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China - Peoples Republic of

Tree Nuts Annual

Annual

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Report Highlights:

The Office of Agricultural Affairs in Beijing (OAA/Beijing) forecasts China's MY2012/13 walnut and almond production at 720,000 and 5,000 metric tons, respectively. Although walnut and almond acreage will continue to expand due to favorable weather conditions and continued government support, substandard farm management practices are hindering higher yield returns. The Mid-autumn Festival and Lunar New Year are the best seasons for sales of imported tree nuts. The United States is the largest supplier to China for walnuts, almonds, and pistachios.

Commodities:

Almonds, Shelled Basis

Walnuts, Inshell Basis

Pistachios, Inshell Basis

Pecans, Inshell Basis

Production:

Walnuts

OAA/Beijing forecasts China's walnut production (in-shell basis) at 720,000 metric tons (MT) in marketing year (MY) 2012/13 (October-September), an increase of nearly three percent from the previous year, primarily because of bearings from new plantings. Following a bumper crop in MY2011/12, major production regions this year show modest increases in yields. Although acreage expansion is hampered by decreasing amounts of available land, walnut acreage is forecast to rise nearly 5 percent to 2.2 million hectares in MY2012/13 and is predicted to continue rising over the next five to ten years.

In addition to the land resource challenge, China's walnut producers also face several other production difficulties. In general, most walnuts are planted on hills and mountainous slopes in China which hampers crop management and requires intensive labor resources, especially for the harvest. Farm labor is also dwindling as younger people move to the city in search of higher wages. For instance, in Yunnan, a major walnut producing province, labor cost is priced at RMB70-80 (\$11-13) per day, up 15 percent from last year.

Given the high market returns for walnuts, farmers are unwilling to lease their land; so companies are leasing large pieces of collectively-owned land from villages to grow walnuts. Consolidated walnut production is expected to become a long term trend by companies or individuals as most walnut farmers are aging and their children prefer to work in the cities rather on farms.

Almonds

OAA/Beijing estimates China's shelled almond production will reach 5,000 MT in MY2012/13 (October-September), up 25 percent from the revised 4,000 MT in MY2011/12. China was spared extreme cold weather conditions this year, especially in major production regions, which can significantly reduce production. OAA/Beijing revised its MY2011/12 production numbers due to key findings reflecting higher production and planted acreage in southern Xinjiang's Kashi region.

OAA/Beijing forecasts China's almond acreage at 60,000 hectares in MY 2012/13, an increase of 15 percent from the previous year, largely due to financial support provided by local governments in

Xinjiang. Production trials for almonds in Shaanxi and Shanxi provinces have proven unsuccessful due to pests and diseases. Like walnuts, almond yields are low due to poor orchard management practices. Farmers do not rely on walnuts or almonds for their primary income, so these crops are generally inter-planted with wheat and corn.

Other nuts

China has limited production of pecans and macadamia nuts. Pistachio planting results have been unsuccessful.

Prices:

Farm gate prices for walnuts (in-shell basis) in MY 2012/13 were quoted at around RMB40 (\$6) per kilo right before harvest in Yunnan province, which is an increase of 15 percent from last year. Prices in Yunnan dropped to RMB38 (\$6) post harvest in late September, and may continue to decrease after large quantities of imported walnuts entered the markets. Over the past few years, domestic supplies have been priced higher than imported nuts, which explain why imports grew by nearly 60 percent during 2009-2011.

Trade:

Imports

Despite increased market prices and slowing economic growth, tree nut imports are expected to grow due to rising Chinese consumer affluence and increasing US supply. In MY 2012/13 (October-September), imports of in-shell walnuts, shelled almonds, and in-shell pistachios are forecast at 27,000 MT, 19,000 MT and 30,000 MT, which are increases of 17 percent, 12 percent, and 8 percent, respectively from last year. The United States is the largest supplier to China for walnuts, almonds, and pistachios.

