



International Agricultural Trade

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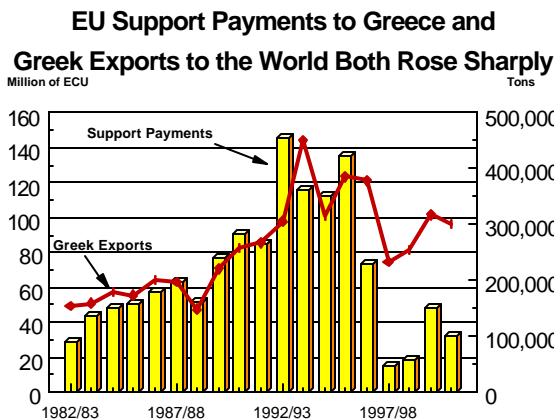
U.S. Canned Peach Industry Continues Struggle For Markets

Summary

High cost U.S. production, unfavorable exchange rates, subsidized Greek over-production and low cost Chinese production pose serious challenges for U.S. exports of canned peaches.

The expansion of subsidized Greek production beginning in the mid 1980's, and the resulting increased exports, greatly contributed to the United States emergence as a net importer of canned peaches. Current annual U.S. exports total around 20,000 tons, with imports averaging approximately 21,000 tons. U.S. exports to Mexico and Central American markets are being priced out by Greece, while U.S. exports to Asian markets are facing strong price competition from both Greece and China.

European Union Policy Overview



Outside of the European Union (EU), world demand for canned fruit is flat. Subsidized Greek production has oversupplied the market in the last two years, with Greek exporters quoting prices at rock bottom levels and offering extremely favorable payment terms. Although the EU is proposing to reform its fruit and vegetable regime, it remains to be seen whether these reforms will allow market forces and unsubsidized production and trade to assume a greater role in the global market.

While direct support payments to Greek producers have declined in recent years, as noted in the accompanying chart, total EU support for its fresh and processed peach sector, as measured by the "aggregate measure of support" (AMS), remains substantial. In FY1998, the EU's AMS for fresh and processed peaches totaled approximately \$308 million.

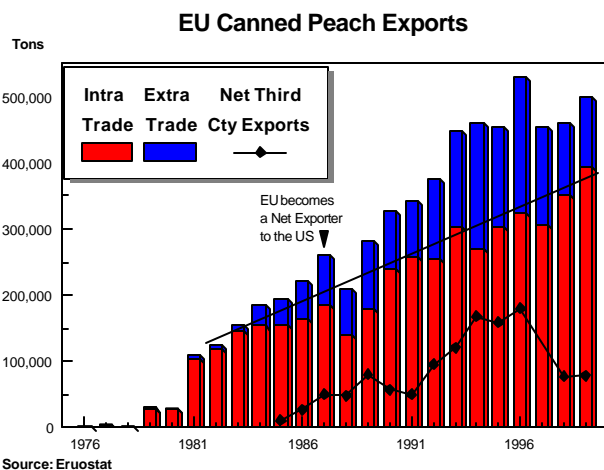
Overview

U.S. Industry Situation and Trade

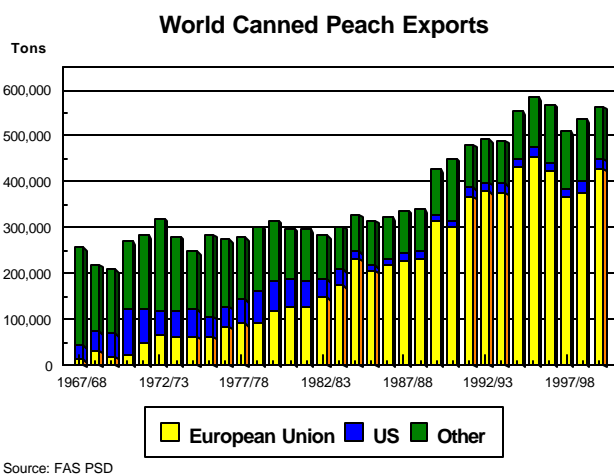
The U.S. production tonnage has declined and the U.S. industry is now composed of two grower cooperatives and one branded processor. Neither the raw products' prices nor the finished goods' selling prices have kept pace with inflation. Profits which would have accrued to canners and growers are increasingly absorbed by the retailer or food service distributor. The cost per case of canned peaches in California is among the highest in the world and the cost of raw fruit exceeds that of all but one other major producing country. Labor accounts for more than two-thirds of a grower's direct production costs. Exported U.S. canned peaches have grown more expensive as the U.S. dollar exchange rate has appreciated against most foreign currencies. In contrast, Greece's Drachma has depreciated against these currencies, making its exports less expensive.

There are seven major importers of canned peaches. The EU's intra-trade totals approximately 250,000 tons. Japan imports about 70,000 tons, while the United States, Brazil, Canada and Poland each import about 20,000 tons. Mexico's imports in 1999 totaled 34,000 tons.

The EU is the largest and perhaps the only real growth market. But subsidized production and a 19 percent tariff keep third country imports to a minimum. The EU accounts for about 40 percent of exports to third countries, South Africa 20 percent, Chile 14 percent, China 12 percent, and the United States 8 percent.



U.S. exports of canned peaches are flat,



averaging around 20,000 tons per year, with three or four countries accounting for a significant share of total shipments. Half of U.S. exports go to Canada, Mexico, Japan and Korea. The remainder go to selected Asian Pacific Rim countries and several Central American countries. Mexico could be viewed as a growth market, particularly if the economy continues to improve. However, strong price competition from Greece is severely reducing U.S. shipments of both canned peaches and fresh peaches for canning.

In 1993/94 U.S. exports to Korea, Taiwan, Singapore, Hong Kong, and the Philippines accounted for 30 percent of the total 19,309 tons shipped that year. By 1999/2000 shipments to these markets accounted for only 9 percent of the total

20,197 tons shipped. Most of this loss is accounted for by sharply reduced exports to Taiwan, Singapore and Hong Kong. During the last two years, Taiwan's imports of canned peaches declined steadily and are now equal to only 38 percent of the quantity imported in 1998. South Africa is the principal supplier to this market, accounting for one half to two thirds of Taiwan's imports. The decline in imports of canned fruit may be linked to Taiwan's increasing affluence and increasing demand for fresh fruit.

U.S. exports to Japan have declined steadily in recent years and are now only 40 percent of the level recorded in 1993/94. China's exports to Japan, meanwhile, have grown from zero in 1985 to over 36,000 tons. Approximately 75 percent of China's total canned peach exports are destined for Japan, where Chinese product accounts for nearly 50 percent of total imports. Japanese consumers prefer China's white fleshed peach to Greece's yellow/orange fleshed peach, despite the fact that Greece's prices are competitive.

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