

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Fresh Deciduous Fruit Annual

2016

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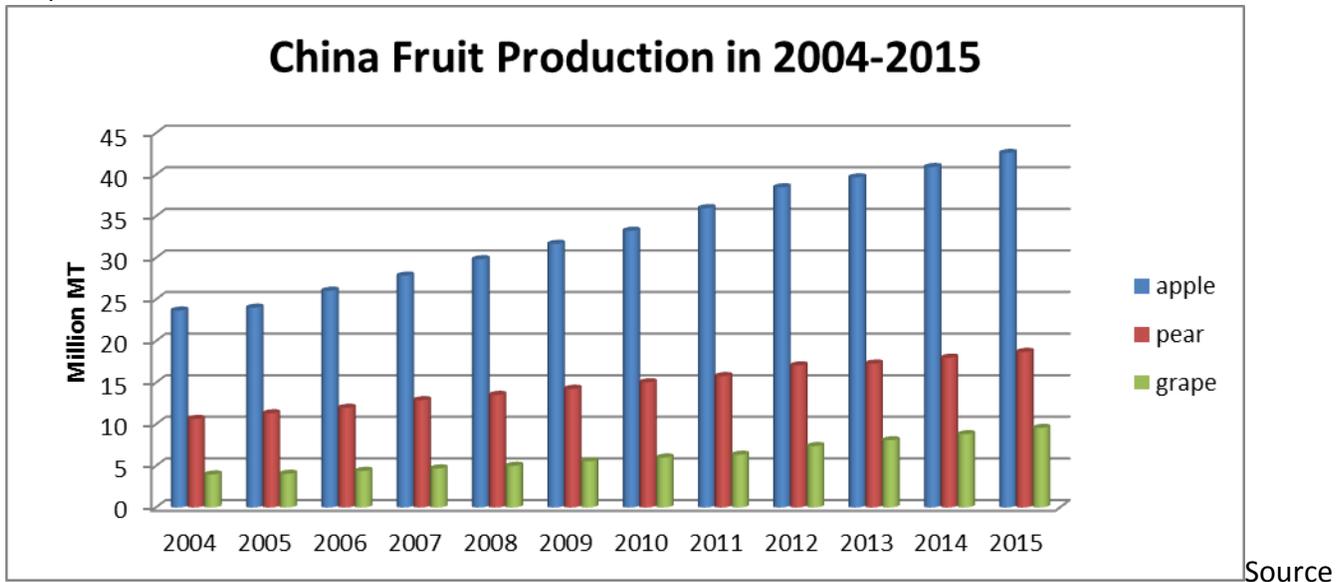
Report Highlights:

Post forecasts China's apple production at 43.5 MMT in MY 2016/17, up 2 percent from the previous year. Pear production is expected to increase by 3 percent to 19.3 MMT and grape production is forecast to increase by 6 percent to 10.2 MMT. China's imports of deciduous fruit will continue to increase on strong demand for high quality fruit and off-season supplies. Fruit exports will continue to rebound given increased but low-priced foreign supply.

Production

Apples

Post forecasts China's apple production at 43.5 million metric tons (MMT) in marketing year (MY) 2016/17 (July-June), up 2 percent from the revised number in the previous year. Despite persistent heat and hailstorm events in Shaanxi and Shandong provinces, the two largest apple producing regions in China, new bearings, especially in Shaanxi and Gansu provinces, are expected to offset the crop losses. As weather conditions during the summer of 2016 were less than favorable, fruit size, appearance, and taste will be negatively affected, leading to a decline in quality versus last year's crop.



: Ministry of Agriculture

Apple acreage is estimated at 2.34 million hectares in MY 2016/17, an increase of less than one percent from the previous year. Apple planting area is expected to stabilize in the near future after relatively quick expansion during the past few years. Apple farmers in major producing areas like Shandong are gradually replacing existing apple plants with new plantings. But the new plantings remain traditional varieties. Currently, late mature variety Fuji remains the dominate variety in Chinese apple production, with its share exceeding 70 percent of the nation's total production. Early mature varieties, such as Gala and Qinguan, take up the remaining 30 percent.

