

LEMON MARKET REPORT 2015/16 CAMPAIGN

Here we are again at the start of the new lemon season in Europe and with it anticipation grows as to what sort of crop lies ahead. However, what happens in Europe doesn't necessarily impact directly on what price we pay for our fruit, juice and oil.

The fresh lemon market is now a global one, with more fresh fruit transported around the world than ever before and with a **GLOBAL RISE IN LEMON CONSUMPTION** we need to factor in all producing areas and consumer markets to anticipate what will happen to our precious oil – after all, the oil is still a bi-product even if it's the most important part for our market.

Global Overview

World lemon demand is on the rise due to many factors including its perceived health benefits. Lemons are rich in vitamins A, B6, C and E, calcium, iron, potassium and zinc to name but a few and with this it provides many therapeutic and pharmaceutical solutions to today's everyday medical conditions. It's also high in antioxidants due to its composition of flavonoids.

Of course, lemon is also a favourite global flavouring ingredient due to its distinct sour taste, a result of the presence of 5-6% citric acid. Also the demand for natural beverages and flavourings is growing.

From early **OCTOBER THE HARVESTING AROUND THE MEDITERRANEAN STARTS** with Turkey initially, followed by Italy and Spain (varying seasonally with local weather conditions). Elsewhere harvesting in the USA (California & Arizona) will have started which will be followed later by Argentina and other smaller producing Central and South American countries. In different countries production will run until April 2016, the exception being China, which can usually rely on year round harvests.

We hear that in both China and USA, domestic demand is growing and outstripping supply, which has resulted in both countries **IMPORTING MORE EU LEMONS**. This along with domestic EU demand growth and the struggling crops in some smaller producing countries means that fresh fruit prices in Europe have increased.

We also hear that production growth in Spain coupled with a recovery in Argentina have increased the global supply position which in isolation could mean reducing prices for fruits and ultimately oil. So let's break down what we know to try and better understand what we can expect next.



LEMON OIL SPAIN

Let's start with some good news which is in 2014/15 Spain's fresh **LEMON PRODUCTION INCREASED 30%** reaching 1,065 thousand MT, record levels both in production and exports. This increase has been attributed to good crop management (irrigation, fertilisation, treatments etc.) and favourable weather conditions during the flowering and fruit setting periods.

Today Spain's contribution to all EU production is around 65% so what happens in Spain generally makes the biggest impact of all producing EU countries. Production of the Fino variety is estimated at 800,000 MT while Verna is at 300,000 MT, with 35,000 MT of losses.

<i>Spanish Lemon (1,000) MT</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Production</i>	818	1065
<i>Exports</i>	622	695
<i>Processing</i>	166	300

This increase of fresh fruit production also supported Spain's desire to fill the gap in the global processed fruit market, a hole left by Argentina following their disastrous 2014 crop. As a result, **300,000 MT OF SPANISH LEMONS WENT FOR PROCESSING**, almost double that of the previous year.

Despite the increase in oil output the prices remained relatively firm as fresh fruit input costs for processing continued to rise as the global demand for fresh lemons increased, with Spain also exporting 10% more fresh lemons than in 2014.

So as we turn our attention to this season what are the prospects? Well that's were the good news ends as prices of fresh fruit prices have doubled in recent weeks.

This is largely due to **DROUGHTS** and **HIGH TEMPERATURES** recorded during May, June and July which **DAMAGED** crops with the impact of this only recently being fully assessed. It appears the **REDUCED HARVEST COULD BE AS MUCH AS 25%** with farmers compensating for this loss with higher selling prices.

This figure is consistent throughout Spain with a crop reduction of 24.6% in Alicante, Castellon 25.2% and 20.4% in Valencia anticipated for this season.

How this impacts on the amount of lemons processed, the relative input costs and the market demand for Spanish lemon oil is yet to be seen. A number of producers have some carryover stocks from earlier this year but these volumes are not significant and there's little to suggest that prices for any fresh oil production will decrease. As per usual trends the volume of lemons in the market come January are significantly less and depending on external pressures from other producing countries we could see New Year oil prices rise and supplies tighten.

