USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 9/27/2004

GAIN Report Number: UK4021

United Kingdom

Fresh Deciduous Fruit

Annual

2004

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Report Highlights:
Although domestic production in the top fruit sector is in decline, the UK remains a large consumer of apples and pears. The top fruit market is worth an estimated US$ 1.4 billion at the retail level. Apple production for MY2003 was estimated at 135,458 MT and imports totaled 486,105 MT. The UK remains an important export market for U.S. growers, with the UK trade regarding U.S. apples as a high quality and premium fruit. However, the majority of apple imports are from EU and southern hemisphere suppliers, with competition in the UK market particularly strong in the fall.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
London [UK1]
[UK]

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Executive Summary

Characterized by a top fruit sector in long term decline, the UK has become increasingly reliant on international trade to meet consumer demand for apples and pears. However, following a 22 percent increase in the domestic crop in MY2003, import volumes did fall marginally to 486,105 MT. Difficult growing conditions in most EU countries through MY2003 did impact on apple crops in the EU and impacted on the composition of imports into the UK. Both France and Italy saw a year on year decline in shipments and provided opportunity for third country suppliers. Overall, U.S. shipments to the UK increased by 26 percent to 22,902 MT. U.S. pear exports to the UK also increased in volume terms. However, U.S. share of this market is negligible and total pear exports to the UK market were valued at less than $1 million.

The UK fresh produce sector is a mature market category, dominated by the leading supermarket chains. Category sales continue to increase, driven primarily by the increased availability of exotics and valued-added pack variants. Apples remain the UK's second most popular fruit, behind bananas. However, data does suggest that apple consumption is experiencing a downward trend, albeit a very slow decline. By contrast, pear consumption is increasing over the long term. However, sales of other fruits, including grapes, stone fruit and exotics are increasing at a considerably faster rate.

U.S. was traditionally the fourth largest supplier of apples to the UK market but has been overtaken by both Italy and Chile in recent years. The UK apple market is increasingly competitive. This is particularly evident in the fall, when the marketing of the domestic and EU harvest coincides with continued availability of southern hemisphere fruit. As a result, U.S. apples typically arrive in significant volumes after this peak competition period. Approximately 75 percent of U.S. apple shipments arrive between December and May.

In this competitive environment, promotional support is an essential part of the marketing mix, with domestic and international suppliers all investing time and resources to support their apples. Washington Apple Commission and the U.S. Apple Export Council conduct marketing programs in the UK to help support U.S. apples in the face of competition from global suppliers and shifting consumer demand.

The UK marketing year runs from July 1 through June 30.

