The Australian and New Zealand Market for Essential Oils and Aroma Materials

By David J. Burke, Essential Oil Supplies Pty Limited, Blaxland East, Australia

In line with worldwide trends, the market for flavor and fragrance materials in Australia and New Zealand is shrinking. During the last two years, Givaudan-Roure has moved their perfume manufacturing to Singapore, Colgate has closed down in-house perfume and flavor manufacturing in Australia, and there are persistent rumors that two other major multinational companies will move manufacturing to Southeast Asia.

Although the 'buzz' word on everyone's lips today is the Asian crisis, perfumes and flavors will remain in demand, albeit at reduced levels, while pressures increase to reduce costs. Having invested enormously throughout Southeast Asia during the early 1990s, international manufacturers must ensure plants work at maximum efficiency, logically leading to the consolidation of perfume and flavor manufacturing in the region.

These moves have already had a decisive effect on the essential-oil and aromatic-chemical sales in Australia and New Zealand. At the same time, an increase in the already overcrowded number of suppliers has emerged in the region making the market very competitive, much to the delight of the small band of local manufacturers.

The Australian market consists of six multinational manufacturers, with two likely to move significant perfume manufacturing to Southeast Asia shortly. We also have a dozen or so small domestic perfume and flavor manufacturers servicing 20 kg-range customers.

In the Australian and New Zealand markets we are also facing the huge decline in Australian manufacturers of all consumable goods. Multinationals such as Procter & Gamble, Colgate, Unilever, Avon, Schwarkzopf, Revlon, and Boots & Co. have ceased local manufacturing and now import finished products. This trend continues because our market is very small in relation to world comparisons.

Effects of Population

Australia's population is 18.6 million and New Zealand's is 2 million. In recent times, these multinational companies found it very profitable to shift manufacturing to Southeast Asian countries where wages and costs were most advantageous. Time will tell if these moves will continue to succeed in light of the Asian crisis. However, as we all know within this industry, we will survive as long as the consumer can continue to purchase goods.

During my 20 years of experience in this industry, many companies have tried to estimate the value of the perfume and flavors market, not only in Australia and New Zealand, but also in Asia. The many surveys conducted have estimated the market many times its true value, not taking into account that 20 million people can only consume so much. Therefore, for all the estimates carried out throughout the world, no matter what country or continent, divide the market value by the population and relate that to Australia and New Zealand.

However, no matter what our population, the simple economics of the cost of manufacturing, especially the relatively small number of our population, continues to see the movement offshore of multinational manufacturers. Naturally, the market for perfume and flavor materials in Australia will continue to diminish.

Changing International Relations

The Australian market previously enjoyed the close relative location of Indonesia and China as a source of inexpensive raw materials. Many of the Australian functional-perfume manufacturers had the ready availability of those materials and had developed a unique range of household/commercial perfumes at attractive prices. Due to the Asian crisis, especially with the problems in Indonesia, we have

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seen a dramatic rise in the cost of raw materials, which also exacerbates problems and forces manufacturers to discontinue high-cost compounds.

There is also no doubt that the collective manufacturing capabilities of countries such as China, India and Southeast Asia which have provided our industry with a wide variety of competitively priced raw materials will be faced with increased pressures because of the current crisis. In addition, the continual round of natural disasters that plague this industry will negatively impact stability. Cost increases of global production include the provision of pollution-control measures required in most developed and mature markets. These added costs continue to pressure multinationals to consolidate manufacturing facilities. These factors combined will continue to contribute to a continual decline in consumption.

Flavor Industry Issues

The flavor industry, on the other hand, continues to remain static with most multinationals continuing their current production levels. There does not appear to be any immediate investment plans to expand flavor manufacturing in our region, although Kerry Ingredients has purchased the largest Australian-owned flavor manufacturer.

The flavor industry has always had a major manufacturing roll in Australia/New Zealand and is dominated by multinationals. In most cases, these companies import raw materials from their parent companies and this trend continues to increase with the growth in global purchasing and supply contracts.

Our flavor industry enjoys a healthy export market, especially dairy products from New Zealand, and continued growth in processed foods, such as fast-food outlets. Several multinationals enjoy export business with Southeast Asia including dairy flavors, savory, noodle flavors and beverage. This export business, however, is normally generated by multinational-company operations in those countries, with local development of 'Asian' flavors.

There is no doubt local Australian flavor manufacturers keep their eyes on potential markets in Southeast Asia, but regrettably they do not have the necessary expertise to develop the products demanded by Asian countries. Several Australian manufacturers have had limited success producing products using flavors imported from Asian flavor manufacturers, especially seafood flavors for the local Asian markets and adventurist European consumers. Our flavor markets are heavy importers of flavors from Europe and the US. We also import large quantities of beef products from the United Kingdom and Europe, and cheese, savory and specialties from the US.

The Australian flavor industry is constantly keeping pace with overseas flavor opportunities and the development of Asian export customers. However, much more work and effort is required to take advantage of our nearby neighbors.

Essential Oils

In Australia and New Zealand, we have enjoyed a steady sale of essential oils to the aromatherapy industry. Regrettably with our combined population of 20 million, the market is now saturated with local and imported products. Again, the cost of aromatherapy products imported from growth markets offers consumers a wide variety of competitively priced products based on the variable qualities of essential oils available.

We have a select number of ethically conscience manufacturers who demand the highest quality, pure essential oils. Fortunately, there are a number of very reliable processors of essential oils offering aromatherapy-grade products at reasonable prices that are embraced by those dedicated clients in this area of our industry.

