



**INTERNATIONAL TRADE CENTRE
COMMON FUND FOR COMMODITIES**



**REGIONAL MEETING ON THE DEVELOPMENT OF
CASHEW NUT EXPORTS FROM AFRICA**

**Organised by the International Trade Centre UNCTAD/WTO (ITC) and the Common
Fund for Commodities (CFC), in collaboration with the National Export Council (Conseil
National pour l'Exportation -CNEX)**

**Hotel du Port - "La Marina", Cotonou, Benin
23 – 26 JULY 2002**

**A PRAGMATIC APPROACH TO DEVELOPING
A CASHEW EXPORT BUSINESS**

**Background paper and presentation made by
Mr. Jeremy Holt
Amberwood Trading Ltd.**

**Project No. INT/W3/69
"Trade expansion in cashew nuts from Africa"**

This report was carried out on behalf of the International Trade Center UNCTAD/WTO (ITC) and was funded by the ITC Global Trust Fund under project INT/W3/69.

The designations employed and the presentation of material in this report do not imply the expression of any opinion whatsoever on the part of the International Trade Centre UNCTAD/WTO (ITC) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

This report has not been formally edited by
the International Trade Center UNCTAD/WTO (ITC)

CONTENTS

	Page
1. Synopsis	4
2. Profit margin	4
3. Price	4
4. Risk	5
5. The market	6
6. Trade money	7
7. Supply – let’s plant cashews	8
Supply and demand	8
Consumption and price sensitivity	8
Plantings	8
Marketing	9
The importance of price stability to increasing consumption	10
Reducing supply	10
8. The merchandise	11
Specifications	11
Haccp	12
Xapuri	13
9. Qualities / Grades	13
10. Seed or kernels?	14
Vietnam	14
Brazil	14
India	15
The future	15
11. Solutions?	15
12. Conclusion	16
Seed or kernels	16
Credibility	16
Controlling the supply	16
13. Curriculum vitae of Mr. J. Holt	17
 Power Point presentation	 18

1. Synopsis

This paper presents a rather depressing analysis of the state of the world cashew industry, and the difficulties that lay ahead for any country that wishes to try to develop a Cashew Export Industry without the political will to see it through to the bitter end.

While there are many reasons to plant cashews, there are many more reasons to strictly limit the world production. This paper looks at the question of world oversupply, limited demand and concludes with some impractical solutions to the problem.

2. Profit margin

Let us start with a re-definition of this rather important phrase. In simplistic terms this phrase is understood to mean the difference between operating costs and net income.

However, in the world of commodities the phrase has a completely different meaning. It is a subjective definition of the **risk** of doing business.

Specifically – if goods are purchased from a reliable first class origin supplier that is known to deliver high quality goods, on time as per contract, and these same goods are sold to a reliable, first class customer, who will honour his contract, pay in accordance with the contract terms, and will only make a quality claim if the goods are truly inferior to the specification that is contracted, the risk is small.

If, on the other hand, goods are purchased from a small, unknown, unreliable supplier, with an untested quality, and sold to a small, under-financed, not wholly honest customer who may make spurious claims on the quality, and may not pay on time (or at all), the risk is great.

When evaluating the “profit margin” for this business, the trader will of course base his required margin on the risk that he feels he is exposing his company to.

This definition of the word “profit” is what underlies all commodities. It explains the “spreads” between one origin and another, one shipper and another – one customer and another. This leads to redefining another commonly misunderstood word – “Price”

3. Price

What is the “price” today of cashew nuts?

All dried fruits and nuts trade as a physical soft commodity. There are no Futures Exchanges for these commodities. There is no world “Price” for cashew nuts, unlike a world price for cocoa, sugar, soybeans, orange juice etc. All attempts at introducing on-line trading for edible nuts have failed miserably.

There exists an approximation of a price to which the perceived “risk” or “Profit” is added or deducted. The reason on-line trading systems have failed, is because they have attempted to create a one world price which does not take into account the inherent risk of doing business in this industry. We will look at specific risk a little later on, but for the moment let us concentrate on the word “price”.

