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Report Highlights:

China's marketing year (MY) 2019/20 production of deciduous fruit, especially apples and pears, is expected to rebound sharply from the previous year's low levels. While production gains will boost the country's fruit exports, apple, pear, and table grape imports will continue to grow given strong demand for high quality products. However, U.S. fruit exports will decrease following the additional tariffs on almost all U.S. agricultural products. The country's production of apples, pears, and table grapes are forecast at 41 million metric tons (MMT), 17 MMT and 10.8 MMT, respectively, in MY 2019/20.

Executive Summary:

China's marketing year (MY) 2019/20 production of deciduous fruit, especially apples and pears, is expected to rebound sharply from the previous year's low levels. The country's production of apples, pears, and table grapes are forecast at 41 million metric tons (MMT), 17 MMT and 10.8 MMT, respectively, in MY 2019/20, an increase of 24 percent, 21 percent, and 9 percent on a yearly basis.

The huge production gains have caused the prices of deciduous fruit to fall quickly from their peaks in mid-2019 to more normal levels. These falling fruit prices, coupled with increased export rebates and devaluation of local currency, will boost China's fruit exports, mainly in Southeast Asia where consumers are price sensitive.

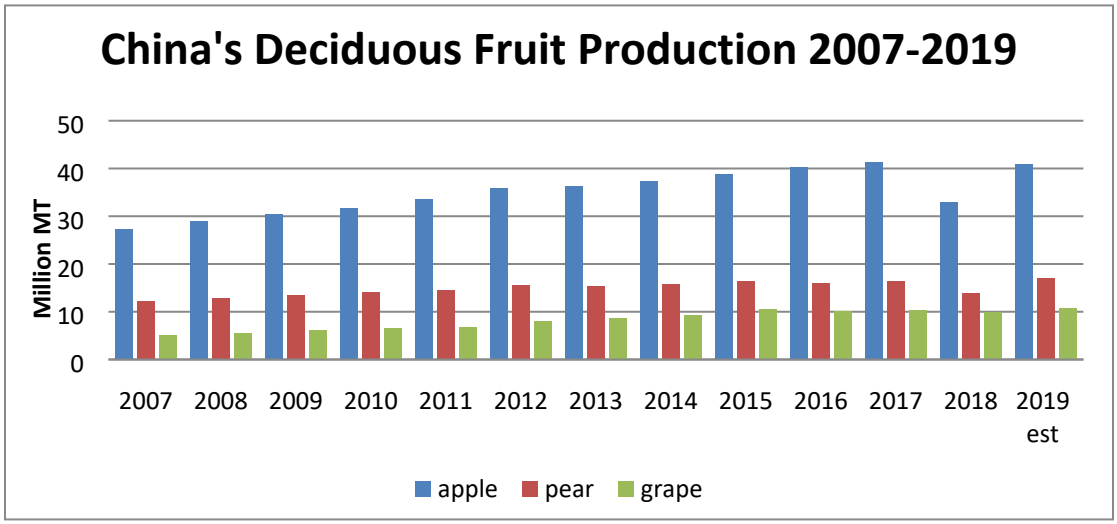
China's fruit imports are expected to continue increasing driven by demand for high quality products. China will mainly expand its imports of deciduous fruit from Southern Hemisphere countries to accommodate consumption during the local off season. In addition, most of these countries such as New Zealand, Australia, Chile, and Peru have signed free trade agreements with China, lowering or eliminating import tariffs. On the other hand, the United States, traditionally the largest fruit supplier from the Northern Hemisphere, will see its market share further decrease as a result of the additional tariffs China has imposed on most all U.S. agricultural products.

Overall fruit consumption will continue to grow in China driven by increasing incomes, dietary changes, marketing innovations, and improvement of cold-chain logistics. Due to production and supply chain advances, more local fruit varieties have been developed, the availability of seasonal fruit has increased, and more consumers have access to fresh fruit (especially out of season fruit).

In addition to freshness, quality, nutritional benefits, taste and price, consumers are increasingly attracted by unique marketing schemes for branded fruit products. This is driven by growing middle class income and a willingness to try new varieties.

PRODUCTION

China is the world's largest producer of fresh apples, pears, and table grapes. Production of deciduous fruit has steadily increased for nearly two decades, except for in 2018 when severe frost hit major fruit producing regions causing a dramatic decrease in fruit production.



