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A DECADE OF TRANSFORMATION

ACA World Cashew Festival & Expo 2016



Bissau, Guinea-Bissau

September 19-22, 2016

**Global Competitiveness: Benchmark on
global cashew processing industry**

Shakti Pal, 20th Sept, 2016



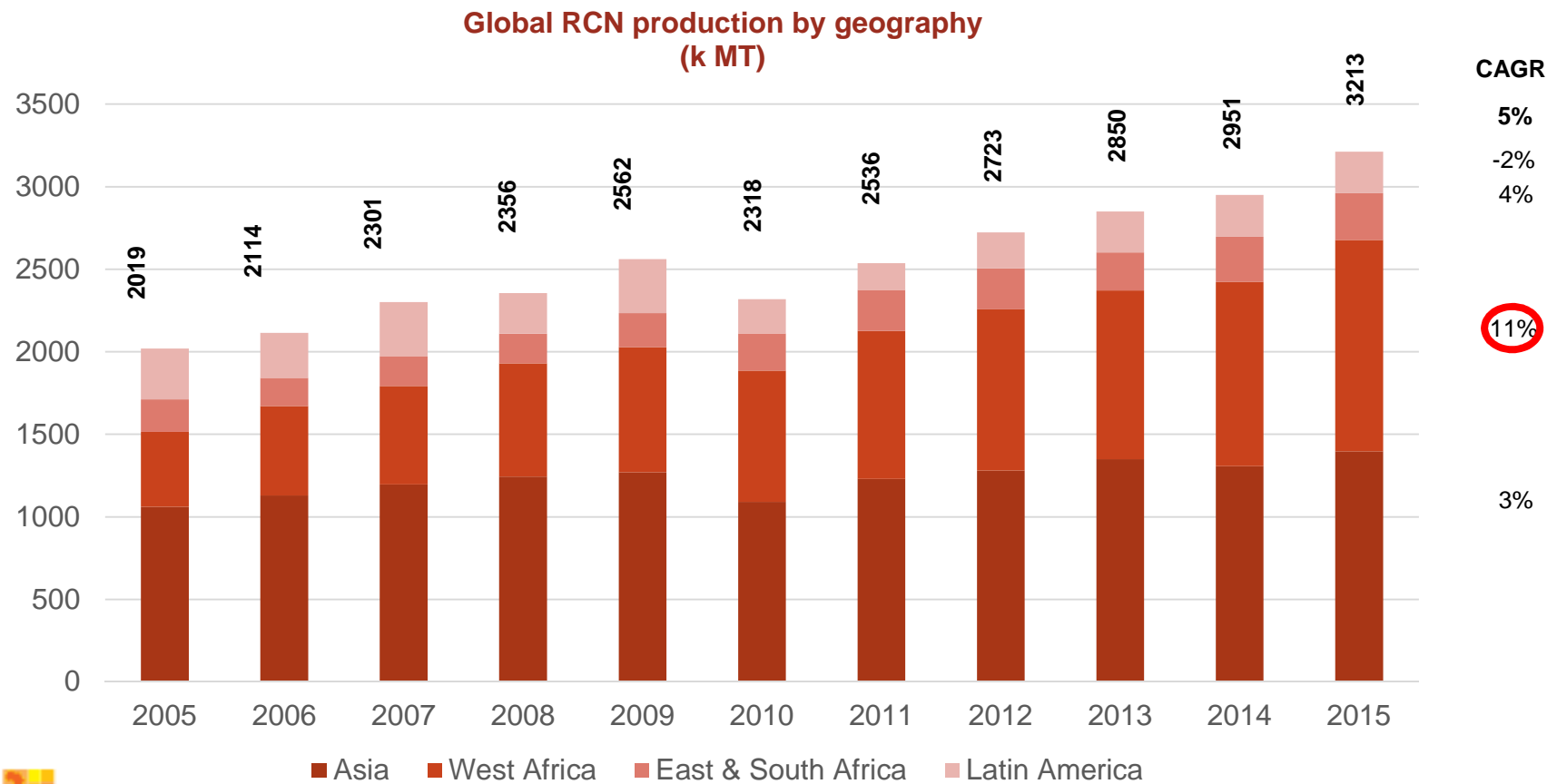
Agenda

- **GLOBAL PROCESSING BENCHMARKING**
- **AFRICAN PROCESSING KEY CHALLENGES - A CASE STUDY (policy risk)**



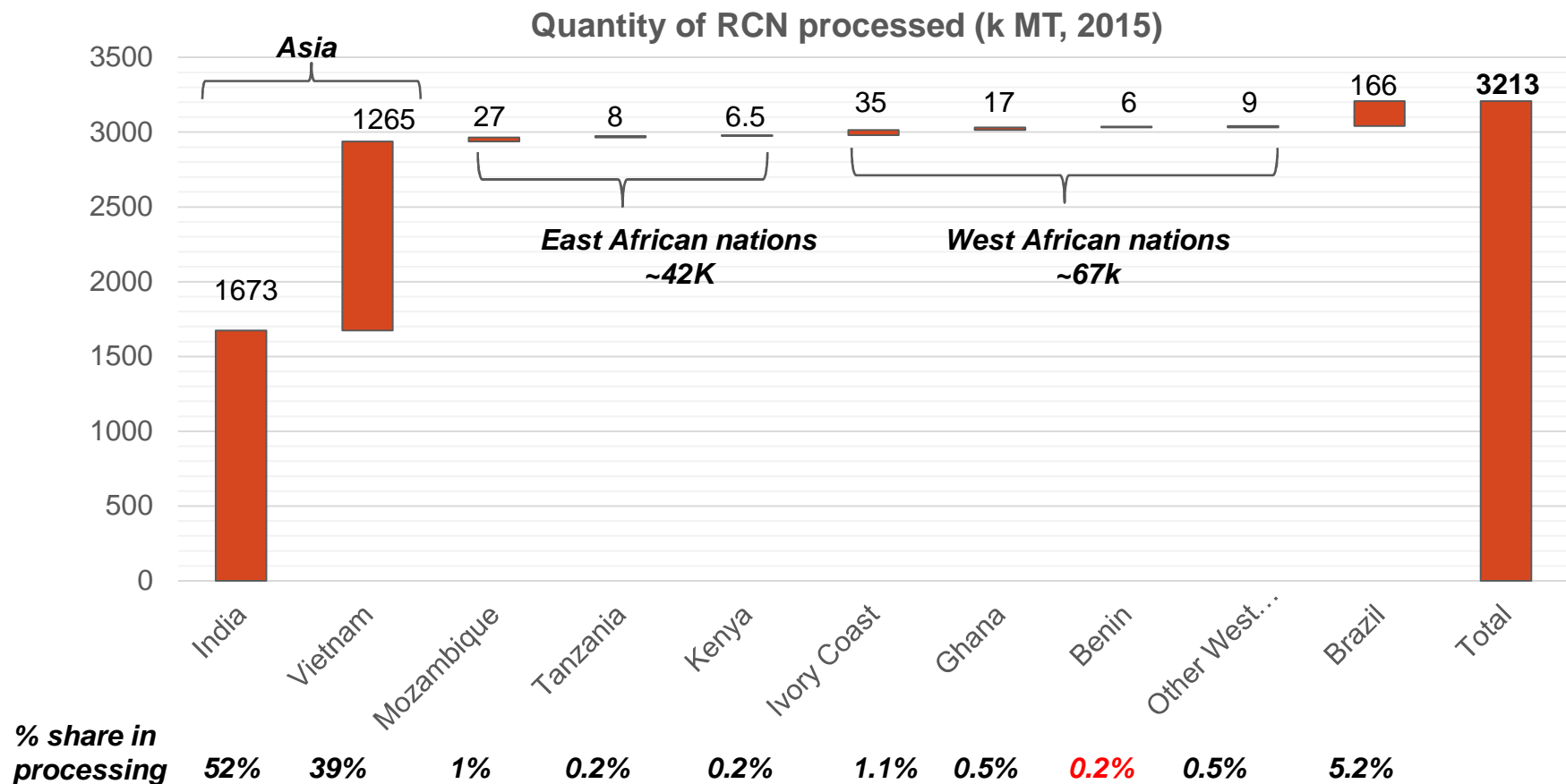