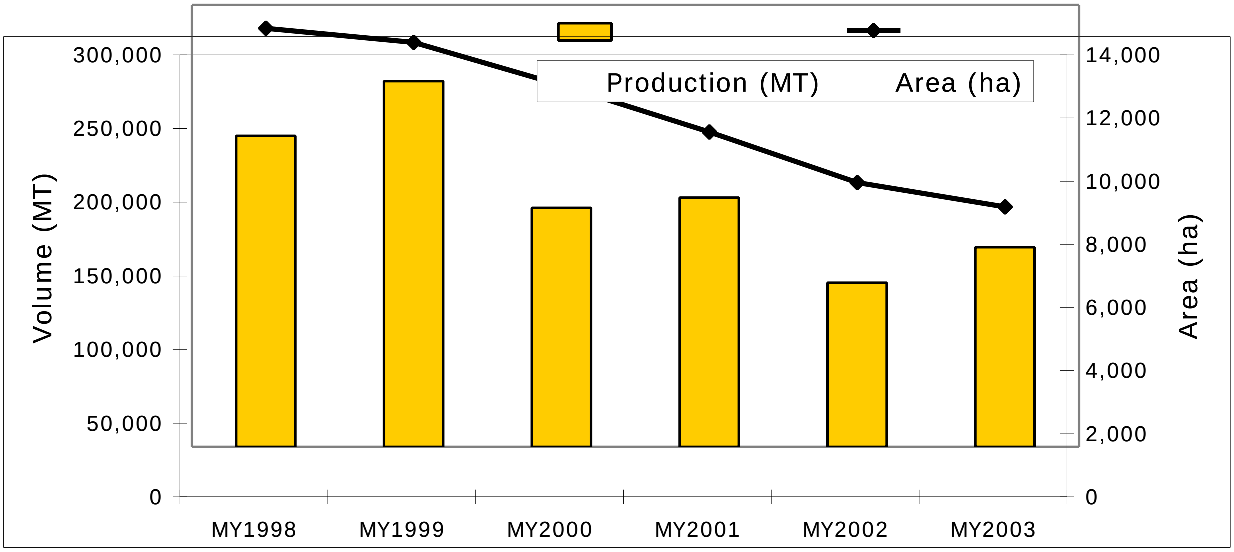
Section I: Situation and Outlook

Production

Apples

Both production area and output volumes of the British top fruit sector are currently a fraction of historical levels. As chart 1 illustrates, the decline has been relatively rapid. British apple orchard area is approximately half the size it was a little over a decade ago, such has been the strength of competition from EU and third country supplies at the retail level. Early varieties, in particular, have been crowded out of the market by southern hemisphere supplies.

Chart 1: Production and Area of Apples in Great Britain (MY1998-2003)



source: Department for Environment, Food and Rural Affairs (Defra)

Orchard area decreased again through MY2003 but did show signs of leveling off. The decline in area was the smallest year on year reduction since MY1999. Despite the reduced area, apple production did record a 22 percent increase on MY2002 levels. Total production in MY2003 was recorded at 135,458 MT, according to statistics from the Department for Environment, Food and Rural Affairs (Defra). This is a significant revision of initial production estimates released by Defra in September 2003. Tables 1 and 2 detail area and production data by variety for the last four marketing years.

Post forecasts production for the MY2004 crop at 121,200 MT. Growers have already indicated that supermarket buyers will need to be flexible regarding the current crop. Last year's heat wave, together with wet and warm weather over the last two months, are likely to lead to larger fruit and russeting on a wider scale. For example, around 5 percent of last year's Cox crop was sized at 75 mm or above. This season, the comparable proportion of 75 mm or above fruit is expected to be nearer 25 percent. With the preferred limit of apples for packing in polythene bags at 65 mm, there may be a shortage of fruit for bagged multipacks. Overall, it is believed that a relatively high proportion of the crop is on the cusp of supermarket specifications and growers are already emphasizing the seasonal variation in the appearance of fruit.

Table 1: Apple and Pear Area in Great Britain by Variety MY2000 - MY2003 (Hectares)

Variety		MY 2000	MY2001	MY2002	MY2003
Apples					
Culinary					
	Bramley's Seedling	3561	3100	2567	2266
	Other Culinary	234	241	178	180
Early Dessert					
	Discovery	484	420	339	264
	Worcester Pearmain	283	207	196	147
	Other Early	248	258	201	175
Mid Dessert					
	Egremont Russet	334	331	268	264
	Fiesta	163	133	109	109
	Other Mid	83	86	67	67
Late Dessert					
	Cox	4186	3489	3016	2738
	Gala	828	719	664	674
	Jonagold	353	257	201	227
	Other Late	701	732	568	496
	Total Dessert	7663	6632	5629	5161
	Total Apples	11458	9973	8374	7607
Pears					
	Comice	283	253	232	193
	Concorde	158	123	121	148
	Conference	1862	1903	1648	1365
	Williams	39	39	31	27
	Other Pears	12	12	10	9
	Total Pears	2354	2330	2042	1742

Pears

Given the difficult weather conditions for the MY2003 top fruit growing season and harvest, the UK pear crop was considered reasonable. Fruit matured quickly in the high temperatures, creating pressure on growers to market fruit early. Overall, fruit quality was variable at harvest, leading to storage problems and higher than average wastage at grading on most farms.

As with the apple industry, there has been a continued decline in the area of pear orchards in the UK. Coupled with the challenging growing conditions in MY2003, pear production recorded a year on year decline. Defra estimates total pear production for MY2003 at 24,036

MT, representing a 33 percent decline on MY2002 volumes. The MY2004 crop volume is anticipated to be similar to MY2003 and post forecasts total pear production for MY2004 at 23,900 MT.

