

Investment Opportunities in the Dairy Industry in Taiwan

I. Introduction

Dairy products contain a lot of nutrients, making them beneficial to human health. With the increase of national incomes, consumers have an increasing demand for health and nutrition, and the consumption of dairy products grows sharply. The dairy industry in Taiwan is focused mainly on supplying domestic demand, and only a small amount of the island's dairy products are exported to areas such as China, Hong Kong, Macau, and Southeast Asia. From production to sale, Taiwan's government enforces strict regulations to control the quality of dairy products. The "Traceability System of Dairy Products" implemented by the Department of Health in recent years further ensures consumer safety and confidence in dairy products. In 2008, toxic melamine contamination found in infant formula in mainland China shattered consumer confidence in milk powder, prompting crowds of Chinese tourists to rush to buy milk powder in Hong Kong. This panic buying aroused public complaints from Hong Kong residents, who asked their government to take steps to ameliorate the situation. As the high-quality image of "Made in Taiwan" (MIT) products has come to be widely recognized by consumers in mainland China in recent years, interaction across the Taiwan Straits has become more active and the market for MIT products in China has grown. With its advantages of geographical proximity and cultural similarity, Taiwan is undoubtedly the best partner to serve as a springboard for entry into the Chinese market. Accordingly, investing in Taiwan's dairy industry is a useful strategy for easing entry into China.

II. Advantages of Taiwan's Dairy Industry

Top five reasons to invest in Taiwan's dairy industry

- (1) Taiwan's dairy industry enjoys solid technological strengths and superior management abilities.
- (2) Dairy-related education is widespread in Taiwan, which is also rich in technical and managerial personnel as well as high-quality workers.
- (3) Taiwan's dairy industry has developed a complete and professional value chain encompassing upstream milk producers, midstream low-temperature logistics centers, and downstream consumers.

- (4) The dietary diversity of Taiwan makes it an ideal choice as a place to develop different types of dairy products and to conduct market trials.
- (5) Taiwan's food industry has established a solid foundation in China; by investing in Taiwan, therefore, foreign companies can enter the Chinese market by making use of Taiwan's network of connections with China enterprises.

III. Introduction Major Suppliers in Taiwan's Dairy Industry

In terms of business scale, the listed companies Wei Chuan and Uni-President are the two biggest dairy product manufacturers in Taiwan. Other domestic companies in the line are mostly unlisted and small or medium in size. Information on Wei Chuan and Uni-President's revenues and profits is given in Table 1 and Table 2.

Table 1 Revenues and Profits of Wei Chuan and Uni-President

	2012		2011		2010	
	Revenue (NT\$ million)	Net profit ratio (%)	Revenue (NT\$ million)	Net profit ratio (%)	Revenue (NT\$ million)	Net profit ratio (%)
Wei Chuan	15,091	5.00	13,833	4.95	13,237	12.33
Uni-President	46,851	26.48	51,829	18.22	48,962	22.32

Source: Market Observation Post System

Table 2 Product Breakdown of Wei Chuan and Uni-President, in Percentage of Revenue

Company	Ratio of revenue categories
Wei Chuan	Dairy products (56.42 %), Convenience food and condiments (17.08%), Beverages (17.8%), Nutritional supplements (2.43%), Others(6.57%)
Uni-President	Beverages (26.81%), Dairy products (25.77 %), Animal feed and raw materials (16.63 %), Instant noodles and frozen prepared food (11.86%), Bread (8.78%), Sauce products and meats (3.94%), Flour (3.45%), Imported goods (0.76%), Health food (0.74%), oil and grease (0.33%), Others (0.94%)

Other unlisted companies (see Table 3)

Table 3 Unlisted Dairy Companies

Item	Company Name	Product Categories	Website
1	Kelti International Co. (Chulu Ranch)	Chulu milk, Chulu chocolate flavored milk, Chulu condensed milk, Chulu Ranch nougat, Chulu milk pudding, Chulu milk pancake, Chulu yogurt	http://www.chuluranch.com
2	Tian Shou Industrial Co.	Golong flavored milk (seven flavors), Golong yogurt, Beneficial bacteria	http://www.golong.com.tw
3	Kuang Chuan Dairy Co.	Milk, Chocolate milk, Red bean milk	http://www.kuangchuan.com
4	Taiwan Befitgas Bio-Tech Laboratory Inc.	Diluted fermented milk, Yogurt, Juice, Flavored milk	http://www.bifido.com.tw
5	Fourways Dairy Ranch	Full-fat milk, Low-fat milk, Low-fat yogurt, Fresh milk pudding (original flavor), Fresh milk pudding (chocolate), Milk ice-lollipop, Milk ice cream, Milk bread, Cheese, Whole wheat crackers, 25% Whipped cream	http://www.fourways.com.tw/
6	I-Mei Foods Co.	Full-fat milk, Full-fat high calcium milk, Low-fat milk, Low-fat high calcium milk, Coffee milk, Chocolate milk	http://www.imeifoods.com.tw
7	Standard Foods Taiwan Ltd.	Fruit juice, Hokkaido milk, Hokkaido espresso milk, Fresh milk (functional milk), Flavored milk, Milk tea	http://www.freshdelight.com.tw/
8	Flying Cow Ranch	Milk	http://www.flyingcow.com.tw/
9	Yunlin Dairy Technology Corp.	Fresh milk, Flavored milk, Yogurt	
10	Tai Lung Capital Inc.	Ice cream	http://www.poki-meiji.com.tw

