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Fresh Deciduous Fruit

Annual

2007

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Report Highlights:

The apple is, far and away, the most heavily consumed imported fruit in Taiwan. Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety – recently accounting for 87% of total retail apple sales. The consumption of apples is not expected to reach the highs seen in the late 1990s but should remain in the 130-145 K mt range through the next several years. The United States should remain the dominant player in the next years with an expected total market share between 45% and 50%.

Includes PSD Changes: Yes
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Executive Summary

While the apple remains by far the most important item in Taiwan's fruit import profile, it faces flat demand as economic conditions hold back liberal consumer spending and an increasing variety of fruits (both imported and domestic) pry consumer dollars away from traditional stand-bys. Volumes are anticipated to remain in the 130~145K mt range through the next several years.

A continued general preference among Taiwan importers for US apples (best taste, appearance, stable quality) must be tempered by an understanding that Taiwan is a price sensitive market. Improving supplier capabilities worldwide, particularly in the southern hemisphere, promises to pressure U.S. suppliers with increasing crop volumes and improved cold storage capabilities.

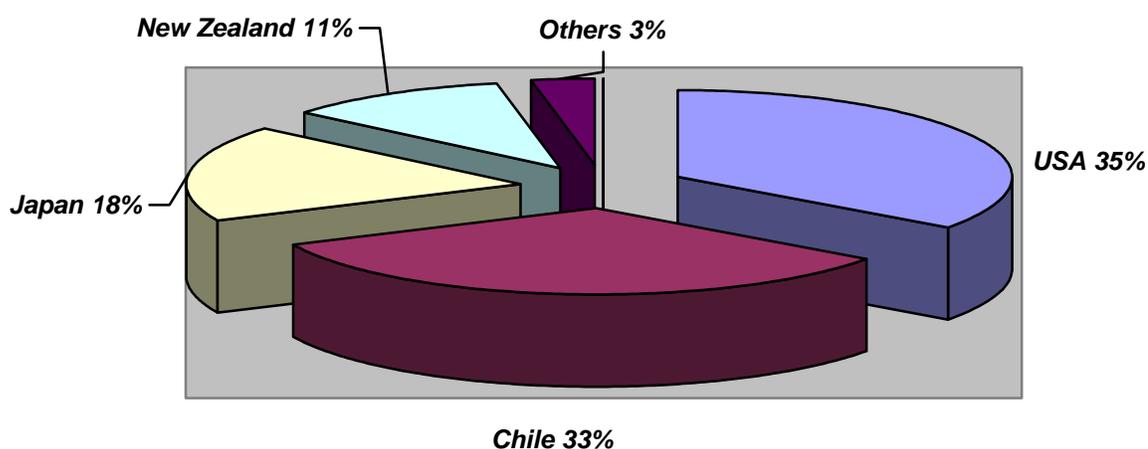
The significant absence of phytosanitary-induced disruptions of US apple imports during MY 2005 brought welcome relief to both exporters and importers, reflecting a sharp 26% or nearly 13,000 mt rise in exports from the United States. However, U.S. exports fell sharply during MY2006 to 35% market share which is the lowest in the past ten years – as a result of decreased Washington apple exports to Taiwan. Currently, Washington apples account for 92% of the total U.S. apple exports to Taiwan. Stability in supply is believed to be worth 10~15K mt in added demand for US apples each year - essential to US suppliers reclaiming a 50 percent share of total imported volume.

Apples from China (PRC) remain absent from the market due to the lack of a phytosanitary protocol on apples (as well as most fresh fruit and vegetables) between the two economies. This situation makes U.S., Japan, and Korea very important resources for deciduous fruit importers.

