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China - Peoples Republic of

Fresh Deciduous Fruit Annual

U.S.-origin Deciduous Fruit Likely to Lose Market Share in China Due to Additional Tariffs

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Report Highlights:
Chinese demand for high quality fruit remains strong and imports of apples and pears are expected to increased in MY 2018/19. Demand for imported table grapes is also strong, but imports will decrease due to a constrained supply. As long as additional Chinese tariffs are in place on U.S.-origin products, U.S. apples, pears, and table grapes are expected to lose market share. Extreme weather this spring across northern China will result in a sharp fall of the country's apple, pear, and table grape production in MY 2018/19. Apple production is forecast to fall 25 percent to 31 million metric tons (MMT), pears 20 percent to 13 MMT, and table grapes 10 percent to 945,000 metric tons.

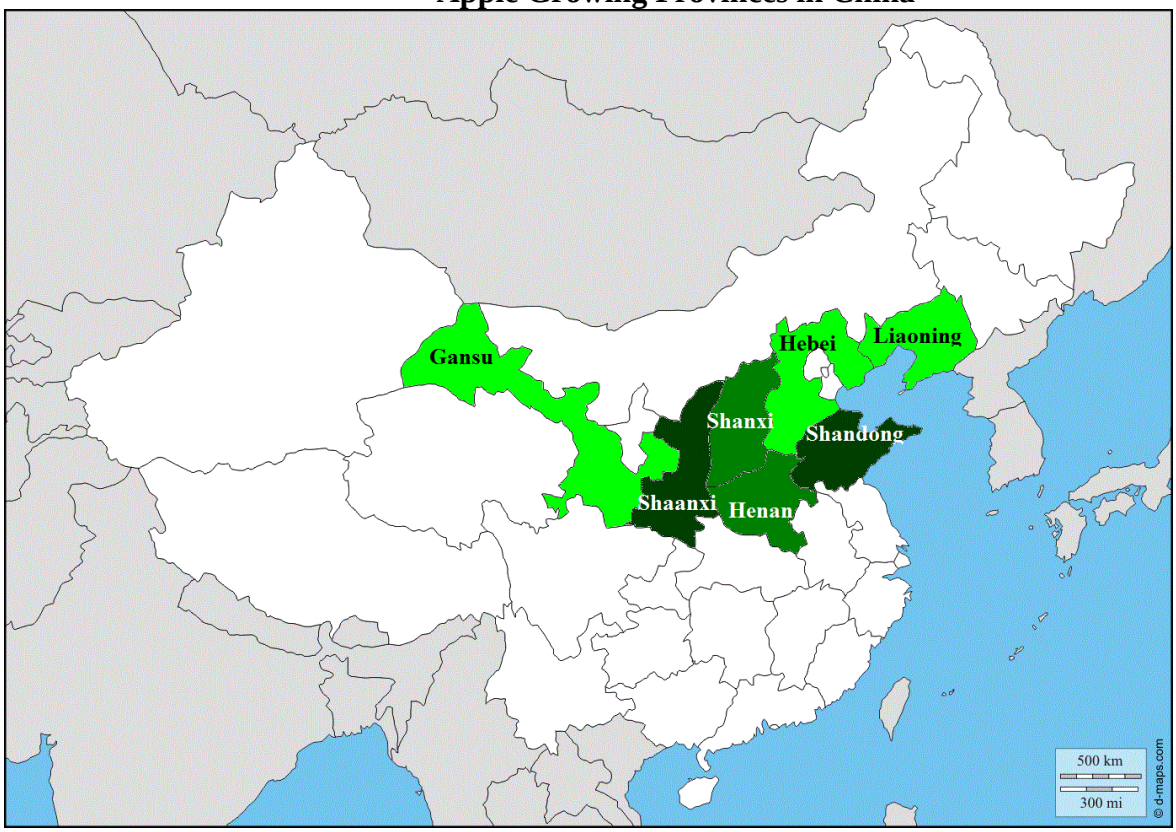
Production

Apples

China's MY 2018/19 (July-June) apple production is forecast down to 31 million metric tons (MMT), a roughly 25-percent decrease from the revised production number in the previous year. In early April, a severe frost struck the major apple-producing provinces in northwest China, including Shaanxi, Gansu, and Shanxi Provinces. This greatly affected the apple crop blossom. As a result, Shaanxi Province, the leading apple producing province, is expected to produce 20-30 percent less apples than last year. Furthermore, apple production in Shanxi and Gansu Provinces will likely decrease by 30-50 percent. Although the frost damage on the Shandong apple crop, China's second largest apple producing province, was not serious, heavy rainfall and hail storms in May will likely cause apple production to fall by 15 percent from the previous year. Liaoning and Henan Provinces enjoyed mild weather and are expecting normal to bumper harvests. The bad weather also affected the quality of apples (smaller sizes, for example), particularly in the chillier northwest producing areas. Although heavy rains caused some occurrences of fruit russeting disease, the overall apple quality is quite good in Shandong Province.

Apples are mainly planted in north and northwest provinces (see map below). Apple production was revised to 40.4 MMT and 41.4 MMT in MY 2016/17 and MY 2017/18, respectively, in accordance with the most recent statistics released by China National Bureau of Statistics (NSB). These revised figures reflect the newly updated NSB estimates from the 3rd National Agricultural Census.

