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MARKET RESEARCH

BURMA, CAMBODIA & LAOS

Market Assessment for Dairy Ingredients

May 2012

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U.S. Dairy Export Council
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Burma, Cambodia and Laos: Market Assessment For Dairy Ingredients

Prepared for:

The U.S. Dairy Export Council (USDEC)

This report provides an understanding of the dairy market within Burma, Cambodia and Laos in order to recommend a road-map for the level of future U.S. dairy industry engagement. The focus is on the market for dairy ingredients, limited to low to medium value ingredients, specifically SMP, NFDM, whey powder, whey permeate and lactose.

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This report was commissioned by the U.S. Dairy Export Council, with contributions from various consultants and market research experts. It is part of an extensive series of reports available to USDEC members and exclusively to U.S. dairy industry members. Reports are conducted to help the industry understand growth drivers, evaluate market opportunities and challenges, and become a consistent global supplier. USDEC staff members are available at any time to answer further questions, and one-on-one consultations on additional topics and markets are offered throughout the year at members' requests.

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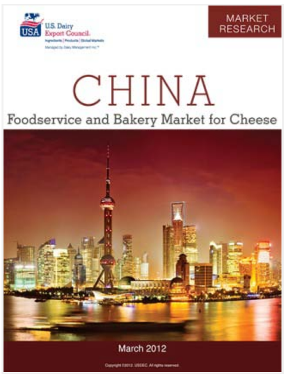

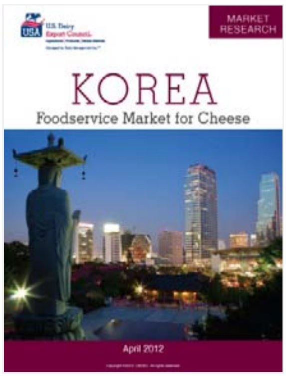

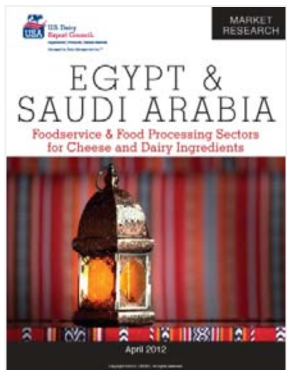

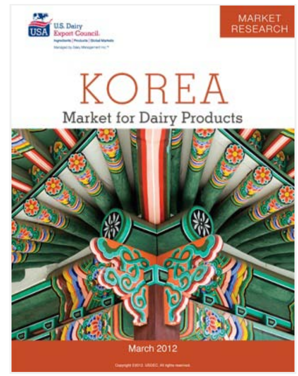

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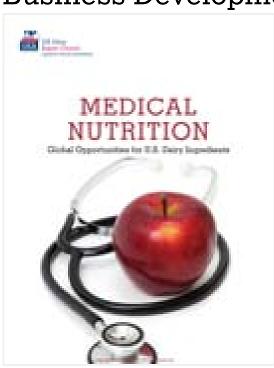

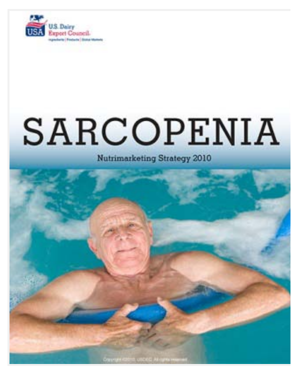

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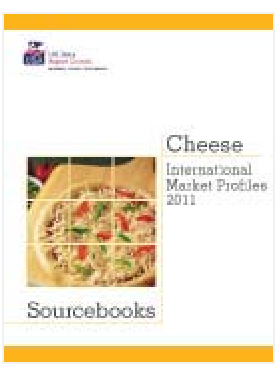

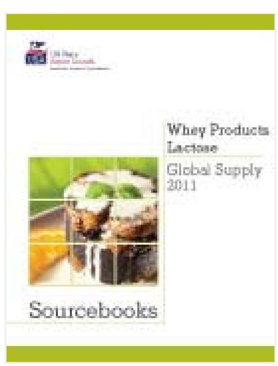

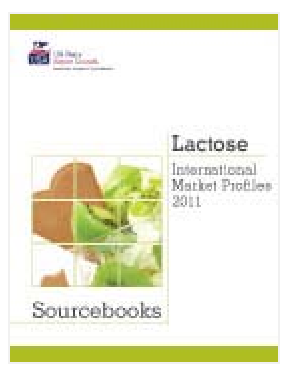

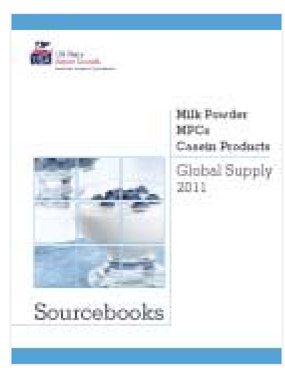

Contents

1. Executive Summary

Burma, Cambodia and Laos are the three remaining countries in Southeast Asia that have not been examined as potential markets for U.S. dairy exports. While the U.S. dairy industry has grown the Southeast Asian market to become the largest importing region for U.S. dairy ingredients and products,[1] the three countries have become secondary markets for U.S. dairy ingredients and products, often trans-shipped via Singapore, Thailand and Vietnam.

Soaring land and labor costs in Singapore and with Malaysia no longer having the advantage of subsidized raw sugar (an essential ingredient in recombined milk), Southeast Asian milk recombiners are examining future production bases elsewhere in the region. With free trade in Southeast Asia as a result of the ASEAN Free Trade Agreement (AFTA), future recombining investment within Southeast Asia beyond 2015 is likely to be in Burma, Cambodia and Laos.

Burma currently has an established dairy industry, although much of Burma's demand is met via imports. Despite U.S. government sanctions, U.S. companies can export to Burma, but there are restrictions on how they can finance transactions and whom they can export to. There are clear opportunities for dry U.S. dairy ingredients, including whole milk powder, non-fat dry milk, skim milk powder and whey powder, in volumes that have proven to be attractive to U.S. dairy exporters in neighboring markets.

- While there are opportunities for U.S. cheese and manufactured dairy products in Burma, the volumes purchased would generally not be attractive to U.S. dairy exporters not currently in Southeast Asia.

- Infant and follow-on formula in Burma will become a rapidly growing market. U.S. brands are already present.

- U.S. dairy exporters need to be prepared for a possible shift of production base of canned recombined milk from Malaysia and Singapore to Burma from 2015.

Cambodia has attempted to develop a dairy industry since 1999, but it remains in its infancy. There are limited opportunities for dry U.S. dairy ingredients, including whole milk powder, non-fat dry milk, skim milk powder and whey powder, in volumes that have proven not to be attractive to U.S. dairy exporters in neighboring markets.

- Pizza cheese for foodservice in Cambodia is the only current opportunity likely to be attractive to a U.S. dairy exporter.

- Branded infant and follow-on formula is rapidly growing markets in Cambodia. U.S. brands are already present, although product is blended in Malaysia, Singapore and Thailand, from a mixture of U.S. and other origin ingredients.

[1] Southeast Asia: combined imports of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

- Low value dry dairy ingredients for bakery and feed are two segments ready for growth. At present, the volumes purchased would generally not be attractive to U.S. dairy exporters not currently in Southeast Asia.

Laos has no large-scale commercial dairy industry. The market size is unlikely to be attractive to a U.S. dairy exporter.

- Canned recombined milk (sweetened condensed milk, creamer, evaporated milk) and infant and follow-on formula represent the best opportunity for dairy exports to Laos. However, the country of origin for these products will need to be within AFTA.
- Skim milk powder, whey powder and whey permeate are the best opportunities for U.S. dairy ingredient exports to Laos.
- U.S. exporters of cheese would be better exporting to Vietnam, as most cheese in Laos is sourced via Vietnam.

2. Background

The U.S. dairy industry has been an active exporter to Southeast Asia since 1996. While Southeast Asia contains ten countries, initially U.S. export efforts focused on the Philippines, followed by Indonesia, Malaysia, Singapore and Thailand. These five Southeast Asian countries, together, now represent the largest global market for U.S. dairy exports. Vietnam became an importer of U.S. dairy products in the decade following the lifting of U.S. sanctions in 1994, and joined the group as a significant Southeast Asian importer of U.S. dairy ingredients. Brunei is a small market receiving the majority of its dairy imports via Malaysia and Singapore. U.S. exports are very low and Brunei is unlikely to be attractive to U.S. exporters who do not already have retail and food service distribution within East Malaysia. The three remaining countries in Southeast Asia, Burma (Myanmar)[2], Cambodia and Laos, have not previously been examined as potential markets for U.S. dairy exports, as their food processing industries were considered too undeveloped to use U.S. dairy ingredients.

Major dairy imports to Burma and Laos are shipped via Thailand, while dairy imports to Cambodia are shipped via Malaysia, Thailand and Vietnam. After civil-disturbance in Thailand in Apr-May 2010, plus existing restrictive Thai quotas, and high internal transportation costs, recombining in the target market may now be viewed as preferable to recombining in Thailand. This was further exacerbated by damage to Thailand's F&N recombining plant (the largest recombining plant in the world), which ceased operations from Oct 2011 until early 2012. With further reduction in tariffs and effective free trade as a result of the ASEAN Free Trade Agreement (AFTA), it is possible that future recombining investment within Southeast Asia beyond 2015 could be in Burma, Cambodia and Laos. Burma currently has an established dairy industry, although much

[2] The Burmese military government changed the name of Burma to Myanmar in 1989. While the new name is recognized by the Association of Southeast Asian Nations (ASEAN), the United Nations and numerous other countries, the United States, Australia, Canada, several EU nations and others do not recognize the legitimacy of the ruling military government or its authority to rename the country, and continue to use the name 'Burma.'

of Burma's demand is met via imports. Cambodia has attempted to develop a dairy industry since 1999, but it remains in its infancy. There is no large-scale commercial dairy industry in Laos, but rather exists as a cottage industry.

The aim of this report is to help the U.S. dairy industry understand the potential for U.S. dairy exports to these emerging markets, and to recommend a road-map for the level of future U.S. dairy industry engagement to the three countries. The focus is on the market for dairy ingredients, limited to low to medium value ingredients, specifically SMP, NFDM, whey powder, whey permeate and lactose.

3. Regional Issues

The following issues are common to Southeast Asia, and impact Burma, Cambodia and Laos.

- ASEAN Free Trade Area Tariff Elimination

ASEAN has significantly achieved the goal of integrating member economies to achieve a single market and production base by 2015. ASEAN started its tariff liberalization program under the ASEAN Free Trade Area – Common Effective Preferential Tariff (AFTA – CEPT) Scheme in 1993. By 2010, AFTA realized the elimination of tariffs in almost all traded goods within ASEAN with the six major ASEAN members eliminating tariffs on 99 percent of the tariff lines placed in the inclusion List. Duties remain only for a limited set of products deemed domestically sensitive. Burma, Cambodia and Laos lowered tariffs to between 0-5 percent on 89 percent of the tariff lines placed in the inclusion list.[3]

Free Trade Zones have been established in Southeast Asia in advance of the single market in 2015. U.S. cheese curd or U.S. dry dairy ingredients could be imported into these zones without the country-specific documentation requirements it would need if imported into a specific country. The cheese or ingredients could then be processed, and providing the end product as 40 percent local content, the 'country of origin' then becomes one within AFTA, and qualifies for tariff-free trade within AFTA. As a result, more 'free-trade zones' are likely to be established in Southeast Asia where raw materials may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Burma and Cambodia are strategically situated and will have access to lower cost power by 2015.

- ASEAN Single Window

The ASEAN Single Window is currently being implemented, with the aim to speed up the clearance of shipments and the release of goods by customs authorities within ASEAN. Through synchronizing the interventions of the government agencies, traders, shippers, forwarders, transport operators and other parties, customs authorities aim to clear containerized shipments within 30 minutes (versus current five days). The system will be implemented once ASEAN members have established National Single Windows, a clearance system that enables a single submission of information and data, single and

[3] ASEAN Secretariat, Jakarta, Aug 2011.

simultaneous processing of the data, and a single point of decision-making through close collaboration among the lines ministries and other parties involved in the customs clearance process. Instead of submitting different forms and information to multiple agencies (e.g. customs, ports, health, etc.) to get a shipment of goods cleared, a trader would only need to submit all the information to one agency.[4]

- Singapore Competitiveness

Visitors to Burma, Cambodia and Laos cannot help but see the high level of investment and trade facilitation that occurs either by:

- Singapore direct investment,
- Singapore trade finance, logistics and shipping, and
- Business conducted by Singapore nationals.

Singapore recombined milk (Malaysia Dairy Industries), Singapore and Thai recombined (Singapore owned F&N), Malaysian recombined (Singapore owned Etika Dairies) are the major recombiners who export to Burma. These companies are also aggressive investors in the beverage industry across Southeast Asia. Both F&N and Malaysia Dairy Industries are believed to have 'excellent relationships' with the regimes of Burma and Cambodia. Asia Pacific Breweries, and F&N subsidiary, is present in both Burma and Cambodia. As land prices continue to rise in Singapore, it is logical that Singapore located milk recombining could move to a major market, such as Burma. A strategically located manufacturing base in Burma or Cambodia would enable more competitive re-exports to existing major markets, including the Middle-East and North and West Africa. Geographically, Burma would be better located, as shipments would not have to divert south to Singapore then transit the Straits of Malacca.

[4] ASEAN Secretariat, Jakarta, Aug 2011.

4. Burma

[5]

[5] Map from CIA World Factbook, 2007.

4.1 Market Overview

The three major Burmese cities of Rangoon (Yangon), Mandalay, and Moulmein (Mawlamyine) were visited in August and November 2012. Researchers met with 20 major dairy producers, importers, manufacturers and distributors.

4.2 Economy – Basic Indicators [6]

Burma's GDP was estimated at USD 76.47 billion in 2010, with Burma ranking 80th in the world. GDP increased from USD 72.65 billion in 2009 and USD 69.1 billion in 2008. GDP growth rate in 2010 was estimated to be 5.3 percent, with Burma ranking 65th in the world. However Burma's GDP per capita was a mere USD 1,400 in 2010, with Burma ranking 202nd in the world.

In 2010, 43 percent of Burmese GDP was estimated as derived from agriculture, 20 percent from industry, and 37 percent from services. Burma has a labor force of almost 32 million people, ranking it 19th in the world. 70 percent of Burmese labor is employed in agriculture, with seven percent in industry and 23 percent in services. Almost a third of the country is assessed to be below the poverty line.[7]

Agriculture - products:

Rice, pulses, beans, sesame, groundnuts, sugarcane, hardwood, fish and fish products.

Industries:

Agricultural processing, wood and wood products, copper, tin, tungsten, iron, cement, construction materials, pharmaceuticals, fertilizer, oil and natural gas; garments, jade and gems, with annual industrial growth of 4.3 percent.

Electricity Production Versus Consumption, 2008

Production kWh	Global Prod Rank	Consumption kWh	Imports	Exports
6.43 billion	106	4.63 billion	0	0

Burma is expected to become a power exporter to Thailand and China by 2015, which will result in lower electricity costs in Burma.

