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Tree Nuts Annual

Tree Nuts

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Report Highlights:
In marketing year (MY) 2011 (October-September), in-shell walnut production is forecast at 696,000 metric tons (MT), up 20 percent from MY2010. Favorable weather conditions have contributed to a bumper crop in all major producing provinces. China's walnut imports (in-shell basis) are forecast at 25,000 MT in MY 2011, stable from the revised figure of 25,665 MT in MY2010. Currently, the locally-produced walnuts are price competitive with imported nuts, so, as a result, many processors and traders in China have started to source both domestic and imported walnuts.

Commodities:

Walnuts, Inshell Basis
Almonds, Shelled Basis
Pistachios, Inshell Basis
Pecans, Inshell Basis

Production:

Walnuts: In marketing year (MY) 2011 (October-September), in-shell walnut production is forecast at 696,000 metric tons (MT), up 20 percent from MY2010. Favorable weather conditions have contributed to a bumper crop in all major producing provinces such as Yunnan, Xinjiang, Sichuan, Shaanxi, Shanxi, Hebei, and Liaoning. Rewarding market returns and continuing government support (see Policy) are the driving forces behind the acreage expansion of walnuts, which is expected to reach 2.1 million hectares in MY2011, an increase of 15 percent from the previous year. The major producing areas are southwest Yunnan, northwest Shaanxi, Gansu and Xinjiang. Industry sources report that less than 60 percent of new walnut plantings are bearing. In Yunnan, forestry officials indicate that this province's walnut production will likely increase by 20 percent in the next five years.

As noted in previous reports, walnuts are planted in vast hilly or mountainous areas where many other crops are not nearly suitable or profitable. Generally, the walnut crop is operated by numerous individual farmers who have been allotted small plots by their local government. Companies have recently started engaging in walnut production by entering long-term leases of forest lands with farmers (see Policy). In China's mountainous areas, many walnut plants are left unattended; and, as a result, the yields are very low. For instance, in Yunnan province, the yield of mature trees in mountainous areas is only three MT per hectare. In less hilly areas, walnuts are inter-planted with other crops like corn, so special care is not required.

Post revised the MY2010 production estimate to 580,000 MT, down from 600,000 MT because of a severe drought during the 2010 winter and spring seasons in Yunnan, the largest walnut producer in China.

Almonds: Production for shelled almonds is forecast at 1,500 MT in MY 2011 (October-September), up nearly 40 percent from the previous year. Xinjiang farmers, especially in southern Kashi region, have been planting an increasingly large number of almond trees. In MY 2011, almond acreage is forecast at 52,000 hectares, up 15 percent from the previous year. Note: The Xinjiang government's goal is to reach 67,000 hectares by 2012. Despite this rapid expansion in acreage, poor management practices and few agricultural inputs have resulted in very low yields per hectare. The local government in Xinjiang's Kashi region is subsidizing bee farming to help pollinate almond plants; and, in certain areas, yields have increased significantly to 1.35 MT per hectare. The Kashi region accounts for more than 90 percent of China's almond production.

Other nuts: China has had trial plantings for pistachios, pecans, and macadamia nuts in Xinjiang and Yunnan, but the area and production are very limited.

Prices:

This year's bumper harvest lowered walnut prices to 33 yuan ($5.2) per kilo from 36 yuan ($5.6) per kilo in 2010; but, this year's price is still considered relatively high compared to previous years, which is largely due to continued strong demand and rising labor costs.

Trade:

Imports

China's walnut imports (in-shell basis) are forecast at 25,000 MT in MY 2011, stable from the revised figure of 25,665 MT in MY2010. Currently, the locally-produced walnuts are price competitive with imported nuts, so, as a result, many processors and traders in China have started to source both domestic and imported walnuts. Over the past few years, domestic supplies have been priced higher than imported nuts, which explain why imports skyrocketed by nearly 70 percent during 2008-2010. The United States is still the leading walnut supplier to China.

