



Ultra International B.V.
Essential Oils, Ingredients, F & F



MARKET REPORT

SUMMER 2015

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ARGENTINA

Lemon Oil

Fresh lemon production is expected to be around 1.15-1.2 million MT. This is a sharp increase on previous years as the recovery process from the damaging 2012/13 crop takes place. That said, these figures still do not represent previous highs and fall short of some analysts earlier predictions of a bumper year.

It should also be noted that up to 50% of the total lemon oil expected from this year's production is already committed to the larger beverage multinationals and that globally many inventories remain lower than normal. Demand is still firm although material is easy to come by and prices have only softened and not fallen as many buyers expected.

Historically Argentina has processed around 70-75% of their total lemon crops and this year is expected to be no different. Between 880-900 MT of fruit are expected to be processed, an increase of 300 MT from last year but short of the 1,000 MT processed in the 2012/13 season.

📈 Market prices USD 37.00 – 39.00 /kilo

AUSTRALIA

Buddawood Oil

Production has taken a short break as the processing plant is relocated. This has come at a time of increased demand, which has added some short-term pressure to the market.

Raw material supplies remain good and with the relocation soon to be complete production will start again. However, there will be a backlog of demand to be met.

📈 Market prices AUD 500.00 /kilo

Cypress Oil Blue

An increase in market demand has added some pressure to recent supplies but this is being addressed. It could take a few more weeks for production to get back on top of demand as improvements to local production facilities start to have a positive impact.

📈 Market prices AUD 400.00 /kilo

Kunzea Oil

A number of new retail brands in SE Asia have added kunzea for its strong anti-inflammatory properties, which has increased demand. With most production occurring in or around Tasmania, the wet winter conditions have meant a slow down in production which has tightened the market a little. This is expected to improve as spring approaches.

📈 Market prices AUD 190.00 /kilo

Sandalwood Oil Indian

Prices have stabilised for the moment after losing around 25% of their value from the beginning of the year. Some of this is due to better economies coming into place as new plantation material becomes available. But it is mostly driven by a stagnant market which can still find creative ways to purchase the same species elsewhere at lower prices.

No doubt the story of sustainability will prevail and Australian *Santalum album* will have its day but it is still a little way off and fresh competition is coming to help give buyers a greater choice in the near future.

▲ Market prices AUD 2,500-2,800 /kilo

Sandalwood Oil West Australian

There has been some progress on future supply options since our last report but none that suggest an improvement in short-term supply as yet. There are a few new entities with plantations coming online soon with some new distillation options to support future growth. This, along with changes in how wild harvest (Crown Land) wood is distributed, will ensure that in 2016 the dynamics of this market will change dramatically.

If you can keep your own demand satisfied for the rest of this year we are confident it will be a good decision in the long term.

▲ Market prices AUD 1,700-1,900 /kilo

Tea Tree Oil

Production is now mid-season but many farmers are experiencing delays in harvesting due to heavy rainfall. Whilst this in itself does not present much threat to expected yields, the delays are certainly a frustration.

Market demand remains very high as this product grows in popularity around the world. Production is set to increase slightly but not enough to ease tensions and prices. Good farming practices have resulted in approximate 15% gains in the growing regions of Port Macquarie and Casino, but other areas remain unchanged. Some producers are reporting significant increases in yields but overall we expect the number to average around 10% (an extra 50 MT of oil this year).

It is advisable to plan ahead for the next 12 months as many producers are already sold and pre-sold. With the delays in harvesting it's expected that price pressures will remain in place so good to book as early as possible.

▲ Market prices AUD 50.00 +/- /kilo

BRAZIL

Lime Oil Tahiti (Persian) CP

All harvesting was completed and finalised by mid-June and the overall feel was one of disappointment. Local and overseas fresh fruit consumption has led to a reduced volume of fresh fruits going into the processing pipeline. In recent years, as the local standards for producing good fresh fruit improves, less fruits are 'discarded' and sold for fresh consumption rather than for processing. This means processors have to pay a higher price for good fruits for processing, thus increasing input costs.

It is estimated that Brazil will produce around 245 MT of Persian lime oil this year, slightly below the Mexicans, although it is also worth noting that Mexico's production is likely to be somewhat down due to an overstocked position on unsold lime juice.

 **Market prices USD 35.00+ /kilo**

Orange Oil

Our figures from June's report look to be accurate which unfortunately isn't good news. The crop is around 10% lower than last year, which is putting an immense pressure on the oil market.

Many of the major processors are now sold out for the year as prices continue to firm. The lack of rain and high temperatures back in late 2014 damaged the early fruit blossoms, which never got the chance to recover. This was seen fairly late and for some came as a surprise when the fruits didn't appear. This has led to some over commitments by smaller producers.

