

HONEY MARKET UPDATE
February 28, 2009
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Introduction

Amid a very profound global economic recession that borders upon a depression, drought conditions in major honey producing nations are creating a serious shortage of both white and industrial grades of honey. There is a tug of war between recessionary forces pulling prices down and drought conditions causing a shortage which is impelling prices upward.

While this tug between contending forces continues, the impending shortages appear to be gaining momentum. International concern for adequacy of honey supply stands side by side with, and may override in importance, concern about the upward price movement.

South America

The extreme drought in Argentina has drastically reduced the Argentine honey crop and altered its character. There will be virtually no clover honey from the current crop because the roots of the clover plants are too shallow to obtain water from the arid earth. Lakes are dry and wells must be tripled in depth to reach underground water.

Colleagues who have recently been in Argentina report that a crop of 50,000MT will be a success. Just a few years ago, Argentina produced 120,000MT or over 264 million pounds of honey, predominantly white. Last year's crop was 70,000MT, the preceding year's 100,000MT and 3 years ago Argentina had a bumper crop of 120,000MT. Already, 15,000MT of Argentina's new crop honey has been sold. Argentina can easily sell 6,000MT monthly March to June, which means about 71% of Argentina's crop can be sold during the first half of 2009. Most of this honey will be exported to Europe, with Germany the largest recipient.

The percentage of white honey from Argentina is much lower than normal. Most white honey is 34-40mm and tinged with sunflower since the sunflower plant is drought resistant in contrast to the clover plants which are drought vulnerable.

For Argentina's large German market, the predominance of 50mm., 60mm. and 65mm. poses no problem. Germany's concern is that in autumn 2008, they were optimistic of a big Argentine honey crop since the bees were vigorous going into Spring. Accordingly, the German packers sold at low prices to the supermarket. The deepening economic crisis among eastern European nation that are now part of the European Union has pulled down the value of the Euro. This means that the European market must pay higher Euro prices for Argentine honey exacerbating the problems they face with low-priced contracts with the supermarkets.

Current offers are invariably a mix of colors in a ratio of 60%-75% of 50-60mm. with only 40%-25% being white honey. Prices for such mixtures range between \$1.50/lb. and

\$1.65/lb. ex-dock. Under normal crop conditions Argentina would ship to the U.S. honey ranging between 15-34mm.

Beekeepers in Argentina believe it will take at least 2 consecutive years of good weather to restore Argentina's bee colonies. Going into their autumn and winter, the bees are weak for lack of nectar and pollen. Furthermore, credit is so tight in Argentina that beekeepers worry about having the money required to feed and winter their bees. The tight bank credit also affects collectors and exporters of honey.

Argentina is also suffering broad and deep economic, political and credit crises. The President of Argentina has declared an Agricultural State of Emergency. There is talk of nationalizing grain exports. The farmers threaten a new farmers strike. Uruguay suffers the same drought as does southern Brazil. These are unusual times in Argentina.

Brazil

The Brazilian honey industry continues to grow. Having such a vast terrain and the capacity for year long production of honey, the potential of Brazil is considerable. Since about 80% of the Brazilian honey crop is Light Amber and Extra Light Amber, Brazil has the potential to make up for the shortfall in Chinese honey as antidumping rulings and efforts to prevent circumvention of Chinese honey into the U.S.A. become more effective.

Brazil with its vast wilderness is already the leading global source of organic honey. In addition, Brazil has both the intention and the ability to significantly enlarge production of mild white honey by developing honey production in new areas such as Brazil's vast cashew nut and coffee plantations and its orange groves. Prices are firm for Brazilian honey.

Given the short honey crop in Argentina, the European market is increasingly turning its attention to Brazil for both Light Amber and white honey. Even though the Euro has fallen during recent months in value relative to the U.S. Dollar, declining from \$1.60 to \$1.25/1 Euro, the European market still enjoys a significant currency advantage in buying Brazilian honey. More Brazilian honey companies are now authorized to export to Europe and this renders heightened competition between Europe and America for Brazilian honey.

