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Stone Fruit Annual

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Report Highlights:
China's peach/nectarine production in marketing year MY13 is forecast at 11.5 million tons, a four percent decrease from MY12, as unfavorable weather limited pollination and poor profit signals reduce planted acreage. Peach exports will remain strong but limited supplies will slow the recent upward trend.
China's cherry production is estimated at 180,000 tons, an increase of nearly six percent from last year, as strong demand and strong profits drive increased planted acreage. MY/13 cherry imports are expected to expand by 20 percent to 50,000 tons, driven by rising consumption of high-end fruits. The United States remains China's second largest cherry supplier behind Chile.

Executive Summary:

China's peach/nectarine production is forecast at 11.5 MMT in MY 2013, down four percent from the previous year, due to weather that affected pollination. Peach/nectarine acreage is forecast to drop by one percent to 718,000 hectares in response to poor market returns, drawing some farmers to switch to alternative crops like cherries or grains. Although peach exports are forecast to increase by seven percent to 50,000 MT, this is a slower rise than seen in recent years due to smaller production.

Cherry production is forecast at 180,000 MT in MY13, nearly six percent growth on year. More bearings in Shandong and Liaoning and good harvests in other areas will likely offset production losses from persistently cold weather. Cherry acreage is forecast to continue an upward trend, rising by three percent to reach 68,000 hectares, on good profit signals. Strong demand is influencing cherry imports that are forecast to increase by 20 percent to 50,000 MT in MY13. Chile and the United States are top two suppliers. The rapid growth in cherry imports seen in recent years is likely to slow somewhat in response to reductions in public spending.

Production:

Peaches

China's peach/nectarine production in MY13 (January-December) is forecast at 11.5 million tons, a four percent decrease from the previous year, due to low temperatures and springtime snowfalls in major producing provinces, such as Shandong and Hebei, that affected pollination. Shandong is the largest peach producing province; it provides more than 20 percent of the country's total peaches and nectarines. Although other major producing provinces in central and southern China (such as Henan, Anhui, and Jiangsu) expect favorable peach harvests, those supplies will not offset the larger losses in Shandong and Hebei, China's two leading producers.

Production declines are also attributed to reductions in acreage, which is estimated at 718,000 hectares in MY 2013, one percent lower than last year. In Shandong and Zhejiang, peach trees nearly 20 years old are producing lower quality fruits and earning lower returns. In Feicheng (Shandong), some farmers are replacing older peach trees with more profitable fruit crops (such as cherries) or grain crops (wheat, corn).

Peaches prices are generally low, but peaches produced close to a major consumption region like the Yangtze delta, are priced three to four times higher than those produced in Shandong. For example, producers in Jiangsu, close to a major urban, have profits which allow for reinvestment in additional pipe irrigation, despite rising production costs. Farmers in Feicheng (Shandong) note that production costs are currently estimated at 60,000 RMB ($9,677) per hectare, up nearly 15 percent from the previous year, with labor costs having risen 40 percent.

China uses many locally bred peach varieties. Peaches/nectarines are mainly harvested between June and September; a small portion is grown in greenhouses and harvested starting in early May. Peach

yields vary depending on the variety and climate season for harvest. A traditional peach variety in Shandong can yield up to 23 tons per hectare. Farmers in major peach producing areas bag their peaches to protect appearance and avoid pesticide residues.

Cherries

China's cherry production in MY13 is estimated at 180,000 tons, up nearly six percent from the previous year. Although production is likely to decline in key production areas (like Yantai (Shandong) and Dalian (Liaoning)) as a result of snowy weather in April that killed some buds, increased bearings from new plantings in Shandong and Liaoning and bumper harvests in other producing provinces such as Shaanxi and Gansu will likely offset those production losses. Similar to peaches, the harvest season for cherries began nearly 10 days later than normal due to prolonged low temperatures in the spring.

