How Fairnamese cashew nuts can conquer a solid position in the world market

DEVELOPING SUPPLY AND MARKETS FOR FAIRTRADE CASHEW NUTS FROM VIETNAM

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SUMMARY

The Trade for Development Centre (TDC), a programme implemented by Enabel - the Belgian development agency, aims at economic and social empowerment of small producer organisations by enhancing their business knowledge and improving their access to markets. Cashew nuts from Vietnam is one of the products that receives attention of TDC, and the results of this market study by Globally Cool are set to contribute to the development of a Fairtrade supply chain for cashew nuts from Vietnam.

Worldwide market dynamics

Raw Cashew Nuts production

There are twenty main production countries of Raw Cashew Nuts (RCN). Most of the RCN are grown in West Africa, most notably in Côte d'Ivoire. South Asia (India) follows West Africa, ahead of South East Asia (Vietnam, Indonesia and Cambodia). Most long-term production growth of RCN would come from Africa and also India and Vietnam are expected to contribute to RCN production growth. Roughly, in the period 2015-2020-2025, RCN production is forecast to grow from 3 million metric tonnes in 2015 to 5 million metric tonnes in 2020 and 7.6 million metric tonnes in 2025. Vietnam is forecast to account for about 12% of global RCN production growth between 2015-2020 and for 17% between 2020-2025. For India, these figures are about 19% and 15% respectively in both periods. The largest growing production country in Asia, however, is expected to be Cambodia; by 2025 the country's output should reach 1 million tonnes.

RCN trade and processing

There are three countries processing RCN (in other words: unshelling the RCN) on serious scale: India, Vietnam, followed by a long way by Brazil. This means that African countries are practically not processing the RCN into kernels, despite the fact that most RCN is produced there. Roughly, 90% of RCN grown in African countries is shipped to Vietnam and India. Brazil processes its own produced RCN into kernels and exports the cashew kernels then. There is some processing in West and East Africa, as well as in Indonesia; together, these regions processed around 25,000 tonnes in 2016. Except India, with its' huge domestic cashew nuts market, all the processing countries export (practically all) kernels towards other countries.

Destination markets

USA is the largest export destination for most of the RCN-processing countries and therewith the number one importer worldwide and the second largest market behind India. Other main import countries include Netherlands, Germany and China. Note that the Netherlands and Germany are important transit countries for the European market. Most of Dutch imports (around 70%) are re-exported to other European countries. A significant part of imported kernels in Germany (almost 30%) is also transported to other European countries. U.A.E. takes a comparable transit role in the Middle East region.

Competition from other nuts

While cashew nuts have developed into a popular healthy snacking food worldwide, there is definitely competition from other nuts. Both for blends (where processors and packers may change the blend composition) and plain cashew nuts. Most consumers don't have a specific preference for cashew nuts; their foremost buying motivation is the healthy aspect of nuts. In practice, if cashew prices raise while prices of other nuts go down, there is a considerable risk that other nuts replace cashews. This is a serious threat towards ongoing and sustainable growth of global cashew nuts sales.

Leading markets worldwide
India is the absolute number one market worldwide (consumption of 247 thousand tonnes in 2016), by a long way followed by USA (142,908 tonnes), and China (49,571 tonnes). Germany, UK, Vietnam, Australia, Netherlands, Canada and France complete the top 10. In the period 2012-2016, the largest absolute consumption growth came from USA and India, at large distance followed by Germany, Vietnam and the UK.

Overall, growth in demand depends on supply volumes and cashew nuts prices a lot. While to some extent consumers may not feel the higher prices as these are 'absorbed' by processors and packers in destination markets, a high price level that maintains for years will have a damping impact on growth.

The main forecasts for the period 2018-2025 are the following: 1) Vietnam will probably register double-digit consumption growth rates (again), as one of the Vietnamese cashew nuts industry's targets is to increase local consumption of cashew nuts. And 2), the most developed countries will show above average growth, which will be coming from scientific study results that show proof of cashew nuts being healthy.

Fairtrade cashew nuts

Market volumes
Fairtrade is the prevailing and only ethical certification for cashew nuts. Fairtrade certified cashew nuts could come from several supplying countries worldwide:

- Large volume cashew exporting countries, lion share of exports is conventional and a small share is traded under Fairtrade conditions: India, Vietnam, and Brazil.
- Small to medium-sized cashew processing countries with an established base of Fairtrade certified producers and processors: Sri Lanka, Benin, Burkina Faso, and Ivory Coast.
- Small cashew processing countries with only one or a few Fairtrade certified producers and processors: Thailand, Kenya, Mali, Mozambique, and Nicaragua.
- Small to medium-sized cashew processing countries without certified producers and processors (according to Fairtrade.net and Flocert.net) but with fair trade cashew nuts supply according to several sources: Indonesia, and Bolivia.

A calculated maximum volume of about 14 thousand tonnes is traded under Fairtrade conditions. The USA represents 55% of that market volume, followed by the Netherlands (23%), Germany (7%), UK and Italy (6% each), Switzerland, Sweden and France (1% each). Although it is only 3% of the global cashew nuts market, the 14 thousand tonnes is a considerable improvement compared to ten years ago, when the first producer organisation received a fair trade certificate.

Dual certification
Organic cashew nuts originate from India, Brazil, Sri Lanka, and since a few years also from Vietnam and a few African and South American countries. Although double-digit growth rates (but still low volumes) were registered in the first years, since 2010 there hasn't been remarkably high growth for organic cashew nuts, overall.

While the organic premium for producers used to be between 20-40% (but mostly 25-30%) in the beginning, this premium went down to an average of 10-15% in recent years. Anno 2017 the consumer pays a premium of between 25-40% for organic cashew nuts.

Although for many products dual (organic + Fairtrade) certification is often the best way to gain access to high-end markets, in the nuts range this seems to be less logical. This is probably because nuts are already

considered as 'natural', and therefore whether nuts are organic or not seems not a big issue. Two other constraints for smooth market growth are 1) requirements for the handling of certified nuts at the point of sales in case of unpacked (bulk) sales, and 2) the fact that cashews are frequently used in nuts / dried fruits mixes.

Vietnamese market dynamics

Domestic demand

Consumption of cashews in Vietnam is still relatively modest at 5% of national cashew kernel processing output, making it the 6th largest market worldwide. The cashew nuts that are sold in the local market are mostly of the lower qualities. Most cashews are consumed during Lunar New Year holidays, when cashews nuts are bought for family and friends as a gift.

Exports

Exports from Vietnam have been growing significantly during the period 2012-2016. Exports more than doubled over these five years, thanks to strong growth of RCN imports from Africa. As Vietnam is the largest exporter of cashew kernels worldwide, main export destinations are quite similar to the list of largest importers globally. Vietnam's cashew exports are mostly cashew kernels that have not been finely processed. Possible reasons for this low level of added-value is 1) lack of investment in cashew processing technology in Vietnam, and 2) absence of demand for added value cashew nuts in destination markets, as value addition in the global cashew chain is predominantly taking place in destination markets, and not in origin/transit countries.

In 2016, the aggregate export volume of the Vietnamese cashew industry reached 350,000 tonnes with a total value of over USD 3.0 billion. Most of that turnover is for cashew kernels (USD 2.85 billion). The balance is for sub-products such as cashew oil and cardanol.

There are nearly 400 export companies of cashews kernels and between 140-160 medium and large-scale processing companies in 2016. The top exporter of Vietnam's cashew kernels is Olam, with 10% of the total export value. Then there are 4 other large exporters, who together take 12% of Vietnamese exports. The remaining companies are much smaller as compared to the top 5; each of the next 40 companies contributes to about 1% of the total export value.

Supply chain

For the world's leading position as cashew kernel exporter, Vietnam strongly depends on imports of RCN. Roughly, two thirds of processed cashew kernels in Vietnam are imported RCN, mostly from Africa and Cambodia. This heavy reliance on imported raw materials can be considered as a threat to the Vietnamese cashew industry. It may lead to problems with quality assurance and food safety control, affecting the reputation and brand of Vietnamese cashew nuts. For this reason, the Vietnam Cashew Association (VINACAS) is implementing several improvement programmes to solve the problem of RCN shortage, avoid production disruption, reduce dependence on imported RCN, and strengthen local cashew value chains.

Global value chain

Trade channels and segments

Traders or importers, and processors or packers buy the lion share of cashew nuts. Traders/importers are companies that often trade in a wide range of nuts and dried fruits. Processors and/or packers are companies that pack the nuts and often perform one or more of processing activities. In turn, these companies sell most of their cashew nuts to food retailers. The food retail segment roughly represents

60-70% of the global market, with the balance for the food service segment. While for some products the food service is an important segment for Fairtrade sales in several countries (in particular Fairtrade coffee in catering / canteens), for Fairtrade nuts this segment is rather small to non-existent. Instead, virtually all Fairtrade nuts are sold through the food retail channel.

Fairtrade certification
The traders/importers and processors/packers with a Fairtrade certification can be divided in a few categories: organic importers/traders, broad-line importers/traders, sustainability committed companies and game changers. The international Fairtrade supply chain is rather straightforward; the supply chain can even be as short as four actors. Currently, for nuts and dried fruits the number of certified and licensed players in the international value chain is limited and (theoretically) only offers direct access to about 10 countries worldwide: Austria, Belgium, Denmark, France, Netherlands, Sweden, UK, Germany, Italy and Switzerland, and Hong Kong.

Legal and customer requirements
Although there are some barriers to trade in place in a number of countries, import taxes on cashew nuts from Vietnam to the large markets are low and do not hinder trade and competitiveness of Vietnamese cashew nuts exporters. Most important in terms of legal requirements is food safety; prevention of Salmonella, Escherichia Coli and Listeria in cashew nuts should probably have the highest priority in the value chain.

Fairnamese cashew nuts

How to develop a Fairtrade supply chain in Vietnam
While there are already a few Vietnamese companies with Fairtrade certification, there are several factors that make a further development of the Fairnamese cashew value chain (within Vietnam) successful or not. The success factors are: 1) involve all parties to make development sustainable, 2) improve quality assurance in the value chain, 3) organise a joint promotion and branding of the Vietnamese cashew nuts industry, 4) find funding and investment partners, 5) secure the local supply and value chain and 6) start to strengthen and promote the existing initiatives**.**

How to make Fairnamese cashews famous
The markets for Fairtrade cashew nuts from Vietnam with highest potential, per world region, are:

- North America: USA and Canada (but these 2 countries should be considered as one market).
- Europe: Germany, UK, France, Netherlands, Switzerland, Belgium, and Luxembourg (Netherlands, Belgium and Luxembourg should be considered as one market).
- Asia, Oceania and Middle East: UAE and Australia. Through the UAE it is possible to operate in virtually the whole Middle East, while Australia can also be considered as a springboard to New Zealand.

The several pillars for commercial success globally, specifically for cashew nuts but to some or more extent also applicable to the whole range of Fairtrade products, are:

1. **Development of market linkages** – this is basically the responsibility of National Fairtrade Organisations (NFO's) in the destination markets. As the number of certified and licensed players in the international value chain is still limited, NFO's should prioritize the development of market linkages in their countries. In addition, a powerful "Fairtrade sector" promotion should support this development of a stronger exporter/importer/manufacturer / brand owner base ("Fairnamese cashews").

2. **Campaigning and consumer awareness** – this is basically the responsibility of NFO's. Make people aware that buying Fairtrade cashew nuts is not a matter of charity, but a matter of justice.
3. **Advocacy** – this is basically the responsibility of NFO's. Influencing policy makers and NGO's worldwide to prioritize development of Fairtrade value chains for cashew nuts, other nuts and dried fruits.
4. **Value addition, product diversification and implementation of quality control systems** are activities that cashew producers can undertake to acquire Unique Selling Points (as part of their product strategy). Companies that can offer value added products and an interesting range of cashew-based products are rather scarce in the main processing / exporting countries. There is however a small barrier for added-value products. For many destination markets, tariffs for added value products are higher than for shelled cashews in bulk. Processed cashews in mixtures, roasted or otherwise prepared or preserved (like butter) to the European Union have a MFN (Most Favored Nation) tariff of 7% for packages above 1kg and 8% for packages below 1kg (while shelled cashews can be exported duty-free to the European Union).

Strategic market approach

Making the trade of Fairnamese cashew kernels commercially successful is only possible when carefully deciding on the partner strategy, price/cost strategy, distribution and market segment strategy, and promotion/communication strategy. Chapter 7 gives a suggestion for all these elements of the Fairnamese cashew marketing strategy, including an action planning for the period 2018-2025.

In the end, based on several months of in-depth research, it can be concluded that there are certainly chances to further develop the international trade of Fairtrade cashew nuts. And Vietnam can definitely play a role in bringing the global supply base of Fairtrade cashew nuts to a higher level. This report offers a good starting point to make "Fairnamese cashew nuts globally famous" a successful mission!

1. INTRODUCTION

The Trade for Development Centre (TDC), a programme implemented by Enabel - the Belgian development agency, aims at economic and social empowerment of small producer organisations by enhancing their business knowledge and improving their access to markets. Cashew nuts from Vietnam is one of the products that receives attention of TDC, and the results of this market study by Globally Cool are set to contribute to the development of a Fairtrade supply chain for cashew nuts in Vietnam.

1.1 Methodology

1.1.1 Primary research

Two types of interviews were conducted:

- Telephone interviews:
  - with buyers and traders in the world's leading markets.
  - with National Fairtrade Organisations (NFO's) all over the world.
- Live interviews at Anuga 2017 and Biobeurs Netherlands 2018.

Table 1.1. # of interviews per country, divided between commercial companies and NFO's

Country	# Interviews	Country	# Interviews	Country	# Interviews
Australia	1 / 1	Ghana	1 / 0	Singapore	1 / 0
Belgium	3 / 1	Greece	2 / 0	South Korea	1 / 0
Brazil	2 / 0	India	3 / 0	Spain	3 / 0
Bulgaria	1 / 0	Israel	2 / 0	Sweden	1 / 0
Canada	3 / 0	Italy	3 / 0	Turkey	5 / 0
Colombia	1 / 0	Lithuania	1 / 0	UAE	2 / 0
Croatia	1 / 0	Luxembourg	1 / 0	UK	4 / 1
Ecuador	1 / 0	Netherlands	12 / 3	USA	2 / 1
France	1 / 1	Poland	1 / 0	Vietnam	35 / 0
Germany	6 / 1	Portugal	1 / 0		

Last but not least, several store visits all across the world were used to cross-check the findings from interviews and online sources: Australia (2), Canada (3), Croatia (4), Egypt (2), France (4), Germany (4), Italy (3), Netherlands (6), Lebanon (2), UAE (3), UK (4) and Vietnam (7).

1.1.2 Desk research

Desk research consisted of scanning online available statistics, market studies, news and company profiles. In short the main group of sources used are the following:

- Statistical data (Eurostat, Trademap, customs databases).
- News from relevant generic and country specific Internet sources, related to either cashew nuts or Fairtrade.
- Previous analysis through market studies and reports executed by several organisations in the past decade.

2. WORLDWIDE MARKET DYNAMICS

This chapter reveals the details of worldwide supply of and demand for cashew nuts. For the estimation of production and trade statistics we included information from 1) Trademap (International Trade Center), 2) International Nut and Dried Fruit Council, 3) Cashewinfo.com, 4) Red River Foods and 5) RONGEAD / African Cashew Initiative. The chapter ends with important characteristics and trends in the world's leading markets.

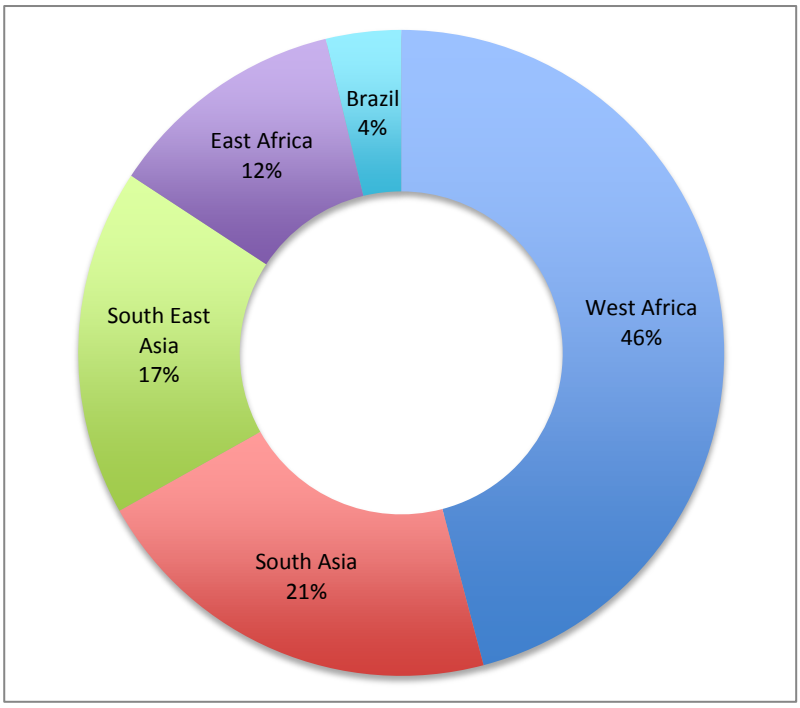
2.1 Worldwide supply

2.1.1 Raw Cashew Nuts (RCN) production

There are twenty main production countries of raw cashew nuts. Global production of RCN reached 3,195,300 metric tonnes in 2016. The estimation of the global supply is not totally straightforward, as most of the RCN-producing countries have no reliable agricultural statistics. Nevertheless, the main trade flows and statistics can be estimated pretty well by combining multiple sources and figures.

Most of the raw cashew nuts (RCN) are grown in West Africa, with Côte d'Ivoire as leading supplier. South Asia (India) follows West Africa, ahead of South East Asia (Vietnam, Indonesia and Cambodia). Together, Africa and South and South East Asia account for around 85% of total RCN-production worldwide. Other producing countries include Mozambique, Kenya, Madagascar, Tanzania (East Africa) and Brazil.

Figure 2.1: Production shares of raw cashews per region in 2016



While the share of West African production remained the same as in 2015, the Asian production decreased somewhat. This is due to decreased production in all Asian countries (India, Vietnam, Indonesia and Cambodia), but largest absolute drop was found in India (almost 55,000 metric tonnes). Total global production is estimated to be comparable to 2015, due to large increases in the crops in Tanzania and Mozambique (East Africa).

As mentioned, largest producers of RCN were Côte d'Ivoire and India in 2016. Other main production countries included Vietnam, Tanzania, Guinea Bissau, Nigeria, Mozambique and Brazil. All these countries grew over 100,000 metric tonnes of RCN. Tanzania, Nigeria and Mozambique realized good growth in 2016 compared to 2015, as can be seen in Figure 2.2.

The figure below shows production volumes per country, including the share in global production per country. It can be seen that over 50% of the total worldwide production is grown in the top three producing countries.

Figure 2.2: Worldwide production volumes of RCN from 2015 to 2016, per country (chart 1 of 2)

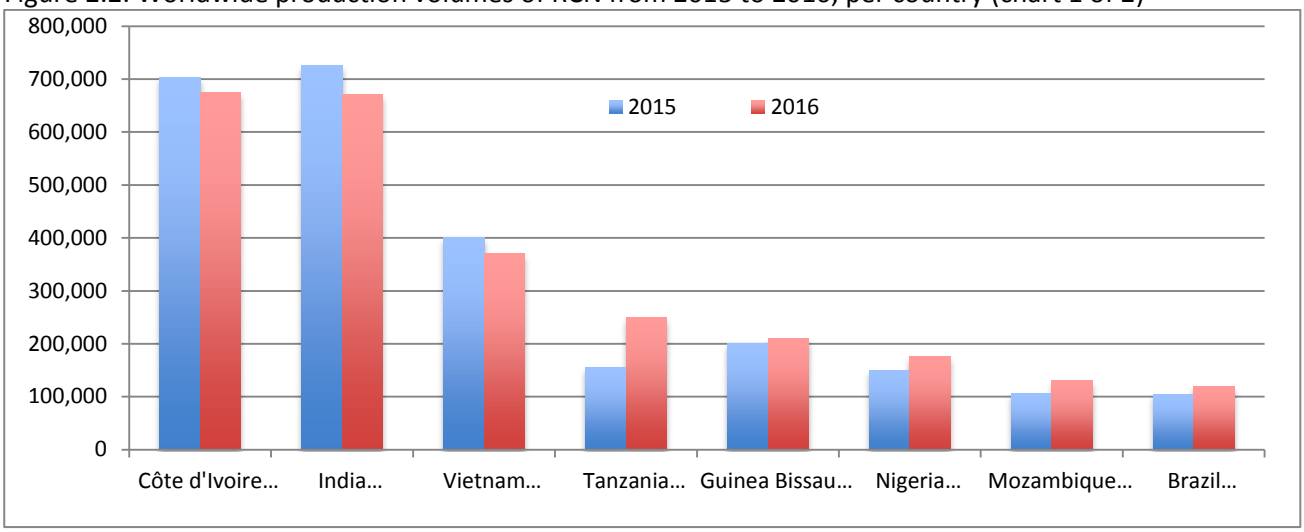
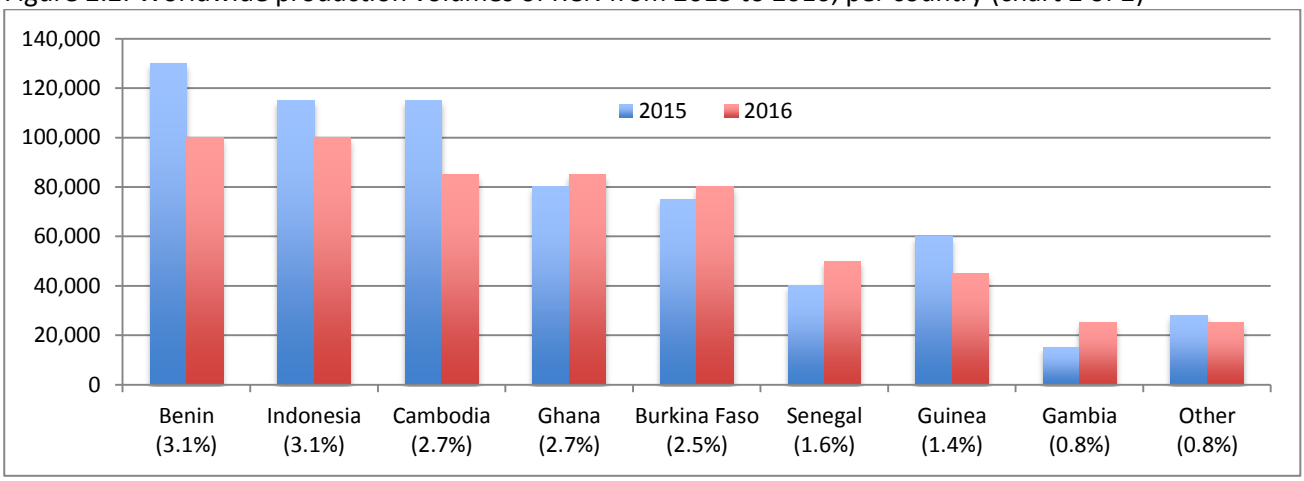


Figure 2.2: Worldwide production volumes of RCN from 2015 to 2016, per country (chart 2 of 2)



2.1.2 RCN production forecast Asia and Africa

During the World Cashew Convention in 2017, there was a general consensus about the long-term production development of RCN worldwide. Most growth would come from Africa and also India and Vietnam are expected to contribute to RCN production growth. Roughly, in the period 2015-2020-2025, RCN production is forecast to grow from 3.0 million metric tonnes in 2015 to 5.0 million metric tonnes in 2020 and 7.6 million metric tonnes in 2025. Vietnam is forecast to account for about 12% of global RCN production growth between 2015-2020 and for 17% between 2020-2025. For India, these figures are about 19% and 15% respectively in both periods. The largest growing production country in Asia, however, is expected to be Cambodia; by 2025 the country's output should reach 1 million tonnes.

