WORLD SPICE CONGRESS 2010

Black & White Pepper Crop Report

Harris Freeman & Co.

Jayanti
Right Quality, on Time

WORLD SPICE CONGRESS

BLACK & WHITE PEPPER CROP REPORT

A 5-Year PERSPECTIVE

- The Past
  - ➢ 5 year Supply & Demand statistics
  - ➢ Factors Affecting Supply & Demand
  - ➢ Factors affecting Price – Inflation, Currency Volatility, Speculation
- The Present
  - ➢ Current & Upcoming Growing Areas
  - ➢ Market Segmentation
  - ➢ Consuming markets
- The Future
  - ➢ Production & Consumption (estimate)
  - ➢ Food Safety & Security concerns
  - ➢ New Challenges on the Horizons

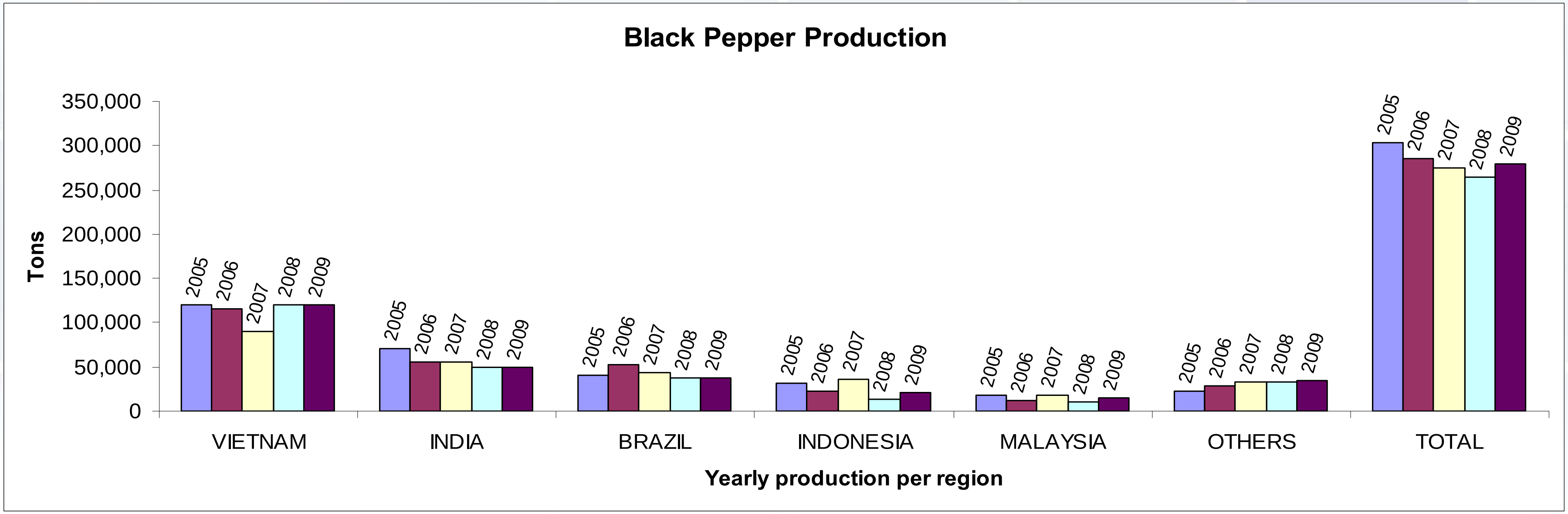
THE PAST

PRODUCTION

The past 5 years : Black Pepper [in Metric Tons]

	VIETNAM	INDIA	BRAZIL	INDONESIA	MALAYSIA	OTHERS	TOTAL
2005	120,000	70,000	40,000	32,000	18,000	23,000	303,000
2006	115,000	55,000	52,500	23,000	12,000	28,000	285,500
2007	90,000	55,000	43,000	36,000	18,000	33,000	275,000
2008	120,000	50,000	38,000	14,000	10,000	33,000	265,000
2009	120,000	50,000	38,000	21,500	15,000	35,000	279,500

