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Taiwan

Fresh Deciduous Fruit

Annual

2000

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Report Highlights:

Taiwan apple imports are expected to rebound to 148,000 mt during the 2000/2001 marketing year, up significantly from the 126,934 mt imported during 1999/2000. High quality Fuji apples dominate, accounting for 80% of consumption. US suppliers continue to furnish the lion's share of the market. Once Taiwan enters the WTO, new competitive rules promise a re-evaluation of supplier relationships. While US exporters are expected to retain a dominant position, their continued support of importers, distributors, & retailers to bolster US-origin / quality messages will help ensure customer loyalty and reinforce competitiveness in the post-WTO marketplace.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Taipei ATO [TW2], TW

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Insights on pricing and competition for this report were contributed by Nicholas Lin Marketing Services

Executive Summary

Taiwan relies on imports to supply its healthy appetite for fresh apples. During the 1999/2000 marketing year, Taiwanese ate approximately 134,900 metric tons of fresh apples - an average of around 5.7 kilograms (12 ½ lbs) per person. Taiwan consumers' preference is for high quality Fujis - which account for 4 of every 5 apples sold.

US apple exporters predominate, although the size and value of this market has attracted suppliers from most of the world's major apple producing nations. Higher consumption during the fall and winter months ensure a competitive advantage for northern hemisphere growers, who can supply freshly harvested produce during those seasons. Political factors have, to date, excluded China-origin apples from competition. Once a member of the WTO, however, Taiwan will likely grant Chinese apples open access - along with those from all other WTO member states meeting Taiwan's phytosanitary rules. However, the actual threat posed by PRC apple exports may prove less than many fear.

Production

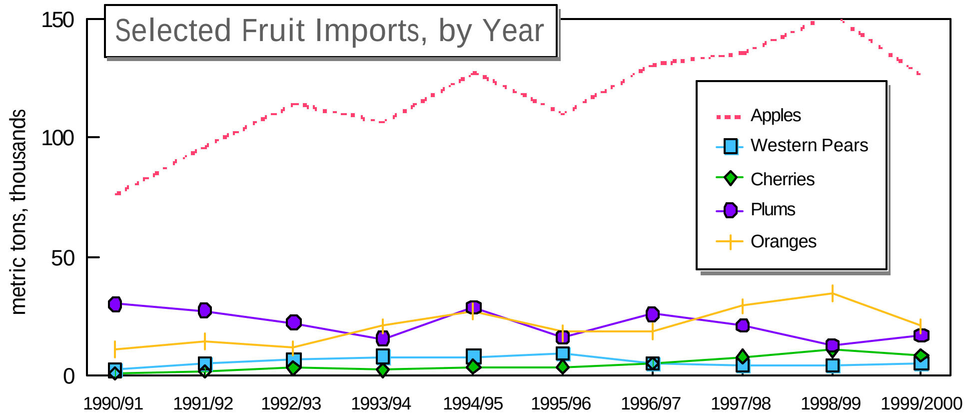
During the 1999 / 2000 marketing year (July through June), Taiwan produced around 8,000 mt of apples - just under 6 percent of total market consumption. Authorities currently forecast a decline in production of 2% during calendar year 2000 as compared with the previous year's harvest. Domestic production is expected to continue to contract through the foreseeable (3 ~ 5 year) future, fueled by expectations of lower prices and greater competition once Taiwan gains World Trade Organization (WTO) membership and further opens its apple market to all qualified[1] WTO apple exporting countries.

Cooler than normal weather during April in the high elevation orchard areas of central Taiwan contributed to this year's decline in production. Other factors include damage to orchards during the September 1999 earthquake and ongoing government initiatives to encourage growers in labor-intensive sectors of agriculture (including deciduous fruits) to shift to endeavors more secure from import competition. In an attempt to dovetail a shift away from commercial apple production with authorities' desire to bolster Taiwan's recreation and leisure infrastructure, Taiwan officials are advising apple growers to convert orchards into "U-Pick"-style farms to attract weekend tourist business.

Local production is principally the *Star King* variety. All commercially-grown local apples are sold for fresh consumption.

[1] After entering the WTO Taiwan will continue, in line with WTO rules, to permit imports only from countries or regions certified as free from specific fruit pests and diseases.

Consumption



The apple is, far & away, the most heavily consumed imported fruit in Taiwan. Only oranges, 94% of which are grown domestically, are consumed in greater quantity.

