

DEHYDRATED GARLIC MARKET REPORT **December 2008**

OBJECTIVE & DISCLAIMER

This market report is prepared to provide an overview of the dehydrated garlic market based on information gathered from trade sources. It is designed to guide potential customers of Champagne Foods on market direction. We do not pretend that this is exhaustive nor is it meant to be taken as a binding offer to supply.

GLOBAL MARKET & TRENDS

- * Estimated global consumption of dehydrated garlic remains at around 300 mio lbs p.a., with around 50% in the USA and 50% in the ROW
- * The US and China remain the largest producers. India and others produce small amounts of dehydrated garlic but they are followers in terms of supply and pricing.
- * Around 50% of US demand for dehydrated garlic is now satisfied by imports from China which is the dominant exporter.
- * The global economic downturn has led to some cancelled contracts and destocking by users. This has been reflected in a recent increase in offered quantities from China.

SUPPLY SIDE ex CHINA

1. Trends up to the 2007-8 crop

- * The high fresh and dehydrated garlic prices achieved in the 2005-6 season stimulated garlic production in China.
- * Records indicate that the garlic crop yield per "mou" peaked in 2006-7 and that planting area peaked later in 2007-8 although yield / mou was down. Accordingly, farm garlic prices started to fall in 2006-7 and this accelerated into 2007-8.
- * Farmers did fairly well in 2006-7 but the flakers and traders were left with high price inventory and bore some losses as excess supply weakened final product prices.
- * Garlic farmers saw much lower prices in 2007-8 as the flakers and traders became more cautious. Furthermore, the 2007-8 crop year was also the first to start to see land competition from subsidised crops, (such as wheat), beginning to alter the planting preferences of farmers.

2. Plantings in 2008-9

- * The trend away from garlic growing has continued into 2008-9 with plantings in China down by up to 30% according to local market intelligence. The relatively low returns achieved by garlic in previous seasons together with subsidies for other crops have brought about this radical change.
- * Plantings in the main export market, the USA, are also expected to be down for 2008-9 again partially due to competition for agricultural land. This could mean a supply side "double-whammy" for the 2008-9 garlic crop leading to tightness or even shortages in both fresh and dehydrated material.

DEMAND SIDE

- * Exports from China rose towards the end of the 2007-8 crop year as the USA increased imports following a flat year in 2006-7. This has been stimulated partly by lower import prices from China and partly by lower U.S. production.
- * Exports from China into areas such as Eastern Europe have been reduced by cancellations caused by the global economic situation.
- * After some cash-flow related destocking by users, exports to Western Europe are steady.

SUMMARY & RECOMMENDATIONS

OVERALL PICTURE & PRICING

- * At present there is sufficient dehydrated flake stock in China to meet rising demand for garlic products in the USA. Currently, cheap traded material is being offered at USD 1.00 / kg CFR European port in FCL loads, although higher quality auditable supplies are in the USD 1.50-2.00 / kg range on the same basis.
- * This situation could change radically by mid 2009 when the full impact of the reduced garlic plantings in China starts to restrict the supply & raise the price of fresh garlic for flaking.
- * The expectation is therefore for dehydrated garlic prices to remain stable at current levels until early-mid 2009 at which point we could see steep price increases and shortages in supply.
- * For this reason, Olam / KFI have a policy to fix prices forward only until September 2009 and recommend that customers take advantage of this opportunity now.
- * For the period beyond September 2009, Olam/KFI are recommending that customers consider and discuss their needs early to avoid disappointment later in the year.

THE STRATEGY OF OUR GARLIC PRINCIPAL, OLAM / KFI

- * Olam / KFI has a longer time-horizon than farmers and their strategy has been to put some structure into the dehydrated garlic market by contract growing garlic at agreed prices to meet their own contractual demands. Their range of Standard and CK products reflects this plan.
- * However, Olam / KFI are also conscious of the need for a reliable supply of garlic from the open market in China and has introduced Olam Fresh Flavour Products which originate as flakes from audited flaking plants and which are size reduced in the Olam / KFI plant
- * Olam / KFI is therefore able to offer customers a choice of reliable quality materials in fixed-term contracts at sustainable prices based on traceable and auditable supply chains.

Weybridge U.K. – December 2008

Notes : 1 mou = 0.165 acre, or 666.5 m2.