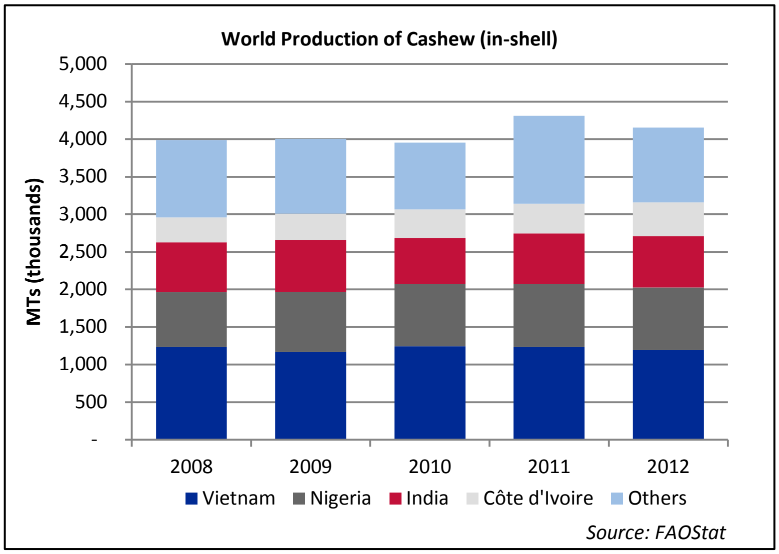
THE US MARKET FOR CASHEWS

Market Brief #13

INTRODUCTION

The cashew tree (*Anacardium occidentale*) is a tropical evergreen originating in Brazil and now widely grown throughout the tropics. Cashew trees produce both a fruit (the cashew apple) and a seed (the cashew nut). The cashew kernel is the most valuable part of the plant, and must be extracted from the strong shell of the nut by roasting and cracking it. Other products and by-products of cashew include cashew apple juice, cashew syrup, cashew apple jam, cashew apple candy, and cashew nut shell liquid (CNSL), which is used in the coating, adhesive, and automotive brake lining industries. Cashew nut kernels are the most widely traded product of the plant and are mainly used as a roasted snack, as a spread similar to peanut butter, and as an ingredient in dessert products.

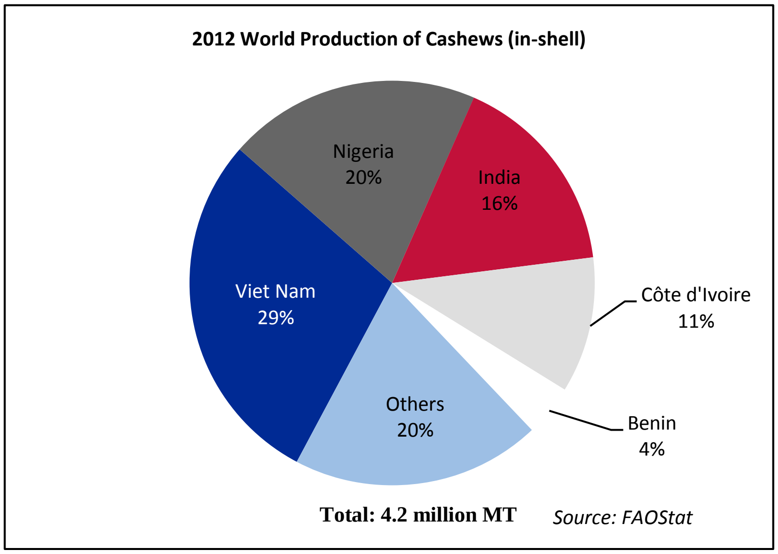
A large number of cashew varieties are used in commercial production with substantial variation the result of local adaptation. Among these, the most common are the traditional yellow and red apple varieties, which produce small nuts (about 180 to 200 nuts per kg). In India, for example, more than 30 varieties have been developed for commercial production. The Brazilian Jumbo variety, which produces 80 to 120 nuts per kg, is another variety that has become popular. Some dwarf cashew varieties are also produced, primarily in Brazil and India.



PRODUCTION

Cashew production is notoriously difficult to estimate, and production estimates tend to vary widely across sources. Based on best available (FAO) data for cashews in-shell, global production increased by approximately 4%, from 3.9 million MTs in 2008 to 4.2 million MTs in 2012. As of 2012, Vietnam (29% of global output), Nigeria (20% of global output), and India (16% of global output) accounted for the majority of global output. Despite being a major consumer of cashews, the United States does not produce the crop on a commercial scale.

