INGREDIENT MARKET CHALLENGES

The Root Market Problems With Vanilla

Vanilla bean quality is going down and prices are going up at an alarming rate. If vanilla is to remain the most popular and widely used flavor, this situation will have to change.

by Daphna Hawkin-Frankel

Vanilla production is vulnerable to many risks. The list includes diseases, weather conditions, lack of genetic variability, political instability, theft, early picking, packing in vacuumed packages, lack of sustainability, control by regulations, a need for intensive cultivation and farmer organizations in cooperatives. This complexity results in low prices for producers, high prices for consumers and a rollercoaster for the flavor business, in what has turned into a casino-like market. As a result, bean quality is going down and prices are going up at an alarming rate. If vanilla is to remain the most popular and widely used flavor, this situation will have to change.

These are the reasons why the industry is looking for alternatives to natural vanilla, predominantly vanilla from natural sources and natural flavor from other natural sources which taste similar to vanilla. Madagascar is the main producer of vanilla beans and the discussion in this article refers mainly to Madagascar. This article reflects the opinion of many operators in the vanilla supply chain.

1. Unions and Farming

In the seventies and eighties, vanilla production in Madagascar was controlled by the government, which exerted market volatility. When the country leaned toward democracy and after the vanilla cartel termination in 1995, vanilla cultivation was driven by the free market, resulting in market volatility (price and quality).

Farming, that is, agricultural production being carried out on the basis of an agreement between the buyer and farm producers, can be managed by a union (cooperative) or with private farmers. Madagascar has close to 80,000 vanilla farmers and orientation might be to their benefit and the benefit of the industry. Some villages are being organized with pre-financing to ensure quality of beans; however, this is being 5-10% of the whole operation.

The Netherlands and Japan are open societies with good and stable agricultural production. Hans van der Lichten, an agronomist from The Netherlands, explains the country's approach: "A Dutch approach to regulate production of agricultural commodities like potatoes, carrots and onions is to have a contract with a buyer before the growing season for a certain amount of product at a fixed price."

In such a contract, the producer promises to deliver 70-80% of a crop yield which normally can be expected. The buyer can rely on this production coming and will pay him a given and reasonable price for this quota.

The producer knows for sure that his production costs will be paid for. His production surplus can be sold according to current market prices, which can be both higher or below the contract price. In this surplus volume, there are some speculation risks involved for both the producer and buyer. But because it is only a small part of total production, it will hardly influence average end user prices.

Therefore, huge year-on-year price differences for end users (the industry and the consumer market) can be minimized.

Applying the System to Vanilla

In the case of vanilla, a similar system can be useful. It is likely to be more difficult for producers to estimate green bean production before the beginning of the season, as vanilla has a long production cycle.

The buyer has the opportunity to mention all kinds of technical requirements (pollination rate, time of harvesting, condition of the green beans to be delivered, etc.) into the contract. The price level has to be fair, with possibilities to be partly paid up front, in order for the smallholder farmer to partly finance initial production costs and costs of living. The contract creates an incentive to aim for surplus production for the grower which, if it is to be sold for profitable spot market prices, can provide them with a bonus.

Dr. Nathan Duadi, a scientist in ARO, Israel states the following: "In Israel, in the past, the agricultural marketing was very organized. Farmers had unions and a cooperative that was the only marketing body. For export, there was only one cream company owned by the government and farmers unions. Through this method, farmers are obligated to market their produce through the export company and are charged with tax to cover marketing cost, storage, shipping and QC charges."

Farmers receive information and benefits of research and development, Duadi continues. "The company agrees to buy from farmers a fixed amount of product. It guarantees a part of the payment before the growing season, followed by full payment at the end. Farmers are penalized for failure to produce an agreed quota. This system assures security for farmers. This method may be a better fit for Madagascar's farmers today."

"In Israel today, the export method is by government licensed private companies. The arrangement is usually a reward agreement: the marketing company, although demanding an agreed quota, will market what it can."

It will market at the highest possible cost and will reward farmers accordingly, but if it cannot market the product, there will not be a fiscal reward.

Duadi notes that there is a concern that this method causes competition between the various exporting companies and reduces the prices. "However, the freedom of the farmers to choose the exporter creates competition and motivation for the exporter to give better prices and service to the farmers."

2. Accountability

By accountability, we mean the acknowledgment and assumption of responsibility for action.