China's cherry acreage in MY13 is projected to reach 68,000 hectares, a three percent increase from the previous year driven by growing consumer demand for high-end fruits. Shandong and Liaoning remain the top two producing provinces in China, and, over the past few years, production has expanded to interior provinces including Sichuan, Shaanxi, Henan and Gansu.

Although the cherry varieties planted in China were originally imported, the current quality and taste are very different than those produced in the country of origin. Locally-produced cherries taste tarter and juicier than imported varieties. Brooks (called Red Lantern in China) continues to be China's dominant variety planted across major producing areas. The harvest season for cherries is from mid May to late June. Cherries produced in greenhouses are available in early March.

Compared to peaches, production costs for cherries are much cheaper. Cherry farmers seldom apply plant pesticides, and many growers use organic fertilizers to support their higher-priced cherries. Greenhouse production, however, generates higher costs than those grown in the field. Sources note that the building cost of a greenhouse (sized 0.07 hectare) is 70,000 to 80,000 RMB ($11,290-12,903) with additional 5,000 RMB ($806) per year for agricultural inputs and facility maintenance.

Prices

Peaches

Peach prices vary significantly between regions. Peaches produced in Wuxi (Jiangsu), which is close to the major consumption region of Yangtze delta, are priced higher than those produced in Shandong province. Early maturing varieties are currently selling at 20 RMB ($3.2) per kilo in Wuxi. Last year, farm gate prices for traditional varieties in Feicheng (Shandong) were approximately 4 RMB ($0.65) per kilo.

Cherries

Cherry prices change drastically over the season. In Dalian (Liaoning), greenhouse cherries were sold at 400 RMB ($64.5) per kilo when products first entered the market in early March. In early June, farm gate prices fell sharply to 30 RMB ($4.8) per kilo when large quantities of field cherries became available. Prices were also influenced by media reports of fruit fly worms found in cherries. Sources

note that cherry farmers seldom apply pesticides on plants because cherries are harvested before pests begin to develop. This year, however, as the harvest season was delayed due to cold weather, pests, like fruit flies, had time to mature.

Consumption:

Peaches and cherries are popular fruits among Chinese consumers. Fruit consumption continues to rise as fruit production increases, quality improves, varieties expand, and the supply time lengthens. According to Wuxi (Jiangsu) Fruit Wholesale Market statistics, fruit sale values in the first three months of 2013 increased by 7.5 percent from the previous year. Fruit consumption growth is also influenced by dietary changes as urban residents tend to consume more fruit and vegetables, especially high-quality fruit. In MY13, institutional purchases may fall as the central government restricts spending by government institutions for gifts and bonuses.

Storage of stone fruit remains a challenge for local fruit traders. The majority of local peach and cherry varieties are not suitable for storage for an extended period of time. For this reason, stone fruit, especially peaches, are produced close to urban consumption areas. Many stone fruit farmers in China choose to plant many varieties with different maturation times to maximize the supply season of perishable fruits.

Trade:

Import

Cherries

Cherry imports are forecast to increase by 20 percent to 50,000 MT in MY13 on strong local demand. More Chinese consumers have begun to accept the high-end fruit and it has become a popular gift during major holidays. As discussed earlier, institutional buying will likely be lower this year and the rapid growth of cherry imports may slow compared to previous years. In MY 2011 and 2012, China's cherry imports increased by 112 percent and 75 percent, respectively, on a yearly basis. Chile is the largest supplier of imported cherries to China, followed by the United States.

Export

Peaches

China is forecast to export 50,000 MT of fresh peaches and nectarines in MY 2013, up seven percent from the previous year. Smaller production is expected to slow the export pace to neighboring countries in Southeast Asia (Vietnam and Hong Kong) and Middle Asia (Kazakhstan and Russia). China's peach exports increased by 40 percent and 20 percent, respectively, in MY 2011 and 2012.

Policy:

Compared with grain farmers, fruit farmers in China receive much less, if any, support from the central government. In regions where fruit production is the main source of income for local farmers, governments at the province or county level may provide support, depending on their financial ability.

