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The marketing of South African edible groundnuts in foreign markets

by

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HISTORICAL BACKGROUND

Although groundnuts have been grown on a small scale in South Africa for many years, the production areas were during and after World War I and up to World War II mainly confined to parts of the Northern Transvaal. During those years groundnut producers specialised in growing nuts specially suited for edible purposes (in contrast to groundnuts used for the production of edible oils).

In spite of limited production and slow progress surplus problems were encountered even in those years and it was not always possible to sell the crop of edible nuts in the domestic market. The co-operative organizations in the production areas studied the possibilities of an export market and a promising market was developed for unshelled nuts, particularly pods containing 3 and 4 kernels.

The first large oil expressing plant was established in Durban during the twenties, but practically all the products used for oil extraction were imported because such supplies were cheaper than the domestic product, which was in any case not available in sufficient quantities. This continued up to the end of World War II, although the government did adopt measures to enable producers to sell to oil expressers by mutual agreement their small surpluses at payable prices.

Following on world shortages of oil seeds and edible vegetable oils during and after World War II, the South African Government imposed control under War Measures over the apportionment and allocation of groundnuts and subsequently sunflower seed. Control was originally exercised by the then Director of Food Supplies and Distribution, but with the establishment of the Oilseeds Control Scheme early in 1952, the control and marketing functions were taken over by the Oilseeds Control Board.

Meanwhile the oil expressing industry which had expanded rapidly, urged the government to adopt active measures to step up the production of groundnuts for oil expressing. Seed of groundnut cultivars which were more suitable for oil expressing but which could also be supplied to the edible market was made available. With better yields particularly under dry-land con-

ditions, and by announcing guaranteed prices before the crop was planted, production of groundnuts increased rapidly as shown in table 1.

TABLE 1 - Production of groundnuts in South Africa, before establishment of the Oilseeds Control Board

Season	Quantities marketed,
	shelled basis
	Tons
1946/47	8,300
1947/48	21,000
1948/49	56,000
1949/50	53,000
1950/51	67,000
1951/52	80,000

This rapid increase in output soon resulted in a surplus of groundnuts for oil expressing as well as groundnut oil which had to be exported.

ESTABLISHMENT OF THE OILSEEDS CONTROL SCHEME

The great increase in groundnut production as well as sunflower seed resulted in producers of these seeds approaching the authorities for the introduction of a one-channel marketing scheme in terms of the Marketing Act, 1937. The Oilseeds Control Scheme was accordingly instituted on 25 February 1952.

The Oilseeds Control Board was, in accordance with the provisions of the Scheme empowered to act as the sole buyer of groundnuts and sunflower seed. The Board immediately took over some of the functions undertaken by co-operative organizations, the trade and the Director of Food Supplies and Distribution. These functions included, apart from the normal provisions for grading, intake, storage and handling of the controlled products by appointed agents; the fixing of producers' prices and domestic selling prices and the sale of such supplies, as well as the export of surpluses in the form of seed or processed products (oil and oilcake).

In accordance with the Marketing Act, 1937, the export of unprocessed groundnuts (unshelled and shelled) was prohibited except by the Oilseeds Control Board or under a permit issued by the Board.

Groundnuts intended for export may, depending on the purpose for which they will be used, be divided into two groups, namely -

- (a) Edible nuts, which mainly consist of high quality nuts which are cleaned by various machine and electronical processes and sorted according to size and form. Finally the nuts are checked by labourers to remove any discoloured or damaged kernels. These nuts are consumed without further processing or may be roasted, salted or used in confectionery as well as the production of peanut butter; and
- (b) Crushing groundnuts which consist mainly of the lower grades received from producers and which are not suitable for selection as edible nuts and also include kernels discarded in the selection of edible nuts. These grades are used to produce edible oils, baking fats, margarine and balanced feeds for animals.

The two categories of groundnuts are thus used for the production of totally different final products and are purchased mainly by different buyers. It is thus clear that the sales policies involved may differ considerably.

