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Required Report - public distribution

Date: 10/31/2012
GAIN Report Number: TW12038

Taiwan

Fresh Deciduous Fruit Annual

Fresh Apples

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Report Highlights:

The apple continued to be the most popular imported fruit in Taiwan with total imports of 118,662 metric tons (US\$131 million) in MY 2011/12, and the Fuji remained the favorite variety, accounting for 90% of total retail sales. The United States regained its position as the leading supplier of apples to Taiwan, posting a 42% market share. Local production continued a long-term decline and currently meets only about one percent of domestic demand.

Executive Summary

Characteristics of the Taiwan Fruit Market

- Among the world's highest per capita consumption of fresh fruit -- about 132 kg/ person
- Imports as a percentage of total domestic fruit consumption -- 13% by value/15% by volume
- Taiwan consumer preference for fruit: "the sweeter, the better"

Taiwan Apple Production

In MY 2011/12, local apple production fell to 1,667 metric tons (MT), a 24 percent drop from the previous year, continuing a downward trend since Taiwan's accession to the WTO in 2002. Local apple production is no longer profitable due to high labor and transportation costs, as well as competition from imports. In addition, increasing eco-awareness in Taiwan has hindered further exploitation of the mountain areas where Taiwan apples are grown.

Taiwan Apple Imports

In MY 2011/12, Taiwan imported 118,662 MT of apples, the lowest import level since 2004. A surge in shipments from Chile in MY 2010/11, pushed total imports to a record level that year but resulted in heavy competition and financial losses for importers. As a result, importers became much more cautious when placing orders in MY 2011/12, which contributed to the 20% decline. Despite this overall drop, importers actually increased their purchases of U.S. apples, allowing the United States to regain its former position as the leading supplier of apples to Taiwan. With a somewhat weaker local economy, Taiwan importers are expected to remain somewhat conservative, but total imports are still forecast to recover moderately to 130,000 MT in MY 2012-13.



Commodities:

Apples, Fresh

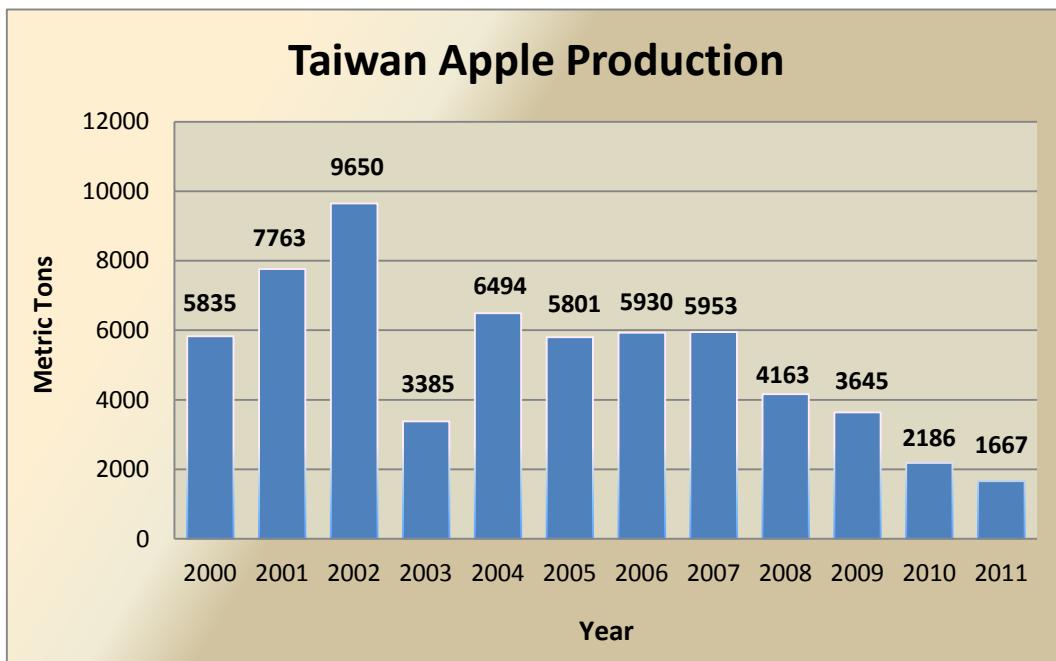
Production

Even prior to Taiwan's accession to the World Trade Organization (WTO) in 2002, local apple production, from orchards set in Taiwan's temperate central mountain range, was insignificant -- less than 10,000 MT per year. Since Taiwan's WTO accession and market liberalization, cropland has been steadily taken out of production. In MY 2011/12, the area planted declined by 24 percent to 176 hectares, and only 1,667 MT of fresh apples were harvested, reflecting a 24% percent drop from the previous year.

