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China, Peoples Republic of

Fresh Deciduous Fruit, Citrus

Imported U.S. Fruit Situation

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Prepared by:
Susan Scurlock Theiler
U.S. Consulate General, Guangzhou (Canton)
Drafted by:
Susan Scurlock Theiler

Report Highlights:
The ATO Guangzhou projects that China's growth rate for imports of U.S. fresh fruit will slow to an increase of 15 percent in the 1999 season due to lower U.S. supplies. In contrast, imports in the 1998 season were up by 280 percent. U.S. apples are everywhere in South China markets, but U.S. oranges have disappeared since the California freeze.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Guangzhou [CH3], CH

Summary. The annual Spring Festival on the Lunar New Year (beginning February 16) is the season when China's food purchases are the highest. Every family must give gifts, the gifts must include fresh fruit, and these days the fruit must be imported. ATO Guangzhou and staff held four meetings with fruit traders and wholesale market managers and also conducted market spot checks to determine how 1999 Spring Festival fresh fruit demand compares with previous years. U.S. apples are on sale on virtually every street corner in Guangzhou, but U.S. oranges are conspicuously scarce. According to the Washington Apple Commission merchandisers in Guangzhou, 111 containers of apples arrived in January, up 68 percent from January of 1998, and supermarkets reported sales increases for U.S. apples of 30-40 percent in 1999. Domestic Chinese oranges are seizing the opportunity, but their quality is distinctly inferior due partly to the inferior cold storage and handling they receive.

This year's market situation is slightly better than last year despite the generally sluggish economy both years. Demand for imported fruit is higher than last year. The traders interviewed all agreed that China's imports of U.S. fresh fruit will grow by from 10 to 20 percent in 1999 over 1998. All agreed that China's imports will go up every year as has been the case for the past five years. In the 1997/98 season, China's imports of U.S. fruit grew by an average of nearly four times, or 280 percent, so the current year growth rate will not be anywhere in that neighborhood. The reason is higher market prices and the near absence of U.S. oranges due to the January 1999 frost in parts of California. Meanwhile, China's widely reported crackdown on smuggling has not had a major overall impact on trade volumes and patterns.

New Developments in Import Patterns. China's fruit import patterns are evolving, and there is no single, consistent distribution system. As much as 95 percent of China's fresh fruit imports enter China through Guangdong Province via Hong Kong. There are now two major markets where imported fruit is wholesaled–the LiShui Market and the Huadu Market in both in Guangdong Province about 75 miles upriver from Hong Kong. LiShui handles most of the fruit for Guangdong Province consumption, and the Huadu Market handles most of the imported fruit for distribution to northern provinces. The Nanhai Le An market finally closed around January 31 because it could not compete for business with the new LiShui Market. Reportedly, there was even some violence between employees of the two competing markets.

These owners of these markets have also been called transportation companies or converters. They evidently own trading rights allocated by the central government in Beijing. Traders rent spaces in the markets. LiShui is owned by a private company with offices in Hong Kong. Huadu is owned by an organization that is part of the municipal government of Huadu city. The markets are informally authorized by both China's customs service and the quarantine bureau to bring in imported fruit. For this service, the markets charge the traders a uniform fee. In the wake of the recent central government crackdown on smuggling activities, the markets have raised fees to 45,000 RMB (U.S. $5,441) per 40 foot container (or 25,000 RMB, which is U.S. $3,023, per 20 foot container). These fees were 50-60,000 RMB/container (U.S. $6,046-7,255) five years ago, but dropped to only 25,000 RMB after the October 1, 1997 tariff cut on fruit. Fees were 38,000 RMB during most of 1998. The managers of Li Shui told the ATO that this fee was not considered a burden by traders compared to the value of a container, and this view seems widely held.

