

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 9/11/2009

GAIN Report Number: CH9073

China - Peoples Republic of

TREE NUTS ANNUAL

Annual

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Report Highlights:

In-shell walnut production is forecast at 560,000 MT for MY 2009, up 15 percent from the previous year, primarily due to a bumper harvest in Yunnan. Shelled almond production is forecast at 4,000 MT, nine times larger than the previous year, because of extremely good weather conditions in Xinjiang. Walnut consumption continues to grow as incomes rise and more Chinese choose healthier lifestyles. Walnut imports are expected to decrease on expected higher domestic production and elevated import prices. Almond and pistachio imports are forecast to increase due to either larger world supplies or strong domestic demand.

Executive Summary:

For MY 2009, in-shell walnut production is forecast at 560,000 MT, up 15 percent from the previous year, primarily due to a bumper harvest in Yunnan. Production in other northern provinces such as Shanxi, Shaanxi, and Xinjiang also continue to rise given favorable growing conditions. Shelled almond production is forecast at 4,000 MT in MY 2009, which is nine times larger than the previous year, due to extremely good weather conditions in Xinjiang.

Walnut consumption continues to grow as incomes rise and more Chinese choose healthier lifestyles. Consumption is expanding from affluent areas like Jiangsu and Zhejiang to other less affluent regions. In addition, walnuts are increasingly used as ingredients in more locally produced foods (via bakery, confectionary, and food service sectors).

In-shell walnut imports are forecast at 13,860 MT in MY 2009, down 10 percent from the previous year, due to increased domestic production and higher import prices. Shelled almond imports are expected to grow more than 50 percent (8,000 MT) from the previous year because of strong domestic demand. The pistachio import forecast is 28,000 MT, up 50 percent from the previous year on increased exportable supply from China's top suppliers: Iran and the United States. Because of expected stronger import demand as the world economy improves, China's walnut exports (in-shell basis) are forecast at 14,200 MT in MY 2009, up 14 percent from the previous season.

Production:

Walnuts

For marketing year (MY) 2009 (October-September), in-shell walnut production is forecast at 560,000 metric tons (MT), up 15 percent from the previous year, largely due to a bumper harvest in Yunnan, the country's top walnut producing province. Walnut production in Yunnan is expected to rise by 30 percent from last year's low level. Shaanxi, Shanxi and Xinjiang (provinces located in north China) production continues to grow given favorable growing conditions. Because of good returns in recent years, farmers in major producing provinces increased walnuts acreage in mountainous areas and on uncultivated land. Local government policy also encourages farmers to plant walnuts as cash crops (See Policy section). As a result, China's walnut production is expected to increase dramatically in five to ten years.

Most walnuts are planted on slopes and many are inter-planted with other crops like corn. The benefits of this practice are that farmers can dedicate their efforts to both walnut and grain production. Production costs decreased slightly from the previous year as agricultural input prices (fertilizers, pesticides, etc.) dropped in the wake of the economic slowdown. Labor costs remained unchanged.

Almonds

Shelled almond production is forecast at 4,000 MT in MY 2009 (October-September), which is nine times larger than the previous year. Extremely good weather conditions in Xinjiang, a major almond producing province, was a major factor. Historically, extreme cold temperatures during the winter and spring months remain the greatest challenge to almond production in Xinjiang. Nevertheless, even with such a constraint, the provincial government has set a target of planting 66,667 hectares of almonds by 2010. The MY 2009 almond acreage is forecast at 40,000 hectares, up 54 percent from MY 2008.

