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Canned Peaches, Pears, and Fruit Mixtures: Conditions of Competition Between U.S. and Principal Foreign Supplier Industries

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CONTENTS

CONTENTS—*Continued*

CONTENTS—*Continued*

CONTENTS—*Continued*

Page

Figures

Tables

CONTENTS—*Continued*

Page

Tables—*Continued*

CONTENTS—*Continued*

Page

Tables—*Continued*

Executive Summary

This report examines the competitive conditions between U.S. and principal foreign supplier industries for canned peaches, canned pears, and canned fruit mixtures (canned fruit). The report covers the period 2002–06 and provides 1) information on the industries in major supplier countries, including the United States, the European Union (EU) (focusing on Greece and Spain), China, and Thailand; 2) global trade patterns; 3) trade practices, government programs, and measures; and 4) strengths and weaknesses of the major global suppliers. The report was prepared in response to a request from the House Committee on Ways and Means.

Recent trends in the U.S. market include a decline in domestic output and consumption, a decreasing share of domestic consumption supplied by the domestic industry, and a corresponding rise in the level of imports. The U.S. industry's share of the domestic market for canned peaches fell from 88 percent in 2002 to 82 percent in 2006. The share for canned pears fell from 94 percent to 84 percent during the period. And the share for canned fruit mixtures fell from 98 percent to 93 percent. This study uses market share as the central indicator of competitiveness, and by this measure, the competitiveness of the U.S. canned peach, pear, and fruit mixture industries declined during 2002–06.

The U.S. canned fruit sector is complex. U.S. and foreign fruit canners produce two types of products—traditional products such as fruit in cans and newer products, such as fruit in plastic jars and cups. These products are sold to retail outlets, such as supermarkets and convenience stores, to institutional outlets, such as schools, hospitals, and correctional facilities, and to the U.S. Department of Agriculture. U.S. canners compete with foreign suppliers in both product types and across all domestic sales outlets. A summary of the competitive position of the U.S. canned fruit industries vis-à-vis major competitors is provided in table ES-1.

The report identifies four principal reasons why U.S. suppliers have lost market share to imports during 2002–06:

- The U.S. industries did not sufficiently increase their production capacity to meet rising demand for newer forms of packaging, such as plastic cups and jars, during 2002–06. A shift in U.S. market preferences to this type of packaging benefitted foreign suppliers, who increased their share of these market segments.

- Increased market power by wholesale and retail buyers, owing to consolidation in the distribution chain, coupled with increasing use of private label packs, supplied mainly by imports, further eroded the domestic market share of the U.S. canned fruit industries.

- Foreign suppliers, particularly Thailand and China, use facilities that produce a variety of canned food products, which spreads fixed costs across more products and lengthens production cycles, thus lowering their unit costs. Some of these suppliers have also established supply relationships with U.S. firms.

- Lower input costs, mainly for raw fruit and labor, in both established and emerging competitor supplier countries have lowered prices and contributed to a rise in the import share of the U.S. market.

Table ES.1 Competitive position of major global canned fruit suppliers in the U.S. market

Product	Market segment	Source	Competitive position
Canned peaches	Retail	United States	Losing market share. Imports are capturing most of the growth in plastic cups and jars.
		EU	Not a major competitor in this segment.
		China	Gaining market share, mainly in plastic cups and jars.
		Thailand	Gaining market share, mainly in plastic cups and jars.
	Institutional	United States	Maintaining market share, mainly in metal cans.
		EU	Traditionally strong in this segment. Varying market share during 2002–06 owing to weather conditions in Greece affecting supplies.
		China	Gaining market share, mainly lower quality irregular slices and dices.
		Thailand	Not a major competitor in this segment.
Canned pears	Retail	United States	Losing market share. Imports are capturing most of the growth in plastic cups and jars.
		EU	Not a major competitor in this segment.
		China	Gaining market share, both in metal cans marketed mainly to dollar stores and in plastic cups and jars. Mainly supplier of low cost snow pears.
		Thailand	Gaining market share, mainly in plastic cups and jars.
	Institutional	United States	Losing market share, mainly to imports from China.
		EU	Not a major competitor in this segment.
		China	Gaining market share. Mainly supplier of low cost snow pears.
		Thailand	Not a major competitor in this segment.
Canned fruit mixtures	Retail	United States	Losing market share. Imports are capturing most of the growth in plastic cups and jars.
		EU	Not a major competitor in this segment.
		China	Gaining market share, mainly in plastic cups and jars.
		Thailand	Gaining market share, mainly in plastic cups and jars.
	Institutional	United States	Maintaining market share, mainly in metal cans.
		EU	Not a major competitor in this segment.
		China	Gaining market share, mainly in metal cans.
		Thailand	Not a major competitor in this segment.

Source: USITC staff analysis based on the data and information contained in this report.

In addition, the report identifies the comparative advantages and disadvantages of the U.S. canned fruit industries and its major competitors, as summarized below.

United States

The competitive advantages of the U.S. canned fruit industries include abundant raw materials, the use of current technology, the large scale of growers and processors (although operating at less than full capacity), proximity to a large domestic market, quality infrastructure and distribution networks, and strong brand recognition in retail markets. The U.S. industries are disadvantaged by relatively high and rising costs, a shift in demand toward newer products and packaging and away from the more traditional products that comprise the bulk of U.S. production, and consolidation in the distribution chain.

China

China's competitive advantages in the global canned fruit market include relatively low labor and fresh fruit input costs, a large potential domestic market, proximity to its major Asian markets, and a favorable exchange rate vis-à-vis major export markets. Disadvantages include rising costs, limited supplies of preferred fruit varieties for processing, a small scale, fragmented industry structure, a lack of mechanization, and a lack of recognized brands.

EU

The EU's competitive advantages in the global canned fruit market include large and well established growing and processing sectors, government support programs for growers, a large domestic market, quality infrastructure, and proximity to major European and North American export markets. Competitive disadvantages include relatively high and rising input costs and uncertainty regarding impending Common Agricultural Policy reforms and their impact on the supply of raw materials.

Thailand

Thailand's competitive advantages in the canned fruit market include relatively low costs, the use of imported canned fruit as an input in repackaged consumer size containers, enabling year round production, experience and ability as a food processor and exporter, the use of current technology, and strong brand recognition and familiarity with the U.S. market and infrastructure of Dole Food Company. The primary competitive disadvantage is the distance to major markets.

CHAPTER 1
Introduction

Background and Purpose

The United States is an important participant in the global market for canned peaches, canned pears, and certain types of canned mixed fruit.[1] In 2006, the United States was the world's largest single country producer of canned peaches, with production of 302,400 metric tons accounting for 23 percent of global production.[2] The United States is the world's leading producer of canned pears and canned mixed fruit, with production of 192,000 mt and 252,000 mt, respectively, accounting for approximately one half of global production of the two categories in 2006.[3] The United States is also both an importer and exporter of each of these products. In 2006, U.S. imports of canned peaches were valued at $62.3 million, nearly 18 percent of global imports, while U.S. exports, valued at $21.7 million, represented about 5 percent of global exports.[4] The U.S. share of global canned pear trade is slightly larger, with 2006 imports of $21.2 million and exports of $11.7 million accounting for 24 and 13 percent, respectively, of world totals.

The U.S. canned fruit industries[5] depend mostly on the domestic market for sales revenues and profitability. In 2006, exports accounted for just 8 percent of U.S. domestic production of canned peaches (by volume). However, industry representatives note that certain global trends are having a significant impact on the U.S. canned fruit industries, particularly the recent rise in U.S. imports from newer, lower cost global suppliers.[6] Historically, imports accounted for a small share of domestic consumption,[7] but in recent years that share has been growing, reaching 18 percent of U.S. consumption in 2006. Several foreign suppliers, such as China and Thailand, now produce large volumes of high quality products sold at highly competitive prices in many global markets including the United States.

Certain indicators show the challenges currently facing the U.S. industry. For example, between 2002 and 2006, U.S. cling peach bearing acreage declined by 13 percent and the number of newly planted trees[8] fell by 64 percent.[9] During this period, U.S. canned peach sales in the retail market segment fell 11 percent and canned peach tonnage delivered to processors declined by 36 percent.[10] Production volumes of canned fruit mixtures fell by

[1] For purposes of this report, the term 'canned' refers to several types of airtight containers, including metal cans, glass and plastic jars, and plastic individual serving size cups, in which prepared or preserved fruit is sold. See chapter 4 for a timeline of the introduction of various container types used for canned fruit.

[2] Commission staff estimate, see table 2.1.

[3] Ibid., see tables 2.5 and 2.9.

[4] GTIS, World Trade Atlas Database.

[5] For purpose of this report, the term 'canned fruit industries' is defined as those industries that produce canned peaches, canned pears, and canned mixtures of peaches and pears.

[6] U.S. industry representatives, interviews with Commission staff, Sacramento, CA, and Washington, DC, January–May, 2007.

[7] USDA, FAS, *Canned Fruit Situation in Selected Countries*, January 2006.

[8] Trees three years old or younger.

[9] Industry official, information provided by the California Canning Peach Association in response to Commission staff interviews, January–February 2007.

[10] Ibid.

21 percent during the same period.[11] In contrast, U.S. imports of canned peaches, pears, and mixed fruit together increased 41 percent by volume and 92 percent by value during 2002–06.[12]

This report was prepared in response to a request by the House Committee on Ways and Means (Committee) regarding competitive conditions for certain canned fruit in the U.S. market.[13] Specifically, the Committee asked that the Commission prepare a report on competitive conditions for canned peaches, pears, and fruit mixtures, between U.S. and principal supplier industries.[14] The Committee asked that the Commission's report provide the following:

- an overview of the industries in the United States and major supplying countries, including production volumes of peaches and pears for processing, existing and newly planted acreage, processing volumes and capacity, and consumption;
- information on U.S. and foreign suppliers of imports and exports of the subject products, and on the U.S. market segments in which U.S. imports are being sold;
- a description of principal trade practices and government programs and measures affecting production of the subject products; and,
- a comparison of strengths and weaknesses of foreign supplier industries and the U.S. industries, including such factors as industry structure, input cost and availability, processing technology, product innovation, government programs, exchange rates, and pricing and marketing regimes, along with steps the respective industries are taking to increase their competitiveness.

Product and Industry Coverage

This report covers prepared or preserved peaches, pears, and fruit mixtures classified under Harmonized Tariff Schedule (HTS) subheadings 2008.70.20, 2008.40.00, and 2008.92.90, respectively. The packaging for these peaches, pears, and fruit mixtures has traditionally been airtight metal cans, but other types of airtight containers, such as plastic or glass jars or cups, are now important in the market. For purposes of this report, the term 'canned' is used to describe the subject product in airtight containers, regardless of container type. The

[11] Ibid.

[12] USITC Dataweb.

[13] On December 12, 2006, the House Committee on Ways and Means requested that the U.S. International Trade Commission (Commission) prepare a report under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) that provides information on the conditions of competition between the canned peach, canned pear, and canned fruit mixture industries in the United States and principal foreign supplier countries. A copy of the request letter is included in appendix A and the Commission's notice of institution of an investigation, published in the Federal Register of February 13, 2007 (72 Fed. Reg. 6744-6745), is included in appendix B.

[14] The Committee requested that the Commission's report cover the period 2002–05. In an effort to present the most current data available and to broaden the perspective to a five year time series, the Commission's report covers 2002–06.

U.S. firms that produce canned peaches and canned pears also produce mixtures containing those fruits, including the product commonly known as fruit cocktail.[15] For both U.S. and foreign suppliers, industry data on canned fruit mixtures containing peaches and pears is much more limited than that for canned peaches and canned pears, and is presented in this report wherever possible.[16] In response to the Committee's request, descriptions of the canned fruit industries in the three largest supplier countries (China, the EU, and Thailand) are discussed in this report.

Approach

A key component of this report is to assess the conditions of competition in the U.S. market between the U.S. canned fruit industries and major foreign suppliers by comparing their strengths and weaknesses. For the purposes of this report, the term 'competitiveness' refers to the market shares held by the U.S. canned fruit industries vis-à-vis foreign competitors in the U.S. market.[17] Contributing to the trends in market shares of U.S. and foreign industries are various economic factors, such as production costs, government programs, exchange rates, and pricing and marketing factors. Because sufficient data do not exist, not all these measures can be quantified, particularly for foreign industries. Therefore, market shares in the United States, which are quantifiable, serve as a basic indicator of industry performance.

The Commission's approach in this report emphasizes the role played by industry structure in influencing firm conduct and industry performance or competitiveness.[18] Examining industry structure within this context can shed light on the important elements of domestic and foreign markets that have affected U.S. market competitiveness in the past and may be expected to do so in the future.

[15] The U.S. Food and Drug Administration's standard of identity for fruit cocktail requires that the product contain diced peaches, pears, pineapples, whole grapes and cherry halves in a range of specified proportions. 21 C.F.R .§ 145.135 to 145.136 (2002).

[16] Canned fruit mixtures containing peaches and pears are included under HTS items 2008.92.9030 and 2008.92.9035. Import data at this 10 digit level, disaggregated for peaches and pears, is available for the United States only. Trade data for foreign countries is only available at the 6 digit level, which represents canned fruit mixtures of all types of fruit. Therefore, information on the trade patterns of canned fruit mixtures presented in this report may include fruit mixtures that contain all types of fruits.

[17] Competitiveness is usually used in reference to a nation's economy as a whole, where it may be measured by shares of world trade. Lawrence, "Competitiveness", 1, and World Economic Forum, *2006–2007 Global Competitiveness Report*, xiii–xv. However, the market share definition can also be applied to particular products. This measure is readily calculated but is static – it takes competitiveness as a zero sum game, with one country's gain coming at others' expense. An alternative, dynamic definition could measure relative rates of growth in output or exports, which is not a zero sum concept (a small country could have a faster growth rate than a large country yet suffer a declining global market share over time). World Economic Forum, *Africa Competitiveness Report 2007*, 5. Other possible definitions of competitiveness include producing at the lowest average cost or pricing at marginal cost (efficiency). Competitiveness also can refer to improvements in the productivity of labor (leading to higher wages in a competitive market) or capital (leading to higher profits).

[18] See chapter 3 for further discussion of the Commission's analytical approach.

Key factors in the structure of global canned fruit industries include firm concentration in growing, processing, and distribution, relative cost levels across countries, degree of vertical integration, diversification into other product lines, and government support or other involvement. In the United States, for example, the high concentration of processors versus growers has implications for the pricing of raw fruit (the key cost element for fruit canners) as does the presence of U.S. grower owned cooperative canning operations. However, the availability of substitutable imported canned fruit products in the U.S. market generally weakens the market power of domestic canners in the next marketing stage, which is sales to distributors or retailers. Similarly, growing concentration in the retailing sector has pricing implications for canners, regardless of the extent of import competition. The extent of import competition, in turn, is partly determined by relative cost levels across countries, another structural element.

For this report, analysis was based on information obtained from published sources, and through staff interviews with company representatives, industry and trade officials, government agency officials, and academic researchers, both in the United States and abroad. Wherever possible, data for canned peaches, pears, and fruit mixtures were broken out separately. Little of the information sought in this investigation has been the focus of studies carried out by other government agencies or other institutions.

Organization

This report is divided into 7 chapters, starting with an introduction to the study (chapter 1) that explains the study's purpose, product and industry coverage, the analytical approach used to examine competitive factors, and the organization of the report. Chapter 2 provides a global overview for the three canned fruit industries by examining trends in world production, consumption, and trade patterns. Chapter 3 addresses the competitive conditions for canned fruit in the U.S. market, including a comparative summary of key factors affecting competitiveness of the U.S. and foreign supplier industries, and industry comparisons. Country profiles are presented for the United States in Chapter 4 and major foreign supplier countries to the United States (China, the EU, and Thailand) in Chapters 5–7. Each profile covers production, structure and organization of the industry, trade, consumption, canned fruit supply chain/marketing channels, pricing, and the key factors affecting competitiveness for each industry. Appendices to this report contain the request letter from the House Committee on Ways and Means (Appendix A), Federal Register Notices (Appendix B), and summaries of views of interested parties (Appendix C).

CHAPTER 2
Global Overview

Trends in Global Production, Consumption, and Trade of Canned Fruit

The global canned fruit market has been undergoing significant change in recent years. Historically, the market has been characterized by 1) typical product forms (i.e., retail and institutional size metal cans), 2) longstanding suppliers (e.g., the EU, the United States, South Africa, Chile, Argentina, and Australia), and 3) mature, traditional markets such as the EU, the United States, and Japan. Annual variations in production and trade flows generally resulted from exogenous factors, typically weather conditions. In the last decade, however, new markets, suppliers, and product forms have altered trade and consumption patterns for canned fruits. The increasing popularity of canned fruit available in plastic and glass jars, as well as individual serving size plastic cups, has both spurred demand for these products in traditional, mature markets and contributed to the emergence of new suppliers such as Thailand[1] and China. In addition, weather factors in recent years have limited supplies from traditional sources and provided an opportunity for emerging suppliers, particularly China, to gain share in the U.S. market. Finally, the growth of demand in new markets, such as Russia, South America, and the Middle East, has led to new export opportunities.

This chapter provides a general overview of global production, consumption, and trade trends for canned peaches, canned pears, and canned fruit mixtures.[2] More detailed discussion of the dynamics behind these shifts during 2002–06 for the United States, and the main suppliers of these products to the U.S. market (China, the EU, and Thailand) can be found in chapters 4-7 of this report.

Canned Peach Production and Consumption

World canned peach production volume decreased by approximately 10 percent during 2002–06, totaling 1.3 million metric tons (mt) in 2006 (table 2.1 and figure 2.1). The general decline and annual fluctuations in production volume resulted mainly from consolidation in the U.S. growing sector and from adverse weather conditions in Greece.[3] Notable developments during the period include a substantial decline in U.S. production, particularly in 2006, and other traditional suppliers' production as well as the concomitant rise in

[1] Thailand's industry is unique in that production is actually a remanufacturing process in which imports of canned peaches and pears in large metal cans are repackaged into some smaller retail ready containers, primarily individual size plastic cups and larger plastic jars for export.

[2] Certain global data on trade in canned fruit mixtures are not available, as canned fruit mixtures of all types are aggregated in global trade databases. Consequently, trade data on canned fruit mixtures of all types are presented, and trade trends for canned peach and pear mixtures are discussed where available.

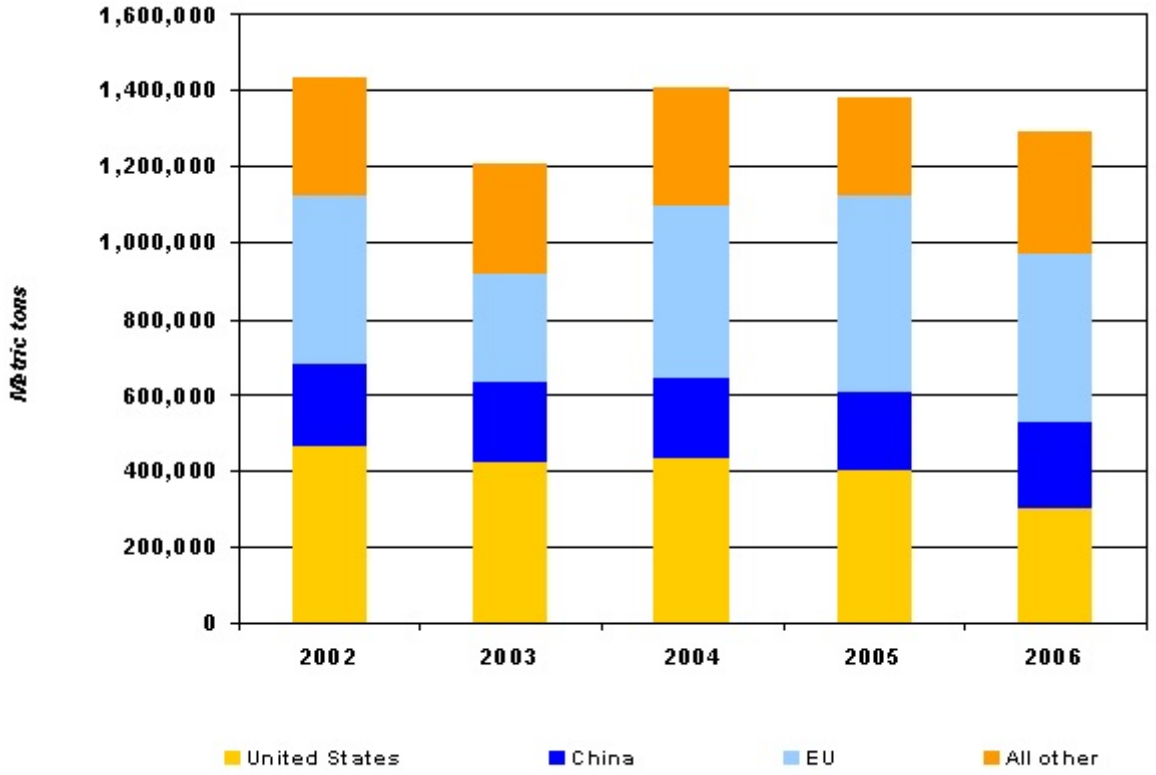
[3] Extreme frost in Greece in 2003 resulted in a precipitous decline in canned peach production. The availability of fresh peaches for canning is also affected by competition for the fruit supplies for other uses, such as for fresh consumption, puree, or freezing.

Table 2.1 Canned peaches: World production, by country, 2002–06

Country	Production					Share of total		Change (2002–06)	
	2002	2003	2004	2005	2006	2002	2006	Production	Share of total
	Metric tons					*Percent*			
EU:									
Greece	275,000	62,000	285,000	306,000	280,000	19	22	2	13
Spain	143,979	190,037	139,369	183,491	129,285	10	10	(10)	0
Italy	18,400	19,650	19,400	18,000	18,000	1	1	(2)	9
France	10,000	10,000	10,000	10,000	10,000	1	1	0	11
Total, EU	447,379	281,687	453,769	517,491	437,285	31	34	(2)	9
United States	472,800	427,200	441,600	403,200	302,400	33	23	(36)	(29)
China	210,000	210,000	205,000	207,000	234,000	15	18	11	24
Argentina	57,600	76,800	87,840	85,440	106,800	4	8	85	106
Chile	81,235	91,200	94,800	69,600	98,400	6	8	21	35
South Africa	98,885	87,381	85,920	66,774	84,534	7	7	(15)	(5)
Australia	65,479	32,244	36,260	34,729	26,846	5	2	(59)	(54)
Total	1,433,379	1,206,512	1,405,189	1,384,234	1,290,265	100	100	(10)	0

Sources: 8th World Canned Deciduous Fruit Conference; USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

Figure 2.1 Canned peaches: World production, by country, 2002–06



Sources: 8th World Canned Deciduous Fruit Conference: USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

supplies from nontraditional sources (mainly China and Thailand). The leading global producers of canned peaches include the EU (mainly Greece and Spain), the United States, and China.[4] The EU and the United States are traditional suppliers of canned peaches, although the U.S. industry ships primarily within the U.S. market.[5] China's sizeable production is a relatively recent phenomenon, with both production and exports, particularly of yellow peaches, growing considerably over just the past decade.[6]

Globally, canned peach consumption fluctuated throughout 2002–06 but declined overall, falling to 891,167 mt in 2006, after having peaked in 2002 at 1,080,502 mt (table 2.2). The level of canned peach consumption in major global markets varies considerably, with the United States and the EU as the largest consumers, together accounting for more than three quarters of world consumption in 2006. However, as mature markets, consumption has remained relatively flat or, in the case of the United States, has fallen during the period.

Table 2.2 Canned peaches: Consumption in major world markets, 2002–06

Country	2002	2003	2004	2005	2006	Share, 2006	Change (2002–06)
			Metric tons			*Percent*	
EU	333,546	294,234	433,675	440,399	345,187	39	3
United States	517,356	424,088	443,341	418,380	340,330	38	(34)
China	165,482	133,654	139,047	131,778	145,461	16	(12)
Japan	64,118	60,332	60,218	63,583	60,189	7	(6)
Total	1,080,502	912,308	1,076,281	1,054,140	891,167	100	(18)

Sources: USDA, FAS, PS&D data; GTIS, World Trade Atlas Database; Commission estimates.

Similar to other developing countries, per capita consumption of canned fruit is currently very low in China owing to the Chinese preference for fresh fruit, which is widely available. However, Chinese domestic consumption has been rising in recent years and this increase is expected to continue.

Canned Peach Trade

Over the 2002–06 period, global exports of canned peaches grew 60 percent by value (figure 2.2).[7] Traditional suppliers, such as the EU and South Africa, lost global market share of exports, even while increasing sales values. This was largely because of the sharp increase in the quantity of exports from China, which doubled over the period, and increased Thai exports, which rose four fold. Although the value of U.S. exports grew by 66 percent, mainly owing to increased exports of institutional sized cans to China and Thailand, its share of global exports did not change during 2002–06.

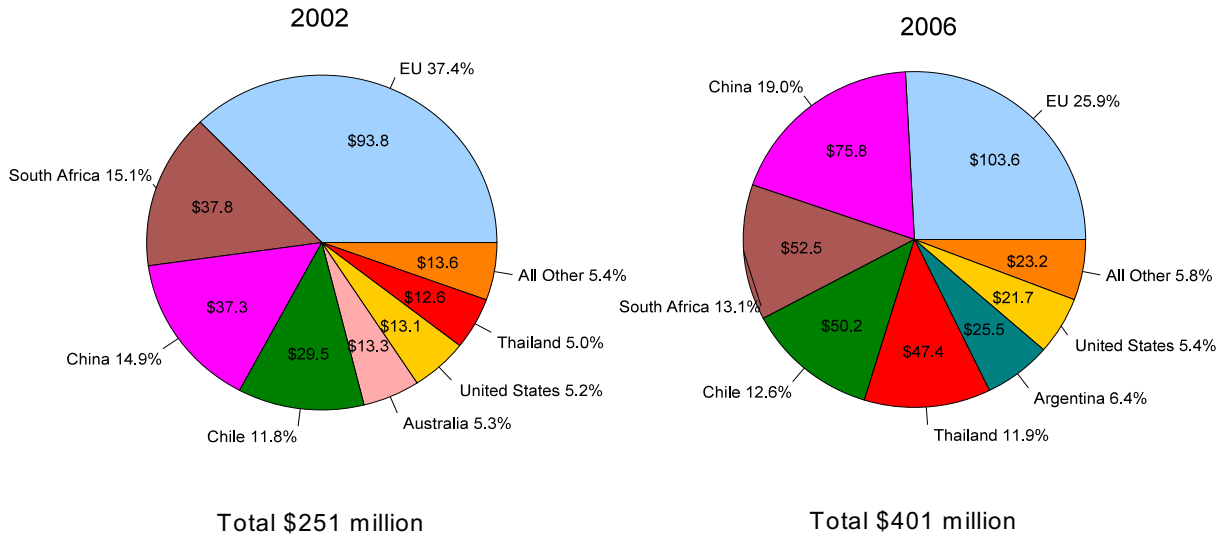
[4] As Thai production consists of repackaging only, its supplies are not counted in the world production total in table 2.1.

[5] During 2002–06, on average less than 10 percent of U.S. canned peach production was exported. See table 4.12.

[6] The majority of Chinese canned peach production is of white peaches destined for markets other than the United States, where canned yellow peaches are preferred. See chapter 5 for further discussion. USDA, FAS, *Peoples Republic of China, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 7.

[7] Analysis of trends by volume is problematic owing to inconsistent country reporting of data, however, volume trends are not believed to differ significantly from trends in value.

Figure 2.2 Canned peaches: Share of world exports, by country, by value, 2002 and 2006



Source: GTIS, World Trade Atlas Database.

In 2006, global exports were $401 million, and 45 percent was supplied by two sources—the EU and China (table 2.3). Greece is the largest exporter of canned peaches in the world and the yield of the Greek fresh peach crop has a significant influence over canned prices worldwide. While a large portion of Greek and Spanish canned peach exports are sold to internal EU markets,[8] the major markets outside the EU have traditionally been Canada, Mexico, and the United States. However, during 2005–06, EU exports to Russia and Thailand steadily increased and, in 2006, these two countries were the largest markets for EU canned peaches outside of the EU (figure 2.3). Chinese canned peach exports, which are sold mainly to Japan, more than doubled during the five year period. Exports to the United States from China grew more than ten fold, as a result of competitive prices for Chinese institutional size metal cans and single serving plastic cups.

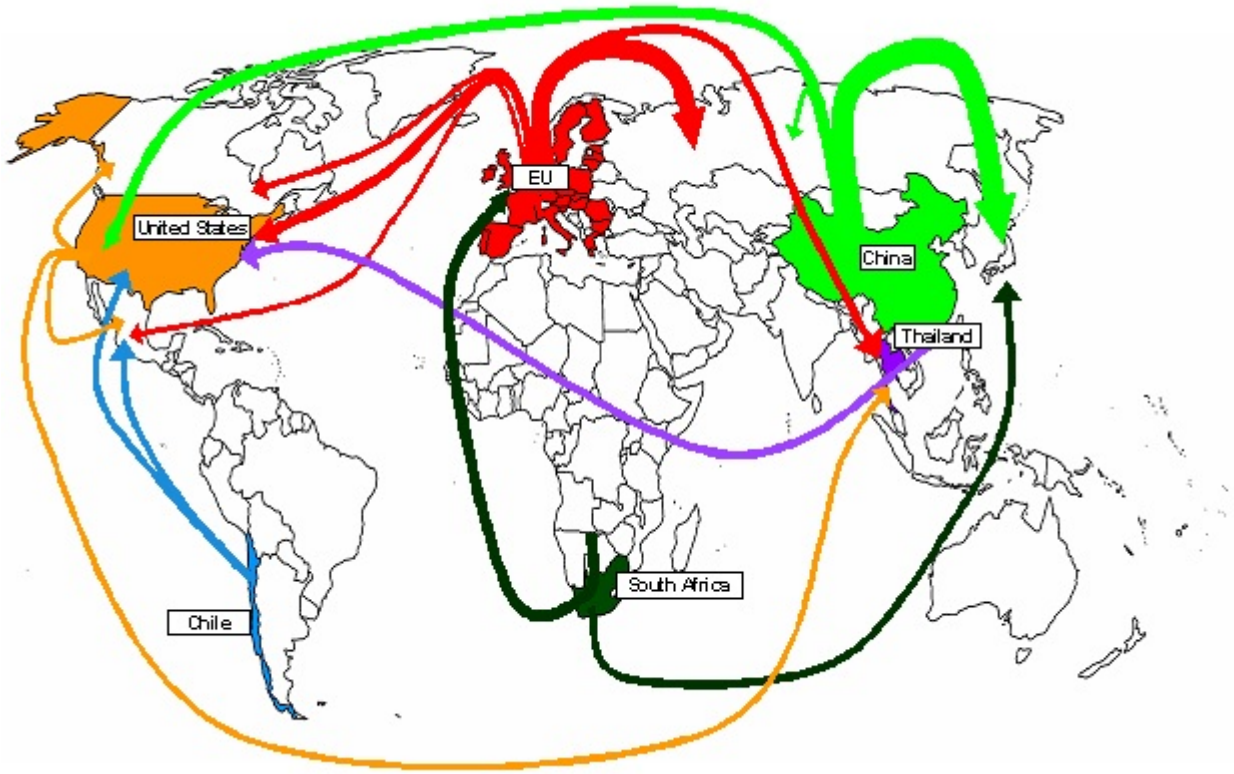
Table 2.3 Canned peaches: Global exports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
			1,000 U.S. dollars		
EU	93,812	52,313	64,417	84,574	103,573
China	37,257	60,775	56,653	62,248	75,748
South Africa	37,816	62,535	67,069	64,210	52,502
Other	82,122	142,727	156,086	146,120	168,976
Total	251,007	318,350	344,226	357,152	400,799

Source: GTIS, World Trade Atlas Database.

[8] Owing to a domestic preference for fresh fruit in their home markets, the majority of Greek and, to a slightly lesser degree, Spanish production of canned peaches is exported, both within the EU and to other global markets. This makes Greece both the largest EU producer and exporter of canned peaches.

Figure 2.3 Canned peaches: Trade flows for major competitor countries, 2006[a]



Sources: GTIS, World Trade Atlas Database, and Dataweb.

[a]Arrow line thickness corresponds to volume of trade.

The United States is a relatively minor exporter with a 2006 world market share of 5 percent. Major U.S. export markets for canned peaches are Canada, Mexico, and Thailand, which has become a U.S. export market just since 2002. The vast majority of U.S. exports to Thailand are supplied in institutional size metal cans which are repackaged into plastic jars and cups in Thailand, and then reexported back to the United States in the form of retail ready products. Dole Food Company owns and operates canneries in Thailand that rely almost solely on imported canned inputs to produce canned peach, pear, and mixed fruit products.

Global imports were reported at $352 million in 2006 (table 2.4).[9] In 2006, the United States imported the largest share, approximately 18 percent of the total (figure 2.4). While Greece and Spain have been the traditional suppliers to the U.S. market, China and Thailand have increasingly supplied the U.S. market, most markedly since 2004 after adverse weather severely curtailed Greek production.

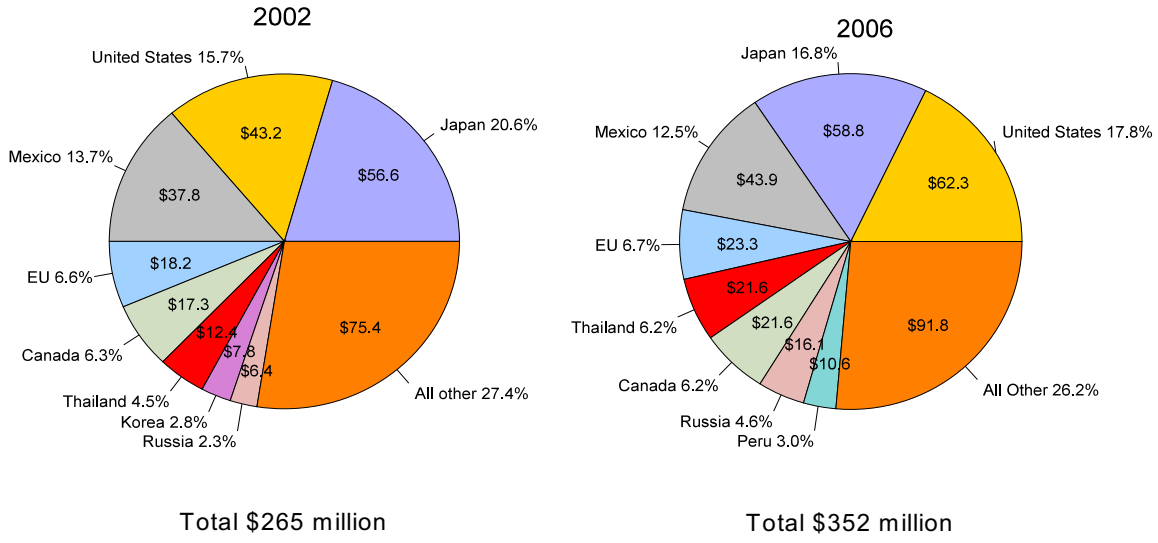
[9] GTIS, World Trade Atlas Database. Global import and global export values differ owing to inconsistent country reporting of imports and exports.