Table 2: Apple and Pear Production in Great Britain by Variety MY2000 - MY2003 (MT)

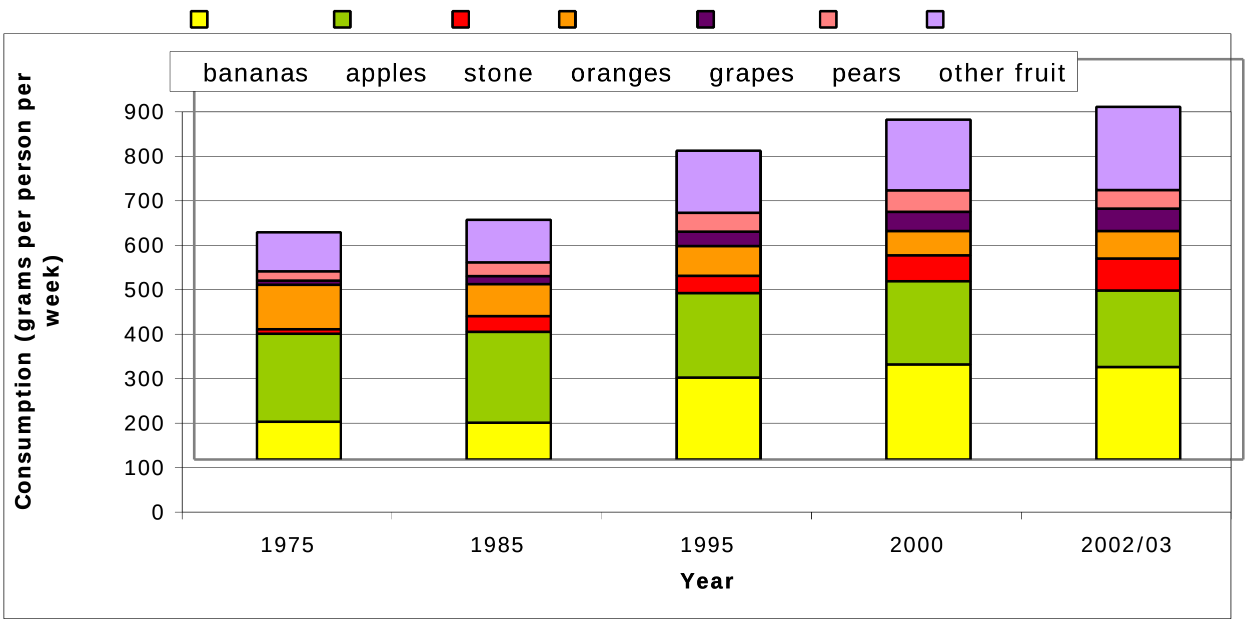
Variety		MY 2000	MY2001	MY2002	MY2003
Apples					
Culinary					
	Bramley's Seedling	60325	57951	44208	50585
	Other Culinary	2336	1926	1336	1602
Early Dessert					
	Discovery	4619	3754	2966	2416
	Worcester Pearmain	3578	2565	2489	1959
	Other Early	1238	1291	1003	876
Mid Dessert					
	Egremont Russet	4972	5289	4585	4902
	Fiesta	3098	1541	1531	1530
	Other Mid	413	431	335	335
Late Dessert					
	Cox	46102	64331	30121	43859
	Gala	16334	14385	12469	16499
	Jonagold	10764	8364	4649	5931
	Other Late	8416	7315	5683	4964
	Total Dessert	**99534**	**109266**	**65831**	**83271**
	Total Apples	**162195**	**169143**	**111375**	**135458**
Pears					
	Comice	3343	1456	3795	1566
	Concorde	947	491	665	1258
	Conference	29588	32884	31280	21113
	Williams	118	116	92	82
	Other Pears	37	24	19	17
	Total Pears	**34033**	**34971**	**35851**	**24036**

Consumption

Apples

UK household consumption of fresh fruit has increased over the long term, as illustrated in chart 2 below. Average fresh fruit consumption has increased by 55 percent between 1975 and 2003. Increased banana consumption has been one of the key drivers of this consumption growth and is now the nation's leading fruit, as measured both by average consumption and retail sales. Recent growth in fruit consumption has been driven by the 'other fruit' category. Key factors contributing to this category growth include the increased availability of exotic fruits and the extended marketing seasons afforded by global supply and improved transportation.