Between 2015-2020, Africa is set to account for half of the global production growth, while between 2020-2025 this share will be 40%. Main production and largest expected growth can be found in Central West Africa (Côte d'Ivoire, Ghana, Burkina Faso, Guinea, Mali, Togo).

2.1.3 RCN trade - destination countries

There are three countries processing RCN (in other words: unshelling the RCN) on serious scale: India, Vietnam and Brazil. Brazilian processing is in decline according to several sources, due to the fact that in Brazil machines are used instead of manual labor. This leads to lower quality of shelled cashews (kernels) that are not accepted by import markets.

This means that African countries are practically not processing the RCN into kernels, despite the fact that most RCN is produced there. Roughly, 90% of RCN grown in African countries is shipped to Vietnam and India. Brazil processes its own produced RCN into kernels and exports the cashew kernels then. Brazilian imports of RCN are limited to slightly under 10,000 metric tonnes coming from Côte d'Ivoire. Many attempts have been made to develop local processing and value addition in Africa, often with support from development aid. Most of these efforts have had limited success[1], although from time to time there are promising developments, such as the news in June 2017 that Nigerian cashew processors were set to supply 130 thousand tonnes of roasted cashew nuts to Walmart in the USA.

The situation in India and Vietnam is completely different from the situation in Brazil. The two Asian countries process around 90% of the global RCN-production (basically split in half between the two countries). While India has been shelling country for cashew nuts for decade, Vietnam has only stepped into this business in the start of this millennium.

As India is estimated to have more own production of RCN, Vietnamese imports of RCN exceeded those of India in 2016. Vietnam imported somewhat over 1,000 thousand metric tonnes, while India's import volume reached close to 800 thousand tonnes in 2016.

2.1.4 Processed kernel volumes and trade

India and Vietnam are the main processors of RCN into kernels. Both countries benefit from relatively cheap and an efficient labor force. As mentioned before, Vietnam and India processed more or less the same amount in 2016. Local production of RCN was higher in India, while Vietnam imported more RCN.

It is estimated that for both countries processing output was around 350,000 metric tonnes of cashew kernels (processed cashew nuts) in 2016. Behind these two leading processing countries, Brazil follows on quite a large distance. In total, the Latin American country processed around 30,000 tonnes of kernels in 2016.

[1] Just one example – January 2016 - Over 2,500 To Lose Jobs As Nigeria's Biggest Cashew Factory Set To Shut Down

Figure 2.3: Processed kernel volumes in 2016 (tonnes)

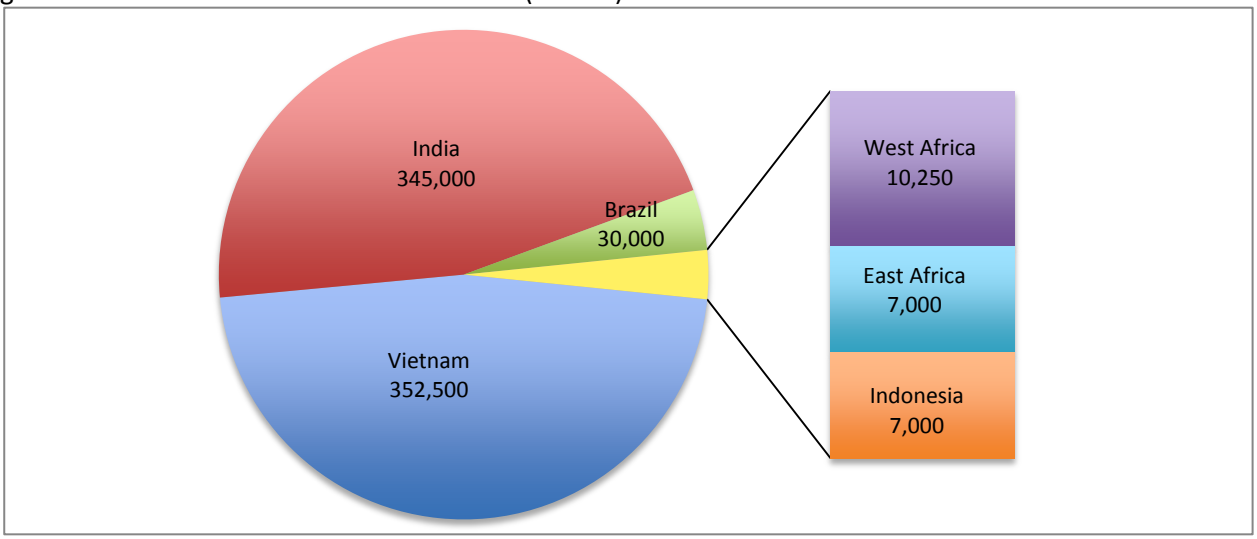


Figure 2.3 reveals that there is some processing in West[2] and East Africa, as well as in Indonesia. Together, these regions processed around 25,000 tonnes in 2016. Most of the processing countries export (practically all) kernels towards other countries. The big exception is India, which has the largest cashew market worldwide. Two-thirds of the kernels processed in India are destined for the local market.

Table 2.1: Export volume and domestic consumption of cashew production regions in 2016 (tonnes)

	Kernel exports	Estimated domestic consumption	Largest export destinations (and share in countries' or region's exports)
Vietnam	318,000	17,000	USA (33%), China (16%), Netherlands (11%)
India	83,000	240,000-260,000	UAE (24%), USA (19%), Saudi Arabia (9%)
Brazil	16,000	6,000-8,000	USA (52%), Canada (9%), Netherlands (8%)
West Africa	9,000	1,000	USA (50%), Netherlands (18%), Germany (7%)
East Africa	5,900	1,000	USA (43%), Netherlands (26%), South Africa (11%)
Indonesia	7,000	< 2,000	USA (43%), Netherlands (29%), Australia (10%)

Table 2.1 clearly shows the extraordinary position of processing country India with a huge domestic cashew nuts market. It is one of India's foremost benefits as a processing country. Lower grades (broken, scorched, small cashews) can be easily sold in the domestic market, which contributes to India's already high processing efficiency. In virtually all developed markets there is much less demand for lower grades as compared to India.

Whereas India leads in terms of domestic consumption, Vietnam clearly takes the lead in terms of kernel exports. When it comes to competitiveness of the Asian versus African cashew nut processing value chains, Vietnamese cashews take the lead with a net processing cost of USD217 per tonne, followed by India with USD254. India, however, with the strong domestic market that also accepts inferior qualities, can more than compensate the higher production costs with higher sales prices bottom-line. Africa is way behind in terms of competitiveness, with net costs of between USD300-700 per tonne, depending on the country.

[2] Processing in West Africa is dominated by Nigeria and Ivory Coast. In Ivory Coast the lion share of output comes from Olam factories, in Nigeria there are several processors in addition to Olam.

A calculation with these processing costs combined with the margin information of Paragraph 5.3 (Table 5.1) shows that processing costs vary from between 2-12% of FOB (Free on Board) or CIF (Costs, Insurance and Freight) prices. This clearly shows the competitive advantage of Vietnamese cashew nuts over most of African (shelled) cashew nuts supply. At the same time, this difference forms the basis for the assumption that most of the sourcing of shelled cashew nuts in Africa is ethically motivated.

2.1.5 Processed kernels – destination countries

USA is the largest export destination for most of the RCN-processing countries and therewith also the number one importer worldwide. As such, it is the 2nd largest market for kernels worldwide, after India. Other main import countries include Netherlands, Germany and China. Note that the Netherlands and Germany are important transit countries for the European market. Most of Dutch imports (around 70%) are re-exported to other European countries. A significant part of imported kernels in Germany (almost 30%) is also transported to other European countries. U.A.E. takes a comparable transit role is in the Middle East region.

Figure 2.4: Global kernel import volumes from 2012 to 2016 for the ten largest importers (chart 1 of 2)

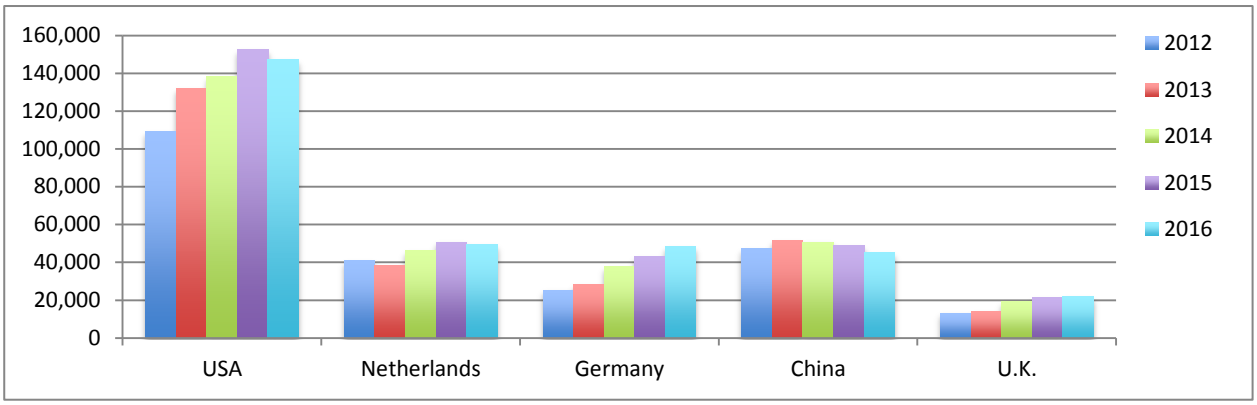
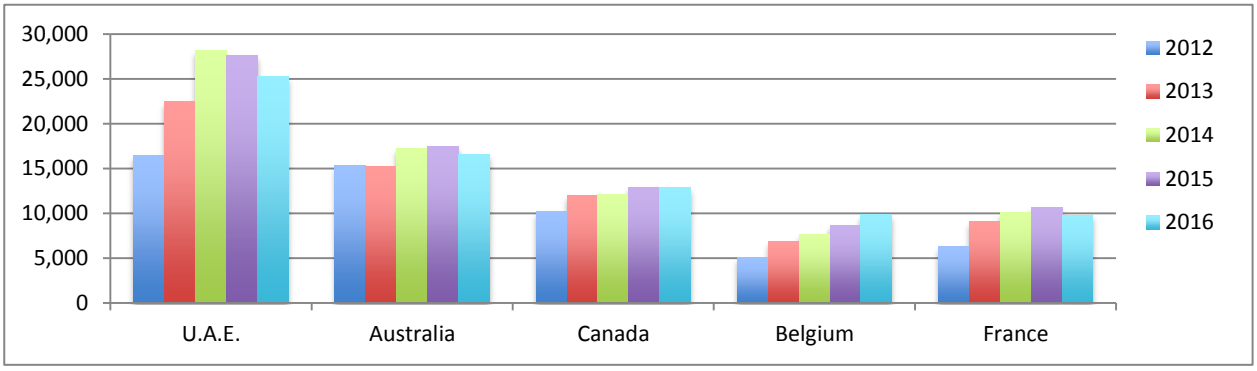


Figure 2.4: Global kernel import volumes from 2012 to 2016 for the ten largest importers (chart 2 of 2)



Belgium (+18.4%) and Germany (+17.6%) reached the largest average annual growth among the top importers of cashew kernels during 2012-2016. Basically all other importing countries realized positive import growth on average per year in this period.

2.1.6 Is supply in balance with demand?

This is a difficult question and not an easy one to answer briefly, as the global RCN and cashew kernels markets are very dynamic. At the same time, the steady growth in demand until 2015 was more or less covered every year by an increase in production. Only 2016 was a challenging year, when there was a dip in supply and also the RCN was of inferior quality.

Every year, the balance between supply and demand depends a lot on RCN production levels and quality of the RCN in the world's main regions. From time to time, there seems to be an imbalance between supply and demand. Often, this also relates to an imbalance in prices demanded by African RCN suppliers, and contract prices that Indian and Vietnamese processors / exporters agreed upon with international buyers. To make it even more complicated, there are also brokers active in the market that hold considerable stock positions from time to time. Plus, cashew nuts traders divide the annual supply into two. The Northern Hemisphere crop is the largest. With countries like Vietnam and India and the region of West Africa it represents in total 75-80% of the world supply. Every year this crop becomes available between February and June or July. The Southern Hemisphere crop is good for the balance of 20-25% with the producing countries Brazil, Indonesia, Tanzania and Mozambique. This crop comes available between October and January.

Another important factor is the relatively long lead-time for the considerable volume of RCN from Africa that is processed in India and Vietnam. It means that buyers are often reluctant to take forward positions; in other words, they don't like to buy RCN in advance, when they don't have the sales contracts for the kernels yet. For example, early harvest in West Africa becomes available in March, shipping takes between 4-6 weeks, so processing can start from mid-April to beginning of May. The kernels are ready for shipping to destination markets by June, and they arrive at the shelves in Europe and USA in July and August.

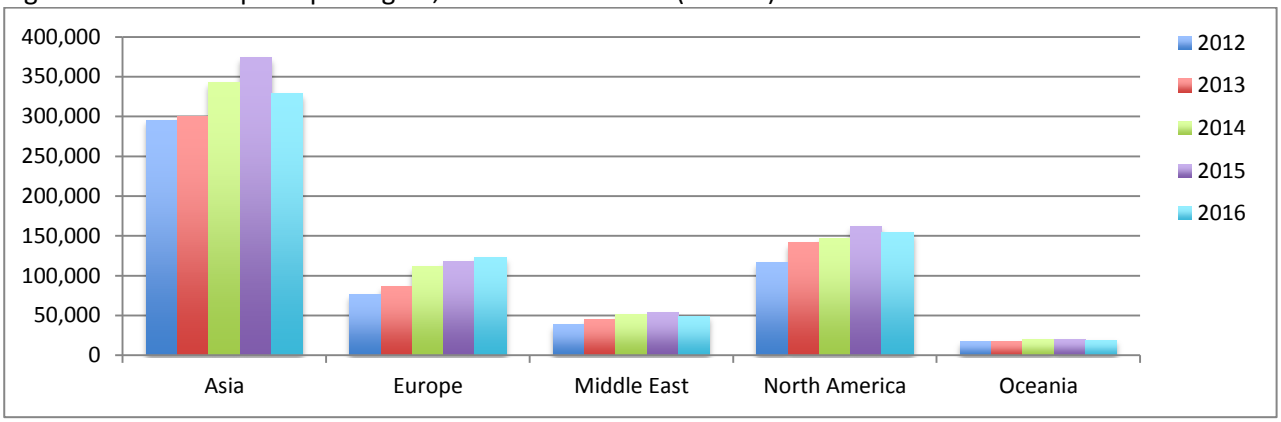
Last but not least, also the annual cycle in RCN and cashew nuts trade plays an important role. Take the 2016 season as example; while during 2016 prices of RCN hiked, consumer prices mostly did not. In October and November, when supermarkets agree new annual contracts, suppliers set a new price level. For consumers the new higher prices became visible only in January 2017. While cashew nuts have developed into a popular healthy snacking food worldwide, there is definitely competition from other nuts. Whether we talk about blends (where processors and packers may change the blend composition), or plain cashew nuts, most consumers don't have a specific preference for cashew nuts. Their foremost buying motivation is the healthy aspect of nuts. In other words, if cashew nuts have become expensive while almond prices got lower, sales of almonds are likely to go up and cashew sales drop. This example shows that price volatility is a serious threat in the cashew nuts market and a threat towards ongoing and sustainable growth of global cashew nuts sales.

2.2 Worldwide market for cashew nuts

2.2.1 Cashew nuts consumption per region

Asia leads the world in terms of cashew nuts consumption. India represents about 75% of the Asian consumption volume, at large distance followed by China (15%). Japan, Thailand, Indonesia and South Korea are the only Asian countries with more than 1% share of the Asian market.

Figure 2.5: Consumption per region, from 2012 to 2016 (tonnes)



The top markets in the other regions are as follows:

- **Europe**: Germany represents 28% of European demand, followed by the UK (16%), the Netherlands (11%) and France (8%). Medium-sized markets are Italy (5.6%), Belgium (4.9%), Spain (3.6%), Poland (3.1%), Luxembourg (3.1%) and Sweden (2.3%).
- **Middle East**: The largest markets with between 10-18% share of the region's market volume are Saudi Arabia, Turkey, U.A.E., Lebanon and Israel. Medium-sized markets are Pakistan, Kuwait, Jordan and Algeria.
- **North America**: USA accounts for 92% (143,000 tonnes in 2016), with the balance (12,000 tonnes) left for Canada.
- **Oceania**: Australia represents 86% (16,400 tonnes), with New Zealand having the balance of 2,800 tonnes.

Europe registered the highest growth in the period 2012-2016 (+13%), followed by North America (+7.2%) and Middle East (+6.2%). Growth in Asia and Oceania was relatively low, but still 2.7% and 2.2% respectively. While on percentage basis this might not seem impressive, in absolute terms the global market grew from 564 thousand tonnes in 2012 to 687 thousand tonnes: a growth of 123 thousand tonnes in four years time.

2.2.2 Consumption – by countries

There are 44 countries that have an annual demand of more than 1,000 tonnes (see Table 2.2). Together they represent 98% of the world market.

Table 2.2: Countries with more than 1,000 tonnes annual consumption of cashew nuts

Country	Volume (tonnes) in 2016	CAGR	Abso-lute growth '12-'16	Trend line
India	246,805	+4%	+33,370	
USA	142,908	+7%	+35,654	
China*	49,571	+1%	-2,230	
Germany	34,582	+13%	+13,537	
U.K.	19,557	+15%	+8,220	
Vietnam	17,000	n.a.	+10,000	n.a.
Australia	16,433	+2%	+1,310	
Netherlands	13,963	+9%	+4,184	
Canada	11,816	+5%	+2,109	
France	9,595	+12%	+3,431	
Japan	8,095	+2%	+493	
U.A.E.	7,490	-7%	+605	
Saudi Arabia	7,412	+9%	+2,206	
Brazil*	7,000	n.a.	n.a.	
Italy	6,924	+8%	+1,869	
Thailand	6,206	+1%	+132	
Belgium	6,050	+25%	+3,563	
Turkey	5,570	+19%	+2,785	
Russia	5,113	-15%	-4,641	
Spain	4,416	+2%	+290	
South Korea	4,159	+25%	+2,456	
Lebanon	4,063	-3%	-595	
Poland	3,851	+40%	+2,859	
Israel	3,805	+6%	+773	
Luxembourg	3,772	+15%	+1,595	
Sweden	2,812	+5%	+490	
New Zealand	2,782	+3%	+297	
Pakistan	2,682	+34%	+1,852	
Taiwan	2,449	-1%	-104	
Malaysia	2,312	-8%	-968	
South Africa	2,305	-3%	-247	
Indonesia*	2,000	n.a.	n.a.	n.a.
Kuwait	1,909	+3%	+221	
Norway	1,876	+5%	+329	
Austria	1,868	+36%	+1,323	
Switzerland	1,817	+14%	+742	
Jordan	1,708	+50%	+1,375	
Finland	1,608	+22%	+878	
Algeria	1,528	+1%	+58	
Greece	1,513	-1%	-90	
Kazakhstan	1,510	-9%	-706	
Hong Kong	1,393	+11%	+488	
Czech Rep.	1,345	+21%	+713	
Singapore	1,072	+3%	+111	

* Estimation, as there is no data available.

Table 2.2. shows that most absolute consumption growth between 2012-2016 came from USA and India, at large distance followed by Germany, Vietnam and the UK.

Overall, growth in demand depends on supply volumes and cashew nuts prices a lot. While to some extent consumers may not feel the higher prices as these are 'absorbed' by processors and packers in destination markets, a high price level that maintains for years will have a damping impact on growth.
The main forecasts for the next 7 years (so the period 2018-2025) are the following:

1. Vietnam will probably register double-digit consumption growth rates (again), as one of the Vietnamese cashew nuts industry's targets is to increase local consumption of cashew nuts.
2. The most developed countries will show above average growth, which will be coming from scientific study results that show proof of cashew nuts being healthy.

2.2.3 Characteristics and trends in the world's leading markets

North America, Europe and Oceania

Virtually all countries in these regions are characterised by an increasing awareness of nuts' health benefits. Because nuts contain 'heart-healthy' fats, minerals and vitamins, consumers incorporate them into their daily diet as healthy snacks and an alternative to crisps and extruded snacks. In turn, within the nuts segment, cashews, along with other nuts like almonds, walnuts, macadamia and brazil nuts, are considered a healthier alternative to peanuts.

Within the leading snack segment, some trends that can be seen in many countries are the growth of natural (unroasted and unsalted) (cashew) nuts, and flavoured or coated cashew nuts.

Another important trend in these regions is growing popularity of veg(etari)an lifestyle. For example, according to GlobalData, in recent years the number of vegans in the USA grew from a 1% share of population in 2014 to a 6% share in 2017. These consumers often include nuts in their daily meals to balance their diet. At the same time, this trend isn't limited to veg(etari)ans, as consumers in general are increasingly interested in plant-based alternatives. They are replacing dairy milk with almond, cashew and other milks. These alternative milks are also used to make plant-based yoghurt and cheese.

Middle East

The two leading markets in the Middle East are U.A.E. and Saudi Arabia, while also Lebanon and Israel should not be neglected. Overall, the Middle East is an important destination for nuts, as nuts are an important part of everyday life. Cashew nuts are consumed with spicy nut mixes as an everyday snack at home or in cafés and restaurants. Eating nuts and seeds is a social habit wherever people in the Middle East meet, but they are also a way to simply pass the time.

Although still most nuts are sold on markets and in specialized nut shops (see pictures on the right), prepackaged nuts sales through supermarkets are increasing, especially in Saudi Arabia, the U.A.E. and other countries of the Gulf Cooperation Council (GCC). Compared to other developed countries (e.g. in Europe, USA, Australia or Japan), the retail packages (mostly stand-up pouches) contain limited information on origin and ingredients. While origin does not seem to be information necessary to consumers, consumers also attach limited value to ethical criteria. Fairtrade sales are rather scarce, while instead organic food sales benefits from a growing interest of consumers in especially Saudi Arabia and U.A.E.

Asia

Rising disposable incomes and growing urbanisation drive the popularity of cashew nuts in Asia. Once considered a rich man's food, cashew nuts have become a popular and relatively affordable snack. While the largest markets are India, China, Vietnam and Japan, other countries with more than 1,000 tonnes annual consumption are Thailand, South Korea, Pakistan, Taiwan, Malaysia, and Singapore. Some more details of the Indian and Chinese markets are revealed below, while Vietnamese market characteristics and trends are discussed in Chapter 4.1.

India is the world's largest market for cashews. Unlike in western markets, India consumes cashew kernels mostly in raw or plain form. Although the market for value added (roasted and/or flavoured) cashew nuts is relatively small, it is the fastest growing product within the savoury snacks segment.

Probably the strongest driver of demand is India's biscuit manufacturing industry. Its production of biscuits with nuts is growing at near double digit rates, creating strong demand for split and/or broken cashew kernels. They are also used in cake and other bakery products, as well as in food preparations like gravies and curries.

