

**Required Report:** Required - Public Distribution

**Date:** September 29, 2021

**Report Number:** CH2021-0116

**Report Name:** Tree Nuts Annual

**Country:** China - People's Republic of

**Post:** Beijing

**Report Category:** Tree Nuts

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**Report Highlights:**

Awareness over the health benefits of tree nuts has increased consumer demand over the past five years. Manufacturers are developing creative products to meet demand from millennial and other consumers. Almond imports in Marketing Year (MY) 2021/22 are expected to continue rebounding on firm demand in the post COVID-19 pandemic era. Despite a projected increase in pistachio imports from the United States, overall pistachio imports are likely to drop in MY 2021/22 due to a sharp decline in Iranian supplies. Walnut imports from the United States are projected to decline in MY 2021/22 due to price hikes amid a smaller crop. China's commercial in-shell walnut production is forecast at 1.1 MMT in MY2021/22, unchanged from the previous year. Tree nut imports may be affected by new registration and labeling requirements.

## **Production**

### *Walnuts*

China's commercial walnut production (in-shell basis) is forecast at 1.1 million metric tons (MMT) in marketing year (MY) 2021/22 (September-August) and is unchanged from estimated MY 2020/21 walnut production. A spring frost may cut production in Xinjiang, the largest walnut producing province, by 20 percent from last year, but production gains in other major producing provinces, including Yunnan, the second largest walnut producer, are expected to offset the crop losses in Xinjiang. China is the world's largest walnut producer, with nearly half of global production.

China's total walnut production will continue to increase in the next few years as more walnut trees mature, but the degree to which these nuts enter commercial channels is dependent on price. China's total walnut production is unknown but is significantly higher than commercial production. Many walnut trees were planted on slopes, are of unpopular varieties, and are difficult to maintain or mechanically harvest. With low prices, walnut traders believe farmers will not be able to cover the labor cost to harvest these trees. In southern Xinjiang, however, walnuts are planted on plains and production is largely mechanized. Coupled with improved infrastructure, Xinjiang walnut production has increased rapidly over the past few years and the province will become the most important hub for the Chinese walnut industry.

More than 50 walnut varieties are cultivated in China. Some varieties, like the thin-shelled ones from Xinjiang, are large-sized and have a high kernel to in-shell nut ratio. Nevertheless, very few varieties compete with those from the United States and Chile, such as Chandler and Hartley, that are popular among consumers for their features such as light color and mild (i.e., non-bitter) taste. Post has not heard of similar varieties being developed or planted in China.

### *Almonds*

China's shelled almond production is forecast at 42,000 MT in MY 2021/22 (August-July), down nearly 7 percent from the previous year, due to frost damage during almond flowering in the spring, according to contacts in Xinjiang. Shache county in southern Xinjiang produces more than 95 percent of the country's almonds. The almond yield is low at 3.0-3.8 MT per hectare due to a lack of proper crop management and agricultural inputs as well as the use of unproductive varieties. As a result, Xinjiang almonds are sold mainly within the region. China relies heavily on imported almonds for domestic consumption.

Almond acreage remains stable at around 63,000 hectares in Xinjiang. A private company in central Henan province has reportedly planted around 50 hectares of almonds for experimental purposes. It remains to be seen whether this trial production can be successful.

## *Pistachios*

China produces very few pistachios. The experimental production of pistachios in Xinjiang was unsuccessful due to weather and disease challenges. Farming technology is another issue associated with pistachio production in China.

## *Other nuts-Macadamia, Hazelnut, and Pecan*

China's in-shell macadamia nut production is forecast at 32,000 MT in MY 2021/22 (September-August), with an additional 9,600 MT of shelled macadamia nut production, according to data released by the International Nut and Dried Fruit Council (INC). The in-shell and shelled production amounts are increases of 5 and 9 percent, respectively, from the previous year. The production of macadamia nuts has increased rapidly over the past few years on expanded crop area, which is currently estimated at 31,000 hectares, according to industry sources. Macadamia nuts are mainly planted in mountainous areas of Yunnan province and plains of Guangxi province. Industry sources indicate that China will soon become self-sufficient in macadamia nuts and even a significant exporter in the foreseeable future. However, they also note that Chinese macadamia nut varieties - mainly introduced from other countries - suffer from low yields and mixed quality.

