

CITRUS ADMINISTRATIVE COMMITTEE

FLORIDA CITRUS MARKETING ORDER NO. 905

Advisable Marketing Policy 2009-10 Season

The Citrus Administrative Committee (CAC) develops and submits, each citrus season, to the Secretary of Agriculture an advisable marketing policy before any regulation recommendations can be considered for the ensuing season. To assist in the preparation of this Advisable Marketing Policy for the 2009-10 season, approximately 65 opinion questionnaires were mailed on September 1st to a cross section of the Florida citrus industry. Growers and shippers were asked their opinions concerning the size of the 2009-10 Florida citrus crop, general fruit appearance, and their observations about fruit size by variety. Many of the statements made in this Advisable Marketing Policy for the upcoming season are based upon a composite of responses received.

CITRUS PRODUCTION OUTLOOK FOR FLORIDA, TEXAS AND CALIFORNIA-ARIZONA

The production numbers utilized in this report are from the October 9, 2009 official USDA citrus forecast. The official estimate indicates citrus production in the United States citrus production areas should total 235,500 million boxes or 9 percent less than the July 2009 USDA citrus forecast of 257.4 million boxes for the 2008-09 season. California's initial USDA forecast for the 2009-10 season was 67.05 million boxes or 2.15 million boxes or 3.3 percent more than the 2008-09 season's October 09, 2009 USDA's estimate of 64.9 million boxes. The USDA forecast for the Lower Rio Grande Valley of 6.75 million boxes, would be 200,000 boxes more than was harvested during the 2008-09 season. Florida's 2009-10 total citrus production was forecast to be 164 million boxes approximately 13 percent less than the 189.1 million boxes harvested during the previous 2008-09 season.

FLORIDA

The official estimate for the 2009-10 citrus crop is detailed in Table 1. Table 1 compares the Florida citrus production for the upcoming season with the actual production of the 2007-08 and 2008-09 seasons.

Total orange production for the upcoming season is projected to be 136 million boxes, which includes the Temple orange production. This estimate represents a decrease of 26.4 million boxes or 16 percent from the 162.4 million boxes harvested during the 2008-09 season. The USDA estimated Navel oranges at 2.3 million boxes for the 2009-10 season, which is 700,000 boxes less than last season. The quality of the new orange crop is anticipated to be normal. Rust mite damage was reported to be lighter than normal for late August. The USDA reported only one percent of the fruit counted for the October forecast was from late blooms. Most respondents reported wind scarring to be a little more than normal throughout the citrus producing areas of the state.

The official estimate for the Florida's seedless grapefruit crops is 19.8 million boxes, which would be a decrease of 1.9 million boxes from the 2008-09 harvest of 21.7 million boxes. At 14 million boxes, the red seedless grapefruit crop is projected to be down 1.1 million boxes from, last season's harvest of 15.1 million boxes or an approximate seven percent reduction. White seedless grapefruit production, which is estimated to be 5.8 million boxes, would be a decrease of 800,000 boxes or about 12 percent below last season's harvest of 6.6 million boxes. Given the estimated 19.8 million boxes of grapefruit, fresh grapefruit shipments for the upcoming 2009-10 season should be in the 8 million-box range. This would be the smallest grapefruit crop produced in Florida since the mid 1940's.

The upcoming Florida non-Valencia round orange crop individual fruit sizes is reported to be smaller than normal except for Navel oranges, which were reported to be normal sized about the same as the two previous seasons. Valencia oranges were reported to be very close to average sized as of the October estimate. Therefore this season's individual fruit sizes for the early oranges will be smaller than last season. A comparison of the estimated average size distribution for regulated Florida citrus for the upcoming season is shown in Table 2.

A vast majority of respondents indicated the new seedless grapefruit crop quality would have about normal rust mite damage. The form (shape) of the seedless grapefruit crops for the upcoming season reported to be about normal for this time of year. They indicated wind scarring is also going to be more than in previous seasons. Most respondents were not as optimistic about the external quality of this season's seedless grapefruit crop, as Melanose damage continues to be a concern. However, the individual fruit size was reported to be smaller than last season and very similar to the individual fruit size during the 2007-08 season. The individual red grapefruit size, as reported in October forecast, indicated that 65 percent of the red grapefruit were size 56 or smaller compared to 48 percent last season at the same time. Therefore, especially at the beginning of this season the grapefruit crop will be smaller than normal but with good fall growing conditions the fruit may continue to size.