Apple Growing Regions in China



Source: China Ministry of Agriculture 2015

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)

Fruit processors and trading companies have recently begun investing in more modern apple production operations. In and around the major producing provinces, such as Shaanxi and Shandong, smaller farms are consolidating and investing in modern, large-scale apple farms featuring high density planting models that allow farming machinery to operate within the apple orchards. Many local governments encourage this type of production model as it can dramatically increase yields and reduce costs (especially the rising labor costs). However, most Chinese farmers cannot afford to make this kind of large capital investment and the majority of apple production (by volume) still takes place on small farms with an average size of less than one hectare.

Pears

Post forecast's China's pear production at 19.3 MMT in MY 2016/17 (July-June), up 3 percent from the revised number in the previous year. Compared with apples, pears grow across a much wider region within China, so abnormal weather conditions have less of an impact on overall production. In Hebei province, the largest pear producing province, more than one-third of the pears were infected with

“chicken paw disease” due to excessive rain and lack of sunshine. As a result, pear quality, especially the appearance, was generally poorer compared to that in the previous year.

Pear Growing Regions in China



Source: China Ministry of Agriculture 2015

Legend:

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

Pear acreage is quite stable and is currently estimated at 1.13 million hectares in MY 2016/17. In some less developed areas such as Guizhou province, local governments are subsidizing farmers to plant pears through poverty alleviation programs. In some traditional pear producing areas, farmers have begun shifting to new varieties like Cuiguan. Currently, planted varieties include Snow pear, Su pear, Ya pear, Huangguan pear, Cuiguan pear, Fragrant pear, Nanguo pear, and a couple European varieties.

Grapes

Post forecasts China’s table grape production at 10.2 MMT in MY 2016/17 (June-May), up 6 percent from the previous year, largely because of acreage increases in recent years. Grape acreage is currently estimated at 816,000 hectares in MY 2016/17, up 2 percent from a year ago. The rapid growth of the grape growing areas has slowed since 2015 in the wake of sliding market returns. Grape acreage from 2004 to 2009 increased annually between 7 and 12 percent.

While grape quality remains good in northern China, a large portion of grapes produced in southern China taste a bit sour with some split due to excessive rain and heat during fruit development. Main grape varieties include: Red Globe, Kyoho, Muscat, Victoria, Fujiminori, Jinya, Jinxiu, Juxing, Xiahei, Hutai No. 8, Thompson seedless, Jinshouzhi, Meirenzhi, etc.

