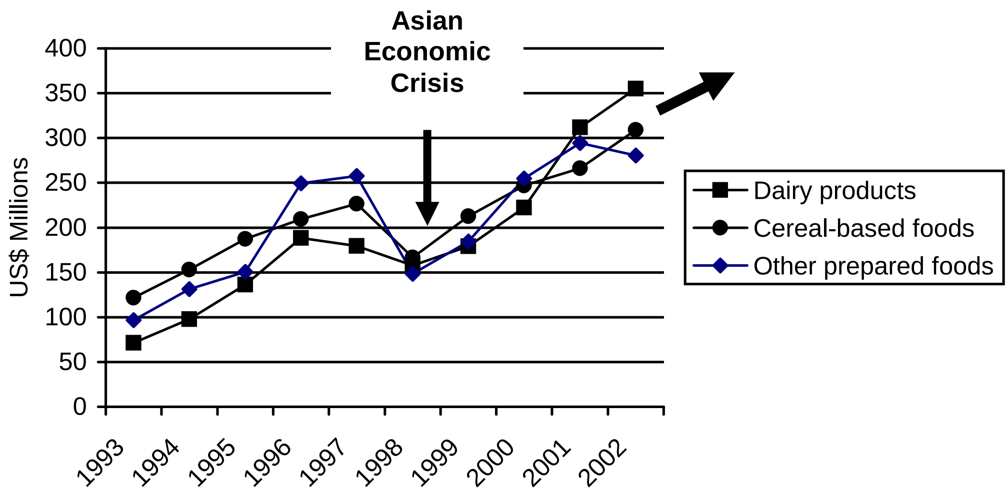
__New Report Released on March 21, 2006__

The ASEAN Free Trade Area and Its Future Impact on Food Business and Marketing Strategy in South East Asia - 2006 to 2011

A Strategic Review of ASEAN's Ongoing Regulatory, Standards and Market Access Harmonisation Process and Its Future Implications for Food Industry Business and Marketing Strategy



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New report available in March 2006

Stanton, Emms & Sia will be releasing its latest multi-client report titled *"The ASEAN Free Trade Area and Its Future Impact on Food Business and Marketing Strategy in South East Asia - 2006 to 2011"* on 21 March 2006.

This major report provides senior management with food companies with a strategic insight into what will be the most important force for change on the ASEAN region's food market, industry and supply chain over the next 10 years; the region's regulatory, standards and market access procedure harmonisation process.

This harmonisation process, which was very recently launched, will firmly establish ASEAN as an open trading bloc for ASEAN-content food products that is free of the non-tariff measures that continue to undermine the ASEAN Free Trade Area today. The first milestones in this harmonisation process should be achieved before 2010.

Where is ASEAN Free Trade Area development today?

According to the WTO, ASEAN is the world's third largest regional trade agreement in terms of intra-region trade, after the EU (15) and NAFTA. In 2003, total intra-ASEAN trade amounted to just over US$ 100 billion, up from about US$ 47 billion in 1993.

The ASEAN region (Population: 540 million persons) recently passed the first milestone in its efforts to become a fully integrated free trade area under the ASEAN Free Trade Area (AFTA). Most AFTA scheme import duties in six key nations, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, were formally reduced to 5% or less. While higher duties do exist on a very small number of sensitive agrifood products, the ASEAN Secretariat has reported that the average rate of duty on ASEAN-content goods is now just over 3.5%.

Within 5 years, import duties on the products included in the AFTA scheme will be eliminated and many of the non-tariff barriers will have been removed through the ongoing process of harmonisation of regulations covering the import and trade in food and drinks. Over this period, the other ASEAN countries, Vietnam, Myanmar (Burma), Laos and Cambodia will have also reduced duties on a substantial number of products to 5% or less.

Of further strategic importance to ASEAN businesses was the recent agreement to establish an ASEAN Economic Community (AEC) under which the region will become a single market by 2020; just 15 years away. As China's development has already pushed ASEAN to implement its AFTA free trade agreement five years earlier than originally agreed, the establishment of the AEC may also be speeded up, possibly through early agreement between a sub-regional grouping, e.g. Brunei, Malaysia, Singapore and, possibly, Indonesia.

Implementation of the AFTA accords in 1992 and 1995, and other ASEAN policies on intra-ASEAN trade and investment, have already had a direct and positive impact on the volume of intra-regional trade in food products. Intra-regional trade in food, drink and agrifood products, as recorded by Indonesia, Malaysia, Philippines, Singapore and Thailand, increased to US$ 4.9 billion in 2002, up from US$ 2.8 billion in 1993. Even after taking into account the Asian economic crisis inspired downturn in trade in 1997/98, this equates to a healthy average annual growth rate of 6.8% over this period.