Other factors also contributed to the decline. Taiwan's geographical location leaves producers vulnerable to natural disasters. Tropical storms Mindulle (2004) and Morakot (2009), brought severe flooding and mudslides that damaged orchards. Given Taiwan's increasing eco-environment awareness, Taiwan authorities also have taken action to address the increasingly serious problem of over-exploitation of hilly lands. To prevent the further degradation or destruction of national lands, the "Land Restoration Strategic Program and Action Plan" was promulgated in 2005. In accordance with this policy, Taiwan's Council of Agriculture has been withdrawing those leased lands located in mountainous areas higher than 1,500 meters in central Taiwan, which encompasses some of the major apple production areas.

Given all of these factors, planted area is projected to drop to 171 hectares with production of 1,600 MT in MY 2012-13. Local apple production currently meets only about one percent of domestic demand, making the impact of annual crop yield fluctuations insignificant. The following tables show the downward trend in both area planted and production since 2000:





Source: Taiwan Council of Agriculture

Trade

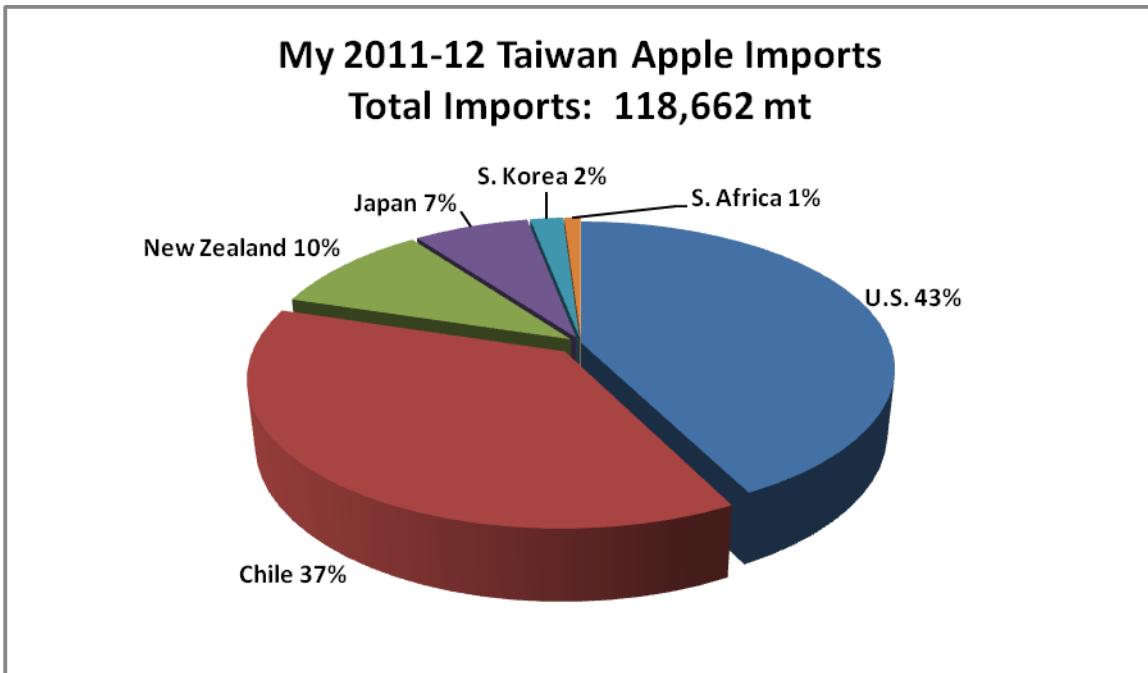
Taiwan is a relatively mature market for fresh apples. In MY 2011/12, Taiwan imported 118,662 MT of apples, the lowest import level since 2004. Part of the reason for the sharp decline last year was that imports from Chile had flooded the Taiwan market in MY 2010/11, pushing total imports to a record level. Although this surge allowed Chile to overtake the United States for the first time as Taiwan's largest apple supplier, the record imports resulted in heavy competition and financial losses for importers. As a result, importers became much more cautious when placing orders, which contributed to the 20% decline in total imports by volume and value in MY 2011/12. Import volumes from all supplier countries except the United States declined in MY 2011/12: Chile (-22%), New Zealand (-38%), Japan (-47%), Korea (-62%), and South Africa (-35%).

