

CRNM PRIVATE SECTOR TRADE BRIEF

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THE GLOBAL ESSENTIAL OILS TRADE

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IN THIS ISSUE: We look at the global essential oils trade, a small but dynamic business activity. The essential oils trade represents another value added option which CARICOM agro-processors can consider in their bid to diversify. How competitive is the region in this product? Which export markets offer the most promise? How have trade agreements treated essential oils? The answers are ahead.

OVERVIEW OF THE ESSENTIAL OILS TRADE

Essential oils represent another value added product that can inject some life into the region's flagging agricultural sector. By definition, an essential oil is any concentrated, hydrophobic liquid containing volatile aroma compounds obtained from plants. Such oils are generally extracted by distillation. Other processes include expression or solvent extraction. The oils are mostly used in the manufacture of perfumes and cosmetics, for flavoring foods and drinks, and for scenting incense and household cleaning products.

Essential oils have also been used for medicinal purposes down through history. Tradition has it that they are beneficial in treating skin infections, cancer and a host of other illnesses. However, regulations in force today in most countries require scientific verification of such claims. The growing popularity of aromatherapy has revived interest in essential oils in recent years. Aromatherapy is a branch of alternative medicine that attributes curative benefits to the aromas of certain essential oils.

According to the United Nation's COMTRADE database, global imports of essential oils stood at US\$2bn in 2005. Spending rose by an annual average of 8% between 2000 and 2005 but there was no corresponding increase in volume. As listed by COMTRADE, the top ten import markets in 2005 were the United States of America (US\$391mn), France (\$199mn), the United Kingdom (\$175mn), Japan (\$152mn), Germany (\$117mn), Switzerland (\$103mn), Ireland (\$75mn), China (\$65mn), Singapore (\$61mn) and Spain (\$61mn). The fastest growing markets, based on import spending between 2000 and 2005, included Viet Nam (14% growth per annum), Poland (35% per annum), Nigeria (16%), Turkey (25%), South Africa (14%), Indonesia (14%), Saudi Arabia (14%), India (19%), Spain (13%), Singapore (35%), Switzerland (14%) and Japan (13%).

OVERVIEW OF CARICOM'S ESSENTIAL OILS TRADE

CARICOM exporters of essential oils posted earnings of US\$16.2mn in 2005. Sales were fairly dynamic with an average annual growth of 17% growth occurring between 2001 and 2005. Considering that total import growth for countries purchasing the product was 8%, CARICOM exporters have been growing their market share. The major export markets for CARICOM essential

oils included the USA (US\$5.7mn in 2005), France (\$4.5mn), Germany (\$1.7mn), Spain (\$1.6mn) and Switzerland (\$1.2mn). Available data suggest the CARICOM essential oils industry is competitive. The industry recorded a significant trade surplus of US\$12.7mn in 2005. The most bullish markets for CARICOM exporters included the USA (19% growth per annum between 2001 and 2005), France (28% growth per annum), Spain (44% growth p.a.), Switzerland (18% growth p.a.), Brazil (74% growth p.a.) and Mexico (55% growth p.a.).

In 2005, CARICOM spent US\$3.5mn on imports of essential oils. These imports (which are not regulated by the CARICOM Oils and Fats Agreement) have been quite dynamic, growing by an average 24% per annum between 2001 and 2005. These imports basically came from the USA which provided over two-thirds of the region's import demand for essential oils. Other sources of imports in 2005 included the UK (US\$426,000), the Netherlands Antilles (\$132,000) and Spain (\$104,000).

The main essential oils exported by CARICOM are from vetiver, peppermint, orange and other citrus fruits (including grapefruit).

