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Report Highlights:

Corn imports from India and mainland China, reduced feed demand, an increase in local corn production, and increased use of feed rice are conspiring to reduce Taiwan imports of corn and displace Taiwan imports of U.S. corn. Taiwan imports of U.S. corn are projected to fall by 775 TMT to 4 MMT in 2007/08 and then stabilize at that level as increased local production partly offsets a forecasted reduction in imports from origins other than the U.S. Taiwan wheat demand is also responding to higher price levels. The demand reduction from 2006/07 levels is estimated at 50 thousand metric tons (TMT) in 2007/08 and 100 TMT in 2008/09. Taiwan is forecast to import 1 MMT of wheat from in 2008/2009, 90% from the U.S.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Section I. Summary

Corn imports from India and mainland China, reduced feed demand, an increase in local corn production, and increased use of feed rice are conspiring to reduce Taiwan imports of corn and displace Taiwan imports of U.S. corn. Taiwan 2007/08 corn imports are estimated at 4.5 million metric tons (MMT), a reduction of 350 thousand metric tons (TMT) from 2006/07. Imports are forecast to fall another 150 TMT in 2008/09 to 4.35 MMT. Taiwan imports of U.S. corn are projected to fall by 775 TMT to 4 MMT in 2007/08 and then stabilize at that level as increased local production partly offsets a forecasted reduction in imports from origins other than the U.S. Taiwan plans to increase domestic production to 130 TMT by 2008/09.

Taiwan wheat demand is also responding to higher price levels. The demand reduction from 2006/07 levels is estimated at 50 thousand metric tons (TMT) in 2007/08 and 100 TMT in 2008/09. Taiwan is forecast to import 1 MMT of wheat from in 2008/2009, 90% from the U.S. Per capita consumption of wheat has been increasing over time, while consumption of rice has been gradually decreasing. Further increases in wheat prices relative to rice prices may cause increases in rice substitution for wheat, and possibly halt or reverse this trend.

Rice imports have been delayed in 2008 due to rising world rice prices, and Taiwan has still not completed its 2007 tender process. However, Taiwan has an obligation to import 127,000 tons of rice on a milled basis each year. Rice production is expected to rebound somewhat in 2008/09 from this year's weather reduced levels.

While Taiwan requires grain imports, in 2007 it began enforcing a zero tolerance for unapproved pesticides without having established pesticide residue limits for many pesticides that are widely regarded as safe. Some grain cargos have been rejected, but given the need for grain, various accommodations have been made that have allowed the grain trade to continue. In the wheat market, for instance, importers are taking the risk that cargos will fail inspection – which probably means that Taiwan consumers are paying higher prices.

Taiwan has also implemented a 50% temporary tariff rate reduction on imports of wheat, flour, and meal of wheat, corn and soybeans, including DDGS for one year, effective August 6, 2007. Taiwan also waived the 5 percent VAT on imported barley, corn, soybeans and wheat.

Section II. Wheat Situation & Outlook

Table 1. Wheat Production, Supply and Demand, 1000 MT

PSD Table

Country Taiwan

Commodity	Wheat						(1000 HA)(1000 MT)(MT/HA)		UOM	
	2006	Revised		2007	Estimate		2008	Forecast		
Market Year	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Area Harvested	0	0	0	0	0	0	0	0	0	(1000 HA)
Beginning Stocks	310	289	310	260	289	305	275	289	280	(1000 MT)
Production	0	0	0	0	0	0	0	0	0	(1000 MT)
MY Imports	1127	1050	1118	1100	1050	1050	0	0	1000	(1000 MT)
TY Imports	1127	1050	1118	1100	1050	1050	0	0	1000	(1000 MT)
TY Imp. from U.S.	986	900	1003	0	900	900	0	0	900	(1000 MT)
Total Supply	1437	1339	1428	1360	1339	1355	275	289	1280	(1000 MT)
MY Exports	27	0	0	25	0	0	0	0	0	(1000 MT)
TY Exports	27	0	0	25	0	0	0	0	0	(1000 MT)
Feed Consumption	100	10	3	10	10	5	0	0	5	(1000 MT)
FSI Consumption	1050	1040	1120	1050	1040	1070	0	0	1020	(1000 MT)
Total Consumption	1150	1050	1123	1060	1050	1075	0	0	1025	(1000 MT)
Ending Stocks	260	289	305	275	289	280	0	0	255	(1000 MT)
Total Distribution	1437	1339	1428	1360	1339	1355	0	0	1280	(1000 MT)
Yield	0	0	0	0	0	0	0	0	0	(MT/HA)

Production

Taiwan's wheat production is negligible. All demand is met by imports.

Consumption

Taiwan's overall wheat demand is stable. Its wheat demand for MY2006/07 is estimated at around 1.10 million metric tons, of which about 20 thousand metric tons was for fermentation or brewing and the remaining was for four milling. The amount of wheat for feed use is insignificant. In MY2006/07 3 thousand metric tons of feed wheat supplied by Ukraine. However, MY2007/08 and MY2008/09 consumption is expected to decrease by 50 thousand metric tons because of high wheat prices. Reportedly, during late 2007 and early 2008, some 60 bakery companies out of the 8,000 total registered bakeries closed due to a lack of capital to afford high priced raw materials, including flour and other bakery ingredients such as milk powder, sugar and shortening. The media reported that consumers experienced in paying more for smaller sizes of bakery products and smaller serving sizes of noodle soups. This signaled a decrease in Taiwan's wheat consumption and reflects high wheat prices.

Taiwan wheat consumption is forecast to increase along with anticipated economic growth after 2008. Increased economic growth would boost demand for wheat-based food products, which is supported by production of specialty flour milled from US grade #1 wheat and introduction of new wheat-based food products and viable markets for Chinese style wheat-based food and a strong bakery sector.

Three Taiwanese bakers competed in the 2008 Bakery World Cup, held in Paris from March 31 to April 2nd. The team took the second place in the overall competition and won two individual awards in the European style and artistic baking categories, reported in ATO Taipei Newsletter, April edition.

