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China's Peanut Sector

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Report Highlights:
China's peanut sector continues to be characterized by a very large number of small producers. Given the small plots and ample rural labor, production is highly labor intensive, with virtually no mechanization. Despite these limitations, China is the world’s largest producer of peanuts, producing more than twice as much as the second largest producer – India. Producers have few options for marketing their crop except to sell at the prevailing price at harvest time. Over half the peanuts grown in China are crushed for oil and approximately 8 percent are exported.

Includes PSD Changes: No
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Production

Overview: China is the world's largest producer of peanuts. Moreover, its production has been increasing in recent years. According to China's National Statistics Bureau (NSB), domestic peanut production hit 14.81 million metric tons (MMT) in 2002, as compared with 14.44 MMT and 14.42 MMT in 2000 and 2001, respectively (See Table 1). The official production estimate for 2003 has not been officially announced yet. Unofficial sources, however, have estimated 2003 production to be about 15.5 MMT. Production would have been even higher was it not for the excessive moisture in the primary growing regions. Production is concentrated in the east-central provinces of Shandong, Henan, Hebei, Jiangsu and Anhui, all of which usually have soil and water conditions favorable for growing peanuts, notwithstanding 2003. Shandong has been China's largest producing province, with its neighboring province of Henan being a close second.

Limited availability of arable land and a large rural population limits large-scale peanut cultivation; subsistent farming continues to be the norm. Even in leading producing provinces, peanuts compete with other crops, such as cotton, corn, and vegetables, for planted area. The average area planted to peanuts ranges from 0.1 to 0.5 ha. The prices farmers received for competing crops in the preceding year drives their planting decisions. Given the ample supply of cheap labor, most harvesting and shelling still is done by hand. Furthermore, hand harvesting generally results in less damage and loss. In the leading producing provinces, harvesting coincides with the dry season so farmers can sun dry their peanuts. However, large traders/processors, who need to handle relatively large quantities, rely upon industrial driers. Farmers shell most of the peanuts by hand. There are a few small, specialized shellers that use Chinese-made equipment.

Despite the limitations noted above, many Chinese insiders strongly believe in the post WTO accession era, peanuts could be one of the few, if not the only, bulk agricultural commodity for which China enjoys a comparative advantage, based on the following reasons: 1) China has large areas that are suitable for growing peanuts; 2) yields also are relatively high; and, 3) peanut production and processing is labor intensive and China has an ample supply of very low cost labor. This keeps Chinese peanut prices lower as compared with other producers.

Planted Area: Regarding planted area, the latest NSB statistics show it has remained at approximately 4.9 million hectares for the period 2000-2002. Unofficial sources have forecast 2003 planted area to increase to approximately 5.39 million hectares, up by 10 percent as compared with the previous year (See Table 2.) High cotton prices, however, may limit significant increases in the area planted to peanuts. The estimated planted area in Shandong increased by 3.6 percent to 0.98 million hectares.

Yields: Yields in Shandong continue to be high, except in 2002, when a serious drought substantially reduced yields. In general, the yield in major producing provinces remains high and stable. In 2003, the unusually wet fall in the Yellow River reach delayed peanut maturation and harvesting, therefore, yield is expected to be below average. The provinces of Shandong, Henan and Anhui were particularly hard hit by excessive moisture.

As long as domestic edible oils consumption continues to grow and export demand remains strong, planted area is likely to remain stable. Although profitability increased recently, the potential for production expansion is limited because total arable land is limited and competition with other crops like cotton and grain crops is strong. In addition, other crops, such as cotton and soybeans, had good prices in 2003. Nevertheless, new varieties and improved cultivation practices will contribute to higher yields and production in the future and are already credited for the average yield on 25,000 hectares in some of Shandong's peanut producing counties exceeding 5000 kg/ha.

Quality: In most years, the quality of Chinese peanuts is generally good. In MY99/00, however, aflatoxin was a serious problem. Excessive moisture during the harvest caused aflatoxin levels to rise. About that same time, the European Union (EU) adopted a stricter aflatoxin standard. Between February and December 2002, the EU imposed strict inspection measures and began surveying China's peanut producing regions and began stricter import inspection criteria for Chinese peanuts. In the past three years, however, China has implemented measures to control the problem. Farmers were taught how to reduce the risk of aflatoxin in harvesting, processing, and storage, and more rigid testing was done before peanuts were purchased. Also, large exporters began using more reliable testing equipment. The quantity exported is only about 8 percent of total production so exporters can choose the highest quality peanuts for export. In August 2002 China's Ministry of Health published a working draft of a standard for aflatoxin (B1) that limits levels to 20 ug/kg for peanuts and peanut products. This regulation, however, has not entered into force as of this writing. FAS/Beijing published a translation of this proposed regulation as GAIN report CH3022.

