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### **Significant increase in costs of vanilla beans**

Vanilla extract is the most important and characteristic raw material used in vanilla flavours that carry the declaration '**natural (bourbon) vanilla flavour**' and for compositions that can be declared as **vanilla extract**. An extraction process of fermented vanilla beans produces this vanilla extract. Vanilla extract is used more widely in other types of compounded flavours, where the sweet and recognizable taste serves as an additional flavour note or rounding off of the overall profile.

This recent price increase of the 2016 harvest of vanilla beans from Madagascar - the world's largest producer of vanilla beans – is significant and caused by a combination of factors. The market price of fermented vanilla beans at this moment is around 500 US\$ per kilo, compared to a level of around 100 US\$ per kilo during 2015. But next to this, the industry is facing a volatile market with uncertainty how the price will develop over the coming months.

What caused this price increase is a set of factors that are outside our influence. On the one hand a reduction in available volumes, speculative actions but also lower quality of the beans after the fermentation process that influences the taste of the vanilla extract. The typical flavour profile of vanilla extract is coming for a large part from the natural vanillin present in the vanilla beans, next to a large number of other characteristic aromatic components. Vanilla extract manufacturers currently require larger amounts of fermented vanilla beans to convert into same quality vanilla extracts.

Recently Buteressence has been confronted with this very significant price increases on our purchased vanilla extracts. It is not possible for us to absorb these large on-costs ourselves and we have no other choice than to recover these through price increases of the flavours sold. In a number of cases this results in a substantial increase, particularly in vanilla flavours with the declaration '**natural (bourbon) vanilla flavour**', because this declaration requires more than 95% of the contribution to the taste to come from the vanilla extract itself.

As mentioned, this price increase is unexpected for us as well and unfortunately outside our control. As a company, we will support our customers wherever possible to ensure continuity of their products towards their markets. Key here for us is an on-going dialogue because availability of fermented vanilla beans and supply security will remain an important point of attention the coming months.

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