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Required Report - public distribution

Date: 11/1/2017

GAIN Report Number: CH17058

China - Peoples Republic of

Fresh Deciduous Fruit Annual

Chinese Demand for High Quality Fruit Continues To Increase

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Report Highlights:

Post forecasts China's apple production at 44.5 million metric tons (MMT) in MY 2017/18, up a mere one percent from the previous year. Pear production is expected to increase by nearly 2 percent to 19 MMT and grape production is forecast to increase by 4 percent to 11.2 MMT. China's apple and grape imports will increase given strong demand for high quality fruit and the availability of counter-seasonal supplies.

Production

Apples

China's apple production is forecast at 44.5 million metric tons (MMT) in marketing year (MY) 2017/18 (July-June), up a mere one percent from the revised number in the previous year. Prolonged heat and drought hit northern China during spring and summer, causing apple production to decrease by 5 to 10 percent in eastern producing provinces such as Shandong, Hebei, and Liaoning. In the western producing provinces including Shaanxi, Shanxi, and Gansu, apple production is likely to continue increasing under relatively normal growing conditions, offsetting crop losses in the east. The drought has also resulted in smaller fruit sizes, especially in the eastern region (refer to table below for major apple-producing regions in China).

Key Apple Growing Regions in China



Source: China Ministry of Agriculture

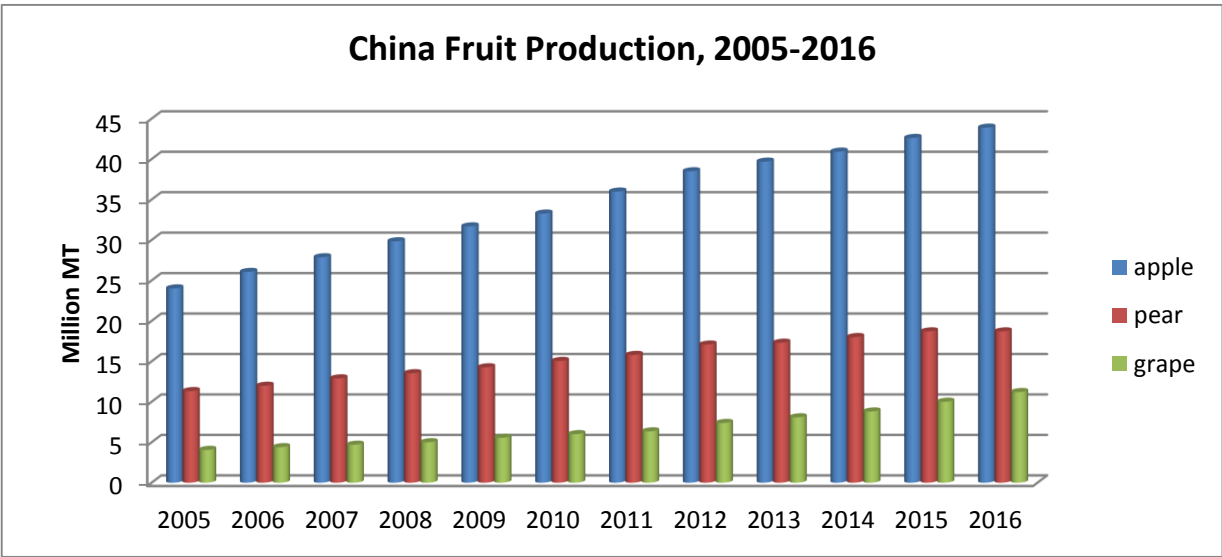
Legend:

- Dark Green = 20% or more of total Chinese production (Shandong, Shaanxi)
- Green = 10 to 20% (Shanxi, Henan)
- Light Green = 5 to 10% (Hebei, Liaoning, Gansu)

Post estimates China's apple planted area at 2.32 million hectares in MY 2017/18, down slightly from the previous season, mainly because of the replacement of aging orchards in Shandong province. Apple acreage seems to have stabilized in China after many years of expansion. In MY 2016/17, apple acreage began to decrease for the first time in over a decade after market prices weakened during MY 2015/16,

according to statistics by the Ministry of Agriculture. Fuji varieties, which are harvested in early or mid-October, still dominate apple production in China, accounting for more than 70 percent of the total production. Other varieties include Gala, Red Delicious, Guoguang, etc.

