Vanilla Imports/Exports & Market Update
July - 2009

VANILLA MARKET

The vanilla markets remain relatively calm. However, there seems to be a little more buying interest and some actual buying activity. Prices seem virtually unchanged. The question on the minds of some people is, "how will Madagascar's new US$27.00/Kg minimum export price, which only applies to the 2009 crop, affect market prices and the market in general?".

The unfortunate decision made by a few ministers in Madagascar's government to establish a minimum export price of US$27.00/Kg may benefit mostly, if not exclusively, the large speculators of vanilla inside/outside Madagascar. Therefore, it should come as no surprise that these same speculators apparently lobbied members of the Madagascar government, either directly or indirectly, to establish this decree in a desperate attempt to prevent lower priced 2009 new crop vanilla from reaching the outside market. Should this lower priced new crop vanilla find its way onto the outside market, it may crush the value of the speculators' inventory. Obviously, sitting idly by and watching the value of their inventory collapse does not seem like a viable option.

We are now hearing and reading cute little stories about how this decree was proposed and passed with the objective of looking out for the "**P**oor **L**ittle **F**armers" (**PLF**) best interest. Who are these opponents of free trade and free markets kidding? When one looks at the total picture in terms of actual cash value at risk, it seems like the "**P**oor **L**ittle **S**peculators" (**PLS**) stand to lose more than the individual farmers. Nevertheless, the farmers may be more adversely affected with the decree in place. For example, what will happen when the farmers cannot sell vanilla because companies who were waiting for the cyclically lower market prices will not pay the artificially higher market price seemingly established by the speculators, via their "connections" in the Madagascar government? Or, when some buyers purchase vanilla from origins other than Madagascar in the quest of seeking lower prices/better value. Or, when the farmers cannot sell their vanilla because demand is still weak due to the global financial crisis? Basically, the farmers will sell even LESS vanilla and earn even LESS money. On the other hand, the good news is that the value of the "**PLS**" stock in/out of Madagascar may be protected (under the guise of protecting the "PLF").

Furthermore, it is being said that the buyers here in the USA are happy about this decree. Personally, we have not had one single conversation with anyone who expressed an inkling of satisfaction knowing this bogus decree was signed. Maybe none of this even matters. Who knows how long this decree will last, or how strongly it will be enforced. There are factors that could impact it's very existence and/or enforcement. For example, the political situation could be resolved, new ministers installed and the decree rescinded. Then, new contacts in the government would have to be established and manipulated.

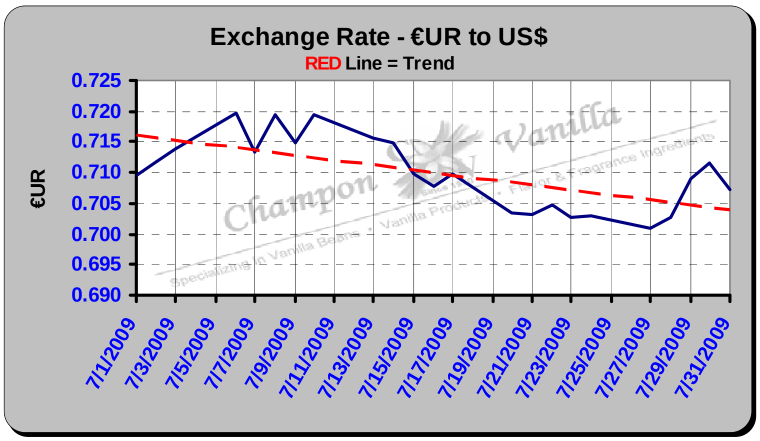
Over time, studies have been conducted and papers written on the topic of how farmers in producing counties are affected by FREE markets versus controlled markets. A study conducted <u>AFTER</u> Madagascar's removal of government control in the mid-1990's revealed some interesting observations and conclusions (the study was last revised in 2007). It appears that FREE markets can/do benefit farmers more than controlled/manipulated markets. Here are some excerpts from the study:

