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GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Tree Nuts Annual 2017

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Report Highlights:

Post forecasts China's MY 2017/18 in-shell walnut production at 1 million MT, down more than 5 percent on a yearly basis, as frost and drought will reduce production in the key growing areas of Yunnan and Shanxi provinces. Almond production (shelled basis) is forecast at 43,000 MT, up nearly 8 percent from the previous year. China will likely import fewer pistachios as a result of reduced supplies in the United States. Almond and walnut imports are expected to continue rebounding given declining world prices.

Production

Walnuts

Post forecasts China's in-shell walnut production will decrease by more than 5 percent from the previous year to 1 million metric tons (MT) in the marketing year (MY) 2017/18 (September-August). Yunnan province, the country's largest walnut producing region, experienced a spring frost that killed many walnut plants in higher altitude orchards. As a result, walnut production in this region will fall sharply from the previous year. Walnut quality, however, is expected to improve as walnut sizes are generally big and kernels are quite full. In Shanxi, the third largest walnut producing province, a severe drought since May has led to fruit dropping on older plants. As a result, walnut production is likely to decrease by 10-20 percent from the previous year. However, in Xinjiang province, the second largest walnut producing region, producers will likely harvest more walnuts under favorable weather conditions. In other major producing provinces such as Hebei, Shaanxi, Henan and Gansu, walnut production is expected to grow, due to new bearings and better irrigation.

The rapid expansion of walnut crop area has slowed down, but walnut production is expected to continue increasing in the near future as more newly planted trees start bearing. However, most walnuts are planted in hilly or mountainous areas, like the case of Yunnan, and adequate crop management and harvesting relies heavily on the available labor force. The available labor pool in many of these tree nut producing regions is shrinking due to an aging agricultural labor force (the majority of farmers in China are 50 – 60 years old) and continued urban migration. While growing conditions will always be an important factor in production variability, the shrinking agricultural labor pool is developing into a significant constraint on productivity. To illustrate, average nationwide walnut yields are quite low at 2.3 MT per hectare.

Almonds

China's almond production (shelled basis) is estimated at 43,000 MT in MY 2017/18 (August-July), up nearly 8 percent from the previous year, as a result of favorable growing conditions and new bearings. Crop area is reported to have stabilized at around 76,000 hectares--95 percent of which is situated in Chache county of the Xinjiang Uygur Autonomous Region. Yields have been low (1.4-1.8 MT per hectare) due to a lack of proper crop management and occasional cold temperatures in spring remain a challenge to production in this region.

Pistachios

China's pistachio production is estimated at 200 MT in MY 2017/18 (September-August), according to industry sources. Almost all pistachios are planted in Kashi county of Xinjiang and the planting acreage is estimated at 3,000 hectares. Private companies have planted pistachios in varietal trials in hopes of establishing a commercial production industry.

Other nuts

China's total hazelnut production (in-shell basis) is currently estimated at 42,000 MT in MY 2017/18 (September-August), due largely to acreage expansion. Local hazelnut varieties (small sizes but cold resistant) make up more than 80 percent of total production. The remaining production comes from hybrid varieties (similar to European varieties). Hazelnut acreage is currently estimated at 160,000 hectares, primarily in northeast Liaoning, Heilongjiang, and Jilin provinces as well as western Shanxi

and Xinjiang provinces. Hazelnut production is expected to increase quickly in the near future as many new hazelnut plants start bearing.

China's macadamia nut production (in-shell basis) is estimated at 10,000 MT in MY 2017/18 (September-August), an increase of more than 60 percent from the previous year, as a result of increased bearings. The country's macadamia nut acreage is currently estimated 185,000 hectares and more than 70 percent is planted in Yunnan province. Other growing areas include Guangxi, Guangdong, and Guizhou provinces. It is reported that macadamia nut area will expand to 333,000 hectares by 2020. Industry sources predict that China's macadamia nut production will start to boom in four or five years after additional new plantings start bearing.

China has basically no commercial production of pecans. The 2017 pecan production is estimated at 110 MT, up 10 percent from the previous year. Pecan acreage, however, has reached 34,000 hectares and most plants have not started bearing, according to an industry source. Pecans are planted primarily in Yunnan province and its planted area accounts for nearly 70 percent of the country's total area. Other major growing areas include Anhui and Jiangsu provinces.

