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Report Highlights:

China's in-shell walnut production is forecast at 1.02 MMT in 2020/21, an increase of 2 percent from the previous year, supported by a good harvest in the country's top two producing provinces. Walnut imports will continue to decline as a result of increased local production. Almond and pistachio imports from the United States are expected to rebound due to improved supplies and the implementation of a tariff exclusion process.

Production

Walnuts

China’s walnut production (in-shell basis) is forecast at 1.02 million metric tons (MMT) in marketing year (MY) 2020/21 (September-August), an increase of 2 percent from the previous year. This is driven by a bumper harvest in Xinjiang and Yunnan, the country’s two leading walnut-producing provinces due to favorable growing conditions. Walnut quality is also expected to improve, according to walnut dealers in Yunnan. Although northern walnut-producing areas, including Shanxi, Shaanxi, Hebei, and Gansu provinces, encountered severe frost damage during the blossom period, FAS China forecasts the crop losses are offset by production gains in Xinjiang and Yunnan. Furthermore, weather anomalies have led to smaller walnut sizes in these northern provinces. With more plantings entering the bearing stage, the country’s walnut production is forecast to continue increasing for years to come.

In recent years, walnut planting area expanded driven by high walnut prices and government support programs in mountainous and hilly areas. In MY 2019/20 planting area declined as walnut prices declined. In MY 2020/21 industry sources indicated certain areas with walnut production will not be harvested due to low walnut prices and a lack of consumer demand for particular varieties. In Yunnan province, where most harvesting is done by hand, the walnut industry faces ongoing challenges due to increasing labor costs and aging farmers.

In Xinjiang, however, walnut orchards sit on plains that make the management and harvest much easier. With the rapid expansion of acreage as well as the development of a specialized market and processing facilities, Xinjiang has quickly become the symbol of China’s future walnut industry. Currently, Xinjiang not only produces more than half of the country’s walnuts, but its walnuts are known for their large size and high conversion ratio. Industry sources indicate that Xinjiang walnut varieties have a much higher kernel content than their counterparts in other walnut-producing countries. However, very few local walnut varieties compete with popular global varieties such as Chandler from the United States and Chile that feature lighter kennel color and less bitter taste.

Chinese walnut production was not affected much by the COVID-19 outbreak that interrupted farming activities and road transportation for other agricultural products. Specifically, the MY2020/21 walnut harvest began in early September after C-19 restrictions had been lifted and those walnuts grown in mountainous regions do not require ongoing care prior to harvest

Almonds

According to industry sources, China’s shelled almond production is forecast at 45,000 MT in MY2020/21 (August-July), unchanged from the previous year due to normal growing conditions. Shache county in southern Xinjiang produces more than 95 percent of the country’s almonds.

Almond acreage has stabilized at around 63,000 hectares from the rapid expansion over the past few years, which was encouraged by the local government. However, almond yield has been low in the absence of proper crop management and agricultural inputs. In addition, Xinjiang almonds cannot compete with popular varieties such as Nonpareil. Therefore, almonds produced in Shache are exclusively sold within Xinjiang.

Pistachios

According to an industry report, China's pistachio production (in-shell basis) is forecast at around 500 MT in MY2020/21 (September-August). According to industry sources, not many pistachio plantings are bearing fruit and yield remains low due to a lack of proper farming technology. Most pistachios are planted in southern Xinjiang for experimental purposes by private companies. It will take some time before suitable locations and varieties are identified for the Chinese pistachio industry.

Other nuts – Macadamia, Hazelnut, and Pecan

According to data released by the International Nut and Dried Fruit Council (INC), China's Macadamia nut production (in-shell basis) is forecast at 30,400 MT in MY 2020/21 (September-August). INC forecasts the country's shelled macadamia nut production at 5,000 MT in MY 2020/21. China's macadamia nut industry is developing quickly. Industry reports indicate that planted area, currently estimated at 240,000 hectares, is projected to reach 300,000 hectares by 2030. Macadamia nuts are planted primarily in mountainous areas of Yunnan province and on the plains of Guangxi. Guangdong is reportedly increasing the size of their macadamia nut plantations.

Hazelnut production (in-shell basis) is forecast at 40,000 MT in MY 2020/21 (September-August), including 10,000 MT of hybrid varieties (similar to European varieties) and 30,000 MT of wild varieties (much smaller in size), according to an industry report. The planted area of commercially cultivated hazelnuts (hybrid varieties) is estimated at 80,000 hectares, mainly located in Liaoning, Heilongjiang, Jilin, and Shandong provinces. The area of wild hazelnut species is estimated at 75,000 hectares, spreading in mountainous and hilly areas across northeast China (Heilongjiang, Jilin and Liaoning) and north China (Shandong, Inner Mongolia, Hebei, and Shanxi).

