

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 12/6/2011

GAIN Report Number: 11058

China - Peoples Republic of

Post: Beijing

Canned Deciduous Fruit

Report Categories:

Canned Deciduous Fruit

Approved By:

Laura Scandurra

Prepared By:

Ryan R. Scott, Freddie Xu, and Wu Bugang

Report Highlights:

Canned peach production is forecast at 400,000 metric tons (MT) in marketing year (MY) 2011/12 (June-May), up eight percent from the previous year. The increase is largely due to an increase in the availability of fruit for canning, as a spring drought resulted in smaller fruit size, and growing domestic demand for canned peaches. Export prices are expected to skyrocket jumping by 30 to 50 percent during MY 2011/12, largely due to rising labor cost, higher production costs, and the nearly five percent appreciation of the Chinese currency against the U.S. dollar over the past year.

Production:

Canned Peaches

Canned peach production is forecast at 400,000 metric tons (MT) in marketing year (MY) 2011 (June-May), up eight percent from the previous year. The increase is largely due to an increase in the availability of fruit for canning, as a spring drought resulted in smaller fruit size, and growing domestic demand for canned peaches.

Acreage of yellow peaches remains quite stable, but the spring drought in major producing provinces resulted in smaller sized fruit. Farmers in Shandong have switched from peach plantings to more profitable crops like cherries, but planted acreage has increased in other key producing provinces like Liaoning.

The majority of yellow peach processing plants are located near major producing areas such as Anhui, Shandong, Hebei, Liaoning, Jiangsu and Zhejiang. To ensure raw supplies and fruit quality, major canneries have entered contracts with farm cooperatives that manage dozens of individual farmers. Currently, there are close to 1,000 fruit canneries in China (less than 100 are medium or large-sized), and new canning facilities are continuing to be built.

Labor costs have increased more than 30 percent a year since 2008, according to the China Canned Food Association. In Shandong, for example, canneries increased the monthly salary offered to workers to 2,000 Yuan (\$315) with food and lodging provided. However, it is reportedly still difficult to recruit workers. Most fruit canneries operate during the July-September period, but some remain operational from April to October or even longer to produce canned vegetables. To cut labor costs, large canning facilities are using machines to wash, peel and cut and hiring laborers to only sort, pack, and transport.

Canned Pears

Canned pear production is forecast at 80,000 MT in MY 2011, up nearly three percent from the previous year. The majority of canned pears produced in China are exported.

Prices

Farm gate prices for fresh yellow peaches in Anhui at harvest time (August) were recorded at 3.0-3.6 Yuan (\$0.47-0.57) per kilo, which is double the price received the previous year. Export prices are expected to skyrocket jumping by 30 to 50 percent during MY 2011/12 because of rising labor and production costs and the appreciation of the Chinese currency, which increased nearly five percent against the U.S. dollar over the past year.

Consumption:

In general, with the exception of canned yellow peaches, Chinese consumers do not like to eat canned fruits. According to an industry survey, 70 percent of consumers believe canned fruit is unhealthy. The survey also indicates that canned fruit is mainly consumed by people who have lived overseas or who have busy work schedules. Many consumers often ask “why should I eat canned fruit?”

Traditionally, China has exported more than 50 percent of its locally-produced canned peaches but, given sluggish demand from the world market in recent years, canneries have been focusing more on the domestic market. Industry sources report that exportable supplies have declined by 35 percent, while domestic consumption has increased by 10-20 percent on an annual basis. New packaging in plastic cups or bags (oppose to the traditional package of glass jars) has helped boost consumption, especially by the young generation. Bakery and catering sectors are also using larger amounts of canned fruits.

Compared with countries like the United States, the per capita consumption of canned fruit in China is very low. The canned fruit industry has a long road ahead in terms of educating the public and enhancing the perception of canned fruits.

Trade:

Exports

Canned peach exports are forecast at 130,000 MT in MY 2011/12, down six percent from the previous year. Increased export prices may limit the buying interest from world buyers, especially the United States, who imported more than 30 percent of China’s total exports during MY 2010/11. The export prices in September were quoted at \$1,271 per MT, up 24 percent from the same period last year. Export volume to Japan, the largest buyer of canned white peaches, is likely to increase, due to low domestic supplies from the major earthquake.

Canned pear exports are forecast at 52,000 MT in MY 2011, down nine percent from the previous year, largely due to weak demand from the United States, the largest buyer of China-origin canned pears.

Imports

China’s imports of canned yellow peaches are forecast at 9,000 MT, which is an increase of 18 percent and based on the rising purchase demand by high-end consumers and upscale hotels, restaurants and bakeries. South Africa is the dominant supplier.

Policy:

While the central government’s support to the canning industry is minimal, some local state-owned banks provide subsidized loans to leading agro-businesses including canneries, but few canning enterprises are financially qualified for such loans. Reportedly, some local governments provide support by improving road

construction and irrigation systems and conducting technical training for farmers to improve fruit quality and safety. Many provincial governments support the construction of demonstration farms through subsidizing farmers on agricultural inputs such as pesticide and fertilizer, but the level and type of support differs by province.

