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Taiwan-New Zealand Free Trade Agreement Revels Taiwan's Strong Trade

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Report Highlights:

On July, 10, 2013 the representative offices of Taiwan and New Zealand signed a new free trade agreement (FTA), known as ANZTEC; Taiwan's first with a non-diplomatic partner. In this report the authors attempt to detail the impact of the ANZTEC on competitive U.S. agricultural exports to Taiwan. While ANZTEC is representative of Taiwan's desire to engage in more bilateral and regional trade agreements, questions remain about their willingness to negotiate market access for sensitive agricultural products.

Executive Summary:

On July, 10, 2013, representatives from the New Zealand Commerce and Industry Office (NZCIO) in Taipei and the Taipei Economic Cultural Office (TECO) in Wellington jointly announced the signing of, “an economic cooperation agreement between New Zealand and the Separate Customs Territories of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei), both members of the World Trade Organization.” Dubbed ANZTEC, this free trade agreement (FTA) is Taiwan’s first with a non-diplomatic partner and is representative of Taiwan’s desire to engage meaningfully in more bilateral and regional trade agreements.

In Taiwan, the Executive Yuan is expected to submit the agreement to the Legislative Yuan for approval at the start of the legislative session scheduled to begin on September, 1, 2013. Ratification is expected to proceed smoothly as there is strong support from both of Taiwan's major political parties - the ruling Kuomintang and opposition Democratic Progressive Party.

Under this agreement, Taiwan will eliminate rates on 99.88% of its tariff lines over the 12 year implementation period, including tariffs on key agricultural imports from New Zealand. Agricultural imports from New Zealand (and the United States) into Taiwan currently face tariffs of between 5-20%, on average. The majority of tariff lines will be reduced to zero upon entry into force of the ANZTEC with other high value or sensitive products facing longer tariff reduction timelines.

Taiwan and New Zealand are complementary partners with Taiwan exporting primarily manufactured goods and New Zealand’s exports being largely agricultural. By value, Taiwan is New Zealand's eighth largest market for agricultural, fisheries and forestry exports, valued at \$570 million in 2012. Taiwan’s major imports from New Zealand include milk powder, beef, lamb (sheep) meat, fruit and lumber.

This report attempts to review how the ANZTEC reflects Taiwan's greater trade ambitions and willingness to negotiate on sensitive agricultural commodities. Finally, while quality differentiation and seasonality may lessen the impact of the ANZTEC on competing U.S. agricultural products, this report will detail the potential impact of the Agreement on some key commodities.

General Information:

II. TAIWAN'S TRADE AGREEMENTS - PAST, PRESENT AND FUTURE

Many would-be trading partners have historically been hesitant to engage with Taiwan on any sort of bilateral FTA or other trade agreements due to Taiwan's unique political status and pressure from the Mainland. Thus, the political implications of ANZTEC for Taiwan run far beyond the economic impact. The signing of the Agreement denotes a clear step in Taiwan's strategy to more firmly establish itself in regional trading relationships.

Similar export-reliant neighbors, namely South Korea, have made significantly more progress establishing bilateral trade agreements as compared to Taiwan. Specifically, the United States and South Korea were recently able to come to agreement on an FTA, while Taiwan's most significant

economic engagement with the United States is limited to the annual Trade Investment Framework Agreement (TIFA).

Taiwan looks to enter into more bilateral and regional trade agreements as a means to diversify exports. Taiwan is currently the number one investor in China; in 2012, 40 percent of the island's exports were destined for the mainland (including Hong Kong).

A. Current Free Trade Agreements

Until the ANZTEC, Taiwan's FTAs were limited to those Central American countries where it has official diplomatic ties - Panama, Guatemala, Nicaragua, and a trilateral pact with El Salvador and Honduras. Exports from these countries to Taiwan, however, are minimal and account for less than one percent of Taiwan's total trade by volume.

The United States and Taiwan are not partners in any bilateral or regional free trade agreement. The bilateral forum for negotiating trade or sanitary and phytosanitary (SPS) issues between the United States and Taiwan is the TIFA. In March 2013, the United States and Taiwan were able to resume these negotiations after a seven year delay due to disagreements over access for U.S. beef.

