



INTERNATIONAL HONEY MARKET

by RON PHIPPS

President, CPNA International Ltd.¹

Co-Chairman,

Committee for the Promotion of Honey and Health

A sea change has occurred in the American honey market with the recent indictments announced by ICE and Homeland Security for fraudulent entry of Chinese honey into the U.S. without paying the requisite anti-dumping duties. These indictments involve citizens of Taiwan and China, as well as a resident of California. Numerous companies and warehouses of honey are involved.

While this is the latest in a series of indictments for illicit circumvention of Chinese honey into America, it deals a major blow to the two-tiered market that has haunted and distorted the U.S. honey market for at least 7 years. The reason for the special significance of this indictment resides in the fact that for the first time the source of demand for circumvented honey, that is the packers who buy illicitly entered honey, are referenced. It is obvious that circumvention is not an act of idle speculation, but the result of collusion and conspiracy to circumvent

the law, collusion that requires coordinated acts among exporters, importers and packers. As leaders of the American Honey Producers Association aptly expressed it during a hearing of the Senate Finance Committee earlier this spring, "Stopping circumvention requires bringing the 'chop shop' owners under the arm of the law." With this new indictment beekeepers, honest packers and honest importers believe the process of addressing the source of demand has commenced. Such packers have gained unfair price advantage and dramatically increase their market share based upon the huge quantities of Chinese honey that have illicitly entered the country in one form or another. Those committing such fraud are clever, devious and nimble.



¹ CPNA International, Ltd.
1043 Oyster Bay Road
East Norwich, NY 11732
Tel: (516) 935-3880
Fax: (516) 935-3959
e-mail: info@cpnaglobal.com
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Mr. Phipps is president and founder of CPNA International, Ltd. and is currently Secretary-Treasurer of the National Honey Packers & Dealers Association. He is an importer of honey, natural foods and tea from various international producers. Ron is also the former personal research assistant to the president of the American Philosophy Association. He is a recipient of the National Science Foundation fellowship for philosophy of theoretical physics. Mr. Phipps is a founding member of the Tea & Health Committee, which organized three major scientific symposiums on tea and health and the role of antioxidants in the prevention of disease. He has worked with FDA to develop a research protocol for the global diversity of honey.

That nimbleness has been manifested through kickbacks, fraudulent undervaluation of honey, transshipment of honey through a wide variety of third countries and entering honey through U.S. Customs under false classification. In this case, Chinese honey, it is alleged, is entered as "rice syrup" rather than either honey or a honey blend, i.e. a blend of sweeteners containing less than 50% honey. This latest example is not at all surprising since previous cases have been reported of luxury hand bags being entered through Customs as "Chinese dried noodles."



The complaint against 3 individuals,

filed in Jacksonville, Florida, states that in 3 months ending in November 2011 about 123 containers (over 5,000,000 lbs.) of product was entered under the false description of rice fructose syrup. The origin of the product was China. The 3 individuals removed the shipping labels indicating syrup and replaced them with the description "Amber Honey." The News Release reports "once the containers of honey passed through customs, they were forwarded to a warehouse, washed of all markings and relabeled as amber honey, which was then sold to domestic purchasers... Chou and

his associates, through various shell companies, successfully imported 900 containers of rice fructose over the past two years...Intelligence generated by the investigation so far is leading to thousands of barrels of misclassified honey that have already entered the United States. Many more seizures are expected in the continuing investigation."

More is to come. The industry understands that a vast amount of Chinese honey is in numerous warehouses throughout the U.S.A. Secondly, there are also reports that up to 400 containers have been denied entry and turned back. And thirdly, as the conspirators became aware that their latest scheme had been exposed, even larger quantities that would have been shipped from China have been held back from shipment.

The impact on the market is already being felt. Retailers of bottled honey and manufacturers using honey as an ingredient are seeking honest suppliers and seeing that behind the low prices within a two-tiered market resides illicit honey. Given the numerous articles in the mass media that have appeared, in recent years, no one can feign ignorance of the foundation of a two-tiered market. Hence, legal and criminal responsibility for smuggling honey can extend to retailers, food service companies and manufacturers. Though we observe that "the Lady doth protest too much" those protestations are not only arrogant but also hollow.