While some Brazilian honey has been sold forward, most shippers have become reluctant to make commitments too far forward. There are expectations within the Brazilian honey industry of an "explosion" of prices upward as the international shortage of honey due to global droughts becomes more apparent to the international honey market. If the world economy was not under such stress, an explosion of prices may have already occurred in both Brazil and Vietnam.

Looking to the future we should bear in mind that Brazil, being one of the world's largest producers of both cashew nuts and coffee, like Vietnam, can produce larger quantities of cashew and coffee honeys, both of which have excellent flavors.

The U.S.A.

Last year's crop was 161 million, up 8% over the 2007 crop, but still far below an average crop of 200 million. Colonies are down 6%. More beekeepers focus on pollination services, not honey production. Carryovers are significantly depleted.

The U.S.A. economy is in a period of financial peril. The entire financial system borders on insolvency when asset valuations and non-performing loans, mortgages and credit card debt are factored into an assessment of the net worth of major American banks. The unemployment rate is growing and the gross national product had a dramatic decline of over 6% during the 4th quarter of 2008. The country is in a recession that flirts with a Great Depression. It will require great skill to navigate these troubled waters.

The cumulative national deficit is projected to become 60% of GNP within a few years. Under these economic circumstances, a massive bailout and a gigantic stimulus plan have been launched. This plan will greatly increase both the national deficit and the money supply. Although the US Dollar has been strengthening as the European economies are also under enormous duress, the dramatic increases in deficits and money supply portend inflationary pressures which some economists predict will supersede in the second half of 2009 the current deflationary pressures in the U.S. economy.

Fortunately, for our industry, while people can decline or postpone purchases of luxury goods, people can neither decline nor postpone eating. Indeed, the trend towards eating more at home and major retailers offering their own higher quality private label brands may help American consumption of honey.

The attempt to prevent circumvention of Chinese honey into the U.S.A. is gaining momentum. In January, 2009, an antidumping duty of \$2.63/kg was imposed on Chinese honey. International efforts to prevent third country transshipment are deepening. The obvious fraudulent and gross de-valuation of a large amount of Chinese honey that entered the U.S.A. during the second half of 2008 is, we may imagine, under U.S. Customs' scrutiny. Beekeepers and packers are asking our Government, "Who has that honey and who benefits from such unfair competitive advantage achieved through fraudulent valuation or transshipments?" Tolerance of fraud that harms both the U.S. Government and American industry is rapidly waning among Americans. The Madoff scandal has brought harm to many, illustrating the harm that fraud can bring to honest people.

There are also continuous efforts to stop the so-called "packer's blend," "artificial honey," and "imitation honey." Efforts are underway to require the importers of such products to: 1) scientifically demonstrate that the alleged honey component is less than 50%, 2) list all other ingredients and scientifically establish their safety and 3) pay antidumping duty on that portion that is scientifically proved to be honey. A new problem has recently emerged for importers and packers using the so-called "packer's blend" or "artificial honey." Various bakery products have failed to rise in the appropriate manner required in the finished products. The initial hypothesis is that this

failure is due to the enzymes that are present in the other components of the “blend.” This is a serious problem that may aid other efforts to prevent circumventing antidumping duties on Chinese honey via “importation of the packer’s blend.”

Unlike recent years, the first quarter of 2009 begins with a smaller carry over of American honey from preceding crops. The combination of a below average 2008 crop and a smaller carryover of older crops, underlies the strengthening of prices for American honey.

Beekeepers are faced with a decline in pollination fees for the almonds. Because of California’s severe drought and a steep decline in almond prices, there was a significant reduction in the number of almond groves pollinated. This factor may make beekeepers more dependent upon honey production.

It is too early to anticipate crop conditions in the clover belts of the Dakotas. But everyone will be looking given the total failure of Argentina’s traditionally large, high quality clover crop.

Vietnam

Our colleagues, Barbara Sheehan and James Phipps recently visited Vietnam where they visited honey producing areas and exporters from the south, the central highlands and the north. Vietnam is expanding its honey producing areas, increasing floral sources to include coffee, cashew, rubber, longan, litchee, rhombutan, melaleuca and acacia. Given the increasing variety of floral sources, the producing season runs 11 months from December to November.

