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China - Peoples Republic of

Stone Fruit Annual

2018

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Report Highlights:
Due to extreme weather this spring in the stone fruit producing regions, both peach and nectarine production and cherry production are forecast down for MY 18/19 from MY 17/18 production levels. Demand for high quality fruit is increasing in China and imported cherries have an opportunity to fill this demand. Stone fruit imports are forecast to increase in MY 18/19 with cherry imports reaching 160,000 MT and peach and nectarine imports forecast at 20,000 MT. The United States is viewed as the epitome of a high quality fruit supplier and innovative marketing using e-commerce platforms can help boost U.S. cherry exports to China.

Executive Summary

Frost and hail in the stone fruit producing regions in northern China this spring, have negatively affected both the production and the quality of peaches, nectarines, and cherries. Marketing year (MY) 18/19 (January-December) production of peaches and nectarines is forecast at 13.5 million metric tons (MMT) down six percent from MY 17/18. China's cherry production is forecast at 340,000 MT in MY 18/19, which is more than a ten percent decrease from the previous year. This is despite a forecast nine percent increase in cherry planted area to 125,000 hectares in MY 18/19. Greenhouse production of cherries is expanding in China in order to capitalize on the higher prices that exist for cherries earlier in the season. With cherry consumption increasing and a demand for high quality fruit, cherry imports are forecast to increase to 160,000 MT in MY 18/19. Peach and nectarine imports are also up, with a forecast of 20,000 MT.

Imported cherries are widely available via e-commerce, which is a popular retail channel among young consumers (aged 25-45) in first and second tier cities. U.S. cherries are mostly sold on e-commerce platforms in China, with sales increasing every year. Traders note that the price factor is no longer a consideration when it comes to China's affluent middle class. Consumers are looking for high quality products and are willing to pay the premium price. The United States is viewed as the epitome of a high quality fruit supplier. Creating and enhancing the image of premium quality U.S. stone fruit is essential to boosting U.S. exports to China in the long run.

