

MARKET INSIGHT - CHINA

CULTURAL FESTIVALS AND EVENTS
FEATURING FRUITS AND NUTS AS GIFTS OR
OFFERINGS

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Australian Government
Austrade



CHINA MARKET SNAPSHOT

China is a rapidly growing market for Australian horticultural products, with exports worth A\$412 million in 2017 — up from A\$13 million in 2010. Fruit is a popular import. Sales of Australian fruit recorded volume growth of 3 per cent in 2017 to reach 191 million tonnes, with citrus, cherries and table grapes the biggest drivers of export growth.

An annual export growth rate of 3 per cent should see Australian fruit exports reach 221 million tonnes in 2022. The majority of tariffs on Australian horticulture products was eliminated on 1 Jan 2019, although tariffs on citrus produce will only be eliminated in 2023.

Cherries lead the pack

For Australian growers, cherries are currently the star export performers: they registered the highest annual increase for fruit exports in 2017, with a 22 per cent volume growth. China is now one of the largest consumers of cherries in the world accounting for 31 per cent of global sales.

The in-market purchase value of cherries reached approximately US\$771 million in 2017, with the US and Chile the major suppliers. Australia competes at the premium end of the spectrum, promoting air-freight as a key differentiator.

In addition, China has now become Australia's largest export destination for stone fruit. Total volume to Greater China – which includes Hong Kong and Macau – now accounts for nearly 50 per cent of Australian stone fruit exports.

Nuts in China

China is among the world's leading markets for tree nuts. Chinese buyers consume 45 per cent of world output of walnuts, as well as 21 per cent of pine nuts, and 8 per cent of macadamia nuts. Whilst China is the third-largest tree nut producer in the world, walnuts account for 95 per cent of its production. Once walnuts are excluded from the mix, the majority of nuts consumed in China is imported.

In 2017, China imported 13 per cent of global tree nut exports. Pistachios, almonds, pecans and macadamias accounted for the largest proportion. China nut imports from Australia have grown to 41 per cent of the total value of Australia nut exports, and since August 2018, China has become the biggest import destination for Australian-grown almonds.

On current forecasts, the consumption of nuts in China will continue to increase.ⁱ

Trade

Product	Summer fruit	Citrus fruits	Table grapes	Almonds	Macadamias
Australian exports to China, 2017 (A\$ million)	14.9	137.4	148.2	5.3	75.2
Chinese imports from the world, 2017 (A\$ million)	1,180.0	715.5	777.2	124.4	120.6

Source: ABS on Global Trade Atlas; China Customs on Global Trade Atlas

Taxes and duties (general trade B2B)

	Base rate %	20 Dec 2015 %	1 Jan 2016 %	1 Jan 2017 %	1 Jan 2018 %	1 Jan 2019 %	1 Jan 2020 %	1 Jan 2021 %	1 Jan 2022 %	1 Jan 2023 %
Almond kernels	10	8	6	4	2	0				
Macadamia kernels	24	19.2	14.4	9.6	4.8	0				
Walnut kernels	20	16	12	8	4	0				
Apples, peaches, plums, nectarines and cherries	10	8	6	4	2	0				
Oranges, lemons and limes	11	9.8	8.6	7.3	6.1	4.9	3.7	2.4	1.2	0
Mangoes	15	12	9	6	3	0				
Grapes	13	10.4	7.8	5.2	2.6	0				
Other dried fruit	25	20	15	10	5	0				

VAT of 10 per cent applies on most of the categories listed above.

Cultural celebrations

China's 1.35 billion residents place great importance on cultural festivals centred around the lunar calendar. These festivals are often occasions for gift-giving and fruit is a traditional gift – especially in parcels and hampers.

China's principal cultural celebration is the Chinese New Year. The date can vary from late January through to early March depending on the lunar calendar. Other significant occasions that prompt gifting include:

- The Mid-Autumn Festival
- National Day (Golden Week)
- The Double-Seven Festival (Chinese Valentine's Day)



Western celebrations such as Christmas and Halloween are also well-recognised, and particularly embraced by younger people in Tier 1 and Tier 2 cities.

Major cultural celebrations and festivities present a significant opportunity for retailers, as Chinese consumers purchase flowers, food or fruit as gifts. To maximise sales, retailers run price promotions and sampling activities.

Apart from festive occasions, taking a fruit basket or flowers when visiting patients is a longstanding tradition for Chinese people. It is also common for Chinese people to gift fruit when visiting a neighbour or friend.

Affluence and imports

China's burgeoning middle class is injecting new sophistication into traditional gift giving. According to the Economist Intelligence Unit, the number of Chinese households with an income over US\$150,000 is expected to rise to 10.3 million by 2030. This implies a dramatic increase in the number of households for whom high-spending on gift-giving will become normal practice.

