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REFERENCE: CITRUS TRADE WITH CHINA (JULY 2018)

This report gives an overview of the Western Cape's, and South Africa's, citrus trade with China. In summary, it shows the rise to prominence of South Africa in the Chinese citrus market. This rise is driven by the citrus industry of the Western Cape Province to such an extent that calculations reveal that if the Western Cape were an independent country separated from South Africa, it would be China's biggest national trading partner in terms of the quantity of citrus products supplied. This is on the back of citrus exports from the province to China increasing from R11million in 2007 to R752 million in 2017, an average annual increase of 52% over the ten year period.

Chinese Citrus Demand

The amount of citrus consumed in China has increased dramatically in recent years. In quantity terms China consumed approximately 1.2 million tons of citrus in 1980, by 2013 this had increased to 32.8 million tons. This is an increase of approximately 11% every year over the 33 year period. The dramatic increase can be observed in Figure 1 which shown the quantity of each citrus product consumed in China between 1980 and 2013.

The majority of citrus consumption is oranges and mandarins totalling 22.5 million tons (69%) in 2013. The remaining consumption was made up of 3.7 million tons (11%) of grapefruit, 2.0 million tons (6%) of lemons and limes and 4.6 million tons (14%) of other citrus. The share of citrus consumption accredited to oranges and mandarins is less than it was in 1980 when it stood at 92%. After this it declined slowly to 87% in 2006 after which it dropped sharply to 54% in 2008 before partly recovering to reach its current level. The reduction in the orange and mandarin share over this period was not due to a decrease in consumption but rather due to the very high growth rates in other citrus products. Between 1980 and 2013 orange and mandarin consumption in China grew by 10% per annum which is very high, however this is less than the 18% per annum growth rate in grapefruit consumption over the same period, as well as the

13% per annum growth in lemon and lime consumption and the 15% per annum growth observed in the consumption of other citrus.

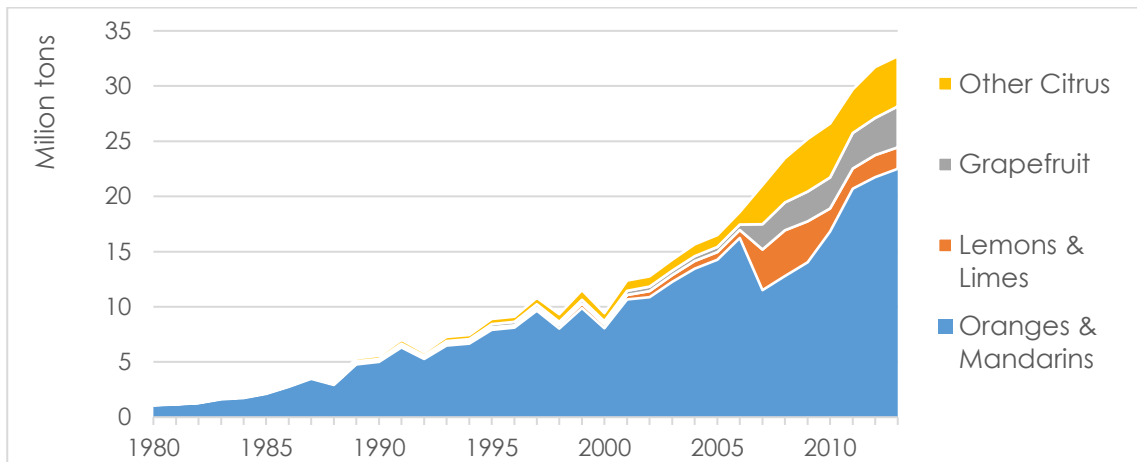


Figure 1: China's Domestic Supply of Citrus by Product, 1980-2013

Data Source: (FAO, 2018)

One seemingly obvious reason for the increase in consumption in China is the population growth. Indeed between 1980 and 2013 the Chinese population increased from just below 1 billion to 1.4 billion. However what has been even more striking has been the increase in average citrus consumption. In 1980 average citrus consumption in China was approximately 1.1kg per person per year, by 1990 this had grown to 4.5kg, by 2000 it was 7.0kg. Since the turn of the millennium the increase has become even more rapid, increasing from 7.0kg to 18.3kg between 2000 and 2010 and to 22.1kg just in the next 3 years to 2013. This is an increase of 9% per year since 2000 signifying a substantial increase in consumer demand for citrus products which is evident in Figure 2 which compares the growth in the Chinese population and the growth in annual citrus consumption per person.

