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Poultry and Products

Annual

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Report Highlights:
2001 is looking to be another turbulent year for the domestic poultry industry. Hopes for a sustained recovery of price and demand have been shaken by Taiwan's poor general economy – which is not forecast to turn around until the spring of 2002 at the earliest. Despite low market prices, lack of attractive alternatives continue to keep farmers producing -- resulting in recent farm gate prices below production costs. Quota management practices continue to limit access for imported chicken meat. Annual chicken meat imports will increase from the current level of 12,000 tons to over 19,000 tons upon WTO accession, expected in early 2002. Poultry offals will provide an additional lucrative new market. Market acceptance of turkey meat as a low-fat, competitively priced substitute for pork is suffering somewhat from low pork prices in 2001, although processor appreciation of turkey as an ingredient in processed foods is keeping turkey thigh meat demand at levels significantly higher than just two years ago.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Poultry meat and eggs are pillars of the traditional Chinese diet. From kungpao chicken, Peking duck, and stir fries to Cantonese-style air dried duck, "1,000 year-old" eggs, and deep-fried chicken nuggets, Taiwan consumed upwards of 740 thousand tons of poultry meat (approximately 87% of this chicken) and 7.9 billion eggs during 2000. This translates into around 32 kg of poultry and 335 eggs per capita.

Conservative agrarian roots and the political "siege" mentality which prevailed through much of the post-WWII era led Taiwan authorities to pursue policies targeting food self sufficiency and protecting farmers from import competition. Only with Taiwan's maturation into a powerhouse of export manufacturing and high technology during the 1980s and 1990s did cracks begin to show in the armor protecting domestic farmers and their produce. A booming non-agrarian economy, labor flight to urban centers, changes in the Taiwanese diet, and the desire of authorities for international recognition of their island as a "free market" economy all helped to whittle down barriers to food imports. Even so, during the 1990s several key food categories, deemed of particular strategic or economic importance (including chicken meat and poultry offal among others), remained sealed off from foreign competition.

In bilateral talks held in the mid-1990s, US trade negotiators convinced Taiwan to partially lift the ban on imported poultry in preparation for Taiwan's entry into the World Trade Organization (WTO). Consequently, Taiwan agreed from 1998 to open an annual import quota of 10,000 mt exclusively for US chicken meat. In 1999, Taiwan allocated an additional chicken meat import quota of 9,163 mt permitting the import of chicken meat from any WTO member state (including the United States) meeting Taiwan's phytosanitary requirements. In 2000, Taiwan combined the two separate quotas into a globalized quota of 19,163 mt.

However, Taiwan authorities allocated 2/3 of the quota amount to farmers' groups. The farmers' groups either sell the quota to importers or refuse to sell quota in the hopes of propping up local prices (Note: Post doubts if several thousand tons of chicken meat have a significant effect on local prices). Allocation of the quotas on a quarterly basis also present logistical problems to exporters. As of mid-year 2001, 6,070 of the total 9,582 metric tons of quota volume (63.3%) was actually imported. Post expects imports at this level in the second half of 2001.

Upon Taiwan's accession into the WTO, the current, managed quota allocation regime will be scrapped and replaced by a first-come-first-served tariff rate quota (TRQ) system with an annually increasing quota allowance. Upon accession, the duty on chicken meat will drop from the current 40% to 25%. In addition, certain poultry offal imports will be liberalized while others will be subject to TRQ's. It is expected that the demand for TRQ rights will exceed the supply, so that the quota will have to be allocated by lottery. In 2005, Taiwan will liberalize chicken meat imports, with an import tariff of 20%. Taiwan will maintain a special safeguard system on poultry meat and offals.

The potential for growth in domestic consumption of poultry and egg products is limited. However, the significant cost advantages US producers enjoy over local firms (local sources say up to 50%) and an underlying current of consumer goodwill toward US-raised produce may help US suppliers win market share away from established competitors for the frozen poultry products in this increasingly open sector of the market.

POULTRY

Production

Total poultry meat production in Taiwan during 2001 is expected to increase slightly to 720 thousand mt. Local producers are continuing to either go out of business or consolidate, leading to a shrinking number of domestic players. Stagnating domestic production levels, eclipsing this year and expected to remain relatively flat next year and in 2003, come less from pressure from imports than from the poor economic climate and current oversupply – particularly of chicken meat.

Table. 1 Production, Supply, and Demand Table: Poultry (in 1,000 mt)

Commodity	Poultry, Meat, Total				(1000 MT)(MIL HEAD)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	730	710	730	720	0	720
Whole, Imports	0	0.1	0	0.1	0	0.3
Parts, Imports	30	28.9	35	23.4	0	26
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	30	29	35	23.5	0	26.3
TOTAL SUPPLY	760	739	765	743.5	0	746.3
Whole, Exports	0	0	0	0	0	0
Parts, Exports	2	2	2	3	0	3
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	2	2	2	3	0	3
Human Consumption	758	737	763	740.5	0	743.3
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	758	737	763	740.5	0	743.3
TOTAL Use	760	739	765	743.5	0	746.3
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	760	739	765	743.5	0	746.3
Calendar Yr. Imp. from U.S.	0	28.3	0	23.4	0	27

Chickens dominate the poultry husbandry industry in Taiwan - accounting for around 75% of all commercial birds raised. Ducks follow a distant second at around 17%, with geese, turkeys, and game birds accounting for the remainder. During 2001, about 400 million head of chicken are expected to be channeled into meat & offal production and an average 34 million head will be engaged as layers. In a similar ratio, Taiwan will slaughter 34 million head of duck this year while employing an average 3 million head in egg production. Figures are not expected to change significantly in 2001. Eggs of poultry other than chickens and ducks are not produced on a commercial scale.

Commitments made by Taiwan during WTO accession negotiations to open fully its chicken meat and poultry offal markets to international competition at the start of 2005 imply that domestic poultry producers - for so many decades insulated from global competition - must either adapt to the new competitive regime or concede to foreign competition a significant chunk of current sales. Attempting to help prepare the poultry industry for increasing competition, Taiwan authorities are in the process of implementing measures to 1) consolidate production, 2) modernize production and marketing, and 3) create consumer loyalty to local poultry products.