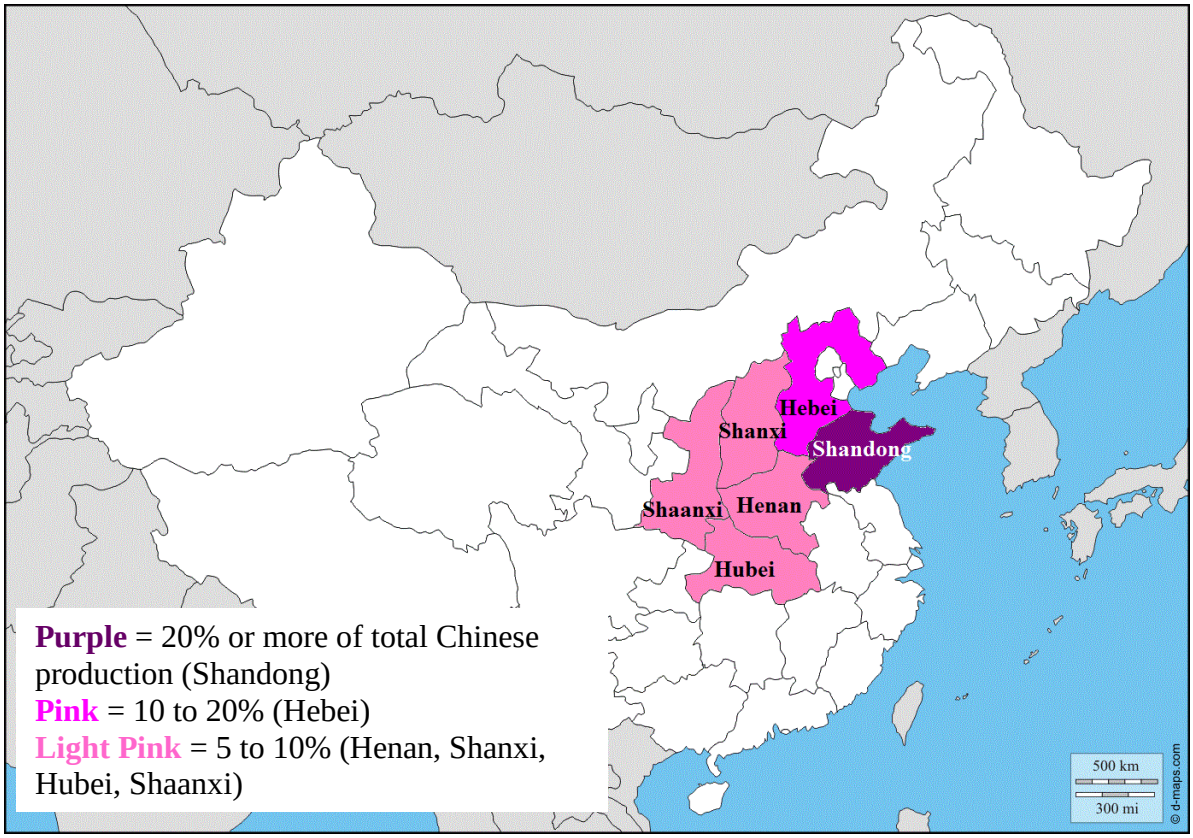
Production

Peaches and Nectarines

Peach and nectarine planted area is forecast at 850,000 hectares in MY 18/19, up a mere one percent from the previous year. Peach area remains quite stable in northern China, yet acreage is still expanding in the western and southern provinces, given positive market returns. Post has revised the peach and nectarine acreage to 828,000 hectares in MY 16/17 to echo official data.

China's MY 18/19 peach and nectarine production forecast is 13.5 MMT, down nearly six percent from the previous year. Peaches and nectarines are produced in most provinces throughout China but the major production areas are located in central China (see map below). In early April, freezing temperatures struck the major peach-producing provinces, including Shandong and Hebei, which has greatly affected the blossom of the peach crop. As a result, peach production, especially from the early maturing varieties has dropped significantly. The cold weather has also affected the quality of peaches (smaller sizes, for example) in the northern producing areas, compared with that in the previous year. Post has observed the decrease in quality during a trip to Shaanxi province. In the other production areas in central and southern China, peach production is expected to increase under normal growing conditions and expanded acreage. China grows numerous peach and nectarine varieties that are harvested between late May and early October, with the majority of peach and nectarines harvested in July and August. Post has modified the peach and nectarine production number to 14.2 MMT in MY 16/17 marketing year in line with the official statistics.

Peach Producing Regions



Source: China Ministry of Agriculture, most recent dataset is from 2016.

In recent years, due to relaxed government policy on land transfers, more individuals and private companies have invested in large-scale peach production through land consolidation. Some of these new operations have limited knowledge and experience managing large-scale peach operations and are not yet operating efficiently or effectively. Farmer cooperatives are also developing in China, which generally do a better job with management and production, however, marketing remains a challenge.

Cherries

Cherry acreage is forecast at 125,000 hectares in MY 18/19, up nearly nine percent from the revised estimate of 115,000 hectares in MY 17/18. Cherry area continues to expand as market returns remain attractive compared with other fruit crops. While field cherry area is stabilizing in Yantai and Dalian, acreage is expanding in other provinces including, Shaanxi, Gansu, Hebei, Henan, Shanxi, Sichuan, Qinghai, Xinjiang, and Beijing. Trial production is also happening in Yunnan and Guizhou. Greenhouse cherry production is estimated to increase by 30 percent on expanded acreage. Greenhouse expansion is occurring particularly in Dalian. Currently, greenhouse cherries account for five to ten percent of the total production in China. As a result of greenhouse production, the local cherry market season is now starting earlier, with greenhouse cherries arriving in the market in early March when

market prices are much higher compared to field cherries that are harvested in May and June. The cherry season normally ends in early July.

China's cherry production is forecast at 340,000 MT in MY 18/19, which is down more than ten percent from the previous year. Cherries were the crop that was most affected by the severe frost in early April across northern China. Most of the cherry plants were at the blossoming or fruit setting stage when the frost hit, which has led to a dramatic reduction in cherry production in most cherry producing provinces. Post has observed this first hand during a trip to Shaanxi province. Yantai and Dalian, the top two cherry producing regions, were not affected by the frost but the cherries in Yantai were hit by a serious hail storm in late May, which has reportedly cut production in Yantai by 30 percent. The fruit quality has also been affected by the frost and hail with smaller sizes and splits in the fruit observed. Post has revised MY 17/18 cherry production to 380,000 MT to reflect industry expectations.

