



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 8/20/2005

GAIN Report Number: CH5062

China, Peoples Republic of

Tree Nuts

Annual

2005

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Report Highlights:

China's walnut production in MY 2005 is forecast at 388,000 MT, up 8 percent from the previous year, attributed to favorable weather and increased crop area. Production and consumption of other nuts is up slightly. Consumption of nuts is also up slightly. Walnut exports are increasing. The import volume of nuts is growing, but sensitive to world prices.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1]
[CH]

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Executive Summary

Walnuts are the principle tree nuts produced in China and production is forecast at 388,000 MT for the 2005/06 marketing year, up nearly 8 percent from the previous year as a result of favorable weather and increased acreage.

The continued strong market has contributed to the growing number of walnut plantations. In addition, the Chinese government soil conservation objectives have encouraged farmers to convert land into forests, orchards and grasslands and plant trees, including walnuts. Provincial governments in some major producing regions, such as Yunnan, Xinjiang and Shanxi, are also encouraging walnut production in their localities.

Almonds are doing well in western Xinjiang and acreage has grown, albeit from a small base. Current production is about 1,200 MT, mostly consumed locally.

Consumption of tree nuts, especially walnuts, is growing. Walnuts are considered a healthy food. As Chinese people earn more, they become more concerned about their health and have begun to look at walnuts as a healthy addition to their diet. Other nuts are mostly considered "snack foods." Nut consumption is centered mainly in more developed urban areas and is often seasonal around traditional holidays like Chinese New Year.

Increased world demand has sparked increased exports of walnuts. Walnut imports are small but increasing. The few exports of other nuts are mainly for processing. Imports of other nuts are increasing steadily along with income growth.

Production

China's walnut production is forecast at 388,000 MT in MY 2005, with the harvest beginning in October, due to generally favorable weather conditions in major producing areas and prior years plantings beginning to bear fruit. Walnut production is estimated at about 360,000 MT in MY 2004, up from Post's previous estimate of 350,000 MT and in line with current industry expectations. The MY 2003 production has also been revised slightly to reflect the actual situation. While the State Statistical Bureau has put their preliminary estimate for the 2004 MY crop at over 414,000 MT, current high market prices do not seem to support their estimate.

Official data on walnut acreage is unavailable. Walnuts account for an estimated 1,009,800 hectares in MY 2005, up about 8 percent from the previous year. Increased plantings reflect the attractiveness of historically high prices. While walnuts are grown across China, principle-producing provinces are Yunnan, Sichuan, Xinjiang, Shanxi, Shaanxi, and Hebei. Northern China experienced good rains this season, which is expected to bring a good harvest. While southern Yunnan production was down due to an unusual drought, overall production is forecast higher as acreage has increasing about 10 percent each year for the last several years.

Planted acreage is expanding in Xinjiang, where large tracts of land are dry and not suitable for other crops. In Xinjiang, an estimated 66,000 hectares of new plantings are being added each year. This trend will making Xinjiang the largest walnut producing area in China within five years.

Given current strong market prices, revenue from walnuts can generate more income than crops like grains and fruits. As a result, farmers are gradually adding more area this crop. But the available land for conversion is limited, as small-scale farmers need to plant some traditional crops like corn and vegetables for on-farm consumption.

Walnuts are harvested by hand, husked and sun-dried from late August till mid-September in most producing areas. In places like Shanxi, most plantations are older, accounting for approximately 90 percent of production. These older trees are difficult to harvest and do not produce well, producing between 3-5 kilos of in-shell walnuts per year, but the trees have few pests and diseases and are drought-resistant. New plantings, usually through grafting, though infrequent, introduce new varieties that are shorter, have thinner shells, and start bearing fruit in 3-4 years.

Production volume of other nuts is quite small, and except for almonds, data is unavailable and planting-area is either very small or non-existent. Almonds are planted mainly in southern Xinjiang, with annual production reaching 1,200 MT in MY 2004. Expansion projects for almonds continue with production areas expected to reach 66,000 hectares by 2010. Almonds produced in Xinjiang are mainly for local consumption and a poor transportation infrastructure in Xinjiang limits export opportunities, except to neighboring central European countries. Experimental almond orchards in Shanxi and Shandong did not adapt to local conditions.

