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Canned Deciduous Fruit Report

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Canned Deciduous Fruit

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Report Highlights:

Canned peach production for MY 2010/11 is forecast at 370,000 MT, up 10 percent from last year, due to continued growth in domestic demand and rising domestic prices. As a result, many Chinese canneries are shifting their focus to the domestic market from the overseas market.

Canned pear production is forecast at 78,000 MT, which is only two percent higher than the previous year, and exports are up a mere one percent to 58,000 MT.

Production:

Canned peach production for market year (MY) 2010 (June-May) is forecast at 370,000 metric tons (MT), which is up 10 percent from the previous year and largely due to rising demand from the domestic market. Despite lower production of fresh yellow peaches (used in canned peaches) in MY2010 due to cold temperatures in the spring season, fresh supplies are still sufficient as new plantings from previous years have gradually reached full production. Acreage for fresh yellow peaches, however, is expected to decrease in coming years due to unprofitable returns.

Canned pear production for MY2010 is forecast at 78,000 MT, up a mere two percent from the previous year.

Prices:

The main driver of rising costs in the canning industry is labor costs. Reportedly, wages offered in the canning industry are drastically lower than wages offered in other sectors. With the growing shortages of laborers, some large canneries are planning to build production lines and machineries to help replace the loss of laborers. Meanwhile, other canneries are moving to mid-west provinces like Hunan and Shaanxi to build new facilities where there is an abundance of fresh supplies and cheaper labor costs. As a result of the increased level of mechanization and rising labor costs, small canneries are expected to fade out.

Despite lower production in the Shandong Province, farmers have mentioned that farm gate prices for fresh yellow peaches remained unchanged from the previous year at $0.22-0.25 per kilogram. However, labor costs in a Shandong cannery has increased to $6.0-7.5 per day, which is 30 percent higher from the previous year. Furthermore, production materials such as tin, sugar, and fuel have also increased by 5-15 percent on a yearly basis.

Canneries would like to increase export prices by 5-10 percent, but overseas buyers such as the United States would only accept current prices for lower quality products. The export prices during MY2009/10 averaged $1,000/MT.

Consumption:

Canned halved peaches remain the favorite canned fruit among Chinese consumers. Industry contacts indicate that consumption is increasing at 10-20 percent a year. A few years ago, Post estimated 50 percent of the total canned halved peaches produced in China were consumed locally; now, the share has increased to around 65 percent.

Consumption for other canned fruit is increasing slowly as most Chinese consumers still prefer fresh fruit to their canned counterparts. The canning industry, including industry groups, are making more marketing efforts in the retail and catering sectors.

Trade:

Exports

Reduced demand from Europe has dampened China's exports of canned peaches, with total exports forecast at 143,000 MT in MY2010/11, which is down two percent from the previous year. The Chinese currency has appreciated more than 10 percent against the Euro, making Chinese canned fruit less competitive than products sold by Greece, the world's largest canned peach supplier.

Many Chinese canneries are shifting their focus to the domestic market as current export prices cannot offset rising production costs. Chinese canneries claim that domestically-sold **canned halved peaches** are priced higher than the **canned diced peaches** sold to overseas markets. However, despite low export prices, Chinese canneries will continue to export until their products are predominately sold onto the domestic market where prices are more profitable. In 2009, a major cannery in Shandong successfully doubled their domestic sales to 20 percent of total production from 10 percent.

Canned pear exports are forecast at 58,000 MT in MY2010, up one percent from the previous year, based on continued flat demand from overseas buyers. Similar to canned peaches, the Chinese canneries are losing interest in producing canned pears since world market prices remain unchanged. The United States remains the largest buyer of Chinese canned pears, followed by Germany and Thailand.

Imports

Increasing demand from high-end hotels, restaurants and bakeries are pushing China's imports of canned yellow peaches to 7,500 MT in MY2010, which is 7 percent higher from the previous year. South Africa remains the single largest supplier of canned yellow peaches to China.

Policy:

In an effort to encourage exports of processed agricultural products, on June 1, 2009, the Chinese government increased the tax rebate from 13 percent to 15 percent for some processed farm products that include canned peaches and pears. Also, in producing provinces such as Shandong and Anhui, state-owned banks provide preferential loans to leading canneries, exporters, and processors.

