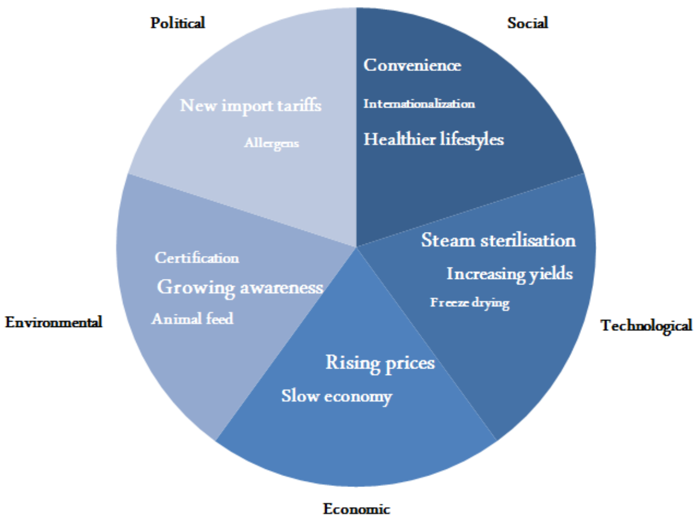
CBI
Ministry of Foreign Affairs

CBI Trendmapping: Spices and Herbs

'Insights and foresights on key EU market dynamics'

Management summary

The EU spice and herb market is increasingly characterised by structural change. Growing scarcity on the world market is an important accelerator of this change. Rising prices are increasingly allowing exporters from developing countries (DCs) to invest in and explore the EU market for value added products. The growing awareness of healthier lifestyles and sustainability also provides opportunities in the high-end of the market. In addition, as a result of internationalisation of diets and the large ethnic population in the EU, consumers increasingly adopt eating and cooking habits which were once considered foreign. Exporters from developing countries need to keep an eye on these changes. Adapting their product portfolio and targeting the right market can be essential in the EU.



Social market drivers

Healthy lifestyles: a large segment of the EU market is turning towards more healthy food.The growing public concern about health potentially has a positive effect on the demand for spices and herbs. Unhealthier food ingredients like salt, sugar and synthetic additives can be replaced by spices and herbs. Several large food processors have set ambitious salt reductions goals. For example, Unilever in the Netherlands is changing recipes to reduce the salt-intake of their customers by amongst others using herbs and spices instead.

Another noticeable trend is that the per capita

Considerations for action

- Spice grinders will have to account for this changing market environment and look for alternatives for salt, if they use salt in their products. Be aware that the price of salt is significantly lower. Therefore, the cost price of your product might increase. Another option is using low-sodium salt.
- The spices and herbs that can be used to replace unhealthy food ingredients very much depend on the composition of mixes. Ask buyers for their recipes or look at those already on the market. Schwartz in the UK already offers salt-free or reduced salt spice and herb mixtures.

consumption of meat in the EU has stabilised and is even decreasing in some EU countries (Source: University Bremen, 2013). This is to some extent driven by concerns about the environment and animal welfare but also because excessive meat consumption is considered unhealthy. Meat consumption is important for the demand for spices and herbs. Despite this it is not expected to have a negative impact on the demand for spices and herbs. Demand will however partially switch to other segments in the market using spices and herbs. For example, vegetarian food products and meat substitutes. Meat substitutes imitate the taste of and/or have a similar nutritional value as meat. The global market for meat substitutes is expected to grow by 6% per year between 2014 and 2019. The EU accounts for 40% of global consumption. As meat substitutes are more popular in the sustainable segment of the market the opportunities for sustainable spices and herbs (especially organic) are greater here.

- Vegetarian spice mixes could be an interesting segment. This includes the market for mixes for exotic food from your country/region (e.g. Indian, Indonesian) that is popular in the EU. Talk to buyers and visit trade fairs to obtain more information about the vegetarian food market. Veggie Expo is a European trade fair specifically aimed at this market. Refer to the database of the Dutch blender Verstegen for ideas about vegetarian and vegetable spice mixes.

Internationalisation: as a result of internationalisation, culinary traditions from other continents are being embraced by EU consumers. The growing curiosity towards new tastes offers an opportunity for ethnic and exotic spices and herbs. Furthermore, the ethnic minority groups in the EU are growing steadily as well. For example, in the UK (Indian, Pakistani and Bangladeshi), the Netherlands (Indonesian, Turkish, Moroccan), Germany (Turkish) and France (Algerian, other communities from French-speaking Africa). Consumers in some EU countries (such as the western European mentioned above as well as other regions) are more open to international cuisine than in others. Flavours of Mexican, Moroccan and Thai cuisine are becoming more popular as well.