Source: National Bureau of Statistics, FAS Beijing

Apples

China's apple production is forecast at 41 million metric tons (MMT) in MY 2019/20 (July-June), a rebound of 24 percent from the revised production number in the previous year. Almost all major apple producing provinces have experienced favorable growing conditions during the entire fruit development this crop year. The exception is Shandong Province, the second largest apple producing province, where a summer drought will likely reduce apple production by 5 percent. The strong harvest this year contrasts sharply with the low production in MY 2018/19 when severe frosts struck the major apple producing areas during the blossom period.[1] Fruit quality is fair this year, but the ratio of large-sized apples is lower from that in the previous year, according to industry sources.

Apple acreage is forecast at 1.96 million hectares in MY 2019/20, down slightly from the revised number in the previous year. While apple acreage has stabilized or is slowly decreasing in major producing provinces, limited expansion is occurring in western and southwestern China including Xinjiang, Yunnan, Guizhou, and Sichuan Provinces. Apple production is slowly moving from more traditional growing regions in the east, like Shandong Province, to the west. At the same time, production is also moving from the south to the north in provinces like Shaanxi, which is now the leading apple producing province.

[1] Post revised its MY 2018/19 apple production number to reflect a smaller harvest. Notably, this number differs from the official data released by the National Bureau of Statistics (NBS).

More than 20 provinces grow apples, but the top 7 provinces account for nearly 90 percent of the country's total production. Replacing aging apple orchards with more modern apple farms is a top priority for the Chinese industry. For example, in Shandong, many old orchards have been replaced by modern apple farms with a much higher level of mechanization. Orchard upgrading is also taking place in major western provinces like Shanxi. Post revised the MY 2017/18 apple acreage number based on revisions made by the Ministry of Agriculture and Rural Affairs (MARA). The MY 2018/19 apple acreage has also been revised accordingly.

Apple production costs keep increasing, especially labor costs which already account for one-third of total production costs. It is estimated that the cost of producing one kilogram of apples is around 2.6 yuan in Shaanxi province (the average yield is around 30 MT per hectare in the province). Labor shortages are prevalent in many fruit producing areas. To compensate, more than 70 percent of the newly planted apples in Shaanxi Province are varieties that do not need bagging. Water shortages remains another challenge to apple production. Competition for water resources are a major concern in the western apple-growing provinces and are behind the south to north production shift in Shaanxi Province.

Apple Growing Provinces in China

Source: China Ministry of Agriculture and Rural Affairs (2017 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)

Pears

China's pear production is forecast at 17 MMT in MY 2019/20 (July-June), an increase of 21 percent from the revised number in MY 2018/19, given favorable weather conditions in almost all pear growing provinces.[2] Pear quality has also improved from the previous year, based on Post observations of on-farm conditions.

Pear acreage is forecast at 920,000 hectares in MY 2019/20, down 1 percent from the revised number in MY 2018/19. Following a major rebound in pear production, the farm gate prices for pears have dropped dramatically. According to media reports in Hebei Province, the main pear producing region, prices are so low that some farmers report contemplating cutting down their pear trees. In addition, Post has observed that some farmers in Shaanxi Province have given up growing pears and replaced them with less labor-intensive crops like corn. Post also revised the pear acreage in MY 2017/18 in line with revised data released by MARA. The MY 2018/19 acreage number has also been revised accordingly.

Pears are planted in all inland provinces across China, yet most pears are grown in 8 provinces (see map below). China grows mostly Asian pears and the top five varieties are Huangguan, Su, Snow, Ya, and Fragrant Pear. New varieties, such as Cuiguan and Yulu, are expanding quickly. Chinese farmers also plant other pear varieties that are consumed locally, including Western varieties like Bartlett.

