



**CPNA INTERNATIONAL, LTD.**  
100 JERICHO QUADRANGLE, SUITE 228  
JERICHO, NEW YORK 11753  
Offices: New York · Nevada · China  
  
Telephone (516) 935-3880 · Fax (516) 935-3959  
email:info@cpnaglobal.com

## **HONEY MARKET REPORT**

**August 25, 2008**

**Ron Phipps**

### Macro Factors

It is a key characteristic of healthy industries that they integrate and harmonize the incentive to produce and the incentive to consume the products marketed by those industries. While the incentive to produce honey has improved as the honey market has firmed over the past 18 months, the industry must resist the temptation to push prices so high that the incentive to consume honey will decline.

Certain economic factors such as continued high petroleum prices and a weak US Dollar point to firm prices, while, in contrast, a recessionary economic climate both in the USA and throughout the world suggest an impending need to curb inflation and keep commodity prices from unreasonable increases. Already, the economy reveals weakness in purchase of luxury goods such as organic foods. In an August 2, 2008 article in The New York Times, “Whole Foods Looks for a Fresh Image in Lean Times,” Andrew Martin writes of Whole Foods, which had been upon an upward path marketing high quality foods:

“...in a sign of the times, the company is offering deeper discounts, adding lower-priced store brands and emphasizing value in its advertising.

Whole Foods’ makeover comes amid a tumultuous time in the grocery industry as customers struggling to pay for higher-priced fuel and food are trading down to lesser products and discount-oriented stores.

A July survey by TNS Retail Forward, of Columbus, Ohio found that 20 percent of shoppers have changed where they buy groceries and household essentials because of the economy.

Making matters worse for Whole Foods, consumer interest in organic food appears to be leveling off after several years of double-digit growth, according to the Harman Group, a market research firm specializing in health and wellness.

“It’s becoming clear that this worsening economic environment is having an impact on consumers at all economic levels,” said Mitchell P. Corwin, an analyst at Morningstar.”

Petroleum prices, which a decade ago were \$10/barrel, are also affecting patterns of global trade. Larry Rohter in an article, “Shipping Costs Start to Crimp Globalization,” writes:

“...globalization may be losing some of the inexorable economic power it had for much of the past quarter century....Cheap oil, the lubricant of quick, inexpensive transportation links across the world, may not return anytime soon, upsetting the logic of diffuse global supply chains....many see evidence that companies looking to keep prices low will have to move some production closer to consumers.

...The cost of shipping a 40-foot container from Shanghai to the United States has risen to \$8,000, compared with \$3,000 early in the decade, according to a recent study of transportation costs. Big container ships, the pack mules of the 21<sup>st</sup>-century economy, have shaved their top speed by nearly 20 percent to save on fuel costs, substantially slowing shipping times.

...”The cost of moving goods, not the cost of tariffs, is the largest barrier to global trade today...”

Many macro-economic factors and variables which affect the economy, energy costs and the global environment are being felt in novel ways by the international honey market.

### Argentina

As of late August, Argentina has shipped over 45,000 metric tons of honey to the world. Another 10,000 metric tons has been sold and is now pending shipment in September and October. Another 10,000 metric tons may still be in beekeepers’ hands.

About 70% of Argentina’s 2008 crop is being shipped to Europe, with a majority to Germany. Because of the well known difficulties of shipping both American and Canadian honey to Europe, coupled with inadequate production in Eastern Europe, Argentina has a prominent position as an exporter of honey to Europe. Currently prices of all grades of Argentine honey to Europe are about USD1.55/lb.-USD1.60/lb., C&F. Due to the fact of a short Argentine honey crop in 2007/2008, there are minimal price differences between Argentine Light Amber and White honey in the European market. With arrivals of new crop Argentine honey 5 to 6 months away, prices are likely to remain very firm.

It is worth noting that while Argentine honey prices are currently at a historic high in America, Argentine honey is still below its historic highs in the European market. This is due to the great strength of the Euro relative to the US Dollar, which continues to weaken due to the cumulative and growing massive national debt and trade deficit. The Europeans can pay high US Dollar prices for South American honey and experience only a moderate effect on the selling prices in their home markets.

The turmoil and stress in Argentina's overall economy are making credit increasingly difficult to obtain from Argentina's financial institutions. Although the Argentine's protracted farmer's strike is over, rumblings of new tensions can be heard. The Argentine economy is in a precarious state of high inflation and recession, i.e. stagflation. The inflationary pressures have caused the costs of production of honey to significantly rise in Argentina. This factor alone makes a softening of this important market for honey very improbable in the foreseeable future.