Grape Growing Regions

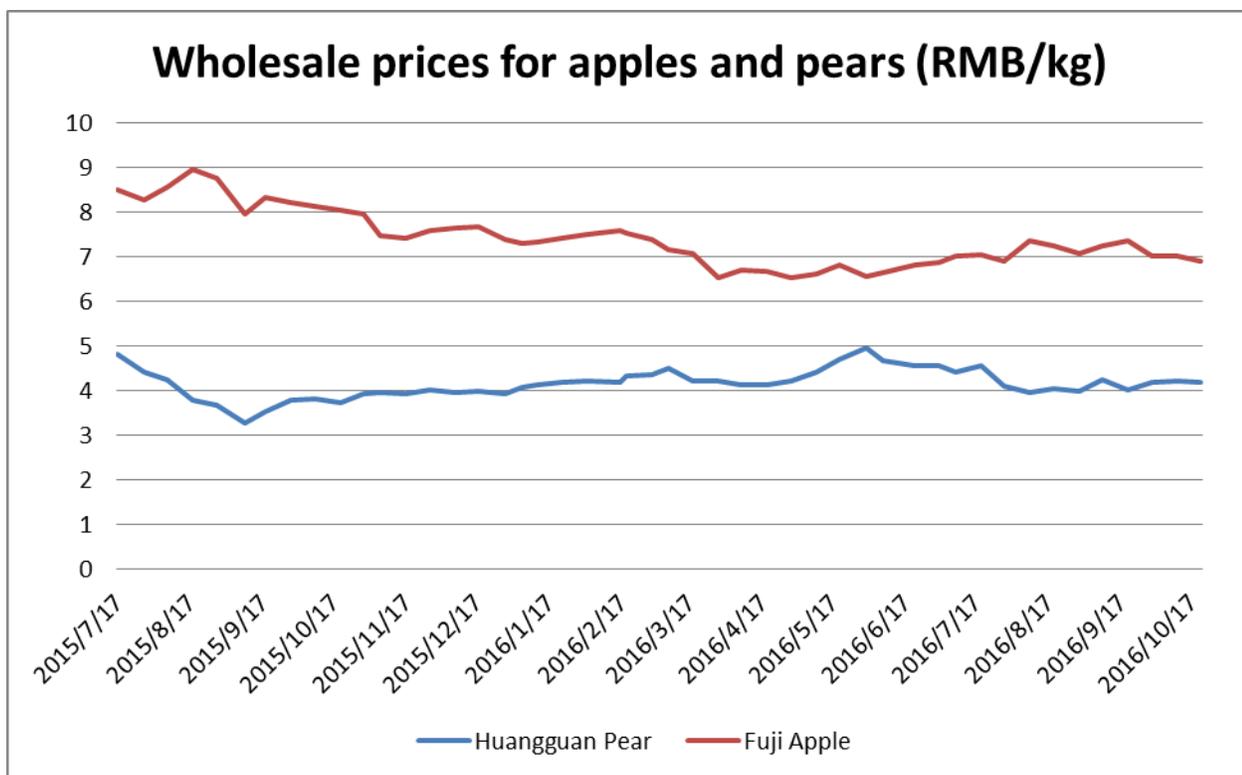


Source: China Ministry of Agriculture 2015

Legend:

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

Prices



Source: China Fruit Marketing Association (US\$1=RMB6.77)

The wholesale prices (see above table) for Fuji apples had been declining during the entire MY 2015/16 (July-June). This means that traders who paid high prices to purchase apples early in the year and put them in storage had no chance of making a profit for the remainder of the marketing year. As a result, traders have been very cautious about placing orders in MY 2016/17. Despite the average farm gate price for Fuji apples being quoted at \$0.9 per kilo in mid-October, down nearly 10 percent from the previous season, fruit movement is still quite slow. This is the second year that apple prices have dropped. Industry sources indicate that rapid increases in apple production and economic slowdown are the two driving factors behind the prices declines.

Apple production costs totaled \$12,058 per hectare in 2015, and the nation’s average apple yield was 30 MT per hectare, according to an official survey.

Following a sharp decline in early MY 2015/16 (July-June), wholesale pear prices rebounded moderately and remained quite stable during the rest of the market year, but still well below last year’s price levels. In MY 2016/17, the purchase (farm gate) prices for Huangguan pears, for example, dropped again by 25 percent to \$0.37 per kilo in late July, largely because of the outbreak of “chicken paw disease” in Hebei province, which seriously affected fruit appearance. Although pear prices are lower than that of apples, pear yields can be twice as much as apples under good management. In addition, pear production requires less attention and inputs compared to apple production.

After nearly a decade of rapid expansion in production, grape prices began to fall since MY 2014/15 (June-May). This downward price trend continued into MY 2016/17. While most grapes, like Kyoho for example, were sold at an average of \$1.12 per kilo in wholesale markets, some grape varieties were being sold as high as \$12 per kilo. Despite this disparate pricing, in general, grape prices are still relatively higher than that of apples and pears, and growing margins remain positive.

Consumption

Apples are the top fruit consumed in China. Because of their nutritional content, apples have long been an important component of the Chinese diet. Fuji apples remain the most popular apple varieties not only for their taste but also because of the fact that they can be available all-year round. It is reported that more than 12 MMT of Fuji apples were put into cold storages or air-controlled warehouses during MY 2015/16. While most consumers seek a sweet and crunchy apple, in terms of size, people in northern China like large apples and southern consumers favor smaller fruit sizes.

Pears are not as popular as apples in China, yet pears are also available during the entire year due to cold storage facilities. Compared to western varieties, Chinese (Asian) pears are juicy and crunchy. It is reported that consumption of pears are good for lung health and can help ease coughing. The per capita consumption of pears in China is higher than in any other countries, so there is limited room to grow.

