

Malaysia

The fresh potato market

Granted independence from the Commonwealth of Great Britain on August 31, 1957, the Federation of Malaysia is comprised of three distinct geographic and ethnic regions: Peninsula Malaya, Sabah and Sarawak. Rich in natural resources; tin, copper, iron ore, bauxite, petroleum, natural gas and timber, the economy remains largely dependent upon the extraction and processing of these natural resources. Agriculture and forestry provides employment for more than 21% of the labour force and contributes more than 13% to the gross domestic product. The major agrarian crops are rubber and oil palms.

With a population exceeding 23 million people, Malaysia supports a diverse multi-racial population. Indigenous Malays (the bumiputera) and other indigenous groups comprise the majority of the population (65%). Ethnic Chinese (26%) and Indians (8%) are the two other major cultural groups. Potentially, the multi-racial nature of the population may influence the demand for fresh fruit and vegetables as the various ethnic groups celebrate different religious festivals. With the majority of the population practising Islam (60%), Ramadan is anticipated to exert the greatest influence.

In 1999, the Ministry of Agriculture estimated that more than 32,000 hectares were allocated to the production of vegetable crops in Peninsula Malaysia. Some 17,000 ha (53%) were devoted to the production of fruit crops (tomatoes, chilli's, curcubits etc), some 14,000 ha (46%) to the production of leafy vegetables and just 900 ha (3%) to the production of root crops including carrots and radish. Potatoes were not reported to make any significant contribution to domestic vegetable production.

As a result, Malaysia is not self sufficient in meeting all its fruit and vegetable needs. There is an increasing demand for high quality imported fruit and vegetables, out-of-season produce and produce that is not grown locally. Consequently, in 1999, Malaysia imported over 561,000 tonnes of fresh vegetables (Table 1). The major vegetable crops imported were onion and garlic (317,310 tonnes)(57%), potatoes (96,790 tonnes) (17%), cabbage (41,230 tonnes)(7%) and carrots (34,100 tonnes)(6%).

While rice is the staple food, potatoes are an integral part of the diet for both the Malays and Indians where potatoes are incorporated in various curries. Invariably, the demand is for firm yellow flesh potatoes that retain their shape after cooking. However, due to the disparity of income and with more than 15% of the population below the poverty line, Malaysia is a very price sensitive market. As a result, the majority of the demand is for small tubers (45-65 g or 50-70 g) that are less expensive.

Street hawkers and the traditional wet markets continue to dominate retail sales for fresh fruit and vegetables (90%). However, as the standard of living gradually improves and consumer lifestyles change, significant expansion is occurring in the supermarket sector. There are currently more than 400 supermarkets in Malaysia. Perhaps due to the sprawling nature of urban development, the popularity of the hypermarkets continues to increase. Here the major players are Makro, Carrefour and Dairy Farm International, who collectively operate 31 hypermarkets. Understandably, competition in this segment of the market is intense.

Table 1. Imports of fresh vegetables into Malaysia. 1999.

	Volume		Value	
	Tonnes	%	\$M 000	%
Onions/garlic	317,312	56.5	353,907	49.6
Potatoes	96,790	17.2	84,176	11.8
Cabbage	41,230	7.3	35,322	5.0
Other vegetables	39,507	7.0	61,884	8.7
Carrots	34,103	6.1	64,297	9.0
Cauliflower	18,790	3.3	72,489	10.1
Legumes			17,961	2.4
Tomatoes	7,190	1.3	7,658	1.1
Lettuce	2,911	0.6	9,358	1.2
Other root crops	2,225	0.4	5,162	1.0
Cucumbers	1,418	0.3	1,093	0.1
Sub total	561,476	100	713,307	100
Frozen vegetables	23,355		69,192	
TOTAL	584,831		782,499	

Generally, these wholesale-retail stores serve two market segments: (1) the small food service outlets who generally purchase early morning in order to prepare meals for lunch; and, (2) after 5.00 pm, the stores cater for the 30-35 year old professional couples who generally shop just one time per week.

Kuala Lumpur and Penang provide the two major distribution centres for fresh fruit and vegetables in Malaysia. Fresh produce imported into Malaysia invariably passes from indent agents to wholesalers and retailers, including the wet markets. The indent agents act as intermediaries between the exporters and importers. They are responsible for collecting orders from importers and wholesalers, negotiating supply with exporters and clearing the shipment on arrival.