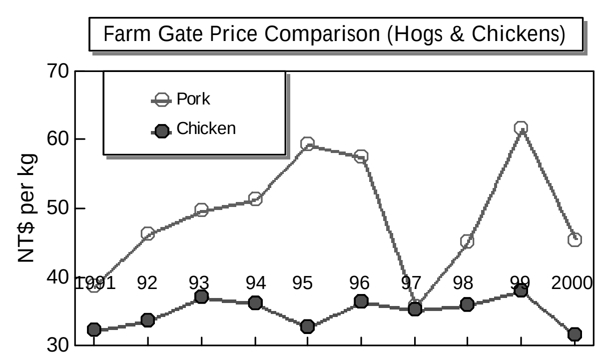
Production Consolidation: Authorities have adopted a combination of incentives & coercive measures (the latter focusing principally on enforcing widely-breached rules regarding zoning, business registration, and environmental protection) to shepherd the poultry industry toward production consolidation. In its highest profile effort to date, Taiwan's Council of Agriculture (COA) offered to pay local hog and chicken farmers up to US$83,000 each to close farms, tear down facilities, and turn land over to other uses. Official records show that, between 1998 and mid-1999 (when the subsidy program ended), a total of 684 farmers took up the government offer and exited the chicken rearing business. In view of the increasingly thin, or negative, margins in the local poultry business, industry analysts see the consolidation trend continuing as farms close or merge based on market considerations. Regular lobbying from farmer organizations raise the potential of authorities' rebudgeting this subsidy program, although current government policy does not favor such.

Modernization: Through the COA and its several key research affiliates, Taiwan has ongoing programs targeting cooperative extension services for poultry farmers & processors and research into breed improvement & consumer product development.

Customer Loyalty Programs: Acknowledging that the broiler segment will face the brunt of coming foreign competition, authorities have been targeting other poultry categories (in particular, eggs and local chicken varieties [i.e., *tuji*]) with technical and marketing assistance to help these segments grow in value and realize gains in production efficiency. One component of this assistance is the introduction of certification marks "T-U-G" for local chicken varieties and "EGG" for locally-raised eggs. The hope is that, over time, consumer awareness of local products and demand for "unique" Taiwan poultry varieties (while as yet ill-defined as commercial breeds, these include varieties such as *tuji*, *wuguji*, and *fangshanji*)[1] will result in increased demand.

Consumption

The average Taiwanese will consume 75 kg of meat during 2001 and 77 kg in 2002. The upswing in the out year reflects expectations that Taiwan's economy will turn around during the first two quarters of 2002. Poultry is a staple of the Chinese diet and, as consumers continue switching to lighter fat meals, chicken can be expected to continue gradually taking market share away from the other staple meat, pork.



Pork and broiler chicken meat are highly substitutable for one another in the staple of Chinese cooking - the stir fry. As such, domestic pork prices do impact chicken meat sales as higher prices for pork encourage consumers to switch from buying chilled pork cuts to buying chicken meat, and restaurants to alter menu offerings accordingly. The trend works in reverse when pork prices fall relative to chicken. Similarly, Taiwan food processors have increasingly used turkey thigh meat as a filler

[1] For purposes of this report and unless otherwise noted, all local varieties are categorized under the generic name "*tuji*".

substitute for pork in traditional sweet sausages, hot dogs, ham, and other food items when pork prices rise relative to turkey. In 2000, pork prices were well off their 1999 peak and, as a result, imports of frozen turkey meat dropped by 24% to 14,700 tons in 2000. However, meat processor familiarity with and acceptance of turkey thigh meat have helped stabilize the sharp demand swings of the past. In 1998, for example, when pork prices were at a level similar to that in 2000, turkey thigh meat imports totaled only 2 thousand tons. With a population increasingly aware of the benefits of a low fat, low cholesterol diet and a general perception of chicken as a "healthier" alternative to pork, some food retailers are now openly advertising their use of chicken, turkey, or fish as a complement or substitute to pork in processed food products.

Trade

Reflecting the present quota regime, which ensures non-Taiwan suppliers supply but 2 percent of broiler meat market demand and no foreign competition for the lucrative offal trade, imports of poultry items into Taiwan during 2001 will remain at previous, subdued levels.

Although frozen chicken meat imports under quota have faced increasingly successful resistance from the poultry farmers' association, US export volume continues to gain ground due to the increasingly small share given competitors, namely Canada. This advantage is expected to continue through Taiwan's WTO membership, when other WTO members (such as Thailand, Brazil and China) may work more aggressively to gain phytosanitary clearance for their chicken meat exports. In light of continuing quota restrictions, it is expected that key chicken meat exporters will begin applying for phytosanitary clearance soon after Taiwan's WTO entry with target dates of 1 ~ 2 years out (2003 ~ 2004) in preparation for full market liberalization in 2005. Poultry offal, an important segment of which will become fully liberalized upon Taiwan's WTO membership, is expected to be a major source of new opportunity for exporters from countries with phytosanitary clearance. The US, a member of this select group of countries, is in a favorable position to take full advantage. Other products, which are primarily not managed under quota now, are expected to see little import interest due to factors including domestic oversupply, preference for fresh (as opposed to frozen) meat, and well-established distribution channels.

Tables 2 & 3. Poultry Import and Export Volumes (in 1,000 metric tons)

Import Trade Matrix	Units	1,000 mt	
Commodity	Poultry, Meat, Total		
Time period	1999-2001		
Imports for:	1999	2000	2001 (est)
U.S.	30.9	28.3	23.4
Others			
Canada	2.2	0.6	0.4
Total for Others	2.2	0.6	0.4
Others not Listed	0	0	0
Grand Total	33.1	28.9	23.8

Export Trade Matrix	Units	1,000 mt	
Commodity	Poultry, Meat, Total		
Time period	1999-2001		
Exports for:	1999	2000	2001 (est)
U.S.	0	0	0
Others			
Japan	1.3	1.6	2.3
Hong Kong	1.7	0.3	0.4
Total for Others	3	1.9	2.7
Others not Listed	0.07	0.1	0.3
Grand Total	3.07	2	3

Trade Policy

Current Tariff Rates for various poultry products are noted in the table below. Rates and WTO accession terms remain unchanged from the previous year.

