

# Orange juice

Fever!

The price of concentrated orange juice hit record-breaking levels once again at the beginning of December, exceeding 200 cents per pound. Such prices had not been observed since the early 1990s. The speed of the rise was as exceptional as the figure reached, as some two years ago frozen concentrate changed hands at less than 60 cents per pound on the New York futures market. Physical transactions have displayed the same pattern. Concentrate at 65° Brix from Brazil fetched USD 400 to 450 before the 2004 hurricanes and was available at USD 2200 to 2300 in October 2006.

This new leap in prices is related to the third particularly small crop running in Florida, the region that shares with Brazil more than 85% of the concentrated orange juice market. Production of some 140 million boxes of fruit is expected in 2006-2007 in contrast with an average of 225 million since the beginning of the 2000s. However, there have been no direct losses as a result of hurricanes this year.

### Florida in difficulty

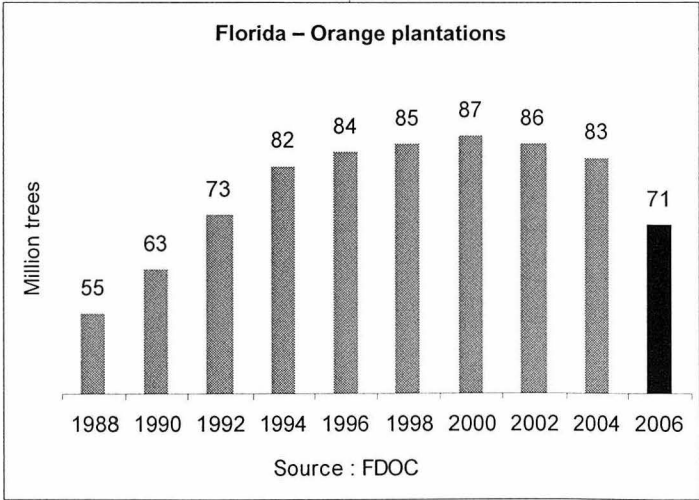
This further poor performance results from deep-seated problems already described at length in *Fruitrop*: renewed outbreaks of citrus canker after spread by the 2004 and 2005 hurricanes, greening and pressure on farmland from developers. The last agricultural census (2006) leads to considering that production will not recover rapidly. The planted area has decreased considerably with only 71 million trees today in comparison with 85 to 87 million at the beginning of

the decade. Thus, assuming a yield of 2.5 field boxes per tree, production should not exceed 180 million boxes.

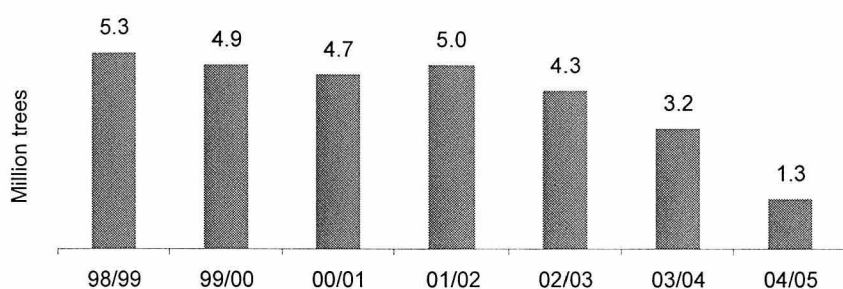
This is a comparatively optimistic scenario. Productivity has decreased considerably in recent years (2.4 in 2004 and 2.0 in 2006) and may well dip further in the medium term as a result of current sanitary problems. This production level can probably be considered to be the ceiling for the coming years. The most recent replanting figure available (2005) are hardly any more optimistic. The number of trees planted has fallen from 5 million per year before the hurricanes to 1.3 million in 2004-2005. Nevertheless, this figure probably reflects a shortage of seedlings as nurseries sustained hurricane damage.

However, even if growers decide to replant on a massive scale—and this remains to be seen in the

light of the strong pressure from developers and the demobilisation of many producers—the harvest would not increase for a number of years. Firstly, seedling availability will be limited until early 2008 at the earliest in the July 2006 opinion of Mr Meyer of the Florida Department of Agriculture. A fair number of nurseries are still operating at a reduced rate, especially as some professionals in the sector have decided to shift their production activities to areas in the northern part of the state that are less exposed to hurricanes. Furthermore, it takes an orange tree five or six years to become truly productive. It is therefore difficult to imagine production increasing beyond the 180-million-box ceiling mentioned before 2014, and it is reminded that this is an optimistic scenario that does not allow for potential losses resulting from greening and canker.



