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## **Taiwan**

### **2016 Dairy and Products Annual**

#### **Dairy Demand Remains Strong Despite Slowing Economy**

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**Report Highlights:**

Demand for milk and other dairy products in Taiwan are forecast to remain stable or rise slightly in 2017. Fluid milk imports surged to 24,034 metric tons (MT) in the first nine months of 2016, up 40 percent from the same period last year. Strong demand has caused the tariff quota for milk to fill earlier than it has in past years. However, high tariffs for out-of-quota imports and Taiwan's special safeguard mechanism (SSG) are expected to restrict total imports.

**Executive Summary:**

Demand for milk and other dairy products in Taiwan are forecast to remain stable or rise slightly in 2017. 2017 Fluid milk demand is forecast to rise slightly to 424,000 MT. Sales of fresh milk are up 1.2 percent for the first half of 2016 according to government statistics. Consumption of milk powder, butter, and cheese are all forecast to increase slightly or remain stable in 2017. Per capita consumption of dairy products was 21 KG per person in 2015, over three quarters of which consisted of fluid milk.

Taiwan's domestic milk production is forecast to stay flat in 2017 at 395,000 MT. Domestic milk production is constrained by limited land and climate. Domestic production accounts for over 90 percent of the total fluid milk supply. Taiwan is not a significant producer of other dairy products.

Fluid milk imports surged to 24,034 MT in the first nine months of 2016, up 40 percent from the same period last year. Strong demand has caused the tariff quota for milk to fill earlier than it has in past years. However, high tariffs for out-of-quota imports and Taiwan's SSG are expected to restrict total imports this year. Estimated 2016 whole milk powder (WMP) imports are lowered 5,000 MT to 30,000 MT as imports have been down over the first nine months of this year. Nonfat dry milk powder (NDM) imports are lowered by 1,000 MT, also on import statistics.

**Commodities:**

Dairy, Milk, Fluid

**Production:**

Taiwan's domestic milk production is forecast to stay flat in 2017 at 395,000 MT. Domestic milk production is constrained by limited land and climate. According to Council of Agriculture (COA) statistics, the numbers of milking cows in 2016 was 61,858, essentially unchanged from 2015. Domestic producers are working to increase productivity through improved breeding techniques in order to meet growing demand.

Domestic production accounts for over 90 percent of the total fluid milk supply. Dairy cattle account for 96 percent of domestic milk production, with the remaining 4 percent supplied by goats. Most dairy cows in Taiwan are Holsteins.

**Consumption:**

Total milk consumption is forecast to continue to grow slightly in 2017 to 424,000 MT. Estimated 2016 milk consumption is unchanged at 423,000 MT. The sales volume of fresh milk increased 1.2 percent in the first half of 2016 to reach 168,053 MT according to statistics from the Ministry of Economic Affairs (MOEA). Local producers have tried to regain consumer confidence in fresh milk by increasing transparency and traceability, with some success.

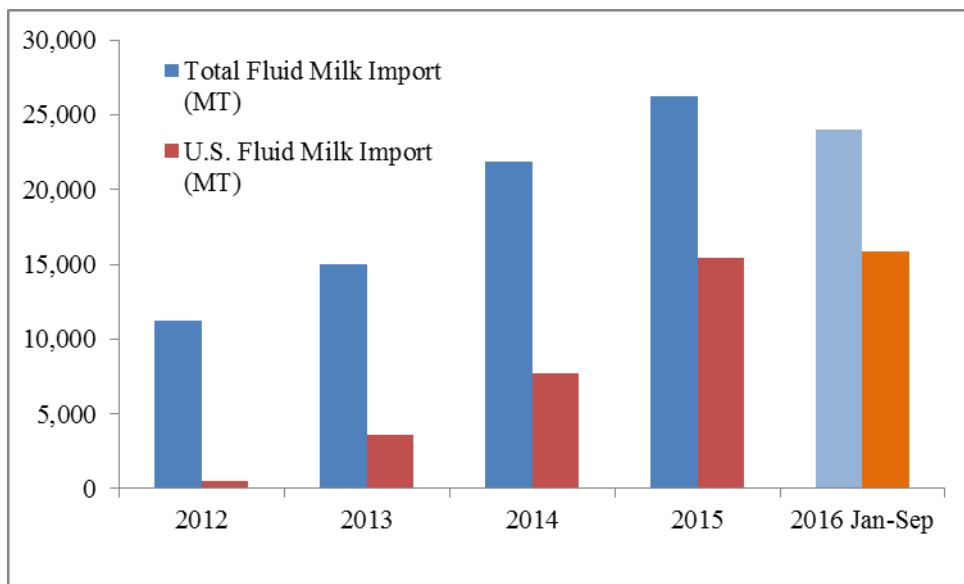
Per capita consumption of dairy products was 21 KG per person in 2015, over three quarters of which consisted of fluid milk. Milk is also commonly consumed in coffee drinks, which have become popular over the past decade. Almost 30 percent of domestic fresh milk is sold through coffee shops, convenience stores, beverage shops, and restaurants in the form of beverages or processed products.