We expect around 245 million boxes to be processed this year, down from 290 million in 2014.

 **Market prices USD 7.50+ /kilo**

Kumquat Oil

Current crops are good for this new product despite heavy rains in recent weeks. Overall volumes for processing are still relatively small but capacity is increasing leading to a growing interest from European and Asian markets.

This year's oil production is expected to be around 6 MT.

 **Market prices USD 170.00 /kilo**



GLOBAL PICTURE – TANGERINE

Global production is forecast to be at record levels at around 27 million tons, an increase of 0.7 million, with China's increase offsetting the reduced crop in Morocco. Despite varying trends from around the world, overall demand continues to grow almost in line with the increase of supply.

BULGARIA

Lavender

Harvesting is almost complete and despite some concerns in late June, the crop looks to be healthy. A lack of sunshine in early-June had some fearing another year of reduced yields but this is not the case.

We reported in June that last year's crops was not as bad as it had previously been reported so the gains from this year's harvest will not have the impact the market may expect. It is anticipated that this year's total output will increase by around 20 MT (a less than 20% increase), which is good but when factoring in conditions elsewhere and the current market demand, the global picture remains once more delicately balanced.

 **Market prices EURO 90.00 - 95.00 /kilo**

Rose Oil

The rose season finished with very disappointing results. What looked to be a reasonable year changed in late May when weather conditions became unfavourable. The net result has impacted the total output somewhere in the region of 65%. Some producers lost as much as 70% of yields, others nearer 50% but overall the lack of oil has left the market starved of oil.

Prices are set to continue to rise as many have not covered their annual needs and with limited supplies available, the highest bidders will be the only ones satisfied with supply.

 **Market prices Euro 10,000+ /kilo**

CHINA

Cassia Oil (Traditional distillation)

The spring season has ended and China is reporting good sales from what has been a healthy season. As a result of the good crop prices fell to new recent lows but in the last weeks have started to climb again.

Increased demand for Chinese oil over that of Vietnam has added some extra pressure to the market and we recommend that buyers' cover now as prices are unlikely to fall and may well rise over the next few weeks. The season will start again in October/November.

 **Market prices USD 32-34 /kilo**

Citronella Oil

Prices have weakened over recent weeks as China faces strong competition from Indonesia. Demands have been consistent but buyers are now having more choice as many see Chinese and Indonesian qualities as interchangeable.

 **Market prices USD 17.00-18.00 /kilo**

Clary Sage Oil

The clary sage crop started around 15th July and China expects an improved output of around 30%. However, it has to be noted that this is primarily for the production of concrete with very little oil being produced.

Historically the flowers were harvested and distilled to produce oil with the residues used to make concrete. Now with the added demand for concrete (to produce ambroxan) farmers changed their process to make the concrete directly from flowers to get a higher concrete yield.

We expect the output of oil to be similar to last year with export prices higher than those of other origins.

 **Market prices USD 220.00 + /kilo**



Eucalyptus Oil

Prices are stable following the end of the summer season but remain higher than this time last year. Overall, average prices have remained high since March and may rise again slightly over the off-season depending on market demand.

It is unlikely that we will see prices back around the \$10 - \$11 /kilo levels as in 2012/13 as ever increasing labour costs prevent this. At lower price levels, output will be smaller and that in itself will soon add further price pressure to this commodity.

 **Market prices USD 12.50 - 13.00 /kilo**

Garlic Oil

Supply remains short despite the season only finishing in June, keeping pressure on prices, which are set to keep firm until early 2016. Be careful of what you are buying as we have reports of a number of factories tailoring qualities to suit what buyers are prepared to pay. Another case of "you get what you pay for"!

 **Market prices USD 140.00 + /kilo**

Geranium Oil

Prices continue to slide over this season as more material becomes available. Since the start of the May prices have fallen around 15% and may continue to weaken depending on how much oil the market takes over the next few weeks. It is thought that during August, when demand is traditionally weaker, price may fall by another \$10 /kilo. Today's prices are at their lowest since July 2014 but are still typically higher than historic levels when we were used to prices nearer \$130 /kilo.

 **Market prices USD 150.00 /kilo**

Ginger Oil

The markets are quiet and stocks at origin are low. Most factories are only producing against firm orders, which are increasing lead-times and keeping prices stable. This is expected to continue for the rest of 2015.

 **Market prices USD 72.00 /kilo**

Lavender Oil

It is now clearer that China will not produce much oil for export this year. The crop was severely damaged in Xinjiang Province earlier in the year and farmers' price expectations for crude oil are already much higher than the average trading prices from other origins.

Some premium quality oils still exist but will be very expensive. China may even be a net buyer this year, which could add further pressure to the global markets.