Depending on the price trend at harvest time, each producer traditionally stores small quantities of peanuts on the farm, while traders and processors rely upon medium-sized storage facilities. The largest peanut crusher Shandong province, for example, stated that he purchases shelled peanuts containing less than 10 percent moisture between September and December. He stores them in an un-refrigerated facility for less than 20 days before moving them out to be processed. Cooling systems, however, are used when large quantities are stored for long periods. Purchasing standards for peanuts used for manufacturing food products, for both domestic consumption and export, are stricter in terms of moisture content and aflatoxin testing.

Policy

The Government of China does not control or intervene in peanut production or marketing. It does not provide subsidies, either direct or indirect.
As an indication of the government's lack of involvement in the peanut industry, China's Ministry of Agriculture (MOA) did not even mention peanuts in its May 2003 report in which it outlined its strategic development plan for major crops. Based on this, it seems unlikely that the government will intervene in the peanut industry anytime in the near future.

Processing and Marketing

Peanut processing is not as highly mechanized and marketing not as highly developed in China as in the United States. Preliminary processing, such as shelling, often is done in households or simple processing facilities that use domestic machinery and hand labor. In general, exporters and crushers purchase shelled peanuts, not in shell, from farmers or small traders.

Some households barter some of their peanuts for edible oil from local mills. Farmers are free to sell their products in the local market. Larger traders and crushers, however, sometimes sign purchasing contracts with farmers to ensure a stable supply. As the total quantity sold by each household is small, in most cases farmers are expected to deliver the goods to the traders'/crushers' local purchasing agents. The consolidated quantity will be transported to storage facilities.

Market promotion activities are limited. Promotion teams led by the China's National Chamber of Commerce for Native Products, a quasi-governmental industry group, attend some trade fairs abroad. Local agricultural fairs are becoming more popular and are attracting peanut dealers as well.

Peanut Product Manufacturing

Overview: Over half of the domestic production is used for crushing, and one-third for domestic food use, 8-10 percent for export and the rest for seeds and other purposes. The processing sector is characterized by many small enterprises that are equipped with traditional Chinese machinery and technology. Big names and brands are not common within the sector. Peanut's relative share in all oilseeds has been declining primarily due to the sharp increase in the supplies of soybeans and rapeseed. Regarding domestic food use, peanuts are eaten as snacks or as appetizers in homes and restaurants; they are not regarded as a main staple food.

Peanut Oil: Traditionally, the northern areas of China, such as Beijing, Tianjin, and Shandong, consume the most peanut oil. That preference, however, may be waning. The latest market trends show refined soybean oil and rape oil are widely accepted by consumers in both Northern and Southern China, primarily because soybean oil and rape oil are about 15-20 percent cheaper than peanut oil. Peanut oil also is used in blended and salad oils in addition to being sold as pure peanut oil.

Peanut oil production fell slightly from the 2.28 MMT in 2000 to 2.22 MMT in 2002. MOA expects that peanut oil production will only increase moderately as compared with the forecast sharp rise in soybean and rapeseed oil production. Most crushing is done in small-scale mills located in the peanut producing regions. Recently, however, some larger players have emerged, particularly in the eastern provinces. Shandong-based Luhua Vegetable Oil Co., for example, has an annual crushing capacity of 500,000 MMT. The actual utilization is forecast at 400,000 MT in 2003. Its product, which is labeled "Luhua Peanut Oil," is a very popular brand throughout China's northern and eastern regions. The technology used by the large crushers is a mix of domestic and imported equipment. In Luhua Co., a newly developed technology called 5S Physical Pressing Technology was employed, which was said to be able to retain the natural color, odor, and taste of peanut oil that many Chinese prefer for cooking. Other notable crushers include Jiali Oil in Qingdao and COFCO's Fulingmen Oil in Shanghai. Foreign investment entered into the sector in the 1990's, mostly from Singapore, Malaysia, Hong Kong, and Taiwan.