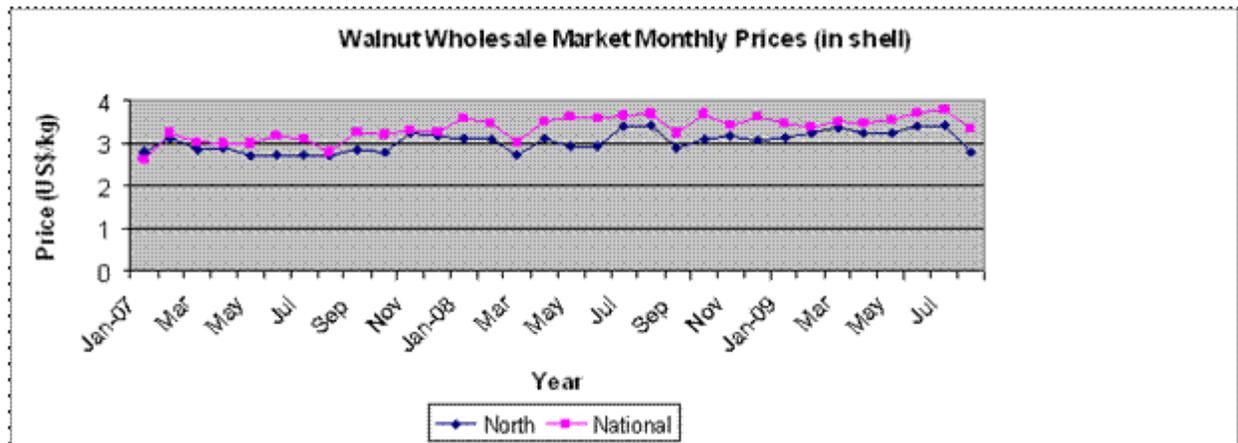
Chinese almond quality has improved this year, but it is not as high as imported California almonds. Local government and research institutes have introduced improved varieties such as Nonpareil and Mission to the region, but farmers are too poor to invest in the orchards. As a result, 1 metric ton of in-shell almonds only generates about 0.30 metric ton of shelled nuts, compared with a ratio of 1 metric ton to 0.45 in California.

Other nuts

In the 1970s, the Yunnan Academy of Forestry Sciences (YAFS) originally introduced pecan varieties from the United States at a trial farm project. Since 2002, YAFS has set up additional demonstration farms in Yunnan (83 total hectares of which 20 percent is bearing), and is actively selling seedlings to local farmers. Although production has proven successful in parts of Yunnan, only a few hundred hectares of pecan have been planted outside of YAFS in Yunnan and Zhejiang. Pistachio and macadamia nut production are also very limited in the surrounding area.

Prices:

Walnut prices have remained at high levels due to growing domestic demand (See Consumption section). Current farm gate prices for in-shell walnuts in Yunnan are USD \$2.50 per kilo, compared with USD \$2.35 per kilo during the same period last year. Traders indicate that walnut prices may fall later in the year in anticipation of a bumper harvest.



(Note: The exchange rate is currently USD \$1 = 6.82 RMB; The north region covers major nut producing provinces Shanxi and Hebei, as well as other cities and provinces including Beijing, Tianjin, Shandong, and Inner Mongolia.)

Consumption:

Walnut consumption continues to grow largely due to rising incomes and healthier lifestyle choices. Affluent areas like Jiangsu, Zhejiang, and Shanghai used to be the largest consumers of walnuts. However, as per capita incomes increased in other less affluent regions, the consumer base has widened. Moreover, more walnuts are used as ingredients in locally produced foods (via bakery, confectionary, and food service sectors). For example, a single candy producer in Sichuan potentially uses more than 1,000 MT of walnut kernels per year, while holidays (such as the Mid-Autumn Festival where walnuts are used to make moon cakes) boost demand at specific times during the year. Chinese industry sources estimate walnut consumption will increase by 10-20 percent annually.

The consumption of other nuts is also highly correlated with individual incomes. However, the volume is heavily dependent on world prices because almost all of these nuts are imported. Because many Chinese consumers are price sensitive, this directly impacts what is available in the market. For example, rising prices for hazelnuts may cause traders and food manufacturers to buy a cheaper nut alternative. Educating Chinese buyers about the value and quality differences of U.S. tree nuts may lead to more steady demand since consumers may be less influenced by price fluctuations.

