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Organic Market

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Approved by:

Hoa Van Huynh, Director
ATO Taipei

Prepared by:

Welly Chen, Marketing Assistant

Report Highlights:

The yearly consumption for organic food products in Taiwan is estimated about USD60 million.

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Taipi ATO [TW2]
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Summary

U.S. exporters of organic products are expected to see a growing market in Taiwan for fresh and processed organic-certified products. While no formal statistics are kept of organic imports, local importers indicate that the value of imported organic food products should reach about USD30 million in 2005 – representing a 20% increase over 2004 and 30% over 2003 values. Local organic production is about USD30 million value a year, according to Council of Agriculture (COA). Based on these figures, it is estimate that the yearly consumption for organic food products in Taiwan is about USD60 million.

In the past, inadequate labeling rules have made it difficult for Taiwan consumers to determine whether a product was truly organic. A proposed Agricultural Safety Bill would consolidate regulations of organic products under one government agency, the Council of Agriculture (COA). If it is passed by the Legislative Yuan (LY) and the new labeling rules for organic products will go into effect in January 2006. New retail opportunities are opening up in the form of upscale supermarkets that specialize in organic/natural foods. Taiwan consumers today are significantly more knowledgeable and committed to purchasing and using organic food products than just five years ago.

Taiwan's Organic Standards

The Taiwan government has licensed four non-profit entities to certify farmers as organic producers. Farmers can apply to any of the four entities for certification. Once the farmer's land passes inspection, the farmer can label all products with a seal from the organization that inspected them. The seal is only applicable to certain products: vegetables, fruits, tea and rice as these are the products for which Taiwan authorities have already set organic standards. The seal lets consumers know that a product has been grown in accordance with Taiwan organic standards. The four certifying entities are MOA (Mokichi Okada Association), FOA (Formosa Organic Association), TOPA (Taiwan Organic Production Association) and TOAF (Taiwan Organic Agriculture Foundation). In terms of locally produced organic products currently in the market, MOA is the most widely recognized label in Taiwan. Some organic stores display the MOA seal on their store signboard in order to underscore their organic commitment.

Lack of Labeling Regulations Inhibit Organic Market

Although organic standards are stringent, confusing labeling laws have prevented the market from growing. Significantly higher pricing and improper claims and label also represent obstacles facing the growth of the organic market.

How “organic” is that product on the shelf?: Farmers often label their vegetables and fruits “organic” when they are nothing of the sort. Many have used some pesticides and chemical fertilizers to reduce production costs. There is too much cheating by farmers and, in a market where people expect to pay double the price for organic food, consumers naturally feel cheated when they find out their purchases

are anything less than 100% organic. As Taiwan law does not specify otherwise, any manufacturer is permitted to use the word “organic” without penalty. It is a question of the maturity of the market. Even with numerous bad examples, however, there are farmers with a passion for true organic farming in Taiwan.

The existing organic labeling regulations are confusing to consumer because of several reasons: 1) As compliance is voluntary, farmers do not have to be certified to claim they are organic. There is no restriction on using the word “organic” to promote one’s product. Some producers have developed their own organic standards instead of going through the expense of being certified. 2) There are several different organic labels available to farmers. The four official certifying entities each issue their own seal. This creates confusion for customers inundated with a myriad of different seals on organic products. 3) The current certification seals can only be used on vegetables, fruits, tea and rice. Products such as meats, poultry or processed foods cannot be certified in accordance with Taiwan organic standards. Certifying livestock and poultry requires additional investment because of the training required. No certifying entities have applied for the required additional training. For products that cannot be certified, consumers have to rely on the claims of the manufacturer.

New Agricultural Food Safety Bill in October 2005

The lack of strict organic labeling rules is an impediment to developing a robust organic market. The main problem is that responsibility for organic products is spread out over many different divisions within the Council of Agriculture (COA). For example, an animal husbandry division regulates meat products while food products safety division regulates product labeling. All these concerns are address in the new law. COA will introduce to the Legislative Yuan this month (October) a new Agricultural Food Safety Bill to replace existing laws. This new law will give one division within COA broad powers to regulate all aspects of the organic market. In addition, the new law will no longer make compliance voluntary. Organic products will need to be certified in accordance with Taiwan organic standards.

COA official said that there was pressure on COA to have the bill completed by October 2005 in order for it to be introduced in the current session of the Legislative Yuan. The current session ends in January 2006.