The trade uses three distinct umbrella terms to describe Indian cashew shippers – “Group”, “Medium” or “Small” shippers. These terms do not directly refer to their size but to their perceived reliability of performance and consistency of quality. The “Group” will always receive a US\$ 0.05 to US\$ 0.10/lb premium over the “Medium” shippers who in turn will receive a similar premium over the “Small” shipper.

Within each so-called classification, different buyers rate individual shippers on the basis of different criteria. These criteria largely come down to personal relationships and the practical experience of dealing with the counter-party.

Other factors distort the “price” of the commodity – Letter of Credit charges, brokers’ commissions, freight differentials between one country and another, import duties. A sale to a buyer on 90 days terms is a much different price to a spot sale.

However, the biggest factor that affects the “price” on the day of the business is the “profit/risk” factor that is added to or deducted from the base price.

Considering Africa as a new supplier origin – what is the risk factor, and thus the required “profit margin” that your potential customers will apply to you?

4. Risk

For fear of causing offence - the answer is – **Very High Risk: unknown suppliers, unknown quality, unknown financial status, unknown economic stability, unknown political stability, and poor previous track record.**

Let us not forget that you will not be selling your products to economic/political analysts at Harvard University or consultants to the UNDP or WTO – you will be selling your products to importers and roasters who have no interest in you, and even less interest in your countries. Africa is an unknown to the rest of the world – coups, wars, droughts, corruption. Africa historically has a low commercial credibility rating in this industry, and therefore the perceived risk is enormous. This risk is translated into dollar cents per lb and then knocked off your price.

If it is the intention to develop a cashew export industry in Africa then you must face up to this reality. Being bankrolled by the World Bank does not offer credibility – quite the contrary. A limited form of government protectionism can help – I will come to this a bit later.

What are the factors that a Buyer is looking for in a supplier? In no particular order:
Consistency – can you deal with the same people from one year to the other or is the company subject to frequent changes in personnel?

- Comprehension – do you understand your customer’s requirements, and can you adapt to them as necessary.

- Financial stability – this applies both to the company and the country
- Quality – can you deliver in accordance with the contractual specifications – not once but every time?
- Quantity – can you provide a regular flow of product?
- Price – irrelevant!
- Reliability, reliability, reliability and once again reliability.

Why is price “irrelevant”? Because the market (or what remains of it) and the other factors discussed in this paper will determine the price you will obtain for your product.

“Competitiveness” is also not in the list – this is not an issue for the customer, but for the factory. It goes without saying that an inefficient factory with no controls of its costs will not survive for long.

5. The market

The supply chain from producer to consumer is as follows:

- Producer
- Intermediary seed trader
- Processing facility
- Broker
- Importer/Trader
- Roaster/Distributor
- Retailer
- Consumer

Until about 10 years ago the Importer/Trader acted as the bridge between the origin and consuming countries – absorbing the risk mentioned earlier, and using the “market” as a means of hedging his risk. Both the origin shippers as well as the roasters/distributors looked upon the trader as the devil incarnate. It was the “trader” that sold short against origin or bulled the market up against the roaster.

In fact the trader and the “market” provided price stability – true the prices would go up and down, but the extremes were always tempered by the fact that the market looked after itself – a trader with a short position would cover his position some time before the market hit rock-bottom, conversely they would clear their long positions as the market rose, effectively smoothing out the peaks and troughs.

Since the early 1990's "commodities" has been a bad word in banking circles, and many of the trading houses dropped out of the business. The market has lost its liquidity, and with it the ability to hedge a position.

For all of Black and Scholes remarkable mathematical ability at Long Term Capital Management, they made one fundamentally incorrect assumption about the financial markets – namely that there is always a buyer for what you are selling, or always a seller for what you are buying – in other words that there is always 100% liquidity. If they had run their ideas past a soft commodities trader even 15 years ago, they may have heard that this was a flawed assumption – there is no such thing as 100% liquidity.

In 2002 we are in a situation where there is almost no liquidity at all in the cashew market. The market as we used to know it **no longer exists**.

This leads to extremes in pricing that seriously affect the abilities of origins and manufacturers to make any kind of long term forecasting. In December 1999 W320 were trading at US\$ 3.40/lb FOB India – by March 2002 the same goods were trading at US\$ 1.55/lb FOB India. For two years prices fell in a void – there were no traders with short positions to cover, and a sale could only be made when a roaster received an order from the retailer.

