

THE NEW AND OLD GLOBAL MARKETS

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New products and consumer habits challenge the orange juice industry to reinvent a product that is a global leader

There is a vast amount of literature on the orange and its juice across the world. Throughout the last few centuries it has been present in various periods of our history. When Europe was exploring the oceans in search of new lands, the fruit became an icon in the fight against scurvy, a disease caused by vitamin C deficiency that terrified sailors. In works of art, it represented the gardens of paradise in a clear antithesis of the apple, which symbolized sin. More recently, it was present on tables all over the world as a form of prevention of swine flu. The fact is that since the dawn of time, the orange and its juice have rendered great services to humankind and because of its flavor and nutritional qualities, orange juice has become one of the most consumed beverages in the world. But in general, life has not been easy for the orange juice industry. The Brazilian industry, responsible for more than 80 % of global orange juice exports, has to face many simultaneous challenges. Consumption has dropped 24 % in the last ten years in the United States, while Europe exhibits a stable demand, with a slight decline, which prompts us to ask: is orange juice no longer the global preference?

The answer to this question is certainly a loud 'no'. Orange flavor continues to rank first in the world. In 2009, this fruit had a market share of 35 %, against 16 % for the apple, which came second. The bad news for this market is that the apple has acquired part of the orange's market share, as observed in the United States. In countries such as Germany, Russia, Ukraine and Turkey, the apple is the leading star, while orange flavor occupies second place.

On the other hand, emerging markets such as China and the Middle East appear in a very different manner, which is due much more to consumer habits than lack of purchasing power, which also constitutes a barrier. Generally speaking, both Asia and the Arab countries prefer nectars and soft drinks, dispensing 100 % juice. Along general lines, this means that one liter of juice sold to these markets "yields" many other liters of soft drinks, becoming an excellent deal for buyers, but without the same vigor as Europe and the United States, consumers of natural juice.

Another crucial point for the world market of orange juice lies in the alignment of the so-called tariff barriers, which decrease competitiveness among markets. To enter Europe, Brazilian juice is tariffed at 12.2 % of the exported value. In contrast, juices from the Caribbean, North Africa and Mexico are tariff exempt, under some circumstances. In the United States, the tariff paid for concentrated juice is US\$ 415/ton, which implies additional costs for American consumers, while non-concentrate juice is tariffed at US\$ 42/ton. Imports from Central American countries, Mexico and the Caribbean are exempt from tariffs. Other countries that also impose tariffs on Brazilian orange juice are: Japan, Southern Korea, China and Australia.

With the exception of the United States, whose tax is a fixed quantity on the volume, the other countries consider the financial value of sale. Accordingly, the higher the price of orange juice, the higher the customs



TABLE 1: VALUE OF IMPORT DUTIES, EXPORT VOLUME OF FCOJ AND NFC AND ESTIMATES OF TARIFFS PAID IN 2009

Country	Import Taxes	Volume Exported in 2009 (metric tons)		Estimate of Taxes Paid in 2009*	% of the financial value of tariffs paid by Brazil in 2009 to the importing country
		FCOJ	NFC	(in million US\$)	%
Europe	12.20 %	797,819	658,062	US\$ 16,7	64 %
United States	FCOJ: US\$ 415/ton NFC: US\$ 42/ton	106,505	258,112	US\$ 55.0	21 %
Japan	25.50 %	71,351	-	US\$ 23.7	9 %
South Korea	54 %	12,241	-	US\$ 8.6	3 %
China	7,5% for juice below -18°C and 30 % for juice above -18°C	48,9	-	US\$ 4.8	2 %
Australia	5 %	26,22	-	US\$ 1.7	1 %
Other Destinations	Free	66,712	22	Free	-
Total	-	1,129,748	938,174	US\$ 260.4	100 %

tariff to be paid by Brazil. This dynamic increases the price rise effect of the product on supermarket shelves, reducing the competitiveness of the orange flavor in relation to the juices of other fruits, such as the apple, pear, raspberry and strawberry, which are mostly produced in the same regions where they are consumed, and are therefore exempt from tariff barriers in their markets.