- There are specific trade fairs for ethnic food in the EU. Ethnic Food Europe is a good example. The exhibitor's list provides interesting trade leads. The survey conducted during the 2014 edition reveals that most visitors (many of which were Dutch) were interested in Thai, Chinese and Indonesian food. In addition, Keynote publishes an annual study (a paid service). An article based on the 2011 market report can be found here.
- Please be aware that taste preferences can be different per region, country and even buyer. This applies to the national local food and the non-local cuisine. For example, Indian food in the UK is likely to taste different in Germany. Within a country a mixture for the same dish or application will often even differ per buyer.

EU consumers looking for convenience: EU people have busy lives and the number of single households increases. As a result EU consumers spend less time on meal preparation, leading to an increasing demand for easy-to-prepare, semi-prepared and ready-cooked meals that rely on spices and herbs to retain and enhance food flavor (e.g. ready-to-use spices and herb or mixes thereof, seasonings and products that contain ready-to-use spice mixes as a supplement). The market for processed spices and herbs (e.g. crushed, ground, mixed) is harder for suppliers from developing countries to enter than that for whole products. However, with the growth of processing facilities in countries of origin opportunities for suppliers to add value in this way are also increasing.

- Crushing, grinding or blending should be considered after value adding steps like excellent cleanliness and improving quality. Not only can adding value this way earn you the premium (usually around 5%) but it is also likely to be easier to achieve and requires less financial investment. Refer to CBI's factsheets on spice and herb mixes or crushed and ground single spices and herbs for more information about the market for processed products.

Technological market drivers

Steam sterilizing more important: EU buyers are increasingly asking for steam sterilised spices and herbs as a way to treat microbiological contamination.It can earn a significant premium for suppliers who are able to supply spices and herbs that are steam sterilized at source. Investment in sterilisation equipment can be very costly (up to € 1 million). An important downside of steam sterilisation is that it negatively affects the volatile oil content, which produces the flavour. EU buyers would switch to other methods if they would be just as safe, are accepted by consumers and not too expensive. At the moment there are no alternatives that meet these requirements but research is being done on sector level by GreenFooDec.

Increasing yields: due to the growing scarcity on the world market the spice and herb industry is looking at ways to increase yields. Sector initiatives focus on, for example, training in sustainable practices, better water management (e.g. drip irrigation, using clean water for processing) and the (proper) use of pesticides and fertilisers. In addition, seed companies are developing higher yielding and short-season varieties of spices and herbs. These initiatives should help increase harvests and therefore farmers' incomes. These new varieties may have different product characteristics (e.g. taste or colour). In the beginning they will be more expensive than 'regular' varieties and it will take some investment on the part of the supplier. Even if they are accepted by the market it will take time for them to become commercially appealing.

Freeze-drying herbs: freeze-drying is considered to be a good way of conserving taste and aroma. The process involves water in *fresh* products being extracted by freezing and heating the products. By adding moisture in the cooking process the flavour and aroma of the fresh products return. The freeze-drying technique is increasingly applied by companies such as Herbafrost (Belgium), Frosta (Germany), Fuchs (Germany) and Euroma (the Netherlands). They supply freeze-dried herbs that are used in the food processing industry and sold directly to consumers in the retail sector. They source herbs locally or internationally. One negative aspect of freeze-drying is that it is a relatively expensive way of conserving products. In addition, the process can cause the structure of products to change. Another way of preserving fresh herbs is by individually quick freezing (IQF) them. IQF products combine freshness with convenience and improved shelf life.

Considerations for action

- Small operators with limited access to capital will likely have to find an alternative solution. Look for local sterilisation companies that are able to provide this service for you.
- Steam sterilisation is only effective when food safety is taken into account with drying, storage, processing (e.g. sieving, mixing, grinding/crushing), packaging and transporting. Contamination after the sterilisation step should be avoided. Mycotoxins and other contaminants are insensitive to sterilisation and their control must be done in all steps of the chain.
- Determine whether your (potential) buyers require steam sterilisation before considering providing the service.
- If you are interested in supplying these new varieties you will need to work with seed companies, farmers and buyers to accelerate market acceptance. Do not be discouraged if buyers in one country are not interested. Consumer preferences differ per EU country and countries worldwide.
- For more information about higher yielding varieties of different spices and herbs refer to the following websites: ginger, chillies and cardamom.
- Check whether you can supply freeze-dried herbs or frozen herbs. Be aware that entering this new market can require investments and a different approach. For example, fresh products will have different market access requirements (e.g. GlobalGAP), logistics (such as controlled temperature transport and storage) and trade channels. Refer to the study by the Egyptian Medicinal and Aromatic Plants Association (EMAP) for a structured approach toward supplying frozen herbs.

