USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Scheduled Report - public distribution

Date: 10/31/2008

GAIN Report Number: TW8056

Taiwan

Dairy and Products

Annual Report

2008

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Report Highlights:
Imports of most dairy products declined in 2007 and 2008 due to high international prices. In 2007, China made significant progress in exporting to Taiwan on several items but these products faced import suspensions following the crises surrounding melamine tainted dairy products beginning in September 2008, which also resulted in a new, temporary test report requirement for imports from all sources in three categories: milk powder, infant formula, and creamers.

New Zealand was recently granted a waiver from the new melamine-free test report requirement after submitting safety and testing system documentation, with other supplier's reportedly considering similar submissions to facilitate trade in the impacted categories.

New Zealand and Australia remain the key players in supplying dairy products to Taiwan. Owing to price and shelf-life constraints, U.S. fluid milk, milk powder and butter are not competitive and the market share is insignificant. U.S. dairy industry group's marketing endeavors have focused on those products that are competitive in this market, like cheese, whey powder or lactose. U.S share of Taiwan's cheese imports have been increasing.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Production
Taiwan's tropical and sub-tropical climate is not the best environment for dairy production. Other than fresh fluid milk, Taiwan produces no dairy products (powdered milk, cheese, whey, etc.) in commercial quantities.

In 2007, a total of 322,349 mt of cow's milk was produced from 597 registered dairy farms. Production levels in 2008 will remain around 2007 levels but is forecast to increase slightly in 2009. Taiwan's goat milk production totaled 17,774 mt in 2007. Production levels are expected to continue to decline in 2008 and 2009.

Taiwan's dairy farmers struggled to combat global price hikes on feed like their counterparts elsewhere in the livestock industry. To help mitigate the high cost of feed, in mid 2007, the Taiwan agricultural authorities helped raise the purchase prices for raw milk paid by processing plants to farmers, by NT$3/kg. These prices, NT$18.24/kg for winter season (December to March); NT$25.73/kg for the summer season (June to September); and NT$23.73/kg for the warm season (April, May, October and November) remain unchanged in 2008. (Exchange rate was NT$32.85=US$1 in 2007; roughly NT$30.5=US$1 in the first 8 months of 2008.)

According to the Council of Agriculture (COA), one dairy cow generated NT$30,483 (US$928 equivalent) of income in 2007. This represents a 30 percent decline from 2006 levels largely due to the high cost of feed inputs. The high cost of feed caused some dairy operations to use inferior feed stock that resulted in lower milk output thus adding to the decline in income. Also depressing income were lower prices paid for spent cows and young steer. Milk production tends to be highest during the cooler winter months (October through March) while consumption patterns for fresh milk run in reverse, peaking in the summer months.

The melamine-contamination scandal in China during the fall of 2008 is having major repercussions in Taiwan generating heavy media coverage and impacted policies regarding local milk production, demand and imports. Findings of low-level melamine contamination in various products including international brands caused Taiwan consumers to fear imports especially those sourced from China and boosted demand for domestic milk resulting in calls by the domestic industry to expand the scale of production. However, a major hurdle for expansion of local production is the dependency on imports for almost all inputs, seedstock, feed, etc.

Consumption
There are 19 dairy processing plants in Taiwan, but three processors account for more than 70 percent of production of raw milk into consumer-ready fresh milk.

The COA reported a 47 kg per capita consumption of fluid milk, including reconstituted milk, in 2007. The 2007 data for other dairy products is not available yet but historical per capita consumption for milk powder would be about 4 kg and that for butter would be less than 1 kg.

The relatively expensive locally produced fresh milk is virtually all for direct consumer consumption, including some limited flavored milk and yogurt drinks. The only measurable processed dairy product is milk powder produced by one processing plant out of surplus milk during the low consumption winter period. Annual production of milk powder is estimated at 1,000 mt (out of 8,000 mt of raw milk) during the winter time. Demand of other dairy products is met by imports.

Taiwan's dairy industry incurred a less profitable year in 2007 and witnessed rollercoaster changes in demand for fluid milk in 2008. During the beginning of 2008 consumption of domestically produced milk was low causing oversupply in fluid milk that in-tern caused the production of domestic milk powder to double from 1,000 to 2,000 mt spurring a government buy-out program that called for the culling of 2,000 dairy cows. However, because of concerns over melamine tainted milk products the demand and prices for locally produced milk increased. With increased demand for domestic fluid milk no milk powder production is expected in 2009.