China's production of commercially cultivated hazelnuts (hybrid varieties with large size) has increased quickly, with production reaching 35,000 MT (in-shell basis) in MY 2021/22 (September-August) on a planted area of 112,000 hectares, according to an industry report. Hybrid hazelnuts are planted in Liaoning, Jilin, Heilongjiang, Shandong, Inner Mongolia, and Hebei provinces. China also produces wild hazelnuts (of smaller size), and the production and crop area is quite stable. In MY 2021/22, production of wild hazelnuts is forecast at 33,000 MT on 88,000 hectares, according to the report. Wild hazelnuts are produced mainly in Liaoning province.

Pecan production (in-shell basis) is forecast at 4,000 MT in MY 2021/22 (September-August), doubled from the revised production of 2,000 MT in MY 2020/21, according to an academic report. Pecan production is expected to continue increasing as more trees begin to bear. The report estimates China's pecan planted area, which is mainly in Anhui, Yunnan, and Jiangsu provinces, at 80,000 hectares in 2021, but pecan acreage is unlikely to increase following guidelines issued in November 2020 by the State Council to prevent expansion of non-grain crop areas on arable land.

## **Price**

Walnut harvest has just begun. The farm gate price for in-shell walnuts is currently RMB 10.5 per kilo (U.S. \$1.64) in Yunnan, down nearly 20 percent from the same period of last year, according to Yunnan traders. In Xinjiang, the best-selling variety (No.185) is currently sold at RMB 16.3 per kilo (U.S. \$2.55), an increase of more than 9 percent from the same period of last year due to reduced supplies,

according to local traders. In general, China's walnut prices have been declining along with production increases. In-shelled almonds are sold at RMB 40 per kilo (U.S. \$6.25) at Xinjiang farms, an increase of 5 percent on a yearly basis, according to media reports.

## **Consumption**

Tree nuts are generally consumed as snacks in China. "Daily nuts", a mixture of different nuts, dried fruit, and seeds in retail packages, have become the principal pattern of nut consumption in China. The per capita consumption of tree nuts, which used to be luxury foods, is still low compared with the level in western countries. In recent years, tree nuts have quickly become a necessary component of the diet for urban consumers, as awareness of the nutrition and health benefits of tree nuts increased. This is particularly true following the outbreak of COVID-19 - as people believe that tree nuts will help them build a stronger immune system. According to a market survey of consumers aged 18-49 in early 2021, about 67 percent of consumers will choose healthier food and 47 percent of consumers hope to eat foods that reduce the risk of having diseases such as diabetes and hypertension. Tree nuts are considered an ideal food product to satisfy the above-mentioned needs.

The food processing sector also consumes a small portion of tree nuts. Bakery and confectionary sectors are typical consumers of tree nuts. In addition to traditional products such as walnut milk and moon cakes with nut and seed stuffing, newly developed nut-containing products such as nut bars and meal replacement bars (and balls) have emerged. As more products using tree nuts as ingredients are developed nut consumption will expand further.

## **Policy**

The State Council Tariff Commission (SCTC) launched a tariff exclusion process on March 2, 2020, to allow importers to apply for tariff exclusions on certain agricultural products, including tree nuts, from the United States. If an exclusion application is approved, the Section 301 retaliatory tariffs will be exempted for a year from the date of approval (refer to GAIN report [CH2020-0017](#)). However, U.S. tree nuts, among other agricultural products, are still subject to Section 232 retaliatory tariffs that have been imposed since April 2018. The following table provides information on import tariffs and value-added tax (VAT) rates for various nuts.

**Table 1. China: Tree Nut Import Tariff and Value-Added Tax (VAT) Rates in 2021**

HS Code	Description	Tariff (%)				VAT (%)
		MFN	U.S. as of March 2020*	Australia	Chile	
0801.2100	Brazil nuts, in shell	7	22	0	0	9
0801.2200	Brazil nuts, shelled	7	22	0	0	9
0801.3100	Cashew nuts, in-shell	7	22	0	0	9
0801.3200	Cashew nuts, shelled	7	22	0	0	9
0802.1100	Almonds, in-shell	10	25	0	0	9
0802.1200	Almonds, shelled	10	25	0	0	9
0802.2100	Hazelnuts/Filberts, in-shell	25	40	0	0	9
0802.2200	Hazelnuts/Filberts, shelled	10	25	0	0	9
0802.3100	Walnuts, in-shell	25	40	0	0	9
0802.3200	Walnuts, shelled	20	35	0	0	9
0802.5100	Pistachios, in-shell	5	20	0	0	9
0802.5200	Pistachios, shelled	5	20	0	0	9
0802.6190	Macadamia nuts, in-shell	12	27	0	0	9
0802.6200	Macadamia nuts, shelled	12	27	0	0	9
0802.9090.40	Pecans, whether or not shelled	7	22	0	0	9
2008.1910	Walnut kernels, in airtight containers	5	7.5	0	0	13
2008.1920	Other nuts, in airtight containers	5	15	0	0	13