Trade

- Wheat Imports – Stable

Since Taiwan does not produce wheat, all demand is met by imports. Importers sometimes experiment with small imports of feed wheat to offset high corn prices, but mostly it is not the case on Taiwan. The United States is expected to keep an 85+ percent share of the overall wheat market during the forecast period. In 2006/07, the U.S. had a 90 percent share (increased by 7 percent from a year earlier), while Australia supplied 9 percent (down by 7 percent); and Canada and Ukraine and others combined 1 percent. Australian wheat has been recognized by Taiwan millers and noodle manufacturers and is competitive with U.S. hard white. Australian wheat imports to Taiwan have potential to increase as long as Australia has supplies.

Taiwan imports mostly U.S. #1 wheat. According to the Taiwan Flour Millers' Association (TFMA), in CY2007 based on TFMA import data, 61 percent of U.S. imports were HRS or DNS (up by 3 percent from a year earlier), while 26 percent was HRW (down by 3 percent), 11 percent Soft or Western White Wheat (down by one percent), and two percent hard white (up by one percent). However, there were approximately 39 thousand metric tons of HRW or hard white were imported via containers by individual millers. The Australia imports were either Australian prime hard or Australian Hard. This mix varies each year mostly depending on crop quality and price levels for the different classes of wheat and because of the wheat-food consumption pattern here.

The superior milling characteristics and price competitiveness of Hard White Wheat are expected to cut Taiwan imports of Australian hard wheat. Although a supply constraint has limited Taiwan imports of U.S. Hard White to only 5,000 tons in 2005, 10,000 tons in 2006, 22,000 tons in 2007 and 10,000 tons so far this year, the upward trend for Hard White is expected to continue. Taiwan wheat importers have mentioned that a stable wheat supply with reliable gluten quality is critical for maintaining quality control of flour milling and Chinese noodle making.

- Feed Wheat Imports – Insignificant

Feed wheat imports are expected to remain small or nil in the upcoming marketing year, with the forecast at around 10 thousand metric tons, sourced primarily from India and some from Ukraine, Russia and United States. Taiwan imposes the same tariffs on milling wheat and feed wheat, which discourages feed wheat imports, compared to zero tariffs for feed corn, soybeans and other feed ingredients.

- Flour Imports – Low in 20 Thousand Metric Tons in CY2006/07

Flour imports will likely remain very low. In general, Taiwan imports a very small amount of wheat flour that only accounts for about 2 percent of the total supply. Flour imports in 2006/07 were 19 thousand metric tons, a decrease of 5 thousand metric tons from a year earlier. Japan supplied 12 thousand metric tons, Australia and Vietnam supplied 6 and 5 thousand metric tons respectively. Flour exports in 2006/07 were 5 thousand metric tons, primarily to Hong Kong. As Taiwan companies have invested in flour mills and food processing facilities in mainland China and Vietnam, flour trade in both directions is anticipated to gradually grow despite the currently favorable tariff structure for wheat, with a significant difference between wheat (6.5 percent) and flour (13 percent).

Stocks

Taiwan ending stocks are expected remained stable along with stable imports and consumption. Stocks are anticipated to fluctuate some times along with volatile world wheat prices. Taiwan usually steps up purchases in response to increasing prices and postpones them when world grain prices fall; however, with group purchasing, Taiwan imports wheat often on a regular schedule to reduce the cost of stocks. In general, physical stocks remain at about two months of consumption, or five months if contracted wheat is included.

Policy

The MRL Issue is a potential threat to US Wheat Exports to Taiwan. Taiwan implemented revised import inspection regulations in July 2007. Bulk commodities are now subject to MRL import inspection rather than the previous monitoring inspection scheme. As of the reporting date, there have been several incidences where wheat violated Taiwan's MRLs standards. The core problem is that Taiwan has not

established enough MRLs for wheat because wheat is not a major local crop, and Taiwan has zero tolerance for un-registered agricultural chemicals. Post is currently working with Taiwan seek a solution on the MRL issue.

Cross-Straits Trade

The most serious potential threat to U.S. wheat exports is an opening to PRC flour, wheat or processed products. Bakery sector interests and some food producers who have invested in flour mills in mainland China have petitioned the Taiwan authorities to open the import market to PRC flour. Their voice is louder during the current period of high world wheat prices. In addition, the cross-strait common market is the center piece of Taiwan's economic policy under the new administration under the Ma Ying-jeou, President-elect, who will be sworn in on May 20. The Nationalist Party (Kuomintang) won both the Legislative and Presidential elections which may indicate a thaw in cross-straits relations. The relative competitive position of the sector compared with Mainland China may influence any opening of the Taiwan flour and instant noodle market.

Taiwan Buying Practices and Investment Plans

The Taiwan flour milling industry continues to import through its long-standing collective group purchasing system under which companies pool their funds and jointly bring in large grain shipments to cut costs. High ocean freights and availability of backlog containers provide some mills with opportunities to import wheat individually thru containerized shipments. According to US Wheat Associate, approximately 70,000 tons of wheat was imported thru containers in 2007, accounting for 7 percent of the total imports. At present, Taiwan has 28 mills operation with annual milling capacity of 2.35 million metric tons based on 25-working-day a month. The largest mill is newly built and started operating October 2007 with daily milling capacity 1,000 tons, the second largest is 720 tons and third has a capacity of 500 tons per day.

Section III. Corn Situation & Outlook

Table 2. Corn, Production, Supply and Demand, 1,000 MT

PSD Table

Country Commodity	Taiwan Corn						(1000 HA)(1000 MT)(MT/HA)			UOM
	2006	Revised		2007	Estimate		2008	Forecast		
Market Year Begin	USDA Official	Post Estimate 10/2006	Post Estimate New 10/2006	USDA Official	Post Estimate 10/2007	Post Estimate New 10/2007	USDA Official	Post Estimate 10/2008	Post Estimate New 10/2008	MM/YYYY
Area Harvested	7	7	7	7	7	12	0	0	30	(1000 HA)
Beginning Stocks	777	738	777	789	745	777	701	702	777	(1000 MT)
Production	37	37	37	37	37	60	0	0	150	(1000 MT)
MY Imports	4400	4850	4850	4300	4800	4500	0	0	4350	(1000 MT)
TY Imports	4400	4850	4850	4300	4800	4500	0	0	4350	(1000 MT)
TY Imp. from U.S.	4213	4800	4775	0	4750	4000	0	0	4000	(1000 MT)
Total Supply	5214	5625	5664	5126	5582	5337	701	702	5277	(1000 MT)
MY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
Feed Consumption	4200	4655	4687	4200	4655	4360	0	0	4300	(1000 MT)
FSI Consumption	225	225	200	225	225	200	0	0	200	(1000 MT)
Total Consumption	4425	4880	4887	4425	4880	4560	0	0	4500	(1000 MT)
Ending Stocks	789	745	777	701	702	777	0	0	777	(1000 MT)
Total Distribution	5214	5625	5664	5126	5582	5337	0	0	5277	(1000 MT)
	5.28571				5.28571					
Yield	4	5.285714	5.285714	5.285714	4	5	0	0	5	(MT/HA)