Other Processed Products: Other processed products for both domestic and international markets consist of roasted peanuts, oil fried peanuts, and salted roasted in-shell peanuts. Many of the roasted and oil fried peanuts produced in Shandong and Hebei are exported to Japan and other East Asia countries, while small quantities of salted roasted in-shell peanuts from Guangdong, Sichuan, Fujian and Hubei are exported to Southeast Asian countries such as

Malaysia, Singapore, the Philippines, Hong Kong, and Thailand. As discussed in the Trade section below, most Chinese peanuts are exported as raw shelled peanuts

According to industry sources, some investors have shown interest in developing high protein peanuts to alleviate the protein deficiency in Chinese diet. Products made of flour mixed with peanut protein have found acceptance in Zhengzhou, Henan. Peanut milk also is available in some cities.

Trade

Exports: Exports of all peanut and related peanut products (excluding oil) totaled $564 million during MY02/03. They accounted for 8.4 percent of total production on an in shell basis during the same period. Shelled peanuts accounted for over half of that total both in terms of quantity and value (See Tables 4 & 7). The total quantity of shelled peanut exports has grown 29 percent during the past three marketing years (MY00/01 – MY02/03). Russia and the Netherlands were the top two destinations (See Tables 5 & 8). (Note: It is likely that the peanuts exported to the Netherlands get transshipped through Rotterdam to other European countries.) The quantity of exports to Russia has increased 61 percent while it has decreased 38 percent to the Netherlands during the same period. Exports to Algeria and Ukraine increased sharply during the same period. Roast peanuts were the second most important category of exports. In MY02/03, they accounted for 21 percent of the total quantity of peanut products and 22 percent of the value. Japan and South Korea were the top two destinations (See Tables 6 & 9) while the United States ranked a distant third.

The port of Qingdao (Shandong province) handled more peanut exports than any other port -- accounting for 81 percent of all peanut exports. It is likely, however, that some of these peanuts originated from other provinces. See Table 11.

Imports: As shown in Table 12, peanut imports are insignificant – never more than US$340,000 over the past three marketing years. Very minor amounts come from Indonesia. Some industry sources expressed some interest in foreign peanuts, but that interest has yet to lead to any imports. Crushers will only consider importing peanuts if domestic oil prices remain strong, domestic stocks become scarce, and the crushing margin is positive.

Price Information

The price of peanuts used to be driven by exports. Recently, however, because of strong domestic demand for vegetable oil and oilseed meals, the price of peanuts is becoming more integrated with and driven by the prices of other oilseeds. The simultaneous price fluctuation with soybean and rapeseed in Fall 2003 indicates this trend may continue in the long run. The domestic oilseeds supply deficit is expanding yearly. Also, exports generally account for 8-10 percent of total production. Domestic peanut prices have risen sharply since early 2002 when the price for shelled peanuts sank to US$338/MT. Prices for shelled peanuts for oil fluctuated between US$520-530/MT in the first six months of 2003 and have risen to over US$700/MT currently. Likewise, peanut oil prices went up from US$1000 in January 2003 to US$1130/MT in June 2003, and continued to rise to between US$1225 and US$1450/MT since this October up to now. These prices rose along with the overall price surge of grain and oilseed products in China's domestic market. Currently, prices for both peanut and peanut oil remain stable and high and, according to industry sources, are not expected to drop before the end of Chinese New Year (the third week of January.)

As Table 10 shows, export prices fluctuations have been modest over the past three years. The average export price in MY02/03 for shelled peanuts rebounded to US$0.61/kg from the low price of US$0.51/kg in MY01/02. The price for peanut products has fallen gradually in past years. The price of oil fried peanuts exported to Japan dropped to US$1200/MT in 2002, down by 25 percent as compared with the price in 1993. Some industry sources complained that some traders sold peanuts at very low prices in 2002 just to gain market share. The export price war is likely to continue as more traders compete for the new markets and benefit from reduced tariffs in existing markets resulting from China's entry into the WTO.

