Impact of Chinese tariffs applied to U.S. fresh fruit exports

Overview of Chinese Tariffs

The People's Republic of China's Ministry of Commerce (MOFCOM) on March 23, 2018 announced a proposal to levy retaliatory tariffs impacting approximately $2.0 billion in U.S. food and agricultural exports to China in response to the recent U.S. 232 Trade Action on steel and aluminum.

Additional tariffs of 15 percent would be applied to exports of fruits, dried fruits and nuts (among other products) from the U.S. in retaliation for tariffs introduced by the United States. Chinese customs began levying these additional tariffs on April 2, 2018.

HS Code	Product description	Applied tariff (MFN duties)	Total ad valorem equivalent tariff	Additional tariff applied April 2, 2018	Total Tariff
80940 80929	Apricots, cherries, peaches (including nectarines), plums and sloes, fresh	10%	10%	15%	25%
80510	Citrus fruit, fresh or dried: Oranges, fresh or dried	11%	11%	15%	26%
80610	Grapes, fresh or dried: Grapes, fresh	13%	13%	15%	28%
80810	Apples, pears and quinces, fresh: Apples, fresh	10%	10%	15%	25%

Source: International Trade Centre Market Access HS06 code

Value of U.S. Fresh Fruit Exports to China

U.S. exports of fresh fruit to Mainland China and Hong Kong were valued at USD $544.5 million in 2017 (Source: UN COMTRADE). China is a sizeable market for U.S. fresh fruit exports.

Source: International Trade Centre UN COMTRADE data, HS08 excluding nuts

Top U.S. fresh fruit categories exported to China include:

U.S. Top 10 Fresh Fruit Items Exported to Mainland China (USD thousand)		
Item	2017 Export Value to China	China's Share of U.S. Global Export Value
Cherries (including sweet and sour)	$ 119,867	18%
Oranges (including temple)	$ 47,677	8%
Grapes	$ 22,161	3%
Apples	$ 17,744	2%
Apricots	$ 5,467	32%
Plums	$ 5,144	7%
Organic cherries	$ 3,044	27%
Lemons	$ 1,202	1%
Organic oranges	$ 782	5%
Pears	$ 738	1%

Potential Impact to U.S. Fresh Fruit Exports

It is difficult to forecast the impact of increased tariffs on U.S. imported fruit into China. Fresh fruit is typically traded through private contracts, unlike grain, soybeans and other commodities, which trade on an open futures market and provide transparent price data. Additionally, there are other factors at play which could affect demand:

- Competitiveness of the U.S. dollar
- Price sensitivity of Chinese consumers for different fruit categories
- Chinese fruit production and quality
- Quality of U.S. fruit imports
- Supply from competing markets and price differences
- Chinese consumers' choice to boycott U.S. items

Competitiveness of U.S. Dollar

China's currency, the renminbi (RMB), rose by almost 7 percent against the U.S. dollar in 2017, and analysts are predicting the renminbi to continue appreciating through 2018. A strong Chinese currency will reduce the price of U.S. imports.

Price sensitivity of Chinese consumers

Price is not the biggest consideration for Chinese consumers when buying fruit, especially not across all fruit categories. Good taste is the top reason Chinese consumers purchase imported food, according to a consumer study on China's Imported Food Products commissioned by the USDA's Agricultural Trade Office in Shanghai. Many Chinese consumers purchase imported food impulsively, but for those planning the purchase, the product's country of origin is one of the top considerations for purchase.

Prior to additional tariffs, U.S. imported fruit prices averaged higher than Chinese produced fruit and other imports. Wholesale market price reports show U.S.-imported oranges currently priced more than double other imported varieties and higher than the domestic variety, and still U.S. fresh orange imports to China have increased consecutively in the last three years through 2017 (ITC/UN Comtrade).