Production

Nearly all demand for feed grain is met by imports because without a significant production subsidy, domestically produced corn is not competitive with imports. However, beginning this year, COA is encouraging farmers to plant feed corn on portions of 220,000 hectares of fallowed land. They are targeting 12,000 hectares of production in 2007 and 30,000 hectares in 2008. This is the first initiative and planting area is limited by corn seed availability. Taiwan's feed corn production estimate is 60,000 tons for CY 2007 and 150,000 tons for 2008, compared to previous year's 37,000 tons. According to historical data, domestic corn production was peaked at 285,000 tons from 65,000 hectares of the land in 1980 under guarantee purchase price at NT\$15/kg before Taiwan joined the World Trade Organization in January 2002. The current 37,000 tons are under the guarantee purchase program. Farmers who grow corn on fallowed land are under contract farming mechanisms at market prices. According to COA, if corn prices drop below NT\$8.5/kg, then growing feed corn would be less attractive to farmers. However, if world corn prices stay as high as the current level then Taiwan's feed corn production could be further expanded.

Farmers could make profits from corn crop under the conditions that corn prices stay above NT\$8.5/kg, compared to the current price level at NT\$9.9/kg, quoted 04/22/2008. Average corn yield on Taiwan is 5 tons per hectare, about 50 percent lower than the average 2007/08 U.S. crop. Farmers could make a total revenue of NT\$95,000 per hectare added up the current land set-aside payment at per hectare NT\$45,000 and based on the current domestic corn price about NT\$10/kg.

Consumption

Except 200 thousand metric tons of corn that is wet milled to produce corn syrup, corn is for feed use. According to the industry, corn for wet milling was down by 25 thousand metric tons from the previous level of 225 thousand metric tons because industry used cheaper starch substitute for high priced corn and because a possible smaller consumption of HFCS caused by changes in consumer tastes.

Approximately 46 percent of Taiwan's feed production goes to swine production, 45 percent to poultry sector, with most of the rest goes to cattle and fishery production.

Taiwan's demand for feed corn in MY07/08 and MY08/09 are forecast to shrink two and three percent from MY06/07, respectively, in line with an expected reduction in hog production caused by increasing world corn prices and not high enough local hog prices for local hog farmers to make profits. According to COA November 2007 hog consensus, hog standing population was down by 6 percent year-on-year and down by 4 percent from last survey conducted in May 2007 to 6.64 million heads. Hog farmers continue to cut down production in an effort to push up domestic hog prices to cover high feed costs.

In March 2007, Local hog farmer worked with Coops and the National Animal Industry Foundation (NAIF) to cull 50,000 head of piglets and 20,000 head of sows to reduce supply. This COA supported hog culling projects were implemented in early April. Total feed demand for MY06/07 is adjusted accordingly to 7.4 million metric tons (See Table 4-7). In MY07/08, Taiwan further downward adjusting its hog production numbers and COA has set annual production target at 9 million heads, dropped by 400 thousand heads from the previous year.

To maintain competitiveness with imported pork while Taiwan pushes up domestic pork prices, the local hog sector pressured Taiwan authorities to ban the usage of ractopamine in meat animal production on Taiwan. Taiwan has banned ractopamine and political pressure has interrupted U.S. pork exports to Taiwan.

With respect to poultry sector, removal of poultry TRQs in 2005 sharply increased imports of poultry meat in CY2005 and CY2006. The local poultry sector has succeeded in increasing their production scale to be price competitive with imported poultry meat. Under the assumption that local production will continue to be price competitive with imports, 2008 corn demand in the poultry sector is forecast at the same level as 2007.

Corn Substitutes

Estimated feed inclusion rate for corn for MY06/07 remained at approximately 65, based on corn supply and feed production estimates. In theory, high corn prices encourage imports or usages of other feed grains such as feed wheat or barley. However, we didn't see large gains of these feed grains in market share. Corn gluten meal and cassava didn't significantly gain the share, either. Only DDGS increased by 57 percent, by approximately 50,000 tons.

- Other feed grains and cassava:

The feed inclusion rate of other feed grains combined has ranged from 3 to 4 percent in recent years. In MY06/07 Taiwan imported 76,000 tons of barley (144,000 tons in MY05/06), 64,000 tons of sorghum (69,000 tons in MY05/06), and 3,000 tons of Ukraine wheat (zero tons in MY05/06). Taiwan also had 180,000 tons of old rice available for feed use in 2007 and 100,000 tons annually in 2008. In 2007, the feed inclusion rate for other grains combined was 3.6 percent, increased one percent from a year earlier. Cassava imports (HS1108.14) and its assumed inclusion rate has been rather stable, 4.5 percent in the MY06/07 and 4.3 percent in MY05/06.

- Distillers dried grain (DDGS) and Corn Gluten Meal (CGM):

Distillers dried grain (DDGS) and corn gluten meal (CGM) imports continue to increase, and substitute for corn and/or soybean meal. In MY06/07 DDGS imports were 151 thousand metric tons, of which only 36 thousand metric tons at average CIF \$179/mt were imported under HS2303.30 on 3 percent tariff rate and 115 thousand metric tons at CIF \$181/mt under HS2306.70 on zero percent tariff. Corn gluten meal

imports in MY06/07 were 93 thousand metric tons at average CIF \$245/mt under HS2302.10 on zero percent tariff. Reportedly, some DDGS were imported under HS2302.10 for zero percent tariff. MY06/07 DDGS and CGM import combined were up by 57 percent from a year earlier to 244 thousand metric tons.