Table 2.4 Canned peaches: Global imports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
			1,000 U.S. dollars		
United States	43,214	37,383	40,587	46,989	62,340
Japan	56,637	55,867	58,885	61,186	58,843
Mexico	37,774	42,123	45,972	37,535	43,894
Other	126,886	183,346	198,724	183,654	186,983
Total	264,511	318,719	344,168	329,354	352,060

Source: GTIS, World Trade Atlas Database.

Figure 2.4 Canned peaches: Share of world imports, by country, by value, 2002 and 2006



Source: GTIS, World Trade Atlas Database.

Canned Pear Production and Consumption

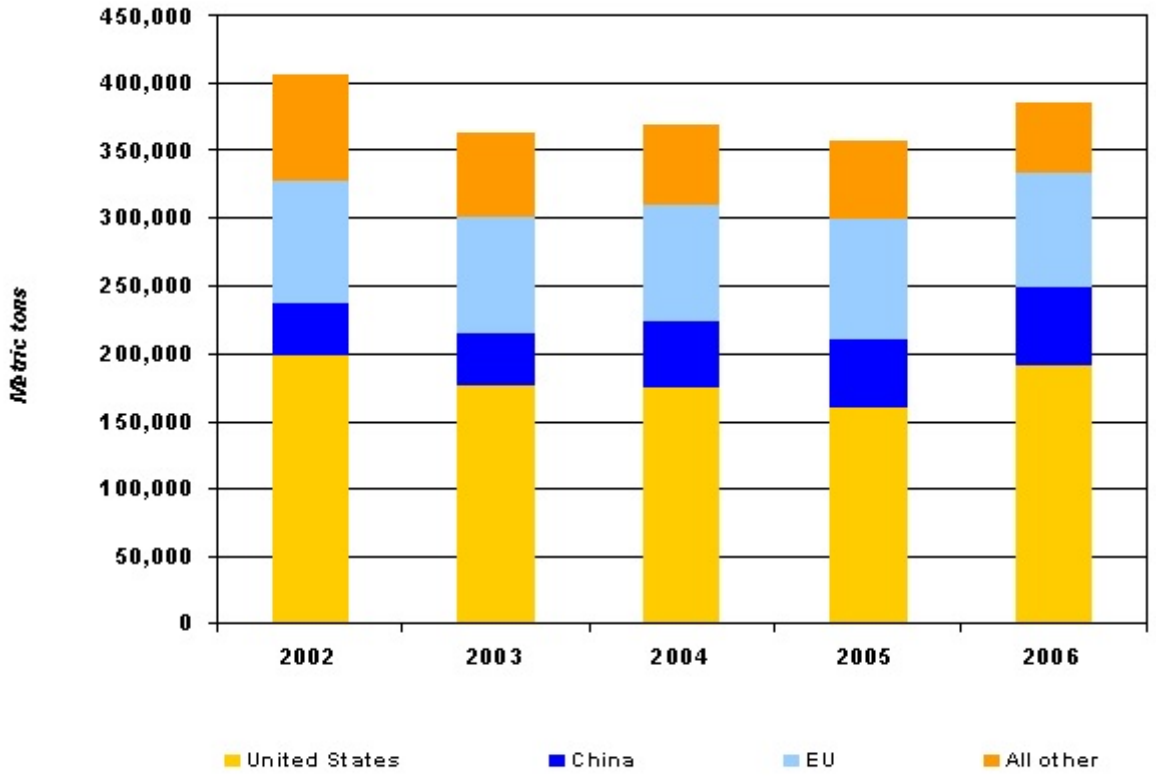
Global production of canned pears fluctuated during 2002–06 (table 2.5 and figure 2.5), but the overall trend was a slight decline in output owing mainly to the same factors that affected the production of canned peaches (e.g., weather and grower consolidation in the United States). Notable developments during the period included a substantial decline in canned output by traditional suppliers, mainly the United States (during 2002–05), the EU, South Africa, and Australia. This decline was mitigated somewhat by a rise in output from China.

Table 2.5 Canned pears: World production, by country, 2002–06

Country	Production					Share of total		Change (2002–06)	
	2002	2003	2004	2005	2006	2002	2006	Production	Share of total
	Metric tons					*Percent*			
United States	199,200	177,600	175,200	160,800	192,000	49	49	(4)	0
EU:									
Italy	47,600	38,632	43,200	43,000	43,000	12	11	(10)	(5)
Spain	22,624	26,950	20,754	23,579	18,431	6	5	(19)	(14)
France	16,500	16,500	16,500	16,500	16,500	4	4	0	5
Greece	5,000	4,000	5,000	6,000	5,500	1	1	10	16
Total, EU	91,724	86,082	85,454	89,079	83,431	23	22	(9)	(4)
China	38,000	38,000	50,000	50,000	59,000	9	15	55	63
South Africa	32,420	26,668	24,720	26,647	25,916	8	7	(20)	(16)
Australia	40,375	28,309	26,847	22,148	18,430	10	5	(54)	(52)
Argentina	2,880	4,560	4,800	5,040	6,000	1	2	108	119
Chile	1,812	1,920	2,880	2,400	1,920	0	0	6	11
Total	406,412	363,139	369,901	356,115	386,697	100	100	(5)	0

Source: 8th World Canned Deciduous Fruit Conference; USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

Figure 2.5 Canned pears: World production, by country, 2002–06



Sources: 8th World Canned Deciduous Fruit Conference: USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

The United States is the world's largest producer of canned pears, accounting for about one half of the world total. Production declined sharply during 2002–05 but rebounded in 2006 to 192,000 mt for an overall decline of about 4 percent. The 2002–05 decline resulted mainly from increased competition from imports, particularly in the institutional sector,[10] while the rebound in 2006 can be attributed to U.S. producers' anticipation of increased U.S. institutional demand owing to lower supplies of U.S. canned peaches. China has become the third leading global producer of canned pears, with 2006 production totaling 59,000 mt surpassing the EU's principal producer, Italy, in 2004. China's growth in production of canned pears has been driven primarily by strong export sales, as only small growth in domestic consumption has occurred.

Canned pear consumption in major world markets is about 40 percent that of canned peaches, and, similarly, the United States and the EU are the main consuming markets (table 2.6). Global consumption of canned pears followed a pattern similar to that of canned peaches, fluctuating downward slightly during 2002–06; this represents increased consumer preferences for high quality fresh fruit that is increasingly available year round in major markets.

Table 2.6 Canned pears: Consumption in major world markets, 2002–06

Country	2002	2003	2004	2005	2006	Share, 2006	Change (2002–06)
			Metric tons			*Percent*	
United States	206,036	191,729	191,584	172,792	212,069	61	3
EU	116,324	115,455	118,069	119,035	105,809	30	(9)
China	23,099	15,288	20,054	15,437	23,054	7	0
Japan	7,306	7,096	7,878	7,716	7,593	2	4
Total	352,765	329,568	337,585	314,980	348,525	100	(1)

*Source*s: USDA, FAS, PS&D data; GTIS, World Trade Atlas Database; Commission estimates.

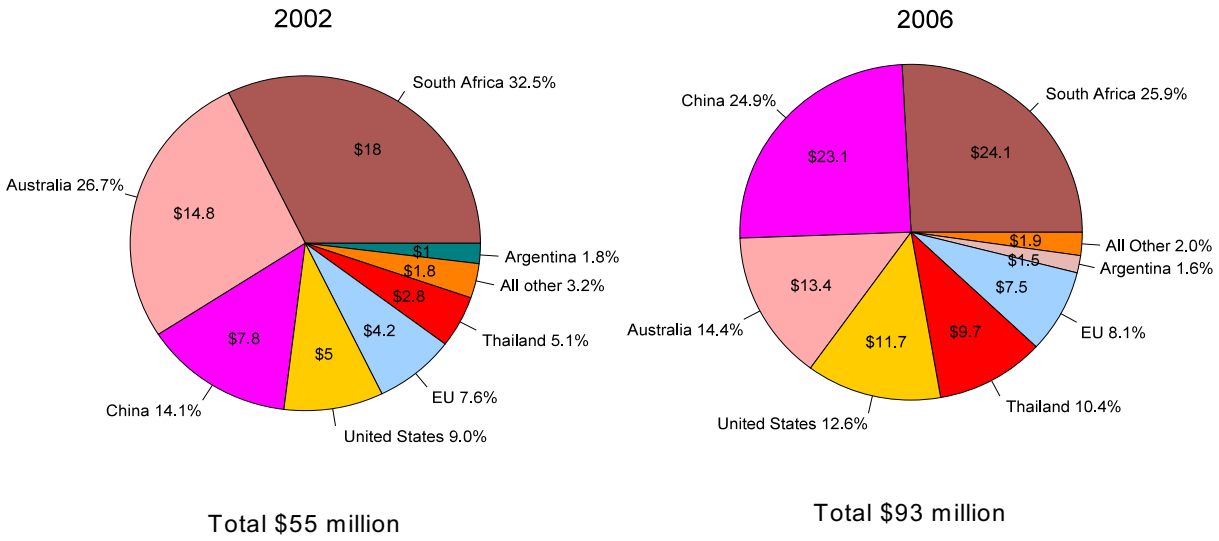
Canned Pear Trade

In 2006, global exports of canned pears totaled almost $93 million, having grown over 70 percent since 2002 (figure 2.6), making this market about one quarter the size of that for canned peaches. South Africa and Australia lost global market share, largely because of the growth in exports from China and Thailand, whose exports more than tripled over the 5 year period. The major flows of trade are to the United States and the EU (figure 2.7) from just a few major suppliers (table 2.7). In 2006, over one half of global exports were supplied by two countries: South Africa and China. South Africa supplied nearly 40 percent of U.S. canned pear imports in 2002. However, during 2002–06, as imports from China and Thailand rose considerably, South Africa's exports to the United States fell from 4,984 mt in 2002 to 621 mt in 2006. China's primary export market is the United States, accounting for nearly one-half of Chinese exports, or 21,160 mt in 2006, followed by the EU and Japan. Beginning in 2002, China has exported increasing amounts of canned pears to Thailand.

In 2006, the United States garnered a larger market share of world canned pear exports (13 percent) than of canned peaches (5 percent). Nearly one half of U.S. canned pear exports were shipped to Thailand in 2006. Like canned peaches, most of these exports were destined for repackaging and reexport to the United States. Thailand, with a global export market

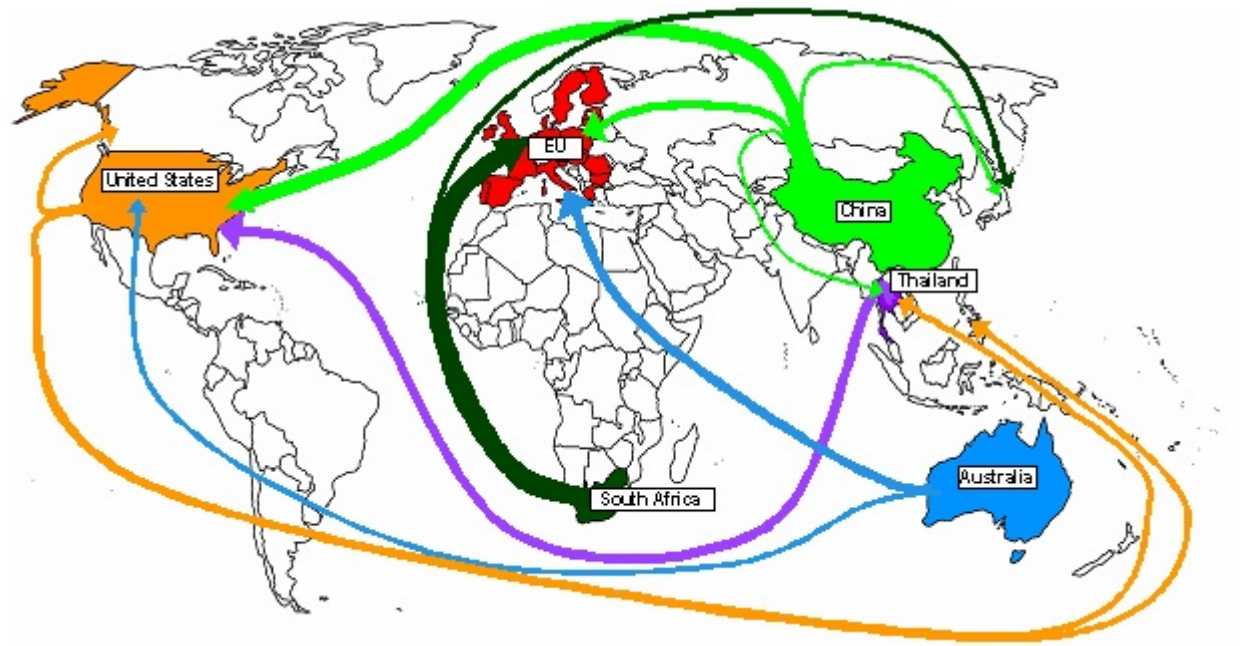
[10] U.S. industry representatives, interviews with Commission staff, October–November, 2007.

Figure 2.6 Canned pears: Share of world exports, by country, by value, 2002 and 2006



Source: GTIS, World Trade Atlas Database.

Figure 2.7 Canned pears: Trade flows for major competitor countries, 2006[a]



Sources: GTIS, World Trade Atlas Database, and Dataweb.

[a]Arrow line thickness corresponds to volume of trade.

Table 2.7 Canned pears: Global exports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
			1,000 U.S. dollars		
South Africa	18,034	23,224	23,230	21,890	24,131
China	7,809	11,387	15,634	18,723	23,115
Australia	14,750	17,956	13,995	15,209	13,416
Other	14,748	16,490	22,060	26,486	32,180
Total	55,341	69,056	74,920	82,308	92,842

Source: GTIS, World Trade Atlas Database.

share of 10 percent, exports almost all its canned pears to the United States; virtually all of this was in the form of retail ready products. Most of the remainder of U.S. canned pear exports were shipped to Canada and the Philippines.[11]

Global imports of canned pears were $88 million in 2006 (table 2.8), with the EU (31 percent) and the United States (24 percent) together accounting for just over one half of the total in 2006 (figure 2.8). U.S. imports were fairly stable during 2003–05, but increased 73 percent in 2006 owing to increased supplies from China. China was the source of 60 percent of U.S. canned pear imports in 2006, with Thailand accounting for an additional 20 percent.

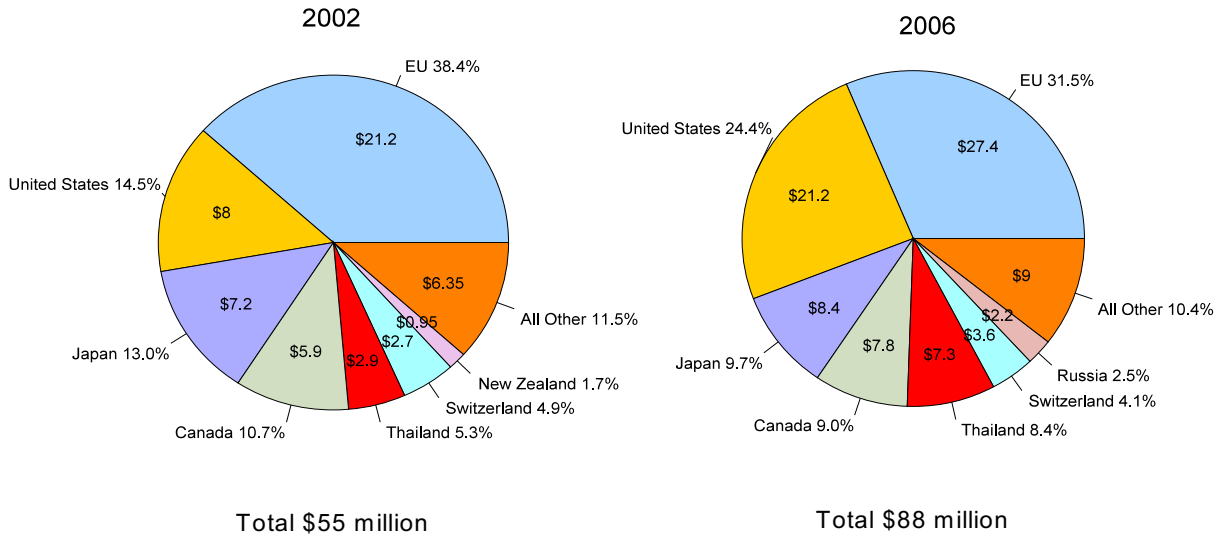
Table 2.8 Canned pears: Global imports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
			1,000 U.S. dollars		
EU	21,240	26,948	31,698	30,344	27,434
United States	8,029	12,192	12,538	12,283	21,219
Japan	7,211	7,282	8,529	8,270	8,419
Other	18,776	20,779	26,803	31,445	31,154
Total	55,256	67,201	79,568	82,342	88,226

Source: GTIS, World Trade Atlas Database.

[11] Dole Food Company operates fruit canneries in the Philippines, and a large portion of the Philippine imports of canned pears from the United States are likely used as inputs into remanufacturing operations there.

Figure 2.8 Canned pears: Share of world imports, by country, by value, 2002 and 2006



Source: GTIS, World Trade Atlas Database.

Canned Fruit Mixtures[12]

Global production of canned fruit mixtures declined irregularly during 2002–06 (table 2.9 and figure 2.9). This trend followed production levels in the United States, the leading global producer of canned fruit mixtures. However, the U.S. share of global production declined from nearly two thirds in 2002 to just over one half in 2006. The most significant increases in share of global production during the period were captured by China and Thailand, mainly driven by increased export opportunities. Global consumption of canned fruit mixtures fluctuated downward during 2002–06 (table 2.10); it was slightly higher than that of canned pears during 2002–06 and about one half that of canned peaches. The United States and the EU accounted for 94 percent of global consumption in 2006.

Global exports of fruit mixtures of all types reached $347 million in 2006 (table 2.11). Thailand was the world's leading exporter of mixtures of all types of fruit, accounting for about one quarter of global exports in 2006 (figure 2.10).[13] The primary market for Thai exports is the United States, which received approximately 60 percent of such exports in 2006.[14] The EU and the Philippines were the second and third leading exporters shipping

[12] While Commission estimates of production and consumption of canned fruit mixtures are limited to those of peaches and pears only, data on global trade in canned fruit mixtures is only available at the 6 digit HTS level, which is a basket category that includes fruit mixtures of all fruit types, as well as prepared cereal products.

[13] These data include Thai fruit mixtures of tropical fruits, such as pineapple, papaya, and mango, which are not the subject of this report, but which Thailand produces in abundance.

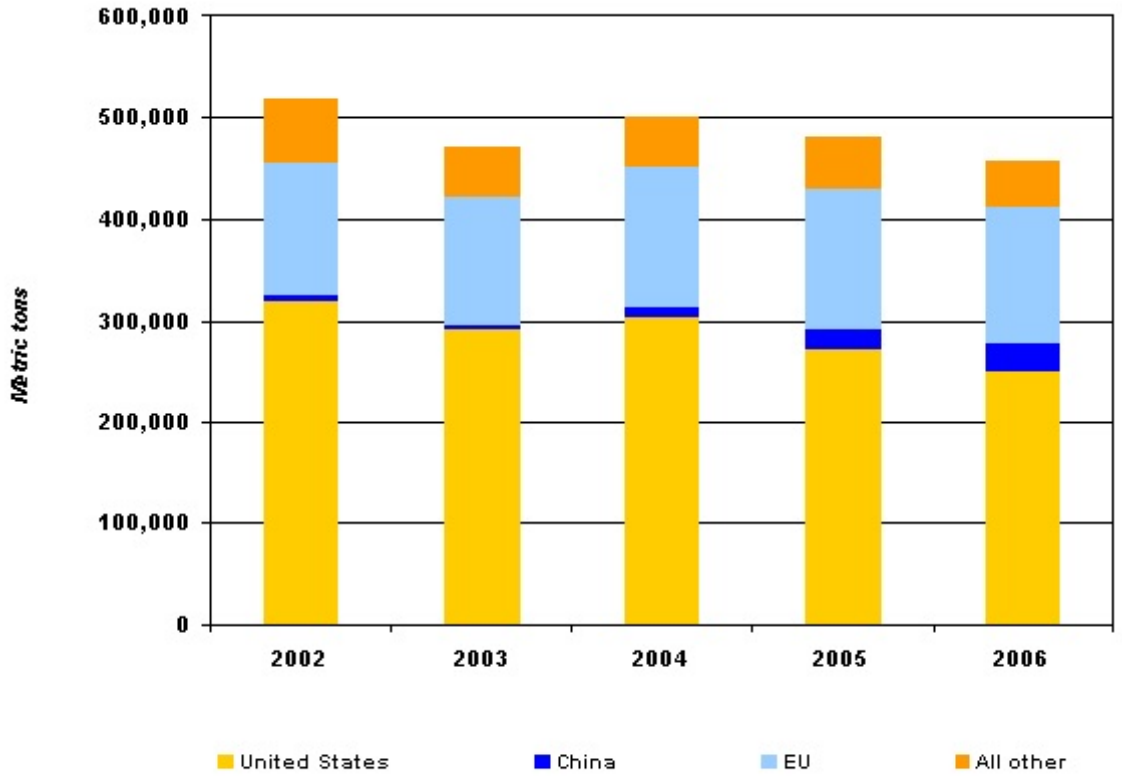
[14] Approximately 15 percent of Thai exports to the United States of canned fruits of all types were mixtures of peaches and pears.

Table 2.9 Canned fruit mixtures: World production, by country, 2002–06

Country	Production					Share of total		Change (2002–06)	
	2002	2003	2004	2005	2006	2002	2006	Production	Share of total
	Metric tons							*Percent*	
United States	319,680	291,600	304,080	273,600	252,000	61	52	(21)	(16)
EU:									
Italy	70,900	71,000	73,000	71,000	71,000	14	15	0	8
Greece	30,000	24,000	36,000	38,000	35,000	6	7	17	26
Spain	15,000	15,175	13,560	15,222	13,587	3	3	(9)	(2)
France	15,000	15,000	15,000	15,000	15,000	3	3	0	8
Total, EU	130,900	125,175	137,560	139,222	134,587	25	28	3	11
Australia	42,786	43,429	59,059	53,283	44,255	8	9	3	12
China	6,000	6,000	10,000	19,000	27,000	1	6	350	386
Chile	15,251	12,480	13,200	16,200	15,600	3	3	2	10
Argentina	6,000	7,200	8,400	9,960	8,880	1	2	48	60
Total	520,617	485,884	532,299	511,265	482,322	100	100	(7)	0

Sources: 8th World Canned Deciduous Fruit Conference; USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

Figure 2.9 Canned fruit mixtures: World production, by country, 2002–06



Sources: 8th World Canned Deciduous Fruit Conference; USDA, FAS, GAIN Reports; USDA, FAS PS&D; industry submissions; Commission estimates.

Table 2.10 Canned fruit mixtures: Consumption in major world markets, 2002–06

Country	2002	2003	2004	2005	2006	Share, 2006	Change (2002–06)
	Metric tons					*Percent*	
United States	316,639	287,504	301,934	265,277	256,035	59	(19)
EU	141,462	144,264	164,077	161,977	153,131	35	8
Japan	17,094	15,980	18,066	19,515	18,933	4	11
China	3,695	2,062	3,104	3,807	8,598	2	133
Total	478,890	449,810	487,181	450,576	436,697	100	(9)

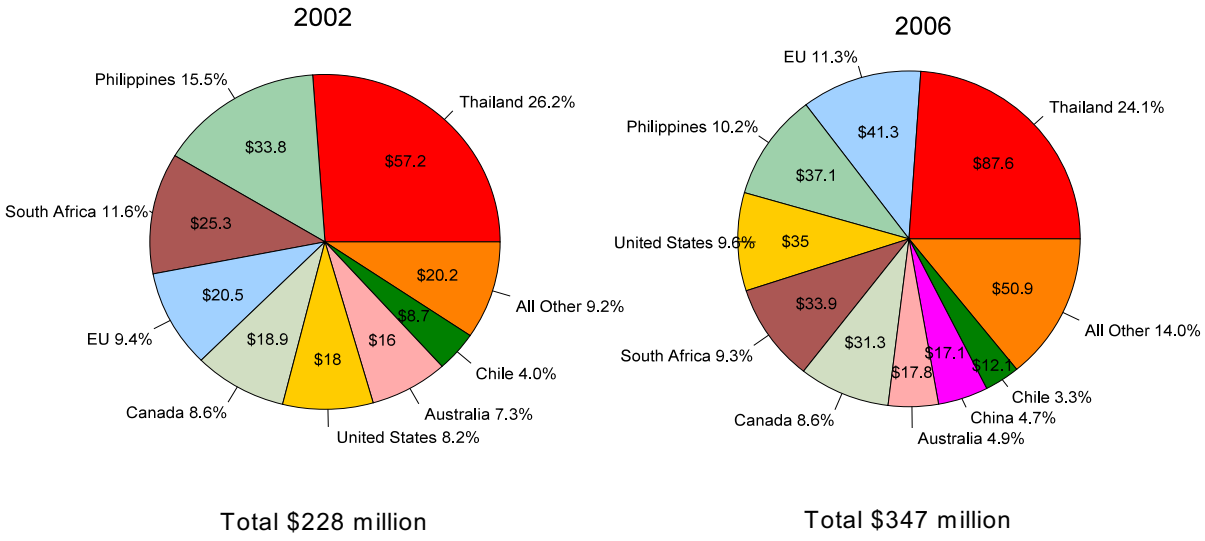
Sources: USDA, FAS, PS&D data; GTIS, World Trade Atlas Database; Commission estimates.

Table 2.11 Canned fruit mixtures: Global exports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	1,000 U.S. dollars				
Thailand	57,279	61,354	74,372	83,483	87,593
EU	20,464	21,718	22,855	31,535	41,339
Philippines	33,761	21,134	22,186	30,525	37,069
Other	115,958	137,206	146,944	168,119	180,517
Total	227,462	241,413	266,356	313,662	346,517

Source: GTIS, World Trade Atlas Database.

Figure 2.10 Canned fruit mixtures: Share of world exports, by value, 2002 and 2006



Source: GTIS, World Trade Atlas Database.

mixtures of all types of fruit, mainly to Russia and the United States, respectively.[15] U.S. fruit mixtures are exported mainly to Canada.

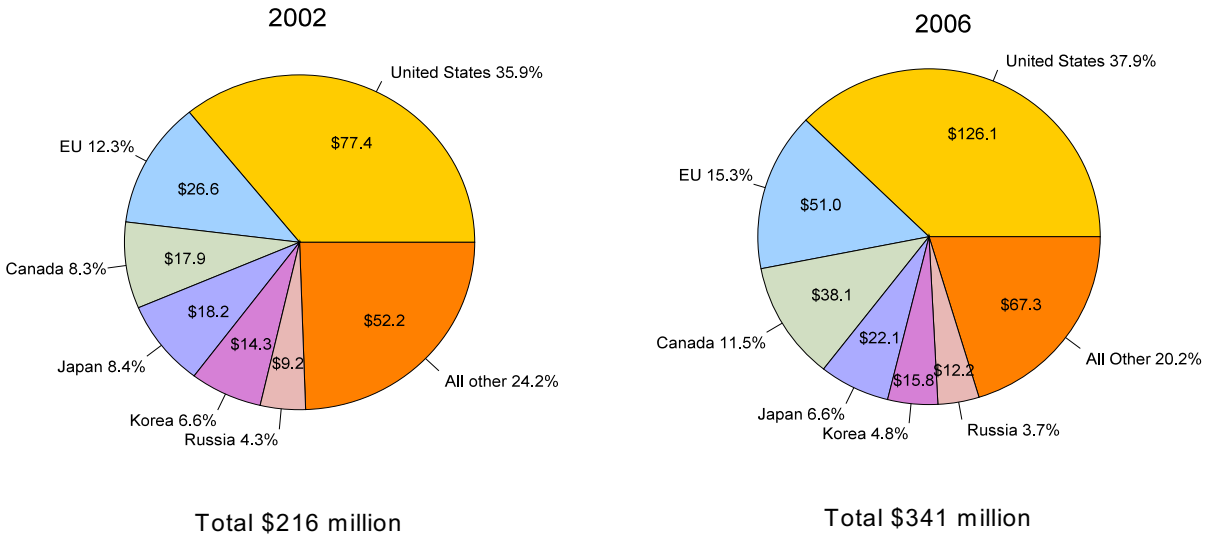
The United States is the world's largest importer of canned fruit mixtures of all types by value ($126.1 million), accounting for 38 percent of such imports in 2006 (table 2.12 and figure 2.11). In 2006, U.S. imports from Thailand and China combined increased to $23.9 million, and accounted for approximately 60 percent of the U.S. total.[16] Mexico and Chile also emerged as new suppliers to the U.S. market in 2006 with approximately $1 million each. The EU fell from its position as the largest U.S. source in 2002 to a less than 2 percent share in 2006.

Table 2.12 Canned fruit mixtures: Global imports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
			1,000 U.S. dollars		
United States	77,374	81,279	97,265	103,886	126,108
EU	26,611	35,760	43,555	47,341	51,039
Canada	17,936	19,505	22,038	35,728	38,103
Other	93,781	102,870	111,143	118,549	125,206
Total	215,702	239,413	274,001	305,505	340,455

Source: GTIS, World Trade Atlas Database.

Figure 2.11 Canned fruit mixtures: Share of world imports, by value, 2002 and 2006



[15] EU exports to the United States of fruit mixtures containing peaches and pears accounted for only 9 percent of mixtures of all fruit types. While the United States generally receives between 50 and 60 percent of all Philippine fruit mixture exports, those exports that were mixtures containing peaches and pears accounted for less than 10 percent of the total.

[16] Analysis of U.S. imports is based on U.S. import data at the 10 digit HTS level, which includes fruit mixtures of peaches and pears only.

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CHAPTER 3
Competitive Conditions for Canned Fruit in the U.S. Market

Introduction

A central indicator of the U.S. canned fruit industries' competitiveness is their share of the three U.S. canned fruit markets. A comparison of 2002 and 2006 data shows that the shares of the U.S. canned fruit markets supplied by domestic industries are declining and the shares held by imports are rising (figure 3.1). For example, in 2002, U.S. pear canners supplied about 94 percent of the domestic market and importers the remaining 6 percent. By 2006, U.S. canners accounted for 84 percent, with the import share rising to 16 percent. A similar trend is apparent for canned peaches (with the exception of 2002)[1] and mixed fruit. By this measure, the U.S. canned fruit industries have become less competitive in the U.S. market vis-à-vis foreign suppliers over the past 5 years. This chapter examines the reasons behind this loss of competitiveness.[2]

Key structural elements affecting competitiveness for all canned fruit industries, domestic and foreign, include canners' production costs (comprised chiefly of the cost of procuring raw fruit, factory wage rates, and costs of cans and other packaging), the type of technology used, infrastructure, proximity to markets, and product innovations.[3] Government intervention, exchange rates, and existing demand for canned fruit in their domestic markets all have important effects on the competitiveness of global canned fruit industries. Additional important elements affecting canned fruit industries' competitiveness are the degree of vertical coordination, pricing, marketing, investment, and divestment decisions.

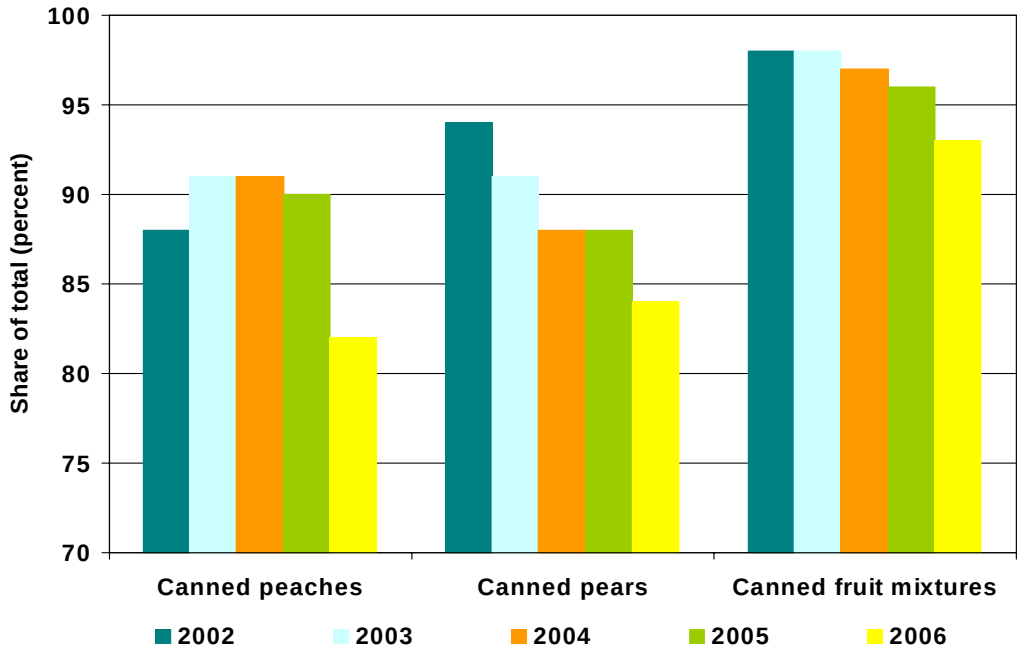
Broadly, U.S. and foreign fruit canners produce two types of products—traditional products, such as fruit in cans, and newer products, such as fruit in plastic containers and cups. These products are sold to several outlets, including retail stores (such as supermarkets, box stores, and convenience stores selling both branded and private label products), institutional outlets (such as schools, hospitals, and correctional facilities), the U.S. Department of Agriculture (for the school lunch program), and exporters. U.S. canners compete with foreign suppliers in both product types and across most domestic sales outlets (figure 3.2).

[1] The drop in U.S. market share in 2006 was exacerbated by unfavorable weather in the United States. However, estimates of the 2007 harvest and U.S. imports for the first three quarters of the year indicate a continued downward trend in U.S. supplies and a corresponding increase in import share.

[2] The analysis employs an analytical framework that draws from industrial organization literature, namely the structure-conduct-performance paradigm. This approach asserts that an industry's performance or competitiveness will depend on how an industry is organized and structured. Changes in the relative market shares of the United States and of supplying countries can be traced to the structure of the U.S. canned fruit industries, as well as to the structure and conduct of U.S. and foreign firms that serve it. Scherer and Ross, *Industrial Market Structure and Economic Performance*, 1990.

