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China - Peoples Republic of

Fresh Deciduous Fruit Annual

Improvements in Market Access Increase Prospects for U.S. exports of Apples and Pears to China

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Report Highlights:
China is the world's dominant producer of apples, pears, and table grapes, comprising roughly 50%, 75%, and 47% of total output, respectively. Post forecasts China's apple production at 37.8 MMT in MY 2014/15, down 5 percent from the previous year because of cold, wet weather in the major growing regions. Pear production is expected to recover by 7 percent to 18.5 MMT in MY 2014/15, while grape production is forecast to increase 11 percent to 9 MMT. U.S. apples exports are expected to grow dramatically over the next few years due to China's October 2014 decision to lift the ban on Red and Golden Delicious apples from Washington State.

Commodities:

Apples, Fresh

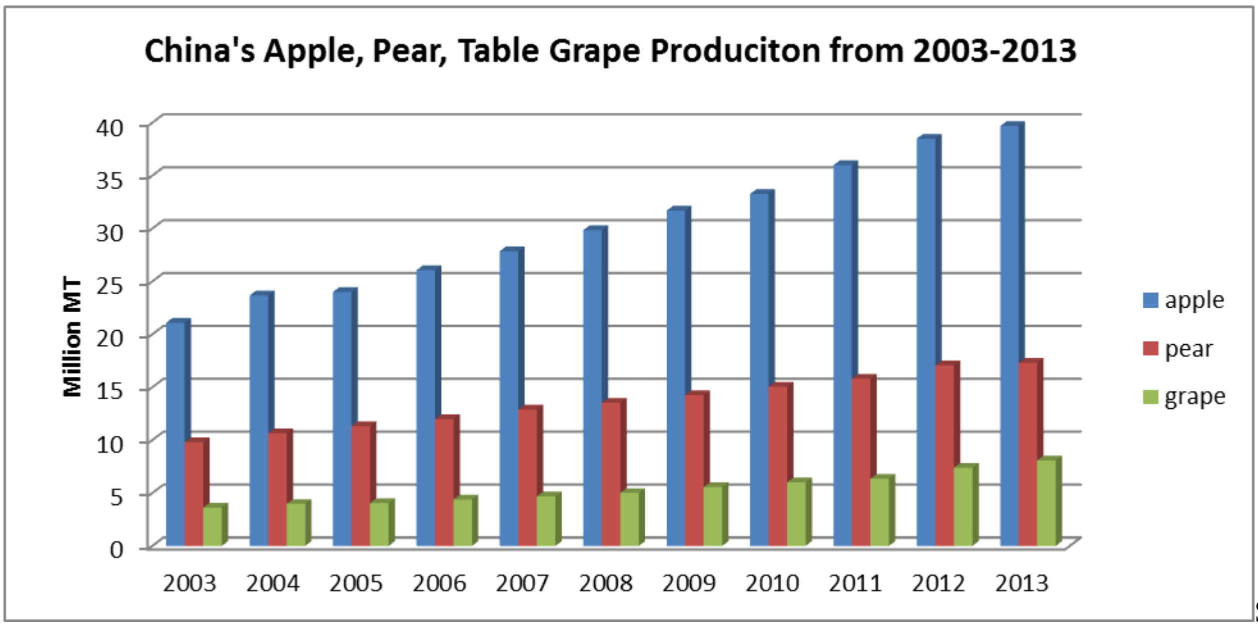
Pears, Fresh

Grapes, Table, Fresh

Production:

