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Marketing U.S. Fresh Deciduous Fruits in South China

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Fresh Deciduous Fruit

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Report Highlights:

Though the pace of China's economic growth slowed down in 2012, demand for high quality imported fresh deciduous fruit was not significantly impacted. In the first nine months of 2012, the import value of fresh fruit imports from the world was on a steady rise, approximately up 33 percent up from the same period in 2011. The consumption of imported table grapes was up 26 percent, while the value of imported apples decreased 10 percent. However, U.S. table grape imports increased 44 percent, while U.S. apple imports were up 2 percent despite a 19 percent decrease from the lack of direct shipments to Shanghai as a result of stricter inspection procedures. Abundant domestic supplies plus increasing imports from Chile, France, Peru, South Africa, and New Zealand have created a new competitive market environment for U.S. fresh deciduous fruit in Mainland China. Record high retail prices for several U.S. fruit and new China's inspection procedures might limit further prospects of U.S. fresh deciduous fruit exports in 2013.

General Information:

As demand and consumption for imported fresh deciduous fruit is growing in China's three major regions: South, East and North. The well-developed South China market maintains stable growth due to sustained promotional efforts and a 34-year tradition of consuming imported fruit. By the end of December 2011, Southern ports accounted for 83 percent of China's total imports from the United States. All of the imported fresh fruit available in West China (Shanghai region) was transshipped via Guangzhou's Jiangnan Wholesale Fruit Market. Direct shipments to East and North China regions have decreased dramatically in the 2011-2012 season due to various factors. In the past three years, producer associations have undertaken aggressive marketing activities to help boost sales. Through a well-planned series of merchandising and handling training seminars designed for traders and retail managers as well as periodic in-store promotions, in 2012 U.S. fresh deciduous fruit exports sold in more supermarkets and at a higher rate than ever before.

Stricter inspection procedures for direct shipments to East China and high operational costs generated from informal transshipment channels stifled growth and made for more cautious and conservative purchases. As a result, wholesale prices temporarily increased prior to the mid-autumn festival, although prices later stabilized. Freight forwarding costs from Hong Kong also declined, nominally offsetting price increases. Retail prices are slightly higher than last year.

Regional Market overview:

South China: The South remains the leading consumption market in China- holding its dominant position for over the past three decades. In 2012, around 78 percent of total fresh fruit imports entered directly through ports located in the Pearl River Delta. This does not include the transshipment from Hong Kong. Although proximity to Hong Kong has helped enhance Guangzhou and Shenzhen's role in promoting imported fresh fruit in modern retail channels. Freshness, taste, price, and health benefits are all key factors influencing consumer preferences when purchasing fresh fruit. Key consumption markets in South China include major cities in Guangdong Province's Pearl River Delta such as Guangzhou, Shenzhen, and Dongguan with the highest consumption, as well as secondary markets such as Foshan, Zhuhai, Zhongshan, Huizhou, Jiangmen, and Shunde. In addition to Guangdong Province, U.S. fresh fruit sales in Fuzhou, Xiamen, Changsha, and Nanning have sharply increased in the past three years. In South China, imported apples and grapes can be found not only in hypermarkets and supermarkets, but also in smaller-scale fruit retail chains with many still being peddled in street stalls or residential neighborhoods.

East and North China: The best venues for purchasing U.S. apples and table grapes in the East and North are the modern supermarket outlets. In the last two years direct shipments to local ports were considered a cost efficient option as transportation costs (from South China) could be avoided altogether. However in the 2011-2012 season marketing year, direct shipments of U.S. apples to these two regions dramatically declined mainly because local inspection officials were instructed by Beijing authorities to firmly enforce policies restricting the entry of U.S. Granny Smith and Gala varieties into the market. These two U.S. apple varieties do not have market access, however, in the past loose inspection practices in China overlooked this reality for several years. In addition, traders in these two regions did not purchase smaller sized U.S. Red Delicious varieties. Adding to this, the U.S. market access license expired and the negotiation process has proven ineffective.

Sales in West China remain weak when compared to the other regions.

Wholesale markets: Guangzhou's Jiangnan Fruit Wholesale Market not only serves as a transshipment hub, but also a key national market index for fresh fruit pricing and demand. Other leading fruit wholesale markets in China include Longwu in Shanghai and Xinfadi Wholesale Market in Beijing.

Many new modern wholesale markets are under constructions in secondary cities. With support from China's Ministry of Commerce, these markets will be the beneficiaries of subsidies designated for the construction of refrigerated transportation and cold storage facilities.

Market trends:

- Online retail, television shopping and group purchasing, which was last year's new trend for imported fresh deciduous fruit purchases in large cities has now plateaued. With sales fairly stable in first tier cities (Beijing, Shanghai, Guangzhou and Shenzhen). With no clear dominant national player, it remains to be seen how these retail channels evolve in the different regions of China.
- Specialized fresh fruit chain stores in them major cities are expanding quickly and offer privately designed gift packages to consumers. Delivery services and payments are received upon delivery providing convenience to urban customers.
- In order to maintain fruit fresh and to extend their shelf life, many industry-insiders are increasing their use of cold storage management technologies and proper handling techniques. There is a range of central government policies supporting the development for new investments in refrigerated transportation and cold storage facilities. These supports come in the form of grants, preferential loans and tax credits.
- Requests for direct farm purchasing are on the rise. Professional wholesale markets handle large quantities of imported fruits, while distributors collect various products and arrange for the distribution to retailers and end-users. Some retailers indicate an interest in buying directly, although it is questionable if they have the capacity ("relationships" at ports and know-how) to handle this complex business.