Production: Global RCN production in 2015 at ~3.2M MT and growing at a stable rate; Africa Contributes ~47% of it, Asia and South East Asia growth is almost stagnant

West Africa fastest in increasing its production capacity, growing at ~11%

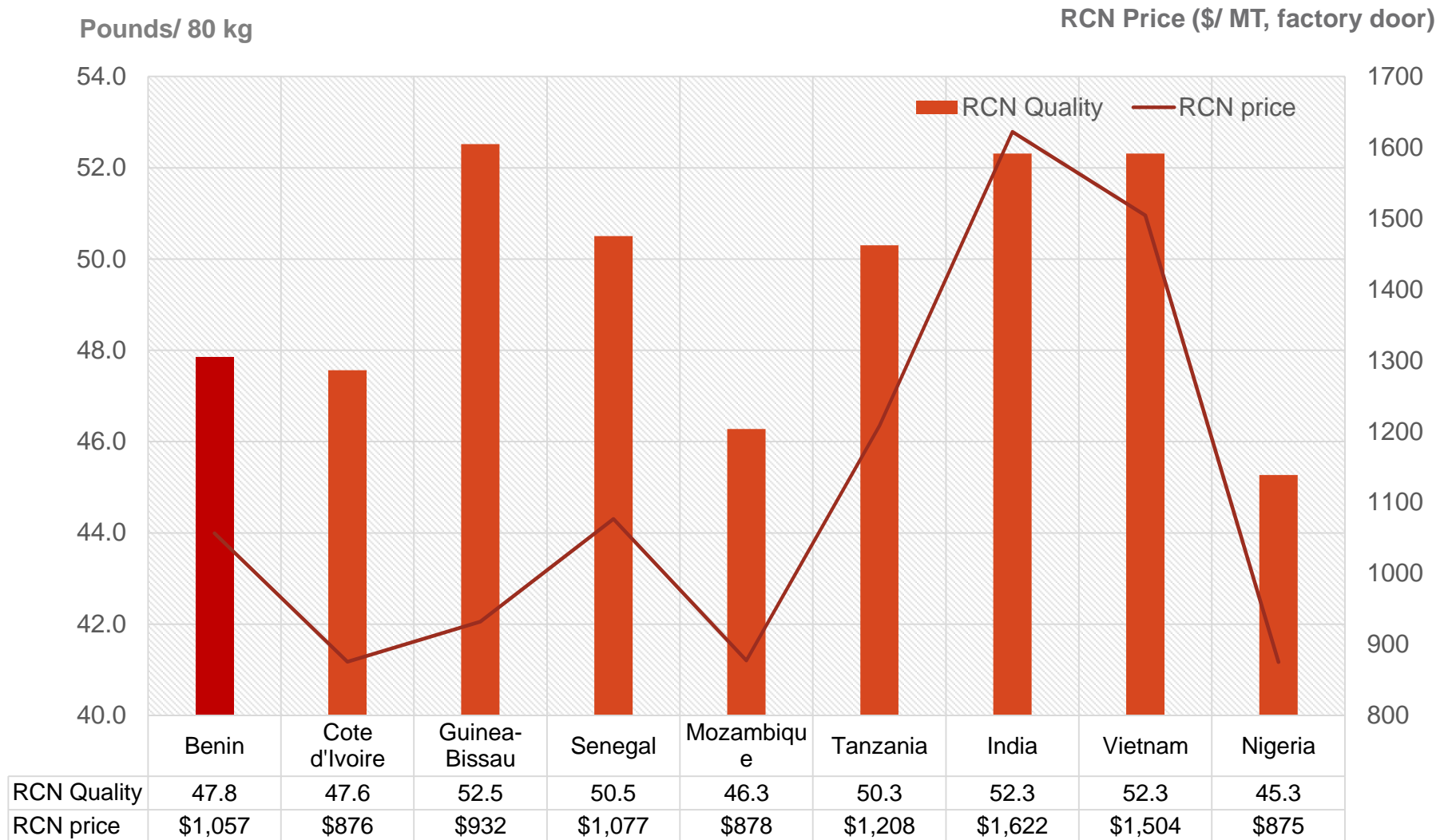




Processing: Approx. 90% of global RCN in 2015 processed between India and Vietnam; Africa in its infancy stage and ready to build in-house capacity