B. Cross-Straight Economic Cooperation Framework Agreement (ECFA)

Taiwan has been increasingly successful in establishing bilateral trade relationships since the signing of the Cross-Straight "Economic Cooperation Framework Agreement" (ECFA) with China in 2010. With ECFA implementation, Taiwan's cross-strait agricultural trade deficit declined from US\$281 million in 2007 to US\$38 million in 2012.

Thus far, Taiwan authorities have kept their public promise to prevent any of the 830 prohibited China-origin agricultural items from liberalization. Also, none of 1,457 Chinese agricultural items that already enjoy market access have seen reduced tariffs. Finally, as of January, 1, 2013, 18 separate Taiwanese agricultural and fishery products can be imported into China duty free. Still, Taiwan and China authorities have many ECFA topics yet to agree upon including expanded access for China-origin agricultural products and quarantine issues

More broadly, Taiwan has used the ECFA agreement as a signal to third-parties that China no longer actively seeks to encourage Taiwan's regional economic isolation. Since the ECFA's signing, Taiwan has been more aggressive in pursuing FTAs with third-party countries that previously may have been hesitant to sign any agreement with Taiwan.

C. Potential Trade Agreements

With the signing of the ANSZTEC, Taiwan made clear with immediate statements that they hoped this momentum would facilitate progress on other FTAs. Even the nomenclature in the ANSZTEC - "the Separate Customs Territory of Taiwan, Penghu and Matsu" - was deliberate with the goal of facilitating future trade agreements.

Taiwan is currently in FTA negotiations with Singapore. While an agreement may come as early as fall 2013, it is not likely to have any discernible impact on U.S. agricultural exports to the island considering Singapore's limited production. Taiwan has begun very preliminary FTA discussions with India and Indonesia as well. Most recently, President Ma met with a delegation from the Economic Commission of the German Parliament in hopes of facilitating progress on a Taiwan/EU FTA.

Taiwan authorities make no secret of their desire to join the Trans Pacific Partnership (TPP) and are looking for U.S. support in their bid. According to the Taiwan Ministry of Economic Affairs' (MOEA) public ANZTEC statement, this Agreement, "demonstrates Taiwan's determination to engage in meaningful trade liberalization and reinforces its ongoing efforts to conclude and participate in other economic cooperation agreements and regional trade agreements in the future."

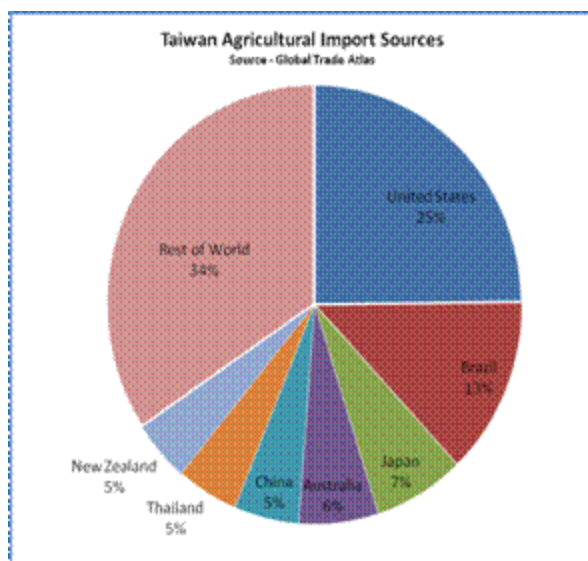
An August 5, 2013, article in the Washington Times provided by Taiwan's Economic and Cultural Representative Office (TECRO) senior advisor, Chih-hwang Chiang, was more obvious in its call for Washington's support of Taiwan in TPP as well as additional bilateral trade agreements with the United States:

ANZTEC underscores Taiwan's commitment to this market diversification and trade liberalization as well as its readiness to seek similar deals with other trading partners, such as the United States. It also reflects Taiwan's political will to engage in regional trade agreements, such as the Trans-Pacific Partnership Agreement. Complementary moves on Washington's part, whether through advocating for Taiwan's membership in this agreement or through other means, such as a bilateral free-trade agreement and a bilateral investment agreement will clearly demonstrate continued firm support for a long-standing ally of the United States. (Chiang)

With that, the United States continues to remind Taiwan that the decision regarding Taiwan's inclusion does not lay exclusively with the United States, but equally with all TPP members. These efforts, however, are preliminary and the United States would very likely require more confidence in Taiwan's ability to uphold current bilateral and WTO commitments, particularly on agricultural issues, before supporting Taiwan's TPP ambitions.

III. TAIWAN'S AGRICULTURAL SITUATION

A fragmented production base, high input costs and heavily protected domestic production have resulted in an agricultural sector that produces less than two percent (1.9% in 2012) of Taiwan's total GDP and employs only five percent of the national workforce. Nevertheless, agriculture strikes a nostalgic cord among voters and is a potent political force and protectionism often becomes a barrier to appropriate market liberalization.



In 2012, Taiwan's agricultural production totaled about US\$8.68 billion, with field crops (primarily rice) accounting for 44 percent of the total, livestock - 33.5 percent, fishery products - 22 percent, and forestry products - less than one percent. Hog production is the largest subsector by value, while rice production occupies the greatest land area. Tropical fruit, poultry, vegetables, aquaculture, and tea production are also important particularly regarding the export markets

Taiwan typically has adequate production of rice, vegetables, fruits, pork, poultry meat and seafood but is heavily dependent on imports of wheat, feed grains, soybeans, beef and dairy products. Taiwan's agricultural exports, which are constrained by high

domestic production costs, consist primarily of high-quality products such as orchids, sub-tropical fruits and processed seafood for affluent export markets.

A. U.S. Agricultural Exports to Taiwan

In 2012, Taiwan was the United States' seventh largest agricultural export market, importing US\$3.4 billion worth of U.S. agricultural, fishery and forest products. The United States continued to be Taiwan's largest supplier of agricultural goods and food products in 2012, accounting for about 23 percent of Taiwan's (total agricultural and food) imports. Coarse grains and oilseeds continue to account for the bulk of U.S. agricultural exports to Taiwan; grains (feed and food), wheat and oilseeds accounted for 43 percent of Taiwan's total agricultural imports from the United States.

U.S. Agricultural Exports to Taiwan - Major Products by Value (US\$ 1,000)

	Product	2008	2009	2010	2011	2012
Commodities						
	Soybeans	952,219	718,946	654,839	703,587	767,832
	Wheat	326,884	240,651	230,454	397,958	357,065
	Corn	805,977	723,846	612,375	794,740	308,407
Meats						
	0202 Frozen beef	67,698	94,767	134,013	132,892	88,337
	0201 Chilled beef	59,864	45,255	80,967	65,899	39,797
	Broiler meat	69,180	72,179	104,800	110,182	143,383
	Pork, Fr/Ch/Fz	37,039	46,502	40,885	33,847	22,484
	Variety meats, pork	11,982	17,951	12,487	17,699	16,816
Horticultural						
	080810 Apples, Fresh	49,029	47,196	50,064	76,534	85,047
	080920 Cherries, Fresh	16,048	25,096	18,713	33,058	47,866
	080930 Peaches, Nect.	35,287	30,446	40,480	24,054	31,911
	080820 Pears, Quince	1,424	2,100	1,166	2,363	1,815
	080940 Plums, Prunes	11,501	6,361	8,939	6,388	6,263
	080610 Grapes	24,490	21,524	15,885	16,843	21,358
	Vegetables and Prep.	11,915	123,784	135,644	144,659	165,363
Dairy						
	0406 Cheese And Curd	10,081	9,684	13,257	23,042	27,583
	0402 Non fat dry milk	2,935	443	966	2,382	2,759
	0401 Fluid Milk And Cream	236	369	287	305	153
	Whey	6,267	5,359	7,164	6,839	8,970
	Butter And Milkfat	1,077	355	849	2,286	747
	Other Dairy Products	9,896	9,874	8,828	7,885	7,945
Total Value of U.S. Ag Exports to Taiwan		3,419,412	2,987,919	3,189,134	3,612,143	3,219,200

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

A. New Zealand Exports to Taiwan

Two-way trade between New Zealand and Taiwan was just over US\$ 1.2 billion in 2012.

