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Required Report - public distribution

Date: 3/31/2015

GAIN Report Number: TW15011

Taiwan

Grain and Feed Annual

Grains Situation and Outlook

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Report Highlights:

Taiwan CY2015 hog and poultry production are estimated to decrease 3% and 6%, respectively, due to ongoing disease issues. Barring unforeseen disease resurgences, Taiwan's hog and poultry sectors are expected to fully recover by CY2016. Taiwan corn imports for MY2015/16 are forecast to recover to 4.50 MMT from the estimated 5% reduction in MY2014/15 due to local animal disease outbreaks. Taiwan's wheat import demand for MY2014/15 is projected lower to 1.265 MMT due to food safety concerns with no anticipated feed wheat imports. Wheat import forecast for MY2015/16 remains high at 1,360 TMT, with the United States maintaining a significant market share of 78%. A lingering drought in Taiwan has, thus far, minimally impacted Taiwan's total rice supply due to sufficient stocks. U.S. rice export forecast for MY2015/16 is 56 TMT on a milled basis.

Commodities:

Wheat

Production, Supply and Demand Data Statistics:

Wheat Market Begin Year Taiwan	2013/2014		2014/2015		2015/2016	
	Jul 2013		Jul 2014		Jul 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	0	2	0	2	0	3
Beginning Stocks	478	478	407	472	0	472
Production	0	4	0	5	0	7
MY Imports	1,296	1,385	1,350	1,265	0	1,360
TY Imports	1,296	1,385	1,350	1,265	0	1,360
TY Imp. from U.S.	926	1,007	0	900	0	1,000
Total Supply	1,774	1,867	1,757	1,742	0	1,839
MY Exports	57	56	50	50	0	60
TY Exports	57	56	50	50	0	60
Feed and Residual	60	39	60	0	0	0
FSI Consumption	1,250	1,300	1,270	1,220	0	1,300
Total Consumption	1,310	1,339	1,330	1,220	0	1,300
Ending Stocks	407	472	377	472	0	479
Total Distribution	1,774	1,867	1,757	1,742	0	1,839

1000 HA, 1000 MT, MT/HA

Author Defined:

Wheat Situation and Outlook

OVERVIEW

Taiwan is essentially completely reliant on wheat imports with the United States maintaining a significant market majority of 78%. Strong demand for bakery products from both locals and mainland tourists helped to offset the negative impact of recent food safety scandals in MY2014/15. Still, Taiwan's wheat import demand for MY2014/15 is projected lower to 1.265 MMT due to food safety concerns. Taiwan's wheat import forecast for MY2015/16 remains high at 1,360 TMT.

PRODUCTION

Taiwan grows only a small amount of winter wheat with planting in November and harvest in March. Total wheat output forecast for MY2014/15 is less than 5 TMT from just 3,000 hectares.

In response to the 2007/08 world price spike, a group of Taiwan farmers devoted itself to producing wheat locally and reducing Taiwan's import dependence. In 2012, Council of Agriculture (COA) initiated a wheat breeding program. Reportedly, COA's Agricultural Research and Extension Station imported some 700 varieties of wheat seeds from the International Maize and Wheat Improvement Center in Mexico with the goal of breeding wheat varieties that can adapt to Taiwan's climate and soil. Wheat was also included in COA's list of recommended rice rotation crops. As a rice rotational crop, farmers can grow wheat on fallow rice paddy fields and still remain eligible to receive NT\$45,000 (less than US\$1,500) per hectare fallow land subsidy.

Stocks

According to local industry sources, millers usually hold reasonable stocks onsite to avoid disruptions in operation because of shipping delays. Actual stocks are adjusted according to world wheat price trends. Ending stocks are stable at 472 TMT due less volatile world wheat price.

CONSUMPTION

Taiwan's wheat-based food market is dynamic with shifting applications/uses that help maintain the already high import demand for wheat. European style breads and bakeries are very popular; increasingly sought after are those products made of whole wheat flour and olive oil. Gift packages that include flour-based food items such as pineapple cakes are still hot items to Taiwan's booming tourists, particularly mainland Chinese travelers. Playing to a population increasingly aware of environmental issues, a local group has successfully promoted local food items, including wheat products, marketing a reduced carbon footprint – though local production will never be significant. Wheat products, however, are not immune to the reoccurring food safety scandals. In September 2014, a tainted lard scandal significantly impacted sales of instant noodles and moon cakes, traditional products which use lard. Reportedly, there was a 70% drop in domestic instant noodle sales.

Taiwan's milling wheat demand for MY2014/15 is therefore projected at 6% lower. In addition, as no feed wheat imports are anticipated, overall wheat consumption is estimated to drop 8% in MY2014/15 to 1,265 TMT. Still, recovery is anticipated and the wheat import forecast for MY2015/16 is estimated at 1.360 MMT.

TRADE

Taiwan is almost completely dependent upon imports for their wheat demands.

Imports

In MY 2013/14, Taiwan imported 1.385 MMT of wheat, of which 39 TMT was feed wheat and 48 TMT was (wheat equivalent) flour. Excluding 39 TMT of feed wheat imports, the United States held a 78%

share of total imports of milling wheat, followed by Australia 20%, and other trading partners a combined 2%.