Source: Dairy Industry Association of Taiwan

IV. Taiwan's Competitive Dairy Industry

(I) Current Status of Taiwan's Dairy Industry

In recent year's Taiwan's dairy industry has been made up of between 136 and 141 companies with a total of around 7,000 employees. Large suppliers such as Uni-president, Wei Chuan, and Kuang Chuan are the market leaders. According to the Department of Statistics, Ministry of Economic Affairs, the output value of Taiwan's dairy industry in 2011 was NT\$ 26.957 billion, up 1.142% compared with the previous year (see Table 4).

Table 4 Output Value of Taiwan's Dairy Industry

Item/Year	2008	2009	2010	2011	Unit
Production value	22,669	24,412	26,649	26,957	NT\$ Million
Sales value	22,316	24,031	26,439	26,839	NT\$ Million
Import value	15,826	14,569	17,912	20,011	NT\$ Million
Export value	387	346	458	784	NT\$ Million
Suppliers	136	142	143	141	
Employees	7,627	7,207	7,113	7,412	Persons
Wages and Salaries	39,350	41,936	39,742	40,751	NT\$/month

Source: Department of Statistics, Ministry of Economic Affairs; compiled by TIER 2012/03)

Taiwan's dairy product industry can be divided into six product categories: fresh milk, milk powder, flavored milk, fermented milk, ice cream, and other dairy products. Sales value (see Table 5) and sales ratio (see Table 6) statistics show that fresh milk has always been an important source of protein for the people of Taiwan, and also the main raw material used in making other dairy products. Fresh milk has by far the highest ratio of sales in the industry, rising from 53% in 2007 to almost 60% in 2011. Fermented milk products rank a distant second and its ratio of sales is falling, probably because of consumers' negative impressions of their high-sugar and high-calorie content despite the launching of low-sugar (or sugar-free) and low-calorie products. The sales ratio of fermented milk products declined to 13.94% in 2011.

Milk powder has the lowest ratio of sales value in the industry. As the ideas of late marriage and remaining single gain strength, people no longer hold to the

conventional family concepts; the birth rate in Taiwan has consequently dropped to a very low level, and the demand for milk powder has declined accordingly. Milk powder accounted for only 1.85% of total dairy product sales in Taiwan in 2011, a post-1982 low. The sales ratios of flavored milk, ice cream, and other dairy products have remained relatively stable in the period of 2007 to 2011.

Table 5 Value and Growth of Dairy Product Sales in Taiwan

Year	2008		2009		2010		2011	
Item	Revenue (NT\$ Million)	Annual growth rate (%)	Revenue (NT\$ Million)	Annual growth rate (%)	Revenue (NT\$ Million)	Annual growth rate (%)	Revenue (NT\$ Million)	Annual growth rate (%)
Fresh milk	12,214	4.97	13,283	8.74	15,053	13.33	16,057	6.67
Milk powder	506	10.94	513	1.39	497	-3.12	496	-0.18
Flavored milk	3,034	1.86	2,970	-2.12	3,245	9.24	3,486	6.89
Fermented milk	4,158	-7.68	4,528	8.90	4,770	5.36	3,740	-21.59
Ice cream	1,436	-5.06	1,812	26.17	1,764	-2.63	1,846	4.60
Other dairy products	967	24.20	926	-4.29	1,110	19.88	1,232	10.99
Total	22,316		24,031		26,439		26,839	

Source: Department of Statistics, Ministry of Economic Affairs; compiled by TIER (2012/03)

Table 6. Sales Ratios of Taiwan Dairy Products

Unit: %

Item/ Year	2007	2008	2009	2010	2011
Fresh milk	53.22	54.73	55.27	56.9	59.83
Milk powder	2.09	2.27	2.13	1.88	1.85
Flavored milk	13.62	13.60	12.36	12.27	12.92
Fermented milk	20.60	18.63	18.84	18.04	13.94
Ice cream	6.92	6.44	7.54	6.67	6.88
Other dairy products	3.56	4.33	3.85	4.20	4.59

Source: Department of Statistics, Ministry of Economic Affairs; compiled by TIER (2012/03)

(II) Taiwan's Dairy Product Imports and Exports, by Country/Region

The domestic market is the largest market for Taiwan's dairy manufacturing industry, with exports accounting for a very low proportion of total sales. According to industrial production statistics released by the Ministry of Economic Affairs (see Table 7), the ratio of domestic sales has remained above 90% since 2007. As domestic supplies are inadequate to meet the demand for raw material for making milk powder, the shortfall is made up by imports. According to Customs data (see Table 8), New Zealand, Australia, France, the United States, and the Netherlands are the major suppliers of Taiwan's imported raw material for making milk powder. New Zealand and Australia are the top two suppliers. The import ratio has remained above 50% of total supply since 2007 and rose to nearly 59% in 2011, indicating Taiwan's strong dependence on imports from New Zealand and Australia. France was the third largest supplier of the imports in 2011. China, which used to be among the top-five suppliers, was knocked from the list in 2009 because of melamine-tainted milk powder scandals there.

