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TAIWAN MARKET BRIEF LOBSTER

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EXECUTIVE SUMMARY

- Due to lack of government regulation in regards to minimum size and quantity catch limits, Taiwan's local lobster supply has been nearly depleted. As a result 99% of lobsters consumed in Taiwan are imported.
- According to Taiwan Customs statistics, lobster imports in 1993 were valued at US\$33,706,642 an increase of 218% in the four years since 1989. This rapid growth of the import market is attributed to the considerable rise in consumer spending power and propensity to spend on high value food items, particularly when entertaining, coupled to the depletion of the local stock.
- Industry insiders expect a continued period of rising consumption with estimates of 30% accumulated growth in the lobster market over the next 5 years.
- Lobster is held in very high regard by Taiwanese with local customs dictating it be the main course at most weddings banquets. Wedding banquets account for an estimated 70% of the total lobster consumption in Taiwan.
- It is estimated that 98% of all lobster, both imported and local are sold to institutional markets, comprised of restaurants specializing in seafood and middle and high-end hotels offering fine dining.
- Australia is the largest supplier of lobsters to Taiwan, maintaining a 78% market share . New Zealand is second at 9%, and the U.S. third with a 7% share.
- In 1993, although a total of forty-six(46) companies were active in the importation of lobsters, four (4) companies alone accounted for some 40% of all imports.
- Although no quotas are in effect, importers of lobsters face a tariff of NT\$96 (US\$3.69) per kilogram of lobster.

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1.0 TRENDS IN CONSUMPTION

1.1 Consumption: Present and Past

Present

Based on available statistics as well as interviews with those in the industry, it is estimated that during the twelve month period from June 1993 to June 1994, total lobster consumption in Taiwan was valued at US\$37,784,700. According to Taiwan's Board of Foreign Trade, this was equivalent to 5,872,082 kilograms of lobster - 99% of which (US\$37,406,853) was imported.

Price competition is fierce and it is a common practice of importers to undervalue lobster shipments in order to minimize customs charges. Imports in dollar terms may therefore give a misleading picture. The value of the market can better be gauged by matching quantities by weight of lobster imported with average known prices obtained at the retail level. Estimates of the value of the market have been deduced by this method.

Lobsters imported into Taiwan are classified according to type and degree of processing. The two major types of imported lobster include:

- i. Rock / Spiny
- ii. Homarus

Each of these two types are further broken down into the following classifications based on level of processing :

- Live
- Frozen

Nearly 95% of lobsters imported into Taiwan are of the Rock / Spiny variety. Live and frozen are imported in roughly equal quantity.

One hundred percent of lobsters caught in local Taiwan waters are also of the Rock / Spiny variety (although this represents a very small proportion of the total market).

Past

Lobster imports, valued at US\$10,495,846 in 1989, increased significantly to a value of US\$33,469,576 in 1993. This represented an accumulated growth of approximately 218% in value terms. Relative to volume, this accounted for a five year total market growth of approximately 250%.

As can be seen from the tables below, during the last 5 years the Taiwan lobster market has experienced two major surges in growth. The first surge in the market occurred between 1989 and 1990 at which time the local lobster industry invested heavily in upgrading its local facilities resulting in substantial improvements in live lobster storage facilities.

These improvements were reflected both in overall increased storage capacity as well as in the better utilization of technology and processes used for maintaining live lobster in peak condition. These two factors allowed for a rapid growth in imports.

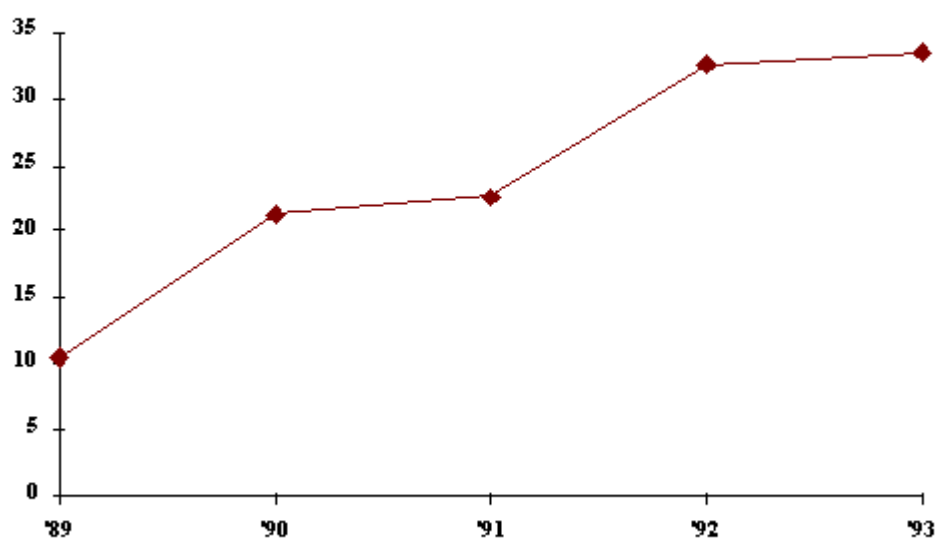
A second surge occurred between 1991 and 1992 and was a result of increased spending by consumers on high value discretionary items - of which high valued food items was one example. This trend in spending has continued -albeit in this particular segment of the consumer market during the past three years there has been a rapid increase in the range of restaurants competing for the consumer dollar. Future growth is therefore expected to be steady rather than spectacular.

