

Voluntary Report – Voluntary - Public Distribution

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Report Name: Phase One Progress Limited for US Horticultural Products

Country: China - People's Republic of

Post: Beijing

Report Category: Agricultural Situation, Avocado, Fresh Deciduous Fruit, Fresh Fruit, Stone Fruit, Strawberries, Kiwifruit

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Report Highlights:

The U.S-China Economic and Trade Agreement (Phase One) granted market access for new U.S. horticultural products such as avocados, blueberries, and nectarines. Market research indicates Chinese consumers are open to new varieties of fruit. Opportunities for U.S. fruit products include introducing new fruit varieties, engaging consumers through new e-commerce platforms, and expanding into a greater number of Chinese cities. However, the quality of Chinese domestic fruit has improved steadily and increasingly competes with imported fruit products, especially those with overlapping seasons, such as products from the United States.

Executive Summary: The U.S-China Economic and Trade Agreement (Phase One) granted market access to several U.S. horticultural products. The Phase One agreement has supported robust growth in U.S. exports of grains, soybeans, and meat products – contributing to nearly \$26.4 billion dollars in exports in 2020. However, strong growth in U.S. horticultural exports has been hampered by higher tariff rates and other producers of fruits in the Chinese market.

In 2021, China's total value of fruit imports was dominated by both tropical fruit from neighboring ASEAN countries and products from Free Trade Agreement (FTA) partners with countercyclical seasonal production to China. China's overall volume of fruit imports in 2021, compared to the same time last year, declined by 2 percent.

U.S. horticultural products have many similar constraints as other U.S. exports to China due to the bilateral environment, high international shipping costs and China's COVID-19 testing/disinfection requirements. However, the perishable nature of horticultural exports adds another level of complexity for U.S. products. Established and new-to-market U.S. horticultural products must also compete with domestically produced fruit, China's retaliatory Section 232 and Section 301 tariffs, and other country products that qualify for zero percent tariffs under FTAs. Future opportunities for growth in China's horticultural marketplace will be driven by new varieties of imported fruit, e-commerce engagement, and entering new markets in cities across the country.

OPPORTUNITIES

U.S. horticultural products are viewed favorably by Chinese consumers. To differentiate U.S. products from their competition, U.S. exporters may consider increasing the varieties or cultivars of products exported to China. For example, new varieties of apples are frequently introduced from competitor countries to the Chinese market keeping importers and consumers engaged. China's market has also grown for a number of other fresh fruit products like kiwifruit, blueberries/cranberries, peaches/nectarines, and avocados over the past several years.

The Phase One agreement, which entered into force in February 2020, granted market access for several U.S. horticultural products to China including, blueberries, avocados, and nectarines. This agreement comes after years of negotiations between the United States and China on these horticulture products. These new-to-market U.S. fruit are gradually developing consumer awareness and supply channels. However, China's ongoing retaliatory Section 232 tariffs (at 15 percent, in addition to normal MFN rates) and competitor FTAs put U.S. horticultural products at a disadvantage (see Constraints section below). Multiple countries including Peru, Mexico and Chile have market access for several of these fruits.

Marketing: Higher tariff rates for U.S. horticultural products have impacted lower-priced fruit purchases but have had less of an effect on premium products such as U.S. cherries. Additionally, the market share for U.S. horticultural products has declined as China increasingly looks to diversify import sources and approves additional countries for fruit market access. Buyers have expressed interest in new U.S. fruit varieties (e.g., cherry plum) and new-to-market products (e.g., California Hass avocados and blueberries).

Opportunities exist for fruit importers to expand beyond China's "first-tier" cities.¹ There are nearly 100 second- and third-tier cities. These second and third-tier cities have an increasing appetite for imported products. These markets have limited foreign competition, are densely populated, with relatively high-levels of disposable income, and improving supply-chain infrastructure. New varieties, attractive packaging (including small packages for small families), expanded cold-chain infrastructure and China's economic recovery will support expanded opportunities for horticultural products in these locations.