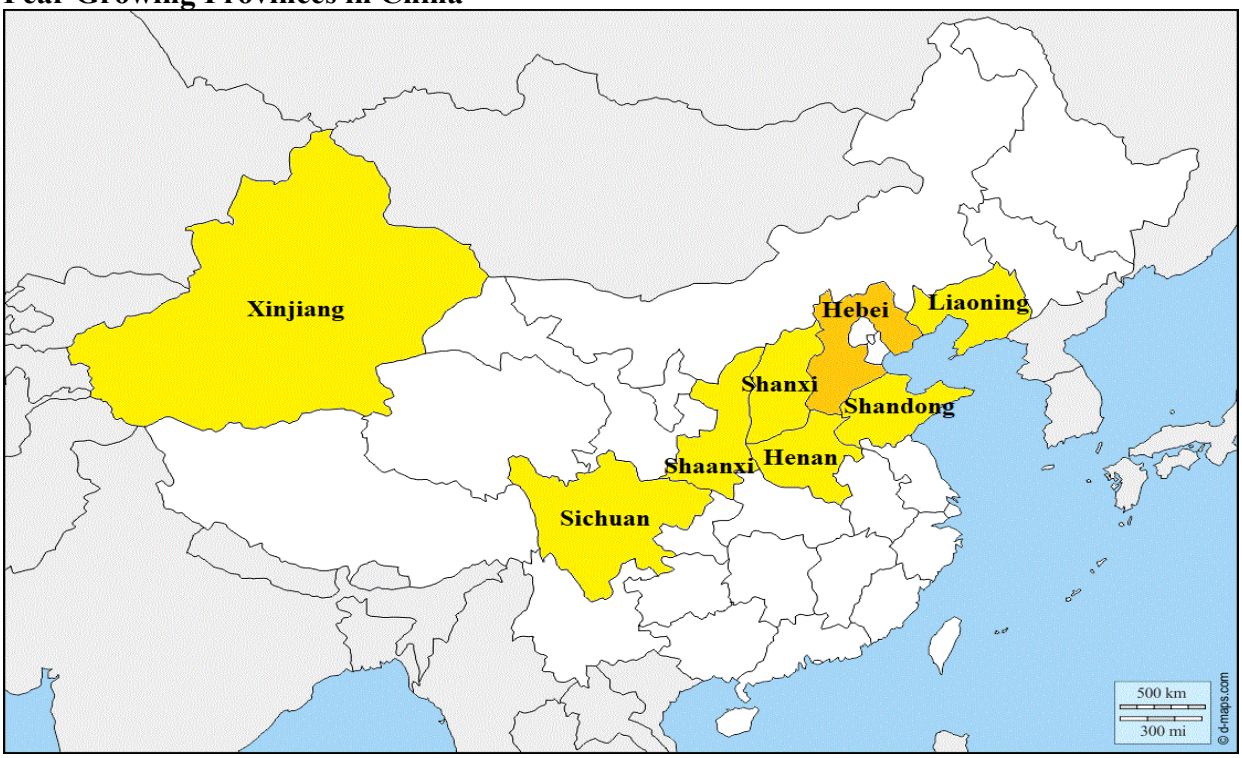
Huangguan Pears

Su Pears

Ya Pears

[2] Post has revised its MY 2018/19 pear production to 14 MMT, which is lower than the NBS data.

Pear Growing Provinces in China



Source: China Ministry of Agriculture and Rural Affairs (2017 data)
Legend:
Orange= 20% or more of total Chinese production (Hebei)
Yellow = 5% to 10% (Shandong, Xinjiang, Liaoning, Henan, Shaanxi, Sichuan, Shanxi)

Table Grapes

China is forecast to produce 10.8 MMT of table grapes in MY 2019/20 (June-May), an increase of 9 percent from the revised number in the previous year under favorable weather conditions across major grape-producing provinces. Industry reports that grape quality is good this year, except in certain areas where excessive rainfall during grape maturation caused rot and diminished flavor. The MY 2018/19 grape production estimate has been revised to 990,000 MT.

Grape acreage is estimated at 708,000 hectares in MY 2019/20, slightly up from the revised number in MY 2018/19. Grape planting area seems to have stabilized from the rapid expansion over the past few years. Some farmers are replacing traditional grape varieties with more profitable varieties. While Kyoho, Red Globe, and Muscat remain the dominant varieties, the planting of popular varieties such as Summer Black, Shine Muscat, Jumbo Muscat, Gold Finger, and Crimson Seedless is expanding quickly, especially Shine Muscat, which has been quickly planted across China due to high market prices. Grape growers, especially those in Southern China, are willing to invest more in production facilities in order to improve fruit quality or to extend the supply season. It is estimated that greenhouse vineyards or vineyards with rain shield facilities account for around 25 percent of the total grape acreage and

continues to increase. Post revised the MY 2017/18 grape acreage in response to MARA revisions; the MY 2018/19 acreage number has also been revised accordingly.

