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Report Highlights:

Despite the threat of the COVID-19 pandemic and lumpy skin disease, Taiwan's \$1.5 billion dairy sector remains strong. Taiwan continues to improve its milk production with an eye on the coming impact of the New Zealand-Taiwan Free Trade Agreement (FTA), which will give New Zealand quota-free duty-free access by 2025. New Zealand's impending duty free access represents a threat to the cost-competitiveness of all U.S. dairy imports. Total fluid milk imports are forecast to increase by seven percent, to 79,000 MT, while imports of U.S. fluid milk were up 21 percent in the first eight months of 2020, in spite of Taiwan's tariff rate quota (TRQ) and special safeguard (SSG) measures.

Commodities

Dairy, Milk, Fluid

Production:

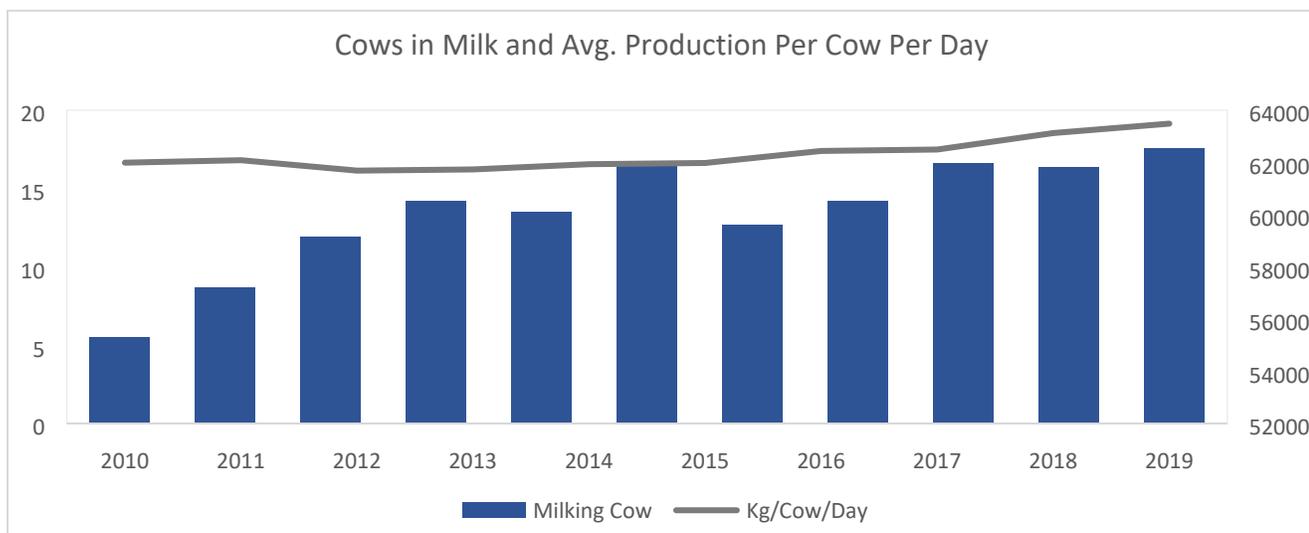
In July 2020, the Taiwan Council of Agriculture (COA) reported the first lumpy skin disease (LSD) cases in cattle on the outlying Kinmen Islands. These cases are likely linked to previous cases confirmed in China in 2019. A total of 23 of 549 cattle at a government-operated farm in Kinmen were found to have contracted LSD. COA took immediate actions to prevent the disease from spreading, including vaccination, enforced pest control, and a tightened ban of all meat imports from Kinmen. While this news was a scare for the industry, as of this report, no cases of LSD have been reported on the main island of Taiwan. If the disease were to spread on the main island, it would severely impact local dairy production.

Taiwan's domestic dairy industry relies heavily on imported feed in the form of hay. The COVID-19 pandemic resulted in delayed shipments early in 2020, which worried local producers about a shortage of imported feed supply. However, Taiwan is now known to have had one of the world's most effective COVID responses, and this has shown up in the relatively limited overall economic impact. Due to Taiwan's success in controlling COVID, the food industry did not suffer as significant an impact as in many other economies. Dairy production slipped slightly due to the initial feed shortage but returned to normal with shipments resumed in April.