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Rapid rates of growth were achieved in trade in a number of ASEAN-content products, including:

- Dairy products valued at US$ 354.9 million in 2002, grew at an average of 39.7% per annum over the period between 1993 and 2002 (see Chart on front cover of this brochure).
- Sugar and sugar products, including confectionery, valued at US$ 533.2 million in 2002 (25.4% per annum).
- Other processed foods valued at US$ 280.5 million in 2002 (19% per annum).
- Cocoa and its products, including chocolate confectionery, valued at US$ 296.8 million in 2002 (18.9% per annum).
- Prepared fish and seafood valued at US$ 147 million in 2002 (16.7% per annum).
- Cereal-based processed foods valued at US$ 309.1 million in 2002 (15.4% per annum).
- Beverages valued at US$ 318.4 million in 2002 (11% per annum).

Apart from these rapid growth categories, intra-ASEAN trade in a number of other categories grew at rates that are more than double that of annual population growth rates for the region. These categories include edible fruits and nuts (6.1%), milling industry products (5.6%) and coffee, tea and spices (4.2%).

Today, AFTA is already reality for intra-ASEAN trade for the majority of qualifying products that are produced by businesses that operate in Brunei, Indonesia, Malaysia, Philippines, Thailand and Singapore. Based on the official trade data, it is clear that businesses in the region, e.g. dairy processing, confectionery, fish and seafood businesses, and cereal-based product companies are already taking advantage of the new opportunities that are available to them.

How is the ASEAN Free Trade Area changing scenarios for South East Asia's food industry and its businesses?

AFTA has been gradually changing South East Asia's trade flows and, to a lesser extent, investment flows over the past 10 years or so. In more recent years, there is evidence that this is impacting negatively on some protected national industries that are unable to cope with new competition from ASEAN-content imports. One prominent example of this exists in wheat flour trade between Malaysia and Thailand, in which Malaysian flour-mills are now taking market share from Thai-based flour suppliers because their flour is more competitively priced than Thai-produced wheat flour.

When the non-tariff barriers are eliminated under the AFTA accords, the scenario will change again. Ultimately, establishment of the ASEAN Economic Community (AEC) will bring together all past changes and lead to a real free trade and investment area within 15 years, i.e. by 2020 or, possibly, earlier based on past escalation of the original timeframe to implement the AFTA accords.

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The impact of AFTA is real and, today, it:

- Is already boosting trade across the region as more aggressive manufacturers explore and find new markets in neighbouring ASEAN countries.

- Is providing new opportunities for larger sub-regional and national businesses to develop regional marketing strategies and target more than just their home markets with their branded products.

- Is gradually changing scenarios for manufacturing industries that have always operated in a protected environment behind well-entrenched trade barriers.

- Is providing opportunities for larger more powerful businesses operating within ASEAN's borders to develop into stronger regional multinationals that are able to compete more effectively in the international markets.

- Is providing some barriers, short term or otherwise, to manufactured products that are imported from outside the ASEAN region.

Another foundation for change also exists in the liberalised investment environments that were introduced to attract new foreign investment to the region after it was hit by the 1997/98 Asian economic crisis. This led to new investment entering the manufacturing industry and distribution channels across the region. Indeed, some of the businesses now benefiting from AFTA are non-ASEAN businesses that have invested in an ASEAN member nation or nations and now manufacture products that qualify for export under the AFTA scheme.

The strategies taken by individual food manufacturers towards doing business within the developing AFTA market environment will underpin evolution of tomorrow's markets for the full range of food and drinks. Some businesses will survive by developing new strategies and markets. Others will, over a period of years, go out of business as they loose their markets to more efficient and dynamic competitors.

Additionally, some of ASEAN's manufacturing industries will consolidate around larger regional businesses at the expense of inefficient national businesses.

There are strong precedents for these developments in the EU and North America. There is no reason to believe that industrial development will take another course of action under free market conditions across the ASEAN region.

Such scenarios raise strategically important questions about the:

- Relevance of the ASEAN Free Trade Area to businesses both within and outside ASEAN's borders.

- The opportunities and threats that might develop for businesses in future, including the timing of the development of such opportunities and threats.

- The impact in open markets of competition from ASEAN-content imported products, including the nature of the competitor(s), their impact on the markets and the nature of defensive strategies to compete against such competitors.

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- Production capacity, in particular the impact of overcapacity in ASEAN Member States with aggressive export oriented businesses in an open market in future. Overcapacity is known to exist in a number of industries, e.g. the region's flour milling industry.

- The cost base of the competing national industries across ASEAN.

- The basis of competition and nature of competitive strengths of new competitors in the ASEAN region free market. Many businesses in Thailand are protected and have never had to compete with businesses that they have no knowledge of. Some of Thailand's food industry sectors are close to being cartels that operate on the basis of friendly competition.

- The reaction of other businesses in the food supply chain, especially the major retailers and distributors, who will have more choice to import ASEAN-content products from other countries in the region.

- New business development strategies towards expanding businesses in a profitable manner under tomorrow's free(r) market conditions.

- New marketing strategies towards expanding sales and taking new market shares under tomorrow's free(r) market conditions.

