

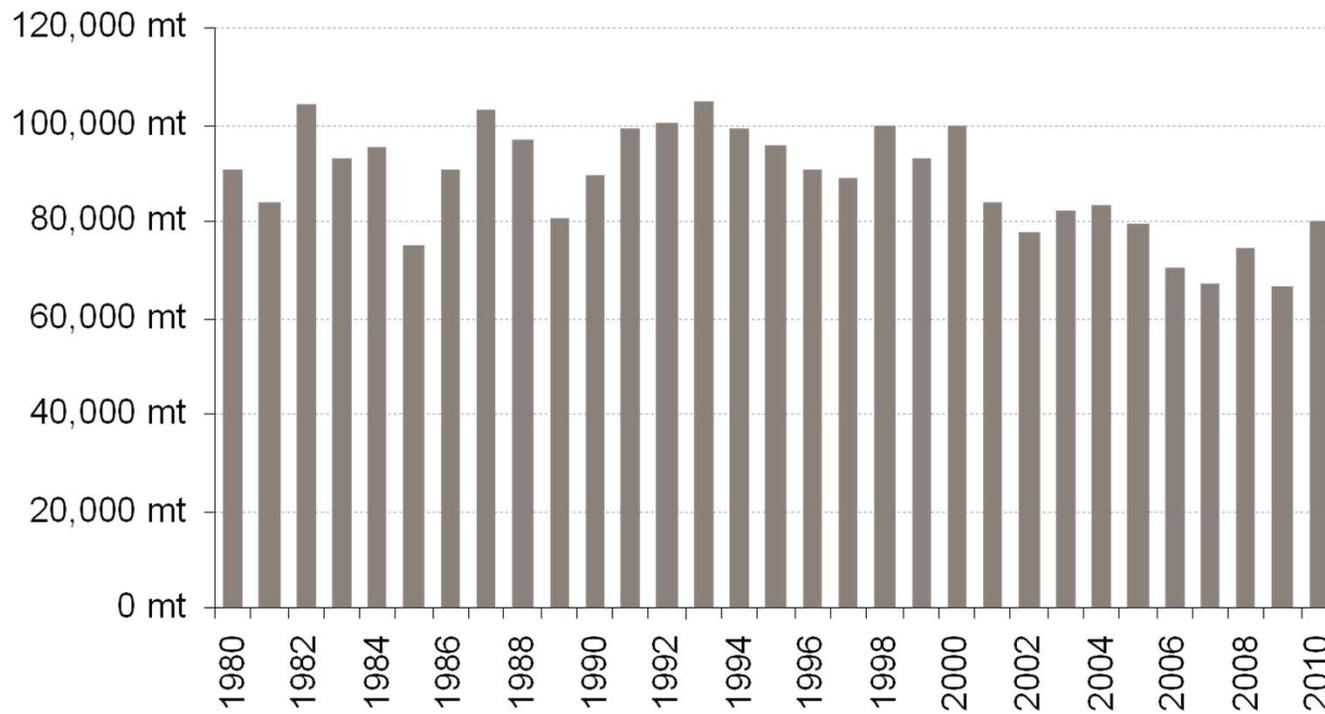
Sunland Trading, Inc.



THE INTERNATIONAL HONEY MARKET FROM A UNITED STATES PERSPECTIVE

Fig. 1: U.S. Honey Production

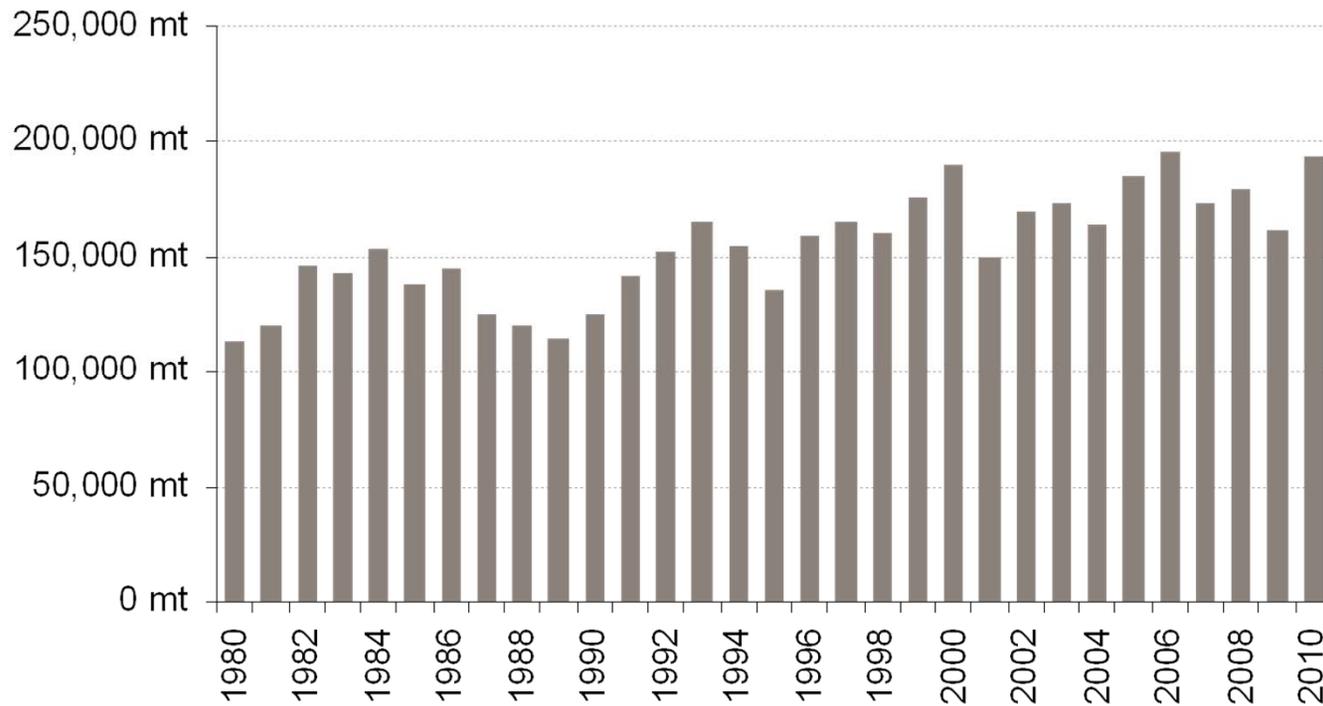
From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 2: Total Honey Consumption in the U.S.

