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GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Citrus Annual

Annual

Approved By:

Laura Scandurra

Prepared By:

Ryan Scott, Wang Tong, and Wu Bugang

Report Highlights:

Orange production in marketing year (MY) 2011/12 is forecast at 6.6 million metric tons (MMT), up 12 percent largely due to favorable weather conditions in major producing regions. Tangerine production is forecast at 13.8 MMT, which is slightly down from the previous year because of extremely cold temperatures in key producing provinces. Larger imports of U.S. citrus are expected as China's rising demand continues to outpace local supplies. The United States remains the largest supplier of fresh oranges, tangerines, and grapefruit to China.

Commodities:

Citrus, Other, Fresh

Production:

China's overall citrus production is forecast at 27 million metric tons (MMT) for marketing year (MY) 2011/12, which is a four percent increase from the revised estimate of 26 MMT in MY 2010/11. The increase is largely due to additional supplies of oranges and grapefruit in major producing provinces.

Oranges

Orange production is forecast at 6.6 MMT in MY 2011/12 (November-October), up 12 percent from the revised estimate of 5.9 MMT in MY 2010/11, due to good harvest in major producing provinces (including Jiangxi, Guangxi, and Hubei). Favorable market returns have encouraged additional plantings. In MY 2011/12, acreage is expected to reach 760,000 hectares. In recent years, acreage has been expanding by at least three percent on a yearly basis. Navel oranges remain the dominant varieties.

Frozen Concentrated Orange Juice (FCOJ) and Not-From-Concentrate (NFC)

Production of frozen concentrated orange juice (FCOJ) and not-from-concentrate (NFC) is forecast at 25,000 MT (converted into a Brix value of 65) in MY2011/12 (October-September). Although this is an increase of 80 percent, these additional supplies are still inadequate to meet local demand for orange juice (especially FCOJ). As a result, China's juice market continues to largely depend on imports.

Tangerines/Mandarins

Tangerine/mandarin production is forecast at 13.8 MMT in MY 2011/12 (October-September), slightly down from the revised number of 14 MMT in MY 2010/11 because of lower-than-normal production in Hunan and Hubei (second and third largest producers). Tangerine acreage is relatively unchanged from the previous year at 815,000 hectares. Farmers are replacing old tangerine varieties with consumer-favored ones to gain better market returns.

Canned mandarins

Canned mandarin production is forecast at 360,000 MT in MY2011/12 (October-September), a 13 percent increase from the revised number of 320,000 MT in MY2010/11 largely due to growing domestic demand. Industry sources reported that production (including fresh mandarins, sugar, and packaging materials) and labor costs are expected to increase by 30 percent from last year.

Grapefruits/Pomelos

Grapefruit/pomelo production is forecast at 3.0 MMT in MY2011/12 (October-September), up seven percent from the revised number of 2.8 MMT in the previous year, largely due to a bumper harvest in Guangdong and Guangxi, China's second and third largest pomelo producing provinces. Pomelo production has rebounded to normal levels in Fujian province, the top pomelo producing region, which suffered crop losses from last year's typhoon damages.

Lemons

Lemon production is forecast at 300,000 MT in MY 2011/12 (October-September), a substantial increase of 20 percent, mainly due to favorable weather in Anyue county of Sichuan province, which produces nearly 80 percent of China's total fresh lemons and is deemed "the lemon capital in China".

Consolidation in citrus production

Consolidated farming is a trend in China's agriculture production. Large fruit trading companies and/or packinghouses enter contracts with farm cooperatives that have networks of hundreds of individual fruit farmers. Trade companies also provide technical assistance to farmers by offering free or subsidized fertilizers and pesticides. In some citrus producing regions, many individuals (including local agricultural officials) lease orchards from multiple farmers and consolidate land into large scale operations. These individuals typically have easier access to resources (like loans and government support) and can hire farmers to work in the field.

Given increasing labor costs and shortages, industry sources indicate that consolidation can lower labor costs up to 30 percent. Government and private investments in pipe irrigation and fruit-picking facilities have also eased heavy workloads for aging laborers who often work in hilly areas. Private investment in high technology and modern machinery has emerged in fruit production as well. For example, to produce high quality oranges in Hubei province, a private company installed video cameras over production areas and computerized irrigation systems to apply fertilizer and pesticide applications.