BLACK PEPPER VOLUME

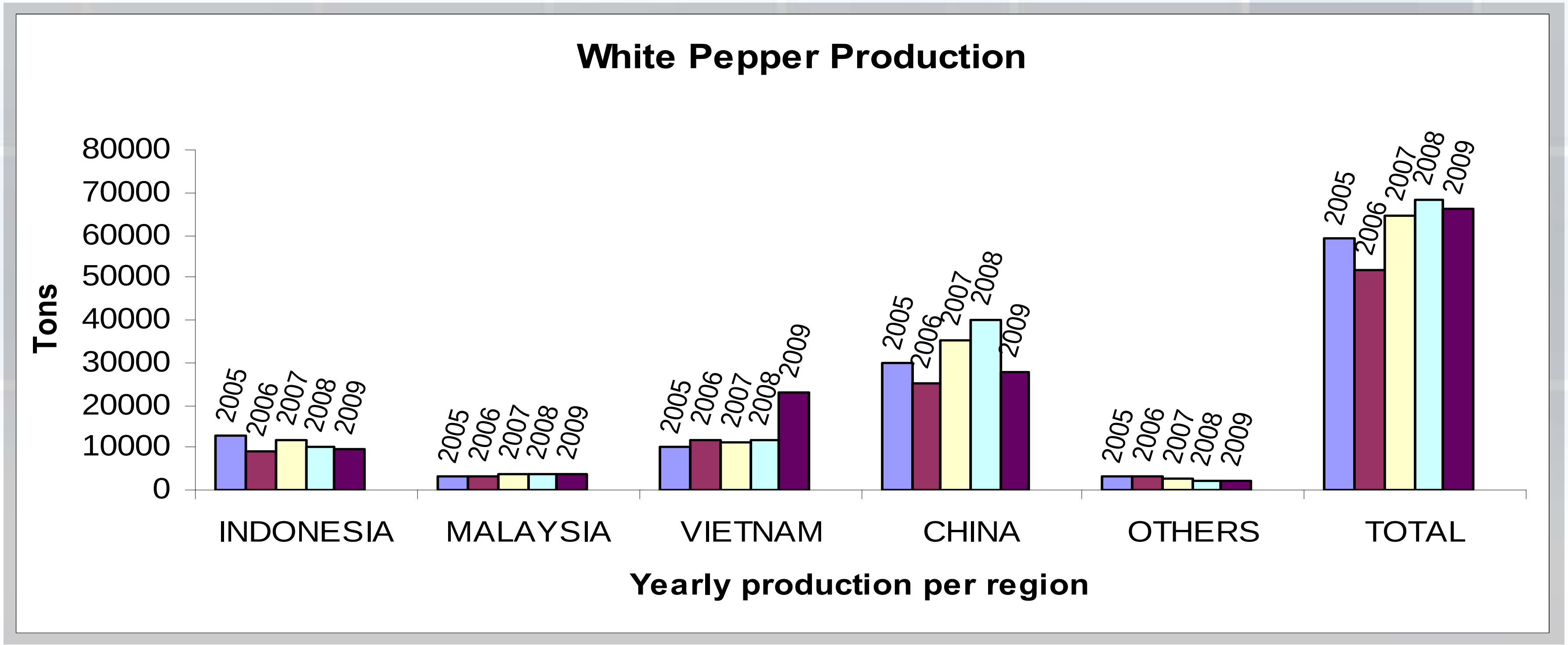


PRODUCTION

The past 5 years : White Pepper [In Metric Tons]

	INDONESIA	MALAYSIA	VIETNAM	CHINA	OTHERS	TOTAL
2005	13,000	3,000	10,000	30,000	3,000	59,000
2006	9,000	3,000	12,000	25,000	3,000	52,000
2007	12,000	4,000	11,000	35,000	2,550	64,550
2008	10,000	4,000	12,000	40,000	2,100	68,100
2009	9,400	3,500	23,000	28,000	2,100	66,000

