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China, Peoples Republic of

Canned Deciduous Fruit

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Report Highlights:

The United States is the top market for Chinese canned yellow peaches, with the number growing between 40 and 60 percent each year. Canned peach exports are forecast at 115,000 MT in MY2007, up 13 percent from the previous year. China's canned peach production is forecast at 269,000 MT in MY2007, up 15 percent from the previous year, due to strong world demand and a growing domestic market. Canned pears, canned mixed fruit, and canned apricots are forecast at 64,000 MT, 33,000 MT, and 13,500 MT, up 8,23 and 37 percent, respectively, from the previous year, attributed mainly to rapid export market growth. Consumption of canned yellow peaches is growing at an annual rate of 20-30 percent, however growth in other canned fruit is slow. The canning industry rarely receives government support, such as subsidized loans.

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Executive Summary

Canned peach production is forecast at 269,000 metric tons (MT) in the 2007 marketing year (MY) beginning in June, up 15 percent from the previous year, driven by strong world demand and a growing domestic market. Canned pears are forecast at 64,000 MT in MY 2007, up 8 percent from the previous year, due to stable growth in the export market. Canned apricots and canned mixed fruit are forecast at 13,500 MT and 33,000 MT in MY 2007, up 37 and 23 percent, respectively, compared to the previous year, due to strong world demand.

Canning companies may face shortages of yellow peaches and higher purchase prices this season as yellow peach production growth has not kept pace with canned yellow peach expansion. Major export-oriented canneries have begun contracting farmers to build-up fruit orchards to ensure supplies of raw materials and fruit quality in the future.

Production costs in 2006 increased by 30 percent compared to 2004 because of higher materials costs. Labor costs are also rising as the labor force has become insufficient in meeting the demand in certain areas of China. Industry sources indicate that escalating mechanization levels is the likely next step companies will take in the near future. Despite tight profit margins, large companies are expanding production capacity in order to produce as much canned fruit as possible during the harvest. Increased processing facilities are also aimed at producing more diverse canned products to meet different consumer preferences.

Consumption of canned yellow peaches has traditionally entered in the northern part of China. Recently, consumption has experienced annual growth rates of 20-30 percent. Other canned fruit products, however, are not so popular among Chinese consumers and annual growth in consumption is quite limited. Canned fruit is only consumed in major cities mostly located in northern China and northeastern provinces. The southern China market is also growing but quite slowly. Industry groups and canning companies are planning on investing greater efforts to changing consumer's perception of canned fruit through media campaigns.

The United States is the top market for Chinese canned yellow peaches, with the number growing between 40 and 60 percent each year. Russia is quickly catching up as an emerging market. Japan remains the single largest buyer of canned white peaches although the number is relatively stable. Canned apricots and mixtures are also expecting strong export growth, largely due to strong buying interest from Russia and the United States.

The sales of imported canned fruit through retail channels to individual consumers are relatively minor and limited to expatriates. China's baking industry in China utilizes the majority of imported canned fruit. Overall imported canned fruit is more colorful and with less imperfections of shape, skin or texture.

Production

Canned peach production is forecast at 269,000 metric tons (MT) in the 2007 marketing year (MY) beginning in June, up 15 percent from the previous year, driven by strong world demand and a thriving domestic market. Canned pears are forecast at 64,000 MT in MY 2007, up 8 percent from the previous year, due to stable growth in the export market. Canned apricots and canned mixed fruit are forecast at 13,500 MT and 33,000 MT in MY 2007, up 37 and 23 percent, respectively, from the previous year, attributed to strong world demand.

Canning companies may face shortages of yellow peaches and higher purchase prices this season as yellow peach production growth has not kept pace with canned yellow peach expansion. Major export-oriented canneries have begun contracting farmers to build-up fruit orchards to ensure supplies of raw materials and fruit quality in the future. A few large companies are also considering building orchards for organic production in response to strong global demand for low-priced organically produced fruit.

Fruit canning is small and one of the least profitable sectors in the canning industry. In addition to rising production costs (such as water, electricity, canning materials, sugar and fuel, the costs of which, according to industry sources, have risen by 30 percent from 2004), labor cost is also increasing and regional labor forces have tightened and become insufficient in certain areas. Industry sources indicate that escalating mechanization levels is the likely next step companies will take in the near future. Currently, production of one metric ton of canned fruit requires about 25 laborers.

Despite increases in production-related costs displacing a number of small canneries, large companies have invested more in new facilities. The reason for doing so is to produce as much canned fruit as possible during harvest, especially for short shelf life fruit like peaches. Increased processing facilities are also aimed at producing more diverse canned products to meet different consumer preferences.

