

Record high macadamia prices cause for concern for industry

Global macadamia prices have reached record high levels amid reduced supply due to the drought in South Africa. However the delegates at the annual International Dried Fruit and Nut Congress (INC) held in San Diego, USA in June, warned that the lack of marketing campaigns to promote macadamia consumption could result in drastically reduced prices in the future.

Speaking at the congress, Alan Sutton, chairperson of the Valley Macadamias Group, said that macadamias needed to be marketed correctly in order to maintain higher prices. “Although the almond and walnut industries are spending a large amount of money on marketing, their crop volumes justify the expenditure. It is good that macadamias do not fall into the same category in terms of volumes as it gives us an opportunity to market ourselves as a niche product, worthy of the higher price tag.”

He however cautioned farmers to be aware of the increasingly stringent quality requirements. “The normal has become a 22mm and up sized Nut-in-Shell (NIS) with a 1,5% unsound. This is difficult to guarantee in a normal year, but in a year with a drought it is near impossible as the nuts are much smaller.”

High prices, reduced demand

Speaking at the macadamia round table, Patrick Kabealo, a buyer for American supermarket chain Costco, said that extreme high and low prices were a problem for the nut industry and that role players should work together to maintain consistent prices. “If the price is too high the market can’t afford it. But if it is too low then farmers start replacing those trees with a more lucrative crop and then supply drops and the prices sky rocket again. At this stage we are seeing low demand for macadamias due to the high price.”

Research presented at the INC shows that stable prices result in an increase in consumer demand of around 7% per annum.

However information given from the industry in China indicates that demand for macadamias is expected to pick up as recognition from consumers increased and living standards improved. Some 90% of this market is NIS due to traditional eating patterns, but the kernel market is expected to grow as a result of higher demand from confectioners.

Brazil has also reported an increase of more than 20% in macadamia consumption due to the acknowledgement of health benefits and vegan trends.

Only 5% of the local crop in South Africa is consumed locally, but a large percentage is sourced from stolen nuts via the informal market.

Global crops

The global macadamia supply for 2015 was 170 000t NIS, up 30% from 2012's 130 000t. Worldwide plantings are rising rapidly and the industry has predicted a 500 000t crop by 2022.

South Africa is currently planting at a rate of over 600 000 trees per annum while China is expected to add two million trees per year. Brazil will add an additional 120 000 trees over the next four years, while Guatemala planted 200 000 trees last year.

Sutton said that if the yields from these additional plantings materialised then the industry would have to work hard to increase demand or growers could face massive price cuts.

Delegates however cautioned against being too optimistic about the increased plantings. Jolyon Burnett, CEO of the Australian Macadamia Society, said that Australia experienced a massive growth in plantings a few years ago but didn't see the massive growth in volume they expected. "We are only now starting to see the orchards producing on a suitable level."

Cheng Kay, head of the Chinese Nut Council echoed Burnett's statement saying that while there were many trees going into the ground in China, the question remained how well they were cared for. "Only time will tell and we will know in five to seven year's time how many of those trees are viable."

He said that there could potentially be a huge crop produced in China, but that they would consume most of it locally. "Initially the bulk will go to the domestic market but it is subject to quality and so far the quality has not been good. If all goes well then the crop that is not consumed locally will be exported."

Market disruptions

Last year's disruptions in the market place due to nut buyers defaulting on contracts saw many companies across the nut basket in turmoil. The bullish nut market saw many buyers over extending their credit in order to secure more nuts to keep up with demand. However when the banks withdrew their credit the buyers starting defaulting on contracts signed with processors and exporters leading to an excess of stock on the market and a reduction in prices mid-season.

Mark Jansen, CEO of Blue Diamond Almond Growers, cautioned that although companies signed contracts, it was the integrity of the people behind it that was paramount. "It has never been more important to know who you are dealing with when signing contracts."

Kay noted that the grey channels that were used to import nuts into China and bypass the import duties were mostly shut down last year. "The government is still keeping a watchful eye on the industry and more arrests have followed making the probability of those channels reopening unlikely. Buyers are also being very cautious to avoid getting caught in the cross fire of the arrests. For now trade is continuing and we don't foresee more disruptions this year."

Sutton concluded that the prospects for the macadamia industry were positive as the industry had much room for growth. "Macadamias only make up 1,42% of the tree nut basket. This means we have a lot of scope

to expand the industry and grow our consumer base. The demand is currently high enough to ensure record high prices and I don't foresee this changing in the near future. But we will have to work at opening new markets by 2022 if we want to continue seeing these prices."