Grape Growing Provinces in China

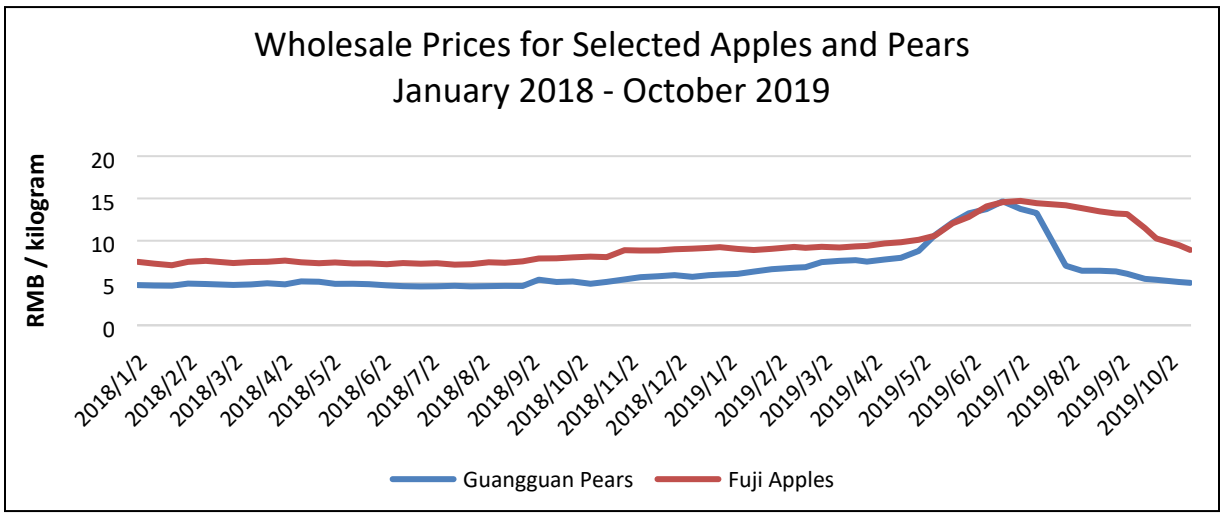
Source: China Ministry of Agriculture and Rural Affairs (2017 data)
Legend:
Green = 10% to 20% (Xinjiang)
Light Green = 5% to 10% (Shandong, Yunnan, Zhejiang, Liaoning, Hebei, Shaanxi, Henan)

PRICES

Apples and pears

As a result of sharp production declines in 2018/2019, apple and pear prices started to soar in the spring of 2019 as stocks tightened. Wholesale and retail prices hit ten-year historic highs in July (see chart below) when stocks were nearly depleted. Due to the production decreases, only 6 MMT of apples were put into storage in MY 2018/19, compared with 10 MMT of apple stocks in MY 2017/18. However, as the MY 2019/20 harvest began in mid-July for pears and early maturing apples, fruit prices decreased. In fact, expectations that apple and pear production will rebound this year have driven wholesale prices for pears back down to normal levels. Apple prices are also expected to continue decreasing as more late mature Fuji apples are harvested in mid-late October. The average farm gate prices for Fuji apples (the

most commonly grown apple in China) are reportedly two yuan lower per kilogram, compared to the previous season. In Shandong Province, for example, top-grade Fuji apples (8 cm in diameter or above) are currently selling for 6.00 yuan per kilogram (farmgate prices), according to data released by the China Fruit Marketing Association. In some regions, September pear prices have dropped to 5-year lows, according to pear traders in Hebei province.



Source: China Fruit Marketing Association

Table grapes

Grape prices vary drastically between varieties and from location to location. In general, the grape price has also declined from last season as a result of production rebound. For example, the Red Globe purchase price was quoted at 6 yuan per kilogram at farms, compared to 10 yuan per kilogram in the previous year, as noted by Post during a crop tour to Weinan, Shaanxi Province in late September.

CONSUMPTION

Overall, China's fruit consumption will continue to grow due to increasing income, dietary changes, marketing innovations, and improvement of cold-chain logistics. In general, Chinese consumers now demand safe, nutritious, good tasting, diversified fruit. Consumption trends are shifting to focus on quality, specialty, and branded products. For more information, see the Marketing section below.

In terms of apple and pear consumption, these fruits have reached a state of relative oversupply in China. In other words, net apple and pear consumption is hardly increasing. On the other hand, new varieties of apples and pears are being developed and the fruit supply season has been effectively extended due to improved cultivation technology. Along with increased fruit imports, Chinese consumers have more domestic fruit varieties to choose from. Nevertheless, most consumers, especially lower-income consumers, are still price sensitive when it comes to apples and pears. When apple prices increased in spring of this year, many consumers slowed or stopped buying apples.

Demand for imported fruit among higher income consumers continues to rise, especially in the second and third tier cities. For example, imported grapes, especially seedless varieties, remain one of the favorite fruits during the local offseason. New or specialty varieties also see strong demand.

