

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

Unit: NT\$ million

	2013		2012		2011	
	Revenue	Net profit ratio (%)	Revenue	Net profit ratio (%)	Revenue	Net profit ratio (%)
Wei Chuan	29,200	2.40	15,091	5.00	13,833	4.95
Uni-President	423,056	4.90	46,851	26.48	51,829	18.22

Source: Market Observation Post System (2014.06)

Table 2 Product Breakdown, in Percentage of Revenue

Company	Ratio of revenue categories
Wei Chuan	Dairy products (59.93 %), Convenience food and condiments (20.12%), Beverages (17.65%), Nutritional supplements (2.61%), Others(7.22%)
Uni-President	Beverages (27.77%), Dairy products (27.34 %), Animal feed and raw materials (16.75 %), Instant noodles and frozen prepared food

Company	Ratio of revenue categories
	(12.44%), Bread (8.98%), Sauce products and meats (4.60%), Flour (3.24%), Imported goods (0.61%), Health food (0.44%), Oil and grease (0.33%), Others (0.67%)

Source: Market Observation Post System (2014.06)

Table 3 Unlisted Dairy Companies

Item	Company Name	Main Product	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	N/A
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 2013, there are 169 companies in Taiwan's dairy industry. 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 2013 was NT\$ 30.175 billion, up 6.78% compared with the previous year (see Table 4).

Table 4 Output Value of Taiwan's Dairy Industry

Unit: NT\$ million

Item/Year	Production value	Growth (%)	Import value	Export value	Suppliers
2009	24,252	6.99%	12,892	264	142
2010	26,455	9.08%	15,935	406	143
2011	26,771	1.19%	18,406	725	141
2012	28,259	5.56%	16,437	953	150
2013	30,175	6.78%	19,453	1,562	169

Source: Department of Statistics, Ministry of Economic Affairs; ITIS (2014/06)

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. Output value (see Table 5) and 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 output value in the industry, maintaining over 50% since 2007, and continues to grow to 62.40% in 2013. Fermented milk products rank a distant second but its ratio 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 output ratio of fermented milk products declined to 13.9% in 2013, which is the lowest point since 2000.

Milk powder has the lowest ratio of output 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 1.42% of total dairy product output in Taiwan in 2013, a post-1982 low. The ratios of flavored milk, ice cream, and other dairy products have remained relatively stable.

Table 5 Value and Growth of Dairy Product Sales in Taiwan (NT\$ Million)

Year	2010		2011		2012		2013	
Item	Revenue	Growth rate (%)	Revenue	Growth rate (%)	Revenue	Growth rate (%)	Revenue	Growth rate (%)
Fresh milk	15,174	13.05	16,173	6.58	17,019	5.24	18,830	10.64
Milk powder	446	-29.52	464	4.03	409	-11.80	427	4.43
Flavored milk	3,433	10.55	3,656	6.50	4,000	9.42	4,055	1.36
Fermented milk	4,845	5.20	3,777	-22.05	4,116	8.98	4,193	1.87
Ice cream	1,505	-6.96	1,483	-1.48	1,449	-2.32	1,441	-0.55
Other dairy products	1,052	21.05	1,219	15.84	1,261	3.52	1,229	-2.57
Total	26,455		26,771		28,255		30,175	

Source: ITIS (2014.06)

Table 6. Output Value Ratio of Taiwan Dairy Products (Unit: %)

Item/ Year	2009	2010	2011	2012	2013
Fresh milk	55.34	57.36	60.41	60.23	62.40
Milk powder	2.61	1.69	1.73	1.45	1.42
Flavored milk	12.80	12.98	13.66	14.16	13.44
Fermented milk	18.99	18.32	14.11	14.57	13.90
Ice cream	6.67	5.69	5.54	5.13	4.77
Other dairy products	3.58	3.98	4.55	4.46	4.07
Fresh milk	100.00	100.00	100.00	100.00	100.00

Source: ITIS (2014.06)

(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, the United States, France, and the Argentina 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 65.2% in 2013, indicating Taiwan's strong dependence on imports from New Zealand and Australia. The United States was the third largest supplier in 2013. As for the export, the main exporting countries are nearby Asia countries, including Mainland China, Japan, Hong Kong and Macou. Mainland China, in particular, is the largest exporting country, which accounts for 74.84% of Taiwan's total exports in 2013.

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

Year/Domestic & export sales	2007	2008	2009	2010	2011	2012	2013
Domestic ratio (%)	99.78	99.68	99.89	99.91	99.94	98.82	98.23
Export ratio (%)	0.22	0.32	0.11	0.09	0.06	0.13	0.32

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	2010		2011		2012		2013	
1	New Zealand	51.38	New Zealand	53.60	New Zealand	50.92	New Zealand	52.75
2	Australia	18.84	Australia	17.07	Australia	15.10	Australia	12.45
3	USA	6.75	USA	7.82	USA	10.20	USA	11.43
4	France	5.31	France	6.20	France	6.67	France	6.84
5	Argentina	3.77	Argentina	3.54	Argentina	4.23	Argentina	4.18
Top 5 Total	86.05		88.24		87.12		87.65	

Source: Customs import and export data (2014.06)

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

Ranking	2010		2011		2012		2013	
1	Hong Kong	49.95	China	50.97	China	73.18	China	74.84
2	China	32.27	Hong Kong	21.14	Japan	12.63	Japan	8.68
3	Japan	5.82	Japan	16.16	Hong Kong	3.38	Hong Kong	4.94
4	Vietnam	3.91	Belgium	3.76	Belgium	1.88	Macou	2.74
5	USA	3.19	Vietnam	2.14	Vietnam	1.58	Belgium	1.47
Top 5 Total	95.14		94.18		92.65		92.67	

Source: Customs import and export data (2014.06)