Among secondary producers of cashews, African countries are increasing their presence on the world market. Côte d'Ivoire is at the top of this group, with cashew output increasing by more than 10% per year in recent years. A decade ago, Côte d'Ivoire was a minor producer, with 80,000 MTs of production per year. As global demand for cashews has grown, however, the country's output has jumped to 500,000 MTs in 2013, an increase of nearly 525%.

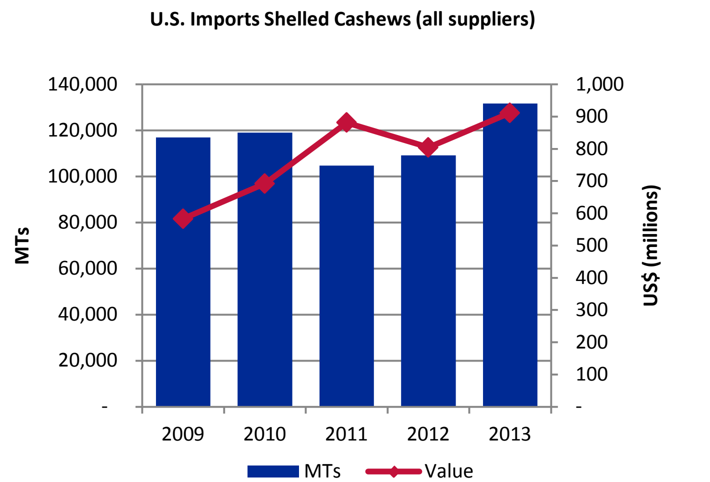


US MARKET

The US primarily imports processed cashew kernels, and is the single largest importer in this market, importing 27% of all shelled cashews worldwide in 2013. US imports have grown over the last five years, even while declining in 2012. In 2013, the US imported

131,647 MTs of shelled cashews at a value of $911 million. This represents a 13% increase in shelled cashew import volume, and a 56% increase in value from 2009, when imports were 116,950 MTs, valued at $583 million.

According to cashew traders interviewed for this report, worldwide demand for cashews has been lagging, with US and EU demand falling considerably in the last few years. However, high prices in other tree nut markets have been helping to drive US consumers back into cashews over the last two years. The beginning of this shift can be seen in the 21% increase in imports from 109,136 MTs to 131,647 MTs that took place between 2012 and 2013, respectively.

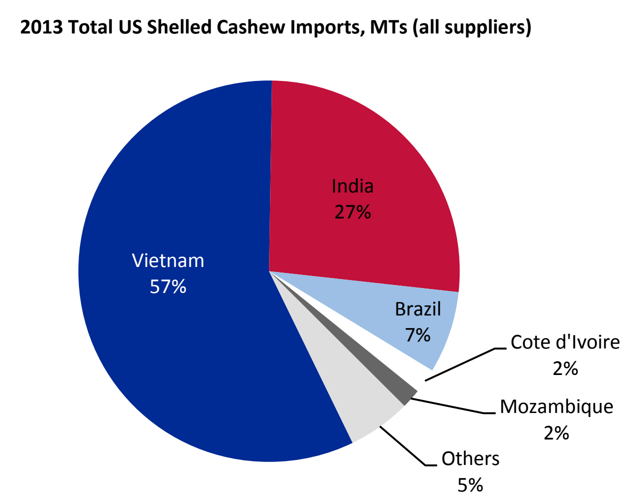


Source: USDA-GATS

The largest supplier of cashews to the US market has long been Vietnam, with nearly 50% of the US market share. The balance of shelled cashew imports come from India (27%), Brazil (7%), Côte d'Ivoire (2%), Mozambique (2%), and all other importers (5%).

SUPPLIERS

Vietnam: The sheer size of Vietnam's cashew industry has allowed it to maintain a strong foothold in the US market with a market share of 57%. Not only is Vietnam the largest producer of cashew, it is the largest importer of raw cashews in-shell for its processing industry, one of the two largest global processors (with India), and is the single largest exporter of shelled cashews. Vietnam offers competitive pricing and uses aggressive marketing to maintain its market share in the US. Between 2009 and 2013, US imports of cashew from Vietnam increased from 52,156 MTs (valued at $245 million) to 75,644 MTs (valued at $507 million). Since the country's processing industry was established in the 1990s, it has made important investments in capacity, efficiency, quality, and food safety. All large scale sites have gained GMP, ISO, and HACCP certification, ensuring their reliability for big markets where food safety is a priority. Industry players expect Vietnam to further consolidate its market share as productivity is predicted to double from its current average of 1000kg/ha in the coming years.