Exports

Value-added processing of tree nuts continues to drive China's re-exports of tree nuts. In most cases, Chinese processors import large quantities of in-shell nuts from the United States to process into shelled nuts (whether or not roasted) and re-export (whether or not roasted) to neighboring countries, Europe, and even the United States. Rising labor costs, however, pose challenges for this industry in the long term.

Policy:

Financial Support for Woody Oil Crops

The central government continues to support the development of woody oil crops (walnuts, oil tea, and olive) in 2012. In a guidance issued in March 2012, the Ministry of Finance stated that the central budget would consolidate funds for poverty alleviation, forestry seed subsidies, forestation, agricultural development, and other purposes to support the development of walnuts and other woody oil crops. These funds will also be used for seed breeding, walnut demonstration farm construction, research and development of new varieties and technology, and financial support to leading agro-processing enterprises. Provincial governments will supplement funding from the central government.

For instance, the provincial governments in Yunnan, Shaanxi, and Xinjiang have published guidelines for walnut development. The Shaanxi provincial government set a target of planting 566,667 hectares of walnuts by 2015 and 666,667 hectares by 2020. Based on this guideline, the provincial and county governments in Shaanxi will provide a combined subsidy of \$472 per hectare for farmers to standardized walnut orchards and may extend seed breeding subsidies as well.

New National Standard for Roasted Nuts and Seeds

On June 4, 2012, China notified to the World Trade Organization its National Food Safety Standard on Roasted Nuts and Seeds and solicited comments from trading partners. For more information on this standard, please review an unofficial translation in the following GAIN report: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/National%20Food%20Safety%20Standard%20on%20Roasted%20Seeds%20and%20Nuts_Beijing_China%20-%20Peoples%20Republic%20of_7-27-2012.pdf

A pending name change for almonds in Mandarin has multinational retail chains, Chinese confectionery producers, other industries, and U.S. almond suppliers worried. It is feared that the name change will be effected without an adequate transition period to educate consumers on the new name and to allow producers to change their labeling. Already, the probability of, and the uncertainty surrounding, the name change has caused many retailers in China to pull almonds and almond-containing products off the shelves, since some are facing lawsuits in court on account of alleged misbranding.

Tariff Rates in 2013

The State Council Duty Committee (SCDC) released its 2013 tariff rate duties for certain commodities, with a January 1, 2013, effective date. The import tariff rate duty for in-shell almonds (HS code 08021100) fell from 24 percent (Most Favored Nation rate) to 10 percent, and will be the same level as shelled almonds. Lowering the tariff rate for in-shell almonds to that of shelled almonds has been under negotiation between the United States and China for several years. For more information, please

visit the latest GAIN report titled 2013 Tariff Rates for Agricultural Commodities, under FAIRS Subject Report.

Tree nut tariff and VAT rates in 2012*

HS Code	Description	Tariff	VAT	Effective rate
0801.2100	Brazil nuts, in shell	10%	13%	24.3%
0801.2200	Brazil nuts, shelled	10%	13%	24.3%
0801.3100	Cashew nuts, in -shell	20%	13%	35.6%
0801.3200	Cashew nuts, shelled	10%	13%	24.3%
0802.1100	Almonds, in-shell	24%	13%	40.12%
0802.1200	Almonds, shelled	10%	13%	24.3%
0802.2100	Hazelnuts/Filberts, in-shell	25%	13%	41.25%
0802.2200	Hazelnuts/Filberts, shelled	10%	13%	24.3%
0802.3100	Walnuts, in-shell	25%	13%	41.25%
0802.3200	Walnuts, shelled	20%	13%	35.6%
0802.5100*	Pistachios, in-shell	5%	13%	18.65%
0802.5200*	Pistachios, shelled	5%	13%	18.65%
0802.6190	Macadamia nuts, in-shell	24%	13%	40.12%
0802.6200	Macadamia nuts, shelled	24%	13%	40.12%
0802.9090	Other nuts, fresh or dried, whether or not shelled or peeled	24%	13%	40.12%
2008.1910	Walnut kernels, in airtight containers	20%	17%	40.4%
2008.1920	Other nuts, in airtight containers	13%	17%	28.7%
Source: China Customs				

Note: For temporary tariff rates for 2012, in-shell and shelled pistachios used HS Code 08025000 before 2011. In 2012, pistachios are classified into in-shell and shelled and their HS Codes are also changed to 08025100 and 08025200. HS Coding system does not specify pecans, which are normally classified into “other nuts” under HS Code 08029090.