Taiwan Apple Imports

July 2006-June 2007

Total Imports: 120,703 mt



Source: Taiwan Council of Agriculture

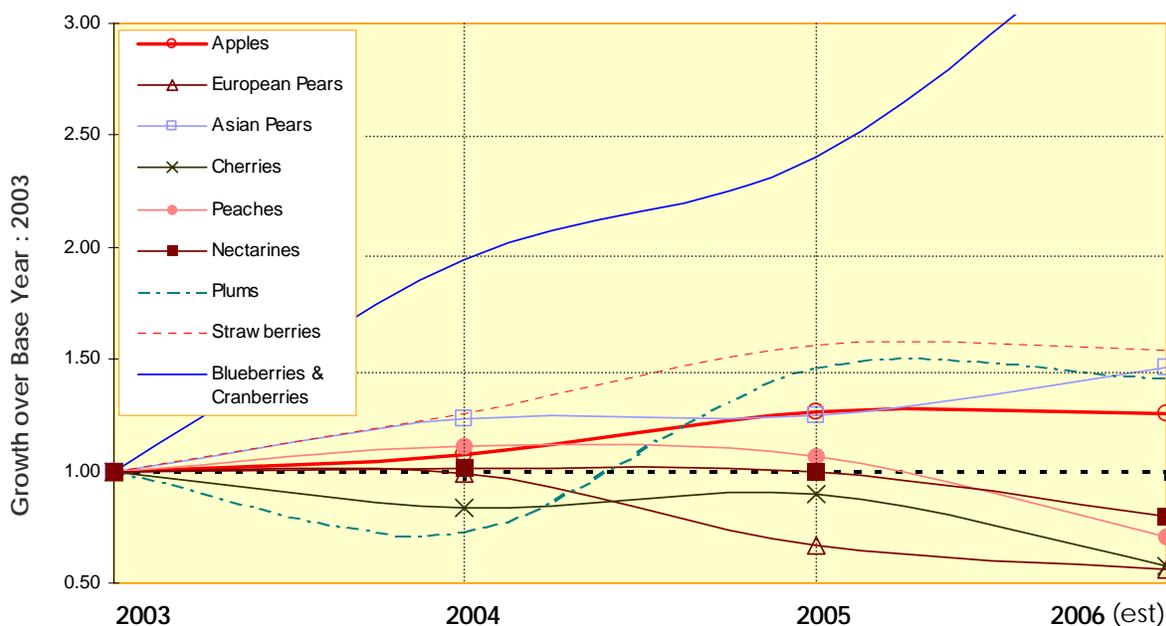
Production

Even prior to accession to the World Trade Organization (WTO) in 2002, Taiwan's annual apple crop, grown in orchards set in Taiwan's temperate central mountain range, was not significant, less than 10,000 mt per year. Since WTO accession and market liberalization, cropland has been steadily taken out of production, so that in MY2006 less than 6,000 mt of fresh apples were harvested. At its best, local production is currently able to supply only some 5% of domestic demand, making the impact of annual fluctuations in local crop yields on imports insignificant. The industry is likely to continue slowly contracting due to high production costs and labor retention problems. The area harvested is not expected to change significantly over the next 1-2 years.

Local production is principally the *Star King* variety. Eighty-percent of commercially-grown local apples are estimated as sold for fresh consumption, with the remainder being used in prepared foods -- processed typically not very far from the orchard.