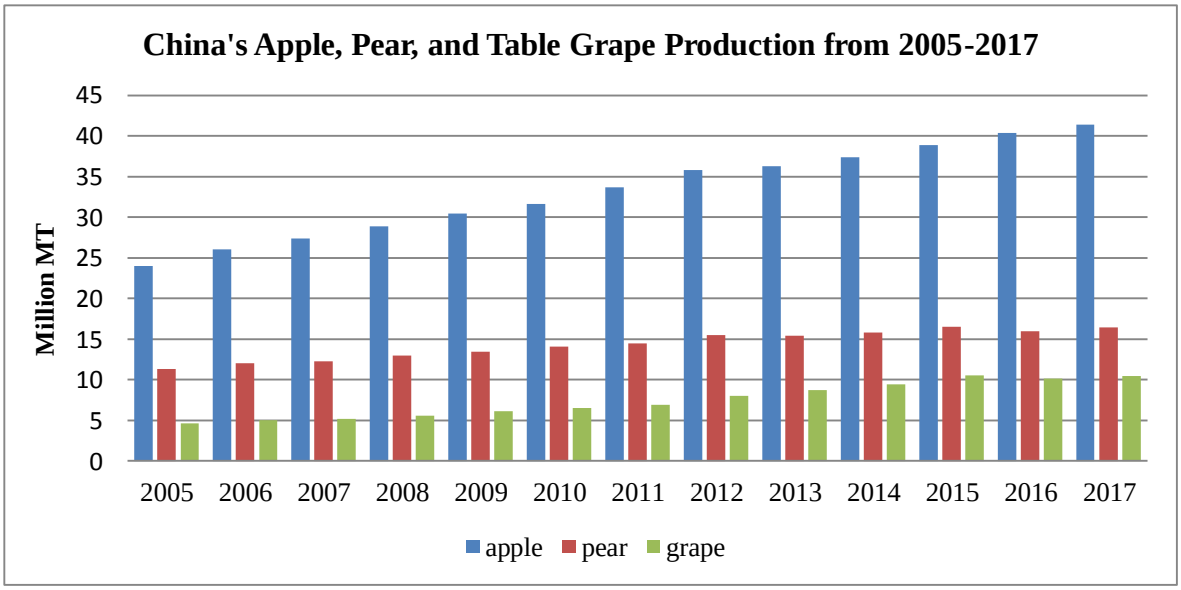
Apple Growing Provinces in China



Source: China Ministry of Agriculture and Rural Affairs (2016 data)
Legend:
Dark Green = 20% or more of total Chinese production (Shaanxi, Shandong)
Green = 10 to 20% (Shanxi, Henan)
Light Green = 5 to 10% (Gansu, Liaoning, Hebei)

China's apple acreage is forecast at 2.32 million hectares in MY 2018/19, basically unchanged from the previous year. While the removal of apple trees still occurs in southern Shaanxi, western Shanxi, and Henan Provinces, new plantings are expanding in northern Shaanxi and southeastern Gansu Provinces. Meanwhile, Shandong farmers are replacing old apple trees with new plantings. With all of these changes, China's apple acreage is expected to remain stable or decline slowly in the foreseeable future (after MY 2018/19). Another industry-wide trend is the ageing nature of China's fruit farmers. As fruit farmers abandon production due to old age, they are transferring the production to cooperatives, and private companies. Although consolidated fruit farming has historically been rare in the apple industry, it is slowly, but inevitably, heading in this direction.

Despite improved farming skills, premium quality apples accounted for only 30 percent or less of the total production. There are only a few apple varieties planted in China. Fuji varieties dominate more than 70 percent of total production and other varieties, including early maturing Gala, account for the balance.

