



INTERNATIONAL HONEY MARKET

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As we look to the New Year, there are several factors which will influence the course that the international honey market follows, including the global economic conditions, regulatory changes, supply/demand relations at all levels of the market, the impact of continuing climate change and the creativity and effectiveness with which honey is marketed in the industrial, food service and retail markets.

The year 2012 has been a year of global shortages of honey, especially white honey.

Changes in the Regulatory Environment

The U.S. Department of Commerce has ruled that any honey entered as a “honey blend” (packer blend) is subject to antidumping duties, regardless of whether or not honey makes up 49% or more of any alleged blend. It is widely suspected that for years this category, which had no prior

use in international trade in the U.S., was used to enter pure honey from China without paying anti-dumping duties. This practice is now rescinded by U.S. law.

On Nov. 5, 2012, the antidumping order on honey from Argentina was revoked, and the collection of estimated duties has ceased. The countervailing duty order is also being revoked. There was an essential agreement between the petitioners and the Argentine exporters behind this significant change. Given the facts that the prices for honey are at historic highs and that an international shortage of honey exists and is likely to persist, it is very hard to use the statistical data to demonstrate that Argentine honey exporters are or were dumping or selling below costs. Argentine beekeepers, for a variety of reasons including their self-interest and their increasing costs of production, are not likely to revert to dumping. The legal expenses for American beekeepers and Argentina’s honey exporters have been considerable and burdensome, as are the recordkeeping and reporting burdens for the Argentine exporters. Pursuing a case for alleged dumping that was unlikely to be won made sense to neither American beekeepers nor their lawyers.

In contrast, the International Trade Commission, has ruled to continue tariffs on Chinese honey at \$2.63/kg. According to the ITC’s announcement, to remove the existing anti-dumping tariffs would likely cause substantial harm to the domestic industry in a reasonable and foreseeable period. If China does obtain market economy status, which could happen as early as 2016, plays by the rules of international trade, and parameters are negotiated that will make dumping of honey improbable, then the U.S. market may re-open to Chinese honey. But this will not happen without an atmosphere of good will.

Last year’s efforts by Immigration and Customs Enforcement (ICE) to prosecute duty evasion resulted in the largest single



case of fraudulent entry of honey, involving nearly 15,000,000 lbs., or over 300 containers. The product was entered by a cabal of co-conspirators in one customs category, tested as honey, and then sold as a third product.

Since customs fraud involves many products subject to antidumping orders or regulatory requirements of food safety, purity and environmental protection, Congress has stiffened laws against fraud in a relatively new obstruction of justice statute, included in the Sarbanes-Oxley Act. In particular, the criminal penalties for falsification of import entry documents have been increased to include a 20-year incarceration penalty in an effort to deter future acts of fraud.

The honey circumventers and their co-conspirators are clever and nimble. As one avenue or mode of circumvention closes, they scheme to open another. Other customs categories for Chinese products imported in large volume are being utilized to avoid anti-dumping duties. National Honey Board assessment statistics suggest

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that the U.S. consumption of honey is about 400 million pounds. When one considers the variety of laundering schemes that conspirators and co-conspirators engage in, the actual consumption of honey in the U.S. may exceed 500 million pounds. The unfair competitive advantage for buyers of circumvented honey depresses the market prices, deprives the National Honey Board and private packers from funds that could be utilized for creative marketing of honey, and in the process harms honey's status as the premier natural sweetener.

Import Statistics for the first 9 months of 2012

Though statistics for the year as a whole are incomplete as this report is being prepared for publication, there are important trends and changes to note. Many of these changes reflect the severe and continuing stresses in the global economy, including the European Union and especially the countries of southern Europe including Greece, Spain, Portugal and Italy. These changes have made exports to Europe more risky, reduced demand in Europe and weakened the Euro relative to the U.S. dollar. When the Euro was 1.50-1.60 per dollar, Europe could prop up stronger U.S. dollar prices than when the Euro has fallen to a range of 1.20-1.30, as it has.

Total U.S. honey import volumes for the first 9 months are up about 7% compared to 2011. Imports of Canadian white honey tripled in the first 9 months of 2012, compared to 2011, to reach 24,000,000 pounds at prices in the \$1.70 range. It is relevant to note a large and significant reduction in imports of Asian White honey:

US Imports of White Honey for Selected Countries (in pounds)

Imports of Indonesian White, which were about 14,000,000 pounds in 2010, have been reduced to zero in 2011 and 2012, as have imports of Malaysian White. Tropical countries like India, Indonesia and Malaysia typically produce darker honeys such as ELA, LA and Amber. The disappearance of Indonesian, Malaysian and Indian white honey may reflect the successful efforts of the U.S. government following the Senate Finance Committee's hearing on the circumvention of Chinese products.