 **Market prices USD 140.00 /kilo**

Litsea Cubeba Oil

We are close to the start of the new season and to date, this year has been very stable. The crops are looking healthy but farmers are aware of the balance in the market and will not want to flood it and create a price decrease. That said, it looks inevitable that some weakening could occur in the coming months.

 **Market prices USD 22.00 /kilo**

Tea Tree Oil

The market is stable and continues to have its place alongside the Australian quality primarily for blending purposes. It is expected that China will increase production this year but not to any significant volume that will affect the balance in the marketplace. Typically demand for Chinese oil increases when the price of Australian increases so given the demands on Australian oil the price for Chinese may rise over the coming months.

 Market prices USD 23.00-25.00 /kilo

CROATIA

Helichrysum Oil

The summer harvest has started and will continue until the window (enforced by government) closes on August 15th. The plants themselves look good but with limited time to harvest the total output of oil is expected to be much less. A full assessment on the yields has not yet taken place.

 Market prices N/A

EGYPT

Basil Oil Linalool (Sweet Basil)

Small carryover stocks from last season remain available and should be at a discounted price. However, this does not appear to be the case. Producers and stockholders are trying to keep the market high as the new season is set to begin in August. At this stage, we would suggest a small price decrease next month, however, depending on yields and market uptake, this could be short lived with prices again rising in Q4.

 Market prices USD 130+ /kilo

Coriander Herb Oil

There are some volumes available but prices are typically higher than other origins. Usually at this time of year as other origins harvest the prices fall, but today they remain relatively high. Expect this to change if stocks remain static at origin.

 Market prices USD 120.00-130.00 /kilo

Cumin Seed Oil

As reported in May, prices have risen slightly (around 5%). That said, the general balance in the market is good and further increases are unlikely at this stage.

It is worth noting that other 'cheaper' qualities continue to be sold from some Egyptian producers/traders at prices around 20% under today's market. We feel if you are paying under our guide price you may not be buying pure oil.

 Market prices USD 110.00 /kilo



Geranium Oil

New season material is already presenting itself on the market as the season draws to a close. Prices remain low and stable with some good offers to be had if you are looking for reasonable volumes. As there is always some uncertainties when dealing with Egypt it is recommended that buyers take good cover today as prices are unlikely to fall further and as always could rise without much notice.

📈 Market prices USD 85.00-90.00 /kilo

Jasmine

The crop is on-going and has to date yielded some fairly positive results. That said, it is only in-line with market demand and the price for good quality oil remains stable around \$4,000 /kilo.

📈 Market prices USD 3,900-4,000 /kilo (Absolute)

Neroli Oil

As reported in May, all 2015 season material has already been sold and as a result prices in the market are rising. We are unable to get any firm offers from origin.

📈 Market prices N/A

Parsley Leaf Oil

Despite reasonable crop conditions the total harvest has been small as demand was weak from the market prior to harvesting. As a result, there are limited volumes available.

📈 Market prices USD 200.00 /kilo

FRANCE

Clary Sage Oil

The season started early and finished quickly as prolonged hot weather forced farmers to cut what appears to be a very small harvest. A lack of rains in spring left the plants under-grown resulting in a yield loss of around 50% for most.

This is a disappointing end to a plan by a number of French farmers to produce more this year but these projects will be delayed another 12 months in the hope of better conditions in 2016.

📈 Market prices Euro 180 +/- /kilo

Lavandin Grosso

Harvesting began a couple of weeks early due to the favourable conditions and early indications suggest an expected increase in total output. It is still too early to know for sure but it will only go a small way towards helping satisfy the growing demand.

Producers are reluctant to commit until late August when all the production results are known and are likely to remain quiet on any significant gains in order to keep some control in the market. The growing demand is tempting smaller farmers away from larger co-operatives as buyers are offering higher prices to encourage supplies. If this is not controlled we could see a larger movement in prices but it is hoped this will not be the case.

There is no doubt that supply will be consumed by waiting buyers within Q3, which will again leave prices rising towards the end of the year and into 2016.

 Market prices N/A



Ultra was in France in July inspecting the conditions of Lavandin Grosso.
You can see more pictures on our Facebook page!

Lavender Oil (Maillette)

A closer inspection of the lavender fields in early July showed positive signs of a good crop. Harvesting is currently underway and more should be known in the coming weeks.

 Market prices Euro 150.00+ /kilo

INDIA

Black Pepper Oil

Prices remain stable as supplies continue to be healthy. We expect this to continue throughout the year.

 Market prices USD 90.00 +/- /kilo

Lemongrass Oil

Good quality oil is still limited and prices are moving regularly up and down by \$1/ kilo. It will still be some time before producers can get on top of market demand, unless it weakens over the next few months.