Marriages and regional festivals create a year-round demand for sweets containing cashews. Temples use cashews in sweets like laddu, to offer as 'Prasad' to devotees. Cashews are also a gift during Diwali festival.

China, although way behind India, is another large Asian market. The country's fast-growing middle class is interested in healthier living and becoming increasingly aware of nuts' health benefits. This drives the demands for nuts like cashews. According to Mintel (2017), nuts and seeds hold almost 80% of the Chinese savoury snack segment in mainstream retail. Chinese consumers also increasingly add oil-blanched cashews to their main dishes, instead of the traditionally used peanuts.

3. Fairtrade and ethical trade of cashew nuts

Worldwide, only a very limited volume of cashew nuts is traded according to (any kind of) ethical standards; even a lower share is sold as Fairtrade certified product. Some of the main reasons are:

- Within the global Fairtrade community, until now the focus has been on the building of Fairtrade food markets of the core products/commodities: coffee, tea, cocoa, sugar, and bananas.
- Probably coupled with the foregoing (low level of priority to nuts), there is relatively low awareness of the labor-intensive (cashew) nuts supply chain and its ethical issues.

While Fairtrade is rather straightforward, as producers, traders and processors/packers need to be Fairtrade certified and/or licensed, ethical trade conditions cover a broader range of systems.

At least 40% but probably more (between 40-60%) of the ethically traded cashew nuts are not traded under Fairtrade conditions but under conditions put in place by a single company. Examples are Rapunzel in Germany ("Hand in Hand" certificate), the Dutch organic wholesaler "De Nieuwe Band" who is buying from the Indian cashew cooperation Achal, and the Norwegian company "Lille Nøttefabrik" that is buying from a cooperative in Mozambique. These companies apparently maintain high ethical standards, pay their suppliers fair prices, and have short supply chains.

Fairtrade is the prevailing and only ethical independent third-party certification for cashew nuts. Other nuts may have other certifications, depending on target market and retail chain. For example, in some (high-end) markets you can find UTZ certified hazelnuts, and Rainforest-Alliance certified macadamia, peanuts and Brazil nuts on the shelves of supermarkets or specialized stores.

3.1 Global cashew volumes under Fairtrade and other ethical trade conditions

Trade and sales figures of ethically traded, including Fairtrade certified cashews nuts, are not available. Data collected during primary and secondary research in the period September-December 2017 only offered a very fragmented picture of the market.[3] However it is possible to make a rough calculation with help of some assumptions. The main assumptions for Fairtrade cashews come first, as Fairtrade has a few clear starting points:

- Only production countries that are home to Fairtrade certified producers and processors/traders, are able to export Fairtrade certified cashew nuts.
- Only Fairtrade certified traders in destination markets are able to import and sell Fairtrade cashew nuts.
- The Fairtrade principle of direct trade excludes long supply chains. In other words, it excludes RCN trade from Africa and other countries to Vietnam and India from Fairtrade certification. This is

[3] For example:

- One Vietnamese cooperation doing 200-300 tons per year of Fairtrade certified production, Fairtrade Alliance Kerala (FTAK) in India trades between 1,000-1,200 tons and one important customer is Equal Exchange.
- Sri Lanka is doing 100-150 tons Fairtrade.
- Thai Fairtrade exports to Swiss company Claro were 40 tons in 2016.
- Pakka, the leading organic and Fairtrade nuts brand in Switzerland, imports from India and Ivory Coast.
- Liberation Nuts sold 500 tons of Fairtrade cashew nuts in 2013.
- Gepa in Germany sells Fairtrade cashews from Sri Lanka and Honduras. Rapunzel in Germany sources from Achal Industries in India.
- World market leader Olam has (among other things) 3 factories in Ivory Coast, and with these factories Olam probably becomes the largest organic and Fairtrade cashew kernel exporter in the world.

more or less the same for ethically trade cashews. In other words: only shelled cashew nuts exports from production countries are potentially Fairtrade certified.

The volume of ethically traded cashew nuts is larger than only the Fairtrade volume. But, it is possible to calculate a maximum available supply of 'ethical cashew nuts'. The basic criterion for this is the origin country of the kernels, coupled with the assumption that sales of cashew nuts from 'expensive' cashew processing countries is only feasible under ethical conditions, as otherwise buyers would not buy such small volumes of expensive cashew nuts.

As explained in paragraph 2.1.4, processing in Africa is rather expensive; the same goes for a short list of countries from South America and Asia (see Table 3.1 for a list of these countries). This leads to the conclusion that a considerable share of shelled cashew nuts from Africa, and few other countries, is traded under ethical conditions.

Table 3.1: Fairtrade certified producers and traders per production country, for nuts[4] and cashew nuts, worldwide, November 2017 (source: Fairtrade.net and Flocert.net) [5]

Country	FT certified producers Nuts (out of which cashew nuts)	FT certified traders Nuts (out of which cashew nuts)
Asia	**12 (12)**	**14 (11)**
Sri Lanka	4 (4)	2 (4)
India	5 (4)	4 (1)
Indonesia		1 (0)
Thailand	(1)	1 (0)
Vietnam	3 (3)	6 (6)
Africa	**18 (16)**	**8 (6)**
Benin	5 (4)	1 (0)
Burkina Faso	7 (7)	2 (2)
Ivory Coast	6 (5)	4 (4)
Kenya	1*	1 (0)
Mali	1 (0)	
Mozambique	1 (1)	
South America	**8 (3)**	**8 (0)**
Brazil	2 (2)	
Bolivia	5 (0)	7 (0)
Nicaragua	1 (1)	1 (0)

*According to Fairtrade Africa's certification database. Note that that database also gives other (lower) values for Burkina Faso and Ivory Coast, but it has only been used for adapting values from zero to one.

The countries listed in Table 3.1 are grouped according to region, but they can also be segmented according to characteristics:

- Large volume exporting countries, lion share of exports is conventional and a small share is traded under Fairtrade conditions: India, Vietnam, and Brazil.

[4] This includes cashews nuts, but also almonds, apricot seeds, brazil nuts, chestnuts, macadamia nuts, peanuts and walnuts.
[5] Note that the numbers of companies listed for cashew nuts come from Fairtrade.net and the numbers for nuts companies come from Flocert. There are a few small irregularities in the numbers, but still they give a good indication.

- Small to medium-sized processing countries with an established base of Fairtrade certified producers and processors: Sri Lanka, Benin, Burkina Faso, and Ivory Coast.
- Small processing countries with only one or a few Fairtrade certified producers and processors: Thailand, Kenya Mali, Mozambique, and Nicaragua.
- Small to medium-sized processing countries without certified producers and processors (according to Fairtrade.net and Flocert.net) but with Fairtrade cashew nuts supply according to several sources: Indonesia, and Bolivia.

In addition to the countries listed in Table 3.1, there are a few more countries that export small volumes of shelled cashew nuts to high-end markets. Cashews from these countries are probably also traded under ethical 'schemes' or conditions, at least to a certain extent. These countries can be grouped in a few subgroups:

- Countries with cashew nuts producers that had Fairtrade certification in the past: Benin, El Salvador, Guatemala (question mark), Togo (question mark), Senegal (question mark), Honduras, and Tanzania.
- Countries with small production output and without a history of shelled cashew nuts exports: Cambodia, Guinea, Guinea-Bissau, Laos, Madagascar, and Myanmar.
- Countries with medium-sized production output and without a history of shelled cashew nuts exports: Nigeria.
- African countries that are home to Fairtrade certified producers according to Fairtrade Africa's certification database: Gambia, Ghana.

Following a calculation of direct trade volumes over the period 2012-2016 with high-end destination markets worldwide, a share of maximum between 4-5% has the characteristics of ethical trade. This share is a calculated average; the shares for individual destination markets show a considerable variation, as revealed in Figure 3.1. Note that for a small group of European countries (Netherlands, Belgium, Austria, Luxembourg and Ireland) it was impossible to make a valid calculation.

Figure 3.1a: Apparent volume share of cashews imported under ethical conditions, average 2012-2016, in leading high-end markets (source: Globally Cool, 2017)

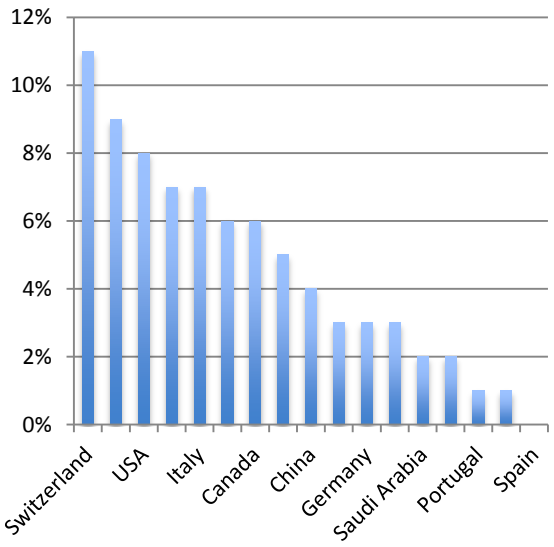
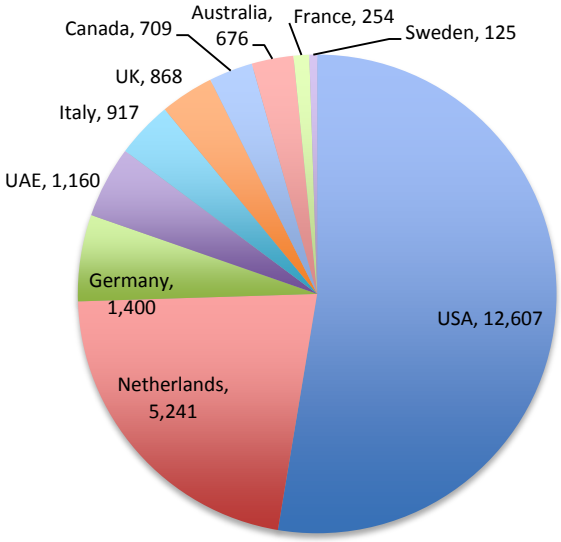


Figure 3.1b: Apparent absolute volume of cashews imported under ethical conditions, 2016, by country (source: Globally Cool, 2017)



In terms of absolute volumes, this comes down to a volume of 25 thousand tonnes, roughly. About half of that volume is imported by the United States. The Netherlands is good for 20% of the global volume, followed by Germany (6%), UK, Italy and UAE (4%), Canada and Australia (3%), France and Sweden (1%).

3.2 Global Fairtrade-certified cashew volumes

When further filtering down this 'ethically traded' volume to cashews only traded under Fairtrade conditions, the calculation results in a maximum of about 14 thousand tonnes traded under Fairtrade conditions. The USA represents 55% of that volume, followed by the Netherlands (23%), Germany (7%), UK and Italy (6% each), Switzerland, Sweden and France (1% each). In this filter, only exports from (current) 'Fairtrade supply' countries to high-end markets with Fairtrade certified and/or licensed traders (Table 3.2) is taken into account.

Table 3.2: Fairtrade certified and licensed traders per destination market for nuts[6] and cashew nuts, worldwide, November 2017 (source: Fairtrade.net and Flocert.net)[7][8][9]

Country	FT certified, not licensed traders; Nuts (out of which cashew nuts)	FT certified and licensed traders, plus licensees; Nuts (out of which cashew nuts)
Europe	**69 (34)**	**38 (20)**
Austria	(3)	5 (2)
Belgium		1 (1)
Czech Republic		1 (0)
Denmark		2 (1)
France	4 (2)	4 (2)
Netherlands	5 (4)	8 (1)
Sweden	1 (0)	1 (1)
Finland	1 (0)	
Germany	21 (10)	(3)
Greece	1 (0)	
Italy	12 (4)	(2)
Spain	1 (0)	
Switzerland	14 (7)	(4)
United Kingdom	8 (2)	18 (3)
North America	**3 (1)**	**4 (0)**
Canada		2 (0)
USA	3 (1)	2 (0)
Asia	**18 (7)**	**1 (1)**
Hong Kong		1 (1)
China	2 (0)	
Israel	1 (0)	
Japan	2 (0)	
Pakistan	1 (0)	
Singapore	1 (1)	
Thailand	1 (0)	

This volume of 14 thousand tonnes is rather small when looking at total kernel exports in 2016 (Table 2.1; 456 thousand tonnes). The share comes down to 3.0%, without taking into account the Indian market of

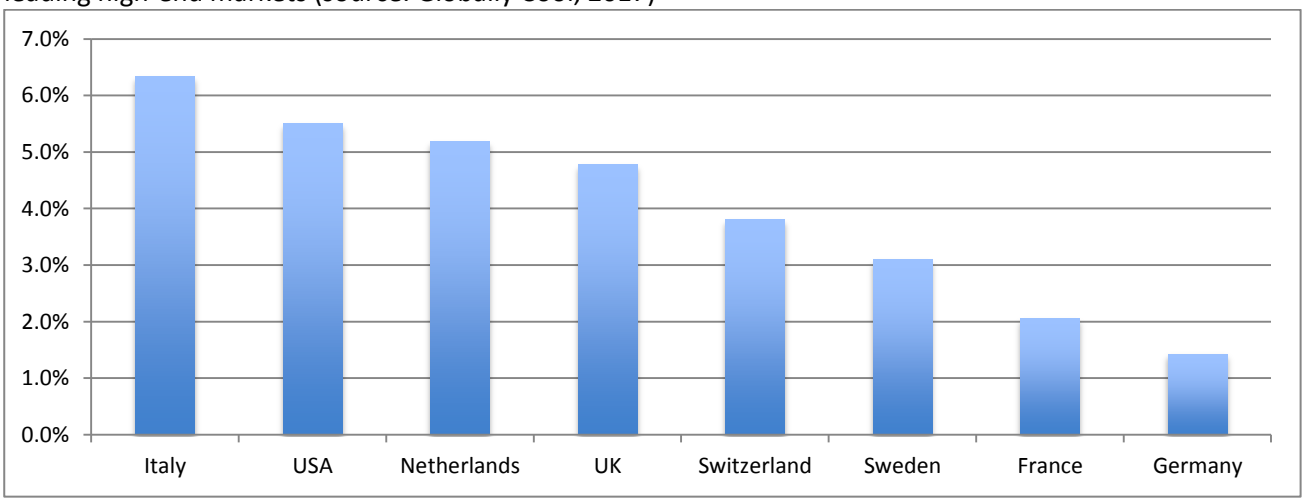
[6] This includes cashews nuts, but also almonds, apricot seeds, brazil nuts, chestnuts, macadamia nuts, peanuts and walnuts.
[7] https://www.fairtrade.net/about-fairtrade/finder.html, https://www.flocert.net/about-flocert/customer-search/
[8] Fairtrade certified traders buy fairtrade cashew nuts and sell them to local and foreign customers. Companies with a fairtrade licensee buy fairtrade cashew nuts, and process and put them in a package with the Fairtrade mark. More information about the differences can be found in the glossary at https://www.fairtrade.net/about-fairtrade/finder.html.
[9] Note that the data from Fairtrade and Flocert don't match for 100% with each other.

260 thousand tonnes. In addition, one should not forget the fact that the 14 thousand tonnes is a 'maximum potential volume'. In practice, not the whole trade volume between the "Fairtrade origin countries" and "Fairtrade destination markets" would be Fairtrade certified cashew nuts. But still, the 14 thousand tonnes is a considerable improvement compared to ten years ago, when the first producer organisation received a fair trade certificate.

3.3 Leading import countries for Fairtrade certified cashews

The apparent Fairtrade volumes as a percentage of total imports for the countries with Fairtrade cashew nuts sales are highest in Italy, USA and the Netherlands. Figure 3.2 reveals more information.

Figure 3.2: Apparent volume share of cashews imported under Fairtrade scheme, average 2012-2016, in leading high-end markets (source: Globally Cool, 2017)



In all countries that are included in Figure 3.2, there are Fairtrade certified and licensed companies and Fairtrade cashew nuts SKU's (Stock Keeping Units) available on consumer level through several channels. However, based on observations in the period September 2017 – February 2018 of availability in supermarkets and the activities of the Fairtrade certified and licensed companies, it is thought that the highest domestic Fairtrade cashews sales shares are in the UK and Switzerland.

3.4 Fairtrade certified cashews – current developments

It is almost 10 years when the Indonesian village of Matanauwe wrote history. The village had just passed a significant milestone in having finally met all the criteria of becoming the first certified producer of Fairtrade cashew kernels. Also, their exporter in Surabaya, Java, received certification as a Fairtrade trader.

Since then, much has happened in India, Vietnam, and even more in Africa. Slowly but gradually and with ups and downs the market share of Fairtrade cashew nuts has grown to a share of below 3% of global trade volumes. Several small producer organizations received the Fairtrade certificate, and lost their Fairtrade certificate.[10] Obviously, it is always a matter of finding certified and/or licensed customers that can guarantee the producer organisation a stable demand for a sufficient part of production.

[10] For several reasons; not always because of a lack of customers, sometimes also because the producer organisation attracted valuable buyers willing to pay (at least) the same price, while not requiring the Fairtrade certification.

While the Indonesian village of Matanauwe lost its certification in the meanwhile, anno 2017 there are several Fairtrade value chain projects ongoing. Just one example is a project in Benin[11], supported by Gebana (trader), the Swiss retail organisation COOP, and the NGO "The Sustainable Trade Initiative" (IDH). Market introduction of the organic and Fairtrade cashew nuts from this project is planned for the end of 2017.

3.5 Organic and dual certification

Organic cashew nuts entered the worlds' leading organic markets (USA and Europe) already more than 15 years ago. They originate from India, Brazil, Sri Lanka, and since a few years also from Vietnam and a few African and South American countries. Although double-digit growth rates (but still low volumes) were registered in the first years, since 2010 there hasn't been remarkably high growth for organic cashew nuts, overall. In the established organic markets, growth comes predominantly from the rise in organic retail outlets and the rise of online sales, and to a much lesser extent from growing sales in mainstream supermarkets. While the organic premium for producers used to be between 20-40% (but mostly 25-30%) in the beginning, this premium went down to an average of 10-15% in recent years. Anno 2017 the consumer pays a premium of between 25-40% for organic cashew nuts. [12]

Although for many products dual (organic + Fairtrade) certification is often the best way to gain access to high-end markets, in the nuts range this seems to be less logical. This is probably because nuts are already considered as 'natural', and therefore whether nuts are organic or not seems not a big issue.

The number of dual certified producers worldwide is rather limited:

- In Africa, only 2 producers have both Fairtrade and organic certification: one company in Burkina Faso and one in Ghana. The organic and Fairtrade certified cashew nuts from West Africa find their way to a wide range of customers all over Europe and also the USA.
- Also a few producers from India, Sri Lanka, and El Salvador are Fairtrade and organic certified. Probably the best-known organisation in this respect is the Indian cooperative FTAK. FTAK's customers are prominent companies in the ethic nuts trade, like Liberation Nuts, Pakka, Ethiquable, Geobar, Equal Exchange. FTAK can be considered as a best practice in the global Fairtrade community. Not surprisingly, FTAK's customers like to use the Fairtrade story of FTAK cashews in their promotion. In Sri Lanka, there are a few small producer organizations, like MOPA and SOFA, who have at least one important customer, Lemberona from Italy/Austria.
- In Vietnam, there are two dual certified cooperatives. One of them is Phuoc Hung cooperative (FLO ID 29277), Fairtrade certified since 2009 and since a few years also organic certified. By the end 2017 there is also another very young cooperative (started in 2016) that aims for both organic and Fairtrade certification: Binh Phuoc Cashew Cooperative Union (BPCCU).[13]
- Last but not least, the world's leading cashew nuts processor Olam is also a frontrunner in terms of organic and Fairtrade production. According to Olam's sustainability reports over 2015 and 2016, in both years the company traded 4,400 and 7,000 tonnes respectively of dual certified cashew nuts

[11] Also see https://www.gebana.com/projects/de/project/timeline/16?lang=en and https://www.gebana.com/projects/de/project/information/16

[12] This can be fluctuating from country to country and from company to company. Note that, although the premium seems to be attractive, the costs of handling and trading organic cashews are considerably higher than of conventional cashew nuts. A major reason is the lower volume of cashew nuts trade, making the handling and trading more expensive than that of conventional products.

[13] The Union was recently established (middle 2016) and at the moment has 735 members (farming on 3061 ha, producing 11,600 cashew tons), provincial scale (incl. five primary cooperatives, one company from four districts), and potential to expand to 4.000 members or more (Binh Phuoc province has 180,000 ha of cashew garden; 300 SMEs of processors, and around 700 microprocessors for partial process or pre-processors)

from its' 3 processing facilities in Ivory Coast. Most of this volume is probably sold to Whole Foods, although Olam also supplies other large companies of which several also have developed ethical and/or organic purchasing standards. For example, Nestle, Kraft Foods (Planters), Unilever, and General Mills.

While several sources have reported an estimate of still about 50% of world cashew production being organic by default, only a small part of that volume is certified organic. Note that this area is shrinking rapidly, as chemicals and fertilizers are introduced. Reasons for producers to not start the organic certification process for their cashews largely differs from one producing country to another.

A further scan of the Fairtrade certified and possibly licensed traders as listed in Table 1.4, shows that only between 15-25% of the companies that have obtained Fairtrade certification, are also organic certified.

In addition to the already mentioned 'natural' image of nuts as a barrier for growth in the organic cashew nuts market, two other constraints that limit growth in certified organic and/of Fairtrade nuts sales are:

1. There are strict requirements for the handling of certified nuts at the point of sales. This is predominantly an issue where nuts are sold to end-consumers in bulk and not in pre-packed units. While the bulk sections in supermarkets can meet these requirements as the nuts can be presented in separate and closed containers, this is obviously a challenge for specialized nuts shops that don't use the bulk container concept, whether they are mobile or not. To some extent it is a barrier to a gradual growth in demand and market exposure, and not only for organic certified cashews but also for Fairtrade certified cashews goes the same. For all the countries where Fairtrade cashews have gained market share (see Figure 1.8) this is a factor that should be taken into account, but it is most relevant for countries with considerable bulk markets, such as the Middle East.
2. Value addition in destination markets frequently takes place in the form of mixing nuts and also mixing with nuts and dried fruits. Within the complete nuts and dried fruits range, not all nuts or dried fruits may be available with either organic or Fairtrade certification and in sufficient volumes. The most obvious problems arise from hazelnuts and pecan nuts; both nuts are not available with Fairtrade certification.[14] An additional complication may be the exclusion of Fairtrade certification that can be sourced from developed countries.[15]
3. Until 2011, a frequently mentioned barrier to Fairtrade cashew nuts market development is the Fairtrade standard for cashew nuts that was in place until October 2010. The primary problem was that the Fairtrade minimum price did not make a differentiation for the several cashew kernel grades.[16] The new Fairtrade standard solved this problem, as it recognizes 14 different grades for conventional and organic cashew nuts. <u>At the same time, cashew nuts market prices have always been above the Fairtrade minimum price since then, so in principle this is not a barrier for traders to become Fairtrade certified.</u>

[14] For example, in the Netherlands, Fairtrade Max Havelaar indicates that in addition to Fairtrade certified cashew nuts from Burkina Faso, Ghana, Ivory and Coast and Vietnam, there are also availability of Fairtrade certified peanuts (from China, Central America and Malawi), walnuts (Central Asia, Chili, Pakistan), almonds (Palestine), brazil nuts (Bolivia), and macadamia nuts (Eastern Africa).