In more developed regions like Suzhou (Jiangsu), the local government will cover 80 percent of farmer's property insurance premiums for fruits such as peaches. In case of severe damage to fruit crops caused by wind or rain, fruit farmers will be compensated accordingly. In Yangshan (Jiangsu), the local government subsidizes peach farmer's construction of pipe irrigation systems. In Fushan (Yantai), a major cherry production area, the local government provides a subsidy of 75,000-90,000 RMB ($12,097-14,516) per hectare for farmers to build greenhouses.

Marketing:

Peaches

U.S. peaches/nectarines do not have market access to China.

It is worth noting that local governments and farm cooperatives in peach growing regions are organizing marketing activities to help peach growers/brokers sell their peaches. Some local varieties of peaches are registered as "famous brands" in the name of the growing region. Peach blossom festivals are held every year during the blossom season. It is a good platform for social networking as growers/brokers invite their clients such as retailers, institutional buyers, and wholesalers to visit production areas and discuss orders. With massive media exposure during the festival, more consumers are becoming increasingly familiar with regional peaches.

Cherries

China Import from World via District: All Districts [by Quantity]

Partner Country	Unit	Quantity					
		2007	2008	2009	2010	2011	2012*
Total	T	611	3,344	6,184	11,222	23,760	41,589
Chile	T	247	2,845	3,818	8,196	18,801	33,048
United States	T	360	499	2,343	2,987	4,918	8,510
New Zealand	T	5	1	22	40	41	31

China Import from World via District: All Districts [by Volume]

Partner Country	United States Dollars					
	2007	2008	2009	2010	2011	2012*
Total	2,059,586	22,119,504	37,227,503	88,662,071	178,123,030	306,393,098
Chile	706,038	19,776,316	24,909,262	65,591,400	134,825,262	235,628,008
United States	1,333,964	2,341,240	12,226,331	22,795,400	42,877,342	70,416,468
New Zealand	19,584	1,948	87,625	275,271	420,426	348,622

The rapid growth of cherry exports to China continued in 2012, reaching a record 306 million dollars or 41,589 metric tons, a 75 percent increase by volume from 2011, according to the Global Trade Atlas. The United States was the second largest cherry exporter to China with 8,510 tons, maintaining a strong growth rate over 60 percent for the second consecutive year.

*Beginning in January 2012, cherries HS codes have been changed to 080921 (sour) and 080929 (other). Data for 2012 is for HS080929 only.

China Import from United States via District: All Districts

District	Unit	Quantity

		2007	2008	2009	2010	2011	2012
Total	T	360	499	2,343	2,987	4,918	8,510
Shanghai	T	179	206	1,022	1,386	2,089	4,509
Beijing	T	8	52	350	996	1,352	889
Guangzhou	T	173	241	942	501	1,305	2,234
Dalian	T	0	0	29	48	96	619
Tianjin	T	0	0	0	48	61	0
Shenzhen	T	0	0	0	0	12	230
Xiamen	T	0	0	0	9	3	1

Shanghai is the dominant port for direct cherry imports from the U.S., accounting for 52 percent of the total imports. Guangzhou is the major port in South China while Beijing and Dalian are the major ports in North China.

Direct fresh cherry shipments to Shanghai and Guangzhou from the United States have increased rapidly since 2010. Imports into Shanghai in 2012 were up 225 percent from 2010. Importers stated that fresh cherries are air shipped from U.S. packinghouses to wholesale markets in Shanghai in just 2 working days. The rapid transportation time guarantees superior quality of fresh cherries. The major upscale supermarkets as well as hypermarkets in Beijing, Shanghai and Guangzhou offer fresh U.S. cherries during harvest season.

Competition

Imported U.S. cherries, especially California cherries, face domestic competition in North China because of increased production in key growing areas such as Shandong and Liaoning where the majority of domestic supplies overlap with imports from California. However, the competition is less this year as the retail price of domestic cherries has risen but the average quality is much inferior with tart taste and smaller size.

