

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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China - Peoples Republic of

Citrus Annual

Annual

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Report Highlights:

China's citrus production is forecast at 23 million metric tons (MMT) for marketing year 2010/11, which is down eight percent from the revised MY2009/10 estimate of 25 MMT. This decrease is due to low temperatures and persistent rain during planting and flowering seasons in key producing provinces. Short domestic supplies have significantly pushed domestic prices to record high levels; and, as a result, locally-produced and imported oranges are becoming price competitive. The United States continues to be the dominant supplier of oranges, mandarins, and lemons to China.

Commodities:

Citrus, Other, Fresh

Production:*Oranges*

Orange production is forecast at 5.5 MMT in MY 2010/11 (November-October), down 15 percent from the revised MY2009/10 estimate of 6.5 MMT, due to low temperatures and extended rain in top producing provinces (Jiangxi, Sichuan, and Guangxi). Orange acreage is forecast at 735,000 hectares in MY 2010/11, up five percent from the previous year. Given good market returns and government support (see Policy), acreage expansion continues in key producing provinces. For instance, in Jiangxi, farmers are planting new orchards on the slopes of hills. In Guangxi, some farmers are planting more oranges over other crops such as peanuts and rice.

Frozen Concentrated Orange Juice (FCOJ)/ Not-From-Concentrate (NFC)

Due to the low supplies of fresh oranges, production in MY 2010/11 (October-September) for both FCOJ and NFC orange juice is forecast at 13,850 MT, down 11 percent from last year. Production for NFC orange juice, however, will continue to increase to accommodate the growing demand from wealthy consumers.

*Forecast for FCOJ and NFC orange juice has been converted to FCOJ.

Tangerines/Mandarins

Similar to orange production, poor weather conditions have caused China's tangerine production to decline by 12 percent to 12.5 MMT in MY 2010/11 (October-September) from the revised estimate of 14.2 MMT in the previous year. Tangerine acreage is forecast at 812,000 hectares in MY 2010, virtually unchanged from the previous year. Although area is increasing in Guangdong and Hunan provinces, farmers in Zhejiang are switching to peaches and grapes for better returns. Local dominant varieties include honey mandarin, sugar mandarin, and Peng tangerine (hybrid).

Canned Mandarins

China's canned mandarin production is forecast at 280,000 MT in MY 2010/11 (October-September), down 12 percent from the revised number of 340,000 MT in MY 2009/10 largely due to low fresh supplies. Domestic prices have increased by 50 percent largely due to short supplies, rising material costs for sugar and tins, and escalating labor costs. Labor costs are up 40-50 percent because of the labor shortage in key coastal provinces such as Zhejiang. Traditionally, canneries in coastal provinces hire workers from western provinces for cheaper labor costs. As new industries are moving to western provinces and offering higher

wages, traditional cannery workers are not traveling to coastal provinces to work. They prefer to stay in their hometowns and work in nearby areas at favorable wages. As a result, the canneries in the coastal provinces such as Zhejiang must offer higher-than-normal wages to hire more workers. Canners are expecting production cost and export prices to increase by 1,700 yuan (\$254.00) per MT and 20-25 percent, respectively. Zhejiang canneries produce and export more than 50 percent of all canned mandarins in China.