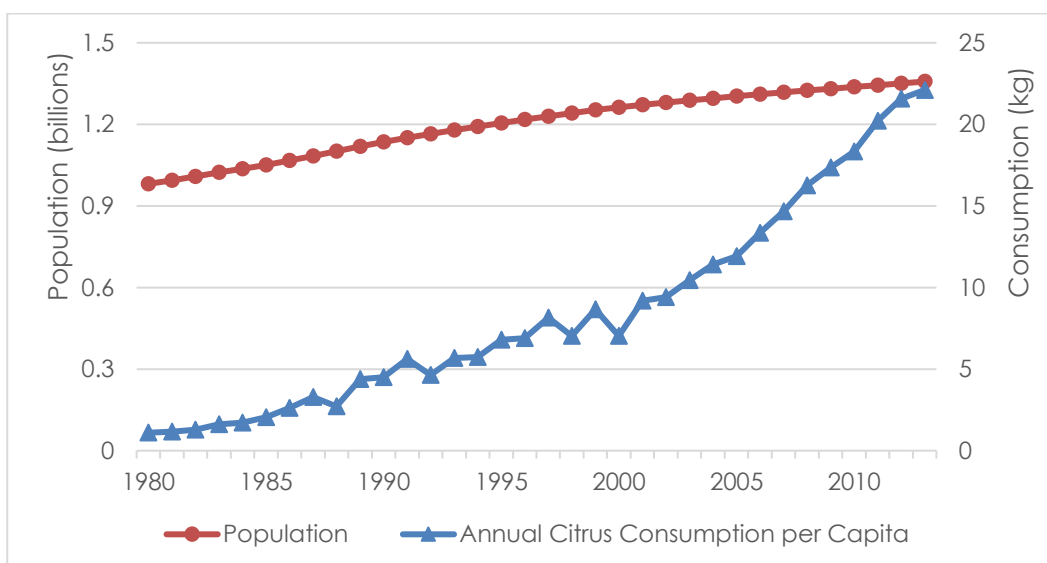


Figure 2: China Population and Annual Citrus Consumption per Capita, 1980-2013

Data Source: (FAO, 2018); (World Bank, 2018)

Whilst China does produce citrus, there is evidence to suggest that production is now unable to meet the rapidly growing domestic demand. The quantity of citrus imports into China each year from 2001 to 2017 is shown graphically in Figure 3. In the past decade China's citrus imports have increased from 74 thousand tons in 2007 to 467 thousand tons in 2017, an increase of 527% which equates to 20% per annum. This increase has been particularly sharp in recent years with year-on-year increases in 2015, 2016 and 2017 totalling 33%, 38% and 58% respectively.

