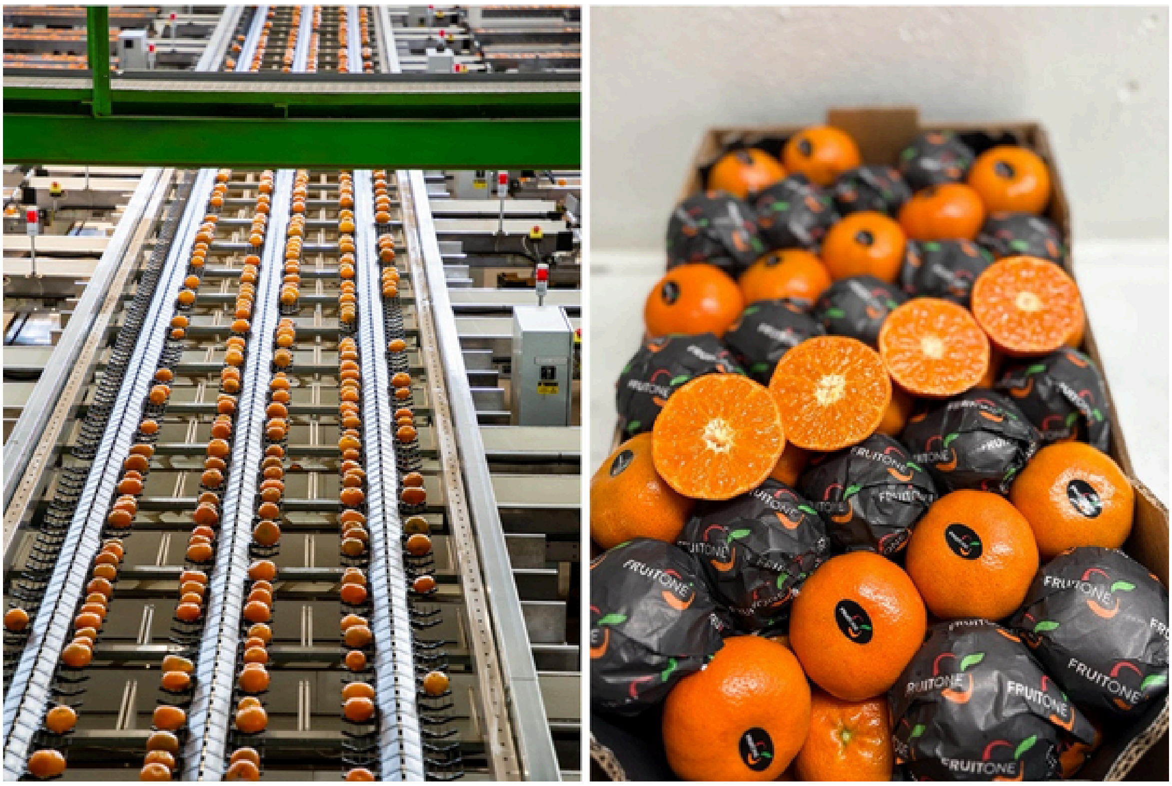
Leardt van der Burgh – FruitOne

Overstocked orange juice factories, due to U.S. tariffs, bedevil SA season

"From a logistics point of view, we expect that the next three to four weeks are going to be deeply difficult," says Leardt van der Burgh, head of commercial at FruitOne, "and just when the situation in the Middle East was looking better! South Africa will, despite the floods, still export around 5% more across all citrus commodities, and it's placing the logistics chain under a lot of pressure."

Some shipping lines have little to no empties available, and consequently coldrooms are running full. A couple of times they've had trucks waiting for extended times before product could be offloaded, he says. To the Middle East, the average transit time used to be 21 days, now clocking over 50 days, involving transshipments and their extra risks. "We saw costs quickly running up to three times the normal rate per container. Sea freight is looming ever larger among our cost factors, which is another reason why it's really important that we should examine our trade with Africa more closely."



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FruitOne has 13 citrus farms in Limpopo Province. Their competitive edge has always been the timing and speed with which their region opens up the South African citrus window. They have challenges coming out of their ears, Van der Burgh observes, and he lists four events that have particularly bedevilled this season: the astonishing rainfall, an unfavourable exchange rate, the war in the Middle East and then the consequences of the war: bloating fertilizer and fuel costs, increased shipping times at higher rates.

Back in December when they were putting together their budget for the coming season, they were basing it on the exchange rate at the time of R18.50 to 1USD. "When we came back in January it was R16.50 to the dollar, and that immediately removes R20-plus per carton from your income back on farm."

