CALIFORNIA CITRUS MUTUAL
2019-2020 NAVEL PERSPECTIVE

INTRODUCTION

The 2019-2020 navel season was a "tale of two seasons." The beginning of the season had all the indications of a good season. But 2019-2020 was not an average year. At different times, the industry struggled with a trade war, rind quality issues, fruit drop, keeping the market supplied between rainstorms, and maintaining grower per acre returns at profitable levels. Seemingly, it took a worldwide coronavirus pandemic to turn the market around.

The California Department of Food and Agriculture, in cooperation with the National Agricultural Statistics Service, released the 2019-2020 California Navel Orange Objective Measurement Report ("CASS Report") on September 12, 2019. The CASS Report forecast the California navel crop (this includes organic, Cara Cara, blood, and exotic varieties) at 76 million cartons, down 7 percent from the previous year. The Central Valley (District 1) navel crop was forecast at 73 million cartons, down 5.6 million cartons, or 7 percent, from the 2018-2019 final utilized production figure. The Cara Cara variety of Navel orange production in the Central Valley was forecast at 6.0 million cartons. The survey data indicated that the average fruit set per tree was 319, which was below the five-year average of 366. Also, the survey data reported that the average September 1st diameter was 2.169 inches, below the five-year average of 2.225 inches.

The Citrus Mutual Marketing Committee met on September 18, 2019, and agreed that the 73 million carton estimate was a good first estimate. Some committee members indicated that they were expecting the figure to be lower, considering the lighter crop compared to the previous season. Other committee members stated that the crop looked heavier in certain areas than was indicated in the estimate. Optimism was expressed around the table about the better sizing of this year's crop, even with smaller crops.

Maturity and quality levels at the end of September were good, sugar levels were coming up, and with the color break coming on, it was anticipated the first navels would be harvested in early October.

EARLY SEASON

The first 2019-2020 navels were picked in the third week of October. The season got off to a smooth start with great pricing and excellent Brix levels. The California Standard was met by the second week of October, but a lack of color-break contributed to a slightly postponed harvest date. Domestically, early demand was not as strong as it could have been. This was attributed in part to inventories of Southern Hemisphere navels that lingered in the market well into November. Other issues, depending on variety and geographic location, included Katydid and wind scarring as well as slightly larger-sized fruit compared to previous harvests season-to-date. By mid-November, growers were picking at or above estimate, and prices were declining rapidly.

Early demand in the export market was as good as could be expected, considering a 70 percent tariff on exports to China due to the ongoing trade dispute, and the industry began exporting volume to Australia and South Korea at the beginning of November.

There were no major changes in the phytosanitary requirements for Korea, Canada, Japan, China. Australia required mandatory phosphine treatments for navels for the first time. Inspections and APHIS oversite were strictly adhered to in an effort to ensure that the protocols in place were effective and markets stayed open. Due to fruit fly, the New Zealand market was temporarily closed from October through late November to all citrus, except for limes. Some reported setbacks with testing as they attempted to access export markets.

Overall, fruit quality was significantly better than the previous year but warmer than normal temperatures delayed color-break in some areas. Packing houses reported issues with clear rot and there were early signs of puff and crease in some groves. Utilization was in the mid to high eighty percent range with a 3 to 1 fancy-to-choice ratio. There was wide variation in sizes. Packers commented that one lot would pack out 72-88-56, and the next would be 113-88-138. Packing houses moved rapidly through the non-gibbed fruit. Some packing houses were forced to slow harvesting until their gibbed fruit colored.

Things declined through December. Due to lack of demand, some growers had to pay to harvest fruit and drop it to the ground, suffering huge losses just to get ready for the upcoming season. There were few cold nights, and the warm temperatures were not helping the trees to go into the dormancy period necessary for the fruit to harden off. Indeed, puff and crease were beginning to become a problem. The few rain events that occurred did not cause serious disruptions and were welcomed with the hopes that clearing out inventory would help movement pick up. Exports to Japan and China began in December. Exports to Japan, while slightly up from 2018, were still nowhere near previous years. The most noticeable decrease in exports was to China – we shipped fifty percent less than in previous years.

On December 13, 2019, it was announced that the U.S. and China reached a Phase One trade agreement, however, there were no requirements for China to reduce tariffs as part of that deal. The official U.S. position was that China had a commitment to buy U.S. agricultural products and that it did not make sense for China to tax itself on those purchases.