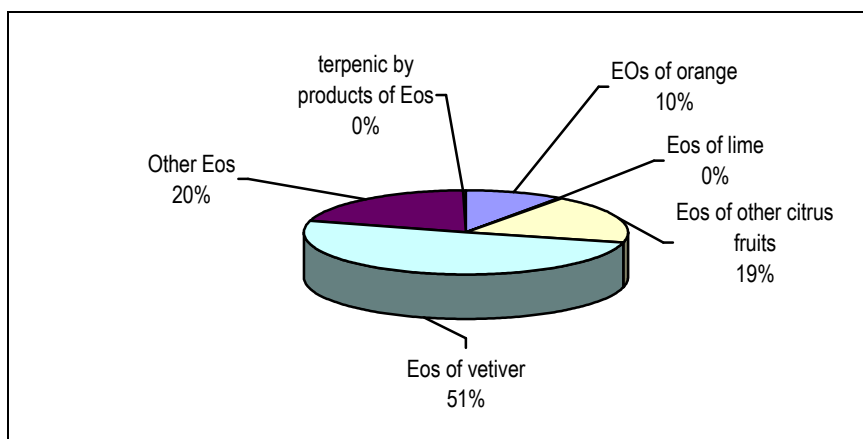


Figure 1: CARICOM exports of Essential Oils. Source: TradeMAP

Haiti, the sole producer of essential oil of vetiver, accounted for over half of the region's export earnings in 2005. On the other hand, terpenic by-products of essential oils accounted for two-thirds of CARICOM's spending on imports. Some dynamism was observed in the import expenditure on essential oils of orange. Though it was small (US\$249,000 in 2005), it nevertheless represented an average 49% annual growth in import consumption between 2001 and 2005.

TRADE POLICY FOR ESSENTIAL OILS

The CARICOM Oils and Fats Agreement (COFA) governs the trade in some oils and fats within the region. The Agreement basically sets reference prices for copra and coconut oils based on consultations and negotiations by a committee of buyers and sellers, and subsequent endorsement by the Council on Trade and Development (COTED).

The COFA determines the quantities of copra and coconut oil (and substitutes) to be purchased. It allows for safeguards and non-automatic import licenses in the event there is a decline (more than 10% for CARICOM's Less Developed Countries (LDCs) and 25% for the More Developed Countries (MDCs) in internal demand for regional oils and fats, when this decrease is due to an increase in imports from either another member state or a non CARICOM country. The spirit of the COFA is to protect the oils and fats industry, particularly in the Organization of Eastern Caribbean States (OECS) and other CARICOM LDCs.

The COFA explicitly states that “ancillaries” -- namely, substances used in conjunction with oils and fats to produce a finished product, but which cannot be used as a substitute for oils and fats produced within CARICOM -- shall be free from restriction. Essential oils are considered “ancillaries” and therefore can be imported without restriction because they are a production input.

Because of the COFA, most oils and fats are usually excluded from trade liberalization in CARICOM's trade agreements with other countries. In the agreement with Costa Rica, for example, CARICOM has protected essential oils of citrus and bay. As a result, these products are not subject to any tariff liberalization where imports from Costa Rica are concerned. Costa Rica, however, has taken a more protective approach, blocking tariff liberalization for exports of essential oils of bergamot, orange, lemon, lime and bay from CARICOM firms. Therefore, the CARICOM duty of 20% and the Costa Rica duty of 5% apply to these essential oils exports. The CARICOM-Costa Rica agreement, however, is not yet in effect.

In the Colombia-CARICOM Agreement, essential oils were not liberalized, whilst in the Venezuela-CARICOM Agreement, essential oils (except for citrus) were liberalized. Colombia is a lucrative market for essential oils as, in 2005, this market spent US\$8.2mn on imports. In the Dominican Republic-CARICOM Agreement, essential oils are liberalized once the exporter meets the tariff jump rule of origin. Consequently, all essential oils, except for oils of lime, were immediately liberalized. Provision was made for liberalization of lime oils over a 4 year period effective from the date when the agreement came into effect.

In terms of larger markets, the Cotonou agreement with the European Union provides duty free treatment for CARICOM essential oils exports to all EU markets. The same applies with Canada under the CARIBCAN agreement with no reciprocal treatment required. Essential oils exports from CARICOM to the USA are also eligible for duty free access under the Caribbean Basin Initiative (CBI). No reciprocal treatment is required once rules of origin are met.

As it stands, CARICOM essential oils exporters are primarily focused on traditional markets in the USA and Europe (mainly France). So far they have not exported to any Latin American markets with which tariff concessions have been negotiated.