Prices:

Farm gate prices for **fresh oranges** are currently quoted at 2.6-3.0 Yuan (\$0.40-0.47) per kilo in Guangxi, down from 3.2-3.8 Yuan (\$0.50-0.60) per kilo in the previous year mainly due to larger production. **Tangerine** prices rebounded from relatively low levels at nearly 2.0 Yuan per kilo in Hubei, which is 50 percent higher compared to same time last year. Higher pomelo production and lower-than-normal demand from EU countries have caused prices to fall. Pomelo prices are currently recorded at 2.0-2.6 yuan (\$0.31-0.41) per kilo, compared to 2.8-3.5 Yuan (\$0.44-0.55) per kilo in the previous year.

As noted in other GAIN reports, production and labor costs have increased by at least 25 percent in most key producing provinces.

Consumption:

Improved distribution systems have increased the availability and consumption of fresh fruits. Consumption has expanded from first-tier cities (like Beijing, Shanghai, and Guangzhou where the lion share of fresh fruit is consumed) to second and third-tier cities. As more people pursue healthier lifestyles, fruits and vegetables will be an important component of a healthy diet.

As fruit production in China expands, fruit processing is expected to be the future trend. Reportedly, sales from the juice market have reached double-digits annually, and orange juice (drink) remains the most favored product. Higher consumption of canned mandarins is a result of enhanced promotions of new forms of packaging (plastic bag, cup, jelly, etc) by local canneries. As new processed fruit products are developed, these nutritional and convenient foods will certainly attract buying interests from more consumers, especially the younger generation. According to industry sources, more citrus is consumed in northern China than in the south. Southern consumers tend to like sweet tasting fruit, while northern consumers prefer a sweet and sour flavor.

Trade:

Imports

Orange imports are forecast at 110,000 MT in MY 2011/12 (November-October), an 11 percent increase from the previous year based on continued strong demand from Chinese consumers. Customs data indicate that 70-80 percent of imports of fresh oranges occur during China's off-season (May-October). The United States and South Africa remain the top two suppliers of fresh oranges to China.

Tangerine imports are forecast to increase by 23 percent to 16,000 MT in MY 2011/12 (October-September), due to rising local demand for high quality fruits. The United States and Thailand dominate the exports of fresh tangerines to China.

Grapefruit imports are forecast to increase by 25 percent to 15,000 MT in MY 2011/12 (October-September), largely due to strong demand from high end consumers. An increasing number of wealthier consumers have become aware of and attracted by the health attributes of grapefruit.

FCOJ imports are forecast at 80,000 MT in MY 2011/12 (October-September), up nearly five percent from the previous year, on firm demand by local beverage industry. With limited domestic production supplies of the varietal oranges used for juicing, beverage companies are expected to source more imported FCOJ to accommodate the escalating demand for juice and juice beverages by local consumers.

Exports

Mandarin exports are forecast at 580,000 MT in MY 2011/12 (October-September), down four percent from the previous year, mainly due to higher export prices. Increased prices will likely dampen buying interests from neighboring, price-sensitive Asian countries. Exports of canned mandarins, however, are expected to expand slightly by three percent to 340,000 MT during MY 2011/12 (October-September), primarily due to larger purchases from the United States.

China is forecast to export 100,000 MT of fresh oranges during MY 2011/12 (November-October), nearly nine percent higher than the previous season. Additional exportable supplies and lower prices are expected to boost China's orange exports to neighboring countries.

In MY2010/11, low temperatures and extended periods of rain significantly reduced fresh supplies in Jiangxi, the top producing province of fresh oranges in China, causing exports to plummet at least 40 percent to 92,137 MT.

Pomelo exports are forecast at 72,000 MT in MY 2011/12 (October-September), down 14 percent from the previous year, largely due to weak demand from Europe. The current debt crisis suggests that Europe will account for 80 percent of China's pomelo production in MY2011/12.

Policy:

There is limited direct support provided by the central government to the fruit industry, but government subsidies are provided to agriculture as a whole. Distribution systems and sales of fruit production benefited from government investment in infrastructure (roads and wholesale markets). In Hubei province, local governments provide subsidies to demonstration farmer cooperatives depending on their scale. If a farmer cooperative is classified as a county-level demonstration cooperative, an individual who educates its members on how to follow standardized farming models, this farmer cooperative may receive a cash subsidy of 30,000-50,000 Yuan (\$4,717 to 7,862) from the local government. In Zigui of Hubei, the county government provides 7,500 Yuan (\$1,180) per hectare worth of seedlings to citrus farmers who intend to replace old citrus varieties with new ones.