The consumption of processed fruit, such as juice (not from concentrate) and fruit-flavored drinks, is also on the rise due to the changing lifestyles of Chinese city-dwellers.

TRADE

Imports

China's total fruit imports continue to increase. The country's fruit import volume and value reached 5.5 MMT and $7.6 billion in 2018, an increase of 25 percent and 36 percent, respectively, year on year.

Apples

China's apple imports are forecast to increase by nearly 8 percent to 100,000 MT in MY 2019/20 (July-June), due to demand for high quality fruit. Although local supplies will increase significantly, fruit traders report that the quality of domestic fruit often lags behind imported fruit. In MY2018/2019, China's apple imports from the world climbed 49 percent from the previous year. New Zealand, Chile and United States represent over 87 percent of total apple imports. Notably, both Chile and New Zealand have free trade agreements (FTAs) with China that allow apples from the two countries to enter China duty free. Apple imports from the United States dropped 35 percent in MY2018/19 due to the imposition of additional tariffs. The decline was offset by increased supply from New Zealand (up 75 percent) and Chile (up 70 percent). Other suppliers include France, South Africa, Argentina, Australia, Poland, Japan and Italy.

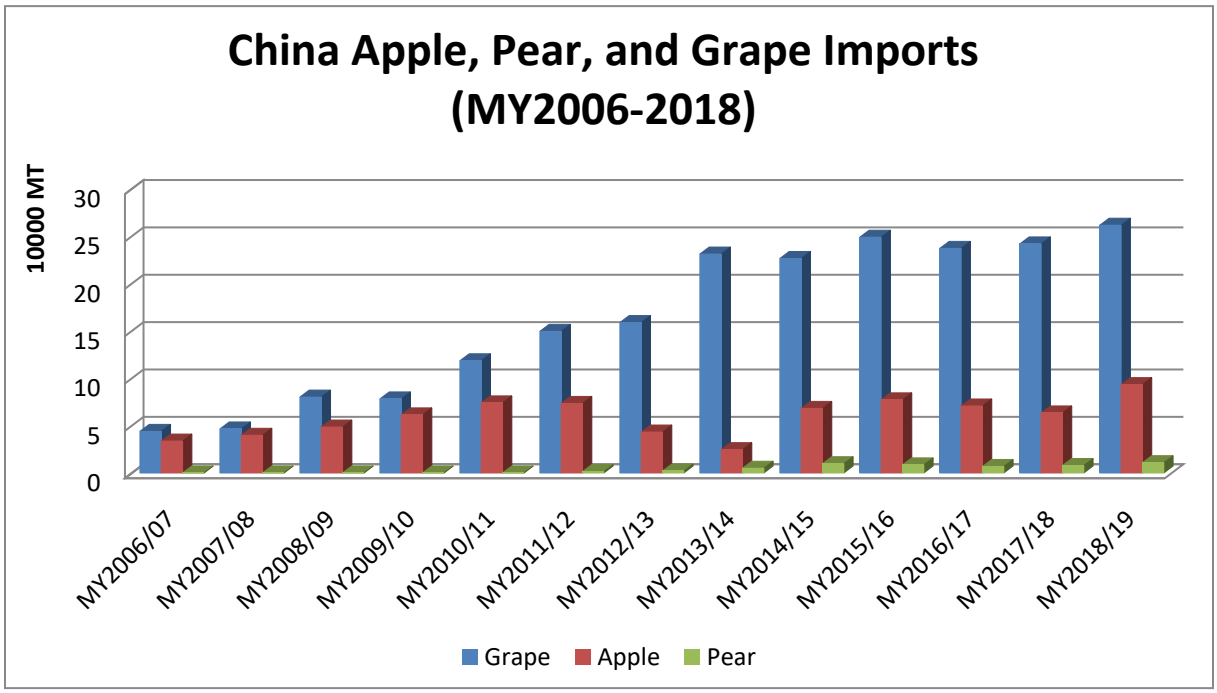
Pears

China's pear imports are forecast to continue increasing by nearly 40 percent to 15,000 MT in MY 2019/20 (July-June), primarily due to enhanced marketing efforts by Belgium and the Netherlands, the two largest pear suppliers to China. U.S. pear imports to China have also dropped due to the additional tariffs placed on many U.S. products. China recently opened its market to Chilean pears in May 2019, adding another pear supplier from the Southern Hemisphere next to Argentina. China's pear import volume is relatively small compared with apples and grapes. These Western pears are different from Asian pears and are imported to accommodate a niche market.

