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Kenya

Tree Nuts

Macadamia Update Report

2008

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Report Highlights:

MY 2007 macadamia nut production is 1,000 ton (NIS) less than expected.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Production

Post estimates macadamia production at 8,000 tons for MY 2007, down from earlier estimates and projects a further decline in 2008. Although production showed an upward trend during the last few years, lower than expected prices have impacted negatively on volumes. In 1970, Kenya had the second highest acreage of Macadamia after Hawaii. By 1989, Kenya was the third highest producer behind Australia and Hawaii. Currently Kenya has gone down to 5th position having been overtaken by South Africa and Costa Rica.

Macadamia production is typically a small scale enterprise characterized by individual farmers owning 5 – 200 trees of various ages, under a wide range of husbandry standards. The farmers intercrop with coffee, fruit (avocado and banana) and food crops (corn, potatoes and beans). Production challenges include pests and disease damages (i.e. stink bug, nut borer, and anthracnose), inadequate training of extension staff and farmers on crop husbandry practices.

Table 1: Area, Tree and Nut Production (Wet in Shell Basis)

PSD Table Kenya									
Commodity, Macadamia, Inshell Basis, (HA)(1000 TREES)(MT)									
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		03/2007	03/2007		03/2008	03/2008		03/2009	03/2009
Area Planted	8500	8500	9000	0	8500	9000	0	0	9000
Area Harvested	6500	6500	6500	0	6500	6500	0	0	6500
Bearing Trees	1500	1500	1500	0	1500	1500	0	0	1500
Non-Bearing Trees	1500	1500	1500	0	1500	1500	0	0	1300
Total Trees	3000	3000	3000	0	3000	3000	0	0	2800
Beginning Stocks	4495	4495	5022	0	7780	6943	0	8780	9718
Production	10000	9500	8500	0	9000	8000	0	0	7000
Imports	0	0	0	0	0	0	0	0	0
Total Supply	14495	13995	13522	0	16780	14943	0	8780	16718
Exports	8947	5565	5885	0	7000	4475	0	0	6500
Domestic Consumption	526	650	694	0	1000	750	0	0	750
Ending Stocks	5022	7780	6943	0	8780	9718	0	0	9468
Total Distribution	14495	13995	13522	0	16780	14943	0	0	16718

Note: Most of the nuts held as stocks are of poor quality (immature nuts harvest).

Macadamia yield and Area

Grafted macadamia trees bear fruit after about three years. The average yield from a mature tree is estimated at 10 – 20 kg/year (Most of the trees are very old and neglected). Medium to large-scale estates (pure stand) that have adopted good agronomic practices have reported yields up to 80 kg/year. Nuts are harvested year round but the peak season is March to July.

Given that most of the farms are intercropped, area and yield are estimates. Post estimates no increase in area, due to non-availability of planting material and limited area for

expansion. Currently processing companies and a few established nurseries supply grafted seedlings. Farmers are turning to macadamia production primarily due to the low coffee prices (crop diversification).

Macadamia Price and Quality

2005/06 competition from processors (both new and old) and traders strengthened the price of nuts (between Ksh 35 - 50 per kg). Due to prevailing high prices in 2005 and early parts of 2006 (between ksh 35 – 85 per kg), 2007 was characterized with farmers harvesting immature nuts (shaking the trees) and delivering them to processing companies with very high moisture content (over 30 %). Most of the small processing companies have no drying equipment; consequently the nuts are developing moulds, impacting negatively on quality. Theft of nuts for quick cash is on the increase.

Most processors are unable to pay prices offered by exporters for raw nuts. Consequently, most farmers are selling raw nuts to exporters, negatively affecting domestic processing. Harvesting of premature nuts has commenced in some areas and demand is expected to intensify towards the main harvesting season between March and July. Currently exporters are paying an average of Kshs 20 per kg, a price that is forecast to increase to Kshs 60 per kg. Attempts by the local processors to contract farmers have been futile in the past with some farmers defaulting and selling their nuts to the exporters who offer higher prices. Due to the uncertainties of availability of good quality nuts, the big processors have intensified development of their own nucleus farms, paying a premium for good quality nuts.

The major buyers include Kenya Nut Company (KNC) (the largest nut processor in Kenya), Equatorial Nut Processors and Mount Kenya Nuts. Due to the poor quality nuts large processing companies bought minimal quantities, explaining the reduction in exports. KNC only purchased 670 tons (NIS) in 2007. Most of the nuts processed by KNC were from their nucleus estate. KNC farms are certified organic (Soil Association-UK; IMO-Switzerland).