*: As noted above, the State Council Duty Committee (SCDC) released its 2013 tariff rate duties for certain commodities, with a January 1, 2013, effective date. The import tariff rate duty for in-shell almonds (HS code 08021100) fell from 24 percent (Most Favored Nation rate) to 10 percent, and will be the same level as shelled almonds.

Marketing:

South China’s Tree Nut Market: Market demand has increased in tandem with local consumers’ understanding of the nutritional benefits associated with tree nut consumption. Tree nut consumption in South China continues to grow alongside incomes and demand is coming from the retail, hotel, and food service sectors.

The development of the processing industry has greatly contributed to strengthening overall demand. Wholesalers, distributors, retailers, importers and processors are interdependently centered in the Pearl

River Delta, China's imported tree nut trade hub for close to 40 years. Imported tree nuts, widely consumed across the country, rely on an efficient and widespread distribution network to reach markets.

Consumption trends:

Tree nuts have been considered by some a "hot" food, implying that eating too much in the warm season will hurt one's health. Younger consumers, as well as the emerging educated middle class, however, lend greater credence to nutritional benefits supported by scientific research and consume tree nuts year-round. Nevertheless, these consumers still lack the education to make purchases in terms of health function and nutrition but are primarily motivated by price or retail promotion. Imported tree nuts are mainly consumed as a snack food in China. For retail sales, the Mid-autumn Festival and Lunar New Year are prime seasons for imported tree nut consumption as tree nuts are given as gifts to friends, clients, or other business associates.

Distribution channels

Retail market: All categories in grocery retailing, including supermarkets/hypermarkets and convenience stores, have experienced a fast increase in pricing over the past two years. According to industry statistics, sales in retail have increased annually by seven to nine percent from 2009-2011. Increasing numbers of people flooding into cities and towns from China's vast countryside support an expected upward trend in the overall demand for grocery products. Meanwhile, China's central government also continues to shift its transformation toward a consumption-driven growth model. As a result, grocery retailing is forecast stable growth during 2013.

Nut quality, appearance, and packaging all impact retail sales. Higher-end packaging and larger -sized tree nut kernels are used in gift sets and occupy a large market share in larger cities, like Beijing, Shanghai and Shenzhen; while simple lower quality kernels in smaller sizes are favored by households in medium or smaller cities. Local tree nuts brands, such as Tianhong (Rainbow), Kaixin (Happy Nut), Fujin, and Fengye (Maple) are gaining strength in the retail sector, but retail giants with private-label tree nuts products have continued do well.

Wholesale market: The wholesale market is complex with various grades of nuts, both domestic and imported, available nationwide. As the world's largest dried fruit and tree nut market, Yidelu Street of old Guangzhou, has over 2,000 shops along a 2-mile stretch selling tree nuts, dried fruit and other dry goods. Nuts account for 30 percent of the goods sold in this market and can be found in many forms, such as roasted or salted, shelled and in-shell, loose and packaged. In 2012, the most popular nuts were U.S. almonds and walnuts, Iranian pistachios and Turkish hazelnuts.

Bakery market: Increased disposable incomes and retail bakery promotions have raised the bar for baked goods. In 2011, baked goods as a whole witnessed rapid growth in value terms, including bread,

cakes and pastries, to reach \$1.5 billion according to national industry statistics. Consequently imported nut usage in baked goods also grew rapidly in first and second tier cities as bakery chains such as Bread Talk and Donghaitang grew rapidly. Since 2008, imported tree nut usage in the bakery sector has increased, on average, 10-20 percent every year. Even with the economic downturn in 2012, the first and second quarter sales of import baking ingredients, including nuts and dried fruits, have risen steadily by 15-20 percent, according to Southern China's largest baking ingredient importer.