Exports:

$8.586 billion (2010 est.)
country comparison to the world: 93
$6.673 billion (2009 est.)
note: official export figures are grossly underestimated owing to the value of timber, gems, narcotics, rice, and other products smuggled to Thailand, China, and Bangladesh

[6] CIA World Factbook, 2011.
[7] CIA World Factbook, 2011.

Exports - commodities:

natural gas, wood products, pulses, beans, fish, rice, clothing, jade and gems

Exports - partners:

Thailand 38.3%, India 20.8%, China 12.9%, Japan 5.2% (2010) U.S. economic sanctions prohibit the import of Burmese-origin goods to the United States.

Imports:

$4.224 billion (2010 est.)
country comparison to the world: 126
$3.951 billion (2009 est.)
note: import figures are grossly underestimated due to the value of consumer goods, diesel fuel, and other products smuggled in from Thailand, China, Malaysia, and India

Imports - commodities:

fabric, petroleum products, fertilizer, plastics, machinery, transport equipment; cement, construction materials, crude oil; food products, edible oil

Imports - partners:

China 38.9%, Thailand 23.2%, Singapore 12.9%, South Korea 5.8% (2010) While U.S. exports to Burma (other than financial services) are permitted, very little trade flows in this direction.

4.3 Economy – At a Glance

Burma is a resource-rich country, with its centrally planned economy government controlled with inefficient economic policies, corruption, and rural poverty. Despite Burma's emergence as a natural gas exporter, socio-economic conditions have deteriorated under the regime's mismanagement, leaving most of the public in poverty, while military leaders and their business cronies exploit the country's ample natural resources. The transfer of state assets, especially real estate, to cronies and military families in 2010 under the guise of a privatization policy further widened the gap between the economic elite and the public. The economy suffers from serious macroeconomic imbalances - including unpredictable inflation, fiscal deficits, multiple official exchange rates that overvalue the Burmese kyat, a distorted interest rate regime, unreliable statistics, and an inability to reconcile national accounts. Burma's poor investment climate hampers the inflow of foreign investment; in recent years, foreign investors have shied away from nearly every sector except for natural gas, power generation, timber, and mining. The exploitation of natural resources does not benefit the population at large. The business climate is widely perceived as opaque, corrupt, and highly inefficient. Over 60% of the FY 2009-10 budget was allocated to state owned enterprises - most operating at a deficit. The most productive sectors will continue to be in extractive industries - especially oil and gas, mining, and timber - with the latter two causing significant environmental degradation. Other areas, such as manufacturing, tourism and services, struggle in the face of inadequate infrastructure, unpredictable trade policies, neglected health and education systems, and endemic corruption.

A major banking crisis in 2003 caused 20 private banks to close; private banks still operate under tight restrictions, limiting the private sector's access to credit. The United States, the European Union, and Canada have imposed financial and economic sanctions on Burma. U.S. sanctions, prohibiting most financial transactions with Burmese entities, impose travel bans on senior Burmese military and civilian leaders and others connected to the ruling regime, and ban imports of Burmese products. These sanctions affected the country's fledgling garment industry, isolated the struggling banking sector, and raised the costs of doing business with Burmese companies, particularly firms tied to Burmese regime leaders. The global crisis of 2008-09 caused exports and domestic consumer demand to drop. Remittances from overseas Burmese workers - who had provided significant financial support for their families - slowed or dried up as jobs were lost and migrant workers returned home. Although the Burmese government has good economic relations with its neighbors, significant improvements in economic governance, the business climate, and the political situation are needed to promote serious foreign investment.[8]

4.5 Economic Trends and Outlook

A deep-water port is already being established at Tavoy (Dawei) on Burma’s Andaman coast with food processing areas like the Malaysian Pelepas Free Zone on the Singapore-Malaysian border. The Burmese and Thai governments signed an agreement to jointly develop a port project at Tavoy in southern Burma's Tenasserim Region in 2007. In January 2011, the Burmese government promulgated the Dawei Special Economic Zone Law, a foreign investment magnet around Tavoy, promising tax breaks for companies as well as quick work and trade-permit facilitation, and a commitment from the Burmese authorities not to nationalize any industry or project established in the special economic zone.[9]

If completed according to current plans, the facility will measure 250 square km (100 square miles) and comprise deep-water harbor facilities, an oil refinery and an industrial estate—all linked by road to Rangoon and Bangkok, with transport infrastructure running alongside oil and gas pipelines. In November 2011, Thailand's privatized electricity generation company signed an agreement to construct power generation facilities at the future port.[10] This zone would be an ideal location for future foreign investment in a canned recombined milk plant, which would enable recombiners to relocate from high-cost Southeast Asian locations, such as Singapore, to a potentially low-cost location, such as this one.

4.5 Domestic Dairy Industry

The dairy industry in Burma is a mix of small-scale subsistence farming and commercial dairy farming. The Burmese Animal Husbandry and Medical Department believes the

[8] CIA World Factbook, 2011.
[9] The Irrawaddy, 8 Jun 2011.
[10] Bangkok Post, 15 Nov 2011.

national herd is approximately 500,000 head, of mainly local breeds cross-bred with imported livestock. Before a dairy can sell commercially, the farmer must pass a course and register the farm. This report will only examine commercial dairy farming where milk enters the commercial market.

Commercial dairy production in Burma is located in the Rangoon and Mandalay Divisions and the Shan State. Dairies are a mix of private and state owned and annual growth in milk production is around 2-3 percent per year. Without major changes to dairy practices, the volume of milk is not expected to grow, without an increase in herd size. The dairy industry in the Shan State has excellent climate, large holdings of land and an abundance of feed and could join Malaysia's Sabah as a major dairy production center in Southeast Asia, if the ongoing civil war in the region ends. Approximately 41,000 Mt of cow's milk is produced each year in commercial dairies, as follows:

Commercial Dairy Farms in Burma, 2011

Division	Entity
Rangoon	Miss Shar
Rangoon	Ngwe Pin Lae (U Paing)
Rangoon	U Michael Nyunt
Rangoon	Se Thu
Rangoon	Tarmwe Whole Sale
Rangoon	Insein Whole Sale
Rangoon	Shwe Pa Zon
Rangoon	WALCO
Rangoon	Pyinmapin
Rangoon	Super Cow
Rangoon	Phan Wha
Rangoon	TM
Rangoon	Silvery Pearl
Rangoon	Ar Man
Rangoon	Sweet Time
Rangoon	Kaung Zan
Mandalay	Sin Min
Mandalay	Shwe/Sein Htay Htay
Mandalay	Hnan Zun Township
Mandalay	Jone Jone & others
Mandalay	U Khin Maung Win
Mandalay	U Win Nyunt Aung
Mandalay	Mya Bayin
Mandalay	Dairy Queen
Mandalay	Chan Tha
Mandalay	Union
Mandalay	Mandalay (Zone)

Division	Entity
Mandalay	Lashmmee Dairy
Mandalay	Union (Zone)
Mandalay	U Khin Maung Soe
Mandalay	She Soe
Mandalay	December
Burma	**Total**

Source: Company Interviews, Aug and Nov 2011.

Almost all feed is locally sourced, with no feed for cows imported. Whey, and other dairy ingredients are not used in animal feed in Burma. There is no commercial cheese industry in Burma.

Most of the milk is sold fresh, with pasteurization the responsibility of the consumer. An increasing volume is pasteurized by the dairy, and sold as pasteurized milk or yogurt. Medium scale enterprises condense and sweeten milk for local sale. Several large-scale companies condense and sweeten fresh milk for commercial sale across Burma, with Myabuyin and Myanmar Dairy Industries (Dairy Queen) being the largest.

Whole milk powder (WMP), skim milk powder (SMP), whey powder, demineralized whey and whey permeate are used to add solids to raw milk before condensing.

4.6 Imported Dairy Ingredients and Products

Dairy import statistics are unreliable owing to the level of corruption in Burma, and numerous land and river smuggling routes, particularly through Thailand. The dairy commodities imported into Burma for 2008 to 2010 are as follows:

Burma: Dairy Ingredient Imports 2008 – 2010 (Mt)

	WMP			SMP			Whey			Lactose		
	08	09	10	08	09	10	08	09	10	08	09	10
Australia	29	17	0	161	124	34	0	484	0	0	0	0
NZ	751	1,401	2,598	279	160	542	0	36	0	0	0	28
EU*	0	4	16	16	698	174	256	128	1,034	0	0	0
Malaysia	42	22	202	159	232	283	0	103	340	0	3	0
Singapore	98	183	422	92	158	32	204	97	60	0	8	10
Thailand	129	483	411	40	49	232	247	1,167	2,882	16	31	38
China	220	0	15	0	0	0	0	0	0	0	0	0
India	121	0	0	832	199	124	0	0	119	184	58	35
USA	0	0	0	0	0	296	0	0	0	0	0	0
Total	**1,390**	**2,110**	**3,664**	**1,579**	**1,620**	**1,717**	**707**	**2,015**	**4,435**	**200**	**100**	**111**

Source: Global Trade Atlas website - Dec 2011
WMP - 040221
SMP - 040210

Whey – 040410 (Includes WPC, Whey Powder, Demineralized Whey and Whey Permeate)
Lactose - 170211
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

Imports of Chinese dairy ingredients ceased after the melamine crisis in 2008. Some border trade still occurs with Yunnan province. European Union official trade data adds an average of 135 Mt of butter/AMF and 35 Mt of cheese per year.

Burma: Dairy Ingredient Imports 2010 (Mt)

	EU	Australia	New Zealand	United States	Total
WMP	16	8	2,204	0	**2,228**
SMP	141	34	432	191	**798**
Butter/AMF	0	27	107	0	**134**
Cheese	0	34	0	0	**34**
Total (Mt)	157	103	2,743	191	**3,194**

Source: Consolidated EU Trade Data, 2010

In addition, Burma exports approximately 100 Mt of WMP to China each year, but this information does not appear in official trade data.[11]

Burma: Manufactured Dairy Product Imports 2008 – 2010 (Mt)

	Cheese			Yogurt			Sweetened Condensed Milk			Evaporated Milk		
	08	**09**	**10**	**08**	**09**	**10**	**08**	**09**	**10**	**08**	**09**	**10**
Australia	13	56	33	0	0	0	0	0	0	0	0	0
NZ	0	0	0	0	0	0	0	0	0	0	0	0
EU*	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	0	3	2	0	0	0	324	19	0	0	0	0
Singapore	113	90	158	1	1	2	3,065	2,589	1,191	17,696	301	55
Thailand	0	2	7	176	69	176	300	1,042	1,378	133	354	1,464
China	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0	0	0	0	0
Total	**126**	**151**	**200**	**177**	**70**	**178**	**3,689**	**3,650**	**2,569**	**17,829**	**655**	**1,519**

Source: Global Trade Atlas website - Dec 11
Cheese - 0406
Yogurt - 040310
SCM - 040299
Evaporated Milk - 040291
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

[11] Trade Interviews, Nov 11.

Approximately 50 percent of the sweetened condensed milk and creamer available in Burma has been transported into Burma from Thailand, and will not show in trade data.

4.7 Market Opportunities for U.S. Dairy Exports

There are clear opportunities for dry U.S. dairy ingredients, including whole milk powder, non-fat dry milk, skim milk powder and whey powder, in volumes that have proven to be attractive to U.S. dairy exporters in neighboring markets.

While there are opportunities for U.S. cheese and manufactured dairy products, the volumes purchased would generally not be attractive to U.S. dairy exporters not currently active in Southeast Asia.

Branded infant and follow-on formula will become a rapidly growing market. U.S. brands are already present, although product is blended in Malaysia, Singapore and Thailand, from a mixture of U.S. and other origin ingredients.

By 205, U.S. dairy exporters should be prepared for a possible shift of production base of canned recombined milk from a high-cost location like Singapore, to a lower cost location like Burma.

4.8 Dairy Market Structure and Trends

Milk is rarely consumed as a beverage in Burma. The overwhelming use for milk is an ingredient in Burmese tea. Tea is consumed in the home, and across the country in teashops, which are an important part of social life in South and Southeast Asia. The sweetened condensed milk and evaporated milk used in teashops is a mix of locally made and imported. Drinking and set yogurt is the second major use of local raw milk. Whole milk powder is produced in two plants, for local sale and for export to China. Imported milk powder is used to increase solids in raw milk, to use in beverages and baked goods. Infant formula is imported, with no local production. Cheese is imported by one major supermarket chain, and by two suppliers to up-market hotels and fine-dining restaurants that cater to European tourists.

Burma is unlikely to see increased canned sweetened condensed milk, evaporated milk and dairy creamer production from imported ingredients until:

- The domestic price of electricity is lowered to that of neighboring countries,
- Electricity supply becomes reliable,
- The domestic price of sugar is lowered to that of neighboring countries,
- A major regional recombining company (e.g. Etika, F&N, Malaysia Dairy Industries) decides to replace volumes of recombined milk exported to Burma and manufacture in Burma, and
- Burmese government increases ease of doing business and provides guarantees against future nationalization (as previously occurred in 1962).

All of this could be achieved in five years with the establishment of a free-trade port and industrial area along the lines of Malaysia's Pelepas free-trade zone.

With political will and good planning, Burma has the right climate, availability of feed, un-utilized land, low-cost of labor to be both self-sufficient in dairy production and even become an exporter of sweetened condensed milk from locally produced milk.

4.9 Local Dairy Industry

The dairy industry in Burma is a mix of small-scale subsistence farming and commercial dairy farming. Approximately 40,000 Mt of raw milk is used commercially each year. Raw milk is collected, pasteurized, and used in the following applications:

Usage of Raw Milk Usage in Burma, 2011

Company	Production	Annual Volume Mt
Miss Shar	Fresh milk	323
Ngwe Pin Lae (U Paing)	Fresh milk	108
U Michael Nyunt	Fresh milk	12
Se Thu	Fresh milk	137
Tarmwe Whole Sale	Fresh milk, and milk desserts	1,792
Insein Whole Sale	Fresh milk, and milk desserts	1,792
Shwe Pa Zon	Milk based desserts	735
WALCO	Pasteurized milk, yogurt, cream, butter	358
Pyinmapin	Pasteurized milk, and fresh milk	2,879
Super Cow	Pasteurized milk, yogurt, and fresh milk	627
Phan Wha	Pasteurized milk, yogurt, and fresh milk	642
TM	Pasteurized milk, yogurt, and fresh milk	418
Silvery Pearl	Pasteurized milk, yogurt, and fresh milk	1,183
Ar Man	Pasteurized milk, yogurt, and fresh milk	746
Sweet Time	Pudding	72
Kaung Zan	Yogurt, fresh milk	66
Sin Min	Condensed milk	3,673
Shwe/Sein Htay Htay	Condensed milk	3,673
Hnan Zun Township	Condensed milk	5,510
Jone Jone & others	Condensed milk	1,837
U Khin Maung Win	Condensed milk	329
U Win Nyunt Aung	Condensed milk	323
Mya Bayin	Condensed milk (395g can)	5,767
Dairy Queen	Condensed milk and evaporated milk	5,877
Chan Tha	Fresh milk	60

Company	Production	Annual Volume Mt
Union	Fresh milk (for tea shops)	72
Mandalay (Zone)	Fresh milk (for tea shops)	48
Lashmmee Dairy	Fresh milk, butter and cheese	896
Union (Zone)	Milk powder	119
U Khin Maung Soe	Pasteurized milk, yogurt, and fresh milk	149
She Soe	Yogurt	239
December	Yogurt	149
Total		**40,611**

Source: Company Interviews, Aug and Nov 2011.