Table 1 - China's Peanut Production 2000 - 2003 (1,000 MT)

Province	2000	2001	2002	2003 (forecast)
National Total	14436.6	14415.7	14817.6	15500
Shandong	3501	3690	3339	NA
Henan	3359	2950	3362	NA
Hebei	1326	1442	1405	NA
Guangdong	777	797	752	NA
Anhui	1112	1040	1130	NA
Sichuan	543	458	554	NA
Liaoning	256	421	518	NA
Guangxi	496	488	481	NA
Jiangsu	797	841	837	NA
Hubei	657	640	723	NA

Table 2 - China's Peanut Planted Area between 2000 to 2003 (Ha)

Province	2000	2001	2002	2003 (forecast)
National Total	4,855,000	4,991,300	4,902,600	5,390,000
Shandong	923,500	971,500	952,500	1,000,000
Henan	984,800	956,000	944,800	NA
Hebei	463,300	495,400	479,800	NA
Guangdong	331,100	341,100	315,000	NA
Anhui	334,000	300,600	284,600	NA
Sichuan	239,600	257,600	264,200	NA
Liaoning	142,800	184,100	243,700	NA
Guangxi	240,600	240,400	233,500	NA
Jiangsu	227,900	230,200	223,600	NA
Hubei	193,400	210,100	206,000	NA

Table 3 - China's Peanut Yield 2000 - 2003 (kg/ha)

Province	**2000**	**2001**	**2002**	**2003 (forecast)**
National Average	2973.3	2888.2	3011.3	2875.0
Shandong	3791.6	3799.1	3505.0	NA
Henan	3410.6	3086.7	3558.0	NA
Hebei	2861.6	2917.6	2927.0	NA
Guangdong	2346.3	2337.8	2387.0	NA
Anhui	3328.1	3458.2	3969.0	NA
Sichuan	2265.9	1778.6	1098.0	NA
Liaoning	1794.0	2283.7	2048.0	NA
Guangxi	2059.3	2029.3	2060.0	NA
Jiangsu	3499.1	3652.9	3743.0	NA
Hubei	3397.1	3046.1	3507.0	NA

Table 4 - China's Exports of Peanuts and Select Peanut Products Quantity (MT)

HS#	Product	Oct 00-Sep 01	Oct 01-Sep 02	Oct 02-Sep 03
12022000	Peanuts (ground-nuts), raw, shelled, broken or not	374,001	388,686	483,616
20081120	Roasted ground-nuts	121,953	141,257	180,934
20081190	Other prepared ground-nuts, not elsewhere specified	63,518	81,002	81,128
12021090	Ground-nuts in shell, excl. seed, not cooked	76,633	90,661	98,067
20081130	Ground-nut (peanut) butter	9,775	11,399	11,824
20081110	Ground-nut kernels, prepared, in airtight containers	1,433	1,715	1,941
12021010	Seeds	140	170	46
Total Ground-Nuts and Products		**647,452**	**714,891**	**857,557**

Source: China Customs

Table 5 - China's Exports of Shelled Peanuts (HS#1202.20) Quantity (MT)

Rank	Destination	10/00 – 9/01	10/01 – 9/02	10/02 – 9/03
0	--World--	374,001	388,686	483,616
1	Russia	43,722	64,411	71,121
2	Netherlands	88,744	54,284	54,624
3	Philippines	32,476	42,855	50,053
4	Algeria	2,706	31,449	37,606
5	Indonesia	10,077	16,435	36,534
6	Japan	26,589	26,593	29,300
7	United Kingdom	25,728	15,864	26,213
8	Ukraine	10,878	15,693	25,780
9	Malaysia	9,050	6,187	16,425
10	United Arab Emirates	11,259	11,521	14,285

Source: China Customs

Table 6 - China's Exports of Roast Ground Nuts (HS# 2008.11.20) Quantity (MT)

Rank	Destination	10/00 – 9/01	10/01 – 9/02	10/02 – 9/03
0	--World--	121,953	141,257	180,934
1	Japan	28,064	25,304	22,584
2	Korea, South	20,940	25,590	21,784
3	United States	7,853	7,014	11,944
4	Indonesia	4,405	4,493	10,882
5	Russia	7,180	8,448	9,086
6	Spain	6,755	6,291	8,272
7	Philippines	5,388	6,465	8,199
8	Poland	262	2,173	7,339
9	Malaysia	2,257	3,967	6,572
10	Greece	5,989	6,358	5,864

Source: China Customs

Table 7 - China's Exports of Peanuts and Select Peanut Products Value (Millions US$)