Table 4. Current Tariff Rates for Poultry Meat

Product	Current	Accession	Final
Chicken Meat	40% (1)	25% (2)	20% (3) (Jan. 2004)
Duck Meat	35%	35%	35%
Goose Meat	40%	30%	25% (Jan. 2002)
Turkey Meat	10%	10%	10%
Egg Products	40%	30%	30%
Poultry Offal	banned	25% (2)	25% (3) (Jan. 2004)

1) 40% rate assessed on imports within quota. Imports outside quota regime are not permitted.
(2) Upon WTO accession, tariff rate noted will be applied to in-quota imports of quota-regulated offal items (guts, bladders, stomachs). Imports made outside quota restrictions will be subject to punitive tariff rates.
(3) This final tariff quota rate will be applied in 2004. All quota restrictions should end at the start of 2005.

The Impact of WTO

Taiwan's entry into the WTO should have several effects on poultry import policy, including *re-classification of presently banned items* and *expanded quota access eligibility*. At the end of 2004, all poultry-related quotas will expire and any quantity may be imported subject to payment of tariff and adherence to phytosanitary restrictions.

Reclassification of Banned Items: Under present agreements, Taiwan will end the ban on certain offal items, including chicken feet & necks and all poultry livers & hearts, upon WTO accession. In its stead, Customs will assess standard tariffs of 25% for chicken livers, hearts, and feet, 30 ~ 45% for (non-chicken) poultry livers, and 40% for chicken necks and goose, duck, & turkey hearts. Other poultry offal (including guts, bladders, stomachs, etc.) will also come off the banned list, but become subject to a quota and 25% tariff rate.

Quota Access: Upon accession, Taiwan authorities have agreed to end their present practice of actively allocating quotas (i.e., granting a recipient a quota allocation without first confirming recipient intent to import under quota) in favor of a "first come, first served" system under which any importer may apply to import within quota limits. All initial quota purchase contracts should be signed prior to 1 September of the current year with delivery taken before 31 December. Quota volumes not contracted by 1 September will be reopened with delivery also required by year's end. This system is expected to help ensure committed quota volumes are fully used for each year.

Under current agreements, Taiwan will set an initial annual quota of 19,163 mt for chicken meat upon WTO accession (3.2% of current meat consumption). This quota will increase in equal annual increments to a final 45,990 mt in 2004 (7.7% of current meat consumption) - after which time the quota will be eliminated and replaced by a tariff rate of 20%. The poultry offal (guts, bladders, stomachs) quota, noted above, will start at 1,836 mt upon accession and end at the close of 2004 with a 3,674 mt quota for that year. Any quantity of quota-controlled product imported above set quota limits will be permitted, but be subject to high punitive tariffs.

Other poultry products presently permitted without quota restriction into Taiwan, including eggs/egg products, prepared poultry products, and non-chicken poultry meat will, in general, benefit from lower tariffs upon WTO accession.

CHICKEN

Taiwan's chicken production falls into two categories, namely US-style broilers and native / crossbred birds. The latter include native chicken breeds as well as chickens resulting from crossbreeding native roosters with broiler hens. While different names are used to identify the 3 ~ 4 major native / crossbred categories sold in market (including *tuji*, *wuguji*, and *fangshanji*) , the generic term "*tuji*" is used in this report to denote all native & crossbred categories, unless otherwise noted.

Production

Taiwan will produce 630,00 mt of chicken meat in 2001, down minimally from 2000. The 2002 forecast anticipates a heightened focus on consolidation in the industry, with larger producers buying out smaller ones, but little change in overall production volume. This is due to continued predominance of small, conservative farmers who continue to produce chickens in the same volume despite low prices and demand. Broiler meat prices, which collapsed again during the first half of this year, are not expected to begin moving upward again until the second quarter of next year when a combination of better macro-economic conditions and removal of less-efficient chicken ranchers may permit better prices.

The current production ratio -- 45% broiler meat & offal to 55% *tuji* meat & offal -- can be expected to continue a gradual trend in favor of *tuji*, with the ratio balancing out at around 40 / 60 at total production levels of 635,000 mt in 2005, when Taiwan's WTO agreement mandates the end of poultry import quotas.

Government statistics report that just over 80% of broilers are slaughtered and processed in modern, sanitary facilities. Only 6% of *tuji* are similarly handled. The remainder are processed either in small, low-tech processing plants or killed & dressed in the many traditional wet markets. Government and industry-sponsored efforts to handle *tuji* in automated processing environments have been dogged by many problems, not least of which has been the lack of uniformity among *tuji*, even within species.

Even more so than the poultry industry in general, chicken farmers and processors must become efficient producers within a short span of 5 years, or accept obsolescence in the face of foreign competition. The government, directly and through industry associations, is supporting activities to advance industry consolidation / cooperation, product development, technical improvement, and consumer marketing efforts. The largest farm has a capacity of 210,000 head, with broader industry measures showing that better than 90% of broiler farms operate on a scale of 20,000 head or less.

Industry experts note that the relatively-small scale and protected nature of Taiwan's poultry rearing industry has saddled local producers with high relative costs of production. A survey run during 2000 estimates the average investment (including depreciation costs) required to raise 100kg worth of farm gate-ready broilers to be NT$3,216 (approximately US$93). Feed-related expenses comprise the bulk (60%) of this total. Profits after taxes and expenses for the Taiwan broiler farmer averaged during 2000 a net loss of NT$23 (US$0.67) per 100 kg. Chicken farmers are expected to continue in the red this year with price rises in 2002 anticipated to permit farmers a slight profit.

