



WORLD MARKETS AND TRADE

March 2008

2007/08 Global Apples

Summary

World apple trade is dominated by four major players, the EU- 27, China, Chile, and the United States on the exports side and the EU- 27 and Russia on the import side. Intensifying export competition from China could pressure future growth prospects.

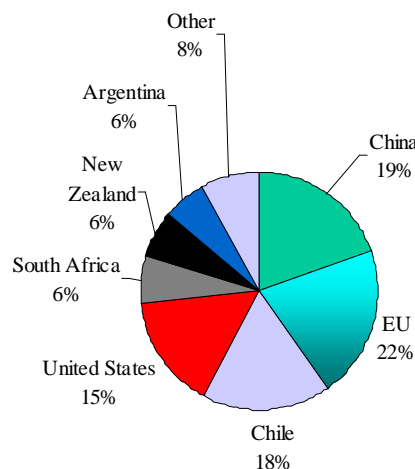
China Challenges for Top Export Spot

China is by far the world's largest apple producer with 23 million tons and is quickly challenging the EU as the world's largest exporter. In value terms, however, the U.S. dominates the world market at \$640 million. China's exports values rank 3rd and lag that of the EU and United States. Most of China's market share gains will be in Asian countries and Russia, presenting growing competition for U.S. apples.

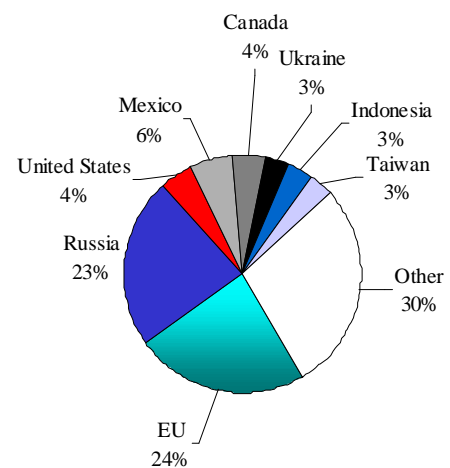
Russia Becoming a Promising Market

The EU is the largest apple importer with product mainly from southern hemisphere countries in the off season. Russia is at a close second importing from the EU as well as China, Argentina, Chile and the United States. Russia's imports grew 21 percent last year and are expected to grow an additional 10 percent in 2007/08 as incomes rise. As

Russia attempts to close the fruit consumption gap with Western consumers, lower customs tariffs and activation of new container terminals at the Port of St. Petersburg will make imported product more competitive against lower priced domestic produce.



Exports



Imports

Expanding demand should offer opportunities for additional U.S. sales, but also more competition from China, particularly in Russian Far Eastern ports.

Global Production Decreases

For 2007/08, production in select reporting countries is expected to be down 9 percent over the previous year to 41 million tons, but nearly unchanged from the 2005/06 level. China, the main driver in world apple production, posts a 12-percent decline to 23 million tons due to cold and dry spring weather combined with a normal cyclical decline. Early season weather problems also drove down production in Slovakia, Poland, Hungary, and Greece with combined declines in these four countries posting a 35-percent drop over the previous year. Apple production in the northern hemisphere reporting countries during 2007/08 is expected to be down 10 percent while select southern hemisphere countries remain stable at an increase of only one percent. Increases in Australia, Chile, and South Africa are offsetting declines in Argentina and New Zealand.

U. S. Production Decreases

U.S. utilized apple production for marketing year (MY July-June) 2007/08 is down 6 percent from last season at 4.2 million tons according to the January release of the National Agricultural Statistics Service (NASS) 2007 *Non-citrus Fruits and Nuts Preliminary Summary*. Washington production decreased 4 percent to 5.40 billion pounds from 2006. Michigan's production decreased 10 percent from 2006, while production in New York increased 2 percent from 2006. A change in varieties produced was the primary reason for the reduction in Washington production with more growers switching from the Red Delicious variety. In New York, hailstorms damaged some of the crop; however, apple numbers and quality remained high. Low summer precipitation levels in Michigan reduced fruit sizes but fruit quality remained high. A severe frost decimated orchards in the Southeast and Iowa, Missouri, Illinois, and Kentucky. Reports of tree damage and total crop loss were common in these States.

For additional data on U.S. apples go to <http://usda.mannlib.cornell.edu> and select the January 2008, *Non-citrus Fruits and Nuts 2007 Preliminary Summary* report. NASS will release the *Non-citrus Fruits and Nuts Summary* on Tuesday, July 8, 2008, which will provide final U.S. utilized production and price figures for 2007.