- "After taking into account the reduction in Madagascar's monopoly power on the world vanilla market implied by the <u>elimination of the VMB</u>*, the induced rise in producer prices is estimated to have lifted about 20,000 individuals out of poverty." *(Vanilla Market Board)
- "Although sometimes justified on theoretical grounds (as in the case of vanilla), marketing boards and stabilization funds led to ill-fated outcomes documented in a growing body of well-documented case studies…"
- "This case study suggests two further conclusions, the first relating to the difficult separation between malfunctioning markets due to excessive government intervention and that due to market failures. Thus, for all the evidence of government failure during the 1975-93 period, the reforms have created a regulatory vacuum in which <u>unchecked concentration of intermediaries could occur again and lead to renewed exploitation of producers</u>, although probably not to an extent comparable to what CAVAGI was doing. There is, indeed, <u>plenty of anecdotal evidence that a large part of the price hike in 2004 was caused by strategic stockpiling between two large intermediaries in the sector</u>." **(sound familiar???)**

Some farmers and exporters in other producing countries outside Madagascar are hoping that this temporary new decree will suddenly reverse market prices upward. Conversely, other farmers and exporters are wisely being more patient to see where this whole thing leads. Either way, at this time, offers we received from exporters prior to the decree being signed remain virtually unchanged today. In conclusion, it will be nice to see all the famers in Madagascar rolling around in piles of cash as a direct result of establishing this temporary new decree… (of course, we are not serious)

US DOLLAR

The US$ continues on a downward trend versus the €UR. As you can see below, the US$ ended the month of July trading at approximately the same rate it started the month. However, during the first week of August, the US$ continues to weaken. Many people feel that the US$ will see some gains in the short term, but the long term projection remains weak with the possibility that the US$ will eventually be replaced as the world reserve currency.



During the month of July, the US$ lost approximately 1% vis-à-vis the Malagasy Ariary (MGA). At the start of July, the MGA was trading at approx MGA1,943.54 (FMG9,717.70) / US$1. At the end of July, the exchange rate was approx MGA1,929.62 (FMG9,648.10)/US$1. Click HERE to view graphs.

USA IMPORTS

US vanilla imports for May 2009 (338MT total for the month) are about **482% MORE** than the quantity imported during May 2008 (58MT total for the month). As usual, Madagascar lead the imports with **304MT**, Uganda was 2nd with **25MT**, India was 3rd with **08MT**, and Indonesia was 4th with **01MT**. These 4 countries represented approximately **100%** of all the May 2009 USA imports.

USA IMPORT PROJECTION

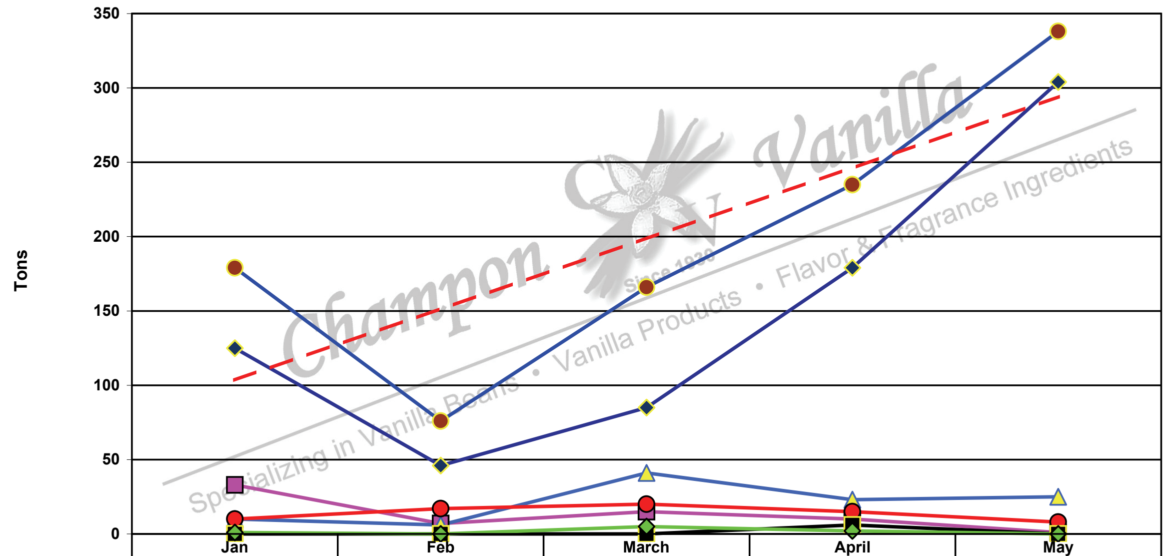
Based on the current import/export statistics (May, 2009), the projected yearend totals for 2009 are:

- **IMPORTS -** Roughly 994MT from all origins, thus far. At this pace, the US will import approximately 2,386MT for 2009.
- **EXPORTS –** Roughly 55T, thus far. At this pace, the US will export approximately 132MT for 2009.
- **PROJECTED 2009 USA TOTAL NET IMPORTS -** Approximately 2,254MT.

2009 USA Vanilla Imports

RED Dashed Line = Monthly Import Trend

All figures taken from U.S. Census Bureau statistics

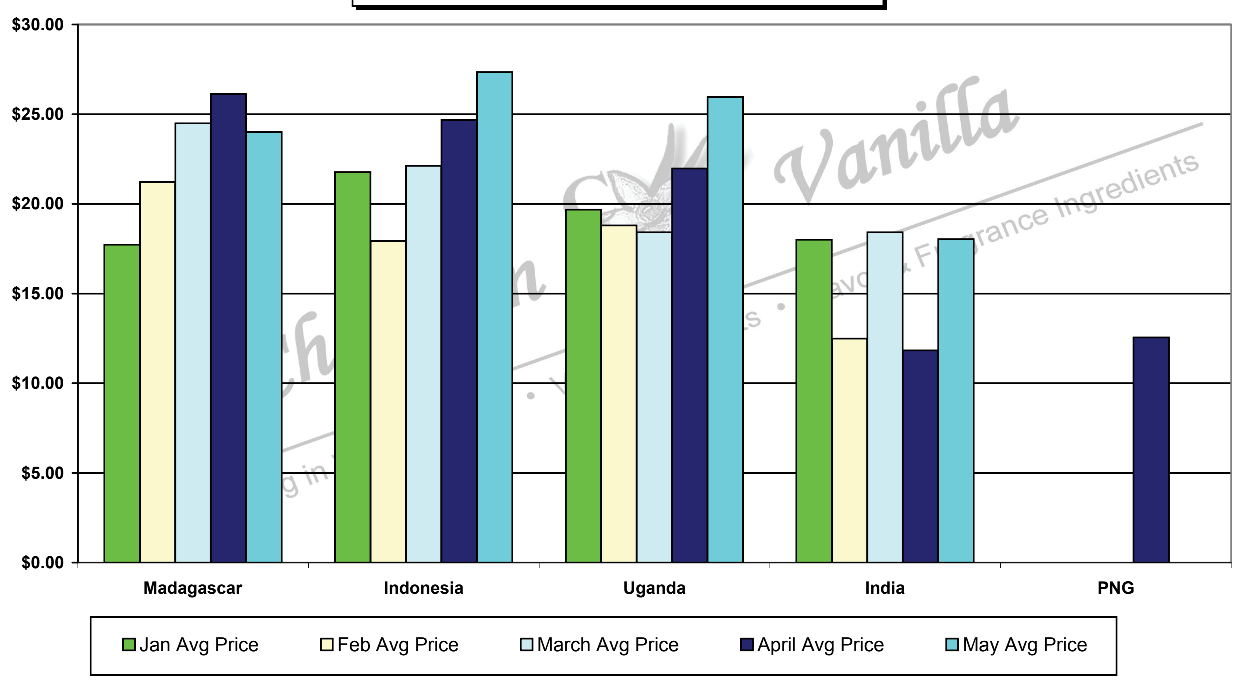


	Jan	Feb	March	April	May
Month TOTAL	179	76	166	235	338
Madagascar	125	46	85	179	304
Indonesia	33	7	15	10	1
Uganda	10	6	41	23	25
India	10	17	20	15	8
PNG	0	0	0	6	0
Other	1	0	5	2	0

