

DEHYDRATED ONION MARKET REPORT **DECEMBER 2008**

OBJECTIVE & DISCLAIMER

This report is meant to provide a broad overview of the dehydrated onion market and is based on information gathered from trade sources. It is intended as a guide to market directions for the clients of Champagne Foods. However, we do not claim that this is definitive and neither does it constitute a binding offer to supply.

OVERALL MARKET STRUCTURE

The USA remains the dominant supplier of and consumer of dehydrated onion products ("onion"). Generally, their domestic need is for low bacti (<300k TVC/g) products, whereas Europe uses significant amounts of extra low bacti (<100k TVC/g) material, especially powders for seasoning applications.

Europe has seen a shift from dehydrated onion to fresh & chilled onion for wet food applications. Over time, the source of dehydrated onion imports into the EU has shifted away from the USA & Egypt and towards India & China.

Our dehydrated onion market update in March 2008 emphasised the rising cost of onion production worldwide due to competition for farm land from other crops and the rising cost of fuels. The predicted rise in onion prices has been manifested in current crop year products.

CURRENT CROP YEAR : 2008 – 2009 **(Period : September 08– August 08)**

OVERALL SUPPLY & DEMAND SITUATION

The overall market position the 2008-2009 crop is that supply and demand effectively in balance against a background of minimal and, in some cases, nil carried over inventories. Most of the large food group contracts have been completed in principle and some material remains to be called or placed at spot.

REGIONAL SITUATIONS

USA:

Background:

- * There was some concern that the 2008/9 crop would be poor in both volume and quality due to another cold and wet spring in the main West Coast growing areas. The outcome has been a normal crop volume although production started late and once again XLB quality is relatively short.
- * Onion production costs in the USA rose sharply through the year and into the harvest period. This was due to both the cost of agricultural land which was boosted by bioethanol crops and also to the cost of oil feeding into agricultural inputs and transport
- * Accordingly, pricing for new crop USA onion powder is around USD 3.00 – 3.50 / kg EXW depending on contract volume, quality, cut, quantity and service
- * Demand has been strong from US companies and also from export markets although the rapid strengthening of the USD during September / October is a cause of concern in those export markets for customers who have not purchased currency forward or who have not covered 100% of their requirements.

Gilroy Food Ingredients

- * Gilroy's concerns about the availability of agricultural land led them to purchase several thousand acres in Oregon for rotational growing of potato & onion. Although this expands their growing area, it will add to their onion costs due to trucking to California for processing.
- * An indication of the uncertainty about yields and costs this season, is the fact that Gilroy delayed offering firm pricing for new crop contracts until well into October 2008.
- * This stance is compatible with their responsibilities as the largest USA producer even if pricing delays caused some concern amongst the larger US users.

Sensient :

- * Sensient volumes from the 2008 harvest were also under pressure from the availability and high cost of agricultural land. However, output is estimated at a similar level to 2007.
- * By contrast with GFI, Sensient were early to set contracts for the 2008/9 year and, as a consequence, placed the majority of the available volume at slightly below the average market price.

Cascade Specialties Inc.

- * After having some fields "blown out" by high winds in early 2008 and experiencing snow as late as May this year, the CSI crop is good in both volume and micro quality even though harvesting was delayed by 3 weeks to allow the onions to mature
- * CSI increased their capacity to 2 driers in last 2 years & will produce and distribute more material in 2008/9 mainly in the XLB micro quality category.

EUROPE

Background:

- * Initial plantings were reduced by the competition for agricultural land from other vegetables cereals which also feed into bioethanol feed stocks.
- * Dry weather at the start of the growing season and wet weather later on then reduced the size of the European onion crop further.
- * Consequently the current price for EU onion powder in Europe is in the range Euro 2.50 – 3.00 / kg EXW depending on quality, quantity and service. In recent times, this pricing is converting into GBP at increasingly unattractive rates for anybody who did not cover their currency earlier in the season.

France

Sodeleg :

- * The 2008 processing season has yielded a similar amount of final product to that achieved in 2007 although 2007 itself was lower than in previous years.
- * Some of the white onion output was lost due to wet weather at the end of the season which left the fields too wet to harvest.

STL:

- * The output of STL is unknown for this current crop year.
- * There remain questions over the viability of this smaller European operation.