According to Taiwan Customs, total wheat imports of the first half of MY2014/15 amounted to 630 TMT, compared to same time period last year, a 48 TMT or a 7% decrease and no feed wheat imports. In comparison, there was 29 TMT of feed wheat imports in the first half of MY2012/13. The decrease in import is due in part to last September's tainted lard scandal which had significant impact on sales of instant noodles and tradition bakery products. MY2014/15 import, in response to a reduction of sales of concerned wheat-based food products, is estimated approximately an 8% decrease to 1.265 TMT. U.S. wheat import share is anticipated to remain at 78% of total milling wheat imports as a year earlier. According to Taiwan Flour Millers' Association (TFMA), import pace of U.S. wheat in current year is about the same as last year and imported U.S. wheat varieties are similar to last year as well. Import forecast for MY2015/16 will resume, estimated at 1.360 TMT and no feed wheat import is anticipated.

Taiwan imposes the same tariff of 6.5% on milling wheat and feed wheat compared to zero tariff for feed corn, soybeans, and other feed ingredients. This tends to discourage feed wheat imports except when high corn prices make feed wheat more competitive.

Taiwan Wheat Millers

At present, Taiwan has 21 mills operating, with one or two mills idle. The largest (and newest) flour mill began operation in October 2007 and has a daily milling capacity of 1,000 MT. Another mill recently expanded its daily milling capacity to 850 MT, superseded what was the second largest mill with a daily milling capacity 720 MT. One top wheat millers added new facilities to mill Japanese-type extra fine flour.

The Taiwan flour milling industry continues to import through its long-standing collective group purchasing system, under which companies pool their import volumes and jointly bring in large grain shipments to cut costs. During periods of high ocean freight costs and given the ready availability of empty backhaul containers, some mills seek opportunities to import wheat individually through containerized shipments, whereas Australian wheat imports are now all shipped via containerized shipments.

Demand for U.S. Wheat Varieties

According to TFMA, in CY 2014 approximately 55% of U.S. wheat imports under the TFMA's collective group purchases were comprised of 14% and 14.5% protein Dark Northern Spring (DNS) and Northern Spring (NS). About 30% of imports consisted of 13% or 12.5% protein Hard Red Winter (HRW) and NS. Low protein wheat, Soft White Wheat (SW) made up the remaining 15% of wheat imports from the United States. Compared to the previous year, high protein U.S. wheat import shares decreased 7%, medium protein and low protein U.S. wheat imports increased 4% and 3%, with fewer DNS imports and no Western White (WW) imports. Australian Prime Hard and Hard as well as Canadian Western Red Spring exports supplanted the U.S. DNS market share. Overall, U.S. wheat market share dropped by 4% to capture 78% of Taiwan's total milling wheat imports in MY2013/14.

Based on Taiwan's demand for high quality flour and superior milling wheat varieties, the United States will retain its market dominance and enjoy a conservative 78% share of total imports of wheat, all for milling, equivalent to approximately 950 TMT in MY2014/15 and 1,000 TMT in MY2015/16.

Flour Trade – 8 TMT Wheat Equivalent Net Exports in MY2013/14

Taiwan's wheat flour imports remain low, accounting for just 3% of the total flour consumption on a conversion 1.368. In MY 2013/14, Taiwan imported 48 TMT, mostly resourced from Japan, and exported 56 TMT of wheat equivalent flour, with Hong Kong a major export market. Taiwan imposes a 17.5% tariff rate on flour under HS 1101 and a 20% tariff on flour under HS 1103 while the tariff on wheat is 6.5%.

HS code	MY2013/14 Imports, TMT	MY2013/14 Exports, TMT
1101	17.6	17.2
1902-19	9.1	4.7 (2.3 to the U.S.)
1902-30	8.3	19.3 (3.7 to the U.S.)
1902-40	0	0
Total	35.0	41.2
Source: Taiwan Customs Data		

POLICY

GE Concerns

Genetically engineered products are increasingly scrutinized by critical consumer groups, politicians, and media. The May 2013 USDA announcement that a small number of volunteer wheat plants in an Oregon field had tested positive for glyphosate resistant Wheat 71800 thankfully drew comparatively little media attention. However, Taiwan authorities implemented testing requirements on all U.S. wheat exports for a time; the policy has since been lifted. Also, industry groups, requested additional non-GE statement from USDA to accompany each U.S. wheat shipment to alleviate concerns. Currently, each U.S. wheat shipment is also accompanied by test reports or safety statements regarding maximum residue limits, heavy metals, Ochratoxin A and α -toxin.

Good Hygiene Practice Inspections and Traceability

Taiwan's Food and Drug Administration (TFDA) recently visited wheat milling factories and completed good hygiene practice inspections on sites. Wheat millers were included in the initial tranche of inspections as wheat is considered a staple food product. Because of recent food safety scandals, all wheat millers are required to initiate and complete traceability systems by July 31, 2015. Records for input source and output distribution shall be kept for 5 years.

Cross-Strait Trade Policy

Wheat, as an important staple food item, is considered a sensitive product by both sides of Taiwan Straits. On June 29, 2010, Taiwan and mainland China signed an Economic Cooperation and Framework Agreement (ECFA). The ECFA went into effect on September 12, 2010. The Cross Strait Trade goods Agreement, which may left import ban of agricultural products from mainland China, yet to complete, which is still in the tenth round of talks. Taiwan authorities stated that Taiwan will not liberalize imports of 830 agricultural products currently denied entry from China, including wheat products. Taiwan wheat millers, on the other hand, may look for opportunities to export specialty flour to mainland China which imposes high out-of-quota rate import duties.

