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 Fresh Deciduous Fruit
 General Summary

China's fresh fruit imports have grown rapidly over the last several years. Obscured by trading practices, the true size of this market is many times larger than official Chinese statistics indicate. Most fresh fruit imports still transit Hong Kong and are not shipped directly to China, because China's tariffs remain high and phytosanitary restrictions have not changed. Private companies are handling an increasingly larger share of the trade, while the role of state-owned import-export companies is diminishing. Hypermarkets and supermarkets have begun offering imported fresh fruit, but most Chinese consumers still make a vast majority of their fresh fruit purchases at wet markets

and small street side retail outlets. Although the U.S. is the main supplier of many imported varieties, domestic fresh fruit provides stiff competition.

IMPORT SITUATION

Trade Volume

China is a big importer of fresh fruit. In 1996, according to Chinese official trade statistics, total fresh fruit imports exceeded half million metric tons. However, official Chinese trade statistics vastly underestimate actual imports of fresh fruit, as well as many other commodities. Unrecorded shipments, rampant under-invoicing, misdeclaration of products, and other importation practices make Chinese trade statistics an inadequate indicator of real trade value and volume. Hong Kong re-export statistics also reveal parts of China's import situation and usually are more accurate. Hong Kong re-exports are imports that transit the territory on their way to other countries, including China.

China's official import statistics show that the country's 1996 fresh fruit imports equaled approximately a half million metric tons valued at \$167 million. Hong Kong re-exports of fresh fruit to China in terms of volume were much less, but in terms of value nearly the same.

As an indication of Chinese customs undercounting of fresh fruit imports, Hong Kong re-export statistics show much higher apple, grape, and orange trade volumes and values than the official Chinese data. Undercounting was particularly large for import values. Chinese official grape imports, for example, in 1996 only were 6,299 metric tons, a figure several times smaller than the Hong Kong re-export volume figure of 29,578 metric tons. Similar discrepancies appeared for apples and oranges.

Hong Kong re-export statistics show that United States fresh fruit exports to China were much larger too. In 1996, the re-export data

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 Trade Volume

 revealed that U.S. fresh fruit export value was at least \$58 million and volume 46,000 tons. These figures are much higher than the official statistics that record Chinese imports of U.S. fresh fruit at about \$1 million with a volume of 3,000 tons. Hong Kong re-export statistics also showed that U.S. fresh fruit exports to China rose from 1995 to 1996 instead of fell as Chinese official statistics indicate.

Given these gaps, the actual value of total Chinese fresh fruit imports may be as high as \$728 million, C&F basis. This estimate is based on multiplying the per unit value of Hong Kong fresh fruit re-exports with the volume amount of Chinese official imports. In addition, some percentage of fresh fruit declared as imported into Hong Kong may wind up in China without being recorded either by Hong Kong Customs as a re-export or China Customs as an import. Trade sources claim that 40 to 60 percent of all fresh fruit entering Hong Kong ends up in China. For example, a table grape trade expert estimated that more than 60 percent of U.S. table grapes that entered Hong Kong continued on to China. A U.S. apple industry expert made the same estimate for apples.

Three years ago, the fruit importation business was small. In 1992, imports of U.S. fresh fruit was estimated to be a mere \$10 million. Rising incomes from economic reforms and a tradition of fresh fruit consumption have created sharp increase in demand for fruit of all sorts.

Import Methods

Most imported fresh fruit enters China through "unofficial channels," because of phytosanitary restrictions and high tariffs. Under-invoicing and misdeclaration of product are two of the most common unofficial importation practices. As an example of misdeclaration, traders sometimes will declare table grapes or plums --prohibited by a phytosanitary barrier-- as Washington state apples, which are legally importable. Concerning under-invoicing, according to various trade sources, value declarations to local customs usually are a quarter to a third of actual cargo value. One source claims that a trading company last October imported 360 containers of U.S. apples and only declared 30 of them. Trade sources have estimated that amounts coming in unofficially to be over 95 percent of China's total fresh fruit imports.