Vietnam’s early crop of cashew and coffee honey was reduced due to cold and wind; some Vietnamese exporters fear that the total crop will be 50% of a normal crop. Most exporters and beekeepers are more optimistic. However, whether pessimistic or optimistic about the recovery of Vietnam’s honey crop, as the year proceeds, all exporters anticipate a much firmer market. Accordingly, Vietnam is now offering firm prices for only March and April shipments. Those prices have been rising. We expect the Vietnamese honey crop prospects will be good as Barbara and James report an improvement in weather. But international demand is very strong and we anticipate substantial increases in prices. There is growing awareness of an international shortage of both white and darker grades of honey. In recent weeks, Vietnam has increased the price of light amber honey by USD200/MT. Demand remains brisk and an upward price tendency continues.

Beekeeping practices are becoming more professional and larger in scale. Previously, Vietnamese beekeepers could have no more than 25 hives. Now many beekeepers have up to 400 hives. The Vietnamese honey industry is becoming more mature and sophisticated. Honey production in Vietnam, like that in Brazil, occurs through the year as new floral sources are being added. University scientific laboratories are being integrated in the quality control systems. Scientists from Europe also visited Vietnam as

the Vietnamese are developing honey markets in the U.S.A., Japan, Europe and the Middle East and need to understand the quality parameters for different markets.

We can report that there is an effort to gather a comprehensive data base of Vietnamese honey types. It is necessary to develop such a data base to understand both pollen parameters and sugar profiles for Vietnamese honey. Scientists from both countries may participate in these efforts to establish a more comprehensive data base of Vietnamese honey types.

In the beginning of March, there were meetings with the U.S. Embassy in Hanoi and bilateral meetings between officials of the U.S. Embassy and the Vietnamese Ministry of Agriculture. Those meetings were attended by 10 Vietnamese officials and the press. The purpose was to prevent circumvention of Chinese honey through Vietnam. Exchange of scientific data was initiated and detailed discussions about a monitoring program in Vietnam took place. This is an extremely valuable initiative that has an analogy with the detailed monitoring programs established by the Brazilian Government for export of agricultural products, including honey, to the EU market.

Our colleagues met with officials from Vietnam's Ministry of Agriculture. Both Governments sincerely want to develop fair and legal trade untarnished by violation of international law and bilateral agreements. Honey trade should be neither impeded by non-tariff trade barriers based upon questionable and poor science nor distorted by circumvention. This is important for the American honey industry since 60%-70% of the honey consumed in America is imported.

The Vietnamese informed us that they are concerned about false bills of lading and fraudulent certificates of origin. They cited 3 cases in which foreign traders were issuing false bills of lading designating shipments of Chinese honey as Vietnamese honey. This type of fraud has occurred through collusion that does not involve transshipment through third countries but by merely using bills of lading that fraudulently describe the country of origin.

Vietnam's Ministry of Agriculture and the Vietnamese beekeepers want to be pro-active and prevent circumvention. They realize Vietnam must maintain its reputation if all the hard and responsible work the Vietnamese honey industry has done to expand production and improve and diversify quality is to be of mutual benefit to the exporting and importing countries.

Global Drought and Supply

If there is an international shortage of honey in 2009, the biggest fact will be the prevalence of serious drought conditions in many major honey producing areas. The first sign of this danger appeared in Argentina where La Nina cooled the Pacific waters causing inadequate rainfall during both spring and summer in Argentina.

California had recently declared a state of emergency due to the third consecutive year of drought. Texas has also experienced serious drought and wild fires. The situation in

California is compounded by the fact that the Federal Government is restricting the import of water into California from the nearby states.

Below are some excerpts from the press vividly describing these international drought conditions:

Drought Adds to Hardships in California

By Jesse McKinley

...The country's biggest agricultural engine, California's sprawling Central Valley, is being battered by the recession like farmland most everywhere. But in an unlucky strike of nature, the downturn is being deepened by a severe drought that threatens to drive up joblessness, increase food prices and cripple farms and towns.