New Zealand's exports to Taiwan are primarily agricultural and accounted for US\$ 570 million, or 76% of total exports to Taiwan in 2012. As noted, Taiwan and New Zealand produce and export complementary goods - machinery and mechanical appliances and agricultural products, respectively. Taiwan's major imports from New Zealand include milk powder, beef, lamb (sheep) meat, fruit and lumber. Unlike the United States, New Zealand produces minimal quantities of wheat, corn or soybeans for the international market.

New Zealand Ag Exports to Taiwan by Value (US \$1,000)						
HS Code	Product Description	2008	2009	2010	2011	2012
0402	Milk powder	80,569	134,961	143,146	182,490	151,918
0202	Frozen beef	107,233	109,148	106,161	120,312	120,764
0405	Butter	37,969	34,003	64,052	73,449	52,534
0204	Sheep or goat meat	55,329	45,888	59,635	58,654	51,629
4407	Timber, sawn or chipped	26,843	21,756	30,147	31,882	31,762
0406	Cheese and curd	34,933	33,969	40,868	37,706	27,967
0808	Apples	27,496	26,421	21,542	25,354	17,320
4703	Chemical wood pulp	16,090	19,960	22,028	15,384	17,053
0201	Fresh, chilled beef	8,027	8,838	9,590	12,368	12,904
4403	Rough wood, logs	7,782	7,735	10,374	12,676	10,034
0401	Fresh milk	8,688	9,696	8,404	10,326	9,762
0809	Cherries	7,793	11,346	9,997	10,597	8,358
0003	Fish and crustaceans, molluscs and other aquatic invertebrates	7,356	10,969	13,528	8,664	6,884
4705	Wood pulp	10,437	10,009	9,522	7,949	6,098
0015	Animal or vegetable fats and oils; prepared animal fats; animal or vegetable waxes	16,325	6,552	14,145	4,713	4,041
4411	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances	4,596	4,406	4,414	3,917	3,326
0808	Pears	283	821	683	817	1,061

Source: Statistics New Zealand_

IV. ANZTEC ANALYSIS

ANZTEC is touted by Taiwan as a "high-quality, high-standard agreement." Under the ANZTEC, Taiwan will liberalize 99.88% of their tariff lines while New Zealand will liberalize 100%. Rice and rice products, for instance, are not included in the agreement. Customs duties on 94.5% of Taiwan's tariff lines will be eliminated immediately, or EIF. Customs duties on all of Taiwan's agricultural exports to New Zealand will be removed when the Agreement comes into effect. New Zealand was Taiwan's 39th largest market for agricultural exports in 2012, totaling just over US\$ 6.2 million (HS codes 1-24). Taiwan agricultural exports to New Zealand are primarily processed and prepared food products.

The ANZTEC includes both an sanitary and phytosanitary (SPS) and technical barriers to trade section. The SPS chapter specifically obligates both trading partners to abide by the SPS Agreement of the World Trade Organization and references appropriate recommendations from Codex, International Organization for Animal Health and International Plant Protection Convention. Moreover, the Agreement details equivalence recognition, certification requirements and import verifications. Finally, included is an information exchange mechanism which requires trading partners to notify each other within 24 hours whenever a "serious matter" arises.

DAIRY

Dairy products are New Zealand's primary export earner and a key driver of economic growth, accounting for approximately 7-8% of GDP in 2010. New Zealand is home to the world's largest dairy processor, Fonterra Cooperative Ltd, which single handedly controls an estimated 40% of world trade in dairy products. Domestically, Taiwan's dairy industry supplies most of the fresh milk and drinking yogurt consumed on the island.