Other factors contributed to the decline in imports. During the course of the season, eleven shipments of South Korean apples were rejected due to unacceptable pesticide residue levels, disrupting Korean trade with Taiwan. The disastrous March 2011 earthquake and tsunami in Japan that led to radiation leaks from nuclear power plants reduced Taiwan consumers' confidence in the safety of food products from Japan. In addition, two shipments of Japanese apples were rejected for agrochemical MRL violations.

Despite the overall decline in imports in MY 2011/12, imports of U.S. apples actually grew to 50,132 MT, an increase of about 2%, allowing the United States to recover its previous position as the leading

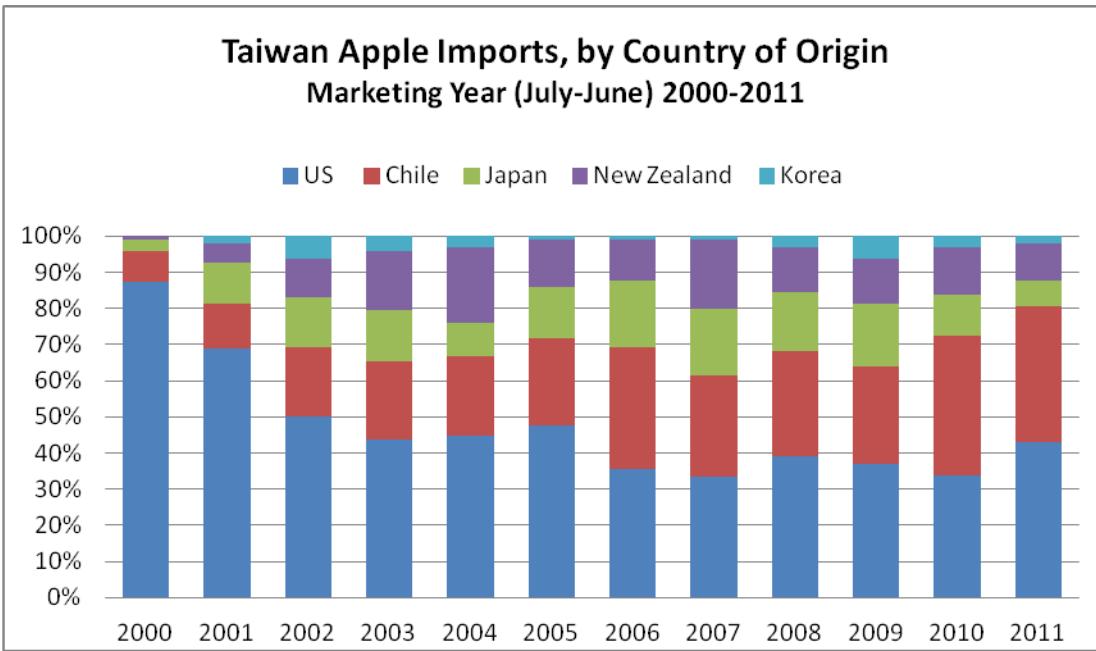
supplier of apples to Taiwan. According to Taiwan Customs statistics, the market share for U.S. apples recovered to 42% while Chile slipped to 37%, followed by New Zealand (10%), Japan (7%), Korea (2%), and South Africa (1%).

Washington State typically accounts for 90-95 percent of total U.S. apple exports to Taiwan, and Washington apples are well known among consumers. Taiwan is also one of the top five export markets for Washington apples.