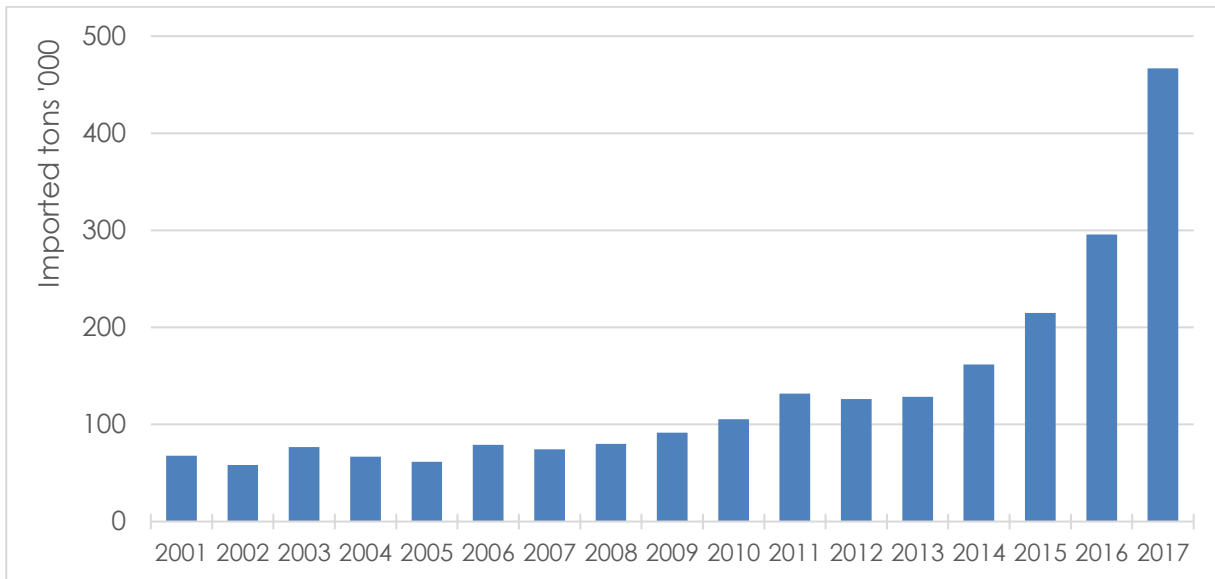


Figure 3: China's Citrus Imports, 2001-2017

Data Source: (ITC, 2018)

What is clear from this section is that there has been a growing demand for citrus products in China which has recently resulted in a surge of imports into the country. In the next section South Africa's involvement thereof is assessed to determine whether this is an opportunity South Africa has been able to benefit from or one that has slipped by.

China's Citrus Suppliers

As China's citrus imports have grown, their supplier profile has also changed quite markedly. Figure 4 compares the main citrus importers into China for 2007 and 2017 in terms of import quantities. In 2007 the USA made up 40% of all China's citrus imports as the biggest supplier. However this share fell to 15% as the top spot was taken over by South Africa which was only the fifth biggest supplier in 2007.

In addition to South Africa's rise to the top of China's citrus suppliers, Egypt, Australia and Spain moved into the top five suppliers. These gains were at the expense of New Zealand, Uruguay and Thailand which all experienced big drops in imports from both an absolute and a relative perspective.