This is of course an over-simplification of the situation, but the significance of the lack of liquidity in the market cannot be under estimated.

6. Trade money

A further significant affect of the demise of the "market" has been that the "trade money" has largely disappeared from the system.

Most importers, traders and roasters are financed through lines of credit based on guarantees of physical stock warranted in the United States or European warehouses. The major US and European trade finance banks will in turn lend at between 2:1 and 3:1 against this guaranteed collateral. This money is then converted by into high-risk capital, which is lent to companies to which the banks would not lend money themselves. The money that oils the entire system comes from this spread. The problem is that as the market has contracted, and some of the major players have withdrawn, much of this "trade money" no longer exists – resulting in cracks appearing in the entire system.

Even ten years ago, the importer/trader acted as financier both to the origin producers as well as to his customers. Vessel journey times from Brazil to New York were around 40 days, India to New York around 60 days. Today the sailing time from Fortaleza to New York is 7 days and from Cochin to New York 30 days. There is no need any longer for an importer to hold stocks in warehouses in New York or Rotterdam to the same extent as in the past. The origins are now expected to finance their stocks until such time as the importer and/or their customers are ready to receive the product. At the same time the roasters and retailers are demanding longer and longer credit terms

This puts enormous financial pressure on the export factories – no longer can they produce, ship and get paid – today they produce, wait, ship, and wait again to get paid.

The demise of André and Cie, the Swiss traders, Man Producten - the Dutch trading company, and Conagra's divestment of their tree-nut business in the last two years has probably contributed to a reduction of around US\$ 400 million per annum in "trade money" circulating in Africa, India, Vietnam, Brazil and the consuming countries.

The lack of this "trade money" is slowly strangling the origin factories. In the last two years three major Brazilian factories have closed, leaving today only 6 working companies. Of these six factories, one is owned by Kraft, the other by the largest industrial conglomerate in the north of Brazil, three by the richest men in the states of Rio Grande do Norte, Piauí and Ceará respectively and one by a successful entrepreneur. In Brazil there is now no room for the small player. The smallest exporter is now increasing his production to 1000 cartons x 50 lbs per day, while the largest now shells around 1800 cartons per day with plans to expand to 2200 cartons per day. One of the factories is already HACCP certified by Bureau Veritas, and the other five expect to receive their certification by the end of the year.

Factories can no longer depend on their customers to finance their production at this point, but must have sufficient resources to finance themselves. As the liquidity in the market has dried up, factories must be prepared to finance goods for exceptionally long periods of time – this in turn leads to major cash flow problems.

7. Supply – Let's plant cashews

Supply and Demand

If "profit margin" is the expression of risk, then price is one thing and one thing only – an expression of the imbalance between supply and demand at that moment in time.

That is all that the price is – no more and no less.

The only thing that makes the price go up is greater demand than supply and the only thing that makes the price go down is greater supply than demand – nothing else.

What does this mean in practical terms?

Consumption and price sensitivity

Low prices *tend* to lead to an increase in consumption. Increased consumption with stable supply *tends* to lead to a rise in price. However, what happens when prices do rise at origin? Third world entrepreneurs, foolish politicians, and meddling international financial institutions hold international conventions to discuss how these poor countries can take advantage of the sudden price increase. And what is the conclusion of these informed experts – let's plant cashews!!

Plantings

Even the Brazilian Anão Precoso (Precocious Dwarf) – the fastest yielding cashew tree in the world (C040) takes five years to reach production stability. By the time the tree has reached stability, the world has probably gone through two price cycles. At US\$ 1000 per hectare to plant the trees, with loans at 8% per annum from the Banco do Brasil, mortgaged to the hilt, the farmer is not going to pull his tree out of the ground when prices for the seed fall.

The same thing has been happening since the mid 1990's across Africa – prices of US\$ 1450-1600 in Tanzania, US\$ 950 in Cote d'Ivoire – all encouraged new plantings. The plantings took place in a bull market, world consumption fell, and these new cashews came online just at the time when prices had begun to fall. Supply continued to increase into a market with no liquidity – it is hardly surprising that prices hit US\$ 1.55/lb this year.