Table 5. Farm Gate Prices for Broilers

Commodity	Plty, Meat,			
Prices in	NT$	per kg		
Year	1999	2000	2001	% Change
Jan	39.86	33.89	37.09	9.44%
Feb	42.9	34.06	35.09	3.02%
Mar	37.53	34.85	34.65	-0.57%
Apr	39.32	33.37	34.72	4.05%

May	38.77	34.04	31.15	-8.49%
Jun	36.27	35.04	32.36	-7.65%
Jul	38.07	34.43	34.43	0.00%
Aug	38.67	35.25		n/a
Sep	38	33.09		n/a
Oct	37.1	31.29		n/a
Nov	35.7	31.86		n/a
Dec	35.71	34.35		n/a
Exch Rate =	US$ / NT$	US$1 / NT$32.5	US$1 / NT$34.6	

Table 6. Chicken Meat Production, Supply, and Demand (in 1,000 mt)

Commodity	Plty, Meat, Chicken -16 wks				(1000 MT)(MIL HEAD)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	117.9	0	0	0	0
Slaughter (Reference)	0	385.5	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	615	631	610	630	0	630
Whole, Imports	0	0	0	0	0	0
Parts, Imports	14	12.25	20	12.2	0	14
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	14	12.25	20	12.2	0	14
TOTAL SUPPLY	629	643.25	630	642.2	0	644
Whole, Exports	0	0	0	0	0	0
Parts, Exports	1	1	1	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	1	1	0	1
Human Consumption	628	642.25	629	641.2	0	642
Other Use, Losses	0	0	0	0	0	1
Total Dom. Consumption	628	642.25	629	641.2	0	643
TOTAL Use	629	643.25	630	642.2	0	644
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	629	643.25	630	642.2	0	644
Calendar Yr. Imp. from U.S.	0	11.6	0	11.8	0	13 *

* note: outyear (2002) forecast does not include offal volumes which may be imported from the US and other countries following Taiwan's WTO entry. As noted in the text, WTO entry will open the market to quota-free entry for chicken feet, necks, livers, etc. and present the real potential for immediate (annual) imports of 10,000mt or more.

Consumption

The last decade has witnessed steady growth in market demand for US-style broiler meat. In the home, breast and leg meat are heavily used in stir fry dishes. Nearly all fast food chain restaurants, international and local, offer batter fried chicken breasts & drumsticks and processed chicken burgers. Spicy chicken wings, served with Western-style sauces, are staple menu fare at mid-range Western chain restaurants such as TGI Fridays & Dan Ryan's and are offered by nearly all pizza franchises as a popular side dish. Turkey wings, smoked and spiced locally to Chinese tastes, are hot sellers at grocery stores and hypermarkets. The flame-cooked chicken leg quarter with rice & veggies is (along with the pork chop) one of the two most popular lunch box entrees in Taiwan - accounting for better than 30% of all lunch box sales.

Domestic consumption is expected to rise slightly this year, in part driven by a down-scaling of Taiwanese lunch habits. Many consumers who might have taken their lunches in a sit-down restaurant or coffee shop when economic times were good, are now returning to eating the traditional Taiwanese lunch – the lunchbox (or "bento"). The most popular lunchbox entree (approximately 35% of all lunch boxes sold) is chicken. Consumption of chicken – typically less expensive than other meats – will also benefit from consumers seeking ways to lower their grocery bill.

Offal consumption is expected to be little changed in 2001 and 2002. Offal is consumed in greatest quantities by the street vendor food service segment -- which is less impacted by general economic conditions than other segments, such as sit-down restaurants and hotels. With domestic prices for offal significantly higher than in other markets, attractive sales opportunities for US firms exist once this protected market is opened to competition.

Trade Policy

In 2000, Taiwan combined the US and global quotas into one WTO member quota of 19,163. Up until Taiwan's WTO entry, all incoming chicken meat will be assessed at a tariff rate of 40%.

Once a member of the WTO, Taiwan will open a global "first come, first served" quota for 19,613 mt open to WTO members meeting Taiwan phytosanitary rules. The quota volume will expand each year to a final 45,990 mt in 2004. The in-quota tariff for chicken meat will drop to 25% upon accession and fall further to a final 20% by 2004 - after which Taiwan will end quota restrictions and apply a flat tariff rate of 20% to all imported chicken meat.

Taiwan requires that chicken meat and products may enter Taiwan only from countries certified free of Highly Pathenogenic Avian Influenza (HPAI) and Newcastle Disease (ND). Currently, Taiwan has certified the United States, Canada, Australia, New Zealand, and Sweden as free of these two diseases.

Imports & Exports

During 2001, Taiwan importers are expected to utilize approximately 2/3 (12,200 mt) of the 19,613 mt quota available for imported chicken. This is due to Taiwan authorities' continuing to allocate a significant amount of the total quota to chicken farmers and farmers associations. These groups have an active interest to protect their industry from foreign competition and are thus unreceptive to releasing their full quota for import. If Taiwan gains entry into the WTO as currently expected in November 2001, the import forecast becomes more speculative – based on how authorities manage the WTO-mandated quota regime. Should Taiwan authorities release import quota volumes only to valid importers, import volume for 2002 has the potential to reach 16,000 mt. Should the present practice of "quota squatting" (registering but not using) be allowed to continue, the potential for an erosion in current import volumes exists. Under the latter forecast, the "first come, first served" system could encourage farmer association representatives to sign up en masse to freeze quota volumes. Therefore, AIT and the U.S. Government will need to be very attentive to the actual quota allocation mechanism devised by the Taiwan authorities.

Table 7. Taiwan's Chicken Meat Imports

Poultry Meat, Chicken - 16 wks.	Units:	1,000 mt	

Imports for:	1999	2000	2001 (est)
U.S.	11.86	11.6	11.8
Others			
Canada	2.25	0.6	0.4
Total for Others	2.25	0.6	0.4
Others not Listed	0	0	0
Grand Total	14.11	12.2	12.2

Table 8. Taiwan's Chicken Meat Exports

Poultry Meat, Chicken - 16 wks.	Units:	1,000 mt	
Time period			
Exports for:	1999	2000	2001 (est)
U.S.	0	0	0
Others			
Hong Kong	1	0.6	0.6
Japan	0.2	0.2	0.3
Total for Others	1.2	0.8	0.9
Others not Listed	0	0.1	0.1
Grand Total	1.2	0.9	1

Marketing

As with most food products raised in Taiwan, there is an undercurrent of concern regarding the quality of local chicken among consumers. With expanding quota volumes and the eventual lifting of volume restrictions, US suppliers may benefit significantly by conducting promotion work which underscores the healthful conditions under which US chickens are reared, the emphasis on production and processing quality control at US facilities, and trust in US brand or country-of-origin labels.