Commodities:

Corn

Production, Supply and Demand Data Statistics:

Corn Market Begin Year Taiwan	2013/2014		2014/2015		2015/2016	
	Oct 2013		Oct 2014		Oct 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	15	11	20	16	0	20
Beginning Stocks	376	376	551	497	0	400
Production	100	74	140	108	0	135
MY Imports	4,400	4,532	4,200	4,300	0	4,500
TY Imports	4,400	4,532	4,200	4,300	0	4,500
TY Imp. from U.S.	1,784	1,915	0	1,450	0	1,500
Total Supply	4,876	4,982	4,891	4,905	0	5,035
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	4,100	4,260	4,200	4,280	0	4,400
FSI Consumption	225	225	225	225	0	225
Total Consumption	4,325	4,485	4,425	4,505	0	4,625
Ending Stocks	551	497	466	400	0	410
Total Distribution	4,876	4,982	4,891	4,905	0	5,035
1000 HA, 1000 MT, MT/HA						

Author Defined:

Corn - Situation and Outlook

OVERVIEW

Local animal disease outbreaks contribute to a 5% reduction (to 4.3 MMT) in Taiwan corn imports for MY2014/15 while MY2015/16 imports are forecast to recover to 4.50 MMT. Taiwan CY2015 hog and poultry production are estimated to realize a 3% and 6% production decrease, respectively, due to ongoing disease issues. Barring unforeseen disease resurgences, Taiwan's hog and poultry sectors are expected to fully recover by CY2016.

The market share for U.S. corn in MY2013/14 recovered to 42% from the previous year's record low of 12%, realizing equal market dominance with Brazil. However, a strong U.S. dollar and upcoming Brazilian harvest may cut the U.S. share to one-third of total imports.

PRODUCTION

Nearly all of Taiwan's demand for feed corn is met by imports. However, there is increasing attention on Taiwan's overall food self-sufficiency rate, which is currently amongst the lowest levels in Asia at just 33%. In line with Taiwan's farm land utilization policies and food security concerns, Taiwan has

revised domestic production policy to encourage growing import-substitute crops, such as commodity corn, wheat and non-GE soybeans. Still, domestic production of these import-substitute crops is in very small volumes. Taiwan's Council of Agriculture's (COA) increased corn target production for 2015 to 108 TMT from 16 thousand hectare (THA) of land from last year's 74 TMT from 11 THA.

Stocks

Highly reliant on imports, Taiwan is a mature corn market with stocks maintained at levels equal to one-two months' consumption. With diverse import sources and the availability of containerized shipments, Taiwan is able to keep its corn stocks at reasonable levels to reduce capital investment. About 15% of total Taiwan corn imports were shipped via containers in CY2014, a 5% drop from a year earlier. MY2014/15 ending stocks are anticipated to be slightly lower than the previous year's because of animal disease outbreaks and lower world corn prices producing slimmer margins for Taiwan importers.

CONSUMPTION

With the exception of approximate 225 TMT of corn for wet milling, the bulk of Taiwan's consumption is for livestock feed use. Corn consumption estimates for feed use are 4.20 MMT and 4.40 MMT for current and upcoming year, with feed inclusion rates at around 60%. Swine and poultry are Taiwan's most important livestock sectors combining to account for 89% of Taiwan's total feed output. Total feed output estimate for MY2014/15 is lowered to 7.0 MMT due mainly to the current highly pathogenic avian influenza (HPAI) outbreaks in commercial poultry farms. MY2015/16 is forecasted to bounce back to 7.3 MMT.

Domestic Livestock Production

The local poultry sector is competitive with imports since Taiwan liberalized its market as part of its 2002 WTO accession. Trade barriers prevent significant pork imports, including U.S. product, into the island. There are no significant poultry or pork exports, at this time.

Hog Sector, Recovery Mode

Porcine epidemic diarrhea virus (PEDv) outbreaks in Taiwan forced the culling of hundreds of thousands of piglets in Spring 2014 and lower overall slaughter numbers. According to COA preliminary data, 2014 hog production, slaughtered, was 7.99 million head and target production for 2015 is set at 8.35 million head. As of November 2014, the standing hog population is 5.55 million head, a 4.5% drop from pre-PEDv status in November 2013, but showing continued recovery. Hog feed demand for current year is estimated at 3% lower from CY2013.

Despite disease setbacks, the Taiwan hog sector is very lucrative, with the supply chain highly controlled by (reportedly colluding) producers, processors, and wholesalers. Taiwan's 2014 pork prices were at near-record highs with COA forced to monitor live actions, encourage limited inventories, and

increase imports. Reportedly, a local cooking oil scandal also contributed to high domestic pork prices as demand for locally-processed lard increased (due to incorrect perceptions that imports were to blame). However, hog auction prices have fallen recently to below NT\$65/Kg, compared to record NT\$85/kg in March 2014.