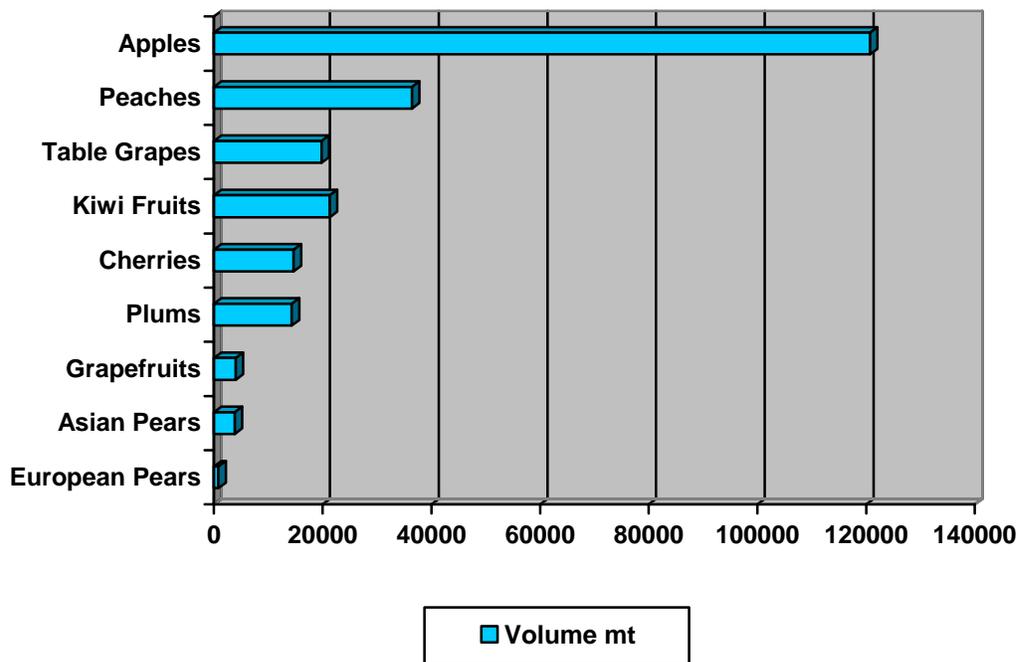
Marketing

The apple is, far and away, the most heavily consumed imported fruit in Taiwan. Only oranges, 96% of which are grown domestically, are consumed in greater quantity. However, in terms of real growth, the apple is losing ground to a host of other imported fruits, including grapes, cherries, peaches, and berries (see chart below). Due to the variety of imported and domestic fruits now available, consumption of apples is not expected to reach the highs seen in the late 1990s without some new factor or factors changing the competitive picture (e.g., such as new positive findings regarding the health benefits of apples or an expansion of fruit consumption in general).



Source: Taiwan Customs

MY2006 Taiwan Fruit Imports (July 2006- June 2007)



European pears (*Pyus Communis*)

Asian Pears (*Pyus Pырifolia*)

Nearly all fresh fruit imports, apples included, are consumed as fresh produce. The Taiwan consumer's emphasis on both convenience and freshness is the key to channel fresh produce in the market. Currently, traditional/neighborhood wet markets account for nearly 60% of all fresh apple sales. Hypermarkets are increasingly eating into neighborhood wet markets as the convenience and pricing offered in hypermarkets is winning business from Taiwan's small-scale retailer communities (particularly in the Taipei metropolitan area) which traditionally purchased produce in wet markets. Industry sources indicate that this situation will continue to happen until the lowest 35% market share by wet markets appears possibly ten years later. In Taiwan, the hypermarket industry has reached a plateau; the rapid expansion of the hypermarkets has now slowed since 2001, although there are no regulations to limit the expansion plan.

Fresh Apple - Retail Distribution Channel

Traditional/neighborhood wet markets	60%
Supermarkets/hypermarkets	15%
Small fruit shops	15%
Street hawkers	10%

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety – recently accounting for 87% of total retail apple sales. The remainder is comprised of Gala, Pacific Rose, Red Delicious, Granny Smith, Pink Lady, green yellow Japanese apples, Japanese Mutsu, and Japanese World #1 (in priority order).

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.

“Five-A-Day” Program

In April 2007, ATO Taipei, the Washington Apple Commission, and 11 U.S. fruit and vegetable trade associations, funded by USDA's Global Based Initiative (GBI) program, joined the the Formosa Cancer Foundation's (FCF) “Five-A-Day” program in Taiwan. Through the GBI program, the FCF developed and printed new nutritional materials featuring U.S. fruits and vegetables to train more than 400 volunteer nutritionists island wide on the nutritional advantages of U.S. produce, and to conduct in-school nutritional seminars which reached more than 70,000 children from 1,800 elementary schools (2,600 elementary schools in total nationwide), and, by extension, their families. The program has been very popular with Taiwan schools, and more and more schools are requesting inclusion in the program. The goal is to foster substantial and long-term growth in fresh fruit and vegetable consumption in Taiwan resulting in a healthier population. As the major supplier of imported fruit and vegetables in Taiwan, the United States will certainly stand to benefit significantly from any increase in consumption.

