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PAPRIKA POWDER **Market Status : January 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 since 2008/9 to take it to around 40% of world supply. During 2009, this increase in supply from China led to significant price reductions and as a result, plantings fell in Peru by one third.

In addition to this, EU regulation 105/2010 came into force in July 2010 limited the acceptable level of Ochratoxin A (OTA) in all paprika 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 causing a technical shortage of raw material available to EU processors. This already difficult situation will be further exacerbated in July 2012 when the limit will be reduced to only 15 ppb.

Inevitably this led to higher prices for Chinese origin material which is currently less susceptible to OTA contamination and is therefore suitable for export to the EU. In addition, the Chinese crop was reduced significantly due to poor weather in their growing regions and together with some possible market speculation this has led to a significant firming in paprika price.

Pricing for the main crop from southern Peru has now opened, and has remained firm as this crop is significantly lower than previous years due to lower plantings. However, its high colour level and low aflatoxin and ochratoxin levels make it ideal for the production of high quality paprika powder.

Beyond these two main growing regions, the USA crop has also been short, leading US buyers to purchase more from Peru. Furthermore, the Mexican crop has been also short and they too are purchasing from Peru.

Summary

Due to the reduced main crop of whole dried sweet paprika pods from Peru and China, and technical shortages caused by EU regulation, paprika raw material prices have risen to unprecedented levels. This has been reflected in paprika powder prices in Europe which have risen significantly in recent months.

Furthermore, we are forecasting steadily increasing prices until the end of 2011, when the next Chinese crop harvested in September will arrive in Europe and next years planting areas in Peru are known. Accordingly, we still believe that prices will not moderate until at least early 2012 and therefore would advise going relatively long on paprika powder contracts up to that date.

The OTA legislation has already caused consignments of whole pods to be rejected at EU ports. This reinforces the need for users to buy only from qualified suppliers with recognised quality management systems

For further information and offers please call your usual sales contact at Champagne Foods Ltd. or phone the Weybridge office on 01932 820589.