India, Vietnam, G. Bissau, Tanzania are world leaders in quality on RCN
 African processing on an average receives 25% cheaper price compared to their Asian peers



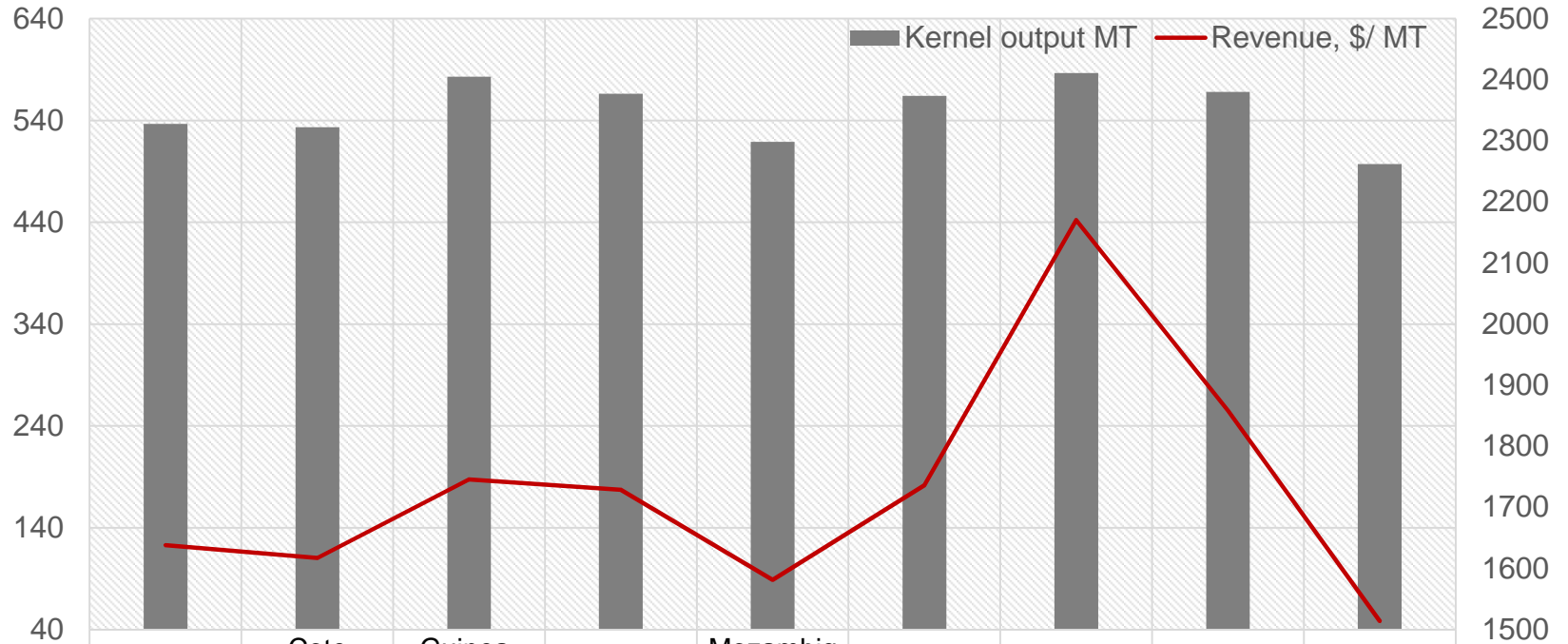
Notes: Quality value depicted is an approx. value
 Source: Stakeholder interviews; TNS analysis

Business case : 5000 Mt Plant, operating at ~83% capacity, year 3

Realized revenues per Mt of RCN processing in G. Bissau, Senegal and Tanzania are better than other African peers, Indian are the best due to local markets

Revenue (\$/ MT of RCN processed, FOB)

Kernels produced (MT)

