

NEWSLETTER



INGREDIENTS

— Your Long Term Partner

JUICE & BEVERAGE INGREDIENTS

Q4 2020

Dear Readers,

Welcome to the Q4 2020 edition of our FSL Juice & Beverage Ingredients Newsletter.

With the year 2020 coming to an end and with a COVID-19 vaccine finally in sight and in production, we are all hoping to see the pandemic and associated restrictions ease off by early next year.

In this newsletter it is our pleasure to introduce our new partners, **Citrosuco** – one of the world's largest producers of Orange Juice Concentrates, NFCs and other orange ingredients. FSL's philosophy to only partner with leading manufacturers around the world brings us to form this association with Citrosuco to offer the finest FCOJ and NFC products to our customers across the Middle East, Africa and India.

In the second part of this newsletter, we will also be sharing global fruit commodity updates to keep our readers aware of what is happening in the fields and factories where our ingredients are sourced and to offer inside market intelligence on crop demand, supply, quality, weather and pricing information.



Introducing Citrosuco and the Big New Trend – NFC Juice

On October 1st, 2020, Citrosuco and FSL formed the start of a long and prodigious partnership to supply our customers with the finest FCOJ and Orange NFCs from Brazil.

With over 60 years in the orange business, Citrosuco is the world's leading orange derivatives manufacturer, producing 26 Million Hectoliters a year which makes up 40% of Brazil's total orange juice production – allowing them to capture 23% of the global market share for Orange Juice. Citrosuco has 25 farms, 7 offices and 4 production facilities across Brazil in addition to their own ships and port terminals. They employ 5,000 permanent and 7,000 seasonal employees.

Like FSL and the rest of our partners, Citrosuco maintains a strong commitment to environmental sustainability and carries the most prestigious sustainability certificates for all its products which can in turn can be applied on the end consumer product.

We look forward to introducing Citrosuco's high quality and high value ingredients to our customers in the Middle East, Africa and India.



Not from Concentrate Juice (NFC's)

With the health trend accelerated by the COVID-19 pandemic, consumers are seeking fresher, cleaner and more natural food and beverage products with immunity boosting potential. The fresh juice category, despite commanding a premium price with only a 3-4 day shelf life, has seen strong growth in our region as is evident from the success of brands with freshly squeezed juice in the market.

Orange juice, with its highly appealing taste, is also consumed for its health properties – primarily its immune boosting Vitamin C which has prompted a surge in orange juice sales globally since the advent of the pandemic.

We believe that the opportunity and time is ripe to introduce NFC Juices to meet the growing consumer demand for fresher, better tasting, healthier and cleaner label orange juice with a shelf life of up to 1 year and which is loaded with immune boosting Vitamin C.



Why NFCs?

