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Food Safety Scandal Forces Baking Industry to Change

Report Categories:

Dried Fruit
Tree Nuts
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Raisins
Promotion Opportunities

Approved By:

Mark Ford

Prepared By:

Katherine Lee

Report Highlights:

Due to several recent food safety incidents throughout Taiwan, consumers are paying more attention to their source of ingredients and willing to pay a premium price. This trend has propelled the baking industry to develop a stronger traceability program dependent on certificates-of-origin with an emphasis on natural, healthier ingredients and fewer additives. In 2014, the United States exported nearly 990,000 metric tons (MT) of wheat to Taiwan, or roughly \$356 million. Approximately, 44% of locally milled flour is sent to the baked goods industry. As for other ingredients typically used in the baking industry (e.g., cheese, nuts, etc.), Post estimates the United States exported approximately \$68 million for the baking industry to Taiwan in 2014.

Overview:

The baking industry in Taiwan grossed approximately \$912 million based on the market value of domestic production and imported finished baked goods¹. Taiwan has a population of only 23 million people, but it is the seventh largest agricultural export market for the United States. Nearly, 50% of Taiwan's imports from the United States are bulk commodities (wheat, corn, coarse grains, etc.), and most of that is used for local food processors. Established food processing plants are island wide, and the baked goods industry caters to not only the local population but international tourists as well.



Unfortunately, Taiwan's baking industry was severely affected by the gutter oil scandal in late 2014. The scandal broke out when authorities discovered that a local oil production facility sold "gutter-oil" to several restaurants, bakery chains and popular oil production facilities throughout Taiwan. According to various sources, the oil was collected from restaurant drains and grease traps and sold as fresh oil. As a result, Taiwan consumers boycotted several famous bakeries and demanded a full refund for their purchases. Consumers remain cautious about purchasing baked goods, and the industry has responded by requiring more documentation from importers. (For more information, please see the following [news report](#).)

Trends and Opportunities:

- **Ingredient Traceability:** In order to manage the safety of Taiwan's food supply, Taiwan's Food and Drug Administration (TFDA) now mandates all Taiwan-based food manufacturers, foodservice operators, and food and beverage importers register their company information into an official database. Recently, importers have been receiving more requests from bakery operators for product certification, country-of-origin information, and even lab test reports. The new regulation has motivated more bakeries to voluntarily post ingredient information throughout stores so consumers can make informed choices. Contractual farming agreements with small farmers are also becoming more of a main-stream marketing feature. Despite the additional cost of the documentation, most bakery operators appreciate the assurance of quality ingredients. Consumers also don't seem to have a problem paying the extra cost as a result.
- **Product Differentiation:** In addition to nearly 10,000 convenience-store bakeries, there are an estimated 7,000 independent bakeries, the majority of which are traditional mom-and-pop bakeries. A bakery is within arm's reach throughout Taiwan, and the competition is always intense. Over the

¹ Source: Taiwan's Ministry of Economic Affairs: Locally-produced products including bread, cakes, Chinese cereal products, rice crackers, and other bakery products; Global Trade Atlas: Taiwan's Imported products under tariff code 190590, including bread, pastry, cakes, biscuits, and similar baked products

past two years, an increasing number of Taiwan bakers have stepped up efforts to create unique recipes by replacing commercial yeasts with self-developing yeasts, which are derived from raisins or local fruits, like lychee. Marketing efforts have also evolved to feature Western-style bread, such as Italy's Panettone, France's galettes de roi and macarons. According to various trade experts, in the past, bakers considered only cost, but now they appreciate diversity and quality ingredients, despite the higher price.



Taiwanese bakers have won many international baking competitions and some are introducing Western-style hard bread. Hard bread usually contains a variety of grains, tree nuts, raisins, and cheeses. However, it is typically softer inside since Taiwan consumers still prefer a softer texture.

- **Less is More:** Taiwan consumers are increasingly becoming more health-conscious. According to the Taiwan Almanac of Food Consumption Survey, Taiwan consumers' top three important health needs for food and beverages are: no preservatives, low sugar, and natural products. The growing aging population indicates they prefer softer texture, smaller portions, and smaller packaging instead of jumbo or family-sized packaging. In the baking sector, the trend is for more whole grains, dried fruits, tree nuts, and quality butter and oil. Since Taiwan doesn't grow these ingredients locally, U.S. suppliers are well-positioned to take extra market share.
- **Baked Goods at Home à la Mode:** Since the onset of labeling fraudulence in the baking industry in 2013, an increasing number of consumers have been motivated to make bread on their own by using high-tech machines. The sales of bread-making machines posted their biggest year-on-year growth in 2013, nearly 200%, and continued to elevate by at least 40% in 2014. The machines come with recipes and suggestive lists of baking ingredients. This new demand brought supermarkets unexpected business, as they usually dedicated a small area to baking ingredients. According to Citysuper, a high-end supermarket chain with six stores in Taiwan, the sales of baking ingredients increased 25% in 2014 from 2013. In order to expand business, retailers relied on importers to provide tailor-made packaging solutions, usually smaller in size. U.S. suppliers were advised to think of flexible solutions in product specifications and packaging requirements, in order to meet the

diverse demands.

Ingredient Snapshot:

The table, below, illustrates the import volume in Taiwan for typical baking ingredients. However, because these ingredients can be used in many other applications and industries, it is difficult to estimate the percentage used in the baking industry.