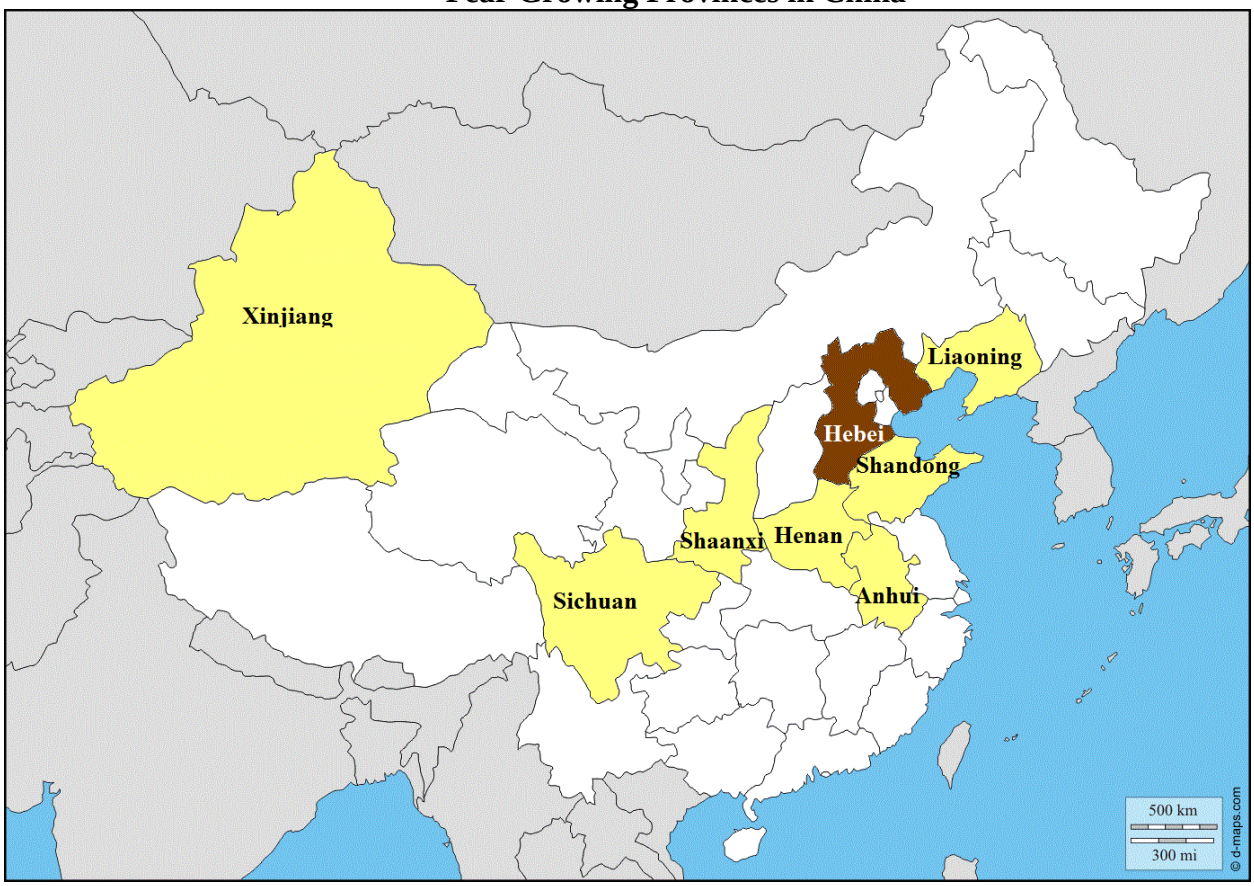


Source: National Statistics Bureau, FAS Beijing

Pears

China's pear production is forecast at 13.1 MMT in MY 2018/19 (July-June), which is down 20 percent from the revised number in the previous year. Like the apple crop, pear flowering was also affected by the severe spring frost across northern China. In Hebei Province, the country's top pear-producing province, pear production is estimated to drop by 20-25 percent from a year ago. Likewise, pear production in Shandong, the second largest pear-producing province, is likely to decrease by 10-20 percent year-on-year. Significant reductions were also reported in Xinjiang, Shaanxi, Henan, and Anhui Provinces as a result of the severe weather. However, Liaoning and Sichuan Provinces, also major pear producing provinces, are anticipating bumper harvests. In spite of crop losses, pear quality has not been seriously impacted by the spring frost. Pears are grown in almost all mainland Chinese provinces except for Hainan, with more than 70 percent being planted in northern China (see map below). Post has revised the pear production number to 16 MMT and 16.4 MMT in MY 2016/17 and MY 2017/18, respectively, according to revised NBS statistics.

Pear Growing Provinces in China



Source: China Ministry of Agriculture and Rural Affairs (2016 data)
Legend:
Brown= 20% or more of total Chinese production (Hebei)
Yellow = 5 to 10% (Shandong, Xinjiang, Liaoning, Henan, Shaanxi, Sichuan)

