## **California Walnut Board**

101 Parkshore Drive, Suite 250 Folsom, CA 95630-4726 Phone: (916) 932-7070

Fax: (916) 932-7071 info@walnuts.org

An Equal Opportunity Employer and Provider



## CALIFORNIA WALNUT BOARD MEETING MINUTES

## Friday, September 12, 2008 Marriott Hotel

## Rancho Cordova, California

The California Walnut Board met on Friday, September 12, 2008, at the Marriott Hotel in Rancho Cordova, California. Chairperson Siebert called the meeting to order at 10:00 a.m. Mr. Balint called the roll and informed the Board that a quorum was present. The following members and alternates were present:

Members:	<u>Alternates:</u>
William Carriere	
	Walter Deardorff
Earl Lindauer	
Jack Mariani	Pete Turner
Jim Frazier	Stephen Giovannoni
	William Tos
	Michael Petz
	John Gilbert, Sr.
Sam Keiper	Gary Ford
Jerry Siebert	Karen Klonsky

Board Members Al Bonturi, Jerry Moore and Earl Perez and Alternate Board Members Donald Norene and Phil Short were absent. Mr. Deardorff sat in for Mr. Bonturi, Mr. Tos sat in for Mr. Perez, Mr. Petz sat in for Mr. Moore, and Mr. Gilbert filled in for the vacant seat due to the passing of Mr. Bill Waggershauser.

Also in attendance were Mr. Duane Lindsay, CWC Technical Advisor; Dr. David Ramos, CWB Research Director; Ms. Carol Berg-Sloan, CWC Nutrition Consultant; Ms. Debbie Wray and Mr. Martin Engeler of USDA; and Mr. Vic Tolomeo and Ms. Jennifer Van Court of CASS.

The first order of business was the approval of the minutes of the May 28, 2008, Board meeting. Mr. Frazier made a motion to approve the meeting minutes as mailed. Mr. Keiper seconded and the motion carried unanimously.

Chairperson Siebert introduced Mr. Jack Mariani to present the next agenda item, the report of the Market Development Committee. Mr. Mariani stated that the CWC and CWB Market Development Committees met the previous day to follow up on an issue from the May Board meeting. The main topic of the Committee meeting was to discuss further investments in the market promotional activities from the Predictor Study and whether those investments would be beneficial to the industry. Preliminary studies from the research show that consumer demand for walnuts was excellent and that further investments from our market development

budget would be warranted. However, the research had been conducted about 18 months prior in a much different market situation, prior to the large increase in walnut prices during the last fall and winter. In May, the Committees thought it would be prudent to make another small investment in some further research to determine if the larger investment being considered (over a million dollars) would be warranted with the market conditions as they are this fall.

Mr. Mariani explained that the further research concluded that, even though consumer demand is still excellent, the way the economy is right now and the situations that consumers are facing in their daily decision making would not provide a good return on the investment at this time. The Committees decided yesterday to postpone any further investments until such time that the economy changes and those investments would provide a good return.

Mr. Mariani commented that our PR agency, Torme Lauricella, gauges the success on our investments based on impressions. Our impressions for 2007/2008 were up slightly from the prior year to 2.9 billion. That increase was done without any significant health studies announced over the last year. He also stated that he attended the Scientific Advisory Council meeting held in August where an impressive group of researchers, scientists and dieticians gather from around to world to report on the health research activities funded by the Commission. There are some new areas of study that have come about because of these SAC meetings, including brain function, Alzheimer's disease, and breast cancer.

Mr. Mariani then briefly discussed the PR activities with Torme Lauricella, including new recipes, video clips with spokespersons Ellie Krieger and Dr. Michael Roizen, and the upcoming harvest tour. He introduced Ms. Jennifer Getz to provide more detail about the fall and winter marketing activities. Ms. Getz started by showing some additional magazine clipping highlights from the past few months and a television clip that aired on the Food Network's show 30-Minute Meals with Rachel Ray where the host talked about the proper way to store walnuts. Ms. Getz showed some other articles that were featured in *Prevention, Woman's Day, Woman's World, Reader's Digest* and *Cooking Light*. The local grocery chain Raley's produces a free quarterly publication called "Something Extra" which just recently ran a piece called "In a Nutshell" which highlighted all the features of walnuts that we like to talk about—taste, versatility and health. The article also included about eight or nine walnut recipes, including Ellie Krieger's walnut energy bars.