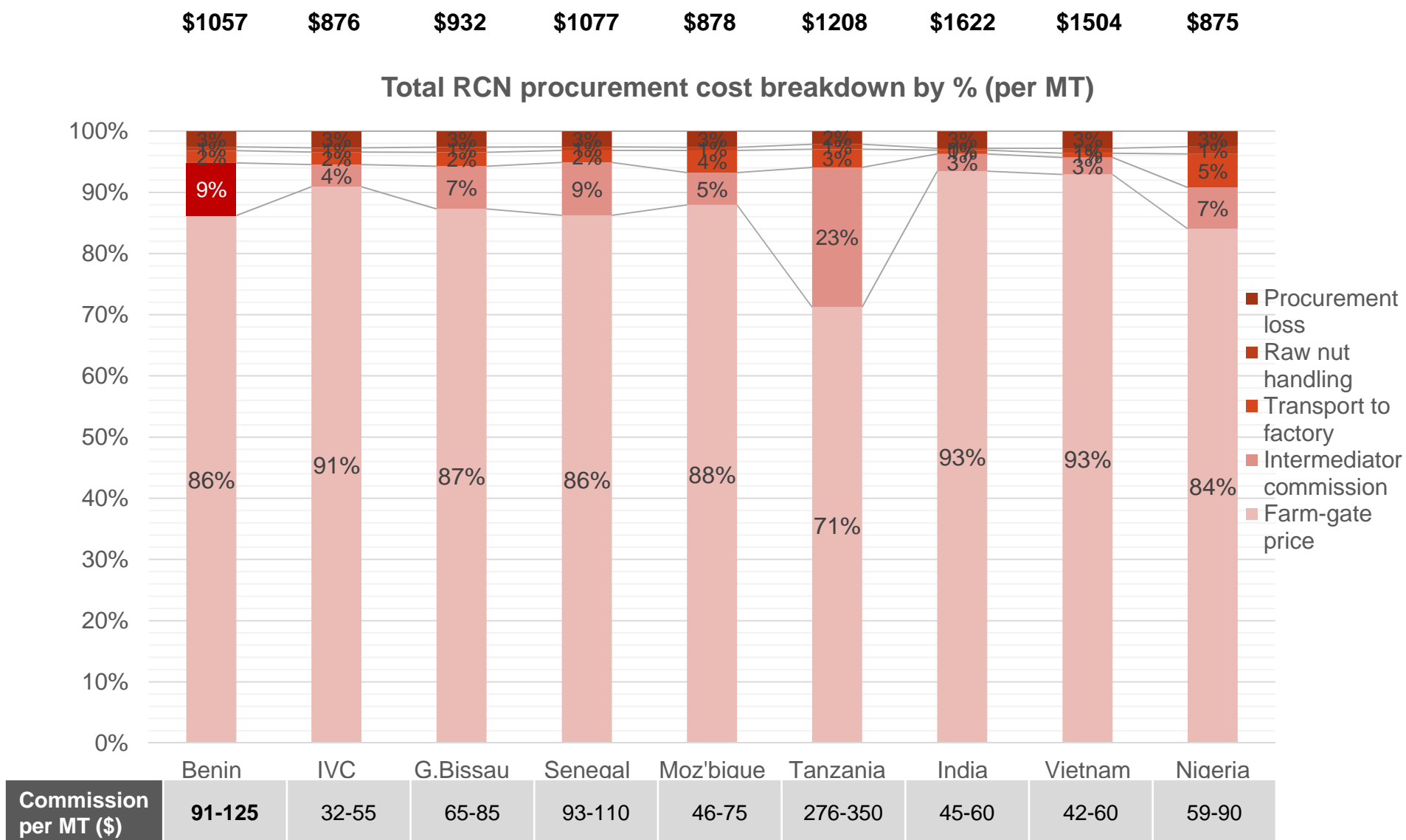


Kernel output MT	536.57	533.39	582.95	566.30	518.93	564.05	586.61	568.11	497.29
Revenue, \$/ MT	1638	1617	1746	1729	1581	1736	2170	1858	1514

RCN processed	2500MT	2500MT	2500MT	2500MT	2500MT	2500MT	2500MT	2500MT	2500MT
Kernel yields	22.0%	21.9%	23.9%	23.2%	21.3%	23.1%	24.1%	23.3%	20.4%
Kernel price, lb.	\$7.63	\$7.58	\$7.49	\$7.63	\$7.62	\$7.69	\$8.92	\$7.83	\$7.61

Plant operating at ~83% capacity, year 3

African processing high RCN procurement cost driven by significant intermediary commissions, Tanzania receipt system is one of the biggest intermediator