From 1980 to 2010

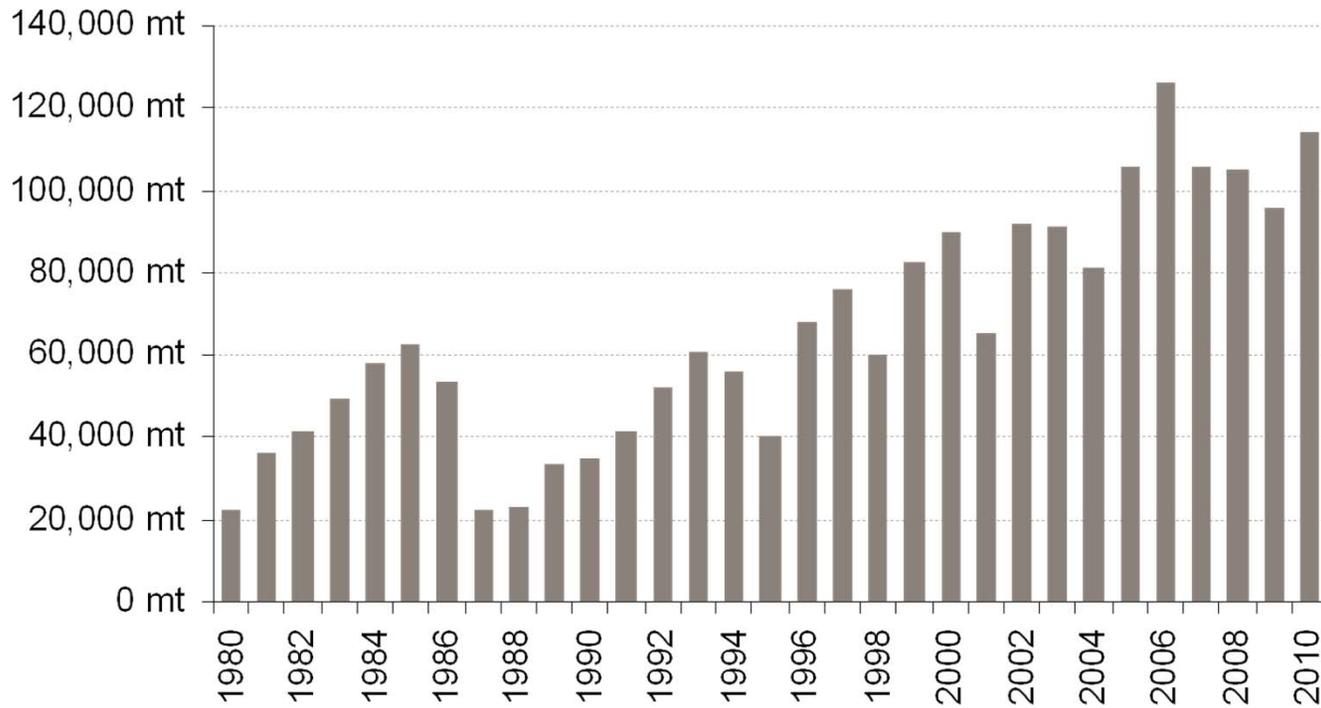


Note: Total consumption is defined as the sum of total imports and total domestic production

Source: U.S. Dept. of Commerce, Bureau of Census.