Nearly all fresh fruit imports, apples included, are consumed as fresh produce. The Taiwan consumer's emphasis on both convenience and freshness helped to channel better than 55% of fresh apple sales through traditional / neighborhood wet markets during 1999. Of the remainder, around 20% were sold in small fruit shops and 10% by traveling vendors, with the rest absorbed by grocery stores, hypermarkets and large hotel & restaurant accounts. Over the next few years, the hypermarket (currently accounting for 5 ~ 7% of apple sales) promises to take a steadily increasing share of retail apple sales in Taiwan.

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety - retaining slightly better than 80% of total retail apple sales. The remainder is comprised largely of Gala, Red Delicious, and Granny Smith.

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

The Taiwan consumers' preference for the apple over other fruit is grounded in a number of factors, including appreciation of nutritive/health benefits, relatively low price, a strong quality image, attractive appearance, and relatively long shelf life. Furthermore, the year-round availability of the apple is attractive to retailers, because point-of-sale formats need not be rotated - as is necessary for fruits available only at certain times of the year.

Good "Face Value"

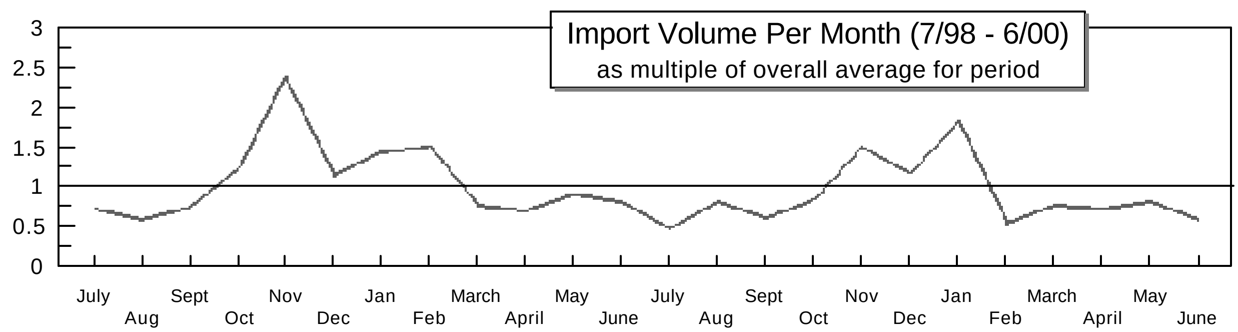
Two of the apple's popularity factors noted above, attractive appearance (red, round, shiny) and quality image, reflect consumer priorities which tend to be more uniquely Taiwanese (or Chinese) than others mentioned (which tend to be more universal). Unless bought solely for personal consumption, the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

As with most retail consumption items, sales of apples slumped markedly during the months following Taiwan's September 1999 earthquake. Fresh apple retail sales during 1999/2000 of 134,834 metric tons represents a 15% decline from the 158,045 metric tons consumed during the previous marketing year. The steep drop in demand reflects the apple's important place as a "social" fruit - frequently given as gifts, served at get-togethers, and incorporated in temple festivals & traditional holiday events. Such activities were subdued for many months following the earthquake.

Seasonal Preferences

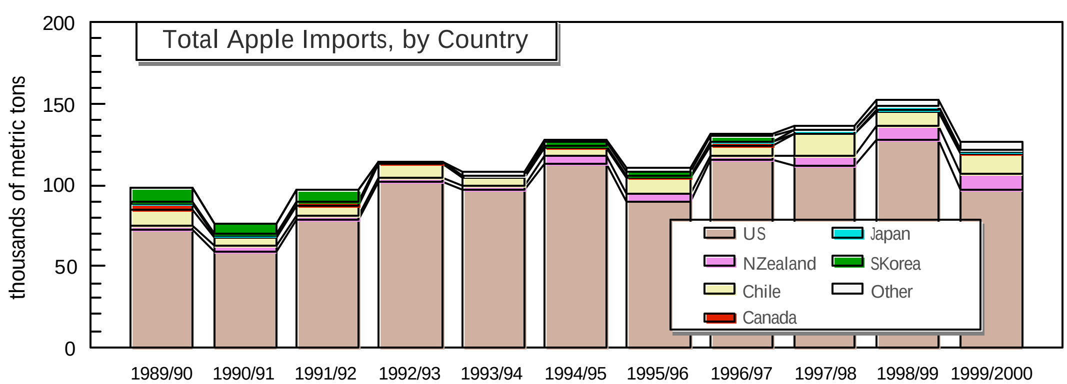
While eaten year round, Taiwan consumers purchase significantly more apples during the autumn and winter months - the prime production months for northern hemisphere growers. Reasons for this include general perception of the apple as a "cool weather" fruit and the incorporation of apples into the many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

The following chart helps illustrate the higher-than-average apple imports during Taiwan's autumn & winter and lower-than-average import volume during spring & summer months recorded over the past two years.