...The state has put the 2008 drought losses at more than \$300 million, and economists predict that this year's losses could swell past \$2 billion, with as many as 80,000 jobs lost.

...agriculture officials say the lack of rain and the prospect of minimal state and federal water supplies have already led many farmers to fallow fields and retreat into survival mode.

...Last year, during the second year of the drought, more than 100,000 acres of the 4.7 million in the valley were left unplanted, and experts predict that number could soar to nearly 850,000 acres this year.

In Parched Argentina, worries Over Economy Grow

By Zlexei Barrioneuvo

Buenos Aires – Cows are dying by the thousands in the baking sun, and crops are being lost before their seeds even break the soil.

Argentina's worst drought in more than 50 years is magnifying the country's chances of suffering another economic crisis, and the lost farming revenue will complicate the government's efforts to meet more than \$18 billion in debt obligations this year, economists said.

...Argentina is struggling to contain double-digit inflation and growing unemployment.

...Mrs. Kirchner late last month declared an "agricultural state of emergency."

...the drought – which has lasted five months and is also wreaking havoc in Uruguay, Paraguay and parts of southern Brazil.

China Drought Persists, threatening Wheat Crop
By Shai Oster

...the affected area is primarily in central and eastern China, covering the country's breadbasket where much of the winter wheat crop is grown.

...More than half of China's provinces have been affected by the drought and 3.46 million people still don't have adequate drinking water.

This winter, China has been hit by unusually high temperatures and low rainfall, followed by a sudden freeze....

...But farmers can ill afford to lose crops when many migrant workers who had left rural areas to work in cities are returning unemployed.

The government has said 20 million migrants have been laid off in recent months as the global slowdown has pared export demand and battered the construction industry.

Some scientists warn China could face more frequent droughts as a result of global warming and changes in farming patterns."

Worst Drought in Half Century Shrivels the Wheat Belt of China
Parched Farmland, And Wells Gone Dry
By Michael Wines

...Northern China is dry in the best of times. But a long rainless stretch has underscored the urgency of water problems in a region that grows three-fifths of China's crops and houses more than two-fifths of its people....

...Water supplies have been drying up in Northern China for decades, the result of pervasive overuse and waste. Aquifers have been so depleted that in some farming regions, wells probe a half-mile down before striking water."

Standards and Tests

The establishment of a comprehensive data base is essential if we are to establish scientifically credible and consistent standards. The FDA has issued a comprehensive and detailed honey research protocol titled, International Investigation in the Chemical Composition of Honey Preliminary Collection Outline. In the introduction to this proposed investigation, the FDA scientists and mathematicians write, "...Variations in a product, such as honey, can come from differences in geographical origin, botanical source and processing technique. If the database is not representative of the particular commodity, then the method will be valid only for samples covered by the database. At the present time the database concerning the chemical composition of honey (sugars,

protein, HMF, etc.) is sufficient for U.S. honeys, but is lacking with reference to samples from other countries. It is our intention with this study to provide a more international database of value for the chemical composition of honey.”

The industry will benefit and achieve increased clarity and credibility if, and when, such investigations are implemented. Through the collaboration of our government and universities and the governments and universities of the major honey producing countries such as the U.S.A., Canada, Argentina, Mexico, Vietnam, Brazil, Russia, the EU countries, etc. the required data base can be achieved and we will be able to finally adhere to the principle, “Science first, Standards second.” This process has begun in Argentina and Vietnam and in some other countries.

Honey and Health

The Committee for the Promotion of Honey and Health will be represented by its two co-Chairmen and President in Provence, France this coming September.

Meetings and discussions are being planned with scientists from around the world, some of whom spoke at the first International Scientific Symposium on Honey and Health in Sacramento, California, January, 2008. Future research efforts are being encouraged and coordinated under the premise, “good research begets good research.” A second international scientific symposium on honey and health is under consideration for possibly January, 2010 or 2011.

The Honey and Health Committee has initiated a very powerful and positive agenda. The appeal of this message is manifested in the fact that our messages generated over 70 million media hits. Our industry will benefit when we create a level playing field and devote resources to promoting the positive message of linking honey with health.