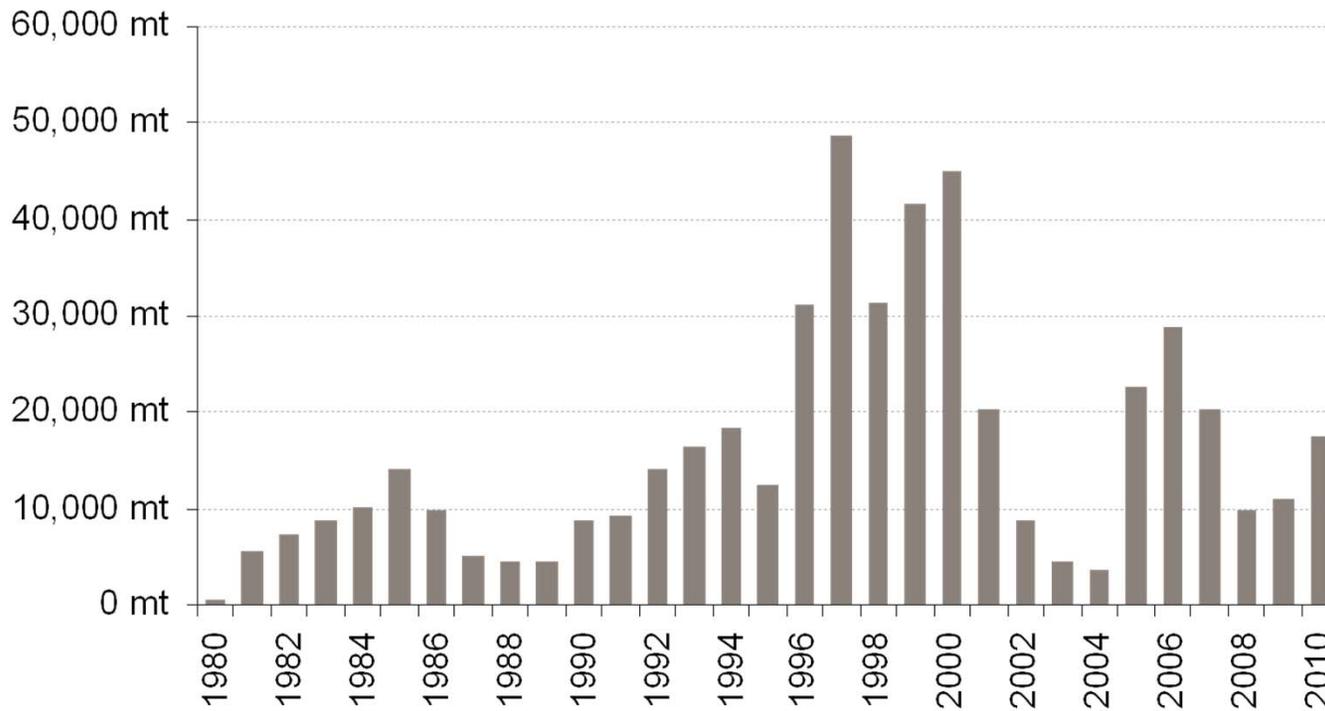
Fig. 3: U.S. Total Honey Imports

From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

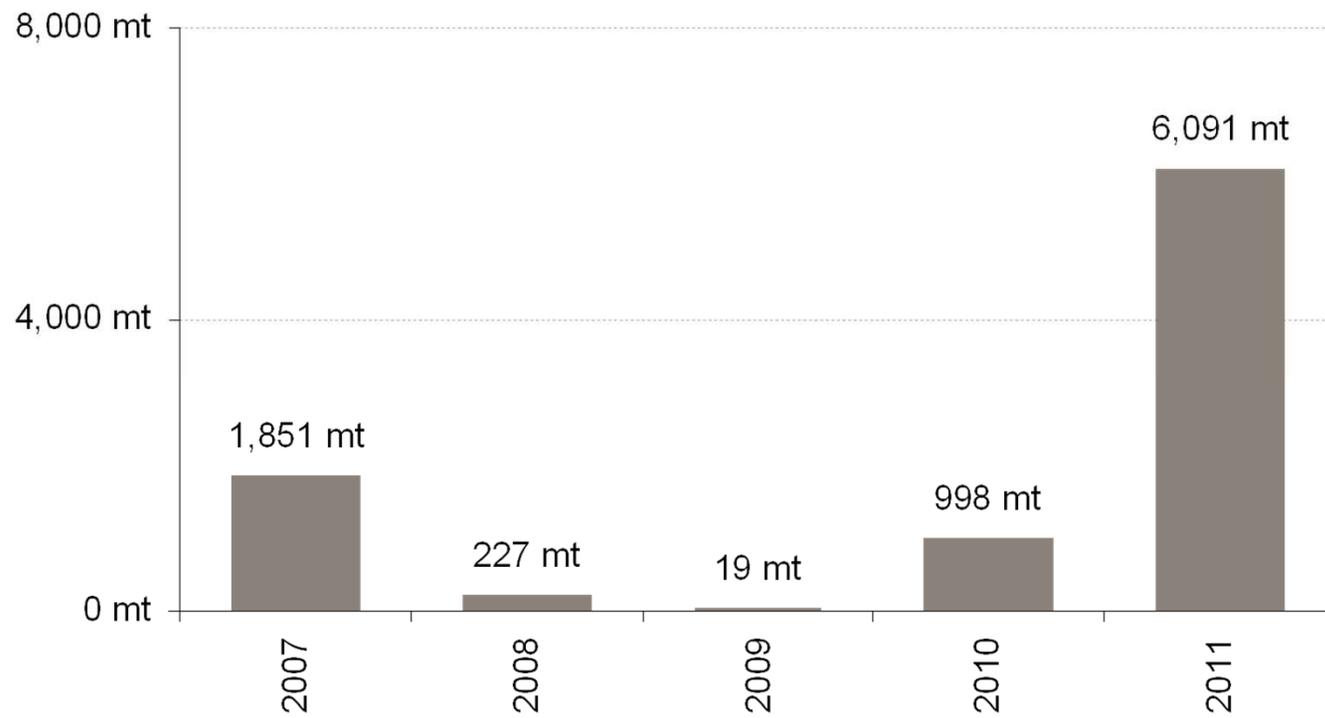
Fig. 4: U.S. Imports from Argentina
From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 5: U.S. Imports from Uruguay

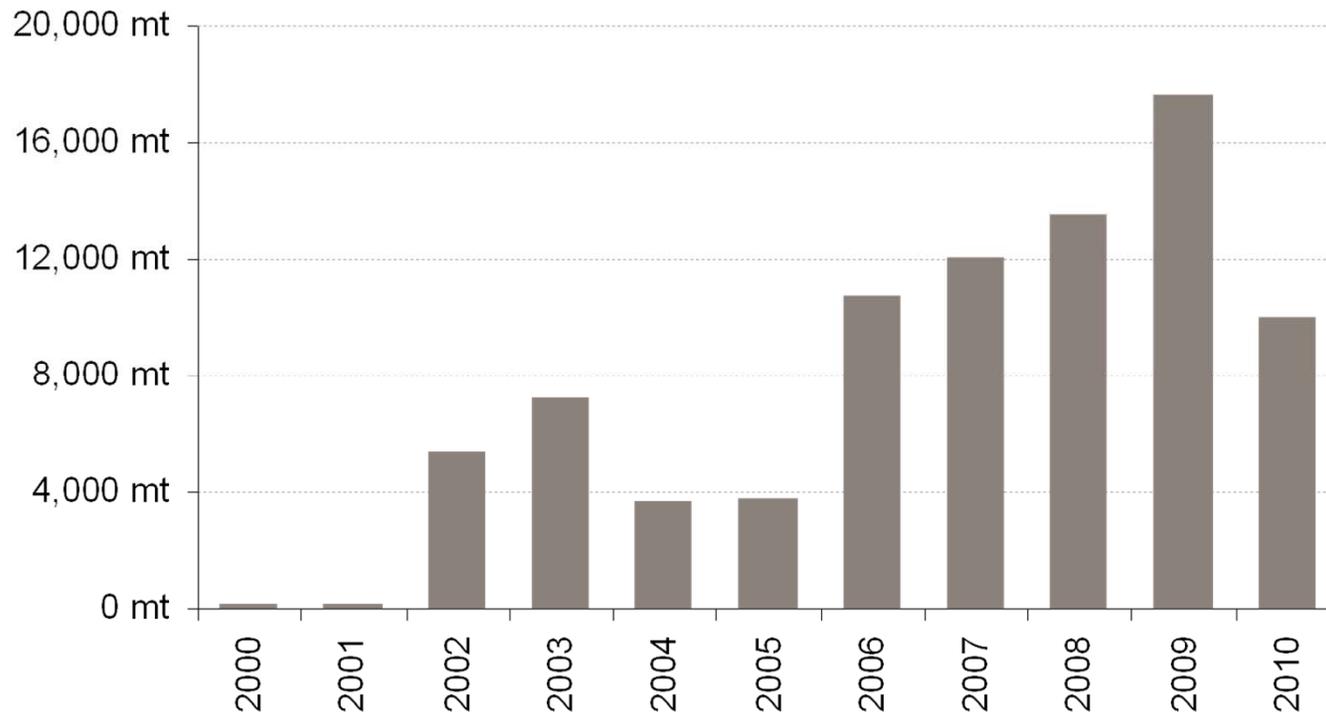
From 2007 to 2011



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 6: U.S. Imports from Brazil

