

HONEY MARKET REPORT

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As the second decade of the Third Millennium commences, the American honey industry confronts a turbulent market. That turbulence reflects: 1) a global shortage of honey, 2) turmoil in foreign exchange rates that are tending to increase prices for honey and other commodities, 3) a two-tiered honey market reflecting the conflict between legal and circumvented honey, 4) volatile weather patterns and 5) stress on the health and vitality of pollinators, including honey bees.

The Crops

Both the U.S. and Canadian 2009 honey crops were short. The Canadian honey crop had less pure clover and more wildflower and canola than usual as the cool summer weather extended the canola bloom to an unusual duration of 2 months. Because of the extension of the canola bloom, Canada produced marginal amounts of clover, since canola bloomed at the same time as clover and the bees chose to pollinate the canola. Although the color is white, the tendency of this excellent canola honey is to crystallize rapidly. The Canadian crop due to very nice September weather had some recovery and is now estimated to be 55 million pounds plus or minus 5 million. Nonetheless, this is far less than the normal 75-80 million pounds.

The U.S. clover honey crop was normal in some areas of the Dakotas and weak in other areas where bloom was good but the bees were absent or inactive. The normal U.S. crop is about 200 million pounds and the 2009 crop is estimated to be only about 155 million pounds. The loss of bees is not universal, and some beekeepers are satisfied with the condition of the bees as winter commences; but concern for CCD has not vanished.

The decline in the U.S. crop, coupled with the short and darker honey crop in Argentina, has created a shortage of white honey, especially premium grades of clover honey. The current Argentine honey crop has been retarded by a recurrence of drought. It is likely that there will be a struggle from March to September 2010 both to secure white honey and to keep prices from escalating to possibly historic levels. North American packers are generally well aware of this situation and have started to look hopefully South to Argentina to secure and book honey on a forward basis.

Argentina

By the end of October 2009, Argentina exported 50,000MT to the world out of a total crop of only 55,000MT, which was half of the size of a good Argentine honey crop. This was Argentina's worst honey crop during the past 5 years. There is consequently no carryover as 2010 approaches.

The early spring in Argentina began with good weather and optimism. Then by mid-spring, 80% of Argentina suffered an extended drought that has both delayed the crop and damaged hopes for a bumper crop. During this period, the price of soybeans on the international market steadily rose as a consequence of the drought. As late spring (end of November through mid-December) in Argentina came, rains returned and in some areas floods occurred. If rains abate and become periodic, regular and adequate, an increase in the 2010 crop of 10% to a little more than 60,000MT is expected. The colors will tend more towards LA and ELA than in the past. The primary reason is the conversion of grazing lands to production of soybeans, which is now Argentina's largest and key export, with China becoming their major international customer.

As the production and export of meat and dairy products have declined due to policies initiated by the Argentine Government, the Pampas are no longer a key honey producing area making clover and alfalfa honey. More sunflowers are grown in Argentina and the general shift has been from a predominance of white honey to extra light amber honey. Since the early Argentine honey crop is typically white honey, it is already clear that the drought that affected 80% of the country in mid-spring will significantly diminish the current availability of white honey from Argentina's developing honey crop. Buyers from Japan and the Middle East are bidding up U.S. dollar prices for Argentine honey.

Brazil

The orange honey crop was very poor and the Cipo-Uva crop was a huge disappointment. For example, if a beekeeper has 800 hives in the Cipo-Uva area, they expect to produce 20,000 kgs., but in reality they produced only 2,500 kgs.

In the northeast of Brazil, the beekeepers are optimistic because they anticipate the rains will arrive just in time to maximize the flowering and flow of nectar. The State of Piaui needs rain and can produce limited amounts of excellent marmeleiro white honey. White honey from the northeast will probably be available in March. There are good prospects for the Maranhão crop that produces the dark honey for which the European market is willing to pay a high price. In Santa Catarina Province, prospects are good for conventional and organic light amber. Rains caused the loss of 80% of the crop in Rio Grande do Sul and Paraná.