Spot Prices for Chinese and Imported Fruit at Baijiazi Wholesale Fruit Market, Shenyang, China

Exchange rate is one USD = 6.90 RMB as of March 17, 2017

Fruit	Variety	Price (RMB per Kilo)	Price ($ per Kilo)
Oranges	Egypt	8.6	1.25
	Israel	11	1.59
	Spain, small & medium-sized	12	1.74
	China Ugly	15.3	2.22
	Spain, large size	16	2.32
	China from Yunnan	19	2.75
	U.S. Sunkist	21	3.04

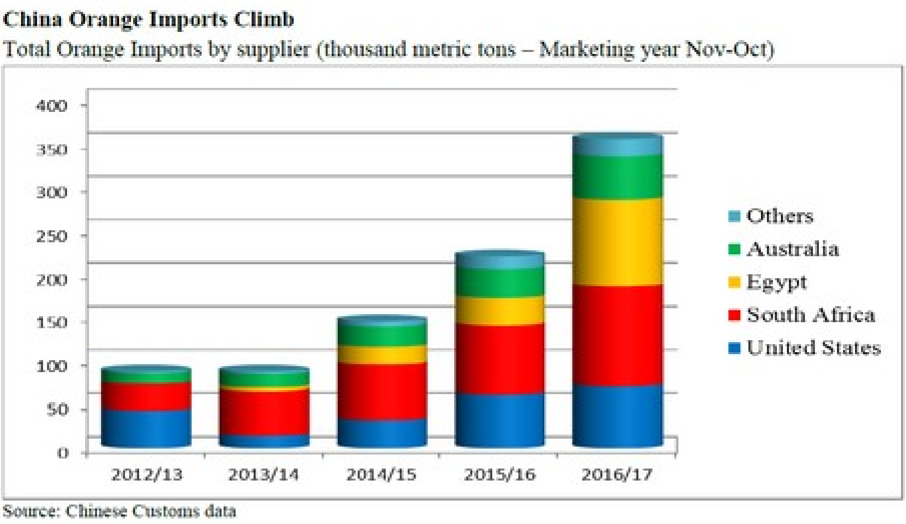
Source: USDA FAS Gain Report April 2017

Outlook for key U.S. fresh fruit categories exported to China

Citrus

Chinese orange consumption in 2018 is expected to rise as a result of the larger Chinese crop and continued robust Chinese consumer demand for high-quality fresh fruit, according to the USDA. Chinese production has increased and taste is good, though the 2018 Chinese orange crop is smaller-sized. Despite increased Chinese production, Chinese orange imports are expected to grow due to robust consumer demand for high-quality and counter-seasonal fruit. And import prices may be more comparable to domestic production, as China's input costs have contributed to increased wholesale prices. There appears to be greater market acceptance of the higher prices (Source: USDA China Citrus Annual Report).

With increased prices, U.S. orange exports may be affected by some competition from South Africa and Australia. Australia has a different season than U.S. citrus, but some months may overlap. Australia produces counter-seasonal to Chinese citrus production, and they have an advantage with closer proximity to China than other citrus producers, with shipping from Brisbane at 13 days. Australia also has a free trade agreement in place with China. Australian citrus exports to China faced a tariff of 11 percent. Under ChAFTA, the tariff has been reduced to 6.1 percent, with a further reduction to come on January 1, 2019. Egyptian citrus may compete with the U.S.



Apples

Apples are the most popular fruit consumed in China, but are losing popularity because of limited varieties and the increased availability of other fruits. China is less reliant on import volume in this category as domestic production has increased consistently over the last 10 years. However, China's share of high quality production is low and Chinese consumers demand the higher quality imported apples offer.

In its annual deciduous fruit report for China, USDA projects China's apple imports to increase 14 percent in the 2017/2018 season. A low supply of domestic high-quality apples, exacerbated by a severe drought, contributes to the demand for higher quality imported apples. The Unites States, New Zealand and Chile remain top suppliers. With increased tariffs, the U.S. may experience more competition from New Zealand, although U.S. pricing was more competitive prior to tariffs. In 2017, China imported 29 thousand tons at 1,539 USD per ton from the U.S. and 22 thousand tons at 2,135 USD per ton from New Zealand.

Mainland China & Hong Kong accounted for 6 percent of the value of U.S. global apple exports in 2017.

Source: PMA.com

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