Almond imports (shelled basis) are forecast at 15,200 MT in MY 2011, up more than 20 percent from the previous year. According to trade sources, imports are expected to continue at this pace because of strong demand and the lower prices offered compared with the other tree nuts like pistachios.

Pistachio imports are forecast at 50,000 MT in MY 2011, up 10 percent from the revised number of 45,670 in MY 2010. A newly published food additive regulation banning the use of hydrogen peroxide (bleaching agent) in nut processing will affect China's import from Iran, the largest pistachio supplier to China (see Policy).

Exports

China's walnut exports (in-shell) are forecast at 23,000 MT during MY 2011, up 23 percent from the previous year due to strong demand from Japan and Europe. Traditionally, China only processed and exported locally-produced walnuts; however, in recent years, local processors have been importing in-shell walnuts for processing into shelled walnuts, and then re-export to Japan (the largest buyer) and Europe.

China also imports large quantities of pistachios and almonds for processing and re-export. In MY 2011, China is forecast to export 6,850 MT of pistachios and 1,600 MT of almonds, mainly to the United States, Japan, and Europe.

Policy:

As noted earlier, the rapid expansion of walnut acreage is driven by favorable market returns and government support. In 2008, the Yunnan provincial government issued Guidelines for Accelerating the Development of the Walnut Industry, which set the goal of walnut acreage at 2.0 million hectares (of which 666,667 hectares are

bearing) and production at 600,000 MT by the year 2012. Ultimately, the province's goal is 2.0 million hectares of bearing walnuts by 2020 with a total production of 2.0 million MT. In an effort to reach this goal, the provincial government allocates 130 million yuan ($20 million) each year for seed breeding by forest research institutes and disbursement of seedlings to farmers for free or at subsidized prices. Shaanxi and Xinjiang provincial governments also published similar guidelines for fruit/nut development.

On April 20, 2011, the Ministry of Health published a new version of National Food Safety Standard on the Use of Food Additives (GB2760-2011) with the adoption date of June 20, 2011. This revised standard has removed the use of hydrogen peroxide, a bleaching agent, from the permit list for food additives. To meet local demand for product appearance, China purchased low-priced pistachios from Iran and then used hydrogen peroxide to present white-shelled pistachios. Since hydrogen peroxide is removed from the food additive permit list, U.S. pistachios, which are naturally white shelled, larger sized, and better quality than Iranian pistachios, are expected to benefit from this policy despite its higher price. However, according to trade sources, imported nuts that have been processed in hydrogen peroxide in its domestic country will be not affected by this new policy.

Furthermore, the central government places great importance to the development of woody oil plants. The central government provides guidance on agriculture in its 2010 No.1 document where it encourages the development of oil tea and walnut. In 2008, the State Council released the Mid-Long Term Plan on National Food Security (2008-2020), which proposed to develop woody oil products such as sasanqua (oil tea), olive, walnut, and chestnuts in mountainous areas. This same year, the forestry property right reform allowed companies to acquire large scale forest land dedicated to walnut production (see 2010 annual report).

Marketing:

Nut consumption continues its growth in tandem with the growth of disposable incomes. Consumers in wealthy areas (such as Shanghai, Zhejiang, and Jiangsu) prefer high quality nuts, consumers in north and northeast areas (as well as Xinjiang) are more sensitive to price and low quality products. In 2010, South China, the top export destination for U.S. tree nuts, consumed a value of $104 million in U.S. walnuts, almonds, and other tree nuts. Health characteristics are associated with tree nut consumption. Walnuts are the most popular tree nuts in China due to their long-perceived nutritional value and are largely favored by parents of elementary school children because of the deep-rooted belief that it's "brain food" and shaped similar to the form of a brain. Consumers such as pregnant women prefer walnuts for their nutritional content such as Omega 3 amino acids. Snack foods also use walnuts as ingredients into candies, porridge, soup, or crushed for cooking oil. Newly developed products such as cocoa-flavored almonds and cream-flavored pecans are gaining additional market shares.

