Pineapple 2016-17 sea-freight campaign

Industry once again facing its old demons

As mentioned in previous articles, the cyclical fall in the Costa Rican Sweet supply over the past two campaigns, and the consequent rise in average rates, unfortunately have not ushered in the structural changes needed in terms of production and planning to guarantee in the long term the particularly high price levels of recent years. Once the conjunction of favourable factors ends, or unforeseen constraints arise, the miracle will fade away and the pineapple industry will very easily slip back into overproduction, the repercussions of which we know all too well.

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As a reminder, over the past two campaigns, average rates have risen steeply, especially due to the fall in the fresh pineapple supply to the markets. This fall was primarily due to the storms seen by Costa Rica two years in a row, which affected production. On top of this came very strong demand from the juice industry, which in the face of a fruit shortage, was prepared to pay fairly high sums to claw back as much fruit as it could for manufacturing purposes. Finally, we need to take into account the euro/US dollar exchange rate, which has often made the European market attractive for Latin American exporters.

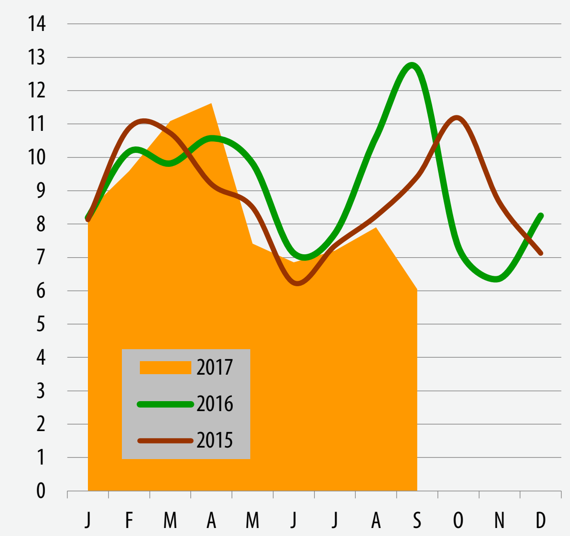
Only some big operators have realised the benefit of structuring their supply in order to scale it back and obtain better economic returns. The rest have let nature take its course, waiting for things to sort themselves out. Hence Costa Rican producers seem to have restarted their production race. After the losses sustained due to the storms, they have launched into planting, and are already predicting for the 2018 and 2019 campaigns an increase in their supply, with 15 to 20 % up on 2017.

In the short term, the increase in the Costa Rican supply will come in a context of distinctly lower demand. Since the natural flowering which took place in 2017 (week 18), the juice industry has had no further fruit shortages – quite the contrary. The high availability of fresh pineapple affected the rates paid to producers by manufacturers. Hence they saw the lucrative prices they had been paid drop by 80 %, going from 0.37 USD/kg to just 0.07 USD/kg in less than five months!

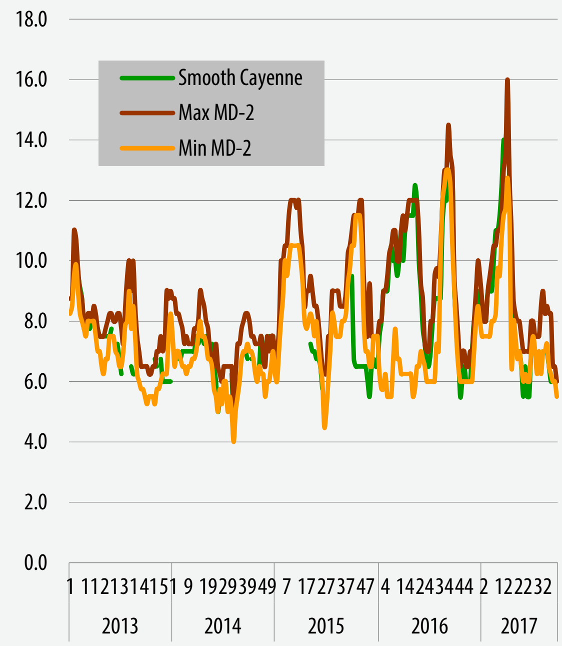
Nonetheless, Costa Rican producers, far from drawing the lessons from these changes, are continuing as in the past to overload the European market, especially because of the euro rallying against the dollar. They are refusing to reduce their exports, counting on earning better value in Europe than on the North American market, even though sales on the European market are currently being made at below cost prices. So the pineapple market will once more face periods of uncertainty and low rates for several years, unless a new outlet renews the hand on the international market (see inset).

