

Securing markets for SA's expected lemon expansion

Against the backdrop of an expected increase in lemon production in South Africa, producers must take care to avoid the risks associated with oversupply.



BY WESSEL LEMMER

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Increased policy uncertainty, low economic growth and growing government debt could result in the risk of a further credit downgrade for South Africa by November.

Due to the possibility that the outlook may deteriorate further, the Reserve Bank kept interest rates unchanged during September, contrary to expectation of a further cut. The rand is expected to weaken to R13,90 by the end of the year and reach R14,50 by the end of the first quarter of 2018, R15,10 by the end of the second quarter, and R15,50 by the end of the third quarter.

FUTURE OF SA LEMON PRODUCTION

The majority of lemons produced in South Africa are harvested during the second and third quarters.

NEW VARIETIES THAT RIPEN EARLIER OR LATER DURING THE LEMON PRODUCTION SEASON NEED TO BE DEVELOPED

Thus, based on expectations that the rand will weaken, export prices of lemon varieties could increase by more than 14% by the third quarter of 2018. Due to an increase in hectares planted to lemons, South African exports will more than double in the next five years from the current 15 million cartons exported per annum. Demand for credit to expand lemon production has thus increased significantly over the past couple of years. However, in future, lemon producers will increasingly be exposed to production and price risk as production expands. It is therefore important to determine whether global demand for South African lemons will support this expansion at profitable price levels.

Early indications from a report commissioned by the Citrus Growers' Association show that South Africa will produce a possible oversupply of 50 000t of lemons by 2021. This is expected to lead to a decline in lemon prices in the future, which means it would be important for growers to manage their increased exposure in consultation with their financial institutions. It is also imperative for SA authorities

to secure preferential access to, and negotiate less restrictive import protocols with, export markets such as the US, UK, Europe and Asian countries through bilateral negotiations.

Citrus growers may also need to extend the current May to August lemon supply peak period to accommodate delivery in March to April and September to October. Thus, it would be important to introduce new varieties that ripen earlier, as well as later in the season, beyond the current marketing window. This could be done through the manipulation of the fruit's characteristics with regard to ripening and colouring in current orchards. It would also be crucial to coordinate product supply to different markets to optimise returns.