Fluid milk demand peaks during the summer when it is consumed as a cold beverage. High temperatures during summer months put stress on dairy cattle, hurting the quantity and quality of domestic milk production. Some coffee shops and beverage makers are experimenting with using imported milk or alternative dairy product, such as cream or milk powder to meet demand in the summer. This trend is expected to boost demand for imported dairy products in coming years.

**Trade:**

2017 total fluid milk imports are forecast to increase slightly to 29,000 MT. Estimated 2016 imports are unchanged at 28,000 MT. Imports for the first nine months of 2016 surged to 24,034 MT, up 40 percent from the same period last year. Strong demand has caused the tariff quota for milk to fill earlier than it has in past years. However, high tariffs for out-of-quota imports and SSG are expected to cause the import pace to slow in the remaining months of 2016.

The United States is the top exporter of milk to Taiwan. U.S. fresh milk exports to Taiwan during the first nine months reach 15,895, up 69 percent from the same period last year. The United States supplies almost two thirds of Taiwan’s fresh milk imports. The second and third largest exports are New Zealand and Australia.



Source: The Council of Agriculture (COA), Taiwan

**Policy:**

Taiwan replaced its ban on fluid milk imports with a Tariff Rate Quota (TRQ) and a Special Safeguard (SSG) following its accession to the WTO in 2002. The tariff for in-quota imports is 15 percent, while the out-of-quota rate is NT\$15.6 per kg (approximately US\$487 per MT). 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 once a year. 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. The annual TRQ volume for fluid milk is 21,298 MT. In the last two years the TRQ for fluid milk was fully allocated in the first round, reflecting increasing demand for imported milk.

The Ministry of Finance (MOF), which is responsible for TRQ allocations, has entrusted the Bank of Taiwan (BOT) to implement the TRQ application and allocation process. All relevant TRQ information can be retrieved from the [BOT website](#). The 2017 TRQ for fluid milk will be auctioned in November 2016 and March 2017.

### **Special Safeguards**

Taiwan also adopted an SSG to control the volume of imported fluid milk. The Department of Treasury determines a quantity trigger and a unit base 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 2016 SSG quantity trigger for fresh milk is 12,909 MT while the SSG trigger for other fluid milk is 9,383 MT. The SSG price trigger for fluid milk is NTD\$17 (US\$0.53) CIF per liter. The HS codes covered under "fluid milk" are: 04011010, 04011020, 04012010, 04012020, 04014010, 04014020, 04015010, 04015020, 04029910, 04029920, 04029992, 04039029, 04039040, 04039059, 04039090, 18069053, 18069055, 19019025, 19019027.