The following is a breakdown of total lobster imports from 1989 to 1993 relative to quantity, value in U.S. dollars, and percent of annual increase.

Total Lobster Imports 1989 - 1993

Year	Quantity (Kilograms)	Value (US\$)	Yearly Growth (%)
'89	1,418,694	\$10,495,846.00	-
'90	2,950,251	\$21,315,000.00	103%
'91	3,028,458	\$22,579,961.00	6%
'92	4,791,355	\$32,590,653.00	44%
'93	5,055,528	\$33,469,576.00	2.7%

Value Of Imports 1989-1993 (US\$ Millions)



In order to obtain a total picture of the import market we have also broken the above table down by category of lobster according to the following two tables.

Imports Segmented by Processing Classification

Live Lobster

Year	Quantity (Kilograms)	Value (US\$)	Yearly Growth (%)
'89	291,990	2,226,038	
'90	491,455	3,463,538	68%
'91	549,928	3,870,192	12%
'92	1,565,823	10,326,192	185%
'93	2,523,409	16,102,076	61%

Frozen Lobster

Year	Quantity (Kilograms)	Value (US\$)	Yearly Growth (%)
'89	1,156,704	8,269,807	
'90	2,458,796	17,851,461	112%
'91	2,478,530	18,709,769	0%
'92	3,225,532	22,264,461	30%

'93	2,532,119	17,367,500	21%
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1.2 Factors Affecting Growth Rate

Taiwan has weathered well the recent down-turn in the global economy and per capita GDP continues to grow at an average rate of around 6% annually. Disposable incomes, particularly in the major metropolitan areas, continue to rise as does the overall level of consumer spending. The upsurge in international travel by Taiwanese, particularly noticeable since the lifting of martial law in 1987, has brought with it a more demanding society willing to spend on high quality products.

Subject to supply availability, lobster consumption is therefore expected to continue to increase for the following reasons:

- 1)Recent trends indicate a growing perception among Chinese that seafoods, including lobster, are more beneficial than traditional beef and pork dishes to personal health.
- 2)Lobster in particular is widely believed among Chinese to enhance men's virility.
- 3)It is customary for a Chinese host to offer lobster as the main dish at a formal dinner or wedding banquet for in doing so he will acquire much "face" in the eyes of his guests. Sources within the industry estimate that up to 70% of all lobster is consumed at such banquets.

Along with changes in consumption and spending patterns has gone a change in the method of retailing. In particular - and in direct competition to traditional "wet markets" - a new channel for the distribution of lobster opened in the late 1980's with the introduction of several hypermarket retail outlet stores.

This kind of high-volume discounted price outlet is still new and confined to major metropolitan areas but it is proving to be a widely successful concept in Taiwan. There have been recent press reports which suggest that the local retailing industry is poised for a rapid expansion of the hypermarket retailing concept island wide.

The foreign-based Carrefour and Makro hypermarket chains (both operating in association with local joint venture partners) offer consumers the opportunity to purchase both live and frozen lobsters for home cooking purchased from "in-store wet markets".

While hypermarkets island-wide currently represent only 2% of the total retail lobster market, they are expected to continue to expand throughout the island, offering consumers in areas other than Taipei, an additional source of lobster. There are insignificant sales of lobster retailed through traditional wet markets suggesting that the hypermarkets are creating a new demand rather than replacing an existing one.

1.3 Sub-Markets:

It is estimated that 98% of lobsters available are sold to institutional markets which include restaurants specializing in seafood, as well as middle and high-end hotels offering high class dining facilities.

The bulk of the remaining 2% is sold to hypermarket chain outlets, such as 'Carrefour' and 'Makro' located in major cities throughout Taiwan.

In a few isolated instances, lobsters may occasionally be found at local street market vendors handling seafood, however this represents only a small quantity of overall consumption and is insignificant in terms of the overall pattern of consumption.

1.4 Description of Current Packaging

Due to the nature of the product, lobsters do not require packaging once they have reached the retail level of the distribution chain.