 Market prices USD 19.00 /kilo

Lime Oil Distilled (Key Lime)

Supply and prices remain modestly stable, whilst plans to increase capacities over the next few years continue to develop. We would strongly encourage end-users to analyse the quality so it can be a viable option in the future as supplies increase.

 Market prices USD 50.00 +/- /kilo

Mentha Arvensis (Cornmint)

The crop this year was going to be 40% less, an intentional decision by farmers to produce less in keeping with lower market demands. However, due to better than expected yields, the decrease in output is nearer 35% so supplies remain good and prices weak.

 Market prices USD 20.00 – 22.50 /kilo

Mentha Piperita Oil (Peppermint)

We expected in May a 35% loss in this year's production due to poor weather conditions in spring. Sadly this transpired to a greater loss nearer 50% (1st cut). The 2nd cut is expected late July and is again expected to be short by around 30%, due to damage caused by heavy rains in recent weeks.

 Market prices USD 42.00 + /kilo

Mentha Spicata (Spearmint)

Expect some increasing market pressure for spearmint as the crop looks to be around 35% shorter than expected. Last year, India's production was up 40% but this year's poor crop returns output to 2013 levels.

 Market prices USD 28.00 + /kilo

INDONESIA



Cananga Oil

There has been some renewed interest in recent weeks for this oil and supply was keeping up with demand until the closure for Ramadan. At this time there are no new offers from origin, which will remain the same until mid-August. It is expected that the market will re-open firm with some pressure on supplies for the first few weeks

 Market prices USD 65.00 +/- /kilo

Citronella Oil

Supplies have increased this year as new plantations come online, making Indonesia a preferable choice to China. As a result, prices have fallen and demand has increased. There are some stocks available and it is a recommendable time to take positions.

 Market prices USD 15.75 - 16.25 /kilo

Clove Oil

We expect prices to soften through the month of August until late September when traditionally supplies increase as the market slows. Historically this period reflects a good time to take positions and this year is no different. Plan you Q4 shipments now!

 Market prices USD Leaf 85% Rect. 14.85 USD /kilo | Bud USD 25 /kilo | Leaf Crude 73-82% 11.50-14.00 /kilo | Stem USD 18.00 /kilo | Eugenol USD 16.00-16.50 /kilo



Massoia Bark Oil

It is very difficult to make any commitments on this oil as supplies remain irregular with no farmers willing to give long-term commitments. Finding high quality material is a challenge, which is impacting on prices. Markets are expected to stay firm into the foreseeable future.

📈 Market prices USD 400.00 – 900.00 /kilo (C10 50%-95%)

Nutmeg Oil

We have all watched in amazement the sudden drop in nutmeg prices since the start of the year but realistically it appears to have bottomed out. An in-depth analysis into the conditions on various islands shows a lack of willingness amongst most to support prices at today's levels, so we may expect some price reversals in the second half of the year.

No doubt many end-users have enjoyed the benefits of these new prices but to maintain these benefits it is recommended to cover now or take contracts for longer-term call-offs.

It has been brought to our attention by large end-users of nutmeg oil, that there has been a significant increase in the adulteration of oil. This can be typical in falling markets as processors/traders look to stay ahead of the price movement.

Typically, it seems that clove leaf residues are being used in the adulteration so please stay vigilant with all your usual testing. We would recommend performing tests for NVM's and using a FAME analysis for identifying any presence of fatty oils.

📈 Market prices USD 50.00 – 65.00 /kilo

Patchouli Oil

There is a nice balance of supply and demand at the moment with one major producer now controlling around 65% of all exports. This has brought some much-needed balance to the market as it has reduced the amount of speculation among local producers.

Although we expect these conditions to remain we would still recommend that buyers plan ahead as large surges in demand can put quick pressure on supply.

One factor clouding perceptions of quality at the moment is the fact that most of the oil exported is very fresh. As we know, patchouli matures with age and, given the quicker stock turns throughout the supply chain, material can be seen as very green and rejected olfactorily.

📈 Market prices USD 52.00-75.00 /kilo

Vetiver Oil

The situation remains the same as last reported. High demand along with very little raw material supplies has put immense pressure on the market and as a result prices continue to increase. We do not see any short-term changes to this and once again the message is to plan ahead.

📈 Market prices USD 180.00 – 225.00 /kilo (Crude | Rect | MD)

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ITALY

Lemon Oil

It's now the off-season for all citrus in Italy. The resulting net figure for the last season was that the lemon fruit harvest was down 2% on 2014. The season will commence again in November. Today origin in sold out.

