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## Taiwan

### Agricultural Situation

#### The Short Term Impact of SARS on Food Consumption, Imports, and Market Development in Taiwan

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#### **Report Highlights:**

The likely overall impact of the recent outbreak of Severe Acute Respiratory Syndrome (SARS) on food and beverage consumption in Taiwan is expected to be minor. A rough estimate of the anticipated decrease in overall value of food and beverage consumption is 5~7%, principally due to a shift away from dining out and frequenting places such as department stores, theaters, and entertainment centers. Likely to feel the pinch most until SARS is brought under control include items which rely heavily on sales through HRI channels. Food and food ingredients which are used in traditional food service or taken home to be prepared should see some growth in demand.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Taipei ATO [TW2], TW

## Overview

The past several weeks have witnessed a sharp increase in the number of suspected and confirmed Severe Acute Respiratory Syndrome (SARS) cases in Taiwan. Given Taiwan's high population density, the porous nature of current quarantine controls, and concern among the general population regarding the ability of regulators and business establishments to control effectively the risk of SARS transmission in public venues, Taiwan's market for agricultural products is anticipated to face the following trends until the risk of SARS is adequately controlled:

- › Moderate to sharply reduced patronage at hotels, restaurants, theaters, department stores, indoor recreation facilities, and amusement parks;
- › Sharply reduced international travel and a drop in domestic discretionary travel;
- › Shift from casual to purpose-oriented grocery shopping;
- › Moderate decrease in fresh produce purchases; and
- › Moderate increase in shelf-stable food purchases.

A brief discussion of each point follows in this report.

At the time of writing, SARS concerns have not expanded to processed food products. Therefore, the impact on food processor demand for raw and semi-processed ingredient products is expected to be minimal. Should SARS concerns continue to eat away at public confidence in eating out, demand for processed foods may see growth.

Demand for bulk commodities, such as wheat and soybeans, have not seen significant changes in demand, with consumption expected to remain steady given current market conditions.

Taiwan sources indicate a significant rise in demand for products targeting health and immune system enhancement. Consumption is currently estimated to be at around 20% above normal levels for this nebulous product category, which covers vitamins, nutraceuticals, fruit juices, herbal teas, natural extracts and concentrates, Chinese medicinal herbs, and so on.

### 1) Reduced Patronage at HRI, Casual Shopping, and Entertainment Outlets

Restaurants have seen business decline since SARS first came onto the public radar screen in March of this year. Overall eat-in restaurant business traffic has likely fallen to around 75% of pre-SARS levels. Currently, restaurants located in Taipei's international hotels are estimating revenue declines of about 25%. Chain and theme restaurants (Western and Chinese) are likely to be somewhat harder hit because of their normal reliance on high traffic volumes and emphasis on "social" eating. Family-style Chinese restaurants, typically neighborhood-based and smaller in scale, are likely to be less effected, although sales are reportedly down somewhat as well. The potential for further falls in restaurant patronage

certainly exists should SARS continue to spread through the general population.

Movie theaters, entertainment centers, department stores, amusement parks, etc. have all suffered significant drops in traffic and will likely remain the venues most vulnerable to public perceptions about the dangers of contracting SARS in public places.

A general impression is that, in terms of food service, Taiwan consumers are frequenting more often small restaurants and food service outlets that offer take-out. If this trend holds, it will likely raise demand for the semi-processed and bulk-packaged ingredient products used by individual restaurants and centralized food service kitchens, which make ready-to-eat hot lunch box meals (bentos), retort packaged prepared entrees, and so on. Consumers also seem to be electing to eat more home-cooked meals, which is likely to raise grocer / hypermarket / wet market sales of home meal ingredients.

High-end ingredients and foods, Western and Chinese alike, are likely to be the worst hit by SARS-induced changes in food consumption due to their heavy reliance on sales to HRI, rather than home or general food service, end users.

## **2) Sharply Reduced Travel**

All tourism, domestic and international, is down drastically from previous years. Reportedly, just over 90% of outbound tourist bookings in April were canceled due to SARS concerns. Inbound tourism has fared little better. Domestic tourism was down nearly 50% in March.

Should SARS continue its grip over Taiwan into the summer and beyond, domestic tourism may see some recovery from families and groups choosing to remain in Taiwan for vacations. Domestic hotels are already offering exceptional deals for stays, often including free meals and tickets to attractions. The government has also promised to subsidize civil servant holidays up to US\$175 when taken domestically. Hotels and resorts on Taiwan's less populated eastern coast and within Taiwan's central mountain region stand to benefit most from tourists which opt for a domestic holiday this year.

## **3) Shift from Casual to Purpose-Oriented Grocery Shopping**

While sales of groceries remain, so far, largely unaffected by public SARS concerns, consumers are now visibly spending less time shopping for groceries than in the past. Consumers now enter grocery stores, hypermarkets, wet markets, and convenience stores generally knowing what they want to buy and are less apt to browse the shelves, linger to read advertisements, stand in line for tastings, or use grocery shopping as an opportunity to socialize.

Supermarkets, perhaps perceived by consumers as providing a "safer" environment (vis. SARS) for shopping than wet markets, generally noted a strong up-tick in sales during April. One supermarket chain CEO in central Taiwan indicated that this may be an opportune time to shift consumers away from wet markets as, "supermarkets provide fresh groceries in a clean and, most importantly, sanitary shopping environment." Over the course of this SARS

outbreak, public perception of the "safety" of *any* venue (supermarket, hypermarket, wet market, convenience store) will rely heavily on the ability of each to maintain a "SARS-free" image in the public mind. Negative SARS-related media coverage of any one retail format could result in drastic and immediate venue switching by consumers.

Some promotions scheduled to be held in hypermarkets have been canceled or scaled back due to uncertainties regarding SARS. In light of the move away from casual shopping and uncertainties regarding the future impact of SARS on hypermarket sales, hypermarkets are particularly concerned regarding whether this year's scheduled promotions can achieve previously-set revenue expectations.

#### **4) Moderate Decreases in Fresh Produce Purchases**

Several US fruit associations reported significant declines in fresh fruit and vegetable sales (both domestic and imported) after visiting wet markets in northern Taiwan recently. This was attributed to two factors: a) reduced purchasing by restaurants and b) reduced purchase frequency. With regard to the latter, many restaurants and families are now purchasing fresh produce on an every-other-day (sometimes even longer), rather than the traditional daily, basis in order to limit buyer exposure to crowds. While the value of each individual purchase has risen as a result, the overall value of purchases, particularly of more perishable items, has likely declined.

U.S. fruits and vegetables for which HRI comprises a significant end-user market may be hit hard due to shrinking HRI purchases. U.S. fruits and vegetables sold more heavily to consumers (as much of the fruit is) should see little change in ultimate consumption as a result of SARS. There may even be increased consumption of these items as part of the new consumer emphasis to eat foods and supplements that bolster general health and improve the immune system.

#### **5) Moderate Increases in Shelf-Stable Food Purchases**

Much of the dry goods grocery business in Taiwan has remained steady or registered slight increases in recent weeks. During times of crisis, Taiwanese tend to stock up on durable foodstuffs. This is likely a short term trend, not likely to result in significantly increased sales overall. Likely to benefit include wheat-based dried noodle preparations, frozen Chinese food items, powdered milk, bottled beverages, canned corn / vegetables, soups, and so on.