Apples

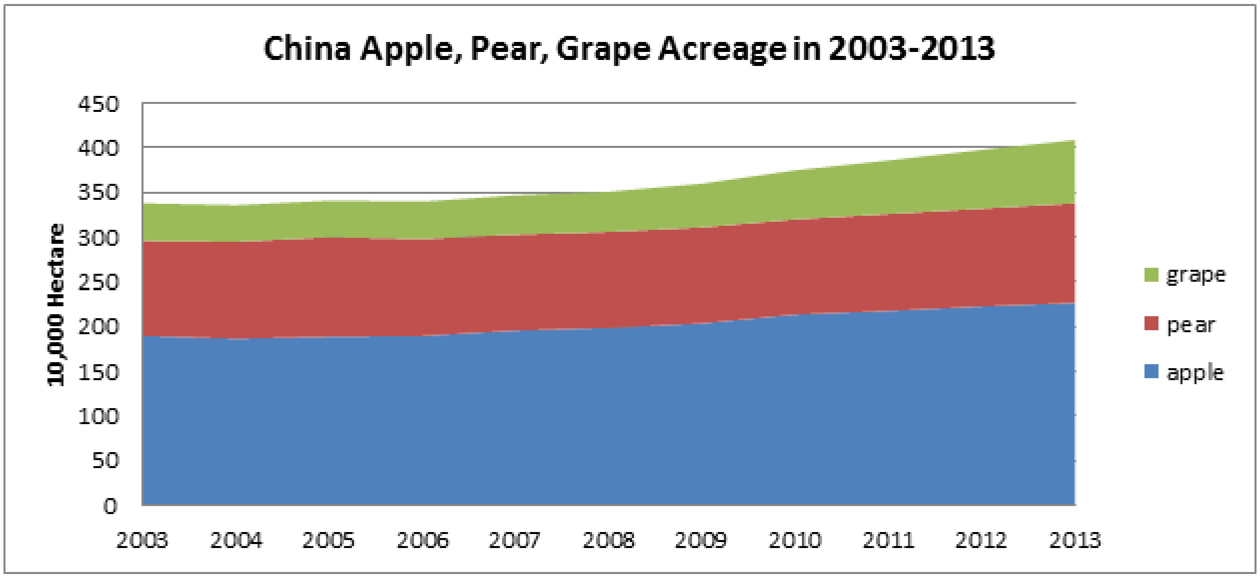
Post estimates China's apple production at 37.8 million metric tons (MMT) in marketing year (MY) 2014/15 (July-June), down 5 percent from the revised production in MY 2013/14 because of a drop in production in the western provinces of Shaanxi and Gansu. Low temperature and heavy rains in this region during the spring blossom period negatively impacted yield. Apple production has seen rapid growth over the past decade (see chart below) but the pace of growth is expected to moderate in the coming years. The MY 2013/14 production was revised upward to 39.7 MMT.



Source: Ministry of Agriculture (Calendar Year)

In MY 2014/15, apple acreage is expected to increase by 1 percent to 2.3 million hectares. Apple acreage expansion, particularly in the western provinces, is driven by good market returns (see Prices). In eastern Shandong province, apple acreage remains stable but farmers are gradually upgrading their aging orchards. More than 50 percent of the orchards in Shandong province are reportedly over 30 years old and fruit production and quality have begun to decline. The newly planted or grafted varieties, that will eventually increase yields and quality, are still dominated by Fuji varieties.

An aging rural labor force and increasing labor costs have spurred consolidation among private companies, farm cooperatives, and large growers. However, the size of the consolidated farms remains relatively small ranging from several dozen hectares to a few hundred hectares. Private companies, with support from local governments, are promoting high density planting systems that have the ability to reduce water use by 60 percent and fertilizer use by 70 percent compared with traditional planting systems. Additionally, the new planting systems have the ability to increase apple yields to 75 MT per hectare compared, compared with the current yield of 30 MT per hectare. Further boosting future production, a major juicing company, with government subsidies, has built large demonstration farms in Shaanxi province, and has begun providing seedlings and assistance for local farmers to build high density orchards.



Source: Ministry of Agriculture

Fuji apples are the most commonly grown variety accounting for 70 percent of apple production. The majority of Fuji apples are harvested in October. Gala's account for 6 percent of Chinese production, while Delicious and Qinguan, a local variety, account for 9 percent and 7 percent respectively.

Pears

Pear production is forecast to reach 18.5 MMT in MY 2014/15 (July-June), up 7 percent from the previous year, due to favorable growing conditions across major producing areas. The increases are also attributed to a rebound in production following a spring freeze during MY 2013/14 in the northern producing provinces.