Table grapes

China's table grape imports are likely to decrease by nearly 5 percent to 250,000 MT in MY 2019/20 (June-May), largely because of improved quantity and quality of local supplies. China imports grapes mainly from Southern Hemisphere countries including Chile, Peru, and Australia during the local offseason. Although the United States is traditionally the single largest grape supplier among countries in the Northern Hemisphere, its market share is quickly decreasing due to the additional tariffs. China

recently opened its grape market to Spain and Portugal, aiming to expand import sources from the Northern Hemisphere.



Source: China Customs Data[3]

Exports

Apples

China's apple exports will likely rebound by nearly 30 percent to 1.05 MMT in MY 2019/20 (July-June), primarily because of a significant increase in exportable supplies. China exports fresh apples to South and Southeast Asian countries that are more price sensitive. While increased local production is the primary driver of apple export growth, the increased export rebate and devaluation of local currency will also help strengthen China's fruit exports. Since 2017, China-origin apples, and pears have been unable to be exported to India due to reported quarantine pest issues. In 2019, Russia also suspended Chinese apples and pears due to quarantine issues. These countries have traditionally been significant export markets for Chinese apples and pears.

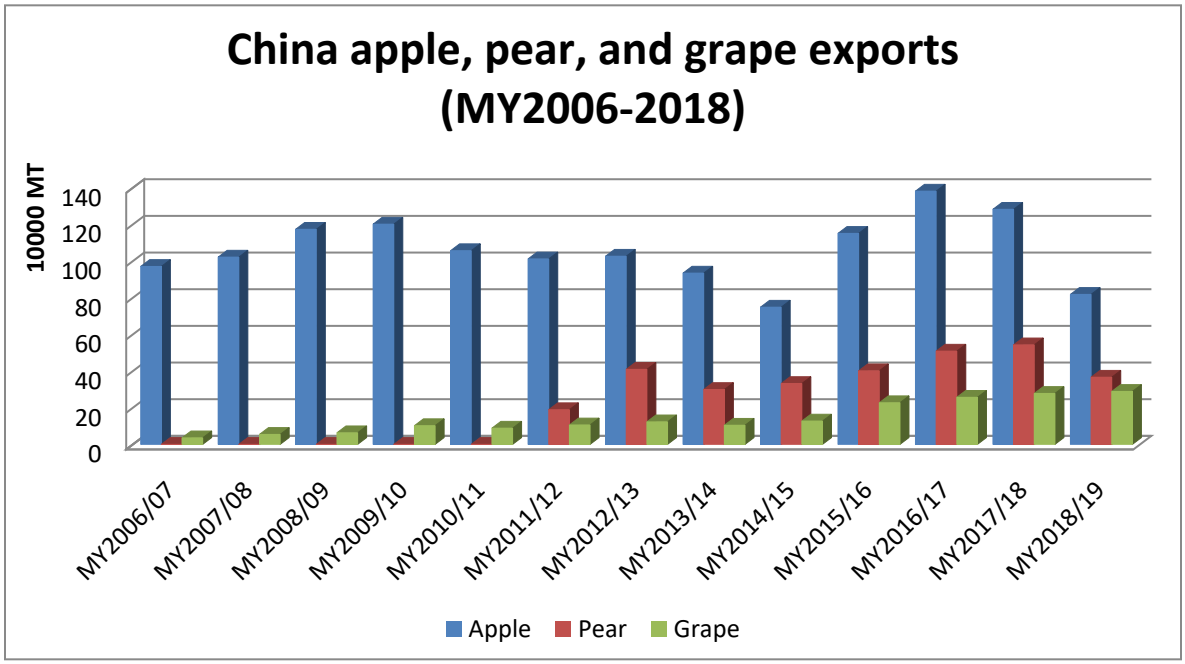
[3] Note: For apple and pear imports, the marketing year is from July to June; for grapes, the marketing year is from June to May.

Pears

China's pear exports are also expected to increase by nearly 40 percent to 500,000 MT in MY 2019/20 (July-June), driven by greatly increased local supplies. Southeast Asia is the primary export destination for Chinese pears. Pear exports to North America will also likely pick up.

Table grapes

China's grape exports have steadily increased in recent years as a result of improved quantity and quality. China's table grape exports will continue to increase in MY 2019/20 (June-May), and the volume is estimated at 320,000 MT, an increase of more than 10 percent from the previous year. The primary export markets remain Southeast Asian countries.