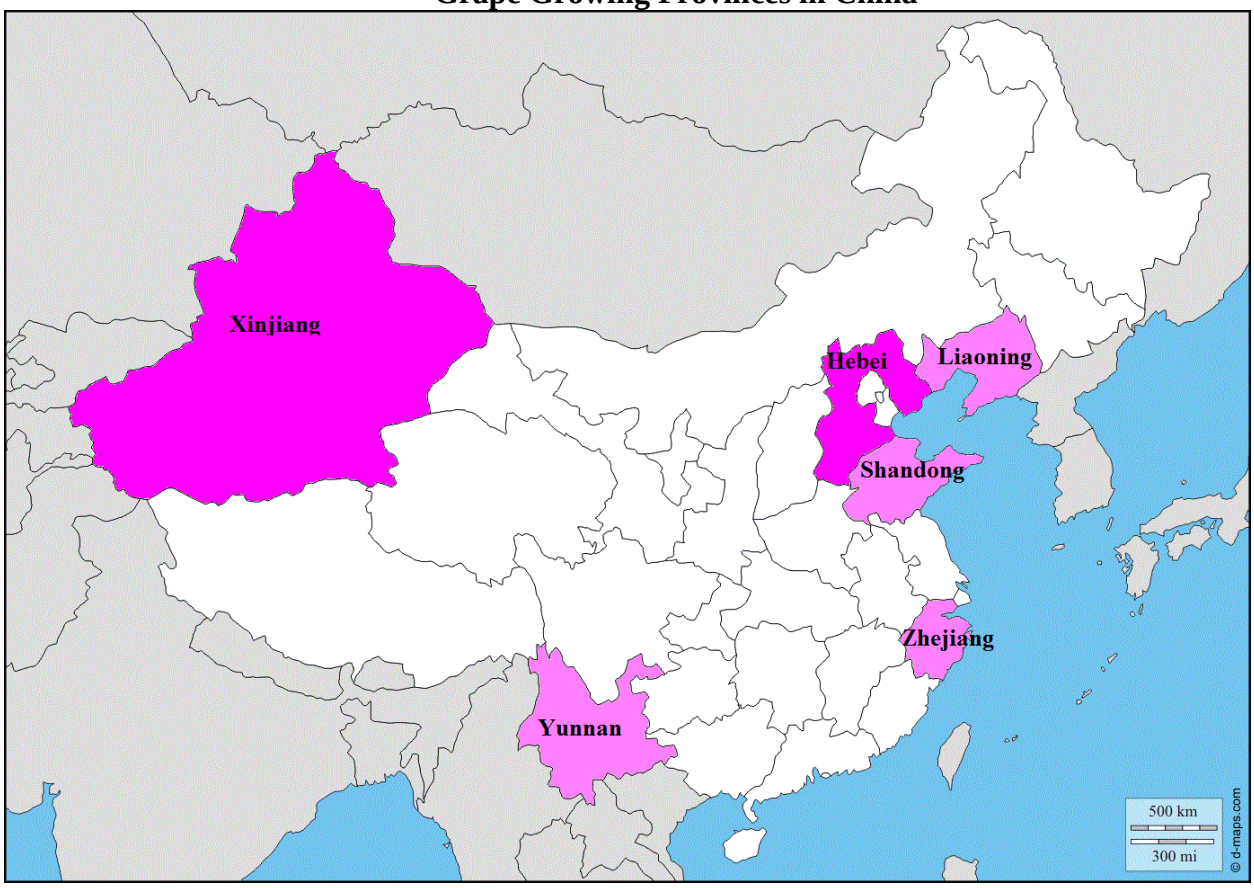
China's pear acreage is forecast at 1.1 million hectares in MY 2018/19, down slightly from the previous year. The acreage decreases occurred in traditional pear production areas, such as Hebei Province. Reportedly, some pear farmers have shifted to producing grapes due to the increased profitability, and other farmers, generally older farmers, have given up fruit farming and turned to less labor-intensive commodities, like corn. Industry sources indicate that the Chinese pear industry is faced with a series of challenges such as increasing labor costs, outdated production patterns, and difficulty in cultivating new fruit varieties. More than 40 varieties are planted throughout China, notably Snow, Ya, Su, Huangguan, Frangrant, and Nanguo.

Table grapes

China is forecast to produce 945,000 MT of table grapes in MY 2018/19 (June-May), down 10 percent from the revised number in the previous year, due to spring frost damage. Hebei and Shaanxi Provinces were the two most heavily hit grape producing provinces, with production falling by 30-50 percent, according to local estimates. The grape crop in other major producing provinces was not seriously impacted by the extreme weather. According to media reports, Chinese grape quality remains fair this year. Leading grape-producing provinces include Xinjiang, Hebei, Shandong, Yunnan, Zhejiang,

Liaoning, Shaanxi, Guangxi, and Jiangsu Provinces (see map below). Post has revised the table grape production number to 10.1 MMT and 10.5 MMT in MY 2016/17 and MY 2017/18, respectively, based on the revised statistics released by NSB.

Grape Growing Provinces in China



Source: China Ministry of Agriculture and Rural Affairs (2016 data)

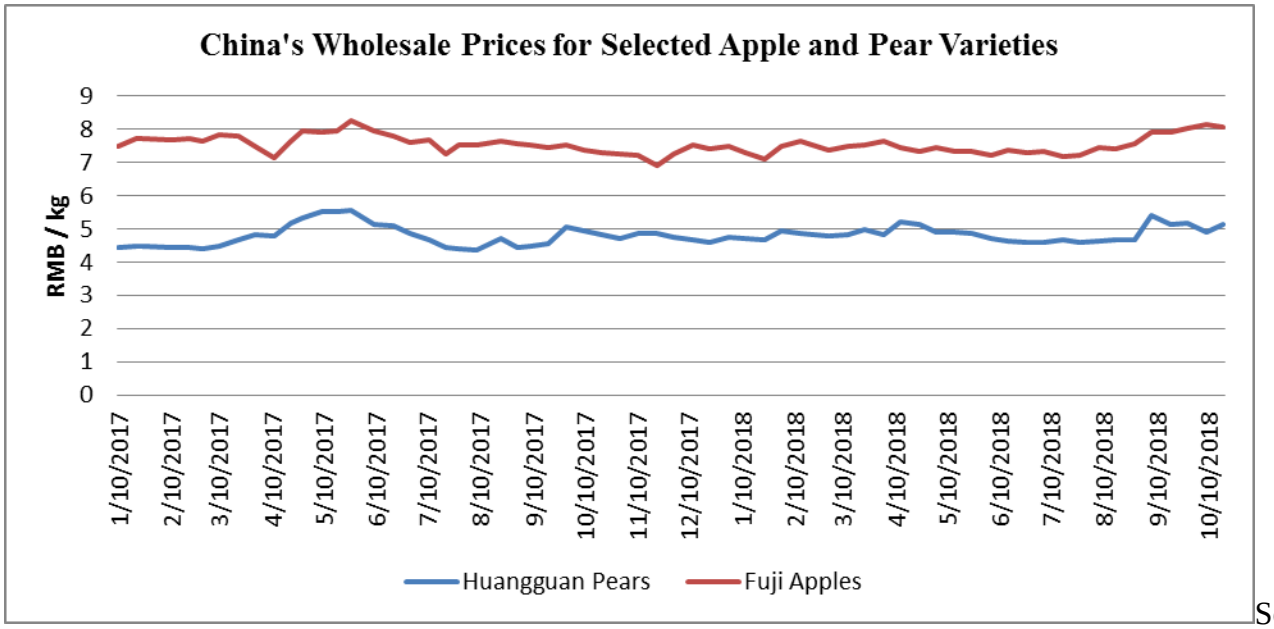
Legend:

Pink = 10 to 20% (Xinjian, Hebei)

Light Pink = 5 to 10% (Shandong, Yunnan, Zhejiang, Liaoning)

Although rapid expansion has slowed, grape acreage continues to increase given favorable market returns. Post estimates the grape planted area at 826,000 hectares, slightly up from the previous year. China's table grapes varieties include Eurasia varieties such as Kyoho, Xiahei, Fujiminori, and Jingya, and Euramerica varieties such as Red Globe, Thompson Seedless, Muscat, Victoria, and Manicure Finger. Some newly developed varieties have become popular, including Ruiducuixia, Jumbo Muscat, Flame Seedless, Gold Finger, Shine Muscat, and Crimson Seedless. Increased varieties with diverse ripening times, coupled with investment in additional farming technologies (greenhouse facilities, for example), has substantially extended the grape harvest season which now runs from April to November. Grape quality, however, varies significantly based on different management practices. From a food safety standpoint, over-application of fertilizers and plant regulators (and the resulting residues) continue to be a concern for Chinese consumers.

Prices



Source : China Fruit Marketing Association

A sharp decrease in production has pushed apple prices above last year's. According to a national TV survey, the farm gate price for top-grade Fuji apples (8 cm in diameter or above) is currently 8.4 RMB (1.22 USD) per kilo in Shandong Province, a 50-percent increase from a year ago. The strong apple price is also supported by the high futures price, which is currently at 11,000 RMB (1,594 USD) per metric ton.

Pear prices have also been on the rise heading into MY 2018/19. The farm gate price for Huangguan pears, for example, was quoted at 2.8-3.4 RMB (0.4-0.5 USD) per kilo in Hebei Province during this harvest season (early July-late August), an increase of 30 to 40 percent from the previous season, according to media reports.

Chinese grape farmers report that farm gate prices for Kyoho grapes were 7.0 RMB (1.01 USD) per kilo, a 40-percent increase from the previous year.

Consumption

Fresh fruit consumption is steadily growing in China. Fresh fruit and fruit products have gradually become a core part of the daily diet among most Chinese consumers. This trend is primarily due to rising incomes, increased focus on healthy diets, improved fruit availability, and improved fruit diversity. China's annual per capita fruit consumption was estimated at 92.5 kilograms in 2017 and this number is expected to increase to 97.9 kilograms by 2020, according to China Agricultural Outlook Report (2018-2027). Generally, when choosing fruit, Chinese consumers tend to focus on nutritional value, freshness, and "specialty" fruits. This focus is reflected in the growing popularity of branded fruit.

Chinese consumption of domestically grown apples and pears has shown signs of slowing and possibly leveling off due to it reaching saturation levels and competition with other fruits (including imported fruits). Although the continuing expansion of cold storage facilities will extend the supply season for

apples and pears, China's current per capita consumption of apples and pears is already very high compared to other countries and has limited room to grow. Competition from other fruit varieties, including locally-produced lychee, grapes, cherries, and imported dragon fruit, mangos, and durians has resulted in apples and pears accounting for less of the China's deciduous fruit consumption. However, high quality apples and pears are still aggressively sought after by China's consumers and in short supply.

China's table grape consumption continues to increase at a fairly quick pace, largely because of a longer supply season and availability of newly-developed varieties. Modern greenhouse facilities, delayed cultivation technology, and the double-harvest model have effectively extended the season that China's farmers can supply locally-produced table grapes. New varieties with different flavors, colors, and shapes (for example, finger or cylinder shaped grapes) are attracting increased interest from Chinese consumers, spurring an increased demand for grapes overall.

