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Taiwan

Fresh Deciduous Fruit

Annual

2005

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Report Highlights:

MY2004 was yet again a difficult year for US suppliers. While continuing to comprise a plurality of Taiwan apple imports and to consistently earn the highest marks for taste and quality from domestic consumers, codling moth detections shut US suppliers out of the market for four crucial months (Dec '04 – April '05). However, the fact that the US retained a 42% market share (49K mt) despite the 4 month hiatus, speaks well for continuing US competitiveness and prospects in the market. Given reasonable prices and access to market sales through the season, US apples should regain their "normal" post-WTO market share of 50%+. Expanding market share through 60% is possible given thoughtful and well-organized US industry efforts to cultivate and maintain relationships with the Taiwan trade.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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[TW]

Executive Summary

While the apple remains by far the most important item in Taiwan's fruit import profile, it faces plateauing demand as economic conditions hold back liberal consumer spending and an increasing variety of fruits (both imported and domestic) pry consumer dollars away from the traditional stand-bys. While there continues to be a general preference among Taiwan importers for US apples (best taste, good appearance, stable quality), importers are more than ready to shift orders to other suppliers if it is more profitable. Improving supplier capabilities worldwide, particularly in the southern hemisphere, promises to pressure US suppliers with increasing crop volumes and improved cold storage capabilities.

MY 2004 was another tough year for US exporters. Codling moth detections in imported fruit closed the market down to US imports for 4 critical months, between 21 December 2004 and 27 April 2005.

US apple sales only managed to hold steady during this past year (rising 3 percent), while the market for imports grew by a sluggish 4%. However, given good US crop conditions (i.e., sufficient export volume with competitive pricing) and phytosanitary compliance, it is not inconceivable that the US can regain sales worth 60% of the apple market (75~80K mt) over the coming several years.

Production

Local growers benefited from an optimal growing season during late 2004 to turn in a bumper crop during MY2004. Climatic conditions are expected to be similar to last year. As long as Taiwan is free of late season typhoons, like that which hit production areas last year, the MY2005 crop is set to approximate that of MY2004. At its best, however, local production is currently able to supply only some 5% of domestic demand, making the impact of annual fluctuations in local crop yields on imports insignificant. The industry is likely to continue slowly contracting due to high production costs and labor retention problems.

Local production is principally the *Star King* variety. Eighty-percent of commercially-grown local apples are estimated as sold for fresh consumption, with the remainder being used in prepared foods -- processed typically not very far from the orchard.

While this year's crop was profitable due to growing conditions and late season restrictions on US apple imports, Taiwan's apple growers find it difficult to earn a sustainable profit from crop production. Continued contraction of field acreage used for commercial production defines the long-term trend for the industry. However, current sustained economic difficulties in the economy at large will likely mitigate the move out of the industry in the short term and the area harvested is not expected to change significantly over the next 1~2 years. Historically high unemployment rates of 5 percent or more have resulted in a boost to agricultural employment.

Marketing

Market demand for apples rose slightly (6%) to 122K mt in MY2004. The apple remains relatively resilient in terms of consumption, even with the encroachment of different fruits and varieties seen since Taiwan entered the WTO in 2002. In terms of imports, apples continue to hold steady at between 30~35% of all HS category 08 imports (fruits and nuts) by volume and between 25~30% by value. This is not expected to change significantly over the coming 2~3 year period.

Again, given stable prices and the reliable presence of US suppliers in the market during the fall and early winter months, Taiwan is expected to continue to raise its apple consumption to 130-thousand mt consumption level by MY2006.

The apple is, far and away, the most heavily consumed imported fruit in Taiwan. Only oranges, 96% of which are grown domestically, are consumed in greater quantity. However, in terms of real growth, the apple is losing ground to a host of other imported fruits, including grapes, nectarines, cherries, and berries. If the Taiwan economy is able to get on track with growth rates of 3~5% apples should see a healthy boost in demand, with the addition of another 10~20 thousand mt per year in imports certainly reasonable. However, due to the variety of imported and domestic fruits now available, consumption of apples is not expected to reach the highs seen in the late 1990s without some new factor or factors changing the competitive picture (e.g., such as new positive findings regarding the health benefits of apples).

