FOODNEWS®

Canned Fruit: Review and Prospects

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TOP TEN CANNED FOOD FIRMS

Bonduelle SA – canned vegetables; Camposol – canned vegetables;
Thai Union Frozen Products – seafood; Campbell Soup Company – foods/soups
Calvo Grupo – Canned seafood; Heinz – canned foods;
JBS SA – Canned meat; Seneca Foods – canned fruit;
Fresh Del Monte Foods – Canned fruit; ConAgra Foods – canned foods

THIS year just past can be characterised as a year of survival. During the year, the canning industry encountered many headwinds, a number of storms and had to jettison both extra baggage and also sometimes valuable cargo. Most canners focused a great deal on cost cutting measures and cash flow preservation.

With regard to worldwide supply and demand, which is the key driver of trading conditions, there has been much detailed analysis in *FOODNEWS* and elsewhere and canners exchanged information and views at the World Deciduous Fruit Conference, held in August in Xushou, China. From a South African perspective, fruit intake during 2009/10 was stable, whilst fruit prices were substantially reduced.

World 2009/10 production, on the other hand, was down as a result of lower production in Mediterranean countries and generally fruit prices were also down. Demand remained relatively consistent with both volumes and prices holding up well given current economic conditions in our major markets. In this regard, canned goods remain well positioned as value for money and specifically canned fruit, besides its other attributes such as quality and nutrition, offers an affordable opportunity for indulgence.

The difficulties of managing canned fruit businesses in world markets were no more evident than in 2010. The extent to which we are subjected to external factors beyond our control is quite frightening.

On the one hand we have had to contend with increased world prices for sugar and cans which are of course driven by their own particular supply and demand dynamics. This not only complicates the competitive set within the global industry, but also the expected continued demand for steel in emerging markets and the effect on can costs is certainly a concern for the canned fruit category for the future.

During 2010 Chile was struck by an earthquake and and our best wishes and support reached out to our colleagues in that part of the world. There are, of course, trading implications and the reduced supply of especially purées eased market conditions. Then there was the Chilean mine rescue: a prominent South African mining construction company was at the forefront of rescue operations. In addition, the rations of canned products, including peaches, on which miners survived, elevated canned peaches to a hero category – especially on first contact when miners apparently asked for beer and more canned peaches.

Rudi Richards

Economic conditions continued to affect our daily lives – no more so than in the case of rates of exchange.

The flow of investment away from developed markets and into emerging markets, including South Africa, has seen the rand appreciate nearly 20% from December 2009. The continued weakness of the US dollar has major implications for all and the impact of currency movements will continue to significantly influence 2011.

The prospects for 2011 will be dominated by worldwide supply and demand and currency movements

Current indications are that global supply and demand is in relative equilibrium. Trading conditions, however, remain tough in the current economic conditions and this will be especially evident in the developed economies. This would include the availability of credit with both the banking sector as well as the balance sheets of industry players under pressure.

The US is struggling under the weight of debt, which is close to 100% of GDP. House prices have not recovered sufficiently to cover mortgage values. Unemployment is high at 10%. Adding to these woes is the fact that China holds roughly 65% of its reserves in US dollars and will presumable be doing all in its power to diversify. The dollar is likely to remain weak for some time to come.

The EU is also struggling under heavy debts, especially in the Mediterranean countries. The UK has announced austerity measures; Greek debt will rise from 120% to 150% of GDP; Ireland has a banking crisis; and there is concern in the Euro-zone as to who is next…

As far as South Africa is concerned, the country has not remained unscathed. The banking system is healthy and debt as a percentage of GDP is at least half of the developed world. However, some 900 000 jobs have been lost and the official unemployment rate is now roughly 25%. This is

TOP FIVE PREDICTIONS FOR THE CANNING INDUSTRY

1. European and US demand for canned fruit and vegetables to show some signs of recovery but generally remain relatively stagnant.
2. China to see continued rapid growth in its domestic canned food market, pushing export prices for finished product higher.
3. Russia and India to increase imports of canned foods over next 12 months.
4. Raw material skipjack tuna prices to trend higher than in 2010.
5. Decline in area planted to canning peaches in US and Greece, further reducing output of finished product.

especially disheartening given the possible social implications in a new democracy. The currency has appreciated significantly on the back of capital inflows.

The shift from the lower-yield 'west' to the higher-growth 'rest' is clear. The insatiable thirst for better yields and growing economies continues unabated and it is expected that the rand could remain stronger for longer and for at least the duration of 2011. Cost and productivity efficiencies will be the order of the day.

Given that the majority of canned fruit is traded in the developed markets, it can be expected that a core strategy of current world players will be to vigorously defend their existing developed markets.

Emerging markets

Conversely emerging markets seem well on the road to recovery. The economic crisis was largely a North Atlantic crisis and impacts mainly on those developed economies. Emerging markets will be the engine for future growth and expect large inflows of investment.

This may lead to stronger currencies, but it is unlikely to deter growth. Various emerging countries, including China, will also try to achieve weaker exchange levels to protect exports, but with varying degrees of success. The development of the Chinese canned fruit market, especially by their local manufacturers, will of course be most interesting.

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Emerging markets would include Africa as a frontier market albeit from a lower base and the positioning of South Africa is fundamental in this regard and also motivation for its application for inclusion in the BRIC grouping.

An expected strategy is that forward thinking producers will target and intensify activities in these emerging markets for growth opportunities over the longer term. This will be in addition to their search for niche markets and products to increase value.

Based on supply and demand factors as well as currency movements, it would seem that 2011 will not experience a demand squeeze, but rather a margin squeeze. Canners with strengthening currencies will have to do all in their power to save margins. In South Africa one would expect some cutback in production and further reduced fruit prices.

As an aside, the approach towards the dynamic and unpredictable trading environment is changing. It is unlikely to suffice to be reactive and when triggered to merely re-forecast and re-plan. More focus will need to be given to proactive scenario planning. Alternative plans based on probabilities and "what if" scenarios flagged by key indicator shifts will need to be monitored in a more sophisticated, yet simple way if the industry is to negotiate the future successfully.

Finally, no article emanating from South Africa would be complete without mention of the World Cup. We congratulate Spain, but South Africa was also a winner. South African achieved a wonderful rebranding of the country.

Modernized infrastructure and the removal of many misconceptions should bode well for the future. South Africa is increasingly positioning itself as the financial gateway to Africa and hopefully many of our visitors will return as tourists, traders or investors.