Using unofficial channels, to bring in a 40 foot container of imported fresh fruit from Hong Kong to one of the cities in the Pearl River Delta costs approximately \$4,000 to \$6,000. This amount covers shipping, duties, and any other fees. This amount is usually much less than the price paid when using official channels.

In the case of imported fresh fruit, cooperation between Chinese and

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 IMPORT SITUATION
 Import Methods

 Hong Kong traders appears to a strong. The two sides often share the risks. One local wholesaler said that once one of his container trucks carrying \$30,000 worth of imported fresh fruit was confiscated by the local police, both the Hong Kong trader and the importer shared the losses not covered by the shipping insurance. The shipping insurance in this case paid out\$25,000 for the loss.

Participants

The big players in the imported fresh fruit business are the small private importers. They import in larger volumes and are more responsive to market changes than state-owned import-export companies. The number of big players in Guangdong province is approximately 30. One of the largest importers has claimed that he sells 1.5 containers of imported fresh fruit per day. The costs of one container tends to range between \$30,000 and \$40,000. In addition, the private importers usually rely on more than one wholesale market to sell their products. Having outlets in cities with large-scale wholesale markets and at the same time partners to distribute product in other locations is common.

Importers already have a good understanding about U.S. supplies, seasonality, proper handling and storage, and price differentials between grades. Fresh fruit importers tend to be brand oriented. For example, some importers are satisfied with and confident in selling "PR" and "Grand King" brands of U.S. grapes. Importers are not always happy with their imported fresh fruit. For example, some importers in the past have complained about the drop in quality, grading, and freshness of Washington apples late in the marketing year.

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 IMPORT SITUATION
 TABLE: IMPORT STATISTICS

TABLE: IMPORT STATISTICS

CHINA: FRESH FRUIT IMPORTS

Comparison of Chinese Import Data with Hong Kong Re-export Data
1995 1996

	1995	1996
Official Imports, Value (\$)	63,184,104	167,958,564
HK Re-exports, Value (\$)	83,711,665	160,434,675
Official Imports, Volume (MT)	216,073	582,748
HK Re-exports, Volume (MT)	69,283	128,333
Official Imports, Unit Value	292	288
HK Re-exports, Unit Value	1,208	1,250

Source: China Customs and the Hong Kong Census Bureau

CHINA: IMPORTS OF SELECTED FRESH FRUIT FROM ALL ORIGINS, 1996

Comparison of Chinese Import Data with Hong Kong Re-export Data

	Apples	Grapes	Oranges
Official Imports, Value (\$)	2,730,465	3,101,286	1,412,809
HK Re-exports, Value (\$)	19,361,818	41,657,143	12,107,103
Official Imports, Volume (MT)	7,658	6,299	4,606
HK Re-exports, Volume (MT)	17,467	29,578	11,716

Official Imports as a Percentage of Hong Kong Re-exports

Value	14	7	12
Volume	44	21	39

Source: China Customs and the Hong Kong Census Bureau

CHINA: FRESH FRUIT IMPORTS FROM THE UNITED STATES

Comparison of Chinese Import Data with Hong Kong Re-export Data
1995 1996

	1995	1996
Official Imports, Value (\$)	3,701,476	1,119,127
HK Re-exports, Value (\$)	42,174,935	58,990,779
Official Imports, Volume (MT)	11,195	3,071
HK Re-exports, Volume (MT)	36,310	46,900

Source: China Customs and the Hong Kong Census Bureau

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 IMPORT SITUATION
 Tariffs and Regulations

Tariffs and Regulations

At present, the only varieties of U.S. fresh fruit that can legally enter China are Washington state apples and cherries. Apples and cherries from other U.S. states, oranges, grapes, and other fresh fruit are still barred from general imports for phytosanitary reasons.