Grapes are the number five fruit consumed in China after apples, bananas, watermelon and citrus, according to a recent market survey. Flavor, color, and freshness are the top factors that consumers care about. Specifically, Chinese consumers prefer sweet and seedless grapes. The majority of consumers also prefer red grapes. Most grapes cannot endure long periods of cold storage so growers make every effort extend the growing season. So, because domestically grown grapes are only available from late May to mid-October, there is a great potential for imported grapes to complement the domestic crop during the off-season months.

Trade

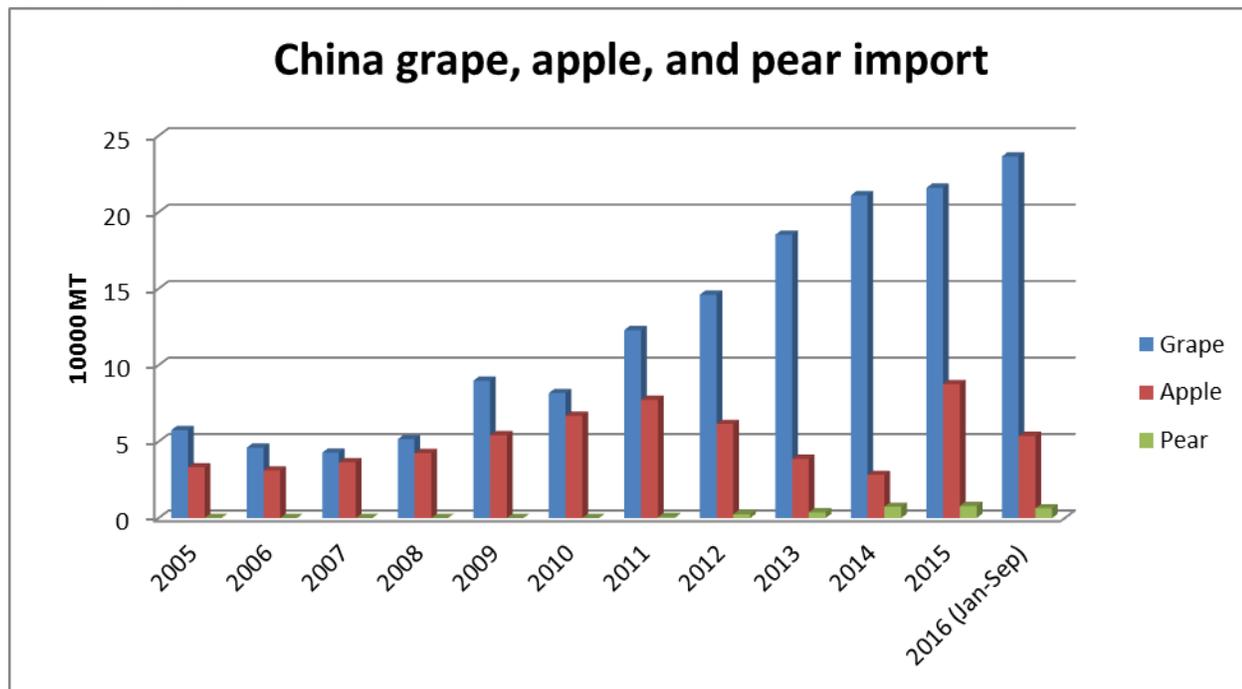
Import

China's apple imports are forecast at 85,000 MT in MY 2016/17 (July-June), up nearly 10 percent from the revised number in the previous year, and largely driven by demand for high quality fruit. In May 2015, China granted market access to all apple varieties from all states within the United States. As a result, by the end of MY 2016, the United States had replaced Chile as the top apple supplier to China and the volume is expected to continue growing in the years to come.

China's pear imports are forecast at 10,000 MT in MY 2016/17, up 17 percent from the revised number in the previous year. The import volume of pears remains very low compared to other deciduous fruit but is steadily increasing. China imports western pear varieties mainly from the United States and European countries.