 **Market prices EURO 36.00 – 38.00 /kilo**

Orange Oil Blood

Again it is now the off-season and harvesting will re-commence in February 2016. 2015 was a bad year for production with the last figures from some (unofficial) citing a loss of 45% on the previous year. There is no fresh material available at origin.

 **Market prices EURO 7.00 +/- /kilo**

MEXICO

Lime Oil Distilled (Key Limes)

The market remains stable with supply and demand evenly balanced. As we come to the end of the season, it may be a good time to ensure that you have sufficient supplies to cover until the start of the winter season in November. It is likely that reduced output from September could add some pressure to the market should a strong demand come at this time.

It is too early to see what the winter season holds in store for us but some good agricultural practices are ensuring we see better results each year.

 **Market prices USD 45.00-47.00 /kilo**

NEPAL

Basil Oil Linalool (Organic),

Production has started (late July) and there are signs of a reasonable crop ahead. That said, most of the anticipated volumes are pre-booked so availability will be limited.

Nepal represents a good alternative to other origins where qualities have been difficult to secure. If you do need stocks for 2015/16 start planning now.

 **Market prices USD N/A**

Chamomile Oil (Organic)

The loss in yields from the early year production has started to put some pressure on the market with prices increasing around 15% in the past 2 months. The season had started quietly, which kept prices in balance with last year, but a sudden increase in demand has shown the product's volatility.

 **Market prices USD 750.00 /kilo**



NEW ZEALAND

Manuka Oil

Fresh stocks have been produced to meet a surge in market interest, which is the first time we can be confident in saying this. In the past, any reasonable demand came with long lead times but more disciplined harvesting and improved production has given this product new life.

▲ Market prices NZD 500.00 /kilo

Don't get confused!! The botanical name is *Leptospermum scoparium*. Many mistake Manuka for Kanuka, as Kanuka can be known as White Manuka. However this is *Kunzea ericoides* another product offered growing in Tasmania, Australia.



PARAGUAY

Cabreuva Oil

There is no change to previous reports, as supply still remains very tight. This is expected to continue into the foreseeable future.

▲ Market prices USD 45.00 /kilo

Guaiacwood Oil

Production continues to improve with good stocks now available at origin. This should remain in place for the rest of 2015.

▲ Market prices USD 23.00 /kilo

Petitgrain Oil

The markets remain difficult, as supply cannot get back ahead of market demand. There are waiting lists for volume at the moment and market prices are increasing as buyers' struggle to secure their short-term needs. Pressure is likely to remain in place so it is advisable to plan ahead.

▲ Market prices USD 60.00 / kilo

RUSSIA

Clary Sage Oil

Limited production will keep prices firm and may rise further depending on demand from the market. Russia's contribution to this market is vitally important at the moment as other origins continue to face climatic challenges (like France) or have increased internal demands (like China).

The Chinese are certainly net buyers this year but the dynamics may change in 2016 as it is reported that China has new plantations, which should help take some pressure off its need to import. However, this is at least 12 months away and for this season the advice will be to get covered as early as possible into this new season

▲ Market prices USD 170.00 - 180.00 /kilo

Coriander Herb Oil

Demand has been reasonable for new season material, this coming after a fairly flat trading period since the end of Q1. Production has been in-line with pre-booked orders and there should be a little surplus material to keep the market satisfied beyond this harvesting period.

 **Market prices USD 95.00 /kilo**

Coriander Seed Oil

Some aggression by individual producers of seeds has started a downward price trend for new season material. This may not be sustainable as there is still a large demand from the fresh seed markets that are prepared to pay more for good quality seeds. This could see early season prices fall but later rise again once some oil processors demands have been satisfied.

Much will depend on the uptake from the market that has been quiet in recent weeks as they wait for the start of the new season.

Parts of Russia have been prone to excess rainfall over recent weeks meaning some delays in harvesting and possibly some crop losses.

It is still too early to see the full picture in what is looking like a confusing scenario.

 **Market prices USD 97.50 – 102.50 /kilo**

Lavender Oil

It is unlikely we will see much production from Russia this year after the late frosts and snow in spring killed many of the plantations. Some may not even harvest, as the costs look uneconomic, while others will have significantly reduced biomass.

Whilst the fate of Russia's output does not have a large impact on the global market any more, its loss along with China and other smaller producing origins, does amount to a large gap in supply and one that Bulgaria will struggle to fill alone.

 **Market prices USD 85.00 /kilo**

SOUTH AFRICA

Eucalyptus Radiata Oil

No changes as we await the start of a new harvesting period in August. For the moment, very limited supplies remain in the market with premium prices being paid to those with oil.