Chart 2: Household Consumption of Fresh Fruit 1975 -2003



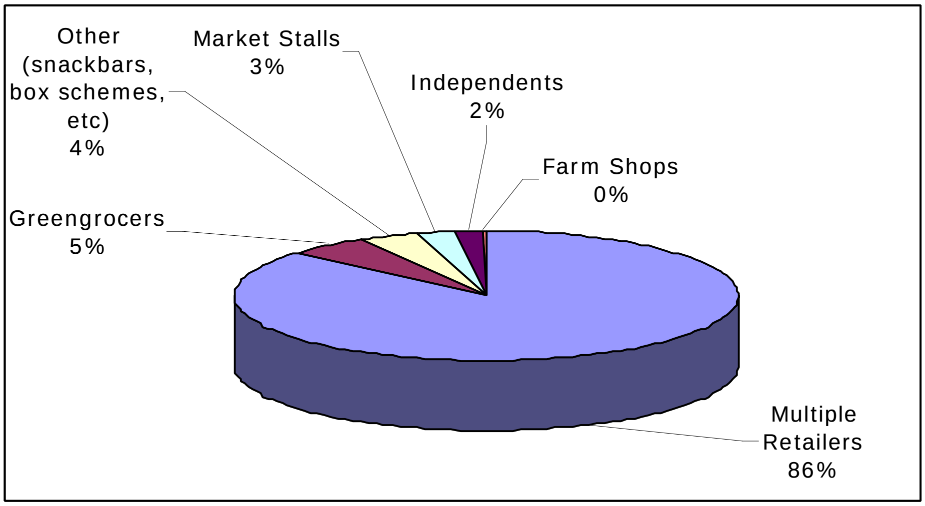
source: National Statistics 2002/03 Expenditure and Food Survey

By contrast, apple consumption has remained relative static at approximately 9.5kg per person per year. Apples remain the second most popular fruit in the UK, although data analysis does suggest a slow, downward trend in consumption.

Overall, the UK fresh produce sector is a mature market, characterized by high levels of household penetration and marginal growth. The total UK retail fruit market is valued at $5.7bn and apples have a 20 percent share of sales value. Although a mature market, the sector is also characterized by its dynamism. The supply chain utilizes new varieties and packaging formats in its drive for growth and continues to adapt to changing lifestyles and eating habits. The apple category has benefited from such endeavors and to a large extent has avoided the commodity status that has arguably impacted upon the marketing of citrus and bananas in the UK.

As with most foodstuffs, distribution of fruit is dominated by the supermarket chains (see chart 3). Collectively, they account for 86 percent of apple sales in the UK and share continues to increase at the expense of greengrocers. Supermarkets are proactive in the

Chart 3: UK Retail Sales of Apples by Outlet Type (CY 2002)



source: Taylor Nelson Sofres

fresh produce sector, introducing new varieties and pack types, developing niche market opportunities and regularly promoting their range. However, promotion in the UK market increasingly centers on price discounts and multi-buy offers.

Concerns over obesity and health continue to grow in the UK. The UK Government launched its “5-a-Day” program to encourage people to eat more fruit and vegetables in 2003. Despite recognition of the health benefits associated with fruit and vegetable consumption, only 25 percent of the UK population was meeting the target of 5 portions per day. For low income and young consumers, the figures were even lower.

Culinary apple varieties face the challenge of adapting to changing lifestyles. Shrinking volumes of fresh apples are used for meal preparation inside the home. Instead, the cash rich/time poor consumer is switching towards pre-prepared convenience foods, opting for chilled and frozen apple pies, pastries, tarts and other products. As a result, an estimated 65 percent of total culinary apple volumes are used for processing, reflecting the growing demand from food manufacturers.

Pears

The UK pear market is valued at approximately US$ 275m and pears account for 5 percent of fresh fruit sales at the retail level. Defra data indicates that average pear consumption is increasing over the long term. However, consumption of stone and soft fruit is rising at a much faster pace. As a result, pears could lose share in the fresh fruit category as consumers respond to the diversity and choice of fresh product on offer. Supermarkets again dominate retail sales and are giving the fruit greater focus. Imported pear varieties supply year-round demand and are increasingly positioned as premium products at the retail level.