Prices

Farm gate prices for in-shell walnuts are currently quoted at RMB 32 (\$4.8) per kilo in Yunnan, up nearly 30 percent from the previous year, largely because of sharp decline of production in this province. According to industry sources, the current strong walnut market price is expected to fall after the National Day and Moon Festival, two major holidays in China. In Xinjiang, purchase prices for in-shell almonds are RMB 30 (\$4.5) per kilo, similar to last year's price.

Consumption

The Chinese domestic consumption of nuts is expected to increase in tandem with income growth and increased awareness of health foods. An industry survey indicates that the proportion of China's middle class (i.e., annual income exceeding \$26,000) has increased from 7 percent of the population in 2010 to 17 percent in 2015. The survey also suggests that the salty snacks market in China is expected to continue increasing at a double-digit pace to RMB 495.2 billion (\$75 billion) by 2020, of which nuts and seeds comprise more than 80 percent of the total salty snack consumption.

Consumers look for diverse nut flavors and products. The consumption of shelled nuts is increasing much faster than in-shell counterparts. Younger consumers (ages 19 to 35), especially female professionals, have become the major force driving nut consumption. These young consumers prefer to shop online resulting in increasing volumes of sales generated online.

The consumption of fresh walnut kernels has become popular in northern China in recent years. Industry sources indicate that walnuts consumed fresh account for nearly 10 percent of the total walnut consumption. Fresh walnut kernels are also a popular cooking ingredient in restaurants and at home. In addition, newly developed snack foods, such as Chinese dates stuffed with walnut kernels, have also effectively increased the consumption of walnuts.

Trade

Imports

Most nuts consumed in China are imported—with the exception of walnuts. Pistachios and almonds have been the leaders among nut imports, but the market share of macadamia nuts is quickly catching up. China's in-shell pecan imports (including transshipment through Hong Kong) have declined from its peak in 2012, but shelled pecan imports are increasing quickly. With increased domestic supplies, hazelnut imports are declining.

China's walnut imports are expected to increase in MY 2017/18 (September-August) on increased worldwide supplies and lower prices. California, the world's largest walnut exporter, is expected to harvest more walnuts this year given record rainfall and increased bearing acreage. Walnut supplies in Chile and Eastern Europe are also increasing. As a result, walnut prices have further declined from MY 2016/17 levels. The United States is the single largest supplier of walnuts to China. Chinese importers like to buy U.S. walnut varieties such as Chandler and Hartley because of their light shell and kernel color and non-bitter taste which set them apart from local varieties.

China's almond imports are expected to continue recovering in MY 2017/18 (August-July) on lower prices in anticipation of another bumper harvest in the United States. California is expecting a nearly 10 percent production increase primarily because of acreage expansion in recent years. As a result of improved production, almond prices continue to fall from the previous year's level. The United States is China's largest supplier of walnuts, followed by Chile.

China's pistachio imports are likely to decrease in MY 2017/18 (September-August) given that U.S. pistachios are estimated to experience a 30 percent production decline due to poor harvests, resulting in higher prices. Although Iran, the other major pistachio producer, is expecting a 75 percent production year-on-year increase, prices remain strong.

Exports

China's walnut exports are expected to continue rebounding in MY 2017/18 due to decreased walnut kernel prices. China exports mainly shelled walnuts (kernels) to Japan and EU markets. In MY 2016/17, domestic prices of walnut kernels dropped significantly in the wake of a 20-percent decrease in demand by walnut beverage companies. The walnut beverage industry is a huge consumer of kernels with daily consumption reaching 30-50 MT, according to industry sources. As a result of reduced kernel prices, China's export volume of shelled walnuts doubled in MY 2016/17.

Policy

In an effort to supplement edible oil consumption and alleviate poverty, the central government has released guidelines and plans to develop woody oil crops (including walnuts) over the past few years (refer to 2016 Tree Nut Annual for details). Consequently, the provincial or lower level governments have also published similar documents including financial support on the development of local woody oil industry. In Henan province, for example, the government has provided a land transfer subsidy of RMB 22,500 (\$3,409) per hectare for farmers to consolidate land to plant walnuts. Yunnan, Jiangsu, and Anhui provincial governments have also issued similar programs on macadamia nuts and pecans.

The Chinese government decided to lower the value-added tax (VAT) for all agricultural products from 13 percent to 11 percent as of July 1, 2017. The import tariffs for tree nuts remain unchanged in 2017, with the exception of ASEAN, Chile, and Australia who have signed free trade agreements (FTA) with China and enjoy a zero import tariff (2019 for Australia). The following table provides details about import tariff and value-added tax on tree nuts.