The autumn and winter in Argentina was very dry. If early spring drought continues in Las Pampas, Argentina's 2007/2008 honey crop will be delayed with no carry over from previous crops.

#### Brazil/Uruguay/Chile

The European Commission has opened the door to allow resumption of exports of honey and other agricultural products from Brazil. The Brazilian Government is in a very meticulous and thorough process of authorizing both exporters and extractors of Brazilian honey. Europe is a preferred market for Brazilian honey exporters primarily due to the strength of the Euro, which continues to lure Brazil, despite the extremely difficult quality standards imposed in Europe on foreign honey.

At present Brazil has a normal crop of both conventional and organic honey. About 80% of both conventional and organic Brazilian honey is in the darker colors, which serve the industrial market and the pricy organic honey market. The domestic and foreign markets share Brazil's honey more or less equally. We see considerable future growth possibilities for Brazil's honey production. However, the USA will not be able to monopolize imports of Brazilian honey once Europe is fully opened to the Brazilian honey market. Brazilian honey prices are stable and below Argentine prices but above Vietnamese honey prices.

Uruguayan exporters and producers recently visited the U.S. This past crop suffered from extreme drought and most honey was used to keep the bees alive rather than for export. Uruguay, like Argentina, hopes the drought that harmed both countries last crop will be over and honey for export will become available.

Chile looks to Europe and will continue to do so unless our prices rise or they experience a bumper harvest. Chile still cannot fulfill contracts for White honey which it entered in the 4<sup>th</sup> Quarter of 2007 and 1st Quarter of 2008.

#### Canada

All reports at the end of August indicate a below normal crop. Alberta, Canada's biggest producer, was plagued by erratic weather. In northern Alberta there was an extended drought, whereas southern and central Alberta suffered severe hail storms which damaged crops and impeded nectar flows and honey production. Other Canadian provinces, including Manitoba, Saskatoon and Ontario report below average crops. With increased costs of production, Canadian beekeepers state that they need over

USD\$1.50/LB. for their white honey. Carry-overs are depleted in Canada, as they are in the States. The general situation in Alberta is expressed as follows from leaders of the Alberta beekeepers:

“...Current offers are around \$1.50 and producers need more than this. With our cost of production being so high and with a less than average crop, beekeepers must get better compensation and with current production reports, it seems the price should come up.”

Canadian beekeepers are also deeply concerned about preserving the health of their bees. This is both a complicated and imperative problem that cries out for solution. Canadian leading beekeepers have recently reported:

“...Beekeepers in Alberta and other provinces are really concerned about how to keep the varroa mite under control. With resistance issues building, if we don't get them under control this fall season, our winter losses will continue to climb. We need to have 5 good products available to producers, allowing them a rotation process, so that resistance won't become an issue or at least not so fast. Some beekeepers have had hives beginning to crash mid honey-flow causing them to pull off their supers and trying to treat to bring the varroa levels down.”

In several provinces, spring was cold and wet and the bees did not build adequate strength in a timely manner. There was a lot of robbing of honey. Given the drought and hail in Alberta and the late spring in the Provinces, Canada's total 2008 crop is projected at about 60,000,000 pounds down from the approximately 70,000,000 pounds in 2007 and way below the bumper 2006 Canadian honey crop. The invasiveness of canola plants affects the quality of recent crops which, nonetheless, provide some of the best white honey in the world market.

### China

In the view of many American producers, packers and importers, the continued circumvention of Chinese honey into the USA market casts a dark shadow upon our industry. The first thing I want to point out is many Chinese are honest, thoughtful and deeply oppose the corruption and fraud which, however cunning and shrewd may be its execution, harms the long-term reputation of China in the world community. As the quantities of honey that illicitly enter the U.S. market grow larger, the greater the harm to China's reputation.

The circumvention of Chinese honey into the USA market continues to take 3 forms: 1) importation of the allegedly “packers' honey blend,” 2) transshipment of Chinese honey through Third Countries and 3) Chinese honey entered through US Customs with grossly undervalued costs.

The third form of circumvention emerged after the U.S. Congress changed the law regarding “bonding privileges for new shippers.” Once new shippers had to pay their antidumping duties in cash, the “value” of the honey declared to U.S. Customs plunged. There are reports that massive amounts of Chinese honey entered this year including this

summer through this form of fraudulent under-valuations. It is believed that many hundreds of containers have been sent to the USA under “consignment.” The importers of record are front companies that will disappear as thieves in the night once U.S. Customs seeks to collect retroactive antidumping duties. Since valuations are so low, the Chinese expatriates involved in such circumvention rightly anticipate that upon review, the U.S. Department of Commerce will significantly increase final antidumping duty rates. Hence, the glib talk that “soon you will be compelled to buy the packer blends.”