THE FOREIGN MARKETS FOR EDIBLE NUTS

Edible nuts which are selected and prepared for export on behalf of the Board by various undertakings, are exported solely in standardised containers under the Board's registered trademark. Since commencing with these exports the highest net returns have every year been obtained by this means and it will be appreciated that, after providing for the domestic demand, the maximum quantities of edible nuts are exported.

The main factors which influence the quantity of edible nuts which can be obtained for export from a crop are -

- (a) The size and quality of the crop;
- (b) the combined selecting capacity of all the undertakings employed; and
- (c) the domestic demand for edible nuts which includes quantities used for export as processed groundnut products like roasted nuts and peanut butter.

It is self-evident that the installations used for selecting and which are mechanised to a large extent and use expensive electronical equipment, are planned in such a way that an average crop can be handled during the normal period of export which varies from 10 to 14 months. With the record groundnut crop of 1967/68, which was 66

per cent larger than any previous crop, it was, however, not possible to select all the edible nuts even if markets could be found in such a short time.

The sales channels for the years 1955/56 to 1967/68 expressed as percentages of the combined crops are given in table 2.

TABLE 2 - Sales channels of groundnut crops, 1955/56 to 1967/68

	Per cent	
<u>Domestic</u>		
Edible market	8.24	43.63
Seed and feed	5.40	
Oil expressing	29.99	
<u>Exports</u>		
Edible markets	14.29	56.37
Oil expressing	42.08	
Grand Total		100.00

From table 2 it can be concluded that for 13 years on average only 22.53 per cent of the crops was suitable to be marketed as edible nuts.

Table 3 shows the quantities of edible nuts sold in the domestic and foreign markets, in comparison with total sales from each crop for the past seven years and estimates for the most recent crop (1968/69).

TABLE 3 - Total sales of groundnuts and allocation of edible nuts, 1961/62 to 1968/69

Year	Total sales	Per cent for edible market	Total edible sales	Domestic markets	Foreign markets
	Tons	%	Tons	Tons	Tons
1961/62	187,439	19.30	36,177	12,135	24,042
1962/63	130,370	28.12	36,655	13,717	22,938
1963/64	190,735	19.51	37,219	13,633	23,586
1964/65	150,966	23.96	36,176	15,741	20,435
1965/66	141,420	28.60	40,444	21,572	18,872
1966/67	146,432	27.21	39,850	17,402	22,448
1967/68	318,146	15.70	49,944	17,702	32,242
1968/69*	169,000	23.08	39,000	18,000	21,000

* Preliminary

Table 3 shows that sales of edible nuts in the domestic market have increased steadily but that exports have remained more or less constant. As mentioned previously, the quantities of edible nuts available for export, are inter alia determined by the quality and size of crops and the domestic demand for edible nuts which is met in full before exports commence. This is an important limiting factor in the development and retention of foreign markets for South African edible nuts and the development of new markets. The major buyers of edible nuts are manufacturers and the nature of the product, which is suitable for edible purposes for a limited period particularly after processing, makes it essential that regular supplies are assured. It might be said that the manufacturer can, when South African edible nuts are in short supply, draw his requirements from other sources and this happens. But the snag is that groundnuts from different countries can differ considerably in size, shape and taste. The manufacturer who has established a quality product, does not like to depart from it, and if he should change from one supplier to another, it is difficult to persuade him to return to the first supplier unless price is a determining factor.

The most important markets for South African edible nuts have thus far been the United Kingdom, Holland, West Germany, Canada, New Zealand and Finland, while during 1967/68 the Board succeeded in selling 410 tons in Spain. Table 4 shows the actual exports of edible nuts to the most important markets, for certain years.

TABLE 4 -Exports of edible nuts for years indicated

	1957/ 58	1959/ 60	1963/ 64	1966/ 67	1967/ 68
	Short tons				
United Kingdom	11, 616	8, 387	7, 639	5, 741	8, 074
Europe	4, 533	9, 067	10, 522	15, 190	21, 541
Canada	4, 120	2, 711	3, 647	186	1, 929
New Zealand	1, 496	1, 828	1, 744	1, 331	2, 364
Other	1, 514	-	-	-	-
Total	23, 279	21, 993	23, 552	22, 448	33, 908

Table 4 shows that the United Kingdom which had been the most important market up to 1957, has since been replaced by Holland and West Germany. Holland is now the major buyer.