Marketing:

Product

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

Packaging

Packaging plays a very important role as Chinese consumers like to inspect the fruit before making purchasing decisions. Most local canneries use glass jars for consumers to see the contents, while other packaging innovations include soft cans (jars made of transparent plastic) or the foldable spoons for soft cans. It is very likely that fruit marketed in soft cans will continue to expand. Glass jars and soft cans are predominantly sold in hypermarkets and other retail chains. 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. The food service sector (e.g. restaurants) primarily uses conventional cans for both domestic and imported brands for easier transportation purposes.

Pricing

In supermarkets and hyper-markets, competing domestic canned fruit brands are similarly priced; while imported canned fruit prices are approximately 50%-400% higher than their domestic counterparts. The food service sector generally buys imported products because of their higher quality, which is competitive to domestic canneries that produce higher quality canned fruit at relatively cheaper prices. Industry insiders suggest that some bakery shops are willing to pay a higher price for the superior quality, but, at the present, domestic supply does not produce higher quality canned fruits to meet industry demand.

Retail Cost of Canned Yellow Peaches Per 100 gram	
Country	U.S. dollars
China	$0.27
South Africa	$0.35
USA	$0.58
Germany	$0.98

*ATO market survey

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 products that are not promoted.

Distribution

Imported canned peaches, pears, and apricots are primarily bought by the Chinese bakery industry, mainly due to the 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 extremely important to the growing consumer market of health-conscious consumers. If buyers in their market are less concerned about the appearance of the fruit,

bakeries will use domestically produced canned fruit to lower purchasing costs. Imported canned peaches, pears, and apricots are largely sold to expatriates and few upper-class Chinese at a few high-end retail outlets.

For domestically produced products, broadening the consumer base in the domestic market has become more prevalent. One manufacturer indicates that the marketing costs account for 45-50 percent of the total selling cost in the domestic retailing market. Difficult as it is, Chinese canneries are very optimistic about the untapped opportunities in the domestic market. Managers are planning to increase the share of domestic sales relative to total production from the current 10-30 percent to 50-100 percent in the next three to five years. 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.

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. The emerging baking industry in China foresees a promising future for imported canned yellow peaches. One R&D 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 U.S. industry continues to sponsor education programs on the safety of canned fruit products and why canned fruit is a healthy alternative to fresh fruits.

Production, Supply and Demand Data Statistics :

Canned Peaches

Peaches, Canned China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jun 2008			Market Year Begin: Jun 2009			Market Year Begin: Jun 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Deliv. To Processors	558,750	558,750	558,750	502,500	502,500	502,500			555,000
Beginning Stocks	0	0	0	40,000	40,000	40,000			17,000
Production	372,500	372,500	372,500	335,000	335,000	335,000			370,000
Imports	5,511	5,511	5,511	5,300	5,300	7,022			7,500
Total Supply	378,011	378,011	378,011	380,300	380,300	382,022			394,500
Exports	147,799	147,799	147,799	150,000	150,000	145,971			143,000
Domestic Consumption	190,212	190,212	190,212	228,000	228,000	219,051			251,500
Ending Stocks	40,000	40,000	40,000	2,300	23,000	17,000			0
Total Distribution	378,011	378,011	378,011	380,300	380,300	382,022			394,500

Canned Pears

Pears, Canned China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jun 2008			Market Year Begin: Jun 2009			Market Year Begin: Jun 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Deliv. To Processors	144,000	144,000	144,000	122,400	122,400	122,400			124,800
Beginning Stocks	0	0	0	0	0	0			0
Production	82,000	82,000	82,000	76,500	76,500	76,500			78,000
Imports	15	15	15	20	20	61			100
Total Supply	82,015	82,015	82,015	76,520	76,520	76,561			78,100
Exports	61,027	61,027	61,027	55,000	55,000	57,371			58,000
Domestic Consumption	20,988	20,988	20,988	21,520	21,520	19,190			20,100
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	82,015	82,015	82,015	76,520	76,520	76,561			78,100