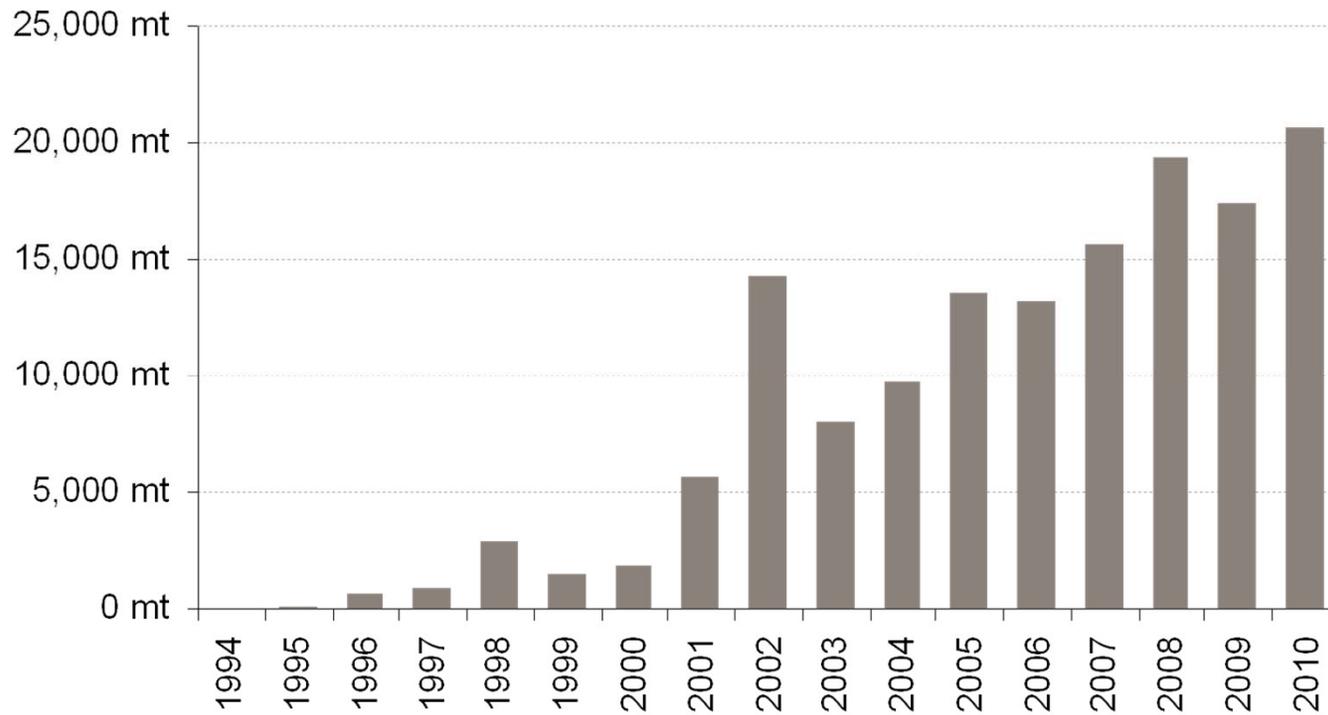
From 2000 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 7: U.S. Imports from Vietnam

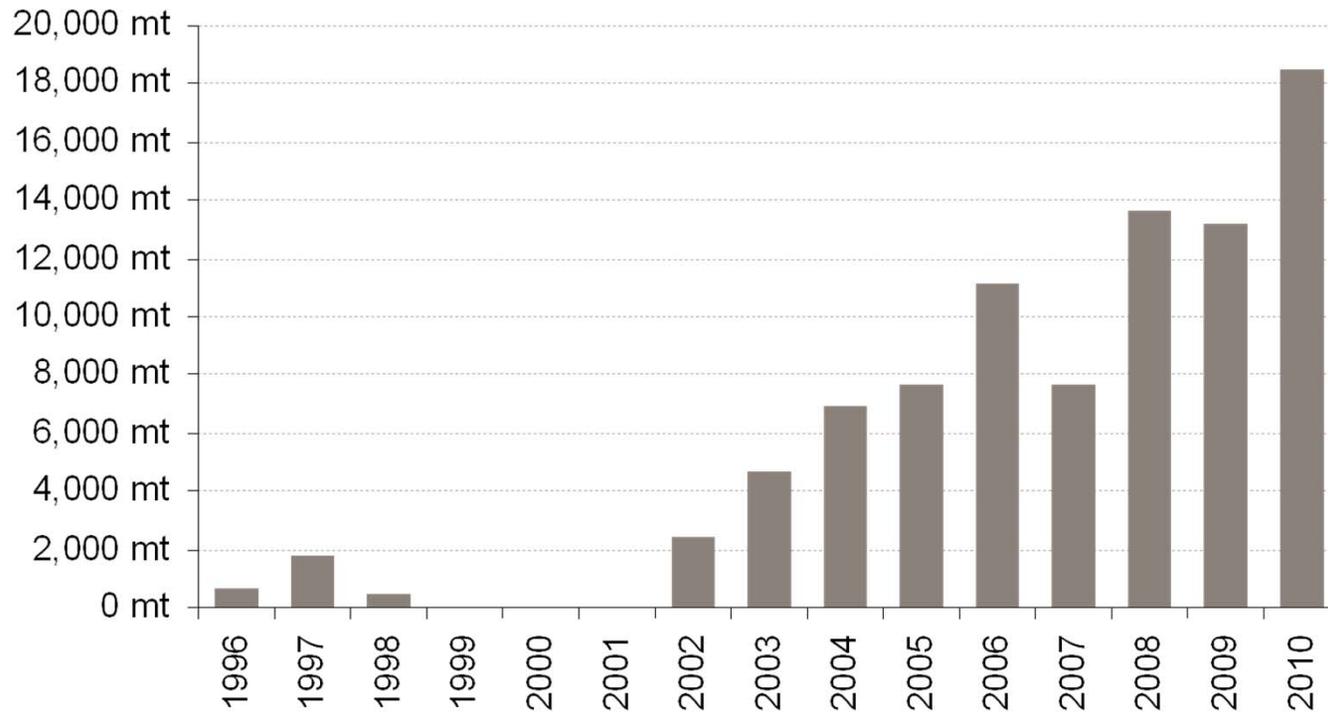
From 1994 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 8: U.S. Imports from India