Source: USDA-GATS

India: Between 2009 and 2013, India supplied approximately one third of the US cashew market, reaching 27% in 2013 with 34,896 MTs valued at $265 million. Over the last decade, Indian exports to the US have declined as exporters have faced increasing price competition from Vietnam. Indian traders report that the cost of processing in India is 20-30% higher than it is in Vietnam, providing Vietnamese exporters a major advantage in the marketplace. Increased Indian demand on the domestic front has similarly hurt Indian exporters in recent years. As per capita income has risen, Indian consumption of cashews has also been on the rise, leaving less volume available for export.

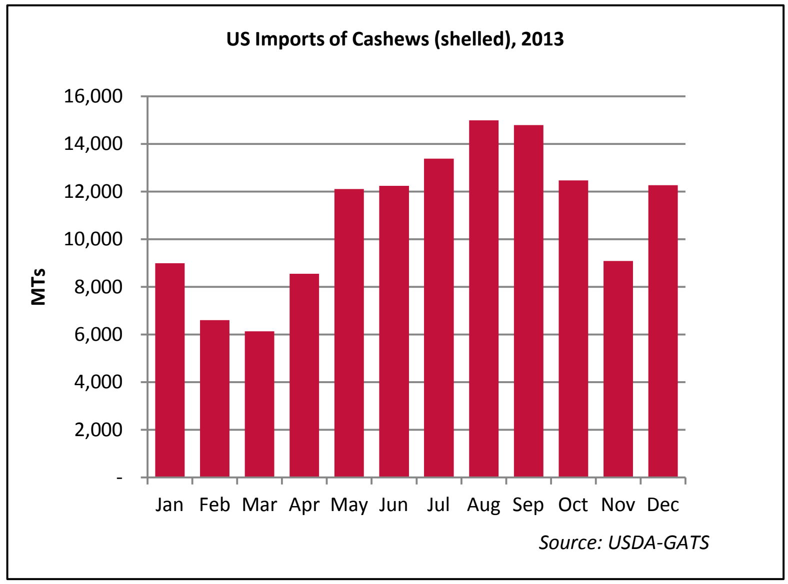
Brazil: Between 2009 and 2013, US imports of cashew from Brazil, the third-largest supplier, dropped by 68%, from 28,177 MTs (valued at $139 million) to 9,164 MTs (valued at $59 million). Reports suggest that this reduction is due to lower production resulting from recent drought. Brazilian market share is quickly being eroded by Vietnam, Thailand, and a number of African countries. Brazil remains a major hub for cashew processing but one that is reliant on mechanical processing (unlike India and

Vietnam, where processing is done by hand), which leads to a higher percentage of broken kernels, and lower grades of cashew for the world market.

Outside of the three primary suppliers of cashew kernels to the US market, data show that imports from a number of African countries, including Côte d'Ivoire, Ghana, Benin, Burkina Faso, Guinea, and Togo increased significantly between 2009 and 2012. According to recent reports, Africa's growing strength in the cashew market is a result of increased investment from governments and the private sector in land, inputs, training, marketing, and processing infrastructure in many of these countries. While as much as 95% of these countries' output is still exported raw to Vietnam and India for processing, it is widely predicted that African countries will become increasingly important players in both the world and US cashew kernel markets.

SEASONALITY

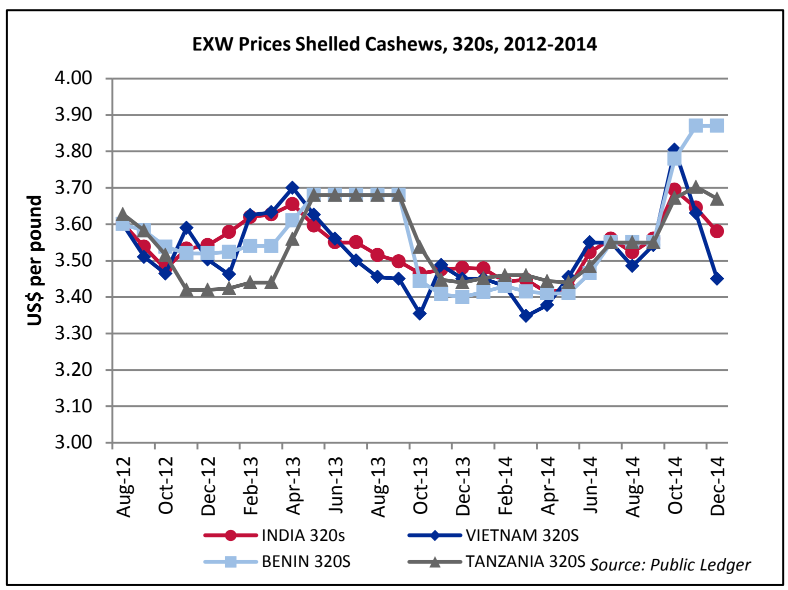
Harvest seasons for cashews are staggered around the world, depending on the region of production. In general, countries north of the equator, including India, Vietnam, and producers in West Africa harvest from early in the calendar year to about the middle of the year (January to July). Vietnam produces the year's first crop, and India's crop follows shortly after. Countries south of the equator, including Brazil and producers in East Africa, harvest from September/October to January/February.