Post forecasts that China's grape imports will reach 300,000 MT in MY 2016/17 (June-May), an increase of 20 percent from the previous year. Demand for grapes during the domestic off-season

remains strong. Chile and Peru, both Southern Hemisphere countries, are top two grape suppliers to China. In addition, both countries have Free Trade Agreements with China and have zero import tariffs for fresh fruit.



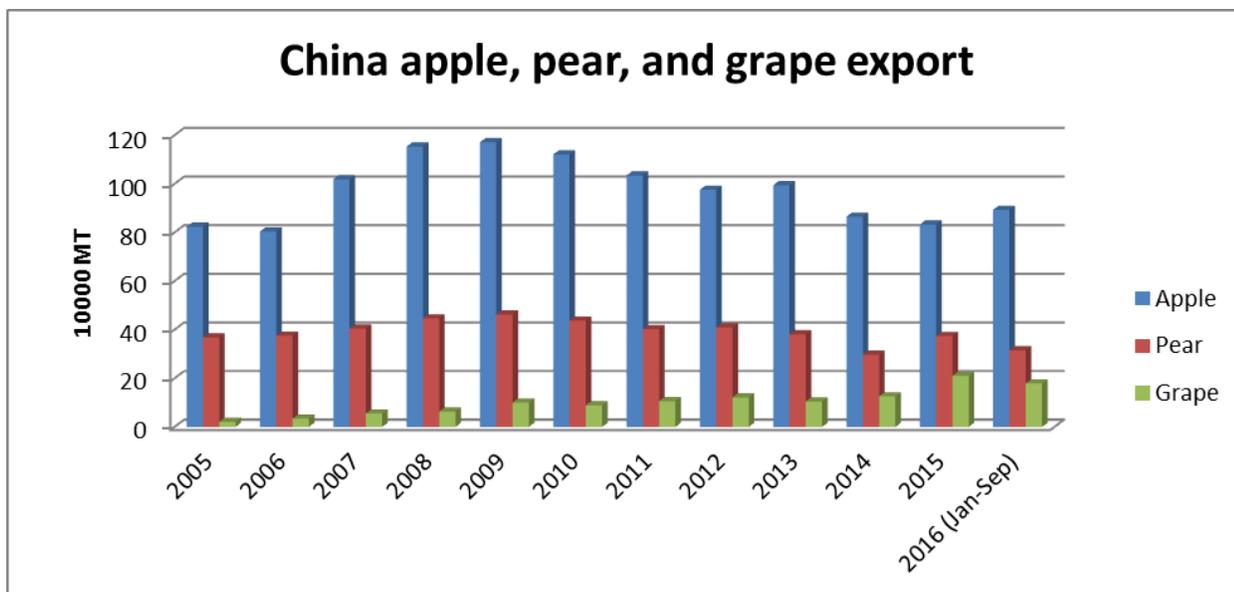
Source: China Customs Data

Export

China's apple exports are forecast to reach a record high of 1.5 MMT in MY 2016/17 (July-June), up more than 30 percent from the revised number in 2015/16, primarily because of lower-priced supplies. Most Chinese apples are exported to neighboring Southeast Asia and other countries, like Russia, that are price-sensitive. The devaluation of RMB will further aid China's export growth. The Chinese currency has lost value versus the U.S. dollar by 6.4 percent from a year ago.

Post estimates that China's pear exports will increase by 20 percent in MY 2016/17 to 480,000 MT in MY 2016/17 (July-June). Similar to apples, China's pear exports head mainly to neighboring countries in Asia. Increased supplies and currency devaluation will boost China's pear exports.

China's table grape exports are forecast to increase by more than 50 percent to 350,000 MT in MY 2016/17 (June-May), driven by increased supplies. Over the past few years, China's grape production has increased so quickly that market prices fell sharply in 2015. As a result, China's grape exports jumped by nearly 80 percent during MY 2015/16 to Southeast Asian markets.