The program was launched in April 2007 with a press conference announcing the results of a nutritional survey which reported findings that most Taiwan school children barely consume 1.5 portions of fresh fruit and/or vegetables each day. Interactive, promotional materials were created and distributed to numerous schools through FCF nutritionists from April through November 2007. The program will conclude on December 11, 2007 with a lucky drawing where several children will receive various prizes including air tickets from United Airlines and cartons of fresh fruit from several US fruit importers.

The Washington Apple Commission has already submitted a request to FAS headquarters to extend the program for another year. The ATO is fully supportive of this initiative and will work hard to add a retail element to next year's program if approved. The program is a win-win situation for all parties involved.

Good "Face Value"

Unless bought solely for personal consumption, the color, size, and general appearance of fruit is typically quite important to Taiwan retail customers. The "best-looking" fruit, sold in gift packaging, fetches the highest prices. The most expensive apples on the market, Japan-grown Fujis, sell well at premiums of 100% because of their size and consumers' quality perceptions.

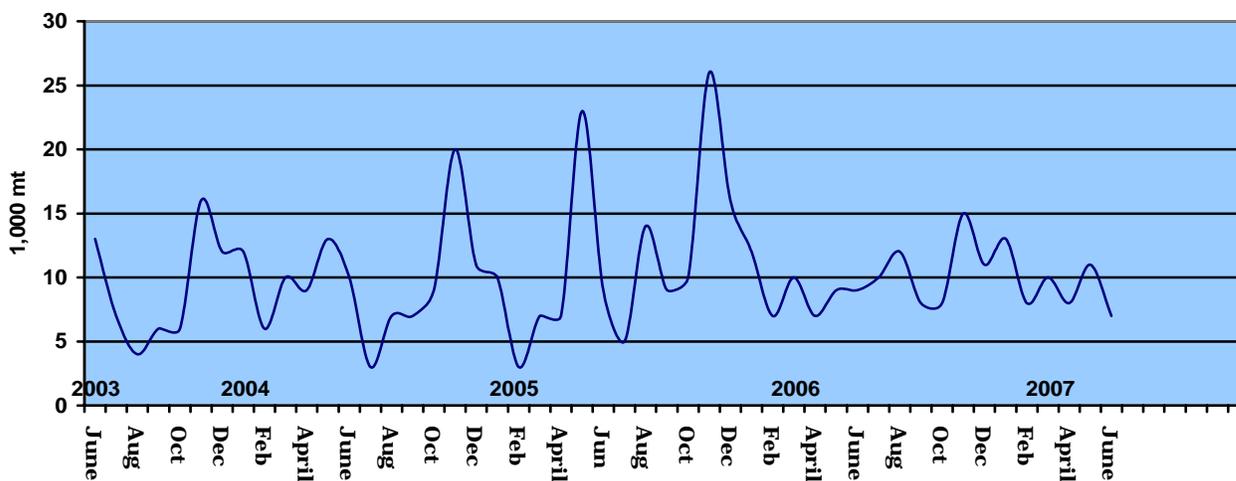
While countries like the United States, Chile and New Zealand continue to focus on supplying the Taiwan market with traditional varieties, Japan is having some success at introducing less common varieties into the market to maintain its "premium" image and justify higher prices to consumers. It is not uncommon to find Japanese and Korean fruit in the market at US\$6-8 per piece.

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. Local, tropical fruit such as mangos, papaya, and lychees dominate the summer months.