Trade:

Import

China's in-shell walnut imports are forecast at 13,860 MT in MY 2009, down 10 percent from last year due to increased domestic production and higher import prices. According to traders in Yunnan, U.S. in-

shell walnuts are currently priced at USD \$1.35 per pound (fob), up nearly 40 percent from the same time last year. Chinese buyers are hesitant to place orders not only because of higher import prices, but because they have enough stocks for the National Day holiday and Mid-Autumn Festival in early October, a peak time for walnut consumption. Last year, Chinese traders and processors bought large quantities of U.S. walnuts when prices dropped due to record U.S. walnut production. As a result, Post has revised the MY 2008 import figure to 15,400 MT, up 5,400 MT from the earlier estimate.

China's MY 2009 shelled almond imports are forecast up more than 50 percent (8,000 MT) from the previous year due to increased supplies from the United States. Although U.S. production is forecast to fall 17 percent due to rain and cool temperatures, high stocks will make up for the losses and are expected to meet any increases in Chinese import demand. China imported an estimated 5,300 MT of almonds in MY 2008, up 162 percent from the previous season, due to lower priced almonds from the United States (Note: Estimates are based on Chinese customs data and actual trade numbers are believed to be much higher as large quantities of almonds are transshipped via border trade or grey channels).

Imports of other nuts are expected to increase as well. For MY 2009, the pistachio import forecast is 28,000 MT, up 50 percent from the previous year due to increased exportable supply from China's top suppliers: Iran and the United States. China imported fewer pistachios last year because of low production in both countries. Iran, the world's largest pistachio producer, lost half of its crop to severe frost while California's production fell approximately 30 percent. Pecan imports are expected to increase from the previous season, due to higher United States' supplies and anticipated lower prices (Note: Chinese walnut import customs data includes some pecan imports. Because Chinese customs has no HS Code for pecans, some buyers use the walnut HS Code to import pecans).

Export

China's walnut exports (in-shell basis) are forecast at 14,200 MT in MY 2009, up 14 percent from the previous season, on expected stronger import demand as the world economy improves. A tax rebate adjustment is also expected to encourage further exports (See Policy section). During MY 2008, China's walnut exports plummeted to an estimated 12,443 MT, down 66 percent from the previous year, largely because of weak global demand after the economic downturn.

China exports some of the pistachios it imports, which are processed and re-exported to U.S. and European markets. Because China is expected to import more U.S. and Iranian pistachios (See Import section), for MY 2009 China's pistachio exports are forecast at 5,800 MT, up 38 percent from the previous year.

Policy:

Local governments of key producing provinces have developed programs to encourage farmers to plant more walnuts as a cash crop. For example, the provincial government in Yunnan, the country's largest walnut producing province, set a target of 2 million hectares of walnuts by 2012 and 2.4 million hectares by 2020. It plans to achieve this goal by implementing a variety of programs including: 1) a poverty-alleviation program that helps poor farmers build tree nut farms with a cash subsidy of USD \$441 per hectare; 2) a forestation program that pays USD \$243 per hectare to plant trees, including walnuts, on deserted mountains; and 3) cash subsidies to convert grain crops on sloped land into forests (i.e. walnut trees) (refer to CH4030, CH5062, and CH6067).

In addition to production, local governments also support post-harvest treatment and processing of walnuts. The Yangbi county government of Yunnan provides grants to farmers (as much as USD \$735) to buy drying facilities that cost USD \$1,470 each, as many walnut growers in Yunnan still use traditional ovens for drying that reduces quality (coal or firewood give the walnuts a smoky smell). Yunnan state-owned banks also provide subsidized loans to walnut processing plants that produce walnut milk and walnut oil.

The import tariff for pistachios has been 10 percent since January 1, 2009. It is expected that larger quantities of nuts will enter mainland China through grey channels or via ASEAN countries that enjoy zero tariffs. Official channels were more commonly used when the rate was temporarily set at five percent between June 1 and December 31, 2008 (see CH8040, CH8043, and CH8045).

