

Economic potential of the OJ market in China

By Zhifeng Gao
and Fred Gmitter

With the annual growth rate of gross domestic product (GDP) being more than 8 percent, China's GDP reached \$5.87 trillion in 2010, surpassing Japan's \$5.47 trillion to become the world's second largest economy after the United States. China's rising economy has resulted in increasing household income and the development of a consumer-oriented middle class. With a vast population of more than 1.3 billion, the growing number of middle-class consumers in China has contributed to increased purchasing power as well as consumer demand for many products, including orange juice.

In the past decade, the consumption of orange juice in China increased at an annual rate of more than 20

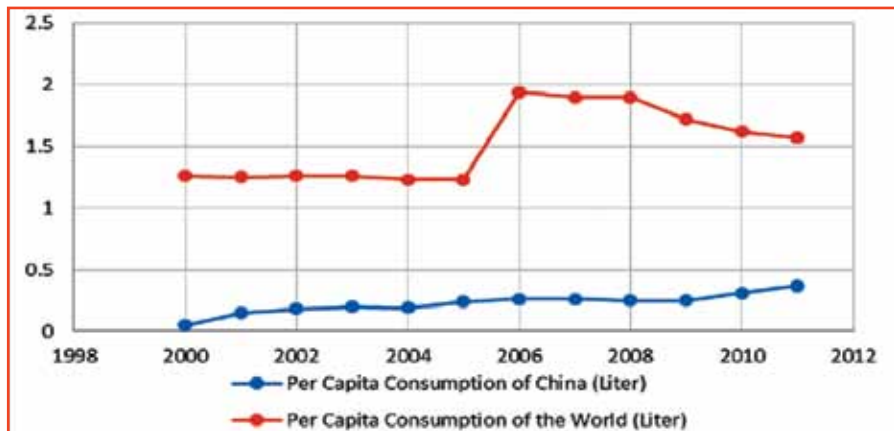


Figure 1. Per capita orange juice consumption of China and the world.

percent, and reached 0.37 liters (11.8 Brix equivalent) per capita in 2011. Because this figure was much lower than the world average of 1.57 liters, the potential for the growth in orange juice demand is significant. In addition, because of insufficient domestic orange juice production, more than half of the frozen concentrate orange juice (FCOJ) that is used as raw material by Chinese fruit drink manufacturers comes from imports.

The divergence between domestic supply and demand for orange juice may provide huge opportunities for orange juice and citrus industries worldwide, particularly Florida whose major citrus outputs are for juice production. However, the economic potential of the Chinese orange juice market for foreign citrus industries is unclear because China is eager to

develop its own orange juice processing industry. It has been making progress on expanding the orange fruit production base and building orange juice processing plants.

For the Florida citrus and juice industry, it is important to understand the current and future perspective of the domestic orange juice supply and demand in China so that better strategies can be developed to potentially take advantage of the fast-growing orange juice market in China.

ORANGE JUICE DEMAND

From 2000/2001 to 2011/2012, the per capita consumption of orange juice in China grew by 640 percent while per capita consumption of orange juice in the world grew by 19.7 percent (Figure 1). However, with about 0.37 liters of orange juice consumption per capita, China's total consumption of orange juice only accounts for 3.7 percent of world consumption.

More people, especially younger generations in China, have considered fruit juice products as healthier drinks than other beverages such as carbonated drinks. Experts predict the sales in Chinese juice markets will increase at an annual growth rate of more than 20 percent, and that total annual sales will exceed 30 billion yuan (U.S. \$4.8 billion).

Currently, low-priced orange juice drinks (OJD, not 100 percent juice) have the largest share of the orange juice product market. Premium products such as 100 percent-from-concentrate orange juice (FCOJ), and particularly the 100 percent not-from-concentrate orange juice (NFC) products, have a very small market share.

The most popular OJD in the Chinese market is a type of juice-based drink with orange pulp (Minute Maid Guolicheng, Figure 2), introduced by

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Coca-Cola in 2004. It became the most popular fruit juice drink with top sales in China in 2008. In August 2011, Coca-Cola announced its decision to invest an additional \$4 billion on the development of the beverage business in the Chinese market for the next three years, and Pepsi announced its decision to invest \$250 million into the Chinese market with the focus on promoting “Tropicana” branded fruit drinks for the next three years.