This relates to how the requirements for production and curing of good quality vanilla beans are being abused for short term gains: a. Over Pollination: Excessive number of flowers are pollinated, to maximize yield, but that results in small poor quality beans, which cannot reach full maturity.

b. Early Picking: Beans reaching full size after 4 months need an additional few months to form the complex vanilla vine. Early picking results in poor quality beans. c. Spread of Diz used for propagation from plants that ca Fasuiria. Cuttings are diseased.

Vacuum Packed Vanilla beans are used to

ure and to deplete chemical changes that occur in the beans. Diz are known for their effectiveness, but are known to be harmful when consumed. Caro harbor large pops of toxic organisms, carry the term (similar to a ricultural common low oxygen Imagez give rise to anec
d. a. Aflatoxin, and hence, low quality vanilla beans.

To make matters worse, the recent practice of quick curing, that is, hot water follow after picking of the beans.

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grow vanilla. These additional sources are essential to buffer the supply chain against shortages due to weather conditions that cannot be controlled and competition between origins for the sale of vanilla beans in order to control pricing."

Doug Daughtery of Vanilla Corporation of America, (US) is more concerned with the immediate crisis. He states: "I would say that both vacuum packaging of improperly cured and unstable vanilla beans which lead to poor quality and speculation, and lack of understanding on the part of food and flavor manufacturers, by disregarding the US standard of identity for vanilla are equally problematic."

A spokesperson for Virginia Dare, Inc. (US) describes the problem as follows: "The biggest problem is what I describe as the marginalization of the grower. In a historically complex supply chain, growers have no leverage or access to end users (extractors). This is changing now as extractors are more active at the source, working directly with growers and helping them to establish grower cooperatives. But there is still a long way to go as the vast majority of Madagascar’s 80,000 growers continue to be isolated in remote communities and are extremely impoverished. In reality, this is one problem."

They also point to the increasing use of vacuum packaging of vanilla beans at origin. "This procedure allows farmers and collectors to hold beans for extended periods hoping that prices will rise. However, the flavor and aroma profile of beans stored in this manner deteriorate significantly. Off notes are formed which cannot be eliminated with further processing. Vacuum packaging is a primary cause of the high pricing and inferior quality of vanilla beans available in the current market." David van der Walde of Aunt and Hatchmann Ltd. (Canada) notes: "The main problem is simple supply and demand. There has been an unexpected increase in the global consumption, fueled by the large food conglomerates all wanting to go natural with even their most basic products. The timing could not have been worse because vanilla production was actually falling when all of this came about. Madagascar is simply too dysfunctional to respond in the appropriate way. So we see other regions picking up production to take advantage of the higher prices, which is a good thing until prices crash, of course. The difference between the present situation and the 2001-2004 crisis is that end users have many options for natural vanilla flavors, some of which have nothing to do with vanilla beans. This of course is the great danger, long term, for all growing regions."

Nashehd Lali, Sentrex Ingredients, LLC (US) suggests changes that must be made. "With respect to natural vanilla, there is a glaring absence of an effectively developed institutional capacity that can manage this pronounced volatility. It sounds counterintuitive and irrational, but there are very few commodities where quality is inversely correlated to pricing. High prices are invariably a function of small crops, resulting in poor quality; alternatively, low prices equate to larger crops, promoting higher quality."

"For natural vanilla to evolve beyond a niche and marginal beast, it critically needs to develop an effective institutional framework that can intelligently regulate, promote and manage its long-term development. Absent that, the growth opportunities in natural vanilla will constantly be compromised by extravagant claims of 'reformulation.'" Alessandra Lenovitiikis of Prova France summarizes the situation, with hope for the future: "Real changes require a global effort by all companies involved in the vanilla market in order to improve the sector governance, by doing a number of things. The first is influencing local and national level policy to create an enabling environment for the vanilla value chain. The second is facilitating links with lending institutions for sustained trade and working capital relationship investing in sector-wide work programs to improve quality, livelihoods, and traceability. Thirdly, we must develop relationships with research institutions and universities specializing in vanilla to apply existing research and enhance learning documentation of evidence-based results. Finally, we must scale company-led supply-chain programs."

A good example of how vanilla stakeholders (Malagasy and international) can cooperate to have a positive influence on the vanilla market is the Sustainable Vanilla Initiative (SFI)."

Moring Forward

In summary, there is market opportunity, but there is also a need to create a fair supply culture that will address the existing opportunities. There is a scientific study which suggests a culture of saving will empower people who are under financial stress. In addition, if farmers are presented with a fair and consistent price that can support their livelihoods, they are less likely to resort to practices which undercuts the quality of vanilla beans.