Trade

I. Overall Dairy Products

New Zealand and Australia remain the key players in supplying dairy products to Taiwan. Owing to price and shelf-life constraints, U.S. fluid milk, milk powder, and butter are not competitive and the market share is insignificant. The U.S. dairy industry group's marketing endeavors have focused on those products that are competitive in the Taiwan market, like cheese, whey powder, and lactose.

Imports of most dairy products declined in 2007 and thus far in 2008 due to high international prices. In 2007, China made significant progress in exporting to Taiwan on several items but these products faced import suspensions over melamine detection beginning in September 2008. The Taiwan trade is expected to be extremely cautious about returning to Chinese sourced products if/when the current ban on imports is lifted, since it will take time to repair consumer confidence in these products.

Local dairy industry sources indicate that because of higher southern hemisphere prices, Taiwan buyers have begun shifting their source of the supply of some specialty dairy items to the U.S. Cheese imported from the U.S. accounted for 11% in 2007 and 14% in the first three quarters of 2008 vs. 7% in 2004 and 8% in 2005.

II. Fluid Milk

Following Taiwan's WTO accession on January 1, 2002, imports of the formerly-banned fluid milk was made subject to a Tariff Rate Quota (TRQ) and Special Safeguards (SSG) controls. Fluid milk imports are primarily in UHT format, which is considered by most Taiwan consumers to be of lower quality and poorer taste than domestically produced fresh fluid milk. Except for very limited amount of organic milk for the high-end niche market, there has been no U.S. sourced fluid milk in the Taiwan market.

Tariff-Rate Quota

The current 21,298 mt annual TRQ for fluid milk represents the final increase in Taiwan's WTO accession agreement. Taiwan administers the fluid milk TRQ under "System 2" rules, under which import rights are auctioned once a year. All importers and exporters registered with Taiwan's Board of Foreign Trade (BOFT) are eligible to bid on quota rights. There are no performance bonds and quota rights go to bidders who offer the highest prices. Quota allocation certificates serve as automatic import licenses for products imported under the TRQ. In Taiwan's annual bidding for the 2008 TRQ, held in November 2007, only 4,768 mt (22% of the 21,298 mt TRQ size) was successfully sold to 7 companies. The 16,530 unbidden quota had to be retendered in September 2008 but only 300 mt was sold to one bidder. The demand has been low and importers reportedly were able to win the bid by only paying the non-refundable minimum tender operation fee (NT$500/mt). Preliminary import data indicated that only 2,762 mt was imported under the 2008 TRQ as of September 2008. The 2009 TRQ, for 21,298 mt, will be auctioned in mid-November 2008.

Total Imports of Fluid Milk (Unsweetened Milk/Cream under HS Code 0401)

Imports	Argentina	Australia	Germany	France	New Zealand	Uruguay	Others	Total
CY2006	249	3,226	539	2,336	3,822	797	73	11,042
CY2007	226	334	650	2,413	4,770	742	186	9,321
1-9/08	748	178	411	1,531	3,439	347	65	6,719

Source: Council of Agriculture, based on Customs data

Fluid Milk Imported under TRQ (in mt)

Imports	Argentina	Australia	New Zealand	Uruguay	Others	Total	TRQ Size
CY2006	249	3,224	2,490	797	23	6,783	21,298
CY2007	226	334	3,019	742	0	4,321	21,298
1-8/2008	590	178	1,647	347	0	2,762	21,298

Source: Bank of Taiwan website

Note: The definition of dairy fluid milk as used in the PS&D table differs slightly with the "fluid milk" category placed under TRQ and SSG controls. By Taiwan's TRQ and SSG classification, fluid milk consists of mainly fluid cow milk products in the HS 0401, 0402 and 0403 tariff categories as well as several processed products that fall under HS 1806 and 1901, but not goat/sheep milk.

The Ministry of Finance (MOF), which is responsible for the TRQ allocation, entrusted the Central Trust of China (CTC), a public enterprise, to implement the TRQ application and allocation process. In July 2007, the CTC was merged into the Bank of Taiwan. All TRQ relevant information can be retrieved from the BOT website listed in the Reference Section at the bottom of this report.