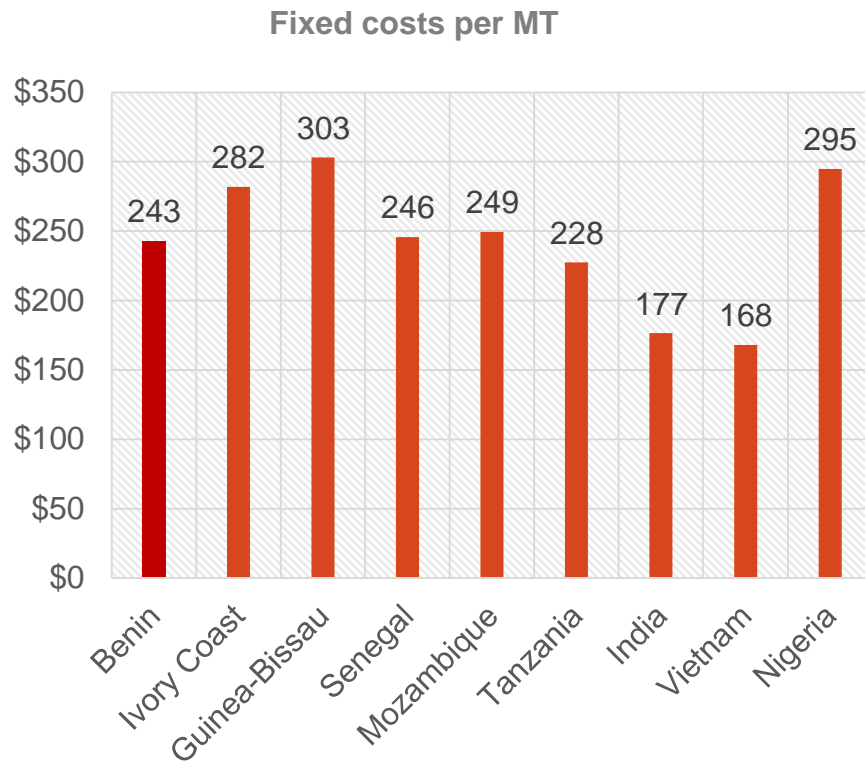


Business case : 5000 Mt Plant, operating at ~83% capacity, year 3

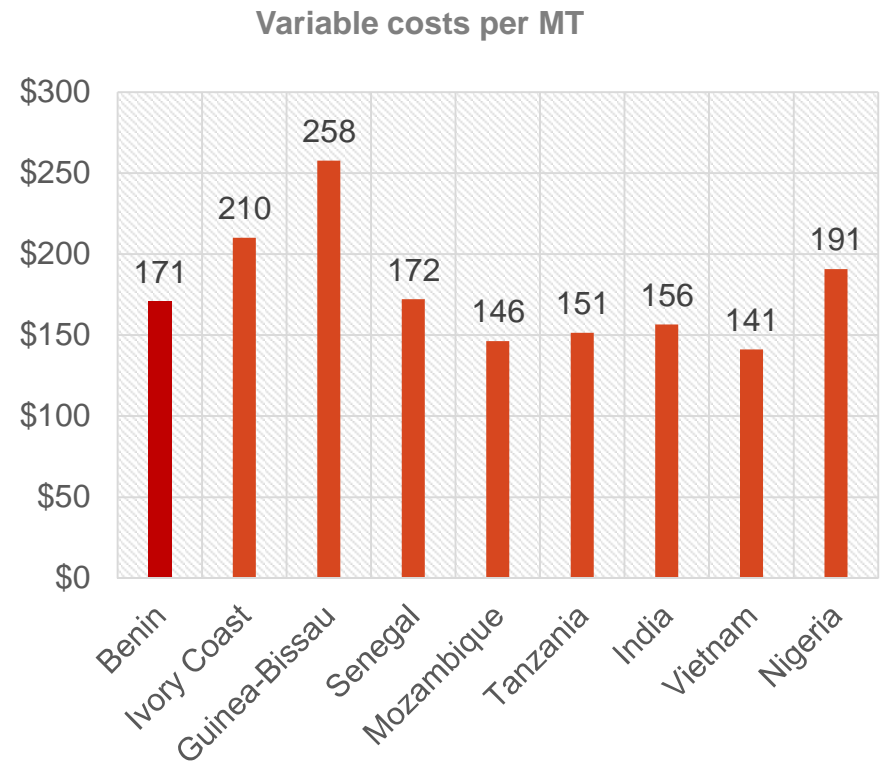
Source: TNS analysis

African processing still far above on the fixed and variable costs than their Asian peers, however within first 5-6 years they achieve a competitive position on cost of operations

BENIN PROCESSORS INCUR LEAST AMT. OF FIXED COST COMPARED TO W.AFRICAN PEERS

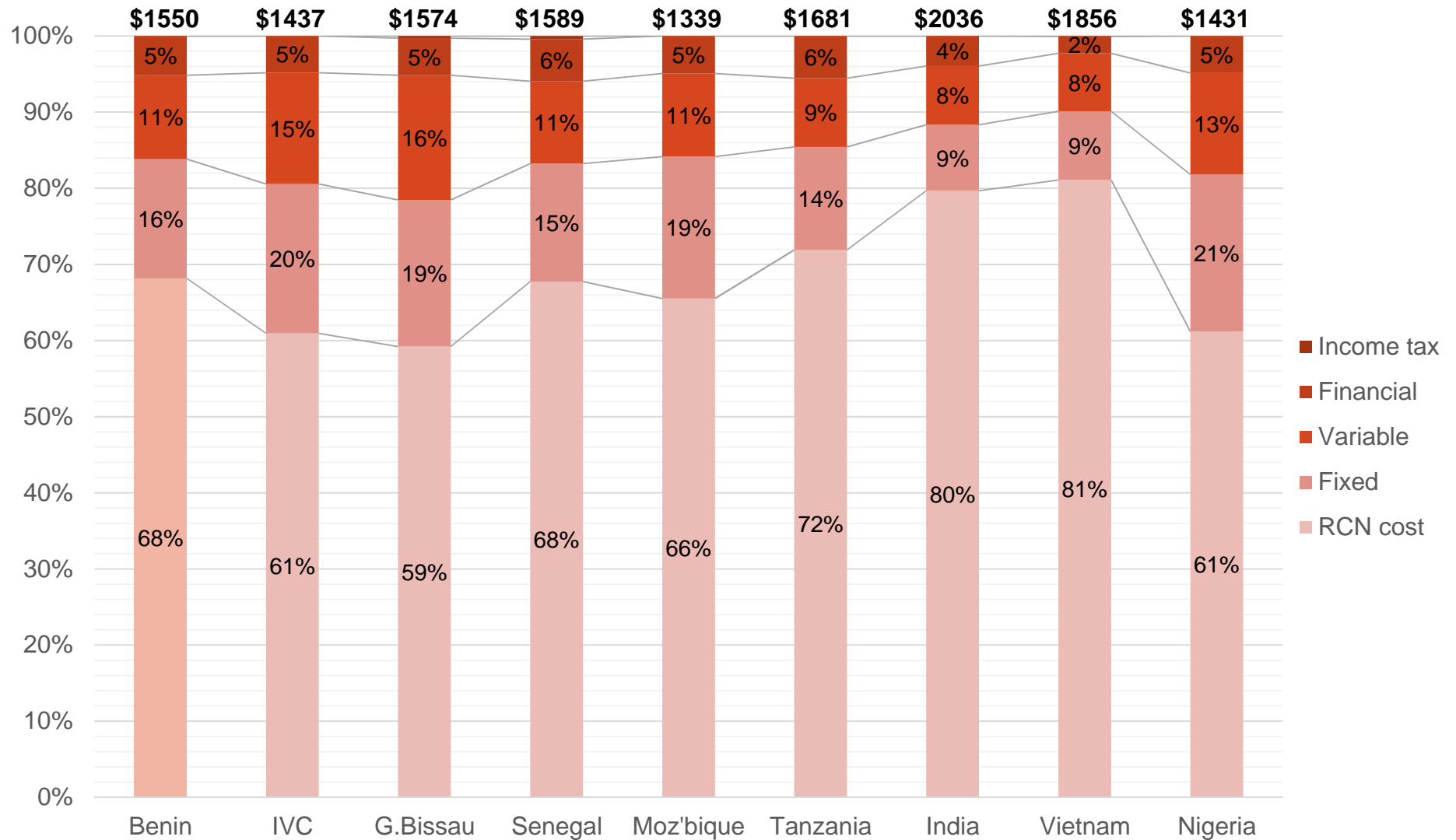


BENIN PROCESSORS INCUR LEAST AMT. OF VARIABLE COST COMPARED TO W.AFRICAN PEERS



Overall In Africa, high RCN costs nullifying its competitiveness on other cost factors; under current scenario, CIV has the slight edge

Total processing costs breakdown by % (per MT)



