FROM THE DESK OF THE CEO (1/12)

Justin Chadwick (13 January 2012)

QUOTE OF THE WEEK "Don't sweat the petty things and don't pet the sweaty things" - George Carlin

2012 – WHAT DOES IT HOLD IN STORE

This being the first newsletter of 2012 I would like to wish all a prosperous, happy and peaceful 2012.
Unfortunately it looks like the challenges faced in the past year will be with us again, along with some new challenges. Reports out of Europe for the northern hemisphere citrus industry indicates that difficult marketing conditions have continued – Spanish citrus growers in particular have reported returns that do not cover costs and sluggish demand. This also seems to be the case for the southern hemisphere grape industry. News reports also indicate that the key German economy actually shrank in the last quarter of 2011 – so the economic woes in Europe continue, and the likelihood of any changes before the 2012 citrus season gets into swing are highly unlikely.

The rand exchange rate has shown some weakness in the latter part of 2011, but volatility continues and with concerns about the economy in the US and EU continuing there is uncertainty regarding movement in 2012. Continued tension between the US and Iran, as well as unrest in the Middle East means that the oil price is likely to remain high, and perhaps go even higher. This will have an influence on already high transport and shipping costs.

There are other logistical challenges likely to arise in 2012 – the port of Durban is going through some upgrading which will mean less capacity and more congestion. Planning is needed now to divert fruit to other, less congested ports. In addition, labour unrest is likely as expectations of above inflation wage increases will probably not be realized. This could disrupt activities at the ports. Alternatives need to be explored.

Biosecurity issues will also need attention. Although eradication of the new invasive fruit fly has been successful, there is a strong probability that it may appear again. Vigilance and immediate action is needed. Attention will also be needed to ensure that CBS and FCM control measures are applied correctly and completely – there is no room for compromise.

Citrus growers around the world are facing similar conditions – reports out of Uruguay, Argentina and Australia all indicate that profitability of citrus farming in the southern hemisphere is questionable. Those who have more profitable alternatives are taking out their orchards; those who do not have alternatives are either exiting the industry or cutting corners to survive. Likewise northern hemisphere citrus growers are feeling the pinch of returns not covering costs – even though many of these growers receive considerable support from the state.

In a recent media statement the president of Horticulture New Zealand, Andrew Fenton stated the following "Enough is enough and it is high time margins were challenged at the store because worldwide the grower is being forced out of business by the greed of fresh produce retailers". We all know what corporate greed in the banking sector did to the world economy, could corporate greed by fresh produce retailers lead to a collapse at grower level, leading to food shortages and widespread rural poverty? Food is incredibly cheap for the consumer in the developed world, as evidenced by the high level of waste and growing waistlines. But what would happen if growers demanded the same sort of returns that the fresh produce retailer does? What would happen if the grower insisted on 25 to 30% return on capital for his/her investment in the business? Would the retailer be prepared to pass a little bit more back to the primary supplier to secure supply for the future? There seems to be a common voice amongst primary suppliers that "enough is enough" – and that returns will have to improve.

On the positive side a recent study by the NAMC shows that three citrus sectors in South Africa are included in the category "winners in growing sectors" – defined as "products that have gained market share while the world market has grown for the period 2006 to 2010". Lemons lead the way with a 9% annual increase in market share where world imports have increased by 11% annually; oranges have increased market share by 7% annually where world imports have increased by 7% annually. Mandarin market share has increased by a modest 1% per annum where world imports have increased by 10% annually. Grapefruit does not make this category, with falling interest in this sector.

A further positive is that arrangements for Thai officials to visit the South African citrus industry in March have been finalised, which should pave the way for access into Thailand during 2012. The amendments to the South Korean protocol to include lemons and grapefruit are also at an advanced stage.

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ENSURE A GLOBALLY COMPETITIVE SOUTHERN AFRICAN CITRUS INDUSTRY**