Source: China Customs Data

Policy

The provincial government of Shaanxi released guidelines in May 2016 as a way to upgrade the fruit industry during 2016 – 2020. The guidelines facilitate expanded apple production in the north and west of the province. Meanwhile, late mature apple varieties will be reduced and early and mid-mature varieties will be increased. The policy document also promotes high density planting models and adoption of spray or pipe irrigation systems when farmers build new orchards or renovate existing orchards. The provincial government will consolidate agriculture-related funding programs and resources to support construction of standardized orchards, building of trading platforms, brand formation, and marketing. However, full support details and incentives by the government are not available at the moment. Shaanxi is the largest fruit producing province in China and leader in apple production.

China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) published the quarantine requirements for Polish fresh apples on October 8, 2016, officially granting market access for apples produced in Poland. Poland was the world's largest apple exporter (by volume) in 2015. However, trade will not begin immediately as AQSIQ has yet to provide a list of registered orchards and packinghouses in Poland.

Marketing

Summary:

In addition to hypermarkets and supermarkets, apples, grapes and pears are also sold in wet markets and family-owned community stores throughout China. E-commerce is an emerging marketing venue for deciduous fruits in 1st and 2nd tier cities but still only represents a small fraction of the market due to logistical challenges. Highlighting the freshness, quality, nutritional benefits, and taste of imported deciduous fruits, regardless of the marketing venue, are key components of any successful promotional effort in China.

Southern China has long been the country's largest market for imported fresh deciduous fruit. Major cities in the Pearl River Delta such as Guangzhou and Shenzhen remain key consuming centers while 2nd and 3rd tier cities in the region such as Foshan, Zhuhai, Zhongshan, and Huizhou also exhibit strong demand. Other key markets in China include the 1st tier cities of Shanghai and Beijing as well as the emerging city markets of Chengdu, Chongqing, Hangzhou, Suzhou, and Qingdao.

Despite facing increased competition from other exporting countries in the Chinese market, demand for U.S. apples (which are particularly popular as gifts during major Chinese holidays) is on the rise. Since U.S. pears have only had Chinese market access since January 2013, they are still relatively less known to many Chinese consumers and their presence in the market is small compared to other fruit categories. U.S. table grapes are highly prevalent in supermarkets and hypermarkets throughout China. A recent market trend with U.S. table grapes in China is the rapid growth in consumer demand for seedless varieties.

China has made significant progress in cold storage management and infrastructure but still has room to improve. Recent central government subsidies aim to support new investment in the cold chain throughout China. Meanwhile, China's wholesale markets continue to upgrade and expand their facilities. Trade contacts also report that many retailers are also endeavoring to upgrade their stores by adding cooling facilities.

Due to intense retail competition in 1st, 2nd and even 3rd tier cities in Southern China, retailers are seeking ways to differentiate themselves and provide better service to their customers. Many have established their own online websites and provide home delivery service within their respective neighborhoods. Many retailers are keen to source new, well-branded items for their shelves and several major retailers have signed service contracts with key fruit suppliers to guarantee fruit quality and superior service. In addition, chain stores specializing in fresh fruit are expanding quickly and offer privately designed gift packages for their customers.

U.S. Apples:

In addition to the United States, China also imports apples from New Zealand, Chile, Japan, France, South Africa, and Australia. Despite this significant competition, demand for apples is on the rise. Red Delicious, Gala and Granny Smith three U.S. varieties carried and displayed by major retailers throughout China and are mostly available in the market August through March. These varieties are traditionally popular as gifts during national holidays such as the Mid-Autumn Festival and Chinese New Year. Retail contacts that this year, Gala has surpassed Red Delicious as the popular variety in 1st tier cities. According to trade contacts, several major retailers have expressed interest in sourcing new apple varieties from the United States. Though U.S. apple retail prices remain high compared to domestically available apples, consumers continue to show a willingness to pay for higher quality produce. With the increasing prevalence of supermarket and hypermarket chains throughout



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China, imported apple varieties can now frequently be found on the shelves of retailers in various 2nd and 3rd tier cities.