Consumer/Trade Education

Consumer education about U.S. cherry characteristics and health benefits remains critical to expanding distribution networks in China. Food safety is one of the big concerns that lead Chinese consumers to buy U.S. food products. Characteristics such as seasonal availability, cherry varieties, packaging, and proper storage and handling techniques have also been highlighted by key importers. Trade buying missions to visit U.S. production areas and establish relationships between U.S. exporters and local traders will also increase confidence in imports of U.S. cherries. Success stories have been reported after the reverse trade missions to cherry production regions.

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 in China is essential to boosting U.S. exports to China over the long term. As competition from local products grows, in-store promotions, tastings, and display of point-of-purchase materials have proven to be effective in increasing product awareness among Chinese consumers. Sales of U.S. cherries have doubled and sometimes tripled during these promotion periods.

Training seminars targeting traders and retail managers on product handling and tips to increase profitability can help build trade confidence, helping to address an important link in the marketing chain.

In addition to on-site promotional activities, reaching targeted consumers through media exposure can also play an important role in raising consumer awareness of the premium quality of U.S. cherries. Weibo, a Chinese version of Twitter, is popular in engaging consumers and getting consumer feedback. The unique growing conditions in the United States, health benefits, and high U.S. food safety standards make U.S. stone fruits appealing to China's affluent middle class. These benefits can all be promoted through Weibo accounts maintained by U.S. stone fruit producers and distributors, and could have a positive impact on sales in China.

Packaging is another effective way to stimulate sales, especially during holiday seasons. Chinese consumers tend to buy visually attractive, well-packaged products as gifts for important contacts or relatives. The same is true with high quality seasonal products. When domestic cherries are available, local growers and wholesalers will prepare well designed retail-size packages mainly for two reasons: (1) to avoid excessive touching by consumers; and (2) to promote premium quality cherries for better branding.

Opportunities and Challenges

Emerging city markets such as Hangzhou, Nanjing, Ningbo, Wenzhou, Fuzhou, Dongguan, Qingdao, and Chengdu are great potential markets for U.S. stone fruits. These growing populations have had limited exposure to imported food products, in comparison with high-end luxury imported products. Once distribution channels are identified and consumer education is increased, a new wave of demand will form for U.S. stone fruits.

E-commerce has become a popular retail channel among consumers between the age of 25-45 in first-tier and second tier cities. TV shopping is attracting a wider demographic. The advantage of these channels is that the fruits are stored in cold chain facilities and delivered to consumers in one or two days after receipt of the purchase order. Secondly, online shopping websites and TV shopping channels provide a good platform to educate consumers about the benefits of imported fruits and how the fruits are produced and harvested.

Cold chain in China remains a challenge for U.S. cherry exports as well. Although most fruit wholesale markets and retailers have cold storage facilities, proper cold chain management cannot be guaranteed.

Production, Supply and Demand Data Statistics:

Fresh peaches/nectarines

Fresh Peaches & Nectarines China	2011/2012	2012/2013	2013/2014
	Market Year Begin: Jan 2011	Market Year Begin: Jan 2012	Market Year Begin: Jan 2013

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	720,000	720,300	730,000	725,000		718,000
Area Harvested	0		0			
Bearing Trees	0		0			
Non-Bearing Trees	0		0			
Total Trees	0	0	0	0		0
Commercial Production	11,500,000	11,000,000	12,000,000	12,000,000		11,500,000
Non-Comm. Production	0	0	0	0		0
Production	11,500,000	11,000,000	12,000,000	12,000,000		11,500,000
Imports	0	0	0	0		0
Total Supply	11,500,000	11,000,000	12,000,000	12,000,000		11,500,000
Fresh Dom. Consumption	9,861,030	9,361,030	10,270,000	10,273,430		9,800,000
Exports	38,970	38,970	50,000	46,570		50,000
For Processing	1,600,000	1,600,000	1,680,000	1,680,000		1,650,000
Withdrawal From Market	0		0	0		0
Total Distribution	11,500,000	11,000,000	12,000,000	12,000,000		11,500,000