However, trading companies that claim to supply hotels and restaurants are allowed to import restricted fruit, providing that they have a phytosanitary certificate from a China Animal and Plant Quarantine (CAPQ) Bureau. The national CAPQ bureau has an extremely restrictive policy towards imported fresh fruit, but the local bureaus seem to be

more flexible and more readily issue import permits. As evidence, some supermarkets in the special economic zone of Shenzhen, adjacent to Hong Kong, are known to sell fresh fruit in bags with the words "Shenzhen AP, supervised and sold in Shenzhen only" printed at the top.

Even when banned fresh fruit is allowed to legally enter China through official import channels, tariff rates add much to each shipment's total cost. Based on China's official duty schedule, effective tariff rates for fresh fruit range from 41.3 to 81.4 percent.

China in April 1995 revoked the Special Economic Zones' (SEZ's) 50 percent normal duty rate policy for products imported into and sold within the SEZ's. Since this change, some state-owned import-export companies have reduced their imported fresh fruit business. The end of special duty treatment has made it more difficult for the state-owned companies to compete against private importers who have more flexible import channels. One of the more prestigious state-owned import-export companies, for example, last year said that their fresh fruit import volume has declined from 3,000 metric tons in 1995 to 1,000 metric tons in 1996. The SEZ's include: Shenzhen, Shantou, Zhuhai, Xiamen, and Hainan Island.

MARKETING CHANNELS

Purchasing Habits and Market Structure

Chinese consumers buy most of their fresh fruit at street retail shops and wet markets. According to trade sources, approximately 95 percent of imported fresh fruit purchases are made at these locations. Supermarkets, chain stores, hotels, restaurants, and other locations account for only five percent of the purchases. For example, over 6,000 street stands located in Wuhan, Chongqing, Chengdu, and most cities in Guangdong province each currently sell an average of four to five boxes of Washington apples per week. Altogether the amount equals 1,700 containers, accounting for nearly all of total 1995 China sales of Washington apples (1,800 containers).

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MARKETING CHANNELS

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U.S. fresh fruit has gained good recognition from consumers, especially Red Delicious apples, Sunkist brand oranges, and Red Globe table grapes. Sunkist is one of the few overseas fresh fruit brands that consumers recognize. As an indication of its high level of local recognition, its packaging design has been imitated by at least one Chinese company with the intent to deceive local consumers. In addition, local retailers commonly claim that their oranges are from U.S. Sunkist, even when the box beside them may say "Outspan" (South Africa).

With the recent explosion in the number of supermarkets and hypermarkets, particularly in Guangdong province, imported fresh fruit has begun to appear on retail shelves. The amounts are still limited in comparison with the street stalls and wet markets, but could rise rapidly in the future. For example, Wal-Mart, the American hypermarket chain with two stores in Shenzhen, during their first month of operation experienced fresh fruit sales volumes three times more than expected. In response, they have enlarged their fresh fruit section to accommodate increased demand and now fresh fruit and produce sales make up more than 5 percent of total sales at their stores. Aside from Wal-Mart, hypermarkets and supermarkets in Guangdong currently carrying imported fresh fruit include: Jusco, Makro, Park'n Shop, and others. Most supermarkets and hypermarkets carrying fresh fruit are air conditioned, but do not display fresh fruit in the same way. Some stores use chilled shelves to display their fresh fruit, while others simply rely on regular shelving.

Hotels and restaurants in China buy only a small quantity of imported fresh fruit in China. The purchasing managers of two different five star hotels in Guangdong province have claimed that each consumes less than a box of imported fresh fruit per day, while at the same time using a larger quantity of domestic fresh fruit. Fresh fruit counters at airports in China's larger cities have been gaining more sales in recent times. Southeast Asian fruit, especially Thai longans and lychees, seems to be popular. Airplane travelers are likely to have upper-level incomes and buy in large quantities. Specific sales figures are unavailable.