The chart below illustrates the higher-than-average apple imports during Taiwan's autumn & winter months recorded over the past two and a half years.

**Taiwan Apple Import Volume per Month
(6/2003-6/2007)**



Source: Taiwan Council of Agriculture

Trade

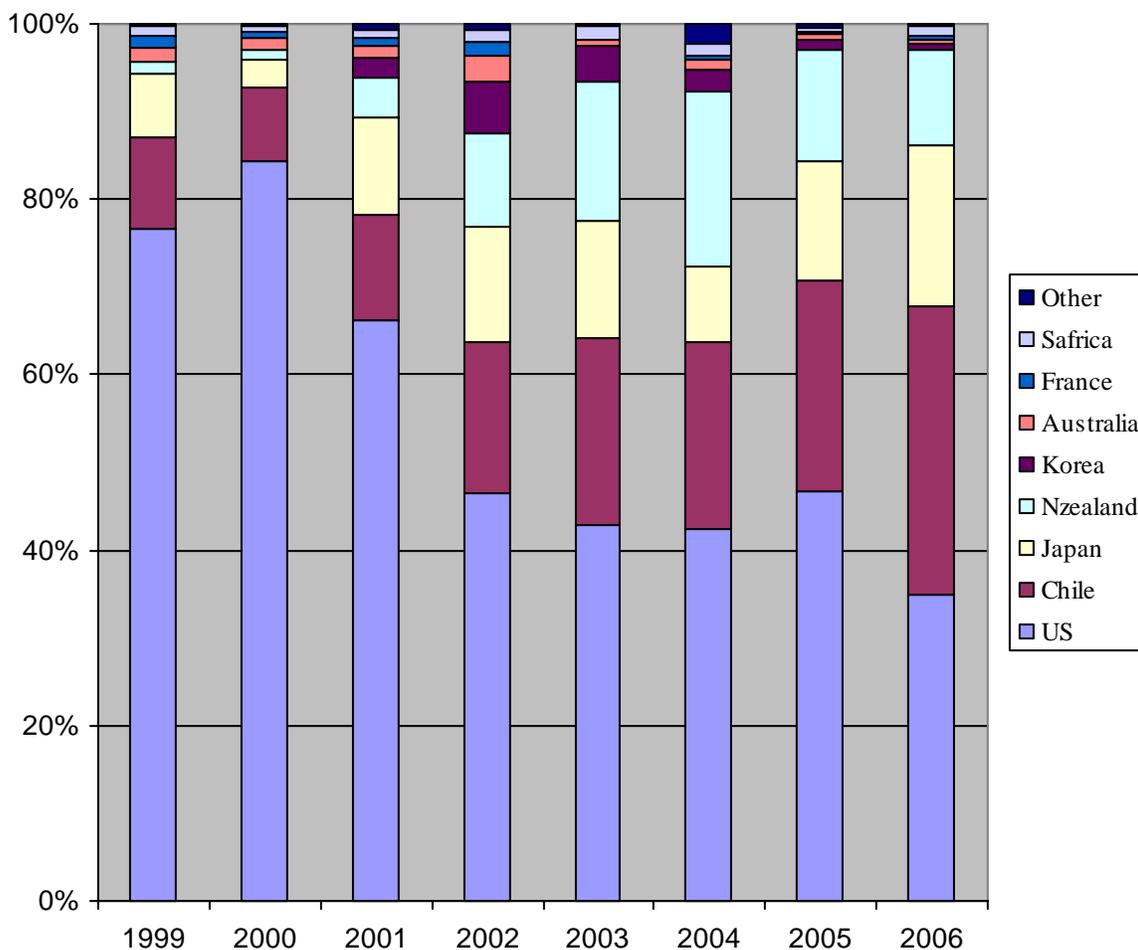
Taiwan's total apple imports dropped by nearly 12K mt in MY2006, the result of a decrease in US apple imports (-32%) as well as a decrease in exports from the Southern Hemisphere resulting from temporary suspensions of Chilean and New Zealand apple imports during MY2006. With produce prices once again high and increasing consciousness of phytosanitary controls on apple imports by suppliers, apples have an opportunity to come back again in MY2007 to at least 130,000 mt, reflecting stability in supply and demand factors.