Taiwan Feed Industry Association has petitioned Taiwan authorities for zero tariffs on DDGS under HS2303.30, and it is expected that Taiwan authorities will grant zero tariff rate on DDGS imports soon to benefit local livestock sectors by increasing their competitiveness with pork and poultry meat imports. In the meanwhile, Taiwan authorities at the Ministry of Finance (MOF) implemented a 50% temporary tariff rate reduction for imports of DDGS for one year to tackle high feed corn prices, effective August 6, 2007 thru August 5, 2008. Imports of DDGS are anticipated to increase further in MY07/08. However, Taiwan authorities, in an effort to tackle high grain prices, also exempted a 5 percent VAT value-added business tax on corn, wheat, barley and soybeans, effective March 10, 2008 thru March 9, 2009, which could encourage feed corn imports as well and could offset price benefits from a 50 percent tariff reduction on DDGS.

Stocks

Taiwan is a stable net corn import market, and in general, its stock levels remain around two and a half months of consumption, including landed stocks and stocks still on the water, to secure supplies and reduce costs.

With increasing containerized corn shipments to Taiwan, and difficulties in managing the flow of containers, Taiwan has had low stock levels due to delays in container shipments. The MY06/07 ending stocks are lower than the normal level due to Taiwan importers' hesitation after corn prices spiked in September 2007. The Taiwan livestock sector was facing double prices pressure from high world corn prices and lower domestic hog prices (refer to the table below). This has contributed to hesitation among importers during the third quarter of 2007. High corn prices with low corn stocks were attributed to Taiwan's temporarily opened market for PRC corn imports, effective October 1, 2007.

Year	c.i.f. U.S. corn price	Domestic wholesale corn price	Commercial Hog feed price for finisher	Hog Auction Price in 100-kg-head
2005 Average	\$144/mt	NT\$6.16/kg	NT\$10.24/kg	NT\$5,323
2006 Average	\$149/mt	NT\$6.44/kg	NT\$10.39/kg	NT\$4,918
2007 Average	\$201/mt	NT\$9.17/kg	NT\$12.01/kg	NT\$5,146
March 2008 Average	\$292/mt	NT\$11.3/kg	NT\$14.50/kg	NT\$6,387
Source: Council of Agriculture & Taiwan Customs (Current exchange rate: \$1 = NT\$30.3)				

Trade

Estimated corn imports for MY07/08 are 4.5 million metric tons, down by 300 thousand metric tons from a year earlier. U.S. share is estimated to drop by 10 percent to 88 percent because of 200 thousand metric tons of corn imports from the PRC, 240 thousand metric tons of corn imports from India, and a small increase in domestic production.

Corn imports for MY08/09 are forecasted at 4.35 million metric tons. The further reduction in Taiwan's import demand is attributable to an increase in domestic corn production. However, U.S. share is anticipated to mildly increase because of uncertain import supply from mainland China. Taiwan temporarily lift import ban on PRC corn from October 1, 2007 thru the end of 2008.

The United States has enjoyed at least a 95 percent share of total imports for number of years and is expected to remain the principle corn supplier, although high prices may slightly erode market share by encouraging experimentation with feed wheat or corn from new origins. High corn prices usually spur small-volume corn imports from non-U.S. sources, with Argentina being the largest competitor. PRC and Thai corn are also expected to enter Taiwan in small amounts along with minor shipments from Southeast Asia.

During the forecast period, the largest potential threats to the U.S. corn market in Taiwan are increasingly competitive South American corn exports to Taiwan and a steeper than expected decline in the Taiwan hog sector. Geographical proximity, the availability of smaller shipments in bulk and improvement in the cross-strait relationship could create opportunities for PRC corn in the future. However, increasing container shipments of U.S. corn is likely able to compete with PRC corn in small bulk shipments. According to local industry, approximately 42 percent of corn was shipped to Taiwan in containers in CY 2007, compared to 16 percent in 2006. In first three months of 2008, approximately 60 percent of corn was shipped to Taiwan via containers according to the Taiwan trade. Containerized shipments provide Taiwan importers and U.S. exporters market opportunities along with problems in logistics and document delays. In September 2006, many corn containerized shipments were stuck at the ports of entry due to delays in the delivery of phytosanitary certificates. There were also cases of incorrect shipping documents due to incorrect container or serial numbers. This drove up domestic corn prices and the swine industry petitioned Taiwan authority for lifting import bans on PRC corn for the period of November 20 to February 28, 2007. Now, Taiwan ports accept photocopies of documents for split container shipments. Presently, customs clearance is smooth but the arrival date of containerized grain shipments is not as certain as that of bulk shipments, which are easy for the trade to schedule. In September 2007, delays of corn imports due to these factors may have increased prices, and hog farmers petitioned the government to open the Taiwan market to PRC corn imports. By doing so, Taiwan hopes to reduce high ocean freight cost and diversify its corn import supply. This market opening to PRC corn will last longer than a year.

Trade Policy - Cross-Straits Trade

In October 2002, Taiwan allowed the entry of PRC corn, giving China its first opportunity to enter the Taiwan market. So far, Taiwan has authorized limited imports of many Chinese food products to make up for local shortages, although there is a trend to liberalize imports from China. PRC corn has only been allowed entry during five periods:

- October - December 2002, with imports of 71,000 tons
- November 2003 - January 2004, with imports of 67,502 tons.
- March - May 2004, with imports of 22,946 tons.
- November 20, 2006 – February 2007, with zero imports
- October 1, 2007- March 31, 2008, with imports of 26,000 tons
- March 31, 2008 – December 31, 2008 – with estimate imports of 174,000 tons

Taiwan authorities, wishing to lower food price inflation, are likely to continue keeping the Taiwan market to PRC corn after the end year if world corn prices stay high. In fact, PRC authorities have approved 200 thousand metric tons corn for export to Taiwan with exemption of export tariff. It is anticipated that the full amount of 200,000 tons of PRC corn will enter Taiwan by the end of 2008. Cross-strait relations are improving after March 22 presidential election, the opposition party Nationalists (Kuomintang –KMT) won the election. The KMT has established an agricultural forum with PRC Communist Party since April 2005 to help Taiwan farmers export their products to the mainland China with expedite Customs clearance, distribution and marketing arrangements. Hog farmers suggested that Taiwan should keep the market open for PRC corn to help them cut down hog production cost and to make local pork products competitive in the PRC high end markets. However, COA-designate Chairmen Chen also revealed his new vision on Taiwan's agriculture that the current bans of imports of the 831 agricultural items from PRC will remain the place when he referred to establishing consistent exporting and marketing channels to enter the export market on PRC.