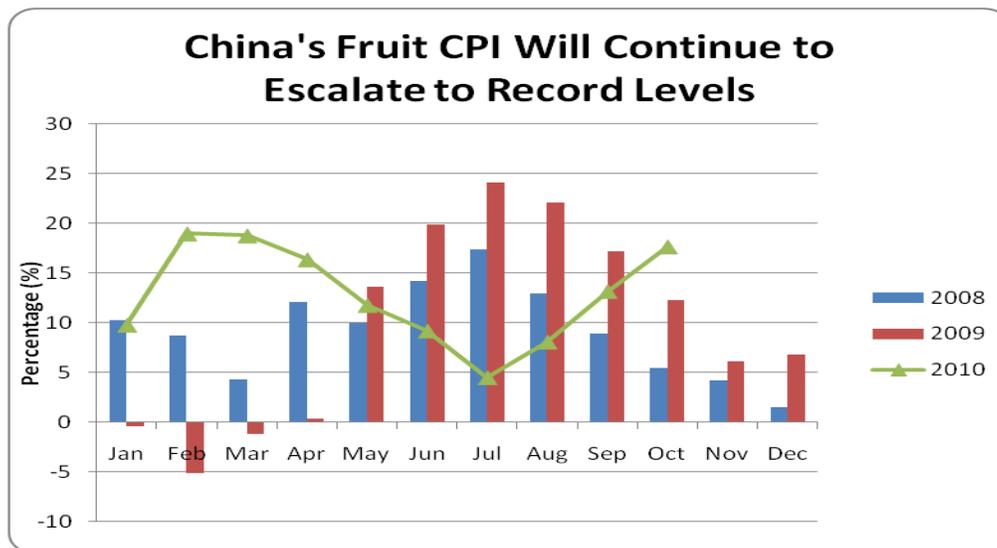
Grapefruits/Pomelos

The two typhoons in Fujian, China’s top pomelo producing province, reduced crop supplies by 10 percent to 2.6 MMT in MY 2010/11 (October-September). Other major producing provinces, Guangdong and Guangxi, have also experienced unfavorable weather conditions; but, similar to oranges, farmers reported that the quality has improved (sweeter and juicier) than supplies from previous years.

Lemons

Lemon production is forecast at 250,000 MT in MY 2010 (October-September), unchanged from the previous year. Although Anyue County of Sichuan, the largest lemon producing area in China, suffered from low temperatures in the spring season, more plantings have become bearing. Anyue County accounts for 70-80 percent of China’s lemon production with roughly 24,000 hectares.

Prices



The driving force behind China’s fruit consumer price index (CPI) includes unfavorable weather conditions in key producing provinces and rising costs for labor and agricultural inputs (fertilizers and pesticides). For example, in Guangxi, growers reported that agricultural inputs are now 20 percent higher than last year’s estimate of 45,000 yuan (\$6,720) per hectare. In Sichuan, labor costs have increased 10-20 percent from the previous year to 80-

90 yuan (\$12.0-13.4) a day. As a result of higher costs for labor and agricultural inputs in key producing provinces, farm gate prices for oranges have doubled to 3.6-4.0 yuan (\$0.54-0.6) per kilo in Guangxi and to 2.4 yuan (\$0.36) per kilo in Sichuan. Similar price hikes also occurred in tangerines and pomelos.

Consumption:

In general, Chinese consumers prefer to purchase sweet and slightly tart tasting fruits, which explain large purchases of Valencia oranges in northern China. The most popular varieties in China include navel oranges from Jiangxi, Honey and Emperor mandarins (Guangdong), crystal sugar oranges (Hunan), and honey pomelos (Fujian). Most citrus consumers prefer the appearance of shiny, bright color fruits, so some traders use color wax to make oranges look more attractive. With that said, food safety has become more of a concern to Chinese consumers. Since more urban consumers believe that supermarkets offer safer products, they prefer to purchase fresh fruits at the supermarkets instead of wet markets. Reliable sources report that over the past five years, the share of fresh produce sold in supermarkets increased by five percent to 20 percent.

Trade:

Import

Orange imports are forecast at 96,000 MT in MY 2010/11, up 20 percent from the previous year, on reduced domestic production and larger foreign exportable supplies. Short domestic supplies have significantly pushed domestic prices for oranges to record high levels; and, as a result, locally-produced and imported oranges are becoming price competitive. For instance, in a supermarket in Chengdu, locally-produced oranges are sold at \$1.2 per kilo (a 50 percent price increase from last year), while imported oranges remain at \$1.8 per kilo. With the United States expecting a nine percent increase in its MY 2010/11 crop, Chinese importers may purchase more U.S. oranges this season. The U.S. remains the largest supplier of fresh oranges to China, as it supplies 90 percent of total imports.

Mandarin imports are forecast at 10,000 MT in MY 2010/11, up 10 percent from the previous year.

The U.S. is the largest exporter of mandarins to China, followed by Thailand. New Zealand, once the top supplier, still cannot export mandarins to China due to quarantine issues.

Based on additional supplies from the United States, the largest lemon supplier to China, imports are forecast at 8,000 MT in MY 2010/11, up four percent from last year. U.S. lemon production is forecast to increase by 10 percent in MY 2010/11.