Several dairy farms in Northern Burma, Rangoon and Southern Burma were visited, as follows:

Silvery Pearl Dairy
Tin Win
North of Rangoon on Phrome Road
Phone +951638329

Silvery Pearl Dairy is a typical small-scale commercial dairy farm located North of Rangoon. The herd is primarily local breeds, with imported genetics. The majority of the estimated 500,000 dairy herd in Burma are descended from cows imported over 30 years ago, and crossbred with indigenous breeds. Milking is by hand (around 99 percent of dairies in Burma still milk by hand).

Total daily domestic milk production from small scale and large farms in the Rangoon and Mandalay Divisions was 100,197 kg/day in which 32,572 kg/day from Rangoon and 67,625 kg/day from Mandalay. 93 percent out of total 67,625 kg/day produced in Mandalay is used for the production of condensed milk.
In Rangoon, the majority of the milk is sold fresh, or as yogurt.

The monthly supply of milk from contract small-scale farmers is not regular. Milk production declines during the peak of summer in March, April, and May. Milk powder is added to increase solids during this time. The quality of milk is the best during the cold season: December, January, and February.

To maximize shelf-life, milk is collected in a depot in each village, mixed with sugar and boiled.

Farms lack refrigerated storage, and availability of electricity is unreliable. In Rangoon, milk contains around 3.4 percent fat, versus 6 percent fat (owing to cooler climate) in Mandalay. This is an additional reason why sweetened condensed milk production is centered in Mandalay.

Yadanar Sin Min
Sagaing Township

Mandalay
Phone +951221640, 221955

Yadanar Sin Min is a large-scale commercial dairy in Mandalay, with an integrated breeding and feed operation. The dairy collects 8 Mt of milk per day, where it is mixed with sugar and 1.5 Mt-2 Mt of whey powder to produce 4.6 Mt of sweetened condensed milk per day. Cows graze and most feed is grown on the farm. Locally purchased cotton seed cake is the major source of protein. Cows are not fed whey.

Fresh milk is collected from four milk collecting centers within 8 km of the processing center. The quality of raw milk is measured by testing the level of lactose and milk density. The average milk yield per cow is 10kg/cow per day. Cows are milked for ten years before retirement. As most Burmese are Buddhists, cows remain on the farm once they are no longer producing milk, but are separated from the dairy herd.

The peak demand for whey powder is from November to April. 45 Mt of whey powder (either sweet whey, demineralized whey or whey permeate) is used to increase the solids level in the sweetened condensed milk. The preferred source of whey powder is from Poland, France, and Turkey of which the taste of Polish-origin whey powder is preferred owing to milky flavor and color profile. The whey powder is imported from Singapore via traders in Rangoon.

Sugar is purchased locally. Imported sucrose is added to maintain the level of sweetness, and the cost of sucrose is half the local price of sugar.

4.10 Major Buyers and Importers of Dairy Ingredients

Major Burmese companies who import dairy ingredients tend to have a related trading company in Singapore that purchases for them. Others purchase direct from importers, located in Rangoon.

Lamintayar Co., Ltd.
Dr Thiri Phyo
Director
124, G.F., 52nd Street, Pazundaung Tsp.
(11171), Yangon
Phone +951203531, 293055 Fax +951202461

Lamintayar is an importer of dry dairy ingredients. They are the major importer and distributer of Fonterra in Burma, importing the following volumes per month and purchasing using Fonterra’s GDT:

Ingredient	Volume	Use
WMP	175	Repacked in consumer packs for retail sale
SMP	25	Repacked in consumer packs for retail sale
BMP	10	Sold to milk recombiners

Burma (Myanmar) is a country listed on Fonterra’s Import Eligibility Statement.

Each shipment is tested by the Burmese FDA before Customs clearance. The FDA accepts Codex, WHO and FAO certification.

Prior to import, the Importer must seek FDA approval and obtain an import license. To obtain FDA approval, the Importer is required to provide the following:

- Sample, 1.5 kg
- Photographs of the packaging
- Country of Origin
- Certificate of Analysis
- Packing List
- Proforma Invoice

To obtain an import license, the importer is required to provide:

- Commercial Invoice
- A ‘Milk and Milk Products Certificate’, or equivalent.[12]

Halal certification is not a government requirement, but is a market requirement for Lamintayar, and may be a requirement for other importers. Less than 10 percent of Burma’s population is Muslim.

Lamintayar pays direct using payment on presentation of documents.

Myabuyin Dairy Plant
Kyauk Se Township
Mandalay
Phone: +956650027, Fax +956650240

Myabuyin is the second largest producer of condensed milk in Burma, producing 15.8 Mt of sweetened condensed milk per day from 50,000-60,000 liters of milk per day. The company has a 150-herd farm and purchases fresh milk from contract farmers. Farms in the area have herds of 100 head and use 50 percent Friesian and 50 percent Frisian-cross breeds. The average yield per cow is 10-20 liters per day. Milking is by machine on the larger dairies and manually on the smaller dairies. Milk quality is checked at the plant.

Production commenced in 1980, with manual condensing. Boilers were added in 1990. A modern Chinese sourced spray dryer and bulk packing system for whole and skim milk powder was completed in 2010. The spray dryer is primarily for the company’s own use during the peak milk season. The company purchases the following dairy ingredients:

Ingredient	Monthly Volume	Source
Raw Milk	1.65 million liters	Local, within 15 km radius of plant
WMP	60 Mt	Fonterra, New Zealand
SMP	45 Mt	Fonterra, New Zealand and China

12 Fonterra provide a ‘New Zealand Milk and Milk Products Certificate’ for New Zealand origin product. The company has no experience importing other origin product.

Ingredient	Monthly Volume	Source
Whey Powder	25 Mt	EU (Germany, Poland and France)
Demin Whey	20 Mt	Turkey (Sutus brand)

Dairy ingredients are imported via Singapore through Sky Seagull, a related entity, which can be contacted through Myabuyin. Demineralized whey is preferred as it imparts a milkier flavor. Myabuyin has its own sugar mill, crushing 500 Mt per day. The company produces the following dairy products:

Production	Monthly Volume	Market
Sweetened Condensed	474 Mt	Cans for retail sale in Northern Burma and Rangoon
WMP	30 Mt	For internal use, during peak season

Myanmar Dairy Industries Ltd.
Soe Lin
Director
U Saw Lindbergh Po
Director and Production Manager
Taungmyint, Pyigyidagun Township,
Mandalay
Phone +951253494, Fax +951253767

Myanmar Dairy Industries is the largest manufacturer of canned sweetened condensed milk and evaporated milk in Burma. The company markets its products for sale across Burma, and dries whole milk powder for sale within Mandalay and export to China. The company began in 1996, using only milk powder, but in 2005 the government required them to use raw milk in addition to dry dairy ingredients. The company has its own farm and purchases raw milk from four additional local farms. Monthly purchasing of raw milk and dairy ingredients is:

Ingredient	Monthly Volume	Source
Raw Milk	Various. Required to purchase all local raw milk	Local, within 5 km radius of plant
SMP	120 Mt	Fonterra, New Zealand
Whey powder	120 Mt	Poland and Uruguay (Cladly brand)
Lactose	10 Mt	For seeding only

The Managing Director, Saw Bla Htoo, of a related company, Golden Arrow Technical Trade in Singapore sources the ingredients. The company makes the following dairy products using its ‘Dairy Queen’ brand. A UHT line has been installed but UHT production has not commenced. Myanmar Dairy Industries makes its own cans, which gives them an advantage over local competitors.

Production	Monthly Volume	Market
Sweetened Condensed	12,000 cartons or 154 Mt	Cans for retail sale in Northern Burma
Evap Milk	3,000 cartons or	Cans for retail sale in Northern Burma

Production	Monthly Volume	Market
	39 Mt	
UHT Milk	-	Bottles for retail sale in Northern Burma
WMP	40 Mt	Repacked in consumer packs for retail sale or Exported to Yunnan Province, China
AMF	45 Mt	Used in own production or sold to local ice cream manufacturers
Ice Cream	30 Mt	Sold in wholesale tubs and retail packs

The company has its own dairy farm and purchases raw milk from local farms. All milk production is in Mandalay, with a daily milk collection from two milkings per day, from five local farms. It also has its own rice mill, and uses the husks to fire the milk condensers. The USD has depreciated 25 percent versus Southeast Asian currencies in 2011, the result being that local production of milk is more expensive than imports. In Rangoon and Moulmein, imports have replaced Burmese milk. Mandalay and Northern Burma are protected by mountain ranges and jungle, which protect against large volume smuggled imports. They regard their major competitors as Friesland (Ship brand from Thailand), (Marigold and Dawn brands from MDI, Singapore) and Tea Pot (F&N from Thailand).

The declining USD has become an issue for Myanmar Dairy Industries. As Burma is a socialist planned economy, it has great difficulty in adjusting input pricing with variable exchange rates.

Golden Arrow Technical Trade
U Saw Bla Htoo
Managing Director
Singapore
Phone +65 97770756

Golden Arrow Technical Trade purchases dry dairy ingredients for Myanmar Dairy Industries. All financing and transactions occur in Singapore. U Saw Bla Htoo spends his time between Chiang Mai, Thailand and Singapore.

U Nyunt Thein
Business Representative
No.34, U Loo Nee Street,
Lower Kyimyindine, Yangon
Phone +951220421

U Nyunt Thein (Uncle Lee) formerly worked with Nestlé World Trade and FAO. He now works as an independent consultant. Nestlé previously made Lactogen, Milo, chocolate in Burma and imported Milk Maid for sale. In 1962, when socialism was instituted, the company was nationalized. Nestlé did not set up a sweetened condensed milk factory in Burma, as it was not able to source sufficient raw material. Thein advised that U.S. sanctions are a major impediment for U.S. trade and negatively effect U.S. business and the Burmese people, but does not effect the sanctions intended targets. He believes U.S. companies need to be ready for the end of sanctions. He believes there is already considerable, discrete, U.S. investment, particularly mining. U.S. dairy exporters are legally permitted to export to Burma. He believes the mere use of the word 'sanctions' has frightened U.S. business away. He believes there is considerable change ongoing in Burma, but also warns that 'we've heard that many times before.'

Dagon Win Win Company Limited
Soe Myint
Managing Director
Kaung Myat
Deputy General Manager, Business Planning & Development
No. 23-28, Aung San Stadium Eastern Wing,
Upper Pansodan Street, Mingalar Taungnyunt Township, Yangon
Phone +951373408, 394954, 249551-3 Fax +951394738

Dagon Win Win imports dairy ingredients to sell to bakeries and factories. The company had previously purchased through Fonterra, Marubeni and Olam. They currently import 20 Mt of SMP per month and 20 Mt of whey powder per month (Euroserum, of Polish-origin). They describe the Burmese economy as 'a John Wayne economy – take the money and run' rather than one in which to invest. They advised that 'U.S. policies support the Burmese government and in turn Burmese people suffer.' At present, the price of food in Burma is double that of Thailand, but per capita income is only one fifth of Thailand's. At present, local production of sweetened condensed milk is 560 kyat (USD 0.68) per can, versus imported sweetened condensed milk from Thailand at 450 kyat (USD 0.54) per can. The company is interested in importing SMP, WMP, infant formula and UHT milk.

Diamond Quality Feed
Sao Khun San Aung
Managing Director
No. (2), Bo Aung Kyaw Street.
Industrial Zone-4 Hlaing Thar Yar T/S, Yangon
Phone +951685665 Fax +951685820

Diamond Quality Feed is an importer of food and feed ingredients. The company imports SMP when requested by buyers in the bakery sector, but does not keep its own stores. The company is related to Seit Wut Hmon, an importer of sweetened condensed milk, evaporated milk and dairy creamer.

4.11 Importers and Distributors of Non-Chilled Dairy Products

Punyoma International Co., Ltd.
Ye Myint (a)
Managing Director
No.52, Bogyoke Aung San Road,
Pazundaung Township, Yangon
Phone +951202403, 296605, 297214, 202143 Fax +951200212

The company has been the sole agent for Dawn and Marigold brands of sweetened condensed milk in Burma since 1991. Dawn and Marigold are manufactured by Malaysia Dairy Industries in Singapore, and contain U.S. and other whey powder and SMP. Punyoma imports 60,000 cartons (1,260 Mt) of evaporated filled milk and 200 Mt of sweetened condensed milk per month. Major competitors in the market are Tea Pot and Carnation brands (F&N Thailand), OK and Cowbell. Ship brand (Friesland Thailand) is considered to high priced for the market.

The company considered investing in a canned sweetened condensed milk factory in 1994. The investment required was USD 4-5 million, and the company determined the venture was not feasible, owing to high-cost of power, inability to secure sufficient volumes of dairy ingredients and sugar, over regulation and dependence on imported cans. Local protection will be eroded as ASEAN Free Trade Agreement Tariff elimination continues until 2015.

TZK Co., Ltd.
Zaw Win
Managing Director
No.38, Shwe Taung Dan Street,
Lanmadaw P.O, Yangon
Phone +951225752, 225753, 226347 Fax +951226171, 681185

TZK has imported Friesland's Ship and Boy Brands from Thailand since 2005. TZK imports 4,000-5,000 cartons per month from a Thai border trader at Mae Sot, which is then ferried across the Salween river for sale in large teashops and wholesale distribution for retailers. The company previously imported PEP (an NZ Milk blend of SMP and sugar). Red Cow brand (China) was a major local competitor until the melamine crisis saw its sales drop 40 percent.

The company considered investing in a canned dairy creamer factory, but believed it was not viable at present, owing to: high cost of electricity (twice the cost of Thailand), unreliable electricity supply, with frequent black-outs, and rules and regulations that are neither transparent, nor fairly enforced. Zaw Win advised, 'if you bring in finished product, you do it once', but if you bring in five ingredients, you have to import five times.' He described dairy farming as risky, as the economy is centrally controlled, and exporting of finished product is (effectively prohibited).

Sein Wut Hmon Co., Ltd.
Nay Win Aung
Director
Kyaw Naing Oo
Marketing Director
No.24, Phan Caht Won U Shwe Ohh Street,
Industrial Zone (2), Hlaing Tharyar Township, Yangon
Phone +951684842, 684862 Fax +951684715

Seit Wut Hmon is an importer of sweetened condensed milk, evaporated milk and dairy creamer. The company imports 800 Mt of OK brand creamer and evaporated milk from Malaysia Dairy Industries (MDI) Singapore each month. The Dawn brand (also MDI) is also imported - 800 Mt/month, and MDI's Marigold brand – 400 Mt/month. The senior management was educated in the United States. The company is related to Diamond Quality Feed, an importer of food and feed ingredients.

