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Stone Fruit Annual

High Fruit Prices Ease as Strong Production Boosts Supply

Approved By:

Bobby Richey

Prepared By:

Abraham Inouye

Report Highlights:

China's peach, nectarine, and cherry production are all forecast to increase in MY 2019/20 under normal growing conditions. Demand for high quality stone fruit is on the rise. Cherry imports are expected to increase this year to 19,000 MT. The United States will remain the largest cherry supplier during the summer, but the share is likely to fall given retaliatory tariffs.

Production

Peaches and Nectarines

China's peach and nectarine production is forecast at 15 million metric tons (MMT) in marketing year (MY) 2019/20 (January-December), an increase of 11 percent from the previous year. Although Shandong province, the leading peach producer in China encountered dry weather through April and May, other peach-producing provinces have reported normal growing conditions supporting strong fruit development. MY2019/20's production gain also represents a rebound from last year when freezing temperatures struck the peach crop across northern China. The MY 2019/20 peach and nectarine quality is expected to improve from last year's crop, according to Shandong peach growers. China's peach and nectarine production will continue to increase slowly as crop area stabilizes.

Peach and nectarine planted area is estimated at 860,000 hectares in MY 2019/20, up slightly from the previous year. The primary production regions are Shandong, Hebei, Henan, Shanxi, Hubei, and Shaanxi provinces. However, in the future, the country's poverty alleviation programs may help expand peach/nectarine area in less developed provinces like Yunnan, Anhui, and Guizhou, according to industry sources. In order to extend the production season, peaches and nectarines are also planted in greenhouses, but this area accounts for less than 5 percent of the nation's total.

Chinese farmers plant more than 200 peach and nectarine varieties which fall into four categories: honey peaches, yellow peaches, nectarines, and flat (or donut) peaches. With improved farming technology (such as greenhouse facilities) and the development of new varieties, the supply season of domestic peaches and nectarines has been extended to begin in early May and ends in late October, with the bulk of supplies entering the market in July and August.

As fruit farmers are getting older, more land has been transferred and consolidated peach and nectarine production is expanding. The Chinese government is nurturing professional farmers to operate on family farms. In order to become an accredited professional farmer, fruit growers must take the government-sponsored training and pass the exam, according to local fruit farmers in Mengyin county of Shandong. The local governments also support farmer cooperatives in order to achieve economies of scale.

Cherries

China's cherry production is forecast at 420,000 MT in MY 2019/20 (April-March), up 23 percent from the previous year due to an increased number of bearing trees. In addition, weather patterns in most production areas have been favorable compared with MY 2018/19 when a severe frost hit northern China during the cherry blossoming season, causing that year's production to decline dramatically. The overall cherry quality is acceptable this year, except in Shandong where farmers have reported smaller fruit size due to a dry and hot spring. Overall, China's cherry quality is improving on enhanced crop management. However, there is much room for improvement compared to imported cherries. Most farms are small and farmers tend to plant several varieties to extend the harvest duration. Increasing labor costs have reduced the number of farm employees. Pre-cooling and post-harvest treatment is generally non-existent and grading is normally done by hand.

China's cherry acreage is estimated at 150,000 hectares in MY 2019/20, up 7 percent from the revised area in MY 2018/19. Cherry planted area has expanded quickly in recent years given favorable market returns. In addition to traditional production regions such as Yantai (Shandong) and Dalian (Liaoning), Tongchuan (Shaanxi) and Tianshui (Gansu) have become major cherry producers in western China. Cherry area is also developing quickly in Tangshan (Hebei), Luoyang (Henan), Linyi (Shanxi), Dali (Yunnan), Qianxi (Sichuan), Haidong (Qinghai), and southern Xinjiang. As a result of this spreading cherry production area, including greenhouse production, the cherry supply season has been extended to begin in early March and ends in late July.

Dozens of cherry varieties are planted in China, but the most commercially cultivated varieties are European, such as Brooks, Bing, Rainier, Van, and Lapin. Recently, Chinese farmers are in the process of replacing some existing cherry varieties with varieties that better match current Chinese consumer demand. For example, Bing and Russia No. 8 fruit has a large size, firm flesh, and a sweet taste.

