



MARKET NEWS SERVICE (MNS)

Fruit Juices Report

December 2004

This note has been prepared, without formal editing, as a service to exporters and industries in developing countries by the Market News Service (MNS), Division of Product and Market Development, International Trade Centre UNCTAD/WTO.

Address: 54-56 rue de Montbrillant, CH-1202 Geneva, Switzerland

Telephone: (4122) 730 0309 **Fax:** (4122) 730 05 77 **e-mail:** mns@intracen.org

Postal address: International Trade Centre UNCTAD/WTO, Palais des Nations, CH-1211 Geneva 10, Switzerland

HDR/From C. Barkla/J. Henry

December 2004

**MARKET NEWS SERVICE
FOR
BULK-PACKED FRUIT JUICES**

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All prices in US dollars per metric ton

Abbreviations

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neth: Netherlands

ger: Germany

uk: United Kingdom

swtz: Switzerland

spa: Spain

form: c = concentrate

p = pulp + puree

ss= single strength

nfc = not from concentrate

pack: froz: = frozen

asep = aseptic

hotp = hot packed

iqf =individually quick frozen

price: C+F = cost and freight (duty-unpaid)

fob = free on board

fot = free on truck

fca = free carrier (goods delivered at the named point into the custody of the

carrier named by the buyer)

spt = spot

del = delivery

rott = rotterdam

prom = prompt delivery

mep= main european port

ex-wh = ex-warehouse

Prepared by C. Barkla/J Henry

Introduction:

We would like to thank our subscribers for their very kind feedback on our last report. We would also like to encourage you to give us suggestions as to how we can make the report more relevant and useful for you. We will hope to publish the next report at the end of March 2005 thereby moving to a quarterly cycle, which we will maintain for the rest of 2005.

Overall market:

Much will be made in this report of the late summer hurricanes that swept through the Caribbean seriously affecting many islands and Florida. Our thoughts on how this will impact on individual varieties in the fruit juice business are set out below.

However, just as severe an effect on the business end of the market is the continuing slide in the value of the US Dollar and the high price of energy, in particular, oil. The US dollar is the currency of choice in the fruit juice business.

Almost all products are shipped subject to freight rates that will increasingly reflect the rise in the oil price. These increases in freight costs could be as high as 20-30% which has a very severe impact on lower value products. We are told that more exporters are quoting FOB at origin to avoid assuming the risk of freight rate fluctuations (usually rises). Importers are being asked to stand a BAF (Bunkering Adjustment Factor) and a CAF (Currency Adjustment Factor) which may vary from day to day.

Also the cost of packaging has seen significant cost increases. The cost of steel drums has risen by up to US\$30/mt which again will penalise the lower valued items.

The economic slowdown in Europe, which was reported in the last edition, has continued and it is having an adverse effect on discretionary consumer spending. Sales volumes and prices of juice in general are at risk in this economic climate. This is additionally compounded by 'store wars' whereby major retail chains run juice at a loss to attract customers who in their turn create another stockpile in their homes.

It appears as if the rapid market growth in Russia and Eastern Europe has slowed down in the second half of 2004. Signs of consumer down-trading to

lower-cost juices or nectars have played a role. These could be some of the first signs of the effects of higher costs elsewhere in the economy bringing pressure onto discretionary spending. It could also be seen as an evolving maturity in these increasingly important markets.

The final factor which impacts across a wide range of juices is the increasing popularity of NFC forms of many types of fruit juices, not only orange. While the US market is starting to show signs of saturation and gentle decline, France, Spain and the United Kingdom have registered strong growth in consumption. If this trend persists and widens, it could have severe implications for the producing and processing sectors.