Meanwhile, the number of Chinese that can comfortably afford Australian food was estimated at around 28 million in 2017, or approximately 2 per cent of the population. This group is forecast to grow to 102 million by 2022, far outstripping Australia's food export capacity.

The growing affluence of China's urbanised consumers is impacting demand. China's middle classes have heightened expectations for food safety, and they care about quality, choice and provenance. This trend improves sales prospects for exporters of Australian fruit, nuts and other produce.

Challenges for Australian exporters

One of the biggest challenges for Australian food exporters is understanding the various buyer demographic groups and sales channels sufficiently to market brands and sell products. In addition, online retail is rapidly changing purchasing habits. Over the past 10 years, online platforms have driven purchasing during major festivals. In 2017, total online retail sales grew by 32.2 per cent to reach RMB7.18 trillion (A\$1.45 trillion).

For further insight, read Austrade's recently published guide for Australian F&B Exporters to China: <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/China/Industries/Food-and-beverage>

AUSTRALIAN FRUIT WITH MARKET ACCESS

Variety	What it means for Australia
Table grapes	<p>Grapes have cultural significance in China and are popular purchases during the Mid-Autumn Festival.</p> <p>China is Australia's largest export market for table grapes, with 41,000 tonnes exported during the 2017–18 season. With an 18.3 per cent market share, Australia now ranks third as a source of imports into China, behind Chile and Peru.</p> <p>Prospects for Australian growers are improving. Under the China–Australia Free Trade Agreement, tariffs on grape imports were cut from 5 per cent to zero in January 2019.</p> <p>Seasonality favours Australian imports. The Australian grape season begins in November, then peaks in February which generally coincides with Chinese New Year.</p> <p>The Australia grape season can last for seven months, concluding just before China's domestic supply arrives in-market.</p>
Citrus	<p>Citrus fruits make popular gifts during Chinese New Year, as they symbolise wealth and good fortune. In general, Chinese consumers prefer sweet, seedless citrus fruits, especially mandarin oranges.</p> <p>Sumo citrus fruits were exported to China for the first time in 2018, and are popular during the Mid-Autumn Festival. Australian fresh orange exports grew 57 per cent in the 12 months from August 2017.</p> <p>Australian citrus growers that export to China are subject to cold-treatment regulations.</p>
Cherries	<p>Cherry imports are set to grow faster than imports of any other fruit. Import growth achieved a double-digit increase during 2017, although this is partly owing to a small market.</p> <p>Tasmanian cherries gained access to Chinese markets a number of years ago, and were recently joined by cherries grown on the Australian mainland. The premium quality of Australian produce makes it ideal for gifting, and an increasingly popular purchase.</p> <p>Australian cherries currently face competition from New Zealand cherries, which also enjoy a premium reputation, and Chilean cherries, which compete on price. Argentinian cherries are also set to enter the Chinese market after China granted market access in December 2018.</p>
Summer fruit	<p>Since protocols for Australian peaches, plums and apricots commenced in 2017, China has become Australia's largest export destination for stone fruit. In Australia's first export season, total volume to Greater China accounted for nearly 50 per cent of exports.</p> <p>Nectarines are well-priced in China because of their perceived superior flavour. The majority of Australian nectarine exports are white-fleshed. Yellow-fleshed nectarines are exported to certain markets, particularly at the beginning and end of the season.</p>

Mangoes

Australia's supply window for mangoes runs from August to April, and this covers several major festivals in China, including the Mid-Autumn Festival, Golden Week, New Year and Chinese New Year.

Mangoes are perceived as adding quality and value when wrapped into gift hampers, and Chinese consumers are inherently drawn to the red and golden colours that some mangoes display.

Mango varieties like R2E2 – which have a longer shelf life – are suitable for export to China. The fruit size of this variety (600–1,000g) is larger than average and it has smaller stone, which adds to its popularity in China. The R2E2 harvest season extends from November to February, making it ideal for marketing during Chinese New Year.

New mango varieties are being developed, such as RA17 and R10-8. These varieties are exclusively owned by Australia's Nutrano Group, which recently launched its first half-commercial production. The fruits are firmer with a longer shelf life.

Tasmania apple

Apples are popular in China, and the country's own apple production reached approximately 44.5 million metric tons in 2017–18 (July–June), up one per cent from the previous year.

Fuji varieties still dominate apple production in China, and account for more than 70 per cent of total production. These are harvested in early or mid-October. Other varieties include Gala, Red Delicious and Guoguang.

