

International Honey Market

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*The march to monopoly has lost its momentum and
may quickly morph into the march to bankruptcy.*

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This past September, as the international honey industry gathered in Kiev, Ukraine at Apimondia, hoping to find enough crystal balls to foresee the direction of the honey market in 2014, back in the USA a powerful earthquake erupted when Groeb Farms filed for bankruptcy protection from its creditors and for re-organization on October 1. This earthquake revealed realities and relations that had been hidden in the subterranean realm. This major bankruptcy, which arose from and follows the deferred prosecution agreement between the U.S. Department of Justice and Groeb Farms and Honey Holding, for the massive and systematic circumvention of Chinese honey which has been described by some in the press as the "largest food fraud in USA history," will continue to have a big impact on members of the industry. The amount owed by Groeb Farms to secured and unsecured creditors is approximately \$27,000,000. The question has been posed, what incentive is there to buy a company with this amount of debt and the history of a deferred prosecution agreement?

The U.S. Department of Justice announced sentences for several co-conspirators in honey circumvention, in one case involving a fine of \$3,000,000 and a 3-year jail term for a former Chinese national residing in Texas. "Inescapable harm" to the U.S. honey industry was cited by the judge who imposed the sentence. The case, conducted via a sting operation, involved over 32,000,000 pounds of honey valued at about \$23,000,000 which was falsely declared as being from Malaysia or India, but originated in China.

The protracted government attempt to curtail circumvention, the deferred prosecution agreement of February, 2013, and the Groeb bankruptcy filing of October, 2013, have occurred in the context of a honey market that has been distorted and contorted by a multiplicity of unprecedented events.

USA

The US honey crop was about what we can call the "new normal," that is to say, plus or minus 150,000,000 pounds, with considerably lower levels of productivity as yields per hive have fallen from 120-150 pounds per hive to 40-75 pounds, depending upon several variables. In the Dakotas, which produce the prime white clover honey, yields in 2012 were 55 pounds per hive and fell to 45 pounds in 2013.

The decline in overall production and productivity, coupled with increasing costs of production, compelled the higher prices that prevailed in the market in recent years. The serious problems of production have prompted the National Honey Board to investigate by surveying beekeepers to establish a more systematic understanding of the major causes of the declines. Such causes may include: 1) the extensive use of pesticides on numerous crops used for producing honey (like citrus groves) and non-honey producing crops (like corn and soybeans); 2) bee diseases like varroa mites and foul brood, and the general phenomenon of Colony Collapse Disorder; 3) continuing reduction of CRP lands and the extensive expansion of acreage devoted to grains, corn and soybeans, reducing sources of forage for bees, 4) stresses upon bee populations due to migratory bee practices and mono-diets for bees used to pollinate huge modern agribusinesses; 5) the difficulties provoked by increased volatility and severity of weather patterns; 6) difficulties of finding adequate labor and the rejuvenation of older operations with

“new blood.”

Urban and suburban beekeeping is seen by some as a promising trend. However, urban sprawl is also reducing forage for pollinators in certain areas. With the price of corn falling from \$7 per bushel to half that, beekeepers are hoping that lands will be returned to alfalfa and clover pasturelands in future years. As the U.S. moves towards far greater energy self-sufficiency, the demand for ethanol will decline which may be an important contributing factor to opening land for honey production.

In both the US and Canada packers reported concern that retail honey sales were sluggish as winter approached and consumer resistance to higher price levels rose. US packers of honey are also concerned that the scramble for tight supplies, the effective efforts of Homeland Security and the CBP to stop fraudulent imports, and the struggles of a major packer to re-organize in Chapter 11 are artificially forcing prices upward and payment terms shorter as an inducement to suppliers. When prices are already so high as to threaten consumption of bottled honey and re-formulation of industrial products using honey, many honey packers do not want to see prices go into the uncharted stratosphere.

The National Honey Board's assessments in honey transactions at the end of October 2013 were up 3.5% over the previous year, and imports accounted for 75% of assessments. The steady increase in the volume of honey purchased and steady or increasing prices brought the total value of imported honey to a total of \$395,866,000 as of September, 2013. The NHB's marketing efforts are helping to create a bright future, with increasing demand for honey, new honey products and greater consumer knowledge of the diversity, health benefits and quality of this ancient natural sweetener. At the annual meeting of the NHB, an independent study was presented that quantified the positive effect of the NHB programs on honey demand and consumption during the last 5 years, indicating overall return on investment of 14.12%. Dr. Ron Ward, professor emeritus of economics at the University of Florida, has prepared econometric analyses for several national commodity boards in other product areas, and his report for the NHB is available on the AMS website.

