A Survey of the World's Major Apple Producers

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Recent changes that are affecting the major players in the world apple market are affecting us here in the United States. A survey of the world's major apple producers shows who they are, their sources of comparative advantage, their size and growth rate, their varietal mix and their marketing strategies.

The Major Players

There are many major producers of apples in the world, such as India, Iran, and Turkey that are not major players in the global market. This paper ignores them and focuses on those players that you are likely to meet either here at home or when you venture into export markets (Table 1).

The United States remains the second largest individual country producer. Its production is expected to rise substantially in the next decade, but its share of world production is likely to slip. China's domination of world apple production is likely to continue in the near future. By 2010, China could represent over 45 percent of world production. Its increase in apple production in the decade 2000-2010 could represent over two-thirds of the world increase. The European Union (EU) as a group is the second largest producer of apples and the world's largest market for fresh apples. France and Italy are both major exporters whose production is expected to grow modestly. However, Germany is a major net importer, so its domestic production strongly influences EU and world demand for fresh apple imports in any year. Germany's apple production is expected to decline modestly. Increases in production are expected in the remaining EU countries, many of which are substantial apple producers. Japan's production is important because it has helped keep the Japanese market largely closed to imports. Japan can remain self-sufficient in apples for the foreseeable future. The six major apple producers in the Southern Hemisphere are important as a group because of their role as off -season suppliers to the rich Northern Hemisphere markets.

While China's rate of growth in apple production in the next decade will be spectacular based on the number of young trees still in the ground, all other major export-oriented countries are also expected to have increased production. France and Italy will have modest growth of 14 and 9 percent respectively. The United States could have about 30 percent growth compared to the year 2000, but less than 20 percent above the record production of 1998. Southern Hemisphere production could grow by almost one quarter. However, the fastest growth is expected in Brazil and Australia, the two countries least dependent on sales in the export market.

TABLE 1

Major players on the world market apple stage production (1,000 metric tons).

Country	2000 Actual	2005 Forecast	2010 Forecast
United States	4,843	6,050	6,300
France	2,400	2,300	2,450
Italy	2,165	2,275	2,370
Germany	2,428	2,400	2,300
Other EU	2,677	3,132	3,340
Total EU	**9,300**	**10,107**	**10,460**
China	22,072	28,000	38,000
Japan	863	900	910
Argentina	1,400	1,550	1,700
Australia	350	400	455
Brazil	800	950	1,100
Chile	1,010	1,160	1,270
New Zealand	500	550	600
South Africa	650	680	700
Total S.H.	**4,710**	**5,290**	**5,825**
All Other	**18,338**	**19,707**	**21,649**
World Total	**60,126**	**70,054**	**83,144**

Relative Competitiveness

Each year the World Apple Report attempts to measure the relative competitiveness of 27 major apple producing countries. Countries are rated on (1) production efficiency, (2) quality of infrastructure and inputs, and (3) financial and market factors. These ratings serve both to identify the strengths and weaknesses of each competitor and can be used to develop policies and strategies that improve a country's competitiveness (Table 2).

You will note that the United States is not, on average, the most competitive apple producer in the world. Partly, this reflects the type of competition faced. New Zealand, Chile, and South Africa have tremendous natural advantages (for example high yields and low disease pressure) and advanced storage, packing, and marketing systems. France has been modernizing its production and handling system rapidly. Countries like Belgium, the Netherlands, and Austria have been among the leaders in high intensity management systems. In contrast, the United States, like China, Australia, and Russia produces apples in widely varying locations across a continent. The weaker regions pull down the average performance, even though some firms and some districts may be among the world' s leaders. China' s ranking is relatively low. However, China has a huge, relatively unsophisticated domestic market and still exports less than 2 percent of its production, so for the present, it can afford to be less competitive.

One other conclusion stands out from our annual competitiveness surveys. That is, that over time, the leading producers continue to make progress. The countries that do not adapt and improve, for whatever reason, fall further behind. The long-term viability of much of the apple industry in countries like Spain, Mexico, Russia, and Romania is very much in doubt. The same can be expected for districts in the United States that do not keep up with technology and market changes.