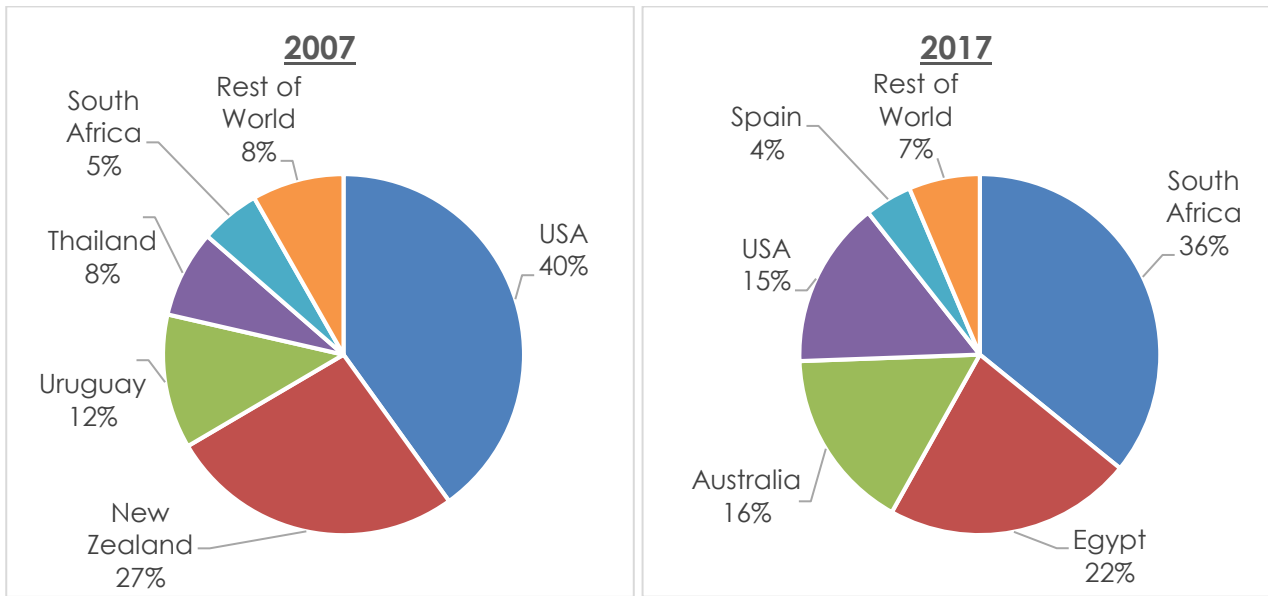


Figure 4: Main Suppliers of China's Citrus Imports, 2007 & 2017

Data Source: (ITC, 2018)

Egypt has had the strongest growth in citrus imports into China with the quantity imported growing at 85% per annum between 2007 and 2017. In addition to being the biggest supplier, South Africa was the fourth fastest growing citrus importer into China between 2007 and 2017, growing at an average rate of 45% per annum. The growth rate of all countries which had recorded citrus imports in both 2007 and 2017 are shown below in Figure 5. The one notable exception is Peru which had no recorded imports in 2007 but had strong growth in the past five years and in 2017 recorded imports of 7.7 thousand tons, 2% of China's total citrus imports.

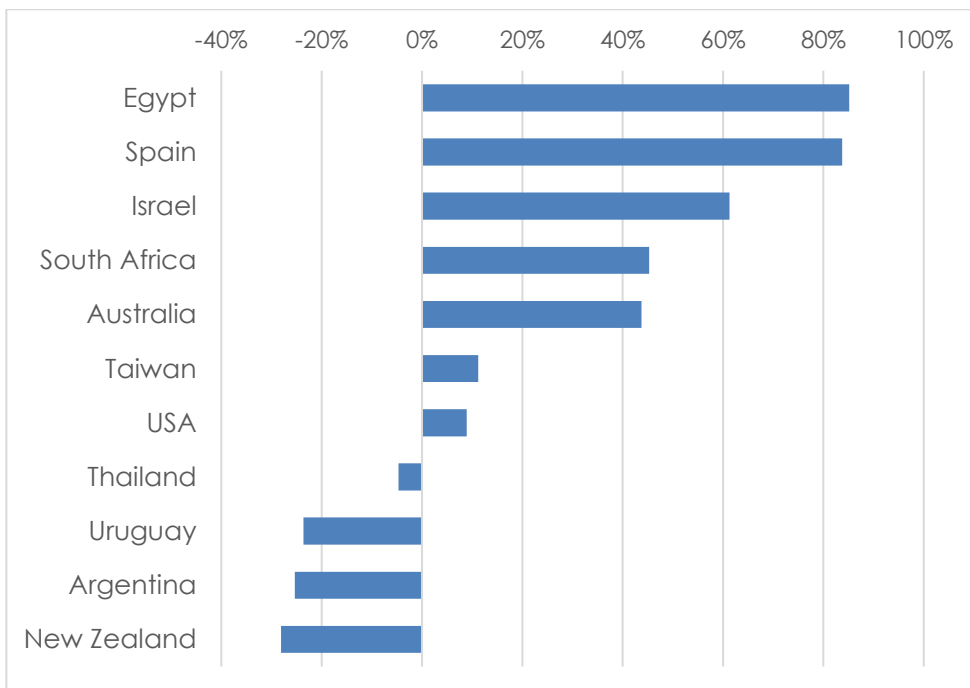


Figure 5: Annual Growth in Citrus Import Quantities into China by Country, 2007-2017

Data Source: (ITC, 2018)

The seasonality with regards to citrus, and the limited ability to store citrus produce, means that certain suppliers will only be used for certain parts of the year. To illustrate, the top four suppliers of citrus imports into China in 2017 are plotted in Figure 6 according to the imports for each month of 2017. It can be clearly seen that in the beginning of the year China imports its citrus from the Northern Hemisphere, mainly from Egypt and USA. In the latter half of the year imports are sourced from Southern Hemisphere countries, mainly South Africa and Australia.

