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Tree Nuts Annual

Tree Nuts

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Report Highlights:

Favorable weather in key producing provinces will increase in-shell walnut production to 600,000 metric tons (MT) in MY 2010/11, which is 60,000 MT higher than the previous year. Similar weather conditions will slightly boost almond production in 2010/11 to reach 1,100 MT, which is a 10 percent increase from MY 2009/10. Unfavorable weather has caused pistachio production to remain at unquantifiable levels, but rising consumer demand will increase imports by 2,800MT to 30,500MT in MY2010/11.

Commodities:

Walnuts, Inshell Basis

Almonds, Shelled Basis

Pistachios, Inshell Basis

Pecans, Inshell Basis

Production:*Walnut*

In marketing year (MY) 2010/11 (October-September), in-shell walnut production is forecast at 600,000 metric tons (MT), which is up 11 percent from the previous year. Walnut acreage is also expected to increase 10 percent to 1.82 million hectares in MY 2010. Farmers in almost all major producing provinces, Yunnan in particular, are planting more walnuts due to favorable prices. Currently, the farm gate prices for in-shell walnuts in Shanxi province have been quite stable at \$2.35-2.65 per kilogram, compared to the Yunnan province where prices were quoted at \$4.1-\$5.1 per kilogram. Walnut traders, however, expect that prices will begin to fall as a result of increased production in MY 2010/11.

Based on a recent Post visit to key producing provinces, the MY 2009/10 production estimate is revised to 540,000 MT, which is 20,000 MT down from the previous 560,000 MT. In Yunnan, Post observed that the severe drought during the winter and spring seasons damaged some young non-bearing plantings, but there were no major impacts on mature trees. In the Shanxi province, where Post also visited, walnut production decreased as the cold spring season caused fewer blossoms. Similar weather conditions also occurred in the neighboring Shaanxi province. The production decline in the Yunnan, Shanxi, and Shaanxi provinces far offset increases in other key producing provinces, particularly Xinjiang and Sichuan.

China's walnut production is expected to increase dramatically in the next five to ten years. Post has observed cases where farmers have contracted large pieces of land for walnut crop only. There are other cases where walnuts are grown on the same land as grain crops. In the Shanxi province, where walnuts are planted with corn, farmers mentioned that agricultural inputs like fertilizer and pesticide for grain crops will not impact the walnut crop. It was stated that watering or applying fertilizer to the grain crops benefit walnut plants. In the Yunnan province, acreage is rapidly expanding because walnuts are planted on mountains where few grain crops are grown. Both farmers and companies have contracted plots on mountains to plant walnuts, especially after a major forestry property right reform that was officially launched in 2008. (See Policy)

Labor cost, however, has rapidly increased mainly due to hiring additional workers during the harvest season in early-mid September. In Chuxiong of Yunnan, for example, labor cost has increased to \$8.8 per day in 2010, up 20 percent from the previous year. Labor is needed primarily.

Almond

Shelled almond production is up 10 percent from the previous year to 1,100 MT in MY 2010 (October-September). This increase is largely due to favorable weather in Xinjiang, the country's single almond producing province. Post revised the MY 2009 production estimate to 1,000 MT, which is significantly down from the previous estimate of 4,000 MT. Credible industry sources indicate that the official production estimates were greatly exaggerated, but government estimates for planted acreage are more reliable.

The Xinjiang government is keen on facilitating almond plantation to reach their projected goal of 67,000 hectares by 2012 (specifically in Kashi county). The estimated almond acreage for MY 2010/11 is around 46,700 hectares.

The local government encourages plantings by providing seedlings to farmers, while crop management is the sole responsibility of the farmers, who lack the resources to purchase fertilizer and properly manage their crop. Despite the government's efforts, the lack of crop management combined with adverse weather conditions in the Kashi region have both caused major declines in almond prospects.

Pistachio

A few years ago, more than 6,600 hectares of pistachios were planted in Xinjiang. The weather patterns in this region were not suitable for pistachio production and caused uncontrollable diseases. As a result, the government will cut down the existing pistachio trees. It is not immediately known what crops will be planted on these lands.

Consumption:

Industry sources predict that nut consumption in China is growing 10-15 percent a year due to rising urbanization. As supermarkets emerge in secondary cities, nut products are becoming widely available as a snack food. In tandem with increased income and growing awareness about the health attributes of nut products, nut consumption has great potential to continue upward.

Walnuts are the most favored nuts due to the historical and deep-rooted concept about the nutrition factors. Most walnuts are sold in shell or shelled, processed or unprocessed, as well as using walnuts as ingredient in high value-added products such as candies, porridge, cooking oil, and drinks.

Nut consumption is highly seasonal. The highest sales season for high-value U.S. tree nut products spans September through March, when most Chinese celebrate Mid-Autumn Festival and the China Lunar New Year Festival. The level of consumption sinks during spring and summer when temperature gets warmer. Many people in China believe that nuts are "hot" food and eating too much in warm seasons will hurt one's health. This belief also explains why people who live in northern China consume more nut products than those in warmer southern provinces.