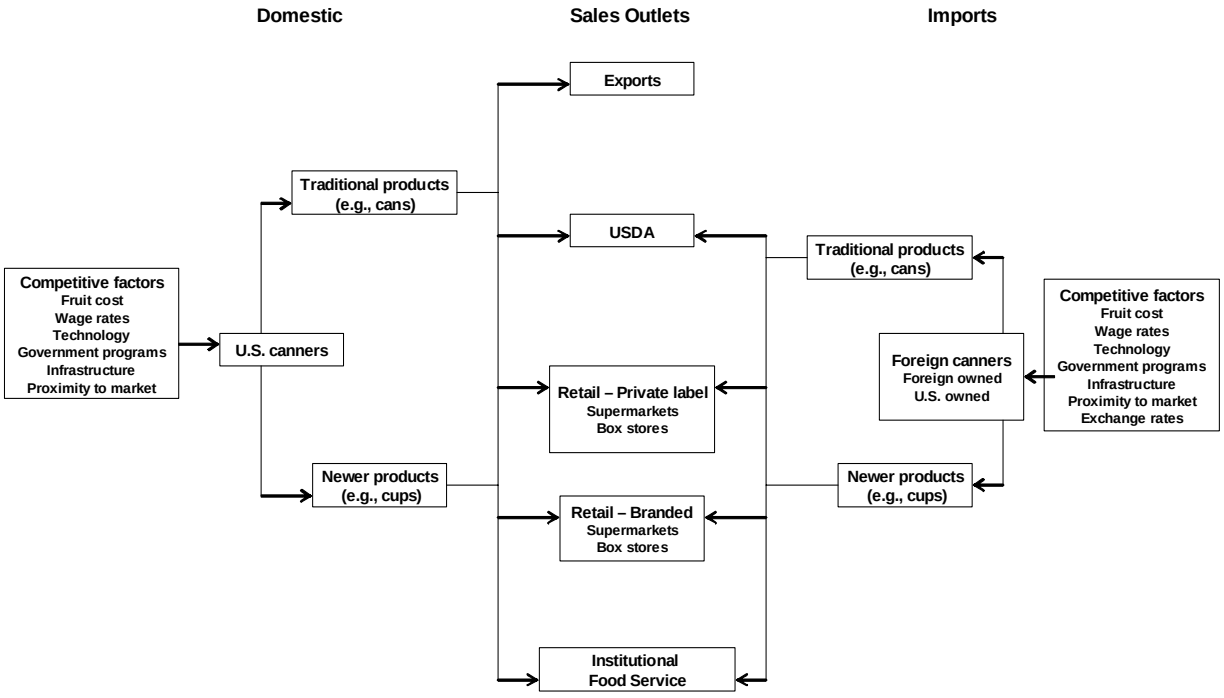
[3] These elements influencing the competitiveness of the U.S. canned fruit industries were identified based on extensive discussions with U.S. and foreign industry participants and on a thorough review of market reports and trade data. These factors are discussed in detail in the succeeding individual country chapters of this report (chapters 4–7).

Figure 3.1 Canned fruit: U.S. domestic market share, by type, 2002–06



Source: NASS, USDA and USITC, Dataweb.

Figure 3.2 Overview of U.S. canned peach and pear market structure



Source: Compiled by Commission staff.

The remainder of this chapter describes each of the key structural elements and conduct that impact the canned fruit industries' competitiveness, with emphasis on those in the major non-U.S. suppliers that provide a clear advantage or disadvantage when compared to the U.S. industries. The chapter concludes by summarizing the key reasons for the decreased competitiveness of the U.S. canned fruit industries in the U.S. market.

Factors Affecting Canned Fruit Industry Competitiveness

Costs of Production

Production costs are among the most important determinants of industry profitability and competitiveness in canned fruit trade and, in this area, the U.S. industries are generally at a disadvantage to most foreign suppliers. Both growers' and canners' costs affect industry competitiveness. Direct costs at the grower level include land (owned or leased), rootstock for planting, water, fertilizer, pesticides and other chemicals, fuel and energy, labor for general orchard practices (e.g., thinning and pulling trees), and for harvesting. There are also fixed costs such as land and equipment. Unlike many agricultural field crops, deciduous tree fruit, such as peaches and pears, incur substantial unrecovered costs for 4 to 5 years before harvest because the trees do not start producing commercial quantities of fruit until then. Therefore, early maintenance costs of young trees must be added (after appropriate discounting) to the actual costs of fruit production once the trees reach fruit-bearing age. At the cannery level, in addition to the cost of procuring the raw fruit, costs include labor, containers (metal, glass, or plastic), water for cleaning fruit, ingredients for the packing medium, energy, capital costs of buildings and equipment, packing, storage, disposal of waste water and other processing wastes, inventory and marketing costs, and transport of canned fruit to customers. As with the growing sector, there are fixed costs such as land and equipment. Table 3.1 summarizes the cost structures in the production of canned peaches in major canned fruit supplying countries (data from chapters 4–7):

Table 3.1 Canned peaches: Cost structures in major supplying countries

	Spain		Greece		Thailand		China		United States	
Cost item	$/kg	%	$/kg	%	$/kg	%	$/kg	%	$/kg	%
Raw fruit	0.25	27	0.21	27	0.84	48	0.27	35	0.29	31
Cans	0.20	21	0.17	22	0.31	18	0.20	25	0.23	25
Labor	0.07	7	0.07	9	0.09	5	0.08	10	0.14	15
Other	0.40	44	0.33	42	0.50	29	0.24	30	0.26	28
Total	0.91	100	0.77	100	1.74	100	0.78	100	0.93	100

Source: U.S. and foreign industry officials, interviews by Commission staff, January–September 2007.

Table 3.2 shows selected individual cost items in major canned fruit supplying countries as of April 2007.

Table 3.2 Canned fruit: Individual cost items in major supplying countries

Cost item	Argentina	Australia	Chile	Greece	South Africa	Spain	United States
				U.S. dollars			
Field labor (per hour)	2.42	14.30	2.45	6.75	1.50	9.45	13.00
Factory labor (per hour)	3.39	17.88	3.40	10.80	3.00	13.50	20.00

Source: Data from a presentation at the 8th World Canned Deciduous Fruit Conference, Sacramento, California, April 15–19, 2007.

These data show substantial differences in costs among global producers of canned fruits. The following discussion provides a more detailed comparison of individual cost items for these producers.

Raw Fruit

The U.S. industries are at a competitive disadvantage with respect to the cost of raw fruit vis-à-vis most foreign competitors.[4] The average U.S. cost of raw peaches was 29 cents per one kilogram can in 2007, which represented 31 percent of the total production cost. Relatively high field labor rates are a major factor in the cost of raw peaches to U.S. processors. U.S. peach growers are considering mechanizing the harvesting process as a result of labor availability and cost.[5] The cost of raw peaches in China is similar to that in the United States, reflecting the small scale and dispersed structure of the industry, a large fresh market that competes for supply, and a limited supply of yellow peaches compared with other varieties.[6] Raw peach costs are lowest in Greece, reflecting, in part, relatively low field labor rates and EU government assistance to growers. Thailand's raw material consists of imported canned peaches that are repacked mainly into smaller sized plastic jars and cups. Thus, the cost of the raw fruit already reflects labor and other costs that were incurred during initial processing in the source country.

One significant cost difference for raw fruit is seen among pear varieties in China. China has a substantial supply of crunchy pear varieties, mainly snow pears, for canning. The cost to processors of crunchy pear varieties typically is about five cents per kilogram compared with about 25–30 cents per kilogram for Bartlett pears.[7] This results in a substantial cost advantage because China's rise in U.S. market share likely resulted from sales of these lower cost varieties, which are sold mainly through budget retail and institutional sectors.

Cans

The U.S. industry faces similar costs for cans vis-à-vis most foreign competitors. The cost of cans is similar worldwide, with most producers paying between 18 cents to 20 cents per one kilogram can, as of April 2007. Cans typically are the second leading cost item in the production of canned fruit. The cost of cans represented a similar share of total costs among major global producers of canned peaches in 2007, ranging between 18 percent and 25 percent.

[4] The U.S. canning industries source most of their raw fruit requirements domestically.
[5] Industry officials, interviews by Commission staff, January–April 2007.
[6] The bulk of China's peach production is of white peaches intended for non-U.S. markets.
[7] Raw Bartlett pear costs in China are comparable with the United States.

Labor

The United States is at a competitive disadvantage with respect to labor costs, which typically are the third leading cost item in canned peach and pear production. U.S. producers incurred labor costs of 14 cents per one kilogram can in 2007, higher than such costs for all other major foreign competitors. U.S. labor costs accounted for the highest share of total costs, 15 percent, among major producers. U.S. factory labor rates ranked highest among major producers at $20 per hour in 2007. Lower labor costs in the EU resulted from substantially lower factory wages. The relatively low labor cost in Thailand results from the use of canned raw material that incorporates labor costs in source markets. China's labor cost is relatively low despite the use of hand labor by Chinese canners in most of the production process. The low labor cost reflects, in part, relatively low wage rates, typically about $1.50 per hour.

Other Costs

The United States is competitive regarding other production costs, such as energy, packaging, capital, storage, and regulatory compliance. These costs totaled 26 cents per kilogram and accounted for 28 percent of total U.S. costs in 2007 (table 3.1). Such costs in aggregate were highest in Thailand at 50 cents per kilogram. All global producers have been affected by rising costs for many of these other cost items in recent years.

Fixed Costs

An important factor affecting fixed unit costs for the U.S. fruit canning industries is that some firms process peaches and pears only during the harvesting season for these fruits, which is about three months of the year.[8] Thus, capacity is not fully utilized throughout the year. While most also process other types of fruit, such as apricots, apples, or cherries, this extends their operating period only several weeks more through the year.[9] During the remaining time, which for most U.S. canneries covers more than half of the year, the canneries are idle and downtime is used for maintenance and preparation for the next season.

In contrast to U.S. industry practices, the fruit canning industries in the EU and China process a greater variety of fruit and thus operate for longer periods of the year.[10] Their greater economies of scope help place these foreign supplier industries at a cost advantage relative to the U.S. fruit canning industries.

Market Size

Domestic market size (i.e., overall consumption) is an important structural factor in determining the competitiveness of the domestic fruit canning industries in each of the markets. In the United States, a large domestic market provides a potentially important competitive advantage for U.S. canners. This is because the large domestic market can

[8] Industry officials, emails to Commission staff, October 3 and 5, 2007.
[9] Ibid.
[10] See chapters 5 and 6.

enable domestic canneries to benefit from high levels of production capacity utilization and economies of size. These benefits can translate into higher levels of industry efficiency and ultimately to lower prices offered to customers. However, U.S. canners may not have fully realized this potential competitive advantage over foreign suppliers.

The U.S. canned fruit market involves sales of traditional canned products and, increasingly, innovative products such as single serve plastic fruit cups in plastic containers. Canned fruits are sold domestically into three distinct market segments—retail, institutional, and the USDA—and within the retail sector, consumers have a choice between private label and branded products. Each of these market segments have different market size, growth, and demand characteristics. This makes the relationship between market size and industry competitiveness complex.

The U.S. market for traditional canned fruit products is mature, with overall consumption declining throughout most of the period under review. According to fruit canners, this decline is mostly associated with lower levels of fresh fruit supply in response to an overall decline in demand, which led to declining prices received by growers and tree pulls. In some years, weather related growing disruptions affected raw fruit supplies. With less fruit available for canning, U.S. cannery production was constrained, which, in turn, increasingly opened up the U.S. market to imports, which have captured an increasing share of the declining U.S. market.[11] Increased import supply effectively reduced producer concentration in the U.S. canned fruit market and weakened U.S. canners' ability to negotiate canned product prices. Thus, while the U.S. market is large enough to support production from multiple domestic firms and to provide a potential competitive advantage to domestic canners, the U.S. industries have not benefitted from this advantage.

Additionally, in contrast to traditional products, newer products are enjoying steady demand growth, particularly by institutional outlets (such as schools and hospitals) that previously purchased traditional products.[12] Again, U.S. canners have not taken full advantage of this growth, as growth in their production capacity was outpaced by market growth during the period under review. As a result, a substantial portion of the growing market for newer products is supplied by imports, although a significant share of imports are from U.S.-based firms operating in overseas markets. For example, most imports from Thailand are packaged by Dole, and recently Del Monte began importing fruit in plastic cups from China and other sources.

Domestic market size affects the competitiveness of foreign suppliers to the U.S. market. For example, the EU canned fruit market is large, enabling many canneries, especially in Spain and Greece, to operate at economically efficient levels, which also helps them export to the United States at competitive prices.[13] In contrast, the Thai market for canned peaches and pears is small and there is very limited domestic production of fresh fruit for canning. As a result, the few canning firms in Thailand depend mainly on imports of canned product for

[11] U.S. fruit canners are reluctant to import raw material for reprocessing into retail containers, as the Thai industry almost exclusively does. This reluctance, according to U.S. industry officials, comes from previous U.S. industry experience with importing, in which the added costs of transport and of labor involved in transferring fruit from large cans to small containers, plus the reduction in quality caused by such transfer (the rejection of inferior or damaged fruit adding to the cost), made such a practice unprofitable. Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[12] See chapter 4 for a discussion of the market development of these newer products.

[13] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007, and Imathia, Greece, August 9–10, 2007.

processing and on the export market for sufficient sales to enable them to operate their canneries at efficient capacity levels.[14] The domestic market in China for canned fruit currently is small relative to its absolute size. However, consumption has been increasing, a trend that is expected to continue as incomes rise. China reportedly is likely to become a net importer of canned fruit in the near future.[15]

Industry Concentration

Industry concentration influences the price paid by processors to growers for fresh fruit and the price received from distributors for canned fruit. Therefore, it bears directly on the competitiveness of the canned fruit industries.

Growing Industry

U.S. canned fruit industries' competitiveness vis-à-vis most foreign supplier industries is aided by the low level of concentration in the fruit growing industry. The U.S. industry growing cling peaches for canning is centered in California and numbers about 700 operations, most of which also produce other crops. Most are small operations (the average orchard size is 46 acres), but a few are large (up to 500 acres), with the ten largest growers accounting for 12 percent of the U.S. crop. There are about 1,400 growers of Bartlett pears for canning, in Washington and Oregon, with another 250 growers in California.

Both the total number of growers and the average size of individual growers have been declining in recent years, as some firms pull up a portion of their fruit trees while others exit the fruit industry altogether. The main reason for this trend is a decline in net revenues to growers resulting from a decline in fruit prices paid by canners and increases in costs of some key inputs such as labor, fuel, and water. As noted, this decline has created supply shortages for canners.

There is one grower cooperative (co-op) for peaches and one for pears in the United States. Virtually all growers of peaches and pears for canning have supply contracts with canners. These contracts provide for annually set prices and crop inspection from the canner's representatives. The contracts help ensure that growers have a market for their crop and canners can plan with some certainty (subject to crop yields and quality) expected supply.

In the EU industry, there are many more fruit growers than in the U.S. industry, and many more co-ops and producer organizations. Because growers and co-ops in the EU have alternative market channels (e.g., the fresh and puree markets) for their crop, canners likely pay higher prices than they would if growers had no alternative but to sell to the canners, such as the case in the United States.[16] Despite such higher prices resulting from EU co-ops and growers' alternative markets, prices paid by EU canners to growers generally are lower

[14] Industry officials, telephone interview by Commission staff, September 2007.

[15] Industry officials, interviews by Commission staff, various locations, Spain, Greece, and China, August–September 2007.

[16] Industry officials, interviews by Commission staff, various locations, California, Spain, and Greece, January–September 2007.

than U.S. prices, putting the EU at a competitive advantage relative to the U.S. industry in this regard.[17]

In China, there are substantially more fruit growers than in the United States and they generally are not organized into co-ops. There is little coordination between growers and processors. Most Chinese production of peaches and pears is consumed locally in fresh form, and the available supply of varieties that are preferred for global canned fruit markets is limited.[18] Therefore, Chinese fruit canners pay prices that are nearly as high as those paid by U.S. canners for those varieties.[19]

Canning Industry

The U.S. canned fruit industries, once composed of a large number of firms, have become increasingly concentrated over the years.[20] Today the U.S. peach canning segment of the industry is made up of four canners, operating five establishments, all in California. The three largest peach canners account for about 90 percent of annual U.S. production.[21] The U.S. canned pear industry consists of three processors in California, canning mostly fruit mixtures, and six processors in Washington and Oregon canning only grade pack pears.[22] Fruit mixtures are canned by three processors in California.

The canned fruit industries of most major foreign competitors are not as concentrated as the U.S. industries. For example, Greece and Spain each have about 15 peach processors, and China has approximately 1,000 processors of canned fruit. However, the EU industry has been consolidating, with the number of processors dropping by about one half during the past decade.[23] The industry in China has also been consolidating during the period. This consolidation is expected by industry officials to continue, as firms adjust to an increasingly competitive global market.[24] An exception is the canned fruit industry in Thailand, which is the most highly concentrated among global canned fruit producers. A single firm, Dole Thailand Company Limited, operating two canneries, accounts for the bulk of production.

Despite the concentration of firms in the U.S. canned fruit industries, the shares of the U.S. market supplied by the U.S. industries are declining and, when foreign exporters to the U.S. market are included, the total number of suppliers to the U.S. market has been growing. This increasing competition makes it more difficult for U.S. canners to pass on cost increases such as those associated with rising fuel prices. Although this is particularly true in the institutional sector, it is becoming increasingly common in the retail sector as well.

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[17] This paragraph applies to peaches; similar information for EU canning pears is not available.

[18] These varieties include yellow peaches and Bartlett pears.

[19] Chinese industry officials, interviews by Commission staff, various locations, September 10–18, 2007.

[20] Van Konynenberg, *75 Years of History*, 1997. The consolidation occurred before the period under review.

[21] California Canning Peach Association, email message to Commission staff, May 14, 2007.

[22] Ibid.

[23] Spanish and Greek industry officials, interviews by Commission staff, various location, August 6–10, 2007.

[24] Industry officials, interview by Commission staff, China, September 2007.

Food Distribution Industry

Rising concentration in the food distribution industry, particularly at the retail level, is diminishing the ability of U.S. canned fruit firms to maintain market share by influencing how wholesale and retail prices for canned fruit are set. Greater competition in the U.S. market between U.S. and imported canned fruit is reportedly partly a result of greater market power held by food retailers.[25] The share of the U.S. retail grocery market held by the top four firms in that industry has risen sharply in recent years.[26] This reportedly has negatively affected the canned fruit industries' pricing and marketing strategies.[27] Although retail price competition is waged at the local level,[28] wholesale price competition is considered to be more national in scope,[29] in large part because there are fewer firms engaged principally in grocery wholesaling.[30] According to canning industry sources, many of these firms have been replaced by wholesaling arms of retail chains themselves. These retail/wholesale firms include regional and national chains of supermarkets, grocery stores, and convenience stores, as well as mass merchandisers such as large discount department stores and club stores. Increasingly, fruit canners seeking nationwide distribution of their products must negotiate wholesale prices directly with these retail chains.

Maximizing market share, or shelf space, at the store level is an important objective for fruit canners[31] and an important measure of their competitiveness, as individual firms and as an industry. In negotiating wholesale prices with advertised brand fruit canners, retailers have two growing sources of buying power: rising retail market share and increased availability of canned fruit supplies, both imported and domestic, carrying retailers' private labels. Such buying power may cause downward pressure on revenues received by U.S. canners for their own brands.[32]

Private label canned fruit is produced by both domestic and foreign suppliers. Domestic canners likely have a competitive advantage over foreign competitors in supplying private

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[25] Del Monte Foods Company, fiscal 2007, Form 10-K, 6.

[26] Between 1997 and 2002 (the latest Economic Census year), the share of grocery store sales held by the 4 largest chains grew from 19.9 percent to 31 percent. Similar increases were seen for the top 8 firms. Grocery data for mass merchandisers such as club stores and "supercenters" are not reported owing to data confidentiality.

[27] See, e.g., discussions of retail competitive conditions in Del Monte Foods Company, fiscal 2007 10-K, 6; and Seneca Foods Corp. ("Libby's) fiscal 2007, Form 10-K, 3, 6.

[28] See, e.g., *Whole Foods Market, Inc., and Wild Oats Markets, Inc.*, FTC Docket No. 9324, Complaint, June 28, 2007, paragraph 40 ("[a] relevant geographic market in which to analyze the effects of the proposed Acquisition is an area as small as approximately five or six miles in radius ... or as large as a metropolitan area"). Kroger, an owner/operator of nearly 2,500 supermarkets under various subsidiaries, states that its stores generally draw customers from a 2-2½ mile radius. The Kroger Company, fiscal 2007, Form 10-K, Part I, Item 1, paragraph 6.

[29] One grocery wholesaler has indicated that competition ranges from the store-by-store level to the regional (small chain or division of a national chain) level. Piggly Wiggly Alabama Distributing Company, fiscal 1995, Form 10-K, Part I, Item 1.

[30] Between 1997 and 2002 (the latest Economic Census year), the number of "canned goods merchant wholesalers" (NAICS code 4244904) declined by 12.6 percent, from 913 firms to 798 firms.

[31] See, e.g., Del Monte Foods Company, fiscal 2007, Form 10-K, 6 ("[Del Monte] generally compete[s] based upon brand strength and loyalty, product and packaging quality and innovation, taste, nutrition, breadth of our product line, price, and convenience").

[32] Under certain conditions, discussed below, the introduction of private label alternatives may cause the prices of advertised brands to rise even as quantities fall. Either way, advertised brands lose a key marketing objective: retail shelf space. Del Monte Foods Company, fiscal 2007, Form 10-K, 19.

label product.[33] Because their canneries are in the national market they serve, transportation costs, speed in supplying retailers' orders, the ability to hold the retailers' inventory for them, and quality consistent with their own advertised brands are advantages for the domestic canneries. An important disadvantage is labor costs, and thus overall production costs. Private label canned fruit production is less profitable for canners than their branded product[34] and, therefore, although the quantity of canned fruit produced by a canner may be constant, the overall revenue received declines as sales trend to lower priced private label products. Among the major national brands, only Dole, which is an importer, not a domestic producer of canned peaches and pears, has recently gained market share for its own brand in the U.S. retail market, although it still lags behind Del Monte's market share.[35]

Government Involvement and Trade Practices

Government involvement puts U.S. industries at a competitive disadvantage vis-à-vis their EU counterparts with regard to fresh fruit and at a competitive advantage vis-à-vis other global producers with respect to processed products. Tariffs are significant in all major importer markets (table 3.3). Import tariffs are the principal trade policy tool for canned fruit in major importing nations, and tariff rates in the United States are in the middle of the range of tariffs applied in those markets.

Table 3.3 Canned fruit: Ad valorem import tariffs in selected markets

Country	Peaches	Pears	Mixed fruit
United States	17.0	15.3	14.9
EU	15.2-19.2	16.0-19.2	13.6-19.2
Japan	6.7-29.8	9.0-21.0	6.0-29.8
China	10.0-20.0	20.0	10.0

Source: Individual countries' Harmonized Tariff Schedules.

In addition to tariffs, government involvement is concentrated in the growing sector of most global canned fruit industries. As outlined in chapter 6, in the EU such involvement generally includes direct payments to growers, technological support, and assistance for agricultural practices. The EU provides direct payments to growers under the Common Agricultural Policy's common market organization for fruit and vegetables. Such payments, which are channeled through producer organizations (POs), are provided to peach and pear growers based on the quantity of fruit they deliver to processors, and are in the form of a price supplement. The payments are in addition to the prices negotiated between growers and processors and vary by member state. In 2006, the payments were equal to 18 and 23 percent of the total price received by growers for peaches destined for processing in Greece and Spain, respectively. The payments for pears represented 48 percent of the negotiated sales price in Spain that year. These payments have been equivalent to approximately 7 or 8 percent of the canners' total production cost. These payments to growers contribute to a

[33] However, imports of private label products in newer packaging, such as single serve plastic cups, increased their market share in recent years.

[34] Del Monte Foods Company, fiscal 2007, Form 10-K, 6–7.

[35] As noted in chapter 4, Dole's market share grew from 13 percent in 2005 to 20 percent in 2006, while Del Monte's declined from 50 to 48 percent. California Canning Peach Association, email message to Commission staff, September 6, 2007. Dole's gain, according to industry sources, probably came mainly at the expense of private label product in cans that were displaced by Dole's product in plastic containers.

more stable supply and are passed on as lower costs for EU processors. In addition to direct payments, growers also benefit from EU funding for operational programs of their POs. Program activities generally involve research and development, agricultural practices, quality, marketing, and promotion.

Growers in the United States receive no direct support from the government. However, research and development, and technological assistance is provided to U.S. peach and pear growers by the Agricultural Extension Service of the U.S. Department of Agriculture (see chapter 4 for more information).

In China, growers benefit from research and development programs through National Agro-Technical Extension and Service Center of the Ministry of Agriculture. Such government involvement benefits the cost competitiveness of the relatively unconcentrated peach and pear growing industries in China, as it contributes to containing overall costs while implementing cost saving programs, such as innovative production and harvesting practices.

Competitiveness in the U.S. processing sector is enhanced by U.S. government purchases. The U.S. Department of Agriculture purchases canned fruit for various federal food assistance programs and the National School Lunch Program. Such purchases accounted for about 10 percent of U.S. processors' sales in recent years.[36] The effect of the program is to remove supplies from the commercial market, which results in higher market prices than would have occurred in the absence of the program. EU processors are subject to production limits, based on the amount of raw fruit used for processing. If the limits are exceeded, growers are subject to lower aid payments. Canned fruit processors in China receive no direct government aid.

Exchange Rates

Recent trends in U.S. dollar exchange rates with foreign currencies have helped the competitiveness of the U.S. canned fruit industry vis-à-vis foreign suppliers in the U.S. market; the lower value of the dollar puts upward pressure on prices of imported canned fruit products from all leading foreign supplier industries and thus tends to raise the price of U.S. canned fruit that competes with such imports.

Table 3.4 shows recent trends in nominal and real (inflation adjusted) exchange rates for the U.S. dollar vis-à-vis the Chinese yuan (or renminbi), the European euro, and the Thai baht. All three foreign currencies have appreciated in value relative to the dollar, although in the case of the yuan the entire change has taken place only since mid-2006.

[36] See table 4.14.

Table 3.4 Exchange rates: Units of foreign currency per U.S. dollar, 2002–06

Foreign currency		2002	2003	2004	2005	2006	Percent change, 2002–06[a]
Chinese yuan	Nominal	8.28	8.28	8.28	8.19	7.97	(3.7)
	Real (2000 = 100)	7.89	7.82	7.92	7.72	7.36	(6.7)
Thai baht	Nominal	43.0	41.5	40.2	40.2	37.9	(11.9)
	Real (2000 = 100)	42.1	40.4	39.2	39.7	37.9	(10.0)
EU euro	Nominal	1.06	0.89	0.81	0.80	0.80	(24.5)
	Real (2000 = 100)	1.09	0.92	0.84	0.84	0.83	(23.9)

Source: International Monetary Fund, *International Financial Statistics* (monthly), various issues.

[a]Calculated from unrounded data.

Globally, the effects of the decline in the dollar's value have not been uniformly distributed across foreign suppliers. As noted in chapter 5, because the euro and the baht have risen faster than the yuan, the effects of recent changes in the dollar-yuan exchange rate on Chinese canned fruit exporters have been mitigated. Also, according to Chinese industry sources, many inputs used by China's canned fruit industry are either purchased directly from the United States or are purchased in world trade priced in dollars, which means the costs of those inputs are lower. According to EU industry sources, EU exporters of canned fruit have not had the same benefit because few of their inputs are imported from outside the EU.[37] And the appreciation of the baht contributed to an increase in U.S. exports of canned peaches and canned pears to Thailand for repackaging and export to the United States.

Vertical Coordination

Vertical coordination (ownership or contracts linking canneries to growers, distributors, and retailers) is typically undertaken to reduce or avoid the risk of price fluctuations, supply shortages, and other transaction costs. Such coordination ranges from informal agreements to short or long term contracts, to outright ownership of one party by the other (vertical integration). Vertical coordination relates to competitiveness in the canned fruit industry by giving canners more certainty about raw material supply, distributor demand, and prices.

The U.S. canned fruit industries have a competitive advantage in this area over foreign supplier industries. As discussed in chapter 4, the U.S. industry benefits from its coordination with growers on the upstream side and distributors on the downstream side. Vertical coordination between canners and retailers or foodservice firms tends to be weaker (contracts are shorter and/or less comprehensive) than coordination between canners and growers, who often have multiyear supply contracts (generally renewed annually with updated prices) which stipulate fruit quality and provide for technical or financing assistance to the grower by the canner.[38] Reportedly, vertical coordination between canners and growers includes tradeoffs.[39] For example, a supply contract between a grower and a canner reduces risk for each, but eliminates flexibility for growers to be able to shift their raw product into other marketing channels. While this may be true in other countries, in the United States almost all cling peaches are sold under contract to a handful of canners such as Del Monte

[37] Industry officials in both the EU and China have estimated their current breakeven point with respect to the price of their respective currencies in U.S. dollars. Those estimates are $0.71 for the euro and $0.14 for the yuan. Industry officials, interviews by Commission staff, Imathia, Greece, August 2007, and China, September 2007.

[38] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[39] Ibid.

and Pacific Coast Producers (PCP). Cling peaches have little use other than for canning and canners find other U.S. peach varieties generally unsuitable for canning. Vertical coordination allows for greater certainty for both U.S. cling peach growers and canners, at little or no cost because there is no significant alternative supply source for canners and no significant alternative market for growers.

In other countries, such as Greece, Spain, and China, different varieties of peaches enjoy strong demand in both canned and fresh form, so there is relatively less contractual coordination in those canned fruit industries because growers do not wish to be tied to canners in case prices for fresh fruit or puree rise.[40] The uncertainty inherent in relying on the spot market in those countries is an acceptable tradeoff for growers who gain more flexibility in marketing. But as a result, canners have a more uncertain supply of raw material available and they sometimes have to process fruit at a higher cost or must turn to processing other types of fruit to minimize losses but maximize economies of scale.[41] The alternative market options of growers creates a competitive disadvantage for canners in certain foreign supplying countries, especially Spain and China.

Pricing and Marketing Practices

Recent developments in the pricing and marketing of canned fruit in the U.S. market have weakened the competitiveness of the U.S. canned fruit industries as pricing and marketing practices have changed. The growing presence of imports, newer products, such as fruit cups and flavored canned peaches, and private label supplies of traditional canned products has altered price relationships between products (e.g., cans of different sizes) and brands that have evolved over many years. And, according to industry sources, this has resulted in the loss of some of the canners' ability to negotiate prices in the U.S. canned fruit market.[42] And while consumers may have benefitted through lower prices and wider product choices, market shares of U.S. canners in the domestic market have diminished.

As mentioned previously, canned fruit marketed in the United States is sold primarily through retail outlets and institutional outlets, but sales data are confidential and not available. Sales are also made to the USDA for its school lunch program.[43] Sales are made either under national labels, such as Del Monte or Libby's, or private labels, such as the "Safeway" label or several regional chains' use of the "RichFood" label. National brands are those marketed nationwide, although, according to industry sources, some brands are stronger in certain regional markets than in others.[44] A number of price and non-price marketing mechanisms are used for the national brands, such as coupons or advertising in various media.[45] Private label products are marketed almost solely on the basis of price and usually with limited advertising.

Prices for national brands are generally higher than prices for private label products because national brands enjoy greater consumer loyalty and confidence in the products' quality. But the price relationship between national brand products and private label products can be

[40] Industry officials, interviews by Commission staff, Imathia, Greece, August 9–10, 2007.
[41] Industry officials, interviews by Commission staff, Murcia, Spain, and Imathia, Greece, August 2007.
[42] Industry officials, telephone interviews by Commission staff, May 2007.
[43] California Canning Peach Association, email message to Commission staff, September 6, 2007.
[44] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.
[45] Industry officials, telephone interviews by Commission staff, August 2007.

complex.[46] The competition from a private label product does not necessarily drive down the price of the national brand product.[47] Although private label products often are produced by the same canneries that produce national brand products, consumers generally are willing to pay more for the latter than the former.[48] This is true more so in the retail sector, according to industry sources. In the institutional sector, buyers generally value lower prices and consistency of supply over brand reputation, as the final consumer generally will not learn the brand. This aspect of canned fruit marketing, according to industry sources, is especially important to producers without a well known brand, such as most foreign suppliers to the U.S. market, who must focus on price conscious buyers as a means to get established in the market.

Innovation

Innovation is tied to competitiveness and market share because it leads to improved products or production methods and reduced costs, which in turn help industries to maintain or increase demand and therefore market share. During the period under review, the U.S. industries have not taken full advantage of some important innovations in canned fruit production and marketing. The mainstay product of the U.S. canning industries is fruit in metal cans. This product has remained virtually unchanged for decades, save for the introduction in recent years of the pull-top can and the use of light syrup and other flavoring ingredients. However, packaging innovations have taken place, such as fruit packed in plastic jars or in single-serving plastic cups, often in a multipack. While some of these products are produced domestically, a sizeable share of U.S. supply is imported because their production at present is less expensive abroad owing to lower costs of labor and other inputs. U.S. processors have not invested sufficiently to expand production of these products at the same rate as the rise in the quantity demanded based on considerations of returns on investment.

Summary of Findings

The U.S. canned fruit industries lost market share to foreign suppliers during 2002–06 primarily for the following reasons:

- The U.S. industries did not sufficiently increase their production capacity to meet rising demand for newer forms of packaging, such as plastic cups and jars, during 2002–06. A shift in U.S. market preferences to this type of packaging benefitted foreign suppliers, who increased their share of these market segments.

[46] Ibid.

[47] To the extent that a private label draws consumers who make purchases largely on the basis of price (with price elastic demand) away from the advertised brand, the marketer of the advertised brand is left with loyal buyers (with relatively price inelastic demand). Other things being equal, this allows the marketer to raise the price of the advertised brand, losing volume but gaining total sales revenue. A price increase may not happen, however, if the marketer's objective is to maximize volume or market share (shelf space). See also, Del Monte Foods Company, fiscal 2007, Form 10-K, 19 ("Additionally, if we increase our prices, we may need to increase marketing spending, including trade promotion spending, in order to retain our market share. Such increased marketing costs may significantly offset the benefits, if any, of any price increase.")

[48] Del Monte Foods Company, fiscal 2007, Form 10-K, 19.

- Increased market power by wholesale and retail buyers, owing to consolidation in the distribution chain, coupled with increasing use of private label packs, with the rise supplied largely by imports, further eroded the domestic market share of the U.S. canned fruit industries.

- Foreign suppliers, particularly Thailand and China, use facilities that produce a variety of canned food products, which spreads fixed costs across more products and lengthens production cycles, thus lowering their unit costs. Some of these suppliers have also established supply relationships with U.S. firms.

- Lower input costs, mainly for raw fruit and labor, in both established and emerging competitor supplier countries, have lowered prices and contributed to a rise in the import share of the U.S. market.

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CHAPTER 4
The Industry in the United States

The United States is a major global producer and trader of canned peaches, canned pears, and canned fruit mixtures. The domestic market, which comprises distinct retail and institutional segments, accounts for the bulk of the industries' sales. Historically, U.S. producers have been the principal suppliers to the domestic market. However, in recent years a number of foreign suppliers have captured an increasing share of the U.S. market.

U.S. production of canned peaches, pears, and fruit mixtures is located in California, Washington, and Oregon, as canning facilities are located close to fruit growing areas. The U.S. canning industry consists of a small number of large scale, capital intensive canneries, which rely on a larger, but decreasing, number of peach and pear growers. While all domestic canners principally market domestically packed products, some also source products in other countries.[1]

U.S. production and consumption of canned peaches, canned pears, and canned fruit mixtures declined during 2002–06, continuing a long term trend of decline. U.S. demand has shifted from traditionally canned fruit products packed in metal cans to fruit packaged in single serving plastic cups and in plastic jars. A large portion of U.S. industry sales are to the institutional market segment, including hotels, hospitals, and prisons. Schools, through USDA's school lunch program as well as direct purchases, are also a significant market for U.S. producers.

The U.S. canned fruit industries hold competitive advantages in a number of areas. These include growers' use of advanced technology and agricultural practices to produce a large quantity of high quality fruit for processors,[2] large scale processing facilities resulting in economies of size, the use of advanced technology to enhance efficiency,[3] plants located near supplies of raw fruit, strong brand recognition in the domestic market, and efficient transportation and distribution networks.[4]

The main competitive disadvantages facing the U.S. industry include high costs and a limited production period and product scope compared with some foreign competitors, a shift in domestic demand away from products packed in metal cans that traditionally had been the U.S. industry's main market, and consolidation in the distribution chain, giving more market power to buyers.[5]

[1] Industry officials, interviews by Commission staff, Sacramento, CA, February 1, 2007.
[2] U.S. grower yields are reported to be the highest of any growers world wide. Industry officials, interview by Commission staff, Sacramento, CA, February 1, 2007.
[3] Industry officials, interview by Commission staff, Sacramento, CA, February 1, 2007.
[4] Ibid.
[5] Ibid.