Pork Imports, Domestic Production, and Wholesale Market Auction Prices (CY)

Year	Pork Imports, 1,000 metric tons (TMT)		Domestic pork production, per 1,000 head slaughtered	Auction Price, NT\$/kg
	Meat [HS0203]	Offal [HS0206]		
2010	44	29	8,575	\$69.36
2011	44	27	8,786	\$71.99
2012	24	29	8,965	\$63.35
2013	30	27	8,720	\$64.50
2014 (preliminary)	48	33	7,990	\$78.09
2015 (estimate)	44	29	8,500	NA
2016 (forecast)	24	27	8,600	NA

Source: Council of Agriculture (COA) and Taiwan Customs Statistics

Poultry Sector, HPAI Outbreaks

Starting January 8, 2015, there have been HPAI outbreaks in Taiwan commercial poultry farms. Subtypes of HPAI H5N2, H5N3 and H5N8 strains were all detected. Waterfowl, goose and duck farms are the most impacted. As of March 16, COA's Bureau of Animal and Plant Health Inspection and Quarantine (BAPHIQ) confirmed that 873 poultry farms were infected with a total of 6.4 million birds lost. The HPAI situation seems to be slowing as it getting warmer; there have been no new outbreak reported for a couple of days.

Total Taiwan 2013 poultry production was 347 million birds, slaughtered, of which broilers accounted for 186 million; native or Tugi birds, 103 million; ducks, 34 million; geese, 5 million; and 19 million made by other birds. While official 2014 numbers are unavailable as of reporting date, the HPAI impact is estimated to result in a 6% decrease in total poultry production from CY2013, slaughtered. According to BAPHIQ, approximately all Taiwan goose farms and goose breeder operations were/are infected. Taiwan authorities are worried about a short supply of goose meat and have started looking for import supply.

Poultry feed demand for current year is estimated at a 6% decrease from CY 2013, accordingly.

Domestic Poultry Production, HPAI

	Broilers	Colored Broiler	Duck	Geese
2013 Production(slaughtered), 1,000 birds	185,650	102,947	32,460	5,160
2013 Birds on farm, 1,000	21,486	28,647	5,988	1,953
Number of birds infected HPAI	1,159	2,357	218	1,912
Percentage of infection, per farm	5%	8%	4%	98%

Poultry Meat Imports, Domestic Production, and Farm Prices

Year	Imports of poultry meat and products, TMT [HS0207]	Domestic poultry production, million birds slaughtered	Farm Price, NT\$/kg (Broiler)
2010	115	370	\$41.85
2011	113	386	\$44.04
2012	130	359	\$42.99
2013	115	347	\$44.70
2014 (Preliminary)	143	356	\$47.80
2015 (estimate)	130	327	NA
2016 (forecast)	110	360	NA

Source: Council of Agriculture (COA) and Taiwan Customs Statistics

Total Feed Demand Estimates, Corn Inclusion Rates

In line with the domestic hog and poultry situations, total feed demand for MY2014/15 and MY2015/16 are estimated at 7.0 MMT and 7.3 MMT at corn inclusion rate at around 60% with limited rice availability and no anticipated feed wheat imports.

Taiwan Feed Production for CY2010-2016, TMT

	2013	2014 (Estimate)	2015 (Forecast)	2016 (Forecast)
Total Feed	7,288	7,100	7,020	7,375
Hog Feed	3,191	2,920	3,110	3,150
Poultry Feed	3,269	3,350	3,080	3,390
Others	828	830	830	835

Corn Substitutes, Other Feed Grains

Corn substitution for other grains is estimated at 5%. The feed inclusion rates for all other imported grains are calculated at 5-6% as reflected below in the table. Consumption of other feed grains is estimated based on imports plus domestic stocks of old rice. In addition to imported grains, some of the domestically produced sweet potato will be diverted to feed use in an effort to increase the self-sufficiency rate, in particular when world corn price is high. More old rice was available for feed use in CY2014 due to high stock pressure. Going forward, however, there may be less rice for feed use due to drought and farrowed production; forecast estimates are scaled back to 100 TMT.

Imports of Other Grains, TMT

MY (Oct/Sept)	MY2011/12	MY2012/13	MY2013/14
Barley (HS 1003)	51 (4)	58 (9)	53 (10)
Sorghum (HS 1007)	84 (0)	116 (0)	110 (0)
Feed Wheat	207 (2)	85 (0)	39 (0)
Feed Rice (CY)	82	100	120
Total feed output (CY)	7,309	7,288	7,100
Est. combined inclusion rate	5.9%	4.9%	5.0%
Source: Taiwan's Customs and Council of Agriculture (COA)			
*Imports from the United States are included in (parentheses).			

Distillers Dried Grain (DDGS)

Taiwan customs data indicates stable demands for DDGS, with about 3% of feed inclusion rate. DDGS imports are estimated at 210 TMT and 220 TMT for MY2014/15 and forecast year, based on a 3% of feed inclusion rate.

Product	MY2011/12	MY2012/13	MY2013/14
Brewing or distilling dregs & waste (HS 2303.30)	243 (238)	216 (212)	213 (204)
Maize (corn) germ oil residue (HS 2306.9090.10-7)	0	0	0
Bran, sharps & residues of maize (corn gluten feed) (HS 2302.10)	13 (0)	10 (0)	12 (0)
Residues of starch manufacture and similar residues (corn gluten meal) (HS 2303.10 – 2% tariff)	39 (24)	36 (24)	34 (23)

TRADE

Taiwan is heavily reliant on imports. Domestic corn accounts for only about 2% of total corn demand. Taiwan's total corn imports for MY2014/15 and MY2015/16 are estimated at 4.30 MMT and 4.50 MMT to meet domestic feed demand and approximately 225 TMT for wet milling.