[15] Although there are recent developments in for example the USA that enable Fairtrade certification of locally produced products.

[16] The argument for setting one price was that the production costs per kg are the same for each grade, whether for example LWP or WW320. However, it does not reward producers' efforts to increase production efficiency, such as focusing on increasing whole grades ratios, producing easier-to-shell RCN, or implementing production management systems.

3.6 Best market selection for Fairtrade cashews from Vietnam

In the previous paragraphs we have seen that about 25 thousand tonnes is traded under ethical conditions in recent years. In terms of absolute volume, the top ten countries consist of (from 1st to 10th position): the USA, the Netherlands, Germany, UK, Italy, UAE, Canada, Australia, France and Sweden. Seven of these countries are important importers of Fairtrade cashew nuts, added with Switzerland.

To turn the development of a Fairtrade cashew nut value chain in Vietnam into a commercial success, it is important to make a thorough analysis of potential markets and to see whether these markets are "white spot"[17] markets for Vietnamese cashew nuts so far, or not. As a small differentiation in indicator range was applied for both categories, two selection models have been developed; one for existing export destinations and one for 'white spot' markets for Vietnam.

The following indicators are included:

- Imports 16 = Import volume in 2016
- CAGR 12-16 = Average annual growth 2012-2016
- Growth in imports from Vietnam = Growth in country's imports from Vietnam in 2012-2016
- GDP = GDP annual growth estimation 2017-2022
- Fairtrade potential = potential based on overall Fairtrade market size
- Consumption = calculated country's market size in 2016
- Tariffs = Tariff competitiveness of Vietnam versus other leading suppliers of cashew nuts
- Distance to Vietnam = the closer to Vietnam the more supply chances.

Table 3.3 and 3.4 show the results for both categories and enable us to draw the following conclusions:

- Of the 11 countries identified as the world's top importing countries of cashews nuts under ethical and Fairtrade trade conditions, 7 countries also appear in the top 12 list of highly potential markets for Fairtrade cashew nuts from Vietnam: USA, Germany, UK, France, Canada, Netherlands, Switzerland and Australia.
- Other current markets identified as highly potential markets are: Luxembourg, Belgium, and India. While India might not seem the most interesting market in terms of Fairtrade sales, the Belgian and Luxembourgian market apparently offer good potential for Fairtrade nuts.
- 'White spot' markets do not reach high scores as compared to existing export destinations. The highest score is for Austria, which is lower than the 12th positioned country of Table 3.3 (China). In other words, there are no potentially interesting white spot markets for Fairtrade cashew nuts from Vietnam.

[17] "White spot markets" are countries that don't import cashew nuts from Vietnam yet.

Table 3.3: Best Market Selection; Vietnamese existing export destinations

Country	Imports 16	CAGR 12-16	Growth in imports from Vietnam	GDP	Fairtrade potential	Consumption	Tariffs	Final score
USA	7.5	6	6	1.5	10	10	3	44
Germany	7.5	6	7.5	1.5	10	8	3	43.5
UK	6	6	6	1.5	10	8	3	40.5
France	6	6	6	1.5	10	6	3	38.5
Canada	6	4.5	6	1	10	8	3	38.5
Luxembourg	4.5	6	7.5	1	10	4	3	36
Netherlands	7.5	4.5	4.5	1.5	6	8	3	35
Belgium	6	6	6	1.5	6	6	3	34.5
Switzerland	4.5	6	6	1	10	4	3	34.5
India	4.5	6	6	2	2	10	3	33.5
Australia	6	4.5	4.5	1.5	6	8	3	33.5
China	7.5	4.5	4.5	2	2	8	5	33.5

Table 3.4: Best Market Selection; Vietnamese white spot markets

Country	Imports 16	CAGR 12-16	Distance to Vietnam	GDP	Fairtrade potential	Consumption	Tariffs	Final score
Austria	4.5	6	1	2	6	8	3	30.5
Ireland	3	6	1	3	10	4	3	30
Slovakia	4.5	7.5	2	3	2	6	3	28
Romania	3	7.5	1	4	2	6	3	26.5
Kuwait	4.5	4.5	3	2	2	8	2	26
Qatar	3	6	3	3	2	6	3	26
Nepal	3	7.5	1	3	2	6	3	25.5
Pakistan	3	7.5	2	3	2	4	3	24.5
Croatia	3	7.5	2	3	2	4	3	24.5
Portugal	3	6	1	3	2	6	3	24

4. VIETNAMESE MARKET DYNAMICS

4.1 Domestic demand

Although Vietnam has been exporting cashew nuts to many countries all over the world for more than 30 years, cashew consumption in Vietnam is still relatively modest at 5% of national cashew kernel processing output. At the same time, this means a volume of about 17 thousand tonnes, making it the 6th largest market worldwide.

The cashew nuts that are sold in the local market are mostly of the lower qualities, as the best qualities are reserved for high-end markets in developed countries. Consumer packages often contain Class 2 cashew nuts and a mix of whole, split and broken kernels, and pieces. Cashews that are sold to tourists, instead, are Class 1 or extra grade.

According to the Vietnam Association of Retailers (AVR), consumption remains relatively low as Vietnamese consumers have a relatively low income. In addition, cashew nut products have not been widely promoted and innovation has remained limited. Until now, consumers can almost only buy roasted cashew nuts or candy cashew nuts. Last but not least, cashew nuts are not part of the daily menu of Vietnamese people. Most cashews are consumed during Lunar New Year holidays, when cashews nuts are bought for family and friends as a gift.

Sales channels can be divided into three main groups, as shown in Figure 4.1.

Figure 4.1: Sales channels of cashew nuts in Vietnam

Currently, Vietnam has nearly 9,000 local marketplaces, 1 million small-scale shops, almost 1,000 supermarkets, over 130 trade centres and many convenience stores. Some names of retailers are for example Big C (Hypermarket), Co.opMart, Lotte Mart and Citimart. Online retailing is also booming in Vietnam, as it responds to the needs of consumers that increasingly shop online. The 3 sales channel categories shown in Figure 4.1 account for more or less equal shares of the market, so, each between 25-40%. The category "modern" is definitely the largest growing segment.

Although until now production innovation is rather low, some processors have developed a variety of roasted cashews with unique flavours, such as:

Honey roasted cashew, Wasabi coated cashew, Pepper roasted cashew, Garlic roasted cashew, Sesame honey roasted cashew, Coconut roasted cashew.

The food retail channel has developed fast in the last decade and in recent years also the range of cashew nuts in the supermarkets has grown rapidly. There are a few differences with the offer in supermarkets in developed countries:

1. Packaging is not flexible but rigid, e.g. cups, boxes, bottles and cans, mostly of plastic.
2. Mostly the packages contain a mix of whole, split and broken kernels, and pieces.
3. Between 10-15% of the range are roasted and flavoured cashew nuts.

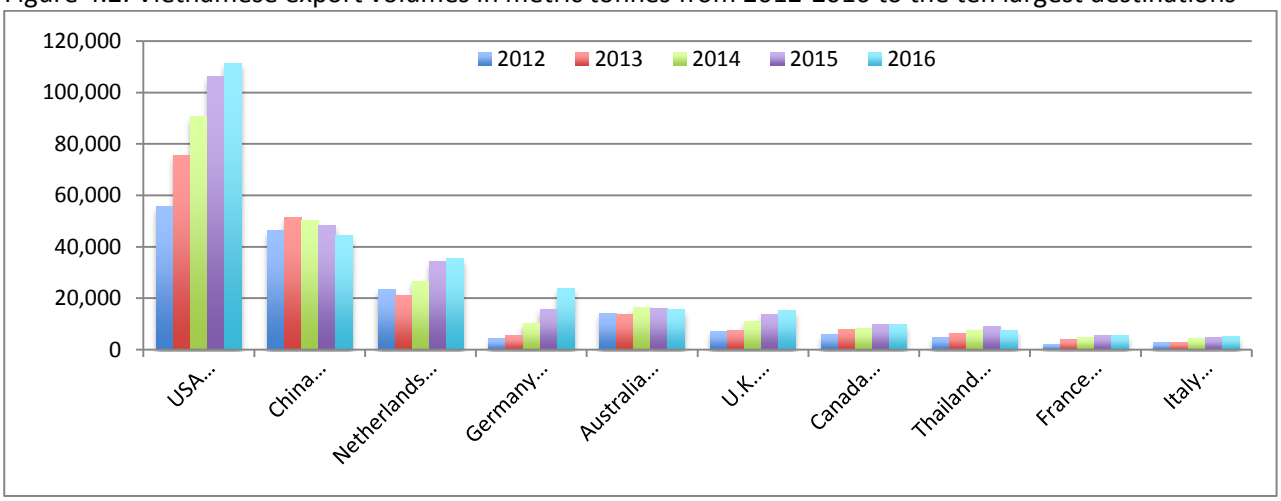
An example of a common cashew nuts shelf in a Vietnamese supermarket is shown below. It shows that there are many different SKU's on offer from more than 12 different brands / processing companies. While market shares of the several brands available in the local market are difficult to estimate, it seems that the company LAFOOCO is well positioned to claim a market leader role. LAFOOCO has a well-developed packaging range of plastic jars, stand-up pouches, paper cans and aluminium bags and an advanced range of coated cashews.


HẠT ĐIỀU
HẠT ĐIỀU
YẾN NHƯNG
Hạt Điều
MUỐI
YẾN NHƯNG
Hạt Điều Mật Ong
Bean-Bean
SNACK NHÂN ĐẬU PHỘNG
VỊ RONG BIỂN
Bean-Bean
SNACK NHÂN ĐẬU PHỘNG
VỊ RONG BIỂN
Bean-Bean
SNACK NHÂN ĐẬU PHỘNG
VỊ CÀ PHÊ
192.000 đ
302.300 đ
271.500 đ
52.300 đ
52.300 đ
Bean-Bean
Bean-Bean
Bean-Bean
Almonds
Almonds
84.200 đ
30.500 đ
34.000 đ
157.200 đ
157.200 đ
91.900 đ
HẠT MẮC CA VỊ MUỐI
HẠT MẮC CA VỊ TỰ NHIÊN
111.300 đ
70.900 đ
74.500 đ
121.000 đ
105.300 đ
104.800 đ
240.800 đ
178.700 đ
98.700 đ
81.300 đ
302.300 đ
103.900 đ
77.800 đ
64.600 đ
Khuyến mãi
145.000 đ/hộp
162.300đ
81.600 đ
83.300 đ
50.000 đ

4.2 Vietnamese exports

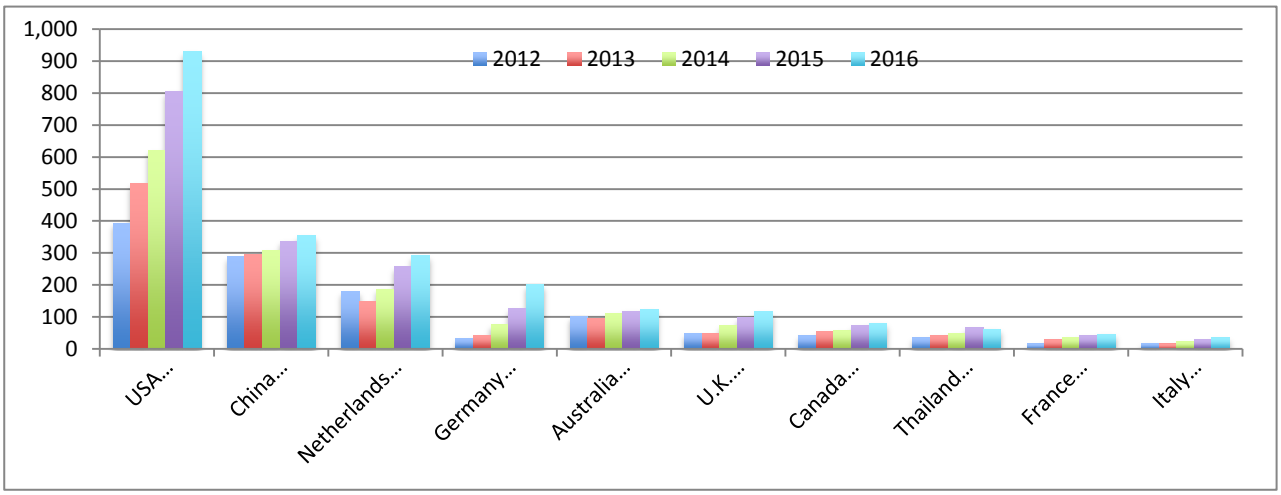
As Vietnam is the dominant exporter of cashew kernels, main export destinations are quite similar to the largest importers globally. From the top ten largest importers worldwide, only United Arab Emirates and Belgium were not among the ten largest Vietnamese destinations in 2016. Instead of these countries, Thailand and Italy are in the list of largest markets for Vietnam.

Figure 4.2: Vietnamese export volumes in metric tonnes from 2012-2016 to the ten largest destinations



Most of the main markets booked significant average annual growth in imports from Vietnam during 2012-2016 (Figure 4.2). Largest grower Germany reached average annual import growth of +55%. In absolute numbers, the growth in imports was largest in USA (over 50,000 tonnes growth in 2016 compared to 2012). The export values show the same growth trends for most countries, as can be seen in Figure 4.3.

Figure 4.3: Vietnamese export values in million USD from 2012-2016 to the ten largest destinations



Because of rising prices, growth in export values is higher than the growth in volumes for all export destinations in the period 2012-2016. The export performance to China illustrates this most clearly. While export volumes to China declined on average from 2012 to 2016, the export value grew by 5.5%.

4.2.1 Fastest growing markets

Exports from Vietnam have been growing significantly during the period 2012-2016. They more than doubled over these five years: from USD 1.1 billion export value in 2012 to almost USD 2.3 billion in 2016. In actual numbers, USA has been the largest growing destination for Vietnam in this period. In average annual growth from 2012-2016, the fastest growing importing countries include: Portugal (+142%), Austria (+97%), South Korea (+96%), Poland (+94%), and Luxembourg (+87%).

Despite their highest yearly growth rates, exports to Portugal (USD 1.3 million) and Austria (USD 1.9 million) still remained quite low in 2016. South Korea and Luxembourg imported around USD 10 million of cashew kernels, while Poland imported almost USD 25 million in 2016. This has grown from just USD 1.5 million in 2012. Both total Polish imports of cashews and the Vietnamese share in the Polish market have been increasing consistently over this period. Poland is currently the 13th largest export destination for Vietnam.

4.2.2 Export products and forecast 2017

In the global supply chain of cashews, Vietnam currently plays an important role in processing cashew kernels, together with India. Vietnam's cashew exports are mostly cashew kernels that have not been finely processed. There are several reasons for the low level of added value taking place in Vietnam. First, there has been a lack of investment in cashew processing technology in Vietnam, however this might be coupled with the absence of demand for added value cashew nuts in destination markets. Until now, value addition in the global cashew chain is predominantly taking place in destination markets, and not in origin countries.

In 2016, the aggregate export volume of the Vietnamese cashew industry reached 350,000 tonnes with a total value of over USD 3.0 billion. Most of that turnover is for cashew kernels (USD 2.85 billion). The balance is for sub-products such as cashew oil and cardanol.

In 2017, Vietnam's cashew industry aims to reach an export value of USD 3.3 billion, of which USD 3.0 billion is for cashew kernels.

4.2.3 Export companies

According to the Vietnam Cashew Association (VINACAS), there are nearly 400 export companies of cashews kernels and between 140-160 medium and large-scale processing companies in 2016. The top exporter of Vietnam's cashew kernels is Olam, with 10% of the total export value. Then there are 4 other large exporters, who together take 12% of Vietnamese exports: Long Son (largest Vietnamese processor), Thao Nguyen, Minh Huy, and Hoang Son 1. Other companies that are top-10 exporters and/or processors are Phu Thuy, Rals Vietnam, Da Kao, Lafooco (part of PAN Food, also processing), Tanimex, Tan Hoa, Haprosimex and Hapro. Further, important processors are Phuc An, My An Co, Tan An, Cao Phat, and Dan On Foods.

The remaining companies are much smaller as compared to the top 5; each of the next 40 companies contributes to about 1% of the total export value.

4.3 Vietnamese supply

For the world's leading position as cashew nut exporter, Vietnam strongly depends on imports of RCN. Roughly, two thirds of processed cashew kernels in Vietnam are imported RCN, mostly from Africa and Cambodia. This heavy reliance on imported raw materials can be considered as a threat to the Vietnamese cashew industry. It may lead to problems with quality assurance and food safety control, affecting the reputation and brand of Vietnamese cashew nuts.

Figure 4.4: Vietnamese cashew supply chain

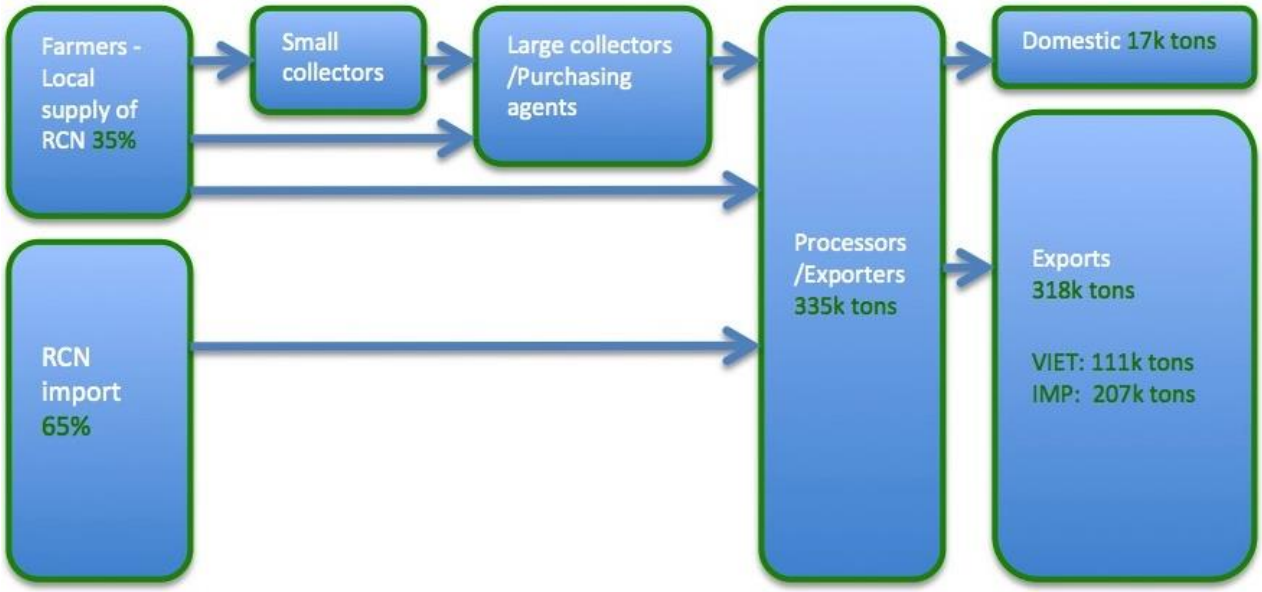


Figure 4.4 clearly shows Vietnam's dependence on imported RCN material. With the assumption that the same division of 35:65 also goes for the domestic and export markets, 111 thousand tonnes of exported cashew kernels are Vietnamese RCN. This volume (with a maximum of 117 tonnes) is the apparent potential volume available for Fairtrade certification.

4.3.1 RCN production

The size of Vietnam's cashew-growing area has dropped from 400,000 hectares in 2007 to 293,000 hectares in 2016, as many farmers replaced cashew with other crops of higher value, such as cacao, cassava and rubber. Despite the decline in local production, Vietnamese cashew kernel exports kept increasing steadily because of strong growth of RCN imports from Africa.

Table 4.1: Cashew growing area and productivity (General Statistics Office Of Vietnam, 2017)

Year	2010	2013	2014	2015	2016
Growing area (1,000 ha)	379	308	295	290	293
Area under cultivation (1,000 ha)	339	301	288	280	281
Productivity (1,000 ton)	311	276	345	352	304

The shortage of domestic raw material has reached serious levels in recent years, as bad weather and pests had a negative impact on productivity levels. Their reliance on RCN imports in recent years has made Vietnamese export enterprises vulnerable; unpredictable RCN prices made it difficult to fulfil export contracts or deliver products on schedule, while their products may not meet quality requirements. Several processors also reported that lack of raw material caused disruption of production several times.

To solve the problem of RCN shortage, avoid production disruption and reduce dependence on imported RCN, the Vietnam Cashew Association (VINACAS) is implementing 4 programmes for the period of 2016-2020:

1. Cooperation between companies and cashew farmers in a "re-cultivating and intensively cultivating" programme, aiming to reach 600,000 tonnes in 2020, double the number of 2016.
2. The launch of a "Cleaner and Greener Cashew" programme, with the objective of supplying safety and high quality products. The Vietnam Cashew Association commits to 100% of its members' products meeting food safety requirements.
3. Raising the value of cashew products and focusing on processing and product diversification. VINACAS will carry out activities to stimulate local consumption, which is planned to reach 30,000 tonnes of cashew nuts by 2020.
4. Building a Vietnam National Food Brand for cashew products, increasing and expanding trade and export promotion activities.

Vietnam is also helping Cambodia and Laos to increase productivity, to ensure a continuous supply of raw material. Also some Vietnamese companies have started cashew farming in those neighbouring countries.

4.3.2 RCN production areas

The south of Vietnam is home to most of Vietnamese production, thanks to suitable conditions for cashew with basal soil. The centre of RCN production in Vietnam is Binh Phuoc province, also in the south. This province accounts for 50% of Vietnam's total raw cashew nuts supply and it is also known for its' good quality RCN. The balance is left for the southern provinces of Ba RiaVung Tau and Dong Nai; Phu Yen and BinhDinh provinces in the central region; and the Central Highlands provinces of DakLak, Gia Lai and Kon Tum.

The map on the right shows the provinces where RCN production takes place; dark green for the provinces in the south, and light green for the Central Highlands provinces.

Production output in the Central Highland has declined the strongest in the past decade. The Central Highland usually has low temperatures and often drought during the flowering period. In the past, ethnic minorities also used low quality seeds. Combined with bad weather, pests and disease, this has led to low productivity. As a result, many farmers have ceased cashew production and replaced it with other crops. In the year 2016, cashew areas declined sharply with 44% and 26% in DakLak and DakNong respectively.

4.3.3 Three RCN production systems

The production in Vietnam can be divided into three production systems:

- **Farms of individual farmers (45% share of domestic output).** Producers are farmer households and often own from a few trees to 4 ha. Varieties usually depend on the region. There are great differences between cashew plants from seeds or grafted seedlings.
- **State-owned processing companies having forestry farms (30%).** Some processing companies are formed on the basis of state coffee farms / forestry farms (e.g. Chu Quynh Processing Factory, which is Viet Duc 5 in Daklak province). The farmers working on the land receive training and equipment from the farm owner.
- **State-owned agro-forestry enterprises (25%).** Farmers rent land from enterprises. The enterprise decides which land is used for cultivation and reclamation. Farmers are responsible for managing their orchards and inputs for farming. Farmers pay-in-kind a part of the harvest to the landowner, while they can keep the rest of the harvest for themselves.

Many local communities, companies and cashew farmers pay attention and respond to the trend of cooperation, growing cashew consumption and increasing demand for organic products. Some exporters have their own raw material production areas, and follow a strategy of investing in organic production and processing for export markets.