WHITE PEPPER VOLUME

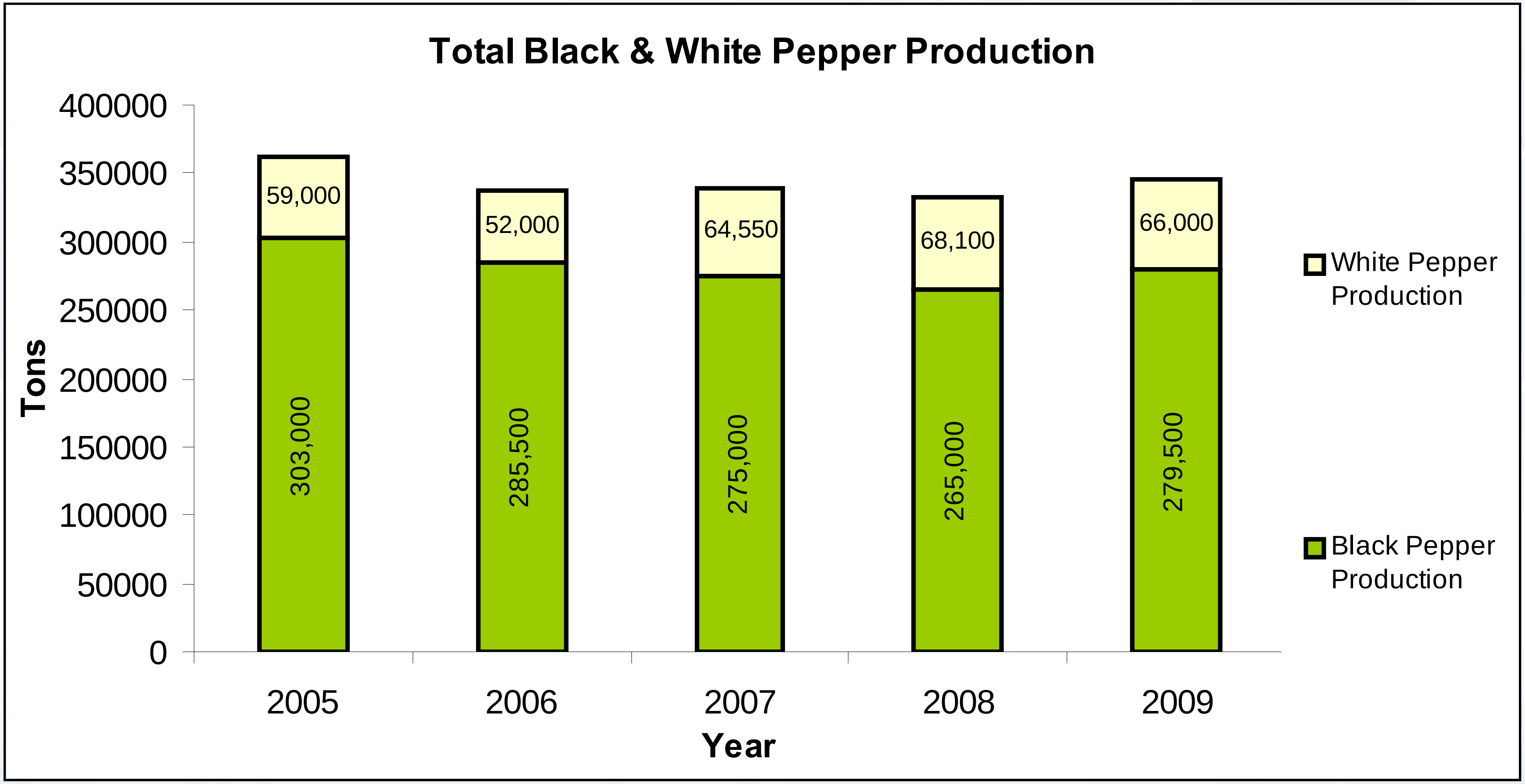


PRODUCTION

Black Pepper + White Pepper – Decorticated White Pepper [MT]

	BLACK PEPPER	WHITE PEPPER	[LESS] DECORTICATED WP EXPORT	TOTAL
2005	303,000	59,000	11,197	350,803
2006	285,500	52,000	14,066	323,434
2007	275,000	64,550	10,890	328,660
2008	265,000	68,100	9,976	323,124
2009	279,500	66,000	22,452	323,048
2010	278,700	66,000	15,000	329,700

TOTAL PEPPER VOLUME



CONSUMPTION

BLACK PEPPER & WHITE PEPPER

[IN METRIC TONS]

	2004	2005	2006	2007	2008	2009*
N. AMERICA	71,514	72,891	76,720	70,706	75,162	75,000
AUSTRALIA	3,287	3,095	2,882	2,652	3,346	3,500
EUROPE	84,199	74,379	81,900	84,371	66,848	70,000
S. AMERICA	22,614	15,086	14,425	15,242	14,966	15,000
AFRICA	18,550	17,806	18,083	14,685	23,332	20,000
ASIA	115,743	117,517	125,905	117,700	118,379	120,000
M. EAST**	12,422	15,227	9,964	13,490	10,948	12,000
TOTAL	**328,329**	**316,001**	**329,879**	**318,846**	**312,981**	**315,500**