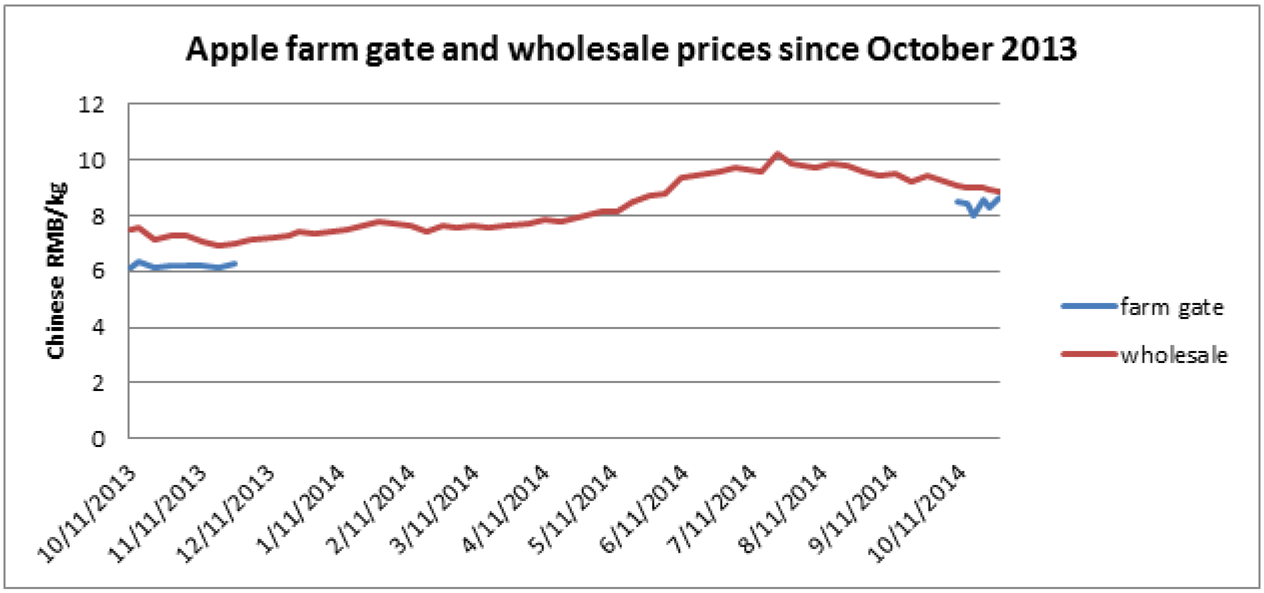
Pear acreage is expected to remain stable at slightly over 1.1 million hectares in MY 2014/15. However, recovering pear prices, especially for new varieties, have triggered farmers in the northern provinces to replace existing varieties with new varieties like Huangguan.

Grapes

Post forecasts China's MY 2014/15 (June-May) table grape production at 9 MMT, up 11 percent from the previous year, due largely to bearings from new plantings in recent years. However, excessive summer rains in the southern producing areas have reduced grape quality in that region. High prices have led to grape production to increase more than 10 percent each year over the past few years and has triggered fears of an oversupply and lower prices. Grape acreage is forecast at 735,000 hectares in MY 2014/15, up nearly 3 percent from the previous year.

Prices:

Apple prices rose significantly in the second half of MY 2013/14 as a result of low stocks. Early maturing varieties such as Gala were priced nearly 20 percent higher than the previous year. When Fuji apples were harvested in early October, farm gate price averaged an historic high of RMB8.47 per kilo, up nearly 40 percent from MY 2013/14. Industry sources predict that apple prices are likely to fall later this year as the current high prices may limit consumption.



Note: US$1=RMB6.15 Source: China Fruit Marketing Association

Pear prices began to pick up in MY 2013/14, supported by strong deciduous fruit prices that included apples and grapes. The early mature variety Huangguan pears were sold at price RMB 5.44 per kilo at farms in early August, up 20 percent from the previous year.

Despite production gains, grape prices were strong in MY 2013/14. In MY 2014/15, grape prices began to fall as a result of increased local supplies. The price decreases were also attributed to inferior quality because of excessive rain in southern producing provinces. Farm gate prices for Kyoho varieties, for example, were RMB6.83 per kilo in mid-August, down 32% from a year ago. Farm gate prices have dropped sharply since September this when large quantities of grapes flooded the market.

Consumption:

Currently, per capita consumption of fresh apples is 23 kilograms in China compared with the world average of 8.2 kilos. China's population is rapidly urbanizing and fruit consumption fits into this changing lifestyle that emphasizes convenience. Furthermore, urbanization has allowed e-commerce to play a greater role in fruit marketing although its share of distribution is still small.