Plantings cashews is a politically cheap way of providing a short term sop to farmers/voters. Since cashews grow in areas that few other cash crops can grow, they are always going to be an attractive proposition for semi-arid areas.

Two years ago the Brazilian producers union managed to persuade the politicians in Brasilia to give a US\$ 25 million line of credit over three years to increase the plantings from 200,000 MT to 400,000 MT. Thankfully, most of the money they obtained went to tend their new cashew plantations in Vaduz, the Dutch Antilles, Liechtenstein and Switzerland. Good though the Swiss are, they are yet to produce a decent cashew crop! However, plantings have increased in Piaui from 25,000 MT in 1990 to 40,000 MT in 2001 and are sharply on the increase in Bahia.

Since there are many more farmers in Brazil than factories, no one actually bothered to enquire as to where they thought they would sell these additional 2 million cartons – it just wasn't a relevant question to the producers who asked for the money, and the politicians who gave it.

In Vietnam we have seen the crop double from 1996 – 90,000 MT to 180,000 MT this year. The Vietnamese forecast a 300,000 MT crop by 2010. Politically, Vietnam is driven by the need to provide jobs to rural areas and not primarily by earning a profit on the export kernels. There is talk that both Cambodia and Laos, with identical growing conditions will begin planting this year.

From my limited knowledge of Africa, the same thing is happening here.

Marketing

When those responsible for the new plantings are presented with the unpalatable fact that nobody really wants these additional cashews, the response is always - “we must increase consumption through marketing”.

In practice consumption for cashews does increase – not because of additional marketing, but because the excess supply has driven prices down to the point that the cheapness of the product has stimulated additional demand – not quite what the thinkers had in mind when they started their plantings.

Following the rule of Supply and Demand, there is a natural tendency for lower prices to stimulate consumption. However, in order to do so, the lower price must be passed on to the final consumer together with a marketing push at the retail outlet.

Unfortunately, no co-operation whatsoever exists between the three major producers of cashew. The Brazilians will not invest in marketing because it may benefit the Indians. The Indians will not invest for fear of benefiting their greatest threat – Vietnam. The Vietnamese will not invest for fear of benefiting Brazil or India.

The importers in the US will not invest because they feel that it is the origin's responsibility to market their product. The roaster will not invest in marketing, because they are aware of the fact that an increase in consumption leads to immediate price instability.

The importance of price stability to increasing consumption

It is the fear of **future price instability** that discourages the end of the supply chain from marketing the product. In Europe, the retail price on the supermarket shelf has not changed in three years.

There is no merit in beating the “let’s market our cashews” drum without advance knowledge of future pricing, because the very customers who should benefit from such a policy are terrified that they will become victims of their own success.

Cashews and almonds are both considered “luxury” nuts. Yet why with both commodities at 15 years lows, did consumption increase dramatically for almonds in the US and not for cashews? The reason is simply that the Californian Almond Growers Exchange began aggressively marketing almonds world-wide over 20 years ago, anticipating increases in plantings. Further, the US processors of almonds, filberts, prunes, pecans, raisins etc have always considered themselves as processors of the **finished retail product**.

Origin shellers of cashew nuts have always considered themselves as industrial units converting one type of raw material into another type of raw material, which will be reprocessed at some point further down the supply chain. Essentially, the origin shellers have felt that their role in the supply chain has been nothing more than removing the shell from the kernel. It should be pointed out that this thinking has changed radically in Brazil in recent years.

Increased plantings in Brazil, Vietnam, Africa has already led to a significant over-supply. The next few years will only exacerbate this situation. Perhaps, once the kernel price has stabilised at US\$ 1.00/lb FOB for a number of years, the roasters in the US and Europe will pluck up the courage to market cashews more aggressively.

Reducing supply

The other side of the coin is that as supply increases and prices fall, the cost of collection and distribution of the raw material no longer makes it economically viable for the producer to collect the crop. This leads to neglect of the trees and a consequent reduction in supply.

