

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 9/29/2016

**GAIN Report Number:** 16049

## **China - Peoples Republic of**

## **Tree Nuts Annual**

**2016**

**Approved By:**

Abraham Inouye

**Prepared By:**

OAA Staff

**Report Highlights:**

China is the world's largest walnut producer. Post forecasts China's MY 2016/17 in-shell walnut production at 1.06 million MT, an increase of 6 percent from the previous year, because of favorable weather conditions in major producing areas. Almond production (shelled basis) is forecast at 40,000 MT, up 25 percent from the revised number in MY 2015/16. Nut imports are expected to rebound given sharp declines in world market prices.

**Commodities:**

Select

**Author Defined:****Production***Walnuts*

Post forecasts China's in-shell walnut production will increase by 6 percent on year to reach 1.06 million metric tons (MT) in the marketing year (MY) 2016/17 (September-August), because of favorable growing conditions in major walnut producing areas. Yunnan, Xinjiang, Shanxi, Shaanxi, and Hebei provinces had no reports of abnormal weather conditions during the crop development period. In addition, more new plantings have begun bearing fruit, contributing to the production increases.

Walnut planted acreage has increased in most walnut producing provinces and has even expanded to non-traditional walnut production areas, driven by good market returns and government support (see Policy). Although the rate of planting area expansion has slowed down, walnut production is expected to continue increasing in the foreseeable future as recently planted walnuts gradually become fruit bearing.

While walnut acreage has expanded, Chinese walnut yields remain quite low at an average 2.25 MT per hectare. Most walnuts are planted on mountains or in hilly areas, making it difficult to implement modern crop management practices such as irrigation, pruning, and fertilization. Farmers source walnut seedlings (for grafting or planting) from multiple venues, yet not all varieties perform well. Water resources are lacking in many regions in northern China and mechanized harvest has always been a challenge in the mountainous areas.

*Almonds*

China's almond production (shelled basis) is estimated at 40,000 MT in MY 2016/17 (August-July), up 25 percent from the revised number of 30,000 MT in MY 2015/16, according to forestry officials in Xinjiang, the single largest almond producing region in China. Yields remain low and fluctuate based on weather. Spring frost, for example, may easily kill the buds and lead to extremely low yields. Shache County plants around 70,000 hectares, or 95 percent of all almond acreage, in the Xinjiang Uygur Autonomous Region. Almond acreage has stabilized in this region, but production is expected to continue increasing as new plantings will start bearing soon.

*Pistachios*

Industry sources estimate China's pistachio acreage at 3,000 hectares in MY 2016/17 (September-August), but production is extremely low at around 30 MT. Most pistachio plantation in Kashi County, Xinjiang is for experimental purposes by private companies that are trying different varieties as well as farming technologies such as seed breeding.

### *Other nuts*

Hazelnut production (in-shell basis) is currently estimated at 29,000 MT in MY 2016/17 (September-August). Local hazelnut varieties make up 80 percent of the total production. Hybrid varieties, which are similar to European counterparts, take the remaining 20 percent share. Hazelnut acreage is estimated at 157,000 hectares. Northeast China (Liaoning, Heilongjiang, and Jilin provinces) remains a traditional hazelnut production region and the planting area has expanded to other provinces including Shanxi and Xinjiang.

China's macadamia nut production (in-shell basis) is estimated at 6,000 MT in MY 2016/17 (September-August). Macadamia nuts are primarily planted in Yunnan province and the total planted area is around 130,000 hectares. With financial or technical support of the local government and private businesses, Yunnan macadamia nut acreage is increasing quickly. Industry sources predict that Yunnan macadamia production will accelerate in about five years after new plantings start bearing.

Although acreage has reportedly reached 32,000 hectares, pecan production is currently estimated at a mere 100 MT. Encouraged by local governments to grow woody oil crops, farmers in provinces like Yunnan, Anhui, and Jiangsu have started to grow pecans, but the yields are very low, either because the plants are too young or farmers lack experience in managing the crop.

### **Prices**

Farm gate prices for in-shell walnuts are quoted at RMB 25 (\$3.7) per kilo in Yunnan, down more than 10 percent from the previous year, due to bumper harvests. However, industry sources indicate that current quotations are supported by the upcoming Moon Festival, a major holiday in China, and that the prices will probably fall after the holiday.

