

HONEY MARKET REPORT

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Introduction

In his March 9, 2008 front page New York Times article, David Streitfeld writes: Everywhere, the cost of food is rising sharply. Whether the world is in for a long period of continued increases has become one of the most urgent issues in economics. Many factors are contributing to the rise, but the biggest is runaway demand. In recent years, the world's developing countries have been growing about 7% a year, an unusually rapid rate by historical standards. The high growth rate means hundreds of millions of people are, for the first time, getting access to the basics of life, including a better diet. That jump in demand is helping to drive up the prices of agricultural commodities. Rising food prices in the United States are already helping to fuel inflation reminiscent of the 1970s. The international honey market has entered a stage which many may describe as "crazy." Prices are soaring weekly as a result of an international shortage of honey and the absence of Chinese honey from both the U.S. market and possibly other major consuming countries.

In the March issue of the American Beekeepers Journal, I stated that macro-economic factors were affecting prices for the majority of commodities, including honey. Those factors are the plunge in the value of the U.S. dollar, and soaring prices for petroleum. Since that time: 1) the U.S. dollar has suffered a further collapse in value relative to the euro which has now appreciated since its inception by over 200%; 2) an increase in the price of petroleum to a historic record, approaching \$110/barrel and 3) the decision by the Federal Reserve, hoping to avoid a recession, to sharply and continuously reduce interest rates which, in turn, further weakens the U.S. dollar. The U.S. economy is haunted by national deficits and the specter of simultaneous recessionary and inflationary pressures.

In addition, macro-global weather patterns have led to unpredictable and shifting patterns of agricultural production. Within this context, honey prices have escalated well beyond the industry's expectations.

The U.S.

The 2007 U.S. honey crop was only 148 million pounds; far below normal for the fifth consecutive year. That was largely due to drought in the southwest where California suffered both its worst drought in a century and enormous wild fires that extensively destroyed tens of thousands of acres of wild sage plants and buckwheat. The colony collapse disorder compounded problems for American beekeepers in 2007.

While it is too early to tell, weather conditions in respect to rain and snow cover are harbingers of much better prospects for a return to a good 2008 American honey crop. A good crop this summer is essential to stabilize honey prices.

Very importantly, the carryover of U.S.A. honey has been depleted. America's largest honey producers, some of whom had held prior crops, are fully committed at prices which steadily rose month by month as the real situation in respect to both macro-economic conditions and specific supply/demand relations became clear to both American packers and producers.

While weather conditions in California are better than a year ago, problems with mites and Colony Collapse Disorder have resulted in many beekeepers putting in the almond groves only 30% to 50% of the bee hives compared to a year ago.

Canada

In late January, Dr. Ron Fessenden and I spoke at the Annual Meeting of the Honey Council of Canada which was held in Alberta. Earlier, I spoke to the Ontario Beekeepers Association about the International Honey Market and the work of the International Honey and Health Committee.

After the bumper 2006 Canadian honey crop, the 2007 crop was 70% of a normal crop. Prices have been steadily rising in Canada. Canadian beekeepers, it is worth noting, are obtaining significantly more income from pollination fees for canola, cranberry and blueberry crops; all of these crops are increasing as a response to world demand for grains, oil seeds and antioxidant rich foods. Currently, the demand in the U.S.A. for Canadian honey has greatly increased due to the absence of Argentine honey.

Current prices for Canadian honey are in the range of \$1.25-\$1.30/lb. FOB beekeeper. While there have been reports of Chinese honey rejected in Canada, those reports, we believe, are exaggerated.

One important development in the North American honey market is the recent purchase of Billy Bee Honey Products, Canada's largest honey packer, by McCormick Company. This purchase promises to have a large and long term impact upon the North American honey market. Many take this purchase as a good omen for the entire industry since it manifests the fact that a company of the size, financial strength, marketing expertise, sophisticated scientific staff and strong presence in both the retail and industrial trades is interested to participate in the honey industry. We believe interest in honey is growing in part because of the positive implications for the honey trade of modern scientific research and discoveries that Honey and Health Committee is encouraging and promulgating.

Argentina and South America

The 2007/2008 Argentine honey crop is now estimated at 60,000 metric tons plus or minus 10%. Argentina had a very dry spring followed by a severely cold winter. Beekeepers were busy restoring their bees as Argentina's spring set in and were not concentrating on honey production. The first extraction was late and a disaster, which was not ameliorated by a carryover, since the 2006/2007 crop was only about 70,000 metric tons, representing a reduction from the 2005/2006 bumper crop of about 110,000 metric tons. The very poor first extraction not only reduced total production, but caused a sharp decline in white honey, including clover and alfalfa honeys.

As a result of favorable rains, the second Argentine extraction was greatly improved over the first extraction but the honey produced was predominately extra light amber tinged with yellow undertones since much of this honey was from sunflowers.

The short 2007 honey crops in Eastern Europe left European packers in urgent need to replenish their stocks as they anxiously waited for Argentina's delayed crop. The strength of the Euro which was reaching and then exceeding US\$1.50 to 1 Euro put European packers in a sharply advantageous position relative to U.S. importers and packers, who had to buy and sell in a weak U.S. Dollar. If Argentina sold honey FOB Buenos Aires at USD3,050/MT, that meant a purchase price for European buyers of 2,000 Euro/MT.

As a result, Argentina's honey went to Europe with only 1% from old contracts being shipped to the U.S.A. The duty paid, ex-dock prices of quality honey delivered to European ports from Argentine honey, whether industrial grade or bottling grade, reached about \$1.75/lb. Even though European packers are naturally unhappy with such levels, they are purchasing quality Argentine honey to meet their urgent needs.