In recent years, the COA established a quality certification logo for *tuji* to heighten its quality image and encourage increased consumption. The "T-U-G" label certifies that chicken was processed in a facility using modern, standardized processing techniques. The myriad obstacles to processing standardization in the *tuji* segment has held the volume of such to between 8% and 10% of *tuji* birds processed. Most *tuji* sold in supermarkets now bear this "T-U-G" logo. The largest retail outlet for *tuji*, the traditional market, is barred from participating in the "T-U-G" system as birds are slaughtered at time of purchase.

> *A Note About Tuji*: Chinese consumers view native / crossbred chickens (*tuji*) as a meat product "similar to, but distinct from" broiler chickens. *Tuji* is used in many very traditional Chinese dishes (examples include sesame oil chicken, chicken soup [where meat, skin, and bones are simmered together with traditional herbs], and chicken cold plate) for which broiler meat is not an acceptable substitute. Similarly, tougher meat and lack of sizing standards make *tuji* unfit for most broiler applications.
>
> Therefore, while production and marketing trends for *tuji* should be of interest to US broiler exporters, particularly from the context of how many broiler producers are heeding government calls to switch to *tuji* production, these two segments of the chicken meat market operate with significant independence from each other.

The Impact of WTO

The immediate impact of WTO on the chicken market is not expected to be significant for several reasons including (1) the relatively small, although growing, quota volume granted to Taiwan importers under Taiwan's bilateral WTO accession agreements and (2) the vociferous domestic chicken rancher lobby which vows continued efforts to discount central authority commitment to permit imports up to full annual quota volumes. The greatest immediate opportunity for exporters is expected to be the highly lucrative offal market, a major portion of which will be opened to imports, quota-free.

<u>Small Quota Volume</u>. Until 2005, the full import allowance for chicken meat under Taiwan's WTO

agreements will be held to under 7 percent of total consumption. Through 2005, imports should continue to focus on leg quarters.

<u>Vociferous Farmers</u>. To date, chicken ranchers in Taiwan have been allocated a significant percentage of the quota volume permitted for imported chicken meat. New quota rules under WTO mandate that, rather than the current allocation method, chicken meat quotas will be awarded on a "first-come-first-served" basis, with a provision for reopening unused quota amounts. Well-organized and convinced that imported chicken is unequivocally bad for local industry, there is little in the current provisions to prevent farmers from "squatting" on post-WTO quota volumes.

<u>Other Concerns</u>. Of longer term concern is the potential for other countries to win phytosanitary clearance to export chicken products to Taiwan. Although not expected in the near term, clearance for Brazil, Thailand, or China, for example, to begin exporting chicken meat to Taiwan may threaten US price advantages.

<u>However, Opportunity Still Knocks</u>. The greatest immediate opportunity for US exporters will come from specialty product exports – namely those items which, currently banned, will be permitted in without quota. These items include chicken feet and necks and all poultry livers & hearts. While considered secondary or waste cuts in the United States, these items fetch attractive prices in Taiwan (please refer to Appendix). If this new opportunity area (offal) were fully exploited, industry estimates indicate the market could absorb annually between 10 and 20,000 tons of imported offal in the first 1 ~ 2 years following WTO accession. In exploiting such opportunities, US exporters are encouraged to identify and address market expectations regarding how meat / offal is cut. For example, chicken feet are typically sold with the leg portion up to the first joint. Providing cut formats different than what the market is familiar with will severely discount any price or other advantages US exporters can offer.

US exporters are encouraged to take advantage of these WTO-triggered opportunities while the US remains one of the few exporting countries with phytosanitary clearance to import into Taiwan.

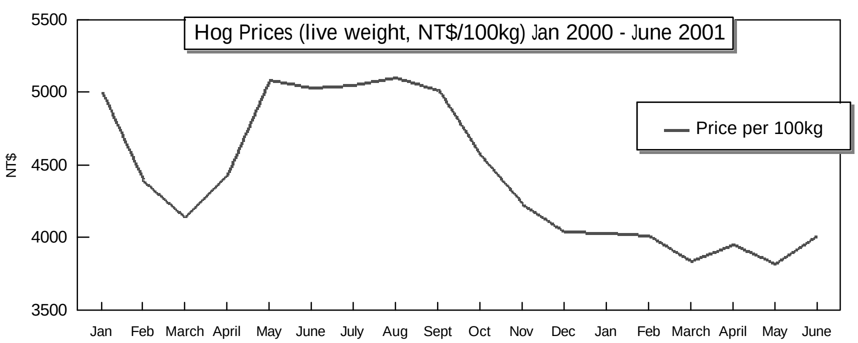
TURKEY

Production

Turkey production in Taiwan is principally driven by market demand for a single food service menu item – turkey fried rice ("Chiayi Turkey Rice"). A small volume (10 ~ 30%) is channeled into other applications such as pork substitute in processed foods and street vendor cooked-to-order barbequed wings / tails. The rise in popularity of Chiayi Turkey Rice during the past 3 years resulted in a small production boom that peaked in 2000. Poor economic conditions and a plateauing of popularity of the specialty dish argue for a flat to slight rise in production in 2001 and 2002.

Consumption

While domestic turkeys are principally channeled into turkey fried rice and fresh food service channels, imported turkeys and turkey meat are principally used as (1) a substitute for pork in processed foods (turkey thigh meat), (2) for prepared barbecued wings sold by vendors or at grocery / hypermarket stores, and (3) as an oven-baked meal for Thanksgiving and Christmas.



Domestic turkeys are sold fresh or

chilled, while imported turkeys are sold frozen. As mentioned previously, turkey thigh meat is accepted by manufacturers as a pork substitute / filler in processed meat products. The trigger hog price making turkey thigh meat cost-down substitute for pork is reportedly NT$5,000 / 100 kg live weight. The fall in farm gate prices for pork from their peak in mid-1999 (see graph above), have softened demand for turkey thigh meat and caused imports to drop by more than 25% off their 1999 peak. Turkey, however, has found a better-than-anticipated audience with manufacturers as a low-fat (as opposed to pork) protein ingredient. Therefore, even with low pork prices, producers see their use of turkey gradually regaining ground in 2001 to 18,500 mt (up 11.4%) and to 19,400 mt in 2002. Turkey wings are expected to continue to be a popular snack item, while holiday prepared turkeys are expected to meet significantly lower consumer demand in 2001 and 2002 due to uncertain economic conditions.