With the exception of a few state farms that own 100-300 hectares of orchards, most cherries are produced by farmers who operate on limited farmland (less than one hectare). Large scale operations by private companies or individuals are rarely seen in cherry production. Farmers do not want to transfer their farmland since producing cherries remains quite profitable.

Cherry farmers normally plant several varieties to extend the supply period and they often harvest premature cherries to achieve a longer shelf life. Most cherry varieties were introduced from Europe and the United States, including the Brooks, Bing, Van, Lapins, and Rainier varieties. In China, the varieties may be referred to by a different name, for example, the Red Lantern (Brooks) and Meizao (Bing) varieties. It is difficult for packing houses to source large quantities of cherries with a uniform variety and quality. Packing houses do not normally apply pre-cooling treatment to cherries collected from farmers and the grading process is usually done by hand.

Prices

Peaches and Nectarines

Peach and nectarine prices have been relatively stable over the past few years. However, peach prices, especially for lower grade peaches, may fall sharply in July and August when the majority of peaches and nectarines are harvested and supplied to the market. In MY 18/19, peach quality is expected to decline as a result of the cold weather in spring. In Weinan of Shaanxi Province, early mature peaches (harvested in late May) were sold at RMB 4 ($0.62) per kilo at farms, which is lower than the previous year. High quality peaches continue to receive premium prices, in Wuxi of Jiangsu Province in southern China, the farm gate price for one box of peaches (containing 8 pieces with each weighing approximately 250 grams) is currently quoted at RMB 50-70 ($7.70-$10.80).

Cherries

Cherry prices have gradually gone down over the past few years because of the increased production. In MY 18/19, cherry quality has declined as a result of the poor weather. In Weinan, Bing cherries were

sold at RMB 32 ($4.90) per kilo, down 20 percent from the previous year, according to local farmers. Although greenhouse cherry prices have also declined in recent years, the prices remain higher than field cherries. In Weifang of Shandong Province, the farm gate price for greenhouse Bing cherries was RMB 50 ($7.70) per kilo.

Consumption

Peaches and Nectarines

MY 18/19 consumption is forecast down to 11.2 MMT based on the decrease in production. In general, peaches and nectarines are about to reach the point of oversupply in China, especially for low quality fruit, if local production keeps increasing. Consumers are now looking for high quality peaches and are willing to pay premium prices for such products. Peaches with high sugar content are favored by most consumers. Peach and nectarine varieties, including yellow flesh peaches, flat peaches, and super sweet peaches are becoming popular. Varieties with a longer shelf life are being developed to meet the market demand.