Specialty citrus production is estimated to be 5.9 million boxes or 900,000 boxes, 18 percent, greater than last season's harvest of 5 million boxes. The quality and fruit size of the new specialty citrus fruit crop is anticipated to be above normal in all the citrus production areas with the individual fruit size also smaller than last season and comparable to the size during the 2007-08 season.

All indications are the maturity of the upcoming Florida citrus crop is a little later than normal. However, there should be some limited fresh citrus shipments by the first week of October. Given good weather conditions there should be ample supplies of Florida citrus available for the fresh market by late October.

Because of the reported normal quality of upcoming Florida citrus crop, it is estimated that for the upcoming season, 92 percent of all Florida citrus varieties will meet the U.S. No. 1 grade classifications or higher, 6 percent will meet the U.S. No. 2 grade classifications, and only 2 percent will be U.S. No. 3 or culls.

TEXAS

During the 2008-09 season, the Lower Rio Grande Valley of Texas produced 7.05 million boxes of grapefruit and oranges. However, the USDA's Lower Rio Grande Valley's forecast for the upcoming 2009-10 season, has grapefruit production down by 200,000 boxes or approximately 3.5 percent and orange production down 100,000 boxes or about 3.5 percent. However, combined fresh grapefruit and orange shipments from the Lower Rio Grande Valley should be approximately 8.5 million cartons, which would be approximately the same as last season. Due to below normal rainfall and extremely hot temperatures during the summer, the new Texas citrus crop individual fruit size is below normal with almost normal quality. There could be less Texas grapefruit available for utilization in the fresh market during the 2009-10 season due to smaller fruit size and increase competition from the processes market.

CALIFORNIA

On October 9, the USDA-NASS forecast the 2009-10 California Navel orange crop at 80 million cartons, which is 16 percent above last season. Under normal conditions, approximately 65 percent of the Navel orange crop is utilized for domestic shipments. As of October 9th, the 2009 California Valencia crop was estimated at 28 million cartons, which is 18 percent smaller than the 2008 harvest of 34 million cartons. Arizona's combined Navel and Valencia orange crops have been discontinued by the USDA as of the 2009-10 season. The 2009-10 California grapefruit crop is forecast to be 4.7 million boxes, which is down from the 5.6 million boxes harvested during the 2008-09 season.

However, the greatest change in California citrus acreage comes from tangerines. California's total tangerine acreage was 31,392 acres in 2008 an increase of over 7,300 acres or approximately 30 percent from the 2005 California Citrus Acreage Report. It must be noted; the greatest change from the 2005 California Citrus Acreage Report to the most current 2008 report is the more than doubling of the bearing tangerine acreage. As of 2008, California's non-bearing tangerine acreage is 18% of their total tangerine acreage. On October 09, 2009 the USDA's forecast indicated only a 4 percent increase in tangerine production from California for this season over the 2008-09 season's production of 6.7 million boxes. However, since the 2006-07 season, California's tangerine production has doubled, which tracks the acreage increases.

SUMMARY

Citrus fruit production for the United States was estimated by the USDA on October 9th to be 235.5 million boxes or 9 percent less than last season's harvest of 257.384 million boxes. California is projected to produce 67.05 million boxes of oranges, grapefruit and tangerines while the Florida orange, grapefruit and specialty citrus crop is projected to be 164 million boxes approximately 14% less than the previous season. The forecast for Texas citrus production is for a decrease of approximately 300,000 boxes below last season's harvest. Citrus production in Arizona has decreased to only 350,000 boxes of tangerines. The quality of the upcoming citrus crop from all citrus producing states is reported to be normal. Given the quality of the new citrus crop there will be ample amounts of fresh citrus fruit available throughout the year.