If the ban were lifted, the geographic proximity of Northeast China to Taiwan could allow smaller shipments, faster delivery and lower carrying costs for Taiwan importers, compared to import cost of U.S. corn. PRC shipments could also make it possible for small firms to import corn independently of the traditional major buying groups. On the other hand, China's advantage in making small bulk shipments may be offset by U.S. feed grain supplier's ability to use containerized shipments to supply Taiwan. Very low container backhaul rates to Taiwan from the U.S. could make it an attractive prospect for U.S. grain

exporters. However, recent press reports indicate that competition for containers among U.S. exporters is increasing.

Livestock Initiatives- Traceability and Safe Domestic Products

To adjust to post-WTO trade conditions and 2005 import liberalization, Taiwan livestock and feed industries are working to improve the competitiveness of Taiwan poultry and swine production. The National Animal Industry Foundation (NAIF) was formed in January 2000 to support the differentiation between locally produced chicken and pork products from imported products by establishing logos related to freshness and taste. The Taiwan Council of Agriculture (COA) is also attempting to improve the quality of domestically produced meat and poultry products in order to compete more effectively with imported products. COA has also worked to reestablish Food and Mouth Disease (FMD) free status in order to resume pork exports to Japan. FMD free status without vaccination is scheduled for August, 2008 in trial areas. In addition, COA is promoting a traceability system to differentiate locally produced meats from imported products, and to market local products on the basis of freshness, safety and quality.

In 2006, to ease consumer's fears of local supplied pork adulterated by diseased pigs, Taiwan agricultural authorities took the initiative to establish a livestock insurance program. Approximately two thirds of the hog population has joined the newly initiated livestock insurance program, which compensates farmers for disposal of diseased pigs in an effort to prevent illegal pork from dead pigs entering the food supply.

In early 2007, Taiwan agricultural authorities set up a compensation program for depopulated hogs when the market signals an over supply. Farmers are required to register the size of their herds in order to participate in the program. Broilers, hens for egg production and other crops are also included in this balance supply-and-demand compensation program. It is anticipated that the Taiwan livestock and poultry sectors will "stabilize" and keep out the imports of pork and poultry products.

Biotechnology Update

The proposed Biotech Basic Law is no longer being actively considered and Taiwan is probably moving toward a U.S. style interagency approach.

Taiwan notified the WTO on November 21, 2007 of its revised draft biotech evaluation guidelines G/SPS/N/TPKM/117. DOH's BFS has compiled all received comments to the draft guideline and it will be announced by end year. The guidelines on stacked traits will be announced by the end of 2008, too. Early reports are that the guideline is similar to Japan and Mexico and if there is no interaction between stacked events and the events have already been approved additional reviews will not be required. By the end of 2008 DOH expects to extend its regulatory regime to biotech crops other than corn and soybeans. DOH has also funded a Consultative Center for local crop developers to go to for help in going through the food safety regulatory process.

The current Taiwan agricultural biotechnology regulations are only applied to soybeans, corn and products. No bioengineered soybeans or corn may be produced, processed, prepared, packed, and imported or exported unless they are registered. All bioengineered varieties of soybeans and corn must be registered and approved by DOH Food Safety Bureau (FSB). As of reporting date, Taiwan has approved 17 of the most widely commercialized bioengineered corn and soybean events. A list of these 17 biotech varieties can be found at:

<http://food.doh.gov.tw/chinese/info/gmo4.asp?idCategory=242>

Taiwan implemented regulations for LMOs under the terms of its recently amended Plant Variety and Plant Seed Act, which went into effect June 9, 2005. Its related regulations and rulings can be found at:

<http://law.moj.gov.tw/eng/fnews/Fnmore.asp?lawType=c>.

The “Rules for Approving Import/Export Transgenic Plants” were announced on July 7, 2005. Commodities for food, feed and processing use have been excluded from the ruling and are not required to apply for additional approval registration to the Taiwan authority at the Bureau of Animal and Plant Health Inspection and Quarantine (BAPHIQ).

U.S. – Taiwan Goodwill Missions

Taiwan set a “Goodwill Delegation” in June 2007. Taiwan bulk commodity importers signed non-binding Letters of Intent to import a total of at least 1.7 million metric tons of wheat, 7.5 to 10 million tons of corn and 2.8 to 3.2 million tons of soybeans in 2008 and 2009, which indicated Taiwan’s demand for corn and wheat imports remain unchanged from two years ago, whereas there was a 200 to 400 thousand tons increase in soybean demand.

Section IV. Rice

Table 3. Rice Production, Supply and Demand, 1,000 MT

PSD Table

Country	Taiwan									UOM
	Rice, Milled									
Commodity	(1000 HA)			(1000 MT)			(1000 MT/HA)			
	2006	Revised	Post Estimate	2007	Estimate	Post Estimate	2008	Forecast	Post Estimate	
Market Year Begin	USDA Official	Post Estimate 01/2006	Post Estimate New 01/2006	USDA Official	Post Estimate 01/2007	Post Estimate New 01/2007	USDA Official	Post Estimate 01/2008	Post Estimate New 01/2008	MM/YYYY
Area Harvested	263	263	263	258	258	265	0	0	268	(1000 HA)
Beginning Stocks	336	336	336	284	284	294	301	301	272	(1000 MT)
Milled Production	1100	1110	1110	1044	1044	1012	0	0	1130	(1000 MT)
Rough Production	1580	1595	1558	1500	1500	1454	0	0	1614	(1000 MT)
Milling Rate (.9999)	6960	6960	7126	6960	6960	6960	0	0	7000	(1000 MT)
MY Imports	101	101	101	166	166	128	0	0	126	(1000 MT)
TY Imports	101	101	101	166	166	128	0	0	126	(1000 MT)
TY Imp. From U.S.	0	51	51	0	90	66	0	0	60	(1000 MT)
Total Supply	1537	1547	1547	1494	1494	1434	301	301	1528	(1000 MT)
MY Exports	20	20	20	20	20	43	0	0	20	(1000 MT)
TY Exports	20	20	20	20	20	43	0	0	20	(1000 MT)
Total Consumption	1233	1243	1233	1173	1173	1119	0	0	1208	(1000 MT)
Ending Stocks	284	284	294	301	301	272	0	0	300	(1000 MT)
Total Distribution	1537	1547	1547	1494	1494	1434	0	0	1528	(1000 MT)
Yield (Rough)	6.007605	6.064639	5.923954	5.813953	5.813953	5.486792	0	0	6.022388	(MT/HA)

In each year, there only are minor variations in production areas and yields. An 8 percent decrease in 2007 production was due mainly to significant typhoon damage.

