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Taiwan

Poultry and Products

Avian Influenza - Initial Market Impact Assessment

2004

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Report Highlights:
Taiwan is one of the few markets in East Asia to have escaped so far an outbreak of H5N1 highly pathogenic Avian Influenza (HPAI) in the poultry industry. Effective control of a concurrent outbreak of H5N2 low pathogenic Avian Influenza (LPAI) on Taiwan has limited the numbers of farms affected and also limited consumer concerns regarding domestic poultry safety. The risk of HPAI continues from migratory birds and the smuggling of poultry and other products from China. FAS/Taipei will continue to monitor the outbreak of AI in Taiwan. On February 24, Taiwan banned the imports of U.S. poultry from the State of Texas due to a case of H5N2 HPAI.

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Overview

In recent months, H5N1 highly pathogenic avian influenza (HPAI), a type of HPAI transmittable to humans through poultry and other birds, has again become an issue of immediate concern in East Asia. At the time of writing, confirmed outbreaks of HPAI in most East Asian countries have resulted in 31 reported cases in humans (22 in Vietnam and 9 in Thailand, resulting in 22 deaths). Taiwan is one of the few countries in East Asia[1] that have yet to report the incidence of HPAI.

According to the World Organization for Animal Health (OIE), Taiwan is the single AI-affected country in East Asia to display an outbreak of *only* the low pathenogenic form of AI. All other AI-affected countries have reported HPAI. The Taiwan outbreak is also of the H5N2 type, while the other countries are faced with H5N1. Although the OIE mandates no standard response at the country level to an outbreak of low pathogenic AI (as it does with highly pathogenic AI), Taiwan authorities have implemented a program of inspection, detection, and eradication at the farm level for all AI strains.

Taiwan's commitment to eradicate AI outbreaks, which involves testing suspect poultry, slaughtering all birds in an affected farm, and establishing a long-term (6 month) monitoring program covering surrounding farms, has so far proven successful at limiting the outbreak of AI to a small number of farms, most in the agricultural south of the island.

Even with effective domestic quarantine policies, Taiwan remains at risk from the large number of migratory birds that stop over in Taiwan during migrations between northern and southeastern Asia as well as from Taiwan's porous water border with China, through which a relatively small, but often uncontrolled, quantity of agricultural products enters the market. Taiwan has increased the penalties for smuggling poultry and livestock reflecting the risk of this contraband. In November 2003, Taiwan did detect six smuggled ducks with H5N1 HPAI on Kinmen island, located near the PRC. An outbreak of HPAI, if unchecked, has the potential to spread rapidly through Taiwan's high-density poultry sector.

The recent incidences of AI among poultry in certain areas the United States has not, to date, impacted overall sales of US poultry to Taiwan. Taiwan continues to permit normal importation of poultry meat and products from all US states, with the exception of Texas, which confirmed an outbreak of HPAI on February 23rd. The ban on exports to Taiwan of poultry raised or processed in the state of Texas covers poultry that was shipped out of Texas on or after February 24, 2004. Poultry shipments from other states which transit Texas must do so in sealed freight containers.

Production

From the first detected outbreak in 2004 of AI on 5 January, Taiwan has reported a total of 15 poultry farms with a detection of the H5N2 low pathogenic strain of the AI virus. Authorities have slaughtered all poultry on these farms and established a heightened inspection regime on all farms within a 3 km radius of the affected farms.

To date, upwards of 260,000 head of poultry have been removed from the distribution channel due to AI-related culling. Broilers account for approximately 57,000 head (20%), native and other "non-standardized" chicken breeds (tuji and others) account for approximately 180,000 head (70%), with the other a variety of game birds and sport pigeons.

[1] Others of note include the Philippines, Singapore, and Mongolia (Source: World Organization for Animal Health)

The practical effect of AI-related slaughters on overall poultry production has been minimal. The quarter million head removed over the course of the current AI breakout (defined here as the 45 days between first detection on 1/5/2004 and 2/19/2004) represents about 5 percent of normal broiler production and 7 percent of the normal native/non-standardized breed production for the period, a relatively small amount. The fact that most detections (all but two) occurred after the Chinese Lunar New Year Holiday season (a peak sales period for most food products, including poultry), also helped ensure that the overall impact was kept to a minimum.