Trade:

Imports

China's apple imports are forecast to rebound by more than 60 percent to 40,000 metric tons in MY 2014/15 (July-June). The sharp increases in domestic apple prices have made imported apples more competitive. Washington Red and Golden delicious apple imports will resume following the announcement by China in October 2014 to lift the suspension on Washington apples due to quarantine pest issues. If market access for other U.S. apple varieties is granted as expected, it will further boost apple imports from the United States. Prior to the suspension in 2012, the United States supplied nearly half of import market demand.

Post estimates that China's MY 2014/15 (June-May) grape imports will increase by more than 20 percent to 280,000 MT on strong demand for counter seasonal grapes from southern hemisphere countries, including Chile, Peru, and S. Africa. Grape imports from the United States, however, are likely to drop as a prolonged drought in California has impacted fruit quality and increased prices. In 2014, the United States in the third leading supplier to the market behind Chile and Peru.

China's pear imports are forecast to increase by 20 percent to 6,000 MT in MY 2014/15 (July-June) on strong demand for U.S. pears. The United States became the largest supplier of pears to China since market access was granted in early 2013. In MY 2013/14, the United States held approximately 80 percent of the import market share.

Exports

China apple exports are forecast to decrease by 6 percent to 880,000 MT in MY 2014/15. Although Russia's ban on imports of fresh produce from the EU countries may create additional opportunities for China's apples but current high prices may limit those opportunities. Currently, Russia absorbs approximately 10 percent of China's apple exports. China's high apple prices also dampen export opportunities to Southeast Asian countries that are price sensitive. Other key markets for Chinese apples are Thailand, Indonesia, and Bangladesh.

Post estimates that China's pear exports will rebound by nearly 7 percent to 320,000 MT in MY 2014/15, given increased supplies. In MY 2013/14, China's pear exports dropped by 27 percent because of abnormally cold spring weather in the northern producing provinces reduced exportable supplies. Indonesia, Vietnam, and Hong Kong are top destinations for Chinese pear.

China's table grape exports are forecast to increase by 15 percent to 120,000 MT in MY 2014/15. Lower grape prices are expected to help boost China's grape exports to neighboring countries.

Policy:

Apples play an important role for generating farmers' income in key producing provinces such as Shaanxi and Shandong where local governments place high importance on apple production. For example, Yantai government in Shandong province, published the "Guidelines on Facilitating the Upgrade of Apple Industry" on February 21, 2014. According to the guidelines, the local government will continue to promote Fuji varieties and facilitate high density planting systems. Additionally, the guidelines will encourage standardized production and promote land transfers to consolidate production. The guidelines also support the development of e-commerce to enhance the production, purchasing, and marketing of apples.

The document has set a target for apple acreage to expand to 213,000 hectares by 2020.   However, specific details, such as financial support, for these goals are not available. Currently, the Yantai region produces 4.2 MMT of apples on 176,000 hectares and its production accounts for more than 40 percent of the total production in Shandong, the second largest apple producing province in China.

Similarly, the Shaanxi provincial government issued "Shaanxi Fruit Regulations" focusing on fruit quality issues came into force on May 1, 2014. The new regulations allow production standards to be established by local authorities, and call for the establishment of a testing and traceability system. Additionally, the regulations stipulate that private companies, farm cooperatives, and family farms engaged in fruit production   must create a record of agricultural inputs.

While crop insurance had mainly covered grain crops such as rice and corn, crop insurance for apples is gaining ground. In Shaanxi and Jiaxing province for example, local governments have provided subsidies up to 55 percent of the premium for apple and grape farmers who choose such insurance programs.   These farmers will be compensated for up to RMB30,000 ($4,878) per hectare in the event of natural disasters.

In October 2014, China lifted the suspension on Washington apple imports. AQSIQ, China's quarantine authority, suspended apple imports from Washington State in August 2012 following detections of quarantine pests in apple shipments.   In 2015, it is anticipated that apples from all U.S. states will gain market access.

Marketing:

Special occasions and holidays, such as Mid-Autumn Festival and Chinese Spring Festival, are ideal seasons for promoting imported fresh fruits. Guangzhou, Shanghai and Beijing are the three major distribution markets for imported fresh fruits. The Guangzhou Jiangnan Fruit Wholesale Market continues to be the leading hub for imported fresh fruits, accounting for over 70 percent of the total imports into China.