MDI and Sein Wut Hmon considered partnering to produce canned dairy products from imported dairy ingredients in Burma but the project was not feasible. The high cost of sugar, electricity and diesel has driven most of the local recombiners in the Rangoon Division out of business as they can no longer compete with imports, often smuggled. The situation is different in Mandalay where there is ample raw milk and smuggling is less of an issue. The market for sweetened condensed milk in Rangoon is stagnant, as younger people are going out at night to drink beer, where ten years ago they would have drunk tea. 'Taste' was the major factor in the consumer choosing one brand of sweetened condensed milk over another.

Diamond Rose Co., Ltd.
Phyu Phyu Khaing
General Manager
No. (154), Yeik Thar (1) Street, Wayzayantar Road,
Thingangyun Township, Yangon

Diamond Rose is the official importer and distributor of F&N's 'Tea Pot' brand sweetened condensed creamer and evaporated milk since February 2011. 'Tea Pot' is a former Nestlé brand, which was previously imported by Asia Light (see below). All product is made in F&N's Thailand facility, and exported by sea to Rangoon.

The company imports 10,000 cartons (48 cans each) of sweetened condensed creamer per month (approximately 210 Mt/month) and 20,000 cartons of evaporated milk per month approximately 420 Mt/month).

'Tea Pot' brand is also imported through the grey market via the Thai border. The landed cost of one legally imported can to Rangoon is 535 kyat, versus 450 kyat for a can sold on the Thai border and transported for sale. Labeling of the official import and the grey market import are slightly different, which enables Diamond Rose to track grey market product. The company believes that 50 percent of the Tea Pot brand in Burma is grey market.

Asia Light Co., Ltd.
Kyaw Kyaw Nyein
Manager
No. 6, Upper Pansodan Street, Aung San Stadium Eastern Wing,
Mingalar Taung Nyunt Township, Yangon
Phone +951249120-1, 249551-3, 298775 Fax +951249521

Asia Light is an importer and distributor of electric light fittings, and was the Burma importer for Nestlé's 'Tea Pot' brand of sweetened condensed creamer and evaporated milk. When Singapore's F&N bought the rights to Nestlé's milk brands in much of Southeast Asia, and shifted production to Thailand, F&N replaced Asia Light as its importer with Diamond Rose in February 2011 (see above). The company is seeking other non-refrigerated dairy products as potential replacements.

Red Horse Industrial Group
Tun Tun
Managing Director
148 Yan Pyay Road, 3rd Quarter,
Tharketa Tsp., Yangon
Phone +951541124, 553366, 551507

Red Cow Industrial Group repacks industrial size volumes of whole milk powder in retail packaging and markets throughout Burma. The company imports and repacks 174 Mt of Fonterra New Zealand-origin WMP per month for sale to wholesale and retail to consumers.

Thutheikdi Trading Enterprise Ltd
77/1, 38th St, KTDA Tsp, KTDA
Yangon
Fax: 289960, 289961

The company imports Dumex brand infant and follow-on formulas. Dumex is the major brand of infant and follow-on formula in Burma, exported from Malaysia and Thailand. (A major competitor described the import volume of Dumex as 1,800 Mt per month, or USD 3 million annually).

Myabuyin Condensed Milk
Ko Than Naing
Director
No.112/114 33rd Street,
Kyauktada Township, Yangon
Phone +951388142, 242381

Myabuyin is a processor of sweetened condensed milk and whole milk powder from local fresh milk. The company purchases fresh milk from farms surrounding its facility in Mandalay and condenses the milk for wholesale distribution in industrial containers in Mandalay and Rangoon. The sweetened condensed milk is then sold to distributors, who re-package it for local sale. This company is the distribution arm of Myabuyin in Mandalay (see above).

The company also makes its own branded sweetened condensed milk, which it supplies across Burma. 75 percent of production is sold in upper-Burma, as Rangoon is primarily supplied by imports. Surplus milk is dried to make WMP, which is sold to ice cream manufacturers and exported to China. The cost to manufacture one can of sweetened condensed milk is 560 kyat (USD 0.68), where 560 kyat (USD 0.68) is the cost of the ingredients, and 145 kyat (USD 0.17) is the cost of the can. The price of sugar in Burma is three times the world market price and imports are subjected to quota. Local sugar mills are required to sell sugar to the government at 10,000 kyat (USD 12.00) per Mt, while private industry must pay 50,000 kyat (USD 60.00) per Mt. Government controls on sugar plus the price of electricity are the major reasons Rangoon-based sweetened condensed milk manufacturers cannot compete with imports from Malaysia, Singapore and Thailand. Myabuyin is able to compete because it has its own sugar mill. In addition, it has its own rice milling (which supplies the husks used to fuel the condensers, without the need to rely on the electricity grid.)

4.12 Importers and Distributors of Chilled Dairy Products

City Mart Holding Co., Ltd.
Win Win Tint
Managing Director
Padonmar Stadium (East Wing)
Bargayar Street, Sanchaung Township, Yangon
Phone +951508460, 523430 Fax +951512019

City Mart is an importer and operator of hypermarkets and supermarkets in Burma, with three hypermarkets and three supermarkets in Rangoon and Mandalay. City Mart is the largest importer of cheese and butter in Burma, each month importing 20 Mt of cheese for retail and foodservice, 20 Mt of bulk butter and 80 Mt of UHT milk. Processed cheddar, mild cheddar and mozzarella are the most popular cheese varieties for retail and foodservice. UHT milk is sourced from Australia, New Zealand and Argentina. The company also distributes infant formula, canned and UHT milk. A related company is the official importer for Abbott Nutrition.

Mega Selection
Cathérine Uparim
213/18 Asoke Towers Building Sukhumvit 21
North Klongtoey, Wattana
Bangkok, 10110, Thailand
www.mega-selection.com
megaselection@csloxinfo.com
Phone: +6626643301

Mega Selection imports specialty cheese for food service to Thailand, Burma and Bangladesh. Mega Selection, whose products are almost all French, supplies most of Burma's fine-dining restaurants. The company does not import U.S. cheese to Burma as chefs do not ask for U.S. varieties. Mega Selection orders cheese directly from manufacturers and airfreights, as the cheese has only around a 30-day shelf life. Mega Selection runs their own seminars/workshops for their customers. Topics include cheese types, cheese storage, and cheese and wine pairing.

Quarto Products
Renato Buhlmann
Norman Chen
Bayint Naung Lane (1)
Thurein Yeik Mon Housing, Ywa Ma Curve, Quarter 2
Yangon
info@quartoproducts.com

Quatro Products imports and supplies cheese and other gourmet products to fine-dining restaurants and hotels in Burma. All products that enter Burma have been purchased by a related entity in Singapore.

4.13 Best Product Prospects

Canned recombined milk (sweetened condensed milk, creamer, evaporated milk) and infant and follow-on formula represent the best opportunity for dairy exports to Burma. However, the country of origin for these products will need to be within AFTA, in order for the products to be competitive in the market. (U.S. manufactured sweetened condensed milk and evaporated milk is unlikely to be competitive in the market, but U.S. SMP, buttermilk powder, whey powder and whey permeate will continue to be important ingredients in products recombined in other ASEAN countries and exported to Burma).

Whole milk powder, skim milk powder, whey powder and whey permeate are the best opportunities for U.S. dairy ingredient exports. Milk recombiners and the bakery segment are the best market segments.

The bakery segment represents a large un-tapped potential market for low-value dry dairy ingredients, such as whey powder and whey permeate.

U.S. exporters of cheese would be better exporting to Singapore, as most cheese in Burma is sourced via Singapore.

4.14 Market Barriers to U.S. Dairy Exports

U.S. Government Sanctions

The United States imposed sanctions against Burma in 1988, following the Burmese military's crackdown against civilian democracy activists, and in 1990, when the military nullified the results of democratic parliamentary elections. The range of sanctions currently employed by the United States are intended to: oppose the provision of international financial institution assistance to Burma, prohibit military sales, deny most economic aid and commercial assistance programs to the Burmese government, ban U.S. travel to senior members of the military and government. The following is a brief summary of the sanctions and implications for U.S. dairy exporters.[13] A more detailed version by the U.S. Department of the Treasury, Office of Foreign Assets Control is included as an Annex to this report.

• Executive Order 13047 of 20 May 1997, saw the President impose economic sanctions prohibiting new investment by U.S. persons or entities in Burma, based on the determination that the Government of Burma's actions were a threat to U.S. national security and foreign policy. The Cohen-Feinstein Amendment to the Foreign Operations Act of 1997 forms the legal basis for the investment ban. Every year, the U.S. Government reviews the sanctions policy. Since imposing the investment ban, the U.S.

[13] U.S. Department of State, Bureau of Economic, Energy and Business Affairs, 2010 Investment Climate Statement on Burma, March 2010.

Government has found no measurable progress toward political liberalization in Burma and the sanctions have been renewed at each interval.

Prior to the imposition of the investment ban, many prominent U.S. investors had already withdrawn from Burma due to a hostile investment climate and disappointing returns. An active anti-Burma consumer movement in the United States and Europe also put investors' corporate images at risk. Current U.S. federal sanctions allow companies invested in Burma prior to 20 May 1997 to maintain their investments. Very few companies have elected to do so.

• The Burmese Freedom and Democracy Act (BFDA), was enacted in 2003 and the President issued an accompanying executive order barring the import of Burmese products into the United States. The 2003 sanctions also prohibited U.S. persons from providing financial services to Burma, and seized the assets of certain Burmese entities.

• U.S. law allows U.S. firms to export to Burma, including dairy ingredients and products, with some exceptions such as the export of any financial service and sales of any kind to individuals or entities on the Department of the Treasury's Office of Foreign Assets Control (OFAC) Specially Designated Nationals (SDN) list.

• Executive Order 13310 of Septmeber 2007 added additional Burmese officials to the asset block. Executive Order 13348 of October 2007, expanded the authority to block assets to individuals responsible for human rights abuses and public corruption, as well as those who provide material and financial support to the regime.

• The Tom Lantos Block Burmese Junta's Anti-Democratic Efforts Act (Jade Act) of Jul 2008 expanded the list of persons whose assets may be blocked by the U.S. Government to include current and former leaders of the Burmese military, as well as any person who provides significant economic and political support to those organizations. Immediate family members of those targeted by the Jade Act are also subject to the restrictions. Again, the sanctions do not prohibit U.S. dairy exports to Burma, except if the sale is to individuals and companies covered by the Jade Act.

• *While the list of individuals and companies is updated on an annual basis, the companies listed in the 'Key Contacts' section of this report are not covered by the above sanctions.* A more detailed analysis of the economic sanctions by the U.S. Department of the Treasury, Office of Foreign Assets Control is included as an Annex to this report.

4.15 Recommendations

Recommended Entry Strategy for U.S. Dairy Exporters

U.S. dairy exporters should consider exporting direct to Myanmar Dairy Industries and Myabuyin. We recommend that all remaining business be transacted through one of the importers and distributors in the list below.

Recommendations for Future Directions for the U.S. industry

Burma is currently a market for:

Ingredient	Volume Mt
WMP	7,000
SMP	4,000
Whey Powder	8,000

Source: Estimate based on Official Trade Data plus import volumes of major end-users and importers, both official and grey market.

Despite existing U.S. sanctions, U.S. exports of dairy ingredients is permitted. Future growth in local manufacture canned recombined milk is likely to occur beyond 2015. However, growth will only occur once sufficient competitively priced electricity and sugar is available and free-trade zones are established. Such a free-trade zone is currently being established, and will be operational beyond 2015. This could see the relocation of aging milk recombining facilities in high-cost locations like Singapore move to a low-cost free-trade zone in Burma. Singapore based milk recombiners have examined this option, but concluded the time is not yet right. U.S. dairy exporters need to be prepared for a change in export location.

4.16 Key Contacts

Punyoma International Co., Ltd.
Ye Myint
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Pazundaung Township, Yangon
Phone +951202403, 296605, 297214, 202143 Fax +951200212

U Nyunt Thein
Business Representative
No.34, U Loo Nee Street,
Lower Kyimyindine, Yangon
Phone +951220421

Dagon Win Win Company Limited
Soe Myint
Managing Director
No. 23-28, Aung San Stadium Eastern Wing,
Upper Pansodan Street, Mingalar Taungnyunt Township, Yangon
Phone +951373408, 394954, 249551-3 Fax +951394738

Dagon Win Win Company Limited
Kaung Myat
Deputy General Manager, Business Planning & Development
No. 23-28, Aung San Stadium Eastern Wing,
Upper Pansodan Street, Mingalar Taungnyunt Township, Yangon
Phone +951370861, 370862, 249551-3 Fax +951394991

Asia Light Co., Ltd.
Kyaw Kyaw Nyein
Manager
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5. Cambodia

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5.1 Market Overview

Phnom Penh and the neighboring provinces of Kandal and Kampong Cham were visited in October 2011. Researchers met with 14 major dairy producers, importers, manufacturers and distributors.

5.2 Economy – Basic Indicators [15]

Cambodia's GDP was estimated at USD 30.18 billion in 2010, with Cambodia ranking 108th in the world. GDP increased from USD 28.47 billion in 2009 and USD 29.04 billion in 2008. GDP growth rate in 2010 was estimated at 6.0 percent, with Cambodia ranking 54th in the world. However Cambodia's GDP per capita was USD 2,100 in 2010, with Cambodia ranking 187th in the world.

In 2009, 35 percent of Cambodian GDP was estimated as derived from agriculture, 21 percent from industry, and 45 percent from services. Cambodia has a labor force of

[14] Map from CIA World Factbook, 2007.
[15] CIA World Factbook, 2011.

almost nine million people, ranking it 53rd in the world. 58 percent of Cambodian labor is employed in agriculture, with 16 percent in industry and 26 percent in services. Just under a third of the country is assessed to be below the poverty line.[16]

Agriculture - products:

Rice, rubber, corn, vegetables, cashews, tapioca, silk.

Industries:

Tourism, garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining, textiles, with annual industrial growth of 5.7 percent.

Electricity Production Versus Consumption, 2008

Production kWh	Global Prod Rank	Consumption kWh	Imports	Exports
1.38 billion	142	1.56 billion	374 million kWh	0

Cambodia is expected to become a power exporter to Thailand by 2015, which will result in the cessation of power imports from Thailand and lower electricity costs in Cambodia.

Exports:

$5.527 billion (2010 est.)
country comparison to the world: 107
$4.302 billion (2009 est.)

Exports - commodities:

clothing, timber, rubber, rice, fish, tobacco, footwear

Exports - partners:

U.S. 47.3%, Canada 7.5%, UK 6.8%, Germany 6.4%, Thailand 4.3%, Japan 4.1% (2010)

Imports:

$7.38 billion (2010 est.)
country comparison to the world: 103
$5.876 billion (2009 est.)

Imports - commodities:

petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, pharmaceutical products

Imports - partners:

[16] CIA World Factbook, 2011.

