



MARKET BRIEF: ALMONDS

An Overview of Export Potential

MARKET BRIEF



Almonds

This publication was prepared by USAID's Agricultural Credit Enhancement Program in collaboration with the Statistics & Marketing Information Department of the General Directorate of Policy and Planning of the Ministry of Agriculture, Irrigation and Livestock.

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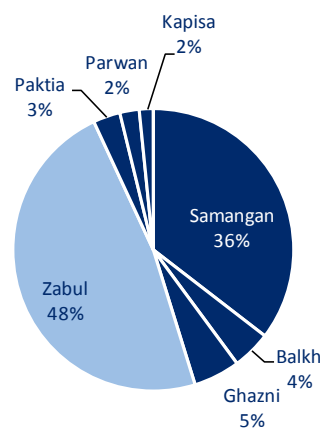
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This market brief focuses on the almond industry. We analyze production and consumption, trade flows and prices at a national and international level to answer following key questions:

1) can the Afghan almond industry compete at a regional level or beyond and if so 2) which countries should constitute target markets and 3) what should we keep in mind for approaching new export markets? Answering these questions is important because: 1) the domestic industry is potential enough to rank the country among the top ten almond producing countries in the world, 2) almonds are an important export item among dried fruits, accounting for 22% of dried fruits and nuts exports in 2009, 3) the vicinity to major markets and existence of export routes is an opportunity that can offer many benefits for the almond producers and should therefore not be missed.

Almonds production has grown continuously during the decade. It has experienced an upwards trend and on the long run with only one slight downturn in 2004 having increased by 2.5 times. More details on yearly production and growth trend are shown in figure 3. The production of almonds is concentrated domestically in the South–Western and Northern Region, which account for 48% and 36% respectively with main producing provinces Kandahar and Samangan, as you can observe in figure 1.

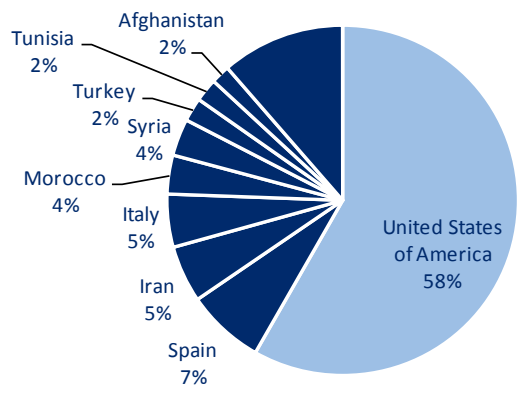
Fig. 1: Almond production by provinces in %, 2009



Source: CSO Agriculture Report 2009

Global almond production reached 2,420 thousand ton in 2009 with United States accounting for 58% of total production or 1410 thousand ton. Afghanistan is one of the 10 main producing countries according to FAO database, leaving behind other producing countries such as Greece, Australia and Chile. Nevertheless domestic production accounts only for 2 percent of World production.

Fig. 2: Almond producing countries, 2009



Source: FAO online database

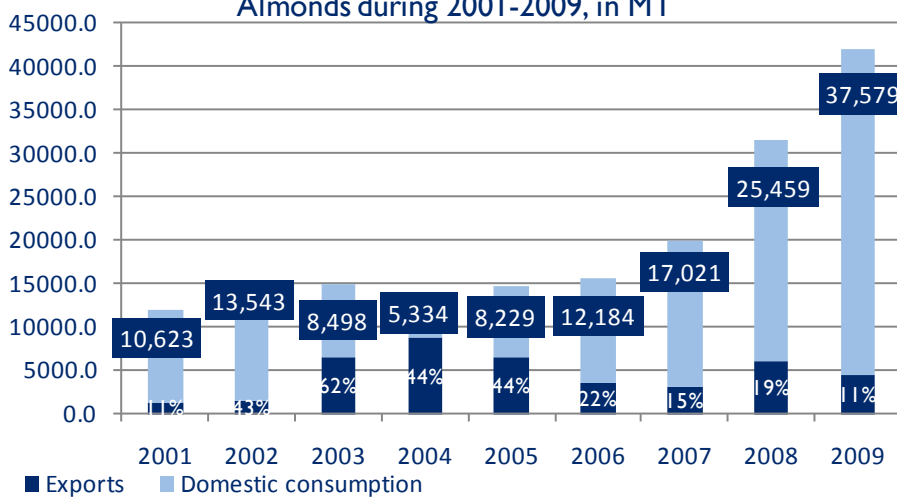
Trade Flows

Exports

Exports were valued at 17 million USD in 2009 from UNSTAT database as shown in figure 4. Their value is 3 times higher according to local sources (CSO). Almonds are a commodity that has found its way to the domestic and international markets. Production quantity has constantly increase but export quantity does not follow the same trend, as observable in figure 3. As a result the export share to overall production varies from year to year. In more detials, exports' quantity share to total production has increased during-