Cherries

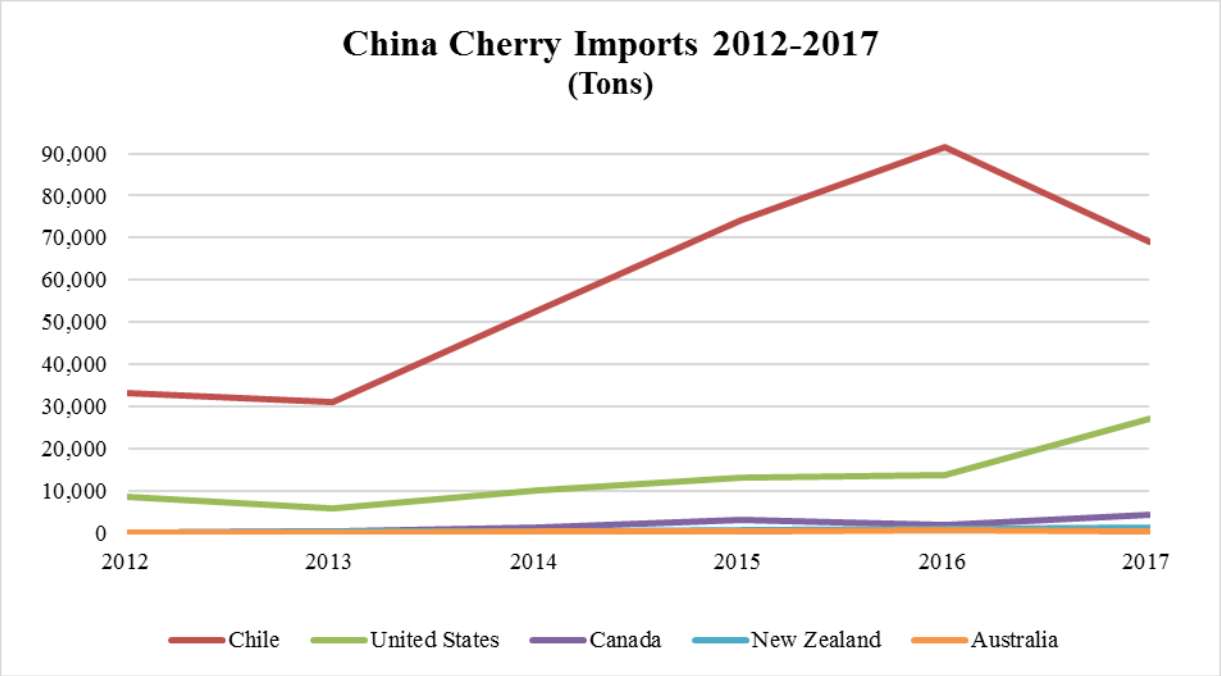
Cherry consumption continues to increase in the wake of increased local supplies and imports. Consumers prefer larger, sweet cherries. Although the quality of local cherries is improving, they are still far behind their imported counterparts that are characterized as sweeter, larger, and firmer. With more countries gaining access to the Chinese market, consumption of imported cherries is expected to continue to rise.

Trade

Imports

Cherry imports are forecast at 160,000 MT in MY 18/19, up 57 percent from the previous year. Consumption of high-end imported cherries continues to increase. The major import season is from December-February during the lead up to the Chinese Lunar New Year. Chile remains the largest cherry supplier to China and its market share is expected to continue to grow as a result of increased production. With the benefit of a zero tariff arrangement under their Free Trade Agreement, more than 80 percent of Chile's cherry exports make their way to China. The United States is the lead cherry exporter to China from May- July. In MY 18/19, a forecast decease in cherry production in the United States could reduce export supplies. To make matters worse, additional tariffs imposed on U.S.-origin fresh fruit may reduce the buying interest of Chinese importers for U.S. cherries. U.S. cherry exports to China reached a historic record in 2017. The U.S. export volume doubled in 2017, accounting for nearly 27 percent of total cherry imports to China and up from 13 percent in 2016. In 2017, Chile accounted for about 68 percent of imports, and Canada, New Zealand, Australia, and others accounted for the remaining five percent. Although China recently granted market access to Turkish cherries, the lack of

air shipment resources and requirements for cold treatment is likely to prevent large quantities of imports from the world's largest producer in the foreseeable future.



Source: GTIS

China's peach and nectarine imports are forecast at 20,000 MT in MY 18/19, more than double from the revised number in MY 17/18. China's nectarine imports increased quickly following the official market opening for Chilean nectarines in 2017. Import flows peak from January-March, with imports coming from countries in the Southern Hemisphere, including Chile and Australia. Australia, Spain and Chile have export protocols with China to export peaches and nectarines.

Exports

China's peach and nectarine exports are forecast at 100,000 MT in MY 18/19, up four percent from the revised estimate for MY 17/18. Although China's peach and nectarine supplies are expected to drop this year due to the abnormal weather patterns, demand in Central Asia (Kazakhstan and Russia) for these fruits is picking up.

Policy

Taxes and Tariffs

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 follows the VAT reduction from 13 percent to 11 percent that occurred on July 1, 2017.

In response to the U.S. 232 Trade Action, China announced that it would impose additional tariffs on U.S.-origin products including fresh fruit on April 2, 2018 (see GAIN report CH18017). To respond to the U.S. 301 Investigation, the Chinese government has published another list of U.S.-origin products subject to additional tariffs, which will enter into force on July 6, 2018 (see GAIN report CH18034). These additional tariffs will put U.S. fruit at a disadvantage competing with fruit from other countries. The following table provides details about the import tariffs and VAT on stone fruit originating from the United States.