Thailand 26.5%, Singapore 25.1%, China 15.3%, Hong Kong 6.6%, Vietnam 6.5% (2010)

5.3 Economy – At a Glance

From 2004 to 2007, the economy grew about 10% per year, driven largely by an expansion in the garment sector, construction, agriculture, and tourism. GDP contracted slightly in 2009 as a result of the global economic slowdown, but climbed more than 4% in 2010, driven by renewed exports. With the January 2005 expiration of a WTO Agreement on Textiles and Clothing, Cambodian textile producers were forced to compete directly with lower-priced countries such as China, India, Vietnam, and Bangladesh. The garment industry currently employs more than 280,000 people - about 5% of the work force - and contributes more than 70% of Cambodia's exports. In 2005, exploitable oil deposits were found beneath Cambodia's territorial waters, representing a new revenue stream for the government (if commercial extraction begins). Mining also is attracting significant investor interest, particularly in the northern parts of the country. The government has said opportunities exist for mining bauxite, gold, iron and gems. In 2006, the U.S.-Cambodia bilateral Trade and Investment Framework Agreement (TIFA) was signed, and several rounds of discussions have been held since 2007. Rubber exports increased about 25% in 2009 due to rising global demand. The tourism industry has continued to grow rapidly, with foreign arrivals exceeding 2 million per year in 2007-08; however, economic troubles abroad dampened growth in 2009.

The global financial crisis is weakening demand for Cambodian exports, and construction is declining due to a shortage of credit. The long-term development of the economy remains a daunting challenge. The Cambodian government is working with bilateral and multilateral donors, including the World Bank and IMF, to address the country's many pressing needs. The major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. More than 50% of the population is less than 25 years old. The population lacks education and productive skills, particularly in the poverty-ridden countryside, which suffers from an almost total lack of basic infrastructure.[17]

5.4 Economic Trends and Outlook

Cambodia has high-cost electricity, which is often unreliable, and a major reason why the country lacks a food processing industry (it is cheaper to import). However, Chinese investment in hydropower will eventually lower costs, and see Cambodia emerge as a power exporter. In December 2011, a 194 MW dam in Kampot Province was completed.[18] Cambodia's rail transport network is currently being restored, with an Asian Development Bank funded project to restore the rail network by 2013, as part of the pan-Asia rail network. The 650 km Cambodian rail network will connect Cambodia with

[17] CIA World Factbook, 2011.
[18] Bangkok Post, 7 Dec 2011.

Thailand and Vietnam, and on to Burma and China.[19] Cambodia suffers from an undeveloped cold-chain and only five companies maintain a cold-chain network servicing the three major markets of Phnom Penh, Seam Reap and Sihanoukville. Dry ice is not made in Cambodia, and must be imported. Despite a population of 14 million people, only three million would be considered as consumers. The United States and Cambodia signed a Trade and Investment Framework Agreement (TIFA) in 2006. The United States and Cambodia meet regularly to make progress on trade and investment related issues through a joint work program established under the TIFA. The TIFA dialogue focused on deepening bilateral trade and investment ties, monitoring and supporting Cambodia's efforts to implement its WTO commitments.[20]

5.5 Domestic Dairy Industry

The dairy industry in Cambodia is predominantly small-scale subsistence farming and very limited commercial dairy farming. A small domestic dairy industry exists, but is not yet at a scale to sell within commercial markets. The domestic dairy industry has a vision, and grand plans, but has yet to be able to find foreign investment. Previous foreign investors, notably Nestlé, withdrew from a 10 year investment in Cambodia, as the company could not compete with cheaper and more reliable exports.

Almost all feed is locally sourced, with no feed for cows imported. Thailand's CP Group dominates the feed market for poultry and swine and CP plans to focus future investment in poultry and swine production in Cambodia and Vietnam. Whey is used in animal feed in Cambodia, but in small volumes. There is no commercial cheese industry in Cambodia.
Most of the milk is sold fresh in wet markets, with pasteurization the responsibility of the consumer. Yogurt is not yet made, and there is no local production of sweetened condensed milk from fresh milk in Cambodia. As such, there is currently no market for whole milk powder (WMP), skim milk powder (SMP), whey powder, demineralized whey and whey permeate to add solids to raw milk.

5.6 Imported Dairy Ingredients and Products

Dairy import statistics are unreliable owing to the level of corruption in Cambodia, and numerous land and river smuggling routes, particularly through Vietnam, and by sea from Thailand. The dairy commodities imported into Cambodia for 2008 to 2010 are as follows:

Cambodia: Dairy Ingredient Imports 2008 – 2010 (Mt)

	WMP			SMP			Whey			Lactose		
	08	09	10	08	09	10	08	09	10	08	09	10
Australia	0	0	0	0	0	0	0	0	53	0	0	0
NZ	0	0	0	0	17	0	0	0	0	0	0	0
EU*	0	4	0	0	0	0	0	0	0	1	0	0

[19] Gulf Times, 23 Oct 2010.
[20] USTR Country Profiles, Nov 2011.

	WMP			SMP			Whey			Lactose		
Malaysia	0	0	0	0	5	4	0	1	10	0	0	0
Singapore	461	273	68	9	1	1	0	0	0	1	2	4
Thailand	1,662	1,125	429	225	187	1,224	6,687	6,657	7,134	0	0	0
China	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	13	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	40	0	4	0	0	0
Total	**2,123**	**1,402**	**497**	**247**	**210**	**1,229**	**6,727**	**6,658**	**7,201**	**2**	**2**	**4**

Source: Global Trade Atlas website - Dec 2011
WMP - 040221
SMP - 040210
Whey – 040410 (Includes WPC, Whey Powder, Demineralized Whey and Whey Permeate)
Lactose - 170211
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

Cambodia: Manufactured Dairy Product Imports 2008 – 2010 (Mt)

	Cheese			Yogurt			Sweetened Condensed Milk			Evaporated Milk		
	08	**09**	**10**	**08**	**09**	**10**	**08**	**09**	**10**	**08**	**09**	**10**
Australia	17	9	2	0	0	2	0	0	0	0	0	0
NZ	0	0	11	0	0	0	0	0	0	0	0	0
EU*	9	18	53	0	0	0	0	1	1	0	0	0
Malaysia	0	0	0	6	4	2	0	0	0	0	0	0
Singapore	77	74	70	7	1	0	30	54	132	2	0	0
Thailand	13	19	33	889	1,273	1,477	834	2,700	4,427	98	47	128
China	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0
USA	1	0	0	0	0	4	0	0	0	0	0	0
Total	**117**	**120**	**169**	**902**	**1,278**	**1,485**	**864**	**2,755**	**4,560**	**100**	**47**	**128**

Source: Global Trade Atlas website - Dec 11
Cheese - 0406
Yogurt - 040310
SCM - 040299
Evaporated Milk - 040291
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

5.7 Market Opportunities for U.S. Dairy Exports

There are limited opportunities for dry U.S. dairy ingredients, including whole milk powder, non-fat dry milk, skim milk powder and whey powder, in volumes that have proven not to be attractive to U.S. dairy exporters in neighboring markets.

While there are opportunities for U.S. cheese and manufactured dairy products, the volumes purchased would generally not be attractive to U.S. dairy exporters not currently active in Southeast Asia. The exception is for the United States to supply pizza cheese for the newly opening Pizza Hut franchise in Cambodia.

Branded infant and follow-on formula are rapidly growing markets. U.S. brands are already present, although product is blended in Malaysia, Singapore and Thailand, from a mixture of U.S. and other origin ingredients.

Low-value dry dairy ingredients for bakery, and feed are two segments ready for growth. At present, the volumes purchased would generally not be attractive to U.S. dairy exporters not currently active in Southeast Asia.

5.8 Dairy Market Structure and Trends

The dairy market is segmented between the high-value tourist market, where the range of imported rare artisan cheese is ‘world class’ and somewhat astounding, some of which is flown in weekly to the ‘fine-dining’ restaurants of Phnom Penh, to canned dairy creamer, containing the lowest cost dairy ingredients, imported from neighboring Thailand and Vietnam.

Milk is rarely consumed as a beverage in Cambodia. The overwhelming use for milk is an ingredient in coffee. Coffee is consumed in the home, and across the country in coffee shops, which are an important part of social life in Cambodia. The sweetened condensed milk and evaporated milk used in coffee shops is 100 percent imported. Yogurt is imported, with consumption in the tourist industry, but growing among urban teenage children. Dairy ingredients are not produced in Cambodia. Imported milk powder is used in beverages and baked goods. Infant formula is imported, with no local production. Cheese is imported by one major suppler and several supermarket chains, who supply to up-market hotels and fine-dining restaurants that cater to European tourists.

Cambodia is unlikely to see canned sweetened condensed milk, evaporated milk and dairy creamer production from imported ingredients, as the market is too small for cost-effective production.

5.9 Local Dairy Industry

While Cambodia has a culture of rearing cattle and dairying, the industry was wiped out by decades of civil war between the 1950s and 1980s. NGO assistance to reintroduce dairying was met with limited success. The inability to obtain a reliable supply of fresh milk was one of the reasons Nestlé withdrew from recombining milk in Cambodia in 2002. Several companies have plans to increase dairy herd size to 2,000 head, but have not found investment partners. Yield per cow is only one liter per day. There are no facilities to process raw milk, but fresh milk would be in demand by hotels and restaurants, should it become available. It is estimated the entire commercial herd size in Cambodia is currently less than 500 head.

Cambodian Brahman Breeder’s Association
Choung Sophal
Chief of CBBA
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Brahman cattle have been the major breed of cattle in Cambodia for centuries, used as a working animal and for milk. Since the majority of Cambodia's population is Buddhist, outside of the tourist industry and by a small Muslim population beef is rarely consumed. The Cambodian Breeders Association was established in 2007 to develop the breed in Cambodia. Initially the focus was on producing beef for the tourist industry, but in 2010, with assistance from Sweden, extended to breeding dairy cows. CBBA has over fifty members who receive cow breeding technology, and training in animal husbandry and dairy practices.

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Srey Chanthou
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Visited 20 Oct. Hanukman Peanich has two dairy farms: a 20 hectare farm in Kandal province, and a 500 hectare farm in Battambang province. The farms are the first commercial farms established since the end of the civil war (when herds were destroyed). 30 cows were initially imported from Thailand's Chokechai Farms, and the herd is now 50 cows of milking age.

They are currently milking 50 cows per day, with the yield at 50 liters per day. Milk is sold raw, unpasteurized, in local markets. All feed is locally sourced. When weaned, cows move straight to grass, without starter feed. No whey is used. The company has the right equipment, but its greatest challenge is training and maintaining workers on the farms, who have the discipline to work in a dairy. The company plans to grow to a 2,000 head herd, but has yet to secure investment for the project.

5.10 Major Buyers and Importers of Dairy Ingredients

Major Cambodian companies who import dairy ingredients tend to do so via Thailand and Vietnam. Dairy ingredients in feed are generally pre-mixed in Thailand, with Thailand's CP Group being the major feed supplier. Cambodia currently lacks importers of dry dairy ingredients, as import tariffs relegate the business to smuggling. Feed and bakery represent the best opportunities.

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Kampong Cham Province
Cambodia
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Visited 19 Oct. Green Feed is a feed producer located in Kampong Cham province, with a feed mill in Kandal province. The company produces pig starter feed, with the major protein being fishmeal, soymeal and corn. Whey is also used and is imported from

Vietnam. Sales have doubled since 2010. Pork is the most common consumed meat in Cambodia. Pork is preferred to chicken since Buddhists seldom eat beef, and fish is not always available.

The company would like to purchase whey in Cambodia, but has been unable to find an importer of whey. Currently, whey is imported via Thailand and Vietnam, which greatly increases the costs. Thailand's CP Group is the dominant feed supplier in Cambodia, but CP brings in pre-mixed feed (containing whey), rather than blending feed locally. Green Feed does not wish to import directly, as they believe it takes a specialist company to 'deal with the government.' Green Feed markets feed to farms of greater than 100 head. Pigs are slaughtered once they reach 80 kg in weight, regardless of the time taken.

Asia Bakery Confectionery Pte. Ltd.
Ly Seng Chhay
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Asia Bakery Confectionery is a Vietnamese bakery chain with 46 branches in Vietnam. The company has opened three branches in Cambodia since 2008 and has plans for an additional five. The company produces baked goods for retail sale, and supplies to major hotels and supermarkets. The company will supply baked goods to 'Coffee Bean' when the franchise opens in Phnom Penh in 2012.

Asia Bakery Confectionery uses one Mt of WMP every month to impart a milky flavor. The company also uses cream powder. They have never used whey powder, but used WPC to replace egg-white in formulations during the Avian flu epidemic, when eggs were in short supply. All raw materials are sourced from Vietnam (with some, EU manufactured, exported to Thailand, re-exported to Vietnam, before import to Cambodia).

Local suppliers of bakery supplies and dry dairy ingredients are almost all from Thailand. Ingredients are exported via barge from Trat Province of Thailand, and enter via the Cambodian Port of Sihanoukville, avoiding import tariffs. Presently, dairy ingredient imports from Vietnam incur a 30 percent import tax. Smaller bakeries use SMP instead of WMP, owing to cost. Most dairy ingredients available locally have been imported in the grey market. Branding is less relevant, and buyers are concerned more about lowest cost. Asia Bakery Confectionery would like to buy direct in Cambodia, and avoid higher priced ingredients from Thailand and Vietnam.

Ecolac Cream Powder is blended in Bangkok, from imported ingredients. It is then exported to Vietnam as a 'product of Thailand', purchased in Ho Chi Minh City, and exported to Phnom Penh, Cambodia, by river barge, for use in the bakery sector.

5.11 Importers and Distributors of Non-Chilled Dairy Products

Chip Mong Group Ltd
Oknha Leang Meng, President
Robert Tam, Chief Marketing Officer
Henry Leang, Sr. Vice President
Chantha Sok, Business Development Manager
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Khan Chamkarmon, Phnom Penh,
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The Chip Mong Group was established in 1982 as a construction materials company. It is now a trading and distribution company, still with an emphasis on construction. The company has a diverse range of interests, including being a major owner of Khmer Brewery, Cambodia's newest brewer. The company is the official importer of Thai Dairy Industries (TDI), and imports 'Mali' brand milk from Thailand and Daily brand from Vietnam. Chip Mong also is the Cambodian distributor of Mead Johnson infant formula. The company claims to have 2,5000 distributors across the country, with cold storage in Phnom Penh and Seam Reap.

TDI trucks the cartons to Thailand's Trat Province, where the milk is exported by barge on the short sea journey to the Cambodian Port of Sihanoukville (Kampong Saom). Daily brand is shipped by barge from Vietnam on the Tonle Sap, and landed in Phnom Penh.

Chip Mong described the total market for infant and child nutrition in Cambodia as valued at USD 32 million, with Dumex, Nestlé and Bebe having the dominant share. Canned sweetened condensed milk and creamer is used in the estimated 4,000 coffee shops that exist nation-wide. They described the canned sweetened condensed milk and creamer market as follows:

Posn	Company	Brand	Origin	Source	(Cases/month)
1.	Friesland	My Boy	Thailand	Recombined	20,000
2.	Vinamilk	Best Cow	Vietnam	Recombined	18,000
3.	TDI	Mali	Thailand	Recombined	16,000
4.	F&N	Tea Pot	Thailand	Recombined	14,000
5.	Vixu Milk	Daily	Vietnam	Recombined	12,000

Smuggling of canned product is low, as the weight is heavy, and the import duty is only five percent.