US imports of cashew kernels fluctuate somewhat during the year. Imports peak between July and October, with another peak in December. January, February, March, and April see significantly lower levels of imports. This trend appears to mirror global cashew harvests, with slow imports early in the year, while Vietnam, India, and West Africa finish their harvests and a slowdown again in October and November between that earlier harvest and the one that occurs in Brazil and East Africa later in the year.

PRICES

Cashew prices have been the most stable of the tree nut prices in recent months, driving demand from buyers. Recent stability notwithstanding, shelled cashew prices tend to be volatile over the long term, often the result of erratic weather conditions, domestic consumption levels of major suppliers, stock levels, and shipping delays. Despite the potential for volatility in the long-term, however, prices have held relatively steady in the middle range over the last few years.



Prices for shelled cashew are generally reported per pound and are based primarily upon their grade.[1] According to the Public Ledger, prices for Vietnamese 320s shelled cashews, one of the most widely traded sizes, and the preferred grade in the market, ranged from $3.35

[1] Wholesale price data for US terminal markets are sparse, so UK Ex Works (EXW) spot prices are used as a best approximation. The Public Ledger UK spot prices appear to provide a good indication of what is happening in the US market, and the international market in general. This was confirmed by comparing the Public Ledger data with anecdotal price reports from various articles, market news websites, and the small amount of data available on US terminal market prices, which show similar average prices and annual trends.

to $3.80 per pound in 2014. Prices for cashews from India, Tanzania, and Benin all appear comparable to those from Vietnam (on an EX-Works basis). In 2013 and 2014 320s were ranged between $3.35 and $3.86. Month-to-month the difference in prices for cashews from each country tends to be as small as $0.03, or as great as $0.42. Prospective Honduran suppliers should consider this relatively narrow price band to inform marketing decisions.

STANDARDS, LAWS AND REGULATIONS

Tariffs and Trade: As of 2014, imports of shelled cashew (HS Code 0801.3200)[2] from countries with Normal Trade Relations (NTR) with the United States, including Honduras, are not subject to any duties. A small number of countries that do not enjoy NTR duty status with the United States are subject to a tariff of 4.4 cents/kg.

Packaging: Cashews are generally packed in four gallon tins with a net weight of 11.34 kg (25 lbs.). The filled tins are vacuum packed, filled with carbon dioxide gas, and sealed. Two tins are then packed into a carton for export—1 20ft. container can hold 700 cartons. Some exporters are also using multi-layer plastic bags that can hold about 23kgs. In this case, just one bag is packed into a carton.

Import Requirements: Processed cashews with the husk removed, but with or without shells, do not require an import permit according to the USDA-APHIS importer manual.[3] However, cashews being imported from countries other than Canada or Mexico may be subject to methyl bromide fumigation upon arrival. To export cashews from Honduras to the United States, the government of Honduras requires that the exporter acquire an export permit from the Servicio Nacional de Sanidad Agropecuaria (SENASA/SAG). In addition, a certificate of inspection for each shipment, and a certificate of analysis of pesticide residues will also be required from the Secretaría de Agricultura y Ganadería (SAG).

Grades and Standards: USDA standards for cashew kernels state that all cashews for import must meet the United Nations Economic Commission for Europe (UNECE) quality requirements.[4] UNECE standards for cashew kernels break the product down in the following categories:

- Whole: whole kernels of characteristic shape, with more than 7/8th of the kernel intact.
- Brokens: kernels where 1/8th or more of the original kernel is broken off. The designations of brokens are
  - Butts: kernels of not less than 3/8^{ths} of a kernel, which have been broken crosswise, but the cotyledons are still naturally attached.
  - Splits: kernel split lengthwise naturally, provided that no more than 1/8th is broken off.
  - Pieces: kernels which have broken into more than two pieces.