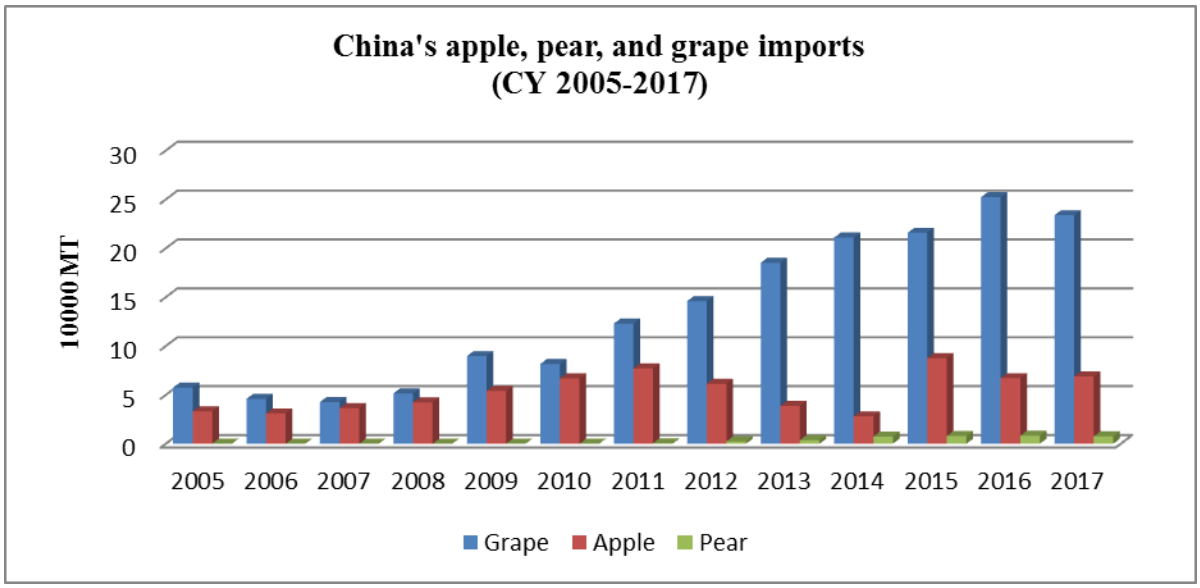
Trade

Imports

China's apple imports are forecast to increase by 10 percent to 75,000 MT in MY 2018/19 (July-June), due to reduced local supplies. Apple imports from the United States, the largest supplier to China, are expected to drop dramatically as a result of the additional import tariffs China has placed on U.S. products. However, the supply gap left by shrinking imports of U.S. apples will likely be filled by competitor suppliers, including Poland and France. Imports from Southern Hemisphere countries, including New Zealand and Chile, are expected to increase as well, further cutting into U.S. market share.

China imports a much smaller quantity of pears compared to other deciduous fruit, but will still see imports increase. China's pear imports in MY 2018/19 are forecast at 9,000 MT, an increase of more than 12 percent due to constrained domestic supplies. The United States is the second largest supplier of pears to China, but will see its exports decrease as a result of the additional import duties. However, supplies from competitors, such as the Netherlands and Belgium, will likely pick up to fill the supply gap.

China's table grape imports are forecast to decrease by 7 percent to 200,000 MT in MY 2018/19 (June-May). The United States is the largest supplier in the Northern Hemisphere and does not have major competitors during its main shipping season. As a result of the additional Chinese tariffs, U.S. apple imports to China will likely shrink, leaving a sizeable supply gap. While the Southern Hemisphere suppliers will likely increase their table grape exports to China, they will not be able to completely fill the gap, resulting in a net decrease of table grape imports.