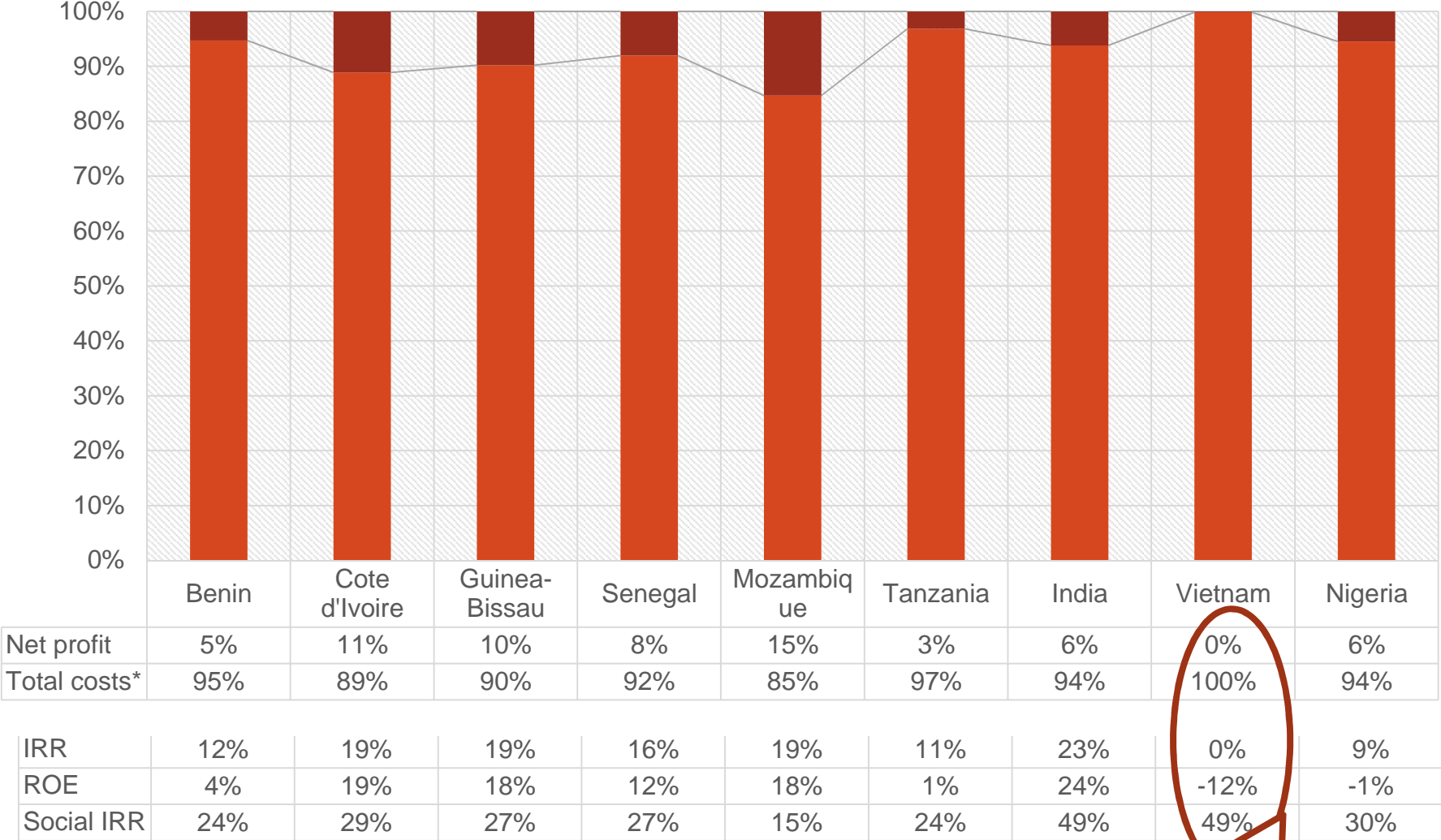
Notes: Majority of the nations do not levy income taxes on new enterprises except Guinea-Bissau, Senegal & Vietnam
 Source: TNS analysis

Plant operating at ~83% capacity, year 3

Benin's processing opportunity under prevailing conditions not too attractive; delivers minimal profit returns compared to peers

Revenue breakdown (%)

■ Total costs* ■ Net profit



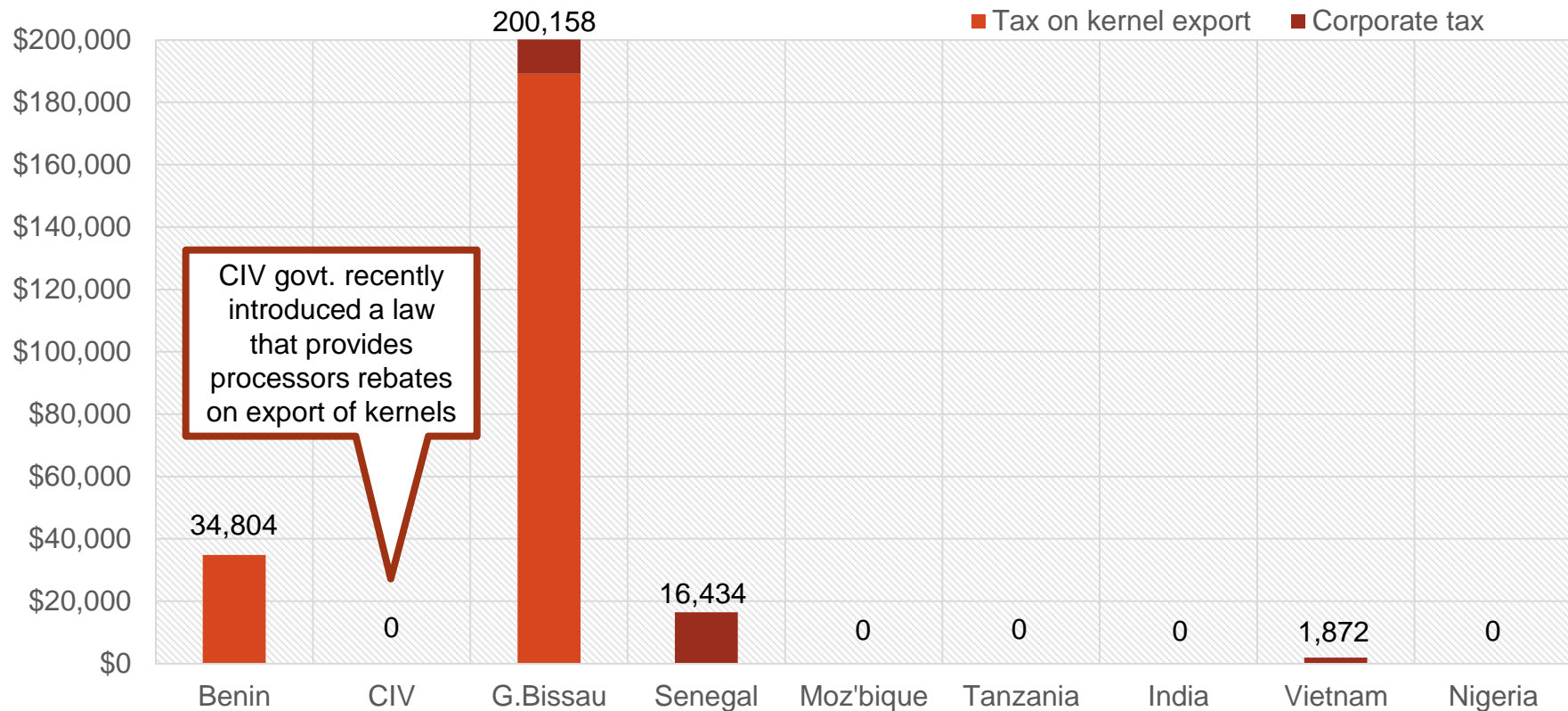
High social IRR due to high RCN farmgate price

