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Taiwan

Dairy and Products Annual

2015

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Report Highlights:

As a result of breeding improvements throughout Taiwan's dairy cattle industry, domestic milk production is forecast to steadily increase to 380,000 metric tons (MT) in 2016, up from 374,000 MT in 2015. For the second year in a row, the 2015 Tariff Rate Quota (TRQ) of 21,949 MT for fluid milk was fully allocated and reflects the increasing demand for imported milk. Meanwhile, the United States surpassed Australia as the largest foreign supplier of milk to Taiwan during the first half of 2015, due in part to the growing popularity of U.S. milk at various retail outlets. For 2016, Taiwan's imports of fluid milk are projected to increase to 27,500 MT, up 10% from 2015. The demand for other dairy products, such as whey and whole milk powder (WMP), is also expected to significantly increase in 2016.

Executive Summary:

In 2016, Taiwan's domestic milk production is forecast to steadily increase from 374,000 MT in 2015 to 380,000 MT due in part to improvements throughout Taiwan's dairy industry. Given the humid climate and hilly land, Taiwan's domestic milk production is extremely limited and cannot meet the growing demand for fresh milk. As a result, post also forecasts Taiwan's 2016 imports of fluid milk will increase to 27,500 MT, up 10% from 2015. Expansion throughout Taiwan's foodservice sector has slowly been expanding and the demand for U.S. milk products should continue to increase.

Regarding Taiwan's TRQ, in November 2014, 13 companies successfully bid for 21,298 MT of the 2015 TRQ. For two years in a row, the TRQ for fluid milk was fully allocated and reflects the increasing demand for imported milk. Post anticipates this trend will continue for 2016.

Post forecasts Taiwan's 2016 whole milk powder (WMP) consumption will increase to 35,000 MT as a result of increased demand within the food processing and baking industries. Currently more end-users are replacing fresh milk in their products with WMP due in part to lower prices, and experts anticipate this trend will continue for the next several years. Meanwhile, the demand for whey protein concentrate (WPC) is expected to continue growing due to consumers seeking healthier lifestyles and the nutritional ingredients from WPC. Taiwan's imports of WPC during the first half year of 2015 reached 1,375 MT, which is an increase of nearly 70% from 2014.

Commodities:

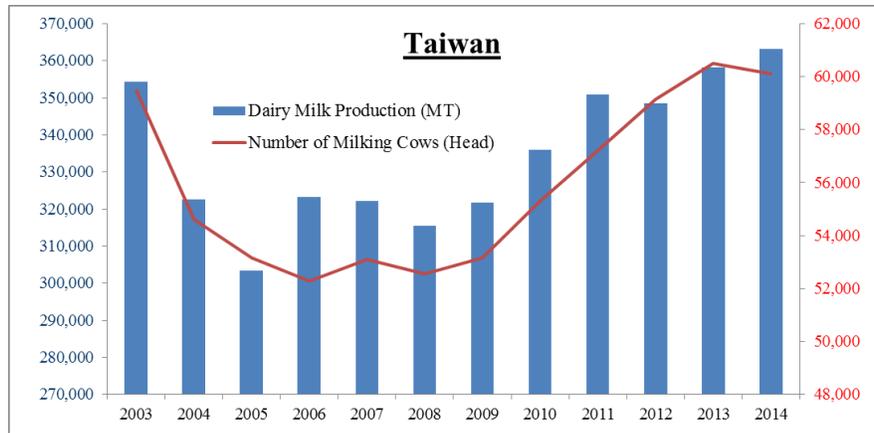
Dairy, Milk, Fluid



Holstein is the most common dairy cow throughout Taiwan.

Production:

In 2014, Taiwan's domestic milk production reached a record high, 363,145 MT. Despite a Bovine Ephemeral Fever (BEF) outbreak, local dairy farmers continue to produce milk at a moderate rate due to breeding improvements throughout the dairy industry. According to local milk processors, the 2016 production is forecast to steadily increase to 380,000 MT, up from 374,000 MT in 2015. Given the humid climate and hilly land, Taiwan's domestic milk production is extremely limited and cannot meet the growing demand for fresh milk.



Taiwan's milk production reached an all-time high in 2014, 363,145 MT.

Taiwan's domestic production accounts for 90% of the total fluid milk supply. In terms of product mix, dairy cattle account for 95% with the remaining 5% supplied by goats. In 2014, the dairy cow and dairy goat populations were 60,103 and 31,262, respectively.