Fresh Cherries

Fresh Cherries,(Sweet&Sour) China	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	63,000	63,000	65,000	66,000		68,000
Area Harvested	0		0			0
Bearing Trees	0		0			0
Non-Bearing Trees	0		0			0
Total Trees	0	0	0	0		0
Commercial Production	210,000	210,000	170,000	170,000		180,000
Non-Comm. Production	0	0	0	0		0
Production	210,000	210,000	170,000	170,000		180,000
Imports	23,760	23,760	40,000	41,589		50,000
Total Supply	233,760	233,760	210,000	211,589		230,000
Fresh Dom. Consumption	223,759	223,759	208,000	209,423		224,800
Exports	1	1	0	166		200
For Processing	10,000	10,000	2,000	2,000		5,000
Withdrawal From Market	0	0	0	0		0
Total Distribution	233,760	233,760	210,000	211,589		230,000

Table on 2008-2011 China Peach Acreage and Production by Province

China Peach Production (1000 Ha and MT) by Province 2008-2011								
Province	2008		2009		2010		2011	
	1000 ha	MT	1000 ha	MT	1000 ha	MT	1000 ha	MT

Shandong	98.1	2,437,846	95.2	2,442,602	101.2	2,435,588	96.4	2,401,492
Hebei	93.9	1,430,416	89.0	1,444,854	85.8	1,462,150	82.6	1,526,760
Henan	69.5	850,939	70.3	938,641	73.9	1,017,447	75.5	1,085,727
Hubei	44.9	510,596	46.9	566,623	49.1	607,487	56.6	690,156
Liaoning	27.4	461,049	26.7	506,750	25.1	537,209	23.9	568,329
Shaanxi	28.1	441,236	31.4	485,471	31.2	593,502	30.4	567,449
Jiangsu	31.6	433,765	33.1	437,898	35.6	457,010	37.5	500,892
Sichuan	43.4	392,854	43.8	410,342	45.1	416,361	47.0	449,343
Shanxi	12.0	210,210	13.5	260,852	16.1	321,002	17.6	441,367
Anhui	24.2	326,213	23.1	380,300	24.1	430,134	27.0	424,137
Beijing	22.0	403,630	21.7	408,517	20.9	386,227	20.4	404,280
Zhejiang	25.9	346,219	26.3	365,679	26.2	355,911	25.9	383,242
Fujian	26.8	226,214	26.8	229,173	26.3	222,371	25.8	236,575
Yunnan	22.2	162,502	24.6	173,082	24.2	170,732	25.7	193,759
Guangxi	16.7	139,389	18.4	155,297	19.7	168,003	21.3	190,028
Gansu	13.6	152,605	12.9	161,822	12.7	155,895	12.4	183,199
Hunan	23.5	106,278	25.9	112,055	27.5	131,342	30.1	124,446
Xinjiang	11.7	61,447	12.8	96,306	14.6	104,713	12.9	109,212
Guizhou	17.9	79,920	19.5	84,796	19.8	85,549	22.0	100,495
Shanghai	7.5	90,290	6.7	95,098	6.6	101,418	5.9	92,284
Chongqing	10.6	70,636	10.8	78,000	10.4	80,660	10.3	87,466
Guangdong	6.4	79,119	6.6	78,011	6.8	80,899	6.7	85,022
Tianjin	3.9	53,254	3.9	61,544	4.1	60,025	3.8	57,828
Jiangxi	11.4	45,916	10.8	45,745	10.0	48,270	N/A	49,944
Ningxia	1.9	19,453	2.4	18,239	2.1	22,625	1.8	26,203
Jilin	0.2	678	0.4	720	0.2	1,773	0.3	1,295
Tibet	0.2	1,307	N/A	1,250	0.3	1,364	0.2	1,119
Qinghai	N/A	370	N/A	533	N/A	352	N/A	979
National total	695.1	9,534,351	703.3	10,040,200	719.4	10,456,018	720.3	10,983,028
Source: China Agricultural Statistical Report								