Table 7 Ratio of Domestic and Export Sales of Taiwan's Dairy Products Industry

Unit: %

Year/Domestic & export sales	2007	2008	2009	2010	2011
Domestic sales ratio	99.78	99.68	99.89	99.91	99.94
Export ratio	0.22	0.32	0.11	0.09	0.06

Source: Department of Statistics, Ministry of Economic Affairs; compiled by TIER (2012/03)

Table 8 Top Five Suppliers of Taiwan's Dairy Product Imports**Unit: %**

Ranking	2008		2009		2010		2011	
1	New Zealand	39.03	New Zealand	40.75	New Zealand	43.44	New Zealand	43.56
2	Australia	13.71	Australia	15.02	Australia	15.88	Australia	15.40
3	Netherlands	8.02	France	9.71	France	7.81	France	8.79
4	France	7.19	Netherlands	7.65	Netherlands	6.13	USA	5.91
5	China	6.39	Denmark	5.40	USA	4.82	Netherlands	4.84
Total	74.35		78.53		78.09		78.49	

Source: Customs import and export data; compiled by TIER (2012/03)

Table 9 Top Five Export Destinations for Taiwan's Dairy Products**Unit: %**

Ranking	2008		2009		2010		2011	
1	Hong Kong	34.5	Hong Kong	34.32	Hong Kong	29.54	China	39.30
2	USA	12.11	China	12.65	China	20.6	Hong Kong	29.15
3	Macou	11.14	USA	11.74	USA	10.65	Macou	6.72
4	Japan	9.02	Macou	8.41	Macou	10.47	USA	6.47
5	Malaysia	7.71	Malaysia	8.05	Malaysia	10.03	Malaysia	3.90
Total	74.48		75.17		81.29		85.54	

Source: Customs import and export data, TIER (2012/03)

The import (see Table 10)/export (see Table 11) proportion of each product

Table 10 Taiwan's Top Five Dairy Product Import Categories**Unit: %**

Year	2008		2009		2010		2011	
Ranking	Items	Ratio	Items	Ratio	Items	Ratio	Items	Ratio
1	Formula milk powder	21.07	Formula milk powder	19.27	Formula milk powder	19.18	Other powder, or milk and cream in	18.00

	(packaged 5 lbs and under)		(packaged 5 lbs and under)		(packaged 5 lbs and under)		solid form (fat content not exceeding 1.5%)	
2	Other powder, or milk and cream in solid form, (fat content exceeding 1.5%)	12.28	Other powder, or milk and cream in solid form (fat content exceeding 1.5%)	13.55	Infant formula, baby milk	9.65	Milk powder (packaged 5 lbs and under)	17.69
3	Other powder or milk and cream in solid form (fat content not exceeding 1.5%)	12.27	Infant formula, baby milk	11.20	Cheese	8.74	Other powder or milk and cream in solid form (fat content not exceeding 1.5%)	11.71
4	Infant formula, baby milk	10.55	Other powder or milk and cream in solid form (fat content not exceeding 1.5%)	10.24	Other powder, or milk and cream in solid form (fat content not exceeding 1.5%)	7.15	Cheese	9.68
5	Other formula milk powder	7.59	Other formula milk powder	9.30	Other powder or milk and cream in solid form (fat content not exceeding 1.5%)	6.73	Infant formula, baby milk	7.59
Total		63.77		63.57		51.44		64.67

Source: Customs import and export data; compiled by TIER (2012/03)

Table 11 Taiwan's Top Five Dairy Product Export Categories Unit: %

Year	2008		2009		2010		2011	
Ranking	Items	Ratio	Items	Ratio	Items	Ratio	Items	Ratio
1	Other formula milk powder	25.65	Other formula milk powder	26.65	Other formula milk powder	34.02	Other formula milk powder (packaged 5 lbs and under)	35.67
2	Infant formula, baby milk	20.81	Other edible ice	19.34	Yogurt	11.18	Other formula milk powder	26.78
3	Other edible ice	20.25	Yogurt	17.34	Other edible ice	10.92	Other formula milk powder	8.15
4	Yogurt	11.59	Other formula milk powder	9.36	Other formula milk powder	10.36	Other edible ice	6.35
5	Other formula milk powder	8.12	Other powder, or other solid form, milk and cream (fat content more than 1.5%)	4.63	Other formula milk powder (packaged 5 lbs and under)	4.61	Yogurt	6.09
Total	86.42		77.32		71.09		83.04	

Source: Customs import and export data; compiled by TIER (2012/03)