Nearly all fresh fruit imports, apples included, are consumed as fresh produce. Taiwan's consumers value both convenience and freshness. This helps channel about half of all fresh apple sales through traditional / neighborhood wet markets. Of the remainder, around 20% are sold in small fruit shops and 10% by traveling vendors, with the rest absorbed by grocery stores, hypermarkets and large hotel and restaurant accounts. Warehouse grocers (hypermarkets) reportedly now account for close to 11% of domestic fresh apple sales. Their increasing market share has been gained principally at the expense of supermarket / grocery chains, although hypermarkets are increasingly eating into neighborhood wet markets as the convenience and pricing offered in hypermarkets is winning business from Taiwan's small-scale retailer communities (particularly in the Taipei metropolitan area) which traditionally purchased produce in wet markets.

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety - retaining slightly better than 80% of total retail apple sales. The remainder is comprised largely of Gala, Pacific Rose, Red Delicious, and Granny Smith. The former two are principally used to fill gaps in supply of Fujis experienced during late season months.

Lacking the Western penchant for sweet snacks & desserts and blessed with a rich variety of native fruits, the vast majority of Taiwanese view fruit as an important part of the daily diet. Fruit is frequently eaten as a snack as well as dessert and is the most common food prepared to serve to visitors in the home or office.

The Taiwan consumers' preference for the apple over other fruit is grounded in a number of factors, including appreciation of nutritive/health benefits, relatively low

price, a strong quality image, attractive appearance, and relatively long shelf life. Furthermore, the year-round availability of the apple is attractive to retailers, because point-of-sale formats need not be rotated - as is necessary for fruits available only at certain times of the year.

Good "Face Value"

Two of the apple's popularity factors noted above, attractive appearance (red, round, shiny) and quality image, reflect consumer priorities that tend to be more uniquely Taiwanese (or Chinese) than others mentioned (which tend to be more universal). Unless bought solely for personal consumption, the color, size, and general appearance of fruit is typically quite important to the retail customer. Serving good-looking fruit to family, friends, or clients intimates good manners, generosity, and warmth. The "best-looking" fruit, often specially presented on store shelves or sold in gift packaging, fetches the highest prices. The most expensive apples on the market, Japan-grown Fujis, sell well at premiums of 100% or more over slightly smaller rivals because of their size and consumers' quality perceptions.

While countries like the United States, Chile and New Zealand continue to focus on supplying the Taiwan market with traditional (read "Fuji") varieties, Japan is having some success at introducing less common varieties into the market to maintain its "premium" image and justify higher prices to consumers.