FCOJ imports are forecast at 42,000 MT in MY 2010/11, down 30 percent from the revised number of 59,965 MT in the previous year. High world prices for FCOJ will likely slowdown the demand from China's importers

who are still holding adequate carry-over stocks from MY 2009/10 when world prices were almost three times lower at \$1,000 per MT compared to the current price of \$2,700 (c&f to China).

Export

China's mandarin exports are forecast at 640,000 MT in MY 2010/11, down 10 percent from the previous year. Due to tight supplies, China's key importers in Southeast Asia and Russia are at a price disadvantage compared to current domestic prices in China, which are at least 50 percent higher than last year. Furthermore, canned mandarin exports are down 25 percent to 260,000 MT due to low supplies of fresh mandarins. The United States buys half of the total canned mandarins produced in China. Similar to mandarins, orange exports in MY 2010/11 are down 11 percent from the previous year to 140,000 MT, largely due to short domestic supplies.

Pomelo exports are forecast at 110,000 MT in MY 2010/11, which is eight percent lower than the previous year, primarily due to higher than normal domestic prices and appreciation of Chinese currency against the Euro. Pomelo buyers are mainly in European countries. Over the past year, the Chinese currency has appreciated by 15 percent against Euro, making Chinese products less competitive.

China's lemon exports are forecast at 13,000 MT in MY 2010/11, up eight percent from the previous year. Unlike other citrus products, lemon prices remain unchanged from the previous year as production is virtually unchanged from MY 2009/10. Chinese lemons are sold primarily to Russia, Malaysia, and Hong Kong.

Policy:

The government of Fuchan, a key orange producing county in Guangxi province, plans to increase orange plantation by an annual 1,200 hectares during the 12th Five-Year period (2011-2015). In order to achieve this goal, the county government will provide farmers with subsidized seedlings. According to a provincial citrus development plan, Guangxi is projected to plant a total of 245,000 hectare of citrus by 2015 with production reaching 3.5 MMT. The details in executing this plan remain unknown.

The Chongqing municipal government decided in March 2010 to invest \$1.5 billion by 2012 on increasing farmer's income. Proposed projects include chicken farming in citrus groves, facilitation of farmer cooperatives, provision of subsidized seedlings, technical extension service, and construction of agriculture wholesale markets.

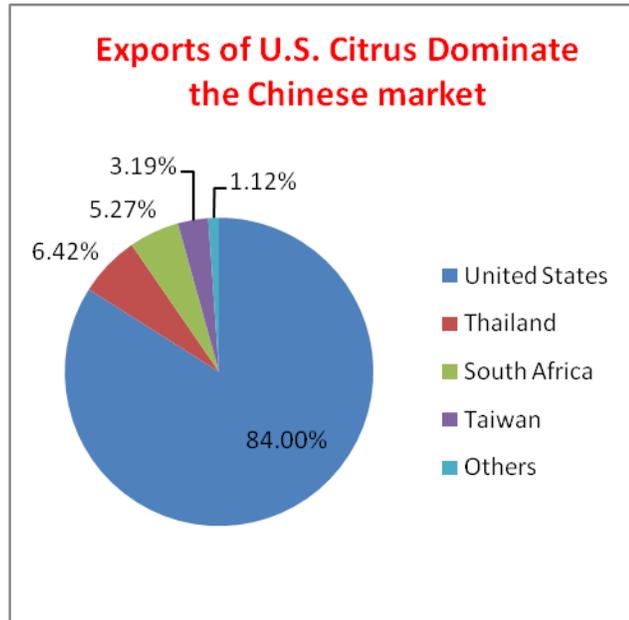
In an effort to reduce distribution cost and improve food quality and safety, the Chinese government launched a pilot program in July 2009 that encourages direct purchases of fresh produce between supermarkets and farmers. The central government will allocate a total of \$58.8 million to construct cold chain facilities, distribution centers, and quick testing systems in 15 provinces. Under the program, a major citrus producing and processing company in Jiangxi received \$447,760 to build cold storage facilities where supermarkets will directly purchase fresh fruits from farmers. According to the Ministry of Commerce, direct purchases will

reduce the distribution cost by 15 percent. Currently, sales of directly-purchased agriculture products account for 15 percent from supermarkets and the share is expected to increase to 30 percent by 2015.