Cattle with Lumpy Skin Disease (COA)

Social distancing policy at food service(MOHWS)



Source: National Animal Industry Foundation (NAIF)

Despite the early pandemic and LSD, 2020 milk production will stay strong to increase 4,000 MT to 450,000 MT. According to COA statistics, herd size remained almost unchanged at 62,536 milking cows in the second quarter of 2020 compared to last year. In the second quarter of 2020, Taiwan had 555 dairy farms, with an average of 113 head per farm. Overall, dairy cattle account for 97 percent of domestic milk production in Taiwan, with the remaining three percent supplied by goats. However, Taiwan's herd size is projected to fall to 62,000 animals in 2021 as it enters a transition period of eliminating older herds. 2021 production is forecast to fall slightly to 449,000 MT.

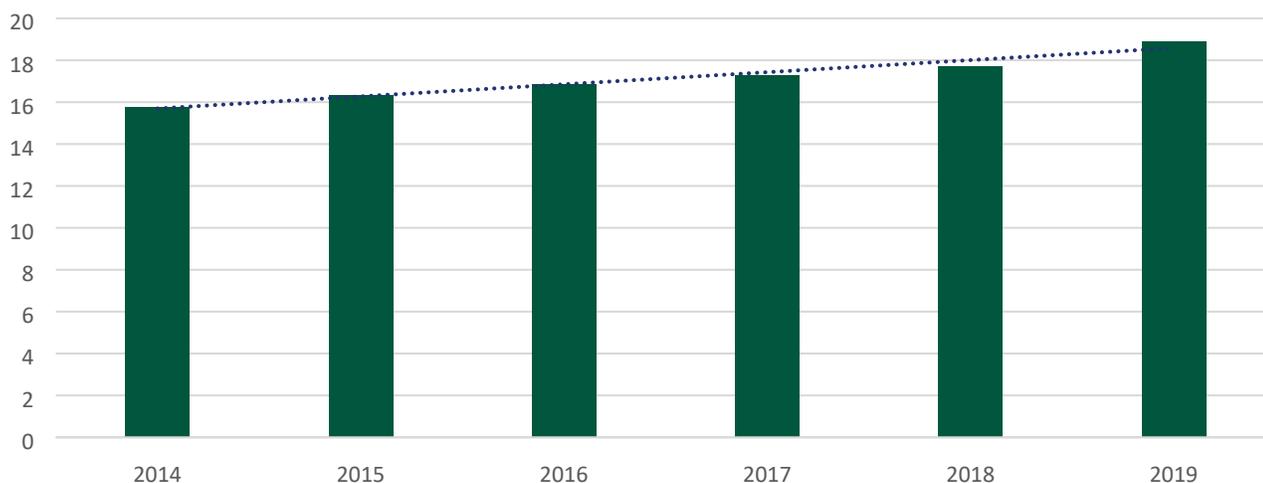
Consumption of fluid milk in Taiwan remains strong. 2020 total milk consumption is estimated to rise 9,000 MT to 529,000 MT due to increasing domestic production and U.S and New Zealand imports. Forecasted 2021 milk consumption is slightly higher at 536,000 MT based on strong demand for milk imports. Sales of fresh milk during the first half of 2020 reached 188,626 MT according to the Ministry of Economic Affairs (MOEA) statistics. This represents a year-over-year growth rate of one percent, compared to 2.6 percent of the year before, likely due to reduced social activities. According to the latest revision of the [dietary guidance on milk consumption published by Taiwan's Ministry of Health and Welfare \(MOHW\)](#), Taiwan recommends at least two cups of milk per day to meet daily calcium intake to prevent occurrence of osteoporosis. The per capita consumption of fluid milk continued to set a record of 18.89 kilograms per person in 2019, up seven percent from the year before.