Trade

Taiwan imported around 128,000 mt of apples during the 1999/2000 marketing year (July 1999 through June 2000). The 20% drop in imports from 1998/1999 is attributable to several factors, including suppressed market demand due to the September earthquake and higher supplier prices.



During 1999/2000, slightly better than 3/4 of imported apples were shipped from the US.

Chile was the second largest supplier, with 10 percent, followed by New Zealand, Japan, Australia, France, South Africa, and Canada, respectively.

The United States & Canada remained the only countries during 1999/2000 permitted to export apples to Taiwan in quantities unrestricted by quota. Imports of apples from Chile, New Zealand, Australia, Japan, South Africa, Argentina, and the European Union were restricted by specific quota volumes (see table below) and imports from other countries were banned. Import rules during the 2000/2001 marketing year are not expected to change, unless Taiwan enters the WTO - at which time all quotas will be dropped and a normal tariff system will come into effect.

Taiwan currently bans or subjects to pest-free certification requirements imports of apples from countries with the following pests: (1) Mediterranean fruit fly, (2) Peach fruit fly, (3) Codling moth, (4) Apple maggot, (5) Mexican fruit fly, (6) Plum curculio, (7) Queensland fruit fly, and (8) South American fruit fly.

Import Allowances for Apples

	Quota Limit
US	no restriction
Canada	no restriction
Chile	12,500 mt
N.Zealand	8,000 mt
Australia	2,400 mt
Japan	2,000 mt *
S.Africa	1,200 mt
Argentina	2,000 mt
E.Union	3,000 mt **

* quota year begins 4/1 & ends 3/31 of following year
** quota year begins 7/1 & ends 6/30 of following year

Taiwan in the WTO

Taiwan is currently in the process of applying for membership in the WTO. Once a member, Taiwan has pledged to implement two important measures directly affecting apple imports - namely (1) the replacement of the current quota regime with a tariff-based system unrestricted by quotas and (2) the opening of the Taiwan market to apples exported from any WTO member meeting Taiwan's phytosanitary requirements.

Once a WTO member, Taiwan has pledged to reduce import tariffs on apples initially to 40% (from the current 50%) and finally to 20% by the close of 2002.

The China Factor in Competition for the Post-WTO Taiwan Apple Market

Over the past 5 years or so, private investment has flowed into developing Fuji apple production in China - particularly Shandong province, China's major deciduous fruit farming area. As the world's largest producer of apples, China, and its potential to export large quantities of cheap, good quality apples to Taiwan once both are in the WTO, is of concern to many apple exporters.

While not downplaying the potential that Chinese apples *will* establish a market presence in Taiwan, market experts here anticipate that - at least through the next 5 years or so - the United States should retain its position as leading apple supplier to the island. Factors supporting this opinion include:

(1) ***Quality***. While China has cultivated apples for centuries, the Fuji apple - in greatest demand and still fetching good premiums in international markets - is a relative newcomer. Experience and time is required

to develop not only the technical infrastructure (such as proper storage, handling/packing, & transportation facilities) but also the expertise to cultivate, select, grade, package, and deliver the premium Fuji apples in the manner which Taiwan distributors and consumers expect. Apples from China smuggled into Taiwan and sold on the market in 1997 & 1998 elicited significant curiosity from consumers but reportedly failed to impress with their appearance, taste, or price.

(2) ***Price***. Industry watchers report that, when China exports its highest quality apples, quoted prices have not been significantly different from those quoted by US suppliers. Factors for such may include continued limited high-quality supply from growers, high non-labor-related production costs, and the fact that investment in new Fuji cultivation in China comes principally from small-scale domestic, Taiwan, and other investors interested (at least in the near term) to "meet" market prices in order to recoup investment costs.

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

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

Prices & Marketing

Since 1998, the apple industry in Taiwan has faced a downward pricing curve as generally increasing annual demand is offset by rising import volumes. With most producing countries supplying apples (albeit many under a quota system), Taiwan is now very much a buyers' market with demand influenced significantly by supplier marketing and pricing strategies. Prices between and within apple varieties vary greatly based on seasonal consumption variations, supplier country-of-origin, supplier pricing competition, and so on. The current market bears little resemblance to that of a decade ago, when Fuji apples were available in extremely limited quantities and suppliers could demand, and receive, high premiums on sales.

