EXPORT PROMOTION OF
ORGANIC PRODUCTS FROM AFRICA

The Natural Vanilla Markets; with special attention for the Organic segment

Summary of a market study

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Author: F. J. Koekoek

For questions about this document contact:

EPOPA
PO Box 63
6720 AB Bennekom, The Netherlands
Email: epopa@agroeco.nl
www.epopa.info

Market size and characteristics

Natural vanilla is an ingredient for the flavour and fragrances industries. These industries, in turn, provide ingredients for the food and cosmetics industries. A small but relatively stable proportion of vanilla flavour is sold directly to the consumer, who uses the beans, powder or extract for cooking and baking at home.

Natural vanilla experiences strong competition on two levels. Within the vanilla flavour category, there is competition from synthetic vanilla, or vanillin. Vanillin is the major flavour constituent of vanilla, but it is produced through various bio-technological processes, which continue to be developed. Although natural vanilla contains many more flavour components than just vanillin – several hundreds have been identified–, the difference in taste with synthetic vanilla is hard to detect in most applications, especially for the untrained "mouth". There is also a production of ethyl-vanillin, but this has a less agreeable taste and is used principally in cosmetics and animal feed.

Vanilla flavour is also in competition with other flavours. At this level, vanilla has a strong position as one of the world's most popular flavours. Vanilla is especially popular in ice creams, beverages, desserts, dairy products, chocolate, confectionery products and pastry. Recent high profile introductions such as Vanilla Coke confirm this popularity.

While vanilla flavour experiences strong and growing demand, within the larger category real vanilla is increasingly being substituted with synthetic vanillin. This substitution was catalyzed by the limited availability and extreme price increases in 2002 and 2003, but also responds to longer-term factors, including:

- consumer preferences for natural products;
- technological developments, especially in vanillin production;
- changes in regulation.

The consumer trend of demanding natural products is a positive factor. Demand for natural vanilla showed continuous growth throughout the 1990s, in spite of the price difference that was huge even then. On the other hand, this trend is balanced with an increasing price-consciousness consumer and other concerns. The demand for the natural variety of vanilla is probably only *decisive* in the gourmet segment. In the mainstream segments, there is a strong tendency to "cheat", i.e. to use more economic vanilla substitutes, especially since this is not easily noticed by the average consumer. But this is where the government steps in.

Government regulation

Vanilla lovers regularly point to the US regulation of 1965 that protects the words “natural vanilla”, especially on ice creams. Such legal limitations apply in most consumer markets, also extending to the depiction of the vanilla flower on packaging, but the effects are not very clear. The regulations are promoted from a stand-point of consumer protection, since food safety is not at stake. Unfortunately, the regulations can be circumnavigated using legal loopholes, and sometimes they are simply neglected. It is therefore unknown, for example, to what extent natural vanilla is used in a major product such as Vanilla Coke, although in the ingredients it mentions “natural vanilla extracts”. Natural vanilla extracts will actually contain biotech vanillin next to the real vanilla.

Without these regulations, would the natural vanilla market shrink even further, or collapse altogether? Or is the government control on vanilla merely a suggestion lulling the consumer to sleep? If these regulations still support sales of natural vanilla, lawyers and lobbyists are working hard to reduce this effect.

Demand

According to Zink & Triest, in 2004 global demand will have shrunk by 45 percent compared to the average 1995–2000 level of 2,000 tons, to reach 1,100 tons. Trade data from FAOSTAT suggest that global apparent consumption was roughly 1,500 tons in 2002, down from 2,500 tons in 1999. This puts the market at 9 percent below the level of 1993. In a period of 3 to 5 years, therefore, the market has lost by about 1,000 tons. Although analysts expect that the market will partly recover when prices come back to normal, this will not be easy, since both flavour producers and food manufacturers have changed their recipes – and probably their strategies.

Supply

Supply of vanilla is dominated by Madagascar and to a lesser extent by Indonesia, which has lost much of its position due to internal turmoil. Madagascar Bourbon vanilla is the general quality standard. Papua New Guinea is coming up as a strong supplier, while Uganda is becoming an interesting alternative for Bourbon vanilla. Incited by the temporary hike in prices, many new producers have planted vanilla, which is still due to come on the market. Market experts including Zink & Triest agree that supply is now much larger than demand, with Madagascar alone already expected to produce 1,400 tons in 2004, up from 1,200 tons in 2003. Total production of Bourbon type vanillas is estimated at 1,690 tons, while other vanillas were expected to produce 510 tons, a total of 2,200 tons. A further 1,000 tons of unsold stock in origin is hanging over the market as a dark cloud. Data from FAOSTAT indicate a much higher production volume of about 5,000 tons in 2003, but these are probably inflated.