China’s apple production has been on the rise since 2002 (see table below). The volume has reached a point of oversupply and overall prices have begun to fall. Overall, the fruit quality is uneven and the share of high quality apples is quite low. An industry report estimated that premium quality apples account for only 25 percent of the total production. In an effort to improve apple quality, some private companies have begun investing in modern apple production. Some work with farmers and cooperatives to consolidate and upgrade their orchards. From the national to local levels of government, China is providing resources on how to improve fruit quality (see the Policy section for more information). Internally, the Chinese apple industry has also acknowledged the need to produce additional apple varieties.



Source: Ministry of Agriculture

Pears

Post forecasts China’s pear production at 19 MMT in MY 2017/18 (July-June), up nearly 2 percent from the revised number in the previous year. Although heat and drought have reduced pear crop in China's eastern provinces, total production is expected to increase given bumper harvests in other producing regions (refer to table below for major pear-producing regions in China). Fruit quality is generally quite good, despite the drought in some areas. Post has revised the pear production number in MY 2016/17 in accordance with the official statistics.

Pear Growing Regions in China



Source: China Ministry of Agriculture

Legend:

- Brown= 20% or more of total Chinese production (Hebei)
- Yellow = 5 to 10% (Liaoning, Anhui, Shandong, Henan, Sichuan, Shaanxi, Xinjiang)

Similar to apples, pear acreage began to decrease in MY 2016/17, the first time since MY 2010/11, according to the Ministry of Agriculture data. Overproduction has caused market returns to decline for pear growers. Post estimates that China's pear acreage will further decrease to 1.11 million hectares in MY 2017/18. Major varieties planted in China are Asian pears such as Snow pear, Ya pear, Huangguan pear, Fengshui pear, Fragrant pear, Fengshui pear, and Nanguo pear. Most pears are harvested between early August and early October.

Grapes

Post forecasts China's table grape production at 11.2 MMT in MY 2017/18 (June-May), up nearly 4 percent from the revised number in the previous year on favorable growing conditions. Grape quality is generally better than last year given improved crop management. Post has revised the table grape production in MY 2016/17 to 10.8 MMT based on consultation with industry sources (China does not maintain official statistics on table grapes). Likewise, the MY 2015/16 table grape production has also been revised to 10 MMT.

Grape acreage is estimated at 812,000 hectares in MY 2017/18, slightly up from the previous year. Grape acreage has gradually stabilized following years of rapid expansion. Grapes are planted in all provinces, including Tibet (refer to table below for key grape growing regions). Industry sources indicate that more than 10 percent of grapes are grown in green houses and the area is increasing in

northern and northwestern regions. In addition to traditional varieties such as Red Globe, Kyoho, Thompson seedless, and Muscat, many more varieties have been developed and planted across China. Given the broad range of growing locations and the large number of varieties, grape harvest season begins as early as late April and ends in October (green house grapes may extend the harvest to November).