Pecan production (in-shell basis) is forecast at 1,000 MT in MY 2020/21 (September-August), doubled from the previous year on increased bearing, according to an academic report. The country's pecan acreage, which is currently estimated at nearly 67,000 hectares, has expanded quickly in the past few years in Yunnan, Anhui, and Jiangsu provinces. Pecan plantations are also spreading into other provinces including Shandong, Zhejiang, Jiangxi, Hunan, and Guangxi, according to the report. Most pecan orchards have not entered the stage of bearing. It is too early to predict whether China will become a major pecan producer.

Prices

As the new marketing year has just begun, farm gate prices for in-shell walnuts are quoted at RMB 13.5 ($1.98) per kilo in Yunnan, the second largest walnut producing province, down more than 20 percent from the same period of last year, according to Yunnan walnut traders. China's walnut prices have gone down in recent years as production keeps increasing. The outbreak of Covid-19 in early 2020 has put additional downward pressure on walnut prices due to slow movement of stocks following the closure of wholesale/wet markets and processing facilities.

Consumption

Tree nut consumption has continued increasing in tandem with rising incomes and a growing health consciousness among Chinese consumers. Per capita disposable income increased by 8.9 percent in 2019, according to the National Bureau of Statistics. Tree nuts, known for their nutritional benefits, are consumed on more occasions such as during travel, at tea breaks, and as meal replacements. However, the outbreak of Covid-19 in January 2020 seriously affected offline tree nut sales following suspension of processing facility operations, closure of retail outlets, and missing of social activities, including travel, gatherings, and gifting giving.

As the pandemic situation has improved in China, tree nut consumption is expected to recover. A national health survey reports that the pandemic has enhanced the importance of a healthy diet in people's lifestyle. Consumer research indicates that young professionals, a target audience for the product, view tree nuts as healthy and nutritious. Meanwhile, many nut manufacturers have stepped up their marketing efforts. New products such as cereals, probiotics, and cookies have emerged on the market and manufacturers have developed nut products with new flavors such as herb and green tea. As a result of these marketing efforts, tree nut consumption will likely expand.

Trade

Import

China's tree nut imports declined in the first half of 2020 due to the Covid-19 outbreak across the country that led to reduced buying interests and a disruption in logistics. The tree nut prices on the world market also fell significantly due to weak demand. Tree nut imports are expected to pick up in MY 2020/21 as economic and social activities resume in China.

China's pistachio imports are likely to increase in MY 2020/21 (September-August) on anticipation of greater available supplies from the United States and the tariff exclusion process put in place since

March 2020 (see Policy). If so, the United States could regain the seat of being China's largest pistachio supplier as sources expect the crop from Iran to drop by 15 percent this year.

Similar to the pistachio situation, China's almond imports from the United States are expected to rebound in MY 2020/21 (August-July) in anticipation of a bumper harvest, record low U.S. almond prices, the implementation of a tariff exclusion process and an improved pandemic situation in China.

Walnut imports will continue to decline in MY 2020/21 (September-August) on increased local production. The United States remains the largest walnut supplier to China even though the volume has been declining since 2012 when local production started to boom. The retaliatory tariffs effective since April 2018 have made U.S. walnuts even less competitive. The market share of Chilean walnuts is quickly catching up, taking advantage of a bilateral Free Trade Agreement.

Export

China's walnut exports are forecast to continue increasing moderately in MY 2020/21 (September-August) given much lower local prices. Although some buyers have reportedly postponed their purchase orders in the wake of the Covid-19 outbreaks, demand is expected to gradually recover, according to Chinese walnut processors. China has quickly become a major walnut supplier on the world market since its production jumped sharply in MY 2017/18. China exported more than 122,000 MT of walnuts (in-shell basis) in 2019, an increase of more than 240 percent on a yearly basis, according to China Customs data. The country exports mainly in-shell walnuts to Kyrgyzstan, Turkey, and Pakistan. Shelled walnuts are shipped to Kyrgyzstan, Russia, and Japan.

The export volume of Chinese macadamia nuts is on the rise. China's exports of macadamia nuts have shown a consistent upward trend with MY 2020/21 forecast to reach 4,000 MT (in-shell basis). Australia remains the single largest buyer of Chinese shelled macadamia nuts, while the United States has outpaced Japan typically the second largest buyer, of in-shell macadamia purchases.

Policy

China's State Council Tariff Commission (SCTC) announced a reduction in the retaliatory Section 301 tariffs on U.S. agricultural products as of February 14, 2020 (see GAIN report CH2020-0016). As a result, the import tariff collected on U.S. tree nuts would be lower (see table below for details). In addition, the SCTC launched a tariff exclusion process on March 2, 2020 where importers could apply for tariff exclusions on specific consignments from the United States. If an exclusion application is successfully approved, the Section 301 tariffs imposed on U.S. products, including certain tree nuts, would be exempted for a year from the date of approval (refer to GAIN report CH2020-0017).

