

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Taiwan

### Dairy and Products Annual

**2012**

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**Report Highlights:**

Taiwan's calendar year (CY) 2012 milk production is expected to decline to 315,800 metric tons due to a hotter summer and longer rainy season. Milk production is forecast to recover to 328,000 metric tons in CY 2013. One local dairy farm imported 1,200 heifers in 2011, which is expected to boost production over the medium term. On the import side, the United States overtook New Zealand as the largest supplier of cheese to Taiwan during the first seven months of 2012.

**Executive Summary:**

Taiwan's calendar year (CY) 2012 cow milk production is expected to decline by 10 percent to 315,805 metric tons as the result of increased heat and humidity due to a hotter summer and longer rainy season. Given the difficult climate and limited agricultural land availability, Taiwan's domestic milk production cannot meet the growing demand for fresh milk, particularly from the foodservice sector. However, one local dairy farm imported around 1,200 heifers in CY 2011, which is expected to boost production over the medium term. For CY 2013, Post forecasts that Taiwan's cow milk production will grow by four percent to 328,400 metric tons.

Due to relatively high production costs, resulting in an insufficient domestic fluid milk supply, Taiwan does not produce cheese, butter, milk powder or whey in commercial quantities, relying on imports to meet the demand for these products. The biggest dairy import product is dry whole milk powder, imports of which are forecast to remain stable at about 23,000 metric tons in CY 2013.

The United States overtook New Zealand as Taiwan's leading supplier of cheese with a 34 percent market share based on imports of 4,496 tons or US\$19 million during the first seven months of CY 2012. Demand for cheese continues to expand sharply with the forecast volume for Taiwan's cheese imports in 2013 of around 25,000 metric tons, up 12 percent over the estimated 2012 level.

**Commodities:**

Dairy, Milk, Fluid

**Production:**

Taiwan's CY 2012 cow milk production is expected to decline by 10 percent to 315,800 metric tons as the result of increased heat and humidity due to a hotter summer and longer rainy season. Given the difficult climate and limited agricultural land availability, Taiwan's domestic milk production cannot meet the growing demand for fresh milk, particularly from the foodservice sector. However, one local dairy farm imported around 1,200 heifers in 2011, which should lead to a significant production increase by 2015. For 2013, Post forecasts that Taiwan's cow milk production will grow by four percent to 328,000 metric tons.

Taiwan's domestic production accounts for 95 percent of total fluid milk market supply. In terms of product mix, dairy cattle account for 96 percent of the total with the remaining four percent supplied by goats. In 2011, the dairy cow and dairy goat populations were 57,196 and 30,570, respectively.

Three key domestic processors -- WeiChuan, Uni President, and Kuan-Chuan -- account for 80 percent of fluid milk production, but there are 19 players in total. All of the processing plants purchase raw cow's milk from 534 dairy farms on an annual contract basis.

The Taiwan Council of Agriculture (COA) sets reference prices for raw milk corresponding to different fat percentages and solid nonfat percentage (SNF%). The minimum required fat content for raw milk is 2.8 percent. Effective October 1, 2011, the COA raised the average producer price for raw fluid milk by 7.99 percent to cover the increased costs of imported feedstuffs. The reference prices per kilogram (kg)

for raw milk are set at: US\$0.75 for December through March; US\$0.94 for April through May and October through November; and US\$1.01 for June through September. These prices reflect higher consumer demand during the May-October period. Taiwan milk processors refer to these prices to negotiate pricing with dairy farmers as part of their annual contracts.

The COA-authorized producer price increase for raw milk was followed by an average retail price hike of 10 percent, which generated complaints from consumers. The Executive Yuan's Fair Trade Commission ruled to fine three leading dairy processors up to NT\$12 million (US\$413,793) each for collusion to increase retail prices.

Given the inability of domestic producers to meet the growing demand for fresh milk, there have been inquiries about importing dairy cows to build up domestic herds. Due to animal quarantine restrictions, the high demand for dairy cattle imports by other competitive buyers, such as China, and high import cost, Taiwan had not imported any dairy cows since 2009. However, in 2011, the largest dairy farm imported 1,200 heifers from Australia in an attempt to boost its production by 10 percent over two years. Due to the financial limitations of most Taiwan dairy farmers, the industry will more likely continue to focus on improving dairy herd nutrition in the coming years to meet the surging domestic demand for fresh milk.