A list of farms at which the H5N2 AI virus has been detected and at which eradication and control measures have been implemented follow in the chart below (data provided by Taiwan's Bureau of Animal and Plant Health Inspection and Quarantine):

Table 1. Occurrences of H5N2 LPAI during 2004 in Taiwan

Date of Detection	Principal Poultry Product	Township	County
1 / 05	Layer	Fangyuan	Changhwa
1 / 14	Duck		Yunlin
1 / 15	*Fang Tuji* (simulated native)	Hsingang	Chiayi
1 / 29	*Fang Tuji* (simulated native)	Chiali	Tainan
1 / 29	Unspecified	Liuchiao	Chiayi
1 / 29	Unspecified	Liuchiao	Chiayi
2 / 05	*Tuji*	Hsigang	Tainan
2 / 05	*Tuji*	Hsinying	Tainan
2 / 05	*Tuji*	Fangyuan	Changhwa
2 / 05	*Tuji*	Tonghsiao	Miaoli
2 / 05	Broiler	Tayuan	Taoyuan
2 / 05	*Tuji*	Nantou City	Nantou
2 / 05	*Tuji*	Nantou City	Nantou
2 / 12	Game birds	Hsigang	Tainan
2 / 12	Layer	Erlin	Changhwa

Demonstrating their concern for the poultry industry, authorities have announced measures to support affected farms with low interest loans to purchase new chickens and overcome immediate financial difficulties. Also, as part of the Council of Agriculture's "95 Program", if farm gate prices for *tuji* fall below 95 percent of production costs for a period of at least one week, authorities have promised to implement additional support measures to help producers overcome short term market pressures.

Consumption and Prices

The news of the first AI detections and attendant slaughtering of entire farm stocks of poultry were given a predictably high level of media attention and raised consumer concerns regarding yet another category of protein under threat.[2] The timing of the news release, however, ensured a minimal initial impact as media coverage of the Taiwan outbreaks began the week *after* Chinese Lunar New Year – a holiday characterized by greatly increased purchases of food in all categories.

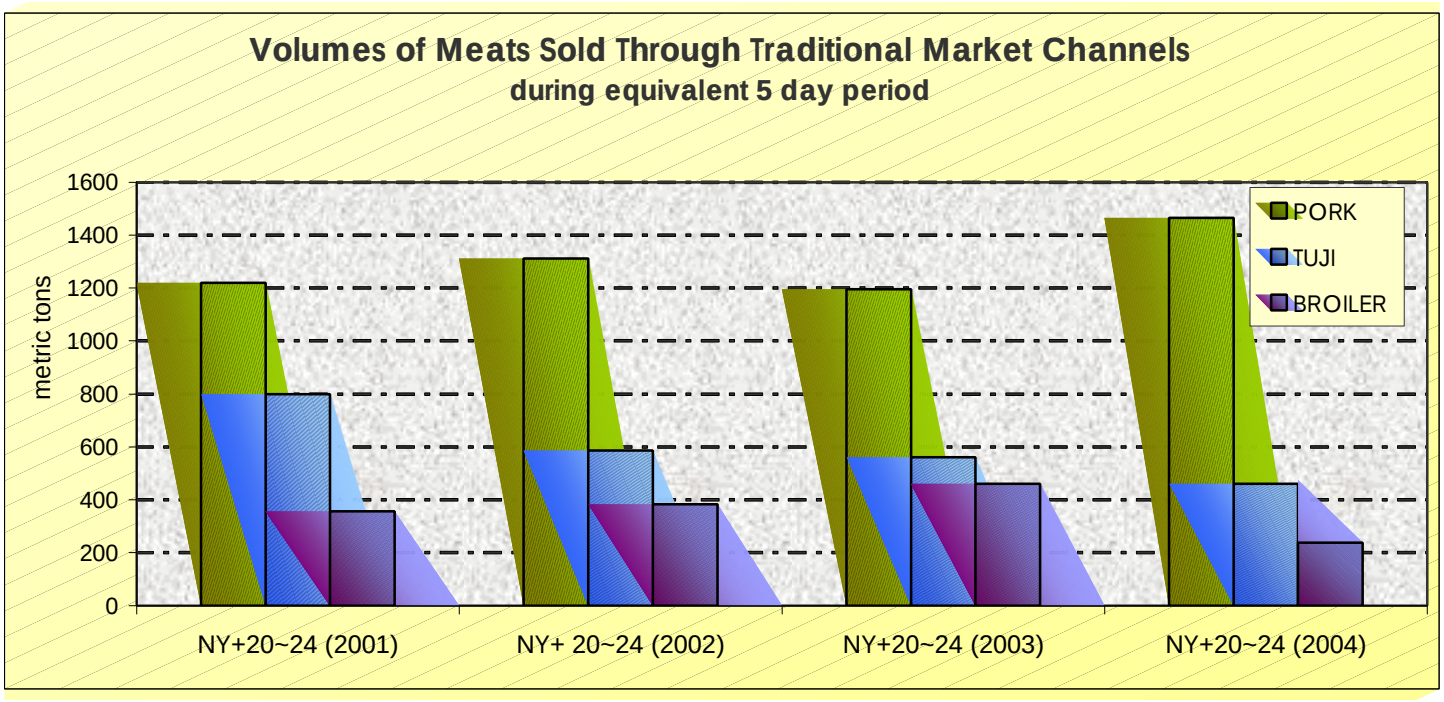
[2] Media reports in recent months have also raised consumer anxieties regarding the safety of beef (due to bovine spongiform encephalopathy [BSE]) and seafood (due to use of various chemicals and hormones in Taiwan's fish farms and suspected PCB contamination of farm-raised salmon).