Consumption

Aside from walnuts, the Chinese do not have a strong tradition of eating nuts. Nut consumption, even for walnuts, is quite seasonal, dropping to almost zero during the summer months and extremely high around holidays traditionally associated with nut consumption, like Chinese New Year. Salted nuts are preferred.

Because of the relative high cost of nuts, domestic consumption of tree nuts is rising concurrently with income and consumption is concentrated in urban areas, particularly the larger cities in the more developed regions.

Chinese consumers responded to media reports that walnuts are a "nutritional" food, which has accelerated the increase in walnut consumption and led to the introduction of walnut products like walnut drinks and walnut powder. Other nuts, like almonds, are still considered snack foods.

Trade

Chinese walnut products are mainly exported to Europe and Japan. Post's revised estimates for the MY 2003 and MY 2004 walnut exports are 25,268 MT and 32,980 MT, respectively, based on official customs data. Exports are likely to continue to increase in MY 2005; world demand for walnuts is expected to remain strong and production is expected to increase. The appreciation of local currency by 2 percent in July is unlikely to affect China's walnut exports.

Significant gray market imports of nuts make official import numbers unreliable. China's import of nuts continues growing, despite mostly higher prices. While current import volume of walnuts to China is relatively small, the U.S. is the largest supplier with 97 percent of the total imports share in 2004. Imports of shelled almonds, also mostly from the U.S., grew, with volume increasing from 581 MT in 2003 to 778 MT in 2004. In-shell almonds imports dropped to 418 MT in 2004 from 1,243 MT in 2003.

China processes and re-packs imported nuts, such as pistachios and macadamia nuts, for re-export to the United States and Europe. Imports of pistachios, mainly from Iran and United States, dropped in 2004 due to higher world market prices. Macadamia nuts, however, saw their import volume doubled from 6,772 MT in 2003 to 13,139 MT in 2004 due to a larger crop in Australia.

Prices

Domestic walnut prices increased again on continued domestic demand and export opportunities. Record high farm gate prices in MY 2004 ranged from 15 to 18 RMB per kilo. Domestic prices during Chinese New Year were up more than 60 percent over the same period of the previous year.

Walnut processors also reported that export prices have been rising. Given current market demand, walnut prices are expected to remain high in MY 2005 despite a good harvest.

The import prices of almost all nuts increased dramatically in MY 2004 on tight world supply. For example, the average import price of in-shell almonds doubled in 2004 to reach US\$2.59 per kilo from US\$1.29 in 2003, according to China Customs statistics.

Policy

Central and provincial governments are supporting agriculture, including tree nuts, with a variety of programs, including research, extension services, conservation, direct payments and tax relief.

The most significant policy effort on tree nuts is the central government subsidies for converting cropland on slopes in western China to forests, orchards and grassland for conservation purposes. While no more than 20 percent of land using this program may be converted to economically beneficial agriculture, good returns on walnut trees make them preferred by farmers. Under this program, farmers receive cash subsidies ranging from 160 to 230 RMB per mu (1 ha = 15 mu), depending on the region.

Among the provincial governments' support of crop development, the most significant for tree nuts is the Yunnan provincial government's allocation of 10 million RMB each year to facilitate walnut farming in the province.

This year China completed its WTO implementation of its tariff concessions on nuts. Tariffs range from 10 to 24 percent and then are subject to a 13-17 percent value added tax.

Marketing

After walnuts are harvested, wholesalers or middlemen come to collect walnuts at farms and take them to either wholesale markets or processors for cleaning and grading. This is especially the case where individual farmers are producing walnuts on small acreage.

Domestically produced walnuts, both shelled and in-shell, can be found in wholesale markets and supermarkets in bulk. Salted or sweetened walnut meats in packages are available in local supermarkets. Walnuts for export, mostly shelled but unprocessed, are packed in plastic containers in halves, quarters, and meats.

Walnut processors used to go to trade shows to market their products overseas, but international buyers now coming directly to Chinese processing plants to source product. Despite efforts to expanding their production capacity by building additional production lines, local processors are not meeting the increased supply of raw product or demand for shelled walnuts.