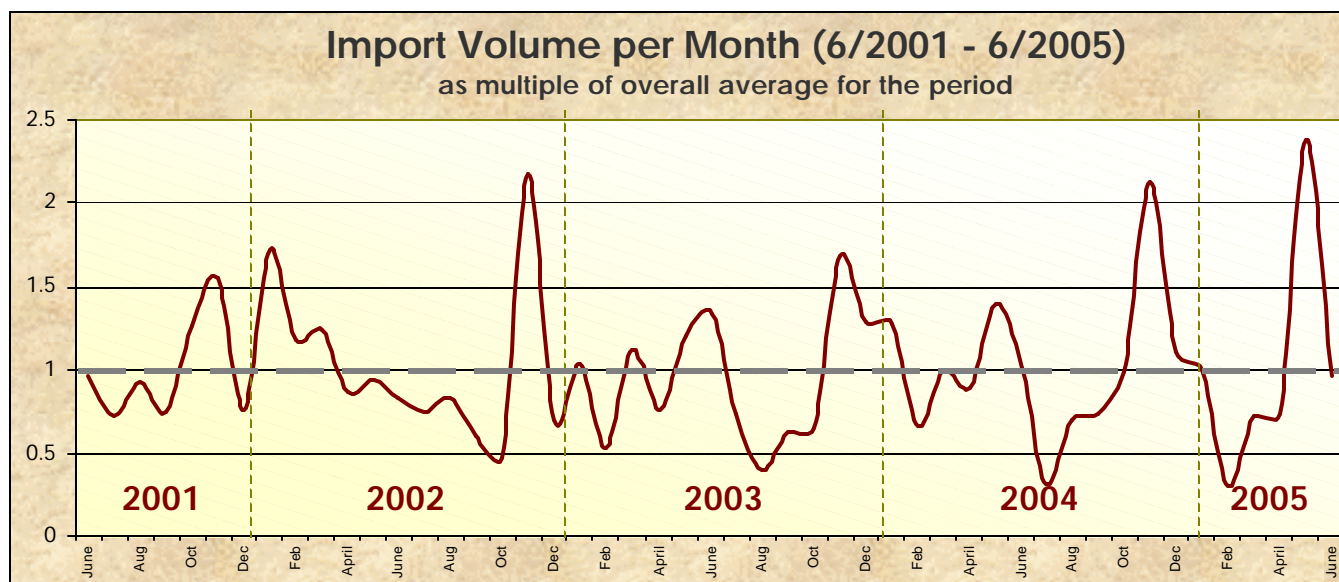
Seasonal Preferences

While eaten year round, Taiwan consumers purchase significantly more apples during the autumn and winter months - the prime production months for northern hemisphere growers. Reasons for this include general perception of the apple as a "cool weather" fruit and the incorporation of apples into the many festivals held during this time of the year.

The chart below illustrates the higher-than-average apple imports during Taiwan's autumn & winter months recorded over the past two and a half years.

Chart 1.

Source: Taiwan Customs



Trade

Trade in MY2005 is expected to remain relatively stable at 115~125K mt, reflecting stability in supply and demand factors. US suppliers are, at present, somewhat disadvantaged because of recent years' experiences with codling moth detections in imported fruit and the resultant temporary closing of the market to all US fresh apple supplies. This has encouraged importers to diversify their supplies away from the United States (despite the quality factors). Winners in this have included Japan and, remarkably, Canada, which has historically had a difficult time selling into Taiwan due to both sizing and taste issues.

A resolution of codling moth concerns among the trade can increase the US share of the market relatively easily by another 25~35K mt. US market share would, in the main, be earned away from other country suppliers rather than by corresponding increase in the overall size of the market.

Trade volumes are still well off the peak reached in MY1998 – when a combined economic boom and limited imported fruit supplies channeled significant consumer buying power into apples. Today, Taiwan's consumption of apples, in the 115 – 130K mt range, likely represents a "floor" demand that will continue to hold unless significant consumer preference changes (either for or against apples) occur.