It is interesting to note that as many cashews were collected in Brazil at US\$ 260/mt last year as were collected in 1999 at US\$ 1300/mt. As many cashews were collected in Tanzania at US\$ 660/mt as were collected at US\$ 1400/mt. As many cashews were collected in Cote d’Ivoire at US\$ 540/mt as were collected at US\$ 950/mt. What can one conclude from this fact? Besides the obvious point that some people have been making a lot of money out of the seed trade in years gone by, the more important point is that cashews tend to grow in economically underdeveloped regions where the producer has few options.

In Brazil, only about 20% of the crop is in organized plantations, the other 80% is dotted around the northeast on smallholdings where farmers live at subsistence level, earning between US\$ 150 and US\$ 300 per annum. Cashews are their only source of cash income. Many of the farmers are in a constant state of debt, and in many cases cashews is the currency they use to repay their loans. The fact is these producers have little choice in the price they can make for their cashews. These producers are so impoverished that they do almost no maintenance on their trees anyway. At what point do they stop collecting the nuts?

No doubt, if one were to feed all the data on world supply and demand into a computer, one could calculate a point of equilibrium where everyone is happy. Stable, low prices encouraging marketing and an increase in consumption happily absorbing the increasing supply through new plantings.

Unfortunately, we live in the real world, which is driven by greed on both sides of the fence. Buyers will always try to screw the last cent out of their suppliers and vice versa. All commodities, including cashews are inherently price unstable.

The truth is that as plantings continue throughout the world, those who should be benefiting most from it, namely the producers, are the ones that will be forced to bear the costs of the misguided decisions being taken now.

8. The merchandise

What happens to the cashews that leave the ports of Cotonou, Ho Chi Min City, Fortaleza or Cochin?

Well – to put it bluntly – someone eats them.

However, what a citizen of Benin, Brazil, India or Vietnam is prepared to put in his mouth is not necessarily the same thing that a citizen of the UK, Holland, France, Germany or the USA is prepared to put in theirs.

Indeed, the governments of these countries legislate over what is permissible to put in one's mouth. Some of the legislation is ludicrous, but the vast majority of the legislation is a means of protecting the consumer from themselves. Having lived for many years in Brazil and Bolivia, I know that the consumer's constitution in these countries is far stronger than that of those of the developed world.

Human excrement residues containing “faecal coliforms” may not kill a Brazilian consumer, but it will almost certainly close down a cashew roasting plant in Chicago overnight.

Live infestation may be all right with the local Ministry of Health Inspector in Cochin, but his colleague at the port of Rotterdam looks it at rather differently.

Specifications

The AFI specifications under which 90% of world cashews trade is a broad specification that tries to reconcile cashews of many different origins on one piece of paper. In fact it does a fairly good job. However, it defines the quality of the goods on arrival at the port of destination and makes no reference as to how the cashews should be prepared at the point of origin. This leads to origin producers making a product that conforms to the specification, or more likely sitting just inside the defined tolerances. So long as the goods are within spec, the Buyer has no legitimate grounds to complain.

While this policy may have been good enough in the past, it is no longer enough.

HACCP

Quality starts on the production line. It starts with an analysis of the critical control points, and it requires a fundamental change in the mindset of the owners and workers of the factory. It requires comprehensive documentation of the internal systems and processes. Human excrement is not native to cashew nut kernels – it is applied after the nuts are removed from the shell. Rat hairs, bird droppings, stones, dust etc are also not native to the cashew nut – these are all functions of the conditions of the operating facility.

Cashews factories, as food processing facilities, are or should be rigorously controlled from the moment and point the raw material arrives, until the finished product leaves. The workers must understand what they are doing and why they are doing it. The owners must be equally mindful of these requirements. So, if the workers are ordered to wear hairnets and remove their jewellery, the owner too must accept the same rules he has imposed on his employees.

The fastest and most efficient way to bring a factory up to scratch is to seek HACCP (Hazard Analysis Critical Control Points) certification by an international body. The very process of seeking certification leads to the mindset needed to produce a marketable and desirable cashew. ISO 9000, ISO 14000 follow on naturally once HACCP certification has been obtained.