The market share for U.S. corn in MY2013/14 recovered to 42% from the previous year's record low of 12%, realizing equal market dominance with Brazil. South Africa followed with 12%, India 2%, and the rest of world 2%. However, a strong U.S. dollar and upcoming Brazilian harvest may cut the U.S.

share to one-third of total imports for the current year. While Taiwan importers appreciate U.S. corn's consistent quality and reliable delivery, price is the number one factor in purchase considerations.

According to Taiwan Customs, during the first three months of MY2014/15, Taiwan imported 905 TMT of corn. Compared to the same time period in MY2012/13, import pace showed a 25% decrease due in part to suspicious avian influenza cases in November.

Cross Strait Developments

Corn imports from mainland China are currently banned. As a follow-up to the Cross-Strait Economic Cooperative Framework Agreement, which was signed in September 2010, the Cross Strait Trade Goods Agreement talks are still ongoing and are not expected to finish anytime soon, especially given public demonstrations against the Cross Strait Service Agreement, still pending for Legislative Yuan's passage. Commodities like feed corn that do not threaten Taiwan domestic agricultural production or raise food safety concerns may be on the agenda for future trade liberalization. Taiwan livestock industry groups may welcome the option to purchase feed corn from China, especially during periods of high global commodity prices and rising concern for genetically engineered (GE) products. In the past, Taiwan has occasionally allowed feed corn from China to be imported to mitigate global price spikes.

POLICY

Authority Oversight

According to a February 4, 2015 amendment to The Feed Control Act (FCA), COA is now the competent authority for approval registration of GE events in animal feed, with a two year grace period for implementation. This authority previously rested with Taiwan's Food and Drug Administration (TFDA) under the Ministry of Health and Welfare. TFDA will continue to have responsibility for GE events in food products for human consumption.

The FCA amendment mandates that all for feed use GE events register with COA by February, 2017. COA is expected to promulgate feed safety assessment guidelines for GE registration within six months, anticipated July 31, 2015. Thereafter, GE feed materials and feed additives will not be allowed for delivery, marketing, import and/or export, unless the product is registered and granted approval by COA. GE product developers, life science companies, shall register with both agencies (COA and TFDA) if the product is for both food and feed use.

Market launches for new GE corn events and its stacked products may take longer for regulatory approval, as two agencies are now involved.

GE and Non-GE Corn Clears Customs under Separate HS Codes

Effective November 1, 2014, all corn and its immediate products are required to clear customs under separate HS codes according to GE or Non-GE designation. New import shipping document for Customs clearance is required to indicate whether the corn shipment is GE or non-GE. At the same

time, relevant handlers of corn products are required to establish traceability system and keep the record for 5 years.

CCC Code	Description of Goods
1005.90.00.90-5	Other maize (corn)
1005.90.00.91-4	Other genetically modified maize(corn)
1005.90.00.92-3	Other non-genetically modified maize(corn)
1102.20.00.00-1	Maize (corn) flour
1102.20.00.10-9	Genetically modified maize(corn) flour
1102.20.00.20-7	Non-genetically modified maize(corn) flour
1103.13.00.00-9	Grouts and meal of corn (maize)
1103.13.00.10-7	Grouts and meal of genetically modified corn (maize)
1103.13.00.20-5	Grouts and meal of non-genetically modified corn (maize)
1104.23.00.00-6	Other worked maize (corn)
1104.23.00.10-4	Other worked genetically modified maize(corn)
1104.23.00.20-2	Other worked non-genetically modified maize(corn)

Highly Processed Products Included in GE Labeling Requirements

Currently, food products derived from GE corn with detectable content must be labeled as "genetically modified (GM)" with a 5% labeling threshold. However, on March 17, 2015, Taiwan authorities put forward a WTO notification (TBT 168 revised) extending the GE 3% labeling threshold to highly processed products where no discernable DNA residues may be detected. The implementation timeline of revised 3% GE labeling threshold has also been shortened by 6 months. The newly proposed implementation date is now June 1, 2015. Local importers and food groups, AIT and U.S. exporters, other suppliers, and industries are very concerned with this proposal and have mounted a lobbying campaign designed to role back some of these measures.

Commodities:

Rice, Milled

Production, Supply and Demand Data Statistics:

Rice, Milled Market Begin Year Taiwan	2013/2014		2014/2015		2015/2016	
	Jan 2013		Jan 2014		Jan 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Harvested	270	271	260	248	0	270
Beginning Stocks	363	363	267	365	0	320
Milled Production	1,113	1,217	1,131	1,100	0	1,200
Rough Production	1,590	1,722	1,616	1,571	0	1,714
Milling Rate (.9999)	7,000	7,067	7,000	7,000	0	7,000
MY Imports	101	104	125	134	0	126
TY Imports	101	104	125	134	0	126
TY Imp. from U.S.	50	45	0	53	0	56
Total Supply	1,577	1,684	1,523	1,599	0	1,646
MY Exports	10	19	10	19	0	19
TY Exports	10	19	10	19	0	19
Consumption and Residual	1,300	1,300	1,300	1,260	0	1,280
Ending Stocks	267	365	213	320	0	347
Total Distribution	1,577	1,684	1,523	1,599	0	1,646

1000 HA, 1000 MT, MT/HA

Author Defined:

Rice – Situation and Outlook

Overview

A lingering drought in Taiwan has, thus far, minimally impacted Taiwan's total rice supply considering sufficient stocks. The drought's impact will reduce 2015 production by 10%, estimated. Given sufficient domestic stocks, the estimated 10% reduction in 2015 production just offsets production targets and leaves no need for supplementary imports.