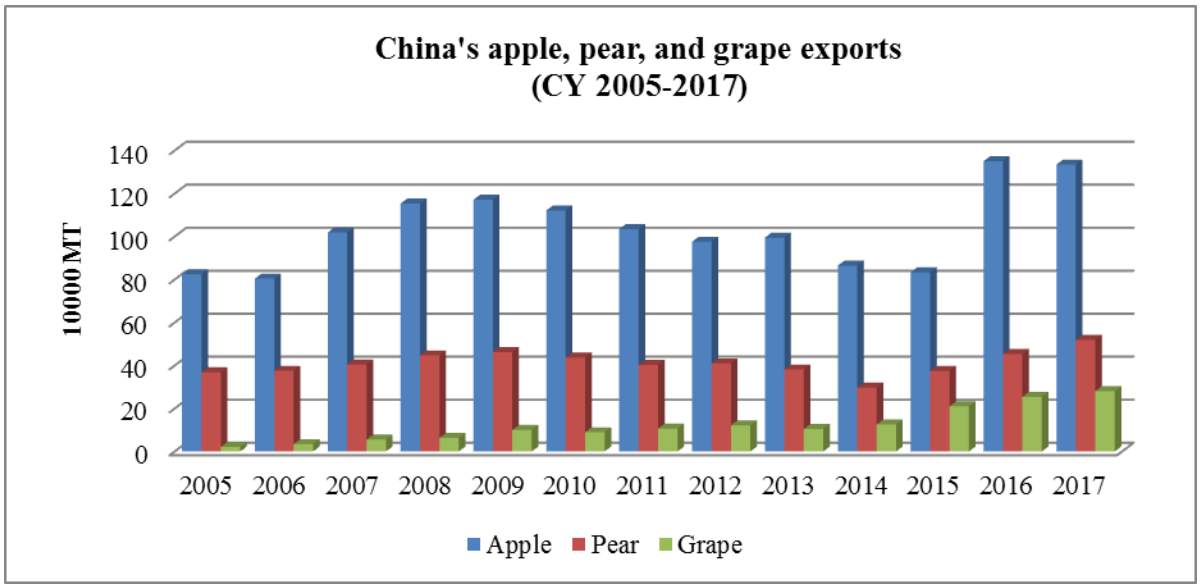
Source: China Customs Data

Exports

China's apple exports are forecast at 1.05 MMT in MY 2018/19, down 18 percent from the previous year, largely because of drastically reduced domestic supplies. Higher prices are likely to limit purchases from China's neighbors in South and Southeast Asia and Russia. In addition, India continues to impose a ban on Chinese-origin apples and pears due to quarantine concerns. This ban has been in effect since May 1, 2017. Before the ban, India was the largest buyer of Chinese apples.

China's pear exports are also expected to fall in MY2018/19. Pear exports are forecast at 430,000 MT, a roughly 20-percent year-on-year decrease due to limited domestic supplies. In Hebei Province, pear prices have increased by 30 percent on a yearly basis, which will deter some Southeast Asian buyers. China's pear export number in MY 2017/18 has been revised up to reflect the recently released China Customs statistical data.

China's table grape exports are forecast to decrease by 15 percent from the previous year to 220,000 MT in MY 2018/19. In Yunnan Province, which accounts for over half of China's grape exports, local traders report that the provincial government has tightened its oversight on export rebates and many traders were unable to obtain the expected rebate, depressing exports.



Source: China Customs Data

Policy

China's levying of additional tariffs on U.S.-origin fruit imports will likely result in lost market share by U.S. fruit producers

While China has encouraged fruit imports by reducing the value-added tax (VAT) rate, and increasing the export rebate, it has imposed additional duties on U.S.-origin fruit imports. On May 1, 2018, the Chinese government lowered the value-added tax (VAT) for agricultural products (including imported agricultural products) to 10 percent from 11 percent (see GAIN report CH18022). This reduction follows a reduction in the VAT rate from 13 percent to 11 percent on July 1, 2017. In an effort to encourage exports, the Chinese government announced on October 22 that export rebate rates will be increased for most or many exported products on November 1, 2018.

For fresh deciduous fruit, the export rebate for apples (HS 08081000) and pears (HS 08083010, 08083090, 08084000) will be increased to 10 percent (of the export value) from 5 percent. The export rebate for grapes will be increased to 6 percent from 5 percent.

On March 23, 2018, the People's Republic of China's State Council Tariff Commission (SCTC) announced a list of U.S. products subject to additional tariffs in response to the United States imposing tariffs related to the U.S. 232 Trade Action (see FAS GAIN report CH18017). For fresh apples, pears, and grapes, the additional Chinese tariff was 10 percent and went into effect on April 2, 2018. In addition, on July 6, 2018, SCTC implemented another set of tariffs on U.S. products in response to the U.S. Section 301 Investigation (see FAS GAIN report CH18034). For apples, pears, and grapes, China added another 25-percent tariff in addition to the existing MFN rate and added 10-percent tariff. For most fresh apples, pears, and grapes, the total additional import tariff is 40 percent (fragrant pears were not assessed the earlier 10-percent tariff). These additional tariffs put U.S. fruit at a price disadvantage with fruit from other countries. The following table provides details about the import tariffs and VAT on fresh deciduous fruit originating from the United States and other trading partners.

Import Tariffs and Value-Added Tax (VAT) for Fresh Apples, Pears, and Grapes in 2018

Country	Apples	Pears	Grapes	VAT (as of May 1)
United States	50% (as of July 6)	50-52% (as of July 6)	53% (as of July 6)	10%
Chile	0	No market access	0	10%
Peru	No market access	No market access	0	10%
Australia	2%	No market access	2.6%	10%
New Zealand	0	0	0	10%
Belgium	No market access	10-12%	No market access	10%
Argentina	10%	10-12%	No market access	10%
Poland	10%	No market access	No market access	10%
France	10%	No market access	No market access	10%

Source: Customs Import and Export Tariff of China
Note: China has signed Free Trade Agreements (FTA) with Chile, Peru, Australia, and New Zealand.

Marketing

The availability of imported fruits continues to expand in China, and imported deciduous fruits can be found not only in wet markets and family-owned community stores, but also increasingly are sold online and in innovative "new retail" chains such as "HEMA" (brick and mortar retail outlets associated with Alibaba Group) and "7Fresh" (the offline retail chain for JD.com). Internet penetration and the popularization of 4G/5G mobile technology in China has boosted shopping via mobile app, and it has now become even more convenient for consumers to purchase fruits through their mobile phones or via social media such as Wechat and Weibo. In addition, retail chains specializing in fresh fruit, such as Pagoda, Greenery, and Fruit-mate, are expanding quickly.

The Chinese retail industry continues to make significant progress in cold storage management and infrastructure, further improving fruit quality and availability. This is especially true in 3rd tier cities. At the same time, China's fresh fruit wholesale markets continue to upgrade and expand their facilities.