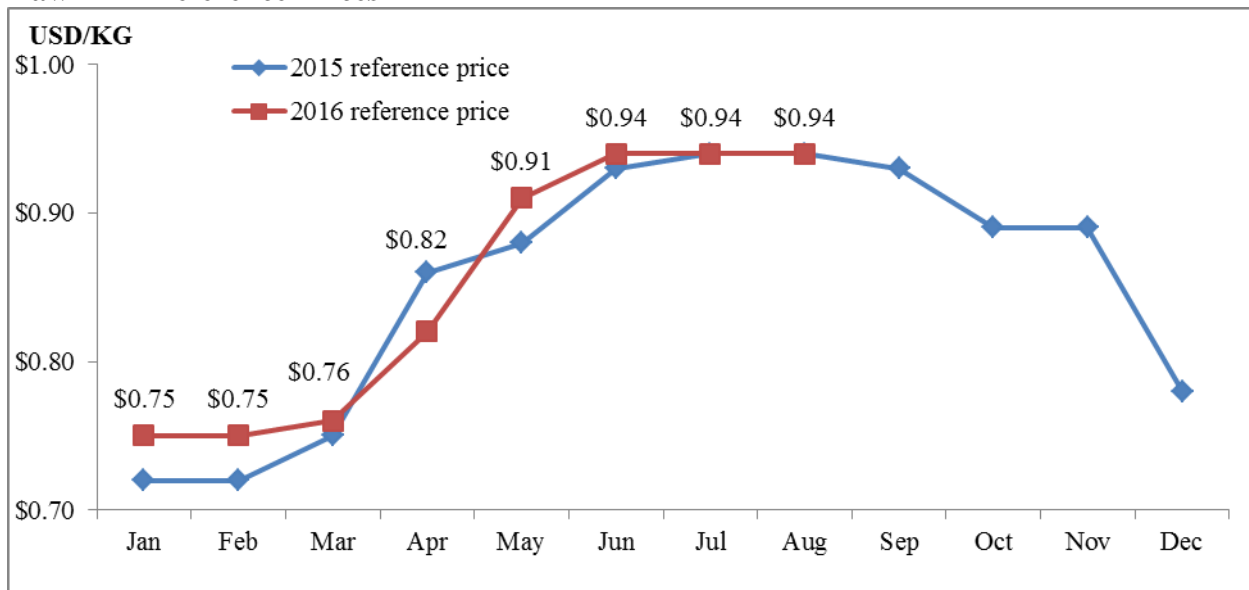
### **Free Trade Agreements**

Taiwan and New Zealand signed a bilateral Free Trade Agreement in July 2013. Effective from December 1, 2013, the tariff for fluid milk imports from New Zealand within a 7,000 MT TRQ was reduced to zero for 2016. The tariff for the out-of-quota imports is NTD\$14 (US\$0.44) per kg.

### **Marketing:**

COA sets reference prices for raw milk based on fat percentage, solid nonfat percentage, and somatic cell count. The minimum required fat content for raw milk is 2.8 percent. Reference prices rise during the summer months to reflect the impact of high temperatures on dairy production. Heat-stress in dairy cattle can result in higher somatic cell counts, reducing production of qualified raw milk. Taiwan milk processors refer to the government reference prices and design incentive programs to negotiate pricing with dairy farmers as part of their annual contracts.

## Raw Milk Reference Prices



Source: National Animal Industry Foundation (NAIF)

Three key domestic processors (Uni President, Wei Chuan, and Kuan Chuan) account for almost 80 percent of fluid milk products on the market in Taiwan. In 2014 Ting Hsin International Group, the parent company of Wei Chuan, was investigated for mixing non-food grade oil with their cooking oil. This scandal caused some consumers to boycott the company's products, including Wei Chuan milk. In an effort to restore trust, Wei-Chuan began placing a QR-code on each bottle of fresh milk to allow consumers to track the product's origin. This has become popular with consumers, and Uni-President and Kuan-Chuan recently implemented QR-code labeling on their products.

While these efforts have been somewhat successful, more consumers are now seeking out small local brands. Farmers have responded by terminating annual contracts with processing plants in favor of building up their own brands. However, processing plants must be registered and certified in order to use the COA Fresh Milk Seal. Some small farms are unable to obtain a certificate because they do not have their own processing plant.

### Labeling

COA has been actively promoting its domestic fresh milk seal to consumers. As a result, most Taiwan consumers associate better quality in fresh milk with an authorized seal on the packaging.

Only domestic registered processing plants (18 in total) are eligible to apply to use the COA Fresh Milk Seal on their products. COA reviews each application and strictly controls the number of authorized seals issued based on the volume of raw milk that these processing plants purchase from local dairy farms. There are separate seals for summer (April to November) and winter (December to March).

According to Taiwan's Act Governing Food Safety and Sanitation, if the milk is fortified with nutrients that are not inherent in raw milk itself, such as oligosaccharide, calcium, or Vitamin D, it cannot be labeled as "fresh" milk. Below is an example of COA's fresh milk seal.

**Commodities:**

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

**Production:**

Taiwan does not produce milk powder in commercial quantities.

**Consumption:**

Whole Milk Powder (WMP) (HS: 040221 and 040229) consumption is forecast to recover slightly in 2017 to 31,000 MT on continued growth in the processed food and beverage sectors. Estimated 2016 consumption is lowered 5,000 MT to 30,000 MT on slower import pace. Importers and food processors are believed to only hold minimal stocks and consumption closely tracks import statistics. While WMP is more popular than nonfat milk powder, most consumers prefer fresh milk if available.

Post forecasts that Nonfat Dry Milk (NDM) consumption will stay flat in 2017 at 22,000 MT. NDM is primarily used in the fermented or flavored beverage processing industry. Estimated 2016 NDM consumption is lowered 1,000 MT to 22,000 MT on slower pace of imports. According to market reports, soy milk sales are increasing in 2016 and taking some market share from dairy products such as milk powder. Many consumers view soy milk as a healthy and economical alternative to dairy.