PROJECTED DOMESTIC FRESH CITRUS SHIPMENTS FROM CITRUS PRODUCING STATES

As previously noted California domestic shipments of Navel oranges will be greater than last season due to their larger Navel orange crop. Therefore, California domestic Navel orange shipments are estimated to be approximately 52 million cartons. Given the increase in Navel orange production in California, coupled with the increasing tangerine production from California, total fresh citrus shipments from California could be up more than 10 percent from last season's shipments due to the increase in their citrus production. Total fresh citrus shipments from Texas are expected to be approximately the same as last season. Given the estimated citrus crops from the non-Florida citrus producing states, fresh citrus shipments should increase approximately 10% above last season. Table 3 gives the estimated domestic shipments of fresh citrus from competing production areas in the United States for the upcoming season compared with the shipments for the previous two seasons.

PROJECTED FRESH FLORIDA CITRUS SHIPMENTS

It must be noted that movement of fresh Florida citrus fruit to interstate markets for the 2009-10 season could be strengthened by the USDA's change in canker regulations, which became effective on October 22, as outlined in the Code of Federal Regulation, CFR 301.75 Subpart-Citrus Canker. Even with the relaxation of some of the requirements for shipping fresh Florida citrus, the outlook for regulated fresh Florida citrus shipments could be down slightly from last season but could be approximately 30 million cartons. In projecting fresh shipments for this season, consideration was given to the effect citrus canker is having on the Florida citrus industry, especially grapefruit. In addition, the sluggish world economy and weaker U.S. dollar could also affect the amount of fresh citrus shipped to offshore markets.

Last season, 32.1 million cartons of regulated Florida citrus were utilized in interstate and export markets. The 32.1 million cartons shipped last season was a decrease of approximately 3.5% from the 2007-08 season. It is estimated that approximately 30 million cartons of regulated Florida citrus will be utilized in interstate and export markets, a decrease of approximately 2.3 million cartons or approximately 6 percent. The basis for these projections is shown on Table 4.

Fresh orange citrus shipments are projected to be less than last season. The main reason for the reduction in round orange shipments will be strengthened competition from the processed side of the Florida citrus industry and the increase in California's orange crop. At these projected levels, total regulated fresh orange shipments could be approximately 8.5 million cartons.

Given the projected volume of Texas red grapefruit shipments this season, coupled with the relaxed canker shipping regulations domestic grapefruit shipments should be slightly more than as last season. In contrast, offshore export shipments of grapefruit are expected to be down maybe as much as 10% from the 11.3 million cartons shipped offshore last season. Again, the overriding factor for the projected decrease in fresh grapefruit shipments is the projected smaller grapefruit crops coupled with the smaller individual fruit sizes. However, the weaker U S dollar could have a positive affect on offshore shipments of grapefruit.

Regulated specialty citrus shipments for the 2008-09 season totaled 6.29 million cartons, which was reduced mainly by the January 2009 freeze that limited Honey T shipments.. Regulated specialty citrus fruit shipments for the upcoming 2009-10 season are projected to be approximately 6 million cartons or a decrease of approximately 200,000 cartons, mainly due to the increased California tangerine crop and the smaller fruit sizes. Hopefully, the new canker regulations allowing Florida citrus into the other citrus producing states will help offset the previously mentioned factors.

Comparisons by variety of regulated fresh Florida citrus shipments over the previous two seasons and the estimated shipments by varieties for the 2009-10 season are outlined in Table 4. These shipments exclude the approximate 2.3 million cartons of fresh Florida citrus, which will be marketed within the production area of Florida.

PROCESSED CITRUS PRODUCTS

The movement and ending inventories of processed citrus is of importance to the grower and shipper of fresh Florida citrus utilized for fresh shipments. The processed information outlined below was published in the Florida Citrus Outlook for the 2009-10 Season by the Economic and Market Research Department of the Florida Department of Citrus.

ORANGE

Florida ended the 2008-09 season with an OJ inventory level of 659.1 million SSE gallons or 30.3 weeks of supply. Adding the 2008-09 ending inventory to the 2009-10 estimate of Florida OJ production of 863.8 million SSE gallons equals an estimated increase in import to 182.1 million SSE gallons or up almost 20% from last season. Total movement in 2008-09 was 1,151.5 million SSE gallons, which is down slightly 1.7% from the projected 2009-10 movement of 1,132 million SSE gallons. The decrease in OJ movement is based on the assumption that the U.S. OJ consumption continues to decline in 2009-10 and Florida supplies less juice to the U.S. market. At the end of the 2009-10 season, Florida's OJ inventory level would stand at 573.1 million SSE gallons or 26.3 weeks supply, 4 weeks less than last season.