USA 2009 Vanilla Imports
Monthly Average Import Price

(Based on Total Monthly "Customs Value" / Total Monthly Quantity For Each Origin)

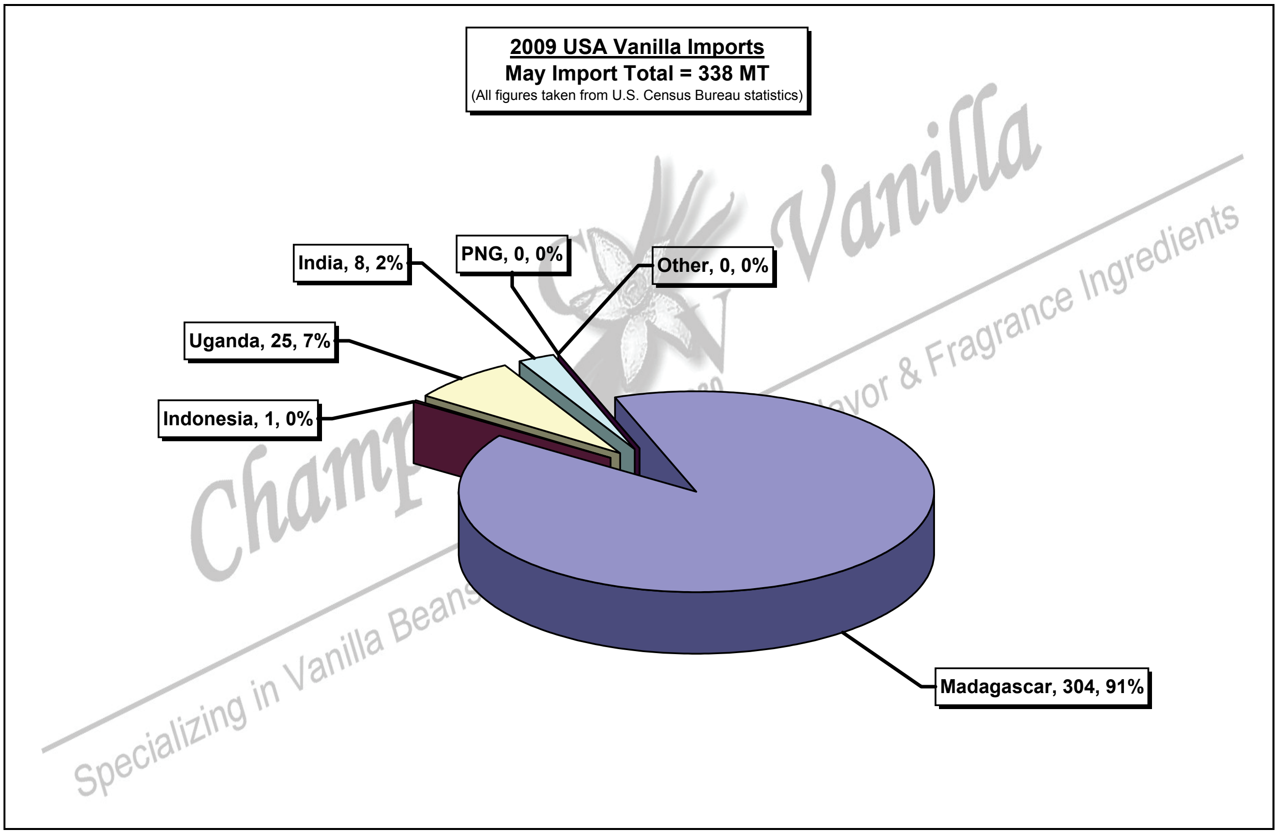
(All figures taken from U.S. Census Bureau statistics)