Mead Johnson has not yet been officially launched in Cambodia, but will be in 2012. Anlene was described as being 'too specific' for Cambodia, where consumers wanted to use one product for the whole (extended) family of up to four generations, and not a range of products for different ages and sexes of family members.

B.P.C. Trading Co., Ltd
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Stungmeanchey, Phnom Penh
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BPC Trading is the Cambodian importer of Vinamilk. Vinamilk is second to Thailand's Cowhead brand in Cambodia. While grey market imports also occur, monthly imports of Vinamilk UHT product are:

Item	Volume	Packaging Size
UHT Milk	3,000 packs	48 x 1.5 liter cartons
UHT Milk	5,000 packs	125 ml cartons
Condensed Creamer	40,000 cartons	48 x large cans
Condensed Creamer	5,000 cartons	48 x 110 g cans

Competitors to Vinamilk UHT product in the market and volumes imported are:

Posn	Company	Brand	Origin	Source	(Cases/month)
1.	Thai DPO	Red Cow	Thailand	Fresh	200,000
2.	Ben Foods	Cowhead	Malaysia	Fresh	110,000
3.	Vinamilk	Vinamilk	Vietnam	Recombined	53,000
4.	F&N	Bear	Thailand	Recombined	26,000

Vinamilk plans to introduce a low-cost infant formula, but does not have a marketing budget to compete with strong European brand presence in the market. Another importer who has a chilled warehouse imports Vinamilk yogurt. The major competition to Vinamilk yogurt is from Thailand, imported fresh on a weekly basis.

F&N dominated the evaporated milk market. Evaporated milk is used in coffee shops where the milk is warmed before service. Yogurt is imported weekly. Teenagers are the major market, who prefer spoonable yogurt. The growth rate is 30 percent per year (from a low base). Power supply and cold-chain is the major limitation to growing a market for chilled products.

Dairy ingredients are only imported into Cambodia is small volumes, as most food is consumed fresh, with very little food manufacturing. Bakery is the exception.

K. Manoj previously worked for Nestlé. Nestlé re-entered Cambodia in 1992, but closed in 2002. Nestlé had a milk recombining plant, but had packaging issues, which saw milk of a very short shelf life. The local dairy industry did not produce suitable raw milk, and Nestlé was restricted to milk powder imports, which was significantly more expensive than importing finished product. Nestlé was unable to find a buyer for the plant (F&N didn't want it), so Nestlé donated it to a local NGO, to make Yo brand soy beverage.

Goodhill Enterprise (Cambodia) Ltd.

Frankie Yee S.K.
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Phnom Penh
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Goodhill Enterprise is the Fonterra importer and distributor for Cambodia. Goodhill is responsible for Fonterra's non-chilled branded products such as Anlene, in powdered and liquid form and imports 100 Mt per year. Cambodia was described as having 14 million people, of which only three million were consumers. Some product is smuggled in from Thailand and Vietnam, but different packaging (in different languages) enables grey market product to be easily detected. The market is too small for a dedicated importer of Fonterra dry dairy ingredients and the market is limited to Phnom Penh and Siem Reap.

Fonterra attempted to introduce the full range of recombined UHT milk in Cambodia. Anmum and Andec were not successful, owing to strong competition from Dumex. These brands were withdrawn from the market, and Goodhill focuses solely on the Anlene brand. Dumex is the market leader, imported by DKSH. Abbott was imported by DKSH, but withdrew from the market in 2009. Bebe from France is ranked third.

Cambodian consumers confuse Anlene with Ensure (both liquid and powder) and the market needs education. Fonterra assists with promotion, sampling and providing bone-density measuring machines, and working with the government to increase awareness of bone health issues.

Local production is considered uneconomical at present. Cambodia lacks small and medium enterprises. The cost of electricity is double Thailand, and unreliable. It is simply easier to import finished product. A melamine-free certificate is required for every container.

UNT Whole Seller
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UNT is the official importer for Nestlé in Cambodia. The full range of Nestlé dry products is imported, including follow-on formulas. All products are made in Thailand. Nestlé used to have a recombining operation in Cambodia, but withdrew in 2002. The former Nestlé plant was donated to an NGO, who leased to a private company to brew Kingdom brand beer.

5.12 Importers and Distributors of Chilled Dairy Products

LSH (Cambodia) Pte. Ltd.
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Director
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LSH is the major importer and distributor of cheese and manufactured dairy products in Cambodia, commencing business in 1999. LSH supplies over half the manufactured dairy products in Cambodia including imported fresh, pasteurized and UHT milk and cream. They also supply the largest bakeries in Phnom Penh with milk and milk powder.

LSH is the largest supplier of refrigerated and frozen food to hotels. 50 percent of the business supplies the tourism industry in Phnom Penh, Siem Reap and Kampong Saom.

LSH imports the following refrigerated dairy products:

Item	Volume	Frequency	Source	Use
Cheddar	4 Mt	Quarterly	Bega, Australia	Food Service
Cheddar	2 Mt	Quarterly	Bega, Australia	Retail
Mozzarella	4 Mt	Quarterly	Bega, Australia	Food Service
Hard Cheese	20 Mt	Six Monthly	EU	High-end restaurants
Soft Cheese	300 kg	21 days	France	High-end restaurants
Butter	2 Mt	Monthly	Australia and EU	Retail
Yogurt	2 Mt	Monthly	Australia and EU	Retail
Ice Cream	4 Mt	Monthly	Australia	Retail

LSH described the market for dairy ingredients in Cambodia as limited to bakery. With the majority of the population eating fresh meat, fish, rice and fruit, there is no food-processing industry. Electricity is expensive and unreliable.

Pizza is the most common menu item for the foreign tourist demographic that visits Cambodia. The majority of the pizza restaurants in Cambodia is small and owner-operated, and purchase cheese from one of the three supermarket chains in Cambodia (Bayon Market, Lucky Market and Thai Huot). Thailand's 'The Pizza Company' is the largest chain, and import cheese from Thailand. Pizza Hut will open in Thailand in 2012, and plans to initially open five stores. The investors are Malaysian 51 percent, Cambodia's Royal Group 39 percent and a broker 10 percent.

There is no local commercial production of ice cream, as a cold chain exists only in Phnom Penh, Siem Reap and Kampong Saom. Dry ice needs to be imported and sells locally for USD 8 per kg. Yogurt is made locally, and LSH imports one Mt of WMP per month from Fonterra, New Zealand and previously imported SMP.

LSH has experience in importing U.S. dairy products and an interest in doing so again. LSH previously imported U.S. mozzarella and butter from Palmetto Food Services. Despite the competitive price, they were unable to sell it, as the taste profile did not match local (European) chef requirements. LSH is interested in U.S. cream cheese for sale to the bakery sector, but notes that 'there is not enough demand for 20 Mt shipments of cream cheese to Cambodia.'

Cheese is subject to 35 percent import duty and 10 percent VAT. Wine is also subject to 35 percent import duty and 10 percent VAT, and incurs an additional 33 percent sales tax. As Cambodia is a USD based economy, devaluation of the USD is also negatively effecting business in Cambodia.

Bayon Market
33-34 Street 114
Phnom Penh
Phone: +85523881266

Bayon Market is a large supermarket in Phnom Penh. It has its own cold-chain, and stocks a range of cheese and manufactured dairy products for sale to expatriates, hotels and resorts.

Lucky Supermarket
No. 160 Sihanouk Blvd
Phnom Penh
Phone: +85523215229

Lucky is a chain of supermarkets in Phnom Penh. It has its own cold chain, and stocks a range of cheese and manufactured dairy products for sale to wealthy expatriates, and high-end hotels and resorts.

The range of cheese is outstanding. It is at a level above any supermarket in Indonesia, Malaysia the Philippines and Thailand, and equivalent to specialty retailers in Singapore. LSH is the major importer for Lucky Supermarket.

Thai Hout
99-105 Monivong Blvd
Phnom Penh
Phone+85523724623 / 884622
Fax: +85523724622
E-Mail: thaihuot@online.com.kh

Thai Huot Trading Co. Ltd was established in 1989 to serve local and expatriate customers by providing them with international and local products. Thai Huot has gradually developed from a small trading company into a wholesale food and consumer product supplier to hotels and restaurants and a supermarket retailer.

5.13 Best Product Prospects

Canned recombined milk (sweetened condensed milk, creamer, evaporated milk) and infant and follow-on formula represent the best opportunities for dairy exports to Cambodia. However, the country of origin for these products will need to be within AFTA, in order for the products to be competitive in the market. (U.S.-manufactured sweetened condensed milk and evaporated milk is unlikely to be competitive in the market, but U.S. SMP, buttermilk powder, whey powder and whey permeate will continue to be important ingredients in products recombined in other ASEAN countries and exported to Cambodia).

Whole milk powder, skim milk powder, whey powder and whey permeate are the best opportunities for U.S. dairy ingredient exports. The feed and bakery segments are the best market segments. The bakery segment represents a large un-tapped potential market for low-value dry dairy ingredients, such as whey powder and whey permeate.

U.S. exporters of cheese would be better exporting to Singapore, as most cheese in Cambodia is sourced via Singapore. The exception will soon become pizza cheese for use by Pizza Hut, who will enter the market in 2012.

5.14 Market Barriers to U.S. Dairy Exports

There are no market barriers to U.S. dairy exports to Cambodia.

5.15 Recommendations

Recommended Entry Strategy for U.S. Dairy Exporters

U.S. cheese and manufactured product exporters should consider exporting direct to LSH. U.S. whey exporters should note that the major supply of feed ingredients is Thailand's CP Group, and all business is transacted in Bangkok. We recommend that all remaining business be transacted through one of the importers and distributors in the list below. Until such time as a volume importer of dairy ingredients is established in Cambodia, U.S. dairy ingredient exporters should consider exporting to importers in Thailand and Vietnam who service the market.

Recommendations for Future Directions the U.S. industry

Cambodia is currently a market for:

Ingredient	Volume Mt
WMP	1,000
SMP	2,500
Whey Powder	10,000

Source: Estimate based on Official Trade Data plus import volumes of major end-users and importers, both official and grey market.

Growth will occur in the bakery and feed segments to 2015. However, major growth will only occur once small and medium size enterprises are created in Cambodia, with sufficient competitively priced electricity available.

Cambodia lacks a 'school milk program', and the U.S. dairy industry should consider promoting the concept of school milk in Cambodia, to develop the local dairy industry, and to create future generations of milk consumers in Cambodia.

5.16 Key Contacts

Chip Mong Group Ltd.
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B.P.C. Trading Co., Ltd.

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Ng Chor Yee

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Non-Governmental Organizations (Aid)

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Fax: +85523216258
E-mail: caritas@caritascambodia.org

6. Laos

[21]

6.1 Market Overview

The two major Lao cities of Vientiane and Luang Prabang were visited in October 2011. Researchers visited one yogurt producer, three traditional markets, four supermarkets and six importers and distributors.

6.2 Economy – Basic Indicators [22]

Laos' GDP was estimated at USD 15.69 billion in 2010, with Laos ranking 135th in the world. GDP increased from USD 14.56 billion in 2009 and USD 13.54 billion in 2008. GDP growth rate in 2010 was estimated to be 7.7 percent, with Laos ranking 23rd in the world. However Lao GDP per capita was USD 2,500 in 2010, with Burma ranking 181st in the world.

In 2010, 29 percent of Lao GDP was estimated as derived from agriculture, 33 percent from industry, and 38 percent from services. Laos has a labor force of under four million

[21] Map from CIA World Factbook, 2007.
[22] CIA World Factbook, 2011.

people, ranking it 92nd in the world. 75 percent of Lao labor is employed in agriculture. Almost 26 percent of the country is assessed to be below the poverty line.[23]

Agriculture - products:

Sweet potatoes, vegetables, corn, coffee, sugarcane, tobacco, cotton, tea, peanuts, rice; water buffalo, pigs, cattle, poultry.

Industries:

Copper, tin, gold, and gypsum mining; timber, electric power, agricultural processing, construction, garments, cement, tourism, with annual industrial growth of 17.7 percent, owing to major hydroelectric dam projects.

Electricity Production Versus Consumption, 2010

Production kWh	Global Prod Rank	Consumption kWh	Imports	Exports
1.55 billion	140	2.23 billion	999 million kWh	341 million kWh

Laos is expected to become a net power exporter to Thailand, Vietnam and China by 2015, which will result in the cessation of power imports and lower electricity costs in Laos.

Exports:

$1.474 billion (2010 est.)
country comparison to the world: 143
$1.053 billion (2009 est.)

Exports - commodities:

Wood products, coffee, electricity, tin, copper, gold

Exports - partners:

Thailand 31.1%, China 23%, Vietnam 12.9% (2010)

Imports:

$2.06 billion (2010 est.)
country comparison to the world: 153
$1.461 billion (2009 est.)

Imports - commodities:

Machinery and equipment, vehicles, fuel, consumer goods

Imports - partners:

[23] CIA World Factbook, 2011.

Thailand 65.6%, China 14.6%, Vietnam 6.6% (2010)

6.3 Economy – At a Glance

The government of Laos, one of the few remaining one-party Communist states, began decentralizing control and encouraging private enterprise in 1986. The results, starting from an extremely low base, were striking - growth averaged 6% per year from 1988-2008 except during the short-lived drop caused by the Asian financial crisis that began in 1997. Despite this high growth rate, Laos remains a country with an underdeveloped infrastructure, particularly in rural areas. It has a rudimentary, but improving, road system, and limited external and internal telecommunications. China has signed a deal with the Lao to build a high speed rail system in the country. Construction on the $7 billion project is slated to begin in April 2011 and will take five years. Electricity is available in urban areas and in many rural districts. Subsistence agriculture, dominated by rice cultivation in lowland areas, accounts for about 30% of GDP and 75% of total employment.

The government in FY09/10 received $586 million from international donors. Economic growth has reduced official poverty rates from 46% in 1992 to 26% in 2010. The economy has benefited from high foreign investment in hydropower, mining, and construction. Laos gained Normal Trade Relations status with the U.S. in 2004, and is taking steps required to join the World Trade Organization, such as reforming import licensing. Related trade policy reforms will improve the business environment. On the fiscal side, Laos initiated a VAT tax system in 2010. Simplified investment procedures and expanded bank credits for small farmers and small entrepreneurs will improve Lao's economic prospects. The government appears committed to raising the country's profile among investors. The World Bank has declared that Laos's goal of graduating from the UN Development Program's list of least-developed countries by 2020 is achievable. According Lao officials, the 7th Socio-Economic Development Plan for 2011-15 will outline efforts to achieve Millennium Development Goals.[24]

6.4 Economic Trends and Outlook

The United States meets regularly with Laos to advance trade and investment issues, including implementation by Laos of the 2005 Bilateral Trade Agreement (BTA) and support for the accession of Laos to the World Trade Organization (WTO). Under the BTA, the United States extended Normal Trade Relations status (formerly referred to as ‘most favored nation’ or MFN) to products of Laos.[25]

[24] CIA World Factbook, 2011.
[25] USTR Country Profiles, Nov 2011.