Given the official estimate of Florida orange production and the amount of OJ inventory and movement projections, the prices Florida orange producers will receive for the 2009-10 season will be greater than last season.

GRAPEFRUIT

Florida began the 2008-09 season with 59.3 million SSE gallons of GJ in inventory, up 2.4 million SSE gallons from the 56.9 million SSE gallons of beginning inventory in the previous season. The 2009-10 beginning inventory represents 31.9 weeks of supply, down 4.4 weeks from 36.3 weeks in 2007-08.

Florida GJ production in 2009-10 is estimated at 64.8 million SSE gallons, down 3.3 million SSE gallons from the 68.1 million SSE gallons produced last year. Combining production with beginning inventories, Florida GJ availability in 2009-10 season is estimated at 110.5 million SSE gallons, down 16.9 million SSE gallons or more than 13% from last year.

GJ movement is estimated at 71.6 million SSE gallons, down 10.1 million SSE gallons from last year.. The decline in movement is based on the assumption that GJ prices will increase during the course of the season given the reduction in GJ availability. The 2009-10 ending-inventory levels for Florida GJ are estimated at 38.9 million SSE gallons or 28.3 weeks supply, 6.8 million SSE gallons or 3.6 weeks less than last season.

Total grapefruit commercial utilization last season was 21.7 million boxes down approximately 19% from the previous 2007-08 season. The estimated 19.8 million-box grapefruit production for the upcoming 2009-10 season is a decrease of 1.9 million boxes or approximately 9%. Given the above information, grapefruit growers should receive higher per pounds solid prices for their 2009-10 grapefruit crop that is utilized in the production of FGJ. However, even with the projected higher prices the grower may not recover the cost of production.

CONSUMER INCOME AND ECONOMIC OUTLOOK

The third quarter of 2009, which just ended, showed Real GDP up for the first time since the second quarter of 2008. Look for GDP to drop in the final quarter of 2009, following the third quarter increase. The unemployment rate has risen from under 5% in the first quarter of 2007 to over 10% in the third quarter. Consumer spending, one of the main engines that drive the US economy, declined sharply at the end of the third quarter and is projected to continue to decline along with consumer confidence mainly due to the previously mentioned unemployment rate. Exports should begin to increase as the dollar continues to weaken. However, the recession continues as the continued credit crunch, high unemployment, increasing home foreclosure rates fuels the lack of consumer confidence and consumer spending. It is expected the recession will continue well into 2010 and maybe into 2011. The above information was taken from the Economic Chartbook – Markets Data Center – WSJ.com

PROSPECTIVE SUPPLIES OF NON-CITRUS FRUIT

The USDA's National Agricultural Statistics Services (NASS) initial forecast for the U.S. apple crop was set at 10.1 billion pounds, up nearly 4 percent from a year ago and the largest apple crop in 4 years. This forecast will likely put downward pressure on domestic apple prices. NASS forecast the 2009 U.S. grape crop at 14.1 million pounds, 4 percent smaller than a year ago. Despite the decrease in the grape crop, this crop is average-sized in historical terms.

U.S. consumers continue to struggle with tight budgets through tough economic times; retailers have been more aggressive in their efforts to make non-citrus items more affordable to their consumers. The sufficient supplies of non-citrus fruit available from domestic production and ever-increasing global supplies, there will be more than sufficient supplies of non-citrus fruit throughout the year. This information was taken from the USDA Fruit and Tree Nuts Outlook published on September 29, 2009.

PROPOSED REGULATIONS

The CAC will meet, as necessary, during the 2009-10 season to review all relevant supply, demand and quality factors and to consider changes in minimum grade or size regulations for each variety of Florida citrus fruit shipped to interstate and export markets. Meeting notices are widely disseminated to all handlers of fresh Florida citrus, importers and exporters of fresh citrus fruit and other interested parties at least 7-10 days prior to any CAC meeting. Also, only those items listed in the meeting notice will be considered by the CAC.