Trade

Apples

With declining domestic production, the UK is reliant on imports to meet the demand for fresh apples. The three leading suppliers to the UK market are France, New Zealand and South Africa. Collectively, they supply approximately two-thirds of the UK's apple imports. UK apple imports fell marginally in MY2003 to 486,105 MT, partly reflecting the increased domestic production. However, high temperatures during summer 2003 across Europe reduced the EU crop and also reduced the MY2003 import volumes from France and Italy by 16 percent and 19 percent respectively. Increased volumes from Chile, Brazil, China and North America helped to offset this shortfall. U.S. shipments to the UK increased by 26 percent to 22,902 MT. However, arrivals of U.S. apples were still some 10 percent below the volumes recorded in MY2002 and some 15 percent below the five-year average.

The U.S. was again the sixth largest supplier to the UK. Traditionally the fourth largest supplier to the UK, the U.S. has been overtaken by both Italy and Chile in terms of volume in the last two years. Indeed, the Chilean fresh produce industry has actively targeted the European Union in recent years and is now the biggest exporter of all fruit in the southern hemisphere. The country is reaping the benefits of its decision to implement a nationwide good agricultural practices (GAP) regime for its fruit growers, anticipating worldwide safety concerns about fruits and vegetables. This has placed them in a strong situation for supplying European markets and meeting the traceability demands of supermarket retailers. In addition, the EU/Chile Free Trade Agreement has increased the competitiveness of Chilean produce vis-à-vis third country suppliers.

Despite the year on year decline in shipments, Italy continues to supply a significant proportion of organic apples to the UK. Over the long-term, Italy has more than doubled apples exports to the UK since MY1997. However, U.S. apples do command a higher unit price than most of their competitors. The total value of U.S. shipments in MY2003 was $26.6m versus the $23.7m generated by Chilean apples imports.

Expectations for MY2004 are stronger for the European crop, with France in particular expecting a much improved year. New Zealand growers will also be anticipating a better marketing season, following a period when prices to some growers reached a thirty year low. Stronger competition from other southern hemisphere suppliers and the extended shelf life of fruit, due to the adoption of Smartfresh technology, were among the reasons for the disappointing financial returns to New Zealand growers.

Over the longer term, competition for the European market is expected from the new EU members. Poland and Hungary are likely to be the first to target the mature markets of Northern and Western Europe, although industry analysts indicate that they may initially struggle to meet the quality criteria set by retailers. Although unlikely that France would be displaced as the UK's major supplier, the French apple industry is already taking steps to safeguard and strengthen its position. One tactic currently utilized is the development of new varieties such as Jazz and Ariane.

Pears

Approximately 80 percent of the fresh pears consumed in the UK are imports. Key suppliers include the Netherlands, South Africa and Belgium. However, trade data may distort the true origin of produce. It is likely that Southern hemisphere fruit is shipped to the port of Rotterdam in the Netherlands, before onward distribution to the UK.

With the reduced UK crop, imports from the southern hemisphere and mainland Europe increased in MY2003 to 131,976 MT. Import volumes are likely to remain high in MY2004. The current European crop is forecast to increase 12 percent on last year and prices are expected to be very competitive. Imports from the U.S. increased in MY2003 to 827 MT, generating revenues of approximately US$ 1m for American exporters.

Policy

Tariffs

In line with other EU countries, the UK import duty is established under the EU Harmonized Tariff Schedule. To calculate import duties for most fruit and vegetables, including apples and pears, the Entry Price System is used. The Tariff indicates a scale of entry prices per 100 Kg net. At the highest point on the scale, the Tariff indicates an ad valorem rate of duty only. As you proceed down the scale specific charges are introduced. Thus the lowest entry price generates the highest specific charge in addition to the ad valorem duty.