Trade:

Import

China's walnut imports (in-shell basis) are forecast at 21,000 MT in MY 2010, down about 9 percent from the previous year, mainly due to increased domestic production. During the MY 2009, Chinese traders bought large quantities of walnuts in speculation of a sharp decline of production in Yunnan where a severe drought occurred. As a result, the import estimate in MY 2009 has been revised to 23,000 MT, which is up 40 percent from the previous estimate of 13,860 MT. China has become the largest buyer of Californian walnuts, with large quantities being transshipped via Hong Kong. Import season for nuts is September through February, with the bulk of shipments (60-70 percent of total volume) taking place during November through January.

Almond imports (shelled) are forecast at 7,000 MT in MY 2010, up 15 percent from the previous year due to strong demand by consumers. China is becoming an important buyer of Californian almonds. Although world almond prices have been higher than previous years, local importers and nut processors are still confident that sales will continue. Post has observed that some nut processors have dedicated new facilities to almond processing.

Pistachio imports are forecast at 30,500 MT in MY 2010, up 10 from the previous year based on increasing demand and low domestic production. Reportedly, Iran's pistachio production is forecast to increase significantly in MY 2010 from low levels in previous years. Since China is a traditional buyer of Iranian nuts, Chinese importers are hesitant in placing orders in anticipation of lower prices in coming months. During MY 2008, the United States was the largest pistachio exporter to China, in replace of Iran's low exportable supplies due to their severe frost.

Export

China's walnut exports (in-shell basis) are forecast at 16,000 MT, up 12 percent from the previous year based on additional exportable supplies. Japan is the largest buyer of Chinese shelled walnuts. As domestic prices continue to surpass import prices, Chinese processors will import walnuts (in-shell or shelled) to re-export after processing. Industry sources indicate that walnut export prices are lower than prices sold on domestic market. Some processors, however, still prefer to export because overseas buyers make payments much sooner than domestic distributors and retailers. Some foreign traders export walnuts, almonds, and pistachios to China solely for processing and re-export to the international market.

Policy:

The Central Government's forestry property right reform will have long term benefits to walnut production. Officially launched in 2008, the reform will allocate the country's collectively-owned forest

land to farmers for a period of up to 70 years (See CH8081). Farmers can dedicate the allocated forest land, often times on mountains, to specialty crops (not including grain crops). They can also transfer or lease the land to other farmers. Farmers or companies will be able to obtain large pieces of land for developing crops like walnuts. Loan financing is also available to prospective land owners. Most recently, in the Yunnan province where this type of land is widely available, a walnut processor purchased 670 hectares of forest land and plans to acquire another 13,400 hectares in the near future. (Note: In Yunnan, the normal practice is to plant around 150 walnut plants on one hectare of slope land). In a provincial development plan, the Yunnan government has set a target to plant a total of 2.67 million hectares of walnuts by 2020. It is reported that the province has already had 1.3 million hectares of walnut plantation in place through a series of incentive approaches (see CH9073). In Shanxi province, a county government allocates \$147,000 a year as subsidies to help farmers buy a walnut seedling at a price of \$0.15.

While import tariffs for other nuts remain unchanged, China implemented a temporary tariff of 5 percent for pistachios.

Tree nut tariff and VAT rates for 2010

HS Code	Description	2010		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	5.0%	13.0%	18.65%
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				

The increased tax rebate from 13 to 15 percent for some processed agricultural products including nut kernels (HS Codes: 20081810, 20081920, 20081999) are still in effect.

Marketing:

While increasing numbers of middle-class consumers, who are health conscious, are moving to large metropolitan areas, tree nut consumption in many smaller emerging cities are also growing in tandem with increased disposable incomes.

The quality of U.S. tree nut products (such as almonds, pistachios, walnuts, hazelnuts and pecans) is generally well acknowledged by many Chinese nut traders and processors. For example, Southern consumers prefer natural and slightly salty taste nuts. In the Eastern region (such as Zhejiang and Jiangsu), consumers prefer sweeter tastes for processed pecans and almonds. Although traders in Southern China purchase bulk hazelnuts, consumption is mostly in Beijing and in Northern provinces.

In the past, high valued imported tree nut products fell into the gift category before they could be considered a choice snack for the average Chinese consumer. However, recently tree nuts are widely marketed in retail outlets in many large and mid-sized cities. Nuts are displayed as snacks in hotels and even included in wedding give-aways to distinguished guests.

Educational seminars and application demonstrations workshops geared towards the processing industry should remain a top priority to U.S. producer groups. This approach will help expand the consumer base and strengthen the healthy and nutritious image of U.S. tree nut products.

Pricing scheme

Amidst rising incomes amongst many consumers and an overall increase in prosperity, price still plays a determinant role in food purchasing decisions. Chinese processors and traders are leery about price fluctuations. Some have purchased large volumes of nuts at lower prices and have stored these as reserves, to prevent possible price hikes in the coming year. If supplies, however, surpass demand, the price may drop dramatically. Experienced buyers will wait and observe the price situation, as few dare to place orders too early.