Special Safeguards (SSG)

The TRQ has, reportedly, not been fully filled due to low demand of imported fluid milk. Importers have the option of paying the in-quota duty (15%) with a TRQ certificate or paying the out-of-quota duty (NT$15.6/kg, US$490/mt equivalent). Fluid milk imported without TRQ certificate is subject to an additional 33.3% surcharge when the Volume-base SSG is triggered. Fluid milk that is imported with a TRQ certificate is exempt from paying the additional duty.

The 3,970 mt of the 2008 volume-based SSG for "fresh milk" was about 6 percent filled as of October 27, 2008. Imports of "other fluid milk", totaling 3,460 mt at the end of October, have not reached the 3,917.5 mt SSG volume trigger threshold for 2008 yet.

There has been no record of whether or not the Price-base SSG (at NT$17/liter) has been triggered.

Goat/sheep fluid milk is dutiable at 20%, without any TRQ or SSG limits.

III. Milk Powder

The rapid globalization of food production and trade has increased the potential likelihood of international incidents involving contaminated food. The recent melamine-tainted milk scandals has negatively impacted the Taiwan food safety authority, resulting in an import suspension on all Chinese dairy-based foods including infant formula, milk powder and creamer ingredients. (see details in Policy Section).

Due to its lower prices, Chinese milk powder expanded rapidly since its access into Taiwan in 2006, but will be blocked from import for a while after the melamine incident in September 2008. The United States made some progress in 2008 in non-fat milk powder, but still is not very price competitive in whole fat milk powder.

Import Comparison of Whole Fat Milk Powder (in mt; under HS codes 0402.2190 and 0402.2990)

	Argentina	Australia	Belgium	China	Ireland	Netherlands	New Zealand	Others	Total
CY2006	1,132	8,412	277	487	196	542	18,258	976	30,280
CY2007	1,100	4,909	256	5,222	918	416	15,979	968	29,768
1-9/2008	25	2,267	47	721	288	245	8,033	527	12,153

Source: Council of Agriculture

Import Comparison of Non-fat Milk Powder (in mt; under HS code 0402.1090)

	Australia	Belgium	China	Germany	France	New Zealand	U.S.	Others	Total
CY2006	9,410	0	0	3	20	10,238	252	337	20,060
CY2007	7,714	175	317	339	247	10,187	203	747	19,929
1- 9/2008	4,071	50	20	49	152	5,575	483	835	11,235

Import Comparison of Infant Milk Powder for Retail (in mt; under HS 1901.1000)

	Australia	China	Germany	Spain	France	Ireland	Netherlands	New Zealand	Singapore	Others	Total
CY2006	579	645	633	768	839	506	2,002	1,046	1,340	515	8,873
CY2007	417	427	635	815	1,318	347	1,676	1,518	1,449	382	8,984
1-9/08	316	232	587	825	967	250	1,427	332	912	573	6,421

Source: Council of Agriculture

Import Comparison of Prepared and Processed Milk Powder (in mt; under HS codes 1901.9021 and 1901.9022)

	Australia	China	Denmark	France	Ireland	Nether-lands	New Zealand	Singapore	Others	Total
CY06	1,359	11,139	5,058	1,231	961	3,360	6,903	1,622	821	32,454
CY07	1,501	9,614	4,167	1,578	995	2,828	7,692	508	784	29,667
1-9/08	534	7,127	2,607	1,162	847	2,131	4,958	84	447	19,897

Source: Council of Agriculture

Imports of Cheese (in mt; under HS code 0406)

	Argentina	Australia	Brazil	Nether-lands	New Zealand	U.S.	Others	Total
CY2006	998	5,644	541	533	6,242	1,854	1,417	17,229
CY2007	1,491	6,429	543	536	7,070	2,135	1,768	19,972
1-9/2008	1,514	2,963	413	208	4,475	1,778	1,278	12,629

Source: Council of Agriculture

Imports of Whey (in mt; under HS code 0404.1090)

	Argentina	Australia	Canada	France	Germany	Netherlands	New Zealand	U.S.	Others	Total
2006	450	1,868		1,600		819	361	7,358	1,016	13,472
2007	443	820	198	927	156	603	57	2,832	401	6,437
1-9/2008	200	614	776	938	825	338	479	5,233	508	9,911

