confectionaries:*** Cocoa, sweeteners, dairy powders, and colorings are needed for this sector.
- ***Snack Foods.*** Potato chips, corn chips, puffballs, and extruded snacks are produced with primarily imported raw materials. Popular flavors include cheese, corn, tomato, BBQ, spicy, and onion. Nuts used in snack foods are peanuts, almonds, macadamia, and several others. Dried fruits are also popular, particularly raisins and prunes.
- ***Soft Drinks.*** Popular non-carbonated soft drinks include soymilk, fruit juices, chocolate, coffee, tea, and herbal tea. Popular fruit juices include orange, apple, mango, guava, and pineapple.
- ***Sauces.*** Soy and oyster sauce are an important part of Malaysian cooking and nearly all Malaysian homes have a bottle of soy sauce. All soy is imported. A bottle of chili sauce and ketchup is also common in many Malaysian homes and often dipped in dumplings, meat, and seafood. Salad dressings such as mayonnaise and Thousand Islands are also becoming popular.
- ***Oil and Fats.*** Margarines and cooking oils produced in Malaysia are mainly palm oil based since

Malaysia is the world's largest producer of palm oil. However, manufacturers also produce margarines and cooking oils processed from soybean, canola, and sunflower.

- ***Canned Fruits & Vegetables.*** The local industry for processed fruits and vegetables is limited since Malaysians have a preference for fresh rather than processed fruits and vegetables. Locally processed fruits and vegetables are mostly canned pineapples, baked beans, and peas and destined for export markets. Beans and peas are imported.

Selected Food Processing Output ($million) FOB Factory Value

Food Product	**2009**	**2010**	**2011**	**2012**	**2013**
Process fish and fish products	327	346	366	465	525
Canned pineapples canning	18	19	21	15	13
Condensed, powdered and evaporated milk	994	995	995	1,307	1,565
Biscuits/ Cookies	323	344	331	325	339
Bread	145	156	440	527	573
Chocolate products and sugar confectionery	165	241	271	295	378
Sauces and flavourings	203	247	276	302	322
Savory snacks	179	167	210	253	337

Source: Malaysian Statistics Department

SECTION III. COMPETITION

Competition Facing US Food Exporters

For some key food processing ingredients (wheat, soybeans, potatoes, dairy products, dried fruit, nuts), U.S. exporters face minimal competition from local producers as there is no local production. However, U.S. exporters face strong competition from Thailand, China, Australia, and New Zealand. Their products are competitively priced and their closeness to Malaysia compared to the US puts these countries at an advantage in terms of delivery time and freight costs. Furthermore, Australia and New Zealand have an established *halal* food industry geared towards exports to Muslim markets.

Major Products Categories And Competitors' Market Share

Major Imports in 2013			
Product Category	**Major Supply Sources in 2013**	**Strengths of Key Supply Countries**	**Advantages and Disadvantages of Local Suppliers**
Oils and fats Import: 0.22 mil tons (US$34.2 mil)	1. Thailand – 82% 2. India – 9% 3. Indonesia – 4% 4. US - <1%	Thailand and India are major suppliers of coconut oil. US supply mostly sunflower seed oil.	Malaysia's is the world's largest producer of palm oil and competes directly with soybean oil.
Sugar and sugar derivatives Import: 8.22 mil tons (US$871.5 mil)	1. Brazil – 73% 2. Australia - 17 3. Thailand – 10%	Brazil has been the largest supplier of raw sugar when GOM signed price purchase agreement with Brazilian suppliers for 5 year contract supply since 2012.	Malaysia's climate limits cultivation of sugarcane and therefore has to depend on imports for two-thirds of its requirements.
Cereal grains Import: 1.76 mil tons (US$525.2 million)	1. Argentina – 40% 2. India – 25% 3. Brazil – 24% 4. US – <1%	Wheat is the main import and though imports from Australia and US are similarly priced, Australia's advantage is its closeness to Malaysia while imports from Brazil and India are known for their lower prices.	Malaysia's cultivation of grain crop is limited to rice and the country's climate is unsuitable for cultivating temperate grain crops.
Soybean Import: 556,965tons (US$351 mil)	1. US – 38% 2. Brazil – 16% 3. Canada – 15%	The US and l Canada are traditional suppliers to Malaysia while Brazil imports are priced lower than the US and Canada.	Malaysia's tropical climate does not favor cultivation of soybean and therefore demand is met by imports.
Cocoa and semi-processed cocoa products Import: 311,608 tons	1. Indonesia – 38% 2. Cote d lvorie – 18% 3. Ghana – 16% 4. Papua New Guinea- 8%	Indonesian cocoa is suitable for blending with Malaysian cocoa and is the nearest supplier while cocoa from Cote d lvoire and Ghana are used to produce premium chocolate products.	Though Malaysia cultivates cocoa on a wide scale, much has to be blended with imported cocoa.