Trade

China exports a significant portion of the canned fruit it produces, with the exception of canned yellow peaches, which also have a market domestically. Export prices have experienced notable increases as a result of higher production costs and appreciation of local currency. In addition, Chinese companies complain of high tariffs maintained by the United States and the European Union. Despite these difficulties, export volumes are growing precipitously due to strong world demand.

The United States is the top market for Chinese canned yellow peaches, with the number growing between 40 and 60 percent each year. Russia is quickly catching up as an emerging market. Japan remains the single largest buyer of canned white peaches although the number is relatively stable (the Positive List imposed by Japan on imported foodstuffs in 2006 has no major impact on Chinese canned fruit exports, as these products have passed all additional MRL tests). Despite the strong demand for canned pears, especially from the United States, export volumes are not expected to increase as quickly as other canned fruit, because producers are reluctant to accept the orders in the wake of high production costs offsetting profit margins. Canned apricots and fruit mixtures are also expecting strong export growth, largely due to strong buying interest from Russia and the United States.

China imports a limited amount of canned peaches and fruit mixtures for the bakery sector.

Policy

Although a few agricultural processing enterprises have received subsidized loans from state-owned banks, such cases are rare in the fruit-canning sector. The recent "Five-Year-Plan"

(2006-2010) for the processing food sector published by the Ministry of Agriculture envisions processing facilities for canned fruit and vegetables being built around large cities and in major growing regions in Hebei, Zhejiang, Anhui, Fujian, Shandong, Hunan and Xijiang provinces. The plan provides guidelines and sets targets for the agriculture-related processing industry, however, actual incentives or legislation may be released at a later time. Industry sources indicate one of the supportive measures may be increasing the tax rebate rate for exported farm products, including processed products (export subsidy). Chinese enterprises currently enjoy a 13 percent tax rebate from the government for processed farm products destined for export. Other policy changes may include the establishment of specialized funds for agricultural processing, reform on value-added tax, expanding coverage of policy insurance service, and encouraging the establishment of specialized credit guarantee agencies to facilitate financing services for agricultural processing enterprises.

Consumption

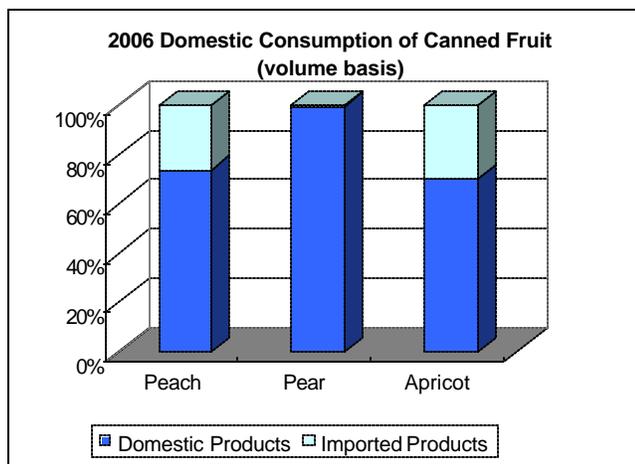
Canned yellow peaches have been traditionally consumed in China. According to industry sources, annual consumption is growing at 20-30 percent. Other canned fruit products, however, are not so popular among Chinese consumers who believe fresh fruit is healthier and better tasting than its canned counterpart because canned fruit contains preservatives. Another factor adversely impacting consumption is that market inspectors occasionally uncover low quality canned fruit produced by small canneries. Damaged product image contributed to the limited annual growth in consumption. Currently, canned fruit is consumed only in major cities mostly located in northern China and northeastern provinces (Heilongjiang, Jilin and Liaoning). Consumers in the northeast have traditionally accounted for China's canned fruit consumption. Industry sources revealed a remarkable portion of canned fruit is produced and consumed in this region. The southern China market is also growing but quite slowly.

Major canned fruit manufacturers are focusing on international markets and have not bothered to nurture the domestic market. Industry groups, along with canning companies, are planning on investing greater efforts to changing consumer perceptions of canned fruit through media campaigns.

