USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 5/31/2007

GAIN Report Number: CH7040

China, Peoples Republic of

Tomatoes and Products

Annual

2007

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Report Highlights:
China's fresh tomato production is forecast to reach 37.2 metric tons (MT) in MY 2007/08, and processing tomato production is expected to reach a record 5.2 million tons. China's tomato paste exports are forecast at 650,000 tons in MY2007/08. Low stocks accounted for the slight decline in exports from the estimated 675,000 tons in MY2006/07. Russia replaced Italy as the largest buyer of China's tomato paste as a result of new Italian customs regulations discouraging tomato paste imports.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Beijing [CH1]
[CH]

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Executive Summary

China's fresh tomato production is forecast at 37.2 tons (MT) in MY 2007/08 (July-June), a slight increase from the previous year in response to growth in processing tomatoes production, which is expected to reach a record 5.2 million tons. In the next two to three years Inner Mongolia's processing tomato acreage will expand facilitating larger regional production.

In MY2007/08, China's tomato paste exports are forecast at 650,000 tons. Low stocks accounted for the slight decline in exports from the estimated 675,000 tons in MY2006/07. In 2006, Russia replaced Italy as the largest buyer of China's tomato paste as a result of new Italian customs regulations discouraging tomato paste imports.

Production

While processing tomato production will increase steadily in the next two to three years due to strong demand and expanding acreage in Inner Mongolia, production for tomatoes for fresh consumption will not vary significantly from the previous years. China's total tomato production is forecast at 37.2 million tons, up two percent from an estimated 36.5 million tons in MY2006/07. This is mainly attributed to increases in the processing tomato production sector. Tomato production for fresh consumption is forecast at 32 million tons in MY2007/08, and processing tomato production is forecast at 5.2 million tons, of which, 4.6 million tons account for tomato paste production. Tomato paste production is forecast at 750,000 tons in MY2007/08, a 5-percent increase from the previous year fueled by favorable prices in Xinjiang and greater availability of processing material as a result of expanded acreage in Inner Mongolia.

China's tomato acreage is forecast at 845,000 hectares in MY2007/08, about 5,000 hectares more than the estimated 840,000 hectares in MY2006/07. Fresh tomatoes are produced in all Chinese provinces, with Shandong, Xinjiang, Hebei and Henan being the top tomato-producing provinces. These four provinces account for over half of China's total production. The top processing tomato-producing provinces are Xinjiang, Inner Mongolia and Gansu provinces and contribute over 90 percent of total processing tomato production.

Industry sources indicate that processing tomato acreage in Inner Mongolia will expand steadily in the coming years, driven mostly by strong world demand for processed tomatoes, andparticularly for paste. Since 2005, some of the major Chinese tomato paste producers have begun expanding production in Inner Mongolia due to Inner Mongolia's proximity to Tianjin port (Northern China), where 85 percent of China's tomato past is exported through. This trend has taken advantage of reduced transportation costs as it holds cost and time advantages over Xinjiang production. A further advantage in Inner Mongolia's' processing tomato production is the rich soil as it is highly favorable for processing tomato planting. Information obtained during a crop survey for this report revealed that Inner Mongolian tomatoes contain soluble solids at higher levels than Xinjiang tomatoes. These more efficient conversion ratios make Inner Mongolian tomatoes more suitable for processing. Industry sources have indicated that five tons of Inner Mongolian tomatoes can produce up to one ton of tomato paste (tomato soluble solids 28-30 percent), while it takes at least six tons of fresh Xinjiang tomatoes to produce the same amount of paste.

Availability of tomatoes for processing limits China's tomato paste production. According to industry statistics, currently, there are 67 tomato paste processors in China, 40 located in Xinjiang, 19 located in Inner Mongolia, and the other 8 located in Gansu Province. The 67 factories' annual producing capacity amounts to approximately one million tons of paste and require six to seven million tons of fresh tomatoes. However, China's total paste tomato production is well below capacity at around 4-4.5 million tons.