Economic market drivers

Demand grows despite economic turmoil: Although the EU economies are slowly recovering after the economic crisis, economic growth is expected to remain moderate for the coming period. However recent years have shown that the demand for spices and herbs has continued to grow despite the economic crisis. The main reason for this is that spices and herbs are a minor but important ingredient that contributes little to the total cost of the food in which it is used. Consumers might have spent less on eating out but this has not affected the consumption of spices and herbs. Neither has consumers' increased focus on price. Cheaper food products are often heavily seasoned. In this respect the EU market for spices and herbs seems to be largely resistant to economic downturns. This applies less to more expensive items like saffron and vanilla.

Considerations for action

- Check the economic member state forecast by the European Commission to see the forecasted economic developments around the EU.
- When focusing on different segments in the market be aware that buyer requirements may differ. As a minimum you should comply with the Quality Minima Document of the ESA. However, in contrast to retail packers, food processors do not always require spices and herbs that have been steam sterilised. Contact buyers and ask them to send their product requirements by e-mail in order to see (up front) which product requirements and quality standards need to be met.

Rising prices: a trend that is relevant for most spices and herbs is the significant increase in market prices. The main reason for this development is growing global consumption and the limited growth in production. Industry experts expect global consumption and prices to continue to grow over the next few years. Pressure on prices will be relieved somewhat by new suppliers attracted by these high prices. Exporters in developing countries are in a good position to benefit. However they will have to work closely with their suppliers to secure supply. In some product supply chains farmers are however growing more powerful (e.g. pepper) and are better able to dictate prices and moments of sale. In other product supply chains (e.g. vanilla, cinnamon, chillies) prices paid to farmers are still low and/or do not provide them with a stable enough income. In these cases farmers can be reluctant to continue cultivation. Due to high prices EU buyers are looking for ways to work more closely with their suppliers. This will provide opportunities to build long-term relationships with EU buyers with benefits for both parties. Preferred supplier contracts and better access to market information may be one of the benefits for exporters.

- Keep up to date on prices. The Spices Board India publishes weekly and monthly prices for spices and herbs (Indian as well as international prices). Public Ledger is a paid service that provides information on markets and prices. Refer to CBI's factsheets on various spices and herbs for more specific sources of prices.
- The future availability of spices and herbs on the world market (and therefore future price levels) can be foreseen to a certain extent. Look for crop reports online or visit events where these will be shared by sector exports. Examples are those shared by Champagne Foods and Nedpsice.

Environmental market drivers

Growing awareness of sustainability: Food and retail companies are introducing sustainable sourcing policies, and consumers are increasingly attracted to food ingredients which are sourced in a sustainable manner. Sustainability programmes from companies can help exporters from producing countries with social and environmental issues, but will also

Considerations for action

- Prioritize the sustainability issues by looking at what your impact is for different social and environmental issues, what is feasible to do and appreciated by EU buyers. List the sustainability issues that are relevant by using existing standards (e.g. ISO26000).
- Start documenting on the issues related to sustainability, because buyers may ask you