Source: Taiwan Council of Agriculture

As shown in the following table, the U.S. share of the Taiwan import market for apples began a long-term downward trend in 2000. Taiwan's 2002 WTO accession accelerated this trend by eliminating quota restrictions on imports from Chile, New Zealand, Australia, Japan, South Africa, Argentina, and European Union, and also removed a previous ban on apple imports from South Korea. China remains prohibited from exporting fresh apples to Taiwan for phytosanitary reasons. The United States is expected to remain the dominant supplier in the coming years with an expected total market share in the range of 40-45 percent.



Source: Taiwan Council of Agriculture

With the Taiwan fresh apple consumption "pie" likely to remain at about the same size for the next several years and the market now open to all major producers (with the important exception of China due to phytosanitary concerns), importers have a broad choice of suppliers from which to choose. Changes in market share, of course, will continue to shift from year to year based on supplier prices, product quality and availability.

In general, while Taiwan buyers express a continued preference for U.S.-origin Fuji apples, Taiwan importers have shown themselves more than willing to shift purchase orders to other competing supplier countries when cost factors run against U.S. exporters. A recent significant change in thinking among Taiwan importers is that they do not want to risk placing a large volume of forward orders for apples from one single supplier or country, especially when exports could be suspended due to detection of codling moth/peach moth or violations of Taiwan's MRLs (maximum residue limits) for agrochemicals (see Import Regulations and Requirements section.) Taiwan importers need the flexibility to switch their orders to other countries if the primary supplying country is suddenly suspended. As a result, prices will increase as many larger U.S. companies will be less eager to offer aggressive pricing on smaller, multiple orders.

At the consumer level, Japanese apples are currently receiving positive reviews (generally good taste, relatively small size, excellent appearance, and competitive price). Japanese apples have been the most popular fruit gift item during the lunar New Year holiday (usually in February). However, exceptionally high prices, Taiwan consumers' ongoing concerns about the safety of Japanese food products and the economic slowdown in Taiwan more recently have had a negative impact on the sale of Japanese apples in Taiwan. However, importers indicate that Korean Fuji apples, with already improved color/brix level and competitive prices, will become a strong competitor for U.S. apples in the

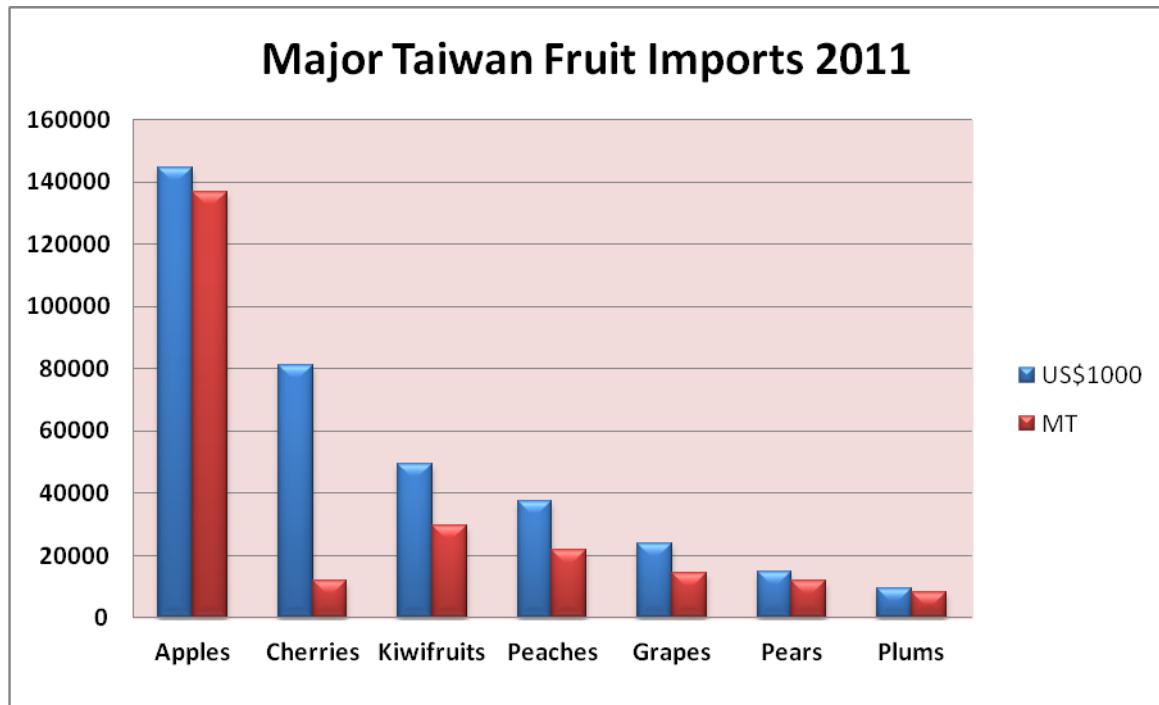
near future, especially if Korean exporters can resolve the problem of frequent MRLs violations that have resulted in trade suspensions in the past.

