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Green Farms Nut Company



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Newsletter April 2016

Dear Valued Suppliers,

I just returned from an interesting trip to Australia a couple of weeks ago. As always when one travels, one gets a refreshed view of our own situation and the dynamics in the macadamia nut industry. This is definitely one of the many positive spin offs from having a joint venture with our Australian partners. The farmers in Australia are very well mechanised and certainly in the future we will have to consider the economics of this in our environment. They too, are experiencing a plethora of nut in shell Traders, and sadly this is undermining the overall strength of the industry. They complain that there is too much processing capacity in Australia, and that puts pressure on the factories with their longstanding investment, to compete with the short term dynamics of NIS, this also pushes up the cost of processing.

According to SAMAC in 2015, 52% of the South African crop was sold Nut In Shell to China. If one is to take GFNC out of the equation, the statistic goes up to **68%**. Any industry that is so heavily dependent on a single market will inevitably reap the consequences of that decision. It has happened in the cashew industry in Mozambique, and it has happened in the pecan industry in the USA to name just two industries in recent years.

I would like to confirm that, we are in no way against selling to China, or any market for that matter, and we certainly include sales to China, in our marketing mix, however, we are cautious not to neglect longstanding markets in favour of short term gain. We are mindful that most of the product is now being imported into China via Vietnam, which has no duty on local grown macadamia nuts. South African product is being exported into China under this guise.

Note that traders will always try to woo farmers into supplying them, they have little long term investment, and in fact an unstable industry works in their favour. Ultimately, they want to buy cheap and sell high ... this has been the trade mark of the macadamia nut industry in the past. The joke has always been, "macadamia prices go up with the escalator and down with the elevator." This volatility has also put off the worlds serious food companies from investing in macadamia nuts. **Kernel prices this year are still extremely good, we seem to have a stable demand, and we are delighted that our sales to date are well above our offer.**

Another symptom that the Australian industry is suffering from is the **fragmentation of the industry** where there is a perception that factories are making an unfair amount of money, and more and more small players have put up plants, (because they have been making enough money to do so)!

Running a factory in today's world is a major decision to take. Food safety has become a major world focus and any investment deserves a reasonable return, it is highly unlikely that a factory put up today, will be able to undercut costs, without seriously taking shortcuts on food safety, the food industry is a very complex business.

We as farmers need to ask ourselves whether the return we are getting at farm gate is fair and competitive for the quality we are producing, (do not sign away your life with contracts to a single company), choose a partner that you trust and feel really do their best, and give them the confidence to market on your behalf, if you honestly feel that they are **not** doing a good job, at least be in a position to check what the competition are doing. This is sensible business practice. Marketing is also not going to be so easy in the future. Under the current conditions anybody can sell a few 100 tons and think it is easy. Wait for the big crop to come, and see who has a plan then. According to SAMAC the crop will be 100,000 tons in about 5 years' time.

Too much processing capacity in an industry leads to very tight margins, investment neglect, and ultimately food safety shortcuts. Dear fellow farmers we are partners in this together, we are riding a phenomenal wave, almost unheard of in the agricultural industry, this is a time to seriously think carefully, and choose a processing and marketing company that is bankable, trustworthy and has real skin in the game!!

- GFNC have been serving the industry for 25 years.
- Our prices are such that without a single supply contract, or contractual handcuffs we are the largest processing company in South Africa. This speaks for itself, we are the BEST!
- Our marketing team are the best in the global macadamia nut industry, with many years of experience, our prices have proved this year on year.
- Our marketing spread is the most balanced in the South African industry, check this with our competitors.
- Our unique business model ensures that you are as close to the consumer as is possible, and receive both market related increases, and upstream benefits, as well as exchange rate wins.
- We have been in this industry longer than anyone, so know the pitfalls and the historic challenges our industry has experienced, we take our responsibility very seriously.
- Finally we have superior market intelligence with our team on the ground around the world.

Green Farms Nut Company (Pty) Ltd are investing in increasing our capacity at all our plants so that we will be there for you when times get tough. **Our goal is to be able to be the most cost effective processor in South Africa.**

Kind regards
Jill

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