Trade:

The low demand period of late winter escaped from the negative impact by the pandemic, and the overall fluid milk trade was not affected by delayed shipments in early 2020. Total fluid milk imports for the first eight months of 2020 reached 56,029 MT, up ten percent from the same period last year. Total 2020 imports are forecast to increase to 79,000 MT, while 2021 forecasted imports are higher still

at 87,000 MT. Despite the quota and SSG mechanisms, fluid milk imports remain cost competitive to domestic production.

Per Capita Annual Fluid Milk Consumption



Source: CLAL

The United States continued setting the record as the top exporter of fluid milk to Taiwan. U.S. fresh milk imports during the first eight months of 2020 reached 36,297 MT, up 21 percent from the same period last year. New Zealand remains the second largest exporter due to its tariff-free quota. France became the third largest exporter of fluid milk as Australia declined due to the severe 2019 drought, even though Australia may recover if the production situation stabilizes.

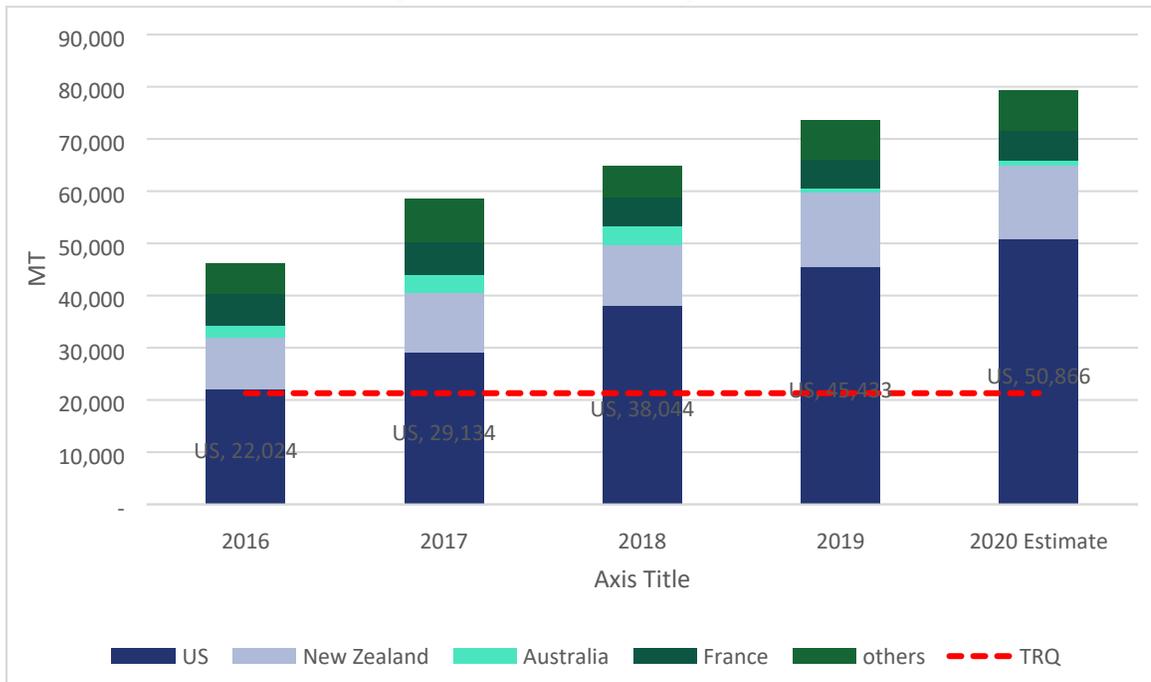
Under the 2013 trade Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC), 8,500 MT of New Zealand milk is eligible to enter Taiwan duty free in 2020. This will increase to 10,000 MT in 2022. All quota and tariff restrictions for New Zealand dairy will end by 2025. The tariff for in-quota milk for other countries, including the United States, will remain 15 percent. New Zealand is well positioned to gain market share given the continuing decrease in tariff rates.