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GENERAL MATURITY

Unusually warm temperatures continued to put pressure on fruit quality from the first week of January through February and into March. Moving through January, the crop was 25 percent harvested with utilization ranging from 80 to 85 percent. The major defect affecting utilization was puff and crease. At this point, COVID-19 was beginning to explode worldwide with some ripples on the international produce markets. Of equal or greater concern was the continued gradual decline in domestic FOBs. There was an oversupply of large sizes with extremely low prices – a trend that was concerning – as well as an oversupply of small sizes. There was a discussion at the January meeting of the CCM Marketing Committee that if prices did not start increasing soon, returns on groves peaking on small sizes would fall below breakeven.

The President officially signed the Phase One Trade agreement on January 15th . Per the agreement, China agreed to purchase at least $40 billion annually over two years of U.S. agricultural products, including citrus. In exchange, the United States agreed not to apply additional tariffs on Chinese products. At the end of February, China announced a reduction in tariffs on some U.S. agricultural products. Citrus was included in the announcement, and tariffs were cut in half to 35 percent from a high of 70 percent.

Through February and into the first week of March, the ongoing warm temperatures were having a significant impact on harvest schedules. Reports were coming in of damage due to scale, thrip, and wind, which also affected fruit quality. Quality degradation continued to be a struggle for packing houses, with utilization falling between 70-75 percent. In addition, a sluggish export market persisted despite the end of the trade war with China. The market was still saturated with fruit, particularly 72s and larger. As a result of these factors, growers began slowing down the harvest. The average domestic FOB continued to take a hit, and there were no indications of prices solidifying in the near term.

By the middle of March, COVID-19 was rapidly becoming a logistical issue around the world. More and more countries were incurring challenges in transportation to manage the risk of contagion. At the same time, demand for navels began increasing due to the COVID-19 lockdown, which saw consumers stocking up fruit that would hold up well over time. The market was moving plenty of 72s, 56s, and 88s. Towards the end of March, the movement for Navels became very strong, moving roughly over 2.8 million cartons in a week. Along with demand, pricing also increased. Export programs also began picking up movement into the Chinese and Japanese markets. The Australian market was finished by the end of March, and the South Korean market was slowing down. The last week of March saw yet another change as movement slowed down due to a decrease in retail foot-traffic as COVID-19 cases increased, and consumers were practicing extra caution by staying home. Nevertheless, prices continued to hold. Mid-March also saw a change in the weather. There were multiple rain events that month culminating in an increase of pest control management to keep thrips and scale down. By the end of March, the crop was 71 percent harvested.

LATE SEASON

May was a month that saw many rapid changes to the industry. The domestic market continued to solidify pricing for 88s and larger; and movement was 25 percent above the previous two seasons during the month of May. There was a continued demand for navels with export programs moving at a steady pace, thereby relieving pressure on the domestic market. The quality continued to hold well, and several welcomed rain events slowed down picking. By mid-May, exports were slowing down, and domestic consumption at the retail level was clearly becoming the driver behind demand. By the last week of May, demand was steadily increasing and would keep doing so until the end of the season. The size structure was good with utilization up due to increased domestic sales clearing out inventory. The two biggest factors affecting the industry at that time was the hot weather and competition for labor. The warmer temperatures slowed down, picking as workers shortened their working day to become acclimatized to the intense heat. At the same time, the labor supply shrank due to competition for labor for other crops. In the last few weeks of May, prices were increasing each week, and storage levels were reported to be less than 10 percent. Some exports continued, but the bulk was over for the season. At this point, the crop was roughly 87 percent harvested.

The month of June saw increased demand and increased prices week after week. Movement was steady and brisk with reports from the field, stating that they could not pick the navels fast enough. Packinghouses reported that there was nothing in storage because as soon as it was packed, it was shipped out. By the second week of July, harvesting wrapped up, and the season ended.

THE NUMBERS

The 2019-2020 California navel orange crop final harvest came to 88.2 million cartons. That was 3.4 percent above the National Agricultural Statistic Service's (“NASS”) June 2020 forecast of 85.3 million cartons and 1.5 percent below the NASS's revised total for the 2018-2019 California navel crop of 89.6 million cartons. The Central Valley (District 1) navel crop including organic, Cara Cara, and blood varieties came in at 85.6 million cartons, 5.5 percent more than last season's 81 million carton D1 crop, and 17 percent more than the CASS Report's original D1 estimate of 73 million cartons.

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Excluding the organic, blood, and Cara Cara oranges, District 1 marketed 73 million cartons of navels. Domestic shipments totaled 38million cartons or 52 percent of the navel crop. Export shipments totaled 17.5 million cartons or 24 percent of the navel crop. The overall fresh utilization was 76 percent.

