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Tree Nuts

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Report Highlights:

Summary: In 2012, U.S. almonds and walnuts remain the top imported items in South China's tree nut market respectively accounting for 268 and 140 percent increase in shelled products compared to same period last year. Though demand for imported tree nuts is precipitously strengthening year-on-year, availability of supplies and prices are a major factor in determining market gains. China will continue to rely on imports as output for domestic crops are of lower quality and insufficient to meet demand. An in depth market analysis of various U.S. tree nuts is contained in this report.

General Information:

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. The development of the processing industry has greatly contributed to the 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. In 2012, U.S. tree nut exports to South China, mainly walnuts and almonds, were valued at \$112 million. Tree nut consumption in South China continues to grow alongside incomes and demand is coming from the retail, hotels and food service sector.

Consumption trends: The Mid-autumn Festival and Lunar New Year are the best seasons for imported tree nut retail sales and consumption. Tree nuts are marketed in adorned gift packages to friends, clients, or other business associates. The first week of May and October are also peak tourist seasons for tourism. Middle class and young adults in China's first and second tier cities favor year-round tree nut consumption. Though many still believe the myth that tree nuts are "hot" food and eating too much in the warm seasons will hurt one's health, younger consumers as well as the emerging educated middle class lend greater credence to nutritional benefits supported scientific research rather than relying on conventional beliefs.

The cartel's impact on trade: Tree nut consumption is also impacted by large wholesalers control of the supply chain- including producers/processors and importers. Since nuts available on the market are mainly processed and dried, preliminary processors are considered producers in China's tree nut supply chain. Additionally, processed imported tree nut products are not required to be marketed as tree nuts of U.S. origin. The cartel has a greater impact on prices in China than U.S. producers. A series of examples of the cartel struggling to corner the imported tree nut market include the 2008 pistachio import surge (which has something to do with a temporary low import tariff policy). In 2009, it happened again with walnuts increasing 200 percent; and in Jan-July 2012, almond imports hit the new record with an over 82 percent increase compared to same period in 2011.

Because imported tree nuts are mainly consumed as snack food in China, mass consumers do not have sufficient education nor pay attention to identifying the differentiation in terms of health function and nutrition-- they purchase imported tree nuts without any judicious standards mostly motivated by prices or retail promotions. This boom economy is looking for the next big thing in the market but is overlooking the differences in tree nuts. The market needs education on the differentiation of the nutritional aspects of all imported tree nuts and it behooves the U.S. industry associations to pool resources to reach out to nutritional opinion leaders in China to carry out these messages.

Distribution channels

Retail market: All categories in grocery retailing, including supermarkets/ hypermarkets and convenience stores, have experienced a fast increase in pricing over the two years. According to the industry statistics, current value growth in retailing remains 7-9 percent increase in 2009-2011. As increasing numbers of people flood into cities and towns from China's vast countryside, the overall demand for grocery products is expected to increase rapidly. Meanwhile, China's central government also continued to express its unshakable attitude towards the transformation of its current mode of economic development, shifting away from investment and export-driven growth models 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. Higher end packaging and larger sized tree nut kernels are in gift sets and occupy larger market share in first tier cities, Beijing, Shanghai and Shenzhen; while simple lower quality kernels in smaller sizes are mostly favored by households in second or third tier cities.

Local brands for tree nut are now growing stronger in the retail sector such as Tianhong (Rainbow), Kaixin (Happy Nut), Fujin, and Fengye (Maple). Moreover, new retail giants are able to economically provide healthy private label competition to household branded products. Examples of this trend are the Wal-Mart group's private label tree nut products. Potential exists in the future as market share and brand awareness continue to increase among the larger domestic and international grocery chains. Retail chains can potentially topple the cartel's control of the market in direct purchasing trends proof successful.

Whole sale market: The wholesale market is complex with various grades of nuts, domestic and imported available for all national needs. As the largest dried fruit and tree nut supplier market in the world, Yidelu Street of old Guangzhou has over 2,000 shops across a 2-mile stretch selling tree nuts and dried fruit and other dry goods. Nuts account for 30 percent of the goods sold in this market and can be found in many presentations such as roasted or salted, shelled and in-shell, loose and packaged. In 2012, the most popular nuts were U.S. almonds and walnuts, Australian from Iranian pistachios and Turkish hazelnuts. Price still is a key factor in the wholesale business.