While speculation by the media and farmer associations has been rife regarding the potential for AI to devastate the domestic poultry sector, this has failed to pan out in light of the continued limited nature of the outbreak and successful containment (so far) of disease spread.

Due to the proximity of the AI outbreak to Chinese New Year and a variety of other confounding factors, including ongoing consumer concerns about beef and seafood safety, existing strong demand for pork, etc. makes any precise assessment of the impact of AI on poultry consumption exceptionally difficult. Discussions with retailers and agriculture authorities as well as a review of market price and volume statistics indicate that daily poultry sales volumes for February are off by 15~20 percent from "normal". In real terms, this means shrinkage in sales volume through retail and foodservice channels for the month of February by around 650,000 head of poultry, total (about 1,350 metric tons).

The following table compares sales volume for three meat products over a comparable period of time over four years.

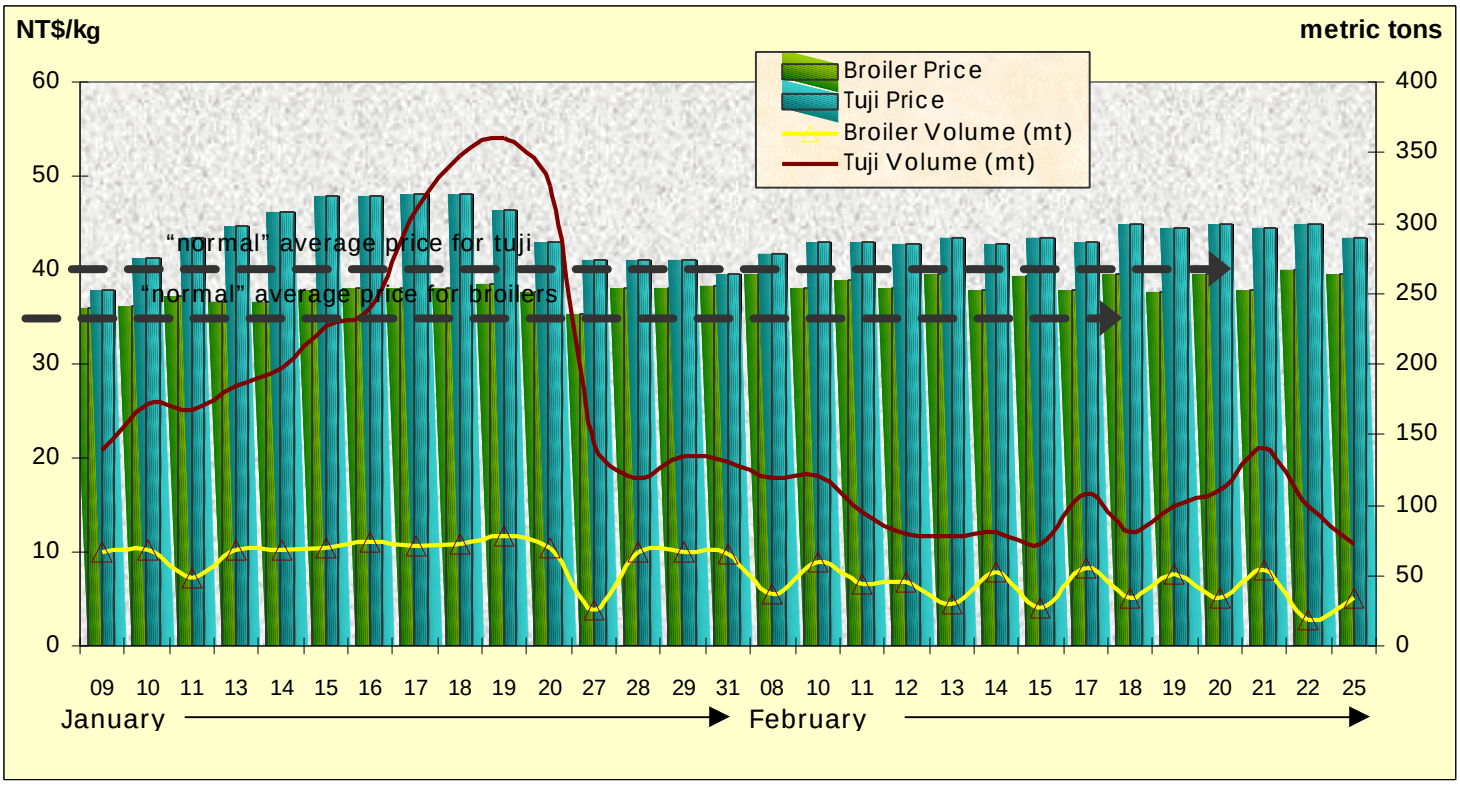
Table 2. Comparative Sales Volume for Pork, Tuji, and Broilers: 2001-2004