However, typical import packaging consists of the following:

Live Lobster:

- A Styrofoam box 100cm by 30-40cm
- Internal ice packs or ice bottles
- Filler material of wet newspapers or wood shavings

Frozen Lobster:

- A paper carton 75cm by 20-30cm
- Each lobster placed in an individual unsealed plastic bag
- No other special filler material

Acceptable mortality rates for live lobster are 0~3% for product imported from Australia and 7~8% for product from the U.S.A.

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2.0 DOMESTIC AND FOREIGN COMPETITION

2.1 Percentage of Local Production Versus Imports

Nearly 99% of all lobsters consumed in Taiwan are imported. Local lobster production is negligible due to a variety of factors most importantly being the relatively small catch to be found in Taiwan's surrounding waters, both in terms of quantity and size.

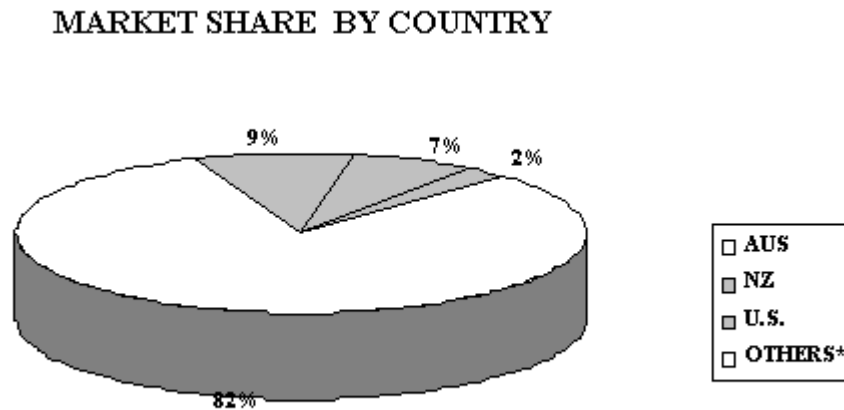
Local lobster production peaked in 1977 and severely declined thereafter. This situation, according to industry experts, is believed to be caused by the failure of the government to regulate the industry in regards to minimum size and catch limits.

The one percent of lobsters consumed in Taiwan that are produced locally, typically are caught and consumed locally by inhabitants of the Penghu Archipelago, a chain of islands lying in the Formosa Straits.

Faced with the severe decline of the local supply, Taiwanese now perceive imported lobsters to be of superior quality relative to size, freshness and taste.

2.2 Market Share of U.S. Importers and Other Supplying Countries

During the 12 month period from June of 1993 to June of 1994, Australia held the largest market share at 82% of all lobster imports. New Zealand was second at 9% and the U.S. third with a 7% market share. This is depicted below:



Source : Board of Foreign Trade

Breakdown of Lobster Imports by Country, Value, and Market Share from June 1993 to June 1994:

Country	Import Value (US\$)	Market Share
Australia	\$29,649,900	82%
New Zealand	\$3,247,000	9%
U.S.A.	\$2,531,600	7%
Others*	\$882,800	2%

* Others include the following countries:

- Hong Kong
- Singapore
- Thailand
- South Africa
- Canada

2.3 Locally Caught Versus Imported - Advantages and Disadvantages

As the local lobster supply has nearly been depleted, Taiwan has come to rely primarily on

imports to supply its substantial consumption. The remaining lobsters occasionally caught in local waters are often of immature size, well below the average minimum weight considered harvestable.

Australian and New Zealand lobsters are preferred for their lower mortality rate, better flavor and softer meat. The meat of U.S. lobsters by contrast is considered to be tougher than that of Australia.

2.4 Major Brands and Respective Market Shares

The two major classifications of lobsters imported are Rock / Spiny and Homarus. The Rock / Spiny variety holds the dominant market share at 95%, while Homarus is second with a 5% share. Their sub-categories and respective market shares in Taiwan are as follows:

Rock / Spiny Lobster

Total market share	95%
1.Live	47%
2.Frozen	53%

Homarus Lobster

Total market share	5%
1.Live	49%
2.Frozen	51%

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3.0 DISTRIBUTION AND PRICING

3.1 Distribution Channels

The majority of lobsters consumed in Taiwan are first purchased and imported by a Taiwan trading company, then sold to a wholesaler who in turn sells directly to the various restaurants, hotels, and hypermarkets. This is depicted below:

Overseas Wholesaler --> Taiwan Importer --> Wholesaler --> Restaurants,Hotels,Retail

However, hypermarkets and a very small percentage of larger seafood restaurants buy directly from importers.

According to the Board of Foreign Trade, a total of forty six (46) importers are reportedly active in the importation of lobsters, however, (4) four companies alone accounted for 40% of all imports.

After importation, an estimated twenty (20) wholesalers are engaged in the distribution of lobsters to restaurants, hotels and other retail outlets in Taiwan.

3.2 Description of Retail Outlets

It is estimated that no more than a nominal 2% of lobsters consumed in Taiwan are purchased directly from retail outlets of which hypermarkets appear to be the major source.