With the Taiwan fresh apple consumption 'pie' looking set to remain at about the same size for the coming few years and the market open to all major producers (with the important exception of China), importers have a broad choice of suppliers and countries from which to choose. The pie, divided up, will keep varying based on supplier prices, product quality, and availability.

Taiwan Apple Imports, by Country of Origin

Marketing Year (July-June) 1999-2006

Unit: MT



Source: Taiwan Customs

A resolution of codling moth concerns among the trade, either through more successful screening at the production end or a reworking of how Taiwan authorities respond to detections, can increase the US share of the market over a 2 to 3 year period by another 20~35K mt (largely at the expense of Japan and early season southern hemisphere).

Today, Taiwan's consumption of apples, in the 115 – 140K mt range, likely represents a "floor" demand that will continue to hold unless significant consumer preference changes (either for or against apples) occur.

In general, while Taiwan buyers *do* express a continued preference for U.S.-origin Fuji apples, apple importers have shown themselves more than willing to shift purchase orders to other competing supplier countries when cost factors run against U.S. exporters. At the consumer level, Japanese apples have currently received mixed to positive reviews (generally good taste, relatively small size, average appearance, competitive price.) Korean apples have been supplied with inconsistent quality and average appearance and sweetness. Therefore, growth of the market share for Korean suppliers has fallen behind other competitors.

The U.S. is expected to remain the dominant player through the coming years with an expected total market share between 45% and 50%. Japanese exports have continued to rise, showing a 24% growth during MY2006. This further shriveled Korea's share of the market and shifted market share away from other northern hemisphere suppliers.

Taiwan's 2002 entry into the WTO eliminated previous quota restrictions on all countries formerly approved to export to Taiwan under quota (Chile, New Zealand, Australia, Japan, South Africa, Argentina, and the European Union) and removed a previous ban on apple imports from South Korea. China remains prohibited from exporting fresh apples to Taiwan.

Taiwan currently applies a 20% tariff on apple imports, down significantly from the 50% tariff applied prior to January 2002. Taiwan Customs assesses tariffs due on a shipment based on a region-specific reference price rather than the invoiced value.

General Phytosanitary Requirements

U.S. apple exports to Taiwan are subject to pest-free phytosanitary certification requirements with the following pests: (1) codling moth, (2) apple maggot, (3) plum curculio, (4) western flower thrips, and (5) fire blight. Currently, the Mediterranean fruit flies were detected in Dixon of Solano County, San Jose of Santa Clara County, and Rolling Hill and Palos Verdes of Los Angeles County in California. All fresh fruits from these regulated areas are banned from export to Taiwan.

In August 2003, the U.S. and Taiwan agreed on a new systems approach quarantine work plan for apples that requires improved pre-screening in the packing shed, while also putting in place a system of graduated penalties for detection of codling moth, permitting three codling moth detections (three strikes) in the course of routine inspections in Taiwan before the market is shut down to suppliers from the affected country and investigations are made. Currently, the three strikes still remain as penalties. The "correction period" for one strike, no matter how many detections are found during the correction period, has been extended to two weeks since the 2007-2008 apple season. The supplier is required to provide investigation report and take needed correction action during the "correction period."

Taiwan establishes its own maximum residue limits (MRLs) and many pesticides used in the United States have not been assigned Taiwan MRLs. The default MRL for a compound where a MRL has not been established is the smallest detectable amount – which is effectively zero. Violation of the standard generally results in the recall of the product. FAS and APHIS offices

are working with Taiwan authorities to speed up the process of establishing new MRLs or in ways to adopt MRLs through international standard bodies such as the CODEX. The lack of MRLs for a long list of chemical compounds not commonly used in Taiwan effectively result in a “ban” on many imported products into the Taiwan market. This problem is being taken very seriously.