Additional Market Analysis for U.S. Tree Nuts:

Walnuts:

Walnuts are considered to be a herb in traditional Chinese medicine and are sometimes used as a soup ingredient. Although domestic supply is sufficient for snack use, Chinese consumers prefer California walnuts because the taste is considerably less bitter.

Almonds:

In 2010, the China/Hong Kong market became the top destination for U.S. California almonds in the 2009/2010 season. Active advertising promotions by celebrities and continuous educational seminars by Almond Board of California have helped U.S. almonds gain the confidence of Chinese snack consumers. In addition to being a high source of protein, almonds have also been marketed as good sources of

vitamin-E, B6, dietary fiber and antioxidants. The popular varieties include Nonpareil, Camel and Butte. Recently, new varieties such as Monterey and Padre have also gained market presence.

Pistachios:

Most pistachios are consumed as in-shell snacks; however, baked and confectionary products that use pistachios as ingredients are quickly growing. Due to educational and promotional efforts, many consumers believe U.S. natural, non-bleached pistachios are of healthier profile. Retail packaged Wonderful pistachios enjoy high reputation in the market. However, because Iran offers significantly lower prices, many Chinese traders are hesitating between quality versus price as factor for determining upcoming purchases.

Pecans:

United States produces around 80 to 95 percent of the world's pecans. The harvest time is in mid-October, which is perfect timing for promoting U.S. pecans in China, as Chinese Lunar New Year is the peak season for sales. In 2009, U.S. exported 32,614 metric tons of unshelled, in-shell pecans valued at \$109 million to Hong Kong as a transshipment destination. The States also exported 16,246 metric tons shelled pecans valued at \$104 million to China as the top buyer in quantity. Although most of the shipments go to Hong Kong, processors in Guangdong and Zhejiang prefer to place direct orders with U.S. growers, to avoid packers' fees and other middlemen fees.

Hazelnuts:

Hazelnuts are cholesterol free and a good source of dietary fiber, manganese, potassium, copper, thiamine, vitamin B6 and vitamin E, foliate and antioxidants. They are mostly sold unshelled. Some were diced, sliced or ground kernels, as paste or as oil. The popular shelled variety is Barcelona and unshelled Ennis. Turkey still dominates China's imports of shelled hazelnuts. Most hazelnuts are consumed in the North, where the temperature is much lower in winter. In 2009, Hong Kong was the largest importer for US hazelnuts; however, the majority of these shipments were later transshipped destined for the South China food processing sector.

Production, Supply and Demand Data Statistics:

Walnuts

Walnuts, Inshell Basis China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	1,485,000	1,485,000	1,485,000	1,650,000	1,650,000	1,650,000			1,820,000
Area Harvested	995,000	995,000	995,000	1,050,000	1,050,000	1,050,000			1,092,000
Bearing Trees	0	0	0	0	0	0			0
Non-Bearing Trees	0	0	0	0	0	0			0
Total Trees	0	0	0	0	0	0			0
Beginning Stocks	0	2,000	2,000	0	0	0			5,000
Production	490,000	490,000	490,000	560,000	560,000	540,000			600,000
Imports	11,100	15,400	15,346	14,000	13,860	23,000			21,000
Total Supply	501,100	507,400	507,346	574,000	573,860	563,000			626,000
Exports	9,500	12,440	12,645	12,000	14,200	14,280			16,000
Domestic Consumption	491,600	494,960	494,701	562,000	559,660	543,720			610,000
Ending Stocks	0	0	0	0	0	5,000			0
Total Distribution	501,100	507,400	507,346	574,000	573,860	568,000			626,000

Note: Numbers have been converted into in-shell basis using a ratio between in-shell and shelled at 1:0.4.

* The MY 2009/10 ending stocks are based larger-than-normal purchases in fear of continuing price escalation.

Almonds

Almonds, Shelled Basis China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	26,000	26,000	26,000	0	35,000	35,000			46,700
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
Beginning Stocks	0	0	0	0		0			0
Production	400	400	400	1,500	4,000	1,000			1,100
Imports	8,000	5,300	5,485	15,000	8,000	6,080			7,000
Total Supply	8,400	5,700	5,885	16,500	12,000	7,080			8,100
Exports	0	0	304	0	0	510			700
Domestic Consumption	8,400	5,700	5,581	16,500	12,000	6,570			7,400
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	8,400	5,700	5,885	16,500	12,000	7,080			8,100

Pistachios

Pistachios, Inshell Basis China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	0	0		0					
Area Harvested	0	0		0					
Bearing Trees	0	0		0					
Non-Bearing Trees	0	0		0					
Total Trees	0	0	0	0		0			0
Beginning Stocks	0	0	0	0		0			0
Production	0	0		0					
Imports	22,300	19,000	19,708	27,000	28,500	27,700			30,500
Total Supply	22,300	19,000	19,708	27,000	28,500	27,700			30,500
Exports	5,300	4,200	4,371	4,000	5,800	2,200			2,500
Domestic Consumption	17,000	14,800	15,337	23,000	22,700	25,500			28,000
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	22,300	19,000	19,708	27,000	28,500	27,700			30,500