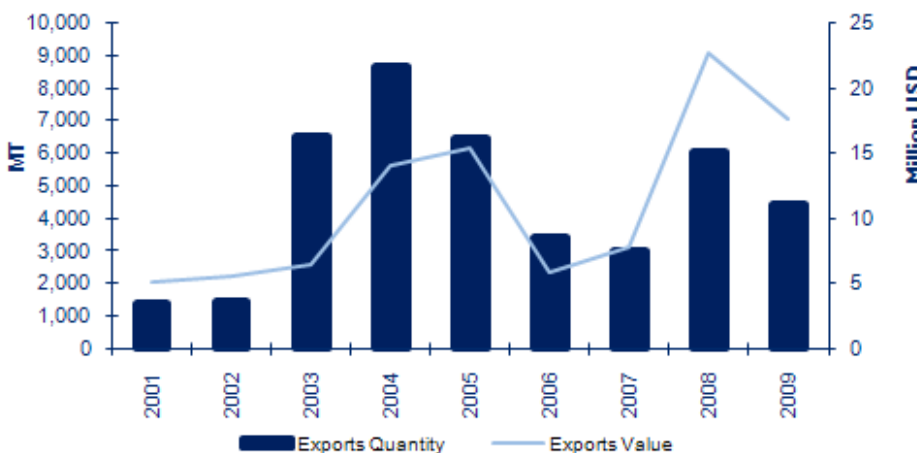
2001 - 2004 to 62% to drop down to 15% in 2007 and than slightly rebounde to 19% in 2008 and decrease again in 2009. Exports value follows a similar trend, as export quantity, however the value/quantity correlation is only 0.5 while the correlation of annual change for value and quantity is 0.27. This goes to shows that there are other factors that influence the relationship between quantity and value of exports.

Fig. 3: Exports, domestic consumption and production of Almonds during 2001-2009, in MT



Source: UNSTAT database, FAO database

Fig. 4: Exports of Afghanistan in quantity and value, 2001-2009



Source: UNSTAT database



The low change correlation between quantity and value can be related to several influencing factors such as demand and supply changes in the export markets, which have a direct impact on the export price.

Positive developments such as production and exports increase are observed in the sector, during the decade. These could be linked with the global market development pattern.

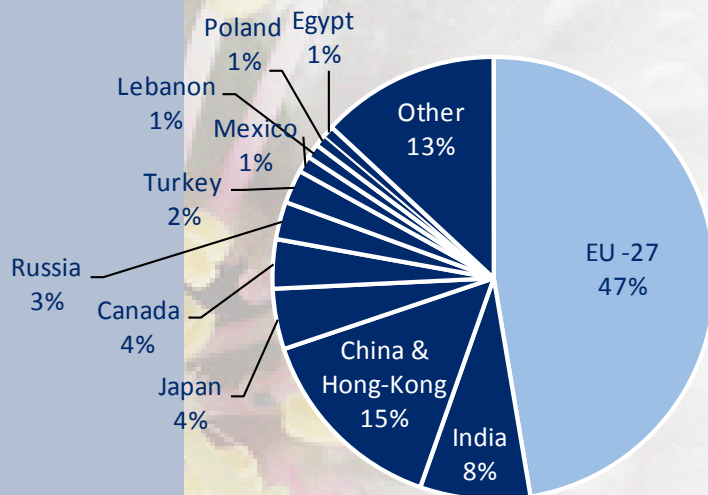
Global consumption of almonds has almost doubled during the decade from 1000 mln ponds in 2001 to over 2000 mln pounds in 2009. Different sources confirm an increase in demand for healthier nutrition diet not only in the traditional countries but also in new markets during this decade such as China, Middle East and developing countries. Countries that account for largest imports' consumption are the EU-27 with 47% of total imports or 1,106 mln USD, China and Hong-Kong accounting for 337 mln USD, followed by India with 187.9 million and other countries as shown in the figure 6.

Are the benefits from international marketing opportunities, being fully explored and maximized?

Figure 6 shows where domestic industry efforts are allocated. The largest export value during the decade has been exported to India with the average export price of 3.8 USD/kg.