Apples are popular gifts during national holidays such as the Mid-Autumn Festival and Chinese New Year. Outside of these occasions, apple sales are boosted by frequent in-store promotions and outreach activities.

Imports of apples from Washington State in the United States (U.S.) used to be competitive in hypermarkets and supermarkets throughout China. South China is the principal importing region for U.S. apples, with Guangdong ports taking 60–70 per cent of China's total imports. Imports have recently decreased, however, due to tensions in U.S.–China trade.

Mainland Australia is currently disbarred from exporting apples to China, although Tasmanian apples have access to Chinese markets. New Zealand apples are competitive in Chinese markets, including especially the Queen variety. Chile is also a major exporter of apples to China.

PRODUCTS WITHOUT CURRENT MARKET ACCESS

Variety

Product insights

Blueberries

Blueberries have become popular in China amongst young people who spend a large proportion of their time reading on smartphones and tablets. This trend has been influenced by a campaign that promotes blueberries as being good for eyesight.

China now harvests blueberries over an eight-month period from March to October. As of 2017, Guizhou, Liaoning and Shandong rank as the top three provinces in China for blueberry cultivation and yield.

In 2017, an average of 60 per cent of blueberries was consumed as fresh produce. This proportion varies, however: in Zhuanghe (administrated by Dalian) and Shandong, the ratio rises to 90 per cent.

According to forecasts, China will produce the most blueberries worldwide by 2026, at which point the Chinese market will be more competitive.

Avocados

Avocados are a relative newcomer to the Chinese fruit market. Consumer awareness of Avocados is growing, boosted in part by programs that advertise the fruit's potential health benefits.

Avocados from Brazil, Chile and Mexico are now available in Chinese supermarkets.

AUSTRALIAN NUTS

Variety	What it means for Australia
Macadamia	<p>Macadamia nuts are relatively new to Chinese consumers, although China is already Australia's largest Macadamia export market. The largest proportion of exports is made up of nut-in-shell produce.</p> <p>The current average for macadamia consumption is around 4g per person, which is much lower than for other nuts, such as almonds and walnuts. Consequently, the market potential is huge.</p> <p>Indigenous macadamia production is limited to approximately 160,000 hectares, mainly in Yunnan and Guangxi provinces. The local macadamia nut-growing industry faces multiple challenges. These include poor variety selection and orchard management practices, and fragmented production often located on steep hillsides. Many processing facilities are ageing.</p> <p>Investment in local production is increasing, and local government is funding industry expertise to conduct research and development. An international Macadamia R&D Centre has been set up in Lincang, Yunnan province. Lincang is home to China's largest macadamia plantation and it is also where the 8th International Macadamia Symposium was held in 2018.</p>
Almonds	<p>Almonds are non-native to China but are among the most in-demand nuts. Exports from Australia have grown rapidly in recent years and are set to grow further, in part as a result of the tensions in China – U.S. trade.</p>

DISTRIBUTION & RETAIL

Consumers purchase fresh fruit in China through a range of retail channels – primarily traditional grocery-store retailers, supermarkets and hypermarkets. Gifting campaigns occur in the weeks leading up to and during major festival periods such as Chinese New Year. Products are often packed in baskets or boxes, and in recent years, merchants have become increasingly creative with packaging.

Traditional grocers, supermarkets and hypermarkets

Traditional retail – which encompasses concessions within wet markets, vegetable wholesale markets, and independent fruit shops, grocery and convenience stores – accounts for 60 per cent of retail food sales across China, with a higher concentration in Tier 2, 3 and 4 cities.ⁱⁱ The presentation of produce in markets and independent fruit shops has improved markedly in the past few years. During gifting periods, fruit will often be packaged in low-cost gift baskets. Cute and quirky packaging is often used to attract shoppers.

Supermarkets are typically concentrated in a specific city or province, and many operate as state-owned enterprises of the relevant Provincial Government. Supermarkets compete primarily on location, occupying medium-sized stores close to densely populated residential neighbourhoods. The range of non-food items and imports is limited. Customers tend to be older shoppers and those without a convenient means to shop at a hypermarket. Gift packaging is basic and typically consists of boxes that can be conveniently stacked on shelves.

Hypermarkets often have national or sub-national coverage. They compete on range and price, attracting middle-income consumers in Tier 1, 2 and 3 cities. Most national hypermarket chains – including international brands such as Carrefour, RT-Mart and Walmart – stock a large range of imported products, including meat, seafood, fruit and nuts, often in a dedicated import section. Gift packaging is more sophisticated and generally of higher quality, and may combine consumer goods (such as chocolates or wine) with fruit or other items.