Florida – Annual replanting of orange



Source : B. Citrus Budwood

## Mixed feelings in Brazil

Can Brazil make up for the Florida deficit of about 45 million boxes in the short term? It would seem that it cannot. The situation is not simple in Sao Paulo state, where the great majority of orange plantations are to be found. After a decade of growth in the 1980s, production stabilised at about 350 million boxes.

Firstly, the sanitary situation is nothing to write home about as canker, greening, variegated chlorosis and sudden death disease are all present. Crop treatment and replanting have a marked effect on the production costs already penalised by exchange rates and inflation.

And then alcohol is doing considerable damage! Growers are increasingly tempted to replace their orange trees by sugar cane. Increased oil prices mean that demand for ethanol is very strong, especially for use as fuel for vehicles. The area devoted to sugar cane increased by 25% from 2001 to 2005, that is to say an extra one million hectares, and the trend shows no signs of faltering. Forecasts for demand for alcohol reveal an increase of about 65% by 2011, that is to say growth of more than 10 billion litres.

However, even using USDA's most optimistic scenario in which this competition is not taken into account, 400-million-box Brazilian production needed to make up for the Florida deficit will not be reached before 2014.

## Room for Mediterranean production

Mediterranean producers should take this new market context into account. Processing is not the main aim in most Mediterranean producer countries as they specialise in fresh citrus. However, it is an important tool for the regulation of the fresh fruit market. Numerous studies show that orange production is growing distinctly faster than consumption. Some countries are markedly under-equipped in processing facilities (Morocco, Turkey and Egypt). It would seem to be the moment to

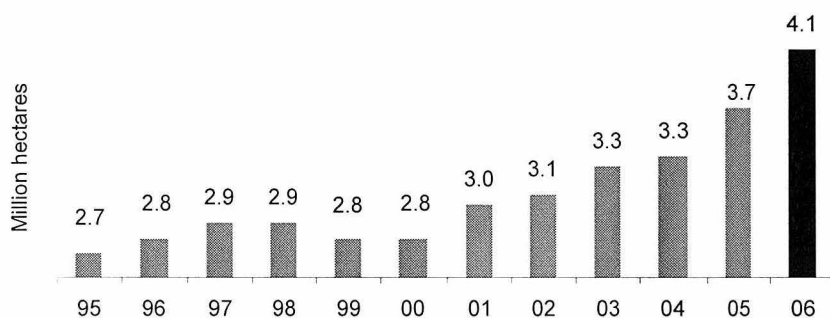
invest as the world market context provides certain guarantees of good price behaviour for at least the next seven or eight years.

## Keeping an eye on demand

However, trends in demand should be taken into account too as retail prices are rising noticeably. The price of grapefruit, whose production is also decreasing strongly as a result of the sanitary situation in Florida, has increased by more than 20%, causing a fall in demand of more than 30%. The decrease is less marked for orange. In the United States, the price increase of some 15% from October 2005 to October 2006 caused a 10% fall in sales. Emerging markets, such as China with increasing imports of some 60 000 tonnes in recent years, should also be watched.

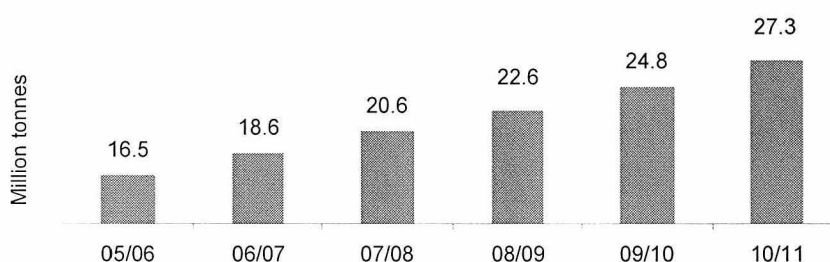
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Brazil – Increase in area under sugar cane



Source : IEA

Brazil – Alcohol market prospects



Source : Copersucar