HS Code 0402 - Milk Powder, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Date</u>
World	\$186,455	54,927		
U.S.	\$2,643	850	10%	NA
New Zealand	\$133,585	39,141	10%	EIF

Source: Global Trade Atlas

Dairy products are New Zealand's largest export to Taiwan, particularly dried milk powder. New Zealand controls a staggering 72% market share of Taiwan's milk powder imports, followed by Australia with 15.5% market share. In 2012, the United States exported \$2.6 million in dried milk powder to Taiwan, claiming a 1.4% market share.

As milk powder is highly elastic and product differentiation is minuscule, New Zealand is expected to become even more dominant in the market as a result of ANZTEC. However, the U.S. export volume in 2012 was approximately only 850 metric tons; therefore, the economic impact on the United States is not significant.

HS Code 0401 – Fresh Milk, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>ANZTEC Year 1-11</u>	<u>End Date</u>
World	\$32,278	19,328			
U.S.	\$867	524	Milk: NT\$15.6/KG;	NA	NA
New Zealand	\$8,384	5,260	Milk: NT\$15.6/KG;	Milk: NT\$14/kg	Milk: Year 12

Source: Global Trade Atlas

Regarding fresh milk imports into Taiwan, Post does not anticipate a huge impact on the United States, again given the very limited volume of U.S. fresh milk currently exported to the island. Taiwan consumers prefer fresh milk with high fat content (3.8%) which is currently supplied primarily by their local industry. Therefore, the imported volume under the 2012 tariff rate quota (TRQ) was only 12,137 MT, short of the authorized 21,298 MT for fluid milk imports.

Distance and shipping costs have historically limited New Zealand fresh milk exports to Taiwan. Throughout the 12-year implementation period, the tariff on fresh milk is only slightly reduced from

NT\$15.6/kg to NT\$14/kg after the first year. The tariff remains at this level through the full implementation period and only at year 12 does it fall to zero. As this is one of the few significant agricultural products produced both in Taiwan and New Zealand, Taiwan's decision to extend the tariff through the entire 12 year implementation period speaks as to their desire to protect their domestic industry.

The tariff reduction in cream is more significant, from 20% initially and decreasing by 5% increments annually until year four when the tariff decreases to zero. This will primarily impact France, currently the biggest supplier of cream to Taiwan. The United States does not export cream to Taiwan.

HS Code 0404 - Whey, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$15,673	10,177			
U.S.	\$5,998	4,454	5%	NA	NA
New Zealand	\$691	132	5%	Free	EIF

Source: Global Trade Atlas

Despite a zero tariff upon entry into force (EIF) of the agreement, the United States is not expected to see significant competition from New Zealand whey exports due to quality differentiation. When it comes to whey, the Taiwan industry recognizes the quality of U.S. whey and indicates even given the 5% tariff reduction in New Zealand whey, U.S. whey will still be priced competitively.

In August 2013, China banned the imports of New Zealand milk powder due to Fonterra's whey protein initially testing positive for a botulism-causing strain of bacteria. Though it later proved to not be botulism, consumers were aware of the issue due to intense media coverage. Product origin may subsequently influence buyers' purchasing decisions and reinforce preference for U.S. origin products.

HS Code 0405 - Butter, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$74,201	18,258			
U.S.	\$1,336	249	Butter: 5% Spreads: 15%	NA	NA
New Zealand	\$45,625	7,972	Butter: 5% Spreads: 15%	Free	EIF

Source: Global Trade Atlas

New Zealand 61.5% butter market share (2012) is expected to grow, not only as a result the 5% tariff reduction upon EIF, but also long-term consistent marketing investments. However, the U.S. export volume is very limited; therefore, the economic impact will not be significant. Post anticipates Australia and France will be most impacted with 10% and 9% 2012 market share, respectively.