Marketing:

Currently, the United States is the leading supplier of citrus products to China and will continue to expand its current market share of 84%. The main competition for the United is China’s domestic production as quality is improving at a rapid pace. Despite this year’s unfavorable weather conditions, the quality and are still desirable to consumers.

Chinese consumers are gradually recovering the financial crisis downturn with purchases of imported citrus increasing by 9.48% in 2009 2008. Direct imports of citrus products continue arrive at commercial ports in Shanghai, Dalian Tianjin. Guangzhou is still the primary distribution hub for U.S. citrus products, and Shanghai is the leading port for South African citrus products. The majority of imported citrus is sold by major retailers to middle-upper income consumers. Hotels and restaurants also purchase significant volumes.



States
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Generally speaking, Chinese consumers place a strong emphasis on taste, appearance, and shape. In northern China, consumers focus on size and appearance of large fruits. The most popular fruits tend to have a bright and consistent peel along with high Brix content. According to local importers and retailers, consumers in the north will prefer to purchase a higher priced fruit solely based on appearance over a less expensive product with a similar taste and quality. Presentation and color is essential to maintaining high retail price levels. In southern China, consumers place more emphasis on taste than appearance.

Chinese consumers are also attracted to innovative products for new fruit drinks and citrus varieties.

Oranges

U.S. exports over 80 percent of China’s orange imports. Out of the two top varieties (Navel and Valencia oranges), Navel oranges remain the dominant variety in most producing areas. Guangzhou is the top importing port for U.S. oranges followed by Shanghai and Shenzhen.

Lemons

Lemons continue to evolve as a cooking ingredient in the food service sector because of their color and versatility. Lemons are used as a flavor enhancer and a source of vitamin C. The market for imported lemons is mostly limited to major cities such as Shanghai, Beijing, and Guangzhou. Shanghai is an important hub for imported lemons from the United States. The Shanghai market consumes huge volumes of lemons given the rising demand from the growing HRI and retail sector and growing expatriate community.

Juice

Consumers are increasingly choosing fruit juice over soft drinks as the concept of healthy living is becoming more popular in China. China's juice market has grown by 30 percent annually over the past several years. Orange juice is still the leading juice consumed in China. Growing consumption for fresh squeezed orange juice or Not-From-Concentrated juice is attributed by the growing demand from wealthy consumers.

Recently developed lemon and grapefruit drinks have also gain attention from consumers as well. Since the Nong Fu Juice Company launched lemon beverages in 2008, more branded juice companies have followed this new market trend. In today's market, customers can source more than 43 varieties of lemon juice. Grapefruit juice is also very popular. Manufacturers are coordinating with local media to advocate its natural health benefits, stimulating sales. According to market feedback, grapefruit juice has been selling well among young people and white-collar workers who are in pursuit of healthy lifestyles and new products. More local restaurants have started to serve freshly squeezed juice. Lemon water is very popular in western restaurants, upper to mid-level restaurants, and coffee shops. However, most fresh fruit used for juice is domestic.

Competition in the imported juice market is still fierce. Juice from Mexico and Europe can easily be sourced in upscale supermarkets in China. These products have attractive packaging and are often cheaper than U.S. counterparts. For instance, the price of a liter of citrus juice from Mexico is less than \$4.39 (RMB 30), while an equivalent liter from the United States is more than \$5.86 (RMB 40). Although the quality of U.S. products is higher, many consumers are price-sensitive and prefer less expensive products. However, young Chinese urban dwellers are not price sensitive. They focus more on health and nutritional facts than price. Despite the high price of \$10 (RMB 66) per liter, fresh grapefruit and lemon juices from Florida are popular among mid-to-upper class consumers in Beijing, Qingdao, and Shanghai.