This change is largely accounted for by the entry on a big scale by India into the British market with large quantities of selected edible nuts similar to those of South Africa, as well as growing competition from other producing countries. A further important factor which contributed to this was that one large manufacturer of groundnut products reduced his production considerably in 1965 and discontinued production during 1967. This firm concentrated on the processing of small South African edible kernels and during the early years it took more than 50

per cent of total exports to Britain. South Africa is in the unfortunate position that it can offer only small groundnut kernels for export, while some of its competitors can offer both small and large kernels and others offer only large kernels. In some countries there is a definite preference for large kernels while in others there is a demand for both. Thus during 1965 Britain imported about 29,000 tons of large and medium kernels as against about 15,000 tons of small kernels. There is a growing preference for the larger kernels which are imported mainly from Malawi and China. In Holland the relationship was 20,000 tons of large and medium kernels as against 15,000 tons of small kernels and for West Germany it was 14,000 tons to 16,000 tons respectively.

In West Germany the preference for small kernels is probably accounted for by the fact that the two largest roasters use fully automatic installations and that they concentrate on small kernels, which along with the sales promotion they maintain, has established a preference for these kernels.

On account of climatic conditions in South Africa the production of large kernels has not found favour to any extent and periodically this type of groundnut has to be imported to meet the local demand.

COMPETITORS IN FOREIGN MARKETS FOR EDIBLE GROUNDNUTS

Table 5 shows the ten most important countries producing groundnuts and their output for three years.

TABLE 5 - Production of groundnuts, 1965 to 1967

	1965	1966	1967
	1, 000 tons, shelled		
India	3, 264	3, 403	4, 497
China	1, 774	1, 820	1, 890
Nigeria	1, 302	1, 354	962
U.S.A.	834	843	866
Senegal	903	672	770
Brazil	573	690	416
Argentina	339	317	273
Indonesia	286	300	306
Burma	222	214	305
Sudan	235	248	217
South Africa	141	147	318
World production	12, 114	12, 524	13, 259

Estimates of the annual consumption of edible groundnuts in the major importing countries during 1965/66 show that the United Kingdom, West Germany and the Netherlands account for more than 50 per cent - about 100,000 tons of the total of 193,000 tons. Other important consuming countries are Canada 25 per cent (48,000 tons) and Japan nearly 14 per cent (25,000 tons).

The consumption of about 193,000 tons consists of roughly 85,000 tons of large kernels, 44,000 tons of medium kernels and 64,000 tons of small kernels. Practically the entire quantity in the latter class is consumed in the five countries mentioned above, and since South Africa produces only small kernels for export as edible nuts, it is obvious that attention is devoted to these markets.

Of the major producing countries shown in table 5, India, China, Nigeria, the U.S.A. and the Sudan are the largest exporters of edible nuts, but Malawi which has a total production less than that of South Africa, is also a large exporter of edible nuts. The estimated tonnages exported from each country during 1965/66 are given in table 6.

TABLE 6 - Estimated tonnage of edible nuts exported, 1965/66

	Tons	Per cent of total production
United States of America	50,000	5.99
China	47,000	2.65
Nigeria	22,000	1.69
Malawi	18,000	8.00
Sudan	16,000	6.80
India	-	-
South Africa	18,000	12.81

Up to 1964/65 India exported large quantities of edible nuts, but in 1965/66 there were none because the Indian Government imposed a prohibition on exports. During the 1967/68 season the restrictions were relaxed and at present India is again an important competitor, with the "Java" type of groundnut which according to size and shape compares favourably with the South African edible nut.