Higher Domestic Prices Push Up Export Values

Domestic season average prices received by growers should be bolstered this year given a tighter supply situation and active export market. The weakening dollar will help to keep finite supplies moving. With the smaller crop, minimal carry over stocks, and an excellent varietal distribution growers should be able to command their best price. Last season's prices averaged 31.8 cents per pound, up from 24.4 cents the previous season and 18.1 in 2004/05.

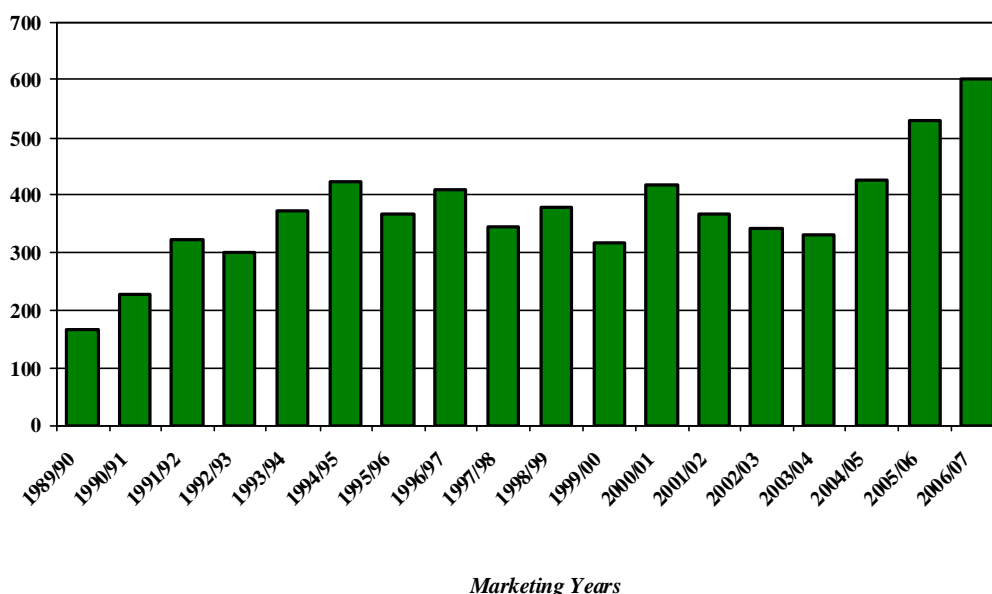
U.S. Apple Exports Expand To Key Markets

Last season, apple export values exceeded \$600 million for the first time and they are continuing to grow. Export values July through December post over a 5-percent increase. The lighter harvest combined with robust demand and a competitive dollar is keeping apples moving, albeit at higher prices. Movement into Mexico is the largest pull with growing

demand fueled by several factors. Apple production in Mexico is expected to be 4 percent lower this year. Trade sources indicate that Chihuahua, the main apple producing state, had freezing temperatures affecting yields and fruit quality. Growers also indicated that the area planted in Mexico is expected to decrease slightly due to higher costs of production and limited credit and water availability. The U.S. apple industry continues marketing and in-store promotion efforts which significantly contribute to creating a market for U.S. apples. Strong shipments occur January to May, although the U.S. does start shipping in smaller volumes as early as October. Shipments to Canada and Taiwan are running above year-ago levels helping to offset lower than expected exports to the United Kingdom. Washington State apples generally graded larger this season and the United Kingdom market prefers smaller sized apples. Canadian apple imports are bolstered by reduced domestic production and increased demand. After Mexico, Canada is our second most important market. The Taiwanese market is showing a turn around this year with produce prices once again high and the increasing consciousness of phytosanitary controls on apple imports by suppliers. After several years of the current protocol for apples exported to Taiwan, although onerous, shippers are building a certain confidence level and contracts are growing as a result. A resolution of codling moth concerns among the trade, either through more successful screening at the production end or a reworking of how Taiwan authorities respond to detections, is expected to continue the upward trend in exports. The United States is currently the dominant player with an expected total market share close to 50 percent.

Apple Export Values

Million \$



Source: U.S. Department of Commerce, Bureau of the Census

Update on Foreign Trade Barriers

Korea – U.S. Free Trade Agreement

On April 2, 2007, the United States concluded negotiations on a free trade agreement (FTA) with the Republic of Korea. Under the agreement, U.S. agricultural producers will have improved access to an additional 48 million consumers. Currently, U.S. apples are not allowed entry into South Korea due to concerns regarding plant pests and disease (e.g., codling moth and fire blight). Phytosanitary access to South Korea for U.S. apples will require a phytosanitary agreement. Once access is achieved, the FTA could improve access for U.S. apples by reducing tariffs.

