

## MARKET REPORT JULY 2010

Economic Commission of the IHGC • Eskisehir/Turkey • 26 July 2010

The production data for 2009 given in our April market report have mostly been confirmed. The world hop crop amounted to approx. 113,700 metric tons. 28% of this quantity was harvested in Germany, 38% in the US and 14% in China. An alpha quantity of approx. 10,900 mt was produced. Alpha losses from harvest to processing have been taken into account, however, processing losses and further storage losses until use of the hop products were not considered. This amounts to world average alpha content of 9.6%. The US produced 45% of the world alpha, Germany 30% and China 9%. These three countries alone produced 84% of the world alpha crop 2009.

After a decrease in beer production by 0.6% to approx. 1,810 Mio. hectolitres in the brewing year 2009 a stagnation is expected for 2010. As already reported several times in many market reports, particularly in 2006 and 2007 the brewing industry reacted to the low alpha supply with an increased use of pre-isomerized hop products and by reducing the alpha dosage. Today we assume that the alpha dosage will further decrease to only 4.1 grams alpha per hectolitre beer. Following these figures, the demand for alpha of approx. 7,420 mt computes for the brewing year 2010. Approx. 200 mt alpha can be calculated additionally for non-brewing applications. This results in a total demand of approx. 7,620 mt alpha acids. It should be considered that processing losses and further storage losses until use of the hop products were not taken into account in this calculation.

These figures show that the alpha quantity crop 2009 theoretically exceeds the demand for the brewing year 2010 by approx. 3,200 to 3,300 mt alpha acids. Only in the last two years was an oversupply of approx. 5,600 – 5,700 mt alpha acids produced.

Crop 2009 established records in many respects:

- biggest alpha quantity ever produced (10,901 mt)
- highest average alpha content (9.6 %)
- highest alpha production per hectare (192.4 kgs)
- highest average yield per hectare (2.01 mt/ha)
- highest alpha surplus (3,200 – 3,300 mt)
- minimum alpha dosage (4.1 g alpha/hl)

The result is an important increase in stock in the hop and beer industry which appears as:

- unsold hops crop 2008 and/or 2009 at the hop growers, especially in China, Poland and Slovenia
- unsold hops at some trading companies
- finally processed and sold hops still in storage waiting for calling off and payment
- hop products in storage at breweries

This situation has resulted in a dramatic decrease in spot prices on the world hop market. From the heights of crop 2007 and 2008 the prices for free market hops and hop products plunged to a level beyond production costs.

At the meeting of the IHGC economic commission in November 2009 in Munich the German Hop Trade Association had already warned of overproduction and its consequences, in turn urging the necessary acreage reduction. Wording from the IHGC report: "...The international hop industry must reduce the hop growing acreage as soon as possible to stop overproduction. This is particularly the case for those countries and hop growers who increased their hop growing acreage during the last few years without having any contract coverage. But also the US and Germany, whose future crops are mainly sold under contract,

*have to look for possibilities to reduce hop growing acreage, even though this will be difficult.*  
..."

According to the figures on world hop acreage 2010 available at present or estimated the acreage reduction of the most important hop growing countries is as follows:

- U.S.A.	- 3,430 ha
- Germany	- 86 ha
- China	- 1,000 to 2,000 ha
- Poland	- 200 to 300 ha
- Slowenia	- 200 to 300 ha

Despite a very high contract coverage, the US will nearly completely remove the acreage established since 2007.

In contrast, the contribution of Germany against overproduction was nil. It is also the case that in Germany the main part of the acreage is fixed by high contract coverage. Nevertheless, it would have been possible to gain at least some hectares for clearing by contract transfers or individual agreements between trading companies and hop growers. This was already pointed out in the IHBC meeting in November 2009. Unfortunately, these efforts have not been particularly successful.

During the whole winter the hop trade and the Growers' Association repeatedly warned in various meetings and publications about growing hops without contracts. Nevertheless, 145 ha of variety Herkules were newly established in Germany. It seems as if the main part of this additional production is not covered by any contracts.

The world acreage 2010 is supposed to be from approx. 51,000 to 52,000 ha. When estimating a possible crop yield it should be considered that important changes in the structure of varieties occurred. The increasing cultivation of new high yield and high alpha varieties results in a constant increase of acreage productivity. Assuming a normal crop, the world average yield covering all varieties amounts to 1.95 mt/ha, the world average alpha to 9.5 %.

Taking these average figures as a basis for a normal crop and a supposed acreage of 51,500 ha, a world crop of more than 9,500 mt alpha acids is being computed. Even considering losses by hail or possible illnesses it is obvious that the acreage reduction is far from sufficient to balance the market.

In a scenario with the average yields mentioned and an alpha demand within and beyond the brewing industry levelling off at 7,600 to 8,000 mt a world acreage of 41,000 to 43,000 ha would be sufficient to produce this quantity. Then it would be necessary to take a further 8,000 to 10,000 ha out of production.

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