U.S. Production

U.S. fresh cling peach production fell by 36 percent, from 509,838 mt in 2002 to 325,680 mt in 2006 (table 4.1). Virtually all such production is destined for processing, mainly into various canned products. The decline in production resulted mainly from tree removal programs in 2003 and 2005 to adjust to declining domestic demand and because of a severely weather damaged crop in 2006.[6] During 2002–06, the acreage removed from production fluctuated between 1,501 acres in 2002 and 4,526 acres in 2006 (table 4.2). Acreage planted with new trees generally declined during 2002–06. The net acreage and, thus, fruit bearing acreage generally declined during 2002–06, reflecting the contraction in the growing sector.

U.S. Bartlett pear production fluctuated irregularly during 2002–06, peaking in 2004 at 414,584 mt before ending at 387,368 mt in 2006 (table 4.1). Production was affected by the weather[7] as well as by conditions in both the fresh and processed markets similar to those for cling peaches.

Table 4.1 Peaches, pears, and fruit mixtures: U.S. production volume and value, 2002–06

	2002	2003	2004	2005	2006
Peaches:					
Canned production (mt)	472,800	427,200	441,600	403,200	302,400
Canned production ($1,000)	132,639	108,484	141,494	122,939	104,846
Fresh production (mt)	509,838	486,252	488,973	439,078	325,680
Fresh production ($1,000)	138,814	115,240	141,494	122,939	104,846
Pears:					
Canned production volume (mt)	199,200	177,600	175,200	160,800	192,000
Canned production value ($1,000)	72,067	69,127	68,678	58,434	62,344
Fresh production (mt)	406,419	413,677	414,584	354,710	387,368
Fresh production ($1,000)	125,537	124,221	127,046	126,293	128,954
Fruit mixtures**:**					
Canned production volume	319,680	291,600	304,080	273,600	252,000
Canned production value	([a])	([a])	([a])	([a])	([a])

Sources: Compiled from NASS, USDA, *NonCitrus Fruit and Nuts*, various issues; California Canning Peach Association (CCPA).

Note: Canned production data on a quantity basis were provided by the CCPA at the 8th World Canned Deciduous Fruit Conference, Sacramento, CA, April 15–19, 2007. Data for peaches and pears represent value of fresh production used for canning as reported by USDA. All cling peach production goes for processing, none for fresh market sales.

[a]Not available.

[6] Ibid.

[7] Pears generally are grown in locations with more volatile weather conditions compared to peaches. Commission staff telephone conversation with an industry official, November 5, 2007.

Table 4.2 Cling peaches: Trees pulled, trees planted, change in acreage, and bearing acreage, 2002–06

Year	Trees pulled	Trees planted	Change in acreage	Bearing acreage
	Acres			
2002	1,501	2,740	1,239	30,931
2003	3,674	1,652	(2,022)	31,408
2004	1,550	580	(970)	31,740
2005	3,912	890	(3,022)	30,199
2006	4,526	990	(3,536)	26,806

Source: California Canning Peach Association.

Note: Changes in acreage may not add to bearing acreage owing to time lags.

U.S. production of canned peaches declined irregularly during 2002–06 (table 4.1). The period decline reflected a long term decline in domestic demand, particularly in the institutional sector.[8] Further, production in 2006 was unusually low because of severe, cold, wet weather during the growing season that substantially reduced the quantity of peaches available for harvest. U.S. production of canned fruit mixtures followed the same trend as that for canned peaches, as firms that produce canned peaches account for the bulk of the production of canned fruit mixtures (table 4.1). U.S. production of canned pears fell during 2002–05 but increased in 2006. The decline resulted from a long term decline in domestic demand, while the increase occurred as pear processors responded to the substantial decline in canned peach production. U.S. pear canners anticipated increased demand in the institutional sector as a result of low canned peach production in 2006.[9]

Structure of the Industry

The U.S. industry producing canned peaches, pears, and fruit mixtures comprises two distinct sectors—the growing sector and the processing sector. For peaches, the growing sector is dedicated to the processing sector, as canners only utilize cling peaches and virtually no cling peaches are destined for the fresh market. For pears, the growing sector markets to both the fresh and processing sectors.

The process for growing peaches and pears for canning begins with the planting of trees. Trees begin to bear significant quantities of fruit about 4 or 5 years after planting. After harvesting, most fruit for processing is sent immediately to the processing plant, but a surplus of harvested fruit may be stored for short periods of time prior to canning.[10]

There are approximately 700 California growers of cling peaches for processing, accounting for more than 98 percent of total U.S. production of peaches for canning.[11] During 2002–06, the top 10 growers belonging to the California Canning Peach Association (CCPA) accounted for 12 percent of total annual production.[12] The average cling peach orchard size in California in 2006 was about 46 acres, although some large volume growers cultivate up to 500 acres of peaches. Most growers raise other crops, such as almonds, walnuts, and

[8] Industry officials, interviews by Commission staff, Sacramento, CA, April 3, 2007.
[9] Commission staff telephone conversation with an industry official, November 5, 2007.
[10] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.
[11] Industry officials, interviews by Commission staff, Washington, DC, February 20, 2007.
[12] Data of the CCPA, May 14, 2007.

prunes.[13] There are approximately 100 growers of Bartlett pears for canning in California, accounting for about 15 percent of total U.S. production of such pears. There are an estimated 1,400 Bartlett pear growers in Washington and Oregon and 250 in California; these growers market both to the fresh and processing sectors.[14]

U.S. growers of peaches and pears for canning have consolidated in recent years. While several California growers of peaches for canning are large operations, most are small to moderate in size. Most canning peach growers depend upon sales of peaches for canning as their most important annual source of revenue.[15] Pear growers also range in size but generally are less dependent on sales of pears for canning as a principal source of revenue.

The two main growing areas for California cling peaches are the San Joaquin Valley (Fresno, Kern, Kings, Merced, Stanislaus, San Joaquin, and Tulare counties) and the Northern California Region (Butte, El Dorado, Placer, Solana, Sutter, and Yuba counties).[16] The two main growing areas for California Bartlett pears for canning are the area along the Sacramento River and north into the upper Sacramento Valley and the area from Mendocino County to Clear Lake.[17] The major growing regions for Bartlett pears in Washington are the Mid Columbia district on the Oregon-Washington border, the Okanagan district near the Washington-Canadian border, the Wenatchee district in north central Washington, and the Yakima district in south central Washington.[18] The major growing regions for Bartlett pears in Oregon are the Mid Columbia/Hood River area along the Columbia river and the Rogue River valley in the Medford area of southern Oregon.[19]

The process of canning peaches, pears, and fruit mixtures involves a series of distinct stages. It starts with the delivery to the cannery of fruit. Upon entering the canning plant, the fruit is cooled and then cleaned, graded, sorted, and sent to various production lines. The raw fruit is cut and canned either according to specifications of the purchaser or to specifications based on estimated demand in the upcoming marketing season.[20] Canned fruit mixtures may have various combinations of fruit, depending on the purchasers' specifications. The production process is largely mechanized.

Since 2002, an estimated 65–70 percent of the annual U.S. cling peach crop was processed into canned peaches, 25 percent into canned fruit mixtures, and the remainder into peach pulp, concentrates, and frozen peaches.[21] Similarly, an estimated 65–70 percent of the annual

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[13] Data of the California Canning Peach Association, May 14, 2007.

[14] Industry official, interview by Commission staff, Washington, DC, February 20, 2007.

[15] Most growers are producing other crops as well. Industry officials, interview by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[16] "Crop Profile for Peaches in California," January 1999, 1–17, http://www.cipm.ncsu.edu, accessed May 17, 2007.

[17] "California Pears: Use and Versatility," http://www.calpear.com/cns_use.cfm, accessed June 20, 2007.

[18] "IPM Adoption in Pacific Northwest Pear Orchards," *National Foundation for IPM Education*, 1997, 1–4, http://www.pesp.org/1997/wpcc97.htm, accessed May 17, 2007.

[19] "Oregon's Pear Industry-Key Facts," http://oregon.gov/BRANDOREGON.shtml, accessed June 20, 2007.

[20] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[21] "The Impact of Trade Agreements Implemented Under Trade Promotion Authority," written comments of the California Cling Peach Board submitted to the U.S. International Trade Commission in connection with its hearing on investigation No. TA-2103-1, May 2, 2005, 1, and industry officials, interviews by Commission staff, Sacramento, CA, February 1, 2007.

Bartlett pear crop[22] was processed (principally canned) in recent years, with the remainder sold for fresh market consumption.[23]

The U.S. industries producing canned peaches, canned pears, and canned fruit mixtures consolidated over the past 20 years; however, their concentration has remained steady during 2002–06. Canners of peaches and pears generally are large scale operations employing modern, state-of-the-art technology and production processes.[24] Currently there are 4 peach canners in California,[25] 5 canners of Bartlett pears in Washington,[26] and one Bartlett pear canner in Oregon. These numbers have not changed since 2002. Three peach canners in California are also canning Bartlett pears grown in California. Del Monte, Seneca, and Pacific Coast Producers (PCP) account for an estimated 90 percent of annual California canned cling peach production;[27] the three largest pear canners in Washington, Del Monte, Snokist Growers, and Northwest Packing, together account for the majority of U.S. canned pear production.[28]

All peach canners, and most other fruit canners, produce an assortment of canned peach or canned pear products; some are also canning other fruit and vegetable products.[29] U.S. canners traditionally packed their products in metal cans; however, two peach canners, PCP and Del Monte, and one pear canner, Snokist, have production lines to pack fruit in single serving plastic cups. During 2002–06, U.S. fruit canners have increased their capacity to produce fruit packed in plastic cups incrementally, based on considerations of returns on investment. PCP is a vertically integrated, cooperative grower and canner of peaches; Snokist is a vertically integrated Washington cooperative grower and canner of pears.

Fruit packed in single serving plastic cups was introduced in the U.S. market in the early 1990s by PCP, based on technology developed by the Australian firm, Ardmona. Dole began marketing these products shortly thereafter, sourcing product both from PCP and its overseas fruit canneries. Del Monte began producing these products in the mid 1990s, and Snokist in 2006. Dole no longer markets these products from domestic sources.[30]

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[22] This refers to the entire crop produced in Washington, Oregon, and California. An estimated 70 percent of the annual California Bartlett pear crop is processed.

[23] Pears USA , "USA Pear History," http://www.usapears.com/pears/history.asp, accessed June 20, 2007.

[24] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[25] The canners are Del Monte Foods Company, Pacific Coast Processors, Seneca Foods (Signature Fruit Company), and California Fruit & Tomato Kitchens. Industry officials, interviews by Commission staff, Sacramento, CA, January 30, 2007, and September 7, 2007.

[26] The canners are Del Monte Foods Company, Snokist Growers, Northwest Packing, Independent Food Processors Company, and Truitt Brothers. Industry officials, interviews by Commission staff, Washington, DC, February 15, 2007.

[27] Data of the California Canning Peach Association, May 14, 2007.

[28] Industry officials, interviews by Commission staff, Sacramento, CA, February 1, 2007.

[29] Data of the California Canning Peach Association, May 14, 2007.

[30] Industry officials, telephone interviews by Commission staff, October–November 2007.

Imports

U.S. imports of canned peaches, canned pears, and canned fruit mixtures generally increased during 2002–06, both in terms of quantity and market share. The trend in such imports during the period was influenced by a number of factors, including weather related supply shifts, a long term decline in demand for canned fruit in traditional metal cans, and a more recent increase in demand for fruit packed in plastic cups and jars. Imports generally captured market share in the retail market segment for fruit packed in plastic cups and jars, as U.S. production capacity remained largely constant during the period under review and was insufficient to supply the rise in demand for the product in newer packaging. Imports also gained in the lower value institutional market segment for pears and fruit mixtures, owing mainly to lower costs.

After falling in terms of quantity during 2002–04, U.S. imports of canned peaches increased during 2005–06 and totaled 60,693 mt, valued at $63.0 million, the latter year (table 4.3). The decline resulted from supply disruptions for producers in the traditional leading supplier, Greece, because of adverse weather conditions during the period. The subsequent increase was supplied mainly by nontraditional sources, Thailand and China, and was accounted for mainly by imports of peaches packed in retail size containers (table 4.4). Such imports from Thailand and China consist mainly of peaches packed in plastic cups and jars.[31]

Table 4.3 Canned peaches: U.S. imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Greece	36,633	9,537	4,881	11,838	13,943
China	2,863	4,669	8,668	13,661	18,054
Thailand	2,464	7,082	9,835	5,814	6,938
Chile	5	1,085	2,817	3,584	5,862
Spain	6,024	2,373	4,404	4,025	8,897
Other	12,431	12,783	5,169	4,133	7,000
Total	60,420	37,529	35,774	43,055	60,693
	Value (*1,000 US dollars*)				
Greece	24,267	6,208	3,652	11,967	15,109
China	1,586	2,884	6,176	9,487	12,439
Thailand	4,057	11,399	17,725	9,402	11,243
Chile	7	2,078	5,348	4,291	8,660
Spain	4,336	1,897	3,774	4,388	6,888
Other	8,735	11,038	5,156	5,746	8,622
Total	42,989	35,504	41,833	45,281	62,963
	Unit value *(dollars/metric ton)*				
Greece	662	651	748	1,011	1,084
China	554	618	713	694	689
Thailand	1,647	1,610	1,802	1,617	1,621
Chile	1,509	1,915	1,899	1,197	1,477
Spain	720	799	857	1,090	774
Other	703	863	997	1,390	1,232
Average	711	946	1,169	1,052	1,037

Source: USITC, Dataweb.

[31] U.S. and Chinese industry officials, interviews by Commission staff, September–October, 2007.

Table 4.4 Canned peaches: U.S. imports, by selected countries, by market segment, 2002–06

Source and market segment	2002	2003	2004	2005	2006
	Metric tons				
China:					
Retail	762	1,582	3,234	4,244	4,677
Institutional	2,101	3,087	5,434	9,417	13,377
Total	2,863	4,669	8,668	13,661	18,054
Greece:					
Retail	17,796	3,350	2,146	7,644	9,176
Institutional	18,837	6,187	2,736	4,193	4,767
Total	36,633	9,537	4,882	11,837	13,943
Thailand:					
Retail	2,436	7,079	9,833	5,814	6,886
Institutional	28	3	2	0	52
Total	2,464	7,082	9,835	5,814	6,938
World:					
Retail	30,694	20,743	24,182	27,353	38,772
Institutional	29,726	16,785	11,592	15,702	21,921
Total	60,420	37,528	35,774	43,055	60,693

Source: USITC, Dataweb.

U.S. imports of canned pears increased substantially during 2002–06, reaching 33,284 metric tons, valued at $21.5 million (table 4.5). Such imports declined somewhat in 2005, as the previous year's quantity was unusually large. Nontraditional suppliers, China and Thailand, became the leading import sources during the period. Most of the increase was value added products in smaller container sizes including cups (table 4.6). Imports from China generally increased both for low value institutional size metal cans and for higher value retail size plastic cups.[32] The bulk of China's canned pear exports are produced from low cost snow pears.[33] The growth in imports from Thailand was accounted for by pears packed in retail size plastic cups.[34]

U.S. imports of canned mixed fruit rose irregularly during 2002–06 and amounted to 18,361 metric tons, valued at $23.9 million, in 2006 (table 4.7). China and Thailand were the leading import sources during the period. As with canned peaches and canned pears, the bulk of the increase in imports of canned fruit mixtures occurred in retail size containers supplied by Thailand and China (table 4.8). Most of this increase consisted of fruit mixtures packed in plastic cups and jars.[35]

Exports

The U.S. canned fruit industries traditionally have not been export oriented. U.S. exports of canned peaches, canned pears, and canned fruit mixtures typically account for less than 10 percent of production. Traditional export markets include Canada and Mexico, where proximity to the markets is an advantage. However, in recent years, U.S. exports of canned peaches to Thailand and China and canned pears to Thailand have increased; such exports, packed in institutional size metal cans, are repackaged into retail size plastic cups and

[32] Ibid.
[33] Chinese industry officials, interviews by Commission staff, September, 2007.
[34] U.S. and Chinese industry officials, interviews by Commission staff, September–October, 2007.
[35] Ibid.

Table 4.5 Canned pears: U.S. imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
China	5,263	10,356	12,286	13,912	21,160
Thailand	5	1,934	9,469	5,289	5,511
Australia	733	1,720	0	0	3,446
Spain	919	501	1,022	996	1,511
Chile	0	0	0	0	681
Other	5,722	3,514	841	679	975
Total	12,642	18,025	23,617	20,876	33,284
	Value (*1,000 US dollars*)				
China	2,874	5,335	5,818	6,721	12,437
Thailand	5	2,635	5,786	3,814	4,538
Australia	427	839	0	0	2,370
Spain	768	430	557	610	764
Chile	0	0	0	0	553
Other	3,879	2,511	605	586	791
Total	7,954	11,750	12,766	11,731	21,453
	Unit value (*dollars/metric ton*)				
China	546	515	474	483	588
Thailand	918	1,363	611	721	823
Australia	583	488	-	-	688
Spain	836	858	546	612	506
Chile	-	-	-	-	813
Other	678	715	720	863	811
Average	629	652	541	562	645

Source: USITC, Dataweb.

Table 4.6 Canned pears: U.S. imports, by selected countries, by market segment, 2002–06

Source and market segment	2002	2003	2004	2005	2006
	Metric tons				
China:					
Retail	1,949	3,543	3,310	3,282	10,756
Institutional	3,314	6,822	8,976	10,630	10,404
Total	5,263	10,365	12,286	13,912	21,160
Thailand:					
Retail	1	1,934	9,469	5,289	5,511
Institutional	4	0	0	0	0
Total	5	1,934	9,469	5,289	5,511
South Africa:					
Retail	2,577	1,516	279	269	449
Institutional	2,407	1,862	353	87	171
Total	4,984	3,378	632	356	620
World:					
Retail	5,087	8,022	14,151	9,920	21,034
Institutional	7,556	10,003	9,466	10,956	12,250
Total	12,643	18,025	23,617	20,876	33,284

Source: USITC, Dataweb.

exported to the U.S. market.[36] Thus, the U.S. canned peach and canned pear industries have benefitted to some degree from the growth in U.S. imports of fruit packed in plastic cups from Thailand and China.

[36] Ibid.

Table 4.7 Canned fruit mixtures: U.S. imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Thailand	1,122	929	5,125	4,796	5,039
China	1,306	1,539	2,956	3,092	6,865
Mexico	0	0	5	24	1,201
Philippines	21	244	1,026	1,183	883
Chile	128	29	174	346	1,040
Other	3,956	1,712	1,241	791	3,333
Total	6,534	4,453	10,527	10,232	18,361
	Value (*1,000 US dollars*)				
Thailand	1,471	1,392	9,601	8,669	8,795
China	891	1,050	2,346	2,613	5,662
Mexico	0	0	3	69	3,376
Philippines	16	411	1,877	2,176	1,707
Chile	99	45	312	547	1,407
Other	3,055	1,483	1,480	955	2,993
Total	5,531	4,380	15,621	15,029	23,940
	Unit value (*dollars/metric ton*)				
Thailand	1,311	1,497	1,873	1,808	1,745
China	682	682	794	845	825
Mexico	-	-	640	2,910	2,810
Philippines	775	1,687	1,829	1,839	1,933
Chile	772	1,586	1,797	1,583	1,354
Other	772	866	1,193	1,207	898
Average	847	984	1,484	1,469	1,304

Source: USITC, Dataweb.

Note: Data are for HTS subheadings 2008.92.30 and 2008.92.35, canned fruit mixtures containing peaches or pears.

Table 4.8 Canned fruit mixtures: U.S. imports, by selected countries, by market segment, 2002–06

Source and market segment	2002	2003	2004	2005	2006
	Metric tons				
China:					
Retail	46	158	1,119	1,421	1,848
Institutional	1,260	1,381	1,837	1,671	5,017
Total	1,306	1,539	2,956	3,092	6,865
Thailand:					
Retail	1,031	882	5,091	4,722	4,862
Institutional	91	47	34	74	177
Total	1,122	929	5,125	4,796	5,039
Philippines:					
Retail	21	244	1,026	1,183	883
Institutional	0	0	0	0	0
Total	21	244	1,026	1,183	883
World:					
Retail	2,154	2,060	8,159	8,037	11,806
Institutional	4,379	2,392	2,368	2,194	6,555
Total	6,533	4,452	10,527	10,231	18,361

Source: USITC, Dataweb.

Note: Data are for HTS subheadings 2008.92.30 and 2008.92.35, canned fruit mixtures containing peaches or pears.

After rising in 2003, U.S. exports of canned peaches declining steadily during 2004–06 (table 4.9). Exports to traditional markets Canada and Mexico rose in 2003 and 2004 in response to supply disruptions in Greece, a competitor in these markets. However, exports to these markets declined during 2005–06, as competition from China and Thailand increased. Exports to nontraditional markets Thailand and China increased, as discussed above.

Table 4.9 Canned peaches: U.S. exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Canada	4,635	5,678	9,210	8,437	5,609
Thailand	1,184	2,169	2,604	7,447	7,259
Mexico	5,924	13,938	12,436	6,500	4,063
China	0	2,100	2,980	1,267	2,835
Philippines	1,376	0	206	398	1,318
Other	2,745	16,756	6,597	3,826	1,679
Total	15,864	40,641	34,033	27,875	22,763
	Value (*1,000 US dollars*)				
Canada	4,784	6,034	9,078	8,065	5,916
Thailand	955	1,664	1,900	5,698	5,635
Mexico	3,662	8,444	9,713	5,148	3,760
China	0	1,581	2,374	1,188	2,556
Philippines	1,125	0	165	320	989
Other	2,032	15,587	6,588	3,362	1,545
Total	12,558	33,310	29,818	23,781	20,400
	Unit value (*dollars/metric ton*)				
Canada	1,032	1,063	986	956	1,055
Thailand	806	767	730	765	776
Mexico	618	606	781	792	925
China	-	753	797	938	902
Philippines	817	-	802	803	750
Other	740	930	999	879	920
Average	792	820	876	853	896

Source: USITC, Dataweb.

U.S. exports of canned pears fell in 2003 but rose in each year thereafter through 2006 (table 4.10). Exports to Canada, traditionally the leading U.S. export market, increased irregularly during the period. Thailand, a nontraditional market, became the leading destination for U.S. canned pear exports in 2006. Thailand imports pears packed in institutional size metal cans for repacking in retail size plastic cups and jars for export mainly to the United States.[37]

U.S. exports of canned fruit mixtures of peaches or pears are not separately reported. U.S. exports of all canned fruit mixtures, including those containing peaches and pears, fluctuated irregularly during 2002–06 (table 4.11). Canada remained the leading destination during the period.

[37] Ibid.

Table 4.10 Canned pears: U.S. exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Thailand	1,379	761	1,992	3,808	6,576
Canada	2,435	2,387	3,449	3,855	3,409
Philippines	1,355	130	981	559	2,174
Mexico	4	15	81	45	647
Venezuela	0	0	0	0	117
Other	632	602	730	616	292
Total	5,806	3,896	7,233	8,884	13,215
	Value (*1,000 US dollars*)				
Thailand	1,009	583	1,606	3,107	5,423
Canada	2,417	2,464	3,319	3,793	3,516
Philippines	1,034	101	781	447	1,679
Mexico	4	12	71	36	600
Venezuela	0	0	0	0	131
Other	537	556	698	482	264
Total	5,001	3,716	6,474	7,865	11,613
	Unit value (*dollars/metric ton*)				
Thailand	732	766	806	816	825
Canada	993	1,032	962	984	1,031
Philippines	763	778	796	799	772
Mexico	813	807	879	793	927
Venezuela	-	-	-	-	1,115
Other	849	924	955	782	906
Average	861	954	895	885	879

Source: USITC, Dataweb.

Table 4.11 Canned fruit mixtures: U.S. exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Canada	2,970	3,099	6,820	12,715	10,034
Japan	1,204	1,232	1,257	1,034	896
United Kingdom	317	277	434	1,001	415
Taiwan	45	75	509	362	384
Korea	242	60	320	288	369
Other	4,797	3,807	3,334	3,155	2,227
Total	9,575	8,549	12,673	18,555	14,326
	Value (*1,000 US dollars*)				
Canada	3,993	4,227	9,781	16,357	13,625
Japan	1,302	1,461	1,445	1,214	1,064
United Kingdom	730	711	1,224	1,661	713
Taiwan	62	122	602	523	681
Korea	285	150	396	489	654
Other	5,646	4,547	3,980	3,752	3,284
Total	12,019	11,218	17,428	23,996	20,021
	Unit value (*dollars/metric ton*)				
Canada	1,344	1,364	1,434	1,286	1,358
Japan	1,081	1,186	1,150	1,174	1,186
United Kingdom	2,304	2,567	2,820	1,660	1,717
Taiwan	1,370	1,633	1,182	1,442	1,774
Korea	1,178	2,521	1,238	1,695	1,773
Other	1,177	1,194	1,194	1,189	1,475
Average	1,255	1,312	1,375	1,293	1,398

Source: USITC, Dataweb.

Note: Data are for HTS subheading 2008.92.4000, canned fruit mixtures of all types, including those of peaches and pears.

U.S. Consumption

Consumption Trends/Patterns

U.S. consumption of canned peaches, canned pears, and canned fruit mixtures generally declined during 2002–06, continuing a long term trend.[38] The bulk of consumption traditionally has been of products packed in metal cans destined for both the retail and institutional market segments. Increasing consumer preference for fresh fruit and other processed fruit products, as well as a shift in consumer preference to fruit packed in smaller size plastic cups and jars contributed to the overall decline in U.S. consumption.[39] Imports captured an increasing share of the U.S. market during 2002–06, largely in the expanding segment for fruit packed in plastic.

U.S. consumption of canned peaches fell 32 percent overall, from 517,356 mt in 2002 to 340,330 mt in 2006 (table 4.12). Imports accounted for 18 percent of consumption in 2006, up markedly from the previous 4 years. U.S. consumption of canned pears fell steadily from 2002 to 2005, but was up overall, from 206,036 mt in 2002 to 212,069 mt in 2006 (table 4.12). Imports accounted for an increasing share of the market during the period, peaking at 16 percent in 2006. Consumption of canned fruit mixtures fell irregularly from 2002 to 2006, totaling 256,035 mt in 2006 (table 4.12). Imports accounted for 7 percent of the market in 2006, up from 2 percent in 2002.

Table 4.12 Canned peaches, pears, and fruit mixtures: U.S. domestic production, trade, and consumption, 2002–06

Product/year	Production	Imports	Exports	Consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons				*Percent*	
Canned peaches:						
2002	472,800	60,420	15,864	517,356	12	3
2003	427,200	37,529	40,641	424,088	9	10
2004	441,600	35,774	34,033	443,341	8	8
2005	403,200	43,055	27,875	418,380	10	7
2006	302,400	60,693	22,763	340,330	18	7
Canned pears:						
2002	199,200	12,642	5,806	206,036	6	3
2003	177,600	18,025	3,896	191,729	9	2
2004	175,200	23,617	7,233	191,584	12	4
2005	160,800	20,876	8,884	172,792	12	5
2006	192,000	33,284	13,215	212,069	16	6
Canned fruit mixtures:						
2002	319,680	6,534	9,575	316,639	2	3
2003	291,600	4,453	8,549	287,504	2	3
2004	304,080	10,527	12,673	301,934	3	4
2005	273,600	10,232	18,555	265,277	4	7
2006	252,000	18,361	14,326	256,035	7	6

Sources: Production data for peaches and pears compiled from NASS, USDA, *NonCitrus Fruit and Nuts*, various issues; production data for mixed fruit from the CCPA; imports and exports compiled from official statistics of the U.S. Department of Commerce.

[38] *Fruit and Tree Nuts Situation and Outlook Yearbook*, FTS-2006, October 2006.
[39] Ibid., industry officials, interviews by Commission staff, February–October, 2007.

Per capita consumption of canned peaches and canned pears fluctuated during 2002–06, but ended lower, as consumer preferences shifted to fresh fruit and other fruit products, such as tropical fruits and fruit mixtures (table 4.13). This decline followed a long term trend.

Table 4.13 Canned peaches, canned pears, canned fruit, and fresh noncitrus fruit: U.S. per capita consumption, 1980/81 and 2002/03–2006/07

Product	1980/81	2002/03	2003/04	2004/05	2005/06	2006/07
			Pounds			
Canned peaches	6.82	4.61	4.00	4.27	4.01	3.46
Canned pears	4.58	2.59	2.64	2.51	2.25	2.39
Canned fruit	21.07	14.75	14.98	14.82	14.34	13.12
Canned non-citrus fruit	62.29	75.87	77.41	79.67	78.15	79.33

Source: USDA, ERS, *Fruit and Tree Nuts Situation and Outlook Yearbook*, FTS-2007, October 2007.

Supply Chain and Market Segments

Canned peaches, canned pears, and canned fruit mixtures are all sold through established marketing channels to institutional buyers (such as hotels, hospitals, prisons, governments, club stores, and other foodservice outlets) and to retail purchasers (mainly grocery chains). Canners sell their products either through company owned sales and distribution operations or through brokers and distributors.[40] Larger volume canners own distribution centers from which products are shipped.[41] For example, Del Monte uses one national broker to handle a significant portion of their branded product sales, and also sells through a direct sales force as well as through independent distributors (such as Sysco).[42] Del Monte also reported a recent shift in marketing focus from traditional grocers to mass merchandisers, such as Wal-Mart.[43] This shift reportedly has resulted in these mass merchandisers becoming larger volume purchasers, which in turn has increased their purchasing influence and placed them in a better position to demand lower or static prices, increased contributions to promotional programs, special packaging forms, or to impose other requirements on canned fruit suppliers.[44]

The market for canned peaches, canned pears, and canned fruit mixtures comprises distinct segments. These segments are defined by the size of container and the nature of the label. Smaller container sizes generally are referred to as the retail segment and larger container sizes as the institutional segment.[45] The label segments are either branded, which comprises products with nationally advertised labels (such as Del Monte and Dole), or private label, which consists mainly of store or distributor brands (such as Richfood and Safeway).

In the institutional market segment, buyers purchase products packed in larger container sizes, mostly metal cans,[46] which usually are lower in price (per pound) than are products

[40] Industry official, interview by Commission staff, Washington, DC, January 31–February 7, 2007.
[41] Del Monte Foods Company, *Annual Report 2006*, 9, 28.
[42] Ibid.
[43] Del Monte Foods Company, *Annual Report 2006*, 28.
[44] Ibid.
[45] These market segments generally correspond to the retail and institutional market channels; however there is some overlap, as each market channel handles, to some degree, product packed in both container segments.
[46] The most common container size in the institutional segment is referred to as a No. 10 can, which holds about 6–7 pounds, net weight, of product.

packed in retail size containers. Product quality and consistency of cuts may be lower at this price point.[47] In the retail segment, products generally are packed in smaller containers, including metal cans and plastic cups and jars.[48]

Data on U.S. canned peach processors' sales, by market segment, are provided in table 4.14. During the 2001/02 to 2005/06 marketing years, the share of U.S. canned peach sales to institutional markets remained relatively stable and ranged between 43–47 percent of total sales (table 4.14). The share of sales to the retail market generally fell during the period, to 35 percent of total sales in 2005/06 (table 4.14). Del Monte has reported that a limited number of customers usually account for a large percentage of their total sales.[49] In fiscal year 2006, its leading customer, Wal-Mart, accounted for about 30 percent, and the10 largest customers accounted for about 61 percent, of Del Monte's overall sales.[50] PCP reported that a significant portion of its sales in 2006 were to one food service customer and to one retail customer, and that its company brand canned fruit competes with private label brands of other canners in the U.S. market, as well as with imported products from Dole.[51]

Table 4.14 Canned peaches: Sales by U.S. producers, by market segment, 2001/02 to 2005/06

	Market segment				
Marketing year	Institutional/other	Retail	USDA purchases	Exports	Total
	Quantity *(metric tons)*				
2001/02	158,163	144,449	24,633	8,499	335,694
2002/03	168,592	137,755	36,510	20,224	363,081
2003/04	154,388	135,000	34,694	43,367	367,449
2004/05	177,714	124,490	36,988	33,265	372,457
2005/06	166,265	128,571	39,429	27,980	362,245
	Share of total *(percent)*				
2001/02	47	43	7	3	100
2002/03	46	38	10	5	99
2003/04	43	36	10	9	98
2004/05	46	38	10	5	99
2005/06	46	35	11	8	100

Source: California Canning Peach Association.

Note: The marketing year is from June 1 to May 31.

Sales of canned peaches to supermarkets increased between 2002 and 2006 for both Del Monte, which principally markets domestically produced items, and for Dole, which principally markets imported items.[52] The recent increase in sales by both Del Monte and Dole largely was accounted for by products packed in plastic cups and jars.[53]

[47] Industry official, interview by Commission staff, Sacramento, CA, February 2, 2007.
[48] Common containers in the retail segment include 8 ounce metal cans and 4 ounce plastic cups.
[49] Del Monte Foods Company, *Annual Report 2006*, 27–28.
[50] Ibid.
[51] "Driven to Provide Superior Service," *2006 Annual Report*, Pacific Coast Producers, Lodi, CA, financial statements as of May 31, 2006, 4, 17.
[52] IRI Infoscan, provided by the CCPA.
[53] U.S. industry officials, interviews by Commission staff, September–October, 2007.

The share of canned pear consumption in the U.S. market during 2002–06, by market segment, is shown in table 4.15. The retail and government segments generally declined during the period, while the institutional segment (included in all other) increased.

Table 4.15 Canned pears: U.S. consumption, by market segment, 2002–06

Market segment	2002	2003	2004	2005	2006
	Share of total (percent)				
Supermarket	27	24	25	24	22
School lunch	16	12	10	10	12
Other USDA	2	4	1	1	1
All other	55	60	64	65	65
Total	100	100	100	100	100

Source: Washington-Oregon Canning Pear Association.

Note: Data include imports.

Data on supermarket sales of canned or bottled peaches, pears, and fruit mixtures are presented in table 4.16. Supermarket sales of canned peaches declined from 123,474 mt, valued at $313.7 million, in 2002 to 104,075 mt, valued at $302.8 million, in 2006 (table 4.16). Declining sales of fruit in small metal cans are believed to account for much of this decline in volume, as consumer preference shifted from products packed in metal to those packed in plastic cups and jars, which are higher in price.[54] The average unit value of annual sales increased from $2.54 in 2002 to $2.91 in 2006, reflecting this shift. Supermarket sales of canned pears fell from 45,236 mt valued at $111.9 million in 2002 to 35,718 mt valued at $100.3 million in 2006 (table 4.16). As with peaches, consumer demand has shifted away from pears packed in metal cans to those packed in plastic containers.[55] Supermarket sales of canned mixed fruit fluctuated irregularly during 2002–06 (table 4.16).[56]

In terms of label segments for canned peaches, 48 percent of supermarket sales in 2006 were Del Monte branded products, 20 percent Dole branded products, 1 percent each were Libby and S&W branded products, 27 percent were private label products, and 3 percent were other branded products.[57] Del Monte and Dole sell predominantly own brand products; PCP's focus is on the private label segment.[58]

Prices

Prices for canned peaches, pears, and mixed fruit are determined in large part by prices paid by canners for raw product. Prices paid for peaches for processing ranged between $259–$263 per metric ton during 2002–05 but rose sharply to $304 per metric ton in 2006,

[54] Industry official, interview by Commission staff, Sacramento, CA, February 2, 2007.
[55] Industry official, interview by Commission staff, Sacramento, CA, February 1, 2007.
[56] This category includes all fruit mixtures, not just those containing peaches and pears.
[57] IRI Infoscan, provided by the California Canning Peach Association.
[58] U.S. industry officials, interviews by Commission staff, September–October 2007.