Unlike peaches and nectarines, consolidated farming is happening slowly in cherry production. Although some cherry farmers have already entered their 60s or even 70s, they do not want to give up their land as growing cherries remains quite profitable. For example, agricultural input costs (not including labor) is estimated at around RMB 30,000 (\$4,348) per hectare, yet sales value will easily exceed RMB 150,000 (\$21,739), although cherry yield is relatively low at 7,500 kilos per hectare, compared with other fruit, according to Yantai cherry farmers.

Prices

Peaches and Nectarines

Although China is expecting a bumper harvest of peaches and nectarines in MY 2019/20, purchase prices for early mature varieties were dramatically higher than the previous year. In Shandong, for example, farm gate prices for early mature nectarines were quoted at 8 RMB per kilo (\$1.16), an increase of 30 percent from the previous year, largely driven by an increase in overall fruit prices. According to the National Statistics Bureau, the consumer price index (CPI) for fresh fruit rose 27 percent in May. Last year, a severe frost in April 2018 caused the country's apple and pear production to drop by more than 20 percent. As a result, apple and pear supplies have been tight in 2019, triggering an increase in all fruit prices.

As more fresh fruit becomes available starting in July, overall fruit prices will begin to fall. In addition to peaches and nectarines, watermelons and grapes will also begin supplying the market in large volumes beginning in July and continuing through September. Pears and early apples will also start coming to market in large volumes in August, continuing to drive down overall fresh fruit prices.

Cherries

A rising tide lifts all fruit baskets. The current high fruit prices have also pushed up cherry prices this year, despite increased production and smaller fruit size. In Shandong's Yantai region, for example, the farm gate price for Meizao (Bing) cherries was 40-50 RMB (\$5.8-\$7.2) per kilo, an increase of 20 percent from the previous year. In addition, in early March, prices for greenhouse cherries in Yantai were 140-160 RMB (\$20.30 - \$23.20) per kilo.

Consumption

Peaches and nectarines

With increased supplies of locally-produced peaches and nectarines, Chinese consumers are becoming more selective about fruit quality. Often, peaches and nectarines are marketed as having special flavor and/or color characteristics. For example, yellow flesh peaches, which used to be processed as canned peaches only, are gaining popularity as fresh fruit and yellow nectarines (the color of which is achieved through bagging) are sold at a much higher prices than traditional red-skinned nectarines. Flat (or donut) nectarines have also appeared on the market as trendy, new fruits. Increased cold-chain logistics and marketing have helped imported peaches and nectarines gain popularity in the first and second-tier city supermarkets, especially during the local off-season.

Consumption of processed peach products, mainly canned peaches, peach juice and beverages, and preserved peaches remain quite stable.

Cherries

With increased production and an extended supply season, Chinese cherry consumption continues to increase. According to recent research by the Chinese e-commerce site Fruitday, Chinese consumers prefer large, dark red, firm, and sweet cherries. Due to the fast growing demand for cherries, online e-commerce retailers are working with suppliers to combine enhanced marketing with improved logistics. This combination has resulted in faster growth in third and fourth-tier cities. This fast growing demand represents strong potential for imported cherries, according to industry sources.

Trade

Import

Cherries are the largest fruit import in China, by value. In MY 2018/2019 (April-March), China imported 180,165 MT of cherries at a value of \$1.3 billion. Cherry imports are expected to increase to 190,000 MT in MY 2019/20. Most imported cherries are from the Southern Hemisphere and arrive between November and February, with volumes peaking in January, around Chinese New Year. Benefiting from a Free Trade Agreement and abundant exportable supplies, Chile remains the single largest cherry supplier to China and the import volume is expected to continue increasing in the next few years as cherry production continues to increase there.

