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South Africa, Republic of

Tree Nuts

Annual

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Report Highlights:

South Africa's 2007 macadamia nut production is expected to increase to 19,900 MT wet-in-shell (WIS) because of increased area harvested. More fresh nuts production is likely to be marketed domestically due to the industry's new focus on developing a local market niche. Increasing stinkbug damage also decreased total expected exports this year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Pretoria [SF1]
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Executive Summary

South Africa's 2007 macadamia nut production is expected to increase to 19,900 MT wet-in-shell (WIS) largely due to an increase of area harvested. More of the fresh nut production is expected to be sold into the domestic market, in line with the industry's new focus on developing a local market niche and to take advantage of an expanding consumer base able to afford tree nuts. Increasing stinkbug damage decreased total nut exports this year.

South Africa's macadamia production is projected to reach 44,000 MT (WIS) in 2010, and is expected to further double by 2016, when all new plantings will have reached full production.

Production

South Africa's macadamia nut processors started cracking their first batch of nuts late in March this year and expect to conclude the season by October, 2007. Total production of about 19,900 MT WIS is expected for cracking in 2007. However, the total amount of good quality nuts will be reduced due to stinkbug damage to kernels. Since last year, macadamias have been increasingly affected by stinkbugs, and it is now a growing problem due to both farmer ignorance of good managerial practices and the pest resistance to chemicals.

South Africa's macadamia nut production is centered in the Limpopo and Mpumalanga areas, which have 12 facilities processing nuts.

According to industry sources, over the past few years demand for macadamia nuts exceeded production, resulting in international buyers receiving any product on offer, regardless of quality. However, in 2006, the increase in supply due the improvement in production and also the carry-over of stocks in 2005 reduced prices and strengthened demand for higher quality nuts.

Preferred macadamia nuts grades are from 0 to 5. Nut buyers usually demand very large kernels, Graded 0 (>3.0g), but are constrained by these nuts' higher prices. Grade 1 nuts have oil content of 72% or higher, Grade 2 has oil content between 67 –72%. Grades 2 and 3 kernels have high sugar content, different flavor and texture, and become dark brown when roasted. They are therefore mainly chocolate coated to offset the color. The kernel size gives a good number of kernels per 100g pack for retail purposes. Larger kernels give too few units per pack and are sold at higher prices.

In South Africa, cracking processors evaluate kernels for quality and supply the growers with a breakdown of causes of damage to kernels-such as early or late stinkbug or borer. Onion ring damage is identified as caused by adverse environmental and managerial conditions (In a Nutshell, Jan/Feb 2007).

Production Subcategory

South African Macadamia Production (in MT)			
	2005#	2006#	2007*
Wet-in-shell	17,785	18,627	19,900
Dry-in-shell	16,231	16,842	17,900
Good quality Kernels	4,205	4,483	4,800
Poor quality Kernels	785	729	800
Total Kernels	4,990	5,212	5,600

Source: # = SAMAC

* = Estimations – FAS Pretoria

PSD Table

Country	South Africa, Republic of								
Commodity	Macadamia, Inshell Basis								
	(HA)			(1000 TREES)			(MT)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA	Post	Post	USDA	Post	Post	USDA	Post	Post
	Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Area Planted	15000	15000	15000	0	0	15700	0	0	15900
Area Harvested	5300	5300	5300	0	0	6800	0	0	8000
Bearing Trees	2010	2010	2010	0	0	2040	0	0	2400
Non-Bearing Trees	2400	2400	2400	0	0	2660	0	0	2370
Total Trees	4410	4410	4410	0	0	4700	0	0	4770
Beginning Stocks	13665	13665	13665	0	15765	12541	0	0	13041
Production	19500	19500	18627	0	0	19900	0	0	22784
Imports	3500	3500	2232	0	0	2500	0	0	2700
Total Supply	36665	36665	34524	0	15765	34941	0	0	38525
Exports	14900	14900	15983	0	0	15000	0	0	17000
Domestic Consumption	6000	6000	6000	0	0	6900	0	0	7200
Ending Stocks	15765	15765	12541	0	0	13041	0	0	14325
Total Distribution	36665	36665	34524	0	15765	34941	0	0	38525