Even though there were several recent food safety outbreaks that temporarily triggered consumers to purchase more imported milk, three key domestic processors (Uni President, Wei Chuan, and Kuan Chuan) still account for 80% of all fluid milk products on the market. Processing plants (17 in total) purchase, on average, raw milk from 550 dairy farms on an annual contract basis. However, a recent trend shows more consolidation in the industry, and experts throughout the industry have stated they anticipate the number of dairy farms will continue to shrink while the number of dairy cows per farm will continue to increase. In the wake of several food safety incidents, Wei Chuan recently added a QR code on each bottle of milk so consumers could track the product's origins, which has become a huge selling point for many consumers. Experts predict this will be common place with many domestic producers.

Due to the financial limitations of most Taiwan dairy farmers, the industry will more than likely continue to focus on genetic improvements in the coming years in order to meet the surging domestic demand for fresh milk.

According to Taiwan's Bureau of Animal and Plant Health Inspection and Quarantine (BAPHIQ), 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 (FMD), rinderpest, contagious bovine pleuropneumonia (CBPP) and bovine spongiform encephalopathy (BSE).

Prices:

The Taiwan Council of Agriculture (COA) sets reference prices for raw milk corresponding to different fat percentages and solid nonfat percentages (SNF%). The minimum required fat content for raw milk is 2.8%. The reference prices per kilogram (kg) for raw milk are currently set at US\$0.68 (December – March), US\$0.85 (April – May, and October – November), and US\$0.92 (June – September). Taiwan

milk processors refer to these prices and design incentive programs to negotiate pricing with dairy farmers as part of their annual contracts.

Consumption:

According to Taiwan's Ministry of Economic Affairs (MOEA), the consumption of domestic fresh milk in 2014 decreased 4% to 350,154 MT, due in part to consumers' boycott against a key domestic milk processor. In return, the 2015 overall consumption of domestic and imported milk is expected to increase to 390,000 MT. The per capita consumption of dairy products in Taiwan is approximately 22 kg. The peak season for fluid milk is typically during the summer, which is the most difficult time for milk processors to satisfy demand due to the scorching heat that adversely affects milk production.

Milk is also considered one of the key ingredients for coffee consumers throughout Taiwan, which has become a fashionable beverage since 2008. However, due to the tight supply from domestic fresh milk in the summer, and storage challenges of imported fresh milk, many coffee shops started using other dairy products. This trend is expected to continue throughout Taiwan and will drive the market for other imported dairy products.

Trade:

During the first half year of 2015, the United States surpassed Australia as the largest foreign supplier of fluid milk to Taiwan. Aside from the TRQ allocated volume, Post forecasts Taiwan's 2016 imports of fluid milk will continue increasing to 25,000 MT, up 10% from 2015, due to the proven success of U.S. fresh milk products imported by Costco. A series of food safety scandals also triggered Taiwan consumers to look for imported milk, which is expected to continue throughout 2016.

The top three foreign suppliers of milk (HS code: 040120) to Taiwan are: Australia, United States, and New Zealand. These countries represented market shares of 37%, 35%, and 13% respectively in 2014. The imported milk from the United States surged in the first half year of 2015 to 5,070 MT, up 115% compared to the same period in 2014. Post forecasts Taiwan's import volume of U.S. milk will be 10,000 MT in 2015, due to the expansion of Costco's services.

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 bidding is 250 MT. The

annual TRQ volume for fluid milk is 21,298 MT. The duty for in-quota fluid milk is 15% and NTD\$15.6 per kg for out-of-quota duty, equivalent to US\$488 per MT.

- In November 2014, 13 companies successfully bid for 21,298 MT of the 2015 TRQ. For two years in a row, the TRQ for fluid milk was fully allocated and reflects the trade’s confidence and increasing demand for imported milk. The 2016 TRQ for fluid milk will be auctioned in November 2015 and March 2016.

Taiwan Import Data of Fluid Milk (unit: MT)

	2012	2013	2014	2015
Authorized TRQ volume	21,298	21,298	21,298	21,298
Imports under TRQ	12,137	15,148	18,557	NA
Out-of-Quota Imports (HS: 040120)	11,179	14,934	21,743	24,750 (e)

Source: Customs data, Bank of Taiwan

The Ministry of Finance (MOF), which is responsible for 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 a SSG to control the volume of imported fluid milk. Taiwan’s Department of Treasury determines a quantity trigger and a unit base price trigger for 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 rate plus an additional 33.3% surcharge. The 2015 SSG quantity trigger for fresh milk is 9,321 MT while the SSG trigger for other fluid milk is 7,438 MT. The SSG price trigger for fluid milk is NTD\$17 (US\$0.53) CIF per liter.