During the 4th quarter, Brazilian domestic buyers have been paying high prices. In contrast to Argentina, Brazil has a significant domestic honey market. The strength of the Euro relative to the dollar may direct more Brazilian honey to Europe in 2010. The growing strength of the Brazilian real is exerting significant upward price pressure on the Brazilian export prices.

Vietnam

Vietnamese honey production will commence in full strength in February, 2010, when the rubber honey crop begins. For now, only modest amounts of cashew and coffee honey can be harvested.

The Vietnamese honey industry is working hard to improve quality and to strictly and effectively implement the Monitoring Program designed to prevent circumvention and transshipment of Chinese honey. Some efforts by Chinese in Taiwan have reportedly been stopped by the Vietnamese authorities. Vietnam realizes that implementing the Monitoring Program will enhance their reputation and long-term ability to export to the U.S.A.

Bee Conditions

In addition to concerns regarding the volatility of weather patterns, concerns persist regarding the health and vitality of the bee population in the U.S.A. During September and October, several large beekeepers reported significant and unexpected losses of bees. For example, in South Dakota a beekeeper who had 6,000 hives that were vigorous during clover bloom, found only 200 hives active and well. The bees from the other hives just disappeared and did not return to their hives. As acreage that was previously pasture land has been converted to corn (for ethanol) and soybean production, there has been a concurrent surge in application of pesticides administered by planes and helicopters that regularly sweep across the fields now spraying potent pesticides on corn and soybeans. The hypothesis is that these pesticides may be affecting the brains of the bees and their navigation systems. As cultivated crops encroach upon and increasingly surround pasturelands and the remaining wild fields, pesticide induced damage to bees looms as a growing problem. Similar problems exist for the application of toxic pesticides on the extensive citrus groves in Florida. Since the health of bees and the broader interests of agriculture are so inextricably bound together, an integrated macro solution will be required to protect agricultural interests.

During Apimondia, I had occasion to talk with several scientists who are experts on bee health. One professor from Sao Paulo University in Brazil, who has been studying Africanized bees for decades, had several relevant observations from his scientific studies of Africanized bees. On the one hand, these bees are not only good propagators, but they are highly resistant to disease. This is one underlying reason Brazil can produce the world's largest quantities of organic honey. But the Africanized bees are very sensitive to and become anxious under conditions of darkness and chaotic noise. Such stress can increase their vulnerability to pathogens and pesticides. Mono-flora source diets during the short life-span of worker bees may also contribute to abnormal stress and subsequent vulnerability to disease. When we think about these scientific studies in the context of modern large scale agro-business and modern migratory beekeeping practices that transport bees over large distances as the bees emerge from winter stress, the variables and environmental factors that may affect colony collapse disorder may come into sharper focus.

The Role of Foreign Currency Rates

The U.S. economy is facing significant declines in the value of the dollar. This derives from: 1) the mammoth U.S. national deficit which has reached over \$12 trillion dollars,

2) the drastic increase in money supply (printing of U.S. dollars) to support the “bailout” given the Great Recession that threatened the solvency of the global financial system and 3) the projection of the continuation of high government deficits during the next two years. Since approximately 65% of the honey consumed in the U.S. is imported, currency changes represent a major variable affecting honey prices.

During the past 6-12 months, several changes are important to note: 1) The Canadian and U.S. dollars have attained parity, which means that during the past year, the U.S. dollar has weakened relative to the Canadian Dollar by almost 25%. This makes the prevailing prices of Canadian honey in U.S. dollars rise abruptly.

The Euro has moved from a rate of 1.25EU/\$1 this summer to over 1.50EU/\$1, as I write this report for publication in January 2010. This significant strengthening of the Euro will give European packers and importers a significant price advantage in purchasing South American honey, including Argentine, Brazilian, Uruguayan and Chilean honey. The Brazilian Real has also significantly appreciated in value moving up 14% against the dollar since July 2009. Only the Vietnamese currency has weakened relative to the U.S. dollar, falling 8% since January.