Non-Tariff Barriers

Quality, Safety & Health Regulations

The UK, as a member of the European Union, conforms to the EU Quality Standards on all fresh produce for which standards have been applied. The standards provide a degree of consumer protection for a sector where most products are highly perishable and serious defects in the product can develop extremely rapidly. Also, they help build consumer and trade confidence in the quality of the produce they buy. The purpose of the standard is to define the quality requirements for fresh apples and pears after preparation and packaging. Each EU standard prescribes minimum marketing requirements for quality, size, tolerances, presentation and marking. There are three quality classes: Extra Class, Class I, and Class II. EU/UK Miscellaneous Additives legislation permits the use of Beeswax White, Beeswax Yellow and Shellac, as glazing agents/waxes on apples & pears. In addition to compliance with EU/UK Quality Standards and Food Additives legislation, all fresh deciduous fruit is subject to the EU/UK Pesticides (Maximum Residue Levels in Food) regulations.

Import Requirements

EU Regulation 1148/01 controls the import of fresh fruit and vegetables from third countries outside the EC for consumption fresh or for subsequent processing. All imports of products subject to the EC Marketing Standards are required under to have a valid certificate of conformity or Certificate of Industrial Use prior to release into free circulation in the European Union. The UK's Horticultultural Marketing Inspectorate (HMI) has introduced a system called the Procedure for Electronic Application for Certificates HMI. This online system is to be used to issue certificates for produce that complies with EC marketing regulations.

More information about HMI and the import system is available online at:
http://www.defra.gov.uk/hort/hmi.htm

Marketing

Domestic supplies are typically sold in the fall because UK varieties are largely unsuited to storage and growers have limited storage capacity. With the bulk of domestic supplies entering the market in the fall, together with EU fruit and southern hemisphere produce still available, the UK market is very competitive early in the marketing year. As a result, the majority of U.S. apples are marketed from December onwards. The U.S. is regarded by the trade as a supplier of high quality produce and U.S. apples do command a premium, with UK consumers willing to pay a premium for the red and red bi-color apples. Also, organic fruits continue to attract a premium price in the UK.

The Washington Apple Commission, the U.S. Apple Export Council and Pear Bureau Northwest all conduct marketing campaigns to coincide with the arrival of U.S. fruit. Market Access Program (MAP) and producer funding allow the U.S. top fruit industry to carry out these activities in the UK market. Consumer and trade activities include tastings, competitions, advertising, point-of-sale material and on-pack promotions.

A range of marketing activities are also undertaken by the main suppliers to the UK market. French, South African, New Zealand and Chilean apples are all supported at key times with a number of marketing tactics. These include radio advertising, sponsorship, tastings and school information packs.

English Apples and Pears conduct PR and advertising activity to support the domestic crop and the most active campaign is for Bramley apples. Bramley Apple Week and the ‘Brammy’ Awards feature heavily in the promotional calendar. These events generate high profile PR activity in consumer media, with the aim of encouraging consumers to either cook from scratch or purchase some of the pre-prepared products made with Bramley apples. Campaigns are increasingly targeted at the consumers of tomorrow, with current activities focusing on schools and catering colleges. The annual awards ceremony provides recognition to the trade for its role in promoting UK culinary apples.

Several challenges face U.S. apples in the UK marketplace. They include increasing competition from southern hemisphere suppliers, US/EU trade relationships and shifting demand towards new varieties and smaller apples. This competitive environment, together with the increasing dominance of multiple retailers in the fresh produce market, means the quality aspects (firmness, juiciness, flavor) of American apples must be regularly communicated to trade buyers and the price-focused retail trade in the UK.

Section II: Statistical Tables

Apples

PSD Table							
Country	United Kingdom						
Commodity	Apples, Fresh				(HA)(1000 TREES)(MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Planted	8370	8370	7790	7610	0	7250	(HA)
Area Harvested	8370	8370	7790	7610	0	7250	(HA)
Bearing Trees	8370	8370	7790	7610	0	7250	(1000 TREES)
Non-Bearing Trees	400	400	400	400	0	400	(1000 TREES)
Total Trees	8770	8770	8190	8010	0	7650	(1000 TREES)
Commercial Production	111380	111380	110400	135500	0	121200	(MT)
Non-Comm. Production	0	0	0	0	0	0	(MT)
TOTAL Production	111380	111380	110400	135500	0	121200	(MT)
TOTAL Imports	493030	494440	485000	486100	0	489800	(MT)
TOTAL SUPPLY	604410	605820	595400	621600	0	611000	(MT)
Domestic Fresh Consumption	558620	560020	554400	563080	0	565000	(MT)
Exports, Fresh Only	13290	13300	13000	20720	0	13000	(MT)
For Processing	32500	32500	28000	37800	0	33000	(MT)
Withdrawal From Market	0	0	0	0	0	0	(MT)
TOTAL UTILIZATION	604410	605820	595400	621600	0	611000	(MT)