ORA/Orange:

Brazilian FCOJ, ss, 66 brix, US\$600/mt domestic sales

Brazilian FCOJ, ss, 66 brix, US\$800-850/mt C+F Rotterdam

Futures trading 8/12 at US\$0.80/lb solid for January/US\$0.85/lb for July 2005

Market Situation:

There is an English saying that 'every cloud has a silver lining'. The meaning is that out of something terrible, occasionally comes something positive. This seems to have been the case with the devastating hurricanes that struck the Caribbean and Florida in the late summer of 2004. Although terrible damage was done to people and property, the effect on prices and supply has been relatively positive for those growers and processors who are still in operation. In other words, without the four hurricanes, the market would have been significantly oversupplied going into 2005.

The exceptionally cool and wet European summer has resulted in slower growth in orange juice consumption. Most marketing companies have not yet released their annual results, so the exact effect has yet to be quantified. Additionally, the trend for FCOJ is towards drinks with a lower proportion of pure juice.

In the immediate aftermath of the hurricanes, there was some speculative trading. It now seems as if reality is setting in again, underpinned by a slackening in real demand and sufficient stock in tanks in consuming markets, in transit and a large Brazilian season coming up. At the time of the hurricanes, prices moved up to circa US\$950/mt fca Europe, but subsided when it was recognised that there were sufficient stocks available to meet foreseeable demand.

As at early December 2004, the market in Europe is supplied from the existing flexible contracts some of which date back to October 2003 and go up to mid-2005. Some buyers feel in a sufficiently strong position to postpone deliveries. There are quotes at the level cited above but very little new business is being written in this December period. The futures market has settled down following the dramatic rises and falls of the September period. However, early December has seen a gentle rise probably due to the overhang of potential frost in Florida. The future will be clearer when this period is past in February 2005 and the first real indications of the Brazilian crop start to emerge.

Orange juice consumption in China continues to increase and could start to affect the dynamics of the global demand for FCOJ and even NFC. Although China is expected to grow 15 million mt of citrus in 2004 according to Chinese government sources, most will be sold on the fresh market. This will largely be consumed within China but the trend of increased fruit consumption will lead to more demand for fruit juices. In many of our correspondents' views, this market will offer the best opportunity for future growth. Once the Chinese market decides that it wants to consume orange juice in a big way, then the producers and processors will become 'kings' again.

NFC consumption has risen dramatically in the EU according to Eurostat figures. In 2003, France (+83%), UK (+251%) and Spain (+244%) showed the biggest increases while the total imports were up by 50%.

Brazil:

Despite reported poor first flowering of the Brazilian orange crop, the second bloom is looking better and estimates now foresee between 350-370 million boxes harvested in current season, going to FCOJ. The USDA estimated 308 million boxes in its October 2004 update. Both Florida and Brazil has sufficient carryover stocks as in recent years.

Fruit prices are rising steadily which is putting pressure onto processors who are turning in a loss with the current market pricing. The consolidation in the Brazilian industry, after the sale of Cargill's business interests to Citrusuco and Cutrale, has not yet fully impacted on the market's conditions. Factors outside Brazil and existing long term order positions have delayed the visibility of the real effects of the takeover.

We have recently been told that Citrovita has purchased Sucoricco for a reported US\$60 million. It seems as if the existing Sucoricco contracts with Cutrale will be fulfilled by Sucoricco growers even after the sale for a period of up to 3 years. This all has still to be confirmed by Citrovita. However, it was confirmed by Citrovita in September to Reuters, that they had plans to invest US\$100 million for expansion of their processing and production. This investment would raise

their productive capacity to 260,000 mt from 185-190,000 mt or approximately 40% over 2003/4.

Reports are also being received that another processor has laid off staff and will stop production for a period while the market bottoms out. We have seen this happen before but it is another symptom of the current price levels for FCOJ as compared to the prices that processors have to pay for fruit.

ABECitrus reports some interesting shifts in exports of FCOJ from Brazil. In Jan – Oct 2004 they totalled 1,073,487mt which was 1% up on the same period in 2003. However, the destinations for these exports showed a significant drop of 41% in sales to the NZFTA area while sales to the EU rose by 5% and to Asia by 6%. The share of sales in 2004 rose from 69% to 73% for the EU and from 10% to 11% for Asia, while the sales percentage to the NAFTA region dropped from 18% to 10%.