Table 4.16 Canned peaches, pears, and fruit mixtures: Supermarket sales, 2002–06

Year	Volume	Value	Average price per kg
	Metric tons	*1,000 US dollars*	*Dollars*
		Canned peaches	
2002	123,474	313,672	2.54
2003	120,970	303,330	2.51
2004	111,412	280,972	2.52
2005	113,036	296,249	2.62
2006	104,075	302,835	2.91
		Canned pears	
2002	45,236	111,904	2.47
2003	44,313	107,760	2.43
2004	41,608	102,849	2.47
2005	40,197	104,231	2.59
2006	35,718	100,326	2.81
		Canned mixed fruit	
2002	86,871	251,820	2.91
2003	85,001	238,565	2.81
2004	80,100	226,530	2.83
2005	85,431	253,652	2.97
2006	78,907	247,258	3.13

Source: FI Analysis of Information Resources, Inc., InfoScan, provided by the American Institute of Food Distribution, Elmwood Park, NJ.

a year in which domestic supplies were reduced because of weather damage (table 4.17).[59] Prices paid for pears for processing trended downward during 2002–06, largely the result of a decline in demand for canned pears (table 4.17).[60]

Table 4.17 Canning peaches and pears: Prices paid by processors, 2002–06

Item	2002	2003	2004	2005	2006
			Dollars per metric ton		
Peaches	259	261	263	261	304
Pears	234	210	207	206	202

Sources: California Canning Peach Association; Washington-Oregon Canning Pear Association.

Retail prices for canned peaches, canned pears, and canned fruit mixtures, represented by the average unit value of supermarket sales, are provided in table 4.16. These values generally rose for all three products during 2002–06, largely reflecting the shift from products packed in traditional metal cans to those packed in plastic cups and jars.[61]

[59] Ibid.
[60] Ibid.
[61] Ibid.

Competitive Factors

Government Programs, Regulatory Compliance, and Trade Practices

Government Programs

U.S. canned peach, canned pear, and canned fruit mixture producers, and the growers that supply them, benefit from government programs. The main program affecting the canning sector of the U.S. industry is USDA's Food Purchase Program for Fruit and Vegetable Products. Included in this program are purchases for various federal food assistance programs and the National School Lunch program.[62] Purchases tend to fluctuate widely from year to year.[63] In 2006, USDA program purchases totaled $20 million for canned peaches, $20 million for canned pears, and $8 million for canned fruit mixtures.[64]

U.S. cling peach growers benefitted from a tree pull program instituted in 2005, with funding contributions from the USDA.[65] This program followed previous industry financed tree pulls. The USDA committed $5 million in funding, including administrative costs. Growers received $100 per ton for peaches delivered to processors in 2005 from the same acreage that was removed, subject to a maximum of $1,700 per acre and a minimum of $500 per acre.

The U.S. government provides agricultural technology extension services through a system administered by the Cooperative State Research, Education, and Extension Service (CSREES) of the USDA.[66] CSREES provides funding for agricultural research and development. One recent research program has focused on the development of newer tree varieties better suited to growing in California.[67]

The primary source of water for California Central Valley agricultural crops is controlled by state run programs and policies. Although not an industry specific program, the cost and availability of water is integral to the growing and canning of fruit in California, where increasing demand for fresh water by non-agricultural users is placing additional pressure on availability for the canning and growing industries. Water costs in the Central Valley and Coastal areas are variable,[68] ranging from $800-$2,000 per hectare.[69] Climatic variations that

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[62] Under this program, the USDA announces its intention of purchasing certain food items and those firms (including fruit canners) having expressed an interest in selling products to the USDA are allowed to bid on contracts to provide such products. All firms must comply with stipulated USDA and other federal rules and regulations, and must be registered with AMS's Central Contractor Registration System prior to bidding. Contracts put out for bid are usually specific as to product container size, style of pack, quantities to be purchased, and the price to be paid for the product. USDA 'direct buys' account for 20 percent of school lunch program purchases. The remaining 80 percent of school lunch program purchases are direct purchases made between a school system and a canner or distributor, and these purchases must be of U.S. product. See 'Fruit and Vegetable Programs - Commodity Procurement,' Agricultural Marketing Service, USDA, Washington, DC, http://www.ams.gov, accessed March 20, 2007.

[63] USDA, AMS.

[64] Ibid.

[65] 70 Fed. Reg. 67305 (November 4, 2005).

[66] For more detailed information, see http://www.csrees.usda.gov/Extension.

[67] Industry officials, interviews by Commission staff, Sacramento, CA, January 31–February 3, 2007.

[68] Some farmers are reported to be paying only $2-$20 per acre foot for water, and others, buying water from projects built by the Bureau of Reclamation, range from $200-500 per acre-foot. See "Energy Down the Drain - The Hidden Costs of California's Water Supply," National Resources Defense Council,

lead to fluctuations in water availability coupled with environmental protection issues likely will continue to affect the cost of water to canned fruit industries in California.[70]

The U.S. canned peach, pear, and mixed fruit industries are affected by government marketing orders, although U.S. peach industry officials state that such orders have no impact on raw product supply.[71] In 2006, an existing Federal Marketing Order (Order) on fresh pears was amended to include Bartlett pears grown in Washington and Oregon for processing. Through a mandatory assessment, funds received are used by the Processed Pear Committee for such activities as insuring standardization of packaging and containers, and the authorization of production and marketing research, and advertising.[72] Although the Order monitors the flow of fresh products to the fresh and canning market, it does not impact quantities available for processing.

Regulatory Compliance

U.S. canned peach, pear, and mixed fruit processors must comply with a number of state and federal regulations relating to environmental protection and food safety. Environmental protection regulations mainly involve waste water treatment. Food safety issues are a longstanding concern of the domestic canned fruit industry. PCP has contracted with the American Institute of Baking[73] to evaluate its compliance with all food safety regulations and practices through food safety audits.[74] This canner has reported that costs associated with meeting environmental rules and regulations may result in lower overall production costs because fewer resources are used.[75] The overall impact of regulatory compliance includes not only the direct cost of meeting local, state, or federal regulations, but also the cost of securing third party review and evaluation of production processes throughout the complete grower-through-processor chain of production.

Trade Practices

The primary U.S. trade practice affecting the canned fruit industry is import tariffs. Current tariffs on canned peaches, canned pears, and canned fruit mixtures are 17 percent, 15.3 percent, and 14.9 percent *ad valorem*, respectively. These duties, which apply to fruit packed in all forms of airtight containers, are among the highest general duty rates for

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http://www.nrdc.org, accessed September 25, 2007.

[69] Industry officials, interviews by Commission staff, Sacramento, CA, January 31–February 2, 2007. Fed by the Sacramento and San Joaquin rivers, the Sacramento-San Joaquin Delta is the primary source of water for agricultural use where peaches and pears are grown and canned, but is also the major water source for an estimated two thirds of the state's total population."California Issues - A Briefing on California Water Issues," Water Education Foundation, http://www.water-ed/org/cabriefing.asp, accessed September 29, 2007.

[70] "California Issues - A Briefing on California Water Issues," Water Education Foundation, http://www.water-ed/org/cabriefing.asp, accessed September 29, 2007.

[71] Industry officials, interviews by Commission staff, Washington, DC, September 12, 2007.

[72] Information provided by the Pacific Northwest Canned Pear Service, Yakima, WA, April 10, 2007.

[73] The American Institute of Baking (AIB) is a non-profit corporation that annually inspects production and warehousing facilities; the inspections are often unplanned. The inspector scores processors based on strict compliance to all food safety regulations and practices." See "PCP Annual Quality Inspection from AIB," *Health and Safety*, Pacific Coast Producers, http://www.pcoastp.com, accessed July 12, 2007.

[74] "PCP Annual Quality Inspection from AIB," *Health and Safety*, Pacific Coast Producers, http://www.pcoastp.com, accessed July 12, 2007.

[75] Ibid.

agricultural products. According to Del Monte, the existing U.S. duties on imported canned peaches, pears, and mixed fruit allow domestic canners to maintain higher prices in the U.S. market.[76]

Market Factors

Input Costs and Availability/Cost Structure

The U.S. canned peach, canned pear, and canned mixed fruit industries generally are at a competitive disadvantage to foreign competitors regarding input costs, particularly labor. The United States has the highest factory wage rate ($20 per hour) and the second highest field wage rate ($14.30 per hour) among major global producers.[77] Declining availability of inputs, including labor, land, and water is also an issue, both for the growing and processing sectors. Rising input costs and declining availability affected the performance of the industry during 2002–06 and contributed to efforts to restructure in order to increase competitiveness.[78] Such efforts included tree pulls, technological improvements in processing plants, and importing of processed products.

Processing Technology

U.S. canners of peaches, pears, and mixed fruit operate highly efficient plants using state-of-the-art equipment and the most advanced production processes.[79] Most of these canners operate at or near full production capacity throughout the 6 to 8 week production season.[80] Since 2002, several domestic canners invested in their production facilities. In an effort to increase and sustain competitiveness, one California peach canner opened a new, state-of-the-art processing plant in 2003, reported to be the first peach processing plant built from the ground up since the 1970s.[81] Other California peach processing plants are also reported to have been updated to some extent in recent years,[82] including innovations to the fruit receiving process, the use of water flumes for transporting raw fruit into and throughout the plant, the installation of clean fruit pitting machines,[83] and the addition of numerous color sorters.[84] One canner reported a recent construction budget of approximately $10 million.[85] One canner reported it recently made numerous technological improvements to its canneries and continues to invest to modernize,[86] and another installed a plastic cup line in 2006.[87]

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[76] Industry official, interview by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[77] Data presented at the 8th World Canned Deciduous Fruit Conference, Sacramento, California, April 15–19, 2007.

[78] U.S. industry officials, interviews by Commission staff, January–October, 2007.

[79] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.

[80] Ibid.

[81] "New Peach Plant," *In The Kitchen*, California Fruit and Tomato Kitchens, March 2003, 1.

[82] Ibid.

[83] 'Clean' pitters are those that are lubricated with water rather than synthetics, which leaves pitted peaches in a cleaner, non-oily state.

[84] "New Peach Plant," *In The Kitchen*, California Fruit and Tomato Kitchens, March 2003, 1.

[85] Ibid.

[86] "PCP Improvements," *News*, Pacific Coast Producers,, http://www.pcoastp.com, accessed July 12, 2007.

[87] Industry officials, interviews by Commission staff, November 2007.

Product Innovation

Product innovations allow canned fruit processors, wholesalers, and retailers to capture a larger market segment, not only through new product lines, but also through the expansion of existing lines.[88] An estimated 4,500 new fruit and fruit containing products were introduced globally in 2004, and significant future growth is projected for this market.[89] With canned fruit in particular, many new products have new ingredients added or new packaging.[90] U.S. canners of peaches, pears, and mixed fruit are packing, to some extent, products in those container sizes (retail) and styles of pack (metal cans with pull top lids, plastic jars and single serve cups, in light syrup) with the greatest market demand.[91] Some canners are having product in plastic co-packed by another firm for them.[92] As with most fruit and vegetable processing, canners tend to concentrate most production in those product lines which generate the greatest sales revenue. Also, all processors are offering a broad line of products (e.g., canned pears, peaches, fruit cocktail, mixed fruit, and tropical fruit mixtures) in various container sizes, in different styles of pack (e.g., in heavy and light syrup, with Splenda), and in various cuts (e.g., peach and pear halves, sliced, diced, cubed). However, companies may incur significant development and marketing costs in introducing new products, even when generating increased revenues.[93]

Exchange Rates

The position of the U.S. dollar vis-à-vis values of currencies of major foreign suppliers to the U.S. market indirectly affects the prices at which all products may be sold in the U.S. market. Since 2002, the U.S. dollar has fallen relative to the currency value in Thailand, the EU, and more recently China. This contributes to higher prices for products from those countries being sold in the U.S. market and sustains market prices for U.S. canned products as well.

[88] "New Product Development Trends in the Fruit Sector," Michigan State University Product Center for Agriculture and Natural Resources, the Strategic Marketing Institute, Working paper No. 1-102605, 2005.
[89] Ibid.
[90] Ibid.
[91] Industry officials, interviews by Commission staff, Sacramento, CA, January 30–February 2, 2007.
[92] See Del Monte Foods Company, *Annual Report* 2005, 29.
[93] Del Monte Foods Company, *Annual Report* 2006, 24–25.

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CHAPTER 5
The Industry in China

China is the world's leading producer of fresh peaches and pears. In 2006, China's fresh peach production totaled 7.5 million mt, representing 44 percent of the world total.[1] China's fresh pear production totaled 12.0 million mt that year, or 61 percent of the global total.[2] However, only a small fraction of this output is processed into the products of concern in this study because of an historical and overwhelming preference in the Chinese domestic market for fresh product, the predominance of varieties other than those typically used for processing and traded in global markets, and the relative youth of China's processing sector. China's export growth has been remarkable during the period under review, increasing by more than 100 percent for both canned peaches and pears. China traditionally has focused on nearby markets, such as Japan and Korea, but has increased exports to other markets in recent years, such as those in North America, Europe, and the Middle East.[3] In 2006, China was the third leading global producer of canned peaches, the third leading global producer of canned pears, and the fourth leading global producer of canned fruit mixtures (table 2.1; table 2.5; table 2.9). China was the second leading global exporter of both canned peaches and canned pears that year (table 2.3; table 2.7).

China's main competitive advantages in global canned fruits markets include an abundance of relatively low cost raw materials and labor, a large domestic market, proximity to its major Asian markets, the use of hand labor to produce high quality products, a focus on producing for exports, and an advantageous exchange rate vis-à-vis those in major global export markets. Major competitive disadvantages include limited production of peach and pear varieties that are demanded in some foreign markets, a land tenure system that maintains small scale, household farms, a widely scattered, relatively small scale processing sector, rising raw material and labor costs, small current domestic market demand, a relatively low utilization of machinery, increasing environmental protection and food safety costs, and a lack of recognized brands. Chinese industry representatives expect that the industry will undergo a period of consolidation, both in the growing and processing sectors, increase mechanization in the processing sector, and increase its focus on the growing domestic market.[4]

Production

Despite falling somewhat in 2006 from the previous year's level, China's production of fresh peaches increased by nearly two thirds during 2002–06 (table 5.1). The trend resulted from an increase in the area harvested and rising yields. The great bulk of the increase was sold to the domestic fresh market. It is estimated that yellow peaches, the principal variety used

[1] FAO, FAOSTAT Database.
[2] Ibid.
[3] GTIS, World Trade Atlas Database.
[4] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

for canning,[5] account for less than 5 percent of total fresh peach production.[6] Plantings of yellow peach trees have increased in recent years in response to rising domestic and export demand of canned yellow peaches.[7]

China's production of fresh pears rose steadily during 2002–06, by slightly more than one third. The increase is attributable to an expansion in harvested area, mainly in response to an expanding domestic fresh market, and to rising yields (table 5.2). The bulk of China's pear production is of crunchy varieties that generally are not in great demand for processing for global markets.[8]

Production of fresh peaches used for processing generally increased during 2002–06; however, this use accounted for less than 5 percent of total peach output in 2006 (table 5.1). Fresh pears used for processing also increased during the period under review, but accounted for an even smaller share of total output (less than 1 percent in 2006) (table 5.2).[9]

Table 5.1 Fresh and canned peaches: Chinese production, area harvested, yield, and deliveries to processors, 2002–06

Item	2002	2003	2004	2005	2006
Fresh peaches:					
Production (*1,000 mt*)	5,262	6,182	7,043	7,833	7,510
Area harvested (*1,000 has*)	550	610	603	683	683
Yield (*mt/ha*)	9.6	10.1	10.6	11.5	11.0
Canned peaches:					
Fresh peaches delivered to processors (*1,000 mt*)	([a])	315	308	309	344
Production (*1,000 mt, net weight*)	210	210	205	207	234

Sources: Fresh peaches: FAOSTAT; canned peaches: USDA, FAS, GAIN reports; Commission estimates.

[a]Not available.

[5] About three quarters of Chinese canned peach production is of yellow peaches. USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2005*, March 16, 2005, 4.

[6] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2005*, March 16, 2005, 4. The bulk of canned white peaches are exported to Japan and other Asian markets. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[7] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2006*, June 16, 2006, 4. USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 4. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[8] Traditional canned pear export markets, such as the United States and the EU, prefer Bartlett and Williams pear varieties.

[9] Data are not available on the amount of fruit delivered to processors of mixtures.

Table 5.2 Fresh and canned pears: Chinese production, area harvested, yield, and deliveries to processors, 2002–06

Item	2002	2003	2004	2005	2006
Fresh pears:					
Production (*1,000 mt*)	9,432	9,921	10,767	11,437	11,988
Area harvested (*1,000 acres*)	1,051	1,070	1,158	1,208	1,188
Yield (*mt/acre*)	8.9	9.2	9.3	9.4	10.1
Canned pears:					
Fresh pears delivered to processors (*1,000 mt*)	([a])	61	80	80	95
Production (*1,000 mt, net weight*)	38	38	50	50	59

Sources: Fresh pears: FAOSTAT; canned pears: USDA, FAS, GAIN reports; Commission estimates.

[a]Not available.

Canned peach production in China increased irregularly during 2002–06, totaling 234,000 mt in 2006 (table 5.1). Production rose by 13 percent in 2006 compared with the previous year's level. The rise in production resulted from an increase in both domestic demand and export market demand.[10] Canned pear production in China increased by 55 percent during 2002–06 and reached 59,000 mt in 2006 (table 5.2). The increase resulted from the same factors affecting canned peaches.[11] Production of canned fruit mixtures in China rose from 6,000 mt to 27,000 mt during 2003–06 (table 5.3). Although the increase was substantial, it occurred from a relatively small base and production levels are relatively small. The increase resulted from the same factors affecting canned peaches and canned pears.[12]

Table 5.3 Canned fruit mixtures: Chinese production, 2002–06

Item	2002	2003	2004	2005	2006
Canned fruit mixtures:					
Production (*1,000 mt*)	6	6	10	19	27

Sources: USDA, FAS, GAIN reports; Commission estimates.

Structure and Organization of the Industry

The Chinese canned fruit industry comprises a large number of relatively small growers and processors compared with other major global producers. Production facilities also are more widely scattered and the distance between growing and processing facilities is greater compared with most major global competitors.

The Chinese peach and pear growing sector consists of thousands of individual growers typically holding rights to land in parcels of several mu (0.667 hectare).[13] Formal ownership of land is held by collectives, which allocate land use rights to individual farmers.[14] Rights generally are granted for a 30-year term. Farmers are not organized into cooperatives;

[10] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–September 18, 2007.
[11] Ibid.
[12] Ibid.
[13] Chinese industry official, interview by Commission staff, Zhejiang, China, September 15, 2007.
[14] USDA, ERS, *The Ongoing Reform of Land Tenure Policies in China*.

however, individual holdings may be organized into larger production bases and coordinated by local governments or processors. Typical peach and pear orchards in China are either relatively small consolidations of household holdings of several dozen mu or, to a lesser extent, larger production bases of several hundred mu.[15] Major consolidation has not occurred yet in the Chinese peach and pear growing sector. The current land tenure system has been cited by Chinese processors and independent analysts as a constraint to industry consolidation and integration.[16]

The principal fresh peach production areas in China include the provinces of Anhui, Jianghsu, Shandong, Henan, Dalian, and Hebei.[17] Yellow peach production is concentrated in Anhui, Dalian, Shandong, and Zhejiang provinces.[18] The province of Anhui has been gaining in the share of yellow peach production in recent years, owing mainly to lower land and labor costs.[19] Primary fresh pear production areas in China include Hebei (31 percent of the total quantity in 2005), Liaoning (7 percent), and Sichuan (7 percent).[20]

In 1998, the Chinese canned fruit sector comprised approximately 1,000 canneries, 200 of which were considered to be large or medium in size.[21] Four hundred canneries were authorized by the Chinese government to export at that time. Most of the canneries were state owned enterprises prior to a major privatization in the late 1990s. Although current data on the total number of canneries are not available, it is believed that the number has declined during the period under review, and the number of canneries producing for export totals about 40.[22]

Chinese canned fruit processors generally are located near the source of their fruit supplies. However, raw fruit may be transported as far as 1,000 kilometers.[23] Most processing facilities are located in the provinces of Shandong, Hebei, and Zhejiang.[24] Chinese fruit canneries generally process a range of products, including a variety of fruits, vegetables, and meat products.[25] This enables the canneries to operate for longer periods throughout the year. The canned peach and pear season generally runs for about 3 months during July through September. Chinese fruit growing and processing sectors are not integrated; ownership of the processing sector is mostly private.[26]

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[15] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[16] Ibid. O'Brien, "Developments in the Chinese Fruit and Vegetable Economy: Implications for Trade," 12–14.

[17] Chinese industry official, interview by Commission staff, Beijing, China, September 10, 2007.

[18] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[19] Ibid.

[20] USDA, ERS, "Briefing Rooms, China Agricultural and Economic Data: Provincial Data."

[21] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 1998*, September 15, 1998, 3.

[22] Chinese industry official, interview by Commission staff, Zhejiang, China, September 15, 2007.

[23] Ibid.

[24] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 1998*, September 15, 1998, 2.

[25] Ibid. Chinese industry officials, interviews by Commission Staff, various locations in China, September 10–18, 2007.

[26] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

Consumption

Canned fruit consumption in China traditionally has been relatively low. Per capita canned fruit consumption has been approximately 0.6 kilograms (1.3 pounds).[27] However, consumption has been rising in recent years. China's market for canned fruit consists of differentiated niches. Traditionally, consumption has been supplied mainly by domestic production, owing to domestic market preferences. Imports, which account for a small share of consumption, typically are destined for the baked goods industry (which uses canned peaches for decoration), for hotels and restaurants, and for supermarkets that mainly cater to expatriates.[28] Chinese consumers tend to consider imported products and foreign brands to be of higher quality compared with domestic products.[29]

China's consumption of canned peaches generally increased during 2002–06 (table 5.4).[30] The rise resulted from rising income levels and increased consumer demand for convenience foods by an increasingly urban population. Although China is, by far, a net exporter of canned peaches, global industry sources concur that it likely will become a net importer in the coming years.[31] Chinese consumers prefer canned peaches, as well as other canned fruit, in clear glass jars.[32]

Table 5.4 Canned peaches: Chinese domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons, net weight				*Percent*	
2002	210,000	1,295	45,813	165,482	1	22
2003	210,000	4,174	80,517	133,654	3	38
2004	205,000	5,135	71,088	139,047	4	35
2005	207,000	2,195	77,417	131,778	2	37
2006	234,000	3,878	92,417	145,461	3	39

Sources: USDA, FAS, GAIN reports; GTIS, World Trade Atlas; Commission estimates.

Chinese consumption of canned pears and canned fruit mixtures increased during 2002–06 (table 5.5; table 5.6), for the same reasons cited for rising canned peach consumption. The great bulk of canned pear consumption was supplied by domestic production; a substantial share of canned mixtures consumption was supplied by imports. The same market dynamics generally affect canned pears and canned fruit mixtures as those affecting canned peaches.

[27] Chinese industry official, interview by Commission staff, Beijing, September 10, 2007.

[28] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 5–6. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[29] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[30] Apparent consumption data for 2002 are based on estimated production levels, which may be overstated.

[31] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007. Spanish and Greek industry officials, interviews by Commission staff, various locations in Spain and Greece, August 6–10, 2007.

[32] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 5. Commission survey of supermarkets in China, September 10–18, 2007.

Table 5.5 Canned pears: Chinese domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons, net weight				*Percent*	
2002	38,000	15	14,916	23,099	([a])	39
2003	38,000	1	22,713	15,288	([a])	60
2004	50,000	38	29,984	20,054	([a])	60
2005	50,000	4	34,567	15,437	([a])	69
2006	59,000	133	36,079	23,054	([a])	61

Sources: USDA, FAS, GAIN reports; GTIS, World Trade Atlas; Commission estimates.

[a]Less than 0.5 percent.

Table 5.6 Canned fruit mixtures: Chinese domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons, net weight				*Percent*	
2002	6,000	845	3,150	3,695	23	53
2003	6,000	491	4,429	2,062	24	74
2004	10,000	913	7,809	3,104	29	78
2005	19,000	771	15,964	3,807	20	84
2006	27,000	2,336	20,738	8,598	27	77

*Source*s: USDA, FAS, GAIN reports; GTIS, World Trade Atlas; Commission estimates.

A portion of canned peach and canned pear imports are used in the production in China of canned fruit mixtures.[33]

Trade

China's trade in the subject products has increased substantially in recent years, particularly with respect to exports. Increased trade resulted from rising production and exports in response to expanding global demand and weather related effects on traditional global suppliers as well as to increased imports to supply differentiated domestic market niches. Chinese and other industry sources expect such trade to continue to increase.[34]

Exports

China's exports of canned peaches more than doubled during 2002–06, with the most significant increase occurring in 2003 (table 5.7). Such exports totaled $76 million in 2006. Japan was the leading export market in each year during the period; however, exports to other markets increased substantially during the period while exports to Japan grew by a lesser percent than those to the United States, Russia, and Korea. The United States and

[33] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[34] Ibid. Spanish and Greek industry officials, interviews by Commission staff, various locations in Spain and Greece, August 6–10, 2007.

Table 5.7 Canned peaches: Chinese exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Japan	32,144	32,561	36,733	37,931	38,485
United States	3,477	4,674	8,626	14,009	20,347
Russia	57	2,810	4,960	3,918	6,555
Yemen	3,539	2,037	3,890	2,472	4,930
Korea	1,552	1,159	1,178	2,739	3,710
Other	5,044	37,276	15,701	16,348	18,390
Total	45,813	80,517	71,088	77,417	92,417
	Value (*1,000 US dollars*)				
Japan	28,947	28,884	33,113	34,548	35,615
United States	1,858	2,523	5,337	9,144	14,114
Russia	39	1,826	3,098	2,530	4,862
Yemen	2,081	1,255	2,424	1,524	3,369
Korea	1,106	872	846	2,077	2,882
Other	3,227	25,414	11,835	12,425	14,907
Total	37,257	60,775	56,653	62,248	75,748
	Unit value (*dollars/metric ton*)				
Japan	901	887	901	911	925
United States	534	540	619	653	694
Russia	684	650	625	646	742
Yemen	588	616	623	617	683
Korea	713	752	718	758	777
Other	640	682	754	760	811
Average	813	755	797	804	820

Source: GTIS, World Trade Atlas.

Russia emerged as significant markets for China during the period. Japan is a market for canned white peaches, while the United States is a market for canned yellow peaches.[35] Chinese exports of canned peaches to the United States are destined for two distinct markets. The first consists mainly of relatively low quality, irregular canned peach slices and dices in large cans sold to the institutional market.[36] The second consists mainly of higher value plastic cups, which Chinese exporters are supplying to the United States under both nationally branded and private labels.[37] China's exports of canned pears also rose substantially during 2002–06, rising 196 percent in value to $23 million in 2006 (table 5.8). The bulk of the increase was accounted for by the U.S. market, which accounted for a leading 47 percent of the total value in 2006. China's exports of canned fruit mixtures also registered a substantial increase during the period under review, rising from $2 million in 2002 to $17 million in 2006 (table 5.9). Substantial increases were registered in most markets. The United States was the leading market during the period, accounting for slightly more than one third of the total value in 2006.

[35] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 4. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[36] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[37] Ibid.

Table 5.8 Canned pears: Chinese exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	6,792	10,569	12,428	14,094	17,570
Japan	423	352	886	1,951	2,209
Germany	1,835	4,039	5,004	4,135	2,647
Thailand	850	0	1,577	421	2,009
Greece	2,342	2,050	1,155	3,146	2,249
Other	2,674	5,703	8,934	10,820	9,395
Total	14,916	22,713	29,984	34,567	36,079
	Value (*1,000 US dollars*)				
United States	3,280	4,869	5,555	6,673	10,858
Japan	335	322	719	1,563	1,939
Germany	936	2,157	2,797	2,402	1,663
Thailand	575	0	1,036	302	1,478
Greece	1,240	1,037	571	1,501	1,055
Other	1,442	3,001	4,956	6,282	6,121
Total	7,809	11,387	15,634	18,723	23,115
	Unit value (*dollars/metric ton*)				
United States	483	461	447	473	618
Japan	792	915	812	801	878
Germany	510	534	559	581	628
Thailand	676	-	657	717	736
Greece	529	182	64	139	112
Other	539	526	555	581	652
Average	524	501	521	542	641

Source: GTIS, World Trade Atlas.

Table 5.9 Canned fruit mixtures: Chinese exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	1,690	1,732	2,569	3,151	8,741
Canada	263	413	680	2,071	2,274
Japan	506	150	283	2,082	1,206
New Zealand	1	956	323	134	910
Germany	0	208	620	1,131	1,048
Other	690	970	3,334	7,395	6,559
Total	3,150	4,429	7,809	15,964	20,738
	Value (*1,000 US dollars*)				
United States	997	1,034	1,568	1,980	5,799
Canada	179	273	637	2,543	2,830
Japan	418	171	304	2,121	1,279
New Zealand	1	669	243	155	803
Germany	0	127	440	787	716
Other	506	638	2,404	5,532	5,570
Total	2,101	2,913	5,597	13,119	17,052
	Unit value (*dollars/metric ton*)				
United States	590	597	610	628	663
Canada	681	661	937	1,228	1,245
Japan	826	1,140	1,074	1,019	1,061
New Zealand	1,000	700	752	1,157	882
Germany	-	611	710	696	683
Other	733	658	721	748	849
Average	667	658	717	822	822

Source: GTIS, World Trade Atlas.

Note: Data are for HTS subheading 2008.92, canned fruit mixtures of all types, including those of peaches and pears.

Imports

China currently is a relatively minor importer of the canned fruit of concern in this report. China's imports of canned peaches increased irregularly during 2002–06 and amounted to $3.9 million in 2006 (table 5.10). The United States was the leading supplier during 2003–06, accounting for 60 percent of the total value in 2006. Most imports are used by the baking industry for garnishes and decorations, with lesser amounts marketed through supermarkets catering to expatriates and used in the production of fruit packed in plastic cups for export to the United States.[38]

China's imports of canned pears totaled $159,000 in 2006 (table 5.11), while its imports of canned mixtures totaled $1.2 million (table 5.12). The main markets for these products are the baking industry and supermarkets catering to expatriates.[39]

Table 5.10 Canned peaches: Chinese imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity *(metic tons)*				
United States	5	2,049	3,783	1,346	2,244
South Africa	658	1,337	1,040	653	1,271
China	603	46	36	16	159
Greece	11	556	238	148	156
Philippines	6	19	0	0	18
Other	12	167	38	32	30
Total	1,295	4,174	5,135	2,195	3,878
	Value (*1,000 US dollars*)				
United States	6	2,064	3,541	995	2,305
South Africa	566	1,210	1,044	683	1,236
China	127	41	23	14	140
Greece	20	815	217	130	121
Philippines	7	23	0	0	12
Other	16	206	31	25	46
Total	741	4,359	4,855	1,848	3,860
	Unit value *(dollars/metric ton)*				
United States	1,200	1,007	936	739	1,027
South Africa	860	905	1,004	1,046	972
China	211	891	639	875	881
Greece	1,818	1,466	912	878	776
Philippines	1,167	1,211	-	-	667
Other	1,333	1,234	816	781	1,533
Average	572	1,044	945	842	995

Source: GTIS, World Trade Atlas.

[38] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 5–6. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[39] Ibid.

Table 5.11 Canned pears: Chinese imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Korea	0	0	0	0	42
Greece	0	0	0	0	77
South Africa	2	0	36	3	10
France	0	0	0	0	2
United States	13	1	1	1	1
Other	0	0	0	0	1
Total	15	1	38	4	133
	Value (*1,000 US dollars*)				
Korea	0	0	0	1	104
Greece	0	0	0	0	36
South Africa	1	0	35	3	10
France	0	0	0	0	3
United States	13	0	1	1	3
Other	0	0	0	0	4
Total	14	0	36	5	159
	Unit value (*dollars/metric ton*)				
Korea	-	-	-	-	2,476
Greece	-	-	-	-	468
South Africa	500	-	972	1,000	1,000
France	-	-	-	-	1,500
United States	1,000	0	1,000	1,000	3,000
Other	-	-	-	-	-
Average	933	0	947	1,250	1,195

Source: GTIS, World Trade Atlas.

Table 5.12 Canned fruit mixtures: Chinese imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Philippines	665	327	538	544	2,084
Thailand	120	103	363	207	230
Korea	0	0	0	0	4
United States	17	1	6	2	5
Malaysia	1	0	0	0	9
Other	42	60	6	18	4
Total	845	491	913	771	2,336
	Value *(1,000 US dollars*)				
Philippines	349	284	426	286	1,010
Thailand	94	71	220	116	127
Korea	0	0	0	0	10
United States	19	3	7	2	9
Malaysia	1	0	0	0	3
Other	72	82	23	16	20
Total	536	441	676	421	1,178
	Unit value *(dollars/metric ton*)				
Philippines	525	869	792	526	485
Thailand	783	689	606	560	552
Korea	-	-	-	-	2,500
United States	1,118	3,000	1,167	1,000	1,800
Malaysia	1,000	-	-	-	333
Other	1,714	1,367	3,833	889	5,000
Average	634	898	740	546	504

Source: GTIS, World Trade Atlas.

Note: Data are for HTS subheading 2008.92, canned fruit mixtures of all types, including those of peaches and pears.

Competitive Factors

Government Programs, Regulatory Compliance, and Trade Practices

Government Programs

The focus of China's agricultural policies has shifted from centralized planning to market development.[40] Recent policies involve tax cuts and rebates, infrastructure development, credit, research and development, and environmental and food safety. The Chinese government eliminated agricultural taxes on agricultural households in 2005.[41] Taxes typically were 8.4 percent of the value of production.

The Chinese government provides for rural infrastructure development, including such items as irrigation, roads, energy, and research and development facilities. Funding for rural infrastructure has been increasing in recent years.[42] Most of China's canned fruit industry is located in eastern provinces, which possess relatively modern infrastructure owing to industrial development in the region.[43]

Rural households obtain credit mainly from rural credit cooperatives (RCCs), which are overseen by county or provincial governments.[44] Loan balances held by farmers doubled during 2001–05. Lending for rural infrastructure projects and agricultural industrialization is provided by the Agricultural Bank of China, the Agricultural Development Bank of China, the China Development Bank, and the RCCs.[45]

The Chinese government provides agricultural technology extension services through a system administered by the National Agro-Technical Extension and Service Center in the Ministry of Agriculture.[46] Technical assistance is provided for plant protection and breeding and agricultural practices. The Chinese government provides free fertilizer to farmers under an efficient fertilization program.[47]

The Chinese government is encouraging the formation of farmer cooperatives, which had been prohibited in the past.[48] The cooperatives will be responsible for providing assistance to farmers for such activities as market information and extension services.[49] According to

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[40] For a general discussion of China's agricultural policies, see USDA, ERS, "Briefing Rooms, China: Policy."