After two practically exceptional campaigns, during which average rates fluctuated between 7.00 and 9.00 euros/box (2014-15 campaign) and between 8.00 and 11.00 euros/box (2015-16), we are gradually heading back toward rates in line with the last decade, situated instead at between 6.00 and 8.00 euros/box depending on the time of year.

Sea-freight Costa Rican Sweet pineapple - Germany Import price (in euro/box / source: Thierry Paqui)



Sea-freight pineapple - European Union - Import price
(in euro/box per week / source: Thierry Paqui)



The campaign over the months

From October to December 2016 (weeks 40 to 52), the pineapple market was quiet. True, this is often a complicated time of year. Hence over the past two campaigns, pineapple sales for the end-of-year holidays have toiled rather. However the market saw new levels of flatness in late 2016, with several batches offered at post-sales prices. The Costa Rican supply continued to rise, while the market had no interest in the fruit. While the course of Hurricane Otto spared the origin's production zones, the floods that it caused prevented several ships from loading their cargo. So the market received less fruit for around ten days before Christmas, enabling it to absorb the outstanding batches. Demand, without being high, rallied and prevented a sharper drop in rates, to between 6.00 and 8.00 euros/box (excluding post-sale prices).

At the beginning of the year, the heavy rains in Costa Rica limited its export capacities. Demand, although quiet, was nonetheless greater than supply and the market maintained a positive trend until late February (week 8), with high though reasonable average rates of between 8.00 and 11.00 euros/box.

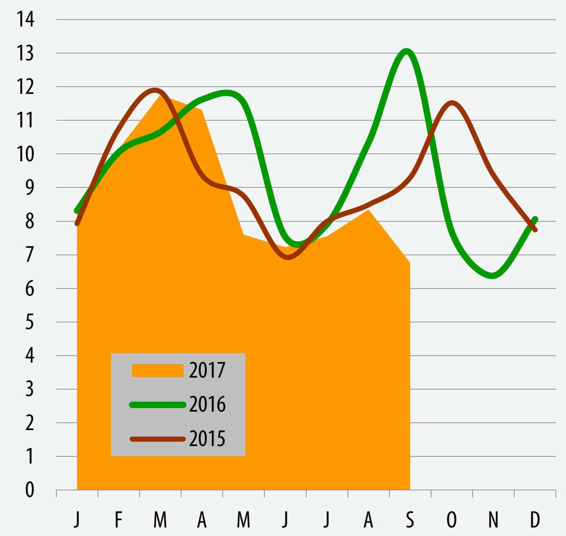
In late February, operators received confirmation that the overall Sweet supply was well below demand, at least until Easter. On top of the lack of availability came various shipping delays which accentuated the impression of under-supply for some weeks. We might also mention the juice and canning industries, which contributed to limiting fruit availability for the export market. So prices soared on the European market, giving rise to speculative sales before Easter (week 15). Average rates were between 10 and 14 euros/box, with sales sometimes at distinctly higher prices (18 euros/box).

Before Easter, the fall in the overall supply helped the established brands charge high rates over a fairly protracted period. Yet these brands had undertaken a structured approach to bring down their supply in order to strengthen their prices. Many small brands also took advantage of the paucity of the overall supply, selling at prices never hitherto attained.

The shipping delays in week 15 led to a swollen market after Easter, when demand was ebbing. A spell of fairly steep falls in rates set in, intensified by the increase in Costa Rican volumes. In late April, a larger Costa Rican supply was announced for the coming weeks, because of the natural flowering phenomenon.

The situation on the pineapple market started to deteriorate from weeks 18 to 20. The start of the natural flowering phenomenon led to an influx of volumes onto the European markets. This supply, highly unbalanced as it

Sea-freight Costa Rican Sweet pineapple - Belgium Import price (in euro/box / source: Thierry Paqui)



comprised small sizes (9 and 10) in little demand, really struggled to sell. Demand was above all captured by seasonal fruits available in abundance and at highly attractive prices, which made marketing the Sweet batches a little more complicated. The fall in average rates, which fluctuated between 7.00 and 8.00 euros/box over this period, failed to revitalise demand.