Reports of NFC adulteration emanating from some Brazilian producers have been quashed by SGF (Protective Association of the Fruit Juice Industry). According to Foodnews, prompt and transparent testing ruled out this potential threat to the credibility of some Brazilian producers.

Florida:

<http://www.nass.usda.gov/fl/citrus/cit/2004-05/cit1204.txt>

This link will take you directly to the USDA December 10 2004 report which gives their latest best estimate for American production. The mid-November update foresaw no change to these figures. Now, the USDA foresees a further reduction of 4.5%, or 8 million boxes bringing the revised 2005 estimate for orange production to 168 million boxes, which is a reduction of 31% on 2004. Pessimists point out that we are now entering the frost season and, although this has not been a feature for the past 15 years, this season is anything but normal climate-wise.

Reports have been noted to suggest that the hurricanes disseminated citrus canker outside the traditionally affected areas and that excess water after the storms may have caused root damage. There will be a full assessment of the tree conditions and numbers undertaken in the August/September 2005. It is only at this point that a full reconciliation of the damage and outlook for the Florida orange crop will be available.

According to Information Resources, US chilled orange juice consumption fell in year to September 2005 by 3% in volume terms and by 5% in value. Some adverse publicity relating to the need to avoid orange juice if on a low carbohydrate diet was noted but this effect seems to be less significant as the Doctor Atkins Diet loses some of it's appeal.

Tropicana have raised their prices in November on NFC by up to 5% citing the effects of the hurricanes.

As far as last season's Florida crop goes, it was finalised at 242 million boxes as reported by the USDA. Of this figure, 96% was processed. The final yield was up by 1% to 1.56 gallons/box but only resulted in a total value of the entire crop of US\$746 million, which was the lowest for 18 seasons.

Other:

The USDA reports that Israeli orange juice production will double in 2004/5 to 36,000mt. This will return to the 2003/4 levels of output.

GRA/Grapefruit

USA (Florida), red concentrate 58 brix, US\$2300-2600/mt C+F Europe
Cuba, red concentrate, 58 brix, US\$1750-1850/mt, fca Europe (Duty unpaid)
Argentina, pink/red concentrate, 58 brix, US\$1600/mt fca Europe (Duty unpaid)

<http://www.nass.usda.gov/fl/citrus/cit/2004-05/cit1204.txt>

This link will take you directly to the USDA December 10 2004 report issued in the wake of the hurricanes. Their November report did not change the original October estimates but this latest report foresees a further reduction of 2 million boxes. It foresees a dramatic drop of 68% in Florida production for 2005 to 13 million boxes against 38 million in 2004. This was made up of a 81% reduction in white and a 60% reduction in pink grapefruit. This will be the smallest crop since the 1935/6 season.

According to this latest USDA report, the drop rate for white grapefruit has been higher than expected at 17% and 18% for coloured. Additionally, the growth of coloured fruit has slowed significantly. It will now take 96 fruit to fill a box instead of the 88 pieces used in previous projections.

At the beginning of December 2004, it was reported that there is very little red concentrate available. This will make it difficult to blend for lower ratio specification product, which needs the sweeter variant to produce a product that is acceptable to the market.

This reduction in production will be compounded by a continuing demand for fresh fruit that commands higher prices. The available crop coming forward for juicing could well mean that Florida will export very little juice. Prices are already reportedly high but the elasticity of price is not infinite. There is a price ceiling

beyond which marketing companies will not go. With already downward pressure on demand brought about by variant switching and adverse publicity about grapefruit juice negating the efficacy of some prescription drugs, this may be the moment when some marketing companies delete this variant from their fruit juice ranges.

However, producers with stocks of concentrate are reportedly holding back their offers waiting to see how the market will react to the dramatic effect of the reduction in supply. This reduction still has to be quantified in terms of juice production and will not be known until February 2005. The quoted price for Florida origin of US\$3500/mt ex-warehouse is viewed as a price that will discourage all but the most desperate buyer. There have been reports of sales made at US\$2900/mt to buyers who are uncovered. These prices compare with prices reported in our last report of US\$1000/mt in July.