Tree nut tariff and VAT rates for 2009

HS Code	Description	2009		Effective Rate
		Tariff	VAT	
0801.2100	Brazil nuts, in shell	10.0%	13%	24.30%
0801.2200	Brazil nuts, shelled	10.0%	13%	24.30%
0801.3100	Cashew nuts, in –shell	20.0%	13.0%	35.60%
0801.3200	Cashew nuts, shelled	10.0%	13.0%	24.30%
0802.1100	Almonds, in-shell	24.0%	13.0%	40.12%
0802.1200	Almonds, shelled	10.0%	13.0%	24.30%
0802.2100	Hzaelnuts/Filberts, in-shell	25.0%	13.0%	41.25%
0802.2200	Hazelnuts/Filberts, shelled	10.0%	13.0%	24.30%
0802.3100	Walnuts, in-shell	25.0%	13.0%	41.25%
0802.3200	Walnuts, shelled	20.0%	13.0%	35.60%
0802.5000	Pistachios	10.0%	13.0%	24.3%
0802.6090	Macadamia nuts	24.0%	13.0%	40.12%
0802.9090	Other nuts, fresh or dried, whether or not shelled or peeled	24.0%	13.0%	40.12%
2008.1910	Walnut kernels, in airtight containers	20.0%	17.0%	40.40%
2008.1920	Other nuts, in airtight containers	13.0%	17.0%	28.70%

Source: China Customs

A tax rebate for some exported processed agriculture products, promulgated by the Ministry of Finance, increased from 13 percent to 15 percent as of June 1, 2009. The policy will benefit exporters of nut kernels, primarily walnut kernels, in airtight containers (HS Codes: 20081810, 20081920, and 20081999).

Marketing:

Shipping U.S. Tree Nuts to China

U.S. tree nuts are generally shipped from Long Beach, California directly to China. Once the shipment arrives in China it is channeled to either 1) a large processor (which reviews the cargo, tests, cleans, seasons, roasts, grades, repacks, stores, and domestically ships the nuts) that then distributes the nuts to retail outlets or 2) a distributor who delivers the nuts to a smaller sized processor which then ships to a wholesaler that sells the product to smaller retail outlets.

Walnuts

Traditionally, domestic walnuts are used as an ingredient for soup. California walnuts have gained popularity, especially in affluent regions, due to aggressive marketing efforts and competitive prices. Walnuts are consumed as in-shell snacks, as well as in confectionary and baked products. Chinese

consumers prefer the taste of U.S. walnuts over domestically produced ones, which are slightly bitter in taste depending on the variety.

Almonds

Almonds are generally eaten in the shelled form as snacks, especially in second or third tier markets, although the bakery, confectionary and food service sectors also uses the shelled variety. Sliced, slivered, diced and powdered almonds are gaining popularity. Unfortunately, the high import tariff rate on almonds (10 percent for shelled and 24 percent for in-shell) continues to be the biggest hurdle for in-shell imports.

Pistachios

Most pistachios are consumed as in-shell snacks, however, the number of baked and confectionary products that use pistachios are growing. Due to educational and promotion efforts (as well as concerns about food safety), many consumers believe that non-bleached pistachios are a healthier option. As a result, bleached Iranian pistachios, which were bleached to mimic the physical characteristics of higher quality U.S. pistachios, are quickly diminishing in the market. Companies are required to show documents indicating the origin of the products, which significantly reduces the likelihood for mislabeling.

Pecans

Pecans are consumed mostly as in-shell snacks in the “large” and “extra large” size, mainly because they are almost 3.5 times less expensive than shelled pecans. Because of its higher price, shelled pecans are used as ingredients for high-end bakery products, ice cream, and candies.

Most U.S. pecans are grown in Georgia, Texas, and New Mexico, where 7 out of the 10 commercially available varieties are exported to China. The U.S. variety Western Schley is the most popular since it is prized for its higher percentage of meat and perfect halves. Chinese processors and traders often buy pecans directly, in cash from U.S. growers to minimize costs. Most product is transshipped through Hong Kong and Guangzhou for distribution to the rest of China.

Hazelnuts

Turkey dominates China’s imports of shelled hazelnuts, whereas the U.S. and Georgia are the only exporters of in-shell hazelnuts. Most of the imports from the U.S. are the “large” and “extra large” size. Chinese hazelnuts are small by comparison and not seen as a competitor.