The cumulative effect of these three forms of alleged circumvention is the creation of 2 parallel markets: the legal and normal market and the illicit honey market. As an article in the Washington Post aptly described it, honey is being “laundered” into the USA market. There is growing and intense tension between these 2 markets which must be resolved since honest importers, packers and producers cannot compete with crooks. The industry has closed the front door and must also close the back door and the basement door.

It is in the strategic interests of both the USA and China to put an end to these patterns of circumvention. In accord with the WTO assessing agreement between the USA and China, the use of surrogate country analysis will eventually come to an end. China and the USA have recently negotiated for US officials to inspect in China food and pharmaceutical products to assure their safety prior to export to the USA. Such overall changes will be meaningful only if the rule of law replaces the atmosphere of corruption, collusion and circumvention by cunning and shrewd individuals seeking short term gains at the expense of a stable and healthy market.

Honey processors throughout the world are concerned about movement of Chinese honey into their markets, including the European market. One leader of the Argentine honey industry commented, “The deliberate collusion to circumvent Chinese honey is not the responsibility merely of the Seller but also the Buyer, that is, the packers who enter into such collusion to attain unfair competitive advantage and dominate the market!”

That is perfectly correct both morally and legally. Honest producers, packers and importers share a common interest to prevent circumvention and the division of the honey market into 2 tense camps of legal versus illicit trade in honey. It is imperative for the health of the American honey industry that fraudulent import of Chinese honey ceases before the harm becomes irreversible.

### Vietnam

The most recent official estimate for Vietnam’s 2008 honey crop is 19,600 metric tons. About 14,850 metric tons have been exported, and about 1,000 metric tons await export. The domestic consumption is about 3,650 metric tons.

Vietnam produced about 15,610 metric tons of Rubber honey, 350 metric tons Lychee honey, 450 metric tons of Longan honey and another 3,100 metric tons of Coffee, Cashew and other varieties. Except for a small flow of Longan honey, Vietnam’s 2008

honey crop is over, with new crop honey exports arriving only in February/March 2009. This will significantly limit the sources of industrial honey.

The bees in Vietnam are in good condition as the autumn approaches. Even though prices for Vietnamese honey have steadily risen over the past 6 years, Vietnamese beekeepers are far from satisfied due to increased costs of production, increased transportation costs and severe inflationary conditions in the Vietnamese economy. The New York Times article this August titled, “Inflation Delivers a Blow to Vietnam’s Spirits” asserted:

....“Even the ghosts are suffering from inflation in Vietnam this year....With inflation rising to 27 percent last month—the highest in Asia—and food prices 74 percent above those a year ago, Vietnam is suffering its first serious downturn since it moved from a command economy to an open market nearly two decades ago.

....In part, economists say, Vietnam is suffering from the worldwide economic downturn and from high inflation that has spread through Southeast Asia.

....Everywhere they turn these days, people in Vietnam see higher prices.”

As the season progressed, Vietnamese honey prices rose achieving historically high levels of over \$1.25/lb. The impact on the industrial honey market of the absence of much Vietnamese honey during the 4<sup>th</sup> Quarter remains to be seen as Brazil is a reluctant seller of Light Amber honey even at prices considerably higher than Vietnamese prices.

#### The U.S.A.

The 2007 crop was about 148,000,000 pounds down from 155,000,000 pounds in 2006. This year’s crop may reach about 165,000,000 pounds and remain far from a normal bumper crop of 200-220,000,000 pounds.

The California crop is below normal, as is Florida’s. In Florida, insect infestation of the citrus groves required spraying which kept the bees out of the groves and substantially reduced the orange honey crop. The good news is in South Dakota, where the 5 year drought has ended. There was a great profusion of clover flowers in South Dakota in early summer. For reasons not fully understood, by the first half of July, the crop was still modest and it was clear a bumper crop was not forthcoming. By the second half of July, the honey flow increased and an above average crop appeared likely. North Dakota, which last year had an excellent crop, will be below 2007. Montana looks good.

The big problem this year is bee losses. Many beekeepers reported losses of 1/3 of their bees from mites, CCD or other problems. Hives that had achieved good per hive yields this year still could not compensate for the reduction in the number of hives. The cost of production and the costs of keeping bees healthy have increased. Beekeepers are more content but not jubilant. Producers remain concerned, as noted earlier, that all their efforts to make beekeeping remunerative will fail, if circumvention of Chinese honey continues or increases. That is the dark cloud beekeepers hope will pass.

