The North American Market for Vanilla

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The annual market for vanilla beans worldwide is approximately 2,000 tons. North America is the largest consumer. Madagascar, in the Indian Ocean off the southeast coast of Africa, is the largest supplier. This article explains why those conditions exist and cites efforts by other suppliers to enter the market.

North American Consumption

North American consumption of vanilla beans is the largest in the world. It accounts for roughly 1,400 tons, or nearly 67%, of the world market. Europe constitutes the next largest market with a total demand of approximately 450 tons. Unlike the American market, consumption of beans in Europe is split between industrial and household users. Japan ranks as the world's third largest user with annual imports totaling approximately 70 tons annually.

Why is the American market the world's largest? It cannot be attributed to population. There are currently about 300 million people living in the U.S. and Canada compared to about 500 million living in Europe. In fact, there are several answers to the question, none of them socio-economic.

First, the typical American palette appreciates sweetness. As such, not only does the typical American consume more ice cream than other international consumers, but the typical American also is prepared to pay for a premium brand that is 100% natural. While Americans also consume large quantities of soft drinks and confections containing real vanilla, the majority of U.S. vanilla imports are ultimately destined for use in ice cream. Furthermore, vanilla remains the highest-selling ice cream flavor, despite the wide range of other flavors offered in the marketplace.

The second reason for America's high consumption of vanilla lies in the fact that the trade of this product is regulated by a Federal standard of identity.[1] In simplest terms, this "identity" defines what may and may not be labeled as real vanilla. Products seeking to bear a "100% natural" or "real" label cannot contain vanilla flavor coming from any source other than a vanilla bean. For example, "nature identical" products such as synthetic vanillin or vanillin made from turmeric are not permitted. Single strength vanilla must contain the extractive matter from 10 g of vanilla beans in 100 ml of 35% alcohol.

American Imports

Unlike Europeans, Americans import a significant amount of vanilla from Indonesia. This country currently supplies nearly half of America's needs. While Indonesian vanilla generally is inferior to vanilla from the Bourbon Islands (Madagascar, the Comoros and Réunion Island), it can be of very high quality. However, Indonesians seldom produce high-quality vanilla because there is little cost advantage in doing so. Why then do Americans import a higher percentage of Indonesian vanilla than Europeans? There are three main reasons.

First, in the past, Indonesian beans were less expensive than Bourbon beans. This was especially true in the U.S., where Indonesian product enters duty free. In Europe, Indonesian beans are subject to an import tax that makes them less attractive on a cost per unit of vanillin basis, vanillin being the primary flavor constituent in vanilla beans.

Second, American ice cream is sold in three categories. Category 1 is all natural. Category 2 is both natural and artificial. Category 3 is all artificial. Less expensive Indonesian vanilla beans have been used extensively in Category 2 ice cream.

Third, the American use of cuts has led to a certain dependence on their flavor profile. Unlike Bourbon vanilla, Indonesian vanilla has harsh, phenolic flavor notes. Due to the particular curing processes in Indonesia, cuts often have a smoky aroma that is imparted to extracts.

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Over time, American extract manufacturers have developed products based on this profile and, therefore, buy this material not only because of its price but because of its flavor characteristics.

Producing Countries

Unlike Europe and Japan, whose quality requirements are more focused, the American market demands an extremely broad range of qualities from each of the producing countries.

Madagascar: For reasons mentioned above, the U.S. currently imports cuts from Madagascar. These are the country's lowest-quality vanilla beans. The U.S. also imports several hundred tons a year of "split" beans, so called because of a long crack that runs the length of the bean. While these beans generally are red, they also can be dark brown. Although the Europeans have started using this quality, it is still known as "American type" and generally is reserved for that market.

Madagascar also produces the "whole" type. These beans have no split and are generally darker in color. There also is a strong demand for this quality in America.

Finally, Madagascar produces a quality known for its physical attractiveness. This bean is long, dark and very moist. Due to the intensive labor involved in preparing it, this is the country's most expensive bean. Referred to as "black," "troisième" or "prime," there is almost no demand for this bean in the U.S.

The Comoros: The Comoros produce split, whole and prime vanilla beans. They have not yet begun to actively produce cuts. Their prime production aside, most of their exports are destined for the U.S.

Indonesia: Indonesia is capable of producing every known quality. However, due to price constraints, they are not focusing on the lower end of the quality spectrum. Typically, they produce lower-quality whole beans. These are light brown or straw colored and have low moisture and vanillin contents. The majority of Indonesian production is sent to the U.S.

History of Malagasy Dominance

The Indonesian challenge: Traditionally, Madagascar has been the United States' most important supplier of vanilla. Malagasy exports met 80% of American needs in the beginning of the 1980s. However, the Malagasy government's policy of raising prices every year ultimately had adverse effects on its exports. By 1992, the official export price had risen to $74 per kilo and American buyers of vanilla were looking for other sources that could offer Bourbon quality. For several reasons, Indonesia was the logical choice.

First, Indonesian producers already had accumulated expertise in vanilla cultivation, propagation and curing.

Second, despite the fact that Indonesia suffered from higher production costs than Madagascar, Indonesian exporters were able to use Madagascar's controlled market to their advantage. Their strategy was to simply wait for the announcement of the official price and then offer similar quality at a slight discount. The fact that the Malagasy price was maintained at artificially high levels more than compensated the Indonesians for the cost disadvantages.

The Malagasy reaction: Today the Malagasy market is no longer controlled. Because the total liberalization of this market is one of the conditions for aid from the IMF and World Bank, it is unlikely that the government will intervene in the market at all. In fact, since May 1, 1997, the export tax no longer applied to vanilla leaving Madagascar.

The liberalization process in Madagascar has had a huge impact on the world vanilla market and on Indonesia in particular. FOB prices have fallen from their high of $74 per kilo to a range of $25–35. Lower-quality beans, many from the liquidation of traditional Malagasy inventories, have also become available recently at even lower prices.

This practice already is having a profound effect on Indonesia and will continue to do so in the future. At the price levels currently seen in the marketplace, Indonesia cannot effectively compete with Madagascar. Even their traditional cut market is threatened. American users who are not dependent on the Indonesian flavor profile have begun supplementing Indonesian cuts with those from Madagascar. Indeed, there is no reason not to do this. The Madagascar product is now cheaper and is of higher quality.

If present trends continue, it is likely that Indonesia will supply much less of the American market and may even become no more than a peripheral supplier. Since 1992, Madagascar's share of the U.S. market has risen from a low of 40% to near 50% in 1996.

Other threats: Other producing countries, such as Mexico, Tonga and the Comoros, are having an increasingly difficult time competing with Madagascar and seem powerless to stop the erosion of their position on the American market.

Forecast

If Indonesian production is restricted to current levels or declines, adequate world vanilla supplies could be jeopardized by heavy dependence on Malagasy production. Fortunately, current improvements in the cultivation and curing of vanilla in Madagascar should increase crop yields there. Simultaneously, Chinese and Indian attempts to grow vanilla could more than offset a decline in Indonesian production.

References

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1. Food and Drug Administration, Federal standard of identity for food dressing and flavorings, *21CFR* Parts 169 (1997)