In 2010-2011, the Ministry of Finance and the Ministry of Commerce allocated a total budget of \$292 million to support the development of modern agricultural distribution systems in 17 provinces. With the purpose of reducing intermediate links in the distribution system and cutting down costs, the on-going pilot program focuses on building and upgrading wholesale markets, facilitating direct purchasing, and exploring innovative distribution models. On October 25, 2011, the Ministry of Agriculture and the Ministry of Commerce activated an action plan to facilitate direct purchasing between 10 national hypermarkets, 36 regional supermarkets, and 75 farmer cooperatives. According to officials at the Ministry of Commerce, the traditional multi-layer wholesale-retail system adds 5-10 percent costs to each segment, so the State Council is considering ways to cut taxes and administrative fees associated with wholesale markets.

Marketing:

Local demand for imported citrus has grown significantly. Compared with domestic fruit, imported products have better quality, and Chinese consumers can afford higher prices as China's currency continues to

appreciate. The majority of imported citrus is sold through major retailers to mostly upper middle level consumers. Gift-giving is responsible for a large share of the market as well as hotels and restaurants, which purchase significant amounts of imported fruit and fresh squeezed orange juice. In-store promotion is a highly effective way to both expand the market and increase consumer awareness. With 86 percent market share (based on volume), the United States is the largest exporter of citrus products to China. Sunkist products account for the majority of the U. S. citrus market share in China. South Africa is the main competitor for the United States given its competing prices and marketing season which doesn't conflict with domestic production. That said, citrus products from South Africa to mainland China are closely monitored for strict temperature control in ocean transportation, so South African citrus products often arrive in Hong Kong and then transshipped to mainland China.

Chinese consumers place a strong emphasis on the taste, appearance, and shape of citrus fruit. According to local importers and retailers, Chinese consumers usually buy fruit based solely on its appearance. This makes presentation and color essential to maintaining high retail price levels. The most popular fruit in China tends to be characterized by bright color, consistent peel and a high Brix content. Chinese consumers are also attracted by innovative products that encourage consumers to try new fruit drinks and citrus varieties. There are some regional differences as consumers in northern China focus more on size and appearance. Importers state consumers are more likely to purchase larger fruit with smooth and shiny citrus peels. On the other hand, consumers in southern China place less emphasis on appearance and more on taste.

Although there is tremendous growth in direct shipments of U.S. citrus to Shanghai and Tianjin ports where there are fewer middlemen, lower transportation costs, and better product quality, the Jiangnan market in Guangzhou is still the main distribution hub for U.S. citrus products.

Oranges

About 90 percent of all U.S. citrus products exported to China are oranges. The top two varieties in the market are navel and Valencia oranges. Guangzhou is the top importing port for U.S. oranges followed by Huangpu and Shanghai. It is worth noting direct imports of U.S. oranges are rapidly increasing to the ports in Tianjin and Ningbo. In general, Valencia prices are relatively stable (supplies are available before China's harvest season), but prices for navel are greatly affected as they are largely based on quality and conflict the timing of domestic production. However, late mature U.S. navels which lands in China after February are very popular. Chinese consumers prefer the larger sizes, good appearance, and sweet taste.

Direct purchasing is the new trend in the retail industry. Some major retailers such as Tesco, RT-Mart, Huarun, Carrefour and Wal-Mart are entering into purchasing contracts with local farmer cooperatives or packinghouses to source domestic oranges. This minimizes communication with the middlemen and improves profits and quality. Some retailers would like to establish direct, long term contracts with U.S. growers and packers; but, these retailers lack the knowledge to source imported products directly from overseas suppliers (via Customs and AQSIQ clearance), have no cold chain facilities and disjointed distribution channels, and only carry large quantities of one size products.

Fruit stores are very popular in urban cities such as Beijing, Shanghai and Guangzhou. Importers and distributors often open fruit stores around highly populous communities.

Lemons

In 2010, about 100 percent of imported lemons (based on value and volume) in China were sourced from the United States. The expansion of domestic production is the only competition for U.S. lemons. Given high quality and broad market awareness, U.S. lemons enjoy a high reputation among Chinese customers and the HRI sector.