(US$290.7 mil)			
Fresh, chilled, and frozen seafood Import: 434,755 tons (US$996 mil)	1. Thailand – 33% 2. China – 20% 3. Indonesia – 14% 4. Vietnam – 7% 5. US – 5%	Lower priced imports from Thailand, Indonesia, and China and short delivery time due to closeness to Malaysia.	Established fishing industry but have to compete against cheap imports and local fishing is often hindered by the seasonal monsoons.
Dairies Import: 296,312 tons (US$1,078 mil)	1. New Zealand – 37% 2. US – 19% 3. Australia – 13% 4. France – 6%	New Zealand, US and Australia are major suppliers due to their competitive pricing and quality of products.	Malaysia is dependent on imports of raw dairy food materials used in food manufacturing since dairy farming is conducted on a limited scale in Malaysia.
Beef Import: 138,632 tons (US$489.3 mil)	1. India – 80% 2. Australia – 13% 3. New Zealand – 5% 4. US - <1%	Indian imports are lower in price than local beef while Australian and New Zealand beef are a major source of quality *halal* meat.	Local industry for rearing cattle, lamb, and sheep is small and therefore production is limited.
Starches and gluten Import: 341,208 tons (US$183.5 mil)	1. Thailand – 56% 2. Indonesia – 10% 3. Vietnam – 9% 4. India – 5% 5. China – 4.4% 6. US – 3.8%	Large cultivation of tapioca in Thailand and Indonesia provides the raw material to produce competitively priced starch while India and China provide lower price starch made from wheat.	Malaysia does not cultivate wheat and local cultivation of tapioca is limited to produce sufficient starch for the food processing industry.
Nuts Import: 54,255tons (US$63.4 million)	1. Indonesia – 53% 2. Thailand – 23% 3. India – 6.5% 4. US – 6%	Groundnuts are the main imports, which Indonesia and Thailand supply at competitive prices while US imports are noted for their qualityand high value nuts such as walnut.	Malaysia has limited cultivation of crops used to produce various nuts.
Poultry Import:	1. China – 47% 2. Thailand – 31%	Poultry from southern Thailand supplies to Peninsula Malaysia which it	Well established and organized poultry industry managed by

44,528 tons (US$110.8 million)	3. Denmark – 11% 4. Netherland – 9.4% 5. US – <1%	shares a land border while Denmark and Holland have been traditional suppliers of frozen *halal* chicken.	large poultry companies.
Source: GTA			

SECTION IV. BEST PRODUCTS PROSPECTS

Category A. Products Present in the Market which have good sales potential

Product Category	2013 market Size volume	2013 Imports	5Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness For USA
Process Fish and fish products	$525 million	434,755 tons ($996 million)	3%	Nil	Main catch are for fishes from the tropical seas including local catch and imports mainly from Thailand and Indonesia.	Seafood manufacturers are exporting various processed frozen seafood products to "high-end markets" such as cod and flatfish.

					Consumers generally prefer fresh or chilled unprocessed seafood for cooking.	US export of process fish and fish products increase from $6.5 million in 2011 to $15.8 million in 2013.
Milk Powder	$1,565 million	122,568 tons ($484 million)	0.5%	Nil except unsweetened concentrated milk and cream which incurs 5%	New Zealand, the US and Australia produces and exports milk concentrates to countries with limited milk production.	Milk production in Malaysia is limited and has to depend on imports of milk concentrates to produce various dairy foods. US export of milk and cream concentrated increase from $75.6 million in 2011 to $117.6 million in 2013.

Category B. Products Not present in significant quantities but which have good sales potential

Product Category	2013 market Size volume	2013 Imports	5Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness For USA
Chocolate products and sugar confectionery	$378 million	52,069 tons $192.3 million	17.5%	Chocolate products and chewing gum incur 15%	Health conscious consumers may limit market growth.	Improved living standard and increase in consumer appreciation of high quality

						chocolate typically from the US provide opportunities for market growth.
Bread, biscuits and cookies (HS Code 1905)	$912 million	34,000 tons $85.4 million	14.8%	Nil except for sweet and unsweetened biscuits/cookies which incur 6%	Health conscious consumers may limit market growth.	Improved living standard and increase in consumer appreciation of high quality chocolate typically from the US provide opportunities for market growth.
Protein Concentrates (HS Code 210610)	14,280 tons	14,280 tons $26 million	62%	15%	Manufacturers prefer not to use protein concentrates of animal origin that are not *halal*.	The US supplies nearly two-thirds of the protein concentrates to Malaysia.
Yeast (HS Code 2102)	11,000 tons	9,255 tons ($17 million)	3.7%	15% for active yeast and Nil for other	Imports from Vietnam dominate the market in Malaysia.	Production is limited in Malaysia since cheaper imports are available.
Sugar derivatives and syrup (HS 1702)	74,508 tons	74,508 tons $78.5 million	0.3%	Nil except for Glucose and Fructose Syrup incur 10%	China is the leading supplier of competitively priced industrial grade sugar derivatives and syrup sourced from its large cultivation of sugar cane	Malaysia is dependent on imports since cultivation of sugarcane and corn is limited. The US is Malaysia's second largest supplier controlling around 20% of

					and corn.	supply.

Category C. Products not present because they face significant barriers.

Product Category	2013 market Size volume	2013 Imports	5Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness For USA
Sugar (HS Code 1701)	N/A	1.8 million tons ($938.6 million)	3.4%	Nil	Imports are subjected to quotas with import licenses issued to sugar millers and refiners. Malaysia has long term arrangements to import sugar from Brazil, Australia and Thailand.	Malaysia's exports of processed foods are increasing demand for sugar.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting high value products to Malaysia, please contact the Office of Agricultural Affairs at the U.S. Embassy in Kuala Lumpur at the following address:

Office of the Agricultural Affairs
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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign

Agricultural Service homepage: http://www.fas.usda.gov.

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