Grape Growing Regions in China

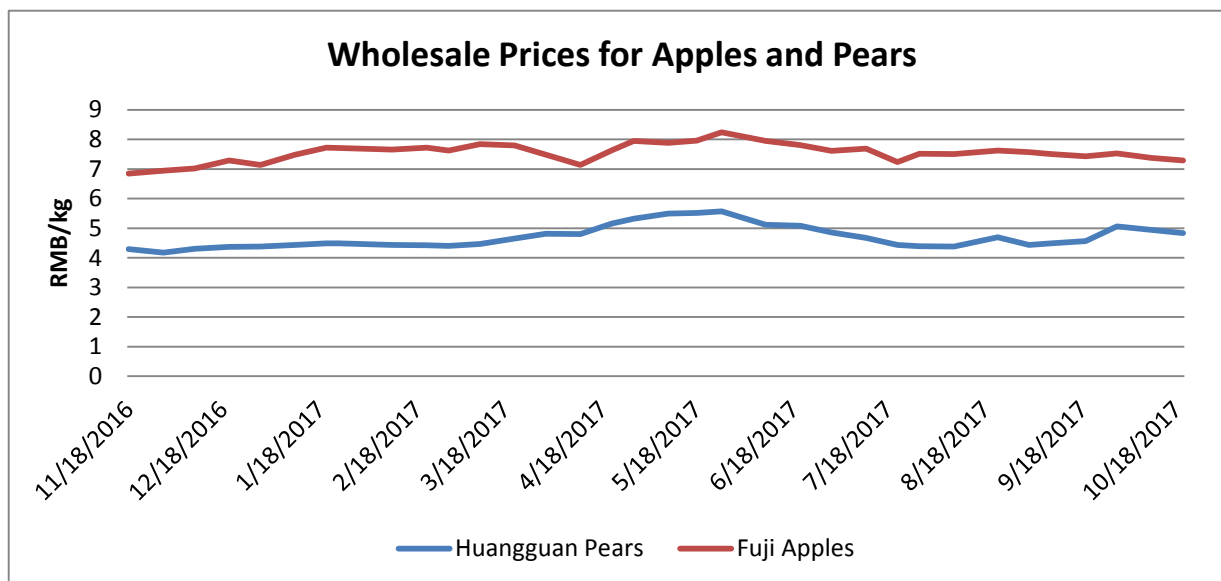


Source: China Ministry of Agriculture

Legend:

- Pink = 10 to 20% (Hebei, Xinjiang)
- Light Pink = 5 to 10% (Liaoning, Zhejiang, Shandong, Yunnan)

Prices



Source: China Fruit Marketing Association (US\$1=RMB6.63)

The nation's average farm gate prices for top quality Fuji apples (8 cm in diameter or larger) were quoted at \$0.95 per kilo on October 10, compared to \$0.89 per kilo one year ago, according to price information released by the China Fruit Marketing Association (CFMA). Purchase prices have increased because the share of high quality apples is smaller compared with the previous year, noted an industry source. Lower grade apples are priced much cheaper. Apple prices began to fall in MY2015/16 following rapid increases in production over the past decade or more. When the pear harvest began in late July, Huangguan pears, for example, were sold at an average of \$0.42 per kilo, compared with \$0.39 per kilo one year ago, according to CFMA price data. Industry sources indicate that the price increases in MY 2017/18 are largely attributed to quality improvement.

Similar to pears, grape quality has improved. As a result, overall market prices have increased from the previous year. For example, the average farm gate prices for Kyoho grapes were quoted at \$1.2 per kilo in August, up from \$1.1 per kilo in the same period of 2016. Following price declines in MY 2014/15 (June-May), grape prices began to rebound in MY 2017/18. Improved quality and increased varieties have effectively pushed the sales volume.

Consumption

The demand for high quality fruit is increasing in the wake of increased income and health consciousness. More consumers look for fresh, tasty, and branded fruit. Imported fruit, which represents high quality and safety levels, will have more opportunities, especially during local off-seasons. The per capita consumption of deciduous fruit has caught up with that in the developed countries and room for additional expansion is limited, especially in the first and second tier cities. However, the development of E-commerce, chain fruit stores, and We-chat merchandising have made fruit consumption more accessible and convenient. Therefore, fruit consumption in third and fourth tier cities is likely to continue increasing.

Apples are the most popular fruit consumed in China, but are losing popularity because of limited varieties and the increased availability of other fruits. Pears are less popular than apples. Although pears are also available during the entire year due to cold storage facilities, they are not favored during the winter time. Grapes are the current favorite deciduous fruit among Chinese consumers, with a focus on flavor. While consumers in southern China like juicy grape varieties such as Kyoho, northern consumers prefer firmer grape varieties like Red Globe. With increased varieties and improved quality, grape consumption will continue to pick up.