Lemons continue to evolve as a cooking ingredient in the food service sector because of the colorful appearance and versatility. Lemons are recognized as a flavor enhancer and a source of vitamin C. The market for imported lemons is mostly limited to major cities such as Shanghai, Beijing and Guangzhou, but Shanghai imports huge volumes for the HRI and retail sectors, and, as a result, Shanghai ports have become the major hub for imported lemons from United States.

Grapefruit

Grapefruit is still relatively unknown to China's consumers and often confused with pomelos. The quality of Chinese pomelos has improved rapidly in recent years with sweet and juicy varieties. Unfortunately, grapefruit is not sweet enough to appeal to most Chinese palates. With an increasing awareness of health and nutrition, more urban customers are beginning to enjoy U.S. grapefruit. In 2010, the value of imported grapefruit from the United States reached a higher-than-expected level of \$3 million, which was a 41.09% increase over 2009.

Juice

In 2010, the China juice market increased by 12.5% to reach \$20.5 million. The juice market has growth potential as annual consumption per person in China is 10.1 liter, which is relatively low compared with Russia (20.1 liters a person) and the United States (30.3 liter a person). Orange juice continues to lead the juice market despite the declining market share from 2008 with 57 percent to 2011 with 47.2 percent. Other juice flavors are developing such as plum, lemon and white grape. Taste is the main determinant for customers to make purchasing decisions. Chinese customers prefer sweet flavors, so orange juice is more popular than lemon and grapefruit juices. According to an importer of Florida citrus juice products in Beijing, orange juice captures 70 percent of the juice market (in retail) and grapefruit accounts for the remaining 30 percent. China's domestic products dominate the HRI (hotel and restaurant industry) sector as local brands capture 50 percent of the market share.

There is rising competition in the imported juice market. Mexico and Europe can easily be sourced in upscale supermarkets in China. These products have attractive packaging and are often cheaper than U.S. counterparts. For example, the price of a liter of Mexican citrus juice is less than USD 4.69 (RMB 30), while an equivalent liter

from the United States is more than USD 6.25 (RMB 40). Although the U.S. product has better quality, most consumers are price sensitive and prefer less expensive products. However, fresh grapefruit and orange juices from Florida are very popular among upper mid level customers in Beijing, Qingdao and Shanghai, even though prices for these products are over \$6 for a one liter.

More local restaurants are beginning to offer freshly squeezed juice. Lemon water is also popular in western restaurants, mid-upper level restaurants and coffee shops. Most fresh fruit juices in restaurants are sourced from domestic production. Starred hotels consume huge volumes of low value citrus from the United States, which are smaller-sized and appear less smooth than the South Africa's citrus that is available in retail markets.

Inadequate cold chain still a challenge

Cold storage is still limited for high value imported fruit and other products. Most domestic products have no cold chain storage or refrigerated transportation except for exports. In addition, 99 percent of the storage in China can or does not maintain a seamless cold chain. For example, most products are exposed to normal temperatures while being transferred between refrigerated trucks and cold storage. Domestic shipping is also an issue and according to local distributors, refrigerated trucks are not normally used to transport products within the same province. Refrigerated trucks are only used when shipping the products to other provinces. In the retail sector, most supermarkets display imported fruit in refrigerated areas since they are more expensive and profitable than local products.

Brand Awareness

Brand awareness is gradually developing in urban China such as Beijing, Shanghai and Guangzhou. U.S. citrus products with a Sunkist label are welcome in retail markets because customers believe the products are higher quality (fresher and healthier) than competitors. A number of high-end hotels only source Sunkist products. Over the past two years, consumer awareness of Sunkist products has also spread in second and third tier cities. Reportedly, fraudulent findings of falsely-labeled citrus products in major distribution centers have slowed down compared to recent years, but, unfortunately, small stalls still place counterfeit Sunkist labels on products and mix authentic Sunkist citrus with non- brand citrus in one package.