Within these categories, UNECE lists certain minimum requirements, including that they are sound (i.e., not effected by rotting or deterioration), free from damage affecting appearance, clean (i.e., free from visible foreign matter and living pests), free from damage caused by pests, free from spots in aggregate in excess of 3 mm on the kernels. They also specify that cashew kernels have a moisture content not exceeding 5.0%.

Cashew kernels are graded on the basis of the above categories, as well as their class, and size. Below are the cashew kernel classes according to the UNECE.

Class	Commercial Designation	Description
Extra	"white"	White, pale ivory, pale ash-grey, light yellow.
Class I	"scorched" or "lightly blemished"	Light brown, light ivory, light ash-grey, deep ivory, yellow
Class II	"scorched seconds" or "dessert"	Light brown, amber, light blue, deep brown, deep blue, discolored, black spotted immature, shriveled, blemished, and stained kernels are permitted.

Source: UNECE

Cashew sizes are based upon the number of kernels per pound. For example, the size category 320 indicates that approximately 320 kernels make up a pound. Thus, cashew kernel grades combine the various class and size indicators to produce the grades in the

[2] Harmonized Tariff Schedule of the United States (2015), http://hts.usitc.gov/

[3] Miscellaneous and Processed Products Import Manual, USDA-APHIS, http://www.aphis.usda.gov/import_export/plants/manuals/ports/downloads/miscellaneous.pdf

[4] UNECE Standard DDP-17, Cashew Kernels, 2013 Edition, United Nations, http://www.unece.org/fileadmin/DAM/trade/agr/standard/dry/dry_e/DDP17_CashewKernels_2013_e.doc.

table below. As an example, the grade W320s would be first quality and is characterized as being of the "Extra" class, and the 320 kernel/pound size. The most widely traded grades are 240s, 320s and 450s, while the most preferred grade internationally is 320s.

Quality	Grade
First quality	W210, W240, W320, W450, WB, WS, LWP, SWP
Second quality	LBW210, LBW240, LBW320, LBW, SW210, SW2440, SW320, SW, SB, SS, LP, SP
Third quality	DW320, DW350, DW
Fourth quality	DW2, DW3DW2, DW3
Fifth quality	SW2, SSW2, SW3, DW, DWTW3, DW, DWT
Sixth quality	CS, SK, SK2, TPN, TPN2, TPB, DW4CS, SK, SK2, TPN, TPN2, TPB, DW4

Source: Rawcashewnuts.com

OUTLOOK

Recent market trends suggest opportunities and challenges for prospective suppliers of shelled cashew to the US market. Increasing demand and favorable prices could create openings to capture market share. Yet, a relatively consolidated supplier base and progress in the African cashew industry could make it difficult to compete, particularly on the basis of price alone.

Apart from small fluctuations, world demand for cashews remains strong and often exceeds supply. In the US market, experts point to promising trends that could continue to drive demand for cashews upward, including a growing awareness and interest in nutrition, and consumer recognition of nuts as a healthy source of protein and good fats. According to *The Cracker*, protein-based packaged foods such as mixed nuts and nut butters are poised for growth as Americans seek healthy, convenient, low-carb, high-protein snack foods, as well as alternatives to peanut products. At the same time, rising demand from China could make space in the growing US market for other suppliers. In 2014, China ranked second among importers of Vietnamese cashew nuts after the US. If this trend continues, it could mean less availability of Vietnamese cashews for the US. Favorable prices for cashews in the past year are another positive factor for the market. With various other tree nut options available, there is a strong correlation between the price of cashews (relative to other tree nuts) and demand. Cashews are the lowest cost tree nut at the time of writing this report; continued price competiveness could mean rising demand for cashews in the US and the world market in the years ahead.

While there appears to be opportunity in the US market, prospective suppliers of shelled cashew face strong competition from two major suppliers, Vietnam and India, who together hold 84% of the market share. The emerging strength of African suppliers to the US, and investments in cashew processing in that region present further potential challenges. Small producers such as Honduras can likely only focus on the 5% market share held by the many secondary and tertiary suppliers. They would do best to focus on competing on the basis of superior and consistent quality, or in the production of value-added cashew products such as nut butters, snack mixes, and other items.

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