Source: China Customs

\*Note: Actual rate (including MFN and Section 232 tariffs) if Section 301 tariffs are excluded upon approval. Section 301 retaliatory tariffs on all tree nuts except hazelnut is 30 percent, which is 25 percent.

The Chinese government released an updated National Food Safety Standard on Pesticide MRLs in Food which takes effect on September 3, 2021. Please refer to GAIN report [CH2021-0099](#) for specific pesticide limits on nuts.

On April 12, 2021, the General Administration of Customs of China (GACC) announced the Regulations on the Registration and Administration of Overseas Producers of Imported Food, known as Decree 248. Effective on January 1, 2022, this regulation will replace the existing Administrative Measures for Registration of Overseas Producers of Imported Food (Decree 145). Decree 248 requires that all overseas food (including tree nuts) manufacturers, processors, and storage facilities be registered with the Chinese authorities in order to export products to China (see [CH2021-0045](#)). However, the registration process cannot begin until GACC publishes the implementation rules. There are also requirements in Decree 248 for inner and outer package labeling of tree nut imports.

## **Trade**

### *Imports*

Except for walnuts, China relies heavily on imports for most tree nuts, especially pistachios, almonds, and pecans. Following trade tensions between China and the United States in 2018, and logistic disruptions caused by COVID-19 in early 2020, China's tree nut imports finally began to rebound in MY 2020/21 as economic activities gradually resumed and China launched a tariff exclusion process in March 2020. The Chinese government has streamlined the import practices so, instead of being transshipped through a third country, most tree nuts now enter China directly from the country of origin.

Despite industry information regarding reduced supplies in California because of a U.S. drought, China's almond imports are expected to continue to rebound due to strong demand. The United States remains the largest almond supplier to China, followed by Australia, who has become another important supplier, taking advantage of a bilateral free trade agreement.

Although China's pistachio imports from the U.S. are expected to rebound, total imports will probably be lower in MY 2021/22 (September-August) than in the previous year due to reduced supplies and extremely low carry-in stocks in Iran, the largest pistachio supplier to China. Iran accounted for 65 percent of China's pistachio imports in MY 2020/21, but its production is forecast to drop by more than 20 percent in MY 2021/22. According to industry contacts, Californian pistachio production will be affected by drought, but carry-in stocks reportedly strengthen the pistachio supply situation in the United States. It is estimated that China imports nearly 20 percent of global pistachio production.

China's pecan imports are forecast to increase in MY 2021/22 (September-August) due largely to a strong rebound from the United States, which has regained the role of the top supplier to China. American pecan exports to China declined significantly in MY 2018/19 following retaliatory tariffs imposed on U.S. products in April 2018. Consequently, Mexico and Africa overtook the United States as the top two suppliers.

China's walnut imports from the United States are expected to decline in MY 2021/22 (September-August) following a projected 15-percent decrease in production due to drought in California. Walnut imports from the United States rebounded in MY 2020/21, largely because of lower prices in the wake of a bumper crop. Taking advantage of a bilateral FTA, Chile has become the second largest walnut supplier to China. China's walnut imports keep declining because of increases in domestic production. Relative to overall production and distribution, China's walnut import volume is small.

China's inshell hazelnut imports from the United States remains stable, as Chinese consumers like the large size of U.S. hazelnuts. China also imports shelled hazelnuts from Turkey for food processing purposes.