Ms. Getz stated that we recently wrapped up our Smart Salad Recipe Contest that ran on our website. All the winning recipes are available on our website. We are also continuing our smart theme with our Smart Snacking pitch which began in August. End of the year activities include our Test Kitchen Pitch which will focus on holiday entertaining and using spiced walnuts. Ms. Getz turned the presentation over to Ms. Michelle McNeil to talk more about upcoming activities for the fall and Holiday Season.

Ms. McNeil stated that, going into the fall, we will continue to work with our spokepeople, Dr. Roizen and our new partner, Mollie Katzen. Ms. Katzen is famous for the Moosewood cookbook and will complement our program by bringing food expertise to the nutrition messaging. The spokespeople will help launch our Smart Nutrition Program which has been designed to help motivate and empower consumers to make smarter choices. We are kicking off a Smart Holidays campaign with a menu makeover on our website featuring recipes developed by Mollie Katzen. We are also conducting two harvest tours this fall with the U.S., Korean, German and Canadian media.

We will continue our outreach to health professionals by attending the American Dietetic Association/FNCE conference in Chicago, the Oldways Mediterranean Diet conference, Dr. Roizen's 7<sup>th</sup> Annual Complementary Alternative Medicine conference, and several other dietetic conferences throughout the remainder of the year.

Ms. McNeil stated that we had over 166,000 visitors to the Walnut Website this past year. This fall we completed a request for proposal to rebuild our website to make it Section 508 and AMS compliant. We also developed new marketing materials including a recipe brochure, a nutrition brochure and posters.

Mr. Mariani thanked Ms. McNeil and Ms. Getz for their presentations. He stated that the marketing budget was approved at the May 2008 meeting, however, the budget will be revisited later in the meeting due to some changes in the program.

Chairperson Siebert introduced Ms. Carol Berg-Sloan, CWC Nutrition Consultant, to present the next agenda item, Health Research Update. Ms. Sloan stated that there were two studies published in the last few months; one in the *Nutrition Journal* in May 2008 on the effect of walnuts on prostate and vascular health in older men; and the other study published in the *Journal of the American Dietetic Association* in July 2008 came out of the larger PREDIMED study being conducted by Dr. Ros and his colleagues in Spain. There are also two papers that have been accepted by journals; the first is on breast cancer from Dr. Hardman at Marshall University for publication in *Nutrition and Cancer*. *An International Journal* in September 2008; the second is on motor and cognitive function from Dr. Joseph at Tufts University for publication in the *British Journal of Nutrition* in early 2009. There are also several papers pending publication notices from various journals.

Ms. Sloan then outlined the on-going health research projects in a variety of subjects including antioxidants, cancer, cognitive function, diabetes, heart health and weight management. She also gave a brief history of the health research program from its beginning in 1992 to current, with 24 total published papers in a wide variety of research areas.

Chairperson Siebert thanked Ms. Sloan for her presentation and introduced Mr. Earl Lindauer to give the report of the Production Research Committee. Mr. Lindauer stated that the Production Research Committee would not normally meet until late February or early March of 2009, however, some USDA funds became available for application. The Committee met on October 6, 2008 to approve two projects that we are applying for matching funds from the government grants. Mr. Lindauer introduced Dr. David Ramos to explain more about the grants.

Dr. Ramos stated that the research budget for fiscal year 2008/09 is \$725,000. He also explained the history of the U.C. endowment fund that the Walnut Board put in place starting in 1995 by committing an extra \$200,000 per year for five years. That created a \$1 million endowment for the walnut breeding program. He stated that partly because of that endowment, the Board has a very efficient and expanding research program with a fairly small budget in comparison to other commodity programs. We are also partnering with the U.C. in their Discovery Program which provides matching money to industries in relation to biotechnology programs. The Board currently has two research projects with the U.C. Discovery Program matching dollar for dollar; one of them is a project to map the entire walnut genome; the other project is on lesion nematodes.

Dr. Ramos explained that the grant program that Mr. Lindauer referred to is the Specialty Crops Research Initiative that was part of the recently passed \$28 million Farm Bill. We submitted two proposals to the SCRI. The first submission was a project to expand our work on

biological control for secondary pests on walnuts which was a partnership with three major commodities affected by codling moth (apple, pear and walnut). Dr. Ramos recently received word that the project was approved and will receive about \$70,000 of USDA funds. The other submission was a project on the development of a lesion nematode and crown gall resistant root stock. We are seeking \$1 million over four years which would be matched annually with \$135,000 from the walnut industry pending annual approval. Dr. Ramos is awaiting word on the status of that submission to SCRI. Mr. Lindauer commented that the funds for the two projects will come out of the 2008/09 budget. The Research committee had to meet to approve the two projects prior to their normally scheduled meeting in late winter because the projects had to be funded before consideration from SCRI. The remainder of the proposed projects for 2008/09 will be reviewed by the Committee in February or March 2009.