In addition to the bright perspective of the OJD market, the demand for high-grade mixed fruit juices, 100 percent FCOJ or NFC is also increasing

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Figure 2. Label of Minute Maid Guolicheng orange juice drink.

because these products are believed to be healthier drinks that contain more nutrition. Currently these premium products are sold at very high prices in the Chinese market. For instance, Florida’s Natural NFC is sold at a price of about \$7.84 per 1.75 liters; and the NFC of the first domestic brand, Paisenbai, is sold at about \$4.74 per liter.

ORANGE JUICE SUPPLY

The supply of orange juice in China relies heavily on imports. From 2000/2001 to 2010/2011, imports of orange juice, total supply of orange juice and domestic consumption of orange juice increased significantly — by 469.4 percent, 650.5 percent and 516.2 percent, respectively. According to the data from China Customs, FCOJ accounted for 93.8 percent and

94.3 percent, respectively, of China’s citrus juice import quantity and value in 2011. From 1995 through 2011, the import of FCOJ had increased from 935 metric tons (MT) totaling U.S. \$1.4 million in 1995 to 73,258 MT totaling U.S. \$162.7 million in 2011. The production, import and total supply of orange juice was 600, 13,443 and 14,043 MT, respectively, in 2000 and increased to 40,000, 60,485 and 125,485 MT, respectively, in 2011 (Figure 3, see page 9).

The increased share of domestic production in total orange juice supply in China results from the rapidly expanding base of orange production and the network of orange juice processing plants; both are partially funded by private and foreign investments and

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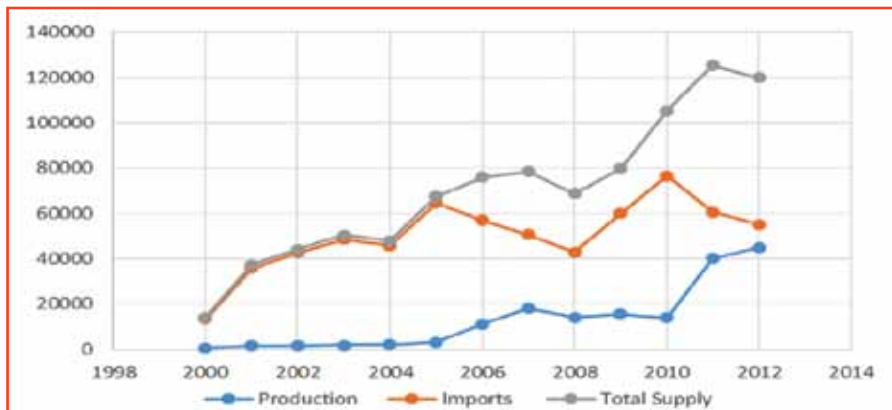


Figure 3. Orange juice production, import and total supply in China (metric tons).

newly developing NFC market may also generate new opportunities for the Florida juice industry. The market for NFC may keep increasing with the rising living standards of Chinese consumers, or it could grow substantially if product prices decrease. Because of the limited production capacity of the Chinese orange juice industry in the near future, it would be wise for the Florida citrus industry to take action to seize the economic potentials of the growing orange juice market in China.

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supported by favorable government policies. The orange production in China has increased from 2,635 thousand MT in 2000 to 6,900 thousand MT in 2011; however, most of the oranges are used for fresh consumption and those used for juice production only accounted for 3.1 percent of the total orange output in 2011.

The orange juice extractors are highly underused; the 520,000 tons of oranges processed in 2011 only accounted for 11.1 percent of the 4,678 thousand tons of potential juice orange processing capacity. The extremely low utilization rate of juice extractors is attributed to the lack of raw material because of the competition from the fresh orange market. At present, most Chinese consumers still consider fresh oranges healthier than orange juice. Even with the expansion in orange production, fresh market demand exceeds supply, which results in much higher fruit prices in the fresh market than for juice processing.

Further, the consumption of orange juice as a morning beverage is not at all a part of the traditional breakfast, unlike in many western countries. Unless Chinese consumers' preference for fresh orange fruit over orange juice changes significantly, orange juice processors in China will continue to face the challenge of raw material shortages, and juice manufacturers may still rely heavily on imported orange juice.

SUMMARY

China may become one of the largest orange juice consumers in the world. The key focus of the many juice companies in China is to expand the low-priced OJD market. The unique OJD products that are the most popular contain orange juice pulp that creates a real orange mouth feeling. Therefore, the continuously expanding OJD market in China will keep providing market opportunities for the Florida

juice industry, which has boosted orange juice pulp exports to China in the past few years. In addition, the

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