6.5 Domestic Dairy Industry

The dairy industry in Laos is predominantly small-scale subsistence farming and very limited commercial dairy farming. A small domestic dairy industry exists near the capital, Vientiane, and provides raw milk for local yogurt production. Aid projects and foreign investment in the dairy industry over the previous 25 years have failed, with animal husbandry issues being the major contributing factor.[26]

Almost all feed is locally sourced, with some feed for cows imported from Thailand. Whey is used in animal feed in Laos, but in small volumes. There is no commercial cheese industry in Laos.

Most of the milk is sold fresh to hotels and to yogurt manufacturers, with pasteurization the responsibility of the buyer. There is no local production of sweetened condensed milk from fresh milk in Laos. As such, there is currently no market for whole milk powder (WMP), skim milk powder (SMP), whey powder, demineralized whey and whey permeate to add solids to raw milk.

6.6 Imported Dairy Ingredients and Products

Dairy import statistics are unreliable owing to the level of corruption in Laos, and numerous land smuggling routes, through Vietnam, and across the Mekong river from Thailand. The dairy commodities imported into Laos for 2008 to 2010 are as follows:

Laos: Dairy Ingredient Imports 2008 – 2010 (Mt)

	WMP			SMP			Whey			Lactose		
	08	09	10	08	09	10	08	09	10	08	09	10
Australia	0	0	0	0	0	0	0	0	0	0	0	0
NZ	0	0	0	0	0	0	0	0	0	0	0	0
EU*	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	0	0	0	0	0	0	0	0	0	0	0	0
Singapore	0	0	0	0	0	0	0	0	0	0	0	0
Thailand	539	283	266	61	210	474	1,334	1,259	1,500	0	0	0
China	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0	0	0	0	0
Total	**539**	**283**	**266**	**61**	**210**	**474**	**1,334**	**1,259**	**1,500**	**0**	**0**	**0**

Source: Global Trade Atlas website - Dec 2011
WMP - 040221
SMP - 040210
Whey – 040410 (Includes WPC, Whey Powder, Demineralized Whey and Whey Permeate)
Lactose - 170211
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

[26] International Livestock Research Institute, Review of the Livestock Sector in the Lao PDR, Asian Development Bank Report, Jul 2002.

Laos: Manufactured Dairy Product Imports 2008 – 2010 (Mt)

	Cheese			Yogurt			Sweetened Condensed Milk			Evaporated Milk		
	08	09	10	08	09	10	08	09	10	08	09	10
Australia	0	0	0	0	0	0	0	0	0	0	0	0
NZ	0	0	0	0	0	0	0	0	0	0	0	0
EU*	2	2	2	0	0	0	0	0	0	0	0	0
Malaysia	0	0	0	0	0	0	0	0	0	0	0	0
Singapore	0	1	0	0	0	0	0	0	0	0	0	0
Thailand	11	3	3	1,667	2,701	4,356	613	647	1,502	395	668	715
China	0	0	0	0	0	0	0	0	0	0	0	0
India	0	0	0	0	0	0	0	0	0	0	0	0
USA	0	0	0	0	0	0	0	0	0	0	0	0
Total	**13**	**6**	**5**	**1,667**	**2,701**	**4,356**	**613**	**647**	**1,502**	**395**	**668**	**715**

Source: Global Trade Atlas website - Dec 11
Cheese - 0406
Yogurt - 040310
SCM - 040299
Evaporated Milk - 040291
** EU (Poland, France, The Netherlands, Ireland, Ukraine, Switzerland)*

6.7 Market Opportunities for U.S. Dairy Exports

While there is demand for the range of U.S. dairy ingredients and manufactured dairy products in Laos, the market size is unlikely to be attractive to a U.S. dairy exporter. Canned recombined milk (sweetened condensed milk, creamer, evaporated milk) and infant and follow-on formula represent the best opportunity for dairy exports to Laos. However, the country of origin for these products will need to be within AFTA, in order for the products to be competitive in the market. (U.S. manufactured sweetened condensed milk and evaporated milk is unlikely to be competitive in the market, but U.S. SMP, buttermilk powder, whey powder and whey permeate will continue to be important ingredients in products recombined in Thailand and Vietnam and exported to Laos).

Skim milk powder, whey powder and whey permeate are the best opportunities for U.S. dairy ingredient exports. The bakery segment is the best market segment, and offers a potential market for low-value dry dairy ingredients, such as whey powder and whey permeate.

U.S. exporters of cheese would be better exporting to Vietnam, as most cheese in Laos is sourced via Vietnam.

6.8 Dairy Market Structure and Trends

The dairy market is segmented between the high-value expatriate ‘aid community’ market in Vientiane and the tourist market in Luang Prabang, some of which is flown in weekly, to canned dairy creamer, containing the lowest cost dairy ingredients, imported from neighboring Thailand and Vietnam.

Milk is rarely consumed as a beverage in Laos. The overwhelming use for milk is an ingredient in coffee. Coffee is consumed in the home, and across the country in coffee shops. Fresh milk is sourced from Nong Pho Cooperative Dairy in Nong Khai in neighboring Thailand. The sweetened condensed milk and evaporated milk used in coffee shops is 100 percent imported, with no local sweetened condensed milk production. Yogurt is imported, with consumption in the tourist industry, but growing among urban teenage children. Quality local yogurt production from local fresh milk supplies hotels and resorts. Dairy ingredients are not produced in Laos. Imported milk powder is used in beverages and baked goods, but is often mis-labeled. Almost all dry dairy ingredients arrive via Thailand. Infant formula is imported, with no local production. Cheese is imported by several major suppliers via Vietnam and several supermarket chains, who supply to up-market hotels and fine-dining restaurants that cater to European tourists.

Laos is unlikely to see canned sweetened condensed milk, evaporated milk and dairy creamer production from imported ingredients, as the market is too small for cost-effective production.

With political will and good planning, northern Laos has the right climate, availability of feed, un-utilized land, low-cost of labor to be both self-sufficient in dairy production and even become an exporter of sweetened condensed milk from locally produced milk. This would require considerable education and training, unlikely to occur within the next 20 years.

6.9 Local Dairy Industry

Foreign investment and developmental aid over the past 20 years has failed to establish a commercial dairy industry in Laos. A milk collection operation near the capital Vientiane supplies high-end hotels with fresh milk to make yogurt, and a local yogurt manufacturer.

Xao Ban Group
Nongnut Foppes-Ayamuang
200 Unit 13 Ban Saphangmoh
Xaysetha, Vientiane
Phone +85621452900, Fax +85621452900

Xao Ban is a yogurt manufacturer in Vientiane, supplying supermarkets, hotels and restaurants with European style yogurt. 60 percent of the market is made up of local buyers and 40 percent is the tourist industry. The company is the major buyer of fresh milk in Laos, and also imports fresh milk directly from Khon Kaen, Thailand, to make yogurt.

K. Nongnut described the Lao dairy industry as ‘perennially in its infancy.’ Numerous aid projects and foreign investment over the years have attempted to establish a viable industry but it has always ended in bankruptcy. Xao Ban purchases cow’s milk for around USD 1.00 per liter, and goat's milk for USD 3.00 per liter, but it is still cheaper to order from Thailand, and have one of the many thousands of laborers of what is referred locally as 'the ant army', cart, bicycle or carry the milk across the 'Friendship Bridge' to Vientiane, or ferry the milk across the Mekong. (The distance between the point of sale in Thailand, to point of use in Laos, is 15 km). Only a 'school milk program' could create a viable dairy industry, and create generations of future dairy consumers.

The market for dairy ingredients is almost non-existent. Dairy ingredients are only imported on demand, through one of three wet markets in Vientiane. Substitution is an issue, so the markets are limited to supplying home industries.

Thailand's Dutch Mill (yogurt) and Friesland Foremost (UHT milk, yogurt) are the only two foreign dairy suppliers with a sales presence in Laos. Both Dutch Mill and Friesland import 100 percent of their products (all recombined) from Thailand.

6.10 Major Buyers and Importers of Dairy Ingredients

Dairy ingredient trade suffers from a lack of credibility, owing to past problems with ingredient substitution. Dairy ingredients in feed are generally pre-mixed in Thailand, with Thailand's CP Group being the major feed supplier. Bakery represents the best opportunity, but the volume is unlikely to interest a U.S. supplier.

Thongkankom Market
Vientiane

Thongkankom Market is one of the major wet markets in Vientiane, and the largest source of bakery and dry dairy ingredients in Laos. In Laos, dry dairy ingredients appear always to be supplied and sold by bakery suppliers. The major use for SMP in Laos is in bread, to impart a milky flavor. To avoid taxes and tariffs, sellers only maintain a less than 25 kg volumes in the market. Larger orders are immediately phoned to warehouses in Thailand, where the ingredients are delivered to the buyer that afternoon.

There is significant substitution. 'Milk powder' (nom phong, in Lao) is used to refer to any dairy ingredient, including substitutes. What was advertised as milk powder, was actually demineralized whey, in one case, and whey permeate, in another. The major brand available was Lactalis Demlac 1000, of French origin, supplied via Thailand. An estimate 100 Mt of dairy ingredients is supplied via these markets each year, with the buyers being small local enterprises. Major hotels and restaurants order direct from Thailand.

Luang Prabang Market
Luang Prabang

Luang Prabang Market is one of the major wet markets in Luang Prabang, and the largest source of bakery and dry dairy ingredients in northern Laos, supplying the tourist industry. Two sellers of dairy ingredients were present in the market. Dairy ingredients are supplied from Vientiane, but cheese and butter is supplied from Ho Chi Minh City, Vietnam. Thai traders transact the dairy ingredient business, while Singaporean traders transact the cheese and butter business. Yogurt is most commonly Dutch Mill, legally imported from Thailand via Vientiane.

6.11 Importers and Distributors of Non-Chilled Dairy Products

Lamthong Trading
Adisak Upathamphan
135-136 Dongpalan Rd. Sisattanak Dist, Vientiane
Phone +85621215240-1, Fax +85621216511

Visited 4 Oct. Laemthong Trading is the Lao importer of Nestlé. The major Nestlé brands imported into Laos are Lactogen, Nan and Bear brands. Bear Brand is recombined by F&N in Thailand, and 1,000 cartons are imported every month.

Laos bans advertising of infant formula for children under two. FDA approval for infant formula is required and enforced. Advertising is allowed for products marketed at children aged two to six.

There are very few importers of manufactured dairy products left in Laos. Giant Macro and Lotus hypermarkets have opened on the Thai side of the Mekhong River, within 20 km of Vientiane. Dry dairy ingredients in retail packing is simply carried or ferried across, and this trade is estimated as significantly larger than all transparent trade. (Laos is financed by hydroelectricity, gems, tourism and developmental aid, so little attention is paid towards cross-border trade).

Cheese, cream and butter are imported via Vietnam, not Thailand. The reason being is the high tariffs on these products in Thailand (nearly all cheese, cream and butter are imported into Thailand) prevent products competing with imports to Laos via Vietnam.

6.12 Importers and Distributors of Chilled Dairy Products

Settha Palace Hotel
Ralf Haupts
Executive Chief
6 Pang Kham Street, PO Box 1618, Vientiane
Phone +85621217581-2, Fax +85621217583

The Settha Palace is a major hotel in Vientiane, with the largest European restaurant serving a comprehensive range of dairy products.

Fresh milk is purchased locally, and direct from Thailand. Cheese is imported using the Deluxe Food Group, who supplies most of the hotels with cheese and butter. Locally purchased cheese and dairy ingredients are not trusted, and must be imported.

Deluxe Food Group
Tran Dinh Long
Sales Director
495/1 Don Nokkhoum Rd.,
Ban Don Nokkhoum, Sisattanak
Lao PDR
Phone +85621486060-3 Ext. 204, Fax +85621486065

Visited 5 Oct. The Deluxe Food Group imports cheese and manufactured dairy products for hotels and resorts, and to supply local supermarket chains. The cheese is imported to Vietnam via Singapore, then is ‘cut and wrapped’ for sale in Vietnam and export to Laos.

Phanhpaseuh Shop
Unit 5, Kaisone Street Thatluang Nuea Village,
Sayseths District
Phone +85621412828

This supermarket is representative of the supermarkets that have sprung up across Vientiane over the last several years, which contain the same range of products as others. This supermarket contains a large range of imported dairy products for sale. Almost all has been imported from Thailand.

Simeung Mini Mart
Samsanethai Street, Simeung Village,
Sisattanath District

The supermarket contains a large range of imported dairy products for sale. Almost all has been imported from Thailand, with the exception of cheese, which is imported from Vietnam. See picture.

Scubedu Shop
Simeung Street, Simeung Village,
Sisattanath District
Phone +85621214073

The supermarket contains a large range of imported dairy products for sale to expatriates and western tourists. Almost all has been imported from Thailand, with the exception of cheese, which is imported from Vietnam.

6.13 Best Product Prospects

Canned recombined milk (sweetened condensed milk, creamer, evaporated milk) and infant and follow-on formula represent the best opportunity for dairy exports to Laos. However, the country of origin for these products will need to be within AFTA, in order for the products to be competitive in the market. (U.S. manufactured sweetened condensed milk and evaporated milk is unlikely to be competitive in the market, but U.S. SMP, buttermilk powder, whey powder and whey permeate will continue to be important ingredients in products recombined in Thailand and exported to Laos).

Whey powder and whey permeate are the best opportunities for U.S. dairy ingredient exports. The bakery segment represents a small un-tapped potential market for low-value dry dairy ingredients, such as whey powder and whey permeate, but the volumes purchased would generally not be considered attractive to U.S. dairy exporters.

U.S. exporters of cheese would be better exporting to Singapore and Vietnam, as most cheese in Laos is sourced via Singapore and Vietnam.

6.14 Market Barriers to U.S. Dairy Exports

There are no market barriers to U.S. dairy exports to Laos.

6.15 Recommendations

Recommended Entry Strategy for U.S. Dairy Exporters

U.S. cheese and manufactured product exporters should consider exporting via Singapore and Vietnam. U.S. dairy ingredient exporters should consider exporting to importers in Thailand who service the market. Laos is unlikely to become an attractive destination for U.S. dairy exports, owing to its small size. This is unlikely to change over the next decade.

Recommendations for Future Directions for the U.S. industry

Laos is currently a market for:

Ingredient	Volume Mt
WMP	500
SMP	500
Whey Powder	3,000

Source: Estimate based on Official Trade Data plus import volumes of major end-users and importers, both official and grey market.

Growth will occur in the bakery segment to 2015. Laos does not have sufficient population for major growth to occur. Laos lacks a ‘school milk program’, and the U.S. dairy industry should consider promoting the concept of school milk in Laos, to develop the local dairy industry, and to create future generations of milk consumers.

6.16 Key Contacts

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Settha Palace Hotel
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Executive Chief
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Phanhpaseuh Shop
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Sayseths District
Phone +85621412828

Simeung Mini Mart
Samsanethai Street, Simeung Village,
Sisattanath District

Scubedu Shop
Simeung Street, Simeung Village,
Sisattanath District
Phone +85621214073

7. Annexes

1. Office of Foreign Assets Control, U.S. Department of the Treasury, Burma: What You Need To Know About U.S. Sanctions Against Burma (Myanmar). An overview of the Burmese Sanctions Regulations - Title 31 Part 537 of the U.S. Code of Federal Regulations (See attached).