HS Code 0406 - Cheese, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
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World	\$108,765	23,065			
U.S.	\$31,227	7,114	5%	NA	NA
New Zealand	\$24,762	5,896	5%	Free	EIF

Source: Global Trade Atlas

Post does not anticipate a significant impact on U.S. cheese exports to Taiwan, especially in the short term. Despite of 5% tariff reduction for New Zealand cheese, U.S. cheese is still expected to be price-competitive as severe drought has pushed New Zealand cheese prices upwards. In addition, New Zealand's cheese production (and export) forecast has decreased substantially; USDA estimates a 15 percent decline compared with 2012. While 2012 saw record cheese production out of New Zealand (as a result of peak milk supplies), such was likely an anomaly as New Zealand has shifted focus toward producing milk powder for China. New Zealand should have more drying capacity from 2013 onwards, thus the 2012 cheese production numbers are unlikely to repeat. As a result, the United States should be able to retain its position as the number one supplier of cheese to Taiwan with nearly 29% market share in 2012.

WINE

HS Code 2204 - Wine, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$130,122	16,833			
U.S.	\$10,020	1,395	still wine: 10%; sparkling wine: 20%	NA	NA
New Zealand	\$855	61	still wine: 10%; sparkling wine: 20%	Free	EIF

Source: Global Trade Atlas

In 2012, New Zealand was the 10th largest supplier of wines to Taiwan with only 0.66% market share while France occupied the number one position with nearly 60% market share. So, while New Zealand wine will immediately see a zero tariff, exports to the island could increase significantly before the United States noticed an impact. Moreover, U.S. and New Zealand wines are not perfect compliments. For instance, New Zealand Sauvignon Blanc is popular in Taiwan while the U.S. supplies primarily Chardonnays and Cabernet Sauvignons. In addition, local consumers still prefer red varieties to white as demonstrated by sales (volume) ratio of approximately 85:15.

HORTICULTURE

Taiwanese are amongst the world's highest per capita consumers of fresh fruit. For instance, Taiwan continues to be a reliable customer for U.S. apples, peaches/nectarines and cherries.

HS Code 080810 - Apples, Fresh, Exports to Taiwan, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
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World	\$164,481	134,403	20%		
U.S.	\$75,555	63,451	20%	NA	NA
New Zealand	\$13,795	12,048	20%	Free	EIF

Source: Global Trade Atlas

Apples are currently the most popular imported fruit in Taiwan with Fuji variety accounting for 95% of total retail sales. Taiwan has very limited local production, only 1,667 MT in 2011/12, a 24% drop over the previous year. The United States continues to be the largest apple supplier with a 46% market share. New Zealand is Taiwan's fourth largest foreign supplier of apples, averaging 16,250 MT annually, over the past five years, or approximately 10% of total imports.

The apple growing periods for the United States and New Zealand are almost perfectly counter-seasonal, with the U.S. season stretching from September to May while the New Zealand season goes from April to August. Therefore, while Post anticipates that U.S. apple exports to Taiwan will decrease slightly - approximately 2-3% - steady demand should dampen the impact of the 20% tariff reduction. Moreover, in the face of rising commodity prices, Taiwan has historically lowered the import tariff to 10%, which would obviously benefit U.S. exporters should the authorities enact the policy again.

HS Code 080920 - Cherries, Sweet or Tart, Fresh, Exports to Taiwan 2012 data

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$87,921	14,984			
U.S.	\$52,777	9,718	7.5%	NA	NA
New Zealand	\$7,670	680	7.5%	Free	EIF

Source: Global Trade Atlas

The United States will not see significant competition from New Zealand cherry exports in Taiwan after the tariff reduction for New Zealand is implemented. Being in the Northern hemisphere, the United States exports cherries to Taiwan from May-September while New Zealand cherries are available in the Taiwan market from January-May. Moreover, U.S. cherries have established a strong reputation as a high quality product demanding a relatively high price. Thus, the U.S. is expected to retain its position as the leading supplier of cherries to the island. In 2012, the United States supplied 65% of the imported cherries to the island. Taiwan is 100% reliant on cherry imports with no local production.