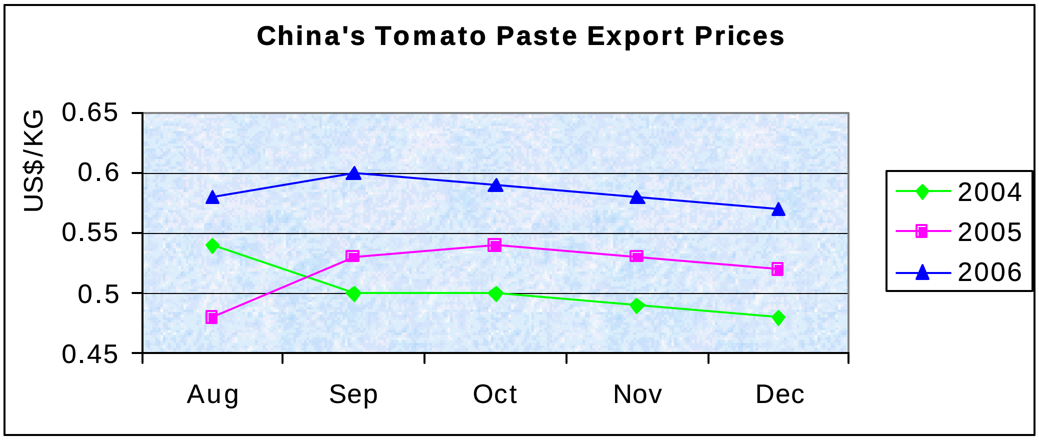
Tomatoes for processing are planted in April and harvested in July. Tomato paste is produced during mid July to mid September. Market intelligence shows that new U.S. tomato varieties that have been recently introduced in Xinjiang have prolonged the harvest season and increased the utilization of processing equipment. China's processing tomatoes are priced at US$35-45/ton, significantly lower than the other major producing countries. Unlike other food processing industries, China's tomato paste production is highly concentrated with the top three Xinjiang-based processors producing over 80 percent of China's total tomato paste. The top two producers are publicly listed companies.

Industry sources indicate that tomato soluble solids (TSS) of 28-30 percent account for about 60 percent of China's total tomato paste production, and TSS 36-38 percent account for the other 40 percent. Paste is usually packed in an aseptic bag with a steel drum or a wooden bin. Normally, bulk packed tomato paste is the primary material used for the manufacturing of other tomato products, such as small canned tomato paste, tomato sauce, ketchup, and tomato powder. Generally speaking, about 80 percent of China's bulk packed paste production is directly exported; 10 percent is reprocessed into low dense paste, small packages for export, and 10 percent is reprocessed for domestic consumption. However, in the future, more bulk packed-tomato paste is expected to go to deep-processing factories and converted into value-added products with higher returns to producers. In addition, China's industry has realized that low-value products (mainly high dense and bulk packed tomato paste) exports are unsustainable, and not suitable for the industry's long-term development.

Chinese governments encourage the development tomato processing industry. In January 2007, the Ministry of Agriculture (MOA) of China released the "11th Five-Year Plan for Agricultural Products Processing Industry", which lists developing tomato processing industry as one of the priorities of fruit and vegetable processing industries. The Plan is that Inner Mongolia, Xinjiang, Gansu and Ningxia should develop the tomato paste industry in China. Some of the provisions of this new policy give tomato factories favorable tax and administrative preferences.