In-shell hazelnuts are mostly consumed as snacks, and shelled hazelnuts are used as ingredients in baked and confectionary products. Chinese consumers prefer the taste and larger size of U.S. hazelnuts as snacks compared to Turkish and domestically grown varieties.

Promoting U.S. Nuts

Future promotion efforts for U.S. nuts should continue to concentrate on demonstrating quality and health benefits. High-income health conscious consumers remain the target groups for U.S. tree nut products. Although many generally know why nuts are nutritious, continued education efforts may assist in expanding the consumer base.

The bakery and confectionary sectors have become an larger market niche, featuring new forms of nuts (slivered, sliced, grounded, or powdered) as ingredients in a wider range of products from cakes to breads and candies to biscuits. Because consumers lack specific knowledge of U.S. nuts, technical assistance and product recipes will be helpful in promoting nut ingredients to high-end bakeries and confectionary makers.

Nut promotion may be more successful during the winter and spring, when the climate is cold and mild, as more Chinese eat nuts during this time. Chinese lunar New Year is one of the best retail seasons to promote nut products, especially as gifts.

Promotions should also expand from traditional markets (Beijing, Shanghai, Guangzhou and Shenzhen) to Emerging City Markets (ECMs) where consumer demand is increasing with disposable incomes. A few ECMs include: Xiamen, Dongguan and Shantou in southern China, Ningbo and Hangzhou in eastern China, Dalian and Qingdao in northern China, as well as Chengdu and Kunming in southwestern China (Please refer to the ECM GAIN reports for more details on each city).

Production, Supply and Demand Data Statistics:

Walnuts

Walnuts, Inshell Basis China	2007			2008			2009		
	2007/08			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Oct
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Planted	135,000	1,350,000		1,485,000	1,485,000				1,650,000
Area Harvested	945,000	945,000		995,000	995,000				1,050,000
Bearing Trees	0	0		0	0				0
Non-Bearing Trees	0	0		0	0				0
Total Trees	0	0		0	0	0			0
Beginning Stocks	0	0		2,000	2,000	0			0
Production	460,000	460,000		490,000	490,000				560,000
Imports	10,065	10152		10,000	15,400				13,860
Total Supply	470,065	470,152		502,000	507,400	0			573,860
Exports	36,227	36154		12,440	12,440				14,200
Domestic Consumption	431,838	433,998		462,000	494,960				559,660
Ending Stocks	2,000	2,000		0	0				
Total Distribution	470,065	470,152		502,000	507,400	0			573,860

Note: Numbers have been converted into in-shell basis using a ratio between in-shell and shelled of 1 metric ton to 0.40.

Almonds

Almonds, Shelled Basis China	2007			2008			2009		
	2007/08			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Oct
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Planted	15,000	15,000		26,000	26,000		0		40,000
Area Harvested	0	0		0	0		0		6,666
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
Beginning Stocks	0	0		0	0		0		0
Production	1,300	1,300		400	400		1,500		4,000
Imports	5,400	2,024		8,000	5,300		15,000		8,000
Total Supply	6,700	3,324		8,400	5,700		16,500		12,000
Exports	0	0		0	0		0		0
Domestic Consumption	6,700	3,324		8,400	5,700		16,500		12,000
Ending Stocks	0	0		0	0		0		0
Total Distribution	6,700	3,324		8,400	5,700		16,500		12,000

Note: Numbers have been converted into shelled basis using a ratio between in-shell and shelled of 1 metric ton to 0.45 for imported almonds and 1 metric ton to 0.30 for domestic almonds.

Pistachios

Pistachios, Inshell Basis China	2007			2008			2009		
	2007/08			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Oct
	Official	Post	Data	Official	Post	Data	Official	Post	Data
Area Planted	0	0		0	0				0
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
Beginning Stocks	0	0		0	0				0
Production	0	0		0					
Imports	32,000	32,102		24,000	19,000				28,500
Total Supply	32,000	32,102		24,000	19,000				28,500
Exports	5,828	6,426		4,000	4,200				5,800
Domestic Consumption	26,172	25,676		20,000	14,800				22,700
Ending Stocks	0			0	0				0
Total Distribution	32,000	32,102		24,000	19,000				28,500