Relative to these indictments, just as when honey imports from Indonesia were cut off in the 4th quarter of 2010, the buyers of that rice syrup/honey are the first to know about an interdiction of supply.

The USA Market

The market is now confronted with a small domestic crop which may range between 135-155 million lbs.; the days of 200 million pound crops are for the present gone. While some estimates are as low as 103 million lbs., the most informed beekeepers estimate the crop as about 140 million lbs. This failure is a consequence of drought in California, Texas and Florida and cold excessive rains in the Dakotas when clover and alfalfa were in bloom. Additionally, as in Argentina, more land is being converted from pasture fields to soybeans, corn, grains and biofuels. Even before the indictments of November, 2011, honey prices were rising.

We are happy to confirm that the U.S. Department of Agriculture NASS honey reports, threatened with termination due to federal budget constraints, have been reinstated and will continue to provide statistical information on bees and honey production, information that is vital to broader agricultural interests that depend upon pollination services for approximately 1/3 of the food produced in America. A great deal of



that food consists of foods rich in nutritional value, antioxidants and phytochemicals essential to health. It serves the national interest for the government to protect and support the beekeeping industry, vital to the national food supply and national health.

U.S. white honey prices have ranged generally from \$1.65 to \$1.72, with some pure clover fetching \$1.80 and orange over \$2.00. In general, beekeepers anticipate still higher prices for 2012.

The total volume of imported honey exceeded 232,274,000 lbs. in the period January to September 2011, according to the Department of Commerce data, with India as the leading exporting country with over 51,148,097 lbs. Imported Canadian white honey has averaged \$1.69/lb. in 2011 so far, commensurate with U.S. prices.

Argentina and Brazil

The Argentine honey crop will commence as this article is published. That crop will have major significance. But it is premature to estimate its magnitude at this early stage. In general, however, no one can expect the previous bumper crops of Argentina's excellent white honey. To meet the appetite of India and China for soybeans, pasture lands are already converted to these crops. Soybeans are Argentina's largest export item.

Argentina has been the subject of much market manipulation following the European Union's decision to require labels that recognize the presence of GMO pollens in honey if such GMO pollens exceed 0.9%. Theoretically, this is a huge problem and very general since 80% of the European diet depends upon GMO plants. For China, India, Canada and the USA the use of GMO plants is both extensive and vital to being able to feed the human population that now exceeds 7 billion people inhabiting an Earth with shrinking arable land and increasingly volatile climatic conditions.

As a scientific matter it remains very difficult to assess such small levels of GMO pollens among the very modest amounts of pollen found in honey in the market. Furthermore, packers in Europe have decided that as a practical matter of survival of their businesses they will simply change the labels to conform with the facts and the new GMO rulings if they persist and are enforceable.

We will have more to communicate on Argentina once their crop conditions mature



and the GMO issue achieves further clarification. But by the 4th quarter, Argentina's honey stocks are low and Europe has begun purchase as European packers have neither adequate inventory nor reliable forward contracts.

Brazil remains the world's major source of authentic organic honey, most of which is light amber, and a smaller amount is extra light amber. The crop in southern Brazil has had an 80% loss. The crop of light amber in the northeast is doing well. In central Brazil there has been excessive rain which has compromised the yields.

The fact that Mexico has sold out its mesquite crop and cold weather devastated a large producing area of light amber honey has only exacerbated the demand for Brazilian and Argentine honey in Europe.

Vietnam

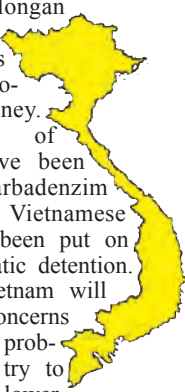
The 2011 Vietnamese honey crop was about 25,000 metric tons. In addition to rubber, litchi, and longan honey, Vietnam is now exploiting acacia forests of a species which produces light amber honey. Some shipments of Vietnamese honey have been found to have carbendazim residues, and several Vietnamese honey exporters have been put on import alert for automatic detention. If, how and when Vietnam will resolve their quality concerns remains to be seen. This problem has led some to try to manipulate the market lower, however Vietnam's reliable exporters indicate that prices will rise, not fall, in 2012.