Under the current WTO agreement, the rice TRQ quota amount is 144,720 tons on a brown rice basis (127,000 tons on a milled basis). Out-of-quota imports do not occur because of the very high out-quota-tariff rate of NT\$45/kg. Taiwan produces about 90 percent of the corn it consumes, and has set a rice production target that is slightly above one million tons on a target area of 258,000 hectares. Local farmers may increase production on fallow land in the 2008 second crop if Taiwan rice prices increase. Because of Taiwan's rice policy, Taiwan consumers have paid about twice the world price purchase rice, and the idea that world prices would rise to Taiwan's level was laughable. Taiwan rice prices are still largely isolated from world rice prices, but it is now conceivable that world rice prices could rise to a level that they would begin to influence Taiwan prices.

The rapidly increasing and high international price of rice has caused public sector rice tenders to fail however. This is due to the authority's use of a calculated ceiling price that is unable to adapt to such market conditions. This has caused significant delays in the completion of the public sector tender process. Taiwan has not yet completed the 2007 process, and will now have to pay significantly more for rice than it would have last year due to the ceiling price problem.

Consumption

Per capita milled rice consumption in 2006 was 48.04 kilograms, down by 0.56 kilogram over a year earlier. Per capita consumption of rice has been gradually decline while wheat consumption is increasing. According to Taiwan's Council of Agriculture (COA) Food Balance Sheet, per capita consumption of wheat

is 33.18 kilogram and rice 50.10 kilogram in 2001 compared to 2006's 36.78 kilogram of wheat and 48.04 of rice. However the rice and wheat consumption trend may invert in 2008 because flour price surged approximately 60 percent (quoted on April 14 the same brand medium protein all purpose wholesale 22 kilogram bag flour) to a 16 percent increase of average retail milled rice price, on a year-on-year basis.

COA has said that if wheat/flour price doubled, Taiwan will promote rice consumption to replace wheat/flour. Government has commissioned the China Grain Product Research and Development Institute (CGPRDI) in develop formulas for baking products and noodles with rice flour substitute portions of wheat flour.

Market promotions are likely to increase total demand for rice with high wheat prices. In general, local consumers recognize significant differences between varieties, origins and crop years. In addition to human consumption, there is some old rice for feed use, about 180,000 tons in 2007 and forecast 100,000 tons in 2008. Taiwan livestock and feed industry strongly petitioned the Taiwan agricultural authority to release three-year-old or older rice for feed use whenever corn prices surged.

Stocks

- built by existing pre-set price purchase programs and public sector imports under normal tender mechanism-maintained thru public stocks

Estimated Taiwan ending rice stocks are fell in 2007 because of a delay in public rice imports and an increase in market release from public stocks. In the first three month of 2008, average rice price on Taiwan market has gone up about 28 percent compared to the corresponding period in 2007. Taiwan has increased public stocks release to stabilize the market. As of reporting date, government has announced the release of 10 batches of public stocks of both imported and domestic rice to the market thru auctions. The Food Administration Act stipulates three-month food security stocks on a basis of previous consumption level.

Trade

- Import Regime: TRQs since 2003 see table 4 & 5

In June 2007, Taiwan implemented a country specific quota (CSQ) regime for the rice imported under the public sector quota.

The Taiwan rice Tariff Rate Quota (TRQ) of 144,720 tons on a brown basis is divided into two portions, 35% for private sector imports and 65% for public sector imports. The quota for private sector imports is divided into three auctions. The auctions to bid for 2008 quota are scheduled for November 2007, February and April 2008, respectively. As for the 65% quota for public sector imports, it is divided by both country of origin and tender type: Simultaneous-Buy-Sell (SBS) and traditional tender. SBS tendering is subject to a markup price (a flooring price); and traditional tendering is subject to a pre-set ceiling price calculated on a basis of DDP (delivery, duty paid) terms and rice is delivered to designated COA warehouses in accordance to contract term. COA's has built air conditioned warehouses in northern, central and southern, respectively to accommodate 34,000 tons of public imported rice. COA plans to build more air-conditioned warehouse to store imported rice to maintain the rice quality.

Table 4. The 2008 Private Rice Quota Allocation Schedule & Results

PRODUCT NAME	QUOTA AMOUNT	QUOTA VALIDITY DURATION	ALLOCATION DATE	AVERAGE BID PRICE	MAX. BID PRICE	MIN. BID PRICE	# OF ALLOCATIONS
Rice	15,000 mt	Jan. 1/ Sept. 15	Nov. 23	NT\$9.613	NT\$15.000/kg	NT\$9.012/kg	28
	20,652 mt	March 1/ Sept. 15	Feb. 27	NT\$9.071	NT\$12.800/kg	NT\$8.704/kg	34

	15,000 mt	May 1/ Sept. 15	Apr. 30	NA	NA	NA	NA
Total	50,652 mt						

Table 5. The 2008 Public Rice Quota Tender Schedule & Results

Tender Type	Tender Schedule	Tender Quota
SBS - batch one	January/March	15,000 tons
SBS – batch two	In August	10,000 tons
Total SBS Quota: 25,000 tons		
Traditional Tender	Pending	69,068 tons
Total Traditional Tender Quota: 69,068 tons		
Total TRQs for Public Import: 94,068 (65 percent of the total TRQs)		
CSQs: The United States: 64,634 tons Australia: 18,634 tons Thailand: 8,300 tons Egypt: 2,500 tons		

- Public Sector Imports: 94,068 tons

Taiwan is behind on its 2007 and 2008 public sector imports. As of April 2008, Taiwan has only contracted for 50 percent of its 2007 quota for public sector imports under traditional tendering, a total of 38,017 tons out of the 74,068 tons to be tendered. Given the current high world rice price, Taiwan may not fill its remaining 2007 quota before northern hemisphere harvest. Tender for the 20,000 tons of 2007 quota under the Simultaneous-Buy-Sell (SBS) regime had completed in November 2007.