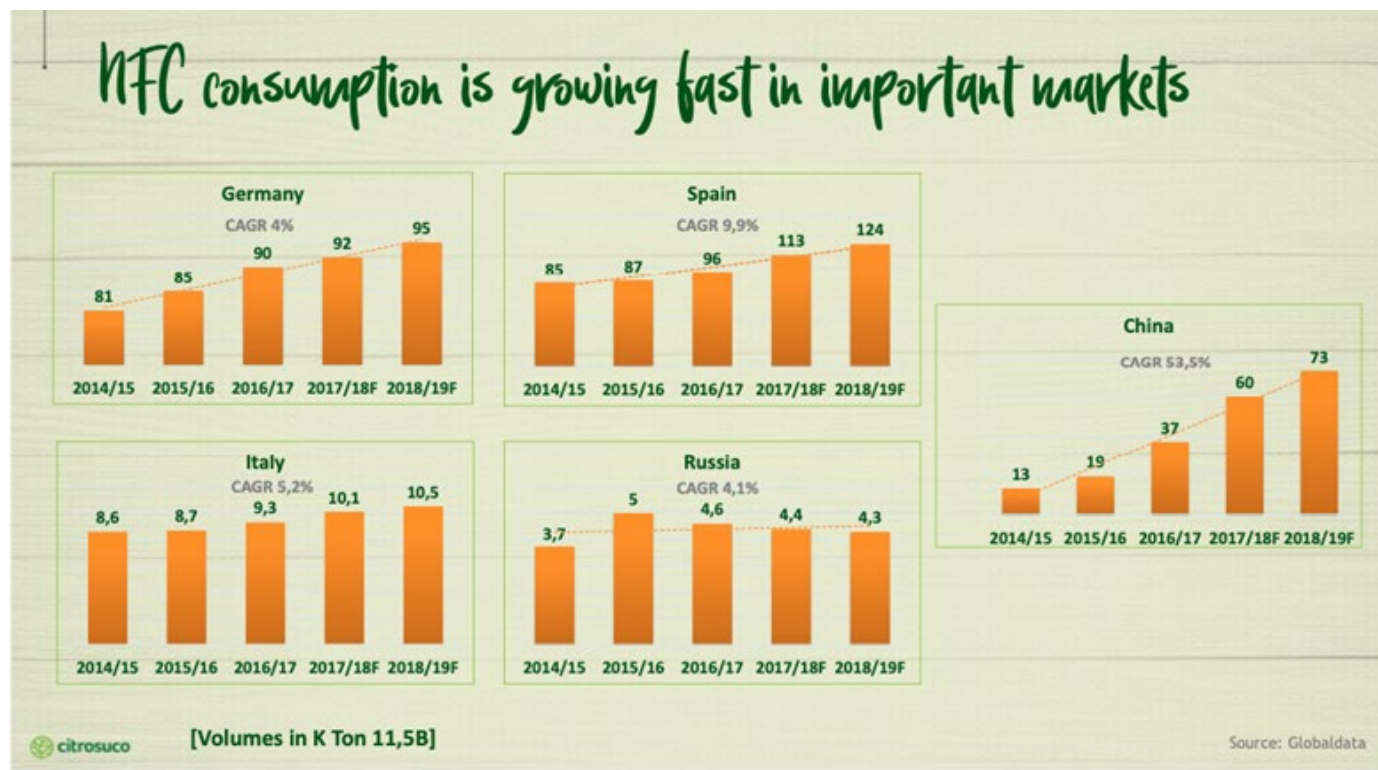
- ✓ NFCs offer a fresher taste closer to freshly squeezed juice.
- ✓ Juices are consumed for their health properties such as Vitamin C – less processed means healthier and cleaner label to the consumer with a better source of Vitamin C.
- ✓ Research shows that consumers prefer fresher juices which are affordable.
- ✓ Growing regional trend towards more natural products.
- ✓ Fast-growing category - even in mature markets.
- ✓ A more premium product which allows for higher margins for bottlers and retailers.
- ✓ NFC improves a company's image and brand loyalty in the market.