In 2014, U.S. rice exports to Taiwan were lower than the anticipated 56 TMT (64,634 MT brown equivalent) committed to under Taiwan's WTO country specific quota (CSQ) due, in part, to delays resulting from the U.S. West Coast labor issues. However, approximately 16 TMT (18,534 MT brown equivalent) of the 2014 U.S. rice CSQ failed three U.S.-origin tender offers and were therefore opened for global contract. Adjustments to the 2015 TRQ rice tender schedules are not anticipated as the 2014 U.S. rice CSQ tender was contracted with later delivery terms due to the West Coast port situation.

PRODUCTION

Taiwan produces two rice crops a year. Substantial government support means domestic rice is not price competitive in the global market. Therefore, domestic production is primarily for local

consumption, accounting for approximately 90% of the total staple rice consumed in Taiwan, the remaining 10% is met by imported rice under the WTO TRQ.

After their 2002 WTO accession, Taiwan targeted domestic rice production at 1,130 TMT from 260,000 hectares. Taiwan was not immune from the 2007/08 global food price spikes which raised food security concerns; Taiwan is only about 33% self-sufficient in food production. To encourage production, Taiwan authorities upwardly adjusted domestic rice purchase prices by 13% in 2011, enticing farmers to expand rice production beyond the Council of Agriculture (COA) targets. As a result, there has been a steady 10% annual increase in rice harvest area. Rice output in 2014 exceeded 1.20 MMT, approximately 8% higher than the target level due to favorable climate conditions expanded harvest area (11,000 hectare larger than the target production area).

Taiwan is currently facing a drought and near-record low reservoir levels. In December 2014, authorities announced plans to immediately fallow 44,000 hectare of arable land. About half of the fallowed area is under rice production. According to Taiwan's agriculture authorities' estimate, 2015 rice production is reduced to 1.10 MMT from 248,000 hectare. However, sufficient stocks from over harvests in recent years realize minimal supply impact.

Farmers will receive additional subsidies to offset losses. The amount of compensation varies depending on land use, but for rice farmers NTD \$85,000/hectare cap, equivalent to USD \$1,085/acre at USD\$1 = NTD31.60, to fallow crops. Funding will be sourced from Ministry of Economic Affairs, the COA and other Taiwan Ministries/agencies. Rice farmers also have to option to shift production to other crops, but with lower compensation.

Stocks

As the result of a spike in world commodity prices during 2008, COA revised its agricultural production policies to increase food self-sufficiency by gradually adjusting upward its rice security stocks to 352 TMT from the previous level of 260 TMT. Higher than target production in 2014 resulted in higher ending stocks. Given sufficient domestic stocks, the estimated 10% reduction in 2015 production just offsets production targets and leaves no need for supplementary imports. Also, adjustments to the TRQ rice tender schedules are not anticipated as the 2014 U.S. rice CSQ tender was contracted with later delivery terms due to the West Coast port situation.

CONSUMPTION

In a drive for greater food self-sufficiency, COA promotes domestic rice flour as a substitute for imported wheat and wheat flour. Taiwan authorities, however, face a tough battle to reverse declining per capita annual rice consumption that once stood at 98 kg but fell to only 45kg in 2013. By comparison, over the past 30 years, per capita wheat consumption has risen from 23 kg to 36 kg. Taiwan's goal is to reach a 40% overall food self-sufficiency rate by 2020 compared to 33% at the present.

Taiwan looks to Japan as a model for breeding specialty high yield and high amylose rice varieties for flour milling. Currently, two rice flour mixes for bread baking are available on the market. However,

such substitution efforts have had limited success in persuading consumers to choose rice flour for their baking needs. This preference is not only due to the fact that rice flour is priced significantly higher than wheat flour, but rice flour-based bakery products also have a shorter shelf-life as rice starch ages faster than the wheat at room temperature.

Taiwan's COA also promotes traditional rice noodle products made from 100% rice flour as a way to increase rice consumption. Currently, many rice noodle products are made with a large percentage of cornstarch or other lower priced starches to cut production cost. According to Taiwan's national standard, a product labeled "rice noodle" must contain a minimum 50% or higher of rice flour; otherwise the product shall not be called "rice" noodles.

Based on these factors and combined with a very slow population growth, total rice consumption is anticipated to remain around 1.28 MMT, including 100 TMT for feed use. The possibility for small growth exists considering the increasing use of rice flour ingredients in processed products. Higher consumption in MY2014 was due mainly to more old rice available for feed use, vis-a-vis lower consumption in MY2015.

TRADE

According to their WTO accession agreement, Taiwan's tariff rate quota (TRQ) for rice is 126 TMT (144,720 MT brown equivalent), which accounts for approximately 10% of domestic rice consumption. Taiwan's rice TRQ is divided into two portions: 35% or 44 TMT (50,652 MT brown equivalent) is reserved for private sector imports and 65% or 82 TMT (94,068 MT brown equivalent) is set for public sector imports.