Citrus Historical Production Tables by Province

Orchard Area and Production by Province								
	2007		2008		2009		2010	
	1000 Ha	1000 MT						
Hunan	325.9	2,779	335.9	2,976	376.2	3,385	379.0	3,889
Guangdong	243.6	2,568	248.0	2,805	276.0	3,221	282.6	3,500
Guangxi	165.3	2,347	178.4	2,655	189.2	2,892	197.9	3,132
Hubei	189.0	2,116	211.1	2,555	225.6	2,747	229.2	3,010
Sichuan	223.3	2,325	231.4	2,576	244.5	2,773	253.2	2,929
Fujian	170.4	2,386	173.5	2,565	175.2	2,668	175.4	2,723
Jiangxi	262.5	1,957	281.9	2,485	296.4	2,994	300.6	2,686
Zhejiang	122.5	1,987	122.1	2,384	116.7	1,975	114.5	1,908
Chongqing	113.9	1,044	120.3	1,137	126.3	1,263	138.0	1,390
Yunnan	32.1	281	32.9	327	34.1	383	34.3	417
Shaanxi	23.3	224	25.7	237	28.9	308	33.9	287
Guizhou	37.9	191	38.5	191	38.6	194	40.9	204
Shanghai	10.9	240	10.7	265	9.9	236	9.0	202
Jiangsu	3.7	47	3.7	51	4.6	60	3.6	54
Hainan	3.7	30	3.8	39	4.4	44	5.1	48
Henan	10.0	38	10.1	40	10.7	40	10.9	42
Anhui	3.2	19	2.5	22	2.7	23	2.7	28
Gansu	0.3	3	0.3	3	0.3	3	0.3	3
Total	1,941.4	20,582	2,030.8	23,313	2,160.3	25,211	2,211.0	26,452

Source: Ministry of Agriculture Abstracts

Production, Supply and Demand Data Statistics:

Fresh Oranges

Oranges, Fresh China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Nov 2009		Market Year Begin: Nov 2010		Market Year Begin: Nov 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	700,000	700,000	735,000	735,000		760,000
Area Harvested	0	0	0	0		0
Bearing Trees	0	0	0	0		0
Non-Bearing Trees	0	0	0	0		0
Total No. Of Trees	0	0	0	0		0
Production	6,500	6,500	5,500	5,900		6,600
Imports	80	80	85	99		110
Total Supply	6,580	6,580	5,585	5,999		6,710
Exports	158	158	95	92		100
Fresh Dom. Consumption	6,220	6,220	5,310	5,727		6,285
For Processing	202	202	180	180		325
Total Distribution	6,580	6,580	5,585	5,999		6,710

(Unit: 1,000 MT, Hectare)

Fresh Tangerines/Mandarins

Tangerines/Mandarins, Fresh China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	800,000	800,000	812,000	812,000		815,000
Area Harvested	0		0			0
Bearing Trees	0		0			0
Non-Bearing Trees	0		0			0
Total No. Of Trees	0	0	0	0		0
Production	14,200	14,200	12,500	14,000		13,800
Imports	9	9	10	13		16
Total Supply	14,209	14,209	12,510	14,013		13,816
Exports	712	712	620	607		580
Fresh Dom. Consumption	12,977	12,977	11,470	12,926		12,696
For Processing	520	520	420	480		540
Total Distribution	14,209	14,209	12,510	14,013		13,815

(Unit: 1,000 MT, Hectare)

Fresh Grapefruit/Pomelo

Grapefruit, Fresh China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	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 No. Of Trees	0	0	0	0		0
Production	2,900	2,900	2,600	2,800		3,000
Imports	7	7	10	12		15
Total Supply	2,907	2,907	2,610	2,812		3,015
Exports	119	119	95	84		72
Fresh Dom. Consumption	2,788	2,788	2,515	2,728		2,943
For Processing	0	0	0	0		0
Total Distribution	2,907	2,907	2,610	2,812		3,015

(Unit: 1,000 MT, Hectare)

Frozen Concentrated Orange Juice (FCOJ)

Orange Juice China	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Deliv. To Processors	201,500	201,500	180,000	180,000		325,000
Beginning Stocks	4,400	4,400	15,000	15,000		25,000
Production	15,500	15,500	13,850	13,850		25,000
Imports	59,965	59,965	42,000	76,544		80,000
Total Supply	79,865	79,865	70,850	105,394		130,000
Exports	4,365	4,365	4,000	5,236		6,500
Domestic Consumption	60,500	60,500	61,850	75,158		90,000
Ending Stocks	15,000	15,000	5,000	25,000		33,500
Total Distribution	79,865	79,865	70,850	105,394		130,000

Note: Numbers have been converted to concentrated orange juice using a ratio of 6:1 between single strength and concentrate. Products under HS Codes 20091200 and 20091900 are both treated as single strength juices.