According to Taiwan's Bureau of Animal and Plant Health Inspection and Quarantine, cattle imports are prohibited from any country (zone) that has been designated as endemic for any of the following animal diseases: foot and mouth disease, rinderpest, contagious bovine pleuropneumonia and bovine spongiform encephalopathy.

### **Consumption:**

CY 2012 fluid milk consumption is expected to reach 347,000 metric tons. According to COA statistics, per capita consumption of fresh milk in Taiwan was 15.99 kg in CY 2010. Sales through the foodservice sector and convenience stores account for an estimated seventy percent of domestic consumption. The peak season for fluid milk consumption is from May to October, accounting for 70 percent of annual sales. Taiwan consumers prefer whole-fat milk (at least 3.8 percent fat content), which accounts for 70 percent of the market.

The value of the domestic fluid milk market is estimated at around US\$300 million. This market is anticipated to keep growing due to the robust demand in the foodservice sector, especially tea/coffee shops and convenience stores. The popularity of fluid milk in this sector is attributed to the 2008 melamine milk powder incident, when local media reports about imports of melamine-tainted Chinese milk powder caused consumers to shy away from any products containing milk powder. Consequently, tea/coffee shop owners started to promote fresh milk in place of the conventional low-cost milk powder in their specialty coffee and milk tea drinks. This marketing shift has created a premium appeal for consumers, and the idea of freshness has allowed tea/coffee shop owners to revamp their product offerings. In addition, double-digit growth for ready-to-drink coffee products in convenience stores will also increase demand for fresh milk. The National Animal Industry Foundation estimates that the demand for fresh milk in this sector is 150 metric tons per day.

**Trade:**

Taiwan's CY 2012 imports of fluid milk (HS Code: 0401) are expected to fall to 14,200 metric tons as imports decreased by 27 percent in the first seven months of CY 2012 compared to the same period in CY 2011. Currently, New Zealand is Taiwan's largest supplier with a 38 percent market share, but Taiwan importers are competing with surging demand from China. France ranks second with a 31 percent market share. The United States entered the Taiwan fluid milk market in 2011 by offering differentiated dairy products such as low-lactose milk and currently accounts for three percent of the market. Due to insufficient domestic production, Taiwan's CY 2013 imports are forecast to grow by about 10 percent to 15,600 metric tons.

**Policy:****Tariff Rate Quota (TRQ)**

With Taiwan's accession to the WTO on January 1, 2002, imports of previously banned fluid milk are subject to Tariff Rate Quota (TRQ) and Special Safeguards (SSG) controls.

- Taiwan adopted the system II of TRQ rules to regulate imported fluid milk. The import rights are auctioned once a year. All importers registered with Taiwan's Board of Foreign Trade (BOFT) are eligible to bid on quota rights. Quota allocation certificates serve as automatic import licenses for fluid milk imports. The minimum quantity for the bidding is 250 MT. The annual TRQ volume for fluid milk is 21,298 MT. The duty for in-quota fluid milk is 15 percent and NT\$15.6 per kg for out-of-quota duty, equivalent to US\$538 per MT.
- In November 2011, 12 companies successfully bid for 12,369 MT of the 2012 TRQ. The importers reportedly were able to win the bid by paying a minimum tender operation fee of US\$16.50 per metric ton. The 2013 TRQ for fluid milk will be auctioned in November 2012 and March 2013. Historically, the relatively low fill rate (see table below) reflects the Taiwan consumer preference for fresh milk. Due to transport and storage issues, however, fluid milk exports to Taiwan are extended shelf life milk, which have not been as popular in retail outlets.

**Imports Data of Fluid Milk (unit: MT)**

	2008	2009	2010	2011
Authorized TRQ volume	21,298	21,298	21,298	21,298
Imports under TRQ	4,117	8,235	11,448	12,522
Total imports (HS Code: 0401)	8,757	13,691	18,718	20,717
TRQ fill rate (percent)	19	39	54	60

Source: Customs data, Bank of Taiwan

The Ministry of Finance (MOF), which is responsible for the TRQ allocations, has entrusted the Bank of Taiwan (BOT) to implement the TRQ application and allocation process. All relevant TRQ information can be retrieved from the BOT website: <http://www.bot.com.tw/Trade/Pages/default.aspx>.