4.3.4 RCN collection and trade

Small, medium-sized or large private agencies and agents of state enterprises take the role intermediaries between farmers and processors. Approximately 90% of RCN is sold through small collectors. Small collectors collect only small quantities but can buy in remote and inaccessible areas by motorbike. After that, small collectors can resell RCN to medium agents or large agents. Only 10% of cashew production is sold directly by farmers to large agents. When farmers live near the processing factory, they may sell RCN directly to the factory, but this is rather exceptional.

Purchasing agents determine prices based on RCN quality, which covers moisture content and percentage of seed. After collecting from small agents and farmers, purchasing agents take care of first ‘processing’, including drying and / or removing impurities and floaters to improve quality.

Competition among collectors and agents is perceived as very strong. They often do their utmost best to gain farmer’s trust, such as helping farmers to pick up grain during the peak season. From the farms to the processing plant, the RCN can be traded by in total up to 7 different collectors and purchasing agents. The farther a factory is from the farm, the more relevant agents are. At the same time, in remote areas, the farm gate price only accounts for 36% of the export value, which can be considered as very low. An obvious reason for this low share is the high number of intermediaries in the RCN supply chain.

The processors and exporters are definitely aware of the “loss of value” by the large number of collectors and purchasing agents in the value chain. Some processors have implemented programs to bypass middlemen in the end. Market leader Olam implemented such a program named “Bypassing middle men to unlock mutual value”. Olam has trained over 1,000 farmers and certified them under IaGrai Cashew Producer Cooperative. In addition to the Fairtrade premium and pre-financing from Olam, both the farmers and Olam will benefit financially by eliminating the middlemen, whilst the full traceability offers multiple benefits too.

4.3.5 RCN Processing

The largest exporters (see 4.3.2) are also the major processing and packaging companies. In turn, some processors also have their own farms and some top importers of RCN have their own packaging and processing facilities.

Processors usually purchase RCN from independent purchasing agents. As the competition between these purchasing agents has increased a lot in recent years, buyers can negotiate better RCN prices. Agents, even though they could store RCN for two years if properly dried, try to sell the RCN as soon as possible. This is because agents want to avoid the risk of devaluation caused by loss of quality during the storing process. In theory, farmers can also deliver RCN to the factory, but often do not have contractual commitments with the factory.

Risk-sharing strategies, including large-scale early-stage purchasing and factory-based warehousing, have enabled processors to estimate the required labour supply and provide a timely source of labour and sign long-term contracts. At any time during the season when prices go down, processors will try to buy large volumes. The purchasing strategy also depends on the customers' bidding contracts. In addition, large exporters can purchase products from smaller processors.

There is also a category of small-scale private processing companies. Many of these companies try to link with producers in a way to obtain high quality material for which they offer higher prices than middlemen do. They have a strong business model: a reliable and stable supply, better access to farmers, and efficient production of cashew nuts of high quality that are traceable.

Although most attention has been going to the shortage of RCN for Vietnamese processors, there are also some other trends and developments that are worth to mention:

- **Growth of Foreign Direct Investments**. At present there are many domestic and foreign enterprises entering the Vietnamese supply chain. They invest in cashew processing establishments in both the South and the North, especially along the border with China. There is also a trend of consolidation in the industry, with mergers and acquisitions taking place at a faster pace than before.
- **Processors become traders**. There is a trend among processors in recent years to focus more on the trading of RCN and cashew kernels, rather than on the processing. This has caused some disturbances in the Vietnamese cashew value chain in recent years.
- **Reputation of Vietnamese cashew industry is at stake**. To control the quality of cashew kernels, the cashew industry has gradually improved technology, equipment and machines used in producing and processing. However, still a major constraint is the low level of food safety assurance. Out of the total of 400 processors, there are only 22 companies that maintain ISO and HACCP standards.[18] In 2017 several companies reported quality issues with Vietnamese cashew kernels, below follow two examples of statements:
    - "We see more and more and that product delivered is at the border (or over) of the specifications making buyers unhappy. The Vietnamese industry has to realize that they should guarantee good quality to pave the road for a bright future and not destroy their own industry."
    - "Furthermore, in recent times some pest and impurities have been found in some shipments to the EU, affecting the prestige of Vietnamese enterprises"

[18] Other sources mention 140-160 medium to large-scale cashew processors of which only around 50 have begun to invest in brand building and applying international food hygiene standards.

- **Fluctuating prices make processors vulnerable**. While the high numbers of intermediaries are good for a considerable share of revenues and margins in the value chain, the highest cost in the entire supply chain is in the processing of RCN into cashew kernels. This is done manually to a very large extent, so the lion share of costs is labour costs. This also explains why the Vietnamese exporters are the most vulnerable to price fluctuations in the supply chain. While intermediaries work with a more or less fixed range of margins, processors/exporters sell to international buyers and need to absorb the dynamics of the international market.
- **Impressive efficiency improvements**. Although this was decades ago, this explains why the Vietnamese cashew industry plays such an important role in the global cashew nuts industry. In the early years, cashew processors had to use a lot of manual labour, which caused low productivity. Only some large-cap companies could invest in expensive processing machines, mostly imported from China, Italia and India. To raise productivity, cashew nut processors understood that they had to ease the reliance on imported machines. Together with Vietnamese mechanical companies they created a very competitive range of "Made in Vietnam" machines and equipment for all stages of processing. This equipment costs between 30-80% less than imported machines while quality is at parity. This helped to make processors more competitive, enabling them to cut expenses on machines, and also to reduce labour costs. Because of the new equipment, the annual cashew processing capacity of Vietnam has risen sharply; from only 15,000 ton/year in 1990 to 400,000 ton/year in 2005.

4.4 Future developments

Cashew is one of the key crops of Vietnamese agriculture. Starting from a country that only grew and exported RCN, Vietnam has experienced an impressive development. Currently, Vietnam is the largest cashew kernel exporter, the second largest processor of RCN and ranking third by productivity and yield. To maintain and strengthen this position, the Vietnam Cashew Association implemented a development plan of the Vietnam cashew sector for the time span of 2016-2020 and also with a vision toward 2030.

4.4.1 Sustainable development

Sustainable development of the cashew sector requires synchronous investment and a good coordination. Development must ensure that the chain of production, trade, processing, preservation and marketing is maintained, and responsibilities of all involved parties must be clearly coordinated. The sector needs to build close linkages between processors and farmers, to guarantee high quality raw material for processing.

Sector planning and regional planning also need to be improved. The level of consolidation is low; up to 73% of about 400 cashews exporters/processors have annual export sales below USD 5 million. Programs should foster consolidation, as small processing establishments are struggling to ensure food safety and hygiene standards. Programs should also promote linkages and development of industrial clusters to form large-scale operations that are more competitive in terms of quality and overall performance.

4.4.2 Increase domestic RCN supply

The total growing area is expected to stabilise at 300,000 hectares with an average yield of 1.5 tonnes/ha by 2020. In the long term, domestic RCN supply can reach more than 700,000-800,000 tonnes/year. By 2030, Vietnam will continue to stabilise the area of cashew cultivation. Critical success factors are:

- **Improvement of farm productivity**. Focus must be on intensive cultivation, applying science and technology to increase productivity and quality, with the objective of average cashew productivity

reaching 2 tonnes/ha. According to international studies, cashew productivity may rise 30-40% if cultivating science and technology is applied.

- **Renewing part of old cashew plantations**. New-generation trees will enhance productivity to a large extent; by 2020, Vietnam needs to re-cultivate, transplant and improve 60 thousand ha of cashew trees.

4.4.3 Strengthening of cashew processing

The processing industry needs to focus on added value production. For processors this means that they need to invest in advanced processing, post-harvest preservation, and modernisation of equipment. The ultimate aim is a diversification of product lines, with a target of 20% share for cashew nut products (instead of only cashew kernels), and 50% for cashew shell oil by 2020. By 2030, the rate of cashew nut products should reach 40-50%.

Another focus area is improving the quality of the cashew nuts and quality assurance in the value chain. As stated before, out of the total of 400 processors, there are only 22 companies that maintain ISO and HACCP standards. By 2020, all cashew nut processing plants should be equipped with automatically operated shell cutting and peeling equipment. What's more, 95% of the processors will have implemented and certified quality management systems such as ISO 22000, HACCP, GMP, and GHP.

4.4.4 Strengthening branding and promotion

At present, the Vietnamese government strongly supports and promotes Vietnam food branding. Also, cashew is one of the selected food sub-sectors to carry out international branding and marketing activities. This programme will help to develop and effectively promote a strong image of the Vietnamese food industry in general and its cashew sector in particular. It will increase the awareness and recognition of the value of Vietnamese food on an international scale, thereby contributing to the growth of the food industry and boosting exports of Vietnamese food products.

4.5 Fairtrade supply chain development in Vietnam

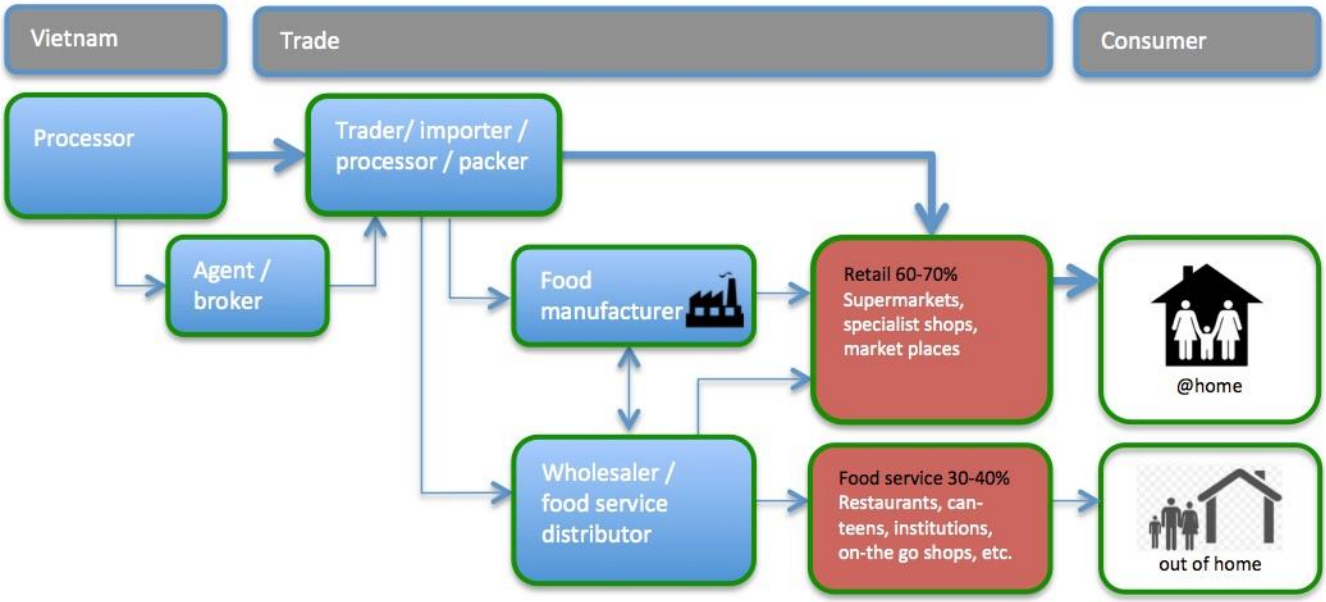
While there are several provinces in Vietnam where RCN production takes place and there are some small differences between these provinces in terms of output and production systems, in terms of potential for Fairtrade supply chain development there are no clear differences between these regions. The best starting point for developing new Fairtrade supply chains is to commence with either a private company, a cooperative or a processor / exporter who has the drive to developing a Fairtrade business. Then, this Vietnamese company needs to find a partner so both companies will be able to and willing to jointly step into the development of the Fairtrade supply chain. Fairtrade Asia needs to offer support in this process; more information about this process is revealed in Chapter 7.

5. GLOBAL VALUE CHAIN

5.1 Trade channels

Traders or importers, and processors or packers buy the lion share of Vietnamese cashew nuts. In turn, these companies sell most of their cashew nuts to food retailers. A simplified scheme of global trade channels is shown in Figure 5.1.

Figure 5.1: Global trade channels for Vietnamese processed cashew kernels, simplified version



5.1.1 Traders/importers and processors/packers

Traders, importers, processors and packers are grouped together in one block in Figure 5.1, but in practice these companies don't perform all functions together. Roughly, between 60-70% of the companies in this group are either traders/importers or processors/packers. Companies that process, pack and import themselves are companies with very large trade volumes such as Intersnack in the Netherlands.

Traders/importers are companies that often trade in a wide range of nuts and dried fruits. These companies have relatively strong relationships with suppliers. They buy the nuts, which means that they take ownership of the nuts. Their customers rely on them for a wide category of nuts and dried fruits supply every year at competitive prices.

Processors and/or packers are companies that perform one or more of the following activities: roasting, baking, salting, grinding, mixing with other ingredients, and packing cashew kernels into consumer packs. Value addition can range from marginal ("natural" cashew kernels in bulk package), medium (salted, roasted, mixed, pieces), to high (cashews with coating).

Within the group of traders/importers/processors/packers there is a small subgroup of companies that are trading Fairtrade cashew nuts. Fairtrade certified traders/importers are allowed to trade under Fairtrade conditions, while some of the certified companies may also have a licensee to use the Fairtrade marks by

national Fairtrade organizations (NFO's) or Fairtrade International (in that case they are also processor/packer).

The traders/importers and processors/packers with a Fairtrade certification can be divided in a few categories:

1. Organic importers/traders. These companies typically offer a wide range of organic food ingredients and much more than only nuts and dried fruits. Some of their products are also Fairtrade certified. Whether they offer a product in Fairtrade variety depends on several factors, in the first place the demand from current customers, and supply among current suppliers. Examples in this category are BioPartner from Switzerland and Tradin Organic from the Netherlands.
2. Broad-line importers/traders. Such companies, whether large or small, don't have a particular focus. The lion share of their turnover comes from conventional products, but additionally they also sell organic and/or Fairtrade nuts. Some examples of such companies are Catz/Acomo (Netherlands) and C.W.Clasen (Germany).
3. Sustainability committed companies. For example leaders in the nuts segment in one or several developed countries with a clear CSR (Corporate Social Responsibility) strategy, or sourcing companies that belong to a retail chain group. One example of a market leader is Intersnack in the Netherlands, one of the largest savory snacks companies in Europe. Intersnack is willing to invest in developing ethically responsible product lines, which also means they have a licensee. Delica from Switzerland is an example of a sourcing company. Delica is part of the Swiss food retailer Migros, which is known for its' sustainability strategy and the word's most sustainable retailer.
4. Game changers. Companies with a focus on ethical responsible trade, often with a completely 'different' business model. Examples are Liberation Nuts and Etico (UK), Equal Exchange (USA), Ethiquable (France), and Smiling (Sweden). Most of these companies are Fairtrade certified and licensed, but their business model goes beyond the requirements of Fairtrade. In practice, the farmers receive a higher premium than the 15% premium under the Fairtrade scheme.

5.1.2 Agents/brokers

Agents/brokers can be located in Vietnam or in main transit trade countries (for example the Netherlands). They can be considered as service providers; they typically sell cashew and a limited range of other commodities (nuts, spices, or dried fruit) at very competitive prices. They work on commission basis, meaning that they don't take ownership of the nuts. Their customers are:

1. Companies that don't want to import themselves as volumes are too low and/or risks are considered too high, or
2. Companies that need extra volumes that can't be delivered by their regular suppliers.

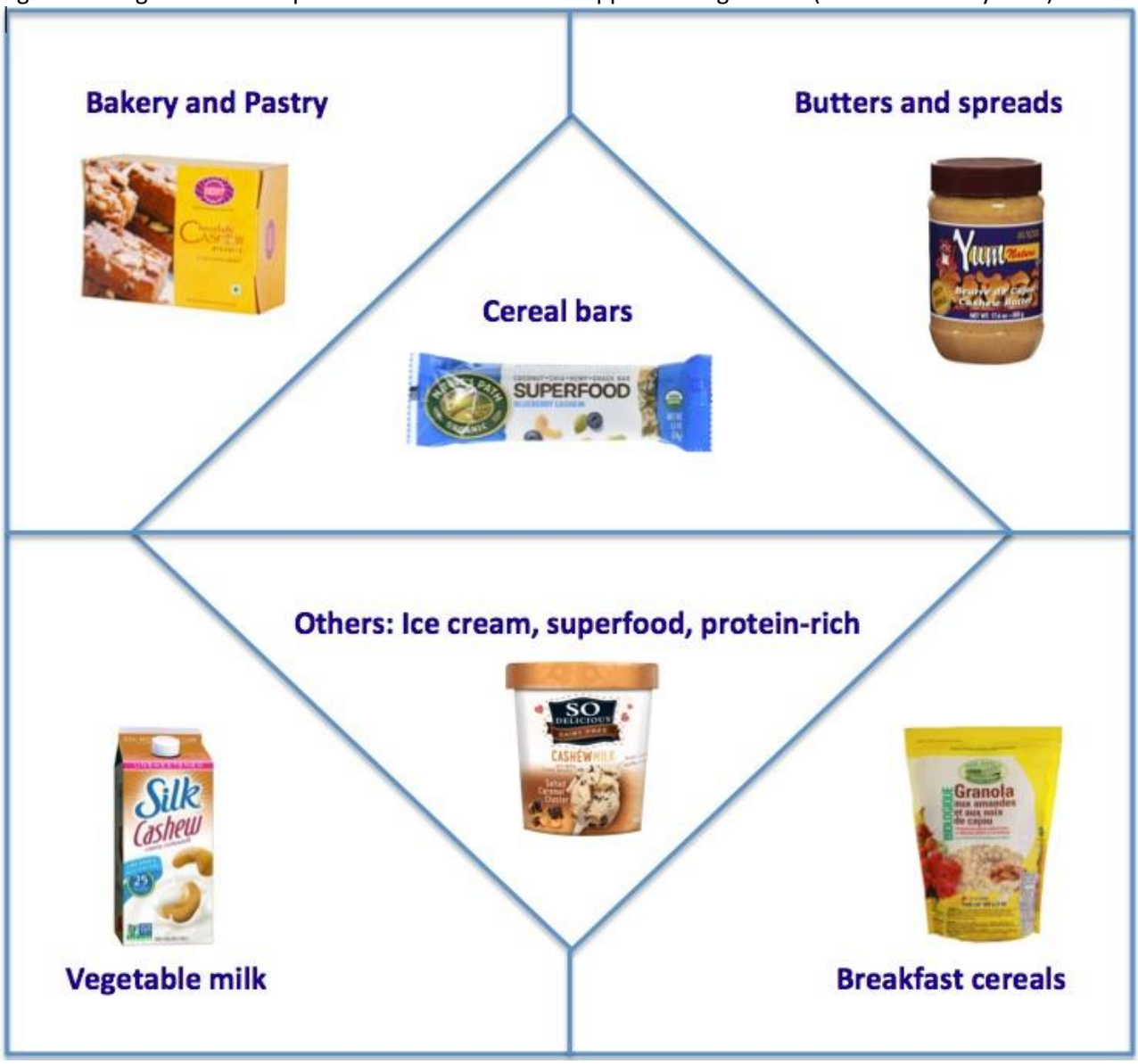
As a rule of thumb, the customers of agents and brokers are not very much interested in the exact origin of the cashew nuts, and they only trade conventional cashew nuts.

5.1.3 Food manufacturers

Food manufacturers use cashew nuts and other nuts and dried fruits as ingredient for their products. More specifically, they use split and/or broken cashew kernel. Historically, other nuts like almonds, walnuts and hazelnuts are more commonly applied as food ingredient than cashew nuts. Cashew nuts do play a big role in this segment yet. Common applications can be found in confectionery and bakery products, such as biscuits, snack bars and cereals.

Figure 5.2 shows an overview of the several product segments in which cashew nuts can be used as ingredient.

Figure 5.2 Segmentation of products with cashew nuts applied as ingredient (Source: Globally Cool)



Large food manufacturers are most likely to import ingredients directly from origin countries such as Vietnam. However, this applies only to the most commonly used ingredients such as peanuts or raisins, and not to cashew nuts.

In most of the world's leading Fairtrade markets, there are a few Fairtrade certified and licensed companies that use Fairtrade certified cashew nuts as ingredients. These companies make products for the conventional and/or organic market, while a few of their products have dual certification. One example of such a company is the chocolate spreads producer Brinkers Food from the Netherlands.

5.1.4 Wholesalers / food service distributors

Wholesalers that supply the food service segment are so-called Cash & Carry (C&C) wholesalers. These companies operate large stores with food and other products. They sell to restaurants, other food service operators, but also to small and independent food retailers (like small ethnic supermarkets). C&C stores

offer a variety of products at competitive prices during extended operating hours. They are not open to normal consumers.

Food service distributors are specialized distributors that have large storage facilities with an extensive distribution network of trucks for daily deliveries. They buy products from food manufacturers, importers and large volume products they sometimes buy from foreign exporters. Figure 5.1 shows that they buy cashew nuts from traders/importers and/or from processors/packers. Food manufacturers supply processed products like butters etc. Worldwide the food service distribution industry is still marked by a relatively large number of nationally and sometimes even regionally operating companies. Nevertheless consolidation has been an important trend in the past decade, many of the medium-sized food service distributors have joint forces and have bundled purchasing activities.

5.2 Market segmentation

The market for cashew nuts can be divided into two important segments: food retail and food service. The retail segment accounts for between 60-70% of all cashew nuts sold in the world, with the balance for food service. Although the food service channel is an important channel for snack nuts consumed out of home, this entails mostly cheap nuts like peanuts.

5.2.1 Food retail

This segment can be divided in four important sub-segments.

Mainstream supermarkets dominate sales of cashew nuts worldwide. In many mainstream supermarkets, cashews nuts can be found in a variety of sections: the fresh produce section, gourmet or dried snacks section, bulk, baking or nut section, chocolate and sugar-coated sweets section, and the on-the-go section close to the counter. In all these sections the cashew nut has another packaging size and price levels are different too.

Figure 5.3 Examples of mainstream supermarkets, the main market segment for cashew nuts

In North America, Europe and Oceania, private labels dominate nuts sales in all sections of the mainstream supermarkets. There are a few international brands for nuts in the snack segment (think of Camel Nuts in Asia), but there are many more brands that are only sold in the local market.

Probably the second largest sub-segment is "**delicatessen, nuts, bulk food stores including open air and online dried fruit and nuts shops**".