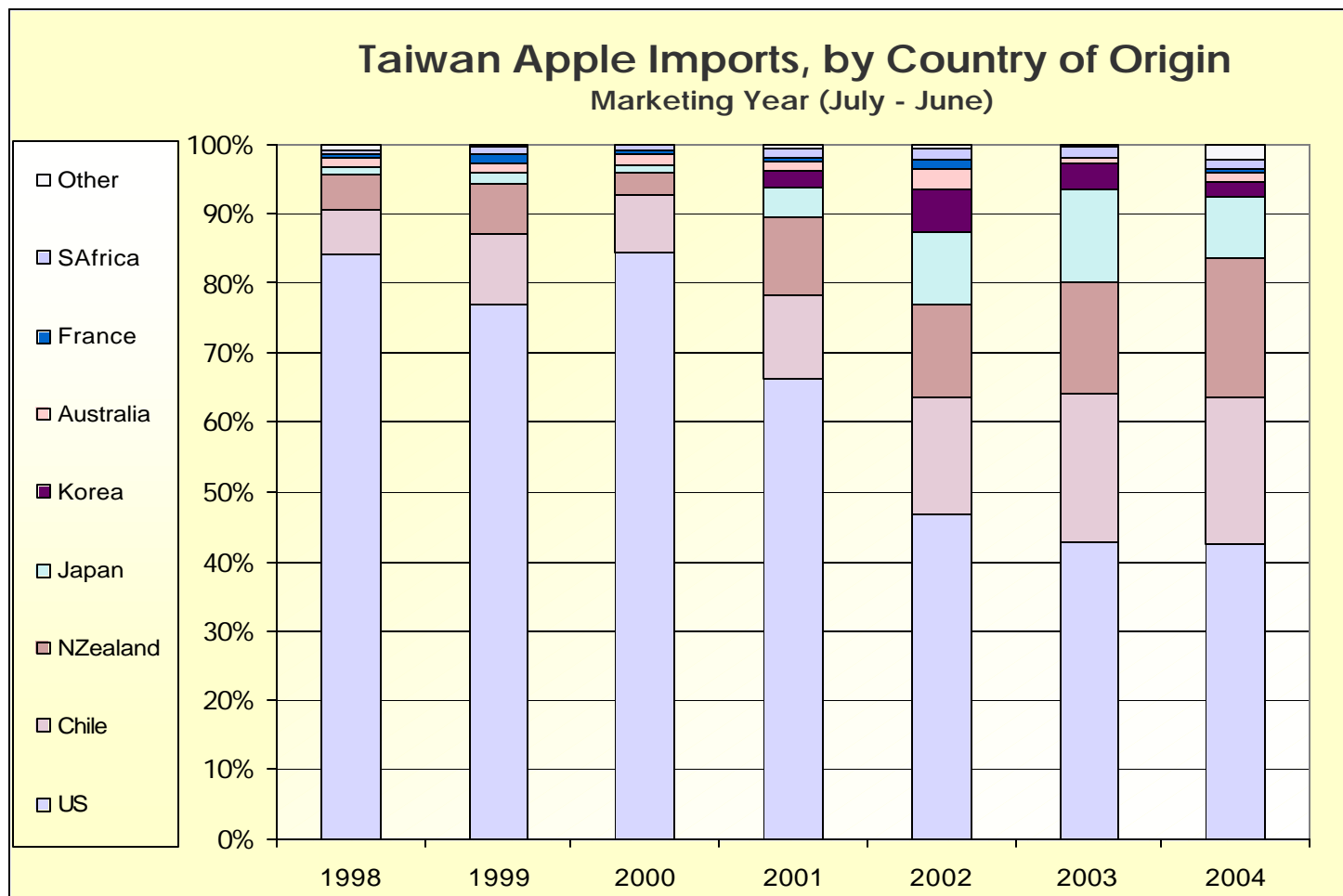
With the Taiwan fresh apple consumption "pie" looking set to remain at about the same size for the coming few years and the market open to all major producers (with the important exception of China), importers have a broad choice of suppliers and countries from which to choose. How the "pie" is divvied up from year to year may vary significantly based on supplier prices, seasonal product quality, and availability.

In general, while Taiwan buyers *do* express a continued preference for U.S.-origin Fuji apples due to factors including long-term relationships, responsive suppliers, and stable, high product quality, as *return on investment* remains the top priority for fruit buyers, apple importers have shown themselves more than willing to shift purchase orders to other competing supplier countries when cost factors run against U.S. exporters. High relative U.S. crop prices in recent years have opened the door to sales from other northern hemisphere growers (mostly in Japan). At the consumer level, Japanese apples have received mixed to positive reviews (generally good taste, relatively small size, average appearance, competitive price), although the strong marketing value of "made in Japan" should ensure that country a growing share of overall consumption through the coming several years. Korean apples, while typically priced at a discount to U.S. and Japanese apples have, to date, been supplied with inconsistent quality and average appearance and sweetness. Therefore, growth of the market share for Korean suppliers has fallen behind other competitors.

In terms of northern hemisphere suppliers, the U.S. is expected to remain the dominant player through the coming years with a total market share of between 50 and 60%. Japan will probably hold steady with a 14~16% market share over the coming two years. Other northern hemisphere suppliers, including Korea, Canada and France, can either add to or lose market share depending on relative strength of US supplies in terms of quality, price, and availability.

Chart 2.

Source: Taiwan Customs



Taiwan's 2002 entry into the WTO eliminated previous quota restrictions on all countries formerly approved to export to the island under quota (Chile, New Zealand, Australia, Japan, South Africa, Argentina, and the European Union) and removed a previous ban on apple imports from South Korea. China remains prohibited from exporting fresh apples to Taiwan.

Taiwan currently applies a 20% tariff on apple imports, down significantly from the 50% tariff applied prior to January 2002. Taiwan Customs assesses tariff due on a shipment based on a region-specific reference price rather than invoiced value.

Phytosanitary and Food Safety Requirements

Phytosanitary certificate (PC) is required for apple imports. US apples must have the additional declaration (AD) on PC that "The fruit has been thoroughly inspected and found free from codling moth, apple maggot, plum curculio, fire blight and western flower thrips."