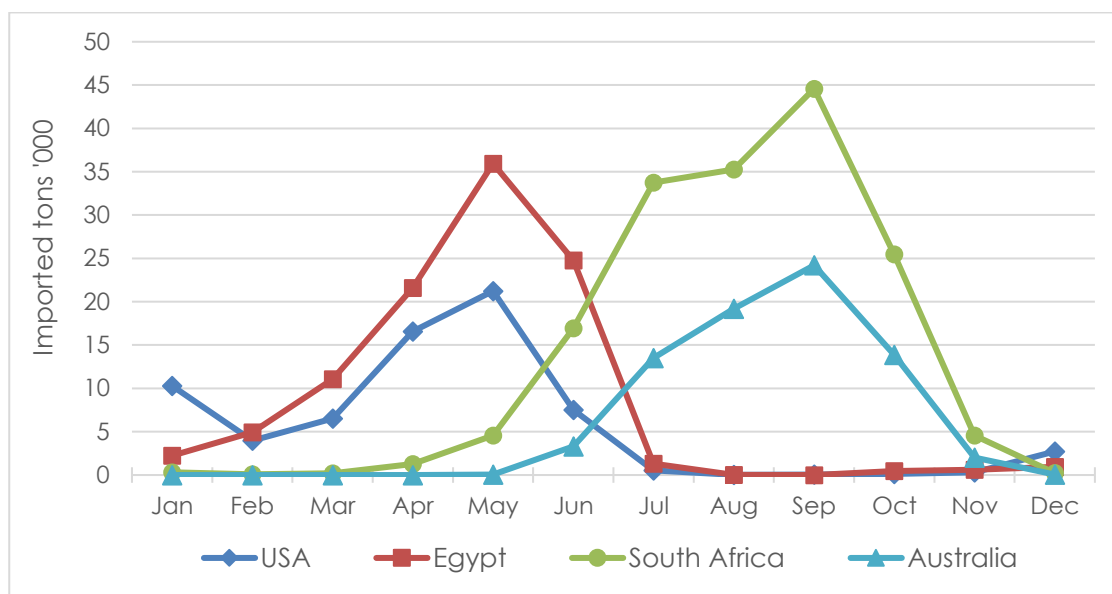


Figure 6: Monthly Citrus Imports into China by Top suppliers, 2017

Data Source: (ITC, 2018)

The seasonality aspect is important as it determines who South Africa's actual competitors are in these markets. The strong performance of Egyptian citrus in the Chinese market should not be cause for concern as they are a Northern Hemisphere country competing with the likes of USA, Spain and Israel. South Africa's main competitors are Australia and Peru, countries which have grown strongly in recent years and as such have, along with South Africa, replaced countries like New Zealand and Uruguay who used to be the main Southern Hemisphere suppliers of citrus into the Chinese market.

South Africa is very price competitive in terms of supplying citrus into China. To illustrate this, Table 1 shows the average prices of the main citrus imports into China by supplying country, with the aggregated world price also included. It is only for lemons and limes where South Africa's price is greater than the world price. South Africa's biggest price advantage is in oranges where the price is lower than every other Southern Hemisphere supplier and most of the main Northern Hemisphere suppliers too. Australia, South Africa's biggest rival in the Chinese citrus market, has prices significantly higher than South Africa for all the products listed in Table 1. The difference is far higher than would be expected could be compensated through the lower transaction costs associated with the closer distance between the two countries.