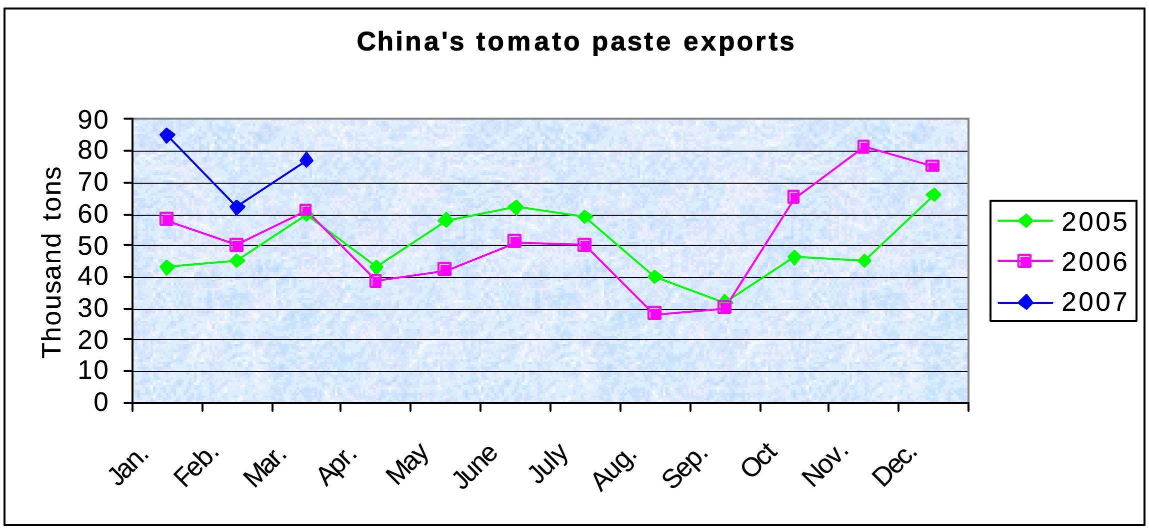
Trade

China's tomato paste (H.S. code 20029010) exports are forecast at 650,000 tons in MY2007/08, a 4-percent decline from the estimated 675,000 tons in MY2006/2007. Between the months of July 2006 to March 2007, China exported 553,138 tons of tomato paste, a 20-percent increase from the same period of the previous marketing year, mainly attributed to tight supplies in the international market. In 2006, the world's top tomato paste producers: United States, Italy, and Spain all suffered poor harvests due to unfavorable weather conditions. The reduced supplies in traditional producing markets led to tight world supplies and higher prices. China's average tomato paste export price during July 2006 to March 2007 reached US$580/ton, a 12-percent increase from the same period of the previous marketing year. The chart below shows August-December prices in 2004-2006.



Post forecasts China's exports will slow down in MY2007/08 mainly because the international paste supply is expected to recover this year. Additionally, China's paste stocks have almost been exhausted after the production decline in MY2005/06, and export-boom in MY2006/07.

China's tomato paste trade continues year-round. The months of heaviest flow are October to December, after the harvest season. The chart below describes China's tomato paste exports by month.



Russia replaced Italy as the largest buyer of China's tomato paste in 2006, mainly because of Italy's new regulations limit China's tomato paste imports (please refer CH6024 for more information on Italy's new policies). However, driven by strong demand from Italy's re-processing industry, China's tomato paste exports to Italy sharply increased in the first quarter of 2007, up 150 percent compared to the same period in 2006. The table below lists China's top buyers of tomato paste in 2006.

Countries	2004	2005	2006	05/06 change
Russia	48,644	73,194	82,097	12%
Italy	95,856	95,354	63,159	-34%
Japan	33,245	43,089	47,446	10%

United Arab Emirates	22,496	35,552	36,530	3%
Ghana	9,931	50,031	35,959	-28%
Saudi Arabia	10,586	20,826	24,744	19%
Algeria	5,839	10,337	20,972	103%
United States	744	1,131	9,445	735%

China is also a tomato paste importer, about 200-300 tons annually, of which, more than 80 percent is imported from the United States. Although small in quantity, there are opportunities for U.S. exporters to expand niche markets as China's domestic tomato and tomato products consumption is expected to double by 2010. Expatriates and Chinese residing in major cities with higher incomes or who have been exposed to the West either through education, travel or the media are also major consumers of U.S. tomato paste.