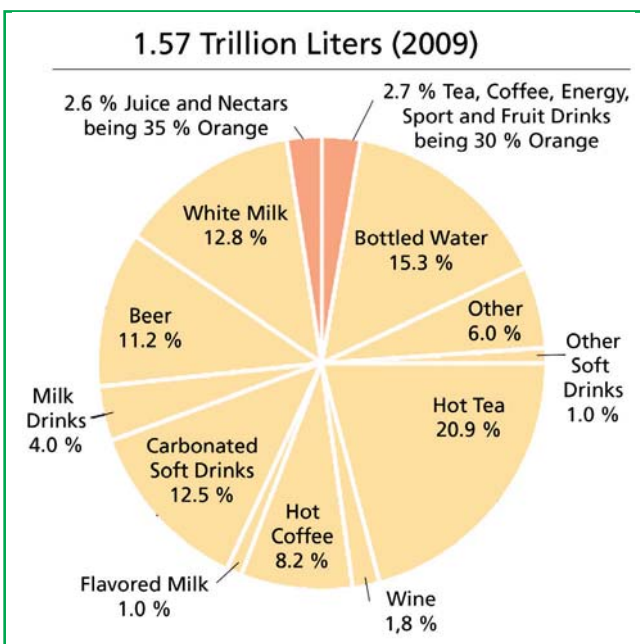
In 2009, Brazilian orange juice exports were tariffed at around US\$ 260.4 million, equivalent to R\$ 518.3 million. If this amount were reviewed, it would be possible to improve the remuneration of orange producers in Brazil by more than US\$ 1 per box, or around US\$ 2 thousand more per worker involved in orange cultivation and processing, including fixed and variable costs.

Another important aspect with regards to encouraging the consumption of beverages lies in the growth of the

world population. In the last seven years, the quantity of people has been growing at a rate of 1.2% per annum, while the consumption of beverages has risen 3.6%. This means that a market of 297 billion liters has opened, elevating the total market to 1.6 trillion liters – or 231 liters per inhabitant/year. Graph 3: Participation in global market by beverage category

The leader in market share in 2009 was the category of hot tea with 20.9 %, followed by bottled water (15.3 %), milk (12.8 %), soda (12.5 %), beer (11.2 %), hot coffee (8.2 %), soft drinks (2.7 %) and juice and nectar (2.6 %).

With a share of 35 % in the segments of juices and nectars, the orange flavor corresponded in 2009 to 0.91 % of the world market of beverages. In the segment of soft drinks, with a share of 30 %, the orange flavor corresponded to 0.82 % of the total.



Source: Elaborated by Markestrat from Euromonitor International data.

From 2003 to 2009, the categories of beverages with the highest growth in consumption were those of lowest added value and low caloric content. Fruit juice soft drinks grew 7.3 % per annum, bottled water 6.6 % per annum, milk-based beverages 6.5 % per annum and hot tea 4 % per annum. Juice and nectar recorded growth of 2.1 %.

The global consumer is increasingly tuned into the price aspect, although they continue with the major trends of health, wellbeing, responsible consumption and convenience. This price oriented approach was accentuated after the crisis of 2008, when consumers began to show more concern about financial planning, reevaluating the need to purchase sophisticated products and starting to place more value on promotions.

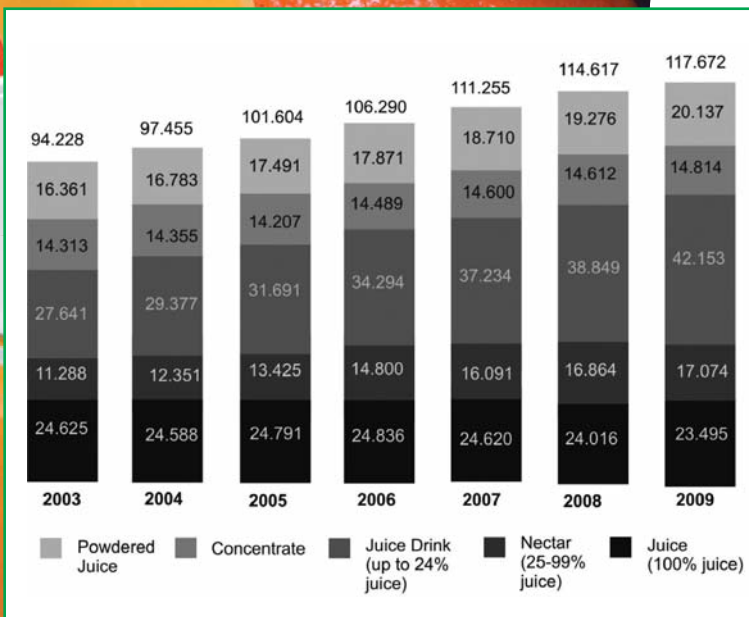
Even though the world consumes more and more beverages, this distribution is highly concentrated. Data from 2009 shows that the world consumed 117.7 billion liters