E-commerce: U.S. horticultural producers may consider greater participation in China's wide array of e-commerce platforms and online marketplaces to remain top-of-mind among consumers. Promotions on these platforms can broaden the number of targeted sales, while also adjusting to changing purchasing habits. In-store promotion techniques, while still a helpful marketing platform, are becoming less impactful as the share of purchases by consumers moves increasingly online.

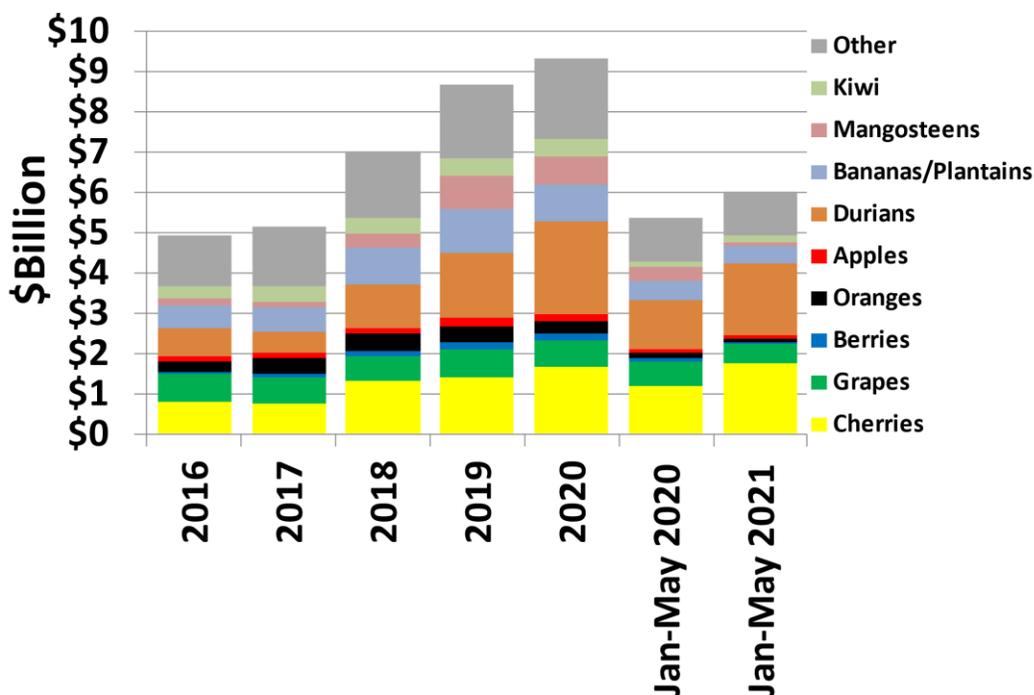
¹ China analysts rank Beijing, Shanghai, Guangzhou and Shenzhen as "first tier" cities.

CONSTRAINTS

Domestic Competition: The quality, characteristics, and varieties of China’s domestically produced horticultural products has improved. (See **FAS GAIN reports on Horticultural Products** below for more detailed information on specific products.) In turn, consumers have a greater selection of domestic produce, which is available for longer periods of time and is gaining popularity. This is true for China’s grape and citrus production, as more locally grown varieties become available and accessible to Chinese consumers across the country through e-marketing, speedy delivery services, and improved cold-chain logistics. Imported fruit that overlaps harvest seasons with Chinese domestic production is facing heightened competition at these key periods of time.

Tropical Fruits See Growth in 2021: In the first half of 2021, China’s import value of tropical fruit increased from FTA partners and ASEAN members with land borders. In 2021, the import value of tropical fruit such as durian, banana and kiwifruit increased (see Table 1). For ASEAN countries with land borders, transportation of products was less impacted by increases in international logistics costs. China’s overall volume of fruit imports (compared to the same period last year) declined by 2 percent, indicating that some of the import value for fruit products incorporated increased transportation costs.