A 25% reduction in output would see Spanish fresh lemon production fall to levels below that of 2013/14, to somewhere in the region of 770,000 MT. Based on last year's fresh export figures of 695,000 MT and with demand growing, farmers will have the option to sell all their production into the fresh fruit markets leaving very little for processing, unless of course the processors can pay more for the fruits, which will only happen if oil prices rise. Watch this space!

LEMON OIL ITALY

Last year's Italian fresh lemon production was down 2% on the previous year, with imports from Spain (55%) and Argentina (21%) increasing to support the domestic demand. Italy's processing capacities were hit hard last year with **16% LESS LEMONS PROCESSED** than the previous year.

<i>Italian Lemon</i> <i>1,000MT</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>Production</i>	411	412	404
<i>Imports</i>	99	91	97
<i>Exports</i>	40	44	42
<i>Processing</i>	66	85	73

“Did you know that Sicily produces around 85% of all Italian lemons?”

While it is still too early to form a clear picture it appears most Italian producers are expecting similar numbers to last year, but in some cases, maybe less. Depending on the producer, the growing region and the type of lemon some crops will be reduced as a result of the hot weather experienced during June and July.

Local prices remain firm and demand for Italian lemon is growing as it is often regarded as a premium product. It appears that this is set to continue into 2016.

LEMON OIL ARGENTINA

Excess rain during the summer of 2015 delayed the lemon harvest and affected the fruit quality and yield but despite the slow start **LEMON PRODUCTION IS ESTIMATED AT 1.10 MILLION METRIC TONS**. This is an increase from 780,000 metric tons in 2013/14 but still down on previous years.

Argentina has a significantly bigger impact on the global processed lemon market owing to the fact they **PROCESS UP TO 85% OF THEIR LARGE CROP**. This figure in 2015 was 820,000 MT, 2.5 times larger than the combined lemons processed across the EU. This is why Argentina's crop is so important to our oil markets more so than the fresh fruit market.

Over the past 40 years Argentina's processed lemon volumes have increased significantly decade on decade, from an average annual volume of 80,000 MT in the 1970s, to 200,000 MT in the 1980s, to 540,000 MT in the 1990s and 900,000 MT since 2000. This is why today its contribution is very important to our markets.

<i>Lemon Production</i> <i>1,000MT</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>EU</i>	1,380	1,264	1,179	1,316	1,530
<i>Argentina</i>	1,550	1,300	1,350	780	1,100
<i>Lemon Processing</i> <i>1,000MT</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13</i>	<i>2013/14</i>	<i>2014/15</i>
<i>EU</i>	347	235	192	312	325
<i>Argentina</i>	1,211	963	996	570	820

LEMON OIL CALIFORNIA

California is the largest lemon growing state in the United States with 47,000 acres in production. Arizona is second with 8,300 acres. During the 2014-2015 season, **CALIFORNIA'S LEMON PRODUCTION INCREASED 9%** over the previous season and Arizona's lemon production was up 11%.

It is expected that this season California production will be stable while Arizona production is expected to be down between 15 and 20%.

Lemon acreage increased this year by 1,000 acres to 56,300 acres and processed fruit increased to 260,000 MT. It is expected that this season will be similar to that of last year with prices remaining relatively firm as demand continues to rise.

The United States is now importing more lemons than ever before. With a growing domestic fruit market and a relatively static local production this is a trend that is likely to continue.



Lemon plantation in California

LEMON OIL SOUTH AFRICA

As the 6th largest producer of lemons globally South Africa is not always considered a large contributor, especially for oil, yet it proves to be very consistent and reliable.

Total production throughout the 2013/14 season reached 270,000 MT with almost 60,000 MT sent for processing. That is approximately 25% more than the previous year for oil production. South Africa can be very versatile when it comes to how many fresh fruits are sent for processing and so is capable of being in or out of the oil market as and when it is more commercially attractive to do so.

The season has started however there are some **CAUSES FOR CONCERN** after larger areas of plantations were assessed. Drought conditions are being experienced due to unusually low rainfalls and above average summer temperatures, which negatively effected the fruit sizes.

As a result, early forecasts are suggesting a **20-25% REDUCTION IN PRODUCTION** and although it is too early to estimate as to whether this will impact on the 60,000 MT desired for processing, it is safe to say it's most likely. This will impact on the volume of oil produced and may in turn increase prices.



Trucks full of lemons arrive for sorting and processing in South Africa