Additional Market Analysis for U.S. tree nuts

Pistachios: Last year, the United States exported \$42 million of pistachios to China, a 37-percent increase due in part to a temporary tariff reduction effective since 2008. China's Ministry of Health has tightened its policy on additive usage into foods since early 2011, and removed hydrogen peroxide as a food bleaching agent from the approved additives list. This policy adversely impacted Iranian pistachios which, given their lower quality, darker yellow shell, had been bleached in the past to meet local consumer preference. U.S. pistachio exports to China are expected to benefit from this new policy as the naturally whiter shell, larger size, and overall higher quality kernels are favored by local consumers.

Walnuts: China's annual domestic consumption of walnuts is largely due to its recognized nutritional and medicinal aspects, consumed commonly as a snack or used in the food processing sector. Industrial manufacturers process walnuts into many other forms of food and drinks, such as cakes, biscuits, mixed nuts, walnut-flavored snacks and food. Walnut consumption will maintain an upward trend, driven mostly by growing consumer and food processing sector demand. The California Walnut Commission (CWC) has been involved in China's market development through chef competitions, media promotions, trade gatherings and trade show participation.

Pecans: Pecans are the fastest growth area in "other nuts". Following a spike in walnut prices hike in 2007, pecan demand began to expand as its favorable price and substitutability for walnuts drew new buyers. China's growing middle-class consumer base, already keen on walnuts, also continued to support the growth in pecan demand due to their similarity to walnuts and perceived higher nutritional value.

Production, Supply, and Demand (PS&D) Tables

Walnuts

Walnuts, In Shell Basis	China	2010/2011		2011/2012		2012/2013	
		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		0	1,820,000	0	2,100,000		2,200,000
Area Harvested		0	0	0	0		0
Bearing Trees		0	0	0	0		0

Non-Bearing Trees	0	0	0	0		0
Total Trees	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	580,000	580,000	700,000	700,000		720,000
Imports	25,700	25,700	30,000	23,116		27,000
Total Supply	605,700	605,700	730,000	723,116		747,000
Exports	15,200	17,593	20,000	18,353		20,000
Domestic Consumption	590,500	588,107	710,000	704,763		727,000
Ending Stocks	0	0	0	0		0
Total Distribution	605,700	605,700	730,000	723,116		747,000

Note: Numbers have been converted to in-shell basis using a ratio between in-shell and shelled at 1:0.4.

Almonds

Almonds, Shelled Basis	China	2010/2011		2011/2012		2012/2013	
		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		0	46,700	0	52,000		60,000
Area Harvested		0	0	0			
Bearing Trees		0	0	0			
Non-Bearing Trees		0	0	0			
Total Trees		0	0	0	0		0
Beginning Stocks		0	0	0	0		0
Production		1,100	2,500	1,500	4,000		5,000
Imports		16,800	12,147	20,000	16,950		19,000
Total Supply		17,900	14,647	21,500	20,950		24,000
Exports		0	1,160	0	560		1,000
Domestic Consumption		17,900	13,487	21,500	20,390		23,000
Ending Stocks		0	0	0	0		0
Total Distribution		17,900	14,647	21,500	20,950		24,000

Note: Numbers have been converted into shelled basis using a ratio between in-shell and shelled at 1:0.45.

Pistachios

Pistachios, In Shell Basis	China	2010/2011		2011/2012		2012/2013	
		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		0		0			0
Area Harvested		0		0			0
Bearing Trees		0		0			0
Non-Bearing Trees		0		0			0
Total Trees		0	0	0	0		0
Beginning Stocks		0	0	0	0		0
Production		0	0	0	0		0
Imports		57,875	44,814	40,000	27,734		30,000
Total Supply		57,875	44,814	40,000	27,734		30,000
Exports		0	4,749	0	8,990		10,000
Domestic Consumption		57,875	40,065	40,000	18,744		20,000
Ending Stocks		0	0	0	0		0
Total Distribution		57,875	44,814	40,000	27,734		30,000