Uniform Organic Seal Slate for January

As a stopgap measure, until the Agricultural Safety Bill becomes law, COA will introduce a new organic seal in January 2006. This new seal will replace the four different certification seals that are currently being used. The four official certifying entities will begin issuing the seal instead of their own seals in January 2006. COA officials hope that consumers will place more confidence in this seal because it will be the first seal endorsed by the government. COA plans to begin educating the public about the new organic seal in December 2005. Until the new Agricultural Safety Bill is passed, COA cannot require that organic farmers be certified,

consumers will vote with their dollars and buy only organic products that carry the COA seal. If the public identifies the COA seal closely with truly “organic” products, organic farmers will naturally be inclined to apply for certification to continue selling their products.

Private Investors See Potential

Private investors see the organic market as ready to take off. In September, Mother Nature Co., Ltd., the largest wholesaler of organic foods in Taiwan, opened the island’s largest organic/natural food supermarket in Kaohsiung. Mother Nature has been importing organic food products for the last ten years, mainly imported from the U.S. Its main business is importing organic raw materials to supply local food manufacturers to make organic finished products. Now, Mother Nature wants to process and sell the food products directly to the customer.

Mother Nature spent USD10 million to build the 34,000 sq ft. store name LOHAS. A second store is being built in Taichung. Mother Nature plans for 90 more store locations over the next two years. The owner believes the image of an upscale organic supermarket will appeal to customers. When the owner of Mother Nature Co., Ltd. went to the U.S. he noticed that organic supermarkets like Whole Foods could charge a premium and still be very popular. He hopes to have the LOHAS name carry the same cachet with Taiwan shoppers.

A supermarket chain will bring big changes to the retail market in organic products. Currently, the retail market for organic products in Taiwan is fragmented. There are about 800 stores that specialize in natural foods. Most of these stores are individually owned and about the same size of a typical convenience store. A branded and well-designed retail chain will force smaller stores to consolidate and may also attract more customers to organic products. In addition, a larger retail market will push the Taiwan government to regulate the market more effectively. There is much anticipation that the LOHAS supermarket chain will lead to the creation of a trade group to lobby for stricter laws on organic products.

Demand for Organic Growing

Precise statistics on organic food sales are not easy to determine because the COA does not differentiate between organic products and regular food products in statistics. The only statistic provided by COA is about value of local organic production crops, which is about USD15.6 million a year. Some estimates also can be made based on imported organic food products. Mother Nature for example who accounts for about 60% of the organic food product imports purchased USD6 million in U.S. organic products in 2004. They estimate that the total organic market in Taiwan has been growing 7 – 10% a year.

An indication of the market’s potential can be found in sales of industrial food processing machines for organic products. These machines are sold to supermarkets and restaurants. They turn organic grains to into noodles, bread, tofu products and

beverage. Mother Nature, in addition to selling the machines, also supplies the raw materials for the machines. Stores would not be investing in these machines if the demand were not there. Over 500 stores are using the machines to process organic products.

Another indicator is the amount of certified organic farmland. More farmers are applying to have their farmlands certified as organic. COA statistics show that in 2004 Taiwan had 1,246 hectares of certified organic farmlands. This is an increase of 30% from five years ago when there were 898 hectares of organic farmland. We believe the actual amount of organic farmland is much greater as many organic farmers do not see the need to be certified. Many of these farmers are small producers and sell to customers based on word-of-mouth and through local produce delivery organizations.

U.S. Exporters Can Benefit from Taiwan's Organic Market

U.S. organic products exporters should benefit from Taiwan's growing organic market. In Asia, many U.S. organic exporters have been focused on Japan and Korea for their products. However, the Taiwan market is ideally suited for U.S. organic exporters as well. U.S. organic products can display the USDA organic seal in place of Taiwan certification and many Taiwan consumers consider U.S. food standards to be more reliable and safe. They may give more weight to an organic product from the U.S. than a similar product from Taiwan.

Comment

The new COA agricultural bill for imported organic products will require imported organic products to meet local regulatory requirements – products will need to meet Taiwan organic standards and products must be certified by organic certifiers who are authorized by the COA. There are two ways for imported organic products to be recognized by the COA and sold in Taiwan as “organic”. One is to allow a Taiwan certifying agency to conduct onsite inspections to certify products. That will take time and the U.S. company will have to pay inspection fees. Also the inspection procedure may cause many problems due to culture and language barrier. The second option is for U.S. certifiers to apply to the COA to be listed as “authorized certifying agencies”. While the new law is expected to be promulgated on January 2006, the government will allow a grace period during which companies should come into compliance.

The new Agricultural Safety Bill and the new COA organic seal seem to represent steps in the right direction for the organic market in Taiwan. Questions remain about when the COA Agricultural Safety Bill will become law. It is also uncertain what impact the new COA organic seal will have if the Agricultural Safety Bill is not passed. Without the new law, the organic seal will still only be voluntary. A new upscale supermarket chain specializing in organic products will provide new retail opportunities for U.S. organic exporters. All of these developments indicate that the organic/natural foods market in Taiwan is on the rise.