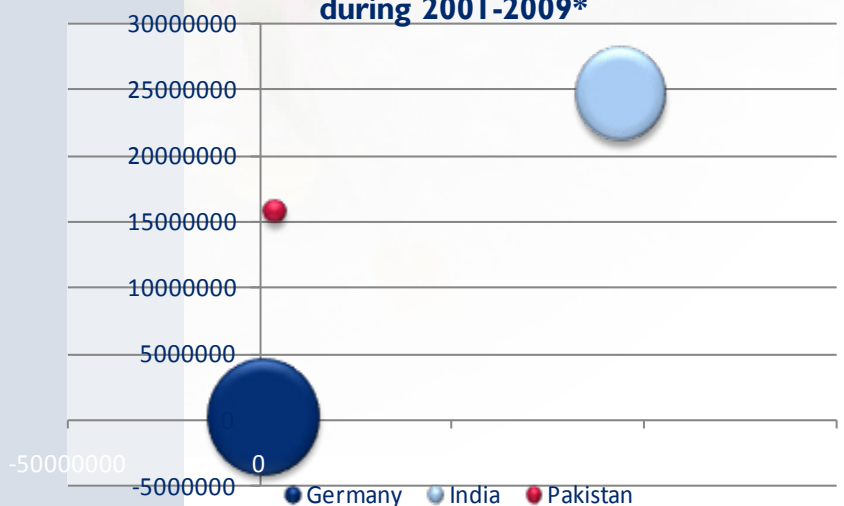
A very large quantity has been exported to Pakistan with much lower average export price of 0.3 USD/kg. These are the two main markets for Afghan almonds. They have been occasionally also shipped to Germany, where they were sold with the best average price of 5.8 USD/kg. The analysis of several factors to this point such as domestic supply, global supply, demand and trade flows indicates that Afghanistan can gain a more important exporting role that fits its rank as a top ten producer.

Fig. 5: Almond Importing countries shares in 2009



Source: UNSTAT online database

Fig. 6: Export Partners of Afghanistan for Almonds, during 2001-2009*



Source: UNSTAT online database

* X = Value US\$ Y = Quantity in Kg Size = Average Export Price US\$/Kg



Existing Markets

Exports routes are not touching all the most import demanding markets such as China or EU-27, but are focused regionally. India is one of the largest export partners and a lucrative market but there are other market opportunities that seem unexplored.

Can domestic almonds be price competitive despite the high transport costs, tariff and non tariff barriers?

Further on we will focus on these opportunities in existing and new potential markets.

Existing Markets—India

Domestic demand for almonds has constantly increased in India. Expected to increase by 5.6 percent to 56,000 ton in 2010/11 and by 5 percent to 58,000 ton in 2011/12 according to Tree Nuts 2010 GAIN Report, India is almost a net importer of almonds with only 2% of domestic demand being grown in country. The domestic demand is being feed with imports mainly from the US, accounting for 74% of total imports. Afghanistan accounts only for 5% of total imports, according to the same source.

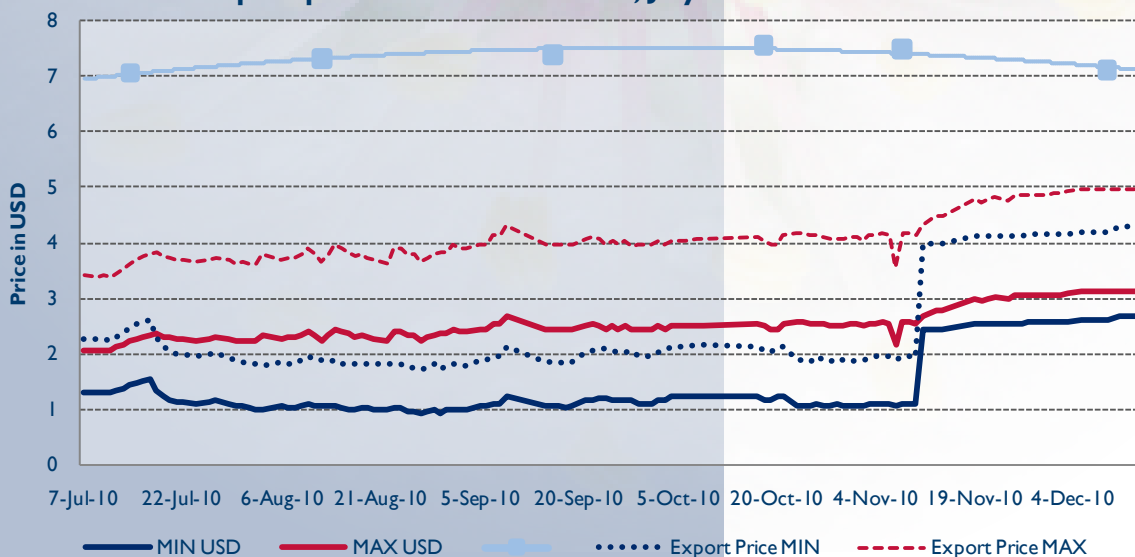
On the other hand a price comparison between wholesale prices in domestic wholesale markets and the New Delhi wholesale market signals prices competitive edge and good profit opportunities.