Chairperson Siebert asked Mr. Duane Lindsay to give the report of the Methyl Bromide Status (CUE). Mr. Lindsay stated that the CWB/CWC has submitted the Critical Use Exemption for methyl bromide for 2010 asking for about 250,000 pounds of product. This year EPA gave us about 98,000 pounds, so there is a concern about whether or not we will have enough methyl bromide for the harvest turnaround which the industry desperately needs. Profume has not been the drop-in replacement for methyl bromide as we had hoped. USDA/ARS is conducting some research on our behalf on the application of sulfuryl fluoride as a replacement, and that information when it is available, along with the assistance of Dan Haley in Washington and Jim Wells at Environmental Solutions who are working on our behalf, will provide data to EPA to help them determine our needed allotment of methyl bromide.

Chairperson Siebert thanked Mr. Lindsay for his report and asked Mr. Balint to present the next agenda item, Recent U.C. Davis Research on Walnuts (unapproved). Mr. Balint reported to the Board that a recent research project completed at U.C. Davis resulted in a poster being presented at a conference on August 5, 2008, entitled "The Survival of Salmonella on Walnuts During and After Walnut Hulling." The California Walnut Board did not fund this project, though we were approached on two occasions by researchers involved in the project. On both occasions, we informed them that we had great concern about it and wanted to take no part in the activity since walnuts do not have a salmonella problem. The lead researcher on the project acquired funding from two organizations, USDA and the Almond Board of California.

Mr. Balint explained that the Board will take action in the form of a meeting between himself, Dr. Siebert and Mr. Lindsay and the researcher and will try to explain why this could jeopardize our position in the walnut industry. A paper such as this could have detrimental effect in markets overseas, especially Asia and the EU. The Commission will also take legal action to try to block further research. Back when the almond industry was struck with a salmonella problem, Mr. Balint, along with Mr. Lindsay, met with Dr. Jeff Farrah of the California Health and Human Services in order to make them understand the differences between the way walnuts are grown and processed compared to other commodity practices. At that time, the department was satisfied that the walnut industry should not be targeted and included in a blanket proposal requiring product pasteurization, which we know could be detrimental to our industry, both financially and through the destruction of the walnut during the pasteurization process.

Mr. Lindauer commented that the research conducted by the U.C. Davis researcher was done in a laboratory and in no way represents the actual growing, processing, or hulling procedures of the walnut industry. Chairperson Siebert mentioned that the whole area of food safety is at a very critical stage right now with the public being fairly paranoid. He believes that this industry should have a food safety strategy in place and a program that would mitigate any impact that could arise, all backed by Board or Commission funded studies supporting our position.

Chairperson Siebert also commented, as chairperson of the Production Research Advisory Council, that PRAC working groups have been meeting over the summer and will continue to do so throughout the fall. Then PRAC will have a meeting where all the working group chairs will present their priority lists and develop a report to present to the Research Committee.

Chairperson Siebert then introduced Mr. Sam Keiper to present the report of the Grades & Standards Committee. Mr. Keiper stated that the focus of the Grades & Standards Committee since the May meeting has been for the working group to develop regulatory language to support the motion at the May Board meeting to adopt procedures to allow for the inspection of walnuts after cutting or chopping. The working group has been engaged on this subject and has developed a draft which will, when finalized, be forwarded to USDA for approval. It is anticipated that the USDA review process will be between 90 and 120 days. However, we will ask USDA to consider this request as an interim final rule which will allow for immediate implementation upon receiving a favorable ruling versus implementation beginning the next marketing year.

Mr. Keiper commented that, as part of the review process, it has been determined that the Board should have a small modification to the motion that was passed at the May Board meeting. The one word change and deletion of two other words will bring the motion and desire of the Committee in line with each other. The Board members were presented with the motion language as proposed by the Grades & Standards Committee working group.

Mr. Keiper made a motion asking the Board to rescind the previous motion passed at the May Board meeting regarding inspecting after chopping and introduced the following wording as a replacement: "Product smaller than 8/64ths round hole screen will be certified to the standards of the product of the next larger size product and that the Board delegate authority to the working group to work with USDA to formalize the regulatory language and justification necessary to accomplish this through the informal rule making process." Mr. Gilbert seconded the motion and it carried unanimously.