Total imports of Indian honey were about 35,600,000 in 2010, 55,500,000 in 2011 and 34,700,000 for the first 9 months of 2012, with the emphasis on the darker colors.

U.S. Imports of White Honey for Selected Countries (in Pounds)

Country	2010	2011	2012 (9 mos.)
China	1,320,000	2,741,679	-0-
India	8,136,062	25,355,998	1,353
Indonesia	13,943,816	-0-	-0-
Malaysia	80,557	576,684	-0-
Vietnam	1,302,000	2,828,000	-0-
Mexico	—	2,500,000	30,000

In 2011, export prices for Asian white honey ranged from \$.98 for Malaysian white to \$1.46/lb. for Chinese white, while prices for Argentine and Canadian white were in the range of \$1.31 to \$1.70/lb.

South America

U.S. Imports of Argentine white at the end of 3rd quarter were stable at 15,000,000 pounds, but volumes of ELA and LA reached 54,000,000 pounds, a dramatic increase. Argentina exported 144,000,000 pounds to all countries, as of November, 2012. As of the 4th quarter, colonies are very strong, the weather is normal and a strong nectar flow is expected. Because of these factors a big crop is expected from the first extraction in December.

The 2011/2012 Argentine honey crop was about 150-160,000,000 pounds. Argentina's spring began with high hopes. Its early northern crop was poor due to excessive rains and cold. By mid-November, weather improved with excellent moisture. There is by the end of November a lot of honey in the hives that will not be extracted until December when the hives will reach about 88 pounds of honey per hive. The total crop is expected to be larger than last year's. Due to the type of flowers producing honey for the first extraction, the current crop is expected to be much whiter than the previous crop. Depending upon the outcomes for second and third extractions that can run into March and April, the Argentine crop could be close to a bumper crop relative to the plants available. But a bumper crop in this period is far smaller than a bumper crop of one or two decades ago. Argentina's honey production is experiencing a strategic, long-term shift similar to that in America and for the same fundamental reason. The Argentine government has made a decision to limit production and export of meat and dairy products and convert pasture lands and fields from clover and alfalfa to soybeans. Argentina, like America, is shipping huge quantities of soybeans to China and India, whose combined populations are about 3 billion people. The Argentine government imposes an export duty on honey resulting in a total of about 23.7% that must be paid by German importers. This is why beekeepers are unwilling to reduce prices and why the U.S. has become the preferred destination.

From 10 main Argentine exporters we

anticipate 100 Argentine honey exporters will emerge, including many small beekeeping cooperatives. While there was no formal limitation on the number of exporters during the antidumping order, there was a significant financial limitation since many small exporters could not afford the legal fees and the administrative time necessary to function under the strictures of an antidumping order. While U.S. importers and packers expect the opening of the Argentine market to result in lower prices, Argentine beekeepers have the opposite view. On the one hand, Argentine beekeepers have to struggle with an annual inflation rate approaching 25% and, on the other hand, they are in direct communication via the internet and social media with beekeepers in North America, Europe and Asia. More knowledge means less artificial manipulation of markets, including honey.

Uruguay exported over 18,000,000 pounds of Light Amber in 2012, an increase over the previous year. A very rainy spring has lifted the beekeepers' expectations for good volumes which will begin to be exported by the end of 2012. Although Uruguay is a northern neighbor of Argentina, the color of their exported honey is mainly Light Amber, with very little White honey. For Uruguay, like Argentina, the US has become the preferred export market. This reflects several factors. First, the EU has become a risky market. Since there is considerable financial and economic integration of southern and northern Europe, the problems in southern nations will inevitably have consequences and provoke antagonism with the northern nations of Europe, including Germany, which is in a stronger but still vulnerable position. Secondly, Argentine and Uruguay honey exports to Germany, their traditional large market, have a 17% duty. Mexican honey exports have only half that rate, while Chile has zero duty on its honey exports to Germany. Thirdly, with the Euro weakened, from 1.50-1.60 to 1.20-1.30 per dollar, Germany cannot pay high US dollar prices for South American honey and compensate for its high duty rates compared to modest duty rates for Argentina and Uruguay honey in the U.S. The quality standards in Europe are rigid, including issues of GMO plants used to produce honey.

Brazil has a large potential for many types of honey, including some white, but it remains the largest producer and exporter of certified organic honey. This is because of the vast tracts of its virgin land. Deforestation of the Amazon, however, could jeopardize Brazil's capacity to produce organic honey.

With the failure of the Mexican white mesquite crop, import volumes of Mexican white plunged from 2,500,000 in 2011 to 30,000 for 9 months in 2012.





