
China Spearmint Oil Market Report
September, 2014

Prepared for:

Far West Spearmint Oil Administrative Committee

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Overview

This summer, serious droughts have attacked almost all the production areas, including Xinjiang in the far west and Henan in central part of the country. The drought in Xinjiang led to the delay of cutting in that area and a decline in oil production. In fact Xinjiang did not start to cut the crops until early September.

However overall production in 2014 seems similar to that of 2013, which is approximately 100 tons. Price of oil also remains unchanged despite of the drought. Growers' selling price is approximately 260yuan/kilo, and this price has been existing for over two years since 2012.

Inventory level is low if not zero since there is little fluctuation in market price for quite a while and growers have no incentive to keep oil at home. Most of the old oil, if there is any, should be kept by oil processors like Wanxiang in Shanghai and Tak Sun company and O'Laughlin in Shenzhen, Guangdong province.

The three companies mentioned above, are leading companies handling mint oil export business. These three companies purchase at least 80% of the overall production, the rest is shared by numerous fragrance and flavors plants, mainly from Jiangsu and Jiangxi provinces in south part of China. Much of the oil is used by these plants to blend synthetic carvone and sold to end-users including tooth paste factories.

I. An in-depth analysis over the current market

A. **STABLE is probably the right word to describe the Overall mint oil market.**

In the fall of 2014, demand and price for mint oil are found still not exciting. Industry people believe that low production can no longer stimulate market price since demand remains low as well, due to the fact that natural oil is no longer playing a key role in the flavors and fragrances market and imported oil from India also takes away large proportions of the Chinese market.

In 2013 report, we mentioned that market for local mint oil has been continually shrinking and major oil dealers have downsized

their companies in order to survive. We noted that in 2014, there is only one oil dealer in Henan who is still handling the purchase of crude oil from growers, It is said that all other oil dealers in that area are purchasing the processed oil from growers, which has higher content of limonene and they use such oil to blend carvone. And this type of oil is 240yuan/kilo, nearly 30 yuan lower than the crude oil.

B. Production in 2014

Table I. below indicates that the total production is similar to that of 2103, while there are still changes in yields from different areas. Shandong ranks No. 2 now, and Henan drops to No. 3. Despite of lower production, Xinjiang still remains to rank the top in oil production this year.

Table I. Estimated Mint Oil Production in China

Sept. 2014

Unit: Metric Ton

National (total)	Approximately 100
Xinjiang	Close to 50
Shandong	20
Henan	Over 10
Shaanxi	5 (O’Laughlin)
Anhui	1-2
Hubei	3
Jilin	3-5
Other places	Less than 2 tons

Table II. Mint Oil Prices

(2012-2014)

Unit: Kilo

Spearmint oil price	2012 (fall)	2012 (winter)	2013 (spring& summer)	2013 (new oil)	2014 (whole year)
55°-58° crude oil	RMB260/kilo	RMB270/kilo	RMB250/kilo	RMB260/kilo	RMB260/kilo

As we can see from Table II that there is little fluctuation in oil prices over the past 3 years.

C. New production areas emerging

The emerging of new production areas is always connected with the efforts of leading oil dealers and leading suppliers of mint oil. We noted that in Xinjiang, there are two new counties involved in mint growing, one is Xinyuan, the other, Changji. They are both close to Yili, a leading production area for peppermint.

Meanwhile, Shandong province which borders Henan, also becomes an ideal place for growing spearmint. Oil dealers from Henan provide technology and sign contracts with growers in Jiyang and Qingyun to guarantee a stable and secure source of mint oil for their clients. Our production table indicated Shandong ranks No. 2 in mint production in 2014. And such achievements were obtained with significant contribution from Jiyang and Qingyun.

D. To a large extent, mint flavor is quietly replaced by peppermint flavor in China's toothpaste products.

By visiting local supermarkets we found that leading toothpaste factories like Colgate and Crest, almost all gave up spearmint flavor in their products. It shows that among numerous toothpaste manufacturers, only two of them still have one or two products with spearmint flavor. Peppermint flavor takes over most of the spearmint flavor in recent years. While 15 years ago, toothpastes with spearmint flavor could be easily found in local market and many toothpaste factories have this flavor.

We also noted that similar to food and beverage, the flavor of green tea is becoming trendy now as new concept of health is changing the life of younger generation. Many consumers are in favor of tea flavor believing that tea contains many ingredients good for health.

II. Synthetic carvone, a lasting curse...

There are 4 leading suppliers of synthetic carvone in China. They are Wanxiang in Shanghai, with annual production of 2000 tons, O'Laughlin Tianjian Plant, annual production 1500, the other two companies, both with a production of 500 tons. As we discussed in 2012 report, national production of synthetic carvone is approximately 5000 tons. Price for carvone is close to 160yuan/kilo. It will have a long-term impact on China's mint oil market. Or we can say that the synthetic carvone market is far more prosperous than the mint oil market.

III. Peppermint and arvensis

Current price for peppermint oil is approximately 470yuan/kilo, higher than in 2013. For arvensis, price remains stable, 170-180yuan/kilo.

We are convinced through our market study that the flavor of peppermint and arvensis is getting more popular now in food and beverage industry as well as for products like toothpaste, compared to spearmint.

IV. O'Laughlin, a major player that can not be ignored.

O'Laughlin was an American lawyer based in Hong Kong in the 1980s. In 1988, he founded O'Laughlin Shenzhen Company in Guangdong province in South China, and in late 90s he started to set up his own production basis to grow spearmint (Scotch introduced from America)and peppermint in Shaanxi, a Central China province close to Henan. 90% of the oil produced from his own production basis is sold through his own channel, mainly exported to U.S. It claims to be a world leading supplier of both natural and synthetic oil.

In 2010, O'Laughlin invested in its largest chemical plant in China's Tianjin city, a port city neighboring Beijing.

So far, O'Laughlin has five facilities in across China, most of them in the south.

In most recent years, O'Laughlin is also seeking cooperation with Tongjiang, a city in northeast China's Heilongjiang province to grow peppermint in that area. Please refer to our *Map of PRC*.

Long time ago we knew that O'Laughlin has been quite active in the Chinese mint oil market, but we could hardly get any accurate information about its mint production in Shaanxi. I contacted O'Laughlin himself in 1998 and asked him a few questions and he was very upset, threatening to sue me at the court, saying that I can not expose any information related to his business in China. That's why it was not mentioned much in our previous reports.

But as I wrote in the overview of this report, O'Laughlin is one of the three leading companies in the mint oil market. It therefore can not be ignored.

Appedix: Map of PRC. In which we boldlined the current main production areas for spearmint, peppermint as well as arvensis in attempt to help client to get an idea about the geographic distribution of production areas.

END OF REPORT