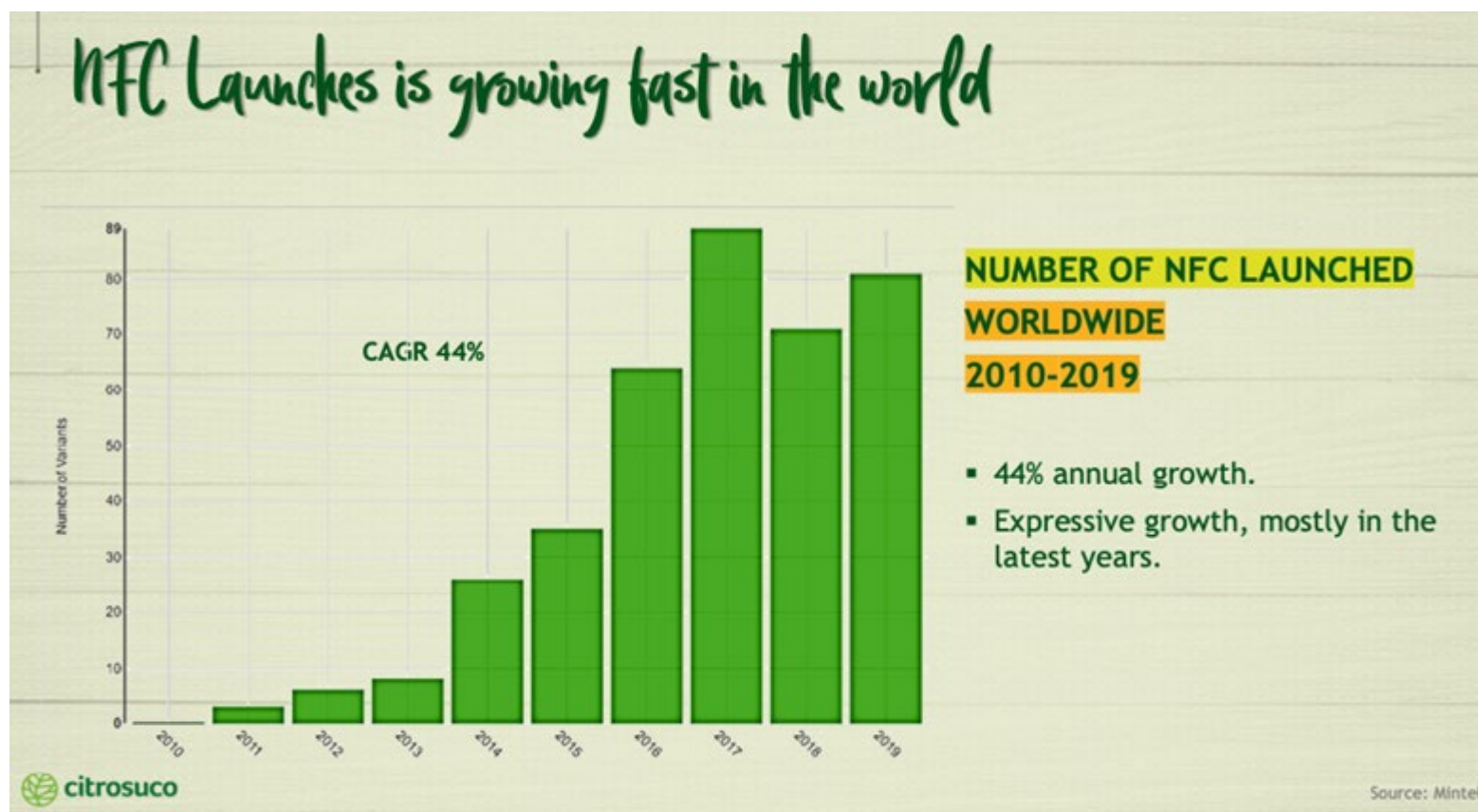
Pricing Advantage:

Due to the consumer perception of NFC being more natural and less processed, the product commands a premium price as is evident from the high prices of freshly squeezed juices in the market. We believe that NFCs can be perfectly positioned between the crowded concentrate market and premium freshly squeezed juices. NFCs can command premium prices, longer shelf life and more efficient distribution models when compared to freshly squeezed.

For this reason, NFC launches are growing rapidly across the world and the market is growing fast in countries such as Germany, Spain, Italy, Russia & China.



NFC Launches are growing across the globe with a growth rate of over 40%



*Source: Shutterstock, Illustrative Image.

Main Claims

-  **FRESH AND NATURAL**
100% natural from the orange
-  **VEGAN**
Nothing besides orange
-  **NO ADDITIVES & PRESERVATIVES**
Nothing more than Orange
-  **HEALTHY**
Source of various functional ingredients
-  **VITAMIN C**
Powerful natural antioxidant

 *Please check your local regulation to support these claims.