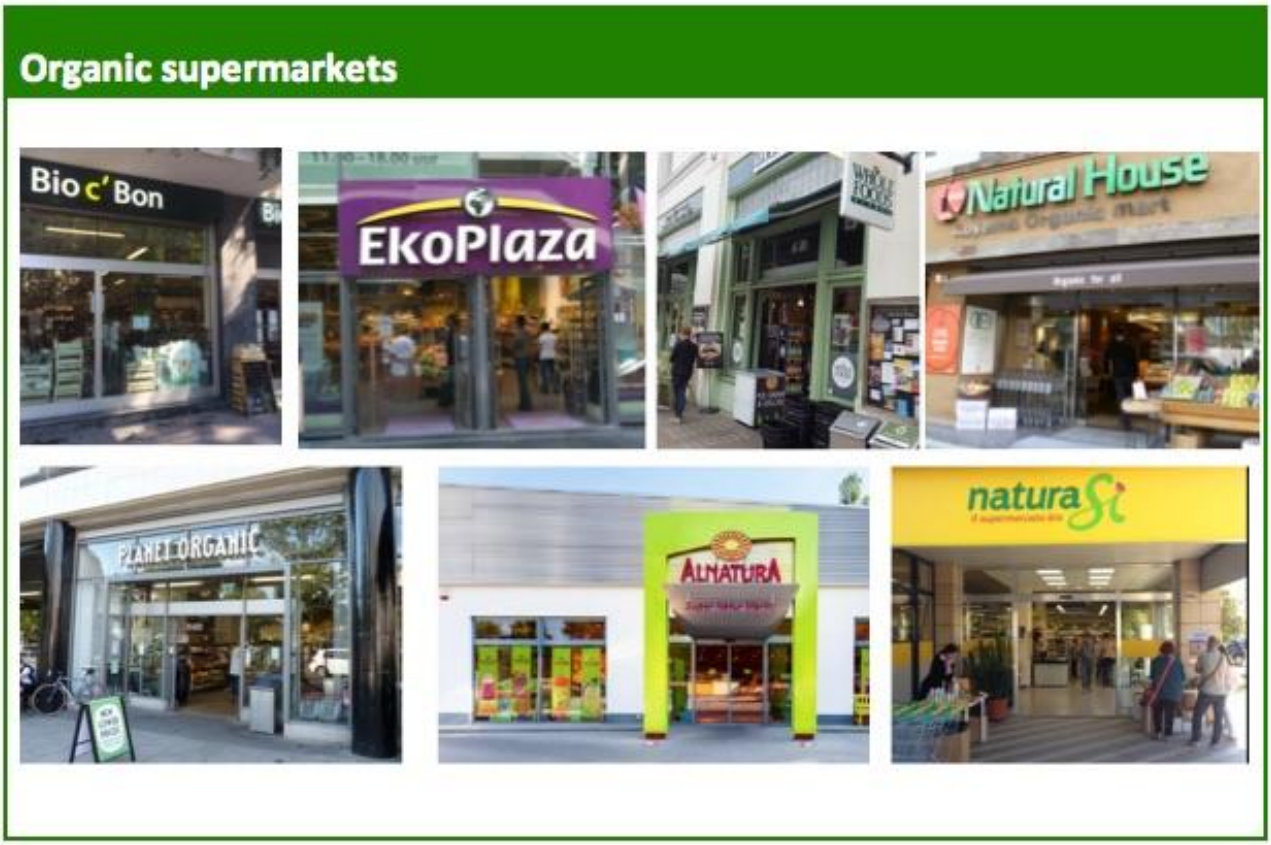
Figure 5.4 Examples of delicatessen, nuts, bulk food stores, open air markets

Health food stores are often part of relatively young and dynamic health food retail chains. These stores typically offer a wide range of branded products that they source from different domestic but also foreign suppliers. Sometimes the stores also sell natural and organic cosmetic products. Often they have a private label for their range of nuts and dried fruits. Typically these stores offer conventional products, but branded products in their shelves may have organic and/or Fairtrade or other ethical certification.

Figure 5.5 Examples of health food stores

The leading segment in terms of organic cashew nuts sales is **organic stores**. In organic stores cashew nuts can be found in fewer sections than in mainstream supermarkets. The main sections are gourmet or dried fruit and nuts section and the bulk section, followed by the on-the-go section close to the counter.

Figure 5.6 Examples of organic supermarkets, the main market segment for organic cashew nuts



5.2.2 Food service

Packaging for the food service segment is different from food retail. Typical packaging sizes for food service are 1-5 kg and up to 20 kg can be possible too. Typically already starting from 1kg packages the product is referred to as bulk.

In general, organic and ethical certification is not an important requirement in this segment; as most of the buyers in this channel, such as restaurants, canteens, hotels and caterers, don't have an interest in these requirements. At the same, some food distributors have recognized the organic and ethical responsibility trend and offer a growing range of certified products. One frontrunner in this respect is the international food service distributor Bidfood from South Africa, with operations in Western Europe, Australia and New Zealand, and Southern Africa.

While in several countries this is an important segment for Fairtrade sales, in particular Fairtrade coffee in catering / canteens, for Fairtrade nuts this segment is rather small to non-existent.

5.3 Margins

A rough indication of margins in the value chain is shown in Table 5.1. The table also shows what it means in absolute terms for a package of cashew nuts sold in a European supermarket.

Table 5.1 Rough indications of margins in the cashew nuts value chain (source: Traidcraft "Cashing in on Cashews")

Steps in export process	Margins	Example 1		Example 2	
		Margin	Price/kg	Margin	Price/kg
Farmers, traders and shipping	29%	3.87	3.87	7.25	7.25
Shelling and processing	16%	2.13	6.00	4.00	11.25
Shipping and warehousing	3%	0.40	6.40	0.75	12.00
Roasting, packing and distribution	22%	2.93	9.33	5.5	17.50
Retailer	30%	4.00	13.33	7.50	25.00

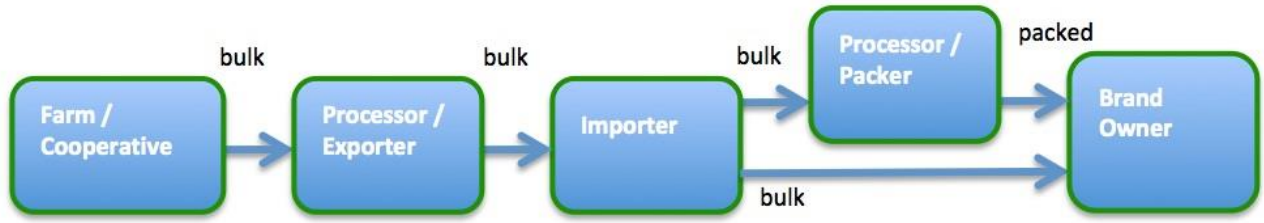
Margins and prices in the value chain depend on several factors, such as:

- Origin,
- Quality (varying from season to season),
- Global demand versus global supply,
- Conventional or certified products: Fairtrade cashew nuts are more expensive than conventional; organic cashew nuts are more expensive then Fairtrade cashew nuts.

5.4 Fairtrade value chain

The Fairtrade supply chain is rather straightforward, as revealed by Figure 5.7. In the case the licensed company or brand owner makes the final product in-house, the supply chain can be as short as four actors. Currently, for nuts and dried fruits the number of certified and licensed players in the international value chain is limited and only offers access to about 10 countries worldwide (as previously explained in Chapter 3).

Figure 5.7 Fairtrade value chain



6. LEGAL AND CUSTOMER REQUIREMENTS

Whereas an exporter's ability to meet customer or buyer requirements may define its' success in conquering international markets, in the first place there are legal requirements that must be met. Therefore legal requirements will be discussed first, followed by customer requirements in Section 6.2.

6.1 Legal requirements

For cashew nuts, although there are some barriers to trade in place in a number of countries[19], import taxes on cashew nuts from Vietnam to the large markets are low and do not hinder trade and competitiveness of Vietnamese cashew nuts exporters.

More important in terms of legal requirements is food safety. For nuts, particularly groundnuts, mycotoxins are an important food safety issue. For cashews nuts however, this is not so much the case. Many peers agree that aflatoxin is not an issue in cashew nut production as their shells contain cardol, which prevents the development of aflatoxins.

Prevention of Salmonella, E.Coli (Escherichia Coli) and Listeria in cashew nuts should probably have the highest priority in the value chain. This is because the presence of very low contamination levels in ready-to-eat or processed foods including cashews is an important cause of foodborne illness.

In short, the legal requirements that need to be met for cashew nuts are:

- **Microbiological criteria.** The microbiological quality must be in accordance with the importing country's regulation on microbiological properties. The Food Safety Research Information Office (FSRIO) at the USDA ARS National Agricultural Library gives an overview of Microbiological Standards and Guidelines in a selected number of countries worldwide.
- **Maximum Residue Levels (MRLs).** Countries define so-called "Maximum Residue Levels" (MRLs), which are upper legal levels of a concentration for pesticide residues in or on food or feed products. This is to ensure the lowest possible consumer exposure. The Codex Alimentarius sets a global MRL standard for Diquat since 2014 (0.02mg/kg), but standards can be different in individual countries. It is possible to find the MRLs of individual countries on the internet (e.g. Health Canada's database, or the EU's pesticide database), while there are also databases that offer MRL information of many countries worldwide. One example is GlobalMRL. Subscription is free for MRL information for the USA, while information for other countries is only accessible with a paid account. Note that in the European Union, although there is a Regulation (EC) 396/2005 in place, individual member countries of the European Union may have their own MRLs set for specific pesticides.
- **Contaminants**. Food contamination refers to the presence of harmful chemicals and microorganisms in food, which can cause illness (other than foodborne illness caused by microbiological contamination). As explained above, probably most important to control is contamination with Salmonella, E.Coli and Listeria. At the same time, the Mycotoxin Aflatoxin is still a risk, if not from contaminated cashew nuts than through cross-contamination with other

[19] Highest import tariffs are levied in Angola, Bhutan and Iran (50%). Countries with >1,000 tons imports that levy relatively high import taxes to Vietnamese cashew nuts are India (30%), Israel (4%), Lebanon (5%), Taiwan (16%), South Korea (8%), Jordan and Turkey (30%), Saudi Arabia (5%), Algeria (30%), Kuwait (5%), and Pakistan (3%).

nuts, such as peanuts. For the European Union, residues of contaminants must be in accordance with EC Regulation 1881/2006 and subsequent amendments.

- **Food safety control**. Food safety is a key issue in worldwide food legislation. In Europe, the General Food Law is the legislative framework regulation for food safety, while in the USA the FDA Good Manufacturing Practices (21 CFR, part 110) must be followed. Traceability (see next point), hygiene, quality assurance and control are important elements of the regulations. In controlling food-safety hazards, companies can best follow the principles of HACCP (Hazardous Analysis of Critical Control Points); to define critical control points and to put a system in place for assurance and control of these critical points in the process.
- **Traceability** is an important aspect of food safety. Food safety has been a growing concern among consumers in the last decades. Several scandals related to imported food have put food retailers under increased pressure to assure their customers of the origin and authenticity of food products. As a consequence, food companies including importers and retailers, for example in the EU, are required to have traceability systems in place. In case of cashew nuts, traceability refers to the ability to trace, follow and record all the parts of the supply chain. This means that the companies in the value chain need to record their buyers and suppliers, inputs used and to label final products for traceability in case of a food safety problem. Traceability is strongly related to certification, as in several certification systems, such as Fairtrade, traceability is an important aspect of conformity.

6.2 Customer requirements

6.2.1 Product quality

The most widely used standard for cashew nuts is the classification by the United Nations Economic Commission for Europe (UNECE). This standard is for example applied in Europe, but also it is also the basis of the USDA (American) standard for cashew nuts. The UNECE standard recognises a few categories / subcategories:

- 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 1) Butts: kernels of not less than 3/8th of a kernel, which have been broken crosswise, but the cotyledons are still naturally attached. 2) Splits: kernel split lengthwise naturally, provided that no more than 1/8th is broken off. 3) Pieces: kernels that have broken into more than two pieces.

Within these categories, UNECE lists certain minimum requirements, including that the cashews 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 3mm on the kernels.
- Maximum moisture content of 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. Note that the main producing countries India, Brazil and Vietnam also have a national classification in place which may be slightly different here and there.

Table 5.1 Cashew kernel classes according to the UNECE (Source: 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.

In the UNECE standard, cashew sizes are based upon the number of kernels per pound (454 grams), or in 1 kilogram. For example, the size category 320 indicates that approximately 320 kernels make up a pound.

Thus, cashew kernel grades are a combination of the various class and size indicators. An overview of all grades is presented in the table below. The most common letters in the grade codes are W for whole, S for split, and B for broken or butts. Note that the letters used may also refer to other characteristics. For example, W can also refer to white, S to scorched, or B to blemished.

Table 5.2 Cashew quality and accessory grades (source: rawcashewnuts.com)

Quality	Grade
First quality	W180, 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

As an example, the grade W320 would be first quality, "Extra" class, and the 320kernel/pound size.

The **"W"** cashews are the most sought after, as they have not been damaged or split. Within this group, the ultimate grade is W180; the king of cashew nuts. With between 120-180 cashews per pound these are the largest, most tasteful and expensive cashew nuts. Other popular grades are W210 (jumbo cashew nuts, but rather expensive), W240 as an attractive alternative in the middle price segment ("good value for money"), W450 (cheaper than the W320), and the most preferred grade internationally; the W320. Another popular grade is SW360, which is however not available in large quantities.

"S" Cashews are cheaper than whole cashews. For that reason, less expensive economy packages of private label brands often contain S cashews. After roasting, splits tend to be crispier than whole cashews. They are also popular among manufacturers that use cashews in the production of candy bars, pastries, and other baked goods.

Broken or "B" cashews are not evenly cut down the middle like split cashews, also called "butts". They are among the cheapest in the first quality group, and are also primarily used in economy packages, input for processed products, or in consumer packages of bakery garnish.

6.2.2 Labelling

The name of the product must be shown on the label, and read either 'cashew nuts kernels' or 'cashew nuts'. Other trade names regarding form can be used in addition to 'cashew nuts kernels'. It is common that export-package labelling also includes the crop year.

In the case of bulk packages, Information about the product has to be given either on the packaging or in accompanying documents. The following information has to be included:

- Name of the product
- Lot number
- Name and address of the company
- Storage and transport instructions. These instructions are very important due to high oil content that can negatively influence the quality of the cashews if not handled properly.

For several destination countries (for example Europe), lot number and company identity may be replaced by an identification mark.

Retail package labelling must comply with the regulations applying to the target market in question. Usually the buyer in the destination country is able to provide the right information. For example, in the European Union, the regulation on the provision of food information to consumers stipulates nutrition labelling, origin labelling, allergen labelling and legibility (minimum font size for mandatory information). Multilingual labels are commonly used on retail packaging (which is particularly efficient in the European Union), but the language of the destination country must be included in any case. In addition, the label should include certification logos (if applicable) and/or logos requested by the customer.

6.2.3 Packaging

Although there is quite some variety in export packaging sizes, most often the packaging weight is either 22.68kg or 11.34kg. This weight is derived from the USA lbs or pound unit; for the USA market cashews are traditionally packed in tins with a net weight of 11.34kg (25lbs). The filled tins are vacuum packed, filled with carbon dioxide gas, and sealed. Two tins are then packed into a carton; 700 cartonnes go in one 20ft container. This means that with method one FCL (full container load) contains 15.876 tonnes of cashew kernels.

A more efficient packaging method (and often prescribed by importers) is multi-layer plastic bags made of polypropylene (also called polysacks) that can hold about 22.68kg. Each bag is packed in a carton or box. The carton or box contains two sealed tinplate canisters to protect the cashew nuts from autoxidation. With this method the containers can be fully stacked, up to the roof, to use all container space and to reach a 20 tonnes weight per container. If the customer requires the use of pallets, the customer will also prescribe the type of pallet and its' security (like shrink-wrap, pallet-wrap or banding). In practice, the type of pallet depends on the warehouse requirements.

The packaging material must be food grade in accordance with the relevant legislation for food contact materials.

Minimum order volumes can be 1 FCL, but there are also alternatives like LCL (Less than Container Load) or mixed with other products.

6.2.4 Food management systems and certification

There are several food management systems and certifications used worldwide. As a rule of thumb, most potential buyers in the developed world accept the systems recognized by the Global Food Safety Initiative (GFSI). The following certification schemes can be relevant for cashew producers, traders or processors: GLOBALG.A.P., Food Safety System Certification 22000 (FSSC or ISO 22000), BRC Global Standard for Food Safety (British Retail Consortium) and IFS Food Standard (International Featured Standard).

Until now, HACCP or BRC certification is only a buyer's preference and not a requirement[20]. However, this is set to change in the medium term; before 2025 exporter's processing facilities will require auditing and approval for supply to USA and Europe.

6.2.5 Product certification

Depending on the target market (segment), optional specifications or standards may apply to the cashew nuts. Such specifications follow the certification requirements for that target market. Examples are: organic, Fairtrade, kosher, or halal. Organic and Fairtrade certification for cashews nuts are slowly gaining more attention in international markets. Unfortunately, there is not a single global certification market for organic in place at the moment. For the organic market in the USA the USDA NOP certification is required, while access to the organic European Union market is only possible if the requirements of EC 834/2007 are fully met. While the product must meet several requirements, also the buyers must be accredited organic certified traders.

[20] Only a few retailers in Europe require approval of processing facilities so far.

7. FAIRNAMESE CASHEW NUTS

This chapter's focus is on the development of a Fairnamese (Fairtrade Vietnamese) cashew nuts supply chain in the first paragraph. This development goes hand in hand with a successful promotion of Fairnamese cashew nuts (Paragraph 7.2).

7.1 How to develop a Fairtrade supply chain in Vietnam?

This paragraph explains the two potential Fairtrade value chain models for Fairnamese (Fairtrade Vietnamese) cashew nuts, including responsibilities and rewards of all actors. Paragraph 7.1.2 lists the most critical success factors in the development of a Fairtrade value chain in Vietnam.

7.1.1 Fairtrade value chain model in Vietnam – responsibilities and rewards

Figure 7.1 Fairnamese cashews – value chain with low added value in Vietnam (FT means Fairtrade certified)

Figure 7.2 Fairnamese cashews – value chain with high added value in Vietnam

The responsibilities and rewards of each link in the value chain as mentioned in Figures 1 and 2 are listed in Paragraph 9.4 (Appendix). Also, the responsibilities and rewards for the development of Fairtrade supply in Vietnam (NAPP) and the development of markets in destination countries (national Fairtrade organizations or NFO's) are included in Paragraph 9.4.

7.1.2 Critical Success Factors

Critical success factors in the development of the Fairnamese cashew value chain have in fact already been mentioned before, in Chapter 4. There is a strong overlap with the sector plan 2016-2020, with the most important success factors repeated here, added with some more reflections on making the Fairnamese cashew nut industry famous worldwide (i.e. how to promote the sector).

1. **Sustainable development with all parties involved.** Sustainable development of the cashew sector requires synchronous investment and a good coordination between all parties, such as the value chain actors, policy makers, government at several levels, etc. Development must ensure that the chain of production, trade, processing, preservation and marketing is maintained, and responsibilities of all involved parties must be clearly coordinated. The sector needs to build close linkages between processors and farmers, not only to guarantee high quality raw material for processing but also to guarantee tracking and tracing of the RCN material. While such developments in supply chains might be most probably initiated by buyers/importers in destination markets, also the Vietnamese government and the sector association VINACAS could play a role to make companies aware and in the end even making certain certification standards compulsory.
2. **Improve quality assurance in the value chain.** Although in principle the Vietnamese cashew nuts are of relatively good quality and often perceived as being of better quality then cashew nuts from Africa, quality entails more than only delivering a good product. Currently, out of the total of 400 processors, there are only 22 companies that maintain ISO and HACCP standards. What's more, the reputation of the Vietnamese cashew industry is at stake. Although this may be related to imports of RCN from Africa of questionable quality to a large extent, the quality management in the Fairtrade value chain must be undisputed. Only then it can be used as a competitive advantage.
3. **Joint promotion and branding of the Vietnamese cashew nuts industry.** The Vietnamese cashew nuts industry should join forces and carry out the message of a strong and sustainable industry together. When collaboration reaches higher levels, it will also make the launch of a potential Fairnamese farmer-owned ethical nuts business easier.
4. **Find investment partners.** There are several banks, institutions and NGO's worldwide that support the development of sustainable value chains. Examples of such partners are Triodos Bank from the Netherlands (their Sustainable Trade Fund offers trade finance to exporters in Fairtrade and / or organic projects, such as 2 cashew co-ops Anatrans and Wouol in West Africa). Also Liberation has got the support of funding partners, such as Cordaid and Equal Exchange.
5. **Secure local supply and value chain.** Within the cashew industry, systems that allow clear and easy tracking of nuts from tree to trade are an important tool. They provide consumers with information about where the nuts come from and how they are handled along their journey from farm to final consumer. For these supply chain management systems to be strong and effective, they require organized producer associations, strategic factory procurement practices, proper warehouse organization and management, a commitment to batch processing, and strong market linkages. In the case of Vietnam, the fact that processors also use imported raw material, is a potential threat. The best method of prevention would be to organise Fairtrade value chains at a regional level. In such a system, the factories are located in the same province where the nuts are grown.
6. **Start to strengthen and promote the existing initiatives.** In the past decade, some Vietnamese cooperatives and processors already recognised the need for developing Fairtrade value chains. These initiatives, such as the one in Binh Phuoc, should be strengthened and used to promote new business cases and also taken as example for these new business cases. An overview of all players in the Fairtrade cashew nuts value chain comes in Annex 5 (Paragraph 9.5).

7.2 How to make Fairnamese cashews 'famous' in these markets?

7.2.1 Which markets offer most potential?

In Chapter 3 became clear that there is a short list of countries worldwide that import cashew nuts under ethical conditions: the USA, the Netherlands, Germany, UK, Italy, UAE, Canada, Australia, France and Sweden. Except UAE, Canada, Australia, all these countries are important importers of Fairtrade cashew nuts, added with Switzerland.

The following countries also appear in the top 12 list of highly potential markets for Fairtrade cashew nuts from Vietnam: USA, Germany, UK, France, Canada, Netherlands, Switzerland and Australia. In addition, also Belgium and Luxembourg are identified as potential markets for Fairnamese cashew nuts. While Luxembourg is a small market in terms of consumption size, imports are relatively large because of considerable processing capacity located in the country.

Per world region, the potential markets would be classified as follows:

- North America: USA and Canada (but these 2 countries should be considered as one market).
- Europe: Germany, UK, France, Netherlands, Switzerland, Belgium, and Luxembourg (Netherlands, Belgium and Luxembourg should be considered as one market).
- Asia, Oceania and Middle East: UAE and Australia. Through the UAE it is possible to operate in virtually the whole Middle East, while Australia can also be considered as a springboard to New Zealand.

7.2.2 The pillars for commercial success

It is of critical importance: making the trade of Fairnamese cashew kernels commercially successful. The several pillars for commercial success, specifically for cashew nuts but to some or more extent also applicable to the whole range of Fairtrade products, are:

1. **Development of market linkages** – this is basically the responsibility of NFO's. The Fairtrade supply chain is rather straightforward, as revealed by Figures 7.1 and 7.2. As the number of certified and licensed players in the international value chain is still limited, NFO's should prioritize the development of market linkages in their countries. In addition, a strong "Fairtrade sector" ("Fairnamese cashews") promotion should support this development of a stronger exporter/importer/manufacturer / brand owner base. Note that international buyers require reliable suppliers in terms of quality and volumes. To bring the Fairtrade cashew market to a higher level, a guaranteed supply (volume and quality) is of utmost importance.
2. **Campaigning and consumer awareness** – this is basically the responsibility of NFO's. Raising awareness, inform and motivate the public to support the sales and promotion of Fairtrade cashew nuts. Make people aware that buying Fairtrade cashew nuts is not a matter of charity, but a matter of justice. One good example of a recent and successful campaign was the Fairtrade banana awareness campaign ("I want to buy righteous bananas" decision model) from Max Havelaar in the Netherlands. On a general level, campaigning is also applied to build consumer's trust in the Fairtrade certification mark.
3. **Advocacy** – this is basically the responsibility of NFO's. Influencing policy makers and NGO's worldwide to prioritize development of Fairtrade value chains for cashew nuts, other nuts and dried fruits. An important factor in the growing recognition by consumers that buying Fairtrade products is a good thing, is the strong support by governments in, for example, several European countries. While some European governments and the European parliament have strongly support

awareness-raising campaigns in the past, it has also led to a strong growth in Fairtrade sales in the food service channel, as in several European countries governments on national, regional and local level increasingly set Fairtrade criteria to their specification in public tenders (basically for coffee, tea and cocoa). This support has also lead to more attention for Fairtrade in the media, and supported the creditability of the Fairtrade certification mark among the general public.