**Less re-exports from Middle East

Source: United Nations ComTrade Database

* Estimate

SUPPLY & DEMAND POSITION

BLACK PEPPER

	2005	2006	2007	2008	2009	2010*
CARRY IN	107,290	131,724	118,745	106,945	89,106	69,369
[ADD] IMPORTS TO ORIGIN COUNTRIES	19,033	18,161	13,313	13,769	23,514	20,000
[ADD] PRODUCTION	303,000	285,500	275,000	265,000	279,500	278,700
[LESS] DOM CONSUMPN + OLEORESIN PRODN + DECORTICATION LOSS	91,150	89,460	86,967	81,893	81,835	82,000
[LESS] DECORTICATED WP EXPORT	11,197	14,066	10,890	9,976	22,452	15,000
NET EXPORTABLE	326,976	331,859	309,201	293,845	287,833	271,069
[LESS] BP EXPORT (INCLUDING BORDER TRADES)	195,252	213,114	202,256	204,739	218,464	200,000
CARRY OUT	131,724	118,745	106,945	89,106	69,369	71,069

* Estimate

SUPPLY & DEMAND POSITION

WHITE PEPPER [in metric tons]

	2005	2006	2007	2008	2009	2010*
CARRY IN	56,192	58,276	42,276	36,326	32,626	24,626
[ADD] IMPORT	0	0	0	0	0	0
[ADD] PRODUCTION	59,000	52,000	64,550	68,100	66,000	66,000
[LESS] DOM. CONS.	28,642	31,000	36,500	37,800	38,000	38,000
[LESS] EXPORT	28,274	37,000	34,000	34,000	36,000	33,000
CARRY OUT	58,276	42,276	36,326	32,626	24,626	19,626

* Estimate

FACTORS AFFECTING SUPPLY

BLACK PEPPER

- **Lower Production :** Malaysia in 2006 & 2008, Vietnam in 2007, Indonesia in 2008

- **Declining Origin Yield :** Pepper productivity has declined in India mainly due to:
  1. Increasing average age of vines.
  2. Low fertility of soil due to continuous cultivation.
  3. Higher disease incidence.

- **Alternate Commodity :** Farmers in Lampung (Indonesia) have increased planting of Oil Palm, Cocoa & Coffee.

- **Higher cost of Production :** Due to rising input costs of labor and fertilizers in Vietnam and Brazil.

WHITE PEPPER

- **Alternate Commodity :** White Pepper production in Bangka (Indonesia) has decreased due to tin mining as well as decorticated white pepper competition from Vietnam.

PRICE VOLATILITY

- **INFLATION RELATED**

  Vietnam’s 2008 inflation

- **CURRENCY RELATED**

  2008 & 2009 Indian Rupee, Brazilian Real, Indonesian Rupiah fluctuations

- **SPECULATION RELATED**

  2006 Indian futures trading affecting Indian pepper prices

VIETNAM'S 2008 INFLATION

Year	Inflation (%) Based on Avg. Cons. Price
2005	7.9%
2006	8.4%
2007	7.5%
2008	**23.2%**
2009	7.0%

2008 & 2009 CURRENCY VOLATILITY WITH RESPECT TO US$

Year / Currency	Indian Rupee (INR)	Indian Rupee (INR)	
2008	39.27 (Jan 08)	49.96 (Oct08)	27% Weak
2009	51.90 (Mar 09)	46.02 (Dec 09)	11% Strong
Year / Currency	Brazil Real/$ (BR) -	Brazil Real/$ (BR) -	% fluctuation
2008	1.55 (Aug08)	2.61 (Dec 08)	68% weak
2009	2.45 (Feb 09)	1.65 (Oct 09)	33% Strong
Year / Currency	Indonesian Rupiah (IDR)	Indonesian Rupiah (IDR)	% fluctuation
2008	9090 (Aug08)	12855 (Dec08)	42% weak
2009	12165 (Mar09)	9302 (Nov09)	23% strong

PRICE IMPACT POTENTIAL DUE TO CURRENCY

– An Example –

Country	Period of August 2008	Period of December 2008	% Effect	Price Impact
Brazil Currency	**1.55 / US$**	**2.61 / US$**	**68% weak**	
Brazil Black Pepper Price FOB Belem	US$3100/mt or $1.41/lb.	US$1875/mt or $0.85/lb.	**65% lower**	$1225/mt or $0.55/lb.