 **Market prices USD 35.00 /kilo**

Lemon Oil

Growing demand from European markets for fresh fruits may result in fewer fruit being processed this year, although South Africa is expected to have a good crop. Estimates suggest a 2% increase in total fruit collection and a figure of around 77,000 MT processed.

Today there are a few small consignments of oil available with more likely to come online late August.

 **Market prices USD 30.00 + /kilo**

Orange Oil

Stocks are depleted, although some new season production has started early, and will intensify over the next few months. To date, expectations are for a similar year to that of last year when we saw production volumes higher than in previous years.

 **Market prices USD 6.50 /kilo**

Tagette Oil

Markets are stable with reasonable supply coming from origin.

 **Market prices USD 170.00 /kilo**

Tea Tree Oil

Limited supplies exist from wild harvested areas although cineol levels continue to be a challenge as older plantation carry higher levels than modern plantations – something which the market does not accept.

Much of the demand is for organic material, which is in relatively good supply.

 **Market prices USD 45.00 /kilo | Organic USD 55.00 /kilo**

SPAIN

Lavandin Grosso

Demand remains firm globally and prices are at historically high levels. This summer's crop is not expected to have much impact on satisfying demand so expect prices to remain high for the foreseeable future.

 **Market prices N/A**

Lemon Oil

This year represents a record year for Spain with production expected to reach 1,065,000 MT. As Spain now controls the fresh lemon market in Europe, it is also the biggest influence on the oil market. Good crop management and stable weather conditions have put Spain in control of fresh fruit and processed lemons.

The markets are fairly quiet as we are in the European holiday season and harvesting of the 'Verna' type will start late October. Despite the good Spanish outlook, demand globally remains firm and as such oil prices are not expected to fall significantly, especially while fresh lemon prices remain firm.

 **Market prices Euro 31.00 – 33.00 /kilo**

Thyme Oil Red

Markets are very difficult as demand outruns supply. This is unlikely to change in the medium-term.

 **Market prices Euro 120.00 /kilo**



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USA

Grapefruit Oil Florida

This year's crop is 17% less than last season at 12.95 million boxes. This is the lowest crop since 1935, with the exception of 2004/5 when severe hurricanes reduced that year's output to 12.8 million boxes.

This is a continuing problem for Florida's grapefruit with citrus greening rife in the area. Recovering from this can take years and the market is feeling the pressure.

 Market prices N/A

Orange Oil Florida

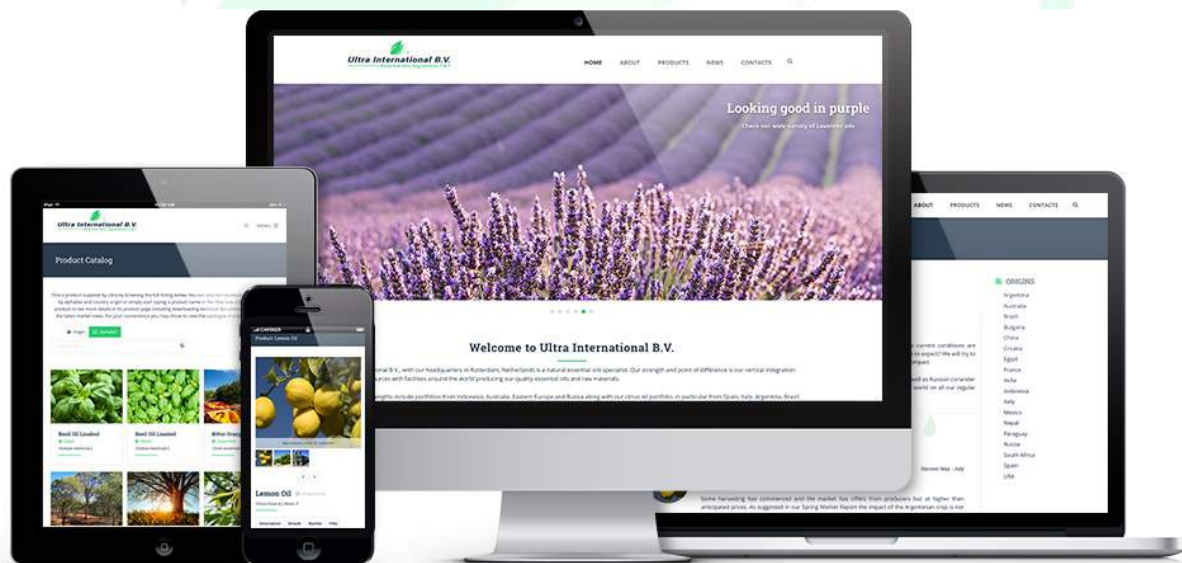
The lowest crop in almost 50 years and an 8% reduction from last year are not figures to be optimistic about. Citrus greening (HLB) in Florida remains the biggest challenge, as the impact on its citrus market is devastating.