Policy

Given sufficient domestic supplies of most fruit in China, the Chinese government is focusing its efforts on guiding farmers to improve fruit quality and safety. Earlier this year, the Ministry of Agriculture (MOA) published the *Plan on the Enhancement of Quality and Safety of Agriculture Products during the 13th Five-Year (2016-2020)*. According to the plan, apples have been selected as one of the agriculture products to establish a trial traceability system. Five provinces will enroll in the program by the end of 2017. On February 8, 2017, the Ministry of Agriculture released an *Action Plan on Using Organic Fertilizers as Substitutes on Fruit, Vegetables, and Tea Crops*. This announcement describes the government's plan to select 100 key fruit, vegetable, and tea producing counties to participate in a demonstration program on organic fertilizer substitution. The goal is to reduce the use of chemical fertilizers by 20 percent in major fruit, vegetable, and tea producing regions by 2020. Chinese farmers use far more chemical fertilizers than those in developed countries. For example, the per-unit application of chemical fertilizers on fruit crops in China is six times of the level in the United States, according to an MOA report.

The Chinese government decided to lower the value-added tax (VAT) for all agricultural products, including imported products, from 13 percent to 11 percent effective on July 1, 2017. The import tariffs for fresh fruit remain unchanged in 2017, except for countries like Australia who have signed a free trade agreement (FTA) with China (see table below).

Import Tariffs and Value-Added Tax (VAT) on Fresh Apples, Pears, and Grapes in 2017

Major Trade partner		U. S.	Chile	Peru	Australia	New Zealand	Belgium	Argentina	South Africa
Import tariff		13%	0	Apple 2%	Apple 4%	0	13%	13%	13%
				Pear 2.4%	Pear 4.8%				
				Grape 0	Grape 5.2%				
VAT	Before July 1	13%	13%	13%	13%	13%	13%	13%	13%
	After July 1	11%	11%	11%	11%	11%	11%	11%	11%

