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Chiquita changes tack as Iran sanctions bite

Group selling less in the Middle East and diversifying market spread as some Iranian clients struggle to pay invoices

Multinational tropical fruit company Chiquita has revealed that trade sanctions imposed on Iran, its main market in the Middle East, over the past few years have hampered its customers' ability to pay for the fruit it supplies them, prompting it to reduce the overall volume of bananas it sells to the region while at the same time developing sales in neighbouring countries.

While the longer-term prospects for banana suppliers to Iran are improving with the recent lifting of those sanctions, as reported by Eurofruit yesterday, difficulties associated with the freezing of bank accounts and a lack of available international currencies have made things for more difficult for Chiquita.

In a quarterly filing submitted to the US Securities and Exchange Commission, the US-based marketer said some of the fruit it sourced from the Philippines for sale in the Middle East – under a long-term purchase agreement with former joint venture partner Unifrutti Philippines – was being re-routed to other markets in the same part of the world.

While the company is permitted to sell bananas to Iranian importers under a special US government licence, its customers have found it increasingly difficult to obtain US dollars, euros or other suitable currencies in sufficient quantity in order to settle invoices.

This has resulted in it needing to extend credit to those customers, pushing the amount it actually received from Iran in the six months to 30 June 2015 down to US$6m, half the figure it achieved in the first half of 2014.

"Over the course of 2012, our receivable balance with these customers increased, and we have established payment plans with each of these customers to reduce their balances," the group noted.

"Certain customers have so far been able to find acceptable methods of payment to comply with their payment plans. However, some customers have not, and as a result, we recorded a reserve of US$9m in 2012, an additional US$2m in 2013, and another US$2m in 2015 as a result of further delinquency and other repayment risk."

It added: "To mitigate risk, we have reduced the amount of volume being sent to the Middle East and have developed customers in other Middle Eastern markets. However, Iran remains an important market for our Philippine-sourced bananas."

Signs of greater efficiency

In the meantime, Chiquita said the performance of its two core businesses – bananas and salads and healthy snacks – had improved in the second quarter of 2015 compared with the same period of 2014.

Despite an overall 6 per cent decline in net

trade spend, offset by a decline in sales

"Overall banana volume was lower and

sales to US$776.6m for the quarter, operating income almost doubled to reach US$70.1m.

For bananas, the decrease in net sales was reportedly driven by lower volume in North America and the impact from foreign exchange offset slightly by higher banana pricing.

Sales of salads and healthy snacks remained flat, year on year, as a result of increased retail volume, improved product mix and more efficient use of volume for the healthy snacks, foodservice and processed fruit ingredient businesses, the group noted.

At the same time, Chiquita's costs decreased 10.9 per cent, primarily due to fewer episodes of poor weather, lower fruit volumes and lower fuel costs.

Taking into account the first half of the year, the company achieved a significant increase in operating income, which was US$57.2m compared with US$37.3 in the first half of 2014.

foreign exchange fluctuations had an adverse impact on our sales as compared to the first half of 2014, partially offset by pricing increases as a result of supply shortages in the market," the company said.

"Our banana segment also benefited from lower fuel costs, shipping and logistics efficiencies, and decreased spot purchases."