Consumption

Local consumption of macadamia nuts is expected to increase in coming years, perhaps significantly, as market development efforts by the South African Macadamia Growers Association (SAMAC) and its umbrella group, the South African Subtropical Growers' Association (SUBTROP), is made in the local market. South Africa's economic growth and expanding middle class is generating additional domestic demand for a product that still is mostly exported. In 2006, however, domestic markets were flooded with poorer quality macadamia nuts, which affected the local demand from wholesalers, retailers and consumers. While fraudulent imported macadamia nuts were partly blamed for being the source of the poor nuts, South Africa's industry has been faced with a growing stinkbug problem that damaged the nuts. In addition, pilferage/theft of macadamias led to a supply of poor quality and unregulated nuts reaching the markets. Finally, South Africa's export-driven focus has not yet developed a domestic consumer base to help sustain the industry.

Local consumers are not very aware of macadamia nuts or other tree nuts as alternative protein sources to peanuts. As a result, macadamia nuts have an insignificant demand locally, and are sold in very few stores. The retail price may also be a constraint for demand, as at Spar stores, a 150mg packet of macadamia nut sells at R17.99 compared to peanuts, of which the same size is sold for only R6.99.

Macadamia nuts are mainly sold as snacks in retailers (main buyers are Spar, Pick n Pay, & Woolworths supermarkets) – either raw or roasted, salted or not, and there are few processed macadamia nut products on the market. The expected production growth and

growing stock levels, coupled with challenges within the export markets, may create a demand for more value-added products locally. The local processors simply crack the shell to produce the kernels. Poor quality nuts – those that cannot be consumed as snacks - are sold to further processors, which are currently the confectioneries and oil producers.

Within the domestic market, macadamia nuts will face competition from other imported tree nuts like almonds, hazelnuts, pecan nuts, chestnuts, and walnuts, which have already paved a niche in retail stores. The average consumer of these products, a middle class and fairly educated individual, may not be able to describe a macadamia nut, but will instead express knowledge of one of the above named products.

As in developed countries, local consumers are gradually adapting to health-consciousness. Emphasis is also placed on food safety and traceability. Generally, all types of nuts are considered health products.

Consumption Subcategory

South Africa's local consumption of macadamia (as fresh nuts) (in MT)			
	2004	2005	2006
Wet-in-shell*	510	560	570
Kernels#	141	158	161

Source: # = SAMAC; * = FAS Pretoria

The table above indicates that consumption of fresh macadamia nuts is still insignificant in terms of total production and exports. Most of what is considered total domestic consumption is mainly used for further processing into confectioneries and oil (See the PS&D table under Production subcategory above for the total domestic consumption that includes also further processing).

Trade

IMPORTS

Imported macadamia nuts are sourced mainly from Asia and other African countries. Zimbabwe and Malawi have significant market share for fresh nuts (45% and 28% respectively) on the domestic market. (See the import table under trade subcategory)

EXPORTS

South African macadamia's traditional export markets are the EU, Asia, the U.K. and Africa. In 2006, about 85% of the total macadamia nuts produced were exported. Of the total exports, most nuts were destined to Canada (32%), Mozambique (11%), Netherlands (7%) and Taiwan (5%). (See the export table under trade subcategory)

Trade Subcategory

Import Trade Matrix

Country South Africa, Republic of
Commodity Macadamia, Inshell Basis

Time Period	Jan-Dec	Units:	MT
Imports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
Zimbabwe	1,033	Zimbabwe	1,008
Malawi	713	Malawi	630
Singapore	86	China	192
Netherlands	77	Singapore	127
India	53	Mozambique	70
China	48	Bolivia	64
Malaysia	28	India	48
Pakistan	13	Malaysia	43
Spain	4	Brazil	12
Sri Lanka	1	U.A.Emirates	10
Total for Others	2056		2204
Others not Listed	16		28
Grand Total	2072		2232
Source: WTA			