Trade

As with chicken meat, turkey imports into Taiwan must arrive from countries certified by Taiwan authorities as free of both ND and HPAI. As noted elsewhere, the countries with such certification include the US, Canada, Australia, New Zealand, and Sweden. The United States is expected again to be the only registered exporter of turkeys to Taiwan during 2001 and 2002.

Table 9. Production, Supply, and Demand Table for Turkey Meat (in 1,000 mt)

Commodity	Poultry, Meat, Turkey				(1000 MT)(MIL HEAD)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	0.25	0	0	0	0
Slaughter (Reference)	0	0.5	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	2	4.8	2	5.1	0	5.3
Whole, Imports	0	0.1	0	0.1	0	0.2
Parts, Imports	10	16.6	7	11.9	0	11.8
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	10	16.7	7	12	0	12
TOTAL SUPPLY	12	21.5	9	17.1	0	17.3
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	12	21.5	9	17.1	0	17.3
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	12	21.5	9	17.1	0	17.3
TOTAL Use	12	21.5	9	17.1	0	17.3
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	12	21.5	9	17.1	0	17.3
Calendar Yr. Imp. from U.S.	10	16.7	7	12	0	12

Tables 10 & 11. Imports & Exports of Turkey Meat (in 1,000 metric tons)

Poultry Meat, Turkey	Imports		
Time period	1999-2001	Unit:	1,000 mt
Imports for:	1999	2000	2001 (est)
U.S.	19	16.7	12
Others			
	0	0	0
Total for Others	0	0	0
Others not Listed	0	0	0
Grand Total	19	16.7	12

Poultry Meat, Turkey	Exports		
Time period	1999-2001		
Exports for:	1999	2000	2001 (est)
U.S.	0	0	0
Others			
	0	0	0
Total for Others	0	0	0
Others not Listed	0	0	0
Grand Total	0	0	0

Marketing

Efforts to increase turkey meat sales at the retail level continue to be dogged by consumer lack of understanding of meat characteristics / qualities and poor product availability in retail outlets (grocery stores, hypermarkets, traditional markets). Turkey meat in sausages is typically used "covertly", with either no mention at all on the packaging (aside from the small-print ingredient label) or simply a statement that the sausages are lower in fat.

Turkey lacks a foundation in the Chinese universe of ingredients and thus does not find a ready home in dishes such as stir fries and soups. The Chinese chef, whether in the home or in a restaurant, is typically not innovative and would be unwilling on his / her own to substitute turkey meat in, for example, a stir fry that calls for chicken. Appropriate consumer education and promotion should help pique interest and salve concerns regarding substituting turkey for other poultry meats in popular dishes. The market for turkey in Western dishes, while growing, represents a small niche market comprised primarily of 4- and 5-star hotels & a few restaurants in Taipei, Taichung, and Kaohsiung.

Table 12. Farm Gate Prices for Turkey (NT$ per kg.)

Locally-Raised Poultry Meat, Turkey				
Prices in	NT$	per	kg.	
Year	1999	2000	2001	% Change
Jan	43	55	35	-36.36%
Feb	40	48	33	-31.25%
Mar	43	37	29	-21.62%
Apr	45	30	30	0.00%
May	46.5	30	30	0.00%
Jun	46.5	30	29	-3.33%
Jul	45	31	n/a	
Aug	49	31	n/a	
Sep	43	29	n/a	
Oct	43	31	n/a	
Nov	42	30	n/a	
Dec	45	33	n/a	
Exch Rate =	US$1 / NT$31.5	US$1 / NT$32.5	US$1 / NT$34.6	

The Impact of WTO

Taiwan's market for Turkey meat will not be impacted directly by WTO, but is rather expected to continue to be influenced by the fluctuating price of Taiwan pork. Macro-economic uncertainties and the expected general pressures which WTO will place on the domestic meat industry argue for low (sub-NT$5,000) pork prices well into 2002.

DUCK

Three-thousand years of duck rearing history in China bequeath to Taiwanese a well-founded fondness for duck meat and eggs. The distinctive dishes in which duck products are served give duck meat and eggs a market categorization distinct from other poultry meats & products.

Production and consumption of duck is expected to remain stable or slightly lower in 2001 and 2002 (at around 64,500 mt), due to the lack of growth in the food service industry. In terms of domestic production, ducks raised in Taiwan for meat production are principally of the variety *tufanya* (80%), with the remainder divided roughly evenly between *fanya* and *beijingya* (Peking duck) breeds. Layers are almost exclusively of the *chensecai* variety.

In recent history, the duck farming and processing industry in Taiwan was heavilyexport-oriented, with exports of meat, eggs, and feathers targeting consumers in Japan and Southeast Asia. The entry of China as a low cost duck meat / products exporter has pared export markets for Taiwan ducks significantly. The entry of both China and Taiwan into the WTO is expected to cut further into the margins of local producers margins and, eventually, entice international sales into this market. Industry experts anticipate that high-quality US producers will pose the most effective challenge to domestic ducks. China and Thailand offer strong price competition - although current phytosanitary restrictions rule out importation from either.

The current tariff for duck meat (whole) is 35%. This tariff rate will remain unchanged after Taiwan gains entry into the WTO. Only the previously mentioned countries recognized by Taiwan as free from ND and HPAI are permitted to export duck meat to Taiwan. No duck meat is expected to be imported into Taiwan during 2001 or 2002 due to flavor expectations among consumers (Taiwan-raised, freshly-slaughtered), conservative supplier - buyer relationships, and little market growth in this category.

GEESE

As late as the 1980s, geese were generally raised as a sideline to a main farm business, such as fish or vegetable farming. As such, the industry remains in the early stages of development as a production-scale industry. Taiwan breeds are largely descended from varieties including White Roman & Embden (imported initially from Denmark during the 1970s and 80s) and Tulouse, African, and White Chinese (imported during the 1980s from the US).

During 2001, Taiwan is expected to produce about 26,000 mt of goose meat - around 3.5% of total poultry meat production. Most goose meat is sold as a ready-to-eat product in small local restaurants. Although goose meat imports are permitted, no imports have occurred in recent years nor are they expected in the near future. Similarly, Taiwan is not expected to export any goose meat during 2001 or 2002.