There seems no doubt that the true advocates of aromatherapy will continue to demand and seek our reliable suppliers of top-quality essential oils, even though the industry appears at times to be incapable of meeting global demands. Essential oils like lavender, patchouli, sandalwood and ylang ylang continue to be in great demand, yet the aromatherapy trade regrettably continues to see a decline in the quality of these products.

Similarly, the farmers in Tasmania have had no difficulty in progressing from dairy farming or orchards to growing boronia, hops, basil, mountain pepper, almonds, fennel and, of course, lavender and peppermint. With the success of these ventures in recent years, large corporations have become involved and now invest in their future development.

Impediments to Expansion

Australia and New Zealand consider our markets very mature and, without doubt, saturated. With a limited population, our industries will only grow with export sales. The nearby markets of Southeast Asia, China, Indonesia and the Philippines are now so well serviced by the multinationals in Singapore and Jakarta that there does not appear to be any easy road to capitalize on those opportunities.

The current Asian crisis is negating growth at present, with most suppliers all agreeing that sales have decreased dramatically throughout the region. Furthermore, the natural disasters that have plagued the region over the last three years just do not seem to stop.

Starting with drought in Indonesia, then the forest fires, monsoons, the currency crisis and floods in China, only make all our endeavors seem impossible. It will take many years for our industry to recover from these situations. It is unlikely that prices will ever return to previous levels.

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Solutions

As an industry, we must continue to support and encourage those producers of essential oils and plant extracts needed for the continued success of our industry. We must not price these products out of existence nor over exploit their use to the point of extinction.

In Australia, we are establishing a sandalwood plantation that will take 15 years to reach production. And, with annual plantings, we will ensure some way of preserving a future for sandalwood oil. In India, all we seem to hear of is a shortage of timber, restrictions of sale, increased prices and reduced quantities. As an industry, should we be encouraging the Indians to replant sandalwood trees and put something back into their industry? It appears that this oil will be the next extinct fragrance material. Hopefully the Australian effort will reverse this trend. We must encourage those responsible for these projects to consider other crops to allow continual growth of essential-oil production to keep pace with consumption. Encouragement by consumers with farmers will enable our industry to maintain a constant and reliable supply of essential oils. There is no doubt that their production is just as critical as cereal crops with which the world manages to feed itself. Essential oils will always be in demand to provide the flavors of foods.

It is also necessary for the industry to put back some of the benefit it has derived from essential-oil production and to encourage and assist underdeveloped countries expand their essential oil industry. This is our only hope of survival. As the acceptance of aromatherapy continues to grow, it seems the only means of supporting continued growth is by reducing of the use of essential oils in perfumery products. This can be done when our capacity for replacing essential oils with aromatic chemicals is increased.

It appears, as more countries enter into the production of essential oils on a large scale with highly mechanized plantations for the production of tea tree oil, eucalyptus, lavender, mint, and citrus, that global consumption may be capable of satisfaction. Regrettably, as Kim Bleiman of Berje pointed out in his paper, "Where Have the Flowers Gone," presented during the IFEAT Conference in Israel in 1996, "Many of the origins of essential oils like patchouli, sandalwood, geranium, and ylang ylang cannot cope with the increased demand for these oils and the growth in their price will continue, forcing perfume manufacturers to find alternatives that will at least give the aromatherapy trade access to these fine essential oils which, it seems, this industry can still afford."

While government funds are limited, many private companies have the responsibility and means to assist in the establishment of new ventures. In Australia, I know one multinational personal health-care manufacturer who has assisted in the establishment of peppermint plantations in Victoria.

Conversion of Existing and Creation of New Farming Operations

Countries like Australia have vast areas suitable for agricultural production to grow a variety of crops in large-scale, minimum-labor plantations. Production of tea tree oil is typical of large-scale crops and has attracted substantial amounts of investment in Australia, aiding the development of many highly mechanized plantations. However, unless the consumption of this oil increases, within 2-3 years there will be an excess supply, forcing the prices down. In recent years the downturn in tobacco consumption has seen those farmers take on alternative crops such as tea tree oil, coffee, peanuts, lentils and chickpeas. Because the farmers have worked with annual crops, the change was not too difficult.

From the early days of distilling tea tree oil, the growth of the substance was slow, but as acceptance grew, the first plantations appeared, offering consumers a continuous supply. Without a doubt, plantations under development will ensure that any future demands for this oil will be fulfilled.

There is no better time as the present for companies considering the use of tea tree oil to do it now. There is no shortage and future prices should be in decline. Australia and New Zealand have suitable areas for cultivation of many essential oils and would encourage any multinational or current producer of essential oils to consider our region as future production areas. The cost of establishment must be very competitive and the uncontaminated atmosphere in the region very attractive. The production of lavender, peppermint, basil, fennel, hops, boronia, mountain pepper, blackcurrants and almonds in the region has already testified to our ability to produce comparable quantities of these oils to that of world standards.

Conclusion

All that is needed is more investment for increased production of these and many other essential oils that could be produced in Australia and New Zealand. Without exception, all the essential oils produced in Australia are saleable. The quality is exceptional and must be a consideration for any prospective investor to enter the ever-increasing number of essential-oil producers in Australia and New Zealand.

The future for our industry could be phenomenal throughout the region. All we require is the persistence of established producers to recognize the benefits of producing essential oils in Australia and New Zealand. With the stability of the region, success is inevitable.

References

Address all correspondence to David Burke, Essential Oil Supplies Pty Ltd., Unit 1/56 Lancaster St., Ingleburn, NSW 2565 Australia.

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