The U.S. country specific quota (CSQ) allocation is 56 TMT (64,634 MT brown equivalent). A shift to increasing CSQ purchases of U.S. rice under the Simultaneous-Buy-Sell (SBS) regime has led to more imports of small, decoratively labeled packages of U.S. rice, primarily available at high-end retail outlets. By contrast, U.S. rice imported under the normal CSQ tender regime is included in public reservoir stocks and is released to the market per COA approval and oversight.

Imports

All rice imports are made under the WTO TRQ of 126 TMT annually with CSQ allocations. According to Taiwan Custom's 2014 data, Taiwan imported 104 TMT of rice on a milled basis, of which the United States supplied 46 TMT accounting for 44% share, followed by Vietnam (28%), Thailand (16%), Australia (8%), and Myanmar (2%).

Lower U.S. rice imports in 2014 were primarily due to delayed U.S. rice CSQ tender schedule and contracts for later delivery. U.S. rice imports in 2015 are unlikely to exceed the CSQ.

Rice 2014 Imports, MT (milled)

Origin	HS100610 paddy	HS100620 brown (milled)*	HS100630 milled-total	HS100630- 0010-4 milled - glutinous	HS100640 broken-milled	Total/Share on a milled basis
U.S.A.	0	31,434 (27,348)	18,616	(1,638)	0	45,964 (44%)
Australia	0	2,503 (2,178)	6,477	0	0	8,655 (8%)
Egypt	0	0	0	0	0	0
Thailand	0	280 (244)	15,691	(4,125)	426	16,361 (16%)
Vietnam	0	72 (63)	29,591	(15,134)	0	29,654 (28%)
Cambodia	0	0	75	0	0	75
Japan	0	69 (60)	380	1	0	440
India	0	0	109	0	0	109
Pakistan	0	0	349	0	0	349
Italy	0	0	111	0	0	111
Myanmar	0	0	2,451	0	0	2,451 (2%)
Malaysia	0	0	0	0	0	0
Indonesia	0	0	0	0	0	0
Uruguay	0	68 (59)	45	0	0	104
Spain	0	0	1	0	0	1
Total	0	34,426 (29,952)	73,896	(20,898)	426	104,274

Source: Taiwan Customs Arrival Data

* Import numbers in parentheses under HS100620 are on milled basis. Conversion factor is 0.87 to milled rice from brown based on Taiwan's official conversion factors used in its WTO rice TRQ calculation.

Private Sector Imports

The quota for private sector imports is divided among three separate auctions. Bidding is scheduled each year during the months of November, February, and April. See the table below for the bidding results for the 2015 quota allocation. Under the TRQ system, importers bid for quota rights that are sold to highest bidder(s). Using the so-called "System Three" quota bidding system, Taiwan has successfully allocated all 50,652 tons (brown basis) of its annual private sector import quota rights to local importers since Taiwan's entry to the WTO in 2002. According to COA's preliminary statistics, Taiwan's fill rate for the 2014 rice TRQ for private sector imports is calculated at 99.93% or 50,619 MT (brown basis), of which only about 123 MT(brown basis) was U.S. rice exported to Taiwan under the TRQ private sector imports.

2015 Private Rice Quota Allocation Schedule & Results

(The 3rd allocation results of 2014 are included in the parentheses)

Product	Quota Amount (MT)	Quota Validity Duration	Date	Weighted Avg. Bid Price (per kg)	Max. Bid Price (per kg)	Minimum Bid Price (per kg)	# of Allocations
Rice	15,000	Jan. 1/ Sept. 15	Nov. 26	NT\$7.362	NT\$18.500	NT\$6.789	46
	20,652	Mar 1/Sept. 15	Feb. 11	NT\$7.826	NT\$9.500	NT\$7.368	40
	15,000	May 1/Sept. 15	Apr. 29 (4/24/2014)	TBD (NT\$7.787)	TBD (NT\$11.000)	TBD (NT\$7.688)	TBD (25)
Total	50,652 MT (44,067 MT milled equivalent)						

Public Sector Imports under Country Specific Quota

The 65% quota for public sector imports is divided by both country of origin and tender type: SBS and normal tender. SBS tendering is subject to a markup price (a floor price), and normal tendering is subject to a pre-set ceiling price calculated on the basis of delivery and duty paid (DDP) terms for delivery to designated COA warehouses. To encourage SBS quota licensees fulfill their SBS obligations, effective 2013 SBS tender performance bond was increased from a flat 10% of award price to NT\$2,000/MT (approximate \$66/MT).

Regarding Taiwan's 2014 U.S. CSQ purchase commitments, Taiwan fulfilled their SBS tender commitments for 26,000 MT (brown basis) of U.S. rice. Regarding the U.S. rice CSQ under normal tender, on a brown basis, of the 38,634 MT only 20,100 MT were successfully awarded. The remaining 18,534 MT failed three U.S.-origin tender offers and was therefore opened for global contract.

For the 26,000 MT (brown basis) of the 2014 U.S. rice CSQ under the SBS scheme, 6,000 MT (as of reporting date) of U.S. rice is under an April 30, 2014 deadline, delayed due to U.S. West Coast labor disputes. If further delayed, the NT\$2,000/MT (approximate US\$66/MT) performance bond associated with the unfilled SBS quotas will be forfeited. However, importers are allowed to provide evidence that the West Ports slowdown caused the delays to exempt from the penalty. And importers have import motivations in particular an anticipated 10% reduction in domestic production due to current drought impact. With exception of 1,150 MT of glutinous rice tender which was contracted for delivery in 2014, the rest of the 2014 U.S. rice CSQ under normal tender are all contracted for May/June 2015 delivery. Finally, 3,000 MT of the retendered 2013 U.S. CSQ was contracted for delivery in February 2015.