China's fresh tomato exports will not vary significantly in the next several years, remaining stable at around 82,000 tons. Considering 36 million tons are produced domestically, exports are relatively small. Post believes this can be attributed to two major factors: residue issues and low packing technology. China does not allow access to fresh tomato imports.

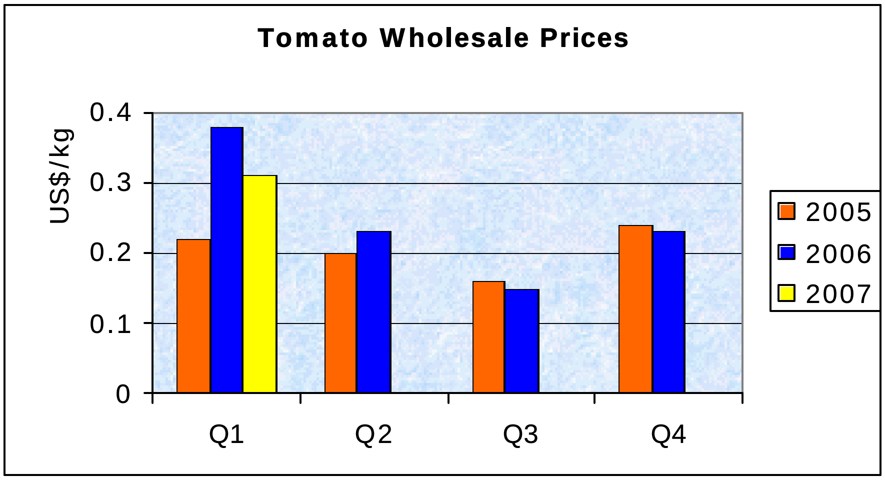
China completed its WTO accession tariff reductions for tomatoes and tomato products in 2005. There are no changes in the tomato and tomato products' tariff schedule.

Tomato and Tomato Products Import Tariff and VAT Rates for 2007				
H.S. Code	**Description**	**Tariff**	**VAT**	**Export Drawback**
070200	Tomatoes, fresh or chilled	13	13	5
20021010	Tomatoes, prepared or preserved, whole or in pieces in airtight containers	19	17	13
20021090	Tomatoes, prepared or preserved, whole or in pieces, other	25	17	13
20029010	Tomatoes, prepared or preserved, paste, in airtight containers	20	17	13
20029090	Tomatoes, Prepared or Preserved, Other	18	17	13
21032000	Tomato ketchup and other tomato sauces	15	17	13

(Source: China Customs)

Consumption

China's fresh tomato per capita consumption is around 55 lbs (25 kilograms). The second and third quarters are the peak season for fresh tomato consumption, when open field tomatoes are both available and low-priced. Chinese consume fresh tomatoes both as a vegetable and as a fruit. Fruit tomatoes usually have a combination of sweetness and tartness. Fruit tomatoes are better looking, smooth, round, and a pinkish color. Vegetable tomatoes are usually higher in acid than fruit tomatoes. Industry sources indicate that more cooking tomatoes will be consumed in the future, as advised by nutrition experts. Some negative media reports indicated that farmers use excessive chemicals on tomatoes to accelerate the ripening process. In China, people in the north consume more fresh tomatoes than the south, mainly because of dietary habits.



(Source: Ministry of Agriculture of China)

China's per capita consumption of processed tomato products is extremely low – less than 0.2 lbs (0.1 kilograms). This is mainly because of Chinese's dietary preferences. Post estimates China consumed about 90,000 tons of processed tomato products in 2006. Industry expects a steady increase in China's domestic processed tomato products consumption with more and more people recognizing the healthy function of tomato products, and studies suggest that processed tomatoes provide more lycopene than fresh tomatoes. For example, a half-cup of tomato sauce, has as much lycopene as five medium-sized fresh tomatoes. Market intelligence shows that Tianjin, Beijing, Xi'an (Shaanxi Province) and Shanghai have the highest per capita paste consumption in China. The local industry believes that domestic consumption of processed tomato products will reach 180,000 tons by 2010. Post forecasts consumption of tomato ketchup and tomato sauce will increase faster than other tomato products with the rapid development of the fast food sector. In addition, market intelligences indicate that more and more Chinese people include ketchup in their breakfast.