In more details:

Prices in the domestic wholesale market of Kandahar oscillated very little during the second half of 2010. The minimum price average was 1.11 USD/kg, while the maximum price average was 2.39 USD/kg till the first week of November. Then the minimal price suddenly increase by 124% narrowing the gap between the minimal and maximal price to 17% difference. The comparison with the wholesale price in New Delhi shows a large price difference.

The wholesale price in New Delhi is between 218 to 460 percent higher than in the Kandahar, during July. According to Tree Nuts GAIN Report on India, the average wholesale price of almonds during this period, was 7 USD/Kg.

Fig. 7: Wholesale Prices of Almonds in New Delhi, Kandahar and export price CIF to New Delhi, July - December 2010



Source: USDA/GAIN Report, Tree Nuts Annual India 2010, TAMAS, USAID's ADP/E, MALOMAT-Roshan & USAID's IDEA NEW, *Export Price includes Transport Costs, Custom Clearance and Import Tariff (India Almonds 50%)

With the price increase domestically, this difference decreases to 172% as compared to the minimal market price and 129% as compared to the maximal market price.

The export price calculation increases the minimal price by 74% to 2.4 USD/kg and the maximal price by 62% to 4 USD/kg. Despite the high import tariff rate of 50% and the high transport costs of around 0.3 USD/kg, a large gap of 213% difference with the minimal export price and 78% with the maximal price remains open between the wholesale market price of New Delhi and the export price of domestic almonds. The considerable price competitiveness can be used strategically in different ways to penetrate the market. Exporters can go for a larger profit while seeking for the higher price, or be competitive while offering the lowest price and leave the highest profit margin to the trader/agent. With such lucrative export prices to India and distant land competitors more focus shall be given to the Indian almonds' market and to the understanding of reasons behind the existing low market coverage.

New Markets - EU-27 Market

The market demand for dried fruits and nuts in EU-27 was estimated at 2.2 million ton in 2009 with almonds being the second largest group after groundnuts, accounting for 25% of the consumption or for 550 thousand ton. According to the same CBI report* a large portion of almonds is used for the confectionery industry while the rest is mostly consumed as snacks.

EU has the second largest consumption of almonds per capita of 0.5kg after U.S. Imports were valued at 893 million Euro in 2008-09

accounting for 60% of the total and a strong supply position for this market, while around 30% come from intra EU imports. Main importers are Germany (26% of EU almond imports), Spain (20%), France (11%) and Italy (10%) (The Eligible Nuts and Dried Fruits Market in the EU, 2009), CBI).

Prices in the European Markets will usually follow trends on the world market price which are closely linked to supply and demand, being strongly affected by main suppliers such as US. The table below shows the export price composition by component for the domestic almonds to enter the European market, compared to CIF prices from US suppliers as reported in European ports. One of the specifics of this market are the low tariff barriers to trade, especially in the case of almonds from Afghanistan, where no import tariffs are applied. The export price is leveled from higher transport costs than to India. The estimated CIF price, including transport, tariffs, producer price and a 15% profit margin, varies between 2.2 and 3.5 USD/kg. On the other hand CIF prices reported from US suppliers vary between 3.5 to 4.9 USD/kg.

There is 40 to 60 percent or around 1.35 USD/kg difference in CIF prices among these two providers. Afghan almonds are price competitive when compared to leading suppliers. However the commodity is barely present in the European market. Apparently enough focus should be given also to non tariff barriers in the form of market access requirement upon market entry of goods from developing countries. The most important legal requirements concern food safety, tracking and tracing, maximum residue levels (MRLs), food additives, food labeling, and tariffs and quotas.

Table I: CIF prices comparison to EU-27, 2010

Unit of Measurement	USD/kg
Average Producer Price - Kandahar	1.4 - 2.5
Transport Cost	0.5
Import Tariff to EU (0%)	0.00
(Producer price + Transport + Import tariff+ Profit 15%)	2.2-3.5
CIF USA Almonds	3.5 - 4.9
Difference with CIF USA	Percentage
CIF USA to CIF Afghanistan	40-60%
Difference with CIF USA	USD/kg
CIF USA to CIF Afghanistan	1.3-1.4

Source: CBI EU Price Development Report, MALOMAT Database. *The Eligible Nuts and Dried Fruits Market in the EU, 2009), CBI

New Markets

General Food Law: recent legislation with focus to higher safety of goods sold in the European market. The GFL places greater responsibilities on everyone in the food supply chain. These principles also apply to food products from non-EU countries which are sold on the EU market.