(Note: COA's Agriculture and Food Agency (AFA) references the domestic wholesale price as an indicator when doing price comparisons between domestic and U.S.-origin rice. All domestic rice data is sourced from AFA and it is available online from the COA website at [http:// www.coa.gov.tw](http://www.coa.gov.tw).)

2015 Country-Specific Quota (CSQ) Allotments for Public Sector Imports (MT brown basis)

Country	SBS	Normal	Total CSQ
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	Tender	Tender	
Egypt	2,500	0	2,500
Thailand	8,300	0	8,300
Australia	10,300	8,334	18,634
USA	35,600	29,034	64,634
Total	56,400	37,668	94,068
Source: Council of Agriculture (COA) announcements			

Exports

Taiwan's rice exports in 2014 amounted to 19 TMT, of which 16 TMT was dedicated to humanitarian food aid with the balance sold on a commercial basis. The average export freight on board sale price was US\$1,744/MT (milled rice) and US\$3,006/MT (brown rice). In accordance with Taiwan's food security policy, only top quality premium rice is allowed for export, generally in specialty consumer package. Exports for forecast year are expected to remain at the current level, of which only 3 TMT are for commercial exports. Under the bilateral ECFA, mainland China opened its import market to Taiwan rice in May 2012 with the first shipment in June of that year. As a result of a great deal of trade promotion efforts, Taiwan exported only approximately 2 TMT to China and Hong Kong in 2014. Taiwan's rice exports to China are produced primarily under the COA's Certified Agricultural Standards program, which is designed to promote Taiwan's agricultural production by certifying product quality and guaranteeing traceability.

Taiwan 2014 Commercial Exports, MT (milled)

Destination	Tonnage	
	HS100620 brown (milled)	HS100630
Hong Kong	207 (180)	967
China	23(20)	789
Australia	3 (3)	479
Singapore	14 (12)	191
Canada	19 (16)	19
Japan	0	0
Malaysia	20 (17)	18
U.S.A.	21 (18)	43
Others combined	21 (18)	255
Subtotal	328 (285)	2,761
Total	3,046	
Source: Taiwan Customs Arrival Data		

Taiwan 2014 Food Aid Shipments, MT (milled)

Recipient Destination	Tonnage
Haiti	3,640
Lesotho	120
Swaziland	80

Philippines	5,100
Pakistan	500
South Africa	800
Zimbabwe	300
Indonesia	840
Bangladesh	100
Cambodia	200
Jordan	3,100
Nicaragua	1,400
Mozambique	120
Solomon Islands	50
Tuvalu	50
Total	16,400
Source: Council of Agriculture (COA)	

POLICY

Domestic Rice Purchase Programs

Taiwan established voluntary purchase programs for domestic rice in 1974. Under a policy to increase their food self-sufficiency, in April 2011, COA announced an NT\$3/kg increase in prices for domestic paddy rice purchases. As a result, paddy sales to the government doubled from 191 TMT in 2010. In 2013, 406 TMT of paddy sold to government accounted for approximately 25% of total annual output. More domestic rice enters public stocks, which might be contributed to increases of U.S. rice CSQ under SBS tender.

Blending of Domestic and Imported Rice Prohibited

Effective December 18, 2014, blending of foreign and domestic rice in branded rice packages is prohibited. Authorities found that (cheaper) domestic rice was blended with more expensive domestic rice, and marketed as locally produced, therefore commanding a premium. This wide-reaching practice brought to light in August 2013, when one company was found to have mislabeled foreign product as domestically produced. Under public criticism, COA revoked the company's rice dealer registration. As a result, this company failed to import 3,000 MT of U.S. rice under the 2013 U.S. rice CSQ normal tender and the other 2,000 MT of U.S. rice under the 2013 U.S. rice CSQ SBS scheme. COA retendered and contracted this 3,000 MT for February 2015 delivery. Still, some feel the labeling policy change may be an opportunity to promote U.S. rice and U.S. rice varieties, including U.S. long grain and southern medium grain.

Long Grain Rice Ban Lifted

In late November 2014, Taiwan authorities lifted the longstanding ban on U.S. long grain rice. Taiwan imposed an import ban on U.S. long grain rice immediate after the LibertyLink incident, summer 2006. However, recent tenders for U.S. long grain rice failed as the amylose specifications were beyond what U.S. suppliers could guarantee.

Grading Standards

Taiwan's National Standards for rice (Rice CNS) are rather strict; in 2013 such caused inadvertent (mis)labeling and grading issues for U.S. rice arriving in Taiwan. Taiwan and U.S. rice authorities held technical meetings in May 2013 to review quality standards. Since this, there have been fewer reported incidents of quality and/or labeling disruptions.

MARKETING

Domestic rice prices are higher than the world market. To compete with imported rice, COA works with local rice millers/farmers under a voluntary Taiwan Good Rice Program to increase demand for domestic rice by producing and promoting specialty rice varieties with geographical indicators. Rice gift packages for celebrating holidays, weddings, and other events are increasingly popular. Taiwan rice producers hold celebrations twice a year, celebrating the semi-annual harvest and promoting the freshness of locally-produced product.