CONCLUSION – No one in the industry could have forecast the rollercoaster season that was the 2019-2020 season. On the upside, there were no damaging freezes but, on the downside, there were not enough cold days to harden the fruit. The weather was not conducive to a high-utilization crop. The lack of cold temperatures throughout the season meant that packinghouses were constantly battling utilization issues. The drought-breaking rains were welcome, but they were combined with warm weather, which caused additional problems with utilization. Satisfying phytosanitary requirements remains challenging, and 2019-2020 was no exception. Between pest outbreaks, hold-ups with inspections, a trade war, and a pandemic, never has exporting navels been so challenging.

With all the optimism at the start of the season relating to the crop, there was much soul-searching soon thereafter as growers' returns started decreasing exponentially. Those that were fortunate enough to be at the beginning and end of the season saw some return on investment, but the bulk of the harvest came at the middle and many had significant losses.

Exports pushed on the domestic market caused a lot more competition than usual. Towards the end of February and into early March, the tariff reductions with China and the Phase 1 deal saw a reversal to the Chinese export market. However, this came much too late to make up for the losses earlier in the year.

The coronavirus pandemic and the subsequent change in consumer habits had the greatest impact on the season. People began eating more at home rather than in restaurants and became more concerned with maintaining a healthy immune system with the focus on vitamin C and overall health at the forefront of consumer spending habits. While at first sporadic, it soon gained momentum. The supply and demand curve moved more in our favor and movement, and demand picked up, which lasted through to the end of the season and even drove the success of the Valencia season.

The past few navel seasons have seen many rapid changes that have, ultimately, impacted growers' bottom lines. Never will it be more important for growers to sit down with their shippers and marketers to determine "what if" strategies should the 2019-2020 season show signs of re-emerging. This means will the navel and mandarin season get off to a better start than last year? Last year there were several dynamics that adversely affected net returns per acre. Growers, shippers, and marketers were all impacted by a variety of dynamics, most of which were foisted upon them. The conversation should begin with one broad question: *What did we learn, and what can we do differently?*

Below is a list of questions/suggestions to consider:

1. Review with your shipper the just announced crop estimate for navels and his review of size, grade, and volume for both navel oranges and mandarins.
2. Review with your shipper their thoughts on the lingering offshore product and their perspective on pricing today and into October/November.
3. Review their perspective on exports in general. What affects sales into Japan, Korea, Canada, and, of course, China. Where is there an exploration for growth?
4. Discuss with them how your costs have changed and whether your acreage will yield the published crop estimate, be below or above, and your size structure.
5. Discuss with them if there is an intention to participate in USDA's fruit purchase program, and if not, why not. There is no wrong answer, but an answer should be given, nevertheless.
6. Discuss with them the percentage of navel oranges that are gibbed in their tree crop base.
7. Get their perspective on why there was a drop in per capita consumption of oranges and mandarin varieties last year and how they believe the industry should rally to thwart that trend. *Yes, this is coffee shop talk, but every now and then, something better than coffee is received.*
8. Determine the plans for differentiating California fruit from an offshore product at the outset of the season.
9. Suggest a pre-season grower meeting to ascertain grower thoughts and responses to all the above. This will be more time-efficient for everybody.

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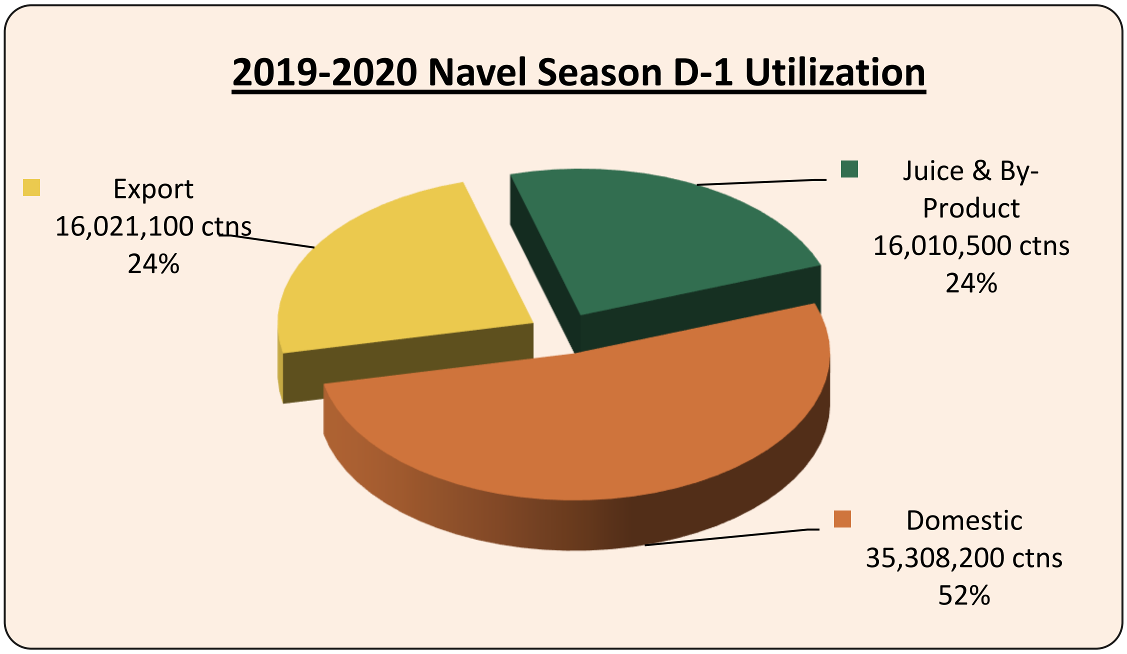