### **Consumption**

Nuts and seeds are a traditional snack food in China. Walnuts remain the favorite nut among Chinese consumers as walnuts are considered a health food that contributes to overall brain health. Peanuts and sunflower seeds remain the most popular choices because of lower prices. Hickory nuts and pine nuts are traditional snacks in east and northeast China. Imported nuts such as almonds, pistachios, pecans, and macadamia nuts are holding an increasingly large market share as a result of rising incomes and enhanced consumer awareness about the nutritional attributes of nuts. However, increased prices for most imported nuts, coupled with China's economic slowdown has negatively impacted consumers' buying interest and some producers have shifted to cheaper nut alternatives. Post predicts that nut consumption, especially for imported nuts, will recover in MY 2016/17 as current world prices for most nuts have dropped sharply from the high levels in the previous year.

### **Trade**

#### *Imports*

China's walnut imports are expected to rebound in MY 2016/17 (September-August), following a sharp decline of world prices. California in-shell walnuts are currently priced at around \$2.65 per kilo, down 40 percent from a year ago, according to industry sources. The United States is the largest walnut supplier to China and the import volume, including transshipments from Hong Kong and Vietnam, has been declining since the peak in MY 2012/13, largely because of increased world prices and improved domestic supplies. The majority of walnut imports are in-shell, but the share of shelled walnuts is increasing in the wake of rapid development by the local food processing industry.

China's almond imports are expected to increase in MY 2016/17 (August-July) on improved supplies from the United States, the single largest almond supplier to China. California, which produces all U.S. domestic almond supplies, is anticipating an 8-percent gain in MY 2016/17 after production losses for two consecutive years from a severe drought in that State. The current market prices for almonds have also dropped by nearly 40 percent from record highs in August 2015, triggering buying interest from Chinese importers.

Pistachio imports are also likely to pick up in MY 2016/17 (September-August) on recovered production in the United States, the largest pistachio producer in the world. A short winter and dry weather conditions in California had cut the country's pistachio supplies by half in MY 2015/16. Meanwhile, Iran, the second largest producer also experienced a small crop year in the production cycle. As a result of reduced supplies, China's pistachio imports, including transshipment from Hong Kong and Vietnam, dropped by nearly 35 percent. Pistachio production in California is expected to resume to normal levels in MY 2016/2017 and the prices have already fallen sharply from a year ago.

### *Exports*

China's walnut exports are expected to increase in MY 2016/17 given lower prices for domestic supplies. China exports shelled walnuts to Japan and European countries, but the volume has declined in the past few years. Increasing production and processing costs, especially labor costs, have pushed up export prices.

### **Policy**

In an effort to accommodate the increasing demand for edible oil, the central government encourages the plantation of woody oil crops, such as oil tea, walnuts, and oil peony as these crops do not compete with major grain crops for farmland. A policy document published by the State Council has set a goal of increasing the woody oil crop area to 13.3 million hectares by 2020, with annual woody oil production reaching 1.5 million MT. The current acreage of woody oil crops is around 8 million hectares. The document mentioned that financial and technical assistance will be provided to support the production of woody oil crops, but did not elaborate further. According to forestry officials, China has about 40 million hectares of barren mountains or land, including saline-alkaline land and sandy bare land that can be planted with woody oil crops.

In November 2015, four government agencies (State Forestry Administration, Ministry of Finance, the State Council, and State Development Bank) jointly issued guidelines on consolidating and coordinating funds to support the development of oil tea and walnuts in poverty-stricken areas. These guidelines suggest that specialized government funds, including afforestation, poverty-alleviation, agriculture development as well as subsidized loans, will be used on seed breeding, orchard construction and technology extension. It is not immediately clear which provinces will be covered by this policy. China has a population of more than 70 million below the poverty line, with 60 percent living in mountainous areas.

After gaining access for shelled walnuts in 2014, Chile's in-shell walnuts were also granted access to the China market in January 2016. Chile is the largest producer and exporter of walnuts among southern hemisphere countries. Under a Free Trade Agreement (FTA), Chilean walnuts enter China with zero tariffs. The following table provides details about import tariff and value-added tax on tree nuts.