Vietnam participated in the World Honey Congress (Apimondia) held in September 2011 in Buenos Aires. Accordingly, the Vietnamese are much more informed about real market conditions. Beekeepers and exporters are no longer operating in states of insularity, ignorance and isolation.

Exports of Indian white honey surged in the first 9 months of 2011, increasing from 6,908,638 lbs. in the comparable period in 2010 to 24,354,534 lbs. Some explained this increase as due to the development of white honey-producing floral sources; however, all 5 sources cited by the Indian exporter are floral sources that produce light amber and extra light amber honey, typical of tropical and semi-tropical countries.

Currencies and Market Manipulation

Since the world is in a financial crisis as western economies suffer huge national deficits, and none of us have crystal balls, or at least effective crystal balls, there is confusion about what is next in the macro-economic sphere. At present, the focus of attention is upon Europe where Greece, Italy, Portugal, Spain and Ireland have been in financial crisis, spending far more than they take in through taxes. Borrowing



costs are escalating. Sharp divisions have erupted regarding by what path Europe can pull itself out of the deep pit into which the finances of its members have fallen and reigning governments have been toppled or weakened. In America our cumulative national debt this year has exceeded \$15 trillion dollars. State and municipal deficits are also horrendous, services are shrinking and pension funds are increasingly vulnerable.

The difference between the U.S. and Europe is that the U.S. is politically integrated in such a manner that we can print money. All present efforts to contain the problems of debt and deficits are confined to slowing the rate at which debt will grow. Within Europe there is no central bank similarly empowered to print money. There are sharp divisions between those nations in Europe which live within their means and those that were profligate. The former want to impose "austerity" upon the latter, increasing social tensions within the nations entering a period of unexpected austerity.

Germany, in particular, has taken a very hard and fiscally conservative position as the depth and breadth of Europe's fiscal crisis have become apparent. Germany has



memory of the pre-Nazi era in which the German Deutsche Mark became worthless, a wheelbarrow of money buying a sack of potatoes. Thus, there is a deep historic reluctance to print money. But Europe, this writer believes, will not be able to stand by idly and passively as the U.S. Federal Reserve increases the money supply. Germany is the world's biggest exporter and its own economy will inevitably deteriorate if its export markets shrink.

Indeed, the world economy is so interdependent that it behooves each nation and region, no less the world as a whole, to maintain a general parity. Whether there is a second great recession, a global depression or a Recovery, all nations are on the same planet. Europe will have to print money since, like the USA in 2008, Europe faces insolvency of its banks and its member nations without an increase in money supply of the Euro.

The honey industry has witnessed the strong impact of currency ratios upon U.S. dollar prices for honey. Because stability and parity of exchange rates are so vital to global economic integration, we anticipate changes in currency ratios will have a far smaller impact upon honey prices than do global climatic conditions and changes. But

there is no certainty in respect to either of these variables.

Given the fact that the net is being thrown more broadly against all levels of the industries involved in circumvention or fraudulent entry of Chinese honey, a huge amount of illicit honey, honey blends and syrups will be removed from the market. Where will the cheap honey come from to fulfill contracts made by those who were depending upon receipt of this illicit, underpriced honey? It is possible that wiser heads in China will do their part to resurrect China's reputation in its international trade practices and restrain such practices in the future. However, we are already seeing new players in the market with new schemes, such as the Turkish "honey" which the FDA determined was in fact adulterated with other sweeteners in October 2011. Import alerts have been issued by the FDA for "Turkish honey."

The masters of market manipulation, who are talking down future honey prices from America, Argentina, Vietnam, Mexico, Brazil, etc., are facing a deep dilemma due to the efforts of ICE, the FDA and the forces of nature.

What the industry needs now urgently is integrity, fairness, and ethics in business practices with an objective, realistic and comprehensive understanding of the overall situation in the international market.