Tables

Walnuts Wholesale Market Prices in Selected Regions

Region	North	Northeast	Central	South	Southwest	West	China
Time	Monthly and quarterly average prices in USD per kilogram RMB 8.265 = US \$1)						
January 2004	0.96	1.11	1.03	N/A	1.57	1.09	1.04
February 2004	1.01	1.37	1.51	N/A	1.39	N/A	1.23
March 2004	1.12	1.23	1.07	N/A	1.15	N/A	1.13
Avg Q1 2004	1.03	1.24	1.20	N/A	1.33	1.09	1.13
April 2004	1.03	1.26	10.5	N/A	1.94	N/A	1.13
May 2004	1.02	1.21	1.09	N/A	1.94	N/A	1.19
June 2004	1.09	0.97	1.09	N/A	1.94	N/A	1.14
Avg Q2 2004	1.05	1.19	1.07	N/A	1.94	N/A	1.15
July 2004	1.09	1.45	1.09	N/A	2.06	N/A	1.32
August 2004	1.11	1.15	1.09	N/A	1.94	0.32	1.15
September 2004	1.00	1.36	1.06	N/A	1.94	0.43	1.08
Avg Q3 2004	1.06	1.32	1.08	N/A	1.97	0.40	1.17
October 2004	1.26	1.14	1.09	2.42	1.81	0.44	1.24
November 2004	1.24	1.25	1.29	N/A	1.39	N/A	1.26
December 2004	1.19	N/A	1.27	1.45	1.45	N/A	1.26
Avg Q4 2004	1.23	1.21	1.23	1.94	1.50	0.44	1.26
Avg 2004	1.10	1.24	1.14	1.94	1.69	0.51	1.18
January 2005	1.39	1.45	1.23	N/A	N/A	N/A	1.37
February 2005	1.56	1.45	1.27	9.62	1.94	N/A	2.76
March 2005	1.34	1.33	1.27	N/A	1.94	N/A	1.38
Avg Q1 2005	1.43	1.41	1.26	9.62	1.94	N/A	1.84
April 2005	1.32	N/A	1.45	1.94	1.94	N/A	1.53
May 2005	1.48	N/A	1.51	N/A	1.94	N/A	1.52
June 2005	1.40	1.21	1.09	N/A	N/A	N/A	1.30
Avg Q2 2005	1.40	1.21	1.40	1.94	1.94	N/A	1.48
Avg 2005 to date	1.42	1.38	1.32	7.06	1.94	N/A	1.67

Note: Future prices will use an exchange rate of RMB 8.10 = US\$1 since China appreciated RMB in July 2005.

Walnut Production, Supply and Demand (PSD) table

PSD Table						
Country	China, Peoples Republic of					
Commodity	Walnuts, Inshell Basis				(HA)(1000 TREES)(MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2003		10/2004		10/2005
Area Planted	916750	916750	935000	935000	0	1009800
Area Harvested	779000	779000	790000	790000	0	858000
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	320000	325000	350000	360000	0	388000
Imports	1782	2360	1500	2438	0	2800
TOTAL SUPPLY	321782	327360	351500	362438	0	390800
Exports	21000	25268	23000	32980	0	39500
Domestic Consumption	300782	302092	328500	329458	0	351300
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	321782	327360	351500	362438	0	390800

Export Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Walnuts, Inshell Basis		
Time Period		Units:	MT
Exports for:	2003		2004
U.S.	28	U.S.	18
Others		Others	
U.K.	4775	U.K.	7346
Japan	4075	Japan	5569
Germany	3213	Canada	2253
Canada	2700	Germany	2296
N. Korea	2211	Vietnam	1373
Hong Kong	1614	N. Korea	1273
Australia	1270	Australia	1050
France	833	Hong Kong	962
Saudi Arabia	638	U.A.E	800
Taiwan	508	Taiwan	725
Total for Others	21837		23647
Others not Listed	2801		3959
Grand Total	24666		27624

Note: Export numbers of walnut products have been converted into in-shell basis using a ratio between in-shell and shelled of 1: 0.4.

Import Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Walnuts, Inshell Basis		
Time Period		Units:	MT
Imports for:	2003		2004
U.S.	1398	U.S.	2588
Others		Others	
Russia	47	Bulgaria	25
South Africa	8	Laos	23
Japan	9	Japan	9
Peru	4	North Korea	8
China	2	South Africa	6
		Australia	5
		China	5
Total for Others	70		81
Others not Listed	0		0
Grand Total	1468		2669

Note: Import numbers of walnut products have been converted into in-shell basis using a ratio between in-shell and shelled of 1: 0.4.