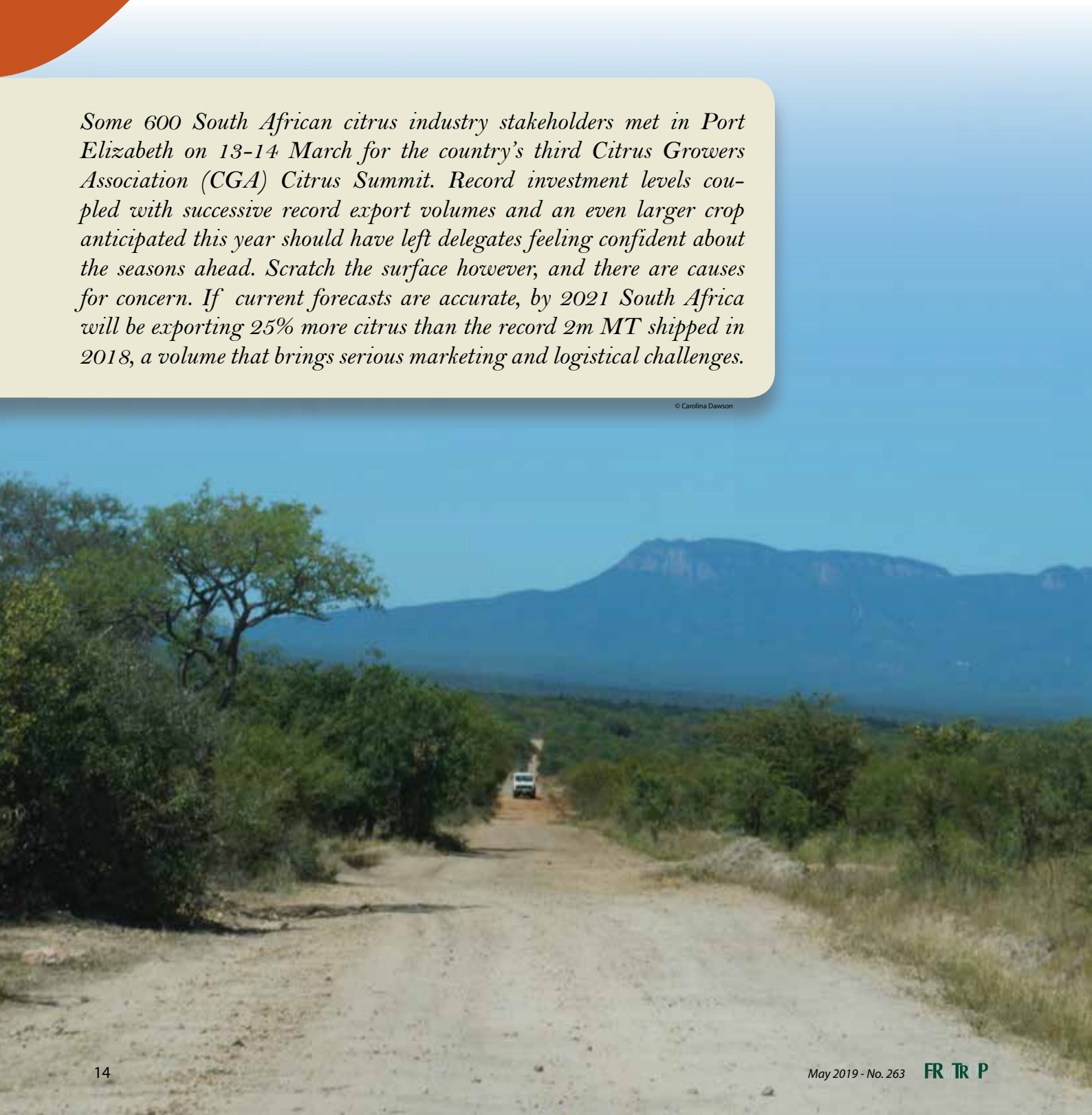
South African citrus industry braces for headwinds

Some 600 South African citrus industry stakeholders met in Port Elizabeth on 13-14 March for the country's third Citrus Growers Association (CGA) Citrus Summit. Record investment levels coupled with successive record export volumes and an even larger crop anticipated this year should have left delegates feeling confident about the seasons ahead. Scratch the surface however, and there are causes for concern. If current forecasts are accurate, by 2021 South Africa will be exporting 25% more citrus than the record 2m MT shipped in 2018, a volume that brings serious marketing and logistical challenges.



