

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 12/12/2016

GAIN Report Number: AS1621

Australia

Citrus Annual

GAIN Report, December 2016

Approved By:

Sarah Hanson, Agricultural Counselor

Prepared By:

Roger Farrell, Agricultural Specialist

Report Highlights:

Production of fresh oranges in 2016/17 is forecast by Post at 470,000 metric tons, slightly above the previous year. Good seasonal conditions and improved access to water irrigation in recent years are expected to support increased production. Australia is a counter-cyclical exporter of oranges to northern hemisphere markets while the United States exports oranges during Australia's off-season. Over 2016, Australia's free trade agreements with China, Japan and Korea continued to open up opportunities for citrus exporters, which compete with U.S. suppliers in these markets. Post forecasts exports of oranges to reach 230,000 MT in 2016/17.

Executive Summary:

Australian production of fresh oranges in 2016/17 is forecast by Post to increase to 470,000 metric tons due to good seasonal conditions and improved access to water irrigation. Australia is a counter-cyclical exporter of oranges to northern hemisphere markets while the United States exports oranges during Australia's off-season. Over 2016, Australia's free trade agreements with China, Japan and South Korea continued to open up opportunities for citrus exporters. Post forecasts exports of oranges to reach 230,000 MT in 2016/17.

The proportion of fresh orange production used for domestic juice is forecast by Post to decline to 70,000 MT in 2016/17. Fewer oranges are being processed into juice because of falling demand for juice and lower returns for growers, while imports of orange juice and concentrate have become more important. Many growers are moving away from juicing varieties of orange such as Valencia and towards eating varieties such as Navels. Australia's citrus industry is a major horticultural sector and a leading exporter of fresh fruit.

Commodities:

Oranges, Fresh

Orange Juice

CITRUS OVERVIEW

Australia's citrus industry is a major horticultural sector and a leading exporter of fresh fruit. Orange producers dominate the industry and are located along the Murrumbidgee and Murray Rivers in the Riverina, Sunraysia and Riverland irrigation areas of New South Wales (NSW), Victoria and South Australia. These regions produce both eating (Navel) and juicing (Valencia) oranges. The Central Burnett region in Queensland produces mandarins, lemons and limes. There are also smaller citrus plantings in Western Australia and the Northern Territory. This report is focused on oranges and orange juice.

Citrus is usually harvested manually and must be picked on a regular basis. While high labor costs and labor shortages affect the industry's competitiveness, increased capital investment in packaging and fruit sorting machinery has increased productivity. A flexible visa system operates to encourage the availability of seasonal agricultural workers at harvest time, which benefits the citrus industry. In late 2016, the Parliament confirmed that international travelers who became seasonal fruit workers would be taxed at a concessional rate.

ORANGES

Production:

Australia's orange harvest for 2016/17 is forecast by Post at 470,000 MT, slightly above the previous market year. More than half of orange production is expected to be sold on the domestic market while the remainder is exported. The share of exports has increased significantly in recent years. Domestic sales are usually made directly to large supermarket chains or through the central fruit market system. One fifth of growers account for 90 percent of output and many are comparatively small, with half of growers accounting for only two percent of production.

Total production of oranges depends on growing conditions, water availability and heat fluctuations over the growing season. Over 2016, Australia experienced a drier than normal climate influenced by El Niño-like conditions in the Pacific Ocean. However, there was a significant change in seasonal conditions from mid-year with heavier than average rainfall which boosted dam levels and the availability of irrigation water. These better seasonal conditions have supported increasing planting and production, especially of navel orchards.

Over 20,000 hectares of orange orchards have been planted in Australia; of which 12,000 hectares are Navel trees and the balance are Valencia trees. Harvesting begins in April with peak production in July and August. Valencia oranges are grown for juice production, while navels are an eating variety and are in demand for international exports. There has been a long-term trend for Valencia orange trees to be removed because of low prices for orange juice, while higher returns available for Navel oranges have encouraged plantings of this variety.

Consumption:

Post forecasts Australian domestic consumption of oranges to be stable in 2016/17 at 200,000 MT. Consumer preferences are gradually moving away from older orange varieties and towards sweeter and easier to peel seedless citrus varieties and some new varieties of navel orange.

Trade:

Australian exports of oranges for 2016/17 are forecast by Post to reach a record of 230,000 MT due to higher production and greater demand for exports in North Asian markets. Oranges account for around 80 percent of Australian citrus exports, with the balance being exports of mandarins, as well as small volumes of lemons and grapefruit. Exports of navel oranges commence in June with early navels (e.g. Navelina, M7) and end in October with late navels (e.g. Late Lane, Chislett and Barnfield).

The Australian citrus industry is export-oriented and is a competitive counter-seasonal supplier to northern hemisphere markets such as Indonesia, China, Japan, Korea and the United States. Australian exporters have benefited from lower tariffs in key markets such as Japan, Korea and China following bilateral free trade agreements (see below).

Post forecasts imports of oranges into Australia to decline in 2016/17 to 30,000 MT. Post has also revised imports in 2015/16 to 30,000 MT, below the official estimate of 35,000 MT. Australia imports fresh oranges during its summer season, when there is no local production and the United States is the predominant supplier during that period. The volume of U.S. exports of oranges to the Australian market has declined over the last year in response to exchange rate changes and flat domestic consumption, while imports from other countries have increased.