Source: China Customs Data. Note: For apple and pear imports, the marketing year is from July to June; for grapes, the marketing year is from June to May.

POLICY

Following two previous rounds of additional tariffs against U.S. agricultural products (15 percent in April 2018 and 25 percent in June 2019), the Chinese government imposed a third round of additional tariffs on the U.S. fresh fruit (10 percent) on September 1, 2019 (see GAIN report CH19062). Traders and retailers reported switching from U.S. suppliers to other overseas fruit suppliers to maximize their margin and hedge against the uncertain trade situation.

The following table provides up-to-date tariff rates on fresh deciduous fruit from the United States and selected trading partners.

Import Tariffs and VAT for Apples, Pears, and Grapes in 2019

Country	Apples	Pears	Grapes	VAT (as of April 1)
United States	60% (as of Sept. 1)	60-62% (as of Sept. 1)	63% (as of Sept. 1)	9%
Chile	0	0	0	9%
Peru	No market access	No market access	0	9%
Australia	0	No market access	0	9%
New Zealand	0	0	0	9%
Belgium	No market access	10-12%	No market access	9%
Argentina	10%	10-12%	No market access	9%
Poland	10%	No market access	No market access	9%
France	10%	No market access	No market access	9%

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

On May 14, 2019, the General Administration of Customs of China (GACC) published a list of registered Chilean packing houses for pears, officially opening the China market to fresh pears from Chile. Likewise, GACC announced market access for Spanish and Portuguese table grapes on August 30 and September 24, respectively.

On April 1, 2019, China lowered the value added tax (VAT) rate on sales and imports of agricultural products, including fruit, from 10 percent to 9 percent. The VAT reduction has had a limited impact on trade, but it is notable that China has cut VAT rates for three consecutive years from its peak level of 13 percent in 2017, in a bid to increase consumption.

To encourage exports, the Chinese government announced it would increase export rebates for selected agricultural products, including fresh fruit, effective on November 1, 2018. Specifically, the export rebate for fresh apples and pears has been raised from 5 percent to 10 percent and the export rebate for table grapes has been raised from 5 percent to 6 percent.

MARKETING

Overall, the demand for high-quality fresh deciduous fruits in China is on the rise. In recent years, the quality of these domestically grown fruits has greatly improved. With competition from these better-quality domestic fruits and other international suppliers in the market, U.S. fresh deciduous fruits are facing strong competition in the market.

Advances in mobile technology and retail digitalization has spurred significant changes in the fruit retail supply chain. Chinese consumers have always been sophisticated and demanding in fruit quality, but now, fruit retailers are often expected to provide immediate delivery (sometimes within one hour) to the home or office, with appealing packaging, and often ready for immediate consumption (e.g, already washed and cut).

In addition to freshness, quality, nutritional benefits, taste and price, consumers are increasingly attracted by the unique marketing propositions of branded fruit products. This is driven by growing middle class income and a willingness to try new varieties. Special aromas, high brix values, and smooth textures are being highlighted by the distributors and retailers to attract customers.

As a result, more "online to offline (O2O)" chain stores such as *Hema*, *7Fresh*, *Pagoda* and *Benlaiguofang* promote high-quality fruits through integrated distribution channels, providing convenient services such as recurring purchases and fast delivery for their customers. Meanwhile, specialized perishable food shopping platforms such as *Miss Fresh*, *Fruitday*, *Frutacloud*, and *Benlai Life* continue to expand their operations in first and second tier cities, aiming to provide fresh items to their customers on a daily basis.

First tier and second tier cities remain the major fruit consumers. Meanwhile, improved logistic services (including distribution and cold chain) and better infrastructure make it possible to deliver fresh fruits to more remote areas.

Massive wholesale markets such as *Jiangnan* in Guangzhou, *Xinfadi* in Beijing, *Huizhan* in Shanghai and *Jiaxing* in Zhejiang Provinces have either upgraded or are preparing to upgrade their cold storage facilities and expand their capacity to support higher volumes of fresh fruits.

With the additional tariffs placed on many U.S.-origin products, less U.S. fresh fruit is available in the market. U.S. competitors (New Zealand, Australia, and Chile) are using this opportunity to ship new varieties, gaining market share previously occupied by United States. It is critical for U.S. exporters to be aware of this new situation and increasing competition so when/if tariffs are lowered/return to previous levels they can plan a strategy to compete in this rapidly changing and increasingly competitive market. This could involve adapting product offerings or varieties.