While the theme for this year's biennial CGA event was 'growth and inclusivity' with a focus on Black Economic Empowerment (BEE), it was clear early on that the immediate commercial issues lie elsewhere. The most significant of these is volume related: in absolute terms, by 2021 South Africa will need to sell 500K MT more fruit than the record 2m MT it shipped in 2018 – from another perspective, global markets will have to absorb this additional volume. And while the increase in itself presents a singular challenge, that so much of the increment is made up of lemons makes the task that much more difficult.

The other inter-linked commercial priority for the industry is market access: Chair of the session on Black Grower Development Pieter Nortje made the point that unless or until the South African government gives greater precedence to new trade or phytosanitary agreements, the country's citrus shippers run the risk of being locked into a series of value-destructive, zero-sum-game market share battles. He said that once downstream market access issues are cleared, not only will there be greater opportunity for profitable growth, but also that many of the Government's concerns over BEE will resolve themselves.

Too much lemons and mandarins?

One of the reasons why so much land has been planted with mandarins and lemons is that the per-hectare returns over the past 5-8 years have been high. In contrast to the orange and grapefruit categories, where interest is respectively stable and in decline, the global demand for lemons and soft citrus varieties continues to rise. A South African producer will choose to invest in planting one or the other depending on crop yield, water availability and local predisposition to disease. In the Western Cape for example, there is an ongoing switch from less profitable, cost-intensive wine grapes to mandarins. What has also driven the expansion of the citrus crop is that re-investment in the land is tax-efficient.

The allied concern for the industry is the ANC Government's push to expropriate and re-distribute land. The thinking is that if the Government is prepared to pay a fair price, then the greater the value of the land, the higher the 'expropriation yield' to the sitting landowner.

The specific issue with lemons meanwhile is demand elasticity. Unlike the relatively demand-elastic soft citrus varieties, which are taking share of retail shelving away from oranges and grapefruit, lemons are demand-inelastic. Lemons do not belong in the impulse purchase category. The fear is that unless there is some market assistance for lemons, a structural oversupply without the requisite industrial processing ability for any surplus could leave South African lemon producers exposed, even if much of the new volume is targeted at rapidly growing Asian markets.