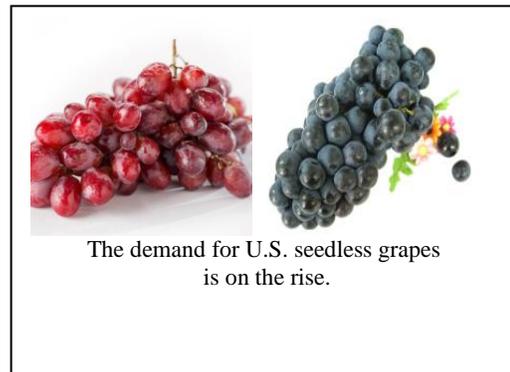
U.S. Pears:

Being a relatively new product to the market, U.S. pears have strong potential but face stiff competition from cheaper domestically produced pears and from other imported varieties from multiple countries (e.g. New Zealand, Argentina, Japan, and Australia). Trade contacts report that some retailers also still lack sufficient awareness of the availability of U.S. pears in the market and proper handling techniques to assure the highest quality product is sold to the consumer.

The major importing ports for U.S. pears are Dalian, Guangzhou, and Shanghai. Three major U.S. varieties (Starkrimson, Red Anjou and Green Anjou) are readily available in higher-end supermarkets in 1st tier cities. Per traders, Starkrimson has an appealing color and the fruit shape is very attractive while Red Anjou has a better taste and a longer shelf life.

U.S. Table Grapes:

U.S. table grapes are highly prevalent in supermarkets in 2nd and 3rd tier cities throughout China from September December. Although their retail prices are considerably higher than seeded varieties, consumer demand for U.S. seedless grapes such as Red Globe, Autumn Royal, Thompson, Crimson and Champagne has rapidly increased recently. Trade contacts also report that importers now prefer to trade in U.S. seedless varieties the profit margin is larger.



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Retail contacts report that in-store promotions with point-of-sale materials and decorations highlighting the attributes of imported grapes have proven to dramatically increase sales. Timing promotional events with major Chinese holidays can also have a tremendous impact on sales.

Other key table grape exporting countries include Peru and Chile. Grapes from Peru are available from the end of October through April, while Chilean grape exporters mainly target sales during the Chinese New Year (the timing of which ranges from January to February).

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

Apples, Fresh	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Planted	2300000	2300000	2320000	2328000	0	2340000
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	40920000	40920000	43000000	42600000	0	43500000
Non-Comm. Production	0	0	0	0	0	0
Production	40920000	40920000	43000000	42600000	0	43500000
Imports	68200	68200	82000	77000	0	85000
Total Supply	40988200	40988200	43082000	42677000	0	43585000
Fresh Dom. Consumption	37038200	37038200	38332000	37527000	0	37685000
Exports	750000	750000	1150000	1150000	0	1500000
For Processing	3200000	3200000	3600000	4000000	0	4400000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	40988200	40988200	43082000	42677000	0	43585000
(HA), (1000 TREES), (MT)						

Pears, Fresh	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1120000	1120000	1125000	1124000	0	1125000
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	18000000	18000000	19000000	18700000	0	19300000
Non-Comm. Production	0	0	0	0	0	0
Production	18000000	18000000	19000000	18700000	0	19300000
Imports	9800	9800	6300	8500	0	10000
Total Supply	18009800	18009800	19006300	18708500	0	19310000
Fresh Dom. Consumption	16028000	16028000	16906300	16608500	0	17110000
Exports	331800	331800	400000	400000	0	480000

For Processing	1650000	1650000	1700000	1700000	0	1720000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	18009800	18009800	19006300	18708500	0	19310000
(HA), (1000 TREES), (MT)						

Grapes, Fresh	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jun 2014		Jun 2015		Jun 2016	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	767000	767000	800000	800000	0	816000
Area Harvested	0	0	0	0	0	0
Commercial Production	8800000	8800000	9600000	9600000	0	10200000
Non-Comm. Production	0	0	0	0	0	0
Production	8800000	8800000	9600000	9600000	0	10200000
Imports	226400	226400	217000	249000	0	300000
Total Supply	9026400	9026400	9817000	9849000	0	10500000
Fresh Dom. Consumption	8899300	8899300	9593000	9622000	0	10150000
Exports	127100	127100	224000	227000	0	350000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	9026400	9026400	9817000	9849000	0	10500000
(HA), (MT)						