With respect to the 2008 public sector import quota, of which 25,000 tons will be tendered under SBS system and 69,068 tons under normal tendering. As of the reporting date, Taiwan had completed the 15,000 tons SBS tender and second batch of 10,000 tons SBS tender will be scheduled for August 2008. However, Taiwan has not yet announced its tender schedule for the 2008 public sector import quota under normal tendering.

- Private Sector Imports: 50,652 tons

Under the TRQ, importers bid for quota rights that are sold to the highest bidder. Using the so-called "System Three" quota bidding system, Taiwan has successfully allocated all 50,652 mt (brown basis) of its annual private sector import quota rights to local importers since Taiwan's entry to the WTO in 2002.

Taiwan has allocated two-third of its 2008 quota rights to 62 importers with the bid prices ranging from NT\$8.704/kg to NT\$15.000/kg (brown basis). The remaining one-third of the 2008 private sector import quota will be allocated on April 30 thru competitive bidding. As private rice quota tender, unlike public rice tender, attracts large enough participants in the bidding, Taiwan has no problem to allocation import quota rights to interested rice importers thru competitive tendering. The cost for quota rights reflects conditions in the local and international rice markets – higher local relative prices make import rights more valuable and vice versa. However, the recent spiked world rice price is anticipated to have negative influence on Taiwan importers' rice import decision. Especially, Taiwan imports rice just for fulfilling its WTO obligation.

- Total 2007 Imports

According to Taiwan Customs arrival data, Taiwan imported 128,660 tons of rice in 2007. Of this total imports, private and public sector combined, the United States had a 52 percent share, Thailand 35 percent, Vietnam 9 percent and Egypt 4 percent. As Taiwan continued delaying public sector imports, it is difficult to trace back how much imports are actually under which year's quota. However, the private quota has been 100 percent filled. According to COA 2007 private quota application date, Thailand captured 68 percent of the 2007 total Taiwan private sector rice imports, followed by Vietnam 20 percent, Egypt 8 percent, and Australia less than one percent.

- Total 2007 Exports

Taiwan stopped selling surplus rice onto the world market at discounted prices after WTO entry in January 2002. Instead, Taiwan has food aid rice exports and insignificant commercial exports.

In 2007, commercial exports amounted to 352 tons (milled basis), of which 180 tons or 51 percent was destined for Japan and 114 tons or 32 percent to Hong Kong. Taiwan's rice industry was very proud of entering the Japan market since its exports meet Japan's sanitary standards, one of the most stringent in the world. Taiwan authorities and growers have used this Japan trade to promote domestically grown rice to local consumers.

Taiwan also sent 46,200 tons of rice (milled basis) as food aid to needy countries in 2007 to control stocks. (See Table 8 for details.)

Marketing

To be competitive with imported rice, Taiwan rice administration, the Agriculture and Food Agency (AFA) under the Council of Agriculture (COA) has been working with local rice millers/farmers to improve quality under a voluntary Taiwan Good Rice Program in terms of specialty rice variety and freshness with township geographical indication. Market diversity can be indicated on retail price differences between high and low end branded rice packages, March 2008 average price was maximized at NT\$380/kg and minimized at NT\$30.80/kg. Taiwan is a dynamic and vibrant rice market.

Policy

- Stringent Import Inspection

Taiwan implemented in July its revised food import inspection regulation. However, this will not impact rice imports. Taiwan's implementation of stringent rice import inspection since Taiwan opened its market of rice import in January 2002. Imported rice continues to be inspected on a lot-by-lot basis for pesticide residues, heavy metal and aflatoxin by the Bureau of Standards, Metrology and Inspection (BSMI). As a result, all imported rice, especially U.S. rice, bears high quality with one hundred percent compliance with Taiwan's import standards for rice. Corn and wheat shipment had been detained at the ports of entry due to violation against Taiwan's maximum chemical residues standard.

- Three Rice Purchase Programs

Taiwan authorities at the Council of Agriculture (COA) increases NT\$2/Kg of the pre-established rice purchase prices, effective 2008 Crops.

To reflect increasing farming input prices and an approximate 10 percent increase in domestic rice price, Taiwan authorities at the Council of Agriculture (COA) raised NT\$2/Kg of three rice purchase programs: guaranteed purchase program, guidance purchase program and surplus purchase program, effective 2008.

These three rice purchase programs are all voluntary under which farmers can sell rice to Taiwan central authorities for pre-established prices: the guaranteed purchase program since 1974, guidance purchase program since 1978 and surplus program since 2003. The surplus purchase is newly added program. In

Taiwan's second year of the WTO accession, domestic rice price dropped below the break-even point because Taiwan allows market access of 144,720 tons of imported rice. In October 2003, COA allocated a NT\$2 billion from the Import Relief Measure funds to purchase additional paddy rice to stabilize the local rice market. The eligible amount of surplus purchase is set at 3,000 kg/ha for the spring crop and 2,360 kg/ha for the second crop. These were calculated on the five-year, 1998-2002, average production level minus the existing two purchases. The surplus purchases were triggered by declining paddy rice prices that slipped below the five-year average level of NT\$15.6/kg, now NT\$17.6/kg. The surplus purchases have pushed up the paddy rice price to NT\$16.2/kg on December 12, 2003, and keep above ever since. With the new surplus purchase price, it will push the domestic paddy rice price above NT\$17.6/kg in 2008. The average paddy price in March 2008 was NT\$23.57/kg for Japonica rice and NT\$21.50/kg for Indica rice. Compared to the new high CBOT July futures rice price at \$25/CWT (NT\$16.69 equivalent at the current exchange rate \$1=NT\$30.3), Taiwan grown rice still higher than the world price under the current voluntary purchase programs.

Sales under these programs are limited to certain quantities per hectare. If a farmer were to sell the maximum per-hectare quantities allowable under these programs, program sales would roughly equal to the production. The actual purchases combined were 247,000 tons in paddy, accounted for 16 percent of the total production in 2006. Taiwan government spend NT\$5.06 billion for rice purchase in 2006, of which 216,000 tons under the guaranteed purchase (NT\$21/kg), 29,000 tons guidance purchase (NT\$19/kg), 244 tons under surplus purchase (NT\$15.6/kg) and one thousand of weather damaged rice. The rice purchase is included into Taiwan's Aggregate Measure of Support (AMS) Bound Commitment Levels, NT\$14,165.15 million. Taiwan submitted the WTO its total 2003 AMS totaled NT\$7.6 billion.