Sensient :

- * Sensient output & sales remain stable at around 1000 mt of onion.
- * Once again, customers are being requested to think longer term about onion volumes to guarantee availability forward into 2009/10

Spain

Vegenat (formerly Agrotecnica) :

- * The USP's for Vegenat dehydrated onion products are white colour, extra low bacti and intense flavour as it is very similar to USA material. Their products are destined mainly for QSR and seasonings uses.
- * The 2008 onion harvest for Vegenat was of good quality and quantity and comparable to previous years.
- * In the past the strength of the Euro has been a key factor in setting onion prices in Europe. However, the recent strengthening of the USD should assist in their efforts to compete with US imported material.

REST OF THE WORLD

Background:

- * Supplies of dehydrated onion from the Middle East and Asia are similarly affected by competition for agricultural land.
- * Dehydrate onion supplies are directly affected by demand for onions from the fresh market as these 2 applications often use the same raw material.
- * The emerging picture for this year is one of steadily rising raw material costs set against a flat demand for finished product as the economic situation deters stockholding.
- * USD pricing is currently steady in the range \$ 2.50 – 3.00 / kg FOB origin, but is expected to rise in Q2 as inventories are replaced.
- * However, in GBP terms, prices are up this year simply due to the devaluation of the GBP against the USD.

Egypt:

- * Egyptian material is primarily from sweet yellow fresh market onions and has a special flavour profile, but supply can be limited by fresh market demand.
- * The Egyptian winter crop appears to have been of a normal quality and quantity. Recent arrivals in Europe are priced similarly in USD compared to last season.

India :

- * There remains a huge polarisation of quality within this origin where even the best producers can still have issues with micro levels (usually moulds) and flavour profile (inadequate or inappropriate feed stock).
- * At the lower end of the scale, there will always be the problem of traceability as evidenced by the town of Bhavnagar in Gujarat where there are 50 dehydrators many of whom appear to have interconnecting doors and "mobile" metal detection!
- * Plantings for the winter crop (November) were down slightly as lower prices in the spring deterred farmers from planting onion (cotton and sugar cane being apparently more lucrative) and then the onion crop was delayed by bad weather for about a month but is expected to catch up. Higher solids material will become available for processing in March

* The fresh onion market is in turmoil in some of the main growing such as Andhra Pradesh where the price for fresh onion has gone from between 2 and 3 rupees per kilo to between 20 and 30 rupees in about 2 months. The huge increase has been caused by torrential rains washing out much of the crop, strong exports (a minimum export price has now been imposed to help retain product in India) but also by bureaucracy trying to manage the reduced availability.

* Overall, average cost of raw material for processors will remain high and it will be up to individual companies to decide whether they will process volumes this year to build their dehydrated onion businesses for the future.

* Raw material cost increases of 17%-20% are anticipated and these will filter through to finished product costs in INR in the New Year.

China :

* Dehydrated onion from China can be of either yellow or white onion varieties although both tend to be from lower-solids fresh onion varieties. Overall, Chinese onion has a more delicate, less intense flavour to US and other origins.

* Much of the dehydrated onion exported is of the yellow variety and the great majority is destined for the USA. The smaller amount of white dehydrated onion available is really not a match for USA origin material in terms of flavour.

* Due to local demand for fresh and processed onion in China, dehydrated onion supplies are not plentiful and prices are similar to last year.

SUMMARY & RECOMMENDATIONS

Clearly there is uncertainty and volatility with agricultural commodity prices as economic growth slows around the world. However, the food industry is traditionally less exposed in recessionary periods and with dehydrated onion products being very specialised ingredients they should continue to obey the laws of supply and demand

How the current economic conditions will affect supplies from the newer growing areas of India and China is unknown at this stage. However, as usual, much will depend on both fresh and dehydrated onion demand within these countries themselves.

More so than in any previous year, the performance of the GBP against the USD will be key in determining the cost of dehydrated onion ingredients to UK processors.

The prediction is that next growing season all onion producers will face similar problems of increased competition for land. The only brighter news emerging is the falling oil price.

We expect that these considerations will ensure that supplies of dehydrated onion products continued to be limited and will maintain their current higher price levels into the medium term. Therefore, our recommendation of all our customers is to fix contracts for the current crop year to ensure both continuity of supply and stable pricing.