### Tolerance Levels and Testing Limits

Throughout the international beekeeping industry, the formidable problems of keeping bees alive and vigorous increase year by year. Significant resources, both financial and scientific, are devoted to this imperative. These problems exist in Australia which is suffering its worst drought in a century and also in the U.K. In an article dated August 4, 2008, in Bloomberg News, attention was paid to bee losses:

“...London’s beekeepers collectively lost half of their colonies in the past two years. During last winter alone, almost a third of hives across the U.K. lost their bees....Some had bees but the mysterious ones had virtually nothing. Everything had disappeared.”

...”Because bees pollinate a third of everything that we eat—most fruits and nuts, vegetables and seeds, the plants we use for cattle feed—we’d end up with a food shortage and very high prices” without the insects, said Alison Benjamin, co-author of “A World Without Bees” (Guardian Newspapers Ltd., 2008).”

Bees, like all life forms, whether botanical or zoological, are vulnerable to diseases, environmental stresses, etc. Migratory beekeeping processes that are associated with providing pollination services to industries like the almond, citrus and blueberry industries add stress to bee populations. The fact that worker bees have a mono-source of food for their entire lifespan, may add additional stresses on bees pollinating a variety of flora in the modern context of agro-business compared to bees pollinating a variety of flora in a natural state. Bees are vulnerable to diseases and pests, including pests like mites which genetically adapt and become resistant to standard treatments. Honey, a natural product, does not dwell in a mythical realm of “Ultra-Purity.” Residues come from measures to protect either the bees or the vegetable, grain fruit and nut and tree crops that bees pollinate to produce honey.

It is increasingly clear that:

- 1) bees are vital to creating an adequate food supply to feed the human population;
- 2) bees are vulnerable to diseases of various types and
- 3) honey, like other foods, has residues.

The honey industry sooner, better than later, needs to take a pro-active stance and work to establish reasonable tolerance levels and testing limits for residues in honey. It is not a sectarian issue whereby one can say, “Your honey has residues, but mine does not.”

Virtually all other food industries have established tolerance levels for residues. This is true, it should be noted, for foods that are consumed at much higher rates per capita than honey. For example, the minimum residue levels for enrofloxacin in meat and milk is 100 ppb. The myth of ultra-purity for honey has to be replaced by a more scientific, rational and reasonable understanding that allows us to protect both: 1) the bees upon whose activities so much of the food supply depends and 2) the people who consume honey and other by-products from bee’s activities. In the Book of Corinthians, Paul

writes, “When I was a child, I spoke as a child, I understood as a child and I thought as a child; when I became a man, I put away childish things.” Producers understand that the industry needs to put away childish understanding when we consider the character of honey.

The same is true of testing limits. When sophisticated instrumentation seeks to detect parts per billion, per ten billion, per hundred billion, we enter realms of inconsistency and non-reproductability of results. This is especially true of a highly complex and heterogeneous chemical medium such as honey. Results vary among labs, among samples from a given lot and even among different tests of the same sample by the same lab. We are often “testing the test,” rather than legitimate health risks.

The International Committee on Honey and Health is investigating these issues of honey’s chemistry in respect to both health benefits and health risks. Honey is a very complex product that results from complex interactions of zoological and botanical life forms involving numerous metabolic and photosynthetic processes. The chemistry of honey is analogous to that of wine with both subtle and very substantial differences in composition among broad categories and varieties of honey.

Some years ago the French government rejected wines from the State of Washington based upon aberrational magnetic resource profiles of the nuclei of atoms of the wines. The U.S. Department of Agriculture helped resolve the issue by showing that the differences were not the result of adulteration but the result of differences in the soil that entered the metabolic processes that produced the grapes used in the Washington wine. Dr. Joseph Bowden, Dr. Vaughn Bryant, and Dr. Samuel Page all have pointed out the need to create a broader library of scientifically authenticated samples of the world’s many varieties of honey allowing us to fully understand the variables that influence pollen content, sugar profiles, carbon isotope ratios and other chemical parameters. Honey producers, exporters, packers, importers and scientists should support doing the science requisite to establishing standards, tolerance levels and testing limits. The honey industry needs to take a pro-active stance or court future problems when myths become exposed as myths.

Perhaps the new Packer and Importer Board and the pending U.S. Producer Board will support new efforts to develop greater scientific understanding of this marvelous product of nature. There is growing international scientific awareness of the value of both establishing science-based tolerance levels and testing limits as well as understanding the important health benefits of honey.