Tariffs

Taiwan typically applies a 20% tariff on all apple imports. Taiwan Customs assesses tariffs based on a region-specific reference price rather than the actual invoiced value. Taiwan recently implemented a temporary tariff reduction from 20% to 10% on imports of apples, nectarines, and kiwifruit. The import duty reduction is intended to buffer recent increases in consumer food prices, but U.S. apple exporters, in particular, could see an up-tick in demand during the two-month window (October 5-December 4, 2012). However, this temporary action may have little impact on imports since Taiwan importers are already finding it difficult to source additional supplies from the U.S. at present.

Consumption

The apple is currently the most heavily consumed imported fruit in Taiwan. Only oranges, 95 percent of which are grown domestically, are consumed in greater volume. However, in terms of real growth, the apple is losing ground to a host of other imported fruits, including grapes, cherries, peaches, and berries. Due to the variety of imported and domestic fruits now available, apple consumption is not expected to reach the highs seen in the late 1990s without some change in the competitive picture, such as new positive findings regarding the health benefits of apples or an expansion of fruit consumption in general.



Source: Taiwan Council of Agriculture

The vast majority of people in Taiwan view fruit as an important part of their daily diet. Fruit is frequently eaten as a snack or as a dessert and is the most common food prepared to serve to visitors in the home or office.

The apple symbolizes many positive things to the Taiwan consumers. 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, typically sold in gift packaging, fetches the highest prices. The most expensive apple on the market, the Japan-grown Fuji, usually sells well at premiums of 100 percent because of its size and consumers' quality perceptions.

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favorite variety, accounting for 90 percent of total retail apple sales. The remainder of the market is comprised of Gala, Red Delicious, and Granny Smith. 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 in introducing less common varieties into the market to maintain its "premium" image and to justify higher prices. In fact, it is not uncommon to find Japanese and Korean fruit in the market priced at US\$6-8 per piece.

While eaten year round, Taiwan consumers generally purchase significantly more apples during the autumn and winter months - the prime production months for northern hemisphere growers. Reasons for this include the 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 during the summer months. Taiwan people send food products in gift packages to their friends and relatives during three major lunar-year festivals: Chinese New Year (usually in February); the Dragon Boat Festival (usually in June); and the Moon Festival (usually in September). Fuji apples replaced Red Delicious many years ago as one of the most popular gift items during the lunar New Year holiday in Taiwan.

To maintain their dominant position, particularly against "new" competitors such as Japan, Korea, and New Zealand, U.S. suppliers should continue to work closely with Taiwan importers, distributors, and retailers to reinforce the strong positive image that U.S. apples still enjoy in Taiwan to ensure continued consumer loyalty for U.S.-origin apples.

Distribution Channels

Nearly all fresh fruit imports, including apples, are consumed as fresh produce. The Taiwan consumer's emphasis on both convenience and freshness is the key to shopping preferences. Currently, traditional/neighborhood wet markets account for about half of all fresh apple sales, followed by small fruit shops, supermarkets/hypermarkets, and street hawkers. Due to the current slowdown in the local economy and ongoing acquisition/mergers within the supermarket/hypermarket sector, further expansion of such modern retail outlets is anticipated to slow. As a result, no significant change in the distribution channel structure is expected in the near future.