## *Exports*

China's walnut exports, both in-shell and shelled, are expected to increase moderately in MY 2021/22 (September-August). Reduced supplies in Xinjiang and increased transportation cost will likely slow Xinjiang walnut exports to Central and West Asia - including Kazakhstan, Kyrgyzstan, Turkey, and Pakistan. In MY 2020/21, China's walnut exports (in-shell basis) to these countries increased by nearly 30 percent. Due to a color and taste disadvantage, Chinese walnut prices are 15 percent lower than those of major walnut exporting countries such as the United States. For the same reason, Chinese walnuts, especially shelled walnuts, are difficult to export to major markets such as the European Union.

Although the total volume is relatively small, China's macadamia nut exports are steadily increasing as a result of improved domestic production. Australia remains the single largest buyer of Chinese shelled macadamia nuts.

## **Marketing**

### *Market Dynamics, Drivers and Opportunities*

Chinese consumer taste preferences and market trends are different from other markets, and exporters should take care to ensure their products target the Chinese consumer. In China, tree nuts are regarded as healthy foods due to their health benefits. While this interest has traditionally focused on dietary fiber and the high level of unsaturated fatty acids, consumers have recently become more interested in the attributes of "high-quality vegetable proteins", minerals, and nutrients. The health benefits of tree nuts have increased consumer demand over the past five years, however sales of tree nuts and other foods and beverages increased slowly during the 6-18 promotions on June 18, 2021. NOTE: 6-18 is a marketing holiday in China similar to "Black Friday" to promote consumer spending. There are several similar marketing holidays in China, like 11-11, or "China's Singles Day" and a lesser-known marketing holiday for tree nuts on September 17, called 9-17.

With the popularity of healthy diets and a preference for low fat and sugar, the high caloric content of single nut products has become a disadvantage. However, daily nut products that mix various nuts and dried fruits remain the fastest growing snack food category. Mixed packages provide a more balanced nutrient mix and allow producers to react to commodity price changes. At present, more than 100 manufacturers are marketing "daily nuts" products in China, and industry insiders forecast the market will exceed RMB 20 billion (U.S. \$3.1 billion) in 2022.

Tree nuts are also being more widely used in baked goods and other processed snack foods. They have also been processed into nut butter, nut drinks, and even nut oil cosmetics to cater to the growing demand for a natural, plant-based, and healthy lifestyle.

### *Competitive Landscape in Market*

East China and Central China host most large tree nut processors. The top players in tree nut snacks are Three Squirrels from Anhui Province, Huatai Foods (with the brand Cha Cha) from Anhui Province,

Lyfen Foods from Shanghai, Be & Cherry from Zhejiang Province, Bestore from Hubei Province, and Yan Jin Pu Zi from Hunan Province.

Snack food brands such as Cha Cha, Yan Jin Pu Zi and Lyfen Foods own thousands of brick-and-mortar stores nationwide in China, and its in-store sales account for most of their revenue. Three Squirrels is an internet-born brand that has grown into a tree nuts giant rapidly owing to the fast development and adoption of e-commerce platforms in China in the past ten years. However, according to industry sources, the company is now focusing on developing retail outlets. Also, per industry information, in-store sales accounted for 26 percent of the company's total revenue in 2020. Bestore and Be & Cheery strive to balance online and offline businesses, aiming to avoid the challenges of rising cost of labor and rent from physical stores, and the delivery and logistics costs of online retail.

Retailers like Freshippo and Bianlifeng Convenience Store are emerging as important players in the tree nuts industry by aggressively developing private label lines of tree nuts products. COFCO has been further developing its private label SunDry Foods and industry sources report the company has been successful in the daily nuts business in recent years.

### *Innovation and Trends*

Leading manufacturers of “snack” tree nuts and baked goods featuring tree nuts are developing new and creative products to meet the growing demand from millennial consumers. Their purchasing power is growing and has been helping the industry to innovate. The growing popularity of vegan foods among millennials is driving tree nut processors to produce more nut-based drinks, meal replacement bars and powders with tree nuts as ingredients, breakfast cereals, baking and confectionary, butter and spread and dairy products.

One of the important tree nut market trends is the increased usage of tree nut oils in anti-ageing cosmetics to help retain moisture and fight ageing. Advertised as a skin and hair nourishing agent thanks to the presence of antioxidants, tree nuts are used to cure dark circles, soreness, reduce wrinkles, and protect the skin from harm.

Freshness, flavors, easy of peeling, and healthy benefits remain key factors driving consumers to purchase tree nuts. Versatility and price are the main factors that influence tree nut processors when developing snack and healthy foods.

### **Attachments:**

No Attachments