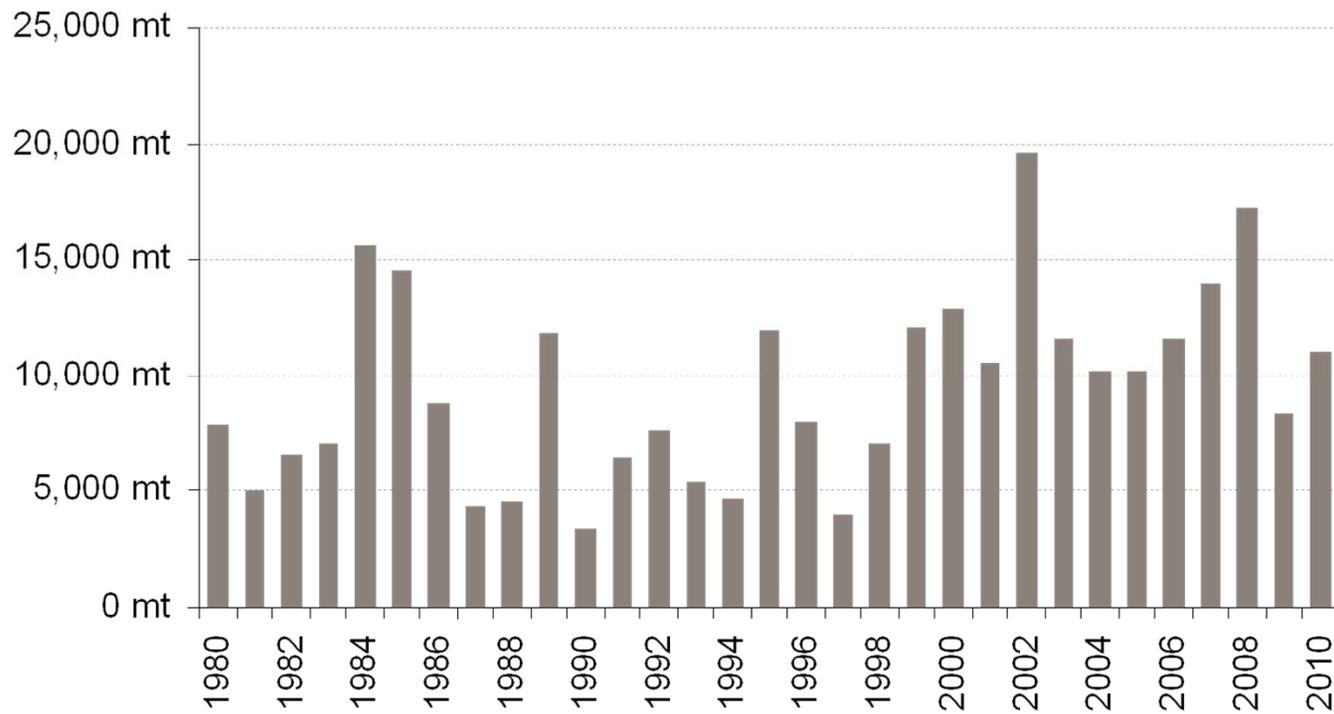
From 1996 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