In November, Washington State voters rejected a bill requiring GMO labeling for foods sold within the state. A multimillion dollar campaign was organized against the bill by the Grocery Manufacturers and Monsanto, among other groups. Opponents of labeling laws prefer that all GMO labeling be voluntary. Last year's vote on GMO labeling in California was also rejected by voters.

North American honey packers remain concerned that the historically high prices of honey are discouraging purchasing of honey by industrial and retail buyers and possibly encouraging reformulation to other sweeteners among industrial users.

Argentina

The Spring (Sept-Dec) crop began with much more promise than a year ago in the early producing regions for white citrus honey and other spring blooming trees that produce gourmet white honeys. In November the citrus and lemon harvest in Salta, Tucuman and Jujuy was very good. White carob was collected in Chaco, and prairie floral sources provided white and 40mm honey in the Buenos Aires region.

A larger crop is anticipated to be a real possibility compared to the past 3 years. The total crop will not only be constrained by the contingencies and patterns of weather and bee health, but also by the conversion of Argentina's pasture and prairie lands to soybean production for export to China and India. Soybeans in Argentina are grown at latitudes that do not yield enough nectar to warrant beekeepers' efforts to produce soybean honey.

In 2011 Argentine world honey exports ranked #2 in quantity, reaching 72,356 kilograms (159,516,000) pounds.

Argentina's top 5 honey export destinations as of mid November, 2013

USA 37,819,604 kilograms
Germany 6,304,448
Japan 3,297,340
Saudi Arabia 2,095,757
Canada 1,949,814

Imports from Argentina to the US ranked number 1 in quantity and value at the end of the 3rd quarter, and were almost double those of Vietnam and India, which ranked 2nd and 3rd during that period, respectively.

The Argentine government had instituted a policy in 2013 requiring Argentine importers of many different products to export Argentine products. This policy is significantly changing the landscape of honey exporters within Argentina. Argentina's political and economic situation remains characterized by turmoil and transition. The Peronist Party lost seats in the parliament as a result of the elections in autumn 2013. The government's position on issues such as high inflation rates is unclear. Argentina's large national debt has the potential to provoke a second default of bond obligations. Inflation is running at 25% per annum which puts upward pressure on prices. Prices for fuel and transportation are up. Even with a sharp decline of the value of the peso, which would tend to decrease prices, the high rate of inflation balances the devaluation of the peso, with a net effect of stability. The major determinants of honey prices are international supply and demand relations.

Nonetheless, the prevailing fear is the direction of the Argentine peso. While the government is trying to stabilize the peso's value, which declined rapidly during 2013, there is a potential for a two-tiered market due to the differential between the official and the black market exchange rates. When discounts of 40% can be obtained in the currency markets, the potential impact could be similar to the two-tiered market the US honey industry has suffered, for different reasons. The decisive question for Argentina concerns the nature of the efforts and the effectiveness of those efforts to reign in the illegal black market in U.S. dollars.

On Nov. 21 an article in *Bloomberg News* stated "by exploiting the illegal currency market, buyers are extracting 39% discounts on luxury imports such as the Porsche 911 and creating the biggest foreign auto boom in 5 years...It is also exacerbating the fastest drain on the nation's dollar reserves in a decade, sparking a government clampdown as it tries to preserve a primary source of cash for creditors' payments. Argentina, whose reserve dropped below those of Angola, Lebanon and Romania this year, is boosting its currency controls as consumers faced with 25% annual inflation turn to everything from luxury cars to gold to bitcoins as a store of savings." Argentinians sell dollars in the black market for 9.8 pesos whereas the official exchange rate is 5.97.

The exploitation of the two exchange rates has been implicated in a two-tiered pricing structure for the export of various Argentine commodities. The government is seeking to impose bureaucratic hurdles to the manipulation of the black market rate by some exporters.

In October and November of 2012, many large and low priced contracts for deliveries of honey January to June, 2013, were initiated on pure speculation and a grab for market share. The result was delays, cancellations and re-negotiated contracts, not because of legitimate *force majeure* causes which arise from time to time. In late 2013 the climate for speculation within Argentina's honey export industry has dampened. Some exporters are reluctant to offer and confirm any significant quantities until 1) the major extraction is completed in January, 2014, 2) the strength or weakness of the Argentine peso is clearer (from beekeepers' perspectives, the longer they wait to sell, the more pesos they will obtain – if 2013's patterns persist – for every dollar acquired) and 3) the durability of the two-tiered currency market and whether or not Argentine exporters are effectively constrained from participation therein.

Obviously, Argentina plays a central role in the market for white and extra light amber honey with flavor profiles attractive to the North American palate. The next months will clarify the impact of Argentina on the overall market.