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SPECULATION ON THE FUTURES EXCHANGE

- Online exchanges, Multiple exchanges
- Non-traditional players speculating on the commodity
- Heavy Trading volume and Price fluctuation
  Instance of trading day seeing 90,000 mt being traded in a single day in September 2006.

THE PRESENT

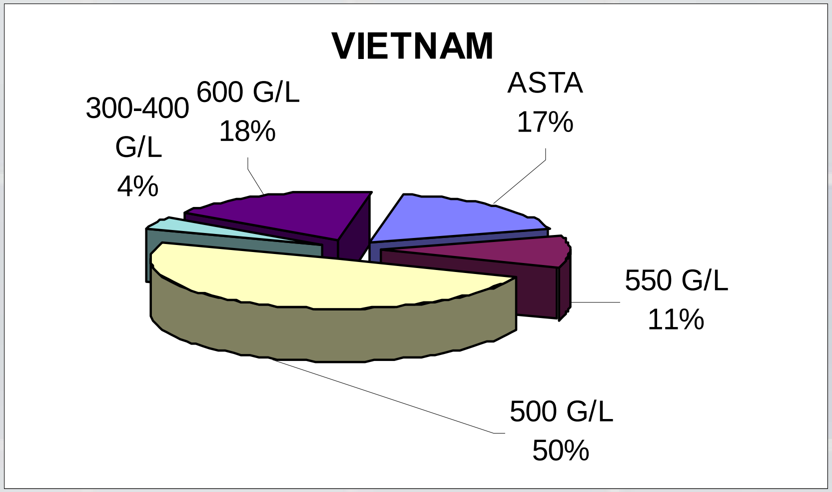
GROWING AREAS

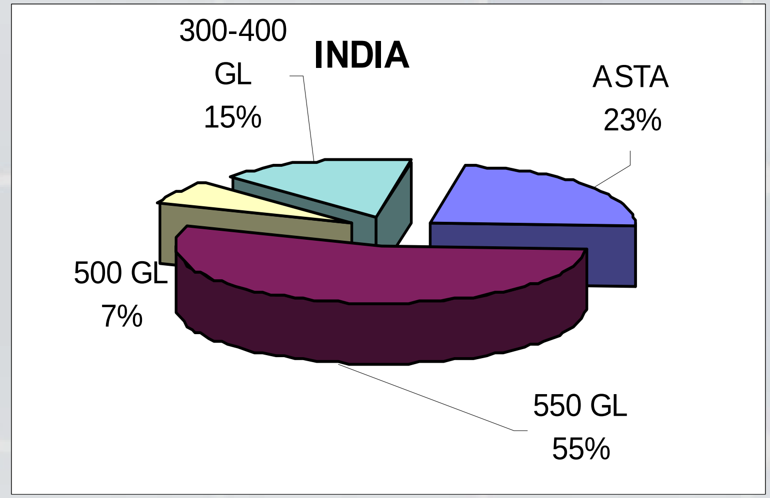
MARKET SEGMENTATION

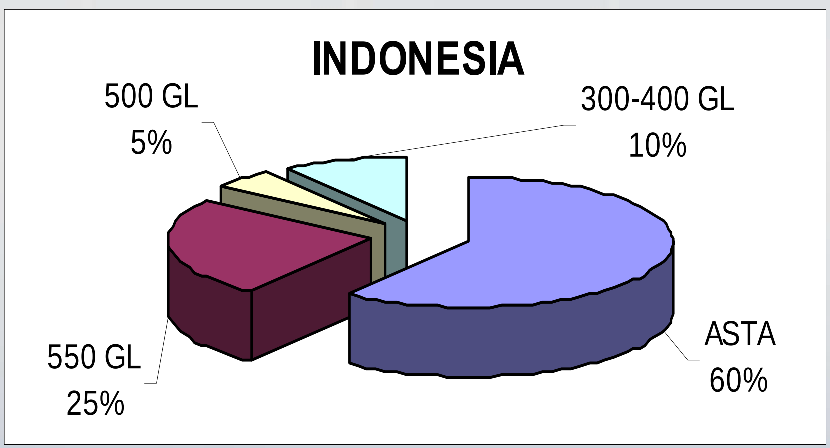
- Main Segmentation based on Density of Black Pepper