The current import tariff for goose meat is 40 percent. Upon WTO accession, tariff rates will be lowered to 28% for chilled goose meat (whole), 30% for chilled goose meat (cut into pieces), and 30% for frozen goose meat (whole or pieces). Under current agreements, all three tariff rates will drop to a final rate of 25% within two years of the island's WTO accession.

EGGS

Production

Poultry eggs include hen and duck eggs. Egg production is expected to be 7 billion pcs., a less than 1% decline from 2000 levels. This reflects the current conservative nature of the current egg raising industry, which continues to pin hopes on collective industry action, government assistance, and improving economic factors. The limited industry association budget (to control market availability of eggs), lack of serious government intervention, and continued economic doldrums, the industry is expected to continue to be in tight straights well into 2002. During that year or afterward, farmers are expected to finally begin facing widespread financial problems leading to a shift out of egg production.

Table 13. Production, Supply, and Demand Table: Chicken Eggs (in million pcs.)

Commodity	Poultry, Eggs				(MIL HEAD)(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Layers	39	39	36	36	0	36
Beginning Stocks	1351	2048	1500	1500	1500	1000
Production	7700	7748	7700	7700	7700	7700
Hatch Eggs, Imports	0	0	0	0	0	0
Shell Eggs, Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	20	20
Intra EC Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	20	20
TOTAL SUPPLY	9051	9796	9200	9200	9220	8720
Hatch Eggs, Exports	0	0	0	0	0	0
Shell Eggs, Exports	3	3	3	3	3	3
Other Exports	1	1	1	1	1	1
Intra EC Exports	0	0	0	0	0	0
TOTAL Exports	4	4	4	4	4	4
Hatch Eggs,Consumption	0	0	0	0	0	0
Shell Eggs, Human	6847	6802	6996	6696	7516	7516
Shell Eggs,OT.Use/Loss	200	400	200	500	200	200
Other Dom. Consumption	500	1090	500	1000	1000	1000
Total Dom. Consumption	7547	8292	7696	8196	8716	8716
TOTAL Use	7551	8296	7700	8200	8720	8720
Ending Stocks	1500	1500	1500	1000	0	0
TOTAL DISTRIBUTION	9051	9796	9200	9200	8720	8720
Calendar Yr. Imp. from U.S.	0	0	0	0	2	2

Nearly the entirety of duck egg production is consumed as salty and alkalized (1,000 year-old) eggs. As both are traditional foods, demand from year to year is largely stable - at around 540 million pieces. Choppy economic waters kept production during 2000 subdued at 480 million pieces.

Duck layers number approximately 3 million, while hen layers number around 35 million.

Price

Chicken egg production costs are estimated at NT$20 per kg, with the industry considered profitable when farm gate prices are higher than NT$26 per kg. Despite a promising push upward at the beginning of 2001 (largely attributed to industry efforts to purchase and process surplus volumes), farm gate low prices have again taken hold. With little hope of government intervention to help egg farmers, overproduction and below-cost pricing is expected to continue well into 2002 until sufficient resources are shifted out of egg production to shrink supply.

Table 14. Farm Gate Prices for Chicken Eggs

Commodity	Poultry, Eggs			
Prices in	NT$	per	kg.	
Year	1999	2000	2001	% Change
Jan	37.26	25.85	27.39	5.96%
Feb	38.03	22.92	24.51	6.94%
Mar	33.24	22.29	29.63	32.93%
Apr	32.96	21.86	29.63	35.54%
May	30.24	19.22	24.50	27.47%
Jun	24.77	21.33	23.16	8.58%
Jul	25.84	24.5	19.89	-18.82%
Aug	27.2	22.82	n/a	
Sep	23.45	25	n/a	
Oct	25.7	25.11	n/a	
Nov	22.71	29.5	n/a	
Dec	24.46	27.63	n/a	
Exch Rate =	US$1 / NT$31.5	US$1 / NT$32.5	US$1 / NT$34.6	

Consumption

Per capita egg consumption is around 335 eggs. Most chicken eggs are destined for table use and sold through traditional or grocery stores, prepared in restaurants, or retailed as stewed or tea-marinated eggs. Approximately 5% of all domestic chicken eggs are processed into liquid and powdered eggs. Currently Taiwan has no regulation requiring pasteurization of liquid eggs and so production is scattered amongst small-scale producers recovering the whites and yolks of broken whole eggs. Statistics record an uptick in powdered egg production due to government and industry-inspired efforts to provide price supports for fresh eggs. There remains little trade, either local or international in liquid or powdered eggs as most downstream product manufacturers and consumers request whole eggs.

Egg Products: Nearly all duck eggs are consumed as salty and 1,000 year-old eggs. The small volume of out-of-shell chicken egg products consumed include liquid eggs and powdered eggs.

Marketing

Four of every 5 eggs retailed to consumers are sold by farms to traditional markets and retail outlets in 12 kg trays. Consumers purchase by weight or by number based on individual retailer practice. Traditional market vendors typically sell by weight, while local convenience store chains and some local grocers sell by number. The remaining retail eggs are packaged in 10-piece cartons and distributed principally through supermarket and hypermarket chains.

Creative R&D and marketing has led to the introduction of vitamin and mineral fortified eggs which sell at a fair premium to mainstream in-shell eggs. These "premium" type fresh eggs have been able to maintain relatively high retail price points; resisting the price erosion faced in the general fresh egg category (refer to Appendix).

The Impact of WTO

WTO will see tariffs drop slightly for eggs and egg products. The impact is not expected to be significant. Restructuring in the domestic food business to accommodate generally lower material prices, however, is expected to open a renewed interest within the food service sector for imported powdered eggs. The advantages, including extended shelf life and convenience of use, over fresh eggs argue for greater acceptance in Taiwan's ubiquitous small-scale venue food service industry which is pressured both by limited storage / preparation space and lack of service staff.

Lack of familiarity with the use of powdered eggs will require that exporters initially help importers / distributors / major users with basic assistance including application advice, application recommendations, storage and handling recommendations, troubleshooting, etc.