In order to reduce costs, several of the large retail chains have now adopted centralised purchasing or regional procurement policies. While these arrangements effectively bypass the wholesalers, most continue to employ the services of the indent agent to facilitate entry and to provide logistical support. Direct importing ensures a more consistent quality and more regular and reliable supply during the peak season, for few wholesalers have any substantial refrigerated storage capacity.

Over recent years, Malaysia has sought to progressively liberalise its trading system. Import duties on most temperate fruit ranges from 0-5%, with import duties ranging from 5-30% for various tropical fruit. In addition, there is a 5% sales tax imposed on all fresh fruit. However, fresh vegetables are not subject to any import duty or sales tax.

While Malaysia does not impose any quarantine restrictions on the importation of fresh fruit and vegetables, produce is subject to inspection at the port of entry by Agricultural

and Health authorities prior to Customs clearance. For potatoes, the Ministry of Agriculture must ensure that tubers are substantially free of soil; the Ministry of Health will inspect the shipment to ensure that tubers are free of chemical residues and Customs will inspect the shipment to ensure the documentation is in order and any duties paid. Product that fails the inspection must either be washed and re-packed or re-exported (usually to Singapore).

China is the major supplier of fresh vegetables to Malaysia (24%) (Table 2).

Table 2. Major importers of fresh vegetables into Malaysia. 1999.

	\$M 000	%
China	187,606	23.97
Australia	163,634	20.91
India	91,877	11.74
Thailand	81,787	10.46
Others	74,587	9.53
New Zealand	59,058	7.55
Netherlands	56,943	7.28
USA	39,627	5.06
Indonesia	27,380	3.50
TOTAL	782,499	100.0

However, China was the largest supplier in only one product category (onions), for which China supplied just 26% of the market. China was the second largest importer of cabbages (31%), potatoes (26%), broccoli and cauliflower (8%) and other vegetables (6%). Indonesia was the major supplier of both cabbages (54%) and potatoes (26%).

Obtaining accurate information on the import market for potatoes in Malaysia is not without problems. In the first instance, an examination of the HIS Codes reveals no record of any fresh potatoes having been imported into Malaysia. In the second instance, imports from Indonesia (in particular Sumatra) are not accurately reported. Adiyoga, Fuglie and Suherman (2001) suggest that in 1999, more than 12,000 tonnes of potatoes were consigned to the market in Malaysia from North Sumatra.

Under HIS Code 0714 9090, the Department of Statistics report that some 5,500 tonnes of assorted root and tuber crops were imported into Malaysia in 2001 (Table 3). Discussions with importers, wholesalers and retailers confirm that potatoes have been incorrectly reported under this category for some time. However, discussions with these same industry representatives cast much doubt on the validity of the reported statistics, for it was repeatedly suggested that the major suppliers of fresh potatoes to the market in Malaysia were Indonesia, China and the Netherlands.

Excluding the market for processing potatoes and processed potato products, it was suggested that the fresh potato market in Malaysia could be broadly divided into three distinct market segments. The largest of these segments was the budget price market. This market segment was the most volatile, with supply frequently changing between Indonesia, China and the Netherlands depending upon availability, quality and price.

**Table 3. Major importers of root and tuber crops into Malaysia.
(tonnes) (\$M 000)**

	1999		2000		2001	
	Quantity	Value	Quantity	Value	Quantity	Value
China	3,396	5,397	4,234	7,146	3,958	7,324
Thailand	1,868	1,125	1,217	731	1,347	824
Vietnam	1,149	233	-	-	-	-
Hong Kong	294	267	456	527	135	183
Indonesia	252	109	70	25	28	13
Australia	19	17	-	-	-	-
Taiwan	16	12	-	-	-	-
Japan	5	60	7	32	5	28
USA	-	-	-	-	18	15
India	-	-	3	17	-	-
Singapore	-	-	-	-	4	17
Netherlands	-	-	1	8	1	6
France	-	-	-	-	-	-
TOTAL	6,999	7,220	5,988	8,486	5,496	8,410

Potatoes from Indonesia were available all year round. The major variety cultivated (Granola) was well liked for it was tasty, versatile and the potato kept its shape when used in curries. Being the most proximal supplier, it was both easier to communicate with suppliers and to coordinate delivery in response to the market demand. However, and despite the proximity to the market, product from Indonesia was not always the most cost competitive. During December to April, product from The Netherlands was often cheaper. More recently, both India and Pakistan had entered the market and from April to July, New Zealand was shipping increasing quantities of good quality Granola to the market at very competitive prices. Since the product from Indonesia was often poorly packed, especially when the tubers had not been adequately cleaned of soil, and there were various problems associated with infestation by tuber moth and bacterial wilt, many of these alternative suppliers were rapidly expanding their market share at the expense of product from Indonesia.