Canada

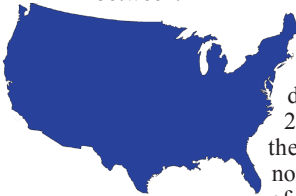
The Canadian honey crop is estimated to be slightly below last year's average crop. Color

ranges are normal (0-20mm). Moisture levels in some areas are above normal ranges of 16-17% and have reached up to 18.5% due to heavier rains at the tail end of the crop in western Canada. While a crop of 70-73,000,000 pounds was expected, current estimates are that Canada produced about 65,000,000 pounds in 2012.

The US packers are reluctant buyers because of two primary factors: Firstly, knowing the shortage and rising prices of the American crop, they bought heavily and are not in urgent need. Secondly, everyone is waiting to learn about the Argentine honey crop and the impact on prices given the emergence of a larger number of competing suppliers in Argentina now that the anti-dumping order on Argentina has ended.

The USA Honey Crop

This was another difficult year for the U.S. honey crop, despite bee colonies starting out well and early spring weather looking favorable. The total crop is estimated at a low end of 140,000,000 pounds and a high end of 160,000,000. The most experienced believe it is between 140-150,000,000 pounds. The crop is darker than normal and the water white clover honeys of the Dakotas are few and far between.



There are several causes for the decline in the 2012 crop and the absence of normal amounts of white honey,

as experienced in Argentina. Foremost among these causes is the monumental drought that plagues large swaths of the country. As reported earlier, this was the third worst drought in a century, a century that included the Dust Bowl of the 1930's, and the worst drought in 60 years. A second factor that is of growing significance is the steady and rapid conversion of lands to soybean and corn production. Prices for those commodities and world demand for the same are so high that we must expect this kind of conversion to continue for at least this decade, if not much longer. Because clover fields and alfalfa fields are shrinking as cattle and dairy farmers switch to concentrate on grain production, there is a sharp reduction in harvest of white clover and alfalfa honey. Since a similar switch exists in Argentina, the demand for white honey is very acute and prices by October/November 2012 ranged from \$1.90-2.10 per lb. This also led to

most of the 2012 U.S. honey crops being sold out by late November.

Bees are stressed and in poor condition as 2013 nears and California almond growers are actively seeking pollination services. Some almond growers, aware of the stress to bee colonies, are offering up to \$200 per hive.

U.S. Packers are looking towards Argentina. They also are hopeful there will be some price restraint unless re-formulation of industrial products are made to reduce the presence of honey as a sweetener and the retail market declines in an American economy still stressed by deficits, debt, unemployment and uncertainty. The short supply and the high prices of white honey are causing re-formulation of retail honey blends. For this reason we see much more ELA and LA being shipped from Argentina and Uruguay for blending in bottled honeys.

Vietnam

By October 2012 exports of Vietnamese honey were about 28,000,000 pounds, about 98% for the U.S. market. Because of quality concerns about 2/3 of the cashew and rubber honey was not exported, which led to significant losses for Vietnamese beekeepers and exporters. Small quantities of honey were shipped to Malaysia, Indonesia, Japan, and Thailand. Total production for 2012 is estimated to be 48,500,000 pounds.



In September a delegation from Europe visited Vietnam and inspected apiaries, processing factories and quality control and traceability systems. The initial indications are that the EU inspectors were pleased and that the EU's restrictions on Vietnamese honey will soon be lifted. This promises to be significant for the Vietnamese and potentially very important for the U.S. market. Vietnam is one of the larger, growing and inexpensive sources of industrial honey for the US market, which has exercised a virtual monopoly on purchases of Vietnamese honey. If the Europeans enter that market, they will have the advantage of being able to buy at higher US dollar prices. For this reason the Vietnamese honey exporters anticipate much higher prices for their 2013 honey crop. On November 21, 2012, we received a message that "good news from the EU is expected soon."

In the 4th quarter of 2012, the U.S. FDA inspectors also visited Vietnam's honey and seafood industries. The FDA recommended some improvements that can be easily effected, and the exporters seem very eager to cooperate with officials and scientists from their export markets. The Vietnamese have been models in establishing a traceability system to prevent blending and/or transshipment of Chinese honey through Vietnam. Several Chinese and Taiwanese companies that tried to launder

honey through Vietnam were expelled several years ago from the country.

Vietnam is developing new floral sources of honey production. One such source is *Acacia mangium*, for which there are large, wild forests. This is one of about 400 species of the acacia family. It is a very tall tree used for wood and wood products, that does not bear fruit or nuts. This species is attracting international interest as an ecologically significant species for its capacity to fix and store carbon from the atmosphere. As such, this species of acacia can serve as an antidote to global warming by absorbing heat-trapping gases, like CO₂, being released into the atmosphere as the human population explodes and industrialization based upon fossil fuels increases in China, India, Brazil, etc.

