FROM THE DESK OF THE CEO (05/09)

Justin Chadwick (6 February 2009) *Citrus Growers Association (CGA)*

QUOTE OF THE DAY: "Knowledge is of no value unless you put it into practice" Anton Chekhov

GREETINGS FROM FRUIT LOGISTICA IN BERLIN

What an impression South Africa has made in Berlin at Fruit Logistica!! This has to be the best South African stand ever – with the aid of DTI money Stuart, Michelle and their team have put together a stand that sends out a statement that South Africa is a leader in fresh fruit exports – well done!!

Having attended meetings of Freshfel, SHAFFE, CLAM and a global citrus gathering the same theme is coming through. Firstly, caution regarding trading into Russia. Many traders are reporting difficulties in getting payments and the wise move is to get as much paid up front as possible. An interesting bit of history – in the 1980's Spain used to export to Russia and the then East Germany; the payment terms were that they would get paid in two years after delivery of their fruit, the exporter getting a letter of credit underwritten by the Russian and East German governments respectively. Spanish banks accepted this money as secure and advanced these traders on the basis of the letter of credit. BUT things are different now. Firstly, governments no longer underwrite trader's credit – in fact in Russia the government bail out plan reportedly covers only four of over a thousand Russian banks. Secondly, it is doubtful if any bank is going to risk funding on the basis of a Russian letter of credit. It is worrying that some traders are demanding less up front payments (and in some cases reports of commission sales into Russia). Admittedly Russia is now an important market for South African citrus (last year absorbing close to 10 million cartons) – but the risk of lenient payment terms just is not worth taking.

Secondly, market conditions are not all doom and gloom. In fact lower prices in European markets are more due to sizing problems than reduced consumer spending. It is reported that 70% of Spanish fruit is out of the popular count range and should not really have been on the domestic market. The fruit that is of the right size is actually selling well and at good prices. Consumers have changed to "dining in" more, and this is good news for most of the fruit and veg sector, possibly with the exclusion of lemons where the restaurant and bar trade are more important. In assessing the reasons for the smaller sizes out of Spain two theories are put forward. Definitely climatic conditions had a major part to play – but many claim that changing legislation also played a part. For the first time this year processing prices in Spain were not underwritten by the government, and as a result fruit that would have been processed (at government subsidized rates) found its way onto the domestic market. Processing returns were very poor, not covering costs of production.

There is also a feeling that the fantastic lemon market of 2008 may not be a complete aberration, and that a good southern hemisphere lemon season may eventuate in 2009. This is put down to increased demand from the processing sector, and northern hemisphere volumes that have not recovered completely (CLAM volumes for 2008/9 are estimated at 773 000 tons, still less than the 897 000 tons of 2006/7). Eric Imbert of CIRAD in France (a research institution) made an interesting presentation on the global lemon market – one of his take home messages was the increased demand for lemons with no post harvest treatments, and the growing preference for seedless lemons.

On the soft citrus front it would seem that southern hemisphere Satsuma's may be in short supply. The major suppliers of Satsuma's from the southern hemisphere are South Africa, Peru, Uruguay and Argentina. With the South American countries all experiencing inclement weather, they are forecasting up to 30% less Satsuma volumes in 2009.

With the Mediterranean (CLAM) countries now nearing the end of their season the export predictions are becoming more reliable – with soft citrus they anticipate 2,35 million tons; compared to 2,11 in 2007/8 and 2,48 in 2006/7. Orange exports are predicted to be 3,12 million tons; compared to 2,95 million in 2007/8 and 3,14 million in 2006/7. Lemons are expected to make export volumes of 773 000 tons; compared to 632 000 in 2007/8 and 897 000 in 2006/7. Grapefruit exports are predicted at 255 000 tons, compared to 275 000 tons in 2007/8 and 282 000 tons in 2006/7.

In summary – CLAM countries predict increased export volumes (except grapefruit) as compared to last year, but still below the 2006/7 levels.

Another topic of interest was exchange rates – with South Africa and Argentina experiencing bigger devaluations than the other southern hemisphere countries. This may be of some short term advantage. There was concern expressed regarding devaluation of the pound. Some pundits are predicting that it will reach parity with the Euro, obviously decreasing the attractiveness of the UK market in comparison to EU destinations.

Most people remarked that Fruit Logistica is less crowded than previous years – it could be due to the changed format of the show (from Thursday/Friday/Saturday previously to Wednesday/Thursday/Friday this year), but it could also reflect the prevailing economic conditions, with less people willing to take the journey to Germany. It will be interesting to see attendance statistics after the show.

For sure South Africa was well represented at this year's show, and plenty of engagement took place.

CGA ROADSHOWS

Please check on www.cga.co.za for the dates, times and venues for this year's road shows.

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