HACCP has a number of rather important side benefits:

- The processing facility now seeks quality from the inside out, rather than having it imposed on them through quality claims by customers.
- The factory acquires self-confidence in its ability to produce cashews – so when the next claim comes in for 6.2% second lower grades, the factory can provide its own internal lot by lot analysis reports showing that the claim is unfounded.
- Because the factory **knows** what it is making, it is able to evaluate the product for itself and is no longer dependent on its customer telling them how much the product is worth.
- The very fact that the factory has gone through the rigours of certification increases its credibility with its potential customers, thus the perceived risk is reduced, and the importer's "profit" margin is adjusted accordingly.

Good manufacturing practice and HACCP are the foundation stones of any food processing factory. If one does not acknowledge this from the start, there is little point in even thinking of building a factory.

Xapuri

In the late 1980's I was asked by the World Bank in Brazil to come up with a proposal to build a Brazil Nut processing factory in Xapuri, Acre. This was the time of concern over the deforestation of the Amazon Rain Forest, and Chico Mendes, the head of the rubber tappers union had just been murdered. The idea was to build a factory in his home-town and provide work for the rubber tappers. My suggestions were discarded and, in the end, two anthropologists working for an environmental organization out of Boston, Massachusetts, built the factory.

Far be it from me to criticize the profession of anthropology – while no doubt highly skilled in their chosen field, they knew rather little about the Brazil nut industry and what was required to build a food processing facility. In any event they built a facility – not exactly a food processing facility – more a sociologically sensitive, ecologically sympathetic - pig-sty. The factory sold their product for a few years at enormous premiums to the world market – because the sociologically sensitive, ecologically sympathetic, politically correct consumers felt “good” about buying this product from the rubber tapper.

However, one day, the rather more pragmatic U.S. Food and Drugs Administration in New York decided that politically correct did not mean safe to eat – and that was the end of the Xapuri Brazil Nut Factory.

The point here is – if you are going to build a factory – get it right from the start – don't hide behind some sham illusion – the real world (USFDA) will always prevail!

9. Qualities/Grades

The main traded grade is the W320 – the bulk of African seed produces this grade with the exception of Guinea Bissau, which produces a smaller kernel (W450).

The main use of kernels is for roasting and salting either as a single item, or mixed with other nuts and dried fruits. In the US it is common to see large and small broken pieces sold either as single retail grades or more commonly blended with whole kernels. Very small pieces are notoriously difficult to sell.

If one is using a hand-shelling or semi-mechanised process, one should expect to see out-turns in the region of 80-85% whole nuts, 80-90% first quality white kernels. Compare this to Brazil where the factories are completely mechanised – 48 - 54% whole nuts, 52 - 65% first quality. In recent years Brazil has been able to maintain her competitiveness through mechanisation and cheap raw material – the first cost per carton over the last few years has been around US\$ 58 per 50lb carton, having fallen from around US\$ 84 per carton about six years ago – this is a factor of both falling seed prices, but more significantly falling production costs.

In recent months new technology has been introduced in some of the Brazilian factories which, when operational, will theoretically push the whole kernels index towards 60-65% and white kernels towards 75-80%.

Hand shelling and manual grading requires a skilled and cheap workforce. Safe quality requires a skilled and intelligent workforce.

10. Seed or kernels?

I do not believe that a country can export both seed and kernels. If businessmen are prepared to invest their money in building a local cashew industry, they can only do so with the knowledge that they will have access to a reliable flow of reasonably priced raw material.

Since I have been led to believe that there is a lack of skilled labour in Africa, the tendency will have to be towards mechanised or semi-mechanised shelling systems and grading systems. This requires a higher initial investment than a purely hand-shelling operation, and a greater need to ensure that the raw material price is viable.

It is naïve to think that a farmer will sell to a local sheller at US\$ 300/mt and sell for export at US\$ 700/mt. Further, should the main buyers of seed, namely India, see that an export kernel industry is developing; they will immediately hike their offer price in an attempt to choke the industry at birth. With the industries gone, seed prices fall back again.

This has already happened in Mozambique and Kenya, and will certainly happen wherever a new kernel industry is developed and tries to run in parallel with a seed export industry. In fact in Brazil, each time the subject of permitting export of seed raises its head, Mozambique is offered as the example of what happens when such policies are adopted.