2017 - 2020 Import Distribution

Quantity (MT)	2017	2018	2019	2020 (JAN-AUG)
US	29,134	38,044	45,433	36,297
New Zealand	11,319	11,760	14,270	10,859
France	6,176	5,499	5,533	3,169
Australia	3,540	3,477	850	928

Source: Customs Statistics

Total Taiwan Fresh Milk Imports with TRQ Comparison



Source: Customs Statistics

Policy

In 2002, when Taiwan acceded to the WTO, it replaced the ban on fluid milk imports with a tariff rate quota (TRQ) and a Special Agricultural Safeguard (SSG) mechanism. The tariff for in-quota imports is 15 percent, while the out-of-quota rate is NT \$15.6 per kilogram (kg) (or roughly 50 percent of the average import value). For imports above the SSG's quantity trigger, an additional 33.3 percent surcharge is applied. Imports of goat and sheep milk are subject to a tariff of 20 percent but are not subject to TRQ or SSG limits.

Tariff Rate Quota

Import quota rights are auctioned annually. 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, and the maximum is 4,259 MT. The annual TRQ volume for fluid milk is 21,298 MT. Since 2016, the TRQ for fluid milk has been fully allocated in the first round. For the 2020 TRQ, 21,048 MT of fluid milk was awarded in the first round in November 2019, while the remaining 250 MT was further allocated because one of bidding companies didn't fulfill documenting requirements during the first-round bidding.

The Bank of Taiwan (BOT) administers the TRQ application and allocation process through an agreement with Taiwan's Ministry of Finance. All relevant TRQ information can be retrieved from the

[BOT website](#). The 2021 TRQ for fluid milk will be auctioned in November 2020 with another round of bidding to be held in March 2021 if the initial auction doesn't fully sell the TRQ rights.

Special Agricultural Safeguards

Taiwan has adopted the SSG as another tool to control the volume of imported fluid milk. The Department of Treasury determines a quantity trigger and a unit 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 percent surcharge. The 2020 SSG quantity trigger for fresh milk is 43,196 MT, while the SSG trigger for other fluid milk is 14,208 MT, an increase over 2019 by 31 and 5 percent respectively. The SSG price trigger for fluid milk remain unchanged at NTD\$17 (U.S. \$0.53) cost, freight, and insurance (CIF) per liter.

The HS codes covered under "fluid milk" by the SSG are: *04011010, 04011020, 04012010, 04012020, 04014010, 04014020, 04015010, 04015020, 04029910, 04029920, 04029992, 04039029, 04039040, 04039059, 04039090, 18069053, 18069055, 19019025, and 19019027.*

Import Regulations

Taiwan's Ministry of Health and Welfare oversees milk and dairy standards in Taiwan. Standards are detailed in the [Sanitation Standard for Milk and Milk Products](#). Melamine and veterinary drug residues are prohibited in milk and milk products. Taiwan requires that imports of U.S. origin fresh milk and milk products be accompanied by a Veterinary Services (VS) 16-4 export certificate for animal products.

Since 2018, Taiwan's Food and Drug Administration (FDA) required that the dairy imports for food purposes classified under HS codes 0401, 0402, 0403, 0404, 0405, and 0406 to be accompanied by an official health certificate. For additional information, please see the instruction from [the latest International Regulations \(IREgs\) for Animal Product Exports](#) from USDA Animal Plant Health Inspection Service.