E-commerce

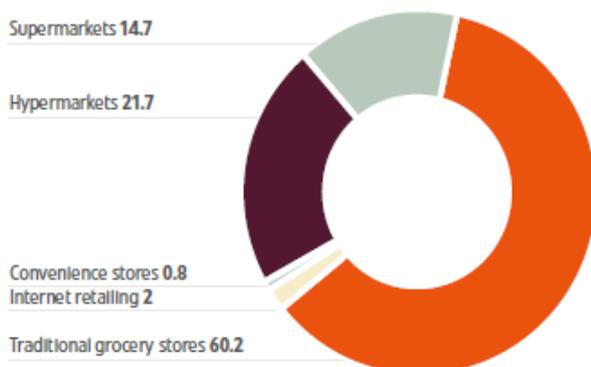
In China, shoppers are increasingly turning to e-commerce platforms for convenience and range. Total online retail sales grew by 32.2 per cent in 2017 to reach RMB7.18 trillion (A\$1.45 trillion).ⁱⁱⁱ Although online sales of fresh food accounted for only 2 per cent (RMB139 billion) of the total, sales of fresh foods are growing faster than the online average, at a rate of 59.7 per cent per year.^{iv}

Online gift packaging is typically more creative in the online sector. Some online retailers give shoppers the opportunity to create bespoke fresh-fruit parcels that include other items such as flowers, wine, chocolates and soft toys. With supply chain and logistics systems improving across China, growth in sales of fresh produce via e-commerce is expected to continue.

China fresh-food retail

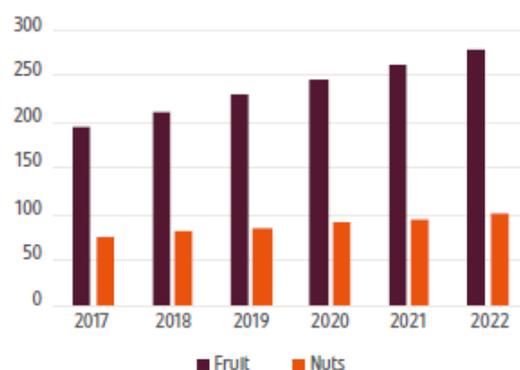
Market size by channel

Fresh food retail sales by channel, 2017 (%)



Forecast growth

Forecast retail sales of fruit and nuts (US\$ billion)



Major online fresh retailers (in alphabetical order)

benlai.com	Beijing-based online fresh food supermarket with national reach through its own online portal and shopfronts on Tmall and JD.com.
chunbo.com	Beijing-based online fresh food supermarket focusing on high-end fresh products with own organic farms in Beijing and Shanghai.
daojia.jd.com	O2O grocery platform consolidating the resources of brick-and-mortar supermarkets and grocery stores by leveraging the logistics capability of JD.com.
dmall.com	New O2O retail platform offering delivery within two hours. Partnering with Wumart in Beijing and Zhongbai Holdings in Wuhan.
fruitday.com	One of the earliest vertical fresh produce online marketplaces focusing on imported fruit.
freshhema.com	An O2O project initiated by Alibaba Group, Hema Fresh offers cashless purchases, in-store cooking of fresh food and home delivery within 30 minutes.
freshfresh.com	Member-based online supermarket offering Shanghai residents a select range of imported staples at cost prices. Own cold-chain delivery.
FreshMarket34580.com	Fresh food online supermarket with refrigerated stations in the community to supply day-to-day fresh groceries to over 1 million households in East China.
miao.tmall.com	Fresh product channel under Tmall.com leveraging Tmall's broad consumer base and online traffic.
missfresh.com	Vertical fresh produce platform with efficient cold-chain delivery capability backed by its own cold-storage distribution centres in 10 major cities.
sfbest.com	Food and consumer product retail marketplace owned by SF Holdings (Group).
wochu.cn	Shanghai-based online platform focusing on semi-processed meat and vegetable and meal packs.
womai.com	Online food and grocery platform wholly owned by the COFCO Group. It is the major portal of COFCO's 'from field to dining table' strategy.
yiguo.com	One of the earliest sellers of imported and domestic food products invested by Alibaba Group since 2013.

Source: Austrade in-house research, 2018

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ⁱ Euromonitor International. *Retailing in China*, January 2019

ⁱⁱ Euromonitor International. *Retailing in China*, January 2019

ⁱⁱⁱ National Bureau of Statistics of China. Media release, 18 January 2018: *National economy maintained the momentum of stable and sound development and exceeded the expectation.*

http://www.stats.gov.cn/english/PressRelease/201801/t20180118_1574943.html, accessed July 2018

^{iv} iResearch Global Group, February 2018: *China's Fresh food E-commerce Consumption Report*
http://www.iresearchchina.com/content/details8_41001.html