Tree Nut Import Tariff and VAT in 2017

HS Code	Description	2017		Effective Rate
		Tariff	VAT as of July 1	
0801.2100	Brazil nuts, in shell	10.0%	11.0%	22.10%
0801.2200	Brazil nuts, shelled	10.0%	11.0%	22.10%
0801.3100*	Cashew nuts, in-shell	10.0%	11.0%	22.10%
0801.3200	Cashew nuts, shelled	10.0%	11.0%	22.10%
0802.1100*	Almonds, in-shell	10.0%	11.0%	22.10%
0802.1200	Almonds, shelled	10.0%	11.0%	22.10%
0802.2100	Hazelnuts/Filberts, in-shell	25.0%	11.0%	38.75%
0802.2200	Hazelnuts/Filberts, shelled	10.0%	11.0%	22.10%
0802.3100	Walnuts, in-shell	25.0%	11.0%	38.75%
0802.3200	Walnuts, shelled	20.0%	11.0%	33.20%
0802.5100*	Pistachios, in-shell	5.0%	11.0%	16.55%
0802.5200*	Pistachios, shelled	5.0%	11.0%	16.55%
0802.6190*	Macadamia nuts, in-shell	19.0%	11.0%	32.09%
0802.6200*	Macadamia nuts, shelled	19.0%	11.0%	32.09%
0802.9090.40*	Pecans, whether or not shelled	10.0%	11.0%	22.10%
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

*Temporary tariff in 2017. Data from Government of China.

Marketing:

As the consumption of nuts is a traditional part of Chinese culture, high-quality imported tree nuts have long enjoyed a strong customer base. In recent years, the Chinese tree nut industry has made strides in promoting nut products through educating consumers about the health benefits of nuts and seeds. Two of the largest industry associations that actively promote tree nut consumption in the country are the Nuts and Roasted Seeds Division of the Chinese National Food Industry Association and the South China Tree Nut Association.

An increasingly significant amount of U.S. nut imports into China (e.g. walnuts, pistachios and almonds) are sold as bulk product and consumed by various roasting factories and wholesale markets that have developed their own private labels and brands. Throughout China, imported nuts are sold in all types of retail outlets, including “mom & pop” stores, franchised outlets, convenience stores, supermarkets, and hypermarkets. The types of packaging in these outlets range from bags and cans to

large boxes. In addition to single variety packages, mixed nuts & seeds, and mixed nuts & dried fruits are popular snack foods in retail markets.

Founded in the early 1900s, Yidelu wholesale market in Guangzhou is a key imported nut marketing hub for the entire country. Retail outlets, other wholesale markets, hotel and restaurant chains, e-commerce platforms, and the food manufacturing industry all source at Yidelu market. According to contacts at Yidelu, despite a slowdown in the Chinese economy, demand for high-quality imported nuts in traditional and high-end retail outlets, as well as in e-commerce venues, continues to grow.

Retail contacts report in-store promotions and food festivals in 1st and 2nd tier city retail stores highlighting U.S.-origin nuts as safe, healthy, and convenient snack foods have been extremely successful in increasing sales. Consumer promotions timed with Chinese holidays are especially effective as nuts such as pistachios are a must-have for Chinese New Year. Trade association contacts also report that public relations activities and media campaigns have also played important roles in educating consumers on the quality of U.S. tree nuts. Foreign Agricultural Service Trade Offices (ATOs) throughout China, in collaboration with the California Almond Board, the American Pistachios Growers, the U.S. Pecan Growers Council, and the California Walnut Board, have recently held multiple American food festivals and seminars showcasing the quality of U.S. tree nuts.

Imported tree nuts are also used in the Chinese baking industry. U.S. almonds, walnuts, pecans and pistachios are commonly included as ingredients in bakery chain breads, cookies, cakes and pastries. In 2017, ATO Guangzhou, together with multiple U.S. trade associations and a high-profile South China bakery chain, implemented a very successful promotion highlighting U.S. tree nuts and other U.S. baking ingredients in emerging market cities. In 2018, ATOs across China plan to implement similar marketing projects.

Chinese e-commerce is an increasingly important marketing venue for imported tree nuts. Tree nuts are ideal products for e-commerce sales due to their long shelf life, convenient packaging, and long-distance shipping suitability. A good example of working with e-commerce platforms comes from a major Chinese nut and seed trade association which organizes an annual online campaign called “9.17 China Healthy Nut Day” to encourage consumers to eat a handful of nuts or seeds every day. During the campaign, a series of promotional activities are staged on and around September 17 (“September 17” or “Jiu-Yao-Qi” is a Chinese homophone for “I Must Eat”).