Consumption trends

The Lunar New Year festival is the best season for tree nut retail sales and consumption. Tree nuts are marketed in adorned gift packages and bestowed to friends, clients, or other business associates. Imported tree

nuts are sometimes paired with fresh fruit gift baskets during the holiday seasons. The holiday economy stimulates consumption trends for imported tree nuts and boosts overall demand. The highest retail sales for tree nuts sharply increase in January in anticipation of the Lunar New Year and in September/October anticipating the mid-autumn festival. Nut quality, appearance, and packaging all impact retail sales. Higher end packaging and larger sized tree nut kernels are used in gift sets and occupy larger market share, while simple lower quality kernels in smaller sizes are mostly favored by households due to their affordable pricing. Medium sized kernels are the most difficult to promote in retail outlets.

Adolescents and young adults in China's first and second tier cities favor year-round tree nut consumption. According to traditional Chinese medicine (TCM), excessive indulgence in tree nuts are believed to "over heat" your body that could result in skin outbreaks. Also, while many believe that nuts are "hot" food and eating too much in the warm seasons will hurt one's health, younger consumers and the emerging educated middle class believe that TCM is not considered as formal science, so they lend greater credence to nutritional benefits supported by scientific research rather than conventional beliefs.

Supply side

Hong Kong's port has been the tree nuts trade hub in South China. Brokers in Hong Kong receive favorable terms of credit and unbeatable wholesale prices due to their close relationship and communication with U.S. tree nut exporters. However, trade relationships differ for each tree nut variety; so, consequently, the bulk importers of tree nuts in Mainland China are seeking alternatives to eliminate the middle men in Hong Kong. Several trade shows such as the Shanghai Food and Ingredients Conference, SIAL, Bakery China, and/or the South China Bakery show in Guangzhou provide a greater platform for U.S. exporters to establish direct contact with local processors and retailers, while simultaneously simplifying trade procedures and reducing intermediary costs.

In recent years, Linan in Zhejiang province replaced Guangdong to become China's largest nut processing center, which processes about 70 percent of China's imported nuts. Processors and roasters in Zhejiang and Guangdong need a regular and consistent supply of nuts year-round. Many do not import directly, but rely on wholesalers who typically charge a steep premium during seasons with high demand. Due to price volatility for all consumer goods during August-February, many wholesalers and traders tend to hoard until the best prices are offered by processors.

Despite competition from Mexico, Australia, Iran and Peru, U.S. nuts enjoy the highest standing and recognition in the Hong Kong/China market. For example, shipments for shelled almonds to China grew 17 percent in 2009 and then 121 percent in 2010, and walnuts increased 60 percent from 2009-2010. China continues to rely on imports as consumer demand outpaces local production.

Additional Market Analysis for U.S. tree nuts

Pecans: In 2010, the fastest growth for imported tree nuts was U.S. pecans. For instance, the 2010 wholesale prices in Guangzhou were 320 percent higher than the same time in 2009; and, in 2011, the market adjustment

caused prices to fall, but still 159 percent higher than the 2009 wholesale price. Allegedly, a significant contributor to falling prices is the entrance of illegal Mexican pecans into the Chinese market. Local traders reported that these supplies are lower quality and the terms of trade are not as favorable as those with the United States.

Almonds: U.S. shelled almond exports to China increased 121 percent in 2010 due to the pecan price surge. Importers who purchased pecans in 2009, diverted orders back to almonds in order to purchase at lower prices. Price sensitivity remains the primary concern in China's tree nut market. The U.S. almond industry has routine contact with traders and media to ensure the end users and consumers understand the different crop varieties as well as their health and nutritional features. The industry has devoted the greatest amount of resources to develop distribution channels and relationships with all of the major national and regional chain stores. A series of marketing promotions were launched during the off-holiday season to strengthen sales and the relationship with retailers. Almonds are China's consumers' favorite tree nut snack, even favored over peanuts, and local brands are now growing stronger such as Tianhong (Rainbow), Kaixin (Happy Nut), Fujin, and Fengye (Maple).