Vietnam processing is no more viable on small volumes

*Total costs includes all fixed, variable, financial costs and corporate tax
 Source: TNS analysis

Only G. Bissau Senegal and Benin have kernel export tax, India is the only country which have a subsidy on export of kernels

Taxes paid to Govt.



100% tax exemption	8 years	6 years	2 years	None	3 years	8 years	5 years	2 years	5 years
Partial benefit upto	None	8 years	7 years	None	None	None	None	None	8 years
Kernel tax %	0.85%	-	~6%	-	-	-	-	-	-

Notes: Partial benefits from income tax can vary from 40% - 80% across nations
 Source: TNS analysis

Plant operating at ~83% capacity, year 3





Agenda

- **GLOBAL PROCESSING BENCHMARKING**

- **AFRICAN PROCESSING KEY CHALLENGES –
A CASE STUDY (Policy risk)**

Policy reforms across different nations hurting African processors; without policy reform, domestic processing scenario could deteriorate further –

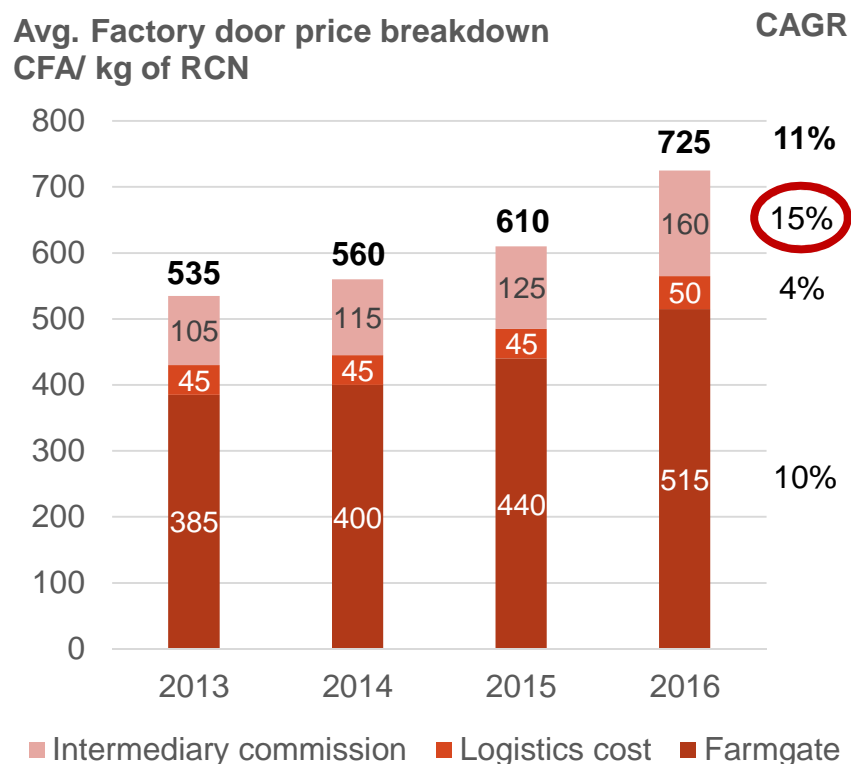
Benin - a case study, 2016

POLICY CHANGE IN COUNTRY	IMPLICATION & IMPACT	TRADER COMPETITIVE ADVANTAGE
 <p>COTE D'IVOIRE</p> <ul style="list-style-type: none"> Introduced an additional RCN export tax of CFA ~46/ kg With new taxes, total RCN export tax CFA ~83/ kg 	<ul style="list-style-type: none"> Implication: Importers of CIV RCN will end up spending an additional \$140/ MT of RCN Impact: Many int'l importers have skipped CIV and come to Benin for their RCN procurement 	<p>\$130 – 140 per MT OF RCN</p>
+		
 <p>INDIA</p> <ul style="list-style-type: none"> Introduced an import duty of 9.36% (CIF value) i.e. \$150/ MT of RCN Imports from LDC countries are waived from paying this import duty 	<ul style="list-style-type: none"> Implication: Since Benin is classified as a LDC country, importers of Benin RCN are exempted from tax ~150/ MT of RCN Impact: Indian buyers are able have a window to shell out additional ~\$150 to ensure their procurement, putting domestic processors at dis-advantage 	<p>\$150 – 160 per MT OF RCN</p>
=		
<p>TOTAL MONETARY ADVANTAGE OF TRADERS FOR RCN BUYING</p>		<p>\$300 – 310 per MT OF RCN</p>