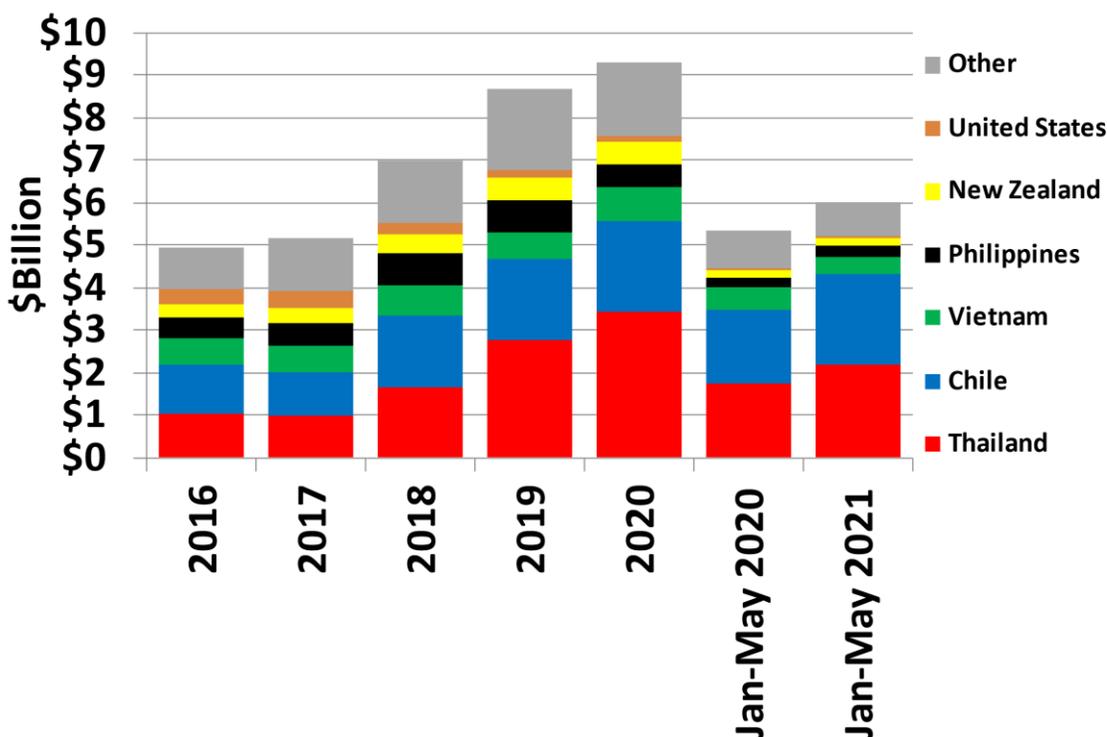
TABLE 1: China Fresh Fruit Imports by Product



Source: China Customs

Uneven Playing Field on Tariff Rates: Competitor horticultural products from such as those from New Zealand, Australia and Chile, enter China with the benefit of zero percent tariff duty rates through Free Trade Agreements (FTA). These products are countercyclical to China’s (and the United States) seasonal production. In the case of Chile, the countercyclical harvest season and an FTA have supported imports of Chilean cherries to reach nearly \$1.5 billion in 2020, accounting for 85 percent of China’s annual cherry imports. Chile’s market expansion into other fruit categories is also robust.

TABLE 2: China’s Fresh Fruit Imports by Country



Source: China Customs

China maintains retaliatory Section 232 and Section 301 tariffs on a range of U.S. agricultural products, including horticultural products. These additional tariffs make U.S. horticultural products less competitive with those products facing zero tariff duty rates. On February 18, 2020, the State Council Tariff Commission (SCTC) announced a tariff exclusion process for U.S. agricultural commodities impacted by the retaliatory Section 301-tariffs levied by China. Importers may apply for tariff exclusions which are approved on a case-by-case basis. These exclusions do not automatically extend to all importers. Please refer to FAS GAIN report [Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process for US Products](#) for more information on the exclusion process.

Port and Shipping Container Issues: In 2022, international shipping, port and transportation issues caused by the COVID-19 pandemic are expected to improve. In 2020 and 2021, lack of vessel cargo space and shortages in refrigerated containers for chilled and frozen products caused widescale supply chain disruptions and shipping price increases – making imported cold chain products more expensive.