Tree Nut Import Tariff and Value-added Tax (VAT) in 2020

HS Code	Description	Tariff (%)				VAT (%)
		MFN	USA as of Feb. 14	Australia	Chile	
0801.2100	Brazil nuts, in shell	7*	52 (22**)	0	0	9
0801.2200	Brazil nuts, shelled	7*	52 (22**)	0	0	9
0801.3100	Cashew nuts, in-shell	7*	52 (22**)	0	0	9
0801.3200	Cashew nuts, shelled	7*	52 (22**)	0	0	9
0802.1100	Almonds, in-shell	10*	55 (25**)	0	0	9
0802.1200	Almonds, shelled	10	55 (25**)	0	0	9
0802.2100	Hazelnuts/Filberts, in-shell	25	65 (40**)	0	0	9
0802.2200	Hazelnuts/Filberts, shelled	10	55 (25**)	0	0	9
0802.3100	Walnuts, in-shell	25	70 (40**)	0	0	9
0802.3200	Walnuts, shelled	20	65 (35**)	0	0	9
0802.5100	Pistachios, in-shell	5*	50 (20**)	0	0	9
0802.5200	Pistachios, shelled	5*	50 (20**)	0	0	9
0802.6190	Macadamia nuts, in-shell	12*	57 (27**)	0	0	9
0802.6200	Macadamia nuts, shelled	12*	57 (27**)	0	0	9
0802.9090.40	Pecans, whether or not shelled	7*	52 (22**)	0	0	9
2008.1910	Walnut kernels, in airtight containers	5	7.5 (5**)	0	0	13
2008.1920	Other nuts, in airtight containers	5	15 (5**)	0	0	13

Note: *Temporary rate for 2020; **Actual rate (includes MFN) if Section 301 tariffs are to be exempted upon approval.

Marketing

Tree nuts defy the economic downturn in 2020

The China Native Foodstuffs Association in its 2019 China Tree Nut Industry Report estimated that the consumption of snack foods will reach RMB 1.2 trillion (U.S. $177 billion) by the end of 2020. Tree nut consumption accounts for 15 percent of the snack food category. Tree nuts are the fastest growing snack in China compared to traditional snack foods. Tree nuts are regarded as a heathy option as more customers seek to reduce their starch and sugar intake. Sources indicate that tree nuts are likely to gain market share from snacking alternatives including puffed or extruded foods, confectionary items, and preserved snack foods.

The Covid-19 outbreaks effected retail sales of tree nut products, however e-commerce platforms showed strong demand for tree nut purchases. For example, one of China’s largest tree nut processors and retailers, which operates a large online presence reported 16.4 percent year over year revenue growth during this period.

For recent market trends and opportunities see market reports CH2019-1245 (Retail Foods in China), CH2019-3095 (Will Convenience Stores be the Next Big Retail Space), and CH2018-2045 (Exporter Guide for Guangzhou China).

Competition

In the past 30 years, the tree nut marketing industry in China has transformed from regional brands and regional trade, to fierce national competition in online and offline formats. South China remains an important distribution point for primarily imported tree nuts, while large snack food companies have developed in East China. The five largest national tree nut snack brands include: Be & Cheery (Zhejiang Province), Three Squirrels and QiaQia Foods (Anhui Province), Bestore (Hubei Province), and Wolons (Shandong Province).

National tree nut snack brands in China compete in their product mix and distribution channels. E-commerce accounts for an overwhelming percentage of sales for the top Chinese tree nut companies. Tree nuts are either sold as sole product lines or incorporated in dried fruit or candy packaged product lines.

Consumers

According to industry research, 26 – 35-year-olds make up around 56 percent of tree nut consumers. This group has high disposable income, interest in diverse foods, and a high repurchase rate.

While most popular in first and second tier cities, tree nut sales have grown in third and fourth tier cities as consumers increasingly adopted, and companies expanded, e-commerce sales platforms amid the Covid-19 outbreak. The use of e-commerce platforms in these third and fourth tier city markets increased about 21 percent since 2018. The same demographic of tree nut consumers is also most likely to use e-commerce, and, those in third and fourth tier cities tend to spend more than the average Chinese consumer, providing expanded opportunities for tree nuts.

Innovation

Food offerings in China thrive on variety. Research and development in the tree nut industry follows two major trends: variety of flavorings on the same tree nut and optimizing nutrition and storage. Nut companies are increasingly identifying market segments and producing products tailored to that segment. For instance, nuts or nut mixes specially packaged or mixed nuts for breakfast, the gym, or the office and to fulfill consumer needs for pregnant women, people on diets, and office workers.

Bakery consumption booms

Imported tree nuts are also used in the Chinese baking industry which has grown by double digits in recent years. The bakery sector in China commonly uses U.S. almonds, walnuts, pecans and pistachios as ingredients in bakery chain breads, cookies, cakes and pastries. The mid-Autumn Festival (October 1-8 in 2020) is peak season for sales of moon cakes; in 2019 moon cake sales reached 19.6 billion RMB (U.S. $2.8 billion). These dense, filled pastries have seen filling innovations in recent years, and tree nuts are a trendy alternative. U.S. tree nut producers could consider research and development cooperation with moon cake producers to expand this seasonal trend in China.

Attachments:

No Attachments