2. U.S. Foreign and Commercial Service, Doing Business in Cambodia, Country Commercial Guide For U.S. Companies, 2011. (Please visit: http://trade.gov/cs/)

3. U.S. Foreign and Commercial Service, Doing Business in Laos, Country Commercial Guide For U.S. Companies, 2009. (Please visit: http://trade.gov/cs/)

U.S. Department of the Treasury
Office of Foreign Assets Control

BURMA

What You Need To Know About U.S. Sanctions Against Burma (Myanmar)

An Overview of the Burmese Sanctions Regulations
Title 31 Part 537 of the U.S. Code of Federal Regulations

■ **INTRODUCTION** - On May 20, 1997, the President issued Executive Order 13047 (E.O. 13047) determining that the Government of Burma has committed large-scale repression of the democratic opposition in Burma and declaring a national emergency with respect to the actions and policies of the Government of Burma. E.O. 13047, issued under the authority of section 570(b) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1997 (Public Law 104-208), and the International Emergency Economic Powers Act (50 U.S.C. 1701-1706) (IEEPA), prohibits new investment in Burma by U.S. persons and U.S. persons' facilitation of new investment in Burma by foreign persons.

On July 28, 2003, the President signed into law the Burmese Freedom and Democracy Act of 2003 (BFDA) to restrict the financial resources of Burma's ruling military junta. The BFDA requires the President to ban the importation into the United States of products of Burma. To implement the BFDA and take additional steps with respect to the Government of Burma's continued repression of the democratic opposition in Burma, the President issued Executive Order 13310 (E.O. 13310) on July 28, 2003. E.O. 13310 blocks all property and interests in property of the persons listed in its Annex and of certain persons determined by the Secretary of the Treasury, in consultation with the Secretary of State, to meet the criteria set forth in E.O. 13310 (as described in the next section). E.O. 13310 also prohibits the importation into the United States of products of Burma and the exportation or reexportation to Burma of financial services from the United States or by U.S. persons, wherever located.

On October 18, 2007, the President issued Executive Order 13448 (E.O. 13448) expanding the scope of the national emergency declared in E.O. 13047 and blocking all property and interests in property of the persons listed in its Annex and of certain persons determined by the Secretary of the Treasury, after consultation with the Secretary of State, to meet the criteria set forth in E.O. 13448 (as described in the next section).

On April 30, 2008, the President issued Executive Order 13464 (E.O. 13464) to take additional steps with respect to the national emergency declared in E.O. 13047 and expanded in E.O. 13448. E.O. 13464 blocks all property and interests in property of the persons listed in its Annex and of certain persons determined by the Secretary of the Treasury, after consultation with the Secretary of State, to meet the criteria set forth in E.O. 13464 (as described in the next section).

On July 29, 2008, the President signed into law the Tom Lantos Block Burmese JADE (Junta's Anti-Democratic Efforts) Act of 2008 (Public Law 110-286) (JADE Act) which, among other things, imposes mandatory blocking sanctions on certain categories of persons enumerated in the JADE Act (as described in the next section), prohibits the importation of jadeite and rubies mined or extracted from Burma (and of articles of jewelry containing such jadeite and rubies), and establishes conditions for the importation of jadeite and rubies mined or extracted from a country other than Burma (and of articles of jewelry containing such jadeite and rubies).

The Department of the Treasury's Burmese Sanctions Regulations, 31 CFR part 537 (the BSR), implement E.O. 13047, E.O. 13310, and the BFDA. The Department of the Treasury will be amending the BSR to implement E.O. 13448, E.O. 13464, and the JADE Act.

Any person who willfully commits, willfully attempts to commit, or willfully conspires to commit, or aids or abets in the commission of, a violation of any license, order, regulation, or prohibition of the BSR, E.O. 13448, E.O. 13464, or the blocking provisions of the JADE Act shall, upon conviction, be fined not more than $1,000,000, or if a natural person, may be imprisoned for not more than 20 years, or both. A civil penalty of $250,000, or twice the amount of the transaction, whichever is greater, may be assessed for each violation. Articles that are imported into the United States in violation of any prohibition of the JADE Act shall be subject to all applicable seizure and forfeiture laws and criminal and civil laws of the United States to the same extent as any other violation of the customs laws of the United States.

■ **BLOCKING OF PROPERTY** - E.O. 13310, E.O. 13448, and E.O. 13464 each block property and interests in property of the persons listed in the Annexes to these Executive orders. In addition, these Executive orders authorize the blocking of property and interests in property of any person determined by the Secretary of the Treasury, after consultation with the Secretary of State: (i) to be a senior official of the Government of Burma, the State Peace and Development Council of Burma (the SPDC), the Union Solidarity and Development Association of Burma (the USDA), or any successor entity to any of the foregoing; (ii) to be responsible for, or to have participated in, human rights abuses related to political repression in Burma; (iii) to be engaged, or to have engaged, in activities facilitating public corruption by senior officials of the Government of Burma; (iv) to be a spouse or dependent child of any person whose property and interests in property are blocked pursuant to E.O. 13310 or E.O. 13448; (v) to be owned or controlled by, directly or indirectly, the Government of Burma or an official or officials of the Government of Burma; (vi) to have materially assisted, sponsored, or provided financial, material, logistical, or technical support for, or goods or services in support of, the Government of Burma, the SPDC, the USDA, any successor entity to any of the foregoing, any senior official of any of the foregoing, or any person whose property and interests in property are blocked pursuant to E.O. 13310, E.O. 13448, or E.O. 13464; or (vii) to be owned or controlled by, or to have acted or purported to act for or on behalf of, directly or indirectly, any person whose property and interests in property are blocked pursuant to E.O. 13310, E.O. 13448, or E.O. 13464.

The Department of the Treasury's Office of Foreign Assets Control (OFAC) publishes and frequently updates a list of such persons whose property and interests in property are blocked (blocked persons), called the Specially Designated Nationals and Blocked Persons List (SDN List). The SDN List includes persons named in the Annexes to E.O. 13310, E.O. 13448, and E.O. 13464, and certain persons determined by the Secretary of the Treasury, after consultation with the Secretary of State, to meet the criteria set forth in E.O. 13310, E.O. 13448, or E.O. 13464. With certain exceptions, U.S. persons are prohibited from dealing with persons listed on OFAC's SDN List, and all property in which any blocked person has an interest is blocked if it is in the United States or in the possession or control of a U.S. person, wherever located. A blocked person is considered to have an interest in all property and interests in property of an entity in which it owns, directly or indirectly, a 50% or greater interest. The property and interests in property of such an entity are blocked regardless of whether the entity itself is listed in the Annex to an Executive order or otherwise placed on OFAC's SDN List.

In addition, the JADE Act blocks property and interests in property of: (i) former and present leaders of the SPDC, the Burmese military, or the USDA; (ii) officials of the SPDC, the Burmese military, or the USDA involved in the repression of peaceful political activity or in other gross violations of human rights in Burma or in the commission of other human rights abuses, including any current or former officials of the security services and judicial institutions of the SPDC; (iii) any other Burmese persons who provide substantial economic and political support for the SPDC, the Burmese military, or the USDA; and (iv) the immediate family members of any person described in categories (i)-(iii). With certain exceptions, U.S. persons are prohibited from dealing with such persons, and all property in which any blocked person has an interest is blocked if it is in the United States or in the possession or control of a U.S. person, wherever located.

■ **NO IMPORTATION OF PRODUCTS OF BURMA** - With certain exceptions, goods of Burmese origin, pursuant to rules of origin of U.S. Customs and Border Protection, may not be imported into the United States.

The JADE Act amended the BFDA to prohibit, with certain exceptions, the importation into the United States of jadeite mined or extracted from Burma, rubies mined or extracted from Burma, or articles of jewelry containing such jadeite or rubies. The BFDA, as amended by the JADE Act, defines articles of jewelry to include articles of jewelry classifiable under heading 7113 of the Harmonized Tariff Schedule of the United States (HTS) that contain jadeite or rubies and articles of jadeite or rubies classifiable under heading 7116 of the HTS.

In addition, the JADE Act amended the BFDA to establish certain conditions for the importation into the United States of jadeite mined or extracted from a country other than Burma, rubies mined or extracted from a country other than Burma, or articles of jewelry containing such jadeite or rubies.

■ **EXPORTATION OF GOODS AND NON-FINANCIAL SERVICES TO BURMA -** There is no general prohibition on the exportation of goods and services other than financial services to Burma. However, other restrictions may affect these transactions, such as the prohibition on the exportation of financial services to Burma, the blocking of the property and interests in property of certain persons in Burma, and the prohibition on new investment in Burma.

■ **EXPORTATION OF FINANCIAL SERVICES TO BURMA** - With certain exceptions, the exportation or reexportation of financial services to Burma is prohibited. The term exportation or reexportation of financial services to Burma is defined broadly to mean: (i) the transfer of funds, directly or indirectly, from the United States or by a U.S. person, wherever located, to Burma; or (ii) the provision, directly or indirectly, to persons in Burma of insurance services, investment or brokerage services, banking services, money remittance services; loans, guarantees, letters of credit or other extensions of credit; or the service of selling or redeeming traveler's checks, money orders and stored value. This defined term is unique to the Burma sanctions program.

Although there are limited exceptions to the ban on the exportation of financial services, under no circumstances can payments be made from blocked accounts on the books of a U.S. bank.

■ **OPERATION OF ACCOUNTS FOR INDIVIDUALS IN BURMA** - U.S. financial institutions can operate accounts for an individual ordinarily resident in Burma, provided that the individual is not a blocked person and further provided that each transaction processed through the account is of a personal nature and not for use in supporting or operating a business, is not otherwise prohibited, and does not involve a transfer directly or indirectly to Burma or for the benefit of individuals ordinarily resident in Burma unless authorized pursuant to General License No. 15 (as described in the next section).

■ **TRANSFER OF PERSONAL REMITTANCES TO/FROM BURMA** - Pursuant to General License No. 15, certain noncommercial, personal remittances to Burma are authorized. U.S. depository institutions, U.S. registered brokers or dealers in securities, and U.S. registered money transmitters are authorized to process transfers of funds to or from Burma or for or on behalf of an individual ordinarily resident in Burma in cases in which the transfer involves a noncommercial, personal remittance, provided that the transfer is not by, to, or through a person whose property and interests in property are blocked. Such transfers of funds are authorized even though they may involve transfers to or from an account of a financial institution whose property and interests in property are blocked, provided that the account is not on the books of a financial institution that is a U.S. person. Noncommercial, personal remittances do not include charitable donations to or for the benefit of any entity or funds transfers for use in supporting or operating a business. However, U.S. persons may make charitable donations to nongovernmental organizations in support of certain activities in Burma, provided that the donations are made pursuant to Amended General License No. 14-B (as described in the next section).

■ **NGO ACTIVITY IN BURMA** - Pursuant to Amended General License No. 14-B, the exportation and reexportation of financial services to Burma in support of not-for-profit humanitarian or religious activities in Burma are authorized, provided that the exportation or reexportation is not, directly or indirectly, to the Government of Burma, and the exportation or reexportation is not to or for the benefit of any person whose property and interests in property are blocked.

In certain situations and on a case-by-case basis, OFAC issues specific licenses to export or reexport financial services not authorized by Amended General License No. 14-B to nongovernmental organizations in Burma. OFAC's Licensing Division may be contacted at (202) 622-2480.

■ **NEW INVESTMENT** - The BSR prohibit new investment in Burma by U.S. persons on or after May 21, 1997, unless such investment is pursuant to an agreement in place prior to that date. A number of criteria are used to determine whether or not a specific activity is “grandfathered,” including the clarity of the scope of the agreement, the degree of specificity with which the activity is described, and the extent to which the terms of the agreement are legally enforceable. Grandfathered activities are not exempt from the importation prohibitions described above.

New investment in Burma is defined as a contract with the Government of Burma or a nongovernmental entity in Burma that includes the economic development of resources (including natural, agricultural, commercial, financial, industrial, and human resources) located in Burma. The prohibition includes purchasing a share of ownership (an equity interest) in a project or entering into an agreement that provides for a participation in royalties, earnings, or profits from the economic development of resources located in Burma. The BSR also prohibit a U.S. person from entering into a contract that provides for the general supervision and guarantee of another person’s performance of a contract for the economic development of resources located in Burma.

U.S. persons with pre-May 21, 1997 agreements for the economic development of resources located in Burma may contact OFAC for a determination as to whether or not their activity is grandfathered.

■ **FACILITATION** - With certain exceptions, U.S. persons are prohibited from approving, financing, facilitating, or guaranteeing a foreign person’s transaction, including its investment in Burma, if the foreign person’s activity would be prohibited if performed by a U.S. person or within the United States. Although contracting to sell to a foreign person a U.S. person’s equity or income interest in a development project in Burma constitutes facilitation of that foreign person’s investment in Burma, such a divestiture is authorized by general license. If the transaction is valued at more than $10,000, a report must be filed with OFAC for statistical purposes within ten business days of the signing of such an agreement.

The following are examples of prohibited facilitation of a foreign person’s new investment in Burma:

* The foreign subsidiary of a U.S. company wishes to bid on a project to develop a coal mine in Burma. The U.S. parent cannot approve, supervise, guarantee, or otherwise be involved in the foreign subsidiary’s investment in this project.

* A U.S. oil company holds a pre-May 21, 1997 contract to develop a Burmese oil field. It wishes to sell its rights under the contract to a foreign company. It is authorized to sell an interest without prior authorization from OFAC, but if the agreement is valued at more than $10,000, the seller must file a report with OFAC within ten business days of the signing of the agreement.

■ **INVESTMENT IN THIRD COUNTRY COMPANIES** - U.S. persons are prohibited from purchasing shares in a third-country company if the company’s profits are predominantly derived from its economic development of resources located in Burma. If a person holds shares in an entity that subsequently engages exclusively or predominantly in the economic development of resources in Burma, or subsequently derives its income exclusively or predominantly from such activity, the U.S. person is not required to relinquish its shares, but may not purchase additional shares. If the U.S. person sells shares valued at more than $10,000, the seller must file a report with OFAC for statistical purposes within ten business days of the sale.

If you have information regarding a possible violation of these sanctions, please contact OFAC’s Enforcement Division at (202) 622-2430. Your call will be handled confidentially.

This document is explanatory only and does not have the force of law. The Executive Orders and implementing Burmese Sanctions Regulations (31 CFR Part 537) contain the legally binding provisions governing the sanctions against Burma described above. This document does not supplement or modify the Executive Orders or 31 CFR Part 537.

The Office of Foreign Assets Control also administers sanctions programs involving, Cuba, North Korea, Iran, Iraq, Syria, Sudan, Zimbabwe, Liberia, certain targets in the Western Balkans, highly enriched uranium transactions, diamond trading, designated terrorists and international narcotics traffickers, Foreign Terrorist Organizations, and designated foreign persons who have engaged in activities relating to the proliferation of weapons of mass destruction. For additional information about these programs or about the Burmese sanctions program, please contact the:

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