## Special Safeguards (SSG)

Taiwan also adopted Special Safeguards (SSG) to control the volume of imported fluid milk. Taiwan's Department of Treasury determines a quantity trigger and a unit base price trigger of fluid milk. If imports of fluid milk exceed the SSG quantity trigger or fall below the SSG unit price trigger, they are subject to the out-of-quota plus an additional 33.3% surcharge.

The 2012 SSG quantity trigger for fresh milk is 3,327 MT; the SSG trigger for other fluid milk is 6,698 MT; the SSG price trigger for fluid milk is NT\$17 (US\$0.58) CIF per liter.

Summary of Taiwan's Import Duties for Fluid Milk:

- For imports within the TRQ volume, the tariff is 15 percent. For imports out of the TRQ volume, the tariff is NT\$15.6 per kg, equivalent to US\$538 per metric ton.
- For imports above SSG's quantity trigger, an additional 33.3% surcharge is applied.
- Imports of goat/sheep milk are subject to a tariff of 20 percent but are not subject to any TRQ or SSG limits.

## Fresh Milk Seals

The COA has been actively promoting its domestic fresh milk seal to consumers. As a result, Taiwan consumers have been educated to think that fresh milk with the authorized seal on the packaging is of better quality.

Only domestic registered processing plants are eligible to apply for the COA fresh milk seals for use on finished product packaging. The COA reviews each application and strictly controls the number of authorized seals issued based on the volume of raw milk that these processing plants purchase from local dairy farms.

Example of the Fresh Milk Seal authorized and issued by the COA.



## Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Taiwan	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	57	55	60	57		57
Cows Milk Production	349	336	362	316		328
Other Milk Production	17	17	17	17		17
Total Production	366	353	379	333		345

Other Imports	22	21	27	14		15
Total Imports	22	21	27	14		15
Total Supply	388	374	406	347		360
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Fluid Use Dom. Consum.	361	354	376	326		338
Factory Use Consum.	27	20	30	21		22
Feed Use Dom. Consum.	0	0	0	0		0
Total Dom. Consumption	388	374	406	347		360
Total Distribution	388	374	406	347		360
1000 HEAD, 1000 MT						

**Commodities:**

Dairy, Cheese

**Production:**

Taiwan does not produce cheese in commercial quantity.

**Consumption:**

Cheese consumption reached a record high of 22,000 metric tons in CY 2011. However, Taiwan's cheese imports and consumption dropped by eight percent from January through July 2012 as tight New Zealand supplies left Taiwan importers with unfilled orders. This created new opportunities for U.S. exporters during the first half of CY 2012. Over the longer term, there is good potential for further growth in the food service segment given new applications for mozzarella and cheddar cheese in increasingly popular western-style dishes. However, local chefs still need education on the wide variety of cheese products and applications. Post forecasts that Taiwan's cheese consumption will grow by 12 percent to 25,000 metric tons in 2013.

Sliced cheeses account for 65 percent of consumption in the retail sector. On a per capita basis, cheese consumption in Taiwan is still very small (0.9 kg in 2010) compared to most Western countries and Japan. In recent years, however, Taiwan consumers have started to acquire a taste for an assortment of cheese products. In the past, consumers tended to associate cheese only with pizza or sandwiches. Nowadays, however, consumers eat cheese in a variety of foods and meals. For example, cheese is becoming increasingly popular as a topping for baked potatoes.

**Trade:**

Taiwan's cheese imports during the first seven months of CY 2012 reached 13,086 metric tons, down eight percent compared to the same period in 2011. Imports of U.S. cheese grew by 54 percent during this period, allowing the United States to overtake New Zealand as Taiwan's leading supplier of cheese with a total of 4,496 tons or US\$19 million for a 34 percent market share. Contributing factors included competitive U.S. prices, the continued expansion of Costco outlets in cities throughout Taiwan and new cheese varieties being introduced to the food service sector, particularly for bakeries.

CY 2013 cheese imports are forecast to increase 14 percent to about 25,000 metric tons. Imports from the United States should also continue to grow, especially for use in the foodservice sector, although growth may be moderated by larger New Zealand supplies and higher U.S. prices.

**Commodities:**

Dairy, Dry Whole Milk Powder

**Production:**

Taiwan does not produce milk powder in commercial quantity.

**Consumption:**

Taiwan’s CY 2012 milk powder consumption is expected to stay at the almost same level as 2011 -- around 22,300 metric tons. Due to a maturing market for the local baking sector and higher WMP prices, Taiwan’s CY 2013 consumption is forecast to grow modestly to 23,000 metric tons.