Some of the major upmarket retailers may enforce continuation of grapefruit juice supply as they wish to offer their consumers a range of choice in juices. The hard discounters, on the other hand, may be more willing to keep their suppliers viable. They, therefore, will not enforce their contracts that were written prior to the hurricane damage, if they identify that this could reduce their supplier options in the longer term.

A big imponderable is the effect of the hurricanes on Cuban production and how their exporters will react. The stakes are high for Cuban producers and for other origins for reasons outlined above. Their ability to raise prices is compromised by the need to think long term about the future of grapefruit juice in the ranges stocked by retailers and HRI distributors. Comments are being received to the effect that buyers in Japan and the USA may be prepared to pay higher prices. Cuba reportedly has 6 million boxes (75% white, 20% pink, 5% red) for processing while Belize has 1.5 million boxes of white.

According to the USDA, Israel is expecting to produce 74,500mt in 2004/5, which is almost exactly what they produced in 2003/4, but little of this will be processed. South Africa had a less than average season after a drought. The problem will remain however, that South African and Argentine origin grapefruit juice needs to be blended with a sweeter variety for juice production. This leads buyers back to Cuba, or to traders to whom they may sell, such as Israel. Incidentally, Israel is reported as saying that they are sold out of organic specification. Argentine prices as shown above represent a doubling of their prices of earlier in 2004.

The future Floridian crop for the 2005/2006 season may not be back to the 5-year average as the damage to the roots of the trees may lead to further reductions in crop size. The USDA will report further at regular intervals up to their deadline of August/September 2005 when the full audit results of their trees and future growing capacity will be published.

Reports have been received of Tropicana raising its prices of grapefruit NFC by over 20%.

BAN/Banana:

Costa Rica, ss, 22 brix, aseptic, US\$465-470/mt, ex-wh Europe
Ecuador, ss, 24 brix, aseptic, US\$475-525/mt, fca Europe
Costa Rica/Ecuador, ss, 22 brix, aseptic, US\$525/mt fot USA Main port
Ecuador, Organic, ss, 24 brix, US\$1650/mt fca Europe
Honduras, ss 22-24 brix, US\$430-450/mt cfr Europe

The problem for a low value product, like banana puree, is that any increases in cost of packaging or freight impacts more severely percentage-wise on the delivered price than on that for a more costly product.

Demand is reported as steady with more than sufficient supply.

GUA/Guava:

Brazil, pink, aseptic, 9 brix, US\$650-700/mt fca Neth
Brazil, pink, frozen puree, 9 brix, US\$450/mt FOB
Brazil, pink, frozen concentrate, 14-16 brix, US\$650/mt FOB
Malaysia, pink, aseptic, 9 brix, US\$680-700/mt, fca Neth
India, white, aseptic, 9 brix, US\$590-625/mt, fot Rotterdam (Duty Unpaid)
India, white, aseptic, 20 brix, US\$850/mt, cfr Europe, (Duty unpaid)

South Africa had a reduced season and, with the strong rand versus the US dollar, exported only small quantities of guava juice. The SA Canning Fruit Producers' Association reported a crop of 19-20,000mt (down 10% from 2003), of which 15,000mt would go to pulp or puree.

The Indian crop was 'normal' with no significant news to report.

PAP/Papaya:

India, ss red, aseptic, 8 brix, US\$650-675/mt fot Rott (Duty Unpaid)
India, concentrate red, aseptic, 20 brix, US\$950-980/mt fot Rott (Duty Unpaid)
Brazil, concentrate red, frozen, 20 brix, US\$1025-1075/mt, cfr Europe

Demand is steady and does not fluctuate widely on this product. There seems to be no significant variations in either supply or demand.