South China continues to be the major transaction hub for imported deciduous fruits. In 2017, nearly 60 percent of all imported fresh fruit arrived into South China ports. At the same time, trade volumes through wholesale markets in Shanghai, Wuhan, and Zhengzhou have been growing. Major consumption markets include Guangzhou, Shenzhen in the South, while 2nd and 3rd tier cities such as Xiamen, Changsha, and Sanya also exhibit growing demand. Other major deciduous fruit markets in China include the 1st tier cities of Shanghai and Beijing as well as other major regional hubs such as Chengdu, Chongqing, Hangzhou, Suzhou and Qingdao.

U.S. deciduous fruit face strong competition from both the other imported and domestically produced products. As discussed above, the additional tariffs placed on U.S.-origin fresh fruit are already impacting sales. In the long-term, U.S. suppliers should consider introducing new varieties as Chinese consumers have strong demand for new tastes and products.

U.S. Apples

Red delicious, Gala, and Granny Smith are the dominant U.S. apples in the Chinese market and are generally available from August through March. These varieties are traditionally popular as gifts during

national holidays such as the Mid-Autumn Festival and Chinese New Year. New varieties should also be considered when choosing which products to export to China.

Even before additional tariffs were placed on U.S. products, competition for U.S. apples was strong, both from domestic and imported sources. China is the world's largest apple producer and New Zealand and Chile enjoy preferential tax treatment due to free-trade agreements. The majority of imported apples come through South China, with Shenzhen being the largest entry point. Trade contacts report that educational seminars and interaction with consumers will help enhance the positive image of U.S. apples.

U.S. Pears

U.S. pears face strong competition from domestically produced pears and from other imported varieties from multiple countries (for example, Belgium, Argentina, and the Netherlands). The major importing ports for U.S. pears are Dalian, Guangzhou, and Shanghai. U.S. pears are relatively more popular in the North as Chinese consumers are more familiar with soft textured pears. Southern consumers prefer crunchy and crisp Asian varieties. The three most commonly found U.S. varieties in the Chinese market include Starkrimson, Red Anjou, and Green Anjou. All three of these varieties are readily available in higher-end supermarkets in 1st tier cities.

U.S. Table Grapes

Over the past several years, U.S. seedless Red Globe, Autumn Royal, Thompson and Crimson varieties have largely replaced the U.S. seeded Red Globe variety in the Chinese market. Retail contacts report this change is a result of robust consumer demand for high-quality seedless varieties combined with the fact that importers now prefer to trade in U.S. seedless varieties as the profit margin is much greater.

Retail contacts report that in-store promotions with point-of-sale materials and decorations highlighting attributes of imported grapes can dramatically increase sales. Retail contacts also report that timing promotional events with major Chinese holidays can be especially effective and there are a growing number of consumers (especially in 1st tier markets) that are willing to pay a significant premium for high quality, new-to-market varieties. Trade contacts also report that demand for imported green seedless varieties are also expanding in China.

Production, Supply, and Demand (PS&D) Tables

Apples

Apples, Fresh	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	2324000	2324000	2320000	2320000	0	2322000
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	43900000	40393000	44500000	41390000	0	31000000
Non-Comm. Production	0	0	0	0	0	0
Production	43900000	40393000	44500000	41390000	0	31000000
Imports	70700	70700	70000	68000	0	75000
Total Supply	43970700	40463700	44570000	41458000	0	31075000
Fresh Dom. Consumption	38189300	34682300	38370000	35378000	0	27025000
Exports	1381400	1381400	1200000	1280000	0	1050000
For Processing	4400000	4400000	5000000	4800000	0	3000000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	43970700	40463700	44570000	41458000	0	31075000

Unit: hectare, metric ton.

Note: Post revised the 2016 and 2017 New Post production figures to reflect recently released revisions by NSB.

Pears

Pears, Fresh	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1113000	1113000	1110000	1110000	0	1108000
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	18700000	15960000	19000000	16410000	0	13100000
Non-Comm. Production	0	0	0	0	0	0
Production	18700000	15960000	19000000	16410000	0	13100000
Imports	6900	6900	8000	8000	0	9000
Total Supply	18706900	15966900	19008000	16418000	0	13109000
Fresh Dom. Consumption	16478299	13938299	16743000	14325000	0	11479000
Exports	508601	508601	515000	543000	0	430000
For Processing	1720000	1520000	1750000	1550000	0	1200000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	18706900	15966900	19008000	16418000	0	13109000

Unit: hectare, metric ton.

Note: Post revised the 2016 and 2017 New Post production figures to reflect recently released revisions by NSB.

Table Grapes

Grapes, Fresh Table	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jun 2016		Jun 2017		Jun 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	810000	810000	812000	812000	0	816000
Area Harvested	0	0	0	0	0	0
Commercial Production	10800000	10100000	11200000	10500000	0	9450000
Non-Comm. Production	0	0	0	0	0	0
Production	10800000	10100000	11200000	10500000	0	9450000
Imports	237100	237100	215000	215000	0	200000
Total Supply	11037100	10337100	11415000	10715000	0	9650000
Fresh Dom. Consumption	10780400	10080400	11135000	10454000	0	9430000
Exports	256700	256700	280000	261000	0	220000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	11037100	10337100	11415000	10715000	0	9650000

Unit: hectare, metric ton