Table 1: Prices (US\$/Ton) of Citrus Imports into China by Destination, 2017

Country	Oranges	Soft Citrus	Grapefruit	Lemons & Limes	Citrus Hybrids
	HS080510	HS080521	HS080540	HS080550	HS080529
World	1 067	1 768	1 201	2 259	1 487
South Africa	955	1 340	1 035	2 399	1 354
Other Southern Hemisphere:					
Argentina		1 210			
Australia	1 520	1 928	1 308		1 844
New Zealand	1 768			1 952	
Peru	1 083	1 602	1 000		1 603
Northern Hemisphere:					
Uruguay	829	1 373			1 562
Cyprus	854		1 103		1 000
Egypt	779	988	886	1 227	978
Israel	1 265	1 545	1 397		1 662
Korea, Rep.					658
Morocco	858	1 750			
Pakistan		716			
Spain	1 301	1 444	1 095	2 330	2 082
Taiwan	1 325	1 711	1 567	1 335	1 783
Thailand		1 267	2 048		
USA	1 294	1 515	1 329	2 772	1 541

Data Source: (ITC, 2018)

Table 1 sheds some light on Egypt's rise to prominence in the Chinese citrus market in that the prices of Egyptian imports are very low relative to all other suppliers and in particular are far lower than the other big Northern Hemisphere suppliers, namely USA, Spain and Israel.

Western Cape's Citrus Exports to China

South Africa's citrus exports to China are shown in Figure 7 in quantity terms between 2007 and 2017. Over this period citrus exports to China grew from 4 thousand tons to 101 thousand tons, an increase of 2352%, or 38% per annum. The main export was oranges totalling 78 thousand tons (78%) in 2017. Grapefruit exports were also significant in 2017 at 20 thousand tons (20%). The total value of all South Africa's citrus exports to China in 2017 was R1.2 billion, of which oranges made up R0.9 billion.

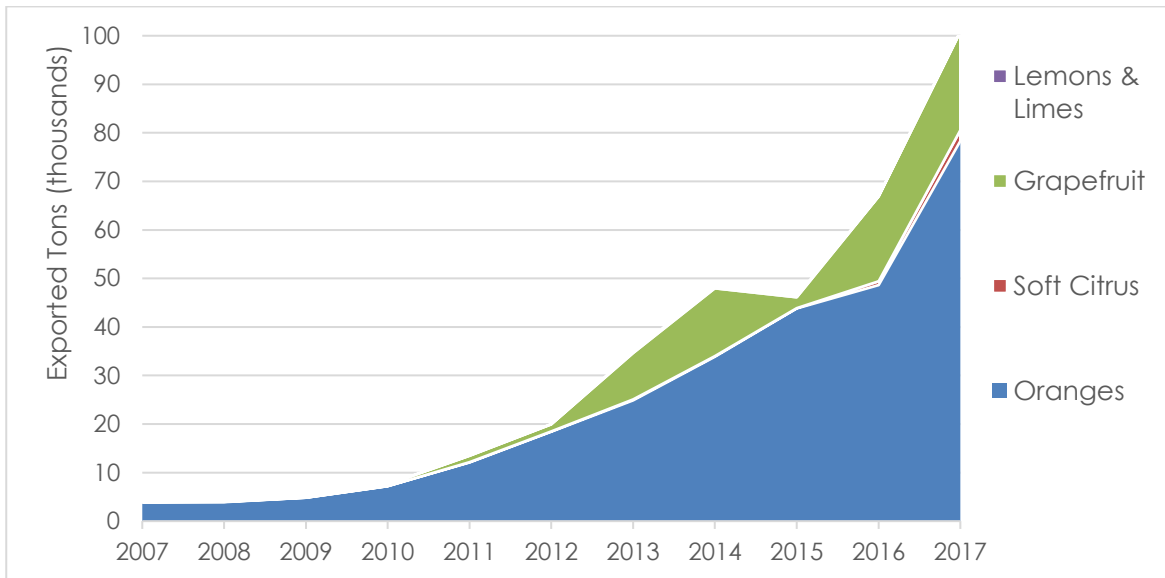


Figure 7: South Africa's Citrus Exports to China, 2007-2017

Data Source: (ITC, 2018)

The majority of South Africa's exports to China are from the Western Cape, making up 65% of the value of all exports in 2017. This is shown in Figure 8 which shows the provincial breakdown of citrus exports to China and highlighting the prominence of the Western Cape.