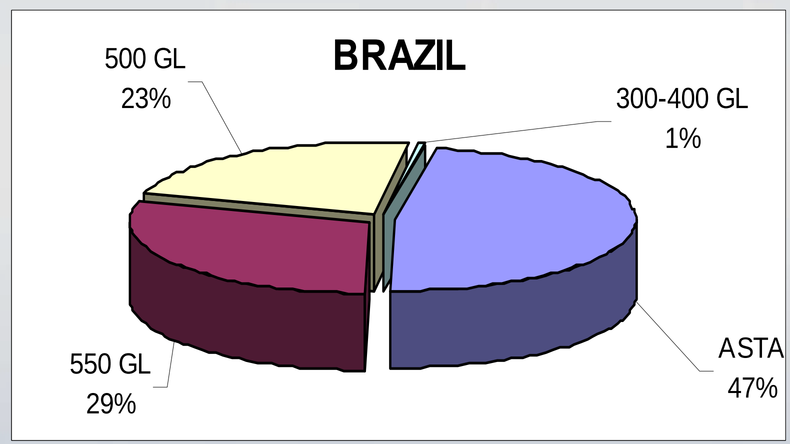
Origins	Density (570-600 gms/ltr)	Main Markets	Density (550 gms/ltr)	Main Markets	Density (500 gms/ltr)	Main Markets	Density (<450 gms/ltr)	Main Markets
Vietnam	35%	USA	11%	Europe	50%	Europe, MidEast, Africa	4%	India
India	23%	USA	56%	Domestic	7%	Europe	15%	Domestic
Brazil	47%	USA	29%	Europe	23%	Europe, MidEast,	1%	-----
Indonesia	60%	USA	25%	Europe	5%	Europe	10%	India

CROP – MARKET SEGMENTATION
(BASED ON DENSITY)









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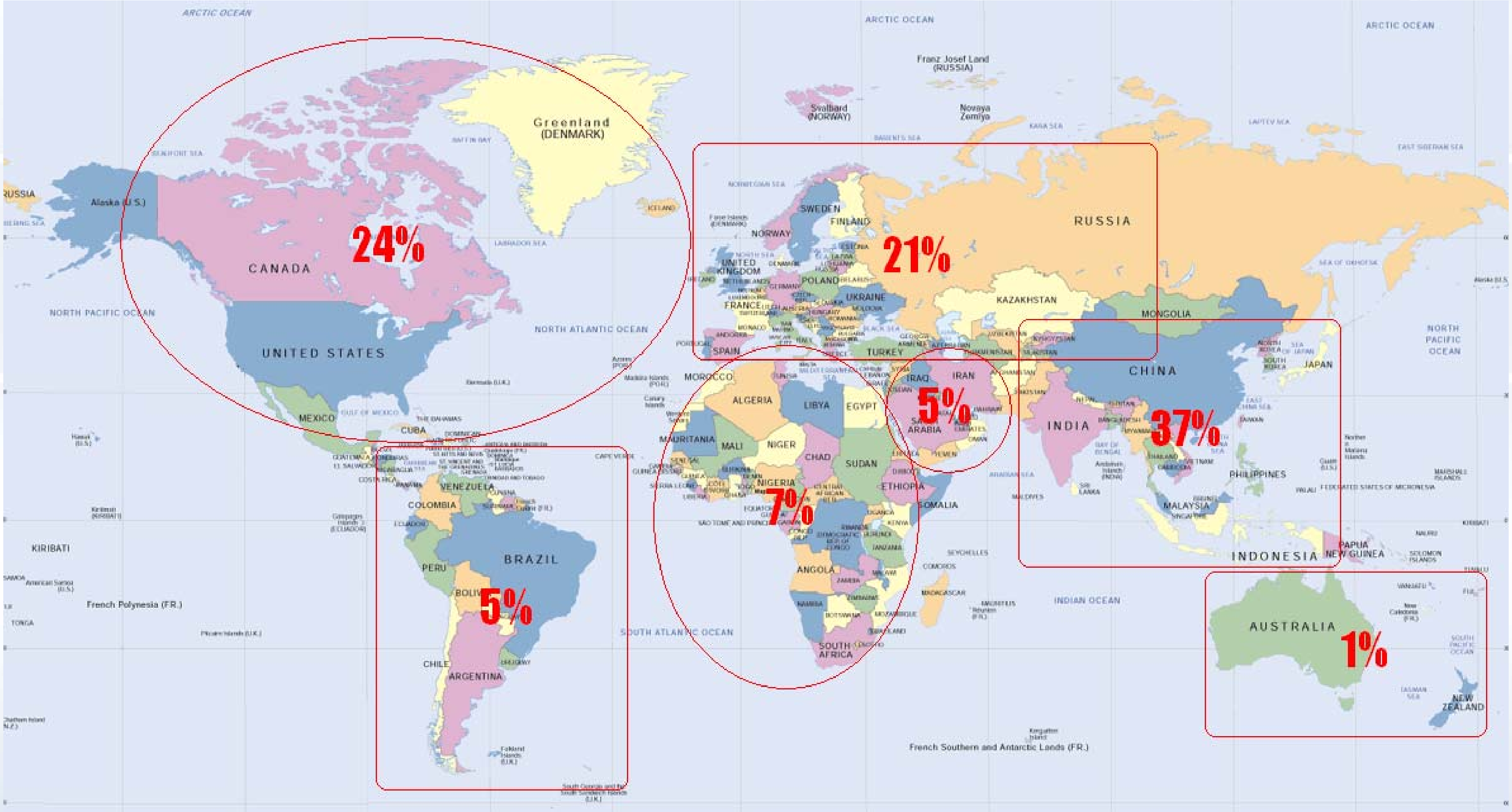
CONSUMING MARKETS
(BLACK & WHITE PEPPER)