The U.S.A. which largely dominates the Canadian market, has during recent years entered the European market to an increasing extent and has partly replaced India. The "Spanish" types of edible nuts exported from the U.S.A. are very similar to the South African "Natal Common" variety and compete directly with it. This, as well as the fact that the U.S.A. has a fairly constant production which tends to increase, enables the exporter to guarantee regular supplies to buyers year after year. With the fluctuating yearly production in South Africa and the consequent variations in exports the U.S.A. is the most formidable competitor for South Africa in the world markets for edible nuts.

China and Malawi export mainly large kernels, and these types, although not in direct competition, are in demand with the larger users of South African edible nuts for certain purposes (particularly peanut butter) and prices can be affected by large supplies.

The export of edible nuts from Nigeria and the Sudan has during recent years increased steadily. These countries which in the past exported chiefly nuts for oil expressing have lately entered the market for edible nuts to an increasing extent. Types and quality have over the years been improved considerably and they can become important competitors for South Africa.

PRICE POLICY AND RISING FREIGHT RATES

South Africa and Malawi are the only countries in the Southern Hemisphere which sell edible nuts on a fairly large scale on the European markets, and enjoy in this respect a certain advantage since the major suppliers are all north of the Equator and theoretically there is a time difference of about six months in the marketing seasons. With groundnuts this seasonal advantage is, however, not as important as with more perishable products like fresh fruit, since with efficient storage stocks can safely be carried for twelve months or longer. Transport distances are, however, considerably greater than for certain competitors like the U.S.A. and Nigeria which not only incur lower freight rates but can effect delivery more rapidly.

Freight rates on shelled edible nuts in bags between South African ports and those on the Continent and in Britain have gradually increased from R8.50 (£ 4.5.0.) in 1956 to R17.20 in 1968 per ton of 2,240 lb. Although efforts have been made to recover freight costs in part in foreign selling prices, this was not always possible since competitive supplies are an important factor determining prices. The variations in the net c.i.f. returns are shown in table 7.

TABLE 7 - Average net c.i.f. prices for South African edible nuts obtained in the European, British and Canadian markets, 1957 to 1968

Export season	Net c.i.f. prices per 2,000 lb net
	R
1957/58	188.40
1958/59	181.30
1959/60	157.70
1960/61	181.20
1961/62	172.30
1962/63	174.00
1963/64	169.80
1964/65	191.70
1965/66	220.20
1966/67	211.50
1967/68	185.20

The absence of India as a competitor in these markets during 1965/66 and 1966/67 is clearly reflected in these prices, but the smaller crops in South Africa during the two years also had an effect.

THE EUROPEAN ECONOMIC COMMUNITY AND THE POSSIBLE ENTRY OF THE UNITED KINGDOM

As stated previously, West Germany and Holland are at present the biggest buyers of South African edible nuts, and both are members of the E.E.C. For supplies of edible nuts the Community is practically wholly dependent upon production in countries outside the Common Market except for Italy where small quantities are produced. Consequently unprocessed (raw) groundnuts are under the common external tariff free from customs duties at the time of importation. In July 1963 an agreement of association was concluded between 18 African States (mostly former French territories) and in May 1966 Nigeria was also admitted. These countries include some of the World's largest producers of groundnuts, but thus far no special regulations relating to the importation of groundnuts from them have been promulgated.

South Africa still enjoys, along with Commonwealth countries a preference of 10 per cent on raw edible nuts imported into Britain. Should Britain join the E.E.C. the existing 10 per cent customs duty on raw edible nuts from countries to which the preference does not apply, like the U.S.A., will probably lapse, and supplies from these sources will compete on an equal footing in the United Kingdom with supplies from South Africa and Commonwealth countries.

STANDARDS OF QUALITY

In the standards of quality established for South African edible nuts the emphasis has always been on a product of high quality and foreign buyers are willing to pay slightly more for the South African product than for competitive supplies. This led competitors, particularly in the U.S.A. to improve the quality of their nuts. As a result of the comparatively high prices for high quality edible nuts countries which previously exported groundnuts only for oil expressing, have also commenced to market selected edible nuts. Although such supplies might be slightly inferior, they have nevertheless, because of lower prices, entered the markets for the special product and tend to depress prices.