[41] USDA, ERS, *China's New Farm Subsidies*, 5–6.

[42] Ibid., 8.

[43] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[44] USDA, ERS, *New Directions in China's Agricultural Lending*, 5–7.

[45] Ibid., 11–12.

[46] Ministry of Agriculture, People's Republic of China, *Crop Cultivation in China*, 32.

[47] Central Peoples' Government, "100 million farmers to benefit from free land fertilization." Funding totaled 200 million yuan ($25.8 million) in 2005, 500 million yuan ($64.9 million) in 2006, and 900 million yuan ($116.9 million) in 2007. Data are not available on the amount benefitting peach and pear growers.

[48] USDA, FAS, *China, Peoples Republic of, Agricultural Situation, Presidential Order 57 Supports Farmer Cooperatives in China*, December 6, 2006. The Order was effective as of July 1, 2007.

[49] Huang, Jikunt and Rozelle, "China's Accession to WTO and Shifts in the Agricultural Policy." January 2002.

Chinese industry officials, cooperatives currently are not common in the peach and pear industries.[50]

The Chinese canned fruit sector benefits mainly from a value added tax (VAT) rebate of 13 percent on exports.[51] The Chinese government recently has been reducing and eliminating VAT rebates for many agricultural products.[52] Although the VAT rebate has not been changed for exports of canned fruit, Chinese industry members expect that it will be lowered or eliminated in the future.[53]

Regulatory Compliance

According to Chinese industry representatives, costs of regulatory compliance have been increasing in recent years.[54] The Chinese government has been increasing the enforcement of environmental protection measures, particularly waste water treatment, as well as food safety measures.[55] For example, the Chinese central government recently escalated food safety inspections for exported products.[56] Industry representatives expect increased compliance costs to result in industry consolidation, as many firms cannot afford the necessary measures to comply with the regulations.

Trade Practices

China maintains an import tariff of 10 percent *ad valorem* on imports of canned peaches and canned mixtures and 20 percent *ad valorem* on imports of canned pears. In addition, a VAT of 17 percent *ad valorem* is imposed on imports of these products.[57] As previously mentioned, exporters of canned peaches, pears, and fruit mixtures are provided a VAT refund of 13 percent *ad valorem*. In addition, such exporters receive duty drawbacks for imported inputs, such as sugar.[58]

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[50] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[51] USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 5. Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[52] USDA, FAS, *China, Peoples Republic of, Trade Policy Monitoring, China Reduces Wide Range of VAT Rebates 2007*.

[53] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[54] Ibid.

[55] Ibid.

[56] Information Office of the State Council, "China's food quality and safety," August 17, 2007. The new policy establishes a "one pattern and ten systems" food export supervision approach, with traceability a major issue.

[57] USDA, FAS, *China, Peoples Republic of, Trade Policy Monitoring, China's Import Tariffs on Processed Foods, Spirits, and Tobacco, 2006,* 17.

[58] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

Market Factors

Input Costs and Availability/Cost Structure

China's primary competitive advantage is the availability and cost of the primary inputs for canned fruit processing, namely raw material and labor. China generally has a large supply of both inputs, and their costs relative to those of major foreign competitors are low. Prices paid by processors for fresh peaches and pears in 2007 are presented in table 5.13.

Table 5.13 Fresh peaches and pears: Prices paid by Chinese processors, by location, 2007

Item	Location	Price (dollars per kg)
Yellow peaches	Pinggu	0.27
Yellow peaches	Linyi	.34-.40
Yellow peaches	Ningbo	.21-.24
Yellow peaches	Huangyan	.24
Yellow peaches	Anhui	.40
Bartlett pears	Ningbo	.32-.34
Bartlett pears	Huangyan	.23-.24
Snow pears	Linyi	.05
Snow pears	Ningbo	.05
Snow pears	Huangyan	.07

Source: Commission staff interviews with Chinese industry officials, various locations in China, September 10–18, 2007.

Input prices vary significantly by location and by quality grade. Raw material prices in 2007 were 20 percent to 30 percent higher than in 2006, owing mainly to rising demand by processors outpacing production.[59] Although China is the leading global producer of fresh peaches and pears, its production of varieties used in canned fruit for export is somewhat limited. Increasing demand for yellow peaches and Bartlett pears for processing generally has outpaced new plantings and the availability of these varieties. Some processors are considering or taking measures to ensure adequate raw material supplies, such as establishing contracts with growers and procuring their own orchards.[60]

Labor costs are not available for the peach and pear growing sector in China. Studies indicate monthly field wages in rural areas of between $60–$75 and daily fruit orchard wages of about $2 in 2006.[61] Wages reported by canned fruit processors ranged between 1,000 yuan and 2,000 yuan (about $133–$266) per month, before benefits. Benefits, including social security, added about 1,000 yuan per month to the labor cost. Firms also generally provide workers with dormitories and canteens. Differences in wages result from location, competition from other industries, and skill level of employees. Labor costs in Chinese fruit canneries reportedly have been rising approximately 20 percent annually in recent years.[62] Labor availability is also an issue, as canned fruit processing occurs mainly in the eastern provinces, which are the most economically developed and have many industries competing

[59] Ibid.

[60] Ibid. However, the use of contracts as well as backward integration by processors is limited.

[61] USDA, FAS, *China's Rising Fruit and Vegetable Exports Challenge U.S. Industries*, February 2006, 12.

[62] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

for labor. Industry members indicate the canned fruit processing sector will increasingly mechanize in the near future, in large part because of the rising cost and decreasing availability of labor.[63]

Data on the cost structure for China's canned peach and pear producers are presented in table 5.14.[64]

Table 5.14 Canned fruit: Cost structure of Chinese processors

Product and cost item	Share (percent) of total cost
Canned yellow peaches (irregular slices and dices, 15 oz/24):	
Peaches	35
Cans	25
Labor	10
Other	30
Total	100
Absolute cost/case	$8.00
Canned Bartlett pears (halves, 15oz/24):	
Pears	40
Cans	25
Labor	10
Other	25
Total	100
Absolute cost/case	$8.00
Canned snow pears (halves, 15oz/24):	
Pears	15
Cans	25
Labor	5
Other	55
Total	100
Absolute /case	$5.00

Source: Estimated by Commission staff based on interviews with Chinese industry officials, various locations in China, September 10–18, 2007.

Processing Technology

Chinese canned fruit processors are much less mechanized and thus employ labor to a much greater degree than do their foreign counterparts. Fresh fruit usually is peeled, pitted, cut, and packed by hand.[65] The Chinese industry anticipates increasing the use of technology and mechanization in the near future to improve efficiencies and yields, lower costs, and adjust to changing labor market conditions. Chinese canned fruit processing facilities that are approved for export are certified as meeting safety and quality standards such as Good Manufacturing Practices (GMP), Sanitation Standard Operating Procedures (SSOP), Hazard Analysis and Critical Control Point (HAACP), and International Standard Oragnization (ISO) 9001.[66]

[63] Ibid. USDA, FAS, *China, Peoples Republic of, Canned Deciduous Fruit Annual 2007*, April 17, 2007, 3.

[64] Data on costs and cost structure are not available for peach and pear growers or for canned fruit mixtures.

[65] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[66] Ibid.

Product Innovation and Market Promotion

Chinese canned fruit processors recognize the importance of product innovation to remain competitive in the future. Processors are developing new product forms and packaging to meet their domestic and foreign customer demands.[67] Such products include individual sized plastic cups, glass and plastic jars, gel packs, new flavorings, and different fruit combinations.

Chinese canned fruit industry officials also indicate that market promotion is necessary to increase domestic and foreign demand for their products.[68] Given China's large population, a small per capita increase in consumption would result in a large absolute rise in the quantity demanded. Some efforts are being made to promote products, mainly through supermarket demonstrations in the Beijing area.[69] However, a major constraint is the lack of national brands in China. Chinese processors believe such branding is necessary to substantially increase domestic demand. In addition, some in the industry are concerned that U.S. and European exporters will capture the Chinese market using internationally recognized brands.[70]

Pricing and Marketing Regimes

Prices for fresh fruit for processing are determined through negotiations between growers and agents for processors.[71] Prices are based on market conditions and change frequently, often on a daily basis. There is a large number of growers and they are not organized into associations or cooperatives that negotiate a season price as in other producing countries. Processors generally establish regional buying stations through which fresh fruit is distributed from the orchard to the processing plants. According to Chinese canned fruit processors, the current growth in processing and relative shortage of preferred varieties for processing have given growers more market power and contributed to substantially higher raw fruit prices in 2007.[72]

Prices for finished products are negotiated between Chinese processor/exporters and their foreign buyers.[73] Most Chinese canned fruit processors, particularly the larger ones, export their own products. Prices are affected by global market conditions, and Chinese industry officials cited the industries in California and Greece as price drivers in the global canned peach market.[74]

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[67] Ibid.
[68] Ibid.
[69] Chinese industry official, interview by Commission staff, Beijing, China, September 10, 2007.
[70] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.
[71] Ibid.
[72] Ibid.
[73] Ibid.
[74] Ibid.

Market Structure and Pricing

Chinese producers participate in discrete market niches, both domestically and globally.[75] These niches have distinct demand and pricing structures. The small, but growing, domestic market consists mainly of peach and pear halves packed in glass jars. Export markets consist of three main segments. The first is the traditional high quality, hand processed pack of white peach halves, slices, and dices, packed in metal cans of 8 ounces and 15 ounces, and exported mainly to Japan. The second is lower quality, packed in metal cans of irregular peach slices and dices destined for prisons, hospitals, and schools in the U.S. market, a more recent market for Chinese product. In addition, lower quality snow pear halves, packed in both retail and institutional metal cans, are marketed to the same institutions as well as to "dollar stores" in the U.S. market. Third, China is increasing exports of both private label and branded fruit in individual size plastic cups to the U.S. market. In addition to these segments, nontraditional markets, such as Russia and the Middle East, are becoming important export destinations for Chinese canned fruit in various forms. This market structure is responsible for price differentials among major Chinese export markets.

Table 5.15 presents data on prices of canned peaches, pears, and mixtures in supermarkets in various Chinese cities.

The product differentiation seen in Chinese exports of canned peaches to Japan (high quality) versus those to the United States (irregular slices and dices) is reflected in the export unit values, as shown in table 5.16. Product differentiation within the U.S. market is reflected in the unit values of U.S. imports of canned peaches from China, in U.S. dollars by size of container, as shown in table 5.17. The smaller containers mainly are single serving plastic cups destined for the retail segment, while the larger containers are metal cans destined for the institutional segment. The marketing of Chinese canned pears in retail sized metal containers to low end dollar stores is reflected in the unit values of U.S. imports from China, by size of container, as shown in table 5.18. During 2002–05, the difference in unit values between the retail and institutional sized containers was minor. However, in 2006, the unit value of Chinese exports of canned pears packed in retail size containers rose substantially, indicating the increasing volume of pears packed in single serving plastic cups that year.[76]

[75] Ibid.

[76] This was confirmed by Commission staff interviews with U.S. and Chinese industry officials, various locations, September–October 2007.

Table 5.15 Canned fruit: Prices in selected Chinese supermarkets, September 2007

Location	Product	Brand	Container	Price	
				Yuan/container	$/kg
Ole Supermarket, Beijing	Yellow peaches, halves	Yuenhua	Glass jar, 488g	9.80	2.66
	Yellow peaches, halves	Jiakang Food	Glass jar, 700g	8.90	1.69
	Yellow peaches, halves	Zhenxin Canned Food	Glass jar, 880g	11.50	1.73
	Yellow peaches, halves	Leasun Food	Glass jar, 360g	7.60	2.80
	White peaches, halves	Zhenxin Food	Glass Jar, 880g	11.50	1.73
	Yellow peaches , halves	Springfield (USA)	Metal can, 15oz	24.90	7.77
	Yellow peaches, halves	Dong Won (South Korea)	Metal can, 400g	24.00	7.96
Jiuzhou Supermarket, Linyi	Yellow peaches, halves	Kinsheng	Glass jar, 500g	4.70	1.25
	Yellow peaches, halves	Huanlejia	Glass jar, 800g	8.70	1.44
	Yellow or white peaches, halves	Guantjang	Glass jar, 1,250g	9.00	.95
Taizhou Centurymark Supermarket, Taizhou City	Yellow peaches, halves	Weipintang	Glass jar, 620g	7.60	1.63
	Yellow peaches, halves	Wuzhouxing	Glass jar, 430g	6.00	1.85
	Yellow peaches, halves	Weipintang	Glass jar, 850g	9.90	1.54
	Snow pears, halves	Aolinqui	Glass jar, 450g	5.60	1.65
	Yellow peaches, halves	Aolinqui	Glass jar, 450g	5.60	1.65
Carrefour Market, Gubei, Hongqioa, Shanghai	Yellow peach halves	Tou Pai (Dalian)	Glass jar, 890g	9.40	1.40
			Glass jar, 790g	8.60	1.44
	Snow pears, halves	Tou Pai	Glass jar, 890g	9.20	1.37
	Yellow peaches, halves	Keji	Glass jar, 450g	5.70	1.68
	Yellow peaches, halves	Meifeng	Glass jar, 500g	7.20	1.91
			Glass jar, 950g	11.20	1.56
	Yellow or white peaches, halves	Yida (Hebei)	Glass jar, 757g	9.00	1.58
	Mixtures	Tou Pai	Glass jar, 790g	8.90	1.49

Source: Commission staff surveys of Chinese supermarkets, September 10–18, 2007.

Table 5.16 Canned peaches: Unit value of Chinese exports to Japan and the United States, 2002–06

Market	2002	2003	2004	2005	2006
	Dollars per kilogram				
Japan	0.90	0.89	0.90	0.91	0.93
United States	.53	.54	.629	.65	.69
Price difference (*percent*)	69	64	46	40	33

Source: GTIS, World Trade Atlas.

Table 5.17 Canned peaches: Unit value of U.S. imports from China, by container size, 2002–06

Container size	2002	2003	2004	2005	2006
	Dollars per kilogram				
Less than 1.4 kg	0.75	0.72	0.93	0.84	0.87
1.4 kg and greater	.48	.57	.59	.63	.63
Price difference (*percent*)	56	26	58	33	38

Source: USITC, Dataweb.

Table 5.18 Canned pears: Unit value of U.S. imports from China, by container size, 2002–06

Container size	2002	2003	2004	2005	2006
	Dollars per kilogram				
Less than 1.4 kg	0.57	0.54	0.48	0.53	0.70
1.4 kg and greater	.53	.50	.47	.47	.47
Price difference (*percent*)	8	8	2	13	49

Source: USITC, Dataweb.

Exchange Rates

The valuation of the remnimbi (RMB) (or Yuan) has benefitted the development of Chinese production and exports of canned fruits during the period under review.[77] An advantageous rate compared with the U.S. dollar contributed to the competitiveness of China in global markets for most of the period. In addition, the RMB is pegged to a basket of currencies which includes the U.S. dollar. However, a recent revaluation, resulting in an appreciation of about 8 percent vis-à-vis the U.S. dollar, has placed pressure on exporters, particularly in combination with rising input costs.[78] The impact of the appreciation is mitigated by the beneficial effect on Chinese imports of inputs such as plastic cups, food flavorings, and food colorings, many of which are either sourced in the United States or priced in dollars.[79] Cross rates also impact exporters. For example, the recent appreciation of the Euro vis-à-vis the dollar has given China an advantage over European competitors, mainly Greece, in the U.S. market. Chinese exporters face continued uncertainty regarding the remnimbi (RMB)/dollar exchange rate as the U.S. government pursues a further revaluation of the RMB.[80]

[77] O'Brien, Patrick, "Developments in the Chinese Fruit and Vegetable Economy," 44.

[78] Chinese industry officials, interviews by Commission staff, various locations in China, September 10–18, 2007.

[79] Ibid.

[80] Morrison, Wayne M. and Marc Labonte, *China's Currency: A Summary of the Economic Issues*.

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CHAPTER 6
The Industry in the European Union

European Union (EU) member countries accounted for about 32 percent of world canned peach production during 2002–06 (table 2.1). Greece and Spain, the two largest canned peach producers in the EU, together accounted for more than 90 percent of total EU production throughout 2002–06. Italy and France accounted for the remainder. The EU is a net exporter of canned peaches, with its member countries exporting roughly 40 percent of annual production.[1] Greece was the largest exporter of peaches worldwide in 2006, while Spain was the third largest. The bulk of Greek exports are destined for intra-EU markets, but Greece is also a major competitor in the global market. EU support to domestic growers provides a competitive advantage, which results in an abundant supply of peaches and effectively reduces the cost of fresh fruit for canners. EU producers also benefit from their proximity to two large consuming markets, the European Union and the United States, particularly the East coast. As Greece and Spain are the principal EU suppliers to the U.S. market, this chapter will focus on the canned peach industries in those two countries.

While individual EU member countries are major exporters of canned pears and canned fruit mixtures, the EU is a net importer of both canned pears and fruit mixtures, as most member country production is destined for the internal EU market. While Italy is the world's largest producer and exporter of canned pears and is a major exporter of canned fruit mixtures; both products primarily serve the EU market. Italy does not export a significant amount of pears to the United States. Spain exports significant volumes of both products, a substantial amount of which are shipped to the United States.

Production Trends

Canned Production

EU annual production of canned peaches and canned pears averaged roughly 400,000 mt and 97,000 mt, respectively, during the 2002–06 period (table 6.1). EU production of both products generally fluctuates depending on the success of the Greek peach crop and Spanish pear crop. Since its expansion in late 1970s and early 1980s, the Greek peach canning industry has been one of the world's largest producers.[2] With the exception of 2003, when canned peach production fell to 62,000 mt as a result of poor weather conditions, Greek canned peach production remained relatively stable during 2002–06, ranging between 276,000 mt and 306,000 mt (table 6.2). Since 2002, EU canned peach production trended upward through 2005 but fell in 2006 to a level believed to be more in line with global market demand.[3]

[1] Agrosynergie, *Evaluation of Measures,* October 2006, 2.
[2] USDA, ERS, *Competition in the Canned Peach Industry,* January 1999, 1–2.
[3] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007 and FAO, FAOSTAT Production Database.

Table 6.1 Peaches, pears, and fruit mixtures: EU production volume, 2002–06

Items	2002	2003	2004	2005	2006
	Metric tons				
Peaches:					
Canned production	443,379	281,687	453,769	571,491	437,285
Fresh production	2,979,520	2,448,580	2,831,080	3,187,930	3,280,200
Fresh production used for processing	408,657	241,162	406,884	473,221	407,147
Pears:					
Canned production	91,724	86,082	85,454	89,079	83,431
Fresh production	1,908,560	1,828,500	1,759,100	1,817,000	1,787,100
Fresh production used for processing	143,940	146,813	144,340	147,786	139,500

Sources: USDA, FAS, various GAIN Reports and PS&D database; FAOSTAT; Eurostat; Greek Canners Association; FNACV, 8th World Canned Deciduous Fruit Conference, 2007.

Note: Processing includes canning, purée, and freezing.

Table 6.2 Peaches: Greek production volume, 2002–06

Peaches	2002	2003	2004	2005	2006
	Metric tons				
Canned production	276,000	62,000	285,000	306,000	280,000
Fresh production	596,000	108,000	800,000	840,000	780,000
Fresh production used for processing	238,000	50,000	260,000	280,000	275,000

Sources: USDA, FAS, various GAIN Reports.

Note: Processing includes canning, purée, and freezing.

The Spanish canned peach industry, although only about one half the size of the Greek industry, is an important supplier in many global markets. During 2002–06, average annual canned peach production in Spain was about 157,000 mt (table 6.3). Production was down significantly in 2006, however, because of reduced quantities of fresh fruit delivered for canning. Spanish production of canned pears followed a pattern similar to canned peaches during 2002–06, averaging about 22,500 mt annually (table 6.4).

Table 6.3 Peaches: Spanish production volume, 2002–06

Peaches	2002	2003	2004	2005	2006
	Metric tons				
Canned production	143,979	190,037	139,369	183,491	129,285
Fresh production	1,247,400	1,270,800	916,500	1,198,300	1,380,100
Fresh production used for processing	136,657	158,162	113,884	160,221	99,147

Sources: USDA, FAS, various GAIN Reports.

Note: Processing includes canning, purée, and freezing.

Table 6.4 Pears: Spanish production volume, 2002–06

Pears	2002	2003	2004	2005	2006
			Metric tons		
Canned production	22,624	26,950	20,754	23,579	18,431
Fresh production	640,800	728,300	562,100	652,000	604,100
Fresh production used for processing	37,707	44,916	34,590	39,299	30,719

Source: FNACV, 8th World Canned Deciduous Fruit Conference, 2007.

Note: Processing includes canning, purée, and freezing.

Growing

Production output for canned peaches is determined in large part by the availability of fresh peaches suitable for canning. Cling peaches are the predominant variety grown for processing in both Spain and Greece. Unlike in the United States and most other countries where cling peaches are used almost exclusively for processing, consumers in Spain prefer cling peaches for fresh consumption, creating dual markets for Spanish growers.[4] Quality, however, also affects the market in which the peaches are sold. In Greece, although freestone peaches are the preferred variety for fresh consumption, higher quality cling peaches are often sold in the fresh market.[5]

In the EU, canners face significant competition from the fresh peach market for the supply of raw material for processing. Almost 80 percent of peach production in Spain has traditionally been sold in the fresh market.[6] Spanish peach production has recently reached historically high production levels, with average fresh production reaching almost 1.3 million mt during 2005–06. However, a very successful peach crop in terms of both size and quality led Spanish peach producers to sell a greater share of their 2006 production in the fresh market and significantly reduced quantities delivered to processors.[7] High quality fruit generally receives a premium price in the fresh market compared to the processing market.[8] Competition for fresh peaches in the EU also occurs as a result of demand for fresh fruit for freezing and for purée.

The EU fresh peach crop has averaged approximately 3 million mt annually in recent years. Spain has been the largest producer of fresh peaches, followed by Italy and Greece. A number of factors influence the success of the peach crop, such as the timing of harvest, weather, field practices, and water availability. Although yields in the EU are typically in the 15–20 mt per hectare range, average annual yields, and as a result, total production, can have wide swings. Yields in Greece are typically slightly higher than those in Spain.[9]

[4] Navarro, "The Peach Industry in Spain: State of the Art, Research, Development," September 10, 2003, 1.

[5] Industry official, interview by Commission staff, Imathia, Greece, August 9, 2007.

[6] Navarro, "The Peach Industry in Spain: State of the Art, Research, Development," September 10, 2003, 3.

[7] Industry official, interview by Commission staff, Murcia, Spain, August 6, 2007.

[8] USDA, FAS, *Spain Canned Deciduous Annual 2007*, 5.

[9] In 2006, the Greek yield was 20 mt per hectare compared to a six year average of approximately 19 mt per hectare between 2001 and 2006. Comparatively, the average yield in Spain was 15 mt per hectare between 2001 and 2005. Yields acquired from Eurostat General and Regional Statistics Database and correspondence with official from the Greek Peach Canners Association.

EU production decreased significantly in 2003, as harsh weather caused a 30 percent drop in peach production in Greece and reduced yields to 4 mt per hectare. According to the Greek Canned Peach Association (EKE), 2006 cling peach production was approximately 450,000 mt, down 10 percent from 2005 production. Processors reported that yields were down as a result of farmers picking fruit earlier than it was ready for processing.[10] The 2007 harvested production of cling peaches was expected to be similar in size to the 2006 crop with a total output of 480,000 mt. Of the 480,000 mt of cling peaches produced, 280,000 mt of raw product was used for canning, while approximately 150,000 mt, 30,000 mt, and 20,000 mt were destined for the purée, frozen, and fresh consumption markets, respectively.[11]

Harsh weather has been less of a factor in the major growing areas of Spain. Spain's total fresh peach production reached a five year high in 2006 and is expected to be very large in 2007 as well.

Spanish fresh pear production averaged 637,000 mt annually between 2002 and 2006 (table 6.4). Approximately 7 percent of total Spanish pear production goes to processing and an average of roughly 70 percent is consumed in the domestic fresh market, with the remainder exported as fresh fruit.[12] In 2007, the volume of production of Williams variety pears, the principal type used for canning, is estimated to be 26 percent below the 2006 volume as a result of adverse weather conditions during the growing period.[13]

Structure and Organization of Industry

Processing

Canned fruit processing plants in both Greece and Spain are generally located near major growing regions. In Greece, the peach processors are generally located in the growing regions of Central Macedonia, primarily in the counties of Pella and Imathia. In Spain, most of the peach processing occurs in southern Spain around the growing regions of Murcia, Alicante, and Albacete, while most of the pear processing occurs closer to the primary pear growing region further north near Lerida.

Both the Spanish and Greek processing sectors have consolidated over the past 25 years, although their concentration has not changed significantly during the period of review. Currently there are 17 canners in Greece and 15 canners in Spain.[14] Domestic and foreign competition has forced the EU industries to manage their operations more efficiently and to modernize their processing facilities. Smaller, less competitive firms that did not modernize were forced out of the industry by accumulated debt and lack of capital.[15]

A number of competitive advantages favor larger processing plants that have remained in business. First, they had greater access to capital, which allowed them to invest in

[10] USDA, FAS, *Greece Canned Deciduous Fruit Annual 2006*, 1.
[11] Industry official, interview by Commission staff, Imathia, Greece, August 9, 2007.
[12] FAO, FAOSTAT Production Database and GTIS, World Trade Atlas Database.
[13] *FreshInfo News*, "Spanish Pears Strong," September 8, 2007.
[14] Industry officials, interviews with Commission staff, Murcia, Spain and Imathia, Greece, August 7 and 10, 2007.
[15] Industry officials, e-mail messages to Commission staff, September 7 and 11, 2007.

modernization programs and better management in order to become more efficient. Second, their financial stability, scale of production, product quality, and the use of comprehensive marketing programs and market research provided them with the ability to maintain and further develop their sales in foreign markets.[16]

As a result of consolidation, industries have become less fragmented and a cooperative method of integration has taken place.[17] Both the Spanish and Greek canned fruit industries have developed better management and oversight of both the industry's operations and strategy as a whole. In Greece specifically, the industry has become more vertically integrated in its management of contracts as a result of consolidation. According to canning industry officials, because there are fewer contractual relationships between the growers and canners, there is more direct communication between both groups, resulting in better fruit quality, and more balanced utilization of installed capacity throughout the industry. This improved management of contracts with farmers has reduced industry costs in management and production.[18]

Despite industry consolidation, processing capacity during 2002–06 has remained relatively stable in Spain and Greece, as plant operating efficiency has risen.[19] Although maximum annual production capacity in Greece is estimated to be about 480,000 mt,[20] industry officials believe capacity utilization to be between 336,000–360,000 mt, depending on worldwide canned fruit supplies, global demand, and the availability of fresh fruit. Industry representatives do not view a reduction of capacity as realistic or probable since dismantling existing production lines would be expensive, would not necessarily increase efficiency or decrease costs, and would eliminate the processors' ability to respond to possible increases in demand in the future.[21]

Greek and Spanish canned peach producers, unlike U.S. producers, have begun to expand and diversify their product lines to include peach purée in order to meet increasing global demand. In Greece, for example, five purée lines have been added since the start of the 2006 season. Only two canners in Greece do not have a purée line, but it is expected that they will in the near future.[22]

Growing

Peaches for both fresh consumption and processing are produced in Northern Greece in six territories located in Central Macedonia & Thessaly.[23] The areas of Pella and Pieria in central Macedonia are especially known for their high quality fruit.[24] The total land area utilized for peach growing was 23,900 hectares in 2006 and has remained steady since 2002. In Spain, the main production areas for peaches intended for canning, together with their share of total

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[16] Ibid., September 9 and 11, 2007

[17] Industry officials, interviews with Commission staff, Murcia, Spain and Imathia, Greece, August 7 and 10, 2007.

[18] Ibid., September 7 and 11, 2007.

[19] Industry officials, interviews by Commission staff, Murcia, Spain, and Imathia, Greece, August 10, 2007.

[20] Industry official, e-mails message to Commission staff, July 25, 2007.

[21] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[22] Industry official, interview by Commission staff, Veria, Greece, August 10, 2007.

[23] USDA, FAS, *Greece Canned Deciduous Fruit Annual 2006,* 5.

[24] Davias, "Eat a Peach," Summer 2006, 14.

production, are the Aragon region[25] (37 percent), Murcia (36 percent), and Catalonia (20 percent).[26] The primary growing regions for pears intended for canning are Lerida, Huesca, and Zaragoza. These regions are all located in the northeast corner of Spain.[27]

There are 52 peach producer organizations (POs)[28] in Greece, the largest of which reports a membership of approximately 500-700 farmers.[29] Cooperatives, which function as POs but also cover different crops, are often larger. A.L.M.M.E,[30] an association of three different agricultural cooperatives, represents approximately 1,200 peach farmers and 2,200 farmers in total. A key function of POs is the role they play in channeling EU support funds to the producers. However, the Greek Ministry of Agriculture is considering a plan to reduce the number of peach farmer groups by almost 50 percent in order to increase efficiency.[31] POs have high administrative costs, and, as a result, some industry officials report that EU aid is primarily used to finance the POs' operations.[32] According to some industry officials, this system is not efficient,[33] and the percentage of produce that fruit and vegetable POs handle has dropped from 40 percent six years ago to less than 34 percent in 2006. Changes made as a result of the 2008 European Common Agricultural Policy (CAP) Reform to the Single Farm Payment will also include measures to make the POs more relevant by eliminating subsidies for PO operations that could more efficiently be left to the market.[34]

As with the canning sector, consolidation has been taking place among growers, with a trend towards larger scale farms that capture economies of scale and increase access to EU support funds. The typical size of farms in Murcia is currently relatively small, ranging from 10 to 12 hectares, but the average size is expected to continue to increase. There are some medium and large scale farms in Murcia that are around 100 and 400 hectares in size, respectively.[35] Greek farms (4 or 5 hectares average) are typically much smaller than the average farm in the EU or the United States.[36] The average age of Greek farmers is increasing and as aging farmers begin to retire and leave the market, farms are beginning to be consolidated.[37]

The EU is a large consumer of canned peaches, pears, and fruit mixtures (tables 6.5–6.7). EU consumption of canned peaches and canned pears has trended irregularly upward throughout 2002–06. The EU is a net importer of canned pears and mixtures (tables 6.6 and 6.7). Taking into consideration beginning and ending stocks, consumption as a percentage of production is far greater in Spain than in Greece for canned peaches and pears.[38] However, Spanish per capita consumption of canned peaches has fallen in recent years as advances in transport and packaging have made high quality fresh peaches available to Spanish consumers most of the year and Spain's growing population of immigrants is not a traditional canned peach consumer.[39]

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[25] Aragon includes the Navarra and Rioja autonomous regions.
[26] FNACV, "Spain Country Report," 2007, 5.
[27] Ibid., 7.
[28] A producer organization is a state recognized self initiated group of producers.
[29] USDA, FAS, *Greece Canned Deciduous Fruit Annual 2006,* 5.
[30] Association of Agricultural Cooperatives.
[31] Ibid.
[32] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.
[33] Ibid.
[34] *AgraEurope*, "SFP Extension Will Aid Fruit and Vegetable Sector Liberalisation," August 31, 2007.
[35] Industry official, interview with Commission staff, Murcia, Spain, August 6, 2007.
[36] USDA, ERS, "European Union: Basic Information."
[37] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.
[38] USDA, FAS, *Canned Peach Situation in Selected Countries,* January 2006.
[39] Dunn, "Shortfall in Spanish canning predicted to last into 2008," September 14, 2007.

Table 6.5 Canned peaches: EU domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons				*Percent*	
2002	447,379	26,180	140,013	333,546	8	31
2003	281,687	71,956	59,409	294,234	24	21
2004	453,769	51,016	71,110	433,675	12	16
2005	517,491	24,714	101,806	440,399	6	20
2006	437,285	22,097	114,195	345,187	6	26

Sources: USDA, FAS, various GAIN Reports; GTIS, World Trade Atlas Database.

Table 6.6 Canned pears: EU domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons				*Percent*	
2002	91,724	28,981	4,381	116,324	25	5
2003	86,082	32,584	3,211	115,455	28	4
2004	85,454	35,201	2,586	118,069	30	3
2005	89,079	33,688	3,732	119,035	28	4
2006	83,431	27,926	5,548	105,809	26	7

Sources: USDA, FAS, various GAIN Reports; GTIS, World Trade Atlas Database.

Table 6.7 Canned fruit mixtures: EU domestic production, trade, and consumption, 2002–06

Year	Production	Imports	Exports	Consumption	Ratio of imports to consumption	Ratio of exports to production
	Metric tons				*Percent*	
2002	130,900	27,766	17,204	141,462	20	13
2003	125,175	33,275	14,186	144,264	23	11
2004	137,560	40,053	13,536	164,077	24	10
2005	139,222	42,122	19,367	161,977	26	14
2006	134,587	42,627	24,083	153,131	28	18

Sources: USDA, FAS, various GAIN Reports; GTIS, World Trade Atlas Database.

Trade

Exports

EU exports of canned peaches, pears, and fruit mixtures in 2006 amounted to $103.6 million, $7.5 million, and $41.3 million, respectively (table 6.8–6.10). The primary markets outside the EU for the major EU producers of canned peaches are Russia, Thailand, and the United States (table 6.8). Russia was the largest growth market for EU exports of canned peaches and fruit mixtures during 2002–06.

Table 6.8 Canned peaches: EU exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Russia	16,877	11,931	12,202	16,402	27,563
United States	21,345	8,597	7,161	9,441	13,438
Thailand	8,482	1,921	5,230	18,123	13,683
Canada	18,724	5,595	4,405	8,699	8,564
Mexico	29,763	5,312	1,866	1,448	6,109
Other	44,822	26,053	40,246	47,694	44,838
Total	140,013	59,409	71,110	101,807	114,195
	Value (*1,000 US dollars*)				
Russia	12,012	11,588	11,874	13,605	27,551
United States	14,039	7,865	7,720	10,027	13,473
Thailand	5,911	1,437	4,279	13,552	11,085
Canada	12,598	5,055	3,808	6,813	7,084
Mexico	17,427	4,287	1,543	1,193	5,433
Other	31,826	22,081	35,193	39,384	38,958
Total	93,812	52,313	64,417	84,574	103,573
	Unit value (*dollars/metric ton*)				
Russia	712	971	973	829	1,000
United States	658	915	1,078	1,062	1,003
Thailand	697	748	818	748	810
Canada	673	903	864	783	827
Mexico	586	807	827	824	889
Other	710	848	874	826	869
Average	670	881	906	831	907

Source: GTIS, World Trade Atlas Database.

Table 6.9 Canned pears: EU exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Libya	39	20	1	44	1,569
United States	874	350	358	388	775
Switzerland	402	497	301	415	488
Russia	477	173	154	211	445
Croatia	128	188	186	329	254
Other	2,461	1,983	1,586	2,345	2,026
Total	4,381	3,211	2,586	3,732	5,557
	Value (*1,000 US dollars*)				
Libya	30	28	1	35	1,734
United States	842	549	780	818	1,460
Switzerland	367	523	374	549	609
Russia	514	249	213	284	596
Croatia	85	169	238	289	253
Other	2,348	2,619	2,498	3,141	2,825
Total	4,186	4,137	4,104	5,115	7,476
	Unit value (*dollars/metric ton*)				
Libya	769	1,400	1,000	795	1,105
United States	963	1,569	2,179	2,108	1,884
Switzerland	913	1,052	1,243	1,323	1,248
Russia	1,078	1,439	1,383	1,346	1,339
Croatia	664	899	1,280	878	996
Other	954	1,321	1,575	1,339	1,394
Average	955	1,288	1,587	1,371	1,345

Source: GTIS, World Trade Atlas Database.