U.S. Apples: China's total imported apple consumption dropped 10 percent in the first nine months of 2012. Chile took the hardest hit-- a 22-percent decline in value when compared to the same period in 2011. However, U.S. apples maintained their market position in 2012 with a total sales value of \$31 million, accounting for 39 percent of China's total imported apple market share. 87 percent of these shipments were imported into Guangzhou, Huangpu and Shenzhen ports in the Pearl River Delta. Year-round availability of Washington State Red Delicious apples have entered modern retail outlets and neighborhood fruit stalls in China's larger cities for years. Direct shipments to Shanghai fell by 19 percent.

In 2011, China imported \$50 million-worth in U.S. apples or 43 percent of the total China imported apple market share. In 2012, New Zealand and France provided more apples to China and together took 6 percent market share from the United States.

U.S. Red Delicious apples are considered a preferred choice for gift-giving because their shiny dark red color and unique, uniform shape. Gala and Granny Smith continue to play an important role in providing more choices to consumers, although these two varieties are technically not allowed entry into China through legal channels. Consumers in South China prefer smaller sized apples and the consumption demand remains strong, while consumers in North China prefer larger sized apple with no visible dents or imperfections. Consumers in East China purchase 88 heads red delicious apples almost exclusively.

New Zealand's imports this past season provided alternative choices for local consumers, although the quality of the crop was poor and priced higher than U. S. Red Delicious apples. To remain competitive, traders and retailers have invested in colorful packaging and promotional displays to differentiate themselves from competitors and attract new consumers. The best promotion season includes national holidays such as the Mid-Autumn Festival, National Holiday, and the Chinese Lunar New Year.

Marketing of U.S. Table Grapes:

In December 2011, the United States was the second largest table grape supplier to China, after Chile. China imported \$36 million-worth in fresh grapes from United States. In the first nine months of 2012, these sales were up 26 percent from the same period in 2011. However by September 2012, for the first time Peru and South Africa outpaced United States table grape exports. Although Peruvian grapes do not have official market access, exports totaled to \$57 million, up 44 percent from the same period in 2011. South Africa surpassed U.S. exports and is now the third largest grape supplier to China.

South China remains China's largest fresh table grape consumption region, followed by the East and North regions. South China accounted for 82 percent of China's total fresh grape imports (\$324 million) in 2011. By September 2012, South China imported \$263 million grapes from the world, up 22 percent from same period in 2011. A total of \$30 million grapes were shipped from United States to South China. Each year, over 80 percent of imported table grapes entered China through South China ports. Demand for U.S. seedless varieties continues to increase even though retail prices may be much higher than for seeded varieties. According to China Customs data, the total imported grape value from the United States increased 44 percent in the first nine months of 2012. In South China consumers table grapes are the favorite fruit purchased at grocery stores by local consumers. U.S. grapes are traditionally consumed in their highest levels during the Mid-Autumn Festival (September) and National Day (October) holidays, while Chilean grape exporters target China's Spring Festival (January or February).

Red Globe is the most popular seeded variety holding the highest sales volume. Most retailers offer both imported grapes and domestic varieties. Although China produces Red Globes, U.S. varieties are firmer, larger, and taste better than the local varieties. Other varieties such as Scarlet Royal, Crimson are available in some niche markets in first tier cities. Thomson was replaced by a new Xinjiang Province variety called "Pearl". Though the grapes are smaller in size, the Pearl variety has similar Brix levels as Thomson's, but at half the price. According to the trade, the cost of importing U.S. seedless varieties has also increased sizably.

The market situation in the North and East are distinct. North China is the key production region for table grapes and the price of domestic table grapes is much lower than that of the prices for imported grapes. Therefore many North China traders complained that they could hardly turn a profit on U.S. table grapes. In East China more varieties are becoming available. Red Globe, Autumn Royal, Thompson and Crimson are being sold in high-end supermarkets with an average the price around 20 percent higher than the price in the South. According to wholesalers, table grape's sales performances in East China are not as good as were expected by the trade.

U.S. Pears: In the first nine months of 2012, China directly imported \$3 million-worth of pears from the world, mainly from Mexico, Belgium and New Zealand. Though U.S. pears do not have an official market access, they are readily available in markets in South China. The volume is still limited and the quality is unstable. China also produces pears; some local consumers prefer crispy and sweet varieties instead of soft varieties. _

Marketing tips: Some suggestions for potential U.S. exporters who have an interest in entering the China market include:

1. Identify reliable local partners including: importers, logistics providers and retailers in each region
2. Assist and educate local partners on proper product handling
3. Understand consumer preferences, which vary from region to region
4. Enhance the image of U.S. fruits to differentiate from other competitors (this includes packaging)
5. Provide assistance with promotional activities
6. Strengthen cold chain management practices to increase quality and extend fruit shelf life