LEM/Lemon:

Argentina, 400gpl, US\$850/900/mt fca Europe (Duty unpaid)

There is little activity in the market at the moment. Argentina has closed its season. With their weak currency and minimal storage, most of the crop was sold and moved offshore as soon as it was harvested. There was an increase in fresh production and internal consumption.

Spain and Italy have not yet announced their prices for the coming season. The strong Euro will work against their returns.

PIN/Pineapple:

Thailand, 60 brix aseptic, US\$1100/mt FOB

Thailand, 60 brix, aseptic concentrate, US\$1250-1350/mt C+F Europe

Thailand, 60 brix, frozen concentrate, US\$1250-1380/mt fca Europe

Brazil, 60 brix, frozen, US\$1300/mt C+F Europe (Duty unpaid)

Brazil, 60 brix, frozen concentrate, US\$1150 FOB

Indonesia, 60 brix, aseptic, US\$1200/mt C+F Rott (Duty Unpaid)

Thailand, NFC, US\$550-650/mt fca duty paid,

Costa Rica, NFC, US\$700/mt, fot Main port USA

Brazil, NFC, US\$650/mt fca Europe (Duty unpaid)

Thailand is reporting a return to 'normal' conditions after 3 years of shortages and the flooding last year. Buyers are reporting no pressure. Prices have come down somewhat since midyear amidst reports of reducing stockholdings by buyers. The winter crop (which accounts for less than a third of total output) is now being bought onto an empty market. Due to increased new plantings, the outlook for 2005 seems for a stable adequately supplied market.

Although the winter crop has been late, estimates suggest that the total annual crop will rise by over 12% to 1.8million mt of fruit giving approximately 100,000 mt of concentrate for 2005. Some producers and processors are raising the spectre of El Nino, which could affect the 2005 crop.

Thai fruit prices are still at the high end of their range due to competitive fruit procurement by factories. Some new processing plants have come on stream for this winter crop and are adding to the demand.

Indonesian and South Africa reported normal seasons after some initial doubts over the Indonesian crops. The strong rand has put pressure on South African

producers. Yet again, the adverse weather has entered into the supply equation. A very severe typhoon struck the Philippines in early December 2004. The effects on the supply have been difficult to quantify at the time of writing.

Reports have been received of Thailand and Brazil increasing their availability of NFC. Costa Rica is still the principal origin with its MD2 variety. This is in line with the trend of increasing NFC consumption in parts of Europe.

Around the time of the SIAL Fair, it was thought that prices would be tracking down further, but this seems not to have happened up to now.

PAS/Passion Fruit:

Ecuador, concentrate 50 brix, US\$2650 - 2700/mt C+F Europe
Brazil, concentrate 50 brix, US\$2400/mt FOB

Producers in Ecuador are caught in a three-pronged dilemma. Firstly, there seems to be lower demand due to large contracts set up at the low prices earlier this year. Secondly, there is uncertainty on the supply side resulting from reduced on farm investment and a late harvest. Thirdly, the ongoing threat of competition from neighbouring Peru, Brazil and Colombia is keeping a ceiling on price rises. All three countries are increasing their production and will act as a brake on significant price rises from Ecuador.

There seems to be a consensus that Ecuadorian processors will not break contracts even though they are obliged to pay more for their fruit. This higher fruit price should help growers to improve their on farm investment and replanting.

Prices early in the year of US\$1800 fca Europe have now risen, but some traders speculated, and buyers covered themselves well into 2005 at these levels. The stocks sold at these price levels appear now to be working through the market and more recent trades are reported in the range shown above. Some processors are holding back from making sales until they see how things will develop for 2005

Passion fruit vines only last 2-3 years and due to the low prices paid to growers of recent times, insufficient plantings have been undertaken. The official EPPA (Ecuadorian Passion Fruit Body) will issue its report for 2004 production in January 2005, but initial indications are not optimistic for big growth. It will be interesting to see the new planting programmes which will go a long way to guiding the prices for the next 2-3 years.

Brazil on the other hand, as the world largest producer and consumer, appears now to be more or less self-sufficient.