Political and Regulatory Uncertainty: Importers have expressed caution regarding purchasing imported products when there is uncertainty in the political situation between China and the exporting country, including the United States. Separately, China implemented COVID-19 testing and disinfection requirements that have resulted in delays on perishable imported fruit, which has also heightened the concerns of fruit importers. Importers are increasingly sensitive to any changes in the bilateral relationship that could increase scrutiny to perishable and/or chilled products when clearing customs.

FAS GAIN Reports on Horticultural Products:

[2021 Stone Fruit Annual](#) (July 2021)

[2021 China Retail Foods](#) (June 2021)

[2021 China Exporter Guide](#) (January 2021)

[2020 Citrus Annual](#) (December 2020)

[2020 Fresh Deciduous Fruit](#) (Nov 2020)

[2020 Potato Annual](#) (Nov 2020)

TABLE 3: Tariff Rates on Imported U.S. Fruit

HTS Code (8-digit)	Description	MFN Rate	232	301	Total applied – w/o exclusion	Total applied – with tariff exclusion
08081000	Apples	10	15	30	55	25
08093000	Cherries	10	15	30	55	25
08061000	Grapes	13	15	30	58	28
08093000	Peaches/Nectarines	10	15	30	55	25
08094000	Plums	10	15	30	55	25
08101000	Strawberries	14	15	30	59	29
08051000	Oranges	11	15	30	55	26

TABLE 4: Chinese Imports of Select Fruit

	Description	Calendar Year (Value: 1,000s USD)				JAN - JUN 2021	JAN - JUN
		2017	2018	2019	2020	2021	%Δ 2021/20
Cherries (sweet)	Cherries from the World	771,259	1,306,234	1,399,924	1,651,132	1,775,165	44.14
	Cherries from the U.S.	170,518	101,139	88,694	79,339	21,040	14.99
	U.S. Market Share (Globally)	22%	8%	6%	5%	1%	
	Total Northern Hemisphere Countries	197,400	142,015	134,868	103,061	21,219	1%
	U.S. Market Share (northern hemisphere)	86%	71%	66%	77%	99%	
Grapes	Grapes from the World	590,149	586,352	643,520	642,852	514,558	-15.87
	Grapes from the U.S.	51,903	32,501	6,041	9,302	516	14.26
	U.S. Market Share (Globally)	9%	6%	1%	1%	0%	
	Total Northern Hemisphere Countries	58,806	40,106	27,345	27,616	14,479	1%
	U.S. Market Share (northern hemisphere)	88%	81%	22%	34%	4%	
Oranges	Oranges from the World	382,210	436,736	399,223	308,618	111,428	-23.5
	Oranges from the U.S.	86,699	84,862	38,156	46,406	42,480	-5.63
	U.S. Market Share (Globally)	23%	19%	10%	15%	38%	
	Total Northern Hemisphere Countries	189,895	194,564	218,460	147,441	106,808	-25%
	U.S. Market Share (northern hemisphere)	46%	44%	17%	31%	40%	
Plums	Plums from the World	103,513	117,529	194,250	154,781	159,611	16.81
	Plums from the U.S.	27,559	15,931	12,465	17,480	152	-37.28
	U.S. Market Share (Globally)	27%	14%	6%	11%	0%	
	Total Northern Hemisphere Countries	34,095	20,902	17,806	19,008	510	-2%
	U.S. Market Share (northern hemisphere)	81%	76%	70%	92%	30%	
Apples	Apples from the World	115,607	117,385	219,040	138,539	79,126	-0.86
	Apples from the U.S.	45,489	28,960	24,004	16,100	95,300	23.99
	U.S. Market Share (Globally)	39%	25%	11%	12%	120%	
	Total Northern Hemisphere Countries	49,746	33,717	30,434	18,591	10,433	7%
	U.S. Market Share (northern hemisphere)	91%	86%	79%	87%	91%	
Strawberries	Strawberries from U.S.* (100% share)	245	5	4	0	0	0

Source: China Customs

*NOTE: China Customs reported fresh strawberry imports only from the United States between 2016 and 2021.

Attachments:

No Attachments.