The Northern Hemisphere shipping period begins in June and ends in September. While the United States remains the leading cherry supplier to China during the summer season, the import volume from the United States fell sharply in MY 2018/2019 because of ongoing trade tensions between the two countries. While the United States will probably remain the largest cherry supplier during the summer, its share is likely to decline given additional tariffs imposed on the U.S. fruit. On the other hand, cherries from Canada, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkey, are expected to increase this year. Shanghai is the main port of entry for direct cherry imports from the United States and Canada, primarily by air shipment.

China's Cherry Import in 2016-2018 (Metric Ton)

Trade Partner	2016	2017	2018
Countries with FTA			
Chile	91,637	68,951	163,475
Australia	670	359	1,597
New Zealand	983	1,178	1,043
Countries with no FTA			
United States	13,830	27,026	14,398
Canada	1,910	4,288	5,482
Uzbekistan	0	0	148
Kyrgyzstan	78	39	67
Tajikistan	32	43	46
Turkey	0	2	8

Source: China Customs

Compared with cherries, China's peach and nectarine imports are quite low, but the volume is increasing quickly after more countries have gained access to the China market. Large imported volumes occur during the local off-season between January and April. Chile and Australia remain the two dominant suppliers and their import volumes are expected to increase in MY 2019/20 (January-December), especially now that Chinese tariffs on Australian stone fruit were eliminated on January 1, 2019 as part of a bilateral Free Trade Agreement.

Export

China's peach and nectarine exports are expected to rebound to 80,000 MT in MY 2019/20 (January-December), an increase of 26-percent on a yearly basis, due to a bumper harvest that will provide more exportable supplies. MY 2018/19 peach/nectarine exports have been revised down to 63,400 MT in line with China's customs statistics. China exports peaches and nectarines mainly to Central Asian countries including Kazakhstan and Russia and Southeast Asian countries, typically Vietnam.

In the absence of widespread post-harvest treatment, China exports a very limited volume of cherries to neighbors such as Russia and Thailand.

Policy

Taxes and Tariffs

China lowered the value added tax (VAT) rate on sales and imports of agricultural products, including fresh fruit, from 10 percent to 9 percent on April 1, 2019. This is the third consecutive year that China has lowered the VAT rate on agricultural products (13 percent to 11 percent in 2017 and 11 percent to 10 percent in 2018).

In response to the U.S. 232 Trade Action and 301 Investigation, China imposed additional tariffs on U.S.-origin products including fresh fruit with the latest round of additional tariffs entering force on

June 1, 2019 (see GAIN report CH19030). As a result, U.S. stone fruit is subject to a 50-percent cumulative import tariff-much higher than the rate applied to other competitors.

Import Tariffs and VAT on Stone Fruit with Major Trading Partners in 2019

Trade partner	Tariff (%)		VAT (%) (as of April 1)
	Peaches/Nectarines (HS code 080930)	Cherries (HS code 080929)	
Country/Region with FTA			
Chile	Nectarines-0 Peaches-No market access	0	9
Australia	0	0	9
New Zealand	No market access	0	9
Taiwan	Peaches-0 Nectarines-No market access	No market access	9
Country/Region with no FTA			
United States	No market access	50 (as of June 1)	9
Canada	No market access	10	9
Argentina	No market access	10	9
Spain	Peaches-10 Nectarines-No market access	No market access	9
Turkey	No market access	10	9
Uzbekistan	No market access	10	9
Kyrgyzstan	No market access	10	9
Tajikistan	No market access	10	9

Source: China Customs

New Market Access

China and Argentina signed a protocol on December 2, 2018, that officially opened the China market to Argentine cherries. However, Argentina is not a major cherry producer or exporter.