Source: Council of Agriculture

Imports of Lactose & Lactose Syrup (in mt; under HS codes 1702.11 and 1702.19)

	Australia	Germany	Nether-lands	New Zealand	U.S.	Others	Total
CY2006	108	813	762	1,021	4,018	173	6,895
CY2007	145	645	463	232	3,527	22	5,014
1-9/08	205	307	221	290	2,201	186	3,410

Source: Council of Agriculture

Policy

To cope with high commodity prices in 2008, import tariffs for several milk powder products were cut by half for a six-month period, from May 16 to November 15, 2008. Tariff rates for anhydrous milk fat and butter were also halved for 6 months from August 19, 2008 to February 18, 2009. The temporary duty cut applies on 10 dairy products as follows:

Tariff Codes	Description	Tariff Rates (%)	Temporary Rates (%)	Valid Dates
0402.10.90.10-1	Powder of Goat/sheep's milk, fat content below 1.5%	10	5	05/16/08 – 11/15/08
0402.10.90.90-4	Other milk powder, fat below 1.5%	10	5	05/16/08 – 11/15/08
0402.21.90.10-8	Powder of Goat/sheep's milk, fat content over 1.5%, unsweetened	10	5	05/16/08 – 11/15/08
0402.21.90.90-1	Other milk powder, fat over 1.5%, unsweetened	10	5	05/16/08 – 11/15/08
1901.10.00.10.4	Milk powder for infant use, for retail	5	2.5	05/16/08 – 11/15/08
1901.10.00.90-7	Other preparation for infant, for retail	5	2.5	05/16/08 – 11/15/08
1901.9021.00-4	Prepared milk powder, below 5 lb., for retail	12	6	05/16/08 – 11/15/08
1901.90.22.00-3	Other milk powder, prepared	12	6	05/16/08 – 11/15/08
0405.90.10.00-0	Milk fat, anhydrous	8	4	08/19/08 – 02/18/09
0405.10.00.00-9	Butter	5	2.5	08/19/08 – 02/18/09

Source: Directorate General of Customs website

The widely-spread melamine scare resulted in an indefinite import suspension on Chinese-made milk, milk powder, ice cream bases, dairy-containing beverage/mix, prepared and processed milk products, ice cream, animal protein products and protein derivatives, starting from September 22, 2008. Another broad range of food products made in China cannot proceed with customs clearance unless the importer presents a statement proclaiming that the products do not contain any milk powder, dairy ingredient, cream, or plant protein. Covered products with the importer statement are then subject to batch-by-batch self-paid melamine test prior to customs clearance.

Taiwan also imposed stringent melamine scrutiny on imported dairy products in certain categories from non-China sources. Each batch of infant formula, milk powder and creamer ingredients destined for Taiwan that was loaded on board on or after October 8, 2008 now requires a melamine-free test report upon arrival, or must pass a self-paid melamine test conducted by a Taiwan Department of Health accredited laboratory before proceeding to customs clearance. The most sensitive equipment/methodology is required for tests on these three commodities that cover 20 HS codes on the Taiwan tariff schedule. No trace of melamine can be detected in order to pass the Taiwan test.

There is an option for exporting countries to request a waiver from the test report requirement by submitting various production & safety control data. Thus far, only New Zealand has completed the necessary procedures. Once such a waiver is approved, testing of imports arriving without the pre-export test report will still be subject to testing in Taiwan at 20% inspection frequency.

According to DOH this practice is to be tried out for a one-month period and may be shortened or prolonged depending on the outcome and subsequent risk assessments conducted by Taiwan's health authority regarding the melamine risk on imports. The development of the melamine crisis in Taiwan and Taiwan's policy responses will remain very fluid for sometime, so great caution is recommended for meeting the current requirements.