It is believed that the supply currently permitted into Taiwan under quota (principally from southern hemisphere countries) is nearing parity with market demand. The introduction of open competition under an equalized tariff after Taiwan enters the WTO thus is unlikely to fuel significant additional demand (unless market prices fall significantly further). More plausible, rather, will be a re-evaluation of suppliers based on market (rather than quota) considerations. Due to opposite seasons in the northern and southern hemispheres, US growers will face competition principally from other northern hemisphere suppliers, such as Japan (currently under quota), Korea (currently barred), China (currently barred), Canada (open access), and France (currently under quota). In terms of price and quality, the US is expected to remain the most competitive volume supplier in this group.

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

Statistical Data

Fresh Apple - Production, Supply, and Distribution (PS&D)

numbers in hectares, 1,000s of trees, and metric tons

PSD Table						
Country	Taiwan					
Commodity	Fresh Apples				(HA)(1000 TREES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Planted	927	927	888	810	0	800
Area Harvested	927	927	886	760	0	760
Bearing Trees	379	379	357	340	0	330
Non-Bearing Trees	3	3	3	3	0	3
Total Trees	382	382	360	343	0	333
Commercial Production	9781	9781	10172	7900	0	7600
Non-Comm. Production	0	0	0	70	0	75
TOTAL Production	9781	9781	10172	7970	0	7675
TOTAL Imports	152279	148264	152500	126934	0	148000
TOTAL SUPPLY	162060	158045	162672	134904	0	155675
Domestic Fresh Consump	162060	158045	162672	134834	0	155600
Exports, Fresh Only	0	0	0	0	0	0
For Processing	0	0	0	0	0	0
Withdrawal From Market	0	0	0	70	0	75
TOTAL UTILIZATION	162060	158045	162672	134904	0	155675

Concentrated Apple Juice - Production, Supply, and Distribution (PS&D)

numbers in metric tons

PSD Table						
Country	Taiwan					
Commodity	Concentrated Apple Juice				(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1998		01/1998
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	0	150	0	100	0	100
Production	0	0	0	0	0	0
Imports	0	2246	0	2431	0	2500
TOTAL SUPPLY	0	2396	0	2531	0	2600
Exports	0	158	0	148	0	160
Domestic Consumption	0	2138	0	2283	0	2340
Ending Stocks	0	100	0	100	0	100
TOTAL DISTRIBUTION	0	2396	0	2531	0	2600

Fresh Apple **Imports** (in metric tons)

	07/1998 - 06/1999	07/1999 - 06/2000
United States	128,041	97,378
Others		
Chile	9,814	13,142
New Zealand	7,697	9,281
Australia	2,372	1,972
Japan	1,860	1,788
France	243	1,687
South Africa	783	1,477
Canada	1,375	209
Total for *Others*	24,144	29,556
Others not Listed	95	0
GRAND TOTAL	**152,280**	**126,934**

Fresh Apple **Exports** (in metric tons)

	07/1998 - 06/1999	07/1999 - 06/2000
United States	0	0
Others	0	0
Total for *Others*	0	0
Others not Listed	0	0
GRAND TOTAL	**0**	**0**

Apple Juice Concentrate **Imports** (in metric tons)

	07/1998 - 06/1999	07/1999 - 06/2000
United States	369	265
Others		
China	1,202	1,457
Chile	328	397
Austria	161	249
Oman	0	33
Brazil	15	15
Total for *Others*	1,706	2,151
Others not Listed	171	15
GRAND TOTAL	**2,246**	**2,431**

Apple Juice Concentrate **Exports** (in metric tons)

	07/1998 - 06/1999	07/1999 - 06/2000
United States	5.8	0.3
Others		
Hong Kong	61	71.6
Thailand	28.9	43.5
Japan	0	4.8
China	0.3	3.4
Singapore	57.3	3.2
Canada	0.6	1
Total for *Others*	148.1	127.5
Others not Listed	3.9	20
GRAND TOTAL	**157.8**	**147.8**

Price Data (note, aggregate pricing data not available)

Prices Table			
Country	Taiwan		
Commodity	Fresh Apples		
Prices in		per uom	
Year		1	% Change
Jan			
Feb			
Mar			
Apr			
May			
Jun			
Jul			
Aug			
Sep			
Oct			
Nov			
Dec			
Exchange Rate		Local currency/US $	

Prices Table			
Country	Taiwan		
Commodity	Concentrated Apple Juice		
Prices in		per uom	
Year		1	% Change
Jan			
Feb			
Mar			
Apr			
May			
Jun			
Jul			
Aug			
Sep			
Oct			
Nov			
Dec			
Exchange Rate		Local currency/US $	