Product	HS Code	2013 Imports (MT)	2014 Imports (MT)	Change % 2014 vs. 2013	Key Suppliers
Wheat	1001	1,316,956	1,288,885	-2.13%	US (77%) AU (18%)
Wheat Flour	1101	16,191	17,604	8.73%	JP (58%) UAE (28%)
Butter	0405	17,517	20,892	19.27%	NZ (70%) FR (8%)
Milk powder (whole fat)	0402.21	30,397	32,452	6.76%	NZ (95%)
Tree nuts	0802 0801.32	22,867	22,850	-0.07%	US (36%) CN (34%)
Dried fruit	0813 0806.20	10,160	9,631	-5.21%	US (50%)
Frozen fruit	0811	3,690	3,644	-1.25%	CN (56%) US (10%)
Cheese	0406	25,277	26,132	3.38%	NZ (31%) US (31%),
Premixes & Frozen dough	1806 1901.2	24,892	17,351	-30.29%	US (56%)

(Source: Global Trade Atlas)

Ingredient Close-ups:

- Wheat:** According to Taiwan's Council of Agriculture (COA), Taiwan's consumption for rice continues to slide, hitting its record low in 10 years. On the other hand, the consumption for wheat products is growing. Although the COA strategically pushes local farmers to grow wheat by providing subsidies, due to the subtropical and humid climate, Taiwan has only approximately 500 hectares of wheat farms. So far, Taiwan relies on imports of wheat for 99.9% of the population. U.S. wheat retained its perennial first place—a 77% market share in 2014, with imports reaching nearly 990,000 MT. The most common types of wheat used in the baking industry are: dark northern spring, hard red winter and western white. In terms of end-products, 44% of locally milled flour goes to baked goods (e.g. bread, cake and pastries).

- **Flour:** Due to relatively advanced domestic milling techniques, imported flour accounts for a very small volume—roughly 18,000 tons in 2014, about 58% of which was from Japan. However, after a series of food safety cases hit Taiwan in 2014, the demand for imported flour increased significantly. According to retailers, consumers tend to look for small packages (2 kg) to make bread at home. Local millers also tapped into such trends and started selling smaller packages directly to supermarkets and ingredient shops.
- **Fats and Oils:** A majority of traditional bakers used to prefer domestic margarine and shortening due to its lower cost. However, the tainted cooking oil scandal in the past year crushed consumers' confidence in locally manufactured oil and pushed them away from bakery shops. The industry, therefore, sought after imported butter and olive oil in order to restore consumers' confidence. The imported volume of butter increased 19% to 20,000 tons in 2014. New Zealand dominated the market with a 70% market share due in large part to the success of the Anchor brand, in addition to its consistent supply of anhydrous milk fat. Local bakers are also more accustomed to the melting point and yellow color of New Zealand butter. However, there has been an increasing demand in high-end butter from France, driven by the fad of making bread at home.
- **Cheeses:** Taiwan does not produce cheese in commercial volumes. The imported volume of cheese continued to grow for five years in a row to a record high of 26,000 tons in 2013, with a five-year compound annual growth rate of 7%. The growth is attributed to the demand from the foodservice sector, including the baking industry, which is estimated to consume 30% of imported cheese. The most commonly used cheeses by bakers includes: cream cheese, cheddar, and mozzarella. The United States was the largest supplier of cheese from 2011 - 2013, but in 2014, New Zealand pushed the United States into the second place.
- **Milk Powder:** Whole-fat milk powder (WMP) is used predominately in baking and is very price-sensitive. The Free Trade Agreement (FTA) signed between New Zealand and Taiwan in 2013 eliminated the 10% tariff for New Zealand's WMP. Since milk powder is highly elastic, New Zealand dominates the WMP market with nearly 95% of the market share.
- **Tree Nuts:** Taiwan does not produce any tree nuts. Among the many types of tree nuts, almonds are considered the most versatile. U.S. origin almonds account for more than 80% of market share. A variety of almond products, such as powder, paste, and slices, are widely available in the local market and popular with the baking community. Walnuts are considered flavorful, but they are far more expensive and can more easily result in an unpleasantly burnt oil smell. Pecans are just now taking off and the demand is for mixed nuts. However, pecans used by the baking industry are still a foreign concept. Pistachios are commonly used for decorative purposes due to their greenish color. Meanwhile, hazelnuts are the least familiar to the industry. The United States has built its image as a quality supplier in the nut trade. Country-of-origin is a key buying criterion for Taiwan importers since it assures consistent quality.

- **Dried Fruit:** Raisins and cranberries are widely used in the baking industry. California raisins enjoy the highest awareness, which can be attributed to the Raisin Administrative Committee's long-term educational programs catering to bakers. It is also popular for bakers to use raisins in growing yeast. The United States, China and Canada are the main sources of dried fruit.
- **Frozen Dough and Premixes:** Frozen dough and premixes are not popular in the baking industry since bakers give greater consideration to product differentiation. However, the demand for premixes will continue to contract as consumers opt for minimally processed food products.

CONTACT INFORMATION

USDA's Foreign Agricultural Service Office in Taiwan

- Trade Policy/Market Access and General Agricultural Issues, please contact the Agricultural Affairs section via email at: agtaipei@fas.usda.gov.
- Market Development Assistance, please contact the Agricultural Trade Office via email at: atotaipei@fas.usda.gov.