Import Trade Matrix			
Country	United Kingdom		
Commodity	Apples, Fresh		
Time Period	MY	Units:	MT
Imports for:	2002		**2003**
U.S.	18148	U.S.	22902
Others		Others	
France	179907	France	151823
South Africa	95879	South Africa	91570
New Zealand	72317	New Zealand	75236
Italy	32899	Italy	26725
Chile	20244	Chile	25150
Germany	17740	Netherlands	18370
Netherlands	11109	Germany	16541
Belgium	9420	Brazil	14034
Brazil	8168	Canada	12649
Total for Others	447683		432098
Others not Listed	28614		31105
Grand Total	494445		486105

Export Trade Matrix			
Country	United Kingdom		
Commodity	Apples, Fresh		
Time Period	MY	Units:	MT
Exports for:	2002		**2003**
U.S.	0	U.S.	0
Others		Others	
Ireland	11603	Ireland	17443
France	737	Belgium	1778
Belgium	505	Netherlands	1066
Germany	212	France	235
Netherlands	139	Germany	140
Sweden	68	Malaysia	19
Falkland Islands	14	Austria	18
Dubai	7	Falklands Islands	8
South Africa	7	Gibraltar	3
Macedonia	3	Hong Kong	3
Total for Others	13295		20713
Others not Listed	8		6
Grand Total	13303		20719

Pears

PSD Table							
Country	United Kingdom						
Commodity	Pears, Fresh				(HA)(1000 TREES)(MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Planted	2040	2040	0	1740	0	1700	(HA)
Area Harvested	2040	2040	0	1740	0	1700	(HA)
Bearing Trees	2040	2040	0	1740	0	1700	(1000 TREES)
Non-Bearing Trees	0	0	0	0	0	0	(1000 TREES)
Total Trees	2040	2040	0	1740	0	1700	(1000 TREES)
Commercial Production	35850	35850	28300	24040	0	23900	(MT)
Non-Comm. Production	0	0	0	0	0	0	(MT)
TOTAL Production	35850	35850	28300	24040	0	23900	(MT)
TOTAL Imports	116220	116670	120000	131980	0	128000	(MT)
TOTAL SUPPLY	152070	152520	148300	156020	0	151900	(MT)
Domestic Fresh Consumption	149040	148480	145450	153200	0	149050	(MT)
Exports, Fresh Only	2530	3540	2500	2320	0	2500	(MT)
For Processing	500	500	350	500	0	350	(MT)
Withdrawal From Market	0	0	0	0	0	0	(MT)
TOTAL UTILIZATION	152070	152520	148300	156020	0	151900	(MT)

Import Trade Matrix			
Country	United Kingdom		
Commodity	Pears, Fresh		
Time Period	MY	Units:	MT
Imports for:	2002		**2003**
U.S.	688	U.S.	827
Others		Others	
Netherlands	39862	Netherlands	52619
South Africa	20497	South Africa	25590
Portugal	14162	Belgium	15083
Belgium	13536	Italy	14103
Italy	10813	Portugal	7722
Spain	3704	France	2887
Germany	3671	Spain	2716
France	3562	China	2264
China	2239	Argentina	2260
Argentina	2010	Germany	2160
Total for Others	114056		127404
Others not Listed	1928		3745
Grand Total	116672		131976

Export Trade Matrix			
Country	United Kingdom		
Commodity	Pears, Fresh		
Time Period	MY	Units:	MT
Exports for:	2002		**2003**
U.S.	0	U.S.	0
Others		Others	
Ireland	1983	Ireland	1820
Netherlands	1040	Netherlands	231
Belgium	368	Belgium	177
France	92	Singapore	72
Sweden	21	Italy	21
Germany	20	Sweden	2
China	20	Falkland Islands	1
		Afghanistan	1
Total for Others	3544		2325
Others not Listed	1		0
Grand Total	3545		2325