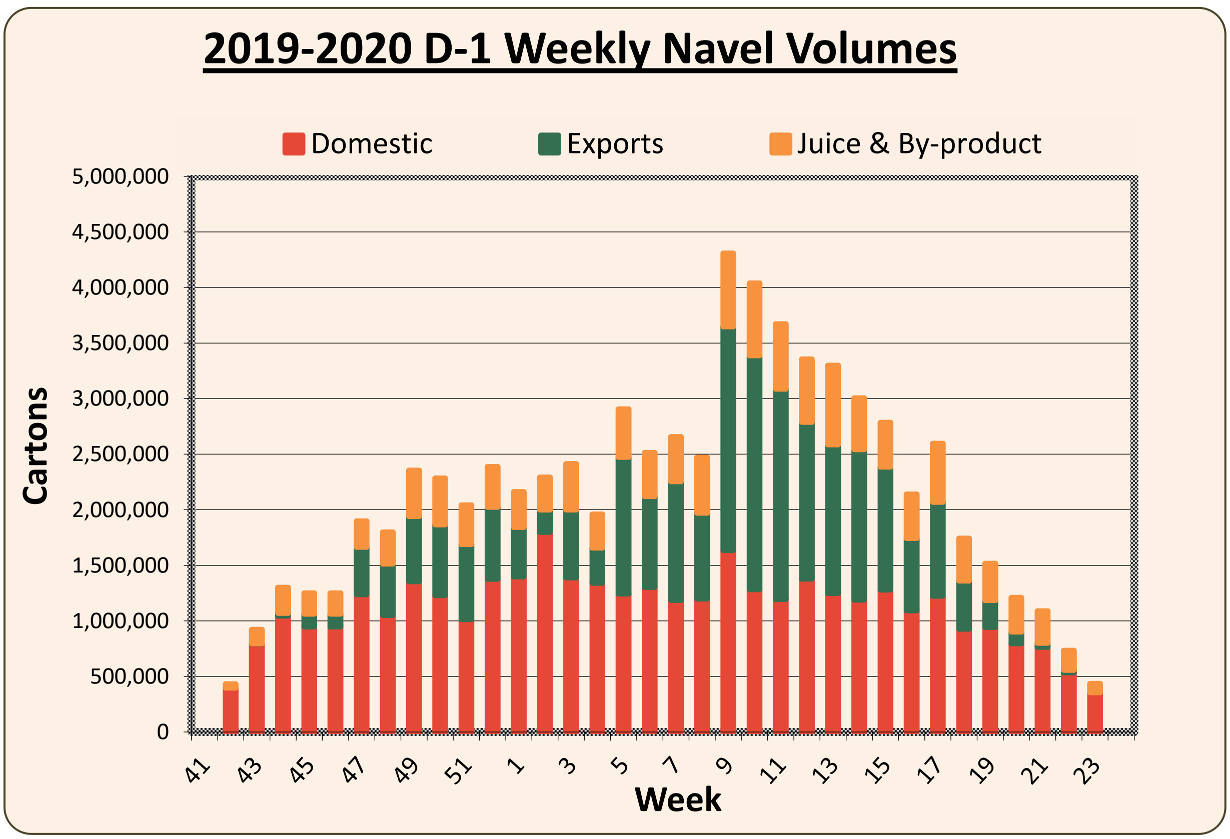

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