Brazil

Brazil remains the major international authentic producer of white, extra light amber and light amber organic honey. The 2013 crop was negatively affected by adverse weather, especially in southern Brazil where there were excessive rains. Bee losses were a problem in the region near Rio de Janeiro. In the northeast, drought has been a problem for over 2 years now. During the time of the visit of Pope Francis last summer, 100 cities had snow on the ground. The honey color was darker than expected, affecting the supply of extra light amber. Contracts were delayed, re-negotiated or cancelled. Competition for supplies intensified under these conditions and prices firmed, especially after September when

Apimondia was held.

Producers are hoping for rains in the northeast in December in order to have a good crop in 2014. The Brazilian government has been acting to keep the US dollar exchange rate stable, and it is anticipated that minor changes in the *Real* will not affect the honey prices.

Brazil's total honey exports to the world in 2011 were 22,399 metric tons (49,380,835 pounds). US imports from Brazil as of October 2013 reached 22,070,165 pounds.

The BRIC nations of Brazil, Russia, India and China all suffered economic declines and financial difficulties in 2013, as the malaise in the world economy asserted itself upon those rapidly developing economies in which much hope had been placed.

Vietnam

The Vietnamese 2013 honey harvest was completed by October and some new crop coffee and cashew honey began in December. The super cyclone Haiyan caused evacuations, but for the most part skipped past Vietnam. As of October, imports into the USA were 56,955,801 pounds, with a surge in volume after June. This amount will increase before the end of the year and may reach 60-65,000,000 pounds.

Vietnamese beekeepers are utilizing honey from the wild forests of *Acacia mangium*, which now constitutes 30-40% of the total Vietnamese honey crop. The acacia is not only an increasingly important source of honey in Vietnam, but is a species of the acacia family which is regarded as "green or environmentally friendly" in virtue of its high capacity to absorb and store carbon dioxide. Unexpectedly, honey from this species tends to darken rapidly, especially if produced and stored during high

summer temperatures. The color of the harvested honey was generally darker this year than before. Problems of darkening color have caused the delay or cancellation of some shipments. People are working to adapt to these changes.

The steady growth in Vietnam's export volume has been dependent upon the development of the *Acacia mangium* floral source. To sustain such volumes will require learning how to use and blend this valuable source of industrial honey which has helped provide both the volumes and attractive prices that are needed to compete with other sweeteners in the industrial market. Other traditional sources of honey in Vietnam are coffee, cashew, rubber, lychee and longan. Some scientific experiments have been proposed to study how to find ways to use the acacia that will allow a return to the continuity of quality and quantity which has made Vietnamese honey a prized and important component within the U.S. market. Studies of the chemical profile of *Acacia m.* began in the summer of 2013.

China

China was the top-ranked world honey exporter by quantity in 2011, at 220,433,544 pounds. China's role in the international honey market remains shrouded in mystery that transcends the anti-dumping/circumvention/transshipment phenomena that has distressed the US market and led to indictments in Chicago, Seattle, Los Angeles, Jacksonville, etc. China remains a formidable producer of honey and while issues of adulteration persist, there is no doubt that China has the capacity to produce large quantities of pure honey ranging over all the colors. This includes honey from many floral sources, including white honey from rapeseed, acacia, clover, linden, chaste, extra light from sunflower and cotton, light amber from wildflower and amber from buckwheat. Its ability to export to the USA and Europe will, however, depend upon strong intervention by Chinese authorities to clean up the corruption that has plagued many segments of China's economy, inclusive of its agricultural sector. The Chinese government may either be part of the problem or part of the solution. Hopefully, China's honey industry will act in accordance with international law.

This is a vital looming question since in 2016, per the bilateral agreement between the US and China regarding China's membership in the WTO, China is scheduled to have anti-dumping petitions assessed by Department of Commerce according to the Department's investigation of China's own economic data, not via surrogate country analysis that has resulted in prohibitively high anti-dumping duties.

The economic, geo-political and environmental importance of U.S.-China relations makes continuation of surrogate country analysis unlikely, in my judgment. American agricultural interests from many states and sectors, such as almonds, soybeans, grains, agricultural machinery, etc., make bringing China into a more normal trade regime more, not less, likely. The facts must be faced.

A major re-structuring of the Chinese agricultural system has recently been announced by China's new reformist leadership. A dual program of 1) creating a new network of cities and towns, into which the majority of the rural population would be re-located; and 2) the consolidation of what are called "family farms" by the Chinese into large agricultural farms, will inevitably lead to the creation of agrobusinesses in China.