Marketing

When marketing to China, there are three major steps U.S. exporters and traders should take: 1) educate Chinese consumers on the health functions of tomato and tomato products; 2) provide seminars explaining how to include tomato products in daily menus; and 3) improve on presentation and packaging designs. The largest consuming entity of tomato products in China is the foreign fast food restaurant industry, such as fast food restaurants; followed by star hotels and family kitchens.

Processed tomato products are marketed for their health function properties. Studies show tomato products contain high lycopene, which has been proved to be effective antioxidant, and believed to the reduced chances of contracting cancer. Tomatoes are also believed to contain important anti-aging properties that are also favored by health-conscious consumers. Fresh tomato is one of the most important vegetables in Chinese people's menu, and Chinese has long history of consuming fresh tomatoes. However, not many Chinese consumers have realized the processed tomato products contain equally properties as fresh tomatoes. With red color, sweet and acid taste, tomato paste can easily be incorporated into Chinese diets.

There are other niche markets for other tomato products in China. Although tomato juice is not as popular as orange or apple juice among China consumers, its consumption in big cities is increasing steadily because more consumers are knowledgeable about its health function, and it is an important ingredient in cocktails and mixed vegetable juices. Tomato powder is usually used as condiment ingredient and a red dye.

The U.S. tomato products cannot compete with Chinese tomato products in price, but in quality and reputation. Therefore, U.S. tomato products are most competitive in high-end consumer markets, such as star hotels and restaurants, bars, western supermarkets, and value-added food processing sectors.

Statistics Tables

Table 1 Fresh Tomatoes PS&D Table

PSD Table									
Country	**China, Peoples Republic of**								
Commodity	**Fresh Tomatoes**						(HA)(MT)		
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Plant For Fresh Consump	0	729500	752100	0	766000	767000	0	0	768000
Plant For Processing	0	58500	60500	0	73000	73000	0	0	77000
Total Area Planted	0	788000	812600	0	839000	840000	0	0	845000
Harv. For Fresh Cons.	0	729500	752100	0	766000	767000	0	0	768000
Harv. For Processing	0	58500	60500	0	83000	73000	0	0	77000
Total Area Harvested	0	788000	812600	0	849000	840000	0	0	845000
Fresh Sale Production	0	29800000	32065000	0	32550000	31700000	0	0	32000000
Processing Production	0	3380000	3500000	0	3900000	4800000	0	0	5200000
Total Production	0	33180000	35565000	0	36450000	36500000	0	0	37200000
Total Supply	0	33180000	35565000	0	36450000	36500000	0	0	37200000

Table 2 Tomato paste PSD table

PSD Table

Country **China, Peoples Republic of**

Commodity **Tomato Paste,28-30% TSS Basis** (MT)(MT, Net Weight)

	2005 USDA Official	Revised Post Estimate	Post Estimate New	2006 USDA Official	Estimate Post Estimate	Post Estimate New	2007 USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Deliv. To Processors	3380000	3380000	3640000	3900000	3900000	4300000	0	0	4600000
Beginning Stocks	163460	163460	163460	21250	21250	63163	12050	12050	31313
Production	520000	520000	560000	600000	600000	715000	0	0	750000
Imports	790	790	137	800	800	150	0	0	200
Total Supply	684250	684250	723597	622050	622050	778313	12050	12050	781513
Exports	580000	580000	590434	525000	525000	675000	0	0	650000
Domestic Consumption	83000	83000	70000	85000	85000	72000	0	0	80000
Ending Stocks	21250	21250	63163	12050	12050	31313	0	0	51513
Total Distribution	684250	684250	723597	622050	622050	778313	12050	12050	781513