Summary of Taiwan’s Import Duties for Fluid Milk:

- For imports within the TRQ volume, the tariff is 15%. For imports out of the TRQ volume, the tariff is NT\$15.6 per kg, equivalent to approximately US\$487 per MT.
- 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% but are not subject to any TRQ or SSG limits.

Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC)

Taiwan and New Zealand signed a bilateral Free Trade Agreement (FTA) in July 2013. Effective since December 1, 2013, within the TRQ volume of 5,500 MT, the tariff for New Zealand fluid milk imports is zero. The tariff for the out-of-quota imports is NTD\$14 (US\$0.44) per kg.

Labeling on Fresh Milk

According to Taiwan’s Act Governing Food Safety and Sanitation, if the milk is fortified with the nutrients that are not inherent in raw milk itself, like oligosaccharide, it cannot be labeled as “fresh” milk.

Fresh Milk Seal for Domestic Fresh Milk

The COA has been actively promoting its domestic fresh milk seal to consumers. As a result, most Taiwan consumers associate better quality in fresh milk with an authorized seal on the packaging.

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.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year Taiwan	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	60	60	59	60	0	60
Cows Milk Production	347	363	350	374	0	380
Other Milk Production	16	16	16	15	0	15
Total Production	363	379	366	389	0	395
Other Imports	26	22	28	25	0	28
Total Imports	26	22	28	25	0	28
Total Supply	389	401	394	414	0	423
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	359	361	362	373	0	381
Factory Use Consum.	30	40	32	41	0	42
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	389	401	394	414	0	423
Total Distribution	389	401	394	414	0	423

(1000 HEAD) ,(1000 MT)

Commodities:

Dairy, Dry Whole Milk Powder

Production:

Taiwan does not produce milk powder in commercial quantity.

Consumption:

The demand for Whole Milk Powder (WMP; HS:040221/040229) increased sharply in 2015 to 33,000 MT, and is mainly driven by the food processing and baking industries. More end-users are replacing fresh milk in their products with WMP due in part to lower prices of imported product (mainly from New Zealand). As a result, Post forecasts Taiwan's 2016 WMP consumption to increase to 35,000 MT.

Trade:

Since late 2014, the pricing of WMP plummeted to one third of the previous year's level and encouraged the trade to increase its purchasing volume. This also gave manufacturers more pricing flexibility to conduct consumer promotions on WMP-made products, such as fermented milk products. In 2013, New Zealand and Taiwan signed a FTA that eliminated the 10% tariff for New Zealand's WMP. Since milk powder is highly elastic and the industry prefers New Zealand milk powder flavor, the FTA put U.S. milk powder exporters in a tough position. Currently, New Zealand dominates the WMP market with nearly 95% of the market share.

The 2008 melamine incident raised food safety concerns among Taiwan's general public and subsequently influenced buyers' purchasing decisions regarding country-of-origin. In accordance with Taiwan's Department of Health regulations, milk powder imports from China have been banned since 2008, which is expected to continue for several years.

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder Market Begin Year Taiwan	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	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	33	32	38	33		35
Total Imports	33	32	38	33		35
Total Supply	33	32	38	33		35
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	33	32	38	33		35
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	33	32	38	33		35
Total Use	33	32	38	33		35
Ending Stocks	0	0	0	0		0
Total Distribution	33	32	38	33		35

(1000 MT)						

Commodities:

Dairy, Milk, Nonfat Dry

Production:

Taiwan does not produce Nonfat Dry Milk (NDM; HS040210) powder in commercial quantity.

Consumption:

In 2014, the demand for NDM increased to 23,000 MT, mainly due to lower prices. Post forecasts that Taiwan’s NDM consumption will moderately increase to 25,000 MT in 2015 and 25,500 MT in 2016. NDM is primarily used in the fermented beverage processing industry.

Trade:

Taiwan's import volume of NDM reached 23,434 MT in 2014, up 5% from 2013. New Zealand dominated the market with a 78% market share, followed by Australia (10%). In 2014, Australia NDM imports declined 46%, losing more market share to New Zealand, due in part to a price disadvantage. The FTA signed between New Zealand and Taiwan will further strengthen New Zealand’s market dominance of NDM over Australia and the United States.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry Market Begin Year Taiwan	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	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	23	0	29	25		26
Total Imports	23	0	29	25		26
Total Supply	23	0	29	25		26
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	23	0	29	25		26
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	23	0	29	25		26
Total Use	23	0	29	25		26
Ending Stocks	0	0	0	0		0
Total Distribution	23	0	29	25		26
(1000 MT)						

Commodities:

Dairy, Butter

Production:

Taiwan does not produce butter in commercial quantity.