include demands that should be met, for example increased traceability and transparency. EU companies have different definitions, priorities and ambition levels regarding sustainability. Some companies (initially) focus strictly on their own operations. However, because many of the sustainability issues take place in their supply chain, many EU players in the spice and herb sector specifically look at the CSR-performance of their direct suppliers and in most cases (especially with important issues) the entire supply chain. Important issues in the spice and herb sector are the correct use of pesticides, no child labour, health and safe working conditions, loss of biodiversity and fair payment of farmers. Suppliers can be asked to comply with supplier's codes of conduct and/or be assessed. Some EU companies address sustainability issues in their supply chain by setting up programmes or participating in initiatives. These are often focused on the training of farmers in good agricultural practices, reducing pesticide use and securing the livelihoods of farmers. In the long-term sustainability can become knock-out criteria for some EU buyers and the difference between sustainable and conventional will likely become smaller.	for a status update on specific sustainable sustainability issues. • Be aware that many of the environmental and social sustainability issues take place at farm level (which may not be part of your company). Think about a way to assure responsible business at the premises of your suppliers. To test to what extent your farmers are sustainable ask them to fill in the Farmer Self Assessment by the Sustainable Agriculture Initiative.
Growing importance of certification: third party verification can be an important factor in addressing sustainability issues: e.g. process certifications schemes like ISO 14001 and OHSAS 18001. Product certification can also play an important role (organic, Fairtrade, FairWild or Rainforest Alliance (RA)). Certified sustainable products form a relatively small niche market but the expectation is that the supply of certified products will grow over the next few years. This is especially driven by certification projects initiated by the Sustainable Spice Initiative. It certifies plantations according to RA standards in countries worldwide including Vietnam, Indonesia, India and Madagascar. The premiums that have to be paid to absorb (some of) the costs for certification constitute a barrier for further development of sustainable products. Nevertheless, for exporters in developing countries certification can open up new markets, improve the quality and yield of their products, company's image and relationships with suppliers and buyers.	• Suppliers of certified sustainable products will have a hard time finding a market if the premium is too high. Therefore it is important that economy of scale can be achieved. This allows some of the certification costs to be absorbed. • It is important to understand that each certification addresses different issues (social, environmental, economic) and serves different niches. • Refer to the CBI factsheet *Sustainable spices and herbs in the EU* for more information on this dynamic market.
Seasoning animal feed: spices and herbs are increasingly used in animal feed for livestock production. Benefits include improved health, digestion, food intake, protection against E-coli and a reduction in methane emissions. In addition, they offer a sustainable alternative to antibiotic growth promoters. It is reported that up to one third of all commercial swine and chicken rations in Europe already use mixtures of herbs and spices to accelerate growth and maintain health. Some useful herbs and spices	• Be aware that different legislation applies to the animal feed market. Refer to the section on animal nutrition on the EU's website for more information about the legal requirements. • To find out more read the article Herbs and spices: Options for Sustainable Animal Production

include ginger, garlic, scent leaf, bitter leaf, black pepper, nutmeg and cinnamon.

Political market drivers

Allergens packaging: in December 2014 Regulation 1169/2011 will go into effect. The new allergen legislation states that pre-packed food products need to state ever more clearly on the packaging that it contain allergens. Therefore it is relevant for suppliers of pre-packed spices and herbs. Ingredients that make out only a small part of a food product (like spices in ready-to-eat meals) do not have to be specifically mentioned. For example, all herbs or spices not exceeding 2 % by weight of the food, may be referred to as 'Spice(s)' or 'mixed spices' or 'Herb(s)' or 'mixed herbs'. If however a product includes more than 2% spices, the label must list any allergens, glutens or sulphites contained in the spices. These new labelling rules are meant to make it easier for people with food allergies to determine which products to avoid.

Considerations for action

- Always inform your buyer if your products contain allergens, even if you are not responsible for the final packaging. For bulk goods the list of ingredients should be included on the label or in the commercial documents.
- You will have to make sure that allergens do not mix with your products unnoticed during production or transport. That means controlling these processes and making sure food safety procedures are followed during all steps. Refer to the website of the Dutch processor Verstegen for more information on how to do so.
- Providing allergen-free spice mixtures can be an interesting market. There are already several suppliers like Dutch Spices and EHL Ingredients that are active in this market.

New import tariffs: in January 2014 significant changes were made in the EU's Generalised System of Preferences (GSP). One relevant aspect for the spices and herbs market is that spices from China and Brazil will no longer benefit from preferential import tariffs. For many whole spices and herbs the import tariff for all countries remains at 0%. For *whole* sweet pepper, vanilla, cloves and bay leaves import tariffs are now higher for China and Brazil than for developing countries. This also applies to *crushed/ground* pepper, capsicums, vanilla, cloves, saffron, curry and thyme. Whether this will provide suppliers from developing countries with a competitive advantage depends on the product. For example, in 2013, China (1% of total volume of EU imports) and Brazil (0.02%) only accounted for a small share of EU imports of crushed/ground pepper. China is however a large supplier of crushed and ground capsicums (56% of direct crushed/ground imports in 2013). Therefore, it is expected to have a major impact on this trade.

- Refer to the TARIC consultation database to check the import tariffs that apply to your own or competitive countries.

This survey was compiled for CBI by CREM B.V.
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