In August 2003, the U.S. and Taiwan agreed on a new systems approach quarantine work plan for apples that requires strengthened mitigation practices, while also putting in place a system of graduated penalties for detection of codling moth.

Due to codling moth concerns during MY2004, US suppliers were not allowed to ship fresh apples to Taiwan from late December to late April. This closure hit apple producers in the Northwest particularly hard as they were not far into their harvest and shipping seasons.

Food Safety

Taiwan defines maximum residue levels (MRLs) for around 60 chemicals. Shipments are checked on a random basis. Taiwan's Department of Health (DOH) is currently reviewing current permitted chemicals and MRLs for each. The Agricultural Affairs Section at the American Institute in Taiwan and U.S. industry have worked to ensure that all pesticide and other chemicals of concern to U.S. industry are permitted under temporary arrangement during the review period as well as to see that chemicals and residue levels will be defined in such a way as to not become a trade barrier to U.S. suppliers. The DOH review process is expected to run several years during which formal announcement of new MRLs will be made.

The China Factor in Competition in the Taiwan Apple Market

Private investment has been flowing from Taiwan into China to develop Fuji apple production - particularly into Shandong province, China's major deciduous fruit farming area. As the world's largest producer of apples, China, and its potential to export large quantities of cheap, good quality apples to Taiwan now that both are in the WTO, is of concern to many apple exporters.

The entry of Chinese apples into Taiwan presently hinges on Taiwan's certification of China's phytosanitary controls in apple growing areas and handling processes. Certification will not happen until the two sides agree to negotiate how such certification is to be done. Continued uneasy political relations between the two sides of the Taiwan Strait give no indication as to when such negotiations may start. Therefore, industry believes it highly unlikely that Chinese apples will arrive in the market before 2006. However, presuming that Chinese apple imports will eventually be permitted, some industry representatives believe that the United States can still retain its position as leading apple supplier to the island. Factors in support of this opinion include:

(1) **Quality.** While China has cultivated apples for centuries, the Fuji apple - in greatest demand and still fetching premiums in international markets - is a relative newcomer. Experience and time is required to develop not only the technical infrastructure (such as proper storage, handling/packing, & transportation facilities) but also the expertise to cultivate, select, grade, package, and deliver the premium Fuji apples in the manner which Taiwan distributors and consumers expect. Apples from China smuggled into Taiwan and sold on the market in 1997 & 1998 elicited significant curiosity from consumers but reportedly failed to impress with their appearance, taste, or price.

(2) **Price.** Industry watchers report that, when China exports its highest quality apples, quoted prices have not been significantly different from those quoted by U.S.

suppliers. Factors for such may include continued limited high-quality supply from growers, high non-labor-related production costs, and the fact that investment in new Fuji cultivation in China comes principally from small-scale domestic, Taiwan, and other investors interested (at least in the near term) to "meet" market prices in order to recoup investment costs.

(3) **Season.** China's apple season is similar to that of Washington State. Apples from other growing regions in the U.S., such as California, should face less direct competition in Taiwan from China growers.

(4) **Domestic Consumption.** China's own blossoming domestic demand for high quality apples may meet or even exceed domestic production capacity, leaving less for export - even as production volume expands. Also, Taiwan investors in Chinese orchards are reportedly most interested to develop domestic PRC market sales.

(5) **Phytosanitary Controls.** Taiwan's strict controls on codling moth in apples will likely be difficult for Chinese growers and packers to meet. Even if the two quarantine services can eventually reach agreement on a quarantine work plan, there is some doubt as to China's capability to ship pest-free fruit.

Prices & Marketing

Since 1998, the apple industry in Taiwan has faced pressure on prices as stagnant or decreasing demand has been met by increasing volumes available for import. With most producing countries supplying apples here, Taiwan continues to be a "buyers' market" with demand influenced significantly by supplier marketing and pricing strategies. Prices between and within apple varieties vary greatly based on seasonal consumption variations, supplier country-of-origin, supplier pricing competition, and so on. The current market bears little resemblance to that of a decade ago, when Fuji apples were available in extremely limited quantities and suppliers could demand, and receive, high premiums on sales.