To guide the CAC this season, the CAC Chairman will again appoint an Orange/Specialty and Grapefruit Subcommittee which will meet on an as needed basis to review and consider fruit and market conditions as they may affect the need to relax minimum grades, maturity and sizes during the upcoming season. It is possible the Orange/Specialty Subcommittee may consider developing a rule, much like the Size 48 and Smaller Red Grapefruit, for dealing with the smaller size 210 Sunburst tangerines. However, given the reduced red grapefruit crop for the 2009-10 season it is unlikely the Grapefruit Subcommittee will meet after the official crop estimate to review and consider recommending, to the CAC, the utilization of the Size 48 and Smaller Red Grapefruit Rule (Rule) for this season. Also, the Grapefruit Subcommittee may review and consider the minimum maturity standard for fresh grapefruit shipments to regulated markets. Interstate regulations for both red and white seedless grapefruit recommended by the CAC and approved by the secretary should include continuous coverage under Section 8e of the Agricultural Marketing Agreement Act of 1937, as amended. This requires that the quality of grapefruit imported to the United States must meet the same minimum grade and size requirements, as Florida grown red and white seedless grapefruit interstate shipments under the order.

A proposed schedule for minimum grade and sizes for the various citrus varieties regulated during the 2009-10 season is shown in Table 5. The actual recommendations to be made by the CAC and the timing of any changes may vary from the proposed schedule due to changing supplies, demand, and weather conditions which cannot be foreseen at this time. It is important to note, that depending on crop and market conditions, most recommended regulations may be determined to be critical and time sensitive. As such, these regulations will require approval in an expedited manner, as provided under the Administrative Procedures Act.

MARKETING POLICY OBJECTIVES

ORDERLY MARKETING

There are approximately 8,000 Florida citrus growers and 40 shippers of fresh Florida citrus fruit. Minimum quality controls as provided under this marketing order play an important role in the orderly marketing of the projected 30 million cartons of Florida citrus fruit to be shipped in regulated channels during the upcoming season. If the marketing order was not in place, the shipment of immature, lower grade, possible freeze damaged and extremely small sizes of Florida citrus fruit could do irreparable harm to the quality image built of many years by the Florida citrus industry. Oranges that do not meet the minimum regulation requirements can often be profitably utilized in process products with a greater overall return to the Florida orange grower. However, even with the smaller grapefruit crop, it is expected that grapefruit growers selling their grapefruit for processing

during the upcoming season will not return the cost of production. Therefore, maintaining a strong fresh market through orderly marketing is of vital importance to the Florida citrus grower and consumers of Florida citrus fruit.

CONSUMER CONFIDENCE

Many consumers buy fresh Florida citrus fruit on the basis of eye appeal. The shipment of excessively blemished, discolored and misshapen citrus fruit and extremely small sizes does not result in consumer confidence in the quality of the product. Therefore, the minimum grade and size requirements recommended by the CAC are designed to provide an ample and consistent supply of quality fresh Florida citrus fruit, which will gain consumer confidence and encourage repeat purchases.

REASONABLE PROFITS FOR FLORIDA CITRUS GROWERS

According to past studies by Ronald P. Muraro, University of Florida - IFAS, CREC, the cost to produce Florida citrus fruit for the fresh market range from an estimated \$1,300 an acre to \$1,800 an acre for irrigated citrus groves in the different citrus producing area of Florida. These costs did not include ad valorem taxes, interest on production costs, insurance, depreciation, and other costs, which may vary widely among Florida citrus growers. These other costs are estimated to add an additional 10 to 20 percent to the cost of production. However, for the upcoming 2009-10 season production cost may not continue to increase as rapidly as in previous seasons due to the recent decline in energy cost. However, with the cost for scouting in their management of greening and citrus canker, production cost will continue to rise each season. Also, these additional costs associated with greening and citrus canker management could add an additional \$300 or more per acre. An important objective of this marketing order is to obtain a reasonable profit and return for Florida citrus growers producing citrus fruit for the fresh market. The fresh market is very important to growers of seedless grapefruit, tangerines, tangelos, Temples, Navel oranges, and round oranges. However, because the fresh market discounts heavily the lowest grades and smallest sizes of each variety it is these least desirable grades and sizes, which usually fail to return the cost of production to the Florida citrus grower. Therefore, throughout most of the marketing season, the lower grades and extremely small sizes are restricted at a reasonable level above the cost of production.