Consumption, Marketing and Trade

Kenya tree nut processors collect, crack, shell the nuts and pack for both domestic and international markets. A small amount of both are value added and packed in small bags as snack foods and consumed locally. The fresh or salted kernels are used for deserts, snacks, confectionaries, ice cream and chocolate making. The macadamia oil is used as an ingredient for salads, cooking, massage oil and for various other cosmetics applications (i.e. soap manufacturing), or simply drizzled on bread. The cake is used for livestock feed, the hard shells are used as fuel and the wood produces lumber.

Kenya Supply and Distribution of Macadamia Kernels (MT)				
Year	2005	2006	2007	2008
Conversion rate %	19	20	20	20
Beginning stocks	116	1,004	1,388	1943
Production Kernels	2,090	1,700	1,600	1400
Total Kernels	2,206	2,704	2,988	3,343
Exports	1,317	1,177	895	1,140
Dom.Consumption	100	138	150	150
Ending Stocks	1,004	1,388	1943	1943
Total Distribution	2,421	2,703	2,988	3,233

Domestic and international Market

Domestic consumption is estimated at between 100 - 150 tons of shelled nuts. Kenya Nut Company (KNC) has branded their domestic products *Nutfields* and Kenya Farm Nut *Equatorial Nut Processors*. They roast and sell in supermarkets, hotels and other retail outlets. Nut consumption is considered a luxury, mainly consumed by the higher income earners. KNC international products are branded 'Out of Africa'. KNC supplies airlines (Kenya Airways and British Airways). Nut processing companies are aggressively marketing their products in the U.S. and other emerging markets to increase and maintain demand amidst growing competition. New entrants into the market are intensifying demand for nuts leading to increased prices and harvesting of immature nuts (impacting negatively on quality).

Kenya's domestic demand for nuts is constrained by lack of awareness on the nutritional importance, lack of purchasing power or in some instances prohibitive prices and high tariffs on imported nuts. However, demand for nuts from a growing market for healthy foods and a proliferation of new products by an expanding bakery and confectionary industry is likely to push domestic consumption upwards.

Kenya Tree Nuts imports and exports (Quantity: MT, Value: 1000 US\$)							
		Jan-Dec 2005		Jan - Dec 2006		Jan - Dec 2007	
Imports	Products	Quantity	Value	Quantity	Value	Quantity	Value
0802120	ALMDS,FR/DRD/SH	0	0	0	0	0	0
0802320	WALNUT/FRD/SHL	0	0	0	0	19	122
2008194	ALMONDS,PRE/PRS	0	0	0	0	0	0
TOTAL		0	0	0	0	19	122
Exports							
0802909810	MACADAMIA NUT,SH	578.4	7,342	660	5,640	0	0
2008199010	MACADAMIA NUTS	109	1,327	0	0	0	0
0802908010	MCDMIA NUT,NT/SH	0	0	0	0	0	0
0802608000	MACADAMIA NUT,SH	0	0	0	0	581	3,217
0801320000	CASHEW NUT,SHL	318	1,518	406	1,724	191	809
2008191040	CSHWS,PREP,PRES	0	0	0	0	16	88
0801310000	CASHEW NUT,N/S	0	0	0	0	0	0
TOTAL		1,005	10,187	1,066	7,364	796	4,178
Grand Total		1,005	10,187	1,066	7,364	191	809

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

EAC Common External Tariff (CET) 2005		
HS CODE	Description	Rates (%)
0802.11	Almonds in shell	10
0802.12	Almonds shelled	25
0802.21	Hazelnuts in shell	10
0802.22	Hazelnuts shelled	25
0802.31	Walnuts in shell	25
0802.32	Walnuts shelled	25
0802.40	Chestnuts	25
0802.50	Pistachios	25

Source: East Africa Community (CET) Tariff Book

Effective January 1, 2005 the East African Community (Kenya, Uganda and Tanzania) established a Common External Tariff (tariffs on goods imported from markets outside the block), which has resulted in a harmonization of import tariffs for all three countries. However, import tariff rates for some key agricultural products have increased considerably. Under the new regime the tariff for shelled almonds and walnuts was raised from 5 % to 25 %.

Year/country	2006	2007	Expected 2008
USA	660	580	650
Japan	15	-	0
Europe	91	165	200
Canada	-	0	20
Others (Israel, Switzerland etc)	272	150	100
Australia	139	0	20
Raw Exports to India, China	100	200	150
Total	1,177	895	1,140

Policy

In the recent past, cost of crop production has risen considerably due to the rising cost of inputs (fertilizers, pesticides, seeds etc). Interest rates, though coming down, are still excessive. The above limits small-scale farmers' ability to expand production.

Tree nut producers, processors and traders are fragmented with individuals developing their own strategies. Structuring the production and marketing system may be necessary to accelerate industry growth.