Internet Resources

Most Taiwan (.tw) domain websites are only in Chinese, but the amount of English content is increasing.

http://www.coa.gov.tw/ for agricultural statistics and general agricultural information (in English)
http://www.trade.gov.tw for trade statistics, exchange rates, trade rules and general trade information (English version available)
http://www.wto.org The WTO's website for information about Taiwan's WTO accession
http://www.customs.gov.tw for current tariff schedule (English version available), SSG and TRQ records
http://www.bot.com.tw/Trade/TradeWTO/default.htm for TRQ auctions

Supply and Demand Tables

Fluid Milk Supply and Demand

Dairy, Milk, Fluid Taiwan	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Cows In Milk	53	50	53	54		53			54	(1000 HEAD)
Cows Milk Production	340	320	322	350		325			345	(1000 MT)
Other Milk Production	18	26	18	18		18			18	(1000 MT)
Total Production	358	346	340	368		343			363	(1000 MT)
Other Imports	10	12	9	10		9			10	(1000 MT)
Total Imports	10	12	9	10		9			10	(1000 MT)
Total Supply	368	358	349	378		352			373	(1000 MT)
Other Exports	0	0	0	0		0			0	(1000 MT)
Total Exports	0	0	0	0		0			0	(1000 MT)
Fluid Use Dom. Consum.	340	331	339	350		332			373	(1000 MT)
Factory Use Consum.	28	27	10	28		20			0	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0		0			0	(1000 MT)
Total Dom. Consumption	368	358	349	378		352			373	(1000 MT)
Total Distribution	368	358	349	378		352			373	(1000 MT)
CY Imp. from U.S.	0	1	0	0		0			0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0			0	(1000 MT)

Dry Whole Milk Supply and Demand

Dairy, Dry Whole Milk Powder Taiwan	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0		0			0	(1000 MT)
Production	1	6	1	1		2			0	(1000 MT)
Other Imports	33	25	30	34		20			25	(1000 MT)
Total Imports	33	25	30	34		20			25	(1000 MT)
Total Supply	34	31	31	35		22			25	(1000 MT)
Other Exports	0	0	0	0		0			0	(1000 MT)
Total Exports	0	0	0	0		0			0	(1000 MT)
Human Dom. Consumption	34	31	31	35		22			25	(1000 MT)
Other Use, Losses	0	0	0	0		0			0	(1000 MT)
Total Dom. Consumption	34	31	31	35		22			25	(1000 MT)
Total Use	34	31	31	35		22			25	(1000 MT)
Ending Stocks	0	0	0	0		0			0	(1000 MT)
Total Distribution	34	31	31	35		22			25	(1000 MT)
CY Imp. from U.S.	0	0	0	0		0			0	(1000 MT)
CY. Exp. To U.S.	0	0	0	0		0			0	(1000 MT)

Nonfat Dry Milk Supply and Demand

Dairy, Milk, Nonfat Dry Taiwan	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data	
Beginning Stocks	0	0	0	0		0			0	(1000 MT)
Production	0	0	0	0		0			0	(1000 MT)
Other Imports	22	20	20	23		15			17	(1000 MT)
Total Imports	22	20	20	23		15			17	(1000 MT)
Total Supply	22	20	20	23		15			17	(1000 MT)
Other Exports	0	0	0	0		0			0	(1000 MT)
Total Exports	0	0	0	0		0			0	(1000 MT)
Human Dom. Consumption	22	20	20	23		15			17	(1000 MT)
Other Use, Losses	0	0	0	0		0			0	(1000 MT)
Total Dom. Consumption	22	20	20	23		15			17	(1000 MT)
Total Use	22	20	20	23		15			17	(1000 MT)
Ending Stocks	0	0	0	0		0			0	(1000 MT)
Total Distribution	22	20	20	23		15			17	(1000 MT)
CY Imp. from U.S.	0	0	0	0		1			1	(1000 MT)
CY. Exp. to U.S.	0	0	0	0		0			0	(1000 MT)

Butter Supply and Demand

Dairy, Butter Taiwan	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan	
			Data			Data			Data	
Beginning Stocks	0		0	0		0			0	(1000 MT)
Production	0		0	0		0			0	(1000 MT)
Other Imports	13		13	14		10			11	(1000 MT)
Total Imports	13		13	14		10			11	(1000 MT)
Total Supply	13		13	14		10			11	(1000 MT)
Other Exports	0		0	0		0			0	(1000 MT)
Total Exports	0		0	0		0			0	(1000 MT)
Domestic Consumption	13		13	14		10			11	(1000 MT)
Total Use	13		13	14		10			11	(1000 MT)
Ending Stocks	0		0	0		0			0	(1000 MT)
Total Distribution	13		13	14		10			11	(1000 MT)
CY Imp. from U.S.	0		0	0		0			0	(1000 MT)
CY. Exp. to U.S.	0		0	0		0			0	(1000 MT)