Bakery market: Increased disposable incomes and bakery promotions have raised the bar for baked. In 2011, baked goods as a whole witnessed rapid in value terms, including bread, cakes and pastries, \$1.5 billion according to national industry statistics. Consequently imported nuts' usage in baked goods also grew rapidly in first and second tier cities as chains such as Bread Talk and Donghaitang grew. Since 2008, imported tree nuts usage in the bakery increased an average of 10-20 percent every year.

Wal-Mart Private label for nuts
Source: ATOGZ

sales.
used
like



retail
goods.
growth
to reach

bakery
rapidly.
sector
Even

experiencing the economic slowing in 2012, the first and second quarter sales of import baking ingredients, including nuts and dried fruit have steadily risen by 15-20 percent, according to South China largest baking ingredient importer.

Additional Market Analysis for U.S. tree nuts

Pistachios: Last year, U.S. exported \$42 million pistachios to China, a 37-percent increase due in part to a temporary low tariff policy effective since 2008, and the U.S. industry's efforts in raising awareness for toxic food bleaching agents in China's food processing sector. As a result, China's Ministry of Health has tightened the policy of additives usage into foods since early 2011, and hydrogen peroxide as a food bleaching agent has been removed from the additives list. This policy adversely impacted Iran pistachios given their lower quality darker yellow shell was bleached in the past to meet local consumers' preferences. 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.

Almonds: U.S. shelled almond exports to South China increased 269 percent in 2012 due to its favorable price relative to other imported tree nuts. Price sensitivity remains the primary concern in China's tree nut market. The Almond Board of California (ABC) has periodic contact with traders and media to ensure the end users and consumers understand the different varieties of the California crop as well as their health and nutritional features. ABC has devoted the greatest amount of resources to develop distribution channels and relationships with all of the major national and regional chain stores. A series of marketing promotions were launched during the off-holiday season to strengthen sales and the relationship with retailers.

Walnuts: China's annual domestic consumption of walnuts is largely due to its recognized nutritional and medicinal aspects associated with consuming this tree nut. Locals mainly consume walnuts as snacks via the retail sector, in side dishes or in baking ingredients via 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, milk, oil, etc.

According to China Customs statistics, South China imported U.S. shelled walnut increased 269 percent well above the industry forecast. Walnut consumption will maintain an upward trend, driven mostly by growing demand in the consumer market and food processing industries, with industrial processing channel accounting for more shares in total consumption. The California Walnut Commission (CWC) played a strong role in developing China market in terms of launch chef competition, media promotion, trader gathering and trade show participation.

Pecans: Pecans had the fastest growth area in the "other nuts" category. Before 2007, there was hardly an American pecan in China. However, consumer demand for pecans exploded in 2007 when the price of walnuts soared to record levels, which made pecans a good substitute at a great bargain. China's pecan boom is a result of over a decade of an emerging middle-class consumer base increasingly keen on walnuts, and pecans are similar to walnuts in taste and appearance. Most consumers believe they have higher nutritional value than walnuts. In 2011, pecan prices stabilized and volume increased when compare to the previous year.

Dried Peas: Dried peas are widely consumed in China and are a new snack substitute to imported tree

nuts. U.S. dried peas are imported and processed in South East Asian countries and some domestically and have flooded the retail sector. According to industry research, the retail market accounted for half of the dried pea consumption. The food service usage accounted for 10 percent of total consumption. Peas are mainly used in preparing meals or soups by food processors. In fact, a large proportion, around 40 percent, of U.S. dried peas are reserved for industrial processing and added as mixed vegetables, processed into pea flour, or manufactured into dried pea snacks. Peas are mostly processed and packed as snack food and displayed along with tree nuts in supermarkets. Retail and food service consumption of dried peas is mature with steady growth. The improved living standards in China and increased food consumption have also stimulated demand for pea flour, directly leading to increased industrial usage for dried peas. According to industry forecasts in 2011-2013, the consumption of dried peas will maintain a stable and upward growth trend.