Table 6.10 Canned fruit mixtures: EU exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Russia	539	590	940	5,806	7,452
Japan	1,931	1,894	1,526	1,748	2242
Canada	3,215	1,995	821	1,271	2108
Switzerland	1,046	1,387	953	1,452	1290
Norway	614	889	694	656	1183
Other	9,859	7,431	8,602	8,434	9808
Total	17,204	14,186	13,536	19,367	24,083
	Value (*1,000 US dollars*)				
Russia	660	758	1,712	10,018	13,213
Japan	2,069	2,401	1,922	2,078	2,830
Canada	3,367	3,145	810	1,391	2,737
Switzerland	1,483	2,182	2,025	2,882	2,682
Norway	1,015	1,766	1,296	1,215	2,306
Other	11,870	11,467	15,089	13,951	17,571
Total	20,464	21,718	22,855	31,535	41,338
	Unit value (*dollars/metric ton*)				
Russia	1,224	1,285	1,821	1,725	1,773
Japan	1,071	1,268	1,260	1,189	1,262
Canada	1,047	1,576	987	1,094	1,298
Switzerland	1,418	1,573	2,125	1,985	2,079
Norway	1,653	1,987	1,867	1,852	1,949
Other	1,204	1,543	1,754	1,654	1,791
Average	1,189	1,531	1,688	1,628	1,716

Source: GTIS, World Trade Atlas Database.

Note: Data are for HTS subheading 2008.92, canned fruit mixtures of all types, including those of peaches and pears.

Greece is the largest EU exporter of canned peaches. In 2006, Greek exports were valued $239.5 million, or 35 percent of the world total. In 2006, the United States was Greece's third largest export market outside of the EU. Greece is the largest source of imports in the United States and made up almost 24 percent of all canned peach imports into the United States market in 2006 based on value.[40] Approximately 69 percent of canned peach exports from Greece, based on value, are destined for other EU markets, the largest being Germany and the United Kingdom.

Spain, the world's 4th largest exporter in 2006, exported $78 million of canned peaches, but 70 percent of those exports were to intra-EU markets. Spain was the 5th largest source of canned peach imports for the United States, accounting for approximately 10 percent of total U.S. imports.[41]

EU canned pear exports to non-EU markets in 2006 were less than 10 percent of its canned peach exports that year (table 6.9). Spain was the 4th largest global exporter of canned pears, with approximately 85 percent destined for other EU markets, mainly Germany and Portugal. The largest market outside of the EU for Spanish canned pears is the United States, which received approximately 7 percent of Spanish canned pear exports. Spain is the 4th largest source of canned pear imports to the United States. Italy was the world's largest producer and exporter of canned pears in 2006, supplying approximately 22 percent of world exports.

[40] GTIS, World Trade Atlas Database.
[41] Ibid.

However, approximately 92 percent of Italian exports were destined for EU markets in 2006, and only very small quantities were shipped to the U.S. market.

Imports

The EU is a significant global importer of canned peaches, pears, and fruit mixtures. The largest source of imports is South Africa for all three products (tables 6.11, 6.12, and 6.13). EU member states that import the largest quantities of canned fruit from outside the EU are Germany, the United Kingdom, and France.

Table 6.11 Canned peaches: EU imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
South Africa	21,788	25,503	21,521	16,763	14,622
China	354	17,247	11,474	2,608	1,809
Chile	57	1,430	895	2,263	2,070
Thailand	200	249	574	477	841
Australia	1,853	2,158	1,198	611	1,125
Other	1,928	25,369	15,354	1,993	1,479
Total	26,180	71,956	51,016	24,715	21,946
	Value *(1,000 US dollars*)				
South Africa	14,442	22,230	24,806	18,675	15,437
China	156	13,607	8,731	1,985	1,915
Chile	50	1,358	1,079	2,262	1,710
Thailand	247	349	959	889	1,445
Australia	1,668	2,227	1,548	687	1,315
Other	1,638	21,692	14,031	2,286	1,461
Total	18,201	61,463	51,154	26,784	23,283
	Unit value (*dollars per metric ton*)				
South Africa	663	872	1,153	1,114	1,056
China	441	789	761	761	1,059
Chile	877	950	1,206	1,000	826
Thailand	1,235	1,402	1,671	1,864	1,718
Australia	900	1,032	1,292	1,124	1,169
Other	850	855	914	1,147	988
Average	695	854	1,003	1,084	1,061

Source: GTIS, World Trade Atlas Database.

Table 6.12 Canned pears: EU imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
South Africa	10,635	12,468	11,937	11,071	12,348
Australia	11,935	10,369	9,402	8,273	5,452
China	3,468	5,511	10,885	12,186	6,341
Argentina	2,552	3,285	2,376	1,878	3,042
Chile	111	265	442	152	503
Other	280	687	159	128	142
Total	28,981	32,585	35,201	33,688	27,828
	Value (*1,000 US dollars*)				
South Africa	8,443	11,748	13,249	12,984	14,033
Australia	8,138	8,613	8,938	7,777	5,901
China	2,202	3,638	7,208	7,998	4,700
Argentina	1,948	2,000	1,742	1,281	2,028
Chile	70	198	311	112	345
Other	439	751	251	192	356
Total	21,240	26,948	31,698	30,344	27,362
	Unit value (*dollars/metric ton*)				
South Africa	794	942	1,110	1,173	1,136
Australia	682	831	951	940	1,082
China	635	660	662	656	741
Argentina	763	609	733	682	667
Chile	631	747	704	737	686
Other	1,568	1,093	1,579	1,500	2,507
Average	733	827	900	901	983

Source: GTIS, World Trade Atlas Database.

Table 6.13 Canned fruit mixtures: EU imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
South Africa	11,810	15,211	12,763	11,735	10,686
Thailand	9,641	11,868	15,729	16,420	17,931
Philippines	1,546	1,076	2,493	1,836	3,080
China	131	749	2,028	5,202	2,859
Indonesia	1,159	752	2,081	1,900	1,991
Other	3,479	3,619	4,959	5,029	5,757
Total	27,766	33,275	40,053	42,122	42,304
	Value (*1,000 US dollars*)				
South Africa	11,828	18,394	17,724	16,815	15,439
Thailand	7,620	9,652	12,861	13,825	15,204
Philippines	1,337	969	1,942	1,796	3,836
China	154	756	1,680	4,251	2,887
Indonesia	756	525	1,505	1,321	1,387
Other	4,916	5,465	7,844	9,333	12,034
Total	26,611	35,760	43,555	47,341	50,787
	Unit value (*dollars/metric ton*)				
South Africa	1,002	1,209	1,389	1,433	1,445
Thailand	790	813	818	842	848
Philippines	865	901	779	978	1,245
China	1,176	1,009	828	817	1,010
Indonesia	652	698	723	695	697
Other	1,413	1,510	1,582	1,856	2,090
Average	958	1,075	1,087	1,124	1,201

Source: GTIS, World Trade Atlas Database.

Note: Data are for HTS subheading 2008.92, canned fruit mixtures of all types, including those of peaches and pears.

Competitive Factors

Government Programs and Trade Practices

Government Programs

Government programs, under the CAP, have contributed to a stable supply of fresh fruit for processing and have decreased the cost of raw materials for EU canning industries. Under the current system established as a result of the CAP Reform of 2000, minimum price supports for canned peaches and pears were eliminated and replaced by a system that provides aid to growers who deliver fresh fruit to processors. EU support programs also provide operational funding to producer organizations to promote the use of efficient and environmentally sound production techniques, reduce production costs and stabilize prices, improve quality, and promote consumption through marketing.[42]

In order to receive EU aid, peach and pear growers generally organize themselves by joining producer organizations. EU support to European peach and pear industries is channeled through these POs to its members once deliveries of fruit intended for processing have been confirmed. Approximately one half of the POs operational programs are funded by the EU,[43] while the remainder is funded through proportionate payments from PO members based on volume or value of their marketed products, or by other rates set by the POs.[44]

Prices for fresh fruit delivered to processors are negotiated between the POs, their member growers and the canners prior to the start of the annual harvest. If processors and growers cannot agree on a price through negotiations, the national governments may intervene. Once a price (per kilogram) has been established, individual growers then sell fresh fruit to specific processors under contract, which specifies quantities and the predetermined price.[45]

In order for the PO and its growers to receive funding, they must complete their contracts with processors and have the local national authority certify that the contracted product has been delivered for processing.[46] Since 2001, aid for fresh fruit intended for processing that a grower receives has been set at €47.70 ($57.45)[47] and €161.70 ($194.82) per mt for fresh peaches and pears, respectively. Once fresh fruit has been delivered to a canner, growers receive the negotiated price for the fresh fruit from the canner, as well as the EU support for each kilogram delivered through their respective PO. For example, in 2006 in Greece, once the fresh peaches were delivered to the processor, the processor paid the producer the previously negotiated price of €0.23 ($0.28) per kilogram (kg). Once the delivery to the

[42] *AgraEurope*, "CAP Monitor, Section 13-A (Fresh Fruit and Vegetables)," August 10, 2000, 13A-2.

[43] EU funding covers one half of the PO's operational program up to a maximum of 4.1 percent of the PO's marketed production. Operational programs must follow certain guidelines intended to promote environmentally friendly production practices and maintain financial provisions for plant health standards and rules.

[44] Operational funding for Producer Organizations paid by the EU totaled €558,011,522.49 in 2005. European Union, "Final adoption of the general budget of the European Union for the financial year 2007," March 16, 2007.

[45] Industry official, interview by Commission staff, Murcia, Spain, August 6, 2007.

[46] Agrosynergie, *Evaluation of Measures,* October 2006, 2.

[47] Euros converted to dollars based on an average exchange rate of 0.83 Euros per dollar (table 3.2).

processor was verified by the PO and a national authority, the grower received the additional €0.0477 ($0.0575) per kg in EU aid. Therefore, the total price received by the producer in 2006 was €0.2777 ($0.3346) per kg (table 6.14). In Greece, once the delivery has been verified and the aid has been allocated to various producers by the PO, the aid is then distributed to the POs' members through a national, state mandated bank, the Agricultural Bank of Greece.[48]

Table 6.14 Fresh fruit for canning: Grower prices received, 2003–07

Item and country	2003	2004	2005	2006	2007
	Euros per kilogram				
Peaches:					
Greece:					
Price paid by canners	0.60	0.22	0.19	0.23	0.23
Aid to grower	.05	.05	.05	.05	.05
Total	.65	.27	.24	.28	.28
Spain:					
Price paid by canners	([a])	([a])	([a])	.16	.27
Aid to grower	([a])	([a])	([a])	.05	.05
Total	([a])	([a])	([a])	.21	.32
Pears:					
Spain:					
Price paid by canners	([a])	([a])	([a])	.17	.24
Aid to grower	([a])	([a])	([a])	.16	.16
Total	([a])	([a])	([a])	.33	.40

Source: *FreshInfo News*, "Spanish Pears Strong"; USDA, FAS, various Gain Reports; FNACV, 8th World Canned Deciduous Fruit Conference, 2007.

[a]Not available.

As a result of support being tied to the quantity of fruit intended for processing, growers have been motivated to sell their product to canners. This, in effect, provides a stable supply of produce for canners. The financial support has also decreased the price canners pay for fresh fruit. Between 2002–06, the aid represented an average of between 17–19 percent of the total price that Greek and Spanish peach growers received, respectively, for the fresh product destined for canning.[49] The aid accounts for an even larger percentage of the total price received by pear growers, but the impact has also varied more depending on the member country. For the 2001–06 period, the aid for pears provided, on average, 47 and 29 percent of the total price received by growers in Spain and Italy, respectively. The financial benefit that the aid has provided is often shared, as the growers receive a higher total price and the canners pay a slightly lower price to the grower. In effect, the aid has reduced the cost of raw materials for processors slightly and has provided a stable supply of fresh produce because the growers receive the support only if their product is sold to the processors.[50]

[48] Industry official, interview by Commission staff, Veria, Greece, August 9, 2007.

[49] Agrosynergie, *Evaluation of Measures,* October 2006, 4. According to estimates by the Organization for Economic Cooperation and Development, EU-15 subsidies and other transfers from governments of member nations accounted for 37 percent of farm revenue in 2003, compared to 17 percent in the United States.

[50] Agrosynergie, *Evaluation of Measures,* October 2006, 4.

After the CAP reform of 2000, a national production threshold system replaced the former community threshold.[51] The thresholds, shown in table 6.15, are expressed in raw materials delivered to processors and not the final finished product output. Whenever a national threshold is exceeded, the fixed aid assigned for the respective product, €0.0477 ($0.0575) per kg for peaches and €0.1617 ($0.1948) for pears in 2006 and 2007, is reduced in the following year.[52] If a country exceeds its assigned threshold in a given year, the penalties are applied the following year only to the sector in the country which exceeded its threshold. While these thresholds are meant to prevent an oversupply in the market, the quantities of peaches delivered to processors have been far below the annual national threshold quantities. In the case of pears, however, Italy's threshold was exceeded in 2006, resulting in a reduction in aid for pears from €161.7 ($194.82) to €154.00 ($185.54) per mt.

Table 6.15 EU thresholds for canned peaches and pears, by member state, 2007

Member state	Peaches	Pears
	Metric tons of raw materials	
Greece	300,000	5,155
Spain	180,794	35,199
France	15,685	17,703
Italy	42,309	45,708
Netherlands	N/A	243
Austria	N/A	9
Portugal	218	600
EU total	539,006	104,617

Source: USDA, FAS, *European Union Agricultural Situation, EU Fruit and Vegetable Regime*, May 2, 2001, 10.

The EU announced that it will reform its funding under the CAP Common Market Organization (CMO) for fruit and vegetable production in 2008, in order to increase competitiveness and make the sector more market oriented, stabilize income fluctuations due to crises, promote consumption, enhance environmental protection, and ensure WTO compliance.[53] Under the reformed fruit and vegetable CMO, aid to fruits and vegetables for processing, including peaches and pears, will be decoupled from production and transferred into the Single Farm Payment (SFP) scheme,[54] increasing the previous national budgetary ceilings under SFP by about €800 ($964) million.[55] This reform and other reforms under the Fruit and Vegetable CMO, effective in January 2008, will bring the fruit and vegetable sector into alignment with other previously reformed sectors.[56]

Under the 2008 changes and the SFP scheme, specific land area dedicated to harvesting fruit and vegetables will become eligible for SFP entitlements. The inclusion of fruits and vegetables in the SFP program will require the POs in the sector, under the "cross

[51] Previously, a single threshold was applied to the total production level of the entire EU. There were not distinct thresholds for each individual country.

[52] EC, "Council Regulation No. 2699/2000 of 4 December 2000," December 4, 2000, 3.

[53] EC, "Cap Reform," June 12, 2007.

[54] "The main aim of the single payment is to guarantee farmers more stable incomes. Farmers can decide what to produce in the knowledge that they will receive the same amount of aid, allowing them to adjust production to suit demand. To be eligible for the single payment, a farmer requires payment entitlements. These are calculated on the basis of the payments received by the farmer during a reference period (historical model) or the number of eligible hectares farmed during the first year of implementation of the scheme (regional model)." See EC, "Direct Payments," July 11, 2006.

[55] EC, "Reform of the common market organization in fruit and vegetables," June 12, 2007.

[56] The Fruit and Vegetable CMO deals with both fruit and vegetables for both the fresh market and for processing.

compliance" requirement, to devote a minimum of 10 percent of their total operational budget towards environmental measures.[57] Crisis management programs organized by the PO will be one half financed by the EU and will include harvest insurance, help securing loans, and financing of administrative costs of setting up mutual funds.[58] Other reforms under the fruit and vegetable CMO include partial EU financing of organic production, funding for EU promotion of consumption, and €8 ($9.6) million in 100 percent financed aid for distribution to schools, hospitals, and charitable bodies, up to 5 percent of the quantity marketed by a PO.[59]

Once the total fruit and vegetable budget has been allocated, the EU Member states then have the ability to disburse those funds in the manner they see fit. Therefore, the impact of the 2008 CAP Reform will vary depending on how each EU Member State disburses the funds.[60] The Greek government announced that it will allocate €11.8 ($14.2) million of its awarded funding to the peach industry over the five year period between 2008 and 2013.[61] The allocation of the payments under the single payment scheme (SFP) must be decoupled from production, and therefore will be based on historical bearing hectarage and not the quantity produced.

There are two alternatives to how the €11.8 ($14.2) million may be distributed through the SFP scheme in Greece. The government may award the SFPs based on historical cultivators and their hectarage regardless of what market that product was destined for historically. The funds may also be disbursed through SFPs based on the land area that was traditionally used for deliveries made for processing. In either case, the land area base used to allocate the payments would be based on a historical average of hectares cultivated. The number of years used as the historical base has yet to be determined.

The second option, where SFPs are based on hectarage historically used for production destined for processing, is preferred by Greek processors because it would most likely insure a supply of raw material to canneries. The industry's representatives are confident that the SFPs will be allocated to historical bearing hectares utilized for deliveries to processing. Industry representatives recognize that their historically stable supply of raw material may be threatened because the SFP system provides the opportunity for peach farmers to pull their trees, withdraw from the sector, and grow other products. However, they estimate that these withdrawals will not be significant and the CAP Reform will therefore have little impact on the industry's supply of raw material.[62]

There is uncertainty as to how the new CAP reform will impact the structure of the Spanish canning industry. If payments are made per hectare and not based on contracted deliveries to canners, growers may be less likely to supply canners because prices are much higher in the fresh market and are comparable for the purée market.[63] As a result, there is concern about the potential for a supply shortage and increasing costs of raw materials destined for canning. According to canning industry officials, some canners believe the industry's goal will eventually be to develop their own orchards in order to have a guaranteed supply of

[57] EC, "Cap Reform," June 12, 2007.
[58] *AgraEurope*, "SFP Extension Will Aid Fruit and Vegetable Sector Liberalization," August 31, 2007.
[59] EC, "Cap Reform," June 12, 2007.
[60] EC, "Single Farm Payment Scheme-the concept," November 7, 2006, 2.
[61] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.
[62] Ibid.
[63] Industry officials, interviews by Commission staff, Alicante, Spain, August 6, 2007.

50–60 percent of the needed fruit.[64] However, other industry officials point out that such a plan would not be a feasible or profitable solution to the problem owing to other factors, such as a lack of growing experience and expertise.[65] There is also concern about the level of funding in Spain that will be allocated to the peach and pear industries versus other fruits and vegetables. Unlike in Greece, where the payment amount is known and there is some confidence about the disbursement method, the Spanish government has not yet announced which specific fruit and vegetable sectors will receive payments. Nevertheless, in both countries, the CAP reform is likely to pressure farms to consolidate and increase size in order to increase hectares and thereby increase their access to EU support.[66]

Trade Practices

The EU maintains import tariffs between 15.2 percent and 19.2 percent *ad valorem* for canned peaches, 16.0 percent and 19.2 percent *ad valorem* for canned pears, and 13.6 percent and 19.2 percent ad valorem for canned fruit mixtures.[67] Preferential duty rates apply to imports from Chile and South Africa

Market Factors

Input Costs and Availability

The primary input costs for processors in both Spain and Greece are raw materials, cans, labor, and other items (e.g., overhead). Costs vary significantly by container size, pack, and type of canned product being sold.[68] The same specific cost items make up similar shares of the overall Greek and Spanish industries cost structure. In 2006, however, as shown in table 6.16, the total Greek cost for producing a 1 kg can of peaches was 18 percent less than in Spain, primarily as a result of lower costs for other items and for fresh fruit.

The cost of raw materials fluctuates from year to year as a result of weather, crops yields, and demand and prices offered for fresh fruit from other sectors such as the fresh and purée markets. Prices are set by negotiation between the growers and processors during cultivation but before harvesting. The shortage of cling peaches available for processing and the high prices during the 2003–04 marketing year resulted in Greek farmers receiving a record price of €0.60 ($0.72) per kg from canners. Negotiated prices between processors and growers have since stabilized owing to more regular weather and fresh production output. The price was €0.23 ($0.28) per kg in 2006. However, the price in Spain has fluctuated significantly over the course of the past two seasons even though fresh production has been stable and substantial.

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[64] Ibid.
[65] Industry officials, interviews by Commission staff, Murcia, Spain, August 7, 2007.
[66] Industry officials, interviews by Commission staff, Murcia, Spain and Imathia, Greece, August 2007.
[67] EC, TARIC database.
[68] Various products include different cuts such as halved, sliced, and diced fruit, as well as packed in a variety of liquids, such as syrup, fruit juice, or water.

Table 6.16 Canned peaches: Production costs in Greece and Spain

Items	Cost per 1kg can	Share of total
	Euros	*Percent*
Greek production costs:		
Raw material	0.16	30
Can	.13	24
Labor	.05	9
Other	.20	38
Total	.54	100
Spanish production costs		
Raw material	.20	30
Can	.15	23
Labor	.06	9
Other	.25	38
Total	.66	100

Sources: FNACV, 8th World Canned Deciduous Fruit Conference; Industry officials, interviews by Commission staff, Spain and Greece; Commission estimates.

Negotiated prices for peaches are highest for the choice or first quality peaches; second quality peaches receive a lower price. In Greece, second quality peaches for canning received €0.16 ($0.19) per kg in 2007. Peaches sold to freezers received €0.25 ($0.30) per kg. This price is higher because those products are generally supplied and purchased out of the peak season.[69] The price of pears fluctuates in a manner similar to peaches and depends upon the success of the crop.

While the availability of raw materials for canners may be altered as a result of the CAP reform, another important factor will be the growing demand for fresh fruit in the purée market. Purée has historically taken low quality, surplus peaches for much lower prices. However, demand for purée has been rising rapidly. Accordingly, prices paid for peaches for purée have risen and are expected to continue to rise as demand for purée products increases in the primary export markets of Russia and Eastern Europe. Purée producers are also able to pay higher prices for peaches because other input costs are much lower for purée production than for traditional canners; purée processing lines are almost entirely mechanized so very little labor is needed. Farmers also prefer selling their product for purée because growing costs are lower.[70]

The purée market is expanding quickly and almost all Greek peach canners have a purée line. These lines are reported to cost between €1.50 ($1.81) and €2.00 ($2.41) million to install, although approximately 40 percent of the financing for investments into new product lines is subsidized by EU investment laws.[71] This expansion is increasing demand for peaches because purée requires significantly more raw material.[72] This expanding market is expected

[69] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[70] Growing practices for peaches for purée require only two pickings instead of three because appearance and size do not affect the final product. As a result, labor costs associated with tree thinning are lower. Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[71] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[72] It takes about 2 tons of raw peaches to produce 3 tons of canned peaches, but it takes 3–4 mt of raw peaches to produce one of purée. Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

to increase the demand significantly for raw materials and may change the current pricing structure of the canned peach industry.[73]

Both field and canning labor is considered to be abundant in Spain and Greece. In both countries, immigrants comprise a large part of the labor pool. The availability of immigrant labor is steady because wages paid in Spain and Greece are substantially greater than what workers can earn in their home countries.[74] [75] Immigrants with temporary work status have to be invited to work in the EU and labor is generally obtained through employment agencies in Spain. Insurance and social program costs are paid to the state for these workers. Average hourly factory and field wages in Spain are €10.00 ($12.05) and €7.00 ($8.43), respectively. In Greece, factory and field wages are €8.00 ($9.64) and €5.00 ($6.02), respectively.[76]

Transportation Costs and Distribution

Transportation costs are an important input cost for canners to manage in order to successfully market their products abroad. EU producers and exporters serve a wide variety of different markets, each with different product preferences and market structures. Therefore, distribution networks vary by the export market.[77] Transportation costs are often the focus of price negotiations between canners and their clients.

EU canners have significant competitive advantages in transportation costs to the Eastern United States, Russia, and intra-EU markets. Infrastructure development is making shipments within the EU less expensive and time consuming. For example, new EU funded construction of major roads to Germany and Central Europe are expected to significantly decrease distribution costs. However, the price per container trucked to EU markets can vary significantly, depending on the timing of the route.[78] New road development in Greece is also lowering the costs for trucking by cutting the time and distance to the major port in Thessaloniki almost in half.[79] Officials reported that shipments from the Pella region of Greece ex factory to the port, including handling, are generally between €300 ($361) and €400 ($482) per container. The transportation cost per container from the major peach production regions of Greece to Russia, is generally around €1,300 ($1,566).

Both Spain and Greece are also within close proximity to the east coast of the United States. Greek industry officials reported that Greek canners can ship to the east coast of the United States at a competitive price to what it costs U.S. canners in California to ship east. Industry officials reported that it generally costs approximately €2,000 ($2,410) per container to ship to New York.[80]

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[73] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[74] Dunn, "Greek Peach pack on course despite competition for fruit," *Foodnews*, July 27 2007.

[75] Industry official, interview with Commission staff, Imathia, Greece, August 10, 2007.

[76] FNACV, *8th World Canned Deciduous Fruit Conference-Sacramento*, April 2007.

[77] For example, Cofrusa, a Spanish processing company, ships to a distributor in Hamburg that supplies the major supermarkets in Germany. However, in the U.K., Cofrusa owns a distributor that sells to the major supermarkets. Industry official, interview with Commission staff, Murcia, Spain, August 6, 2007.

[78] Prices vary by season and demand; shipments by truck on their return trip is generally less expansive than those on the first leg of a trip.

[79] Industry official, interview by Commission staff, Imathia, Greece, August 10, 2007.

[80] Ibid.

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CHAPTER 7
The Industry in Thailand

Despite insignificant domestic production of fresh peaches and pears, Thailand became a leading global exporter of canned peaches, pears, and fruit mixtures during 2002–06. In 2006, Thailand was the leading global exporter of canned fruit mixtures and the fifth largest exporter of both canned pears and peaches.[1] The United States is the principal market for Thailand's canned peach and canned pear exports, while canned fruit mixtures are exported to a number of destinations, including the United States, the European Union, and Japan.[2] Although Thailand is not able to grow commercial quantities of deciduous fruit for canning because of its tropical climate, it has been a leading global producer and exporter of canned pineapple for many years.[3] Because of its lack of domestic production of deciduous fruit, Thailand is highly dependent on imported canned peaches and pears for its canning industry. Thailand's peach and pear canning industry is almost entirely accounted for by Dole Thailand Ltd., of which the Dole Food Company is the majority owner. Dole's operations in Thailand involve importing canned fruit in larger containers and repackaging it into smaller plastic containers for export. More than 90 percent of Dole Thailand's production of processed peaches, pears, and fruit mixtures is exported, with the remainder sold in Thailand's modern trade[4] markets under the Dole brand.

Thailand's competitive advantages in producing canned fruit are based primarily on a history of canning tropical fruit, relatively inexpensive labor, and technological investments provided by Dole Food Co. that allow Dole Thailand production facilities to meet U.S. food safety and quality requirements. Thailand's current competitive disadvantage is its near total dependence on imports of canned fruit for repackaging and its distance from major consuming markets. However, Dole Thailand is able to secure canned fruit supplies from multiple countries through Dole Food Company's worldwide transportation network and procurement system. Additionally, the Thai government allows importers to receive refunds on imports of canned fruit used in processing and for reexport.[5]

Structure of the Industry

Processing

Thailand has a significant and developed canning sector, mainly for tropical fruits such as pineapple, which are grown in abundance locally. Its canning operations for peaches and pears are much more limited and the vast majority of Thailand's production of canned peaches, pears, and fruit mixtures is believed to be accounted for by Dole Thailand Company

[1] Data for global trade in canned fruit mixtures include mixtures of all types of fruits, including peaches and pears. GTIS, World Trade Atlas Database.

[2] GTIS, World Trade Atlas Database.

[3] USDA, ERS, *Fruit and Tree Nuts Situation and Outlook Yearbook*, October 2006, 41.

[4] "Modern trade" is a term used in many foreign countries that refers to modern supermarkets, convenience stores, and shopping centers.

[5] Thai government officials, interview by Commission staff, Washington, DC, September 5, 2007.

Limited (Ltd).[6] This company was created in 1972, initially canning pineapple and tropical fruit salads before adding other fruits in subsequent years.[7] Dole Food Company[8] is the majority shareholder of Dole Thailand along with unnamed minority investors.[9] Few other Thai firms produce fruit mixtures among other canned products on the same equipment and machinery used in canning pineapple. Dole Thailand's large volume multifruit canning plants are located in Hua Hin (600,000 square feet) and Chumphon (400,000 square feet), near the Gulf of Thailand, with plants producing canned peaches, pears, and fruit mixtures on separate, dedicated lines.[10] [11] All of Dole Thailand's peach and pear production is from these two plants. More than 90 percent of Dole Thailand's production of canned peaches, pears, and fruit mixtures is exported, with the remainder sold in Thailand's modern trade supermarkets under the Dole brand.[12]

Thai production data on canned peaches, pears, and fruit mixtures are not publicly available. However, Thai export data on canned fruit provide an indication of production trends, as most output is exported (table 7.1).[13] Thailand is unique in that its primary inputs (peaches and pears), are not sourced domestically in fresh form. Canned peaches and pears are imported, mainly in institutional size metal cans,[14] from multiple countries worldwide and repackaged.[15] This process involves opening cans, inspecting the contents to insure Dole's size and quality specifications are met, discarding the unacceptable fruit pieces, and packaging the remaining fruit into smaller plastic containers.[16]

Fruit bowls[17] (or cups[18]), introduced in 1998, and plastic jars,[19] introduced in 2003, have allowed Dole to achieve a significant market share for packaged fruit in North America.[20] These products have driven Dole's growth in the North American canned fruit market as consumption of traditional fruit in cans has remained relatively static with consumers opting for canned fruit in innovative packaging or fresh fruit.[21] Dole Thailand's plants produce in excess of 70 percent of Dole Food Company's fruit bowl and plastic jar products, with the

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[6] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.

[7] Ibid.

[8] Dole Food Company, Inc. is the world's largest producer and marketer of fresh fruit, fresh vegetables and fresh cut flowers. Dole also markets a line of packaged foods and frozen fruit. http://www.dole.com/index.jsp (accessed September 14, 2007).

[9] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.

[10] Ibid.

[11] Dole Food Company, Inc., "2005 Annual Report," 2006, 48.

[12] U.S. government official, Bangkok, Thailand, e-mail message to Commission staff, March 26, 2007.

[13] Thailand's domestic consumption of canned peaches, pears, and fruit mixes is relatively low, as such products are more expensive and consumers reportedly traditionally prefer fresh fruit. Thai government officials, Office of Commercial Affairs, Royal Thai Embassy, interview by Commission Staff, September 5, 2007.

[14] Dole imports some frozen fruit into Thailand from its frozen food facility in Atwater, CA for use in its canning operations. Dole Food Company, telephone interview by Commission staff, September 26, 2007.

[15] U.S. government official, Bangkok, Thailand, e-mail message to Commission staff, March 26, 2007.

[16] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.

[17] Dole's fruit bowls are single serving plastic cups that range in size from three to seven ounces and were developed as a convenient alternative in the snack food market, especially for school age children.

[18] "Fruit cup" is the generic name for the single serving product and "fruit bowl" is the name used by Dole for marketing purposes.

[19] Dole's fruit jars are 24.5 ounce multiple serving plastic resealable jars and are an alternative to fruit in cans.

[20] Dole Food Company, Inc., "2005 Annual Report," 2006, 38.

[21] Dole Food Company, Inc, "Form 10-K, Fiscal Year Ended December 30, 2006," 2007, 7.

Table 7.1 Peaches and pears: Thai production, imports, and exports, 2002–06

Items	2002	2003	2004	2005	2006
	Metric tons				
Peaches:					
Fresh production	([a])	([a])	87	75	63
Imports of canned product	17,111	11,232	23,344	30,847	25,590
Imports of fresh product	111	35	130	179	128
Exports of canned product	7,748	11,479	18,295	21,831	27,217
Pears:					
Fresh production	([a])	([a])	214	152	248
Imports of canned product	3,537	2,660	8,513	10,347	7,975
Imports of fresh product	5,289	25,501	35,311	42,267	43,330
Exports of canned product	1,752	3,119	4,426	5,514	5,220

Source: GTIS, World Trade Atlas Database; Royal Project Foundation.

[a]Not available.

remainder processed in the Philippines.[22] In addition to peaches, pears, and mixed fruit bowls and jars, Dole Thailand also processes canned pineapple, mandarin oranges, tropical fruit, and cherries into plastic containers at these two plants.[23] Because of the success of its fruit bowl and fruit jar sales, Dole has made additional investments in its Asian canneries and, since 2005, has packed more fruit bowls and plastic jars than traditional metal cans.[24] As reported by market research firm IRI, Dole's fruit bowl products had a 51 percent share of the retail market for plastic fruit cups in the United States in 2006, and Dole's fruit jars had a 45 percent retail market share in 2006.[25]

Growing

Thailand's limited production of deciduous fruits, including peaches and pears, is mainly in the more temperate Northern region, which represents a quarter of Thailand's forested area and where the majority of its hill tribes live.[26] Most of this fruit production is supported by the Royal Project Foundation[27] in order to assist hill tribes in producing sufficient agricultural crops to improve their standard of living and discourage opium poppy production.[28] Production of high quality deciduous fruit in Northern Thailand is limited by two main factors: the lack of suitable fruit tree cultivars that might grow there and insufficient chilling days.[29]

[22] Dole Food Company, Inc. "2005 Annual Report," 2006, 48.
[23] Ibid.
[24] Dole Food Company, Inc, "Form 10-K, Fiscal Year Ended December 30, 2006," 2007, 15.
[25] Ibid., 6.
[26] The hill tribes are ethnic groups living in Northern Thailand, Laos, and Burma.
[27] Founded by Thailand's King Bhumibol Adulyadej in 1969, the Royal Project Foundation is an initiative designed to fight rural poverty and empower the hill tribes in Thailand's five northern provinces. Royal Project Foundation.
[28] Department of Foreign Trade, Thailand Ministry of Commerce, USITC written testimony, July 23, 2007, 1.
[29] Chilling days are required for trees to break dormancy and for subsequent normal flower and bud development, which in turn will allow for normal fruit growth.

Trade

The Thai industry's exports of canned peaches, pears, and fruit mixtures grew significantly during 2002–06, with the United States the leading destination for all of these products, reflecting the increasing popularity of packaged fruit bowls and plastic jars containing peaches and pears. Thailand's growth in exports is made possible by imports of canned peaches and pears for repackaging, which have also risen substantially during 2002–06.