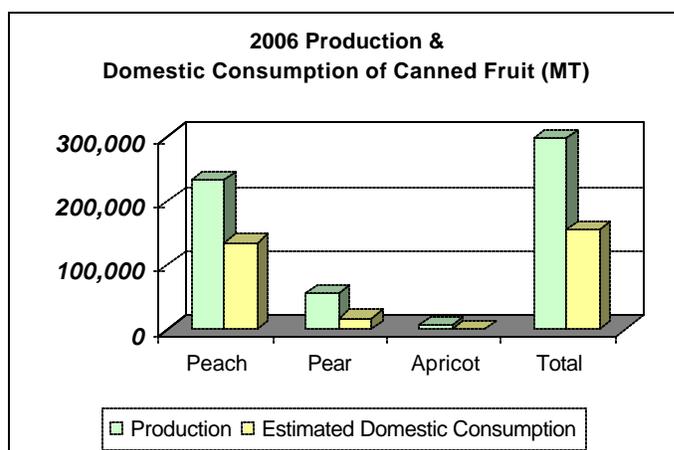
Unlike the United States, the majority of canned fruit sold in China is in class jars. Although production and transportation costs are higher, manufacturers choose to produce canned fruit in glass jars because leery Chinese consumers like to inspect the fruit before making buying decisions.

Marketing

Most of China's canned fruit manufacturers concentrate strictly on foreign markets. Therefore domestic suppliers do not have many products that can meet local consumers' taste preferences. Manufacturers have limited budget resources dedicated to educating local consumers or conducting massive market campaigns. The industry's marketing efforts primarily focus on the northeast China region that habitually consumes canned fruits. Billboards, bus advertisements and free tasting



are commonly used promotional tools.



With domestic canned fruit consumption so limited, sales of imported canned peaches, pears and apricots through retail channels to individual consumers are minimal. These products are found only at a few high-end retail outlets that target expatriate consumers. One major importer/distributor in Shanghai imports around 100 cases of canned fruit every year supplying his own five stores, which are all situated in expatriate residential areas throughout Shanghai.

Another Beijing imported food distributor imported two 20-foot containers of canned fruit in 2006 and predicted declining demand in expensive imported products. The high-end star-rated hotels also rarely use imported canned fruit because they have abundant supplies of various fresh fruit available year-round.

The emerging Chinese baking industry uses the majority of imported canned peaches, pears and apricots. Cakes and other bakery items garnished with sliced fruit including peaches, pears and apricots are common items in China's bakery shops. Consumers may not necessarily eat these fruit garnishes, but colorful and uniform fruits contribute to the appearance of the desert, anchoring new consumers. Compared with locally-produced canned fruit, imported products have the advantage of superior taste and uniform shape and texture and are therefore widely used by bakeries even though imported products cost significantly more than the local product. When the visual appearance is not an important factor, local products will use domestically produced canned fruit in order to reduce production costs. As a comparison, a can of locally produced yellow peaches weighing 425g costs \$0.67; an imported can of peaches from Germany weighing 340g costs \$4.17.

Tables

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

Canned Peaches

PSD Table

Country	China, Peoples Republic of								
Commodity	Peaches, Canned						(MT)(MT, Net Weight)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		06/2005	06/2005		06/2006	06/2006		06/2007	06/2007
Deliv. To Processors	309000	309000	309000	343575	343575	343575	0	0	403500
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	206500	206500	206500	234050	234050	234050	0	0	269000
Imports	4300	4300	2598	950	950	4300	0	0	3000
Total Supply	210800	210800	209098	235000	235000	238350	0	0	272000
Exports	75000	75000	80827	90000	90000	102000	0	0	115000
Domestic Consumption	135800	135800	128271	145000	145000	136350	0	0	157000
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	210800	210800	209098	235000	235000	238350	0	0	272000

Trade Matrices for Canned Peaches

Import Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Peaches, Canned		
Time Period		Units:	MT
Imports for:	2005		2006
U.S.	1345	U.S.	2244
Others		Others	
South Africa	653	South Africa	1271
Greece	148	China	159
Japan	31	Greece	156
China	16	Philippines	18
Thailand	1	South Korea	17
South Korea	1	Italy	12
		Thailand	2
Total for Others	850		1635
Others not Listed	0		0
Grand Total	2195		3879

Export Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Peaches, Canned		
Time Period		Units:	MT
Exports for:	2005		2006
U.S.	13989	U.S.	20390
Others		Others	
Japan	37938	Japan	38498
Thailand	3941	Russia	6572
Russia	3918	Yemen	4930
South Korea	2739	South Korea	3710
Yemen	2472	New Zealand	2952
Canada	1907	Mexico	2446
New Zealand	1820	Canada	2250
Philippines	1256	Saudi Arabia	1432
Saudi Arabia	1159	Estonia	1276
Australia	922	Thailand	1142
Total for Others	58072		65208
Others not Listed	5343		6931
Grand Total	77404		92529

