



# WORLD MARKETS AND TRADE

May 2007

## World Apple Situation

### Summary

U.S. apple production for marketing year (MY July-June) 2006/07 is expected to be 4 percent higher than last season at 4.6 million metric tons. Supplies continue tight due to a combination of slightly fewer apples meeting fresh standards and shippers exercising more control over inventory after being caught short in 2005/06.

Tighter supplies and higher domestic prices combined with anti-dumping duties reduced U.S. exports to Mexico. The Mexican market continues to be a challenge. Trade concerns also continue to loom for U.S. apples in other markets such as Taiwan and India. At 97,392 metric tons, good apple movement into Canada posted gains of 17 percent for the July-March period (2006/07), compared to the previous year, helping to offset other market declines.

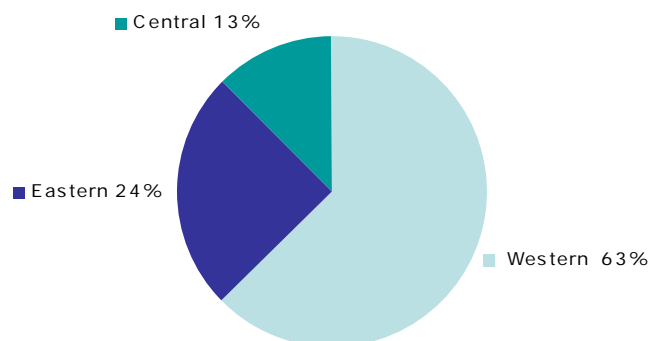
Apple production for select countries during MY 2006/07 is estimated to be 46.1 million tons, up 11 percent from last year. The United States represents about 10 percent of the total.

Apple exports from major world traders are forecast relatively flat at 4.6 million tons.

### U. S. Production Increases

In January, the National Agricultural Statistics Service (NASS) 2006 *Non-citrus Fruits and Nuts Preliminary Summary* revised total apple production for 2005/06 down 145 million pounds to 9.7 billion pounds or 4.4 million tons. The 2006/07 preliminary production estimate was revised up 229 million pounds to 4.6 million tons. Washington state production is the largest and often the driver of yearly changes in U.S. apple production. However, this year, Washington apple production is stable, while year-to-year increases in New York and Michigan of 24 and 18 percent, respectively, boosted the national total. Washington experienced problems with frost during bloom in addition to several weather events later in 2006 such as hail, rain, and high wind according NASS. In New York, the benefits of abundant rainfall across the state more than offset increased disease pressure and severe weather during the fall. These adverse weather conditions resulted in higher than normal unharvested production. Without these weather problems, production growth in New York would have been even greater. In Michigan, plentiful rain in August and September aided fruit sizing. However, freezing temperatures in the northwest during April 2006 and cold temperatures in the western part of the state during pollination greatly limited fruit set. For additional data on U.S. apples go to <http://usda.mannlib.cornell.edu> and select the January 2007, *Non-citrus Fruits and Nuts 2006 Preliminary Summary* report.

### United States Apple Production by Region



Source: National Agricultural Statistics Service

NASS will release the *Non-citrus Fruits and Nuts Summary* on Friday, July 6, 2007, which will provide final U.S. utilized production and price figures for 2006.

### Global Production Increases; Mainly from China

For 2006/07, production in select reporting countries is expected to be up 11 percent over the previous year to 46.1 million tons, but nearly unchanged from the 2004/05 level. China's dramatic 20-percent increase was tempered by declines in Turkey, Spain, Russia, and Italy. Apple production in the northern hemisphere during 2006/07 is expected to be up over the previous year's levels. China is the driving force behind global production changes. China's record apple production of 24.5 million tons rebounded this year due to favorable weather conditions combined with a normal cyclical come-back. However, apple production in the southern hemisphere is expected to be flat to slightly higher in 2006/07. Increases in New Zealand, Argentina and Chile production more than offset declines in Australia.