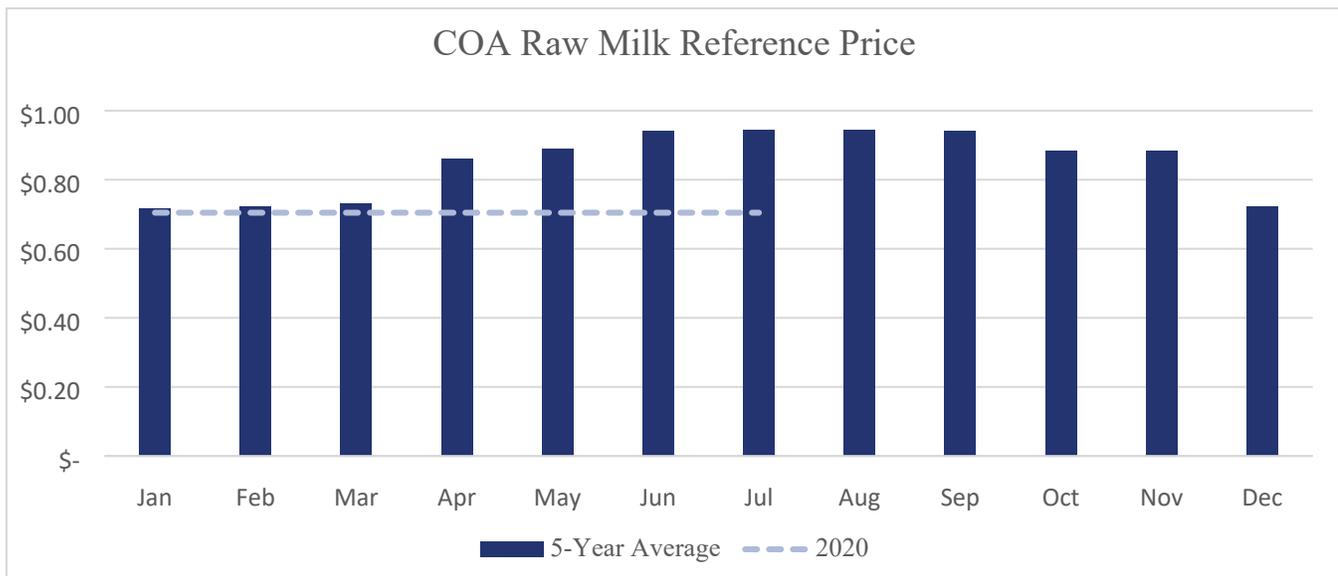
Marketing:

Uni-President, Kuang Chuan, and Weichuan are the top three largest dairy processors in Taiwan, accounting for almost 80 percent of retail sales by value in 2020. Since 2015, the coffee sector, especially flavored milk, has become one of the key factors to boost the demand of liquid milk. Because of reduced social activities and social distancing policy resulting from the COVID pandemic, sales at domestic coffee shops and convenient stores in the first half of 2020 were down approximately 20 to 30 percent compared to the same period last year, according to an industry survey. Thanks to Taiwan's effective management of COVID, social activities quickly returned to normal and resulted in a rebound of sales of coffee from the food service sector. Food service and convenient stores responded quickly by adding more non-store/online/social media promotion for people preferring to avoid public places. Food

delivery companies such as FoodPanda and Uber Eats all initiated expanded delivery of ready-to-eat food, but fresh produce, meat, and milk products.

Price Data

Taiwan’s COA sets reference prices for raw milk based on fat percentages, solid nonfat percentages, and somatic cell count. Most dairy farmers are contracted by the three leading dairy processors. Though the reference price serves as a baseline, processors also provide additional incentives if greater quantity and quality can be produced. Due to continuing improvements in domestic dairy operations, the price of raw milk from January to July 2020 kept below the 5-year average price at U.S. \$0.70 per kg. Prices may also have been affected by the slight decline of demand during the early pandemic.



Source: National Animal Industry Foundation (NAIF)

Labeling

COA has been actively promoting its domestic fresh milk seal to consumers. As a result, many Taiwan consumers now associate quality fresh milk with an authorized COA seal on the packaging. Only domestically registered processing plants under the contracted dairy producer scheme ([19 farms in total](#)) are eligible to apply for COA’s Fresh Milk Seal for their products. According to Taiwan’s Act Governing Food Safety and Sanitation, if the milk is fortified with nutrients, such as oligosaccharide or calcium, it cannot be labeled as “fresh” milk but “fortified milk”. COA also effectively uses labeling schemes in many other agricultural markets outside the dairy industry.

Dairy, Milk, Fluid Market Begin Year	2019		2020		2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Taiwan						
Cows In Milk	62	62	63	63	0	63
Cows Milk Production	419	432	423	437	0	436
Other Milk Production	15	14	14	13	0	13
Total Production	434	446	437	450	0	449
Other Imports	69	74	70	79	0	87
Total Imports	69	74	70	79	0	87
Total Supply	503	520	507	529	0	536
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	449	468	457	476	0	482
Factory Use Consum.	54	52	50	53	0	54
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	503	520	507	529	0	536
Total Distribution	503	520	507	529	0	536
(1000 HEAD), (1000 MT)						

Commodities:**Dairy, Dry Whole Milk Powder and Nonfat dry milk****Production:**

Taiwan does not produce milk powder in commercial quantities.