Marketing:

Product – Canned yellow peaches are the most popular canned fruit, followed by mixed fruit. Normally, Chinese consumers prefer big peach halves that have a harder texture and a deep yellow color. However, currently, only one local variety, Ba Fan, can meet these requirements. Canned yellow peaches from other countries, like the United States, South Africa and Greece enjoy competitive advantages on these product features.

Pricing – In supermarkets and hyper-markets, competing domestic canned fruit brands are similarly priced, but imported canned fruit prices are approximately 50%-400% higher than their domestic counterparts. The food service sector generally buys imported products because of higher quality, which has caused some domestic canneries to produce higher quality canned fruit and offer relatively cheaper prices. Industry insiders suggest that some bakery shops are still willing to pay a higher price for the superior quality. Unfortunately, at present, the supply of domestically-produced high quality canned fruits cannot meet industry demand.

Packaging - Packaging plays a very important role as Chinese consumers like to inspect fruit products before making purchase decisions, so most local canneries use glass jars for consumers to see the contents. Other packaging innovations include soft cans (jars made of transparent plastic) or foldable spoons with soft cans. Soft cans will most likely be the market trend for canned fruits. In hypermarkets and other retail chains, glass jars and soft cans are widely used for local products. Most imported products do not address the nuances of the hypermarkets, as many are packaged in conventional tin cans. For consumer oriented sales, a suggestion would be to sell the product in a more transparent container; however, the food service sector (e.g. restaurants) primarily uses conventional cans for both domestic and imported brands. As shown in the table below, each form of packaging has its pros and cons.

Distribution – Imported canned peaches, pears, and apricots are primarily bought by the Chinese baking industry because of their superior taste and uniformed shape and texture. Premium bakery shops garnish cakes and other bakery items with canned sliced fruit as it makes the dessert appear fresh, which is important to Chinese consumers who are becoming more and more health-conscious. Bakeries will use domestically produced canned fruit to lower production costs if buyers in their market are less concerned about the appearance of the fruit. Sales of imported canned peaches, pears and apricots through high-end retail channels are mainly purchased by expatriates and few upper-class Chinese.

	Comparison of Different Packages		
	Tin Cans	Glass Jars	Soft Cans
Easy for transportation	Yes	No	yes
Easy for consumers' inspection	No	Yes	yes

Easy to carry	Yes	No	yes
Easy to open	No	Yes	Yes
Compatible with different packing sizes	Yes	Yes	no (suitable for snack-size)

Broadening the consumer base in the domestic market has become more prevalent. One manufacture indicated that marketing costs account for about 45-50 percent of the total selling costs in the domestic retail market. Chinese canneries are very optimistic about the untapped opportunities in the domestic market. Some leading canneries are already segmenting into new niche markets in the food service sector, such as four and five star hotels, VIP clubs and karaoke bars where people sing in a private room that is catered with various snacks/fruits and drinks.

Promotion – Local manufacturers have limited budget resources dedicated to educating consumers and conducting public marketing campaigns. The industry’s marketing efforts focus primarily on northeast China, which has a higher consumption of canned fruits. Billboards, bus advertisements, and free tastings are common promotional tools. In terms of retailing, promoted products generally sell about 50 percent more than non-promoted products.

Opportunities and challenges - Both domestic canneries and distributors of imported canned fruits predict that the domestic consumption of locally produced and imported canned yellow peaches will continue to grow at an annual rate of 20 percent in the next three to five years. However, consumption of other canned fruits will grow at a much slower rate. The emerging baking industry in China foresees a promising future for imported canned yellow peaches. A manager of a famous chain of bakery shops points out that the popularity of bakery products with fruit garnish is growing.

However, challenges still exist. As previously mentioned, Chinese consumers are biased against canned fruits, believing that they contain preservatives and are less tasty than fresh fruits. It is imperative that the industry continues to sponsor education programs on the safety of canned foods and why they are a healthy alternative to fresh fruits.

PS&D Tables

Canned Peaches

Peaches, Canned China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jun 2009		Market Year Begin: Jun 2010		Market Year Begin: Jun 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Deliv. To Processors	502,500	502,500		555,000		600,000
Beginning Stocks	40,000	40,000		17,000		0
Production	335,000	335,000		370,000		400,000
Imports	5,300	7,023		7,651		9,000
Total Supply	380,300	382,023		394,651		409,000
Exports	150,000	145,971		139,001		130,000
Domestic Consumption	228,000	219,052		255,650		279,000
Ending Stocks	2,300	17,000		0		0
Total Distribution	380,300	382,023		394,651		409,000

Canned Pears

Pears, Canned China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jun 2009		Market Year Begin: Jun 2010		Market Year Begin: Jun 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Deliv. To Processors	122,400	12,240		124,800		123,200
Beginning Stocks	0	0		0		0
Production	76,500	76,500		78,000		80,000
Imports	20	61		164		175
Total Supply	76,520	76,561		78,164		80,175
Exports	55,000	57,371		57,126		52,000
Domestic Consumption	21,520	19,190		21,038		25,000
Ending Stocks	0	0		0		3,175
Total Distribution	76,520	76,561		78,164		80,175