4. **Value addition, product diversification and implementation of quality control systems** are activities that cashew producers can undertake to acquire Unique Selling Points. Companies that can offer value added products and an interesting range of cashew-based products are rather scarce in the main processing / exporting countries.

Below follows a reflection of potential strategies for Fairnamese cashews, based on the 4P or 4C model:

- Product / customer (partner),
- Price / costs,
- Place / convenience,
- Promotion / communication.

7.2.3 Product strategy

This is a rather simple element to start with: the focus is on "Fairnamese cashews", Fairtrade cashew nuts from Vietnam. Fairtrade cashew nuts are not new to most of the worlds leading markets, but with "Fairnamese cashews" the aim is to bring consumption of cashew nuts to a next level. Instead of 25 thousand tonnes of ethically traded cashew nuts per year, the "Fairnamese cashews value chain" should aim at developing a certain market volume. For example, adding another 25 thousand tonnes to the already existing volume. As a commodity, except the Fairtrade certification, in terms of product specifications the Fairnamese cashew nuts are basically the same as conventional cashews.

Whereas on sector level the product to promote is "Fairnamese cashews", at company level there are several options for gaining USP's. There are many interesting directions for product innovation, as there are many applications for cashew nuts:

- Nut Spreads – flavorful source of proteins
- Salad Topping – Dry Roasted or spiced
- Breakfast cereals – superior shelf life
- Dairy inclusions & toppings – crunch & shelf life
- Bakery filling & inclusions
- Confectionery fillings and bars – blends with any flavor
- Energy bars – Low glycemic applications
- Gravies & salad dressings – completely natural
- Base for culinary and traditional food with neutral taste.

Such new product development should be based on a thorough scan of market opportunities and a well-defined marketing strategy; all the suggestions given in this paragraph basically apply to 'plain' Fairnamese cashew nuts.

A more simple direction of innovation could be to develop a range of cashew nuts with different kind of coatings. The applications listed before transform the cashew nut into another product. For example, cashew nut butter is part of other product categories (bread spreads in the first place). In terms of marketing strategies, cashew nut butter shows similarities to other Fairtrade bread spreads, including nut butters, chocolate paste and chocolate pieces.

Last but not least: note that for many destination markets, tariffs for added value products are higher than for shelled cashews in bulk. Processed cashews in mixtures, roasted or otherwise prepared or preserved (like butter) to the European Union have a MFN (Most Favored Nation) tariff of 7% for packages above 1kg and 8% for packages below 1kg (while shelled cashews can be exported duty-free to the European Union).

7.2.4 Partner strategy

Of course, the selection of strong and reliable partners is important. At the same time, the number of certified and licensed players in the international value chain is still limited for cashew nuts, and the current base of companies has already established linkages with producers in several countries from the several regions (Asia, Africa and South America). For this reason, Vietnamese processors and exporters have to put efforts into establishing strong relationships with other nuts importers (so companies that are not certified and or licensed) in destination markets and together work on the development of the Fairtrade nuts market. This might take years, but in the end efforts should pay off. The Vietnamese exporters should also look at new prospects in the countries listed in Paragraph 7.2.1, and in particular at companies that are or have the potential to become (following the classification for importers /traders of Paragraph 5.1.1):

1. **Game changers** that will start operations and the development of a market and supply chain. In principle, the game changers that are currently there (like Liberation Nuts, Equal Exchange) have already developed their supply chains and will not have much interest in Fairnamese cashew nuts. NFO's can definitely play an important role in finding these "game changer" business opportunities in their home country.
   In several of the countries with rather developed ethical markets, there are already game changers working on the development of the ethical nuts market. Only in the UAE and Australia, there are no game changers in the market yet, while in countries like Belgium, Netherlands and Luxembourg, local markets are rather small, and therefore the game changing nuts market position has not been claimed yet.
2. **Sustainability committed companies.** These companies can be leaders in the nuts segment in one or several developed countries, or they are sourcing companies that belong to a retail chain group. As a rule of thumb, they have a clear CSR (Corporate Social Responsibility) strategy.
3. **Organic importers/traders.** Several of these companies already source organic cashew nuts from Vietnam. They also may be interested in Fairnamese organic cashew nuts, but their core business is in the organic market and they will not be able to develop the mainstream Fairtrade nuts market.

7.2.5 Price and cost strategy

The producer price for Fairtrade certified cashews is based on the Fairtrade International FLO minimum price for 14 different grades. These 14 grades have different prices and in turn, prices for Fairtrade and conventional-organic cashews are different from (non-organics) cashews. All companies in the Fairtrade value chain commit themselves to this pricing system, but each actor can set its own sales price. In the end, a critical success factor is the consumer price at the Point of Sale. For high-end brands this may be a less important issue, but for products that have to compete in the private label segment, price setting is critical. A good example of a price setting that supports the sales of the "Fairtrade alternative" is the recently renewed private label luxury nuts-in-cup range in the Albert Heijn retail stores in the Netherlands, part of Ahold. Part of that range are several cashew nuts Stock Keeping Units (SKU's), as shown in Table 7.1 below.

Table 7.1 Cashew nuts SKU'S in Albert Heijn's Private Label nuts range

SKU	Price	Price / kg
Conventional, 80 grams snack pack	€2.00	€25.00
Fairtrade, 160 grams plastic cup	**€3.39**	**€21.20**
Conventional, 200 grams in plastic cup	**€3.65**	**€18.30**
Conventional XXL, 150 grams in plastic cup	€3.99	€26.60
Conventional, 450 grams max pack	€5.99	€13.30

Table 7.1 shows that the 'Fairtrade alternative' is the cheapest SKU in the standard package, which is a transparent plastic cup. While the price per kilogram is a bit higher than the 200 grams of conventional cashew nuts in the same transparent plastic cup, only consumers who carefully read the shelve information will take note of that. This composition of SKU's should benefit the sales of the Fairtrade cashew nuts. This example of Albert Heijn can be useful input for other Fairtrade pricing strategies.

Costs involve more than pricing alone, and include both tangible and intangible costs. Both the costs for buyers in the value chain and the cost for consumers can be taken into account. The tangible costs for buyers of Fairtrade cashew nuts may be higher as compared to conventional cashew nuts, as volumes will be lower, certainly in the first years. At the same time, the intangible costs are probably lower as compared to conventional cashew nuts. For example, the costs of conscience when buying Fairtrade certified cashew nuts – by companies but definitely by consumers – can be considered as lower as compared to conventional cashew nuts. At the same time, these intangible costs may be even lower when companies or consumers can buy locally produced nuts.

Last but not least, it seems that there is not so much price pressure in the nuts category across the several market channels. While a product like (loose) bananas has been the subject of price wars between supermarkets, prices in the nuts category seem to be driven by profit maximisation to a large extent, rather than marketing and competition-oriented decisions. This is absolutely an advantage in the road towards success for Fairnamese cashew nuts. After all, price is an important element in simplifying the purchase for so-called "passively sustainable" consumers (these are consumers that don't actively pursue a sustainable lifestyle). With the assumption that quality is at parity, and there's trust in the Fairtrade mark, price is the last barrier that should be taken away to reach the large group of "passively sustainable" consumers.

7.2.6 Distribution strategies

1 – Target Fairtrade certified and/or licensed companies

The reason to put these companies at first position does not need much explanation. They have experience with Fairtrade and know what it means to work with the Fairtrade system. And of course, they know how to market Fairtrade products, whether it is commodities, packed nuts, or processed products such as nut butter. While the most logical might be to focus on companies that are certified and/or licensed for (cashew) nuts, it might be interesting to also look at companies that deal with other Fairtrade food products and not (yet) with nuts.

2 - Target the large volume segment: Private Label in mainstream retail

Like in the past decade the foremost Fairtrade product categories, such as bananas and coffee, were successfully introduced in mainstream retail channels, this should also be the lead strategy for Fairnamese cashew nuts. It is important to recognize the wide variety of retailers, each with its' unique strategy. The following segmentation (Table 7.2) is based on the survey conducted worldwide for market opportunities for Fairnamese cashew nuts, in the period September-December 2017.

Table 7.2 Retailers segmentation by strategy and characteristics of their nuts range

Retailer's strategy	Examples	Nuts range	Private Label share of SKU in nuts range	Cashew nuts range (Only plain)
Cost leadership: Low costs, wide scope	Aldi, Walmart	8-15 SKU	>95% PL	1-3 SKU
Cost focus: Low costs, narrow scope	Lidl, Netto	12-30 SKU	70-90% PL	2-6 SKU
Differentiation focus: Full service, narrow scope	City-center shop concepts; Spar, Tesco Express, Carrefour City. Also health food shops.	5-10 SKU	30-70% PL	1-3 SKU
Focused differentiation: Full service, wide scope	Wholefoods, Jumbo, Waitrose, Sainsbury's, Albert Heijn, organic supermarkets.	50-400 SKU	20-60% PL	10-60 SKU

For Private Label Fairnamese cashew nuts, in fact all the retailer categories of Table 7.2 could offer opportunities, as in each category there is a certain share of Private Label nuts. In general, the more segmented the retailer's offer in terms of product differentiation, the more opportunities for growing a Fairtrade market. However, such a retailer is also likely to treat Fairtrade products in exactly the same way as any other product. This example shows that actually, it would make sense to further segment retailers according to their Corporate Social Responsibility (CSR) strategies. Although it would be the ultimate aim to have a complete shift to Fairtrade in a particular country, it is important to recognise that each retailer has its' unique strategy, including CSR strategy.

For the retailers with a limited range of nuts, the ultimate aim would be to realize "category conversion", meaning that all cashew nuts SKU's would become Fairtrade certified. These retailers however, although their strategy is to have a minimum number of SKU's, most of them want to offer choice to their several types of consumers. Therefore, they will 'only' add Fairtrade SKU's to their current conventional range (like Aldi and Lidl did for the core range of Fairtrade products).

Although there has been growth in Fairtrade nuts sales since the Fairtrade move to mainstream retail has begun, it is still an underdeveloped category characterized by a low number of market linkages and low priority for NFO's. This is expected to change as soon as larger volumes of Fairnamese cashew nuts will become available from sustainably developed Fairtrade cashew value chains.

3 – Target established (conventional) nuts brands

There are many of established (conventional) nuts brands in the world and only very few of the mainstream brands have developed a Fairtrade product line. Branded products are mostly sold in supermarkets of the category "full service – wide scope" of Table 7.2. In virtually every country there are at least a few nuts brands, and among them there might be companies that consider the development of a Fairtrade nuts range of products. As these companies might also have a (stronger) interest in organic cashew nuts, to successfully reach this group of companies, organic certification would make sense. Some examples of established conventional nuts brands worldwide are Camel Nuts (available in many Asian countries), Itac and Casa Pons from the Spanish company Importaco, most brands of the pan-European dry snacks producer Intersnack, Manitoba from Colombia, Shkedia in Israel, Tadim in Turkey, and Planters in the USA (owned by Kraft Foods Group).

4 – Target other segments with potential

To this category belong all other potential market segments that one could think of. Included are also segments where "convenience" is a very important buying motivation for consumers. The short list below is based on field research conducted in the period September-December 2017.

- Consumers that preferably buy local produce, whether organic or not ("products with a low cost of conscience for consumers"). Small independent shops most often offer such a range of local produce; although in several high-end markets there are retail chains that focus on locally produced food products. "Fairnamese cashews" with a clear ethical and origin branding ("Fairnamese" has this intention), and preferably organic too, would perfectly suit in this range. A few challenges in this respect: in North America cashew nuts can be definitely sourced closer to home, this is less an issue in Asian countries, while in Europe supply from Africa would be definitely competitive in this respect.
- Box schemes[21], whether organic or not. Box schemes have gained popularity in the last 10 years and are becoming more and more common, especially in urban areas. This development can be coupled to the trend of consumers demanding more convenience. Nuts and dried fruits can be part of a box, although often locally produced nuts are preferred content over imported produce.
- Manufacturers of Fairtrade products with composite products including cashew, which might be interested in using Fairtrade cashew nuts. For example, in the dairy and dairy drinks range, where companies might be willing to develop a product based on cashew nuts or with cashew nuts as an extra ingredient. Other potential might be found under producers of the products listed in 7.3.1.
- Online retailers or platforms dedicated to organic and or ethically responsible products.
- Out-of-home consumers / consumption. This kind of market development is challenging and forms part of NFO's intervention range. The Out of home market can be divided in three segments, of which Catering (e.g. company, institutions and in-flights), and On-the-go (petrol shops, railway stations and airports) (the third category, Horeca, has less opportunities) offer opportunities. Penetration of this market is probably most effective with support of mission-focused companies and/or brands. Worldwide, there are some distributors that actively pursue a strategy of ethically responsible sourcing management. Probably the best example is Bidfood from South Africa, with operations in Western Europe, Australia and New Zealand, and Southern Africa. Bidfood, or other distributors such as Compass and Sodexo, are companies that should be partnered with for access to Catering. For On-the-go, companies that supply portion packs of nuts and cashew nuts are the ideal companies to partner with.

5 – Launch a Fairnamese farmer-owned ethical nuts business

The biggest Fairtrade nuts success story is the 10 years old Liberation Foods from the UK. It was founded in 2007 by the Fairtrade charity "Twin", known for also setting up Divine Chocolate (Ghana). Liberation Foods is for 44% owned by nut producer co-ops, and Twin 23%, with the rest held by other ethical investors such as Cordaid and Equal Exchange. In 2015, Liberation sold 550 tonnes of Fairtrade brazil nuts, cashew nuts and ground nuts.

In other product categories, there are also companies with farmer ownership, for example Agrofair Europe trades fresh fruit and is 50% owned by the producers that it sources from. All these initiatives, from Liberation, to Divine and others, offer valuable lessons for a new venture. For example, Liberation's annual reports offer overviews of their efforts, from value chain development, to marketing and sales activities. Also interesting is their way of building a strong community with help of social media.

[21] If you are subscribed to a box scheme you will have a 'box' of fresh, seasonal fruit or vegetables delivered to you at regular intervals. Box schemes are organised by the farmer, a wholesaler, or by someone in the community who connects directly with a farmer or wholesaler.

Although the UK is a leading market in terms of Fairtrade volumes, it would be best to launch a new farmer-owned company in another country without such an initiative. Earlier mentioned high potential countries for Fairnamese cashew nuts would also be a good location for such a venture. These countries are USA, Netherlands, Germany, Canada, Australia, France, and Switzerland, added with Italy and Sweden. A next important filter would be the existence of ethical nuts brands in these markets already. For example, Switzerland already is home to the ethical nuts company Pakka, and in France there is Ethiquable that has a strategic partnership with Liberation Foods.

7.2.7 Promotion and communication strategy

The promotion and communication strategy in destination markets is tailor-made and best developed on a national level:

- NFO's play an important role - two out of the four spheres where NFO's aims to contribute to change are consumer behaviour and civil society action. Important NFO interventions in this respect are "building and sustaining Fairtrade markets", "developing networks and alliances" and "advocacy and campaigning". Everything that is done to promote Fairnamese cashew nuts must be in line with Fairtrade's efforts in this respect.
- Certified and/or licensed companies are responsible for sales and marketing of their own products, and will align their activities with the NFO where relevant and/or necessary.

Only in the case of a Fairnamese farmer-owned ethical nuts business, an own tailor-made B2C and B2B promotion and communication strategy would be relevant. Of course, Fairtrade certified co-ops can and should actively build a strong image. Worldwide, there are several best practices of co-ops that outperform in terms of marketing and branding.[22]

Despite this limited relevance, a few ideas, facts and thoughts about the promotion of Fairtrade and/or Fairnamese cashew nuts follow below:

- While large and established brands will not need the support of a Fairtrade stamp, Fairtrade particularly helps small brands to attract the spotlight. The same goes for new companies in a market, for example in the case of a Fairnamese farmer-owned ethical nuts business.
- A company's or brand's involvement with Fairtrade entails much more than meeting a set of criteria and being awarded a stamp of approval on the package. The Fairtrade connection enables a company to make use of the NFO's network and all NFO's efforts to "remind people that they're putting producers' lives in their shopping baskets".

On a B2B and sector promotion level, other aspects should be definitely included in the promotional message (See paragraph 7.1).

[22] A good example is the story the Indian co-op FTAK, read more at http://elementsindia.net/blog/fair-trade-as-we-do-it-the-story-of-jumbo-nuts

7.3 Action planning

Table 7.3 Actions planning for the period 2018-2025

Action	Responsibility	Period
1 - Select a target market and NFO to cooperate with. E.g. Australia / New Zealand	NAPP and local team	2018
2 - Develop NAPP capacity in Vietnam in charge of the overall project management	NAPP	2018-2020
3 - List and approach potential project and trade financing partners	NAPP & NFO	2018-2019
4 - Develop cooperation with Vinacas and Vietnamese government	NAPP local team	2018-2019
5 - Awareness raising in the international FT community	NAPP and local team	2018-2019
6 - Launch of a "Fairnamese Cashews" portal to raise awareness and support on international level	NAPP	2019
7 - FT awareness raising and FT certification workshops in RCN production provinces	NAPP local team	2018-2019
8 - Develop market linkages in the target country	NFO	2019-2020
9 - Develop new FT cashew nut supply chains in Vietnam	NAPP local team	2019-2021
10 - Work-out business cases and attract trade financing partners	NAPP & NFO	2020-2022
11 - Sustainable development of the international Fairnamese cashew supply chain	NAPP local team	2022-2025
12 – Evaluate progress and discover the potential of launching a Fairnamese farmer-owned ethical nuts business	NAPP & local team	2025

Footnotes related to these actions are the following:

1 – Currently, there is only one Senior Associate working in Vietnam with the NAPP producer support relations (PSR) team. This is not enough to make the ambition of developing a Fairnamese supply chain happen. At least one extra full time team member should be necessary.

2 – Worldwide there are several banks and/or institutions that want to be actively engaged in sustainable and/or organic supply chain development. These organisations must be engaged as long-term partners as much as possible to finance activities.

3 – Fairtrade development activities in Vietnam are much more effective if they receive active support from the Department of Trade Promotion (Ministry of Industry and Trade), the Department of Agriculture, Forestry, Fisheries and Aquaculture (Ministry of Agriculture), and the Vietnam Rural Industries Research and Development Institute.

4 & 5 – There are many NFO's worldwide but virtually all of them have the same focus on the core range of FT produce, such as coffee, tea, bananas etc. NAPP should inform and engage the international NFO's on a structural base in order raise awareness and (in the end) improved support from a growing number of NFO's. Of course at least one NFO should be selected as partner in the project (5), but over the years, more NFO's should be engaged of course.

6 – This portal should offer information about the project, including activities, timelines and news. At the same time, it must function as tool to promote Fairtrade cashew nuts from Vietnam to the international nuts business society.

7 – Awareness-raising among cooperatives and farmers should ultimately lead to a serious interest among some cooperatives to commence with the Fairtrade journey (and want to participate in a FT cashew nuts supply chain; 9). Tasks and responsibilities should be divided; Flo-Cert and/or NAPP take care of the content of the program, while the Vietnamese sector association VINACAS could arrange the organisation and logistics.

8 – The NFO in the target country should put strong efforts (at least 0.5 FTE for cashews; even better would be 1 FTE for the entire nuts category) into discovering local market opportunities and engaging appropriate commercial partners that want to become Fairtrade certified and/or licensed.

9 – See 7.

10 & 11 – As soon as a complete business case can be developed based on a FT supply chain in Vietnam and the target country, NAPP and the NFO work out a detailed business plan for the whole operation, covering all necessary elements that financing partners need to know for appraisal of the project and any trade financing. In the end all lights should be on green for scaling up operations.

12 - Evaluation should of course be scheduled every now and then and embedded in project meetings with all stakeholders. This evaluation step is meant to serve as a go or no-go decision for further exploration of a Fairnamese farmer-owned ethical nuts business established in a certain target market. Also see Paragraph 7.2.4, point 5.

8. CONCLUSION AND RECOMMENDATIONS

As for the future, further growth in the Fairtrade certified nuts and dried fruits category depends strongly on the priority given to this category by NFO's worldwide. Currently, the priority for this category is rather low in most of the Fairtrade markets worldwide.

The development of a Fairnamese cashew nuts supply chain should go hand in hand with the development of one or a few national Fairtrade markets across the world. It must be considered as a 5-10 years project and it must be consistently managed by NAPP, working together with one or a few NFO's and commercial partners in the target countries. An important task for NAPP and NFO's is to recruit investors for the project. Financing can come from established names in the organic and ethical trade, such as Triodos Bank, but also new tools can be considered, such as crowd funding campaigns.

For this reason, NAPP should seek collaboration with a few but at least one NFO that is willing to prioritise Fairtrade cashew nuts market development for the long term. This could be, for example, Australia and New Zealand, or Japan. In Europe, Germany or Italy could be a good starting point, while also Belgium/Netherlands and Luxembourg may offer opportunities. After that, NAPP should strengthen the Vietnamese NAPP capacity by hiring 1 or 2 FTE that together with the NFO team (1 or 2 persons) develop the project plan and further work out the whole project as summarized in Table 7.2 – Action planning for the period 2018-2025.

The project is certainly not without hurdles. There are several critical success factors in the development of the Fairnamese cashew supply chain. While some of them are definitely project related, others are more challenges for the whole Vietnamese cashew nut industry. For the latter, the project team should closely work together with VINACAS to tackle these challenges. The challenges are:

1. **Sustainable development and stakeholder engagement.** This also includes the building of close linkages between processors and farmers, to guarantee tracking and tracing of the RCN material, which is essential for Fairtrade certification.
2. **Improve quality assurance in the supply chain.** Currently, the reputation of the Vietnamese cashew industry seems to be at stake. This aspect definitely needs high priority.
3. **Joint promotion and branding of the Vietnamese cashew nuts industry.** Worldwide, consumers are hardly aware of Vietnam being an important producer of cashew nuts. If the aim of developing the Fairnamese cashew nuts supply chain would have a target of doubling the current ethical trade of cashew nuts, it would certainly help if there is a strong sector branding strategy towards consumers and also towards the international business community.
4. **Find investment partners.** The project is only feasible with funds provided by investment partners. For example, the Dutch Triodos Bank offers trade finance for producers and exporters involved in production and trade of organic and/or Fairtrade produce. Financing depends on the quality of the business case; with an important criterion being the partnering of strong commercial partners in target markets.
7. **Secure local supply and value chain.** In the case of Vietnam, the fact that processors also use imported raw material, is a potential threat. But in principle, the Fairtrade system should make sure that contamination with conventional RCN from in or outside Vietnam does not occur. Still, the best method of prevention would be to organise Fairtrade value chains at a regional level. In such a system, the nuts are processed in within the same region. Also in terms of marketing, this is

an advantage as it enables to communicate that the production and processing has a clear and single origin.

8. **Start to strengthen and promote the existing initiatives.** In the past decade, some Vietnamese co-ops and processors already recognised the need for developing Fairtrade value chains. These initiatives, such this one in Binh Phuoc, should be strengthened and taken as example for other business cases.