Consumption:

In 2020, forecasted whole milk powder (WMP) consumption was 34,000 MT and 2021 consumption is also forecast to remain steady.

Local processors often use WMP and nonfat dry milk (NDM) as ingredients to develop fermented milk beverages, such as sour milk or yogurt. According to MOEA statistics, sales of fermented sour milk were up around one percent in the first half of 2020 compared to the same period of 2019. Taiwan's fermented milk beverages recently gained market access to South Asian countries, but the positive trade outcome may not be realized until after the COVID diminishes further in 2021.

Estimated 2020 NDM consumption is forecast to increase slightly to 24,000 MT, with 2021 consumption forecasted at the same level.

Trade:

The ANZTEC agreement eliminated the 10 percent tariff on New Zealand milk powder. Thus, New Zealand maintains a strong advantage with 98 percent market share for WMP in Taiwan and 80 percent market share for NDM.

NDM imports ending August 2020 are up three percent. WMP imports in the first eight months of 2020 were 26,499 MT, up 14 percent from the same period last year. Although the consumption trends and export opportunity of processed milk beverages slightly increased, the demand for WMP and NDM remained stable. 2020 WMP and NDM import estimates are stable at 34,000 MT and 24,000 MT, respectively. The 2021 forecast is not expected to change.

Dairy, Dry Whole Milk Powder	2019		2020		2021	
	Jan 2019		Jan 2019		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Taiwan						
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Other Imports	32	34	34	34	0	34
Total Imports	32	34	34	34	0	34
Total Supply	32	34	34	34	0	34
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	32	34	34	34	0	34
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	32	34	34	34	0	34
Total Use	32	34	34	34	0	34
Ending Stocks	0	0	0	0	0	0
Total Distribution	32	34	34	34	0	34
(1000 MT)						

Dairy, Milk, Nonfat Dry	2019		2020		2021	
	Jan 2019		Jan 2019		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Taiwan						
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Other Imports	23	23	22	24	0	24
Total Imports	23	23	22	24	0	24
Total Supply	23	23	22	24	0	24
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	23	23	22	24	0	24
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	23	23	22	24	0	24
Total Use	23	23	22	24	0	24
Ending Stocks	0	0	0	0	0	0
Total Distribution	23	23	22	24	0	24
(1000 MT)						

Commodities:

Dairy, Butter

Production:

Taiwan does not produce butter in commercial quantities.

Consumption:

2020 forecasted butter and anhydrous milk fat (AMF) consumption is slightly down at 22,000 MT based on import statistics. The 2021 forecast AMF consumption remains unchanged. In 2017, Taiwan adopted [labeling regulations](#) for milk fat content in butter and cream. The rules defined what could be considered butter, margarine, or spread depending on the percent of fat content. The clearer labeling requirements have boosted sales of butter over butter substitutes or blends due to the requirement that milkfat content be listed on the butter label.



Trade:

AMF imports from January to August 2020 totaled 14,609 MT, down five percent from the same period of 2019 due to shipments delayed early in the pandemic period. The 2020 forecast remains at 22,000 MT due to recovering regular shipments and Taiwan's good control of the COVID epidemic. 2021 forecast imports remain unchanged. New Zealand still dominates the AMF and butter market with over 60 percent of the market share. Fonterra's Anchor brand butter still leads the category through its well-established marketing network. Import brands other than from New Zealand have gradually gained market share, which may be the result of consumers' response to the labeling regulations for butter and cream.

Dairy, Butter	2019		2020		2021	
	Jan 2019		Jan 2019		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Taiwan						
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Other Imports	24	22	25	22	0	22
Total Imports	24	22	25	22	0	22
Total Supply	24	22	25	22	0	22
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Domestic Consumption	24	22	25	22	0	22
Total Use	24	22	25	22	0	22
Ending Stocks	0	0	0	0	0	0
Total Distribution	24	22	25	22	0	22
(1000 MT)						

Attachments:

No Attachments