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PAPRIKA POWDER **Market Status : November 2011**

Objective & Scope

This report is intended as a guide to market direction for our clients. However, it is based on trade sources, it is not definitive and should not be taken as a binding offer to supply.

The report addresses sweet paprika powder. Paprika oleoresin is not covered although it is impacted by the same market factors. The report focuses on the supply side rather than on demand for paprika powders.

Agricultural Supply & Price Movements

Until recently, Peru produced the majority of the world's supply of whole dried sweet paprika pods, estimated at 50,000 mt p.a. Whilst Peru remains a significant player at about 60% of the world supply, China's output has grown to take it to around 40% of world supply. In recent years, this increase in supply from China led firstly to lower prices, which themselves led to a reduction in plantings in Peru the result of which has been steadily rising prices during 2011!

In parallel with this change in agricultural supply, EU regulation 105/2010 came into force in July 2010 and limited the acceptable level of Ochratoxin A (OTA) in all paprika products to 30 ppb. As OTA is more prevalent in the northern Peruvian crop, (harvested in September each year), this source of whole dried pods is now not suitable for import into the EU thereby restricting supplies. This "regulatory" restriction on raw materials could be magnified in mid 2012 if the European Commission decides to impose an upper limit of 15 ppb OTA from July 2012 as written into EU 105/2010. The inevitable consequence of such a decision would be a significant rise in prices for EU compliant raw material at origin.

The prognosis for the new 2011-12 crop of paprika pods at the main origins are for moderate increases in output compared with last season for both Peru, admittedly from a reduced level, and also from China. This has led to a limited softening of prices for Chinese raw material although this raw material will not arrive in Europe until early 2012 and care needs to be taken that it is EU compliant. However, prices for Peruvian origin material have remained firm partly due to strong demand from Mexico. In addition, it should be noted that raw material stocks at paprika producers in the EU are relatively low as they have moderated shipments of higher priced 2010/11 season material. Nevertheless at present this is the material that is available to process for customer needs and therefore final product prices are unlikely to see much movement before February-March 2012

Summary

The effects of the reduced 2010/11 crop are still evident with firm prices for paprika products in the EU and this is likely to persist into Q1 2012.

Beyond that point, the larger 2011/12 crop could start to weaken final product prices but the critical determinant of any price movement is likely to be the final decision on the European Commission on whether to implement the maximum limit of 15 ppb OTA in paprika products. If this is implemented as planned then there is a significant risk that prices will rise sharply as paprika producers scramble to secure low OTA raw material from any origin to be compliant with the EU regulations and to secure the needs of their customers in the long term.