9. Appendices

9.1 Abbreviations and meanings

- NFO = National Fairtrade Organizations license the FAIRTRADE Certification Mark on products and promote Fairtrade in their territory. As founding members, many of these organizations helped to establish Fairtrade International in 1997.
- FMO = Fairtrade marketing organizations market and promote Fairtrade in their country, similar to national Fairtrade organizations, but Fairtrade International licenses the Mark in these countries.
- Supply chain = the chain from producer of RCN to cashew kernels.
- Value chain = the whole chain from producer to final product sold to end consumers.

9.2 Fairtrade: vision, impact areas and approach

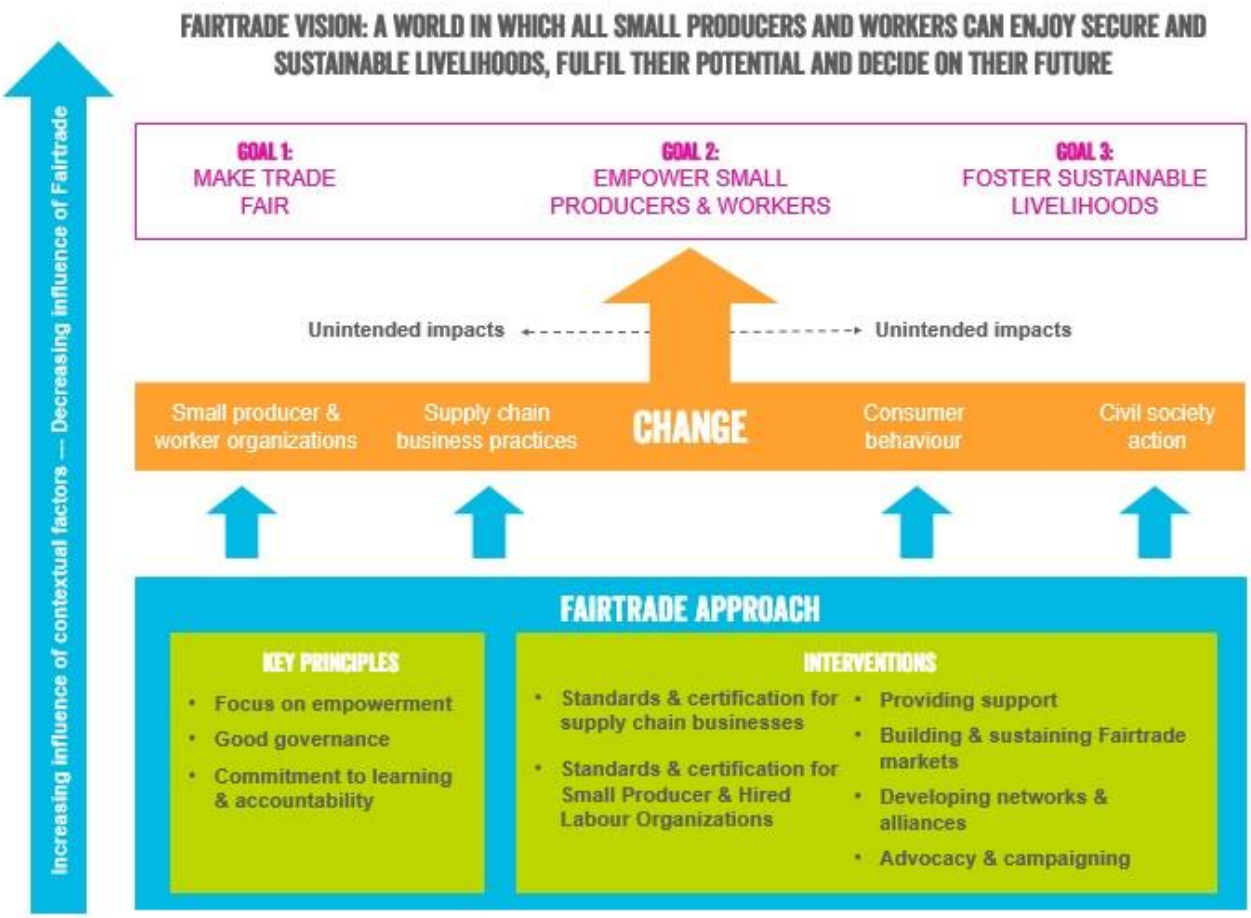


Figure: Spheres of change in Fairtrade

To achieve its goals, Fairtrade aims to contribute simultaneously to change in four spheres:

9.2.1 Small producer and worker organizations

Fairtrade supports small producers and workers to build strong, independent organizations. For small producers this means cooperatives and other forms of producer-owned enterprises through which producers can gain greater access to inputs, credit and technical support and improve their selling position with buyers. For workers it means independent trade union organizations that can promote and defend workers' interests in the workplace, including through collective bargaining. In the case of hired labor, workers are also supported to form Fairtrade Premium Committees, governed by a General Assembly, to manage the Fairtrade Premium in an inclusive, transparent and accountable way. In addition, Fairtrade facilitates organization and networking at national, regional and global levels to enable small producers and workers to influence trade policy and practice more broadly.

9.2.2 Supply chain business practices

Fairtrade seeks to ensure that business practices along the length of supply chains enable small producers and workers to prosper. This includes offsetting market volatility and risk and a lack of transparency in supply chains, ensuring respect for human rights and the environment, and fostering investments in agriculture and rural communities.

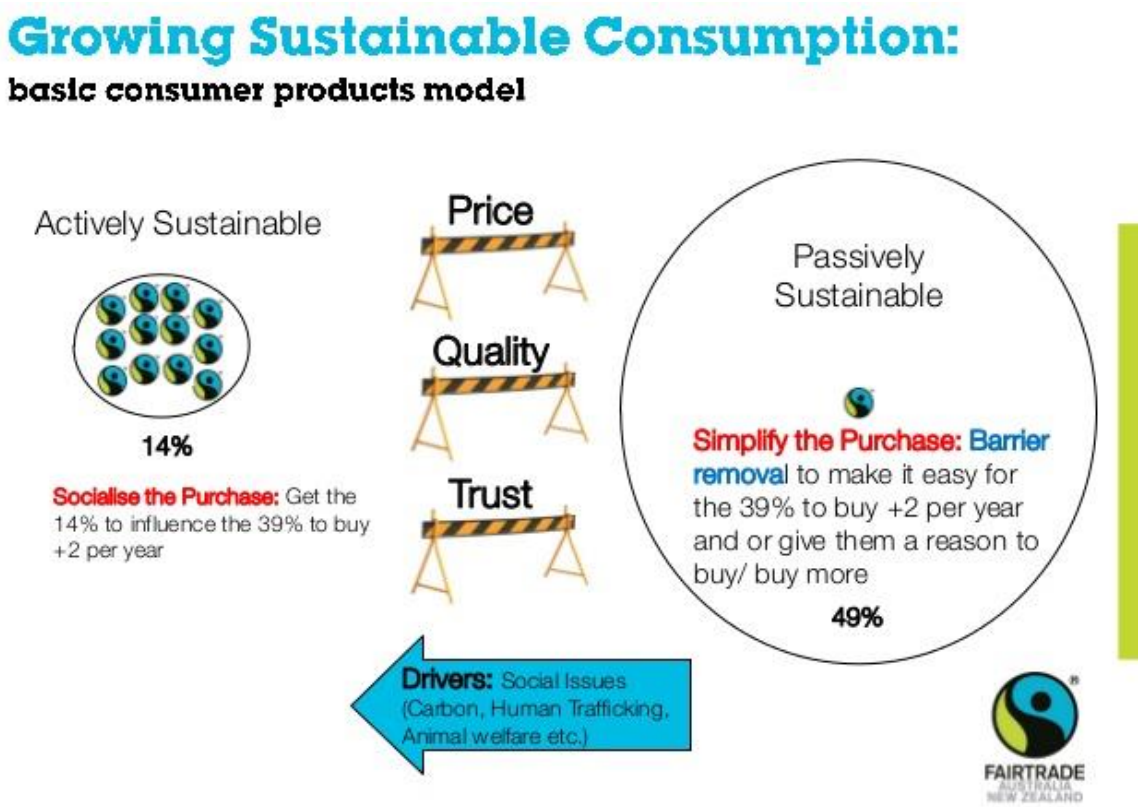
9.2.3 Consumer behaviour

Fairtrade aims to raise awareness among citizen-consumers of the negative effects of unfair trade, and to enable them to use their purchasing decisions to show their support for small producers and workers in developing countries.

9.2.4 Civil society action

Fairtrade seeks to strengthen the influence of civil society on trade policies and practices, through mobilizing people at the grassroots level and engaging in national and international campaigning and advocacy for fair and sustainable trade.

9.3 Fairtrade AND - Model for growing sustainable consumption



9.4 Responsibilities and rewards of actors in established Fairtrade value chains

Responsibilities and rewards of actors in established Fairtrade value chains

Actor	Responsibilities	Rewards
NAPP (Fairtrade Network of Asia and Pacific Producers)	Delivery of services to farmers and other value chain members in Vietnam. These services help them to fulfill their role and responsibilities and to benefit from the rewards.	Fulfillment of mission
FT Producer	Delivery of RCN according to agreed quality, volume, price and time.	-Sustainable production model -Guarantee of income (minimum price) -Support services -Stable market -FT Premiums - Pre-financing
FT Processor / exporter	-Processing RCN into cashew kernels, according to agreed quality, volume, price, time and packaging.	-Guarantee of profits -Guarantee of orders -Sustainable operations model -50% Advance Payments
NFO (National Fairtrade Organisation in destination market)	-Delivery of services to value chain members that help them to fulfill their role and responsibilities and to benefit from the rewards.	Fulfillment of mission

Actor	Responsibilities	Rewards
	-Building and sustaining Fairtrade markets -Developing networks and alliances -Advocacy and campaigning	
FT Importer	-50% Advance Payments -Marketing and sales of FT certified cashew kernels in bulk	-Access to niche markets -Reasonable profits -Sustainable business model
FT Licensed company	- Packaging, marketing and sales of FT certified products	-Access to niche markets -Reasonable profits -Satisfaction of consumer needs -Sustainable business model
FT distributor	-Marketing and sales of FT certified products packed in Vietnam -50% Advance Payments	-Access to niche markets -Reasonable profits -Satisfaction of consumer needs -Sustainable business model

9.5 Profiles of Fairtrade-certified cashew companies in Vietnam

9.5.1 Traders / Processors / Distributors

Viet Ha Cashew Import Export Joint Stock Company

Function in Fairtrade Value Chain: Trader, Manufacturer/Processor, Intermediate Distributor
Status: Certified
Fairtrade volume: 250-300 tons per year (from Phuoc Hung)
Organic volume: 400-500 tons per year
Company structure: Viet Ha is part of V-Stars / Hanoi Trade Corporation (Hapro Group), that owns several companies active in import, export, distribution, agricultural production, logistics, and trade promotion. Products of the subsidiaries are cashew, pepper, handicrafts, and ceramic products.
Company location: 4B/1, Quarter 1A, An Phu Ward, Thuan An Town, Binh Duong province.
Website: http://vietnamcashewnut.vn/en/
Contact details: +846503777437, dieuviethahapro@vietnamcashewnut.vn

Logo:

Description
Vietcashew is a professional cashew kernel processor and exporter to EU, USA, Australia and Asia. Part of the raw material is imported.

The factory's capacity is above 10,000 tons of cashew kernels per year (650 containers). The kernels are processed in factories located in Binh Duong and Binh Phuoc, Vietnam. The company employs about 250 people. Export turnover is about USD 60-70 million per year.

Also, Vietcashew is a processor and exporter in Organic cashew supply chain of Binh Phuoc Province. With an area of 3,000 hectare (as of 2015), Vietcashew can create a yield of 140 containers per year (which is triple the volume of 2014). There are plans to expand in the period 2016-2020. VietCashew has acquired certifications for the following Food Quality and Safety Management Systems: ISO 22000:2005, HACCP, and BRC.

Long An Food Processing Export J.S. Co. (LAFOOCO)

Function in Fairtrade Value Chain: Trader, Manufacturer/Processor, and Intermediate Distributor
Status: Certified
Fairtrade volume: 200-300 tonnes per year
Company structure: LAFOOCO is part of Pan Food, which is one of the two subsidiaries of The Pan Group, a publicly listed Vietnamese company.
Company location: 81B, National Road 62, Ward 2, Tan An City, Long An Province Vietnam
Website: www.lafooco.vn
Contact details: T: +84(0)27 2382 3911 or instead of 11, 39 / Nguyen Duc Tan (Mr. Robin) / Pham Son Ha (Sales Manager – Roasted nuts Division / Vice General Director) /
tannd@lafooco.vn / marketing@lafooco.vn / haps@lafooco.vn.

Logo:

Description
After nearly 30 years of operation, Lafooco always maintains its reputation as a leading, trustworthy and effective export company among top 05 in Vietnamese cashew industry. The company works on several areas with two priorities: cashew processing and cashew import and export business.

Embracing a heart for the customers, a heart for the farmers and a heart for the land, we always commit to bring the highest quality products to meet the highest requirements. Our wholehearted approach is represented by a heart- shaped cashew symbol on our brand logo.

Currently, the cashew products of Lafooco are widely distributed in nationwide retail channels, supermarkets as well as exported to large market, such as: China, America, Australia, Europe, etc. Lafooco is one of the largest processors and exporters of value added- cashew nuts in Vietnam, and Lafooco products have also appeared on supermarket shelves in Hong Kong.

Lafooco is also a member of well-known domestic and foreign Associations, such as: AFI, CENTA, VINACAS, etc. and received merits and certificates of People's Committee of Long An Province, Prime Minister, Ministry of Commerce, Ministry of Industry and VINACAS.

History
- 1985: Lafooco established and has been a pioneering company in Viet Nam's cashew nut industry
- 2002: we were the fifth joint stock company listed in stock exchange market
- 2009: successfully developed value-added products with premium brand level to international supermarkets.
- 2015: officially became a member of PAN Food.

- 2017: passed Social responsibility audit of Costco.

Lafooco is among the top 5 companies in Vietnam to export sterilized natural and roasted cashews. The company has own brands but also can pack for other brands. Some of Lafooco's highlights are:

- Standards: ISO 9001:2008, HACCP, BRC Food, Fair Trade, HALAL.
- Certification: BRC certificate type A / HALAL Certificate
- Sourcing: Extensive sourcing network in Vietnam, Africa and Asia
- Product portfolio: Sterilized natural cashews | 5KG | 10 kg | 25 LBS | 50 LBS VACUUM BAG (WW240, WW320, WW450, LBW320, SW, DW, WB, WS, LP). Lafooco also offers roasted nuts with many its unique flavours that comply with customer demand in worldwide.

The company's range comes in 2 brands:

- Lafooco brand: Plastic jar 450G / Standing bag 120G
- Osca brand: 800G Plastic Jar / 450G square plastic jar / 250G square plastic jar / 270G plastic jar / 227G & 150G paper can / Oval jar 450G & 250G / 100G aluminium bag / 270G plastic jar

Olam Vietnam Limited

Function in Fairtrade Value Chain: Trader, Manufacturer/Processor, Importing from country of origin
Status: Certified
Fairtrade and organic volume: between an estimated 7.5-9.0 thousand tons of dual certified cashew nuts in 2017 from Ivory Coast. There should be some fairtrade certified volume from Vietnam too, but unknown how much.
Company structure: Olam Vietnam is part of Olam international, headquartered in Singapore, a leading agri-business operating from seed to shelf in 70 countries, supplying food and industrial raw materials to over 23,000 customers worldwide. Olam's 70,000 employees have built a leadership position in many businesses including cocoa, coffee, cashew, rice and cotton.
Company location: Unit 01, 10th Floor, AB Tower 76 Le Lai Street, Ben Thanh Ward, District 1, Ho Chi Minh City, Vietnam.
Website: http://olamgroup.com
Contact details: vietnam@olamnet.com, +84 28 3521 0740 HCM office. Direct number of cashew nuts factory: +842518826748.
Logo:

Description
The world's leading cashew nuts processor Olam is a frontrunner in terms of organic and fairtrade production. According to Olam's sustainability reports over 2015 and 2016, in both years the company traded 4,400 and 7,000 tons respectively of dual certified cashew nuts from its' 3 processing facilities in Ivory Coast. Most of this volume is probably sold to Whole Foods, although Olam also supplies other large companies of which several also have developed ethical and/or organic purchasing standards. For example, Nestle, Kraft Foods (Planters), Unilever, and General Mills.

Olam commenced operations in Vietnam in 2000, setting up their first coffee factory in the Daknong Province. Since then, Olam has established an extensive presence across different parts of Vietnam, including our head office in Ho Chi Minh City and regional offices in the Long An, Dong Nai, Daklak, Lamdong and Gialai Provinces, and expanded operations in Laos and Cambodia.

Today, Olam is the largest exporter of cashews, pepper and instant coffee in Vietnam, investing US$45 million in a state-of-the-art instant coffee facility and running seven large factories with 1,700 employees across Central and South Vietnam. They are also the third largest exporter of green coffee and a large buyer of Vietnamese rice. Olam currently supplies cotton, wood products, dairy products and wheat into Vietnam.
Olam has established sustainability programmes for black pepper, coffee and cashew in Vietnam. In the cashew nuts supply chain, Olam cooperates with Iagrai cooperative; 1,000 farmers of this cooperative have been trained and certified by Olam under the program named "Bypassing middle men to unlock mutual value". In addition to the Fairtrade premium and pre-financing from Olam, both the farmers and Olam will benefit financially by eliminating the middlemen, whilst the full traceability offers multiple benefits too.

Target Agriculture Vietnam Co. Ltd.

Function in Fairtrade Value Chain: Trader, Manufacturer/Processor
Status: Certified
Fairtrade volume: Probably limited, but according to other companies they export fairtrade cashews from Vietnam.
Company structure: Target Agriculture is an international company with offices and facilities in Sri Lanka (headquarters), Thailand, and Vietnam.
Company location: 64 Nguyen Dinh Chieu, Da kao ward, District 1, HCMC.
Website: http://www.target-agriculture.com
Contact details: +841214254807, Them Hoang, them.targetvn@yahoo.com,

Logo:

TARGET AGRICULTURE

Description
Target Agriculture was founded in Sri Lanka in 1994 by Thomas Gerbracht to export the processed organic fruits, cashew, and other organic commodities. Target quickly grew to 4 farms, containing more than 150 acres, employing dozens of workers. In 2007, Target opened its second branch in Thailand, partnering with local farms and factories to greatly increase the diversity of products available for its clients. Following its success in Thailand, in 2011 Target opened its third branch in Vietnam. Today, Target employees more than 150 people in three countries, and exports over 200 products to customers around the world.
Targets main export markets are USA, Europe, and Japan.

9.5.2 Producers

An Vien Service Agriculture Cooperative
Function: Producer
Status: Certified
Company location: An Vien Commune, Trang Bom district, Dong Nai province

Iagrai Cashew Producer Co-operative
Function: Producer
Status: Certified
Company location: IaGrai district, Gia Lai province

1,000 farmers of this cooperative have been trained and certified by Olam under the program named "Bypassing middle men to unlock mutual value". In addition to the Fairtrade premium and pre-financing from Olam, both the farmers and Olam will benefit financially by eliminating the middlemen, whilst the full traceability offers multiple benefits too.

Phuoc Hung Cooperative
Function: Producer
Status: Certified
Company location: Tien Hung, in Binh Phuoc.

Tien Hung is an important area where many cashew nuts grow. As a result of the difficulties faced by cashew nut farmers, particularly related to cashew nut markets, the "Tien Hung Sustainable Development Cashew Group" was established in 2008. From then on, the cashew nuts were produced under international Fairtrade standards of FLO.

As the demand for Fairtrade cashew nuts was growing, and also more farmer participation became necessary, the organization was renamed as "Phuoc Hung Co-operative" in 2014.

The most recent data show that Phuoc Hung has 134 members, owning 924 ha with a production of about 2,700 tonnes of cashew nuts annually. When farmers participate in the organization, they ensure to comply besides the Fairtrade standards also with the Organic production process and standards -> this means that Phuoc Hung's cashews are dual certified.

Phuoc Hung Co-operative is an organization based on the principles of voluntariness, equality and solidarity. The aims at improving the production capacity, implementing sustainable organic production processes, connecting manufactures and consumers of cashew nuts, helping farmers sell cashew nuts at higher prices, contributing to empowering the farmers position in society, fighting against poverty and lastly, building a strong and wealthy community.

Currently, Phuoc Hung is cooperating with 3 exporting and processing companies, which export the dual certified cashew nuts to consumers globally. The destination markets are Europe, a small part of the US, Korea and the domestic market.

PHUOC HUNG COOPERATIVE
Product: Cashew
Status: FLO on process


Executive board


Factory/Production base

Enterprise information

1. Enterprise name: Phuoc Hung Investment - Production Integration - Sustainable Agricultural Processing Cooperative
2. Address: village 6, Tien Hung commune, Dong Xoai town, Binh Phuoc province
3. Foundation year: 2014
4. Email: htxphuochungbinhphuoc@gmail.com
5. CEO name: Vũ Đức Bộ
6. Productivity: **Area:** 1456 ha **Out put:** 4725 tons
7. Labour: 498 people **Male:** 270 **Female:** 228
8. Sale contact: Tô Thùy Trang
sales2@virico.com.vn - 0966 636 824

Foundation history

The cooperative is formed by a sustainable cashew development group at Tien Hung commune: in 2007, due to increasing demand for Fair Trade channels from cashew consumption market, with the support from farmers' group and MID international development market company, the sustainable cashew development group at Tien Hung commune is formed. In August 2009, FLO granted the cooperative Fair Trade certification FLO ID19684. In 2014, FLO re-instated a different certification FLO ID29277 due to the conversion to Phuoc Hung investment - production integration - sustainable agricultural processing cooperative.

Production images

Products


W320 cashew


W240 cashew


Dried raw cashew


Fresh raw cashew

Binh Phuoc Cashew Cooperative Union (BPCCU)

Function: Trader, Manufacturer/Processor
Status: unknown.
Company location: Binh Phuoc province.

By the end 2017 there is also another very young cooperative (started in 2016) that aims for both organic and fairtrade certification: Binh Phuoc Cashew Cooperative Union (BPCCU). The Union was recently established (middle 2016) and at the moment has 735 members (farming on 3061 ha, producing 11,600 cashew tons), provincial scale (incl. five primary cooperatives, one company from four districts), and potential to expand to 4.000 members or more (Binh Phuoc province has 180,000 ha of cashew garden; 300 SMEs of processors, and around 700 microprocessors for partial process or pre-processors). Previously, Viet Ha (processor) was member of the union, but the government had the intention to remove Viet Ha out of the Union, as Law did not allow their membership.

BPCCU can produce Fairtrade and Organic cashew product (dual certification). The Union has a good ambition:

1. They focus on a 30% share of organic production of their total area.
2. They focus on improving output efficiency.
3. They organize structural support technical services (120 trainings courses per year),
4. They also want to strengthen capacities in terms of processing (built the factories), warehouse, direct export, and branding development.

The Union has an economic development plan in place, until 2020. The government strongly supports the Binh Phuoc Cashew Union, the local authorities provide green light for the Union to access to finance of 35 billion VND, in soft-loan scheme and others.

The Union receives technical support from the Dutch development agency Agriterra for cooperative-related development aims. Such as Governance, organization management, HRs, financial management, value chain (buyer-supplier linkage), access to finance, but they also expect Agriterra to support technology application (e.g. integrated farming systems of cashew, cacao, coffee, pepper in the same farm, equipped by dripping irrigation).