China's program of Direct Outside Investments (DOI) is leading to the purchase of energy resources, agricultural lands in Africa, South America and California, food companies (Smithfield in the U.S.), Manhattan real estate (the J. P. Morgan skyscraper), textile mills in Italy and mines in Africa. Australian family farmers expressed concern about changes in their rural culture as a consequence of China's land acquisitions. There are credible reports that honey companies may also be acquired as part of this policy. It is unlikely that this trend will be stopped, especially since for decades the U.S. and Europe have been establishing joint ventures and sole ownership of factories, companies and large retailers in China.

There are reports in China that there has been excessive investment in domestic factories. This practice is reported to have created a huge portfolio of non-performing loans on the municipal and provincial

levels. Some economists predict that this will lead to a hard landing for the Chinese economy.

Standards, Tolerances and Testing Levels

More beekeepers, packers and trade organizations are becoming aware of the need to establish reasonable and realistic tolerance and testing levels for honey. These standards should move towards an international harmonization, since the imposition of European standards on the US, US standards on Europe, Canadian standards on Europe, and so forth, lead to inconsistencies, unpredictability and arbitrariness in the honey trade.

Plants and animals are both vulnerable to diseases. That includes the plants bees pollinate and the bees whose pollination activities account for the production of one-third of America's food production, including phyto-chemically important fruits and nuts. As a result, farmers use pesticides to protect their plants and beekeepers use miticides and antibiotics to protect their bees. Residues inevitably appear in the byproducts of the interactions of botanical and zoological life. Other food industries have long recognized these realities and have established tolerance and testing limits that are reasonable and far higher than what is present for honey.

Both health risks and health benefits must be based upon good science, realism, average daily intake levels (ADI's) and a commitment to protect both the food supply and human health. If the mythology of ultra-purity were imposed, there would be inadequate air to breathe, food to eat and water to drink. The industry cannot paint itself into a corner, since imports are needed to bridge the serious gap between consumption and domestic production.

Far sighted members of the U.S. and international honey industries realize we need good science and good medicine to establish reasonable and realistic standards to reduce self-destructive policies. That means we need serious efforts by independent agricultural scientists and medical researchers to establish through a more open dialogue with government ways to protect both human health and agricultural production, both of which are interrelated each with the other. There are some ideas that have been presented to achieve that dialogue and a science-based rationality and realism to our industry's dual commitments to adequate food supply and protecting human health.

The serious contrast between using the word "Honey" for labeling and marketing products and the actual use of physical honey in those products continues to be of concern to the American honey industry.

Climate Change and Agricultural Production

There is no doubt that the international honey market will inevitably be influenced by a confluence of factors including: bee health, sustaining the incentive to produce honey, land suitable for bees to produce honey, national and international economic health (and debt) and environmental factors.

On Nov. 13, 2013, the BBC News section on science and environment reported that 2013 was one of the top 10 warmest years on record. The President of the World Bank, Jim Yong Kim, stated that warming could no longer be ignored. All of the warmest years have been since 1998. Atmospheric concentrations of carbon dioxide and other greenhouse gases reached new highs in 2012. The impact on the water cycle is expected to result in droughts, floods and extreme precipitation. Dr. Steve Rintoul, research team leader at Australia's CSIRO Marine and Atmospheric Research division, said, "A more significant point is that global average temperature in each of the last three decades has been warmer than any prior decade dating back to 1850....[this is] compelling evidence that human activities are primarily responsible for the warming over the last 50 years."

The intensity, volatility and unpredictability of severe natural disasters have alarmed scientists, governments and people throughout the world. The increasing differential of temperatures of air, sea and land creates changes in winds and currents, which can lead to wild fires, heat waves, extensive droughts and massive hurricanes and super cyclones like Irene, Sandy and Haiyan. The human toll of these events is tragic, and their economic costs undeniable and incalculable. For the most comprehensive scientific analysis of the global data gathered over the past several years regarding the human role in climate change, see data gathered by the Intergovernmental Panel on Climate Change (IPCC).

Just as it is possible only to predict general trends, not specific climatic events, we may see that global honey production patterns tend to shift over time, which means the American and international markets for consumption of honey must have greater flexibility than would be the case if climate change did not affect, in unpredictable ways, the scale and location of honey production around the globe.

Conclusion

The dramatic events of 2013, including indictments, fines, jail sentences and bankruptcy, were beyond the American honey industry's expectation. The consequences will continue to unfold step by step, with doors closing to some and opening for others, as whole networks of relations have been revealed which underlay the troubles which have been tormenting the international honey industry for the past decade. Despite the challenges of production, the effects of a two-tiered market and the historically high prices, honey consumption has managed to increase and the consumer's perception of honey as a valued healthy and natural sweetener has improved over the past year.

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