NFC is a great option over fresh squeezed juice... both to retailers and final consumer

 <h3>FRESH SQUEEZED JUICE</h3>	 <h3>NFC ORANGE JUICE</h3>
<ul style="list-style-type: none"> • Short shelf life: from 3 to 4 days on the shelf • Due to this reduced shelf life, goods write-off is a major concern. • Reposition cost is extremely high. • Product is not standardized. • Unfeasible distribution scale-up. • Due to the fact it's not pasteurized, there is an enzymatic risk. 	<ul style="list-style-type: none"> • Juice made with real fresh fruits, specially selected for NFC. • 12-18h after harvesting, fruit is processed and its juice is refrigerated. • No chemical treatment after harvesting. • Shelf life guaranteed by advanced refrigeration technology on the entire logistics chain - no preservatives added. • Same flavor standard during the year.



*illustrative image.

USA: NFC x FCOJ Retail Pricing

FCOJ



NFC



NFC price on the shelf is ~80% higher - much more premium product!

Note: Data collection for USA is done every 28 days
Source: Nielsen and BIAT team analysis



The statistics above shows that while the prices of FCOJ have fallen 7.5% in the USA, prices of NFC rose by 13.7% during the same period.

A clear indicator of shift in consumer demand and a call for brands to adapt to the growing market and revenue opportunity with NFC products.

GLOBAL CROP UPDATES Q4 2020

GRAPE

Spain:

The harvest in Mancha, the main producing area in Spain could cover 55% of national production for this 2020/2021 campaign. The harvest began with the earliest varieties in mid-August, followed by the Tempranillo variety at the end of the same month and are now awaiting the bulk of the harvest for October with the start of the Airen white variety.

The quality of the fruit has been excellent due to the absence of diseases throughout the year accompanied by adequate ripening. Production forecasts at the national level have been revised downward from initial unofficial figures of more than 50 million MT to 43-44 million MT. This has been advanced by Cooperatives such as the Spanish Agro-alimentary at the end of July with the latest official estimate published by the regional government of Castilla la Mancha of 42 million MT on August 30th even though some specialized media reduce the estimate to 40 million MT. (The national average over the last 15 years has been around 42 million MT.)

According to regional administration sources, Castilla La Mancha would correspond to 23 million MT instead of the 25.5 MT predicted by Cooperatives Agro-alimentary in Castilla la Mancha at the beginning of August. These decreases in the initial production estimates are mainly due to the drought and high temperatures suffered during the summer.





The first grape purchase prices released by Félix Solix and Grupo Vinartis are 30% lower than last season. These price levels have provoked the anger of agrarian organizations and private farmers who have called for protests and strikes in different points of Mancha as these prices do not even come close to covering their production costs. These protest actions have already started affecting the upward correction of the initial prices of some red varieties destined since the date of purchase.

In the absence of official data from the MAPA (Ministry of Agriculture, Fisheries and Food), initial stocks for July (the last month of the 19/20 season) are expected to be around 35 million MT which is inclusive of 2 million MT of stocks from last season and a drop in 5% from last season.

Rest of Europe:

Italy and Portugal are expecting a fall in production levels by 1%-5.7% over last year respectively, while France and Germany expect increases of around 3.5%. European exports have suffered a clear decline as a result of the pandemic due to the Trump administration's tariffs on packaged wine and the new Russian Viticulture Law.*

As a result of this unusual and highly uncertain scenario, we consider it a year to be cautious and recommend that manufacturers stock up according to their needs. We request our customers to inform us if they receive any suspiciously low offers so that we may verify the supply source and its quality.

Argentina:

There is good news for the 2021 crop from Argentina with new grape plantations beginning in November that are expected to offer a better crop than 2020. Further information about the Argentinian Grape crop can be expected by Mid-December 2020.

*Source: <https://www.fas.usda.gov/data/russia-federal-law-viticulture-and-wine-making-russian-federation>



APPLE

Europe:

- The European apple season has almost come to an end with production volumes reduced over last year which is contrary to earlier expectations announced prior to the crop harvest.
- The crop in Hungary (the second largest apple producer in Europe) has been a disaster resulting in significantly less volumes of apple concentrate from Europe.
- With the Euro remaining strong against the USD than previous contracts (Nov 2019 and Jan 2020) this is creating a higher USD price level.