Sales and Distribution Channels

Although Guangdong province remains a significant market for imported fresh fruit, northern consumption appears to be growing. Markets outside of Guangdong province have shown 25 to 50 percent growth over last year. In 1996, according to trade sources, approximately 40 percent of the imported fresh fruit brought into Guangdong province was shipped to other provinces, compared to no more than 30 percent in the previous year. The amounts are higher for particular Southeast Asian varieties such as Thai longans and lychees. Local Guangdong importers estimate that 60 to 70 percent of the imported Southeast Asian seasonal fruit ends up in northern China. One importer claimed that he sold 170

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MARKETING CHANNELS
Sales and Distribution Channels

containers of Thai longans from the end of July to the end of August 1996 and 80 of them were forwarded to northern China.

Guangdong province is the major imported fresh fruit transshipment point for all of China. Fruit wholesalers and retailers from as far north as Shanghai, Beijing, Wuhan, and Xi'an purchase product from Guangdong province's fruit wholesale markets. Even when transportation costs to the north are included, the wholesale prices in Guangdong are considerably less than the imported prices plus full tariffs.

Guangdong province's four largest imported fresh fruit wholesale markets are located in the cities of Guangzhou, Shenzhen, Huadu, and Nanhai. During the September 1996 Mid-Autumn Festival, the peak season for fresh fruit imports, an estimated 240 containers per day arrived at Guangzhou, Huadu, and Nanhai ports from Hong Kong. Another source claims that since last June these same three ports were receiving approximately 50 containers per day. Foshan, Huizhou, Zhongshan, and Shantou also have important imported fresh fruit wholesale markets. Local wholesalers usually maintain presences in more than one of these locations in order to reduce the risks from periodic official crackdowns.

Prices

Although the prices of imported fresh fruit at the retail level are approximately double those of domestic fresh fruit prices, imports' prices are still within the food budgets of many urban consumers. For example, during September 1996, Washington red delicious apples in the Pearl River delta averaged eight to ten RMB (\$0.96-1.20) per Chinese jin (500 grams, 1.1 pounds) while best-grade domestic Fuji were four to five RMB (\$0.48-0.60) per Chinese jin. In Shanghai, Washington apples sell for 10 to 20 RMB (\$1.20-2.40) per Chinese jin. The recent price differential between domestic and imported grapes was a little higher. The retail prices for PRC grapes ranged from 5.5 to 6 RMB (\$0.66-0.72) per Chinese, while U.S. table grapes were 15 to 18 RMB (\$1.80-2.19) per jin and Chilean grapes 14 to 16 RMB (\$1.69-1.93).

Importer and retailer margins are relatively small. The range for importers is five to six percent and retailers two to three percent. According to one of the largest importers, in autumn 1996 he could buy Washington red delicious at a price of \$22 per box, spend HongKong\$45 (\$5.80) per box on shipping and other costs, and then sell each box at a wholesale price of 230 to 240 RMB (\$27.70 to 28.92). For U.S. grapes, he can buy from Hong Kong at H.K.\$180 to 190 (\$23.30-24.60) per box, pay H.K.\$30 (\$3.61) for shipping and other costs, and then sell each box at a wholesale price of 250 to 260 RMB (\$30.10-31.10) or a container at 368,000 RMB (\$44,337). A container holds 1,600 boxes.

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PROMOTION AND MARKET ENTRY

Although imported fresh fruit has become quite popular in China, Chinese phytosanitary restrictions limit overt promotional and market entry activities for many U.S. products. Legal import channels for fresh fruit exist and U.S. suppliers' should consider focusing on these channels' participants until restrictions are dropped.

Once China lifts restrictions on varieties of fresh fruit, the use of Point of Purchase materials and in-store promotions should prove to be effective in enhancing local consumer demand. However, promotion timing is important. Wholesalers and retailers generally agree that the best period for marketing U.S. fresh fruit is during the holiday periods, especially Chinese Lunar New Year (January-February) and Mid-Autumn Festival (September). Holidays, such as National Day (October 1) and Children's Day (June 1), are good marketing times too.

At major holiday times, gift giving is the common custom and U.S. fresh fruit is very popular. Washington apples, U.S. red table grapes, and U.S. oranges are examples. Oranges are regarded as good luck in China, making them perfect gifts during Spring Festival. Trade sources say that 90,000 gift-boxes of Washington apples were sold during the 1996 Spring Festival. One wholesaler stated that New Zealand apples tasted good, but because of color U.S. ones made better gifts.