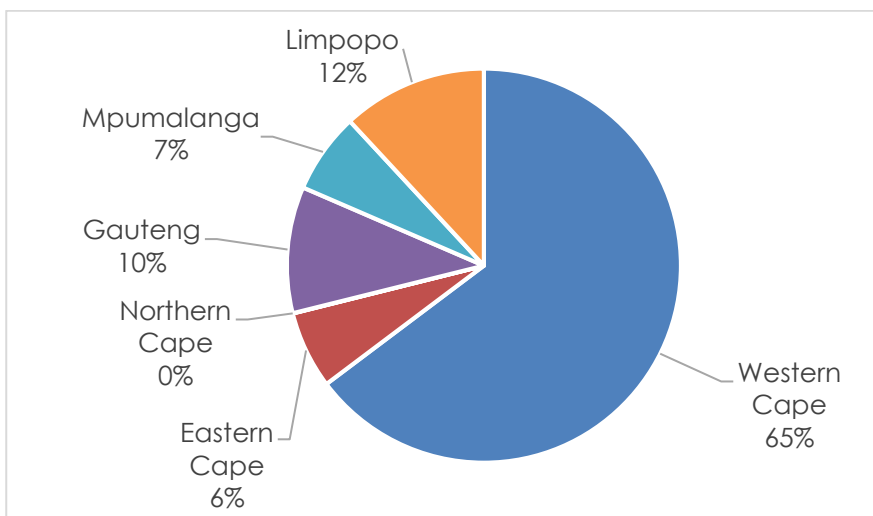


Figure 8: Provincial Breakdown of South Africa's Citrus Exports to China, 2017

Data Source: (Quantec, 2018)

Applying the Western Cape share, as calculated for Figure 8, to the global comparison conducted in relation to Figure 4 earlier in the study, highlights further the importance of the Western Cape as a supplier of citrus into China. If the Western Cape were country on itself, separated from the rest of South Africa, it would be the biggest country in terms of importing citrus into China, with imports totalling 108 thousand tons in 2017.

In value terms the Western Cape's citrus exports to China, shown by product in Figure 9, have grown phenomenally over the past ten years. Total citrus exports from the Western Cape to China were only R11 million in 2007 but in 2017 they had increased to R752 million. This equates to an increase of 52% each year, every year for ten years.

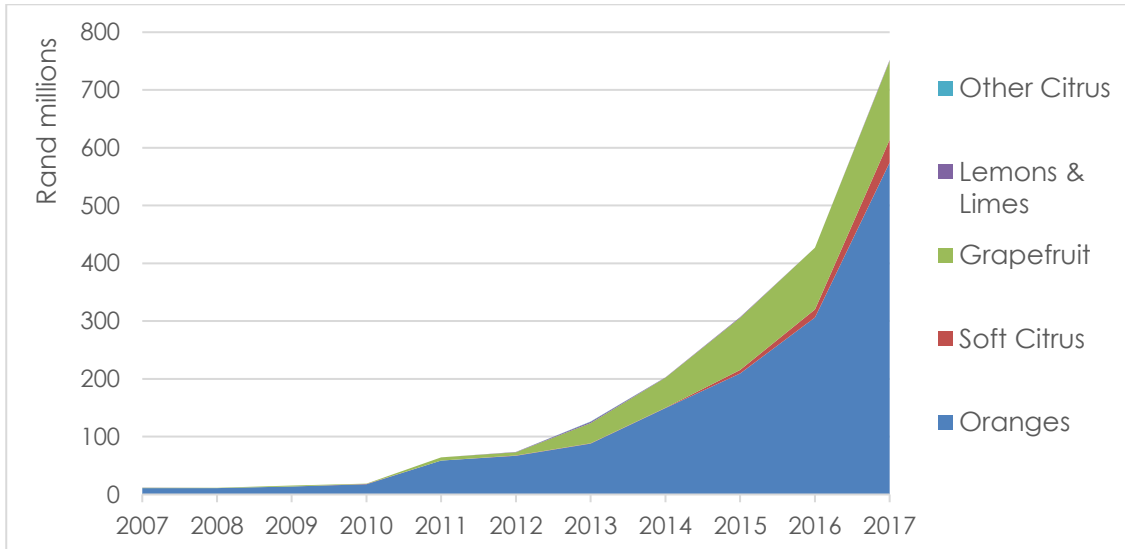


Figure 9: Western Cape Citrus Export Value to China, 2007-2017

Data Source: (Quantec, 2018)