China:

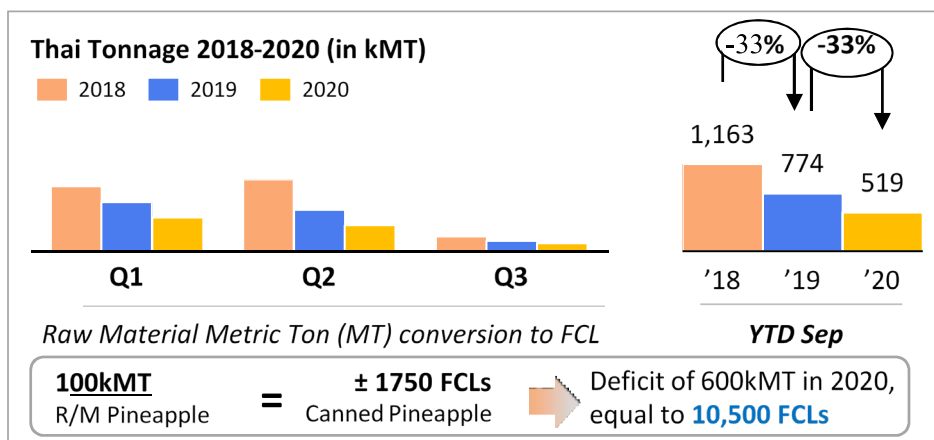
- The 2020 Chinese apple crop is very short compared to the 2019 crop. As a result, the Chinese apple prices have increased by 6% over 2019.
- Starting with early Gala apple varieties, the prices this season have been constantly rising - especially in later on in the purchasing season.
- Although Chinese exports are poor this year, e-commerce channels have broadened sales opportunities and driven prices upwards. Higher prices seen this year are mainly a result of the significantly lower production in the northwest producing areas which has led buyers to competing for supplies and place orders whenever supply is available.
- The high prices in Northwest China also put upwards pressure on the apple market across China. On the other hand, the quality of this year's crop is not as good as last year - the size of apples are small and there are many cases of spots caused by hail and oxidation (apple rust) leading to a scarcity of high-quality supply.
- In addition, sales during the National Day and Mid-Autumn Festival holidays were good. Some futures dealers went directly to the place of origin to purchase goods which also boosted purchasing prices.
- It is estimated that China has now passed the ceiling prices for this year and prices may fall in the coming months.



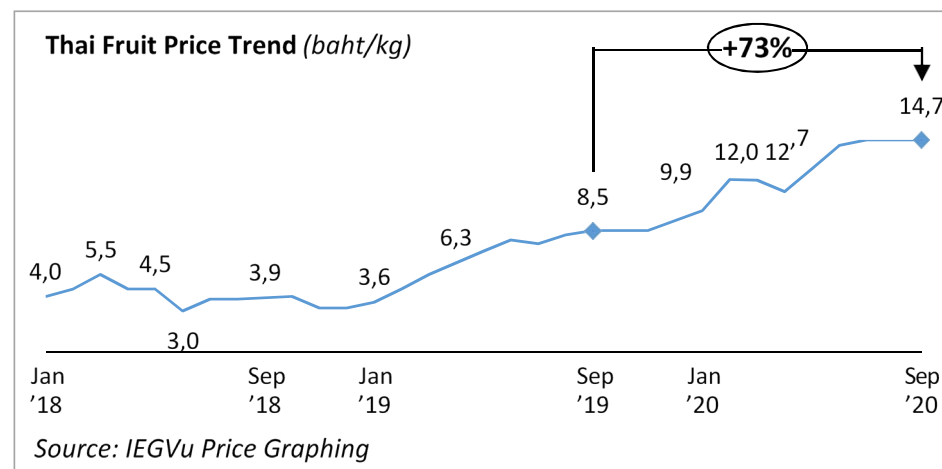
PINEAPPLE

Thailand:

- Thailand's 2020 Winter Crop for Pineapple is expected to be short on supply with pricing levels that remain high with a high nitrate issue still persisting.
- The supply estimate for the summer Crop of 2021 is expected to be low due to dry weather which has made the manufacturers restrict new planting activity for the past 8 months.
- Low supply levels in 2020 triggered raw material price to increase significantly. In September 2020 raw material price reached THB 14.7/kg (+73% y.o.y)