Argentine beekeepers with a short crop in hand that is currently fetching very high prices are offering honey in very small increments hoping for these further price increases. Some

Argentine exporters who earlier sold speculatively are in serious financial difficulty as they are paying beekeepers much higher prices than the selling prices of old contracts they have been struggling to fulfill or compelled to cancel. Margins are either tight or negative for Argentine honey exporters.

A recent report that Japan has banned Chinese honey, including the popular Chinese white acacia honey, has intensified the international scramble to find white honey, especially from South America.

Uruguay has also suffered a reduction to 50% of a normal crop. Chilean and Uruguayan honeys are obtaining C&F prices in the range of USD1.35/lb.-USD1.50/lb.

Brazil is becoming a more important player in the world honey market. Currently Brazil produces about 40,000MT, half of which is consumed locally and the other half exported. Because of currency considerations, Europe is viewed as the natural market for conventional Brazilian honey. America and Europe will compete on par for Brazilian organic honey. Normally Brazil's honey crop is more or less 50% light amber, 30% extra light amber and only 20% white honey. In this respect, as well as flavor profiles, Brazilian honey is the polar opposite of Argentine honey

Brazil has received official word that the European commission will re-open its market to imports of Brazilian conventional and organic honey. The strong Euro plus the fact that in some European nations 20% of the food is organic has made Europe the preferred destination for Brazilian honey. Conventional Brazilian Light Amber honey is being sold forward to Europe in very large quantities at around USD1.45/lb., organic Brazilian Light Amber has fetched around \$1.50/lb. and organic White Brazilian honey is over USD1.60/lb. Brazil anticipated and is obtaining price increases of 30%-40% with the re-opening of the European market. The conditions are expected to persist and intensify at least until the summer of 2008 when European honey crops will commence. It is an unprecedented situation. Brazilian offers are becoming more difficult to obtain.

China

South, eastern and central China have suffered the heaviest snow and coldest weather of the past 6 decades. Transportation, electricity and heat were absent in many places for over 15 consecutive days. This severe cold spell, as noted, hit Afghanistan and the central highlands of Vietnam. Although there was concern about the impact on Chinese bees, most Chinese beekeepers have a very small number of hives which they brought into enclosures, homes, farms, etc. There are no reports of unusual losses of bees in China as China's spring crop begins in the southwest.

But more significantly, inflation has grown sharply in China during recent months, including rising prices for food. Our government still suffers a huge trade deficit with China and continues to put great pressure on China to strengthen the value of the Chinese currency. China's currency has already appreciated 10% relative to the US Dollar and further appreciations are forecast. The cost of production of Chinese honey in U.S. dollar terms has undoubtedly sharply increased given the serious inflation.

Most importantly, the closing of the bonding loophole through an Act of Congress, coupled with the increased antidumping rates on Chinese honey exporters, has virtually eliminated Chinese honey from legally entering the U.S.A. market.

Issues of quality control and safety of Chinese tires, pet food, medicines, toys, dental implants, seafood, etc., abound in the international press. China's failures in quality control reflect both corruption and the miniaturized scale of agricultural production in China that has given rise to a class of 'peddlers' and 'collectors' who collect the tiny lots that the small 'family farms' can produce.

The collectors or peddlers do not have the capacity for quality control and often have the incentive to adulterate products. Many people do not recognize how small the farms in China became after introduction of family farms averaging 1 acre per family. China's former Premier Zhu Rong Ju, during a visit to the U.S.A., commented on the stark contrast between China's miniaturized family farms and the North American scale of agricultural production.

Recently, multi million dollar fines were levied in Australia against companies that brought in Chinese honey via Singapore for re-export to the U.S.A. as Australian honey. Countries used for transshipment are suspected to include Indonesia, Malaysia, Thailand, India and Australia. The penalties in the U.S.A. for deliberate Customs fraud are not civil, but criminal.

The current upward price tendencies coupled with the absence of Chinese honey from the U.S. market reveal the depressing effect that Chinese honey has had on the U.S. honey market during recent years.

Vietnam

Our colleague, Barbara Sheehan, has just returned from Vietnam where she addressed 80 leading members of the Vietnamese honey industry including some scientists. The conference was held at a university and lasted about 8 hours during which both trends in the international honey market and the exciting initiative on honey and health were discussed in detail. The Vietnamese are interested to participate in the honey and health initiative which promises to contribute to a positive transformation of the industry, provided there will be adequate supply and high quality honey available to meet the anticipated growth in demand that will result from creative marketing of this marvelous natural product which is acquiring a health message based upon modern science.

Vietnamese honey exporters are reluctant to offer and are doing so month by month. Vietnam, like China and Afghanistan, was hit by severe cold in February which harmed the crop in the Central Highlands. Vietnamese beekeepers are worried about weakened bees and a weakening U.S. Dollar. Prices for Vietnamese light amber honey have been rising over the past 2 months and are currently in the high 90's with potential for further escalation.

Conclusion

We all know how hard it is to increase prices for commodities.? But this month petroleum reached \$109/barrel and gold \$995.? Many packers also realize that when prices are firm: 1) all segments of an industry benefit; 2) profits for packers increase and; 3) consumer perception of value increases.? The latter is an important and strategic fact that our industry needs to better understand.

The macro-economic factors described above are converging to create a soaring international honey market and within the U.S.A. the dual phenomena of stagnation and inflation. The facts that we are in a global economy and our domestic honey production is significantly below consumption are contributing to a sharp and sustained increase in the price of honey.? Within this context the high quality of American and Canadian honey and their attractive prices make North American honey the best values in the market.

The general thrust of the honey market for at least the next 3 or 4 months is concern about availability and adequacy of supply rather than price. But just as low prices discourage production, which leads to increases in prices, high prices stimulate production which tends to reduce prices.? Hopefully, a greater equilibrium between supply and demand will develop during the second half of 2008.