Production, Supply and Demand Data Statistics:

Citrus Historical Production and Acreage Tables by Province

	2006		2007		2008		2009	
	1000 Ha	1000 MT						
Hunan	313.8	2,508	325.9	2,779	335.9	2,976	376.2	3,385
Guangdong	224.5	2,244	243.6	2,568	248.0	2,805	276.0	3,221
Jiangxi	229.3	1,394	262.5	1,957	281.9	2,485	296.4	2,994
Guangxi	151.5	2,055	165.3	2,347	178.4	2,655	189.2	2,892
Sichuan	215.6	2,058	223.3	2,325	231.4	2,576	244.5	2,773
Hubei	159.0	1,811	189.0	2,116	211.1	2,555	225.6	2,747
Fujian	170.2	2,267	170.4	2,386	173.5	2,565	175.2	2,668
Zhejiang	120.2	1,805	122.5	1,987	122.1	2,384	116.7	1,975
Chongqing	109.9	847	113.9	1,044	120.3	1,137	126.3	1,263
Yunnan	29.1	244	32.1	281	32.9	327	34.1	383
Shaanxi	21.5	163	23.3	224	25.7	237	28.9	308
Shanghai	10.6	197	10.9	240	10.7	265	9.9	236
Guizhou	37.0	177	37.9	191	38.5	191	38.6	194
Jiangsu	5.4	48	3.7	47	3.7	51	4.6	60
Hainan	3.6	27	3.7	30	3.8	39	4.4	44
Henan	9.7	37	10.0	38	10.1	40	10.7	40
Anhui	3.4	13	3.2	19	2.5	22	2.7	23
Gansu	0.2	3	0.3	3	0.3	3	0.3	3
Total	1,814.5	17,898	1,941.4	20,582	2,030.8	23,313	2,160.3	25,211

Source: Ministry of Agriculture Abstracts

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

Oranges, Fresh China	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Nov 2008		Market Year Begin: Nov 2009		Market Year Begin: Nov 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	680,000	680,000	700,000	700,000		735,000
Area Harvested	0	0	0	0		0
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total No. Of Trees	0	0	0	0		0
Production	6,000	6,000	6,350	6,500		5,500
Imports	66	66	80	80		96
Total Supply	6,066	6,066	6,430	6,580		5,596
Exports	155	155	155	158		140
Fresh Dom. Consumption	5,729	5,729	6,075	6,220		5,276
For Processing	182	182	200	202		180
Total Distribution	6,066	6,066	6,430	6,580		5,596

(1,000 MT)(Ha)

Fresh Tangerines/Mandarins

Tangerines/Mandarins, Fresh China	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	798,000	798,000	800,000	800,000		812,000
Area Harvested	0	0	0	0		0
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total No. Of Trees	0	0	0	0		0
Production	12,650	12,650	13,300	14,200		12,500
Imports	11	11	10	9		10
Total Supply	12,661	12,661	13,310	14,209		12,510
Exports	740	740	710	712		640
Fresh Dom. Consumption	11,371	11,371	12,110	12,977		11,450
For Processing	550	550	490	520		420
Total Distribution	12,661	12,661	13,310	14,209		12,510

(1,000 MT)(Ha)

Fresh Grapefruit

Grapefruit, Fresh China	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0		0			0
Area Harvested	0		0			0
Bearing Trees	0		0			0
Non-Bearing Trees	0		0			0
Total No. Of Trees	0	0	0	0		0
Production	2,520	2,520	2,900	2,900		2,600
Imports	6	6	5	7		8
Total Supply	2,526	2,526	2,905	2,907		2,608
Exports	102	102	115	119		110
Fresh Dom. Consumption	2,424	2,424	2,790	2,788		2,498
For Processing	0	0	0	0		0
Total Distribution	2,526	2,526	2,905	2,907		2,608

(1,000 MT)

Frozen Concentrated Orange Juice (FCOJ)

Orange Juice China	2008/2009		2009/2010		2010/2011	
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Deliv. To Processors	182,000	182,000	201,500	201,500		180,000
Beginning Stocks	12,000	12,000	4,400	4,400		15,000
Production	14,000	14,000	15,500	15,500		13,850
Imports	42,786	42,786	44,000	59,965		42,000
Total Supply	68,786	68,786	63,900	79,865		70,850
Exports	4,682	4,682	4,500	4,365		4,000
Domestic Consumption	59,704	59,704	59,400	60,500		61,850
Ending Stocks	4,400	4,400	0	15,000		5,000
Total Distribution	68,786	68,786	63,900	79,865		70,850

Note: Numbers have been converted to concentrated orange juice using a ratio of 6 to 1 between single strength and concentrate. Products under HS Codes 20091200 and 20091900 are both treated as single strength juice.