Source: IEG Vu



Low fruit price starting from Q3'17 – end of 2018

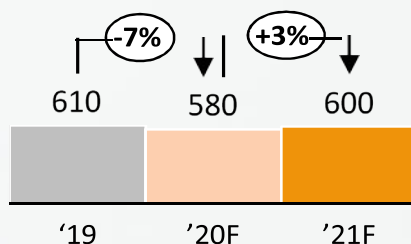


Farmers stop planting new crop and lack of plant maintenance

Indonesia (GGP):

- Estimated 2020 volume has been revised from 650K MT to 580K MT due to a long dry season in Indonesia which was prolonged till mid-January 2020.
- For 2021, GGP's forecasted volume is 600K MT.

GGP Tonnage (in kMT)
2019-2021F



Philippines:

Philippines is expected to produce the usual level of pineapple production which will be around 1.1 million MT with no volume growth. More conversion to fresh fruit businesses is also imminent.

There are two major packers with their own premium brands in the Philippines: Dole and Del Monte. The Philippines main markets are the USA, Asia Pacific and their own domestic market which is supplied under their own premium brands (Dole, Del Monte and S&W).

Weather outlook:

- All of the international climate models surveyed by the Bureau indicate central tropical Pacific sea surface temperatures in the region will continue to cool over the coming months.
- ENSO events—El Niño or La Niña, typically begin to develop during the southern hemisphere from autumn to winter before strengthening in the winter to spring period.