Although China was supplying the market all year round, it was not until June-July that the Chinese product began to dominate the market. For many importers, China was their preferred supplier. Product was generally consigned to the market in 10 kg cardboard cartons. The tubers were generally cleaner than those available from Indonesia and had a superior cosmetic appearance. The tubers were large (125 g), oblong, well graded and uniform, with an attractive gold skin and yellow flesh. However, the quality of the tubers consigned to the market often changed abruptly, depending upon the supplier. Chinese product was also reported to have a longer shelf life. As a result, fewer problems were experienced at the retail level with tuber rotting and there was less wastage.

The Netherlands was the best of the European suppliers. Product was more uniform and there were fewer problems with shipping. It was generally accepted that Dutch potatoes had the best reputation in the market. However, further discussions with importers and traders suggested that it was not so much the country of origin that was important, but rather the variety. Both China and Indonesia often marketed their product as “Holland” potatoes.

In a similar manner, the market recognised “Russett” as a premium baking potato, thus forming the second market segment. While the US again dominated this market, there was, unlike Hong Kong, a general attitude of distrust and discontent towards the US as a supplier, with many importers and traders indicating that they were currently searching for alternative suppliers. An examination of the product both in the carton and on retail shelves readily revealed the reason why. No doubt, because of the price sensitive nature of the market in Malaysia, the quality of the product had been severely compromised. Not only were the tubers smaller (205 g), but the skins badly marked and cut.

The final market segment was the ultra premium market. This was the market for the large, cosmetically attractive, washed potatoes. Here the market was dominated by two varieties; Nadine and Desiree, both supplied from Australia. However, this market segment was very small (perhaps less than 5% of the market) and limited to the very high class supermarkets such as Jusco.

It was suggested that the potato market in Malaysia was generally stable all year round. Prices were relatively constant, although the source of supply often varied depending upon harvest times and the suppliers cost competitiveness. Prices were generally fixed with the supplier each week, but could also change abruptly if there was a significant change in competitors prices. Perhaps surprisingly, at least in the retail sector, potatoes were not considered to be price elastic. Any reduction in price did not result in a marked increase in the demand. Nevertheless, intense price competition between the retail chains ensured that consumers were getting good value for money and not paying more for potatoes than the market could stand.

It was also suggested that the demand for potatoes increased during Ramadan and for the two weeks immediately after. However, the increased demand was only for the budget priced lines, not premium potatoes.

The frozen potato market

During 2001, Malaysia imported more than 23,000 tonnes of frozen potato products (Table 4).

The USA was the major supplier by both volume (53%) and value (54%). Over the last three years, imports of frozen potato products have increased by an average of 14% per annum, no doubt reflecting the expansion in the fast food industry and consumers desire for more convenient products.

**Table 4. Major importers of frozen potato products into Malaysia.
(tonnes) (\$M 000)**

	1999		2000		2001	
	Quantity	Value	Quantity	Value	Quantity	Value
USA	7,886	23,234	10,688	31,234	12,370	35,191
NZ	5,325	14,518	5,489	15,378	5,483	15,024
Canada	3,920	11,165	3,391	9,922	2,754	8,258
Australia	514	1,380	40	149	8	32
Indonesia	66	162	-	-	6	6
China	32	132	53	51	25	77
Denmark	31	100	191	539	455	1,111
Germany	24	71	2	6	21	47
Netherlands	17	168	447	1,632	957	2,285
Singapore	9	23	-	-	-	-
Belgium	4	12	74	353	1,006	2,165
France	2	13	1	3	-	-
Sweden	-	-	-	-	12	40
UK	-	-	53	150	99	243
Hong Kong	-	-	-	-	1	1
Thailand	-	-	-	-	3	2
Japan	-	-	1	7	2	6
TOTAL	17,830	50,948	20,430	59,424	23,202	64,488