**Table 3. Tree Nut Import Tariff and VAT in 2016**

HS Code	Description	2016		Effective Rate
		Tariff	VAT	
0801.2100	Brazil nuts, in shell	10.0%	13%	24.30%
0801.2200	Brazil nuts, shelled	10.0%	13%	24.30%
0801.3100*	Cashew nuts, in-shell	10.0%	13.0%	24.30%
0801.3200	Cashew nuts, shelled	10.0%	13.0%	24.30%
0802.1100*	Almonds, in-shell	10.0%	13.0%	24.30%
0802.1200	Almonds, shelled	10.0%	13.0%	24.30%
0802.2100	Hazelnuts/Filberts, in-shell	25.0%	13.0%	41.25%
0802.2200	Hazelnuts/Filberts, shelled	10.0%	13.0%	24.30%
0802.3100	Walnuts, in-shell	25.0%	13.0%	41.25%
0802.3200	Walnuts, shelled	20.0%	13.0%	35.60%
0802.5100*	Pistachios, in-shell	5.0%	13.0%	18.65%
0802.5200*	Pistachios, shelled	5.0%	13.0%	18.65%
0802.6190*	Macadamia nuts, in-shell	19.0%	13.0%	34.47%
0802.6200*	Macadamia nuts, shelled	19.0%	13.0%	34.47%
0802.9090.40*	Pecans, whether or not shelled	10.0%	13.0%	24.30%
2008.1910	Walnut kernels, in airtight containers	20.0%	17.0%	40.40%
2008.1920	Other nuts, in airtight containers	13.0%	17.0%	28.70%

Source: China Customs

\*Temporary tariff in 2016

### Marketing:

As the consumption of nuts is a traditional part of Chinese culture, high-quality imported tree nuts have long enjoyed a strong customer base. Recently, the local nut industry has been making a great effort to promote nut products through educating the consumers about the health benefits of nuts and seeds. An increasingly significant amount of U.S. nut imports into China (e.g. walnuts, pistachios and almonds) are sold as bulk product to various roasting factories and wholesale markets that have developed their own private labels and brands. Throughout China, imported nuts are sold in all types of retail outlets, including “mom & pop” stores, franchised outlets, convenience stores, supermarkets, and hypermarkets. The types of packaging in these outlets range from bags and cans to large boxes. Founded in the early 1900s, Yidelu wholesale market in Guangzhou is a key imported nut marketing hub for the entire country. Retail outlets, other wholesale markets, hotel and restaurant chains, E-commerce platforms, and the food manufacturing industry all source from Yidelu market. According to contacts at Yidelu, despite a slowdown in the Chinese economy, demand for high-quality imported nuts in traditional and high-end retail outlets, as well as E-commerce venues continues to grow. According to retail contacts, in-store promotions and food festivals in first-tier and second-tier premier retail stores highlighting U.S.-origin nuts as safe, healthy, and convenient snack foods have been extremely successful in increasing sales. Consumer promotions timed with Chinese holidays have become especially effective as nuts such as pistachios are now a must-have for Chinese New Year.

Trade association contacts also report that public relation activities and media campaigns have also played important roles in educating consumers on the quality of U.S. tree nuts. The California Almond Board, the American Pistachios Growers, the U.S. Pecan Growers, and the California Walnut Board trade associations are all active in promoting U.S. tree nuts in China.

Chinese E-commerce is an increasingly important marketing venue for imported tree nuts. Tree nuts are ideal products for E-commerce sales due to their long shelf life, convenient packaging, and long-distance shipping suitability. Working with E-commerce platforms, a major nut and seed association has kicked off a campaign called “9.17 China Healthy Nut Day” to encourage consumers to eat a handful of nuts or seeds every day. A series of promotional activities will be staged on and around September 17 each year (“September 17” or “Jiu-Yao-Qi” is a Chinese homophone for “I Must Eat”). A recent press release highlights a Dietary Guide for Chinese Citizens, which was published by China Nutrition Society in May of 2016, recommending a daily intake of nuts (including seeds) and beans at 25-35 grams.