- The challenges, barriers and constraints that will exist for businesses that wish to expand to take advantage of the new opportunities that will develop from AFTA and the AEC. Strategies to overcome such challenges and develop the new opportunities in a profitable manner.

Why was this study performed?

An extensive survey of the ASEAN food processing industry in 2005 found that very few companies in the industry had a full and complete understanding of the ASEAN Free Trade Area process and its future impact on their business over the next 5 to 10 years.

- Only 5% of companies that were surveyed knew anything about the on-going harmonisation process for ASEAN region food regulations, standards and market access procedures. The main businesses that were aware of this process were subsidiaries of multinationals operating throughout ASEAN.

- 45% of companies were not fully aware that the first milestone, i.e. implementation of import duties at between 0% and 5%, had occurred in 2003. Most of these businesses, including some larger listed businesses, thought that the implementation of the lower duties was being phased in over the period ended in 2010.

This study was performed to provide senior management with food companies of all sizes with:

1. An up-to-date profile of the ASEAN region and its Member States' economic development, and the status of its food markets and processed food industries, including the industry's strategic orientation, business and marketing strategy.

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2. Up-to-date insight into ASEAN region policy, inclusive of Member State government policy and policy stances, towards the region's food markets, industry and supply chain.

3. Status reports on:

    - Progress towards a real free trade area under the AFTA and ASEAN Economic Community (AEC) accords.

    - Individual ASEAN Member State import duties on, and non-tariff measures relevant to, imported food, both from within and outside ASEAN's borders.

4. A profile of intra-ASEAN trade in food products, including a more detailed review of trade in two of the region's most dynamic regional markets for ASEAN-content food products.

5. A review of the on-going progress towards removing barriers to trade amongst the ASEAN Member States, in particular the complex regulatory and standards harmonisation process that has recently been implemented for the food industry.

6. A review of the completed first stage of the regulatory and standards harmonisation process for the ASEAN cosmetics industry, which is regulated by the same agencies that regulate food and drinks.

7. A forward-looking assessment of the future strategic directions of the ASEAN consumer markets, including identification of the key forces for, and barriers to, future change in the markets, its supplying industries and supply chain over the period to 2011.

8. A forward-looking assessment of the future strategic direction of ASEAN policies and regulations that will affect the region's food markets, industries and supply chain in the period to 2011.

9. Strategic insight into the likely impact of the ASEAN region's harmonisation of its import and food regulations, standards, practices and procedures on its food markets, industry, supply chain, and related business and marketing strategies over the period to 2011.

Why do you need this report?

This report is a forward-thinking source of strategically important information that is relevant to future strategic business and marketing plan of businesses that are:

- Involved inside ASEAN as a food processor or food supply chain business; or

- Operate outside ASEAN as food processor and exporter to the region; or

- Interested in developing new business with the ASEAN region through export marketing activities or within the ASEAN region through new investments in the region.

The contents of this report have been developed to assist senior management of the above businesses to consider and plan for AFTA as a strategic change agent for their markets, business and supply chain before they have to react to its impact in future.

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Background to Stanton, Emms & Sia

Stanton, Emms & Sia is a strategic marketing and business consultancy and research firm based in Singapore. We have been operating in East Asia since 1991 and specialise in servicing food, drink and agrifood businesses and organisations. We have a worldwide client base and have research and consultancy resources in ASEAN, China, Australia, Japan, South Korea and Taiwan.

Our mission is to assist our clients to build strong positions in their target markets by:

- Assisting them to develop a commercially focused and coherent "big picture" of their customers and markets, including the basis of competition and forces and barriers affecting the markets.

- Providing them with clear and concise insight into their markets, especially their customers' wants and needs.

- Assisting them to:

    - Identify opportunities in their target markets in the East Asian region.

    - Develop strategies to:

        - Fully exploit the opportunities that have been identified in their target markets; and

        - Minimise their threats and weaknesses in their target markets.

    - Successfully build a sustainable long-term and profitable presence for their brands or products in their target markets.

We cover the full range of food, drink and agrifood market segments with a range of market and industry research and consulting services, including trade policy and regulatory environment studies.

Periodically, we research and publish specialist multi-client reports for our clients. Past titles have included:

- *"Beyond the Asian Economic Downturn: Marketing Processed Foods Under New Scenarios in the Developing East Asia's Food Supply Chain"*.

- *"The Market for Imported Dairy Products in China: An Analysis of Future Strategic Opportunities and Directions for Dairy Product Exporters"*.

- *"The Food Chain in South East Asia: Strategic Directions and Opportunities for Food Businesses"*.

- *"Beer in Developing East Asia: Strategic Directions and Opportunities for Brewers"*.

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How to order this report

This report will be published on 21 March 2006 and is available at a cost of US$ 5,750.

To order the report, simply complete the order form below and fax/mail it to us at the address in the order form. On receipt of your order, a copy of the report will be sent to you securely wrapped and by air-courier.

Should you have any queries about the report, please do not hesitate to contact Mr Anthony L. Emms or Ms Cindy Sia at the telephone, fax or e-mail address detailed in the order form.

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