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Tree Nuts Annual

U.S. Tree Nuts to Lose Market Share in China Due to Additional Tariffs

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Report Highlights:

China's in-shell walnut production is forecast to rebound by 18 percent to 1 MMT in MY 2019/20, supported by favorable growing conditions across major walnut producing provinces. China is likely to reduce imports of U.S. tree nuts (almonds, pistachios, and walnuts) in the wake of another round of additional tariff increases imposed on U.S. tree nuts since September 1, 2019. China's walnut exports will increase as a result of lower domestic prices and a weakened yuan.

Production

Walnuts

China's in-shell walnut production is forecast to rebound by nearly 18 percent from the previous year to 1 million metric tons (MMT) in marketing year (MY) 2019/20 (September-August), supported by favorable growing conditions in major walnut producing provinces. In MY 2018/19, walnut production declined dramatically due to severe frost damage that struck most walnut producing areas throughout northern China in April 2018. Walnut quality is also expected to improve this year.

China's walnut production is expected to continue increasing for the next five to ten years due to recent plantings coming online, according to industry estimates. Walnut production is spread out across 21 provinces with more than 40 percent of the walnut crop grown in hilly or mountainous regions. The Xinjiang Uygur Autonomous Region has overtaken Yunnan Province as the top walnut producing region and its production is quickly approaching 50 percent of the country's total output. Other major walnut producing provinces include Shanxi, Shaanxi, Hebei, Gansu, and Henan. A poverty-alleviation program supported by China's government has supported farmers in less-developed regions to invest in new walnut plantings over the past few years and these new plantings will begin bearing soon.

It is reported that more than 50 walnut varieties are planted across China. The majority of plantings are local varieties, with only a small proportion of imported varieties like Chandler and Hartley—despite the Chinese preference for the light-colored kernels and less bitter taste. China's planted walnut acreage is forecast to begin decreasing in MY 2019/20. One reason is reduced market returns in the wake of increased production (see Prices). In addition, some walnut growers have shifted to planting more profitable nuts such as macadamia nuts and pecans, according to industry reports.

Almonds

China's almond production (shelled-basis) is forecast at 45,000 MT in MY 2019/20 (August-July), slightly up from the previous year, primarily due to favorable growing conditions in the Xinjiang region, particularly in Shache County, which accounts for more than 95 percent of the country's entire almond production. Almond acreage, currently estimated at around 63,000 hectares, remains stable.

China's almond yield is very low due to the lack of proper crop management and agricultural inputs. In addition, Xinjiang almond varieties cannot compete with imported varieties such as Nonpareil, Monterey, Carmel, and Independence. In fact, almonds produced in Shache County are sold primarily in local markets within Xinjiang and are not exported outside the province.

Pistachios

Xinjiang has reportedly planted some 4,000 hectares of pistachios, but the production is estimated at only 300 MT in MY 2019/20 (September-August), according to industry. Most

pistachio plantings are for experimental purposes. It may take a long time to identify proper varieties and farming technology to achieve commercial pistachio production in China.

Other nuts

The macadamia nut is the most rapidly developing tree nut in China. According to International Nut and Dried Fruit (INC) statistics, China's macadamia nut production (in-shell basis) is forecast at nearly 30,000 MT in MY 2019/20 (September-August), up 40 percent from the previous year, as new plantings start bearing. Industry sources indicate that China will soon become a net exporter of macadamia nuts as its production continues increasing. Macadamia nut planted area is currently estimated at 160,000 hectares, mainly located in Yunnan (93 percent) and Guangxi (7 percent) Provinces. Macadamia nut varieties planted in Yunnan Province (southwestern China) were mainly introduced from Australia and are best suited for highland growing conditions. In Guangxi Province (southern China), macadamia nut varieties are locally bred and developed to adapt to growing in hot and humid lowland conditions.

China's in-shell hazelnut production is forecast at 40,000 MT in MY 2019/20 (September-August), an increase of more than 40 percent from the previous year, according to industry sources who estimate that China will soon become self-sufficient in hazelnuts. The commercial planted area is currently estimated at 160,000 hectares, mostly in Heilongjiang, Liaoning, Jilin, Shandong and Hebei Provinces. These hazelnut varieties are hybrids between local species and European varieties, bearing fruit that is large in size with a high kernel content. China also grows wild hazelnut varieties in northeastern and northern China, but these are not commercially important due to their small size.

China has reportedly planted some 47,000 hectares of pecans, mainly in Yunnan, Anhui, Jiangsu and Zhejiang Provinces. However, the production (in-shell basis) is very limited, estimated at 500 MT in MY 2019/20 (September-August). Most pecan plantings have not begun bearing.