Source: Customs Import and Export Tariff of China

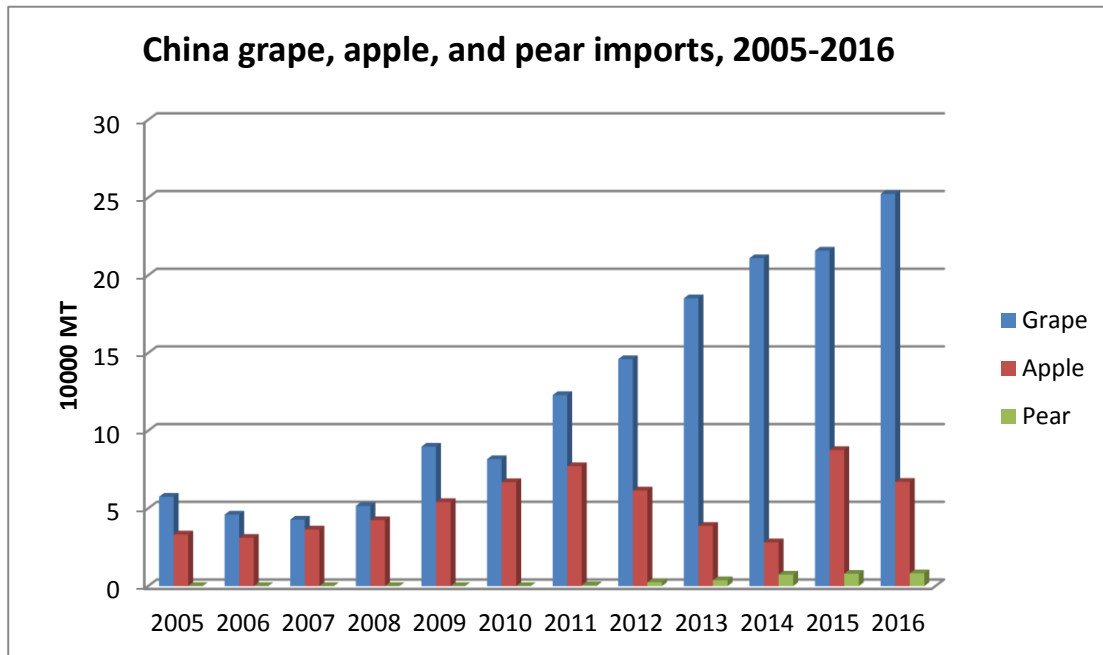
Trade

Imports

Post forecasts that China's grape imports will increase by 5 percent to 250,000 MT in MY 2017/18 (June-May). The demand for off-season table grapes is expected to continue growing. Grape imports mainly come from the Southern Hemisphere. Chile, Peru, and Australia remain the top three suppliers of fresh grapes to China. In addition, all three countries have signed a Free Trade Agreement with China and enjoy much lower (or zero) import tariff on grapes.

China's apple imports are forecast at 80,000 MT in MY 2017/18 (July-June), up 14 percent from the revised number of 70,000 MT in the previous year, given strong demand for high quality apples. As mentioned above, the severe drought has negatively impacted on the supply of high quality locally-produced apples. The United States, New Zealand, and Chile remain the top three suppliers of fresh apples to China.

China's pear imports are forecast at 6,000 MT in MY 2017/18 (July-June), down 13 percent from the previous year. The varieties of imported pears are different from locally-produced Asian pears and are not particularly favored by Chinese consumers, especially those from southern China, according to fruit traders. Pear imports are quite small compared to total consumption and import volume is decreasing. Main suppliers include Belgium, Argentina, and the United States.