Import Tariffs and VAT on Stone Fruit from the United States in 2018

HS Code	Description	Tariff (%)				VAT as of May (%)
		MFN	Additional 232 rate as of April 2	Additional 301 rate as of July 6	New Applied Rate July 6	
080921	Sour cherries, fresh	10	15	25	50	10
080929	Other cherries, fresh	10	15	25	50	10
080930	Peaches/nectarines, fresh	10	15	25	50	10
080940	Plums and sloes, fresh	10	15	25	50	10

Source: China Customs

Production Support

Starting in 2018, the Weinan government in Shaanxi province is providing a subsidy of $1,150 per hectare for farmers to build cherry orchards. If the orchard area exceeds 6.7 hectares, the subsidy will be raised to $1,850 per hectare, according to media reports. The goal is to achieve a planting area of 6,667 hectares of early maturing cherries by 2022. The Weinan government is also working with research institutes to establish an experimental station for the research and development of cherry rootstocks and varieties, with a total investment of $770,000.

Market Access

In November 2017, China and Australia signed a protocol to officially open the market to Australian peaches, plums, and apricots. China had already given market access for Australian nectarines in 2016. China also granted market access for Uzbekistan-origin cherries in 2017, with the list of registered shippers released in May 2018. Uzbekistan was the fifth largest cherry producer in the world in 2016, with annual production reaching 100,000 MT.

Marketing

Peaches and Nectarines

To help improve sales of domestic peaches, local governments and farm cooperatives in major producing regions organize marketing events, such as blossom festivals. Such events provide a platform for growers and brokers to encourage top retailers, institutional buyers, and wholesalers to visit orchards and purchase products. Some local peach varieties are registered and branded under the name of the producing region. Both online and offline retailers are interested in purchasing directly from peach orchards, especially for premium varieties. Promoting famous peaches, by their respective brands and geographic regions is becoming more popular, particularly in famous regions such as Wuxi of Jiangsu Province and LongQuan of Sichuan Province.

Cherries

Distribution

Shanghai is the dominant port for direct imports of U.S. cherries, both by air and by sea. Approximately 60 percent of total imported cherries from the Northern Hemisphere arrive to Shanghai, followed by Shenzhen (in southern China) and Zhengzhou (in northern China). U.S. cherry exports mostly arrive to China via air shipment. China's major airlines have increased the use of chartered planes to deliver fresh U.S. cherries to first tier cities, as well as emerging city markets such as Chengdu, Wuhan, Ningbo, and Hefei. Direct chartered flights help improve timely exports of perishable U.S. cherries, which is vital in shortening the transfer time and reducing shrinkage due to improper transportation and handling.

Retail

Imported cherries are widely available both online and offline via e-commerce, which is a popular retail channel among young consumers (aged 25-45) in first and second tier cities. Arguably China's two biggest online retailers, Alibaba and JD, have publicly announced their respective interests and resources in expanding fresh and frozen product sales through their platforms. Sources note that Alibaba and JD have invested more on the Omni-channel marketing, synergizing both online and offline retailers. Medium-to-high end retailers also promote imported cherries heavily during the season, both in first tier cities and second-to-third tier cities. In fact, imported cherries are known to be an eye-catching item that attracts traffic to online retailer platforms.

U.S. cherries are mostly sold on e-commerce platforms in China, with sales increasing every year and consumer acceptance remaining undisrupted. Consumers know that the fruit they order is stored in cold chain facilities and can be delivered to them within one or two days, and sometimes, within an hour. Online shopping websites use their platforms to properly educate consumers about the benefits of imported fruits and how the fruit is grown and harvested in its country of origin. Cold chain in China remains a challenge for U.S. cherry exports. Although most fruit wholesale markets and retailers are

equipped with cold storage facilities, proper storage and handling are not guaranteed through the supply chain. Proper cold chain distribution is limited in third tier cities.