Prices

The MY 2019/20 walnut harvest has recently begun. In Yunnan Province, the second largest walnut producing province, farm gate prices for in-shell walnuts are currently quoted at RMB 17 (\$2.4) per kilo, which is a sharp decline of more than 20 percent from the previous year, according to local traders. Walnut prices in China have been trending downward in recent years as production continues increasing. Industry sources report that future commercial production of walnuts in China will largely depend on market prices. If market prices keep falling, some farmers may stop harvesting walnuts, especially those planted in hilly or mountainous terrain where laborers are in high demand. Due to the terrain, walnuts planted in hilly or mountainous areas cannot be harvested mechanically.

Consumption

Tree nut consumption continues to increase as more Chinese consumers learn about the nutritional attributes of tree nuts. According to a 2016 market survey, more than 60 percent of

Chinese consumers were aware of the nutritional value of tree nuts. Per capita consumption is still low compared with developed countries, leaving great potential for market growth.

Consumption growth is supported by the fast growth of China's e-commerce platforms. Market research indicates that for the major e-commerce platforms, nuts account for the largest volume of sales in the snack food category, at roughly 25 percent, followed by bakery at 22 percent. Further changes to the tree nut processing industry include reducing additives, innovations in convenience packaging (e.g., "daily serving" packages), new pairings with other nut varieties and dried fruit, and new ways of using nuts as flavorings (e.g., mixed into yogurt, beverage flavors, etc.).

Trade

Imports

China's tree nut industry is rapidly developing and has achieved or will achieve self-sufficiency in certain nuts, such as walnuts, macadamia nuts, and hazelnuts. However, China will continue to rely on imported almonds and pistachios for many years to come. Increased tariffs on U.S.-origin nuts will likely force Chinese importers to source fewer tree nuts from the United States and seek out substitute suppliers. But locating adequate substitutes is unlikely to happen soon, driving persistent demand for U.S. imported nuts. Meanwhile, where possible, Chinese importers and processors are shifting to alternative nuts such as cashews.

China's pistachio imports from the United States, the world largest pistachio supplier, are forecast to fall in MY 2019/20 (September-August). In addition to increased tariffs levied by China, U.S. pistachios will be in short supply as U.S. production is forecast to drop by more than 20 percent in MY 2019/20, according to INC data. Chinese importers may turn to Iran, the second largest pistachio producer, whose production is expected to rebound from MY 2018/19 when bad weather cut the country's pistachio production by 75 percent. Pistachios were China's number one imported tree nut in 2018 and China remains the world's largest pistachio importer.

China's almond imports are forecast to decrease in MY 2019/20 (August-July), as the Chinese government imposed another 10-percent tariff on U.S. nuts, effective September 1, 2019. Although Chinese importers are searching for substitute suppliers like Australia, no single nation can provide enough almonds to accommodate this booming market. According to a U.S. industry report, California alone produces 82 percent of the global almond supplies. Notably, despite the ongoing U.S.-China trade tensions, China's total almond imports increased (as did pistachios) during MY 2018/19, as importers tried every possible means to fulfill their signed contracts. However, as the tariffs have continued unabated and an additional tariff has been added, U.S. market share has shrunk.

China's walnut imports are forecast to continue declining in MY2019/20 (September-August) as a result of increased domestic supplies. The additional tariffs on U.S. nut products will further reduce the market share of the United States, which used to be the single largest walnut supplier to the China market. Chinese buyers have shifted to Chile and Australia for imported walnut purchases.

Exports

China's walnut exports are expected to increase in MY2019/20, supported by lower domestic prices as a result of a bumper harvest. A weakened Chinese yuan will also help improve Chinese export competitiveness. The local currency has so far been devalued by nearly 5 percent against the U.S. dollar from a year ago. Chinese walnut exports re-entered the world market in MY 2017/18 when local production increased sharply. The country's walnut exports, mostly shelled products, have been on the rise since then, as domestic production keeps increasing. China traditionally exports shelled walnuts to Japan and the European Union market, but exports to Kyrgyzstan are quickly catching up. Meanwhile, China's exports of in-shell walnuts are also increasing quickly, primarily to Kyrgyzstan and Pakistan.

China started to export macadamia nuts in MY 2018/19 (September-August), but the volume is still low. Industry sources report that China is expected to become a major exporter of macadamia nuts as domestic production keeps expanding.

Policy

Following two rounds of retaliatory import tariffs against U.S. agricultural products, imposed in April 2018 and June 2019, the Chinese government announced a third round of tariff increases (an additional 10 percent) on certain U.S. tree nuts, effective as of September 1, 2019. See [GAIN Report CH19051](#). The following table provides up-to-date tariff rates on different tree nuts from the United States and selected trading partners

On April 10, 2019, China lowered the value added tax (VAT) rate on sales and imports of agricultural products, including tree nuts, from 10 percent to 9 percent. This is the third consecutive year that China reduced the VAT on agricultural products (13 percent to 11 percent in 2017 and 11 percent to 10 percent in 2018).