Imitation Strategy Leading to Stalemate

Twenty years ago, countries and districts could be identified with one or two unique varieties: French Golden Delicious, Italian Red Delicious, South African Granny Smith, New York McIntosh, Washington Red Delicious. New Zealand was first to realize that there were profits to be made in introducing new and different varieties. They focused first on Fuji, then on Gala and then Braeburn, moving on to a new variety when premiums began to dissolve. Currently, they are pinning their hopes on Pacific Rose and similar patented varieties. New Zealand's success set off a frenzy of imitation throughout the world. Almost all major countries now have a stable of the same varieties, Fuji, Gala, Braeburn, and Jonagold. Thus, we have gone from a marketing system where suppliers had a distinct product offering to one where major suppliers have similar offerings. The array of competitors in each major variety is formidable (Table 3). It essentially guarantees intense supply pressure for most of these varieties twelve months per year.

Most people missed the point that the New Zealanders were making, that the premium niche for any variety is a narrow one, and that the key to success in their strategy is always having a unique variety ready when the last one fades. Even for New Zealand, that strategy will become much more difficult in the future. Fuji, Gala, and Braeburn were not really "new" varieties. They had been introduced and tested for two decades before New Zealand began to sponsor them. It will be much more difficult to develop a sequence of winning varieties from scratch as New Zealand is now trying to do.

TABLE 2

Relative competitiveness of major apple producers

Country	Production Criteria	Infrastructure and Inputs	Financial and Markets	Overall Rank
New Zealand	3	4	1	1
Chile	6	1	5	2
France	8	7	4	5
United States	14	2	7	6
South Africa	5	7	18	10
Argentina	18	3	15	11
China	20	23	20	21

TABLE 3

Major suppliers of key varieties, by rank (Ranked by volume of production).

Supplier	Red	Golden	Granny	Fuji	Gala	Braeburn	Jonagold	Pink Lady®
China	1	1		1	1			
U.S.	2	5	1	3	2	4	7	3
France	10	4	5	6	5	2	8	2
Italy	7	2	6		6	6	6	5
Argentina	3		2	6	8	5		
Brazil		12		4	4			
Chile	6		4	5	3	3		
Japan				2			5	
Australia	12	20	7					1
N.Zealand			8		7	1		
S.Africa	11	6	3		9	7		4
Turkey	4	3						
Belg-Lux							1	
Germany							2	
Netherlands							3	
Poland							4	

Differing Marketing Strategies

Convulsions in the global food distribution system and a continued imbalance between demand and supply are causing major apple producing countries to reassess both their domestic and export marketing strategies. The entry of discount chains like Wal-Mart and club stores like Costco into the food business, consolidation among traditional supermarket chains, and the growing popularity of category management have changed the retail picture worldwide. The market collapse in Asia just as world apple production was surging has depressed prices in many markets.

Five years ago, country marketing strategies differed markedly in the role of government, the extent of subsidies, and the role of the private sector. South Africa and New Zealand still had monopolies controlling all exports of apples. The European Union provided selected export subsidies for sales to certain regions. The United States had numerous exporters of every shape and size (and price point) and little government involvement. Chile's export of apples was dominated by large multinational companies. There was little government support or involvement.

Since then, the South African monopoly marketing agency, Unifruco, lost its mandate. It is now a private company, handling about half of all South African deciduous fruit exports. However, it has merged with Outspan, the former citrus fruit marketing monopoly to form Capespan. Capespan, in turn, has formed a joint venture with Fyffes, a major European multinational fruit trader, to help improve its access to the key European markets. A wide array of other firms entered fruit exporting in South Africa, but many of these have already gone out of business. A few will survive as major competitors to the market leader, Capespan.

The New Zealand Apple & Pear Board became a grower-owned corporation on April 1, 2000, under the name ENZA Limited. It retained its monopoly over export marketing of apples and pears, but other firms could win permits to export pipfruit if those sales were deemed complementary to those of ENZA. The definition of "complementary" has caused a bitter debate between ENZA and independent exporters. In August 2000, private investor groups bought enough shares to take control of ENZA Limited. The new management has indicated that it wants to retain its export monopoly. However, it has proposed to reduce the volume of apples it will take from growers in the coming season by 20-25 percent, triggering a bitter debate between ENZA and many growers.