Traditional/neighborhood wet markets	50%
Small fruit shops	25%
Supermarkets/hypermarkets	18%

Street hawkers

7%



Taiwan consumers shopped supermarket during "Fruit Carnival" in-store promotion.

Imported Fuji apples are popular gift pack "U.S. items in the retail market

Import Regulations and Requirements

General Phytosanitary Requirements

A phytosanitary certificate issued by the Plant Protection & Quarantine (PPQ), Animal & Plant Health inspection Service (APHIS) of the U.S. Department of Agriculture, stating that the fruit has been thoroughly inspected and found free from relevant pests, is required for all apple exports to Taiwan.

The Codling Moth is a pest of apples in the United States and a pest of quarantine concern to Taiwan, where it is not known to exist. Following a Codling Moth detection in Taiwan in November 2002, Taiwan suspended the importation of all U.S. apples. In June 2003, the United States and Taiwan signed a protocol with a penalty structure that allowed Taiwan to suspend imports of U.S.-origin apples if three Codling Moth detections occurred in a single shipping season (often referred to as "three strikes"). While this penalty structure has facilitated continued trade, there is the possibility of another market closure if there are "three strikes" in a single shipping season. U.S. regulatory authorities have provided Taiwan with U.S. research demonstrating that the risk associated with Codling Moth transmission and establishment in Taiwan via U.S.-origin apples is extremely low. Taiwan authorities continue to review this research, but have not yet met with U.S. officials to discuss the U.S. findings in detail. Negotiations and revisions to the "Systems approach work plan for the exportation of apples from the United States into Taiwan" continue in the interim.

Maximum Residue Limit (MRL)

Imports of fresh fruit and vegetables, including apples, are subject to random inspection for chemical residues at the port of entry by Taiwan's Food and Drug Administration (TFDA)/Department of Health.

A Taiwan importer of highly perishable produce, like apples, may submit an affidavit to the TFDA to move the consignment to its own warehouse before the testing is complete. However, the shipment cannot be released into commercial channels until/unless the test results are negative.

Shipments are tested at the normal sampling rate of 2.5 percent. If the sample tests positive for any prohibited chemical or at a level that exceeds Taiwan's established maximum residue level (MRL) for approved chemicals, the shipment will be rejected and future shipments will also be subject to sanctions in the form of enhanced inspection. If there is an initial noncompliance finding on record, future shipments of the same product, e.g. apples, imported by the same Taiwan importer from the same origin, e.g. the United States, the random inspection rate will increase to 20 percent. A second non-compliance finding for the same combination of Taiwan importer, product and origin will result in batch-by-batch inspection for all future shipments under that same three-way combination.

In an effort to more accurately identify the source of a violation and to target more carefully any subsequent sanctions, TFDA is now encouraging Taiwan importers of fresh produce to identify the source state. This practice is consistent with TFDA's stated goal of managing MRL risk at the source, but it also benefits U.S. exporters by helping to narrow the scope of the sanctions. As an example, growers/exporters of apples from Washington would not be penalized on the basis of MRL violations on apples shipped from other states. Therefore, exporters of U.S. apples should advise their Taiwan buyers to identify the source state, e.g. California or Washington, when filling in the application form for import inspection.

Production, Supply and Demand Data

Apples, Fresh Taiwan	2010/2011		2011/2012		2012/2013	
	Market Year Begin Jul 2010		Market Year Begin Jul 2011		Market Year Begin Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	410	231	0	176		171
Area Harvested	410	231	0	175		171
Bearing Trees	145	84	0	63		62
Non-Bearing Trees	0	0	0	0		0
Total Trees	145	84	0	63		62
Commercial Production	4,300	2,186	4,000	1,667		1,600
Non-Comm. Production	0	0	0	0		0
Production	4,300	2,186	4,000	1,667		1,600
Imports	149,000	149,017	120,000	118,662		130,000
Total Supply	153,300	151,203	124,000	120,329		131,600
Fresh Dom. Consumption	153,300	151,203	124,000	120,329		131,600
Exports	0	0	0	0		0
For Processing	0	0	0	0		0
Withdrawal From Market	0	0	0	0		0
Total Distribution	153,300	151,203	124,000	120,329		131,600
TS=TD		0		0		0
Comments						
AGR Number						

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