In recent years, on-line shopping platforms such as *FruitDay*, *Yiguo*, as well as *ShunFeng Best*, are actively promoting U.S. fresh fruits in addition to the e-commerce giant TMall. However, logistical problems such as an underdeveloped cold chain, and the inconsistent temperature control during transport, have hindered the growth of the on-line imported fresh fruit business.

<u>U.S. apples</u>:

Since the suspension of imports of U.S. apples, apples from Chile, New Zealand, and Australia have been the dominant imports available on retail shelves. However, traders expect the lifting of the suspension on Washington apples and opening of the market to all other varieties will result in rapid growth in U.S. market share. While the retailers hope to capitalize on the previous popularity of U.S. apples with Chinese consumers, sales may be constrained by the government's anti-corruption drive, which has reduced institutional gift giving- an important outlet for U.S. apples.

U.S. pears:

U.S. pears gained market access in early 2013. Red Anjou, Green Anjou, Bartlett, Starkrimson and Bosc are the major varieties available in the market. Among these, Red Anjou and Green Anjou are the top sellers in China. Despite being a new market entrant, U.S. pears captured 60 percent of the import market. However, the import market is relatively small, and consumer awareness of the nutritional benefits of U.S. pears remains relatively low. Educational seminars on the availability, varieties, harvest seasons, and proper handling of U.S. pears will help traders and retailers realize the market potential for U.S. pears.

U.S. grapes:

China imported more than $90 million in grapes from the United Sates in 2014. U.S. varieties such as Red Globe, Autumn Royal, Autumn King, Crimson, Thomson and Scarlet Royal are the key varieties available in the market. The U.S. Red Globe variety continues to be the top seller but faces challenges from locally produced grapes with similar taste and lower price.

Production, Supply and Demand Data Statistics:

Apples,Fresh China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	2,231,300	2,231,300	2,250,000	2,272,200		2,300,000
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
Commercial Production	38,500,000	3,850,000	38,000,000	39,680,000		37,800,000
Non-Comm. Production	0	0	0	0		0
Production	38,500,000	3,850,000	38,000,000	39,680,000		37,800,000
Imports	43,200	43,200	23,800	24,600		40,000
Total Supply	38,543,200	38,543,200	38,023,800	39,704,600		37,840,000
Fresh Dom. Consumption	32,316,900	32,316,900	32,873,800	34,920,435		33,810,000
Exports	1,026,300	1,026,300	950,000	934,165		880,000
For Processing	5,200,000	5,200,000	4,200,000	3,850,000		3,150,000
Withdrawal From Market	0	0	0	0		0
Total Distribution	38,543,200	38,543,200	38,023,800	39,704,600		37,840,000

Pears, Fresh China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,088,000	1,088,000	1,090,000	1,111,700		1,120,000
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
Commercial Production	17,000,000	17,000,000	17,500,000	17,300,000		18,500,000
Non-Comm. Production	0	0	0	0		0
Production	17,000,000	17,000,000	17,500,000	17,300,000		18,500,000
Imports	2,100	2,100	5,000	5,000		6,000
Total Supply	17,002,100	17,002,100	17,505,000	17,305,000		18,506,000
Fresh Dom. Consumption	15,242,900	15,242,900	15,695,000	15,505,766		16,536,000
Exports	409,200	409,200	310,000	299,234		320,000
For Processing	1,350,000	1,350,000	1,500,000	1,500,000		1,650,000
Withdrawal From Market	0	0	0	0		0
Total Distribution	17,002,100	17,002,100	17,505,000	17,305,000		18,506,000

Grapes,Fresh China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jun 2012		Market Year Begin: Jun 2013		Market Year Begin: Jun 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	665,600	665,600	730,000	714,600		735,000
Area Harvested	0	0	0	0		0

Commercial Production	7,400,000	7,400,000	8,100,000	8,085,000		9,000,000
Non-Comm. Production	0	0	0	0		0
Production	7,400,000	7,400,000	8,100,000	8,085,000		9,000,000
Imports	159,000	159,000	231,100	231,100		280,000
Total Supply	7,559,000	7,559,000	8,331,100	8,316,100		9,280,000
Fresh Dom. Consumption	7,436,000	7,436,000	8,226,800	8,211,860		9,160,000
Exports	123,000	123,000	104,300	104,240		120,000
For Processing	0	0	0	0		0
Withdrawal From Market	0	0	0	0		0
Total Distribution	7,559,000	7,559,000	8,331,100	8,316,100		9,280,000