The wholesale market managers said that all vessels bringing fruit from Hong Kong now must stop at the newly opened customs office on an island near Shenzhen. (This office was closed in 1996 to speed up import processing, but reopened in January 1998 at the direction of Beijing.) The managers stated that now all required customs and other fees are paid in full according to the law, and that it is no longer necessary to have a special relationship with the customs, police, or inspection offices. These statements appear inconsistent because

virtually all imported fruit must be brought in through one of these markets and is assessed the 45,000 RMB fee. Certainly the fee is still well below the official tariff and value-added tax rate which would come up to 58 percent of the value. The existence of any import quotas is also unclear. Traders said quotas were meaningless. They also said that there was no real smuggling, since both central and local governments play a role in fruit imports.
Interestingly, fruit traders told the ATO that the situation at the wholesale markets was much improved over the situation a year ago because trade was more controlled and less chaotic, prices were significantly higher, and everyone could make better profits. “If too much product comes in, no one makes money.” They also said, however, that import supplies were higher than before, but more stable. All traders interviewed agreed with this analysis. The market managers even went so far as to state that they would like us to “ask U.S. companies to cooperate to limit supplies” of various fruit types. They suggest that the U.S. growers should identify just one Hong Kong or Chinese distributor or agent to avoid competition for the same brand name. American grapes, oranges and apples flooded the China market in 1998. Many newcomer companies were all trying to make a profit, but many lost money.

Trade Data. Data on Hong Kong re-exports to China for the 1997/98 season show that U.S. fresh fruit exports to China had their best year on record with sales of over $118 million in fiscal year 97/98 beginning October 1, 1997, compared to $39.9 million in the previous year. See Report CH9604 on attache reports at Internet http:\\fas.usda.gov.

Countries of Origin. The California freeze has provided the opportunity for both other origin countries and Chinese domestic oranges to establish a place in the China citrus market for the first time. The ATO saw virtually no U.S. oranges in the market except at the upscale airport shops on February 8 during the height of the New Year season activity. One week prior there were Egyptian oranges in evidence, and this week for the first time Spanish navel oranges were coming in. Israeli Jaffa oranges are also showing up in retail markets, but were not seen at the wholesale market that day. These three sources have not come as far as China in the past, but are being sourced by the Hong Kong traders to make up for the deficit of U.S. origin. Oranges are practically a necessity for households during the Spring Festival. The situation was quite different from the more normal picture when California oranges and grapes would predominate. Washington apples were in large supply and large sizes. One trader said quantities of Washington apples were double this year from last year.

Exchange rates. While China has not officially devalued its currency, traders all agree that the rate of exchange they are given in actual fact has changed over the past 18 months. To buy fruit, Chinese buyers change their RMB on the black market to Hong Kong dollars at the rate of 1.15-1.19. This is about 10 percent higher than the official rate of 1.07.

Counterfeiting. Traders complained that some very small size domestic red delicious apples are being grown and packaged as Washington Apples. The ATO also saw Chinese domestic navel oranges from Fengjie County in Sichuan Province labeled with the Sunkist colors and logo, but printed as *Sumkits*. There were also stickers of Sun Pacific brand, Washington Apples and many others on sale in the market.

Sample Wholesale Imported Fruit Prices, LiShui Market, China, February 8, 1999			
Product	Price per box (RMB)	Price per box (US$)	Weight (kg.)
oranges, China	Y 150	$18.14	15
oranges, Spain	Y 240	$21.93	15
oranges, USA	Y 300-350	$36.28-42.32	15
apples, USA	Y 165-180	$19.95-21.77	20
apples, USA (large size)	Y 180-210	$21.77-25.49	20
grapes, USA	not available	not available	na
grapes, Chile	Y 200-220	$24.18-26.60	8
grapes, Australia, green	Y 280-310	$33.86-37.48	10
grapes, Australia, red	Y 260-290	$31.44-35.07	10

(U.S. $1.00 = 8.27 Yuan, or Ren Min Bi)

Transport times. Shipping times from the West Coast of the United States, with re-export and re-packing in Hong Kong are said to be 17-18 days. Product is transferred to smaller ships that come up the tributaries of the Pearl River to the Guangzhou region. ATO estimates that there were about 70 containers per day coming into the LiShui market during this busiest fruit season of the year.

Quality. It is important to note that the China market requires the very best in quality and packaging, just like Hong Kong and Japan. It is a mistake the think that buyers will accept less than best quality. The appearance is the most important characteristic, and consumers are also very demanding in terms of taste. They like sweeter taste.

Direct Trade. Most of the fruit imported is purchased by Chinese traders from their partner companies in Hong Kong. Some new traders have emerged in the market who have direct relationships with U.S. packers and order directly from them for specific customers in China. The term direct trade is used to refer to purchasing product directly from the source based on quality and price, however, the fruit is still transshipped through companies in Hong Kong.