FEED TABLES

FEED GRAIN USE

Marketing Year:	**1998**	**1999**	**2000**	**2001 est.**
Chicken Feed Produced (in metric tons)	3,616,113	3,586,140	3,503,016	3,489,000

TRADE (Metric Tons)

Calendar Year:	**1998**	**Last Year 1999**	**Current Year 2000**	**Out Year Forecast 2001**
Corn				
Imports:	4,757,862	4,823,072	4,941,789	5,034,000
Exports:	1	0	4	1
Soy Beans				
Imports:	2,002,136	2,354,508	2,301,750	2,450,000
Exports:	3	6	0	0
Soy Bean Meal				
Imports:	380	2,806	778	790
Exports:	20,333	2,890	2,612	1,800
Fish Meal				
Imports:	164,735	288,106	295,746	310,000
Exports:	2,491	2,947	1,884	2,700
Palm Crude Oil				
Imports:	907	1,382	800	530
Exports:	14	31	90	20

PROTEIN PRODUCTS TARIFFS AND TAXES	Description	**Bound Rate (%)**	**Applied Rate (%)**	**Other Import Taxes/Fees**
0505.90	FEATHER MEAL	0.00	0.00	0.30
1501.00.00.60	YELLOW GREASE	25.00	25.00	0.30
1502.00.00.40	INEDIBLE TALLOW	1.00	1.00	0.30
1511	PALM OIL	2.50	2.50	0.30
1518	ANML/VG FTS &OILS	3.75 ~ 10.00	3.75 ~ 10.00	0.30
2301.10	MEAT AND BONE MEAL	0.00	0.00	0.30
2301.20	FISH MEAL	0.00	0.00	0.30

APPENDIX

Representative Retail Prices for Poultry & Egg Products [2]
(all items chicken, unless otherwise indicated)

- July 2001 -

Meat (grocer, chilled, retail)

	Description	July 2000	July 2001		unit
1	*Tuji* local variety whole, with skin, with bones	NT$140	NT$149	per	pc.
2	*Wuguji* local variety whole, with skin, with bones	NT$175	NT$179	per	pc.
3	*Tuji* local variety whole, in pieces, with skin, with bones		NT$12.9	per	100g.
4	*Wuguji* local variety whole, in pieces, with skin, with bones		NT$20.9	per	100g.
5	Range-raised (*fangshanji*) local variety whole, with skin, w/ bones	NT$249		per	pc.
6	Duck whole, with skin, with bones	NT$229		per	pc.
7	Large drumsticks	NT$17.5	NT$17.9	per	100g.
8	fryer drumsticks (small)	NT$45	NT$16.9	per	100g.
9	½ breast (no skin, with bones)	NT$9.9	NT$6.9	per	100g
10	Whole breast (with skin and bones)	NT$11.9		per	100g
11	Wings (2-section)	NT$16.9	NT$16.9	per	100g
123	Wings (3-section)	NT$16.5	NT$16.9	per	100g
135	Breast meat (boneless)	NT$26	NT$16.0	per	100g
146	Thigh / leg meat (boneless)	NT$21	NT$20.0	per	100g
157	Cubed meat (breast)	NT$20.9	NT$19.9	per	100g
16	Feet	NT$8.9		per	100g
17	Heart	NT$27	NT$25.9	per	100g
180	Liver	NT$8.9		per	100g
19	Kidney	NT$21.9	NT$21.9	per	100g
20	Ducks blood (chilled, congealed)		NT$8.0	per	100g
21	Duck intestines		NT$25.0	per	100g

[2] Note exchange rate is approximately US$1 : NT$34.6 (8/2001)

Eggs (grocer, fresh, retail)

	Description	July 2000	July 2001		unit
1	Fresh White ("L" 63±3g./pc.)	NT$28	NT$24	per	10 pc.
2	Fresh Brown (54 ~ 68g./pc.)	NT$35	NT$33	per	10 pc.
3	Fresh White, "organic" (≥55g./pc.)	NT$49	NT$49	per	10 pc.
4	Fresh Brown, "organic" (≥55g./pc.)	NT$49		per	10 pc.
5	Fresh White, "beta-carotene fortified"	NT$41	NT$41	per	8 pc.
6	Fresh White, "DHA-fortified"	NT$47	NT$47	per	6 pc.
7	*Pidan* ("1,000 year-old eggs"), *Tuji*	NT$45	NT$46	per	6 pc.
8	*Pidan* ("1,000 year-old eggs"), duck	NT$44 ~ 95	NT$42 ~ 80	per	6 pc.
9	*Pidan* ("1,000 year-old eggs"), duck, "organic"	NT$75	NT$75	per	4 pc.
10	*Xiandan* ("Salty egg"), duck	NT$33	NT$37	per	4 pc.
11	"Antibiotics Free", CAS-certified fresh white		NT$31	per	10pc.

Examples of other retail and prepared poultry / egg products

	Item	Location	Retail Price 2000	Retail Price 2001
1	Chicken nuggets (brand-name), frozen	Grocery store	NT$189 / 1000g.	No change
2	Chicken nuggets (store brand), frozen	Grocery store	NT$155 / 900g.	NT$158 / 800g.
3	Ready to fry drumsticks (brand-name), frozen	Grocery store	NT$179 / 600g.	No change
4	Ready to fry chicken parts (brand-name), frozen	Grocery store	NT$186 / 700g.	Discontinued
5	Chicken "floss" (brand-name), canned	Grocery store	NT$175 / 165g.	NT$139/165g.
6	Chicken "floss" (brand-name), canned	Grocery store	NT$165 / 230g.	NT$189 / 230g.
7	"Popcorn" ready to fry chicken bites, frozen	Grocery store	not available	NT$159 / 900g.
8	Traditional herb-simmered whole chicken, froz.	Grocery store	not available	NT$339 / 2,200g
9	Chicken sausages (Chinese style, meat content is chicken thigh meat only), chilled fresh	Grocery store	NT$99 / 225g.	Discontinued
10	Chicken sandwich (breast meat), prepared	International fast food chain	NT$65 / pc.	No change
11	Chicken drumstick (deep fried), prepared	International fast food chain	NT$49 / pc.	No change
12	Chicken drumstick (deep fried), prepared	Local fast food chain	NT$18 / pc.	No change
13	Chicken neck (200g., deep fried), prepared	Local fast food chain	NT$56 / pc.	No change
14	Tea-marinated egg (hard boiled, white egg)	convenience store	NT$7.0 / pc.	No change