This is primarily due to the fact that lobster is not regarded as a staple of the diet to be consumed at home. Rather it is seen as a prestige item to be consumed at restaurants, particularly in large groups, to celebrate weddings and other special occasions. Chinese do not normally entertain at home.

There may be some change in this traditional pattern emerging among younger, middle class and affluent Chinese who are influenced by Western customs and may be prepared to purchase this kind of item for home consumption.

Lobsters sold at the various hypermarket retail outlets can be purchased both live and frozen.

Throughout the year, retail prices for live lobster average NT\$900 to NT\$1500 (US\$35-\$58) per kilogram, while frozen lobster averages NT\$900 to NT\$1000 (US\$35-\$38) per kilogram.

3.3 Mark-ups At Distribution Stages

The market is highly competitive and according to discussions with a number of firms within the industry, the average profit margins for both importers and wholesalers range from the ideal of 20% to a low of 1%.

However, it is estimated that approximately 70% of importers' mark-ups are in the 3-5% range, while nearly 90% of wholesalers' mark-ups fall within the 3-10% range.

Accounting for seasonal variations, importers typically pay between NT\$800 and NT\$1400 (US\$31-\$54) for live lobsters and between NT\$800 and NT\$900 (US\$31-35) for frozen lobsters.

Accounting for seasonal variations, wholesale prices for live lobsters average between NT\$850 to NT\$1450 (US\$33-\$56) per kilogram, while wholesale prices for frozen lobsters average NT\$850 to NT\$950 (US\$33-\$37)

3.4 Comparison Between Retail and Export Price

As Taiwan does not export lobsters a comparison is not possible.

3.5 Price Comparison - Locally Produced Versus Imports

Locally produced lobsters, if available, are generally priced the same as imports. However, during the high-season, the price of local lobster is occasionally 1-2% more higher than imports.

3.6 Recommendations for Promotional Activities

Approximately 70% of the lobster market in Taiwan is connected to weddings and special occasions, with trends indicating a growing preference for live lobsters as opposed to frozen.

As current trends in consumption indicate continued growth in the range of an estimated 30% over the next five years, marketing efforts should be directed at maintaining the growth areas such as restaurants, hotels, and hypermarkets.

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4.0 PACKAGING

4.1 Local Legal Requirements for Packaging

There are no known legal requirements stipulating specific packaging materials or sizes to be used for lobster.

When passing through Taiwan Customs, shipments of seafood that have passed through cholera infected areas require proper sealing and certification from the country of origin. See 5.3 for explanation of proper sealing and certification.

4.2 Consumer Packaging Preferences

Due to the nature of the product and the fact that most lobster is consumed in restaurants, there are no specific consumer preferences in regards to the packaging of lobsters.

However, an estimated 70% of lobsters served in Taiwan are prepared as 'lobster salad' consisting of green leafy vegetables and chilled lobster meat.

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5.0 IMPORT REGULATIONS

5.1 Local Tariffs, Non-Tariff Barriers, and Quotas

According to the Board of Foreign Trade, there are no quotas in effect for lobster. However, importers are levied a tariff of NT\$96 per kilogram, regardless of lobster type. There are also several miscellaneous fees, as listed below:

Tariff and Fee Schedule*

Lobster Tariff	NT\$96 (US\$3.69) per kilogram
Harbor Construction Fee	0.5% of CIF Price
Trade Promotion Fee	0.05% of CIF Price
Customs Clearance Fee Per Shipment	NT\$500 (US\$19.23)
** Cholera Testing Fee	NT\$2000 (US\$76.92)

* **Exchange Rate: US\$1 : NT\$26**

** **If required**

5.2 Local Standards for Grading and Sanitation.

There are no published standards for grading and sanitation.

5.3 Special Import \ Quarantine \ Testing Regulations

Taiwan has established strict regulations regarding the handling of seafood that has passed through cholera infected areas.

Before customs processing begins, any shipment which has passed through cholera-infected areas must be held by the quarantine authority until confirmation that it is not contaminated by toxigenic *Vibrio cholerae*.

Fishery products in enclosed containers passing through cholera-infected areas should be properly sealed with metallic or plastic straps showing a control code before leaving the port of embarkation.

In order to apply for quarantine inspection, the bill of lading issued at the exporting country must state the control codes shown on the straps, containers assigned numbers, and the total number of containers shipped.

If the product is not accompanied with the appropriate seals and paperwork, it is subject to a 36-48 hour quarantine period during which time it will be tested for the presence of *Vibrio cholerae*. There is a testing fee of NT\$2000 (US\$77)

SEE APPENDIX for table of cholera infected areas.

Additionally, customs requires a clearance fee of NT\$500 (US\$19) per shipment regardless of size or quantity.

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