AIM FOR PARITY

Table 6 compares equivalent on-tree returns to the parity price for the previous five seasons. As shown in Table 6, grower returns over those four seasons have been below parity. One of the objectives of this marketing order is to strive to achieve parity for all Florida citrus fruit sold in fresh channels. With the estimated citrus production in Florida this season, it is believed that the 2009-10 average on-tree returns most likely will not exceed parity.

EFFECT OF REGULATORY ACTIONS ON SUPPLY - PRICE - INFLATION

EFFECT ON SUPPLY

During the previous season, the processing segment of the Florida citrus industry utilized 96 percent of the round orange crop, 40 percent of the grapefruit production, and 56 percent of the specialty citrus varieties (Tables 7 and 8). In contrast to many fruit and vegetable industries, Florida citrus fruit for processing often returns the grower more

money than the fresh segment, especially for oranges with high-pound solids. As a result, Florida citrus delivered to packing houses that does not meet the minimum grade or size requirements of Marketing Order No. 905, but is wholesome and passes all maturity tests, can be profitably used for FCOJ, FCGJ, chilled juice or sections, most seasons. Regulatory requirements under Marketing Order No. 905 does not reduce the overall supply of Florida citrus fruit that can be shipped fresh because approximately 75 percent of each variety can meet the minimum grade and size requirements sometime during the marketing season. Minimum quality regulations promulgated under this marketing order simply guarantees the best quality citrus fruit will be shipped fresh, resulting in increased consumer purchases.

While minimum size regulations may cause delays in harvesting certain crops, these delays can increase the total supply because fruit will continue to increase in size throughout most of the season.

EFFECT ON PRICE

Since lower grades and smaller sizes are generally discounted in the marketplace and adversely affect the returns for better grades and sizes, overall grower returns benefit from diverting the least desirable grades and sizes of Florida citrus fruit to processed products throughout most of the season. Price fluctuations are kept at a minimum as a result of these regulations, which provide a consistent supply of good quality fresh Florida citrus in the markets for approximately eight months each year. The effect of Marketing Order No. 905 regulations on the retail price is insignificant. This is because the retail price for fresh Florida citrus fruit primarily reflects the cost of harvesting, packing, transportation, wholesaling, and retailing rather than the cost of the citrus fruit itself. The FOB shipping point price is approximately 30 to 40 percent of the retail price of Florida citrus fruit. The on-tree return to Florida citrus growers would be lower as a percentage of the retail price because of the harvesting; hauling, packing and selling are deducted for FOB packinghouse price. Therefore, price changes at the on-tree level generally have only a slight effect on retail pricing unless there is a severe freeze or other natural disaster. Fresh Florida citrus fruit will remain an excellent buy in comparison with other fresh fruit and vegetables on a price-per-pound basis during the upcoming season.

EFFECT ON INFLATION

Regulations under Marketing Order No. 905 have no effect on inflation, productivity, employment, critical supplies or competition. The minimum quality regulations authorized by this marketing order should actually increase demand and the total volume of Florida citrus fruit sold fresh.

COST - BENEFIT SUMMATION

Under normal growing conditions, approximately 9 percent of the total Florida citrus crop is marketed as fresh fruit. However, returns from fresh sales are of great importance to the Florida citrus grower. The returns on the portions sold fresh are usually the difference between profit and loss, especially for the Florida citrus growers producing Navel oranges, grapefruit, tangelos, tangerines, Temples, and Honey tangerines. The value of this season's citrus marketed in fresh form should exceed \$400 million at the FOB packinghouse level. This marketing order program contributes to the increased value of Florida citrus fruit sold

fresh and the cost of the program is \$0.0072 per 4/5-bushel carton of regulated fresh Florida citrus shipped.

In developing this advisable marketing policy, the CAC has considered the practical problems associated with harvesting and marketing the crop and believes that the adjustments necessary for the industry to conform to the regulations will be negligible in comparison to the benefits that will accrue to the Florida citrus growers.