MARKET POTENTIAL FOR CARICOM ESSENTIAL OILS

ESSENTIAL OILS OF VETIVER: According to TradeMAP, global import spending on essential oil of vetiver – amounting to US\$15.3 mn in 2005 -- was the smallest category in the overall essential oils trade. Haiti is the world's top exporter of this product, with total sales of US\$8.2mn in 2005, which represented over two-thirds of global import spending. Other major exporters include Indonesia (US\$1.5mn in 2005), France (\$831,000), Switzerland (\$688,000) and the USA (\$677,000). Haiti is quite competitive, as reflected in an average export sales growth of 29% per annum between 2001 and 2005, compared with 19% for competitors. Haitian exporters, therefore, are growing their export market share.

With US\$5.2 mn in import spending in 2005, France is the world's largest market for essential oil of vetiver. It is also a very dynamic market, as reflected in a 23% annual growth in import spending between 2001 and 2005. Global demand for essential oil of vetiver, though small, is quite buoyant. Overall, sales grew by an astonishing 29% per annum between 2001 and 2005. India (accounting for an annual 67% growth in import spending between 2001 and 2005), the USA (31% per annum) and Spain (59%) were among the most dynamic import markets. Haiti has made significant inroads in capturing the French market, supplying US\$3.9mn of the country's total purchases of \$5.2mn.

In France, essential oil of vetiver is basically duty free when imported as a raw material for the production of aromatherapy products. After Haiti, only Indonesia and the USA are the other main suppliers of essential oils of vetiver to France. Shipping to Spain and Switzerland, the other major markets for importing vetiver essential oils, offers excellent opportunities for growing export sales. Though these two markets do not offer the high prices that France has paid Haiti, they show much dynamism in terms of sales growth and account together for the same share of the market (30% of global import spending) as France globally.

ESSENTIAL OILS OF ORANGE: Consumers around the world spent US\$161 mn in 2005 on imports of essential oil of orange. This product, therefore, is a major player in the industry. Further, import spending on the product was quite buoyant between 2001 and 2005, growing on average annual by 16% during this period. Prices of essential oils of citrus are definitely rising, considering the fact that the 16% increase in import spending corresponds to 3% growth per annum in volume.

In 2005, the top import markets for essential oil of orange were the USA (US\$48.6mn), Japan (\$16.4mn), Switzerland (\$9.9mn), Germany (\$9.6mn) and the UK (\$9.3mn). On the other hand, Brazil was the world's top exporter accounting for just under 40% of global exports in 2005. The most dynamic exporters included Belize (98% growth in earnings between 2001 and 2005), Germany (20% growth), Canada (32%), Tunisia (23%), Mexico (32%), Costa Rica (32%) and Brazil (23%). What is really impressive about Belize's performance is the fact that this dynamism was achieved despite a 32% average annual decline in export volume.

Belize has made encouraging headway exporting to the USA, the world's top import market for essential oil of orange. Between 2001 and 2005, this CARICOM state was the most dynamic exporter to the USA, with a yearly 104% growth in sales. Belize also happened to be among the cheapest suppliers to the USA, asking US\$1,337 for a ton of the oil when the average price in 2005 was US\$2,516. Other competitive sources in 2005 included Brazil (US\$2,209/ton), Mexico (\$1,566) and Costa Rica (\$2,178). Interestingly, the USA gives duty free treatment for this product if it is coming from the Caribbean, as well as Australia, Canada, Chile, all developing countries, Israel, the Andean Community, Jordania, Morocco, Mexico and Singapore. As such, the US market is liberalized and very price competitive. However, there are other dynamic import markets such as Switzerland, Ireland, China, Spain, Indonesia, Germany and Mexico which offer encouraging opportunities for sales growth. Demand in these markets has been growing faster than the global rate. Again, Spain and Switzerland figure as prospective markets for greater focus by essential oil exporters.