Walnuts: Thanks to effective market promotion seminars conducted by the U.S. walnut industry featuring health characteristics and processing versatility, U.S. walnuts have a rewarding reputation in the China market. ATO Guangzhou looks forward to more promotion and trade servicing activities in South China's food manufacturing and the Pearl River Delta's tree nut processing industry.

Tree nut tariff and VAT rates for 2011

		2011		Effective Rate
HS Code	Description	Tariff	VAT	
0801.2100	Brazil nuts, in shell	10.0%	13%	24.30%
0801.2200	Brazil nuts, shelled	10.0%	13%	24.30%
0801.3100	Cashew nuts, in –shell	20.0%	13.0%	35.60%
0801.3200	Cashew nuts, shelled	10.0%	13.0%	24.30%
0802.1100	Almonds, in-shell	24.0%	13.0%	40.12%
0802.1200	Almonds, shelled	10.0%	13.0%	24.30%
0802.2100	Hzaelnuts/Filberts, in-shell	25.0%	13.0%	41.25%
0802.2200	Hazelnuts/Filberts, shelled	10.0%	13.0%	24.30%
0802.3100	Walnuts, in-shell	25.0%	13.0%	41.25%
0802.3200	Walnuts, shelled	20.0%	13.0%	35.60%
0802.5000	Pistachios	5.0% (interim)	13.0%	18.65%
0802.6090	Macadamia nuts	24.0%	13.0%	40.12%
0802.9090	Other nuts, fresh or dried, whether or not shelled or peeled	24.0%	13.0%	40.12%
2008.1910	Walnut kernels, in airtight containers	20.0%	17.0%	40.40%
2008.1920	Other nuts, in airtight containers	13.0%	17.0%	28.70%
Source: China Customs				

Production, Supply and Demand Data Statistics:

Walnuts

Walnuts, Inshell Basis China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,650,000	1,650,000	0	1,820,000		2,100,000
Area Harvested	1,050,000	1,050,000	0	1,092,000		1,218,000
Bearing Trees	0		0			
Non-Bearing Trees	0		0			
Total Trees	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	560,000	560,000	600,000	580,000		696,000
Imports	19,600	22,147	25,000	25,665		25,000
Total Supply	579,600	582,147	625,000	605,665		721,000
Exports	11,500	13,784	12,000	18,687		23,000
Domestic Consumption	568,100	568,363	613,000	586,978		698,000
Ending Stocks	0	0	0	0		0
Total Distribution	579,600	582,147	625,000	605,665		721,000

Note: Numbers have been converted into in-shell basis using a ratio between in-shell and shelled at 1:0.4.

Almonds

Almonds, Shelled Basis China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	35,000	0	46,700		52,000
Area Harvested	0	0	0			0
Bearing Trees	0	0	0			0
Non-Bearing Trees	0	0	0			0
Total Trees	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	1,500	1,000	500	1,100		1,500
Imports	10,300	6,546	8,000	12,652		15,200
Total Supply	11,800	7,546	8,500	13,752		16,700
Exports	0	600	0	1,085		1,600
Domestic Consumption	11,800	6,946	8,500	12,667		15,100
Ending Stocks	0	0	0	0		0
Total Distribution	11,800	7,546	8,500	13,752		16,700

Note: Numbers have been converted into shelled basis using a ratio between in-shell and shelled at 1:0.45.

Pistachios

Pistachios, Inshell Basis China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	0	0	0	0		0
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total Trees	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Imports	25,375	31,127	55,000	45,670		50,000
Total Supply	25,375	31,127	55,000	45,670		50,000
Exports	0	2,672	0	4,650		6,850
Domestic Consumption	25,375	28,455	55,000	41,020		43,150
Ending Stocks	0	0	0	0		0
Total Distribution	25,375	31,127	55,000	45,670		50,000