As part of their commitment to international cooperation and the rule of law, the Vietnamese are organizing a library of authentic samples of honey produced in different provinces, from diverse floral sources and under different geographic and climatic conditions. The floral sources can include coffee, cashew, rubber, litchi, longan, melaleuca, acacia and others. As the FDA Honey Research Protocol indicated, the traditional data base of primary honey samples is too narrow to accurately reflect the diversity of the global honey supply and the host of variables which determine the differing chemical profiles of the global honey supply. Vietnam is cooperating with scientists from both foreign governments and private laboratories to expand that data base to provide a legally and scientifically solid foundation of facts.

Climate Change

This year has witnessed extensive forest fires in the western states, a massive drought in the Midwest, which will inflate general food prices in 2013 and the devastating super-storm Sandy in the Northeast. While there remains controversy and differing opinions, no one can dismiss the risk caused by global warming. In New York and New Jersey, Governors Christie and Cuomo are faced with damages from Hurricane Sandy that could be up to \$50 billion each, and probably a lot more if private and public, immediate and long-term costs are combined.

Scientists, including leading scientists at NASA, have warned that global warming is a real and growing threat that could create more severe, intense and volatile weather patterns. The patterns are likely to significantly affect global agricultural production. Saudi Arabia, South Korea and China are buying huge agricultural tracts in northern Africa, which are bread baskets for



Egypt, Ethiopia and Sudan with a combined population of 300 million people. If food produced in these areas is exported to China, India,

South Korea, etc., at the expense of feeding local, indigenous populations, political and social turmoil may arise. These are not concerns confined to academic circles or a liberal media, but concern whether we humans are good stewards or not of the planet that sustains our lives.

Climate volatility is likely to continue to have an increasing effect upon global honey production. I share some quotes from recent reports:

From the CIA:

“You can debate the specific contribution of global warming to that storm [Hurricane Sandy]. But we’re saying climate extremes are going to be more frequent, and this was an example of what they could mean. We’re also saying it could get a whole lot worse than that.”

“...humans are pouring carbon dioxide and other climate-altering gases into the atmosphere at a rate never before seen. ‘We know there will have to be major climatic adjustments – there’s no uncertainty about that – but we just don’t know the details,’ he said. ‘We do know they will be big.’”

“Climate-driven crises could lead to internal instability or international conflict and might force the United States to provide humanitarian assistance or, in some cases, military force to protect vital energy, economic or other interests, the study said.”

- John D. Steinbruner, leader of a National Research Council study commissioned by the C.I.A. and director of the Center for International and Security Studies at the University of Maryland (*Climate Change Report Outlines Perils for U.S. Military*, The New York Times, Nov. 9, 2012).

From the World Bank:

“Such extreme weather is likely to become the ‘new normal’ if the temperature rises by 4 degrees...In this hotter climate, the level of the sea would rise by up to 3 feet, flooding cities in places like Vietnam and Bangladesh...Extreme heat waves would devastate broad swaths of the earth’s land, from the Middle East to the United States.”

“If you look at all these things together, like organs cooperating in a human body, you can think about acceleration of this dilemma,” said [John] Schellnhuber, who studied chaos theory as a physicist.”

-*World Bank Climate Change Report Says ‘Turn Down The Heat’ on Warming Planet*, by Anna Yukhananov, Nov. 18, 2012, Reuters

The effect of global climate change is a “known unknown” hovering over beekeepers throughout the world and, thus, hovering over the entire global honey market.

Marketing of Honey

The international honey market is facing a fairly certain firm honey market. While adequate supply is a central concern, reasonable prices that are fair and remunerative for all sectors of the industry are essential. Manufacturers can re-formulate and retailers can switch to alternate sweeteners. Prices cannot double every two years if a viable and vibrant market is to remain. Consumers have a sense of price limitation for different products.

Nonetheless, given the small per capital annual production of honey, honey remains a “small luxury” with a minimal annual impact on family budgets compared to soft drinks, mineral water, ice cream, etc. How consumers perceive value depends upon creative marketing. Over the past three decades creative marketing has led to explosive growth in the markets for products such as almonds, natural foods, tea, wine, coffee, and fruits, that have increased consumption and prices. Much of this growth is dependent upon creative marketing, variety and quality of product, romanticizing the arena of production and modes of consumption and health benefits. In all of these and other respects honey has room for greater creativity in its marketing.

Honey is a by-product of the interaction of botanical and zoological life. It is “the soul of a field of flowers” as was expressed by the Committee for the Promotion of Honey and Health. Bees have become a sympathetic species as the genius of the humble bee in pollination, its vulnerability and its importance to agriculture have entered more vividly into human consciousness. Bees are not merely responsible for one-third of the food we consume, but responsible for pollinating many of the most anti-oxidant, phyto-chemically rich foods in the human diet.

All of these themes await further creative development. Such development in marketing strategies will benefit our industry as a whole.