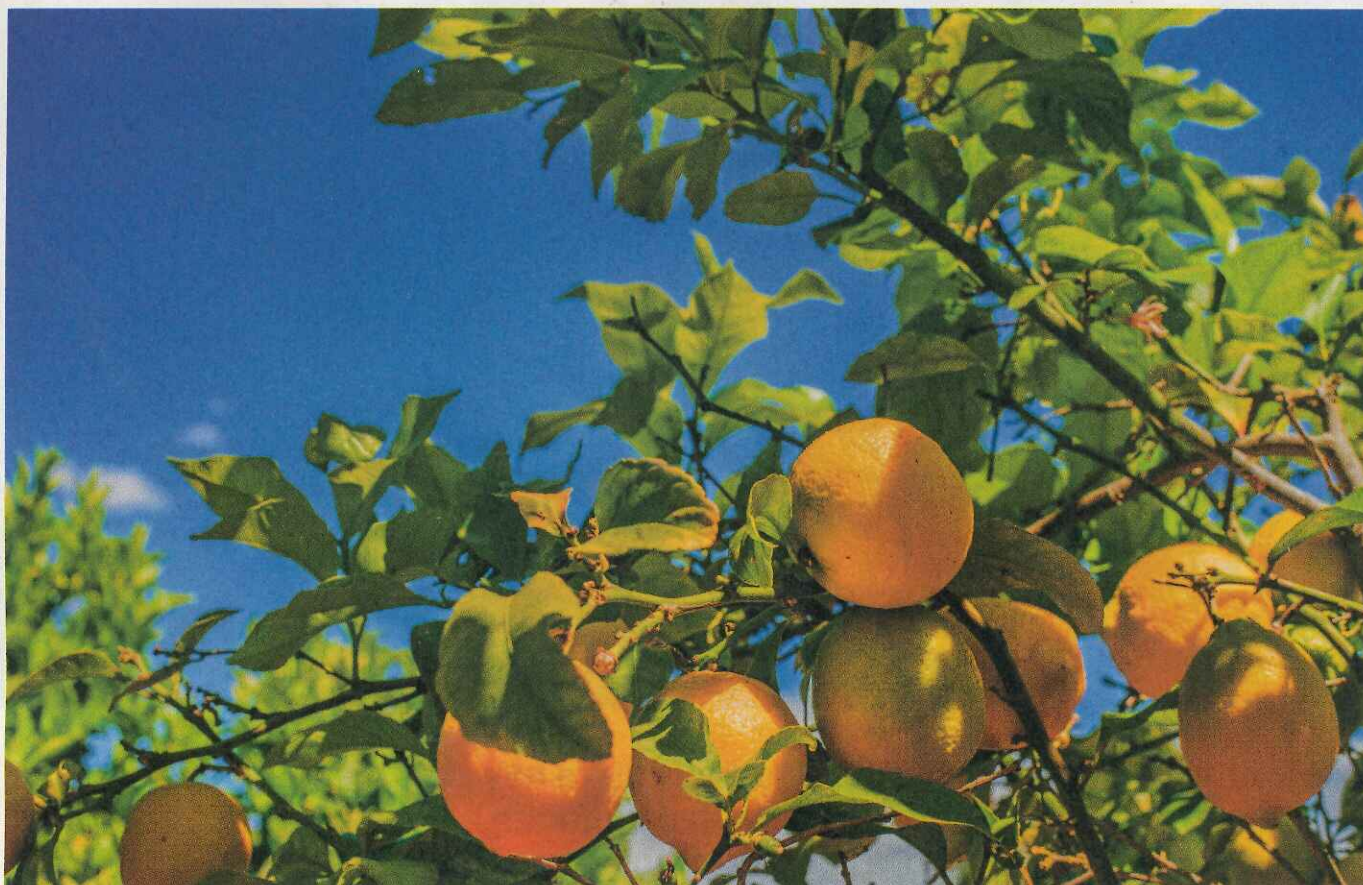
OVERSUPPLY, LOWER PRICES

While the estimated additional export volume from South Africa over the next five years is expected to amount to 250 000t, the projected market opportunity per year is only 200 000t. This means that the country will have a possible oversupply of 50 000t of lemons by 2021. This coincides with surpluses in Spanish and Argentinian production. In addition, Spain is expected to increase production in the future due to expanded plantings of lemon orchards there. Moreover, easier access for Argentinian produce to the US market will support expansion of lemon production in that country.

THE GLOBAL MARKET AND PREFERENCE FOR SA PRODUCE

There are a number of black spot-free (*Diplocarpon rosae*) orchards in South Africa that could meet EU export requirements.

Other southern hemisphere countries are reluctant to export to the EU due to fruit with black spot being intercepted on arrival. Lemons from South Africa are also preferred to those from Argentina



in the Middle East, as South African lemons have a much better shelf life.

According to reports from traders in the Netherlands, the current higher price trend is expected to come to an end in the next few years due to the expansion of lemon plantings in South Africa, which will result in a price correction.

Despite the quality of Argentinian lemons being poor compared with those from South Africa, the US recently lifted the 16-year ban on lemon imports from Argentina, which will boost exports from that country.

Australia, meanwhile, has negotiated preferential export market access, which

has led to growth in that country's lemon exports. Currently, Australia exports lemons to Indonesia (68%), Singapore (11%) and the Philippines (6%), and the country achieves good returns due to limited supply levels in these markets. As a result, lemon production is expected to expand in Australia as well.

Against this backdrop, it would be advisable for South African producers to establish dynamic market enhancement programmes to alleviate the very high risk of oversupply by 2021.

• Source: Absa Agribusiness and the Citrus Growers' Association. ■ FW

ABOVE: The export price of lemons is expected to increase 14% by the third quarter of 2018.
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