**Trade:**

To help ease inflationary pressures, the Taiwan Ministry of Finance lowered the tariff on milk powder by 25 percent for the six-month period ending in February 2012. The Taiwan branch of Fonterra, which has a special trade partnership with New Zealand suppliers, accounts for 80 percent of Taiwan’s milk powder imports. Whole-fat milk powder is used predominately in baking and is very price-sensitive.

Several food safety incidents, including the plasticizer incident that occurred in 2011 and the 2008 melamine incident, have changed the traditional buying criteria for Taiwan importers and bakers. Before these food safety events, bakers did not consider the origin/source of milk powder as long as it was price competitive. After these occurrences, product origin became a major concern for consumers, which subsequently influenced buyer’s purchasing decisions. In fact, in accordance with Taiwan’s Department of Health regulations, imports of milk powder from China have been banned since the melamine incident in 2008.

**Production, Supply and Demand Data Statistics:**

Dairy, Dry Whole Milk Powder Taiwan	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Other Imports	31	22	37	22		23
Total Imports	31	22	37	22		23
Total Supply	31	22	37	22		23
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	31	22	37	22		23
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	31	22	37	22		23
Total Use	31	22	37	22		23
Ending Stocks	0	0	0	0		0
Total Distribution	31	22	37	22		23

1000 MT						

**Commodities:**

Dairy, Butter

**Production:**

Taiwan does not produce butter in commercial quantity.

**Consumption:**

Taiwan's CY 2012 consumption is expected to decline marginally. However, Taiwan's CY 2013 butter consumption is forecast to increase by 10 percent to 19,000 metric tons, as key suppliers such as Australia and New Zealand are anticipated to have more ample supplies due to favorable weather conditions.

**Trade:**

Taiwan's imports of butter for the first seven months in 2012 dropped by 20 percent due to limited export supplies from New Zealand, which accounts for more than 60 percent of the Taiwan market due in large part to the success of the Anchor brand, particularly in the local baking industry. Anchor has positioned itself as a butter of high quality through an intensive mass media branding campaign. Taiwan bakers are convinced of the product's principal advantage, a stable high melting point, which they reportedly cannot find in other brands.

**Production, Supply and Demand Data Statistics:**

Dairy, Butter Taiwan	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Other Imports	21	18	25	17		19
Total Imports	21	18	25	17		19
Total Supply	21	18	25	17		19
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Domestic Consumption	21	18	25	17		19
Total Use	21	18	25	17		19
Ending Stocks	0	0	0	0		0
Total Distribution	21	18	25	17		19
1000 MT						

**Author Defined:**

Dairy, Whey

**Production:**

Taiwan does not produce whey in commercial quantity.



**Consumption:**

Taiwan's CY 2012 whey consumption is expected to reach 9,600 metric tons. Animal feed use and local yogurt production account for the biggest share of domestic consumption by volume. According to industry contacts, however, surging demand from China for whey has raised import prices for Taiwan and depressed demand for feed use and local yogurt production.

Taiwan's food processing and baking sector buyers are still not fully aware of the characteristics and uses of whey protein compared to soy protein and milk powder. In particular, the industry is concerned about whey protein's bland flavor and prices that are twice as high as milk powder and soy protein.

**Trade:**

Taiwan's imports of whey in CY 2012 are expected to drop to 9,600 metric tons, down 18 percent compared to 2011. According to trade contacts, the majority of whey imports are used as milk replacement for weaning piglets. However, due to the cost of imported whey, farmers tend to replace whey with other protein substitutes. As a result, imports in CY 2013 are expected to continue to decline further to 8,600 metric tons.

Whey protein concentrate (WPC) had potential for use in nutritional drinks. However, the demand for these nutritional food products has declined somewhat during the recent economic slowdown. As a result, Taiwan's imports of whey protein concentrate (WPC) also dropped by 18 percent during the first seven months in CY 2012 compared to the same period in 2011, and the CY 2012 total is expected to fall to 650 tons. The key suppliers are New Zealand, holding a 57 percent market share, and the United States, which accounts for 37 percent.

**Other:**

The U.S. Dairy Export Council (USDEC) represents the U.S. dairy industry in Taiwan. The council's staff provides market intelligence on trade policy and market access issues, and develops marketing activities to promote U.S. dairy products to Taiwan trade contacts and consumers. Below, please find contact information for the USDEC Taiwan office.

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