Competition

Imported U.S. cherries, especially California cherries, face domestic competition mostly in North China and, more recently, in East China as well. Competition derives mostly from increased production in key growing areas, such as Shandong, Liaoning, and parts of Shanxi, where the harvest time overlaps with imports from California. With the prolonged season of cherries expanding in North China, the U.S. Northwest cherry supply also overlaps with Chinese domestic cherries in June.

The quality of local fruit is improving, but the post-harvest technology is still lagging. Some varieties are suitable for long-distance transportation, particularly the Meizao and Shamidou. These are sent to first tier cities like Beijing, Shanghai, and Guangzhou, with the help of chartered cargo flights, improved packaging, and fast trucking systems. Some large Chinese express delivery services can guarantee next day delivery to major cities by air; however, with the local transportation expense, retail prices of locally produced cherries are similar or more expensive than the price of U.S. cherries. Traders note that the price factor is no longer a consideration when it comes to China's affluent middle class. Consumers are looking for high quality products and are willing to pay the premium price. Importers in China purchase cherries from other countries due to their higher quality and strong food safety systems. Local retailers commented that the appearance (size and color) of China's best locally produced cherries are comparable to U.S. cherries. With that said, the major difference is taste and brix level. In general, U.S. cherries have a higher sugar level than Chinese domestic cherries.

In 2014, Canada agreed to an export protocol with China on Canadian cherries. Similar to overlapping with China's local production, the U.S. Northwest cherry season also runs nearly parallel to Canadian cherries (with Canada's cherry season starting about two weeks later). Unit price of Canadian cherries is a bit higher than U.S. Northwest cherries, if under the same tariff. In 2017, Turkey reached an export protocol with China on Turkish cherries. Last year, China released its list of registered Turkish cherry shippers and packinghouses. Shipments of Turkish cherries mainly arrive by air to Guangzhou Province. Sources note that, due to limited flights, transportation cost is considered to be relatively high by traders. Also, in 2017, Uzbekistan agreed to an export protocol with China. A list of registered cherry shippers and packinghouses was released in May 2018. Sources note that transportation of Uzbekistan cherries to China is a challenge and that shipments are made via rail through Kazakhstan or Kyrgyzstan. Tajikistan and Kazakhstan both have export protocols with China. In May 2018, a trial shipment from Tajikistan (sent by air) arrived at the Wulumuqi airport in Xinjiang Province.

Consumer and Trade Education

The United States is viewed as the epitome of a high quality fruit supplier. Creating and enhancing the image of premium quality U.S. stone fruit is essential to boosting U.S. exports to China in the long run. In-store promotions, tastings, and display of point-of-purchase materials have proven to be effective in

increasing product awareness among Chinese consumers and have doubled and sometimes tripled sales during promotional events.

Online retail platforms are helpful tools to educate consumers about U.S. cherries, showing how cherries are grown, picked, and harvested from farm to table. During the 2016 season, some innovative e-commerce platforms, such as Fruitday.com, used live broadcast programs to showcase cherry orchards in the U.S. Northwest and received more than 100,000 viewers. The following year, Fruitday released a consumer buying guide on American cherries. Chinese consumers are known to prefer darker, red colored, and large-sized cherries. In terms of taste, Chinese consumers prefer a balance of sweet and sour. Sweetness, firmness, and juiciness are the top three consumer preferences.

Training seminars targeting traders and retail managers on product handling and tips to increase profitability can help build market confidence. Reaching targeted consumers through social media can play an important role in raising consumer awareness about the premium quality of U.S. cherries. Weibo, a Chinese version of Twitter, is effective in engaging consumers and receiving consumer feedback. The United States' unique growing conditions, health benefits, and high food safety standards make U.S. stone fruit appealing to China's affluent middle class. These benefits can all be promoted through Weibo accounts that are maintained and managed by U.S. stone fruit producers and distributors, further facilitating sales in China.

Packaging can also stimulate sales, especially during holiday seasons. Chinese consumers tend to buy visually attractive, well-packaged products as gifts for important contacts or relatives. Consumer-ready cherries in packages of 2.5 kg or 1kg, are becoming more popular and appealing to consumers in China.