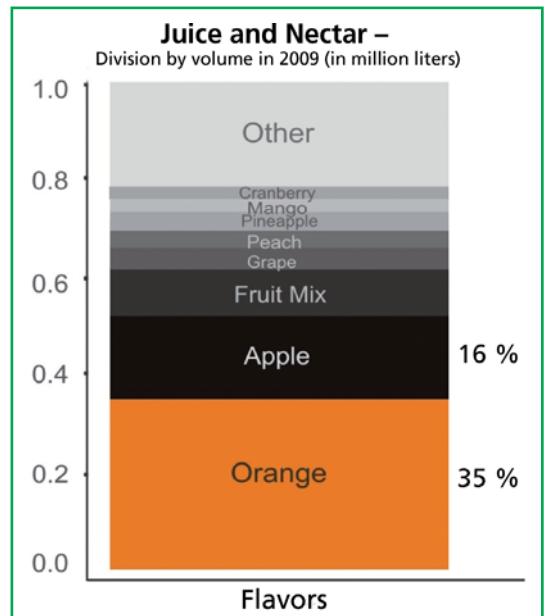
of processed fruit beverages. Of the total volume, 77 % were consumed in 40 countries, with 23.5 billion liters referring to the category of juice, 17 billion of nectar, 42 billion of soft drinks and 35 billion of powdered and concentrated juice. Between 2003 and 2009 the volume of fruit-based beverages consumed climbed 30.2 %, yet most of this growth originates from an increase in consumption among the lower social classes in emerging countries. The increase of the sales volume occurred essentially in the categories of nectars and juice drinks, thus not reflecting a greater demand for orange juice at 66° Brix, as they are categories of beverages that are diluted in water, instead of 100 % juice.

The growth of fruit drink sales of 7 % per annum was higher than the growth of the category of processed beverages of 3.6 % per annum, increasing the joint market share by 3.8 %. Similar, but less intense expansion, with growth of 2.2 % per annum, also occurred in the segment of powdered and concentrated juice, beverages to be diluted at home before consumption, where the demand is also higher in developing countries, with special emphasis on India.

The 40 countries mentioned previously are responsible for 99 % of the global consumption of the orange flavor. A detailed analysis shows



Evolution of fruit drinks volume; (Source: Elaborated by Markestrat from Euromonitor International data)



Participation of fruit flavors in the juice and nectar category in 2009; (Source: Elaborated by Markestrat from Tetra Pak and Euromonitor International data)

that of the 63.5 billion liters of ready-to-drink fruit beverages, 20.4 billion were of orange flavor and 7.5 billion of apple flavor. However, in the period from 2003 to 2009, greater diversification was observed in the flavors consumed in the juice category, with a reduction of the annual demand for orange and apple flavors of, respectively, 1.6 % and 2.3 % and an increase of the demand for tomato and multi-fruit flavors, respectively, of 2.6 % and 1.3 %. In the case of nectars and soft drinks, the volume of orange flavor beverages grew, but at a lower proportion than that of peach, grape, mango and multi-fruit.

This diversification in flavors consumed and consequent loss of market share of orange flavor beverages has contributed toward the reduction in the global demand for orange juice, which between the years 2003 and 2009 recorded a downslide of 6 %. This behavior is not what one would expect when analyzing the main demographic data of the same countries. Unlike the consumption of orange juice, which dropped 6 %, demographic indexes showed growth: the population increased 5%, the total GDP 51 %, the GDP per capita 43%, and net income per capita 40 %.

In general, what this data shows is that even though orange juice is the world leader, it has some challenges ahead of it. The first of them is to invert the curve that indicates a decline in the consumption of this flavor. After this it needs to resume growth to win over new and strong markets. Just as urgent as the international agendas is to work with some domestic issues. Like Florida (USA), Brazil also has phytosanitary problems and the worst of them is greening, a disease that could bring losses of billions of dollars in the years to come. Today, millions of dollars are poured into research geared toward finding the cure to this disease, or a more effective control method.

In view of the challenge presented by the lower orange juice consumption, the competition with other beverages, barriers to trade and other issues, it is clear that some actions are necessary, including national and international initiatives to address these problems that affect the whole chain.

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