

The State of Vanilla: Challenges and Opportunities

Politics, disease, applications and the prospects for free trade offerings



“**M**adagascar produces 80% of the global [supply] for vanilla,” says Scott May, Givaudan’s global head of sweet goods and dairy. In light of such a figure, it is easy to see how even isolated regional events can have debilitating effects on a global scale. Yet, while Madagascar’s current political crisis (see **Page 24**) is a cause for concern, most experts agree market difficulties will stem from economic and environmental factors.

Of the political upheaval, Rick Brownell, vice president of vanilla products for Virginia Dare, notes, “Shipments of vanilla beans within the country can be disrupted. Exports are also often delayed. But, longer term, I believe the impact will be relatively minor.” Biolandes sourcing manager Dominique Roques agrees: “There’s too much at stake economically for the vanilla exporters to let anything get in the way.” The political suicide of disrupting key vanilla markets, experts contend, keeps supply available. “Upheavals do have a short-term impact on the availability of vanilla beans, but the product always makes it out to market, one way or another,” note IFF’s vice president of global procurement Carmelo Pennestri and senior marketing manager Catherine Hogan. Meanwhile, says Roques, “Plantations and vanilla curing are taking place far away from any potentially turbulent areas.”

Disease and Climatic Issues

“*Fusarium* and *Phytophthora* can have catastrophic effects on the temperamental vanilla orchid,” explains Henry Todd Jr., managing director (Europe) of AM Todd. “*Fusarium* wiped out entire producing regions in Indonesia during the 1980s. The fact that disease has appeared at all in Madagascar after being virtually nonexistent for decades begs a simple question ... How did it arrive?” Skip Roskam, president and CEO, David Michael & Co., points out that *Fusarium* “is usually the result of over-pollination, which ‘stresses’ the plants. While reports are that it is indeed causing plant failure in several growing areas, it is not likely to have any significant effect at this time. More will be known this summer when the green bean market opens, and again in the fall when the flowering of the 2010 crop can be assessed.” Todd adds that the issue can likely be traced back to economic motives. “Given the very low prices currently paid on the open market for green vanilla beans, the farmer is simply

pollinating more flowers on a single vine than he should,” he says. “This maximizes the farmer’s sales in the short term, but also overworks his vines and thereby jeopardizes their long-term health.” By some estimates, these farmers are pollinating 16 flowers per vine cluster—double the recommended number. Todd wonders if this practice would cease in a more farmer-friendly market. “However,” he concludes, “both quantitative and anecdotal evidence suggests that this behavior has been institutionalized in Madagascar. If true, there could be long-term implications for the country not only in terms of stemming the spread of disease, but also in protecting its image as a high quality supplier to the world.” Roques adds that, meanwhile, some 50% of vanilla vines have contracted the lethal *Phytophthora* fungus. “An estimated 20% [of these vines] have perished ... As a whole, *Phytophthora* is responsible for the decrease of the current crop of 1,200 tons.” Craig Nielsen, CEO of Nielsen-Massey Vanillas, adds, “We are currently in the cyclone season in Madagascar, so climate considerations are in the forefront. Three cyclones have hit Madagascar already; however, there has been no damage to the vanilla region. International experts are expecting this to be bad year for cyclones due to the current, and expected, weather patterns.”

Pricing

“Vanilla prices are near all-time lows,” notes Brownell. Nielsen adds, “It is believed that pricing will increase over the next 12 months, and probably already would have done so had it not been for the current worldwide economic situation.” The experts surveyed for this story generally

The Panelists

Rick Brownell, Virginia Dare
 Catherine Hogan, IFF
 Scott May, Givaudan
 Craig Nielsen, Nielsen-Massey Vanillas
 Carmelo Pennestri, IFF
 Dominique Roques, Biolandes
 Skip Roskam, David Michael & Co.
 Henry Todd Jr., AM Todd



Scott May, Givaudan



Dominique Roques, Biolandes



Skip Roskam, David Michael & Co.



Craig Nielsen, Nielsen-Massey Vanillas

agree that vanilla inventories remain high, while production remains relatively robust. As a result, says Todd, “The market should remain oversupplied over the next four quarters. This should be true even when considering maximum world demand figures (2,000 metric tons) and minimum 2009 Malagasy production figures (1,300 metric tons).” Roskam notes that reformulations begun in the early part of the decade cut global vanilla demand by 50%. As a result, prices fell. “Since 2007,” he adds, however, “prices have risen by about 15–17%. Global demand still lags supply and should continue to do so well into 2010.” Roques says, “Good quality vanilla will remain available in the region at \$20–30/kg, freight-on-board Madagascar, depending on grades. This level of prices leaves little margin for producers and is certainly discouraging for other producing countries ... Low prices can be anticipated, and certainly are currently at least \$10 below what a balanced trade should bring (\$40–50/kg).” Despite this, May warns, “If one or more of the three issues—a cyclone, *Fusarium*, politics—gets worse, availability and price could become an issue as inventories are reduced.” And Nielsen adds, “Crop sizes are already diminishing in other areas like Uganda, Indonesia, Papua New Guinea and India as low prices are driving farmers away from vanilla. We expect demand to continue to increase as the use of pure vanilla in new applications increases.”

