

MARKET REPORT AUGUST 2009

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The 2008 crop worldwide produced around 112,500 metric tons. The main contributing factors to this unprecedented record harvest have been increased acreage and, in particular, excellent growing conditions in Europe – especially Germany.

These are the market shares of the three biggest hop-growing countries:

Germany 35.3 %, USA 32.5 %, China 12 %. As you can see, almost 70% of world hop production is grown in Germany and the United States of America.

The 2008 crop worldwide produced a record 10,800 metric tons of alpha immediately post-harvest, equivalent to an average alpha content of 9.6% in hops. Germany accounts for 4,200 metric tons (39 %) of that total, the USA 4,150 metric tons (38.4 %) and China 850 metric tons (7.8 %).

As a result of the 2008 super crop, Germany is now the world's leading hop producer, both in quantity and alpha acid.

The most important information for the brewing industry is to know how much alpha acid is available in the hop products after processing. We estimate this figure to be approximately 9,900 metric tons.

For the 2009 brewing year we predict a worldwide decline – or at best a stagnation – in beer production. We estimate that approximately 1,800 million hectoliters will be produced worldwide.

The weight of alpha acid used per hectoliter of beer continues to decline, due directly to a general reduction of alpha acid addition and, indirectly, due to the increased use of pre-isomerized hop products.

Taking into account both beer production and alpha acid addition (4.0 g @ in the form of hop products), we anticipate a hop product requirement of 7,200 metric tons of alpha. If one adds the demand for alpha acids for non-brewing purposes, the 2008 crop generates an over-supply of around 2,500 metric tons of alpha for the 2009 brewing year.

In spite of the imminent shortage threatened by previous crops, the expertise of the brewing industry in managing the available resources meant that there was, after all, adequate supply. The surplus resulting from the 2008 crop can thus be fully used to build up stocks.

The majority of these stocks are already in the hands of the breweries, mostly in the form of forward contracts based on projected increases in beer sales. Similarly, yield improvements resulting from the use of pre-isomerized hop products were not taken into account when the forward contracts were made. Although this crop is well sold, the resulting stock positions have a direct impact on the production and sale of future crops

due to the long delays which will no doubt result before breweries take delivery of their goods. This will result in excess supply which will take several years to diminish.

On another note, the growers also have a surplus, the size of which is hard to estimate. It appears that there are still hops unsold, especially in China, Poland and Slovenia.

There are also small amounts of hops in the hands of the dealers, presumably mainly aroma hops from the record crop in Germany.

Worldwide acreage for the 2009 crop is known and, probably, too high.

The reduction in acreage of a total of some 500 - 600 ha is due for the most part to ABI's partial phase-out of aroma varieties. However, not all the affected areas have been completely grubbed. Some of them have been re-planted with high-alpha varieties, meaning that despite a reduction in acreage there will actually be an increase in alpha production.

A major hailstorm on 26th May 2009 caused considerable damage and, in some cases, completely destroyed many hop plantations in Germany. The estimated loss is 5,000 metric tons of hops or 500 metric tons of alpha acid.

Despite insurance cover, many of the affected growers have suffered huge losses and the very existence of some growers is threatened.

The storm damage is unlikely to have any negative consequences for the brewing industry. Although the potential losses incurred for crop 2009 contracts can be compensated to a large extent by using crop 2008 hops, contracts for some varieties may still be affected.

Our original forecast, in the case of the 2009 crop being normal, was for a surplus of 2,000 metric tons of alpha. We have now adjusted this figure to 1,500 metric tons.

Worldwide acreage with the varietal distribution currently under growth has the potential to produce a surplus of 1,000 to 2,000 metric tons of alpha now and in the years to come.

Urgent action is required.

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