MEAT - Beef

HS Code 0201, 0202 - Beef, Chilled, Frozen, Taiwan Import Statistics, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (MT)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$491,372	82,636			
U.S.	\$121,972	18,027	NT\$10/KG	NA	NA
New Zealand	\$113,748	19,825	NT\$10/KG	Free	Year 2

Source: Taiwan Council of Agriculture

New Zealand was Taiwan's second largest beef supplier in 2012, selling nearly 20,000 metric tons of

beef worth \$113.7 million and account for more than 20% of New Zealand trade to Taiwan. The zero beef tariffs under the ANZTEC, which will be imposed in the second year after the agreement become effective, will not adversely impact U.S. beef exports to Taiwan due to the quality differences between N.Z. grass-fed and the U.S. grain-fed beef are well- recognized by end users. Traditionally, N.Z. beef is used mainly in lower-end and family style restaurants while U.S. beef has high acceptance in the retail market, high-end hotels and white-tablecloth restaurants. The unit import price of N.Z. beef was \$5.75 while U.S. beef is \$6.8 per kilogram in 2012. Also, the U.S. surpassed both Australia and New Zealand to regain its position as the number one beef supplier in the first six months of 2013, as a result of Taiwan's adoption of maximum residue levels of ractopamine in beef on October 1, 2012. All in all, the larger market share for U.S. beef in conjunction with the higher unit price indicates Taiwan buyers tend to pay for quality.

In addition, the reduction of already-low beef tariffs (NT\$10 per kilogram or US\$0.15 per pound) is unlikely to give N.Z. beef exports a competitive advantage under the new Taiwan-NZ trade agreement. On the other hand, Australian beef exports to Taiwan, especially those of lower-end, may see some impacts after the reduction of N.Z. beef tariffs come into effect.

LUMBER - Softwood

HS Code 440710 - Softwood, Sawn or Chipped Lengthwise, Taiwan Import Statistics, 2012

<u>Origin</u>	<u>Value (\$1,000 USD)</u>	<u>Volume (M3)</u>	<u>Base Tariff</u>	<u>End Tariff</u>	<u>End Date</u>
World	\$186,383	810,851			
U.S.	\$38,220	161,773	Free		
New Zealand	\$29,044	101,076	Free	Free	Free

Source: Taiwan Directorate General of Customs

Softwood lumber and logs (HS 44) rank number four among all the product categories New Zealand exported to Taiwan in 2012. New Zealand's Radiata pine, largely used for pallet manufacturing, packaging, concrete forming, and moulding industry, is the major competitor for lower industrial grades of U.S. Douglas Fir products. However, the softwood lumber tariff rate was already cut down to zero upon Taiwan's accession to World Trade Organization in 2002. As a result, U.S. softwood exporters will not see increased competition resulting from the ANZTEC completion.

V. CONCLUSION

While Taiwan has touted the ANZTEC as a "high-standard" trade agreement, a closer review reveals minimal immediate concessions for imported agricultural goods. Only those goods that are either, 1) not produced in any discernible quantity in Taiwan or, 2) produced in very minimal quantity but for which demand is high, will see a zero tariff upon implementation of the agreement. For instance, Taiwan apple farmers are able to meet only about 1% of the island's demand; thus New Zealand apples are one of the few commodities where the tariff is eliminated at EIF. Conversely, the vast majority of agricultural exports from New Zealand will not see reduced tariffs until 4, 8 or even 12 years into the agreement.

As another example, while Taiwan has no significant sheep (lamb) production, but under the ANZTEC the tariff for lamb is not eliminated until year four. Taiwan's goat farmers only supply about ten percent of the island's domestic consumption. (Sheep and goat meat are often interchangeable and consumers are not generally aware of the difference). Taiwan is, thus, heavily reliant on imports from Australia and New Zealand. The tariff for goat meat is not eliminated until year eight of implementation.

It is particularly interesting that rice was exempt from the agreement. This is despite the fact that New Zealand produces effectively zero rice for the international market and could hardly be considered a competitor to Taiwan's domestic production. Still, rice and rice imports are highly sensitive in Taiwan. This commodity's absence from Taiwan's first bilateral trade agreement with a major trading partner is telling.

Taiwan's willingness to negotiate access for items which may compete with domestic product is arguably yet untried.