Dimming allure of China while UK eyes rapprochement with EU

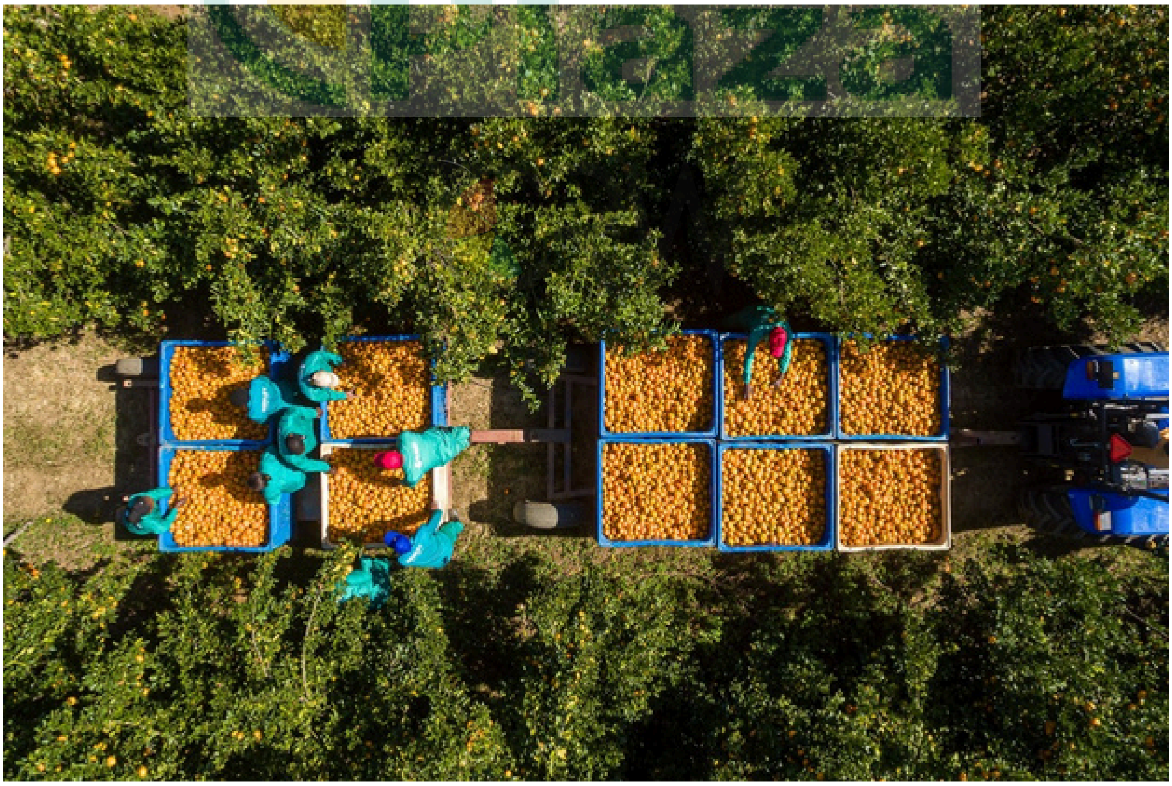
To the four major events snapping at the bottom line, Van der Burgh adds a fifth element: the shifting trade landscape. "Four or five years ago everyone was abuzz about the good prices China was paying," he says, but the country has made itself strongly self-sufficient in citrus, becoming, in his opinion, a middling market, offering market-related prices with Europe and elsewhere. "You don't see the kind of market opportunities in China that you could find a couple of years ago."

Then, to the chagrin of the industry, there is the unwelcome prospect of the United Kingdom re-aligning its fruit import regulations with the European Union's, with its, from South Africa's point of view (a view widely held in the Southern Hemisphere's fresh produce export industry) protectionist and unwarranted phytosanitary regulations. "UK realignment is a very concerning prospect. We recently had a couple of visitors from the UK, and it seems, from what I understand, that by next year this time, the UK will be following EU regulations again. It'll place us under strain. Particularly for the farmers in the north of the country, it will impact the volumes we can put down in the UK. We can scarcely afford that."

Take this lemon season, for example: In a typical year they place 30% of their fruit in the Middle East, but this year, the global lemon shortage meant they could even cut that by half and supply alternative markets like the UK at equivalent or even better prices.

"Lemons gave us a great start to the season. We saw price levels one doesn't see often; for two years in a row now it's been like this. We were lucky to have been able to ride that wave, but that," he remarks, "is pretty much where the good news ends."

Lemon prices have crashed over the past three or four weeks, from north of 30 euros per carton to 15 or 16. "When the Northern Hemisphere has a full lemon crop again, we won't see these kinds of prices again. Then we'll be facing a very different picture in which we're farming lemons at a marginal profit."



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U.S. tariffs create local buildup of juice concentrate

FruitOne is a major Valencia player, exporting two million cartons last year. "The orange season starts a bit later, and already we're hearing from the juice factories that they're not accepting more fruit, and when that happens, you're effectively stopping the packhouse. Some growers still have grapefruit on the trees; they've got to finish up to make way for oranges and soft citrus, but the juice factories aren't accepting more."

He explains that U.S. tariffs diminished juice concentrate exports, hence juice factories have inventory for the next 18 months.

"When we were up in Limpopo the week before last, I saw holes being dug for unwanted fruit. That's the reality. Three years ago the juice price was R4,500 to R6,000 [€ 319] per tonne of Valencias, now you'd be lucky to get R800 [€ 42.60] a tonne."

South Africa has a very large orange crop, but the market is in conservative mode, remembering how it ended last year, he says, when quite a bit of money was lost on the late orange crop.

"We don't see how we'll be free from Egyptian oranges in the Middle East before the end of August. We are worried by the prospect of a global oversupply of citrus. When the Northern Hemisphere has a good harvest, we'll definitely be in a position of oversupply, and then it will all come down to how tight your control is over expenditure on the farm. It feels to me like the overlap between the Northern Hemisphere and South Africa's early product becomes greater and this could take away our competitive edge."

Mandarin window moves later

© FruitOneAt one stage they'd been anxious about the effect of the heavy precipitation – a thousand millimetres over two months – on the internal quality of their Tango mandarins but so far, so good. They're just past the halfway mark, and there are high tonnages on the trees, he says.

"We would have liked to see higher packouts, but the internal quality is fine. The season is two to three weeks late, and the window has moved on."

Right: FruitOne packs Tango mandarins for ten weeks of the year.

"The export price is probably a little bit lower than last year. We're hoping the tonnages will make up for it. The bad thing, though, is the juice sector: two years ago, mandarin juice price nicely floated up with the orange juice price, but it's certainly come down again. When you don't have a high packout percentage for exports, it makes mandarin farming very difficult. The local market and juicing pay for the input costs, but the profit you make through exports."

They need to enlarge the exporting segment, and the obvious place to look is Africa.

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