Production, Supply and Demand Data Statistics:

Oranges, Fresh	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2014		Apr 2015		Apr 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	20,600	20,600	20,600	20,600	0	20,600
Area Harvested	20,600	20,600	20,600	20,600	0	20,600
Bearing Trees	9,350	9,350	9,350	9,350	0	9,350
Non-Bearing Trees	85	85	85	85	0	85
Total Number of Trees	9,435	9,435	9,435	9,435	0	9,435
Production	430	430	455	455	0	470
Imports	30	30	35	30	0	30
Total Supply	460	460	490	485	0	500
Exports	156	156	190	208	0	230
Fresh Dom.	189	189	200	200	0	200
Consumption						
For Processing	115	115	100	77	0	70
Total Distribution	460	460	490	485	0	500

Note: 'New Post' data reflect author's assessments and are not official data.

ORANGE JUICE

Production:

The proportion of fresh orange production used for domestic juice is forecast by Post to decline in 2016/17 to 70,000 MT. Post has also revised the 2015/16 total for oranges for processing to 77,000 MT, compared to the official estimate of 100,000 MT. Fewer oranges are being processed into juice because of falling demand for juice, lower returns for growers and the switch away from Valencia varieties towards fresh Navel orange production for export.

Orange juice is made either from freshly squeezed fruit, stored concentrate or from stored juice. Orange juice produced in Australia is typically made from Valencia oranges, as navel oranges are more valuable as fresh fruit and their flavor may become bitter after storage. Juice from fresh fruit commands a price premium compared to juice made from concentrate. All Australian grown orange juice is chilled and sold as a premium product.

Local producers do not compete in the long life and non-refrigerated juice products due to the significantly lower price in these market segments in which the juice is typically manufactured using imported frozen concentrate. The market share of orange juice made using imported concentrate increased to over half of market supplies by 2010, but since then has slightly declined as fresher and innovative juice brands have become more popular. Over the last decade, many orange growers have left the industry or switched from Valencia varieties to producing whole Navel oranges for the export market.

Consumption:

Consumption of orange juice in Australia has fallen over the last decade from 49,000 MT in 2005/06 to 41,000 MT in 2012/13 with a further fall to 39,000 MT forecast by Post for 2016/17. Per capita annual consumption of citrus fruit overall has declined over the last five years due to competition with other beverages such as iced tea and sports drinks, as well as a move away from drinks with a sugar content.

Trade:

Australia has negligible exports of orange juice but imports orange juice and concentrate, as local supplies of juice from Valencia orchards are reportedly insufficient to meet overall demand. Imports of orange juice and concentrate from countries such as Brazil and China are also sourced because of a cost advantage against local production.

Trade Policy Developments:

The China-Australia FTA

The China-Australia Free Trade Agreement (ChAFTA) was signed in November 2014 and was ratified in December 2015. Under the agreement, China's 11 to 30 percent tariff on oranges, mandarins, lemons and all other citrus fruits will be phased out within 8 years. The 7.5 to 30 percent tariff on orange juice will be phased out within seven years and tariffs of up to 30 percent on other fruit juices will be phased out within four years. China has been the fastest growing and highest valued export market for Australian exporters, and these changes have benefitted Australian exporters. Quarantine access protocols for citrus fruit entry into China have also been negotiated. There are no changes to Australia's domestic science and risk-based quarantine measures on Chinese citrus imports as a result of ChAFTA. Shipments of Australian citrus to China take three weeks by sea, the shortest transit time in the Southern Hemisphere.

The Korea-Australia FTA

The Korea-Australia FTA (KAFTA) was signed in April 2014 and entered into force in December 2014. Korean tariffs on counter-seasonal production were eliminated from January 2015. A tariff of 50 percent was cut to 30 percent on implementation and is being phased down to zero over seven years. A 144 percent tariff on mandarins is being phased to zero over a period of eighteen years.

These tariff reductions only apply for Australia's counter-seasonal exporting season from April to September. In 2016, Korea's Animal and Plant Quarantine Agency (QIA) announced the expansion of its policy for Australian citrus to allow the entry of blood oranges, with exports set to start this year. Prior to this announcement, only Valencia and navel oranges had been accepted from Australia.

The Japan-Australia FTA

The Japan-Australia Economic Partnership Agreement (JAEPA) entered into force on 15 January 2015 and is increasing market access for Australian citrus exports. Under the terms of the agreement, tariffs on oranges and mandarins are being phased down over ten and fifteen years respectively. Orange tariffs during the peak of Australia's season (June to September) are currently 16 percent, and a 17 percent rate applies for mandarins. The grapefruit tariff of 10 percent will be eliminated in five years.

Production, Supply and Demand Data Statistics:

Orange Juice	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Delivered to Processors	115,000	115,000	100,000	77,000	0	70,000
Beginning Stocks	614	614	614	614	0	614
Production	9,500	9,500	9,000	8,100	0	8,100
Imports	31,500	31,500	31,500	32,200	0	31,500
Total Supply	41,614	41,614	41,114	40,914	0	40,214
Exports	1,000	1,000	1,000	800	0	600
Domestic Consumption	40,000	40,000	39,500	39,500	0	39,000
Ending Stocks	614	614	614	614	0	614
Total Distribution	41,614	41,614	41,114	40,914	0	40,214

(MT)

Note: (a) 'New Post' data reflect author's assessments and are not official data.
 (b) Data for orange juice table in metric tons (MT).