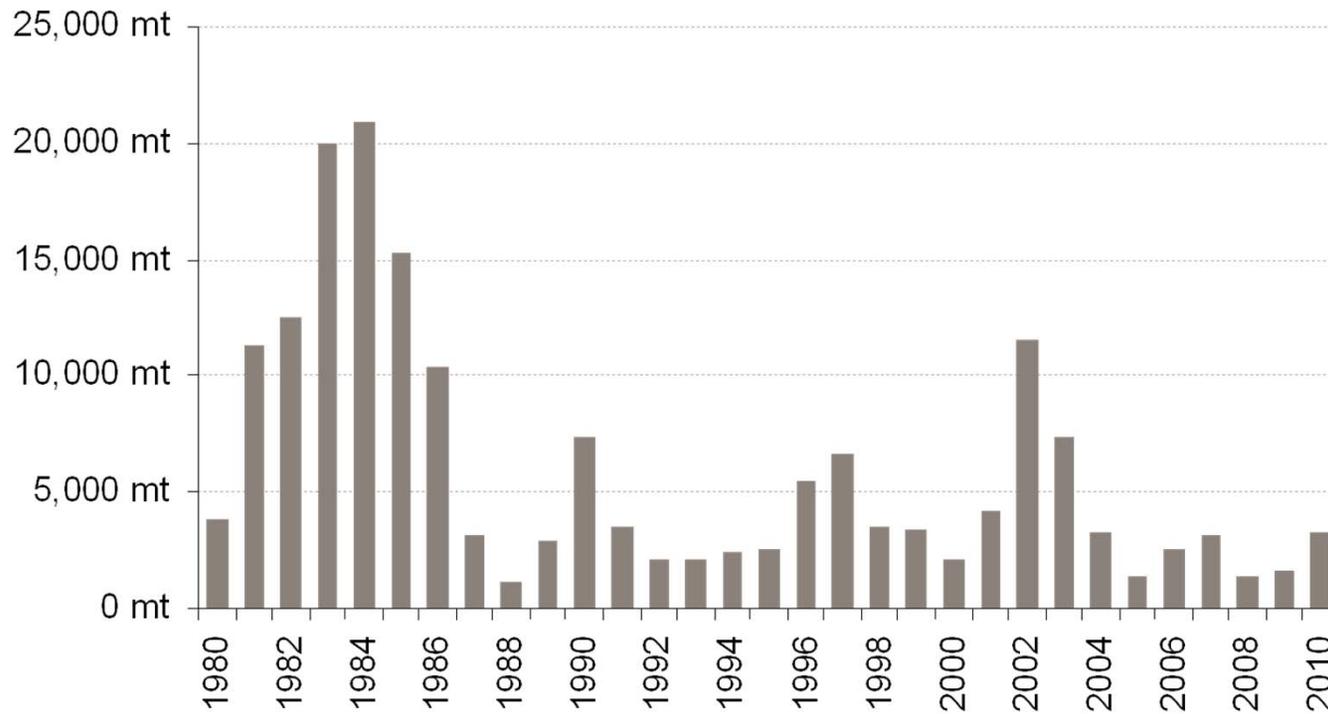
Fig. 9: U.S. Imports from Canada

From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

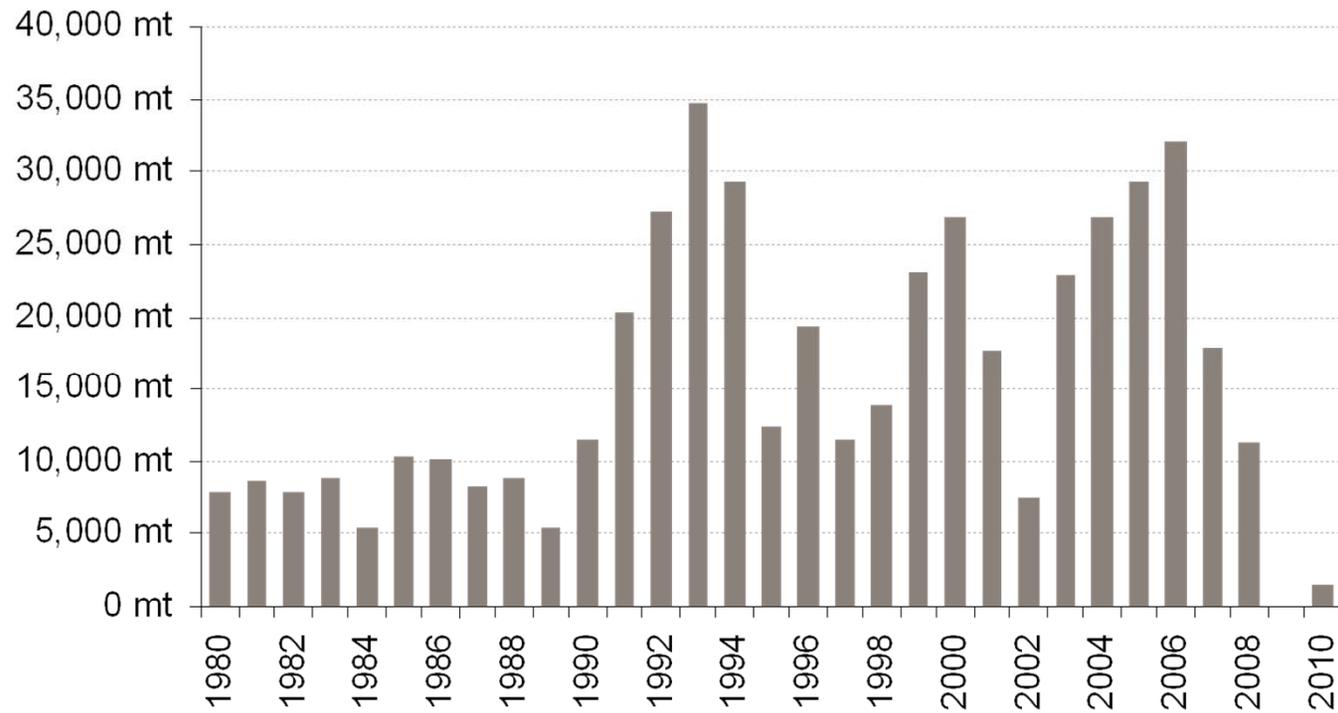
Fig. 10: U.S. Imports from Mexico
From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

Fig. 11: U.S. Imports from China

From 1980 to 2010



Source: U.S. Dept. of Commerce, Bureau of Census.

THE INTERNATIONAL HONEY MARKET FROM A UNITED STATES PERSPECTIVE

APIMONDIA CONGRESS, BUENOS AIRES, SEPTEMBER 25, 2011

Good afternoon. My name is Nicholas Sargeantson. I am president and owner of Sunland Trading, Inc, a leading honey importer in the United States. Although I am reluctant to tell you how many years I have been in this business, for what it tells you about my age, I will confess that I have been importing honey into the US market for more than three decades. While I am not well-informed about the production of honey, or the processing and marketing of the finished product, I do know something about the buying and selling of raw honey.

The world, and the US honey market, has changed a great deal since I first started working in the mid 1970's. At that time, and until the mid 1980's, the US imported mainly from Mexico, Argentina and Canada. We didn't have computers or email or mobile phones. We managed very well with a clanking telex machine, and to reach the truly remote places we sent cables. It was a simple life. We had never heard of a dumping case, or the concept of traceability, and seldom heard about antibiotic residues. We did worry about commercial adulteration, even then, but the most serious quality problem we faced, perhaps, was when FDA found "rodent hair" in honey samples taken from drums. This happened a couple of times. On the first occasion we assured FDA that filtration would remove the offending hair, and the goods were released. But that reasoning didn't work on the second occasion. This time, FDA argued – very plausibly – that if a rodent dropped its hair in the honey, this may not have been the only deposit left behind. The rejection notice stated, memorably, that the honey must be re-exported or destroyed due to "*soluble filth elements*".

In the course of this talk I will try to explain what has changed in the US honey market over the past 30 years. I will address the dumping case issue at some length, because the impact on our market has been immense. I will discuss quality issues (of the more serious kind), talk about the major supplying countries, and close with some comments about the current market and future prospects.

First, let's look at US domestic honey production. [See Fig 1] An average

crop over the past 30 years has been about 87,000 mt (metric tons), but if we consider the decade from 2000-2010 the average was 78,000 mt. And if we further narrow the focus to the five-year period 2006-2010 the average drops to just 72,000 mt. Interestingly, the decline in production over the past 10 years has occurred in spite of the historically high prices we have seen over the same period, so clearly factors other than price must have been responsible for the smaller crops. Weather – perhaps more accurately, climate change – has obviously played a major role. Then there is the matter of colony collapse disorder and bee health in general. Lastly, I would mention that, anecdotally at least, the number of retiring beekeepers in the US is apparently greater than the number of younger people coming into the business. It would seem, therefore, that while domestic production fluctuates quite widely from one year to the next, the overall trend is downwards.

Honey consumption in the US, on the other hand, has almost doubled, from around 113,000 mt in 1980 to around 190,000 mt today. [See Fig 2] There are three major sectors in the market: retail (honey in jars), food service (honey for restaurants and hotels), and industrial (bulk honey for use as an ingredient in other products). Although there has been growth in all three sectors, food service and – more particularly – the industrial business has grown much faster than retail, with numerous foods, wines and beers, candy and pharmaceutical products now advertising honey as an ingredient. On the retail side, sales of organic honey have been increasing steadily.

With domestic production now averaging around 80,000 MT, and declining, and consumption at about 190,000 mt, and rising, the need for imported honey is obvious. Imports have risen from about 23,000 mt in 1980 to 116,000 mt in 2010. [See Fig 3]

As I indicated earlier, in the 1970's and until the mid-1980's the US had three principal sources of imported honey: Mexico, Argentina and Canada. From the mid 1980's onwards, however, Mexican production and exports began to decline, and China began to displace Mexico as a primary supplier to the US.