The principal problem will remain one of demand. A possible ray of hope is a report that appeared in Foodnews, which implicates yellow passion fruit juice in the treatment of cancer. Studies are ongoing at the University of Florida.

MAN/Mango:

Peru, Chato de Ica, frozen puree, 15-17 Brix, US\$1050/mt fca Europe
Peru, Chato de Ica, frozen puree, 15-17 Brix, US\$1000/mt fot Rott
India, Alfonso, aseptic puree, 16 brix, US\$1550-1580/mt, fot Rott (Duty Unpaid)
India, Kesar, aseptic puree, 16 brix, US\$1250-1275/mt, fot Rott (Duty Unpaid)
India, Totapuri, aseptic puree, 14 brix, US\$850-75/mt, fot Rott (Duty Unpaid)
India, Totapuri, aseptic conc, 28 brix, US\$950-975 fot Rott (Duty Unpaid)
Brazil, Palmer, aseptic puree, 16 brix, US\$850/mt fot Rott (Duty Unpaid)
Brazil, Tommy Atkins, aseptic/frozen conc, 28-30 brix, US\$800 FOB
Brazil, Palmer, aseptic/frozen conc, 28-30 brix, US\$800/mt FOB
Pakistan, Chaunsa, ss puree, 22-25 brix, 5kg drums, US\$1180/mt, fca Holland
Pakistan, Daisy, ss puree, 15-18 brix, 5kg drums, US\$800/mt, fca Holland
Mexico, Tommy Atkins, frozen puree, US\$1000/mt, DDP fot Main USA port

The Alfonso season in India finished early and was characterised by high prices and insufficient supply. We have not yet seen the final crop numbers, which are due to be released in December.

This shortfall drove buyers to Totapuri (India), which, at the early part of the season, enjoyed exceptional prices. However, once Tommy Atkins (Mexico) came to the market in late summer, Totapuri prices subsided but it appears as if there will be little stock to carry over. European summer demand reduced somewhat against expectancies due to the poor weather and reduced pressure on supply. The empty market outlook for 2005 could lead to a similar season to 2004 with the same cascade of buyer choice.

Some of our contacts advised that around the time of SIAL, it became apparent that there were stocks of Totapuri 28 brix to be sold and the price fell by over US\$200/mt to the levels shown above.

South American crops are currently being harvested, with Brazil reported to have stable production except for a slight reduction in the Sao Paulo province for Tommy Atkins. There was reportedly wind and rain which affected the blossoming.

According to Pranev International, India (growth +8%), Mexico (+5%), Colombia (+5%) now supply over 80% of worldwide exports of mango puree and concentrate. Consumption is still concentrated in countries of production. Asia (34%) with the strongest growth dominates this consumption with the Middle East

(25%) and North America (14%) in its wake. The EU accounts for 5% with relatively modest growth of 5% pa. All these figures relate to 2003.

Acerola:

Brazil, ss 6-8 brix, US\$750/mt FOB

Brazil, concentrate 20 brix, US\$1750/mt FOB

The Brazilian crop is harvested from October to May but so far it seems to be normal with adequate supply.

Conclusion

This concludes the Fruit Juice December 2004 Market News Service Report. The subsequent report that will cover the first quarter of 2005 will be due in April.

We would appreciate receiving your feedback and any comments or suggestions on the format or content of the report.

Please do not hesitate to contact Charles Barkla on barklach@hotmail.com or Jacques Henry c/o MNS@intracen.org.

If you would like to contribute comments or provide us with information on Fruit Juice market developments, please contact Charles Barkla at the aforementioned email.

Yours sincerely
Market News Service
Editing Team
MNS@intracen.org

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Market News Service (MNS)

Street address: ITC, 54-56 rue de Montbrillant, 1202 Geneva, Switzerland

Telephone: +41-22-730 0309 **Fax:** +41-22 730 0577

E-mail: mns@intracen.org **Internet:** <http://www.p-maps.org/mns>

Postal address: ITC, Palais des Nations, 1211 Geneva 10, Switzerland