Table 1. 2013 - 2016 China Peach Acreage and Production by Province

Province	2013		2014		2015		2016	
	1000 ha	MT	1000 ha	MT	1000 ha	MT	1000 ha	MT
Shandong	104.0	2,464,826	108.2	2,664,707	113.2	2,775,251	113.1	2,935,788
Hebei	85.6	1,661,743	85.1	1,818,496	88.3	1,931,515	87.5	2,020,728
Henan	76.4	1,101,169	70.0	1,132,155	73.8	1,193,496	78.6	1,277,994
Shanxi	24.4	623,579	26.7	823,325	31.1	984,087	33.9	1,027,651
Hubei	53.3	724,857	62.2	778,112	66.7	931,625	68.4	973,550
Shaanxi	32.0	708,089	35.5	724,872	36.8	757,221	38.6	787,780
Anhui	30.6	498,366	33.2	552,978	34.7	598,418	38.7	672,236
Jiangsu	40.3	508,061	44.1	614,365	46.9	617,487	48.7	634,713

Liaoning	23.3	599,570	25.0	512,121	25.5	536,316	25.2	579,695
Sichuan	47.7	499,611	48.2	519,300	49.1	551,213	50.0	572,059
Zhejiang	25.9	393,217	28.0	398,896	29.9	428,700	30.7	416,869
Beijing	19.4	358,519	18.5	367,617	18.2	340,771	16.3	325,643
Yunnan	30.0	231,077	31.0	260,177	34.1	280,505	38.1	320,426
Guangxi	26.7	230,513	27.9	250,514	29.1	278,874	29.8	297,855
Fujian	26.3	260,651	26.1	267,634	25.8	285,336	25.6	293,544
Gansu	11.8	215,206	11.8	230,339	11.8	241,794	11.8	240,821
Guizhou	28.8	147,350	34.1	172,642	36.1	190,116	38.7	205,211
Xinjiang	10.4	150,320	11.0	166,015	12.7	175,789	12.9	191,633
Chongqing	11.1	106,019	12.8	122,241	13.0	133,003	13.6	143,060
Jiangxi	10.0	53,750	10.4	64,872	10.7	63,705	11.0	62,826
Tianjin	3.7	55,207	3.9	58,572	4.1	62,853	4.7	61,187
Shanghai	5.9	71,161	5.7	82,696	5.4	78,878	5.1	42,924
Ningxia	2.0	31,026	1.9	34,932	1.9	35,390	2.0	35,264
Tibet	0.6	2,741	0.7	2,895	0.9	3,211	0.9	3,211
Jilin	N/A	1,285	0.2	746	0.2	685	0.1	706
Qinghai	N/A	543	N/A	582	N/A	N/A	N/A	444
Total	765.9	11,924,085	799.5	12,874,081	828.3	13,640,032	851.7	14,288,941

Source: China Agricultural Statistical Report

Production, Supply, and Demand (PS&D)

Peaches and Nectarines

Peaches & Nectarines, Fresh	**2016/2017**		**2017/2018**		**2018/2019**	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	835000	828000	840000	840000	0	850000
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	14000000	14200000	14300000	14300000	0	13500000
Non-Comm. Production	0		0	0	0	0
Production	14000000	14200000	14300000	14300000	0	13500000
Imports	400	400	9000	8800	0	20000
Total Supply	14000400	14200400	14309000	14308800	0	13520000
Fresh Dom. Consumption	11426900	11626900	11819000	11812800	0	11220000
Exports	73500	73500	90000	96000	0	100000
For Processing	2500000	2500000	2400000	2400000	0	2200000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	14000400	14200400	14309000	14308800	0	13520000

Unit: hectare, metric ton

Cherries

Cherries (Sweet & Sour), Fresh	**2016/2017**		**2017/2018**		**2018/2019**	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	108000	108000	112000	115000	0	125000

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	330000	330000	360000	380000	0	340000
Non-Comm. Production	0	0	0	0	0	0
Production	330000	330000	360000	380000	0	340000
Imports	109200	109200	105000	102000	0	160000
Total Supply	439200	439200	465000	482000	0	500000
Fresh Dom. Consumption	431200	431200	455000	470000	0	490000
Exports	0	0	0	0	0	0
For Processing	8000	8000	10000	12000	0	10000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	439200	439200	465000	482000	0	500000

Unit: hectare, metric ton