Mexico and Anti-dumping Duties

On November 2, 2006, the Secretariat of Economy (SE) announced the final resolution to the antidumping investigation on Red and Golden Delicious varieties from the United States. Depending on the company, duties can go from 0 to 47.05 percent. Most of the Northwest Fruit Exporters (NFE) companies fall under the 47.05 duty. However, recently a small number of Mexican fruit importing companies petitioned the SE to revoke the August 12, 2002, final resolution on anti-dumping duties on Red and Golden Delicious apples shipped by non-Northwest Fruit Exporters (NFE) companies. The petition was resolved favorably, and on July 3, 2007, SE announced in the Diario Oficial (Federal Register) that the Final Resolution on the antidumping case on Red and Golden Delicious apples, published on August 12, 2002, was cancelled. The cancellation of this resolution means that non-Northwest Fruit Exporters (NFE) companies are no longer subject to a compensatory duty when exporting Red and Golden Delicious apples to Mexico. Although this last resolution allows other companies, different from NFE and from other states to export zero duty apples, most of the imports will continue to come from Washington State. U.S. apples that are not of the Red and Golden Delicious varieties are not subject to any duty. So, other apple varieties like Gala, Rome Beauty, Jonagold, and PinkLady, are being imported at more affordable prices but in much smaller quantities.

The U.S. apple industry will continue to face competition from other countries. The United States is Mexico's largest apple supplier, while Chile is second. Apples on a much smaller scale are also imported from Canada, Argentina, South Africa, and New Zealand. Mexico completed the phytosanitary protocol to import apples from China, but their domestic industry is not expecting significant competition as the variety from China, Fuji, is still not widely accepted by the Mexican consumer.

Taiwan and Detection of Codling Moth

During this shipping season (Sep – May), only one codling moth has been detected. On November 2, Taiwan confirmed the detection of the larva in a shipment from the Pacific Northwest. In recent years, exports have been weak with waning interest by some exporters to aggressively market to Taiwan until an alternative to the three strike penalty clause can be agreed upon, one that will address Taiwan's Quarantine concerns, but not unnecessarily restrict trade.

With Taiwan apple consumption expected to be stable for the next few years, the market is open to all major producers with the important exception of China. Exports to Taiwan July through December are up nearly 20 percent in both quantity and value. Last marketing year, exports were valued at \$42 million. Taiwan also imports apples from Chile, New Zealand, France, South Korea, and Canada.

India Suspends Wax Labeling Regulation

The Ministry of Health and Family Welfare (MHFW) has delayed the implementation date of the revised regulation until March 1, 2008, to review the public comments on the new regulation. On December 29, 2006, India issued regulations authorizing the use of carnauba and beeswax (excluding shellac) as a coating for fresh fruit effective March 30, 2007. The regulations also required that every package of fresh fruit as well as "loose" or individual fruits be labeled with the name of the wax and a "best before" date. MHFW later indicated that the labeling would be required on cartons and not individual fruit, but rejected the U.S. request to accept the FDA approved wax labeling language because it does not specify the exact, full names of the approved waxes. MHFW revised the regulation to approve shellac and remove the best before date labeling requirement. The revised regulation is to be implemented on March 1, 2008. Apple exports to India are off 60 percent so far this season (July – December).

For more information on apples to India, see a release from the Economic Research Service entitled *Prospects for India's Emerging Apple Market* at <http://www.ers.usda.gov>.

New Zealand WTO Dispute

On October 4, 2007, Australia and New Zealand held WTO Dispute Settlement consultations. New Zealand has claimed that Australia's import regime for apples is inconsistent with its SPS obligations, including lack of transparency and risk assessment. The United States and the EU were third parties to the consultations. This dispute is continuing through the process. New Zealand alleges that the import restrictions imposed in 2007, as well as the November 2006 risk assessment on which the restrictions are based, are inconsistent with a number of SPS Agreement provisions. These provisions states that a measure shall not be maintained without sufficient scientific evidence and shall be based on a risk assessment as appropriate to the circumstances. The main (but not only) pest that Australia is concerned about is fire blight, the same plant disease that formed the alleged basis for the restrictions Japan imposed on U.S. apples. We prevailed in our WTO dispute against Japan's restrictions (and Japan ultimately removed the measures). Much of New Zealand's case is built on the findings in our dispute.

For more information, contact Heather Velthuis at 202-720-9792, heather.velthuis@usda.gov. The FAS Attaché Report search engine contains reports on Fresh Deciduous fruit for more than 18 countries and can be found on the FAS home page at <http://www.fas.usda.gov>. Also visit our Production, Supply and Demand on line at <http://www.fas.usda.gov/psdonline/psdHome.aspx>