HACCP: All food processors and importers in the EU are legally required to have an approved Hazard Analysis and Critical Control Point (HACCP) system. This system deals with the treatment of foodstuff to ensure that it does not pose risk to human health under normal use. DC producers and exporters who want to export foodstuff to the EU, must have a HACCP or convince their business counterpart on the safety of the product they supply by using a similar system.

Tracking and tracing: Exporters have to be able to inform other parties on product specifications and issues of food safety. They should always discuss traceability with importers and opt for the standard that is most suitable for the intended market.

Pesticide residues: Maximum residue levels (MRL's) are set by the European Commission to protect consumers from unacceptable levels of pesticide residues in food and feed. They are directly applicable to dried fruit and vegetables and nuts. Regulation 396/2005 on pesticide residues is applicable as of September 1, 2008.

Food Labeling: General rules are laid down in Council Directive 2000/13/EC. The minimum requirements for labeling are: information on the country of origin, the date, month, year of packaging as well as the name of the producer and exporter of the dried fruit. A new legislation is being laid down that will require more labeling information.

New Markets—Chinese Market

The USDA GAIN China Tree Nuts Annual, released in October 2010 forecasts imports of 7000 MT during the season 2010-2011. Imported quantities reached almost 5000 MT during 2009*.

However other GAIN Reports confirm that the majority of tree nut imports are transshipped from Hong Kong into Mainland China. Imports of Almonds both shelled and in shell to Hong-Kong and China reached 337.5 millions USD and 75,728 MT, 70% shelled almonds while the rest in shell. Hong Kong and China account for 15% of the worlds' almonds imports in 2009. 68% of the import demand or 230 mln USD is supplied from the United States.

China is a very large market with constantly increasing consumer demand for almonds and other tree nuts. Domestic consumption is expected to be able to absorb a 15% increase in imports in the season 2010-2011 according to the same report, while import values according to different sources have constantly increased.

Despite increasing almond prices as compared to the previous year, importers and processors are confident that sales will continue to rise.

The market is mainly being supplied by US despite the high in spot producer prices in California. The comparison between producer prices in US versus wholesale prices in Kandahar shows a difference between 112% to 373% (as compared to low and high in the local market) in September and 92% to 175% in November.

The export price to China for domestic almond is calculated at 2.2 USD/kg with the minimal market price reference and 3.6 USD/kg with the maximal price reference. Export price includes a 24% import tariff and transport costs of 0.5 USD/kg.

Despite the several possible tariff and barriers and the high competition for the huge Chinese market, Afghan almonds can reach the market successfully with the right strategy. For example, almonds from U.S reach Hong Kong with a much lower average CIF price than spot producer price of 2.6 USD/kg (Food Processing Gain Report), a measure that has significantly contributed to reach 68% market coverage. Market and competitors insight must be gained before market entry.

National perspective: Almonds are an important category among dried fruits and nuts produced in Afghanistan. Production and exports has grown vigorously during the decade. They account for a significant share of the export market of dried fruits and nuts, with largest quantities being consumed in the domestic market.

Global market perspective: Afghanistan is one of the top ten producing countries in the world however not well recognized in the international scene because of low export values. Major players, such as the United States account for much larger production and exports quantities having therefore a significant impact on the world market price, closely linked to supply and demand. Their export strategies are well directed towards lucrative markets in terms of demographics consumption and growth such as EU-27, China and India.

Exports Perspective: Several export price calculations showed that almonds can be price-competitive in existing and new export destinations. The Indian market observation showed Afghan almonds holding a very low share, a very competitive price and the potential of significant export growth. The European market appears to be another lucrative market, where domestic almonds can be price competitive, with high consumption per capita and revenues generated from the sales of this commodity. However specifics of every market must be carefully estimated and taken in consideration. In the case of the European market Afghan businesses must do their homework to meet the non tariff barriers in the form of market access requirement such as food security, tracking, pesticide residue level and packaging regulations. The Chinese market is another unexplored opportunity which should be strategically investigated in order to be successfully accessed.

Entrepreneurs perspective: There is room for personal endeavors of expanding from traditional export markets to other export opportunities in the region or abroad. Important factors to be taken in consideration before deciding to enter new markets are 1) the non tariff barriers and possible market requirement for exports, 2) global or regional trends of supply and demand that might influence positively or negatively the season price and therefore the success of entry 3) other marketing issues in order to better meet the end customer demand or consumer behaviors in different markets from the traditional ones.