The importance placed on China as a market for Western Cape citrus exports can be seen from Figure 10 which compares the share of the province's citrus exports going to China for 2007 and 2017. The share was very low across products in 2007, the highest share being for oranges, 0.5%. By 2017 all these shares had risen significantly, particularly grapefruit which rose from 0.1% to 14.2%. Overall, China's share in Western Cape citrus exports rose from 0.3% in 2007 to 6.5% in 2017.

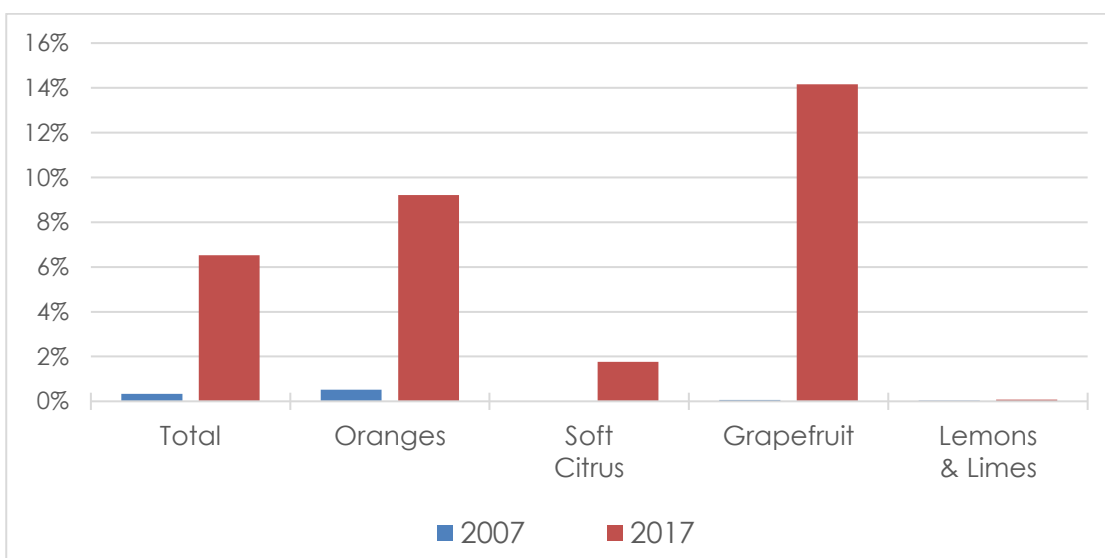


Figure 10: China's Share in Western Cape Citrus Exports, 2007 & 2017

Data Source: (Quantec, 2018)

It should be noted, by way of closing this final section, that the drastic increase in citrus exports from the Western Cape to China, which has driven the drastic increase in national citrus exports to China, was not a process which happened on passively its own. Recent years have seen the contraction of key Western Cape export markets after a period where China experienced strong economic growth which, coupled with the enormous population, presented a very promising opportunity to be able to grow agricultural exports into to make up for the losses being experienced in other key markets. As such there has been a very strong push from various Departments, notably the Western Cape Department of Agriculture, in promoting certain key agricultural exports to China.

Conclusion

To conclude, a number of points have been made very clear throughout this report. Firstly, China has exhibited a serious increase in citrus demand over the past decade. As this increase has begun to exceed production capacities, recent years have brought about a surge of citrus imports into China.

South Africa, and specifically the Western Cape, have managed to position themselves extremely well in the wake of this opportunity and as such have risen to be the leading player in the Chinese citrus market. So much so that the Western Cape, as a subnational region, exports more citrus to China than any other country.

Going forward this recent trend does not look like slowing down so it is essential that the province does all that it can to remain ahead of the pack and continue to reap the benefits of a well-established trade relationship with a country which has a rapidly growing domestic citrus market.

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