HS	Description	Oct 00-Sep 01	Oct 01-Sep 02	Oct 02-Sep 03
12022000	Peanuts (ground-nuts), raw, shelled, broken or not	$209.33	$198.00	$295.06
20081120	Roasted ground-nuts	$93.89	$95.67	$129.87
20081190	Other prepared ground-nuts, not elsewhere specified.	$60.49	$66.75	$71.81
12021090	Ground-nuts in shell, excl. seed, not cooked	$36.51	$40.31	$50.37
20081130	Ground-nut butter	$11.41	$13.17	$14.71
20081110	Ground-nut kernels, prepared, in airtight containers	$1.52	$1.82	$2.00
12021010	Seeds	$0.07	$0.07	$0.02
Total Ground-Nuts and Products		**$413.21**	**$415.79**	**$563.85**

Source: China Customs

Table 8 - Peanuts (Ground nuts), Raw, Shelled, Broken or Not (HS# 1202.20.00) Value (Million US$)

Rank	Destination	10/00 – 9/01	10/01 – 9/02	10/02 – 9/03
0	--World--	$209.3	$198.0	$295.1
1	Russia	$20.1	$31.3	$43.7
2	Netherlands	$54.0	$28.4	$34.7
3	Philippines	$16.3	$20.2	$29.2
4	Japan	$22.4	$21.6	$24.2
5	Algeria	$1.4	$16.4	$23.4
6	Indonesia	$4.3	$7.0	$18.9
7	United Kingdom	$14.2	$7.9	$15.8
8	Ukraine	$5.1	$7.3	$15.6
9	United Arab Emirates	$6.2	$5.7	$8.4
10	Malaysia	$2.9	$2.6	$8.2

Source: China Customs

Table 9 - Roasted Ground-Nuts (HS#2008.1120) Value (Million US$)

Rank	Destination	10/00 – 9/01	10/01 – 9/02	10/02 – 9/03
0	--World--	93.9	95.7	129.9
1	Japan	28.7	23.8	20.9
2	Korea, South	13.4	14.8	12.9
3	United States	6.3	5.0	8.9
4	Indonesia	3.0	2.6	7.1
5	Russia	4.9	5.3	6.8
6	Spain	4.5	3.9	6.1
7	Philippines	3.2	3.5	5.3
8	Poland	0.2	1.2	4.9
9	Malaysia	1.8	2.7	4.6
10	Greece	3.8	3.6	3.8

Source: China Customs

Table 10 - China's Peanut & Peanut Product Export Prices (US$ / kg)

HS#	Product	Oct 00-Sep 01 -	Oct 01-Sep 02 -	Oct 02-Sep 03 -
12021010	Seeds	0.47 /KG	0.40 /KG	0.51 /KG
12021090	Ground-nuts in shell, excl. seed, not cooked	0.48 /KG	0.44 /KG	0.51 /KG
12022000	Peanuts (ground-nuts), raw, shelled, broken or not	0.56 /KG	0.51 /KG	0.61 /KG
20081110	Ground-nut kernels, prepared, in airtight containers	1.06 /KG	1.06 /KG	1.03 /KG
20081120	Roasted ground-nuts	0.77 /KG	0.68 /KG	0.72 /KG
20081130	Ground-nut butter	1.17 /KG	1.16 /KG	1.24 /KG
20081190	Other prepared ground-nuts, not elsewhere specified	0.95 /KG	0.82 /KG	0.89 /KG

Source: China Customs

Table 11 – China's *Peanut Exports by Port (MT)

Rank	Port	10/00 – 9/01	10/01 – 9/02	10/02 – 9/03
	-All Ports-	450,774	479,518	581,730
1	Qingdao	332,372	369,278	472,738
2	Tianjin	43,371	36,831	36,912
3	Dalian	30,083	22,239	22,403
4	Manzhouli	15,360	20,344	15,325
5	Harbin	703	2,266	10,246

Source: China Customs

*Limited to peanuts (HS# 1202 – in shell, shelled, and seeds); excludes peanut products (HS# 2002.11).

Table 12 - China's Peanut Imports (US$ million)

Rank	Country	Oct 00-Sep 01	Oct 01-Sep 02	Oct 02-Sep 03
0	--World--	0.117717	0.340291	0.150599
1	Indonesia	0.111661	0.078121	0.080318
2	Vietnam	0	0.250332	0.043786
3	Malaysia	0	0	0.025542
4	United States	0.000997	0.000303	0.000501
5	Japan	0	0	0.000452