An increase of NT\$2/Kg of Taiwan's rice purchases is estimated to increase \$16 million on its AMS payment if calculated at the total 2006 purchased tonnage and at \$1 to NT\$30.3 exchange rate.

Rice Reform Plan –

COA will revise its production policy to adopt high food prices

Taiwan was at one time considering moving to a policy that directly supports farmer income and away from its current policy of protecting high domestic rice prices via a rice purchase mechanism and a prohibitive out of quota tariff.

The direct payment program in Taiwan's proposed rice policy reform plan consists of a fixed payment and an adjustable payment. The objective of the rice policy reform is to provide rice farmers with the same level of income as rice farmers under the current purchase program and to be compliant with the putative outcome of the Doha Round. The possibility of switching the current rice purchase program to a direct payment program was included in Taiwan's agricultural policy new movement under the going-away administration, announced by the Council of Agriculture (COA) Minister Su in July 2006 (refer to TW6022). Rice policy reform had been once a topic of discussion in meetings between Taiwan's agricultural officials and Taiwan rice farmers and industry representatives. However, COA later decided to call off the rice reform plan because of approaching legislative and presidential elections in early 2008. From the outcomes of these elections, the ruling party (Democrat Progress Party, DDP) lost both elections to the Nationalist Party (Kuo-ming-tang, KMT)

The new president-elect Ma Ying-jeou will be sworn in on May 20. The new administration will officially announce its new agricultural minister and new agricultural policy. Given the current concern of world food security, people will not consider the former DPP administration's rice reform plan. Besides, the Taiwan Food & Agriculture Agency (AFA) under COA now feels very proud of Taiwan's current rice purchase programs which stabilize the Taiwan rice market and ensure domestic rice supply in spite of the fact that Taiwan is still paying far more for rice – even at today's very high prices - then it would otherwise. There is no concern of food security on Taiwan because of a 90 percent of rice self-sufficient rate. Taiwan also has approximate 220,000 hectares of set-aside paddy field, which indicates Taiwan has rice production capacity of almost two fold of the current production level.

Section V. Statistical Tables

Table 6. Corn Domestic Wholesale Prices, 2006-07.

Taiwan			
Corn			
Prices in	NT dollar	per uom	100 kilogram
Year	2007	2008	% Change
Jan	820	1142	39%
Feb	826	1123	36%
Mar	842	1169	39%
Apr	847		-100%
May	889		-100%
Jun	910		-100%
Jul	900		-100%
Aug	871		-100%
Sep	911		-100%
Oct	993		-100%
Nov	1095		-100%
Dec	1006		-100%
Exchange Rate	NT\$30.39	Local Currency/US \$	
Date of Quote	4/14/2008	MM/DD/YYYY	

Table 7. Pork Imports vs Domestic Production and Wholesale Market.

Year	Pork Imports in 1,000 mt		Domestic Pork Production in 1,000 head	Auction Price in NT\$/100kg-head
	Meat (HS0203)	Offal (HS0206 & others)		
2005	26	28	9,500	5,352
2006	18	27	9,650	4,918
2007	14	24	9,400	5,146
2008 (FORE.)	12	16	9,000	6,300
<p>Source: Council of Agriculture (COA) and Taiwan Customs Statistics. Hog target production for 2008 is adjusted down by 2 percent from 2007 due to high feed price and hog farmers plant to increase domestic hog price by cutting production and blocking pork imports by urging authority to ban domestic use of ractopamine and impose low detection level of ractopamine residue.</p>				

Table 8. Total Poultry Meat Imports vs Domestic Production

Year	Poultry Meat Imports in 1,000 mt (HS0207)	Domestic Poultry Production in 1,000,000 birds	Farm Price in NT\$/kg
2005	88	378	36.81
2006	105	390	33.71
2007	63	377	36.55
2008 (ESTL.)	96	370	43.00

Source: Council of Agriculture (COA) and Taiwan Customs Statistics.

Table 9. Feed Production for 2005-2008 in 1,000 mt

FEED PRODUCTION	2005	2006	2007 (ESTL.)	2008 (FORE.)
Total Compound Feed Produced	7,559	7,658	7,467	7,400
by commercial producers	5,099	5,189	5,059	5,000
by integrated producers	2,460	2,470	2,408	2,400

Source: Council of Agriculture (COA).

Table 10: Import Duty Scheme (Corn, barley and sorghum are on Zero tariff rate)

Commodity/HS Code	Rate	Temporary Rate: Temporary 50% cut rate starting August 6, 2007 thru August 2008	Proposed New Rate, pending Legislative Approval
Drum wheat for feeding/1001-1000-10-3	6.50%	3.25%	Zero Percent
Other drum wheat/1001-1000-90-6	6.50%	3.26%	Zero Percent
Soft wheat for feeding/1001-9000-10-6	6.50%	3.25%	Zero Percent
Other wheat and meslin/1001-9000-90-9	6.50%	3.25%	Zero Percent
Wheat flour/1101-0010-00-4	17.50%	8.75%	Zero Percent
Maiz flour/1102-2000-00-1	6.00%	3.00%	Zero Percent
Groats of wheat/1103-1100-10-9	20.00%	10.00%	Zero Percent
Meal of wheat/1103-1100-20-7	20.00%	10.00%	Zero Percent
Groats and meal of corn/1103-1300-00-9	10.00%	5.00%	Zero Percent
Flour and meal of soya beans/1208-1000-00-6	3.00%	1.50%	Zero Percent
Brewing or distilling dregs and wastes/2303-3000-00-4	3.00%	1.50%	Zero Percent

Table 11. Milled Rice Prices 2007-08

Prices Table			
Country	Taiwan		
Commodity	Rice, Milled		
Prices in	NT Dollar	per uom	100 kg
Year	2006	2007	% Change
Jan	3498	3410	-3%
Feb	3503	3403	-3%
Mar	3488	3401	-2%
Apr	3437	3334	-3%
May	3394		-100%
Jun	3386		-100%
Jul	3397		-100%
Aug	3399		-100%
Sep	3420		-100%
Oct	3420		-100%
Nov	3416		-100%
Dec	3416		-100%
Exchange Rate	33.16	Local Currency/US \$	
Date of Quote	04/19/2007	MM/DD/YYYY	