Vietnam

Vietnam has been seen as a new buyer of seed in Africa over the last few years. Their cashews are probably in more demand than any other origin. They are generally considered to produce the very best quality cashews in the market today. Their biggest problem over the last few years has been meeting the demand for their product, leading to a situation of occasional defaults when enthusiastically over selling their production. Having been severely punished by importers last year, they have no doubt learned their lesson and are perhaps a little more conservative when committing themselves to forward contracts.

For the time being they will continue to import African seed, however, given their plans of expanding their local production, they will eventually become self-sufficient.

Brazil

The situation in Brazil is slightly different. The industry has consolidated into six gigantic factories. The large part of the Brazilian crop was planted during the 1960's and the cashew trees are coming to the end of the natural lives. What planting has taken place in the last few years, including grafting (topping), has barely been enough to replace the natural reduction in the crop. Another severe drought will adversely affect Brazil's crop. While this year we are probably looking at a 200,000 MT crop, a "normal" crop is now considered only around 165-175,000 MT – yet the installed shelling capacity is closer to 280,000 MT. Since investment in the plants over last two years has been so high it is likely that we will start to see Brazil actively pursuing sources of raw cashews from West African countries. Nonetheless, plantings are on the increase in Brazil, and given the resistance on the part of the Ministry of Agriculture to allow imports, Brazil will never be more than an occasional buyer in Africa.

India

India is by far and away the biggest exporter of kernels and the biggest importer of African seed. She feels threatened by Vietnam with lower labour costs and to a much lesser extent by Brazil where the factories are now fully mechanised. India needs a continuous flow of cheap African raw material – not another competitor for the seed.

This leaves India in a rather awkward situation. On the one hand it faces strong competition from Vietnam and on the other from Brazil. The cost of production in Kerala and Mangalore has risen sharply over the last few years driving factories towards Andhra Pradesh, Orissa and Tamil Nadu. Quality is harder to control in these more remote factories, just at the time that quality is becoming an ever more important issue. India can ill-afford to lose its supply of African seed, and will no doubt fight fiercely to maintain its near monopoly position as first importer.

The future

For the next four or five years Africa will probably see an increasing market for their seed. However, after that time, increased plantings in Vietnam and Brazil will reduce this demand, leaving India again as the first and last customer.

The last thing the Indian factories will want is to have their suppliers of raw material turn into their competitors on the kernel market. It is certain that they will do all possible to ensure that the African kernel industry cannot survive. Having both a kernel and seed export industry will only make it easier for outsiders to manipulate the local seed market. Any investments made in the kernel industry will therefore always be in jeopardy.

11. Solution?

The fact is there are no easy solutions to the question of developing an Export Cashew Industry.

The only practical solution, namely reducing the world supply of cashews, requires such enormous will power on the part of governments across the third-world that it is impossible to imagine that such a policy would ever be considered.

Yet, not reducing supply will lead precisely to the situation outlined earlier - more impoverished producers and many millions of hectares of neglected cashew trees.

The options available to a new cashew export industry are limited essentially to the following points:

- Close the borders to the export of seed.
- Prohibit new plantings, but allow replacement plantings and upgrading of the stock.
- Build medium sized semi-mechanised plants (minimum 15,000 tons, maximum 25,000 tons) that are implemented from the ground up on HACCP. Try to eliminate labour from the sensitive grading part of the process.

- Develop a product which is not only clean and attractive, but of such marvellous quality that your customers beat a path to your door to buy it.
- Assuming that you have made the effort both on your plant and with your quality, the question of performance will be secondary – your customers should have no reason to question your commitment to the contract.
- It has been shown time and time again in our industry that factories with reputations for high quality and integrity always survive, while those who would rather go with the flow eventually disappear.
- Finally, be prepared for the fact that prices from here on out will be much lower than previously and factor this in to your costing now.

12. Conclusion

Seed or Kernels

Each country must decide whether they want a kernel industry or a seed export industry. If the decision is made to go with a kernel industry then it is incumbent on the government to protect it. The only way to do this is to prohibit the export of seed, and allow the industry the time and space to build itself up so that it can absorb its own crop, and in time replace the revenue lost when seed exports are prohibited. This is not a question of working against the “free market” – it is an economic necessity.

