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COVID-19 Impacts on the Frankincense Market

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“...the pandemic has closed businesses locally, it has played even worse havoc with international supply chains. The frankincense industry is no exception...”

Recent Global Demand for Frankincense

- Frankincense is used by four primary markets: aromatherapy, cosmetics, traditional medicine, and perfumery.
- The demand for frankincense has been steadily rising over the past twenty years as total global population increases and as economic prosperity has increased—China’s rapidly expanding middle class, for instance, is an enormous market for frankincense-containing luxury goods such as perfumes and cosmetics.
- There has been a particularly significant spike in demand in the last ten years, as aromatherapy has risen from a niche trend, to being a multi-billion dollar a year staple of mainstream wellness and health-based lifestyles.
- Today, aromatherapy likely accounts for more than half of the global market for frankincense essential oil. Going into 2020, demand for frankincense was continuing to expand.

How has the Pandemic affected demand?

- The demand for luxury products such as fine fragrances and cosmetics has dropped, resulting in a downturn for frankincense in these markets.
- However, frankincense is also known for its antimicrobial and antiviral properties, driving a wave of demand as the pandemic has expanded interest in natural medicinals. As a result, frankincense has seen demand plummet in the perfume and cosmetic sectors, but spike in the aromatherapy sector.
- Companies in these industries face huge volatility, uncertainty, and additional costs and delays.
- Shipping and logistics costs have spiked, while transit times have become much longer.
- Movement of capital has slowed as loans have become scarce and companies try to figure out which expenditures to prioritize.
- Fewer workers are able to be in quality control labs, leading to more difficulties in detecting adulteration or contamination in the oils.
- Chinese companies are still interested in buying, but they demand very low prices that make the work unprofitable.
- Volatility has raised concerns about price fluctuations across most of the major essential oils, and reduced confidence in purchasing new raw materials before the prices stabilize. As a result, in many cases there is a slowdown in purchasing of the resin.
- However, many companies have strategic stockpiles of resin or essential oil for situations such as these, allowing them to suspend purchasing without taking their products off the market. This means, though, that they will have to resume purchasing frankincense when the situation stabilizes—enough to refill their stockpiles.
- Stockpiles of natural products are important, they allow for continuity in product offerings, but they need to be done carefully or else companies can overshoot the ecological carrying capacity of the frankincense forests; stockpiling needs to be managed ecologically, not just financially.
- Exporters report that demand from the US and Europe has been greatly reduced, while demand from the Middle East (primarily for *B. frereana*) has also become unstable.
- The African market for incense, however, is still strong.

What does this mean for harvesting communities on the ground?

- Many communities depend on frankincense as their primary source of income, so disruptions in the market like this can have disastrous consequences.
- Over the last ten years, local prices for resin have trended upwards (with some fluctuations), largely as a result of the burgeoning aromatherapy market.
- However, the pandemic threatens to reduce resin prices again to very low levels.
- Harvesting communities' limited knowledge of the international market, its forces and fluctuations, means they have a limited ability to respond to market change by controlling production and setting appropriate prices, as is common in other commodities.
- In commodities such as petroleum oil, producers can coordinate to maintain prices by limiting production. However, in frankincense the lack of market knowledge and direct engagement acts as a factor driving unsustainable management, because communities have such limited ability to coordinate limiting production and setting high prices—thus their only option becomes harvesting more and more resin as prices drop (to maintain their livelihood) or as prices increase (to take advantage of a temporary bump in the price).
- This is a neocolonialist situation.

“It’s hard to rely on Western countries for business because their purchasing depends on the political and social challenges they’re facing from COVID.”

—Somali Exporting Company

“Most Somali businesses are struggling. They mostly depend on the Middle Eastern market, which has been depressed.”

—Somali Exporting Company