COMPETITION

The United States is the main source of much of China's imported fresh fruit, leading other overseas suppliers in the categories of oranges, apples, and grapes. Although other countries provide stiff competition during certain times each year, especially Southern Hemisphere suppliers, the U.S.'s biggest competitor is China itself. China's domestic production of certain fruits is much larger than import amounts. In the case of apples, for example, China's production exceeds 14 million tons compared to 17,467 metric tons of U.S. apples entering China.

Despite China's large domestic supplies, Chinese producers' limited post-harvest handling and storage techniques, poor transportation infrastructure and limited marketing and management skills should allow the U.S. and other overseas suppliers to maintain and possibly increase their market share. Chinese fruit producers in general still fail to pay much attention to distribution, transportation, storage, and packaging, often making their fruit unappetizing in appearance and available for only limited times each year. Most producing farms are small and do not have much capital to make major investments in anything other than production.

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TABLES

Domestic Production

Domestic Production

CHINA: FRUIT PRODUCTION, 1992-1995 (METRIC TONS)

	1992	1993	1994	1995
Apples	6,555,836	9,030,559	11,127,935	14,010,665
Citrus	5,160,081	6,560,974	6,804,545	8,221,981
Pears	2,846,121	3,217,170	4,042,921	4,942,445
Grapes	1,125,102	1,354,770	1,522,093	1,741,707
Pineapples	441,682	454,748	485,019	539,408
Other	8,272,108	9,494,063	11,014,552	12,690,061
Total	24,400,930	30,112,284	34,997,065	42,146,267

Source: China Agriculture Yearbook, 1993-1996

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TABLES

Tariffs

Tariffs

China: Tariff Rates for Fresh Fruit

HS Code	Description	Prefer. Rate (1)	General Rate (2)	V.A.T. Rate (3)	Effective Rate (4)
0803.0000	Bananas, fresh	30	40	13	47
0804.3000	Pineapples, fresh	25	80	13	41
0804.4000	Avocados, fresh	30	80	13	47
0804.5000	Guavas, Mangos, etc.; fresh	30	80	13	47
0805.1000	Oranges, fresh	52	100	13	72
0805.2000	Mandarins, fresh	52	100	13	72
0805.3000	Lemons & Limes, fresh	40	100	13	58
0805.4000	Grapefruit, fresh	40	100	13	58
0805.9000	Other Citrus Fruit, fresh	52	100	13	72
0806.1000	Grapes, fresh	55	80	13	75
0807.1100	Watermelons	48	70	13	67
0807.1900	Hami Melons	48	70	13	67
0807.1990	Other Melons, fresh	48	70	13	67
0807.2000	Papayas	48	70	13	67
0808.1000	Apples	40	100	13	58
0808.2011	Ya Pears, etc.	40	100	13	58
0808.2019	Other Pears	40	100	13	58
0808.2020	Quinces	20	100	13	36
0809.1000	Apricots, fresh	48	70	13	67
0809.2000	Cherries, fresh	48	70	13	67
0809.3000	Peaches, fresh	48	70	13	67
0809.4000	Plums & Sloes, fresh	48	70	13	67
0810.1000	Strawberries, fresh	55	80	13	75
0810.2000	Raspberries, etc.; fresh	55	80	13	75
0810.3000	Currants, etc.; fresh	55	80	13	75
0810.4000	Cranberries, etc.; fresh	55	80	13	75
0810.5000	Kiwifruit, fresh	55	80	13	75
0810.9010	Lychee, fresh	55	80	13	75
0810.9090	Other Fruit, fresh	55	80	13	75

(1) The Preferential Tariff Rate applies to countries enjoying most favored nation status (MFN) trading status with China, including the United States.

(2) The General Tariff Rate applies to non-MFN trading partners.

(3) Value Added Tax

(4) Effective Tariff Rate = Tariff Rate x Value Added Tax Rate

Source: China Customs

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