The greater and more persistent the national deficit and the larger the money supply becomes, the more serious are prospects for further erosion of the U.S. dollar, which has served as the global reserve currency for many decades. The strong inflationary pressures affect commodity prices, whether agricultural, mineral or energy. The rise of the price of gold to \$1,200 per ounce in early December manifests the impact of the decline of the U.S. dollar on commodity prices.

Given the volatility of honey production patterns and relative currency valuations, most packers are very cautious not to extend prices to their retail and manufacturing customers beyond 1 quarter.

U.S. Import Patterns

There is widespread belief among U.S. honey packers and importers that the American honey industry is experiencing disruption and distortions due to the phenomena of transshipment of honey through third nations to avoid anti-dumping duties. Two Chinese nationals were arrested and pleaded guilty in 2009 to transshipping honey, misidentified as a product of Thailand and Philippines, in an effort to evade antidumping duties. The case against a third is pending in Seattle.

When a study is made of the dramatic changes in export patterns over the past 7 years, and of the productive capacities of newly emerging honey exporting countries, stark aberrations appear. We can compare U.S. imports in 2009, 2008 and 2001 from several countries as follows:

Country	2001	2008	2009 (9 months)
	(million pounds)		
India	-0-	27.8	23.2
Malaysia	-0-	9.	12.
Indonesia	-0-	4.	8.7
Taiwan	-0-	3.2	8.2
Thailand	2.7	2.	3.
China	41.4	24.7	0.1

Source: National Honey Report

The changes are not merely quantitative but qualitative. For example, some tropical countries are exporting vast amounts of “white honey,” which is very difficult to find in the latitudes where the countries of origin are located, barring some botanical “miracle.” We note that in 2009, 100% of the honey imported from Indonesia is white and 42% of honey from India is white. Import values indicate prices much lower than white honey from Canada, the United States and Argentina. Published reports from Indonesia indicate that consumption of honey in Indonesia exceeds its production, which provides only 30% of its needs. Similar reports exist from Malaysia and Mongolia.

The phenomenon of blending or falsely labeling products is contributing to the confusion. Numerous trade samples have been evaluated and found to be either blended from several origins or ultra-filtered honey, which the FDA holds to be illegal to sell as honey. It is clear to all members of the honey industry that many emerging honey exporting countries do not have the technical capacity to ultrafilter honey, nor any economic reason to suffer the expense, even if they have the capacity. And yet huge amounts of this product are being offered to U.S. buyers.

It is interesting to note that the price of Chinese white honey imported into the United States in 2008 averaged \$0.22/lb. (less than \$485/MT), according to the National Honey Report. Canadian white honey imports during the same period averaged \$1.41/lb. Chinese honey prices reported to Customs in 2008, were 30% lower compared to 2001, when the antidumping case was effected. The unbelievably low valuations, no less the subsequent transshipments, have taken the sting out of the antidumping rulings of the

U.S. Department of Commerce. Chinese honey imports decreased dramatically from 25,000,000 pounds in 2008 to zero in 2009.

It would appear that the availability of extremely cheap Chinese honey worldwide has contributed to the 2-tiered price structure for honey which has persisted and increased throughout 2008-2009 in the United States, and that honey laundering continues unabated until today. This phenomenon has aroused concern among American beekeepers and American honey packers throughout the country North to South, East to West and all regions in between. If honest members of the industry are to be left standing, a timely and comprehensive solution to honey laundering is imperative.

During the period March-August, 2009, domestic and imported honey transactions were 29% and 71%, respectively, according to the NHB. The consumers clearly need imported honey to complement domestic production. But the industry also needs a level playing field that allows legal honey to compete with legal honey.

Conclusion

Future tendencies will be influenced by: 1) changes in the pattern of imports; 2) changes in foreign exchange rates; and 3) climatic and environmental changes. Of course, the industry awaits the day when the market will have a more level playing field which, in turn, will allow the creative and positive marketing of honey to play the decisive role in the competition of honey with other sweeteners.