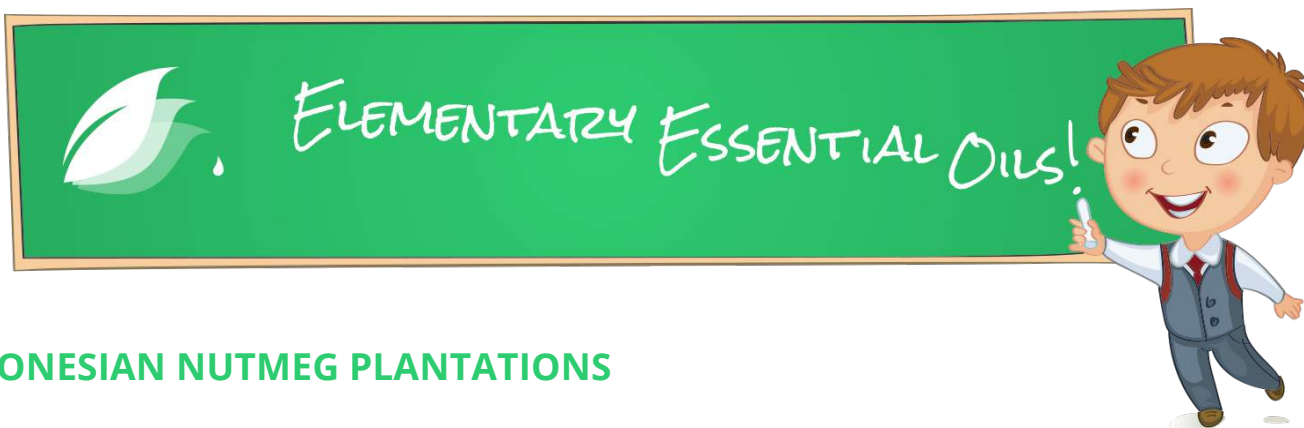
This year's crop is expected to total 96.4 million boxes down on 104.7 million last year and 133.6 million boxes in 2012/13.

Whilst the global market for processed orange is not highly influenced by Florida it still has an impact. Prices are already firm and are expected to remain high until mid-2016.

 Market prices USD 7.00+ /kilo

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INDONESIAN NUTMEG PLANTATIONS

How can plantations—or longer-term investments—change the dynamics of the aromatic ingredient market? Some crops take longer than others to materialise, but whenever there's a change in the air the markets appear to be in a state of confusion.

Why is this? The most likely reason is that there is never just one individual, investor or company thinking into the future, but many, and never do these many get together and paint one true picture of the market. These many are likely to be future competitors, and each investor or company can have different time frames and motivations as to why they're looking into the future, as well as how the future might evolve.

There's an inevitable assumption that if new plantations start to supply oil to the market, the oil price will start to come down. These are simple supply and demand principles. However, investors often don't wish to see this happen. Controlling any sudden influx of fresh material is critical to maintaining prices; after all, it is likely that a higher oil price that attracted such investors to a plantation project in the first place.

Of course, this all sounds fairly straightforward, but plantations don't always come online when expected and may not yield the same standard of oil as older plantations or wild-harvested areas to which the market is accustomed. One should remember that producers are dealing with natural products, which can be full of surprises.

Often, plantations can replace wild-harvested areas, offering conservation or economic benefits. Here we discuss the current impact of recent plantations of nutmeg hitting the market.

NUTMEG

The nutmeg tree, *Myristica fragrans*, is indigenous to the Maluku Islands in Indonesia. For those unfamiliar, the fruit contains a nut, which is covered by a hard shell. A red-colored webbing (known as mace) covers the shell. Once ripe, the fruit will open, revealing the mace, which will fall to the ground to be collected, or it can be picked just before falling. The mace will then be carefully removed, leaving the nutmeg (nut) available to be ground and processed. The mace is also further processed as oil or sold as a ground spice after being graded.



Fresh nutmeg fruit covered in mace

The oil market is secondary to the spice market, which dominates the global demand for nutmeg. At times over recent years, spikes in demand from the spice industry have had damaging effects on the oil markets, often creating shortages as less product reached processors.

The spices in their ground form are mainly used in the food processing industry, in particular for meat seasoning. Nutmeg is also often used in many sweet and savory dishes, especially in India and in many other culinary cuisines in Thailand, Japan and its native Indonesia. The oil is commonly used in beverage flavors and in many perfumery applications, as well as being found in pharmaceutical products. Its sensory qualities add spice, warmth and sweetness to any flavor or fragrance. Nutmeg also has known benefits for fighting illnesses related to sore throats and digestive issues for pharmaceutical/healthcare applications.