Canned Pears

PSD Table

Country	China, Peoples Republic of								
Commodity	Pears, Canned						(MT)(MT, Net Weight)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		06/2005	06/2005		06/2006	06/2006		06/2007	06/2007
Deliv. To Processors	79200	79200	80256	91900	91900	95120	0	0	102400
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	49500	49500	50160	57450	57450	59450	0	0	64000
Imports	50	50	96	50	50	150	0	0	210
Total Supply	49550	49550	50256	57500	57500	59600	0	0	64210
Exports	33000	33000	33829	40000	40000	42000	0	0	46000
Domestic Consumption	16550	16550	16427	17500	17500	17600	0	0	18210
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	49550	49550	50256	57500	57500	59600	0	0	64210

Trade Matrix

Export Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Pears, Canned		
Time Period		Units:	MT
Exports for:	2005		2006
U.S.	14126	U.S.	17570
Others		Others	
Germany	4135	Germany	2647
Greece	3146	Greece	2249
Japan	1956	Japan	2226
Canada	1577	Thailand	2009
Spain	1100	Canada	1531
Italy	1033	Russia	1422
Yemen	1000	Spain	1206
Russia	989	Netherlands	584
Netherlands	640	Yemen	562
Thailand	421	Italy	459
Total for Others	15997		14895
Others not Listed	4481		3614
Grand Total	34604		36079

Canned Apricots

PSD Table

Country	China, Peoples Republic of								
Commodity	Canned Apricots						(MT)(MT, Net Weight)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		06/2005	06/2005		06/2006	06/2006		06/2007	06/2007
Deliv. To Processors	5420	8684	8400	9260	9620	12800	0	0	17550
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	3940	6680	6424	7400	7400	9850	0	0	13500
Imports	260	340	411	250	250	300	0	0	200
Total Supply	4200	7020	6835	7650	7650	10150	0	0	13700
Exports	3100	5900	5735	6500	6500	9000	0	0	12500
Domestic Consumption	1100	1120	1100	1150	1150	1150	0	0	1200
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	4200	7020	6835	7650	7650	10150	0	0	13700

Trade Matrix

Export Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Canned Apricots		
Time Period		Units:	MT
Exports for:	2005		2006
U.S.	24	U.S.	127
Others		Others	
Russia	1621	Russia	3052
Germany	1469	Germany	1440
Japan	533	Japan	678
Estonia	446	Estonia	587
Canada	410	New Zealand	456
Australia	311	Australia	314
New Zealand	150	Canada	313
UK	122	Netherlands	261
France	92	UK	214
Israel	87	Czech Republic	198
Total for Others	5241		7513
Others not Listed	422		539
Grand Total	5687		8179

Canned Mixtures

PSD Table

Country	China, Peoples Republic of								
Commodity	Canned Mixtures						(MT)(MT, Net Weight)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		06/2005	06/2005		06/2006	06/2006		06/2007	06/2007
Deliv. To Processors	0	0	0	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	11100	18310	17275	26540	26540	26800	0	0	33000
Imports	1200	582	742	300	300	2450	0	0	3000
Total Supply	12300	18892	18017	26840	26840	29250	0	0	36000
Exports	9300	16212	15317	24000	24000	26300	0	0	32800
Domestic Consumption	3000	2680	2700	2840	2840	2950	0	0	3200
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	12300	18892	18017	26840	26840	29250	0	0	36000

Trade Matrices

Import Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Canned Mixtures		
Time Period		Units:	MT
Imports for:	2005		2006
U.S.	2	U.S.	5
Others		Others	
Philippines	544	Philippines	2084
Thailand	207	Thailand	211
Singapore	17	Malaysia	9
Australia	1	South Korea	4
		Italy	2
		South Africa	1
Total for Others	769		2311
Others not Listed	0		1
Grand Total	771		2317

Export Trade Matrix			
Country	China, Peoples Republic of		
Commodity	Canned Mixtures		
Time Period		Units:	MT
Exports for:	2005		2006
U.S.	3151	U.S.	8741
Others		Others	
Japan	2082	Canada	2274
Canada	2071	Japan	1229
Spain	2019	Germany	1048
Germany	1131	New Zealand	910
France	485	Czech Republic	507
Australia	448	Russia	454
Russia	375	Australia	450
Puerto Rico	370	Spain	447
UK	336	Yemen	410
UAE	333	Netherlands	407
Total for Others	9650		8136
Others not Listed	3163		3868
Grand Total	15964		20745