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**Vinayak Narain**  
**Sr. Vice President**  
**& Product Line Head- Onion & Garlic**

September 7, 2011

Dear Valued Customer,

Olam Spices & Vegetable Ingredients Inc. (OSVI) appreciates the opportunity to supply you with the highest quality dehydrated onion and garlic products globally. As your trusted supplier – we would like to share some important market information regarding the status of the global dehydrated garlic market and its impact on demand, supply and prices in the coming months.

The global dehydrated garlic market is currently estimated to be approx. 400 M lbs. China is the predominant source of dehydrated garlic and accounts for close to 85% of global supply followed by USA at 14%.

- The Chinese garlic market is witnessing high pricing volatility at the moment despite a 22-25% increase in 2011 fresh garlic crop (estimated at ~4.6 M MT).
- Fresh garlic prices declined initially as buyers stayed away for most of July 2011, but then moved up by ~ 90% as buyers stepped in to cover over 50% of the crop in just 2 weeks during Aug. Flake prices moved up by ~ 115% during this period.
- Chinese dehydrated garlic prices are likely to remain elevated for the next foreseeable future due to the following reasons:
  - Limited flake carry in inventory and low % of gradeout production this season compared to last year is causing an upward convergence in pricing of retail and gradeout quality fresh garlic.
  - A strong push by Chinese govt. authorities to ensure compliance of environmental pollution control measures has led to the closure of many unorganized flaking units and increasing cost of toll flaking
  - At end Aug. 2011, only ~50k MT dehydrated garlic flake is estimated to have been processed against normal year demand of 150k MT. With over 50% of the fresh garlic crop already in cold storage, 20% set aside for seed and another 25% either already exported / consumed – the balance open market fresh garlic (5%) is insufficient to make the balance 100k MT flake required in a normal year.
  - Flakers will need to use cold storage quality fresh garlic to carry out flaking, which is more expensive – thereby only leading to higher prices.

In addition to the above – we are also seeing the changes in macro-economic environment which are likely to impact garlic price and availability in China

- Inflation in China accelerated last month to its fastest pace in three years, with consumer prices up 6.5% from a year earlier mainly as a result of rising food prices. Garlic has been no exception to this trend.
- Minimum wage levels in China have shown a 60% increase over the last 3 years. This is a natural result of the changes in the Chinese labor market as well as the rapid economic growth and social progress and is having an impact on costs of garlic production and price.
- The Chinese RMB has shown a steady appreciation of 5% p.a. against the USD y/y. This trend has accelerated over the last 6-9 months as the US began pursuing an aggressive policy to weaken the USD to increase export competitiveness. Chinese imports have therefore become more expensive.



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The Chinese dehydrated garlic market saw a flurry of booking activity in late July when fresh market buyers were sidelined. This was done in anticipation of a decline in the Chinese garlic market – a trend which has been short lived. Performance on these bookings still remains to be seen.

US garlic on the other hand, is witnessing a good production year owing to a combination of efficient field controls and harvesting practices. This has happened despite our earlier assessment that yields and micro profile would be adversely impacted by heavy rains in late spring.

OSVI is experiencing increased demand for its US as well as Chinese dehydrated garlic products both within USA and abroad.

Limited inventories are available at the moment. Should you have any additional dehydrated garlic needs – we strongly suggest that you contact your OSVI sales representative to review your requirements and take steps to secure additional coverage.

As a valued supplier, we will continue to communicate additional and relevant market developments as they occur.

Sincerely,

A handwritten signature in black ink, appearing to read "Vinayak Narain", with a long horizontal stroke extending to the right.

**Vinayak Narain**  
**Sr. Vice President &**  
**Product Line Head – Onion and Garlic**