Faced with such a conundrum, how can the industry leverage such support? In his opening address, CGA Chair Ben Vorster made the point that the industry is stronger together. Indeed, despite the fierce rivalry for share in international markets, there is a palpable sense of family among stakeholders who use the biennial gathering to celebrate 'citrus industry legends'. There is growing acknowledgement for the need of some kind of unifying mechanism behind which the industry can rally. A single national brand proposition à la Jaffa is perhaps the most obvious solution?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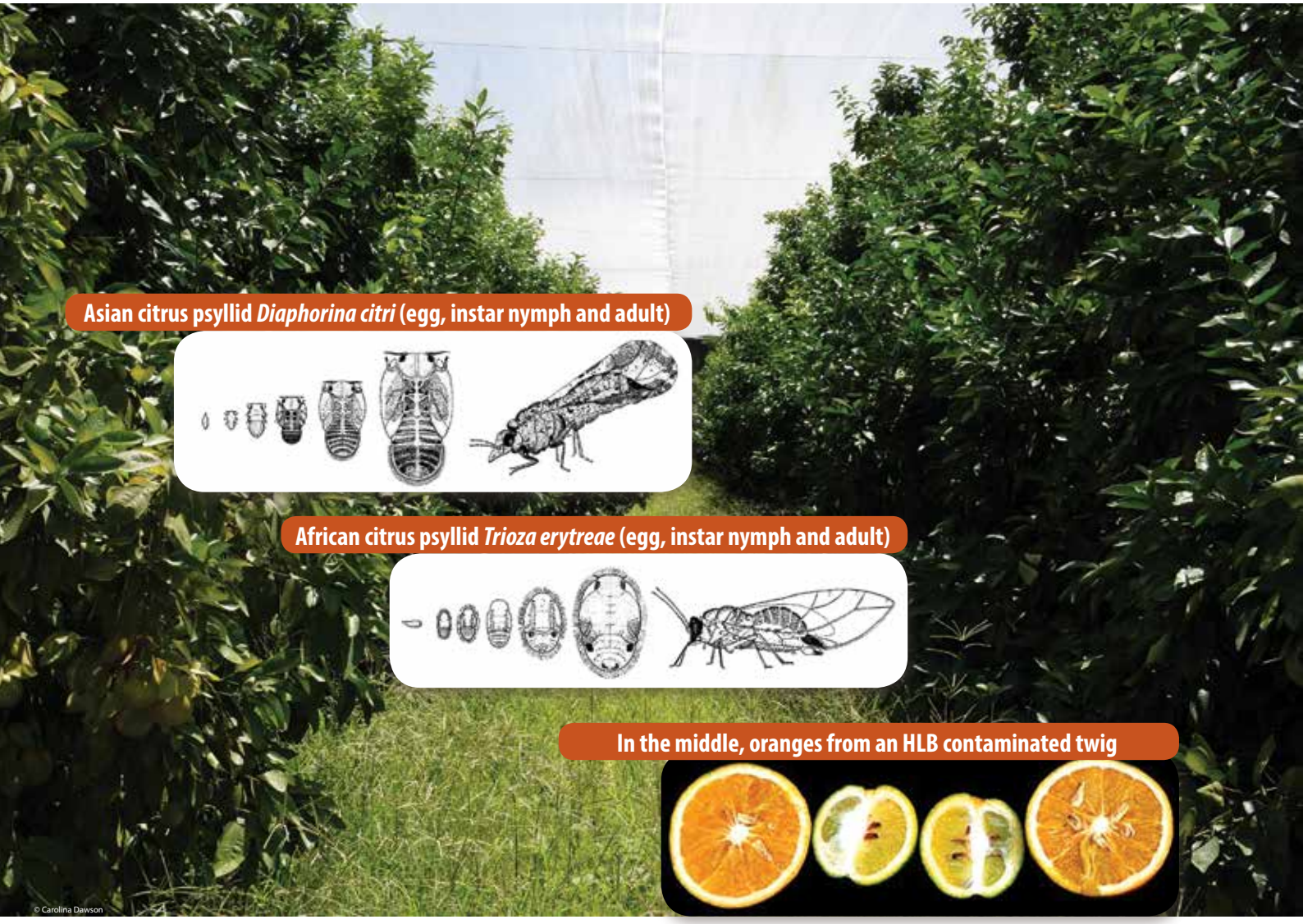
Huanglongbing threat

Going forward, conference delegates heard that they face two other threats, the first of which is potentially existential. CEO of Citrus Research International Dr. Vaughn Hattingh gave a sobering assessment of the likely damage to production across southern Africa caused by Huanglongbing (HLB), or yellow shoot disease. Most worryingly, he said that the spread is a matter of 'when' rather than 'if', and the best the industry can do in preparation is to plan for containment.

From the non-scientist's perspective, one might view HLB as bearing some resemblance to the Psa-V disease that so devastated to New Zealand's Gold kiwifruit crop. However the nature of how the disease spreads makes HLB more of a malaria/HIV hybrid. This is also why it is so hard to combat – there is currently no cure for any of the above. Prevention therefore is the only current solution.

The bacteria that causes HLB is transmitted by psyllids – however, like mosquitoes and their relationship with the transmission of malaria, psyllids are just vectors for the disease. There are three kinds of psyllid vectors: African, American and Asian. The African citrus psyllid is already present - however it is heat-sensitive and therefore less of a danger to citrus crops. The Asian citrus psyllid however is both heat resilient and a strong flier. Herein lies the problem: HLB is already present in eastern Africa! Dr. Hattingh forecasts that the psyllid will either enter South Africa via range expansion southwards or via illegal point incursions on citrus, ornamental or curry leaf plant imports.