**Trade:**

2017 WMP and NDM imports are forecast at 31,000 MT and 22,000 MT respectively. WMP imports in the first nine months of 2016 were just under 22,000 MT, down 16 percent from the same period last year. NDM imports for this period are also down 13.5 percent. As a result, estimated 2016 WMP and NDM imports are lowered to 30,000 MT and 22,000 MT respectively.

New Zealand and Taiwan signed an FTA in 2013 that eliminated the 10 percent tariff on New Zealand WMP. The tariff cuts, in addition to food processors' preference for New Zealand milk powder, have put U.S. milk powder at a competitive disadvantage. New Zealand has a 95 percent market share for WMP in Taiwan and an 85 percent market share for NDM.

**Commodities:**

Dairy, Butter

**Production:**

Taiwan does not produce butter in commercial quantity.

**Consumption:**

Butter and anhydrous milk fat (AMF) (HS: 0405) consumption is forecast at 22,000 MT in 2017 and 2016. While the foodservice and baking sectors are growing, many food processors prefer to use fresh milk.

**Trade:**

2017 butter and AMF imports are forecast at 22,000 MT. Imports for January to September 2016 totaled 16,515 MT, down 8 percent from the same period last year. New Zealand dominates the AMF and butter market with a 78 percent market share. Its Anchor brand is popular, particularly in the local baking industry. In March, 2016, Taiwan’s Food and Drug Administration published new regulations and labeling requirement for butter, cream, margarine and related products. The new rules will require labels on imported products to use standardized Chinese terms based on specific standards. The new rules are currently set to come into effect on July 1, 2017.

**Commodities:**

Dairy, Cheese

**Production:**

Taiwan does not produce cheese in commercial quantities.

**Consumption:**

Cheese consumption is forecast to rise slightly in 2017 to 30,000 MT. Estimated 2016 consumption is unchanged at 29,000 MT. Per capita cheese consumption has been rising in Taiwan and reached 1.24 KG in 2015, although it is still very low compared to most Western countries. Cheese is commonly using in the foodservice sector for baked goods, pizzas, pastas, and deserts.

**Trade:**

Cheese imports are forecast to rise slightly in 2017 to 30,000 MT. Estimated 2016 imports are unchanged at 29,000. Taiwan imported 23,000 MT in the first nine months of 2016, up 6 percent from the same period last year. New Zealand has a 30 percent market share by volume, followed by the United States (22 percent) and Australia (13 percent).

**Production, Supply and Demand Data Statistics:**

Dairy, Milk, Fluid Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Taiwan						
Cows In Milk	60	62	60	62	0	62
Cows Milk Production	374	374	380	380	0	380
Other Milk Production	15	15	15	15	0	15

<b>Total Production</b>	389	389	395	395	0	395
<b>Other Imports</b>	25	25	28	28	0	29
<b>Total Imports</b>	25	25	28	28	0	29
<b>Total Supply</b>	414	414	423	423	0	424
<b>Other Exports</b>	0	0	0	0	0	0
<b>Total Exports</b>	0	0	0	0	0	0
<b>Fluid Use Dom. Consum.</b>	373	373	381	381	0	382
<b>Factory Use Consum.</b>	41	41	42	42	0	42
<b>Feed Use Dom. Consum.</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	414	414	423	423	0	424
<b>Total Distribution</b>	414	414	423	423	0	424

(1000 HEAD) ,(1000 MT)

Dairy, Dry Whole Milk Powder Market Begin Year Taiwan	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	0	0	0	0	0	0
<b>Other Imports</b>	35	34	35	30	0	31
<b>Total Imports</b>	35	34	35	30	0	31
<b>Total Supply</b>	35	34	35	30	0	31
<b>Other Exports</b>	0	0	0	0	0	0
<b>Total Exports</b>	0	0	0	0	0	0
<b>Human Dom. Consumption</b>	35	34	35	30	0	31
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	35	34	35	30	0	31
<b>Total Use</b>	35	34	35	30	0	31
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	35	34	35	30	0	31

(1000 MT)

Dairy, Milk, Nonfat Dry Market Begin Year Taiwan	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	0	0	0	0	0	0
<b>Other Imports</b>	25	25	23	22	0	22
<b>Total Imports</b>	25	25	23	22	0	22
<b>Total Supply</b>	25	25	23	22	0	22
<b>Other Exports</b>	0	0	0	0	0	0
<b>Total Exports</b>	0	0	0	0	0	0
<b>Human Dom. Consumption</b>	25	25	23	22	0	22
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	25	25	23	22	0	22
<b>Total Use</b>	25	25	23	22	0	22
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	25	25	23	22	0	22

(1000 MT)

Dairy, Butter Market Begin Year Taiwan	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	0	0	0	0	0	0
<b>Other Imports</b>	25	24	22	22	0	22