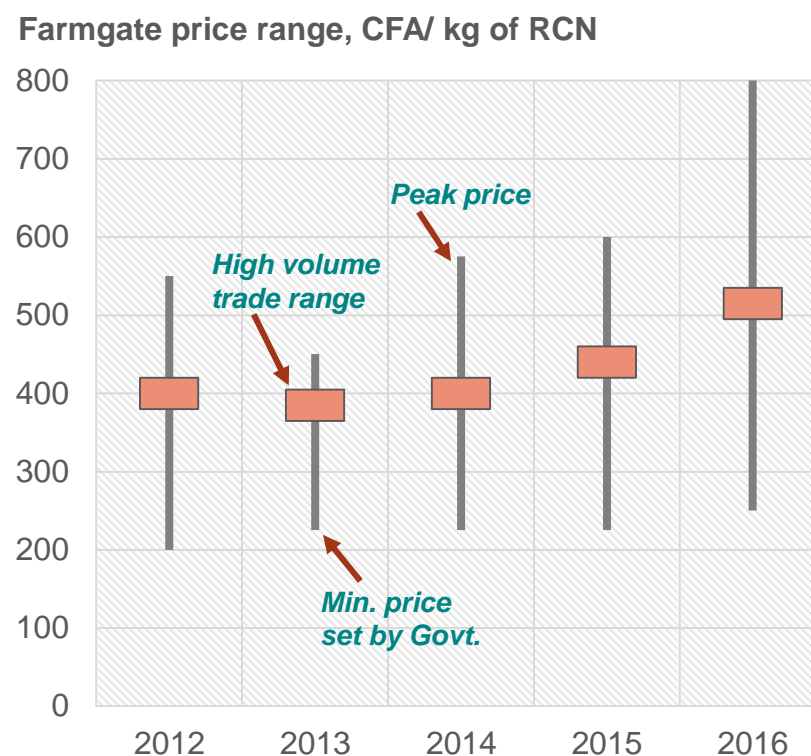
Stiff competition from India traders/ processors for Benin RCN is only going to increase in coming years

Key implication of CIV & India's policy reforms has been sudden surge of Benin RCN factory-door prices...

INFLATED RCN PRICES SIGNIFICANTLY DRIVEN BY INCREASED TRADER COMMISSIONS



RCN PRICES ALSO TURNING INCREASINGLY VOLATILE DUE TO TRADER MANIPULATION



- Due to high RCN demand, **traders & intermediaries purchase excessive quantities of RCN and make delayed sales**
- This **results in inflated prices & hefty commission earnings for traders**; other stakeholders are at dis-advantage
- **IMPLICATION:** Stiff competition from India traders/ processors for Benin RCN is only going to inflate RCN prices further in coming years

Note: RCN farmgate prices mentioned above are calculated based on inputs from multiple domestic processors and traders

Source: Primary interviews; Official Govt. Statistics; TNS analysis

There is a need to mitigate African's global competitive dis-advantage

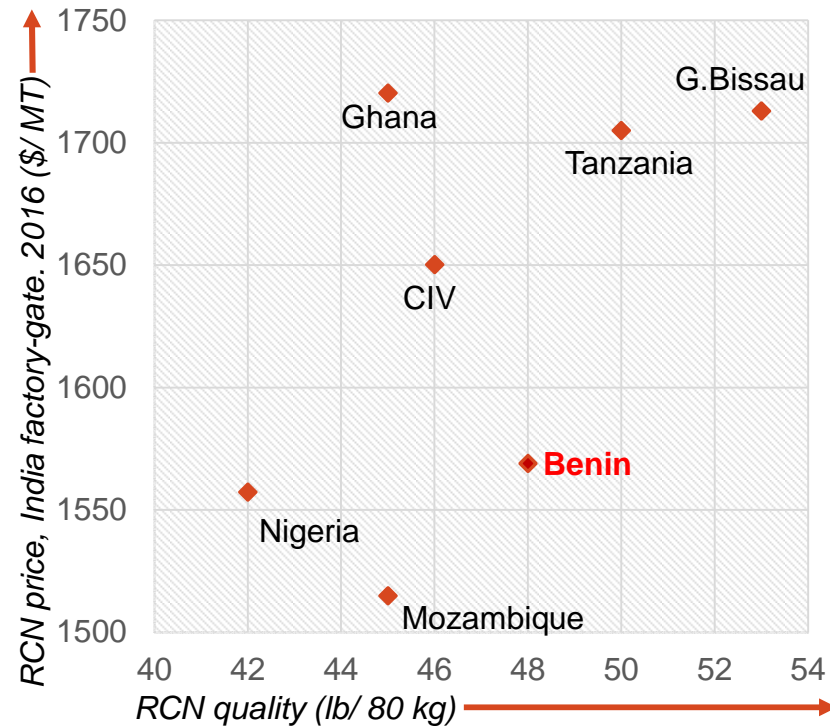
Actual scenario

Indian processors have double benefit of importing Benin RCN; no RCN export tax & exempted from Indian customs duty

Benin RCN providing best value for money for Indian processor

Importing RCN from country	Presence of RCN export tax	Exempted from India's import duty*
Benin	No	✓
Guinea-Bissau	Yes	✓
Mozambique	Yes	✓
Tanzania	Yes	✓
Nigeria	No	✗
Ghana	No	✗
Cote d'Ivoire	Yes	✗

(Only included countries having RCN production >40,000 MT)



Benefits of RCN Export tax

- Helps normalize RCN prices & reduces volatility
- Potential for Govt. to earn ~\$14-16M** yearly revenue from RCN tax
- African Countries who introduced RCN tax & faced benefits in processing: **Mozambique & Cote d'Ivoire**

Potential watchouts

- **Identifying optimum rate of RCN tax** is a critical task
- **Cross-border trade:** Strong border patrols would be required to prohibit RCN sales into Togo, Nigeria
- Illegal sales from the port

*This is amongst major cashew producing nations in Africa; Gambia, Togo & Burkina Faso fall in same category but have minimal RCN production; **Assumes a FOB RCN

price range of \$1300-1500, RCN export tax rate of 15% & exported quantity = 75,000 MT

Source: Foretell; Primary calls; Literature search