Note for the above table: Data attempts to compare "comparable" periods of time across years. The author chose a period of five days from the 20th to the 24th day after the Chinese Lunar New Year (e.g., 2/10~14/2004).

The following table shows daily sales volumes of domestic broiler and *tuji* (so-called native variety) chicken channeled through wholesalers and average daily transaction prices for the most recent period.

Table 3. Average Daily Prices and Sales Volumes of Selected Poultry Products



Additional notes for the above table:

1. Dates not shown are those on which markets were closed or for which adequate data was unavailable.
2. The Chinese Lunar New Year holiday began on January 20th. A significant up tick in purchases before the holiday and significant drop-off afterward are normal.
3. The two **grey, dashed lines** indicate the "normal" (expected) price for tuji and broiler chickens during this period. The upper dashed line represents the "normal" price for tuji. The lower dashed line represents the same for broilers.

While the AI outbreak has dealt significant losses to affected farms, the above table demonstrates that prices have held firm and, in fact, shown unexpected strength due to consumers generally continuing to purchase poultry products as normal. Although supply volumes have been somewhat less stable due to farms suddenly being removed from the supply chain, there is no long-term effect on production volume expected because an infected farm will be permitted to renew poultry production once its current flock is exterminated and facilities sanitized.

Although Taiwan remains off the OIE list of countries affected by high pathogenic avian influenza, key traditional export markets for the small volume of poultry meat and products exported each year, i.e., Japan and Hong Kong, as well as most other regional markets have banned poultry imports from the island. Taiwan's trade negotiators are reportedly in "active discussion" with key markets to secure a reopening, although the prospects are likely not good over the near term. Nevertheless, there appears to be solid interest from countries in the region to purchase poultry from Taiwan to compensate for short-term domestic supply shortfalls and disruption in traditional supply channels. While few if any orders have yet been filled, reports note that importers in Hong Kong, Indonesia, and Japan are particularly eager to purchase from Taiwan producers. Should one or more regional markets reopen

opportunities to Taiwan poultry exporters, the island would almost certainly see a significant boost in exports for the year. However, given the more likely scenario that regional markets will remain closed to poultry exports for the duration, Taiwan's poultry exporters will likely not be able to ship much of its annual 4~5 thousand metric ton exports to traditional export customers.

Opportunities over the longer term is even more dependent on the course of the AI outbreak in Asia and the longer-run competitiveness of Taiwan producers against suppliers from other countries, including the United States. A continued interest in regional markets to purchase Taiwan poultry may tighten supplies to the local market and lead to additional investment in local production of poultry – particularly *tuji*, a niche poultry product appreciated by Asian consumers and produced on a commercial scale almost exclusively in Asia.

Opportunities and Challenges for US Suppliers

Over the very short term (2~4 months), Taiwan may see opportunities for regional sales of its *tuji* and broiler meat due to disruptions in normal trade flows and the need for buyers in markets such as Japan and Hong Kong to fill demand quickly. However, Taiwan's higher production prices relative to major poultry exporting nations argue that, should AI remain a significant problem in Asia, Taiwan broiler exports should decrease significantly once buyers in Asia have time to comparison shop among exporters and plan purchases several months in advance.

As long as Taiwan remains free of HPAI while other countries continue to suffer outbreaks, the island has the potential to continue increasing sales of *tuji*. *Tuji*, as opposed to broiler chicken, is uniquely suited for use in ethnic Asian soups and other traditional dishes. *Tuji* typically does not compete directly with poultry or other major products exported by the United States.

Independent of the current AI outbreak in Asia, US suppliers enjoy good prospects for growth in poultry sales to Taiwan. The 2004 tariff rate quota (TRQ) of 45,990 mt, which should be filled largely by US suppliers, will be eliminated and replaced by a simple tariff in 2005 (please refer to TW3029 - 2003 Poultry and Poultry Products Annual for further details).