ESSENTIAL OILS OF "OTHER" CITRUS FRUITS: This product category covers essential oils of citrus other than lime and oranges. Grapefruit oils are included. It is a smaller trade category, accounting for US\$157mn in global imports in 2005. Nevertheless, import spending was quite buoyant with a 21% growth per annum between 2001 and 2005. Additionally, prices of essential oils of "other" citrus are rising, considering that the 21% annual growth in import spending corresponds with a 9% annual growth in traded volume. In 2005, the top markets for this category of essential oil were Japan, the USA, Switzerland, Germany, the UK, the Netherlands, France, Mexico, Singapore and Italy.

The most dynamic import markets included Italy, Costa Rica, Japan, Singapore and Argentina. Japan is the world's top import market for essential oils of other citrus in terms of value. However, in terms of volume, it's the USA which occupies the top spot. The USA is also most dynamic in relation to global spending. Its 24% spending growth between 2001 and 2005 exceeded the global import spending growth of 21% during this period. The USA, therefore, can be considered a priority market for further export penetration even though Japan pays a premium price.

Israel was the top exporter of essential oils of other citrus fruits in 2005. With over US\$2mn in exports to the USA in 2005, Belize was ranked the fifth top exporter in terms of value of import spending. Between 2001 and 2005, the most dynamic exporters were Israel (58% growth per annum), Brazil (62%), Belize (141%), Germany (111%), Canada (49%) and Argentina (45%). Based on the 2005 outturn, the most price competitive exporter to the USA was Brazil at US\$3,353 per tonne. Other competitive exporters included China (\$6,686/tonne) and Canada (\$9,678/tonne). At \$35,414/tonne, Belize's export price to the USA was highly uncompetitive. It amounted to approximately thrice the average import price from the rest of the world into the USA.

However, imports of essential oils of other citrus seem not to be price elastic because Belize, with its high price, was still among the most dynamic exporters. Belizean exporters enjoy duty free market access to USA under the CBI. The US market is wide open as duty free market access is also given to Australia, Canada, Chile, all developing countries, Israel, the Andean Community, Caribbean Rim countries, Jordania, Morocco, Mexico and Singapore. Belize, therefore, can focus more on penetrating the US market without overlooking opportunities in other dynamic markets such as Italy and Costa Rica. However, to be more effective in penetrating Costa Rica, it seems exporters could be better served by advocating for full liberalization of the essential oils trade in the existing CARICOM-Costa Rica trade agreement, as well as full implementation of this agreement which could serve as one basis on which CARICOM negotiates with Central America.

OTHER ESSENTIAL OILS: This category, which includes essential oils made from peppermint, bay, and eucalyptus, dominates global trade in essential oils. Some US\$692mn was spent around the world on imports of these products in 2005. However, this category was the least dynamic, growing a mere 6% per annum between 2001 and 2005. The USA was the world's top market with import spending of US\$136mn in 2005. Other top importing markets included France (\$95mn), the UK (\$54mn), Germany (\$51mn), Switzerland (\$50mn) and Spain (\$33mn). Between 2001 and 2005, the most dynamic import markets included Singapore (52% growth in value per annum), Poland (48%), China (21%), Thailand (24%) and South Africa (17%).

Jamaica was the main CARICOM exporter in this essential oils category in 2005 with sales of US\$1.4mn. However, sales volume fell by 2% annually between 2001 and 2005. Jamaica's exports mainly went to the USA where they qualify for duty free access. This narrow focus ignores other markets, for example, in Europe where duty free access also exists. Moreover, Jamaica is basically stagnant in the US market, even though exporters receive a premium price for their essential oils. Other exporters from countries such as the United Arab Emirates, South Africa, Spain and Austria are making significant headway into the USA, gaining market share on France and China, the top two exporters to the USA of other essential oils.

CONCLUSION

Essential oil exporters can utilize trade agreements more effectively to ensure their products are covered by tariff savings their importers/consignees can receive to improve their export competitiveness. Available data suggest this product, in many cases, is more quality sensitive than price sensitive. Maybe, price is not a strong motivating factor in all essential oil exports.

Many countries treat essential oils as raw materials for food manufacturing and aromatherapy. As a result, the product is allowed in duty free. However, where price competitiveness is seen as critical, exporters can articulate an export-centric position in all negotiations and ensure existing agreements provide appropriate access for these products.

As always, your feedback is welcome. Write us at privatesector@crnm.org.