### U.S. Apple Consumption Bolstered by Increasing Availability

Apple consumption on a per capita basis in the United States is expected to be up 6 percent. Consumers are having more food choices and as they incorporate more fruit and vegetables, apple consumption is bolstered. Good movement on the domestic market is keeping prices high and supplies tight. Strong cold storage movement continuing through this spring will be a solid indicator of good demand. According to the U.S. Apple Association's Market News May 1, 2007, fresh apple holdings totaled 26.1 million bushels, 5 percent less than May 1, 2006, holdings of 27.6 million bushels. New processed apple products and continuing research on apple varieties is helping offset increasing competition from the snack food industry. Globally, apple consumption rebounded, primarily driven by China's increased apple

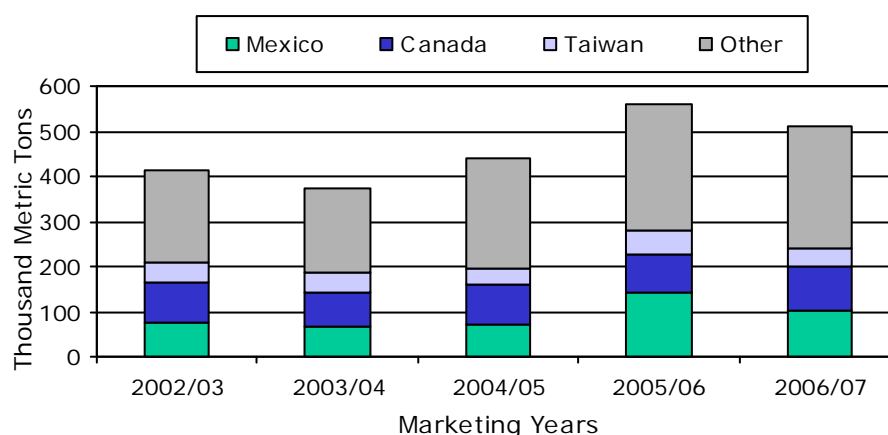
availability. As the Chinese become more aware of apple varieties and quality, their demand for premium apples will grow.

### U.S. Exports Set to Decline

U.S. apple export quantities for MY 2006/07 are expected to decline about 8 percent over last year's high levels to 630,000 metric tons. Current MY exports through March show a decrease of almost 9 percent with lack luster movement to all top markets except Canada, the United Kingdom, and India. Movement into Canada remains strong with Canada's lower apple production and short cold storage supplies. Despite the overall decline in quantity of apples shipped, export market values were up close to 14 percent, reaching \$480 million (97,392 tons) through March. Stronger prices for apples going to Canada and Taiwan bolstered the total value.

### U.S. Exports Down from Last Year's High

(July 2006 – March 2007)



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

### 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

The Pacific Northwest apple industry supplies most of the apples exported to Mexico through the Northwest Fruit Exporters (NFE) structure. Currently, the existing antidumping duties apply to U.S. shipments of Red and Golden delicious apples, the main varieties exported to the

Mexican market. On March 27, 2006, NFE filed a draft proposal with Mexico's Secretariat of Economy (SE) that would suspend preliminary anti-dumping margins on certain U.S. apple varieties and establish a floor price for product entering Mexico, thereby allowing all companies associated with NFE an opportunity to join in an agreement or pursue an agreement on an individual basis. Negotiations on such an agreement occurred April 18-19, 2006. Since this time, however, NFE has moved to pursue a NAFTA Chapter 19 case against Mexico. Chapter 19 provides for a system of bi-national panel review of decisions by a Party authority on anti-dumping and countervailing duty matters.

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.

### **Canadian Apple Industry Confirms No Trade Action**

Canada's apple industry organizations indicate that there is no active pursuit of trade action against U.S. fresh apples. Canadian apple industry officials concluded that parallels drawn between their prospective apple case and the on-going corn case could negatively impact any finding by the Canadian International Trade Tribunal.

U.S. apple exports to Canada are up 17 percent in quantity, while value is up 42 percent, (July 2006-March 2007) compared to the previous year. The U.S. dominates Canada's import markets in apples, but some competition has been sparked by apples from China. Canada lifted its suspension on apple imports from Shaanxi province in October 2004.

### **Taiwan and Detection of Codling Moth**

During this shipping season, only two codling moths were detected and the market was not closed at any time to U.S. apples. 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. Taiwan has tentatively committed to meeting during 2007 to discuss alternative measures to the three strike rule and a meeting could occur as early as late June. Recently, an opportunity for additional shipments of U.S. apples to Taiwan this summer has been created by Taiwan's suspension of imports of apples from Chile and New Zealand. Imports from these two countries were both suspended due to the detection of codling moth. The opportunity this creates for U.S. suppliers is tempered by high U.S. apple prices and the possibility that Taiwanese consumers will switch to tropical fruit consumption if apple prices are high relative to other fruits. See GAIN #TW7024. The United States exported a total of 40,000 tons July 2006 - March 2007 valued at \$39 million. Taiwan also imports apples from Chile, France, South Korea, and Canada.