Supply is notoriously volatile, with Madagascar production suffering from cyclone damage on a regular basis. In addition, vanilla is sensitive to pests and diseases, which if an area is affected may render cultivation impossible. This structural volatility seems to call for a more balanced supply base, which would favour alternative Bourbon-like producers such as Uganda and Tanzania, who are outside of the cyclone belt. But it is unsure if such a call is endorsed by the industry. (One of the problems is that Ugandan vanilla is not officially recognized as Bourbon.)

Prices

After the production cartel that controlled prices was dismantled in 1995, prices initially fell, but from 1999 onwards a strong increase was witnessed, ending in a true vanilla boom in 2002 and 2003. By the end of 2003 prices for Madagascar black vanilla beans had reached 600 US$ per kg (FOB), up from $50 in 1999. In December 2004, a spot price of $70 is quoted for that quality, but little trade was going on. Most buyers are expecting a further decline in price, the extent of which is hard to tell. Future contracts are now being established (shipment 2005), for prices of $30 to 50 (mixed quality). But even those levels may be too high for buyers, who may now be inclined to test the lower limits of the market. In the 1960s and 1970s prices between $10 and 30 per kg were common for Bourbon black vanilla.

Outlook

The organic vanilla market is not very developed, although the exact size is unknown. Experts mention a size of about 10 to 20 tons, which puts the market share at around 1 percent (assuming a world market of 1,500 tons of natural vanilla in 2004). On the demand side, organic regulations allow the use of 5 percent of non-organic products, thus facilitating the use of conventional vanilla. In addition to that, natural vanilla is already perceived as natural in itself, so the added value of certification may appear limited. On the other hand, some manufacturers aim for 100 percent organic products, thus requiring organic flavours. With the organic market continuing to grow, demand for organic vanilla will grow as well.

Supply of organic vanilla has been limited, with most people quoting Madagascar and Uganda as sources. Another source is the Comoros. India is coming up. There is healthy interest among buyers in Ugandan organic vanilla, both among specialized organic commodity buyers and general vanilla buyers with an organic line. There is an established supply chain, which is an important factor since vanilla is difficult to trade (due to volatility, quality demands, need to keep stock, lack of transparency).

Prices for organic vanilla closely relate to conventional prices making them just as hard to predict. When prices have stabilized, a small organic premium can be expected. Most of this will be needed to cover additional costs. Vanilla production is often organic by default, which is not to say that all farms qualify for certification. When vanilla is intercropped with other crops, certification costs can be shared. Before the vanilla boom, the premium has been of the magnitude of 15$, or 20 percent above a base price of 70$. When prices are volatile, or very high, the organic premium tends to evaporate.

Opportunity for East Africa

While vanilla production is labour-intensive, it is also capital- and knowledge-intensive. This means that substantial investments are needed in order to participate, while it is difficult to build-up the required know-how. Before making any further investments in vanilla a cost-price analysis should be made. According to current projections, countries need to produce in the range of 30 to 50 US$ per kg for Bourbon-like vanilla beans (FOB) in order to be competitive. But even that range may be too optimistic, and it would be better to produce in the range from $10 to 30.

Position of Ugandan and Tanzanian vanilla

A clear positioning as an origin is a valuable asset, as well as a minimum scale. Ugandan vanilla seems to be earning a good reputation as a Bourbon-like vanilla. 2002 Ugandan exports amounted to 70 tons of cured vanilla worth about 5 million US$ and continued to grow. Tanzanian vanilla is not yet visible in the market, since the small available quantity has so far been sold through Uganda. It seems logical for both countries to capitalize on Uganda's current position, and even try to define a joint marketing strategy, which should lead to increased visibility and recognition of East-African vanilla.

Internal organization

While a clear image needs to be projected to the outside world, many internal issues need to be addressed as well. These are primarily the responsibility of producers and exporters, while sector organizations and the government are often needed for support. Some of the issues are:

1. Quality and grades;
2. Price-setting;
3. Timing of exports;
4. Price-risk management;
5. Logistical management;
6. Financial management;
7. Facilitation and regulation by the government.

Organic certification not for every company

The attractiveness of "going organic" does not only depend on the market, but also on the company and the country of origin. Some companies and countries are better placed for organic production than others, for example cost-wise. But equally important is whether organic certification fits well in the general strategy of a company (or country). Looking at the management issues identified above, organic exports should not be a complicating factor, but rather a help in managing them. Organic certification, for example, is often very appropriate for starting exporters, since it helps them to enter the market. For more established exporters, the specific demands of organic importers and the small size of the business can sometimes even be a nuisance.