THE CURRENT SCENARIO

Production:

- Vietnam’s harvest has commenced
- Indian harvest about to commence

Weather:

- Effects of the El Nino are expected to persist during the 1st half of 2010

Competing Crops:

- Cocoa prices are near their highest for over 30 years
- Coffee prices have also increased

THE FUTURE

2010: PROJECTIONS

[BLACK PEPPER + WHITE PEPPER]

PRODUCTION (MT)							
YEAR	**VIETNAM**	**INDIA**	**BRAZIL**	**INDONESIA**	**MALAYSIA**	**OTHERS**	**TOTAL**
2010	120,000	55,000	35,000	25,000	23,500	71,200	329,700

CONSUMPTION (MT)							
YEAR	**N. AMERICA**	**EUROPE**	**M. EAST & AFRICA**	**S. AMERICA**	**ASIA**	**OTHERS**	**TOTAL**
2010	75,000	70,000	33,000	15,000	123,000	4,000	320,000

FACTORS THAT COULD AFFECT SUPPLY, DEMAND & PRICE

PRODUCTION:

- Weather: The current El Nino conditions could lead to reduced rainfall over most areas of South East Asia, affecting pepper yield.
- Increased restrictions on clearing of Amazon forests in Brazil will affect availability of new areas for cultivation. Restrictions have also been placed on percentage of private land that can be used for non-forestry purposes.

CONSUMPTION:

- Not much consumption change is forecasted.

PRICE:

- **Currency Volatility:** Currencies of India, Indonesia & Brazil could continue to strengthen against the US$.
- **Cost Challenges:**

  1) Rising Ocean freight rates are expected to increase by up to 3 cents/lb. due to Freight Companies profitability concerns on reduced cargoes and high operating costs

  2) Fuel Costs are unsettled leading to volatile energy costs & transport costs

  3) Sterilization costs are expected to rise as more countries enforce extensive pathogen/microbial testing

NEW CHALLENGES ON THE HORIZON

FOOD SAFETY

- Quality Challenges
  - ✓ Microbial Contamination in white pepper processing using filthy water
- Potential pesticide, heavy metal contamination issues.

VENDOR AUDITS

- Audit challenges: How well do you know your vendors? HACCP / GMP Compliance for black & white pepper processing units.
- Traceability challenges: Individual small farm level traceability difficult
- Sustainability challenge of Farmers such as in Bangka Island where tin mining proved to be lucrative rather than growing white pepper, Lampong pepper growers jumping to grow other profitable commodities such coffee, cocoa, palm oil.

FOOD SECURITY

- Securing the supply chain beyond processing units such as transport, fumigation, sterilizing and ocean freight companies using US C-TPAT & other norms

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Спасибо

Merci beaucoup !

شكرا

Muchas Gracias !

Thank You !

Cám ơn !

धन्यवाद

Obrigado !

Terima kasih !

Ahsante !

PRASHANT "PETER" SHAH

Harris Freeman & Co.

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Right Quality, on Time