Imports of fruit and vegetables are subject to inspection for pesticides at port of entry by Taiwan’s Bureau of Animal & Plant Health Inspection & Quarantine (BSMI). Currently, Taiwan uses state of the art inspection systems for pesticide residues on imported fresh fruit and vegetables. One out of 40 arriving fruit shipments are sampled and tested by BSMI for pesticide residues. Shipments are released after the retrieval of samples and a document review. Noncompliance with Taiwan’s pesticide standards results in the recall of the unconsumed sampled shipment product. The next five shipments from the same origin, i.e. the same brand name/exporter, are subject to testing. Release of these shipments is not permitted until testing is completed.

The China Factor in Competition in the Taiwan Apple Market

Private investment has been flowing from Taiwan into China to develop Fuji apple production - particularly into 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 now that both are in the WTO, is of concern to many apple exporters.

The entry of Chinese apples into Taiwan presently hinges on Taiwan’s certification of China’s phytosanitary controls in apple growing areas and handling processes. Certification will not happen until the two sides agree to negotiate how such certification is to be done. Continued uneasy political relations between the two sides of the Taiwan Strait give no indication as to when such negotiations may start. Therefore, industry believes it highly unlikely that Chinese apples will arrive in the market during the coming 2~3 year period. However, presuming that Chinese apples will eventually be permitted in, some in the industry believe that the United States can still retain its position as the leading apple supplier to Taiwan. Factors in support of this opinion include:

Quality. While China has cultivated apples for centuries, the Fuji apple is a relative newcomer. Experience and time is required to develop not only the technical infrastructure but also the expertise to cultivate, select, grade, package, and deliver premium Fuji apples in the manner which Taiwan distributors and consumers expect.

Price. Industry watchers report that, when China exports its highest quality apples, quoted prices have not been significantly different from those quoted by U.S. suppliers.

Season. China’s apple season is similar to that of Washington State. Apples from other growing regions in the U.S., such as California, should face less direct competition in Taiwan from China growers.

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

Phytosanitary Controls. Taiwan’s strict controls on codling moth in apples will likely be difficult for Chinese growers and packers to meet. Even if the two quarantine services can eventually reach agreement on a quarantine work plan, there is some doubt as to China’s capability to ship pest-free fruit.

Prices & Marketing

Since 1998, the apple industry in Taiwan has faced a downward pricing curve as stagnant or decreasing demand is being met by increasing volumes of imported fruit. Prices between and within apple varieties vary greatly based on seasonal consumption variations, supplier country-of-origin, supplier pricing competition, and so on. In general, Fuji apples are available in less quantity for import into Taiwan; suppliers therefore could demand and receive high premiums on sales.

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 remain as important as price in the consumer's decision to buy. Therefore, to maintain its dominant position - particularly against "new" competitors such as Japan, Korea and (eventually) China - U.S. suppliers are recommended to continue working closely with Taiwan importers, distributors, and retailers to reinforce the strong positive image that U.S. apples presently enjoy in Taiwan to ensure continued consumer loyalty to U.S.-origin apples. Recently in an interview, a leading Taiwan fresh fruit importer indicated that U.S. apple are always his first choice, adding that he always welcomes any offer of apples from the United States.