Production, Supply, and Demand (PS&D) Tables

Peaches and Nectarines

Peaches & Nectarines, Fresh	2017/2018		2018/2019		2019/2020	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	840000	840000	850000	850000	0	860000
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
Commercial Production	14300000	14300000	13500000	13500000	0	15000000
Non-Comm. Production	0	0	0	0	0	0
Production	14300000	14300000	13500000	13500000	0	15000000
Imports	8800	8800	20000	22000	0	28000
Total Supply	14308800	14308800	13520000	13522000	0	15028000
Fresh Dom. Consumption	11812700	11812700	11215000	11258600	0	12548000
Exports	96100	96100	105000	63400	0	80000
For Processing	2400000	2400000	2200000	2200000	0	2400000
Withdrawal from Market	0	0	0	0	0	0
Total Distribution	14308800	14308800	13520000	13522000	0	15028000

Unit: hectare, metric ton

Cherries

Cherries (Sweet&Sour), Fresh	2017/2018		2018/2019		2019/2020	
Market Begin Year	Apr 2017		Apr 2018		Apr 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	115000	13000 0	125000	14000 0	0	15000 0
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
Commercial Production	380000	38000 0	340000	34000 0	0	42000 0
Non-Comm. Production	0	0	0	0	0	0
Production	380000	38000 0	340000	34000 0	0	42000 0
Imports	191509	19150 9	170000	18016 5	0	19000 0
Total Supply	571509	57150 9	510000	52016 5	0	61000 0
Fresh Dom. Consumption	559455	55945 5	500000	51013 7	0	60998 0
Exports	54	54	0	28	0	20
For Processing	12000	12000	10000	10000	0	20000
Withdrawal from Market	0	0	0	0	0	0
Total Distribution	571509	57150 9	510000	52016 5	0	61000 0

Unit: hectare, metric ton

Marketing

Peaches

Local governments and farm cooperatives in major peach producing regions continue to organize marketing activities to help peach growers/brokers sell their products. Local peach varieties are registered and branded under the name of the producing region. Main outlets for marketing local peach products are at peach blossom festivals where growers and brokers invite clients, such as retailers, institutional buyers, and wholesalers, to visit orchards and make future orders. Both online and offline retailers are making direct purchases from peach orchards, especially those with a premium variety. Promoting peaches based on their geographic region is also popular. Wuxi in Jiangsu Province and Longquan in Sichuan Province are widely known for their peach varieties.

Cherries

Imported cherries are widely available both online and offline. U.S. cherries are sold on most e-commerce platforms in China. The share of cherry sales through online platforms is increasing every year. For e-commerce sales, fruit is stored in local cold chain warehouses and can usually be delivered within one or two days, and in some cases, within hours. In addition, e-commerce websites also provide an educational platform where consumers can learn about the benefits of imported fruit and how the fruit is grown and harvested. Nevertheless, cold chain logistics remain a challenge for high-value fresh fruit imports, especially U.S. cherries and appropriate cold chain management is still not guaranteed.

Imported U.S. cherries face growing competition from China's domestic cherries. As previously noted, domestic production is increasing and more varieties are competing directly with imported fruits. Varieties such as Early Beauty and Shamidou are suitable for long-distance transportation and are readily available in first-tier cities. Given the wide geographical distribution of China's cherry crop, the domestic growing season in China overlaps with both California and Northwestern cherry seasons. While the quality of local fruit is improving, post-harvest management still lags behind the major cherry exporting countries.

Cherry imports from outside the United States are also growing. Canadian cherries have had access since 2014 and are marketed at prices comparable to U.S. cherries. Turkey and Uzbekistan gained market access in 2016 and 2017, respectively, but import volumes are still low due to high shipping costs. In addition, Tajikistan, Kyrgyzstan, and Kazakhstan all have market access, but with limited volume. According to industry feedback, cherry exports from the Central Asian countries require extensive fumigation, which affects the taste and quality of the fruit.

In-store promotions, tastings, and point-of-sale displays have proven to be effective in increasing product awareness among Chinese consumers and have increased sales during promotional events. Online retail platforms are also very helpful to educate consumers about cherries, showing how cherries are grown, picked, and harvested. Hosting training seminars for traders and retail managers on product handling and tips to increase profitability can also help build support for imported product. Packaging can also stimulate sales, especially during holiday seasons. Chinese consumers tend to buy visually attractive, well-packaged products as gifts for important contacts or relatives. Consumer-ready cherries in packages of 1-2.5 kg, for example, have become especially popular.