

# season update

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## PROCESSING – JANUARY 2006 REPORT

The Australian juice industry starts the New Year faced with continued competition from overseas suppliers and a weak retail sector in terms of both value and volume. Nevertheless, the surplus of fruit from the current 2005/06 harvest has at least increased margins for processors compared with last year.

The bumper crop has helped to reduce Valencia contract prices to \$200-240/tonne this season, from \$280-300/t during the 2004/05 harvest.

Fruit juice ratios have now reached at least 14° in all growing regions and some processors claim to be crushing fruit with ratios as high as 18°. Ratios are expected to climb marginally over the next few months and then remain stable or fall until the 2005/06 Valencia harvest winds up in June/July.

Juice blenders are now negotiating contracts with the processors for the next six months. Industrial not-from-concentrate (NFC) uptake is apparently slightly up on last year, while demand for local concentrate is lower.

Australian NFC juice is offered at \$0.50-0.55/litre SSE, compared with \$0.65/litre last year.

Offers for overseas NFC juice are as high as \$0.90/litre due to the cost of shipping the high water content.

### Concentrate

Since December, domestic Valencia fruit has been cheap enough and had a high enough ratio to be processed into concentrate as an import replacement.

While most of the larger processors either have enough carry over of concentrate from last year or simply refuse to deal with the unpredictable nature of the Australian Valencia spot market, some of the smaller processors have reportedly been speculating that running fruit into concentrate is a good idea.

The current spot price for Valencia fruit is around \$80/tonne, but there are rumours that processors in the Riverina region are buying up Valencia for as low as \$40/tonne and putting it to concentrate in the hope of some sales at a later date.

Moreover, processors in the Murray Valley region state that they are now crushing as much Valencia fruit into concentrate as NFC.

### Outlook

The main focus on both sides of the industry is clearly the abundance of fruit.

There are concerns that those growers that have not signed contracts could be in trouble.

The growers are reportedly not being properly rewarded for their produce and at the same time the processors are not making money.

“Through the AFJA (Australian Fruit Juice Association), both the growers and the processors need to work much closer in the future so we get a clearer understanding of the volume of fruit available and the volume that is needed,” suggested one processor. “No more cloak and dagger stuff, we need to be open and honest on both sides – if there is going to be a bumper harvest then the processors need to know so we can manage the season as one industry.”

## **Overseas**

The bullish market price for concentrate out of Brazil, the key foreign supplier to Australia, has only marginally stemmed the supply of juice from there.

Offers from Brazil are now seen as high as \$US1,800-2,000/t 66 brix delivered to Australia.

In local terms this is still very cheap at \$0.30-35/litre, compared with Australian concentrate at \$0.45-0.50/litre.

While there are consumers that are prepared to pay a premium for Australian juice, the majority are just looking for a tasty juice, say processors.

“If you don't feed that demand with the cheapest product possible, then the supplier next to you will,” explained one local processor.

## **Retail**

Juice consumption is reportedly weaker than at the same time last year, which the industry attributes to a lack of promotional funds last year and the capped price of juice in the large retail chains.

The expensive raw material prices last year meant that margins were extremely tight for processors and thus the opportunity for promotional campaigns were apparently out of the question.

“In spite of the cheaper fruit this season, we are still in no position to budget for promotions,” explained one of the major Australian juice producers. “We had to absorb the high costs of Valencia fruit last year and now we are just looking to recoup. If these cheaper prices carry on for a couple more years then, yes, there will be the opportunity to promote orange juice, but for the moment the processors feel like they are being squeezed in the middle. The pressure from growers is usual, but the buying power of the supermarkets today... well, it's an unlevel playing field.”

## **Business**

While not new news, National Food's acquisition of Berri and Coke's attempt at making inroads to the Australian juice market with 'Fruitopia' is now starting to concern some processors.

It is the strong distribution system that both of these companies have that could herald a new challenge for the traditional juice industry.

Both companies already deliver significant quantities of products to the smaller retailers, such as the petrol stations and milk bars. These outlets account for a marked share of retail sales, particularly in terms of value.

“Both companies are already dropping off Coke or milk - so it's easy to drop off a case or two of juice at almost no extra cost. So they have a distribution advantage,” commented one processor.

Nevertheless, Coke's distribution is mainly ambient; there is little or no chilled distribution. Moreover, National Foods have been distributing chilled juice to these outlets for at least four years now. So it is questionable whether these factors will have an impact on the Australian juice market in 2006.

*Source: Stefan Worsley, [www.juicemarket.co.uk](http://www.juicemarket.co.uk)*