Credibility

Each factory must address the question of credibility. Increased credibility reduces the “profit/risk” factor translating into higher prices for the product. The easiest, cheapest and most effective way of doing this is adopting from the very start a HACCP/GMP program. Since only a company committed to quality would be prepared to venture on the road to certification, since it requires a certain way of thinking throughout the company to implement it, since it brings to the company a self-confidence previously lacking – such self-confidence is in turn naturally relayed to her customers.

Self confidence + Quality + Credibility = Higher Prices

Final words

This is a depressingly, negative paper.

As a trader involved on a daily basis with buying and selling cashews, talking to producers, factories and consumers; writing reports is not a common activity.

As thoughts were put to paper, it became apparent that as an industry we all talk about parts of the problem, but none of us have faced up to the whole of the problem.

Each part of the industry seems to be insulated from the other. Each part of the industry is concerned about only what is best for them. The market always feels that it is at war – each deal is a battle one or lost.

Worse, the industry feels that it is a bubble on the point of bursting.

The fact remains – the world cashew business is very much different to the business of 20 years ago or even 10 years ago. The biggest change and the cause of today's and tomorrow's problem has been the uncontrolled growth of production.

If this question is not addressed, the world cashew industry will ultimately cave in on itself. The biggest losers will be the poorest countries.

13. Curriculum vitae of Mr. J. Holt

Mr. Jeremy Holt has more than 22 years experience trading cashews and edible nuts as an importer in London and as a broker.

He started his career at Sucden (Sucre d'Enree) in London, and in 1988 moved to Brazil.

Between 1988 and 1991 he helped create the Bolivian Brazil nut industry, taking it from 5% of world market share to over 85% today.

He worked as consultant to the World Bank, FAO, EU (Irela), US State Department and the Bolivian Ministry of Commerce, where he implemented the “Norma Boliviana” – the government export standard for Brazil Nut Kernels.

In 1995 he returned to Brazil and established Amberwood Trading Ltd in Fortaleza, shortly after opening offices in the Netherlands and the USA.

A Pragmatic Approach to Developing a Cashew Export Business

Jeremy Holt
Amberwood Trading Ltd

7/8/02

1

Re-classification of common terms

- Profit margin
- Price
- Risk
- The Market

7/8/02

2

Profit Margin

≡
Dollars and cents to cover the perceived risk of doing business.

7/8/02

3

Price paid to supplier

- ≡
- Base price for the commodity (85%)
+/- Profit Margin (Risk Evaluation) (13%)
+ Costs (2%)

7/8/02

4

Risk evaluation

- Unknown suppliers
- Unknown quality
- Unknown finances
- Unknown economic stability
- Historic track record

7/8/02

5

Qualities looked for in a supplier

- Consistency
- Comprehension
- Financial Stability
- Quality
- Quantity
- Reliability, Reliability, Reliability

7/8/02

6

The supply chain

- Producer
- Intermediary seed trader
- Processing facility
- Broker
- Importer/Trader
- Roaster/Distributor
- Retailer
- Consumer

7/8/02

7

Trade Money

- Bank refuses to lend to origin/consumer
- Risk too great for the bank
- Bank lends to trader at 2:1 on collateral
- Trader lends to origin/consumer
- Profit margin "covers" risk

US\$ 400 million lost in "Trade Money" in last two years

7/8/02

8

Supply – Let's plant cashews!

- Demand > Supply = Price rises
- Supply > Demand = Price falls

7/8/02

9

Plantings

- Increasing in:
- Vietnam
- Brazil
- India
- Africa
- Indonesia

Consumption

- Static in:
- USA
- Europe
- Russia
- Far East

7/8/02

10

HACCP – the bedrock of a Food Processing Facility

- Internalize quality
- Self-confidence
- Price evaluation
- Credibility with customers

7/8/02

11

Hand Shelling

- Whole nuts
80-85% yield
- First quality
80-90% yield

7/8/02

Mechanized Shelling

- Whole nuts 48-54% yield
- First quality 52-65% yield
- US\$ 58 per carton

12

Solutions

- Ban seed exports
- Prohibit new plantings (allow upgrading of existing stock)
- Build 15,000 – 25,000 MT p/a semi-mechanized plants
- Implement HACCP/GMP from day one.
- Make the best product possible
- Earn the respect of your customers