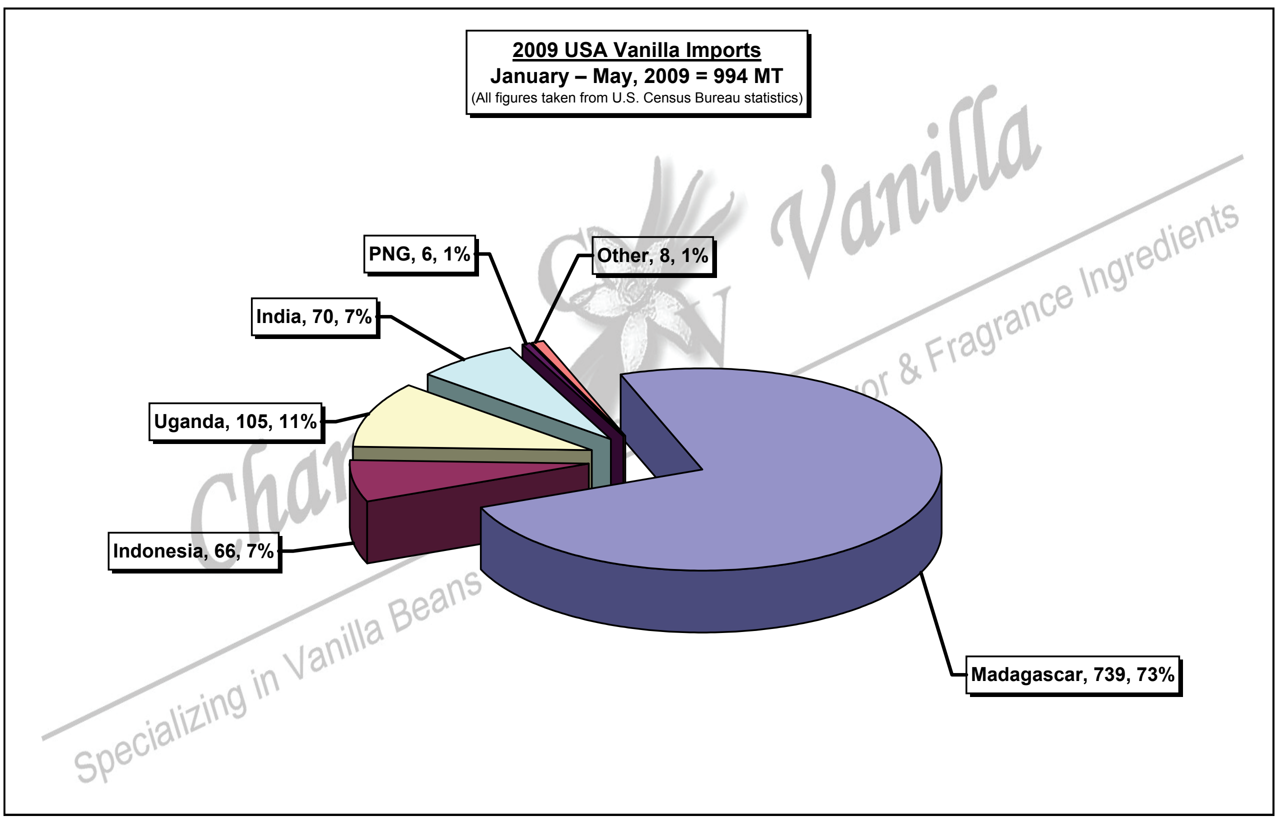


Champon Vanilla, Inc.
4521 PGA Blvd. - 382
Palm Beach Gardens, Florida 33418 - USA

WWW.VANILLABEAN.COM

Phone - 561.741.1325
Fax - 561.277.2526
Email - m-p-c@vanillabean.com





Champon Vanilla, Inc.
4521 PGA Blvd. - 382
Palm Beach Gardens, Florida 33418 - USA

Phone - 561.741.1325
Fax - 561.277.2526
Email - m-p-c@vanillabean.com