### **Fruit Fly Issue Resolved in Indonesia**

Indonesia's Decree 37 establishes phytosanitary requirements on fruit imports that fail to recognize fruit fly free areas in the United States. As a consequence, U.S. fresh fruit is subject

to unwarranted pest mitigation measures before being exported to Indonesia. In early March 2006, the Foreign Agricultural Service and Office of the United States Trade Representative raised concerns regarding Decree 37 in the WTO Sanitary Phytosanitary Committee meeting as well as in a bilateral meeting with Indonesia in Geneva. As a result of the visit by an Indonesian technical team to California in early November, Indonesia's Ministry of Agriculture (the Agriculture Quarantine Agency) issued an amendment effective December 14, 2006, that declares California to be free from Mediterranean fruit fly (Medfly). The decision was reached as USDA's Animal Plant Health Inspection Service (APHIS) developed research demonstrating that temperate fruit flies cannot survive climatic conditions in Indonesia. The overall value of apple shipments to Indonesia in recent years has amounted to about \$22 million.

### **India Suspends Wax Labeling Regulation**

U.S. apples are commonly coated with wax to preserve the fruit. In October 2003, India imposed a ban on the sale of fresh fruits and vegetables coated with wax. Although this ban has not been enforced, its potential enforcement continues to be of great concern to U.S. exporters. The United States has requested Indian approval for the use of carnauba wax and shellac on U.S. fresh fruits and vegetables.

In early April 2007, USDA received official documentation from India's Ministry of Health suspending, until January 1, 2008, implementation of the wax labeling regulation for fresh fruit. The regulation was originally slated to go into effect March 30, 2007. Despite the looming possibility of future regulation enforcement, there have been no reports to the USDA indicating that trade of U.S. apples have been disrupted. In fact, apples to India are moving extremely well, up to 33,000 tons (July 2006-March 2007) from 18,000 tons the same time period a year ago. At \$28 million through March this year, values are surpassing last year's \$20 million total.

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>.

### **Global Trade - China Holds Global Market Share, While the EU Makes Progress in Russia**

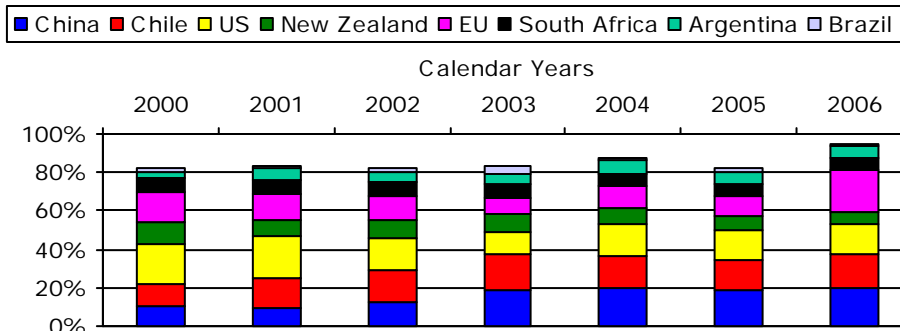
The United States in recent years has been slowly losing market share to China. China is very proactive in opening additional markets and is trying to meet EU fruit standards by improving quality, food safety, apple variety, and packaging. However, increased production costs are likely to limit China's export growth in MY 2006. China's global export market share is about 20 percent, while the United States has nearly 15 percent of the market.

For calendar year 2006, the European Union saw a 20-percent increase in exports across world markets. According to the Global Trade Atlas, exports to Russia grew 24 percent to 392,000 tons. Russia is the world's fifth-largest market for fruit and consumption is expected to continue to grow.

Currently, only a small fraction of Russia's apple imports come from the United States. However, it is a growth market with exports in recent years averaging 8,000 tons. Export statistics to-date show volumes reaching 7,000 tons, up dramatically from the same period last year which is encouraging; however, access for U.S. goods is being affected by port congestion

in St. Petersburg. This is especially a problem for perishables. See GAIN # RS7302. USDA and industry are working together to improve efficiencies.

### Global Apple Export Market Share (Quantity)



Source: Global Trade Atlas

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