Although Chinese honey first began to appear in the US market in the late 1970's, until 1990 the annual volumes shipped did not exceed 10,000 mt. From that year onwards, however, imports increased rapidly, reaching close to 30,000 mt by 1992. In 1993 the American Honey Producers Association (AHPA), the American Beekeeping Federation (ABF) and Sioux Honey

Association (SHA) joined forces to file a dumping case against China, accusing the Chinese, in effect, of selling honey below cost. As is all but inevitable in cases against Chinese exports, they were found to be “dumping”, but the case was settled when the US Dept of Commerce (DOC) and the Chinese government entered into a “Suspension Agreement”. This agreement, signed in the summer of 1995, set quotas limiting the quantity of Chinese honey allowed into the US market annually, and also meant that the Chinese had to sell at or above minimum prices set by the DOC. Overall, the effect of this dumping case on honey prices was not dramatic; prices certainly increased, but we did not see anything like the reaction which the next dumping case was to generate.

In 2001, while the Suspension Agreement was still in effect, AHPA and SHA filed a new dumping case, this time against China *and* Argentina. Even before the case had been heard by the International Trade Commission, or dumping duties imposed by the DOC, honey prices began to rise. By 2002, when “dumping” was found against both countries, there was panic in the market. Prices doubled in some cases, with domestic white honey reaching over US\$3800/mt, an historic high at the time.

Why was the impact of this second case so much greater than that of the first? Apart from the obvious (that both China *and* Argentina were now under dumping case restrictions), this time there was no Suspension Agreement with China. The Chinese felt that the filing of this second case was grossly unfair, and of questionable legality. It accused them of “dumping” when for five years they had been shipping only in quantities and at prices set by the US government according to the Suspension Agreement. They were in no mood to negotiate a new agreement of any kind.

To say, as I do, that Chinese honey exporters have not been treated fairly, and that the dumping order has been a failure and should be dropped, is *not* to condone the illegal circumvention of dumping duties. However, due to the complex – and seemingly changeable – formula used by the DOC to calculate exporter-specific dumping duty rates, it has proved impossible for any Chinese exporter to obtain, and then keep beyond the first review, a workable duty rate. A number of Chinese companies, in the early months of the dumping order, made an earnest effort to play by the rules; all of them failed. Eventually the Chinese realized, as did US importers, that the dumping order was a de facto embargo on Chinese honey exports to the US market, and that while the US continued to classify China as a “non-market

economy” Chinese exporters would never get a fair hearing at the DOC.

After the established importers concluded that the legal trade in Chinese honey was dead, and further business impossible, the back-street people took over. Until late last year, when US Customs moved to block imports from certain countries that were clearly transit hubs and not honey producers, Chinese honey had continued to enter the market in large volumes. While the flow seems to have slowed to a trickle, for now, I do not believe that enforcement is the long-term solution to the problem, and I will return to this issue later.

More problematic, in many respects, is the fact that countries like India and Vietnam, which have legitimate and growing honey production and exports of their own, have also been exploited for the trans-shipment of Chinese honey.

India, in particular, has been the focus of a lot of criticism, some of it justified, much of it nonsense. Some recent articles proclaim that in the first half of this year Indian honey exports to the US “surged” to about 27,000mt, and that this “tsunami” of Indian honey, mostly of “Chinese” origin, threatens to “drown” the US market. In fact, US National Honey Board figures show that just under 23,000 mt of Indian honey entered the US between January 1st and August 31st this year. Given that India itself now produces (mostly in the first 6 months of the year) over 60,000 mt of honey, the fact that they have exported 23,000 mt to the US is hardly a surprise, and is slim evidence indeed for the accusation of fraud on a grand scale. And just how 23,000 mt is going to “drown” a market that will import over 110,000 mt this year, is not easy to explain. India is shipping, it is reported, “large amounts of white honey, which are atypical of tropical countries”. (True: white honey is not generally produced in tropical climates, but *northern* India does not have a tropical climate and does produce a substantial crop of white honey from mustard plants). “Almost all Indian exporters”, we read, “are located in Punjab”, implying that the only domestic honey to which they have access is the material produced in that state where, the article says, the yield is “about 10,000 metric tons”. (In fact, production in the Punjab is closer to 15,000 mt, but in any case the exporters buy honey from many parts of a huge country which produces – as I mentioned – over 60,000 mt). The Indian press reported in February, we are informed, that the honey crops would be down by 40% this year, so there is no way, it is implied, that the volume exported could be of Indian origin. (So, we must conclude, honey

crop forecasts are always accurate, and beekeepers never highlight the negative!). The presence of lead in Indian honey, it is claimed, “is a tell-tale sign that some of this honey originated in Chinese provinces”. (It is nothing of the kind. The lead was coming from the 25kg soldered tin cans used by Indian beekeepers, but now being phased out and replaced by plastic pails). Those corrections notwithstanding, however, there is no doubt that Chinese honey has been shipped to India, and that some of this product has been trans-shipped to the US. The situation, however, is a lot murkier than some realize. Chinese honey is being used in the local market in India, and is being re-exported, legally, to the Middle East.

So, as you can see, the life of a US honey importer is simple no longer. Navigating the shoals of Chinese honey is not easy. And it’s not surprising in this context, with so many false accusations and so much wildly inaccurate information being tossed about, that US Customs tends to consider with suspicion almost any shipment of honey from an Asian country. As importers from India and Vietnam we must indeed remain vigilant in our efforts to ensure the integrity of the product we deliver to our customers, but that being said, the recent articles I have referenced slander the honest producers and exporters of those countries.

Turning now to quality issues, and speaking as a US importer, there are three major areas of concern: commercial adulteration, residues and, due to the Chinese trans-shipment issue, country of origin.

The commercial adulteration of honey, that is, the addition of other sugars of one type or another for the purpose of deceiving the buyer, is an occupational hazard in this business. And by the way, adulteration is not confined to imports, as some would like you to believe; it is as much a problem within the US as without. Unfortunately, as a liquid product, honey lends itself to adulteration; it is simply too easy, and the profit incentive too great, for the unscrupulous to resist. The only aspect to have changed over the past 30 years is the level of sophistication. Where formerly the adulteration was mainly with C4 sugars (corn or cane origin), and quite easy to detect using the SIRA test, now it is often with C3 sugars (from beet or rice), and harder to find.

When it comes to residues in honey – again a problem affecting domestic as well as imported product – US regulations are troublesome and need revision. While there are tolerances established with FDA for residues in a

variety of major food products, there are none for residues in honey – except in the case of tylosin, an antibiotic approved for use in beekeeping. I have to remind exporters of the situation over and over again: the presence of *any* detectable amount, of *any* residue, is not just unacceptable, it's illegal. Any country, I should add, that has not already eliminated the use in beekeeping of chloramphenicol and fluoroquinolones (ciprofloxacin, enrofloxacin, etc) risks facing very serious trouble in the US market. If FDA finds a residue in a particular shipment, they will issue an alert, putting the exporter on the list for Automatic Detention. And once an exporter's name is on that list, getting it removed is costly and takes a lot of time.