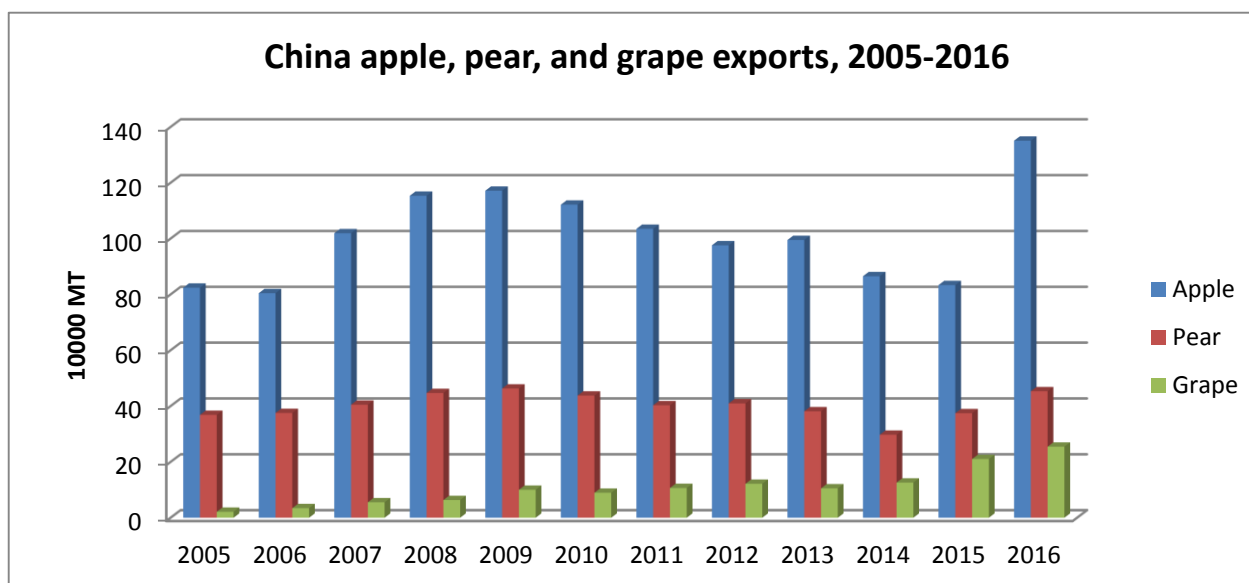
Source: China Customs Data

Exports

China's apple exports are forecast at 1.2 MMT in MY 2017/18 (July-June), down 13 percent from the revised number in the previous year, largely due to the expectation that the import ban put in place by India stays in place. On May 1, 2017, the Indian government suspended imports of Chinese apples and pears as of June 1 due to detections of quarantine pests. India was the largest importer of Chinese apples in MY 2016/17, with import volume reaching nearly 190,000 MT or 14 percent of China's total apple exports. China exports its apples mainly to neighboring South and Southeast Asian countries. Low prices had pushed China's apple export volumes to a record high in MY 2016/17.

Post estimates that China's pear exports will decrease by nearly 6 percent to 480,000 MT in MY 2017/18. Increased prices of locally-produced pears are likely to impact the trade with Southeast Asian countries that are quite sensitive to prices. The import ban by India will also reduce China's pear export volume, even though India is not a major buyer of Chinese pears.

China's grape exports are forecast at 200,000 MT in MY 2017/18 (June-May), down more than 20 percent from the revised number in the previous year. The export prices of China-origin grapes have increased from last year due to improved fruit quality. As a result, Southeast Asian buyers, who normally buy low quality fruit from China, have greatly reduced their orders. In addition, Thailand, the largest importer of Chinese grapes had experienced a bumper harvest of domestically grown fruit, so the demand for imported grapes is greatly affected, according to fruit dealers.



Source: China Customs Data

Marketing

In addition to hypermarkets and supermarkets, imported apples, grapes, and pears can also be found in wet markets and family-owned community stores throughout China. Additionally, e-commerce is an increasingly important marketing venue for imported deciduous fruits in 1st and 2nd tier cities.

Highlighting the freshness, quality, nutritional benefits, and taste of imported fruits are key components of any successful promotional effort in China. Foreign Agricultural Service (FAS) Trade Offices (ATOs) throughout the country, in collaboration with U.S. trade associations such as the Washington Apple Commission, the USA Apple Export Council, the California Table Grape Commission, and USA Pears have held a broad range of promotional events and seminars to showcase U.S. deciduous fruits in the Chinese market.

Southern China has long been the country's largest market for imported deciduous fruits. Major cities in the Pearl River Delta such as Guangzhou and Shenzhen remain key destinations for imported fruit while 2nd and 3rd tier cities in the region such as Xiamen, Changsha and Sanya 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.

Chinese industry continues to make significant progress in cold storage management and infrastructure. At the same time, China's wholesale markets continue to upgrade and expand their facilities. Trade contacts also report that many retail chains in 3rd tier cities have significantly upgraded their cold storage facilities in recent years.

Although demand continues to be strong, U.S. deciduous fruits face stiff competition in the Chinese market from other exporting countries as well as from the improving quality of domestic fruits. As a result, consistent in-store, online, and other innovative marketing activities are essential to maintain and expand market share and further strengthen the image of U.S. deciduous fruits in the market. Additionally, due to intense retailer competition in 1st, 2nd, and even 3rd tier cities, regional supermarket

chains and distributors constantly look to differentiate themselves by sourcing new-to-market products. As a result, U.S. suppliers should always strive to introduce new deciduous fruit varieties into the Chinese market when possible, as opportunities abound.

Apples

Due to steady retail chain expansion into 2nd and 3rd tier cities, U.S. apples can now be found on the shelves of most hypermarkets and supermarkets throughout China. In addition to the United States, other recent major apple suppliers to China include New Zealand, Chile, and Poland. Despite this competition, demand is on the rise and U.S. apples have gained significant market share over the past year. South China is the main importing region for U.S. apples, with Guangdong ports taking in 60-70 percent of China's total imports.