Consumption:

Taiwan has been acquiring more of a western diet, which has expanded the use of butter in the baking and foodservice sectors. Post forecasts Taiwan's consumption of butter and Anhydrous Milk Fat (AMF) will increase to 28,600 MT by 2016, driven by the foodservice sector's strong demand for butter.

Trade:

Taiwan's import volume of butter in 2015, including AMF, is forecast to rebound by 22% to 25,500 MT, due to lower pricing of AMF and robust demand from the foodservice sector. The record-high AMF pricing in early 2014 discouraged Taiwan importers and the industry temporarily replaced AMF with vegetable oil. As the pricing of AMF gradually returned to normal levels, the import volume increased to the average annual level of 5,500 MT. New Zealand dominates the market with a 70% market share due in large part to the success of their Anchor brand, particularly in the local baking industry. Many Taiwan consumers prefer Anchor, especially local bakers, and are more accustomed to the melting point and rich, yellow color. However, there has been an increasing demand in high-end butter from France. In 2015, French butter is expected to expand by 30% and reach 1,800 MT.

Production, Supply and Demand Data Statistics:

Dairy, Butter Market Begin Year Taiwan	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	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	22	21	28	26		28
Total Imports	22	21	28	26		28
Total Supply	22	21	28	26		28
Other Exports	0	0	0	0		0
Total Exports	0	0	0	0		0
Domestic Consumption	22	21	28	26		28
Total Use	22	21	28	26		28
Ending Stocks	0	0	0	0		0
Total Distribution	22	21	28	26		28

(1000 MT)

Commodities:
Dairy, Whey

Production:

Taiwan does not produce whey in commercial quantity.

Consumption:

Post anticipates Taiwan's 2016 whey (HS: 0404) consumption to slightly increase to 11,000 MT, due to lower prices that might induce manufacturers to develop more product applications. Whey Protein Concentrate (WPC; HS: 35022/350290) has a promising future due to an aging population that is seeking more nutritional ingredients. In fact, Taiwan's imports of WPC during the first half of 2015 reached 1,375 MT, which is nearly 70% of the 2014 annual level.

Taiwan's food processing and baking sector are still not fully aware of the characteristics and uses of whey protein compared to soy protein and milk powder. The most common applications for whey protein are: nutritional products, yogurt, ice cream, and confectionery products.

Trade:

Taiwan's imports of whey in 2016 are forecast at 11,000 MT, slightly up 3% compared to 2015. The United States remains the dominant supplier with a 35% market share, followed by France with a 20% market share. The demand for WPC (HS: 35022/350290) is expected to rapidly increase, driven by an aging population and growing popularity of the yogurt market. The import volume in 2015 is expected to reach 2,000 MT. The key suppliers are the United States, holding a 24% market share, and New Zealand, which accounts for a 16% market share.

Commodities:
Dairy, Cheese

Production:

Taiwan does not produce cheese in commercial quantity.

Consumption:

Taiwan imports of cheese continue to grow, reaching another record high of US\$136 million in 2014. Overall, the most popular and fastest growing cheese varieties are cream cheese and mozzarella. Frequent retail promotions in supermarkets have also increased the consumer's awareness of other cheeses. Cheese consumption in the foodservice sector has serious growth potential due to the popularity of its many uses in baked goods, pizzas and pastry desserts. Sliced cheeses account for 65% of all cheese retail sales. On a per capita basis, cheese consumption in Taiwan is still very low compared to most Western countries. Local chefs and consumers would benefit from additional instruction on the wide variety of U.S. cheese products.

Trade:

In 2014, Taiwan's imports of U.S. cheese reached another historic high of US\$40 million (8,017 MT), up 9% compared to 2013. This growth resulted from increased consumption in the foodservice sector and greater consumer demand in the retail sector; the latter driven in large part by the expansion of hypermarkets such as Costco, and upscale supermarkets such as City Super. Though the United States currently holds a market share of 31%, the competitive pricing of New Zealand cheese and the Australian currency depreciation are foreseen to put U.S. cheese at a disadvantage. The 2016 imports of the U.S. cheese are forecast to decrease to 6,900 MT, 10% less than the estimated annual volume of 7,700 MT in 2015.

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, is the contact information for the USDEC Taiwan office.

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Contact Information of USDA's Foreign Agricultural Service Office in Taiwan

- For Trade Policy/Market Access and General Agricultural Issues, please contact the Agricultural Affairs section via email at: agtaipei@fas.usda.gov.
- For Market Development Assistance, please contact the Agricultural Trade Office via email at: atotaipei@fas.usda.gov.