Country of origin testing has become a major issue in the US market because of the Chinese trans-shipment problem. US Customs has been using the so-called 'trace metal' or 'soil' test in order to identify goods which may be of Chinese origin, but the test is notoriously unreliable and frequently gives false positives. The pollen test used in Europe appears to be far more dependable, but US Customs has so far declined to use it.

This seems an appropriate moment to say a few words about the US True Source program. I was not enthusiastic about the concept when it was first announced. Like others, I am sure, I rolled my eyes at the prospect of yet more paperwork and, and more to the point, I saw it as a distraction from what I consider a more fundamental need in the US honey industry: to drop the dumping case and to 'legalize' Chinese honey. While I support enforcement action against circumvention, of course, in my opinion this is not a long-term solution to the intractable problems we have all faced since the first dumping case was filed. The playing field will never be level (by which I mean that those companies using or trading in trans-shipped Chinese honey will continue to reap huge commercial advantage over those who do not), the illegal activity will never truly cease, until we dump the dumping case. However, I have no illusions about the difficulty of selling this concept to US beekeepers, and my company has joined the True Source program in the meantime.

A few words now on the main honey-supplying countries to the US market:

I would argue that Argentina, our gracious host for this Congress, perhaps deserves first prize as 'most favored exporter' to the US market. US packers appreciate Argentine honey for a number of reasons: the availability of white honey, low moisture, mild flavor and taste, without granulation problems,

clean and free of residues. It is the ideal blending honey. Although white is the preferred color, the US also buys ELA and LA. [See Fig 4] Argentina, by the way, has been able to maintain its position as a leading exporter to the US in spite of the dumping case - principally because, as a “market economy” it is not subjected to the same treatment as China.

Historically, Uruguay’s primary market has been Germany, but there are years – and this is one of them – when the US is also an important destination. [See Fig 5] US packers can generally use Uruguayan honey interchangeably with Argentine, the only drawback being that the proportion of white honey is lower in Uruguay than in neighboring Argentina.

The US market has in some ways been a beneficiary this year of European problems with PA’s (pyrrolizidin alkaloids) and GMO’s (genetically modified organisms). Faced with the near-impossible task of guaranteeing their honey free of PA’s and GMO’s, Argentine, Uruguayan and Brazilian exporters are going to continue preferring the US market over the EU.

What Brazil has achieved in just 10 years is remarkable.. [See Fig 6] Brazilian honey is mainly LA in color, with some ELA and less white. Although moisture can sometimes be higher than we would like, the flavor is generally excellent and to my knowledge there has never been any problem with antibiotic residue.

Vietnam started producing and exporting honey in the mid 1990’s, and production has steadily increased to the point where they have become a major supplier to the US market, mainly of light amber for industrial and food service use. [See Fig 7] There have been problems with residues, but the Vietnamese exporters are committed to keeping their product ‘clean’ and they recognize that their future, and the future of the entire Vietnamese honey industry, depends upon maintaining quality standards and ensuring the integrity of their product as 100% Vietnamese.

India also started exporting in the mid 1990’s, although volumes were small until 2002. [See Fig 8] The cynics – or perhaps I should say those determined to misrepresent the facts – have said that the rise in Indian honey exports has been due mainly, even entirely, to the dumping case and the resulting trans-shipment of Chinese honey. They happen to be right in one respect only. Indian honey production, *and* Vietnamese, *and* Brazilian, was indeed given a boost by the dumping case. When a trade barrier is erected

against supply from one country – or from two countries in this case – *of course* prices rise and new suppliers move in to meet demand. There is nothing surprising or sinister about that. Yes, there have been problems with residues in India too, but the Indian government has introduced measures to curtail the use of unapproved antibiotics and to replace the tin cans with plastic pails.

Canada has always been a key supplier to the US market, in spite of the relatively small volume involved. Total production in Canada is generally about 30,000 mt, and about half of this quantity is exported to the US. [See Fig 9] Canadian honey is mostly white, of very high quality, and is typically blended with domestic and/or Argentine for the retail sector.

As mentioned earlier, Mexico was once a major supplier to the US, but with steadily declining production and higher prices often being paid in Europe, Mexico has not been a significant exporter to the US in recent years. [See Fig 10] There is, however, a demand in the US for Mexican orange and mesquite honey, and for Yucatan when prices are within reach.

And finally, in my round-up of the exporting countries, I come back to China [See Fig 11] , a major supplier to the US for many years. Officially, China is no longer a supplier, and we expend an enormous amount of time and money trying to ensure that our access to this important source remains blocked. Unofficially, Chinese honey continues to enter the country - to the enormous benefit of the unscrupulous and the detriment of the principled. In my view we should drop this ridiculous game we call the dumping case and concentrate our efforts on making certain that the Chinese product arriving in the US is pure and free of residue.

And so, what can I say about the current market, and a seller's prospects for the next few months? We started this year with a severe shortage of honey in the US, and great concern (in January and February) about the Argentine crop prospects. It was going to be a short crop here in Argentina, we heard, only about 50,000 mt, some said. On that news, and with few offers at that time from Vietnam or India (where the crop was "down 40%" of course), US buyers came into the market aggressively. We were just a little off in our projections. In Argentina the crop was probably close to 75,000 mt, and India, as we heard, managed to "drown" the US market with 23,000 mt. Further easing the supply situation for US buyers has been the 'GMO factor'

in Europe: packers in Germany have continued to buy hand-to-mouth pending some resolution of the GMO issue, and this has put downward pressure on prices. After the inconclusive GMO announcement on September 6th it is clear that the uncertainty will continue.

However, the US domestic honey crops in the all-important Midwest this summer (July/August) were generally disappointing. Taken in conjunction with very poor crops elsewhere in the country – most notably in California where they failed – the total US honey production in 2011 may be no more than 68,000 mt. It is significant that in the period Jan-Aug this year the US had already imported over 19,000 mt of Argentine honey, and it is clear that volumes will remain high for the Sep-Dec period. Vietnam and India appear to be sold out until their new crops start in January.

In view of the ever-widening gap between US domestic honey production and consumption, and keeping in mind the fact that Chinese circumvention seems to be controlled – at least for the moment – it seems clear that the US will continue being the dominant buyer on the world honey market in the coming months.

Nicholas Sargeantson