Red Delicious, Gala, and Granny Smith are the dominant U.S. apples in the Chinese market and are mostly available from August through March. These varieties are popular as gifts during national holidays such as the Mid-Autumn Festival and Chinese New Year. In addition to frequent in-store promotions and outreach activities, ATOs in China have also collaborated with the Washington Apple Commission and the USA Apple Export Council to showcase U.S. apples via giant Chinese online shopping platforms and numerous small-scale e-commerce operations. According to several trade contacts established during these activities, major retailers consistently express interest in sourcing new apple varieties from the United States.

Pears

U.S. pears have strong potential in the Chinese market but face strong competition from domestically produced pears and from other imported varieties from multiple countries (e.g. Belgium, Argentina and the Netherlands). The major importing ports for U.S. pears are Dalian, Guangzhou, and Shanghai. 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.

Per trade contacts, many retailers (especially in the 2nd and 3rd tier cities) lack sufficient awareness of the availability and proper handling techniques for U.S. pears. Accordingly, ATOs in China have recently collaborated with USA Pears in outreach activities/seminars in emerging market regions of the country to educate retailers, traders, and consumers on the seasonality, quality attributes and best handling practices for U.S. varieties.

Table Grapes

U.S. table grapes are highly prevalent in supermarkets and specialized fruit retail chains in 1st, 2nd and 3rd tier cities throughout China from August to January. Other major table grape suppliers to China include Peru and Chile. In 2016, an estimated 85 percent of U.S. table grapes entered China through South China ports (such as Shenzhen and Guangzhou).

Over the past few 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 higher.

Retail contacts report that in-store promotions with point-of-sale materials and decorations highlighting attributes of imported grapes have proven to dramatically increase sales. Retail contacts also report that timing promotional events with major Chinese holidays can be especially effective and that 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. ATOs in China have collaborated with the California Table Grape Commission and multiple national retail chains in frequent in-store promotions and educational seminars to showcase the high quality and availability of U.S. table grapes in the Chinese market.

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

Apples, Fresh	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	2328000	232800 0	2340000	232400 0	0	232000 0
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	42600000	426000 00	43500000	439000 00	0	445000 00
Non-Comm. Production	0	0	0	0	0	0
Production	42600000	426000 00	43500000	439000 00	0	445000 00
Imports	77200	77200	70000	70000	0	80000
Total Supply	42677200	426772 00	43570000	439700 00	0	445800 00
Fresh Dom. Consumption	37527200	375272 00	37800000	379900 00	0	383800 00
Exports	1150000	115000 0	1370000	138000 0	0	120000 0
For Processing	4000000	400000 0	4400000	460000 0	0	500000 0
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	42677200	426772 00	43570000	439700 00	0	445800 00

Pears, Fresh	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jul 2015		Jul 2016		Jul 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1124000	112400 0	1125000	111300 0	0	111000 0
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	187000 00	19300000	187000 00	0	190000 00
Non-Comm. Production	0	0	0	0	0	0
Production	18700000	187000 00	19300000	187000 00	0	190000 00
Imports	8500	8500	6000	6900	0	6000
Total Supply	18708500	187085 00	19306000	187069 00	0	190060 00
Fresh Dom. Consumption	16607100	166071 00	17106000	164779 00	0	167760 00
Exports	401400	401400	480000	509000	0	480000
For Processing	1700000	170000 0	1720000	172000 0	0	175000 0
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	18708500	187085 00	19306000	187069 00	0	190060 00

Grapes, Fresh	2015/2016		2016/2017		2017/2018	
Market Begin Year	Jun 2015		Jun 2016		Jun 2017	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	800000	800000	816000	810000	0	812000
Area Harvested	0	0	0	0	0	0
Commercial Production	9600000	10000000	10200000	10800000	0	11200000
Non-Comm. Production	0	0	0	0	0	0
Production	9600000	10000000	10200000	10800000	0	11200000
Imports	248900	248900	265000	237000	0	250000
Total Supply	9848900	10248900	10465000	11037000	0	11450000
Fresh Dom. Consumption	9621700	10021700	10205000	10780300	0	11250000
Exports	227200	227200	260000	256700	0	200000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	9848900	10248900	10465000	11037000	0	11450000