Export Trade Matrix

Country South Africa, Republic of
Commodity Macadamia, Inshell Basis

Time Period	Jan-Dec	Units:	MT
Exports for:	2005		2006
U.S.	3,587	U.S.	4,499
Others		Others	
Japan	3,652	Canada	5,185
Spain	1,721	Mozambique	1,705
Netherlands	1,222	Netherlands	1,147
Germany	978	Taiwan	717
Mozambique	654	Spain	477
U.K.	548	Japan	432
Hong Kong	461	U.K.	401
Canada	259	Hong Kong	347

Australia	229	Italy	214
Italy	181	Germany	193
Total for Others	9905		10818
Others not Listed	333		666
Grand Total	13825		15983

Source: WTA

Stocks

We expects the industry to carry-over more stocks this year, totaling about 13,000 MT WIS because of last year's global glut and increasing stinkbug damage to kernels. The local markets are at a primitive stage of development, and it will take the industry at least another two years to develop consumer awareness for macadamia nuts.

Policy

Trade

SPS issues faced by the subtropical fruit industry are mainly Mediterranean (Avocadoes) and Marula (mangoes) fruitfly, false codling moth (avocadoes and macadamia), and Seed weevil (mangoes).

South Africa's subtropical fruit and treenuts industry does not have established MRLs for the domestic market, but are instead determined by the destination countries for exports or limits set by international bodies.

The industry participates in the working group formed by the Department of Agriculture to deal with market access policies. However, barriers to trade are mainly posed by capacity constraints within the Department's regulatory agencies. Trade policy also delays the industry's market access because it should be handled at government-to -government level, which is usually a lengthy process.

Regulations related the labeling and advertising of foodstuffs

The new rule that will also affect the domestic sale of treenuts is regulation requirements labeling requirements and advertising of Foodstuffs that focus on improving public health through healthy food choices and improved nutrition through special food formulations, which are based on the latest available scientific evidence. This rule was drafted under the department of health and can be accessed at: <http://www.doh.gov.za>
Also, please read our current attaché report, SF7029 at: <http://www.fas.usda.gov>

Land Restitution programs

The macadamia nut industry's major production land is under land claims, which affect farmer decisions on investing, expansion, and capital improvements. However, the extended delays for restitution by the government allows existing farmers to carry-on production.

Marketing

SAMAC allocated R800,000 (about \$110,000) for market promotion in the 2007/8 financial year.

SAMAC adopted new defensive and offensive market promotion strategies to develop and increase domestic market share, amounting to R250,000. More focus would be given to retailers and other treenut buyers than on consumers in order to address the quality issues that surfaced in 2006. In a minor study conducted by the industry late last year, only 36% of the sampled macadamia nuts brought from known retailers were of first grade quality, while 64% were poor quality rejects. The industry's turn-around plan is to take responsibility for developing and maintaining the local market, even if the export market can improve. Last year, the South African macadamia products were out-performed by large global producers like Hawaii in Europe because of a poor quality caused by stinkbug damage.

A total R350,000 is also allocated on promotion to maintain traditional export markets, mainly in North America and Europe.

Of the R800,000 allocated for promotion, R200,000 will be used for market research.

The SAMAC is also active in the international macadamia groupings, particularly with the initiative to form an International Macadamia Association.

South Africa's domestic treenut market is estimated between R20 million and R30 million a year. A well-developed market environment poses an advantage to all role players, including importers

Marketing Subcategory

TARIFF RATES FOR 2007				
Hs codes	Descriptions	Standard duty	MFN Duty	Permit required
0802.11	Almonds, in-shell	Free	Free	Free
0802.12	Almond shelled	Free	Free	Free
0802.22.00	Hazelnuts/filberts, shelled	Free	Free	Free
0802.22.10	Hazelnuts/filberts, inshell	Free	Free	Free
0802.31	Walnuts, in shell	Free	Free	Free
0802.32	Walnuts, shelled	Free	Free	Free
0802.50	Pistachios			
0802.90	Macadamia nuts	Free	Free	Free
2008.19.10	Walnuts kernels, airtight containers	Free	Free	Free
2008.19.20	Other nuts, airtight containers	Free	Free	Free
2008.19.99	Other nuts in any other containers	Free	Free	Free
Source: Jacobsen Book of Tariffs				

See also: <http://www.samac.org.za/>