Statistics

Fresh Apple Production, Supply, and Demand (PS&D) Table

PSD Table

Country Commodity	Taiwan		(HA)(1000 TREES)(MT)				2007	Forecast	Post	UOM
	Apples, Fresh		2005	Revised	2006	Estimate				
Market Year Begin	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Area Planted	640	640	640	640	640	608	0	0	600	(HA)
Area Harvested	635	635	635	635	635	608	0	0	600	(HA)
Bearing Trees	205	205	205	208	208	213	0	0	210	(1000 TREES)
Non-Bearing Trees	10	10	9	9	9	0	0	0	0	(1000 TREES)
Total Trees	215	215	214	217	217	213	0	0	210	(1000 TREES)
Commercial Production	6500	6500	6780	6700	6700	5930	0	0	5200	(MT)
Non-Comm. Production	20	20	20	20	20	0	0	0	0	(MT)
Production	6520	6520	6800	6720	6700	5930	0	0	5200	(MT)
Imports	115000	115000	132370	133000	133000	120703	0	0	130000	(MT)
Total Supply	121520	121520	139170	139720	139720	126633	0	0	135200	(MT)
Fresh Dom. Consumption	121475	121475	139120	139675	139675	126633	0	0	135200	(MT)
Exports, Fresh	0	0	0	0	0	0	0	0	0	(MT)
For Processing	0	0	0	0	0	0	0	0	0	(MT)
Withdrawal From Market	45	45	50	45	45	0	0	0	0	(MT)
Total Distribution	121520	121520	139170	139720	139720	126633	0	0	135200	(MT)

Source: Directorate General of Customs, Ministry of Finance; Council of Agriculture

Fresh Apple Trade Matrices

Import Trade Matrix

Country	Taiwan		
Commodity	Apples, Fresh		
Time Period	MY 05/06	Units:	MT
Imports for:	2005		2006
U.S.	61709	U.S.	42201
Others		Others	
Chile	32028	Chile	39559
Japan	18031	Japan	22302
New Zealand	16734	New Zealand	13157
Korea	1513	South Africa	1317
Australia	844	Korea	853
Canada	668	France	646
South Africa	512	Canada	348
France	331	Australia	320
Total for Others	70661		78502
Others not Listed	0		0
Grand Total	132370		120703

Source: Directorate General of Customs, Ministry of Finance

Concentrated Apple Juice (CAJ) Production, Supply, and Demand (PS&D) Table

PSD Table

Country	Taiwan									
	Apple Juice, Concentrated (MT)									
Commodity	2005		2006		2007		Forecast		UOM	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2005	01/2005		01/2006	07/2006		07/2007	07/2007	MM/YYYY
Deliv. To Processors Beginning Stocks						0	0	0	0	(MT)
Production						100	0	0	100	(MT)
Imports						0	0	0	0	(MT)
Total Supply						3946	0	0	4500	(MT)
Exports						4046	0	0	4600	(MT)
Domestic Consumption						78	0	0	85	(MT)
Ending Stocks						3868	0	0	4415	(MT)
Total Distribution						100	0	0	100	(MT)
						4046	0	0	4600	(MT)

Source: Directorate General of Customs, Ministry of Finance; Council of Agriculture

Note: Post has changed beginning month of marketing year from January to July since MY 2006.

Concentrated Apple Juice (CAJ) Trade Matrices

Import Trade Matrix

Country Taiwan

Commodity Apple Juice, Concentrated

Time Period	2005-2006	Units:	mt
Imports for:	2005		2006
U.S.	6	U.S.	2
Others		Others	
China	3263	China	3832
Austria	48	Austria	41
Canada	8	Spain	39
Japan	2	Canada	17
		Japan	7
		Germany	4
		Poland	3
Total for			
Others	3321		3943
Others not			
Listed	0		1
Grand Total	3327		3946

Source: Directorate General of Customs, Ministry of Finance

Export Trade Matrix

Country Taiwan

Commodity Apple Juice, Concentrated

Time Period	2005-2006	Units:	mt
Exports for:	2005		2006
U.S.	2	U.S.	8
Others		Others	
Hong Kong	40	Hong Kong	34
Canada	15	Canada	20
Malaysia	5	Singapore	6
Singapore	5	Korea	3
Australia	2	Indonesia	2
Total for			
Others	67		65
Others not			
Listed	3		5
Grand Total	72		78

Source: Directorate General of Customs, Ministry of Finance