Because of their commitments under the Uruguay Round GATT Agreement, and the rising cost of the Common Agricultural Policy, the Europeans have modestly reduced their protectionist external barriers and their export subsidies. In recent years, they have channeled support to the produce industry through producers associations, in theory, to help producers offset the market power of the big wholesalers and retailers. However, producers have argued that the level of support was not sufficient to make a difference. The EU has now agreed to increase that support from 3 percent to 4.1 percent of each producer association's turnover. The EU has also provided matching support for schemes to promote apple consumption. In the meantime, the influence of larger importers, wholesalers and retailers on the European produce system continues to grow.

In Chile, after years of squabbling, the government and the exporters have committed funds to a new export marketing campaign. However, much Chilean produce still enters major markets on consignment. As a result, the price of Chilean fruit tends to be near the low end of the market, in contrast to that of New Zealand, which usually captures a price premium.

In China, growth in apple production has far outpaced the development of sufficient rural roads, railroads, storage facilities, packing sheds, packaging support, and transportation equipment to handle the marketing effectively. The distribution function did not receive high priority from the Chinese government and foreign investment in that sector was discouraged. With China's entry into the WTO, that situation could change rapidly.

In the United States, what was once unthinkable has now become commonplace. Many independent packers, shippers, and marketers are merging in order to compete for the business of the few remaining mega-retailers. In 1998, Washington State growers voted an additional assessment of 15 cents per box to be targeted specifically at increasing domestic United States demand for fresh apples. The United States Apple Association tried unsuccessfully to get a similar national promotion off the ground. In October 2000, the United States Congress authorized $100 million in market loss assistance and $38 million in disaster assistance for apple growers, and in December 2000, the United States Department of Agriculture announced a new loan program making $99 million in low-interest loan programs available to financially-strapped growers. Leaders in many apple-producing states have been brainstorming about how to get out of the present crisis situation.

Global Perspectives

In an era where Germany's Daimler owns Chrysler, and Wal-Mart owns Britain's Asda chain and Swatch watches makes automobiles while Oldsmobile disappears, the traditional boundaries between businesses are crumbling. In the apple industry, there are subtle shifts from a regional or national perspective to a global one.

Binational deals are becoming much more common. For example, a number of European importers and wholesalers have invested in South African marketing facilities. The Saudi Arabian influence is important in Argentina. The major apple packing and exporting company in China is owned by a Singapore company, in which Chilean company David Del Curto has shareholdings. Capespan has an agreement to market Chinese Fuji apples in Europe. ENZA of New Zealand has for years had investments in facilities in Chile, including a joint venture with Chiquita Brands International.

ENZA has also been a leader in attempting to build an international marketing system by having facilities and partners in strategic locations. Since beginning to patent and license production of its newest varieties, it is attempting to build an international supply system to assure itself of 12 month' s supply of these varieties for its international marketing system. Trials are at various stages in France, Chile, and Washington State for Pacific Rose, Scifresh, and Pacific Beauty. Nurseries, growers, and warehouses will all be licensed under contract with the goal of feeding the ENZA marketing arm.

Similar thinking underlies the multinational initiatives that are now being developed around other varieties. In the case of Pink Lady® and Cameo TM, individual growers already had plantings before the formal multinational alliances were formed. However, with the cooperation of participating nurseries, packing houses, and growers, the Pink Lady® Alliance is attempting to build a premium niche for its product. From here on, the expansion of production can be kept in line with the growth in market acceptance, so that the price premium can be protected and the life of the plantings be extended. Nurseries, shippers, and even retailers are looking at developing proprietary, managed apple varieties. The big question mark over this trend is whether or not consumers will be impressed.

The Competitive Challenge

This quick survey of the world's major apple producing countries shows that they are big, they are still growing, they are becoming more alike in their product offerings, and they are facing similar headaches of oversupply, retail consolidation, and market access. Government help is likely to be more symbolic than effective either in loosening the power of the big retailers or in supporting incomes. However, the crisis atmosphere has spawned creative thinking and new initiatives that are likely to change the face of the apple industry in the next decade. The better each of us understands the forces that are around us and the opportunities that are being offered to us, the more likely we are to make decisions that sustain our firms through the next decade.

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