Despite attempts to scale back imports, the Costa Rican supply, still affected by the natural flowering phenomenon, continued to weigh down on the European market. Over weeks 21 to 25, average prices fluctuated between 6.50 and 7.00 euros/box. The high temperatures prevailing at the time rather boosted demand for seasonal fruits to the detriment of the pineapple. The announcement of the natural flowering period ending sooner than expected raised hopes of a considerable fall in the supply, and operators started dreaming of higher average rates during the summer.

While the Costa Rican supply fell throughout the summer, this was in no way comparable to what the market experienced during summer 2016. So it did not contribute to an improvement in the market conditions, as might have been hoped. Despite the general fall in the supply, certain operators continued to receive fairly steady volumes. The summer fruits supply, distinctly higher than in 2016, was also available at low prices. Hence from weeks 26 to 34, the Sweet supply was smaller, though it was not lacking. Average rates were between 7.00 and 9.00 euros/box, whereas the previous year they had fluctuated between 8.00 and 13.00 euros/box! In the absence of real demand, sales were slow and hesitant, and certain operators resorted to post-sale prices to prevent stocks from forming, while the overall supply remained fairly limited.

Without actually increasing, the return to steadier volumes from week 35 on the European market, while demand remained flat, very quickly sent the market tumbling. Given the lack of interest in the fruit, operators decided to use prices as a lever to facilitate sales. Unfortunately, the fall had very little effect on demand or on sales. From weeks 35 to 39, the official average rates for Sweet fluctuated between 5.50 and 7.00 euros/box. Actual sales must have been less, since in September, the accumulation of stocks forced several operators to apply post-sale prices. The average price for certain sales will doubtless be below 5.5 euros/box, especially since at the end of the period, with the quality problems (fruits seeing rapid development), sale prices were rather open ■

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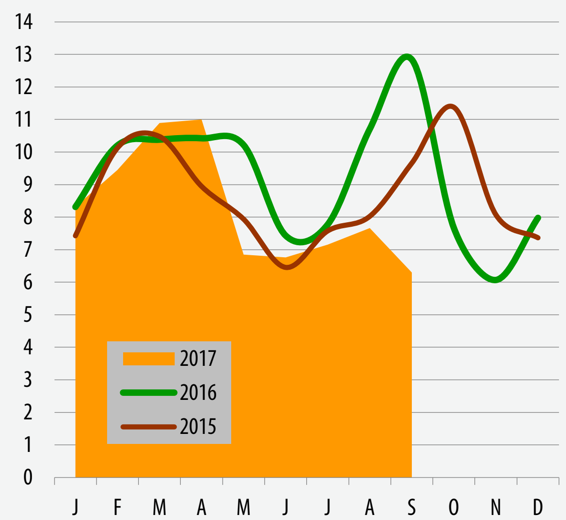
Sea-freight Costa Rican Sweet pineapple - Netherlands
Import price (in euro/box / source: Thierry Paqui)



Future of the European fresh pineapple market to depend on China?

Despite a slight fall in its exports to Europe over the past two campaigns, Costa Rica alone continued to account for more than 85 % of the supply to the European fresh pineapple market. Supply fluctuations, even slight, from this origin had an impact not only on the market's capacity to absorb the overall supply, but also on the price level and stability. Insofar as very few operators seem prepared to take the structural measures necessary to reduce and regulate fresh pineapple production in Costa Rica, we are entitled to ask whether salvation might come from elsewhere.

The current lifelessness of demand on the European market poses problems insofar as the operators seem to have very little leverage to force their Costa Rican partners to scale back their export volumes. This situation is made even more complicated by the good stability of the euro against the dollar, which is often driving exporters to favour Europe over the North American market, despite the latter being nearer the production zones.

During the last cast campaign, especially in week 38 of 2017, Costa Rican producers had to face short-lived but substantial demand for fresh pineapple from China. More than 2 500 pallets were shipped to this new market. At the time of writing, we do not know the results of this shipment, nor whether it was a one-off operation or a trial run designed to be repeated depending on the results.

The fact remains that the 2 500 pallets were not missed by the European market, already struggling to manage the surplus of stocks. Conversely, they helped ease the pressure on the market.

If shipments to China were renewed, this destination could rapidly become an important market for the fresh pineapple trade, probably redealing the hand among the market players. If this hypothesis were confirmed, there would still be nothing stopping Costa Rican producers from continuing their frenetic production race and flooding the market, which in the medium term would take us back to the current situation. However, that makes a lot of ifs…

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