Tree Nut Import Tariff Rate and VAT in 2019

HS Code	Description	Tariff (%)				VAT (%) as of April 10
		MFN	USA (as of Sep. 1)	Australia	Chile	
0801.2100	Brazil nuts, in shell	7*	57**	0	0	9
0801.2200	Brazil nuts, shelled	7*	57**	0	0	9
0801.3100	Cashew nuts, in-shell	7*	57**	0	0	9
0801.3200	Cashew nuts, shelled	7*	57**	0	0	9
0802.1100	Almonds, in-shell	10*	60**	0	0	9
0802.1200	Almonds, shelled	10	60**	0	0	9
0802.2100	Hazelnuts/Filberts, in-shell	25	65	0	0	9
0802.2200	Hazelnuts/Filberts, shelled	10	60**	0	0	9
0802.3100	Walnuts, in-shell	25	75**	0	0	9
0802.3200	Walnuts, shelled	20	70**	0	0	9
0802.5100	Pistachios, in-shell	5*	55**	0	0	9
0802.5200	Pistachios, shelled	5*	55**	0	0	9

0802.6190	Macadamia nuts, in-shell	12*	62**	0	0	9
0802.6200	Macadamia nuts, shelled	12*	62**	0	0	9
0802.9090.40	Pecans, whether or not shelled	7*	57**	0	0	9
2008.1910	Walnut kernels, in airtight containers	5	10**	0	0	13
2008.1920	Other nuts, in airtight containers	5	20***	0	0	13

Note: *temporary rate for 2019; **effective on September 1, 2019 (includes MFN); ***effective on December 15, 2019 (includes MFN)

Marketing

Tree nuts marketed as a health food

Tree nuts are mainly consumed directly as snack foods, as well as ingredients in the confectionary and bakery sectors. Consumers in China's 1st and 2nd tier cities quality imported tree nuts, including pecans, hazelnuts and macadamia nuts. The economic growth and fast development of retail and bakery sectors in 3rd and 4th tier cities and rural areas are also successfully driving penetration of tree nuts to these emerging markets.

Tree nuts are the fastest growing snack in China because they are regarded as a healthy snack food. The five largest national brands include: Be & Cheery from Zhejiang, Three Squirrels and QiaQia Foods from Anhui, Bestore from Hubei and Wolons from Shandong. According to an industry report, China's industrial tree nut output skyrocketed from \$4.1 billion to \$11.0 billion USD between 2007 to 2018, growing by an estimated 15.7 percent year-on-year while imported tree nuts grew 20 percent annually. The tree nut industry forecasts the sales value will reach \$13.3 billion by 2020.

Competition drives innovation

China's snack food market embraces innovation, which means fierce competition is inevitable. Tree nuts products have captured significant market share from traditional snack foods such as candy, cookies, crackers, and chips. In addition, snacking preferences have moved to more upscale offerings. For example, locally produced melon seeds and peanuts are being replaced by imported nuts, such as pistachios, almonds, macadamia, hazelnuts, and pecans. When one major Chinese snack producer changed their product offering mix from predominantly melon seeds to a larger percentage of tree nut products, their sales value increased by 103.5% in 2018. This processor plans to convert even more resources to processing tree nut ingredients over the next three years.

Trends

As snacks, tree nuts are becoming more consumer friendly. As snacks, presentation and packaging have changed from in-shell nut to shelled nuts; single variety nut packages to mixed nuts packages; rough processed to multiple processed (including chocolate and yogurt coated

nuts); simple flavor to complex flavor with dried fruits; from large packages to small/single-serving packages. In addition, some brands develop products with specific nut combinations to target niche markets. For example, one popular brand introduced a daily nut package specific to pregnant women, providing various vitamins, minerals and proteins for daily nutrition supplement.

Advertisement for tree nut snack mixes for pregnant women

每日坚果B款
孕中期

营养师说:
胎宝宝发育需要钙、镁、蛋白质及维生素。

B款孕中期: 核桃仁 | 黑加仑干 | 巴旦木 | 夏威夷果 | 腰果仁 | 南瓜子仁 | 蓝莓干 | 葡萄干

每日坚果C款
孕后期

营养师说:
日渐蹒跚也幸福, 营养冲刺为分娩做好准备。

C款孕后期: 核桃仁 | 开心果 | 巴旦木 | 榛子仁 | 腰果仁 | 南瓜子仁 | 黑加仑干 | 葡萄干

E-commerce is a growing sales channel

With tremendous growth in the online retail sector, Chinese e-commerce is now an important marketing venue for imported tree nuts. In 2018, the three e-commerce giants (Tmall, Taobao, and JD.com) sold \$2.5 billion in tree nut products, representing 30 percent of all snack foods sold in e-commerce channels and a 59-percent increase compared to 2017. Peak tree nut sales generally occur between November and January when tree nuts are given in gift packages for the most important Chinese holiday, the Lunar New Year Festival.

Bakery consumption booms

Imported tree nuts are also used in the Chinese baking industry. The booming bakery industry in China commonly uses U.S. almonds, walnuts, pecans, and pistachios as ingredients in bakery chain breads, cookies, cakes, and pastries.