The multimillion-dollar nutmeg market comprises as much as 10,000 tons of ground nutmeg, which are traded in the spice market each year, with Indonesia accounting for approximately 75% of the world production. Indonesia annually exports 350–400 tonnes of nutmeg oil, which accounts for approximately 80% of global production. Until recently there had been a reasonable supply and demand balance, and at times a seasonal under-supply, ensuring prices remained firm. However, this has changed recently due to the impact of plantation material.

Plantations began in Indonesia after a run of poor crops from the Aceh region about seven years ago. Old trees had been attacked by worms, resulting in short-term crop losses. As a result, prices began to rise on the back of limited supply, finally peaking in late 2013 and early 2014. Many saw the opportunity to start new plantations on other islands, in part because nutmeg trees require only a limited investment.



Wild and plantation areas of Indonesia – Aceh, Java, Sulawesi & Spice Isl.

Plantations are relatively easy to develop. Some even refer to nutmeg as a “lazy man’s crop.” While plantations cannot tolerate dry or waterlogged conditions, the survival rate for plantations is very good. They thrive in warm tropical conditions with good rainfall, but allowing for good drainage can commonly be seen on hillsides (such as patchouli), up to 1,300 meters above sea level. Currently, it is estimated that there are around 2,000 hectares of nutmeg plantations in Indonesia (predominantly in Java, Sulawesi and Sumatra, including Aceh).

Farmers who established new plantations following the difficulties in Aceh knew that maturity would occur after five to eight years. Just as envisaged, as these plantations neared maturity, prices began to peak. Good forward-thinking one may say.

However, the good forward thinking has hit a problem. Global demand is not growing. In fact, for most spices demand is flat, especially in Europe and North America where economic growth has been poor in recent years. This could be a result of higher market prices for the last several years, as without the needed assurances of price and supply stability, many formulators and end users can be reluctant to use spices in any new product development.

So, with plantation material coming online, 2014 saw the impact of what happens when there is a flat market and an unregulated influx of supply of fresh raw materials. Prices soon started to weaken and, during the last quarter of 2014, nutmeg oil lost about 40% of its value. The next logical questions are “how far can it fall” and “where is the bottom?” The most likely answer would be that prices could continue to fall until one variable changes. Can demand grow again with lower prices? At these lower price levels is it still a

profitable business for farmers? Will investments in new plantations continue with lower market price expectations? The dynamics are seemingly complicated and could go either way.



Ripe nutmeg fruits ready for harvesting

The impact of a large amount of oil hitting the market can be very damaging. There is a good price saving for end users in the short term, but overall it is destabilizing for the markets. If the new lower price levels are not sustainable, it will pose more instability should the prices bounce back at some point in the future. Today, we have an oversupply situation. Perhaps this could remain for the next 12 months, but will it continue? Probably not.

Other variables could affect market conditions, such as yield loss from older trees. As yields diminish over time and with younger trees having lower yields, could the industry see supply quickly brought back to more balanced levels? At a certain price level it will also become undesirable to harvest and process nutmeg, so fewer collections could occur. One

must remember that if the fruits are not harvested, stored and/or processed in the correct timeframe they quickly become unusable.

It is unlikely that at current reduced market price levels there will be additional investment in new plantations. If there are no replanting schedules, then supply patterns may remain a cyclical process meaning that despite today's influx of material is not sustainable and that supply, and therefore prices, will continue to fluctuate widely over time.

It is also worth noting that with plantation material one can often get variations in quality. The industry has seen what happens to patchouli quality when grown in different parts of Indonesia, and the same may be true of nutmeg. Sulawesi is now a producing island, contributing about 20% of total oil production, but the qualities are notably different. Whether Sulawesi supply is sustainable when prices are at the same levels as the preferred Sumatra/Java qualities may become another variable, as buyers are likely to buy the better quality first.

During these times it is advisable to engage in a good dialogue with suppliers, ensure that quality standards do not drift (without good cause) and to work with supply partners. No one likes a volatile market, and with any successful supply chain process there has to be something in it for everyone.

Summary

For buyers in the market it can be difficult to see what demands are just around the corner, so it is always a challenge to envisage what market demand may be in five, 10 or 20 years' time. Investments in plantations can be highly successful. They can provide a strong basis to develop sustainable products for the future, but if poorly managed and unregulated they can cause more problems than the benefits for which they were initially intended.

Manmade influences are yet another set of variables that can affect the ingredient marketplace. Future articles will review additional factors impacting the supply of tropical products and explain why buying natural, isn't always such a straightforward process.

Perfumer & Flavorist Magazine July 2015 Edition 'Natural Product Supply Bulletin', written by Jonpaul Howarth