Applications

“Today, more than ever, cost is a key driver in product formulations,” note Pennestri and Hogan. “Consumers are getting acceptable vanilla profiles in many different, more cost-effective forms, from artificial and natural to extracts to even organic for classic vanilla flavor categories such as ice cream, yogurt, confectionery, baked goods and beyond.” While Roskam notes that clients continue to seek out improved flavor profiles or cost-reduction work in vanilla applications, Brownell says affordability has spurred novel product development. “Chefs absolutely love pure vanilla and are remarkably creative about finding new

applications for it. For example, vanilla is being used in many seafood dishes with mouthwatering results.” Meanwhile, May notes that his company has filed a patent for a technology for high quality, high vanillin extract, “in the event of lower quality material from Madagascar or other regions.” Nielsen notes, “Since tropical cyclone Hudah in April 2000 initiated a serious spike in vanilla prices, the labeling of natural vanilla has been followed rather loosely. Unfortunately, the regulatory groups responsible for overseeing this are either not aware or have too many other more critical issues to address. We feel it is in the interest of consumers and the vanilla trade that the current standards and regulations [governing] the use and labeling of natural vanilla products are strictly enforced.”

Fair Trade Prospects

“On the fair trade front,” say Pennestri and Hogan, “there are food manufacturers for whom this is an important part of their brand positioning. More and more, consumers are concerned about the conditions under which the food on their plates was grown and processed. But right now, as the world experiences the biggest economic contraction in 60 years, consumers are more concerned about being able to afford to feed their families, fair trade or not.” May adds, “Free trade vanilla is still limited in supply but is becoming more prevalent.” While all the experts surveyed for this story expressed commitments to fair trade, challenges remain. Todd points out that vanilla cultivation is a labor-intensive, unmechanized endeavor largely undertaken by very poor farmers and that fair trade models can help get them a “larger slice of the pie.” However, he says, “vanilla is most often an ingredient among others in a finished product. This means that marketing claims associated with fair trade vanilla are more diluted than they might be for a cup of coffee. For example, a producer of a dessert product made with fair trade vanilla would see their claim limited to a ‘made with’ statement ... The biggest challenge to this concept remains one of determining what price the market will bear for vanilla beans sold under the fair trade label. Some buyers say that they find a range of \$45–60/kg is acceptable. Others maintain that the differential with conventional vanilla is too great. Only time will tell who is right.” Roques concurs, noting, “Fair trade certification gets more complex for each step beyond the

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'raw' material. One thing is to decide what a fair trade 'green bean' price should be; another, what the price for 'ready to export cured vanilla' should be; and then there is a whole other issue regarding vanilla extracts. It is also true that the erratic prices of vanilla in the past decade do not help to easily determine what a fair trade price for vanilla beans should be. How to avoid the confusion of going from \$500/kg to \$20/kg?" Nielsen explains, "[Fair trade] beans are as much as three to four times the current cost of conventional beans. High farm gate prices, hefty add-on fees, and the inability to easily and economically adjust the minimum floor price have all worked against the promotion of fair trade vanilla. One of the main certifiers has seemed to recognize this and has been taking steps to evaluate the

situation. They need to understand the market dynamics of the vanilla industry and the differences in the products' value based on the producing country." Whatever the final pricing structure, Brownell says, "Fair trade would help to stabilize the market and prevent the wild swings in availability and pricing that we saw from 2000 to 2005. And, because vanilla is typically a minor cost component in the finished food or beverage, the fair trade premium would be negligible to consumers."

Organic Vanilla

"There is plenty of organic certified vanilla available relative to the demand," says Rosskam. "It will be interesting if current demand will be sustainable in light of the economy, which will cause shoppers to make choices because of the premium price that organic products carry." May adds that companies such as his are prepared for supply issues, assuming "organic demand moves from a niche market to more mainstream." Brownell notes that, "Organic vanilla is growing dramatically" in Madagascar, Uganda and India. Roques adds, "This availability allows organic vanilla prices to remain very reasonable with a minimum bonus over conventional prices." Nielsen appears to agree, saying, "Organic vanilla has moved past the trend stage and is now part of the mainstream vanilla trade. Demand has grown continuously each year, while supply has also increased accordingly. As demand and availability has increased, the premium for organic beans over conventional has decreased, thus helping fuel the demand even more. With the continued promotion of organic goods by credible sources and the media, and with the reasonable pricing, we expect this category will continue to grow." Because of this, Brownell concludes, "The added cost is primarily for the required documentation. As demand grows, we expect the premium for organic vanilla will decline and be a relatively small percentage over conventional vanilla."

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