Trade incentive programs, technical education seminars and reverse trade delegations can help regain the trade interest. Point of sale materials and on-the-spot tastings with themed promotion across online and offline channels will help enhance the positive image of high-quality U.S. fruits.

Apples

Queen, Rose, Ambrosia and Pink Lady from New Zealand are popular varieties among Chinese consumers. Gala from Chile and Australia are also popular. With the increased demand for imports last year, apples from France, South Africa, and Argentina increased.

U.S. Red Delicious apples in gift packages continue to be popular for special occasions and holiday sales (such as Chinese New Year and Mid-Autumn Festival). Granny Smith and Gala are also facing strong competition from other markets.

Pears

U.S. pear retail promotion

Retail managers report that demand for U.S. pears is comparatively low as many Chinese consumers still prefer domestic varieties, as they are reportedly more "crispy and juicy." A niche group of Chinese consumers prefer the softer texture pears from Belgium, Netherlands and Argentina. Other pear suppliers include Chile, New Zealand and United States.

Very few Chinese consumers or traders have sufficient awareness of the availability of and proper handling techniques for U.S. pears. Trade contacts report that because of high tariffs, there is little interest in importing U.S. pears.

Table grapes

China's top suppliers of imported table grapes are Chile, Australia, Peru, the United States, and South Africa. Chile represents almost half of China's total grape imports from the world. Secondary suppliers include India, South Korea, Egypt, France, Mexico and New Zealand.

Chinese table grapes' quality largely increased.

By August 2019, China's grape imports from the United States dropped 44 percent, while the amount imported from Australia and Peru increased 28 percent and 53 percent, respectively.

U.S. grapes, especially seedless varieties such as Crimson, Autumn Royal, and Thompson have largely replaced the seeded U.S. Red Globe over the past five years as Chinese consumers increasingly demand seedless varieties. However, U.S. seedless varieties are facing strong competition from domestically produced grapes (which have seen significantly improved quality), and competitor countries' grapes.

Chinese consumers have recently begun to favor green seedless varieties. Large displays of Chinese varieties such as "Xiangyin" and "Meigui" can be found in most retail stores this year, with the retail

price ranging from $3 - $20 per 500 grams, depending on harvesting time, origin, and grade. Some high-end retailers are also actively promoting a green variety from South Korea, with retail prices reaching even as high as $55 per 500 grams for the early shipment.

TABLES

Production, Supply, and Demand Tables

Apples

Apples, Fresh	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jul 2017		Jul 2018		Jul 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	2320000	1946950	2322000	1968000	0	1960000
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	41390000	41390000	31000000	33000000	0	41000000
Non-Comm. Production	0	0	0	0	0	0
Production	41390000	41390000	31000000	33000000	0	41000000
Imports	63400	63400	75000	93000	0	100000
Total Supply	41453400	41453400	31075000	33093000	0	41100000
Fresh Dom. Consumption	35371100	35371100	27195000	29775000	0	38050000
Exports	1282300	1282300	880000	818000	0	1050000
For Processing	4800000	4800000	3000000	2500000	0	2000000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	41453400	41453400	31075000	33093000	0	41100000

Pears

Pears, Fresh	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jul 2017		Jul 2018		Jul 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1110000	920980	1108000	925000	0	920000
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	16410000	16410000	13100000	14000000	0	17000000
Non-Comm. Production	0	0	0	0	0	0
Production	16410000	16410000	13100000	14000000	0	17000000
Imports	7900	7900	8000	10800	0	15000
Total Supply	16417900	16417900	13108000	14010800	0	17015000
Fresh Dom. Consumption	14325100	14325100	11518000	12444800	0	14915000
Exports	542800	542800	390000	366000	0	500000
For Processing	1550000	1550000	1200000	1200000	0	1600000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	16417900	16417900	13108000	14010800	0	17015000

Table grapes

Grapes, Fresh Table	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jun 2017		Jun 2018		Jun 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	812000	703330	816000	705000	0	708000
Area Harvested	0	0	0	0	0	0
Commercial Production	10500000	10500000	9450000	9900000	0	10800000
Non-Comm. Production	0	0	0	0	0	0
Production	10500000	10500000	9450000	9900000	0	10800000
Imports	241800	241800	265000	262000	0	250000
Total Supply	10741800	10741800	9715000	10162000	0	11050000
Fresh Dom. Consumption	10464000	10464000	9425000	9873200	0	10730000
Exports	277800	277800	290000	288800	0	320000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	10741800	10741800	9715000	10162000	0	11050000

Attachments:

No Attachments