What makes preventing the spread of the disease so difficult is that the HLB pathogen may be hosted in infected plants for several years before the plant shows symptoms. An Asian psyllid 'visit' to feed on infected material will collect the inoculum and transfer it onwards, in much the same way that malaria spreads. The bio-hazard for the industry is that the HLB pathogen agent may already be 'sleeping' somewhere in southern Africa, waiting to be activated by a passing vector psyllid! Dr. Hattingh says the industry needs to prepare itself and an HLB action plan is indeed already well developed for roll-out and implementation.



Reefer logistics changes

Finally, although the changes imminent in domestic and international reefer logistics may not pose such an existential threat, they are likely to have a short-term impact on the viability of South African citrus shipping operations unless significant changes are made. Locally, the industry is already struggling to manage the operational demands in the Port of Durban, which last year registered throughput of 1.1m pallets of citrus, more than half the total number of pallets shipped. Levels of congestion and a shortage of coldstore capacity during the June/July/August seasonal peak have both compromised shipping schedules and fruit quality.

The CGA's Logistics Development Manager Mitchell Brooke has developed a detailed 6-point plan to confront the issues faced by the industry ahead of and during the transformation period. Among other far-sighted recommendations, the plan, which has been endorsed by industry stakeholders, includes the following: channeling heavy volumes of fruit from the northern production regions through the Mozambican port of Maputo: routing the up-to 300,000 pallets of citrus that do not require pre-cooling from the City Deep hub depot in the north east to Cape Town in the south west on the Gautrain Cool Rail project: encouraging the use of specialized reefer vessels to offset the growth in container shipments to China, reduce cold storage operational issues in Durban and materially reduce overall demand for reefer containers.

Under the circumstances, the CGA may find its final recommendation the most difficult to implement. By 2021, the 2.5m MT of South African citrus exports will represent the largest global seasonal reefer shipping programme. However this increase in volume coincides with game-changing cost increases in the reefer supply chain and the likely disappearance of the specialized mode as an alternative to the third party container carriers for South African citrus shippers.

At the start of 2019, the average age of the reefer fleet was 28 years. Investment in newbuildings has either taken place at the very largest end of the segment (Cool Carriers and Star Reefers) or in the small/handysize segment. It makes no commercial sense for either large or small newbuilds to be deployed in seasonal fruit programmes. The large units will ply the Latin America banana trade into Russia while the small units are anyway specifically designed to be fish carriers.

The coup de grâce for the specialized reefer mode will likely be the adoption of the IMO's sulphur cap on 1 January 2020. While the reefer has demonstrated that it can defend market share in a straight fight on service levels, it will not be able to compete with the carriers on cost. The containership fleet is newer, more fuel-efficient and much larger. Under commercial pressure, carriers may need to be flexible and absorb a share of the sulphur cap cost increment, a luxury that the reefer mode cannot afford. As long as the low sulphur/high sulphur (LSFO/HSFO) premium stays close to the current 50%, the reefer mode will need to implement possibly punitive Bunker Adjustment Factors (BAFs) for it to survive. This will drive shippers into the arms of the carriers unless they too can secure similarly large price concessions from their customers.

Shippers should be equally concerned with the associated issue of reefer container capacity. Given that the specialized reefer is somewhere between 7-8 times more capacity-efficient than the reefer container, if the entire reefer fleet were to become extinct overnight, there would need to be a massive increase in the manufacture of reefer boxes over a similar time frame to replace the loss. This would be possible - there is enough latent production capacity in China to accommodate such demand, while there are also enough reefer slots in the container fleet to move the containers. However the carriers and reefer lessors will need substantially more of a financial incentive to scale up their investment than current reefer rates allow. If not, a severe reefer capacity crunch is inevitable.

This watershed moment in reefer shipping comes at an inopportune time for South African citrus shippers. Indeed, if the above analysis is accurate, reefer shippers worldwide face uncomfortably bumpy and more expensive voyages for the next 2-3 years and possibly beyond ■

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