Thailand's MFN applied and bound tariff rates for imports of canned peaches, pears, and fruit mixtures are 30 percent ad valorem.[30] Under Section 19 of the Thai Customs Act,[31] the Thai government provides duty drawback for the refund of import duties already paid on imported goods which have undergone production, mixing, assembling, or packing, and are then exported within one year from the day of importation.[32]

Thailand is a member of the ASEAN free trade area and has negotiated a series of free trade agreements (FTAs) since 2000 to increase bilateral trade and improve access for lower cost inputs,[33] including canned fruit[34] from two of its leading suppliers, Australia and China. The Thailand-Australia FTA and the Thailand-New Zealand Closer Economic Relationship (CER) were both implemented on January 1, 2005, and will eliminate all tariffs between each country by 2020. Under these two agreements, Thailand's import tariffs for canned peaches, pears, and mixtures will go to zero in 2010.[35] Additionally, China and Thailand eliminated tariffs on all fresh fruits and vegetables on October 1, 2003, under the "Early Harvest Scheme"[36] of the ASEAN-China FTA framework.[37] China is a leading supplier of both fresh and canned peaches and pears to Thailand.[38] Thailand is presently in the early stages of negotiations for a FTA with the European Union.[39] Reduced tariffs for EU canned fruits imported into Thailand would benefit Thailand's fruit processing industry as Greece is the leading supplier of canned peaches to Thailand, and France and Italy currently provide modest volumes of pears to Thailand.[40] The United States began FTA negotiations with Thailand in July 2004 but these negotiations were suspended in September 2006. If U.S. tariffs on canned fruit imports[41] from Thailand are reduced under an FTA, Thailand's access for canned fruit exports to the U.S. market would be improved and potentially encourage

[30] APEC Tariff Database and U.S government official, U.S. Embassy, Thailand, e-mail message to Commission staff, September 27, 2007.

[31] The Customs Department of the Kingdom of Thailand Website.

[32] U.S government official, U.S. Embassy, Thailand, e-mail message to Commission staff, September 27, 2007.

[33] Although duty drawbacks are permitted on Thai imports that will be eventually reexported, this process requires submitting several forms for documentation and then approval is needed by Thailand's Ministry of Commerce, which reportedly can be costly and time consuming.

[34] APEC Tariff Database.

[35] Thailand-Australia Free Trade Agreement.

[36] Under the Early Harvest Scheme, the HTS coverage is limited to the specified codes in HTS Chapters 1–8. Fresh fruit is found in HTS Chapter 8 but canned fruit is in HTS Chapter 20 and would not be included in the Early Harvest Scheme. Thai government official, Office of Commerical Affairs, Royal Thai Embassy, email message to Commission staff, September 27, 2007.

[37] USDA, FAS, *Thailand Trade Policy Monitoring*, February 23, 2007, 2–3.

[38] GTIS, World Trade Atlas Database.

[39] Thai government official, Office of Commerical Affairs, Royal Thai Embassy, email message to Commission staff, September 10, 2007.

[40] GTIS, World Trade Atlas Database.

[41] The U.S. MFN import tariffs on canned pears is 15.3 percent *ad valorem*, 16.0 percent on canned peaches, and 5.6 percent on fruit mixtures. USITC, Tariff Information Center.

greater exports to the United States from Thailand. Also, since the United States is a leading supplier of canned peaches and pears to Thailand,[42] reductions of Thailand's import tariffs on canned fruit under an FTA could result in greater imports from the United States.

Exports

Thailand's exports of canned peaches increased by more than 250 percent during 2002–06, amounting to 27,217 mt valued at $47.4 million in 2006 (table 7.2).[43] The United States accounted for 89 percent of these exports in 2006 with Canada and the Netherlands largely making up the remainder. Thailand's exports of canned pears also increased dramatically during 2002–06, amounting to 5,220 mt valued at $9.72 million in 2006 (table 7.3).[44] The United States accounted for 99 percent of these exports in 2006 with the remainder being shipped to Canada and Australia. Thailand's exports of fruit mixtures[45] increased by 28 percent during 2002–06, amounting to 96,673 mt valued at $87.6 million in 2006,[46] with the United States accounting for 56 percent of exports in 2006 and Japan, Canada, and Germany much of the rest (table 7.4).

Imports

In most years of the period under review, Thai imports of canned peaches and pears were principally from the following countries: United States (peaches and pears), China (peaches and pears), Greece (peaches), and South Africa (pears).[47] Thailand's imports of peaches increased by 50 percent during 2002–06, amounting to 25,590 mt valued at $21.6 million in 2006 (table 7.5).[48] Greece, the United States, and China were the leading suppliers in 2006. Thailand's imports of canned pears increased by 125 percent during 2002–06, amounting to 7,975 mt valued at $7.3 million in 2006 (table 7.6).[49] The United States, China, and South Africa were the leading suppliers in 2006. The great bulk of Thai imports of canned peaches and pears are repacked and exported as canned peaches, pears, and fruit mixtures. Relative to peaches and pears, imports of fruit mixtures were very small in 2001–06, amounting to 26 mt valued at $45,000 in 2006 (table 7.7).

[42] GTIS, World Trade Atlas Database.
[43] Ibid.
[44] Ibid.
[45] This includes all fruit mixtures, which can contain multiple fruits in addition to peaches and pears.
[46] GTIS, World Trade Atlas Database.
[47] Ibid.
[48] Ibid.
[49] Ibid.

Table 7.2 Canned peaches: Thai exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	6,486	9,812	16,540	19,592	24,341
Canada	971	709	879	1,427	1,210
Netherlands	157	274	626	657	1,076
Korea	0	34	53	83	232
South Africa	0	0	0	0	192
Other	134	650	197	72	166
Total	7,748	11,479	18,295	21,831	27,217
	Value (*1,000 US dollars*)				
United States	10,712	16,440	29,414	33,481	42,587
Canada	1,538	1,127	1,516	2,385	2,002
Netherlands	247	457	1,071	1,393	1,871
Korea	0	69	106	149	395
South Africa	0	0	0	0	315
Other	145	555	30	113	271
Total	12,642	18,647	32,139	37,521	47,441
	Unit value (*dollars/metric ton*)				
United States	1,652	1,675	1,778	1,709	1,750
Canada	1,584	1,590	1,725	1,671	1,655
Netherlands	1,573	1,668	1,711	2,120	1,739
Korea	-	2,029	2,000	1,795	1,703
South Africa	-	-	-	-	1,641
Other	1,082	854	152	1,569	1,633
Average	1,632	1,624	1,757	1,719	1,743

Source: GTIS, World Trade Atlas Database.

Table 7.3 Canned pears: Thai exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	1,751	3,108	4,424	5,512	5,173
Canada	0	0	0	0	39
Australia	0	1	1	1	6
Denmark	0	0	0	1	1
Japan	0	0	0	0	1
Other	1	10	1	0	0
Total	1,752	3,119	4,426	5,514	5,220
	Value (*1,000 US dollars*)				
United States	2,726	5,145	8,048	10,001	9,623
Canada	0	0	0	0	76
Australia	0	2	1	1	8
Denmark	0	0	0	5	6
Japan	0	0	0	0	4
Other	1	12	1	0	0
Total	2,727	5,159	8,050	10,009	9,722
	Unit value (*dollars/metric ton*)				
United States	1,557	1,655	1,819	1,814	1,860
Canada	-	-	-	-	1,949
Australia	-	2,000	1,000	1,000	1,333
Denmark	-	-	-	5,000	6,000
Japan	-	-	-	-	4,000
Other	1,000	1,200	1,000	-	-
Average	1,557	1,654	1,819	1,815	1,862

Source: GTIS, World Trade Atlas Database.

Table 7.4 Canned fruit mixtures: Thai exports, by principal markets, 2002–06

Market	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	43,863	43,149	48,771	53,256	53,751
Japan	4,003	4,070	5,383	5,936	6,345
Canada	4,525	3,468	3,457	4,719	4,005
Germany	1,981	2,731	3,841	4,041	3,982
Netherlands	3,261	3,921	2,934	5,124	2,990
Other	17,775	22,099	20,602	21,058	25,600
Total	75,408	79,438	84,988	94,134	96,673
	Value (*1,000 US dollars*)				
United States	33,909	35,356	46,617	51,126	53,857
Japan	3,192	3,249	4,466	5,219	5,695
Canada	3,976	2,744	2,795	4,297	3,297
Germany	1,287	1,787	2,581	2,723	2,648
Netherlands	2,149	2,857	2,767	4,380	2,625
Other	12,766	15,361	15,146	15,738	19,472
Total	57,279	61,354	74,372	83,483	87,593
	Unit value (*dollars/metric ton*)				
United States	773	819	956	960	1,002
Japan	797	798	830	879	898
Canada	879	791	809	911	823
Germany	650	654	672	674	665
Netherlands	659	729	943	855	878
Other	718	695	735	747	761
Average	760	772	875	887	906

Source: GTIS, World Trade Atlas Database.

Note: Data are for HTS subheading 2008.92, canned fruit mixtures of all types, including those of peaches and pears.

Table 7.5 Canned peaches: Thai imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
Greece	10,766	3,045	3,441	15,744	13,540
United States	799	4,688	9,929	7,005	7,335
China	2,549	1,578	1,881	3,458	1,408
Spain	1,278	340	7	4	1,241
Chile	684	180	1,567	1,204	1,106
Other	1,035	1,401	6,519	3,432	960
Total	17,111	11,232	23,344	30,847	25,590
	Value (*1,000 US dollars*)				
Greece	7,594	2,412	3,067	12,093	11,028
United States	680	4,081	8,625	5,775	6,424
China	1,732	1,373	1,536	2,583	1,134
Spain	959	269	8	5	1,096
Chile	552	158	1,455	1,142	1,020
Other	843	1,147	6,470	3,312	874
Total	12,360	9,439	21,161	24,911	21,576
	Unit value (*dollars/metric ton*)				
Greece	705	792	891	768	814
United States	851	871	869	824	876
China	679	870	817	747	805
Spain	750	791	1,143	1,250	883
Chile	807	878	929	949	922
Other	814	819	992	965	910
Average	722	840	906	808	843

Source: GTIS, World Trade Atlas Database.

Table 7.6 Canned pears: Thai imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
United States	1,069	425	3,545	4,127	5,568
China	850	1	1,577	323	2,120
South Africa	90	1,223	2,270	1,747	271
France	13	10	5	9	8
Australia	400	310	0	1,741	5
Other	1,115	691	1,116	2,427	3
Total	3,537	2,660	8,513	10,374	7,975
	Value (*1,000 US dollars*)				
United States	945	366	3,163	3,545	5,244
China	599	2	1,115	253	1,747
South Africa	75	1,104	2,213	1,772	286
France	13	15	6	8	8
Australia	284	239	0	1,577	6
Other	943	592	1,029	2,229	3
Total	2,860	2,317	7,529	9,385	7,294
	Unit value (*dollars/metic ton*)				
United States	884	861	892	859	942
China	705	2,000	707	783	824
South Africa	833	903	975	1,014	1,055
France	1,000	1,500	1,200	889	1,000
Australia	710	771	-	906	1,200
Other	846	857	922	918	1,000
Average	809	871	884	905	915

Source: GTIS, World Trade Atlas Database.

Table 7.7 Canned fruit mixtures: Thai imports, by principal sources, 2002–06

Source	2002	2003	2004	2005	2006
	Quantity (*metric tons*)				
France	3	4	4	3	5
Thailand	0	25	36	0	16
China	22	1	2	5	3
United Kingdom	0	0	0	0	2
India	0	2	0	2	0
Other	2	3	0	0	0
Total	27	35	42	10	26
	Value (*1,000 US dollars*)				
France	10	13	14	12	20
Thailand	0	24	26	0	18
China	23	2	2	7	3
United Kingdom	0	0	0	3	2
India	0	2	0	3	0
Other	10	12	0	2	1
Total	43	53	44	26	45
	Unit price (*dollars/metric ton*)				
France	3,333	3,250	3,500	4,000	4,000
Thailand	-	960	722	-	1,125
China	1,045	2,000	1,000	1,400	1,000
United Kingdom	-	-	-	-	1,000
India	-	1,000	-	1,500	-
Other	5,000	4,000	-	-	-
Average	1,593	1,514	1,048	2,600	1,731

Source: GTIS, World Trade Atlas Database

Competitive Factors

Government Programs, Regulatory Compliance, and Trade Practices

According to the U.S. Trade Representative (USTR), the government of Thailand maintains certain programs to promote trade in processed agricultural products that could be deemed export subsidies.[50] These programs include tax benefits, import duty reductions, preferential financing for exporters, and low interest loans for exporters targeting new markets. However, Thailand government representatives note that, with the exception of import duty reductions, most of these programs are no longer in existence because of budgetary constraints.[51] Government assistance is also provided for export promotions at trade shows and missions, although the USDA notes that most of these promotions are intended for Thai exports to other ASEAN member countries.[52] The Thai Ministry of Commerce, through its Department of Foreign Trade (DFT) and Department of Export Promotion (DEP), has a major role in Thailand's export promotion program, although the DFT is more involved in promoting products other than canned fruit. The DEP is more involved in promoting high value products[53] with trade shows and trade missions, wherein Thai exporters are provided assistance with booth fees and the cost of shipping samples to some trade shows.[54]

Market Factors

Input Costs and Availability/Cost Structure

Production costs

An estimation of Thailand's production costs for canned fruit was derived by subtracting the import unit value from the export unit value, resulting in a 'processing margin' composed of labor, packaging, machinery, other costs, and profit. Raw product cost would be the import unit value since virtually all fruit used as raw material was imported in cans. Raw product cost was added to the processing margin to calculate a total production cost.

In 2006, the raw product cost for canned peaches was $0.84 per kg or 48 percent of total cost of $1.74 per kg, with the remaining 52 percent attributed to the processing margin of $0.90 per kg (table 7.8). Labor is a small share of total processing costs reportedly because of widespread automation in Dole's Thai plants.[55] Since Dole imports all of its petroleum-

[50] USTR, "Thailand," 2006, 644.
[51] Thai government officials, Office of Commercial Affairs, Royal Thai Embassy, interview by Commission Staff, September 5, 2007.
[52] USITC, *Canned Pineapple Fruit from Thailand*, IV-23.
[53] These include machinery, appliances, textiles, furniture, and processed food products like canned fruits, spices, sauces and frozen poultry.
[54] U.S. Department of Agriculture, Foreign Agricultural Service Website. http://www.fas.usda.gov/cmp/com-study/1998/comp98-th.html (accessed February 23, 2007).
[55] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.

Table 7.8 Canned peaches: Thai production costs, by category, 2006

Category	Cost per 1kg can	Percentage of total
Raw material	$0.84	48
Labor	$0.31	18
Can	$0.09	5
Other	$0.50	29
Total	$1.74	100

Sources: GTIS, World Trade Atlas Database; USITC staff estimates.

based plastic containers from Europe,[56] per unit container costs were likely greater than labor costs in 2006.

Canned fruit inputs

The Dole Food Company has extensive global operations and is vertically integrated, combining growing, processing, canning, shipping, and marketing functions.[57] Dole Thailand is able to secure canned fruit supplies from multiple countries through Dole's worldwide transportation network and procurement system. Dole sources products from several countries,[58] changing the volume it purchases from each country on a season-to- season basis depending upon the cost and quality specifications of the available fruit.[59] Because of price changes that normally occur throughout the season, Dole generally negotiates prices a few months ahead of making its purchases, rather than making long term purchase agreements months in advance of fruit delivery.[60]

Labor costs

Wage rates in Thailand, although relatively high when compared with other Southeast Asian countries, are low compared with wage rates in the United States and the European Union. Most cannery workers in Thailand are paid minimum wage; wages in provinces where most fruit canneries are located were $4.73 per day in Prachuab Khiri Khan, $4.63 per day in Chumphon, and $5.35 per day in Chonburi.[61] Unlike other fruit canneries in Thailand where fruit canning is a labor intensive operation, Dole Thailand's plants in Hua Hin and Chumphon are highly automated, using production lines of a proprietary design with a relatively smaller proportion of workers.[62]

Processing technology

Thailand's major processed food exporters have expanded their production capacity with new machinery purchases or machinery upgrades to satisfy international quality standards including U.S. Hazard Analysis and Critical Control Point (HACCP) and International

[56] Ibid.
[57] Nidhiprabha, "SPS and Thailand's Exports of Processed Food," October 1–3, 2002, 13–14.
[58] Dole Food Company, Inc., "Form 10-K, Fiscal Year Ended December 30, 2006," 2007, 9.
[59] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.
[60] Ibid.
[61] U.S. government official, U.S. Embassy, Thailand, email message to Commission staff, August 1, 2007.
[62] Dole Food Company officials, telephone interview by Commission staff, September 26, 2007.

Organization for Standardization (ISO) certifications.[63] Most Thai food processors use imported machines and accessories in their production lines or imported turnkey facilities[64] to increase quality and sanitation standards to meet the international standards required for their largest markets: Japan, the United States, and the European Union.[65] Many Thai canning operations now comply with all U.S. and EU health and safety regulations. Technology transfer from Dole to its subsidiary in Thailand has enabled Dole Thailand to reach high quality standards for several processed products and meet HACCP and ISO[66] standards. Smaller companies without a similar relationship with foreign partners may find it more difficult to achieve such quality control.[67]

Infrastructure

Local infrastructure in Thailand affects transportation costs for raw materials going to the processing plants and for finished products shipped from the plants. Both Dole Thailand plants are located near deep water ports in the Gulf of Thailand. In 2004, the Thai government awarded a 30 year production contract to Hong Kong based Hutchison Port Holdings to add six additional berths to the Laem Chabang deep sea port. This port currently has seven berths and the Thai government has promoted the increased use of this port to reduce the volume of traffic on Bangkok's Klong Toey port, which had handled 90 percent of Thailand's freight until 1998.[68] The increased use of the Laem Chabang port may have contributed to the expansion of Thai exports of canned peaches and fruit mixtures during 2004–06.

[63] Agro Food Asia. http://www.agrofoodasia.com Thai_agrifood/Food_Industry/food_industry.html (accessed September 17, 2007).

[64] Royal Danish Embassy, Bangkok, Danish Trade Council, *Sector Overview: The Market for Food Processing and Packaging Machines in Thailand*, November 24, 2006, 3.

[65] USDA, FAS, *Thailand Exporter Guide Report 2006*, October 6, 2006, 15.

[66] In January 1999, Dole Thailand Ltd. was certified to ISO 14001 - the International Organization for Standardization's (ISO) requirements for Environmental Management Systems (EMS). Included in this certification were Dole Thailand's pineapple and tropical fruit canning and farming operations which was the first pineapple operation to be certified in Asia. In January 2001, Dole Thailand's Chumphon cannery was certified to ISO 14001. Included in this certification are the processing and packing of pineapples, tropical fruit, juice blends and concentrates, and the manufacture of metal packaging.

[67] Nidhiprabha, "SPS and Thailand's Exports of Processed Food," October 1–3, 2002, 14.

[68] EIU, *Country Profile 2007:Thailand*, 2007, 22.

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APPENDIX A
Request Letter

DOCKET NUMBER
2514
Office of the Secretary
Int'l Trade Commission

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

December 8, 2006

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RECEIVED
DEC 12 2006
OFFICE OF THE SECRETARY
U.S. INTERNATIONAL TRADE COMMISSION

Mr. Daniel R. Pearson,
Chairman
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Mr. Chairman:

It has come to the attention of the Committee on Ways and Means that U.S. canned fruit industries, consisting of growers and processors of canned peaches (H.S. 2008.70.20), canned pears (H.S. 2008.40.00), and canned fruit mixtures (H.S. 2008.92.90), are concerned about how imports of such products are affecting the conditions of competition in the U.S. market for their products.

A significant problem for this Committee and the affected U.S. canned fruit industries is the lack of information about the canned fruit sectors of certain major supplier countries to the U.S. market, especially those that both grow and process peaches and pears (including China, Greece, and Spain), both at the grower and processor levels. In order to assess more fully the nature and extent of competition between principal foreign supplier countries and U.S. industries, both now and in the future, the Committee needs additional information concerning the canned peach, canned pear, and canned fruit mixture industries.

Accordingly, the Committee requests that the International Trade Commission institute an investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) and provide a report on conditions of competition between the canned peach, canned pear, and canned fruit mixture industries in the United States and principal foreign supplier countries (such as China, Greece, Spain, and Thailand). Special effort should be made, including field work if practicable, to collect data from the aforementioned supplying countries that are new entrants to the global canned fruit sector and/or have little published historical data.

The Committee requests that the Commission provide in its report, to the extent possible, data and analysis separately for (1) canned peaches, (2) canned pears, and (3) canned fruit mixtures, with any overlap among the industries clearly identified, covering the period 2003-2005. For each of the three products, the Committee requests that the Commission, to the extent practicable, provide the following information and analysis:

- an overview of the canned peach, canned pear, and canned fruit mixture industries in the United States and major supplier countries (such as the named countries above), including production of fresh peaches and pears for processing, planted acreage and new plantings, processing volumes, processing capacity, and consumption;

- information on U.S. and foreign supplier imports and exports of canned peaches, canned pears, and canned fruit mixtures, as well as the market segments in which U.S. imports are being sold (e.g., retail, food service sector, or other);

- a description of principal trade practices and government programs and measures affecting production of the products (especially in China, Greece, and Spain); and,

- a comparison of the strengths and weaknesses of these foreign competitor canned fruit industries and the U.S. industries (including industry structure, input cost and availability, processing technology, product innovation, government programs, exchange rates, and pricing, and marketing regimes), and steps the respective industries are taking to increase their competitiveness.

The Commission should report the results of the investigation no later than 12 months after receipt of this letter. The Committee intends to make the report available to the public in its entirety. Therefore, I request that the report not include any confidential business information.

Thank you for your assistance on this matter.

Sincerely,

BILL THOMAS
Chairman

APPENDIX B
Federal Register Notices

INTERNATIONAL TRADE COMMISSION
[Investigation No. 332-485]

Canned Peaches, Pears, and Fruit Mixtures: Conditions of Competition Between U.S. and Principal Foreign Supplier Industries

AGENCY: United States International Trade Commission.
ACTION: Institution of investigation and scheduling of public hearing.

SUMMARY: Following receipt on of a request on December 12, 2006, from the House Committee on Ways and Means, the Commission instituted investigation No. 332-485, *Canned Peaches, Pears, and Fruit Mixtures: Conditions of Competition between U.S. and Principal Foreign Supplier Industries*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)).

DATES: February 6, 2007: Date of institution.
June 28, 2007: Deadline for filing requests to appear at the public hearing.
July 2, 2007: Deadline for filing prehearing briefs and statements.
July 12, 2007, 9:30 am: Public hearing.
July 26, 2007: Deadline for written statements, including any posthearing briefs.
December 12, 2007: Transmittal of report to the Committee on Ways and Means.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street, SW., Washington, DC. All written submissions, including requests to appear at the hearing, statements, and briefs, should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov*.

FOR FURTHER INFORMATION CONTACT: Industry-specific information may be obtained from Douglas Newman, Co-Project Leader (202-205-3328; *douglas.newman@usitc.gov*), or Timothy McCarty , Co-Project Leader (202-205-3324; *timothy.mccarty@usitc.gov*), Office of Industries, United States International Trade Commission, Washington, DC 20436. For information on the legal aspects of this investigation, contact William Gearhart of the Office of the General Counsel (202-205-3091; *wgearhart@usitc.gov*). The media should contact Margaret O'Laughlin Public Affairs Office (202-205-1819; *margaret.olaughlin@usitc.gov*). Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on (202-20501810). General information concerning the Commission may also be obtained by accessing its Internet server (*http://www.usitc.gov*). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

SUPPLEMENTARY INFORMATION: As requested by the Committee, the Commission will conduct an investigation and provide a report on competitive conditions for certain canned fruit between U.S. and principal foreign supplier industries during the period 2003–05. Data and analysis will be provided for (1) Canned peaches, (2) canned pears, and (3) canned fruit mixtures, with any overlap among the industries clearly identified. In its report, the Commission will provide, to the extent possible, the following:

- An overview of the canned peach, canned pear, and canned fruit mixtures industries in the United States and major supplier countries (such as China, Greece, Spain, and Thailand), including production of fresh peaches and pears for processing, planted acreage and new plantings, processing volumes, processing capacity, and consumption;
- Information on U.S. and foreign supplier imports and exports of canned fruit mixtures, as well as the market segments in which U.S. imports are being sold (e.g., retail, food service sector, or other);
- A description of principal trade practices and government programs and measures affecting production of the products (especially in China, Greece, and Spain); and,
- A comparison of the strengths and weaknesses of these foreign competitor canned fruit industries and the U.S. industries (including industry structure, input cost and availability, processing technology, product innovation, government programs, exchange rates, and pricing and marketing regimes), and steps the respective industries are taking to increase their competitiveness.

As requested, the Commission will transmit its report to the Committee by December 12, 2007.

Public Hearing: A public hearing in connection with the investigation is scheduled to be held at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC beginning at 9:30 a.m. on July 12, 2007. All persons shall have the right to appear, by counsel or in person, to present information and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, no later than 5:15 p.m., June 28, 2007. Any prehearing briefs (original and 14 copies) should be filed not later than 5:15 p.m., July 2, 2007. The deadlines for filing post-hearing briefs or statements is 5:15 p.m., July 26, 2007. In the event that, as of the close of business on June 28, 2007, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any persons interested in attending the hearing as an observer or non-participant may call the Secretary (202–205–2000) after June 28, 2007, to determine whether the hearing will be held.

Written Statements: In lieu of or in addition to participating in the hearing, interested persons are invited to submit written statements concerning the investigation. All submissions should be addressed to Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, and should be received no later than the close of business on July 26, 2007. All written submissions must conform with the provisions of section 201.8 of the *Commission's Rules of Practice and Procedure* (19 CFR 201.8)
Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be

filed, in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except as permitted by section 201.8 of the Commission's Rules (19 C.F.R. 201.8) (see Handbook for Electronic Filing Procedures, *http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf*.

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the *Commission's Rules of Practice and Procedure* (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "nonconfidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties. The Committee has asked that the report that the Commission transmits not contain any confidential business information. Any confidential business information received by the Commission in this investigation and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.
Issued: February 7, 2007.

Marilyn R. Abbott,
Secretary to the Commission.
[FR Doc. E7–2363 Filed 2–12–07; 8:45 am]
BILLING CODE 7020-02-P

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[ID–957–1420–BJ]

Idaho: Filing of Plats of Survey

AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of Filing of Plats of Surveys.

SUMMARY: The Bureau of Land Management (BLM) has officially filed the plats of survey of the lands described below in the BLM Idaho State Office, Boise, Idaho, effective 9 a.m., on the dates specified.

FOR FURTHER INFORMATION CONTACT: Bureau of Land Management, 1387 South Vinnell Way, Boise, Idaho 83709–1657.

SUPPLEMENTARY INFORMATION: These surveys were executed at the request of the Bureau of Land Management to meet their administrative needs. The lands surveyed are:

The plat representing the dependent resurvey of portions of the west boundary, subdivisional lines, and the 1960–1968 fixed and limiting boundaries in sections 6, 7, 17, 18 and 20, and Tract 40, and the subdivision of sections 6, 7, 17 and 18, the survey of the 1993–2003 meanders of the Snake River in sections 6, 7, 17, 18 and 20, the survey of the 1993–2003 meanders of certain islands in the Snake River, and the metes-and-bounds survey of the centerline of an existing flood control levee in the SE¼ of the SW¼ of section 6, T. 4 N., R. 40 E., Boise Meridian, Idaho, was accepted June 6, 2007.

The plat representing the dependent resurvey of a portion of the east boundary and a portion of the subdivisional lines, and the subdivision of section 24, T. 16 S., R. 9 E., Boise Meridian, Idaho, was accepted June 29, 2007.

This survey was executed at the request of the Bureau of Indian Affairs to meet certain administrative and management purposes. The lands surveyed are:

This supplemental plat was prepared to amend lotting in section 24, T. 3 S., R. 34 E., Boise Meridian, Idaho, was accepted April 3, 2007.

These surveys were executed at the request of the USDA Forest Service to meet certain administrative and management purposes. The lands surveyed are:

This supplemental plat, showing amended lotting created by the segregation of Mineral Survey No. 1659 in section 15, T. 41 N., R. 2 W., Boise Meridian, Idaho, was accepted April 20, 2007.

This supplemental plat, was prepared to show new lots to the centerline of State Highway No. 6, of sections 12, 13, and 14, T. 43 N., R. 3 W., Boise Meridian, Idaho, was accepted April 26, 2007.

SUMMARY: The Bureau of Land Management (BLM) will file the plat of survey of the lands described below in the BLM Idaho State Office, Boise, Idaho, 30 days from the date of publication in the **Federal Register**. This survey was executed at the request of the Bureau of Indian Affairs to meet certain administrative and management purposes:

The plat representing the dependent resurvey of the south boundary, portions of the east and west boundaries, subdivisional lines, and meanders of the Snake River and islands in the Snake River, and the subdivision of sections 32 and 36, and the survey of portions of the south and west boundaries, subdivisional lines, the 2005–2006 meanders of the Snake River and islands in the Snake River, and the North Boundary of the Fort Hall Indian Reservation, T. 4 S., R. 33 E., Boise Meridian, Idaho, was accepted May 16, 2007.

Dated: July 3, 2007.

Stanley G. French,

Chief Cadastral Surveyor for Idaho.

[FR Doc. E7–13344 Filed 7–9–07; 8:45 am]

BILLING CODE 4310–GG–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–485]

Canned Peaches, Pears, and Fruit Mixtures: Conditions of Competition Between U.S. and Principal Foreign Supplier Industries

AGENCY: United States International Trade Commission.

ACTION: Cancellation of public hearing.

SUMMARY: On July 2, 2007, the only scheduled witness for the hearing in investigation No. 332–485, Canned Peaches, Pears, and Fruit Mixtures: Conditions of Competition between U.S. and Principal Foreign Supplier Industries, scheduled for July 12, 2007, withdrew his request to appear. Therefore, the public hearing in this investigation has been canceled.

Background: The Commission published notice of institution of the investigation and hearing in the **Federal Register** on February 13, 2007 (72 FR 6744). The notice asked that persons interested in appearing at the hearing file their requests by the close of June 28, 2007, and stated that the hearing would be canceled if no requests were received by that date. One request was received by the June 28 deadline, but it was subsequently withdrawn on July 2, 2007. Accordingly, the Commission has canceled the hearing. All other information about the investigation, including a description of the subject matter to be addressed, contact information, and procedures relating to written submissions, remains the same as in the original notice. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at *http://www.usitc.gov/secretary/edis.htm.*

By order of the Commission.

Issued: July 3, 2007.

William R. Bishop,

Acting Secretary to the Commission.

[FR Doc. E7–13276 Filed 7–9–07; 8:45 am]

BILLING CODE 7020–02–P

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

[Notice: (07–051)]

Notice of Information Collection Under OMB Review

AGENCY: National Aeronautics and Space Administration (NASA).

ACTION: Notice of information collection under OMB review.

SUMMARY: The National Aeronautics and Space Administration, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and other Federal agencies to take this opportunity to comment on proposed and/or continuing information collections, as required by the Paperwork Reduction Act of 1995 (Public Law 104–13, 44 U.S.C. 3506(c)(2)(A)).

DATES: All comments should be submitted within 30 calendar days from the date of this publication.

ADDRESSES: All comments should be addressed to Desk Officer for NASA; Office of Information and Regulatory Affairs; Room 10236; New Executive Office Building; Washington, DC 20503.

FOR FURTHER INFORMATION CONTACT: Requests for additional information or copies of the information collection instrument(s) and instructions should be directed to Mr. Walter Kit, NASA PRA Officer, NASA Headquarters, 300 E Street, SW., JE0000, Washington, DC 20546, (202) 358–1350, *Walter.Kit-1@nasa.gov.*

APPENDIX C
Summary of Views of Interested Parties

Sarb Johl, Chairman
California Cling Peach Board[1]

In his submission, Mr. Johl, speaking on behalf of the California Cling Peach Board, a non profit, quasi government association representing 600 cling peach producers, 4 cling peach canners, and 2 cling peach freezers in the State of California, stated that the U.S. cling peach industry faces growing competition from alleged subsidized and low cost foreign canned peach producers and that, as a result of those imports, the United States has gone from being a net exporter of canned peaches in the mid 1980s to a net importer of canned peaches today. Mr. Johl stated that the U.S. canned peach industry cannot survive without a strong U.S. market, having already lost nearly all of its export markets in recent years to subsidized canned peaches from Greece and Spain. Mr. Johl stated that, although Greece and Spain are still competing in the U.S. market, China recently has emerged as a new leading supplier of canned peaches to the U.S. market. Mr. Johl stated that, in spite of recent U.S. industry efforts to reduce conditions of fresh peach oversupply and expand U.S. government purchases, industry profitability has not been restored to desired levels.

Lizbeth Levinson, Garvey, Schubert Barer
on behalf of Liberty Gold Fruit Co., Ltd.[2]

In her submission, Ms. Levinson, counsel to the Liberty Gold Fruit Co., Ltd., stated that there is a strong and growing demand in China for both fresh and processed peaches, driven by an annual growth in domestic consumption of 20–30 percent for canned peaches, and particularly for peaches in institutional size cans. Ms. Levinson stated that such demand could result in China becoming an important importer of canned peaches in the future. As Chinese production costs continue to rise owing to higher costs for raw peaches, Ms. Levinson stated that prices of Chinese canned peaches for export will increase as canners of export product, receiving no government support, are forced to compete for peaches with canners for domestic consumption. Ms. Levinson stated that the trend in rising raw product prices is consistent with rising food prices in China. A distinction should be made, according to Ms. Levinson, between conditions of competition in the traditional canned fruit market segment, dominated by sales of no. 10 cans traditionally to large institutional purchasers, and the different market segment for sales of preserved fruit in plastic cups, where production requires a higher quality, more costly fruit that competes principally in the higher end retail market.

[1] Sarb Johl, Chairman, California Cling Peach Board, written submission, July 26, 2007.
[2] Lizbeth R. Levinson, counsel to Liberty Gold Fruit Co., Ltd., written submission, July 26, 2007.

Northwest Horticultural Council, Pacific Northwest Canned Pear Service, and Washington Oregon Canning pear Association[3]

In its submission, the Northwest Horticultural Council (Council), together with the Pacific Northwest Canned Pear Service and the Washington Oregon Canning Pear Association, stated that a 10-percent loss in the number of Bartlett pear growers in the Pacific Northwest in recent years is due in part to an increase in competition from low cost imports of canned pears from China and other principal foreign suppliers. The Council stated that, as production costs of pears for canning have risen in recent years and grower prices for fresh cannery pears have fallen, canned imports that once accounted for one percent or less of domestic consumption now account for 18 percent of a declining U.S. consumption and the principal foreign supplier of these imports is China. The Council stated that increasing imports of low priced canned pears were reducing demand for domestically produced canned pears which, in turn, impacted U.S. growers.

Apiradi Tantraporn, Director General Department of Foreign Trade, Ministry of Commerce On behalf of The Royal Thai Government[4]

In her submission on behalf of The Royal Thai Government, Mrs. Tantraporn stated that the production in Thailand of temperate zone fruits, including peaches and pears, is extremely limited because of an unsuitable growing environment and that such fruit does not meet the quality demanded of export market fruit and, as a result, production of peaches and pears in Thailand is mainly limited to local consumption. According to Mrs. Tantraporn, Thai producers do not export canned (i.e., in metal) peaches and pears, but instead export preserved peaches and pears in plastic cups. Mrs. Tantraporn stated that Thailand imports peaches and pears, including from the United States, as raw materials for further processing and then exports preserved peaches and pears. Also, Mrs. Tantraporn stated that although Thailand exports large amounts of canned fruit mixtures, 90 percent of such mixtures were principally tropical fruit mixtures, the principal focus of Thai producers, and only about 10 percent of U.S. imports from Thailand were of fruit mixtures containing peaches and pears.

[3] Northwest Horticultural Council, written submission, July 23, 2007.

[4] Apiradi Tantraporn, Director General, Department of Foreign Trade, Ministry of Commerce, The Royal Thai Government, written submission, July 27, 2007.