As mentioned earlier in this report, the apple symbolizes many positive things to the Taiwan consumer. When purchased as a gift or to serve to others, the country of origin, size, appearance, and taste remain as important as price in the consumer's decision to buy. Therefore, to maintain its dominant position - particularly against "new" competitors such as Japan, Korea and (eventually) China - U.S. suppliers are recommended to continue working closely with Taiwan importers, distributors, and retailers to reinforce the strong positive image that U.S. apples presently enjoy in Taiwan to ensure continued consumer loyalty to U.S.-origin apples.

Statistics

Country Commodity	Taiwan		Apples, Fresh		(HA)(1000 TREES)(MT)		UOM
	2003	Revised	2004	Estimate	2005	Forecast	
Market Year Begin	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	MM/YYYY
		07/2003		07/2004		07/2005	
Area Planted	685	685	720	650	0	640	(HA)
Area Harvested	629	629	700	640	0	635	(HA)
Bearing Trees	221	221	270	210	0	205	(1000 TREES)
Non-Bearing Trees	60	60	10	10	0	10	(1000 TREES)
Total Trees	281	281	280	220	0	215	(1000 TREES)
Commercial Production	3385	3385	9000	6700	0	6500	(MT)
Non-Comm. Production	40	40	70	18	0	20	(MT)
TOTAL Production	3425	3425	9070	6718	0	6520	(MT)
TOTAL Imports	111330	111330	114000	115354	0	115000	(MT)
TOTAL SUPPLY	114755	114755	123070	122072	0	121520	(MT)
Domestic Fresh Consump	114685	114685	123000	122027	0	121475	(MT)
Exports, Fresh Only	0	0	0	0	0	0	(MT)
For Processing	0	0	0	0	0	0	(MT)
Withdrawal From Market	70	70	70	45	0	45	(MT)
TOTAL UTILIZATION	114755	114755	123070	122072	0	121520	(MT)

Import Trade Matrix

Country Taiwan

Commodity Apples, Fresh

Time Period	MY 2003-2004	Units:	mt
Imports for:	2003		2004
U.S.	47612	U.S.	48983
Others		Others	
Chile	23916	Chile	24450
New Zealand	17636	New Zealand	22858
Japan	14906	Japan	10126
Korea	4418	Korea	2894
South Africa	1675	South Africa	1596
Australia	789	Australia	1386
Canada	297	Canada	2486
France	82	France	576
Total for Others	63719		66372
Others not Listed	0		0
Grand Total	111331		115355

Export Trade Matrix

Country Taiwan

Commodity Apples, Fresh

Time Period	MY 2003-2004	Units:	1,000mt
Exports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Total for Others	0		0
Others not Listed	0		0
Grand Total	0		0

Country Commodity	Taiwan		Apple Juice, Concentrated		(MT)		Forecast	UOM
	2003	Revised	2004	Estimate	2005			
Market Year Begin	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]		MM/YYYY
		01/2003		01/2004		01/2005		
Deliv. To Processors	0	0	0	0	0	0	0	(MT)
Beginning Stocks	0	100	0	150	0	150	150	(MT)
Production	0	0	0	0	0	0	0	(MT)
Imports	0	3663	0	6066	0	6100	6100	(MT)
TOTAL SUPPLY	0	3763	0	6216	0	6250	6250	(MT)
Exports	0	18	0	25	0	20	20	(MT)
Domestic Consumption	0	3595	0	6041	0	6080	6080	(MT)
Ending Stocks	0	150	0	150	0	150	150	(MT)
TOTAL DISTRIBUTION	0	3763	0	6216	0	6250	6250	(MT)

Commodity	Apple Juice, Concentrated	
Time Period	MY 2003-2004	Units: mt
Imports for:	2003	2004
U.S.	7	17
Others		
China	3366	5789
New Zealand	189	220
Austria	35	10
Chile	25	30
Total for Others	3615	6019
Others not Listed	41	30
Grand Total	3663	6066

Commodity	Apple Juice, Concentrated	
Time Period	MY 2003-2004	Units: mt
Exports for:	2003	2004
U.S.	15	7
Others		
Malaysia	11	18
Hong Kong	39	15
Singapore	14	8
China	0	2
		40
Total for Others	64	83
Others not Listed	18	25
Grand Total	97	115