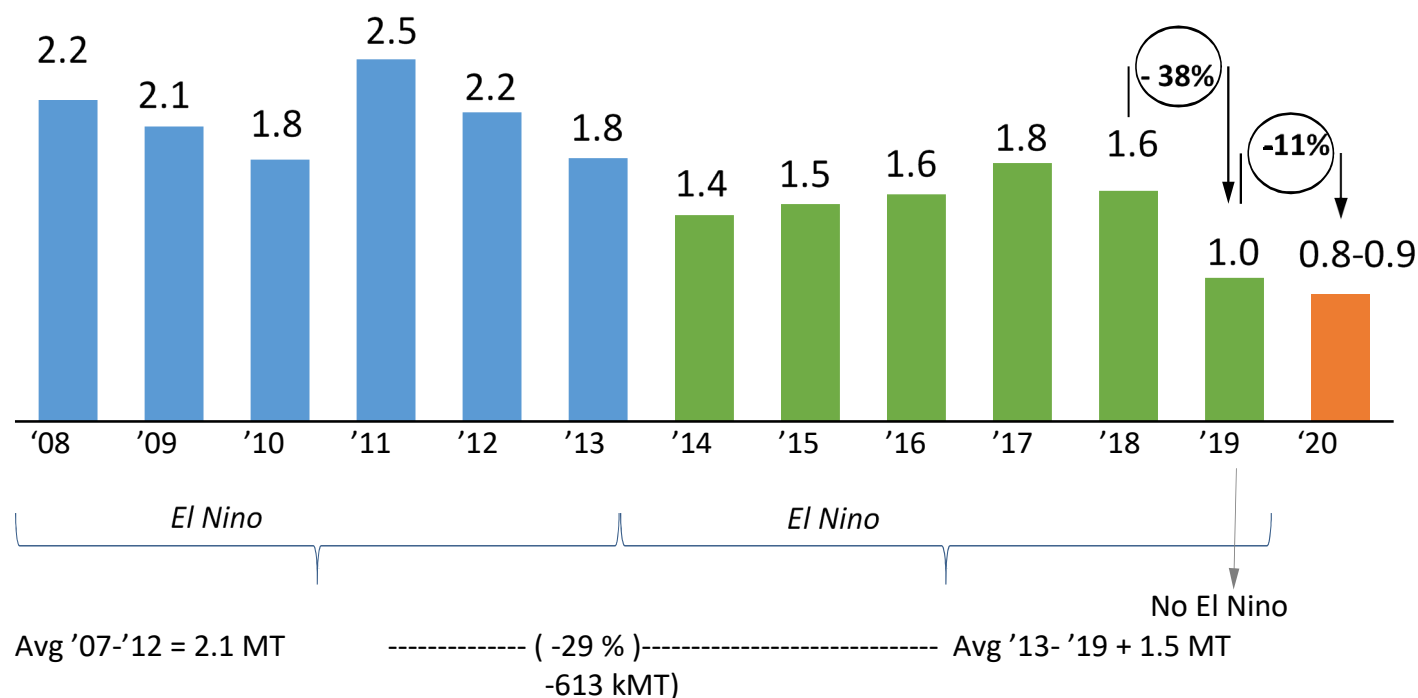


Thailand:

THAILAND'S PINEAPPLE INDUSTRY IS IN A CONSOLIDATION STAGE:

Thailand Processed Pineapple Tonnage

(in Million MT)



Pineapple harvested tonnage (Thailand) trend in last 2 cycles:

- Average volume in the last six years (2014–2019) dropped by -613kMT (-29%) compared to the previous six years (2008–2013).
- Given the situation with industry consolidation and assuming no El Nino in 2020, Thailand's 2020 production is estimated to reach only 0.8–0.9 MT which will be a new record low year.

TOMATO

The 2020-2021 tomato crop has now been completed in most of the factories and an unusual situation has evolved which was unexpected in terms of total volumes. Conesa has processed around 15% less fruit than expected due to the fact that they were not able to reach the processing budget by most of the manufacturers because agricultural yields have been much lower than expected due to various reasons. The main reason is due to the highest level of rainfalls during the spring in the past decade. This resulted in a delay of the transplanting campaign by about 22 days and as a result the plants were waiting in the greenhouse for a much longer time before being carried to the field which has affected the quality. In many cases a high degree of plant mortality occurred when the plants were transplanted to the fields because of the high temperatures in early June.

The second reason for the low yield is because throughout the month of July and the first 10 days of August, Spain experienced very high temperatures between 38-42 degrees centigrade which has placed stress on the plants. Due to these high temperatures, the plantations required a high amount of irrigation to avoid dehydration of the plants and in the soils where water filtration was poor, an excess amount of moisture has weakened the roots and caused diseases.

Due to the above reasons the production of tomato paste and low brix products like Passata, Pizza Sauce and crushed tomatoes is down by around 15%. In the case of tomato dices the production drop is around 10% from the initial budget. This is a common scenario for most of the manufacturers from Europe.



ORANGE

The Brazilian Citrus Belt is mainly located in the Sao Paulo and Minas Gerais states, split in 3 regions –North, Center and South. Citrosuco is present with 25 farms in all these regions.



In September, temperatures were above 34°C degrees in many parts of the region and the accumulated rainfall volume from July-September 2020 were on average 60% less. This rise in temperatures and drop in rainfall will significantly impact the fruit droppage rate and affect the output of the next crop.

Brazil:

Fundecitrus and its cooperators announced an update to Brazil's 2020-2021 orange crop forecast on October 10th, 2020. The new figure for the São Paulo and West-Southwest Minas Gerais citrus belt is 286.72 million boxes. This is 0.36% less oranges than the initial forecast released in May and 25.87% less oranges than the 2019-2020 crop.

Florida:

The 2020-2021 Florida orange forecast released by the USDA Agricultural Statistics Board is 57.0 million boxes, down 15% from last season's final production. The total includes 23.0 million boxes of non-Valencia oranges (early, midseason, and Navel varieties) and 34.0 million boxes of Valencia oranges.

Europe:

The production of citrus fruits in the European Union is expected to fall 11% during the 2019/2020 harvest. This estimate is from a report released by the USDA which points to a total volume of 254 million boxes of 40.8 kg equivalent of citrus harvested in that region.



Please contact us to discuss any of the
content or products presented here.

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