Chairperson Siebert introduced Mr. Martin Mariani, CWB / CWC Treasurer, to give the report of the California Walnut Board and California Walnut Commission Audit Committees. Mr. Mariani stated that each entity created an Audit Committee to provide independent oversight for the Board and Commission. The Board Audit Committee consists of Mr. Mariani, Treasurer, Bob Lea, Donald Norene and Michael Petz. The Commission Audit Committee consists of Mr. Mariani, Treasurer, Bill Crain, David Skinner and Pete Turner. The first joint Committee meeting was held in July and at that meeting, they drafted a statement of purpose which provides and overview of the existence of the Committees and they approved a charter which delineates some specific functions the Committee will carry out. The committees will meet two times per year to review the financial statements of the Board and Commission.

Mr. Mariani read the proposed CWB/CWC Audit Committee Function: "The Audit Committee of the CWB / CWC exists to provide independent oversight for financial reporting, internal controls and auditors' activities. Through its charter, the Audit Committee shall review, document and make recommendations to the CWB / CWC as needed to strengthen internal controls, ensure accurate and timely financial reporting, and maintain sound business practices and a culture of strong moral and ethical behavior." Mr. Mariani asked the Board to approve the statement of purpose, the charter and to delegate authority to the Committee to approve policies without coming back to the Board. Mr. Keiper so moved, Mr. Lindauer seconded the motion and it carried unanimously.

Chairperson Siebert introduced Mr. Vic Tolomeo of the California Agricultural Statistics Services (CASS) to present the next agenda item, CASS Crop Report. Mr. Tolomeo indicated that the field work for the objective survey was conducted on 689 orchard blocks, two trees per sample, during the period of August 1 through August 25. Every 5<sup>th</sup> walnut on the selected branch was picked for size measurements.

Mr. Tolomeo showed a slide of how the bearing acreage and samples by variety have changed from 1999 through 2008. The total samples collected always equals about 650. He also showed a slide of the linear regression which is a way of taking measurements and converting them into the forecasted number. They use the percent sound, the number of acres, trees per acre, nuts per tree and weight per nut as the model for calculating the forecast. The regression analysis shows the final crop number versus the receipts from handlers.

Mr. Tolomeo stated that the walnut crop estimate for 2008/2009, released on September 4<sup>th</sup>, is 375,000 tons, projected to be a record crop. He showed a chart that graphs the objective measurement forecast against the final production.

The 2008 growing season had an adequate number of chilling hours, favorable weather during bloom, and moderate summer temperatures. Quality and sizes are looking good and damage from the April freeze is spotty. Nut sizes are up, including inshell weight, shell width, cross width and inshell length. A discussion ensued about sunburn damage and that the 12-foot ladders used in the sample collecting limit the reach to the tops of the trees where most sunburn occurs.

Mr. Carriere made a motion to approve the CASS Objective Forecast of 375,000 tons for the 2008/2009 crop year. Mr. Frazier seconded the motion and it carried unanimously.

Chairperson Siebert thanked Mr. Tolomeo for his presentation and introduced Mr. Balint to present the next agenda item, Review of Statistics. Mr. Balint stated that this year we saw some strength in growth in Germany, Spain and Israel. There was some softening of the markets in Japan and Korea. The exchange rate in Korea is not favorable and walnuts are going to cost more because of the exchange. We also are down in the Korean shelled market with the loss of the Home Shopping Network coverage.

Mr. Balint stated that ending inventory in July 2007 was just over 40,000 tons and for July 2008 we were at 32,000 tons, the lowest it has ever been. Shipments in 2006/07 utilized about 370,000 tons and for 2008 the shipment utilization was at just over 331,000 tons. Mr. Balint showed a schedule of competing tree nuts which indicates that hazelnuts are estimated to produce about the same as the previous year, pecans are down substantially as are pistachios, and the almond crop is estimated to be a record this year. In foreign walnut production, we do not have official numbers for China yet but estimates indicate it is about a 5 percent larger crop than last year. Estimates also indicate that France has a large crop this year, but small sizes. Mr. Balint then showed charts of U.S. imports of foreign walnuts, foreign exchange rates and the walnut supply and utilization. The total availability is projected to be up from just over 727,000,000 pounds in 2007/08 to 814,000,000 in 2008/09. Utilization is projected to increase from over 662,000,000 pounds in 2007/08 to over 715,000,000 in 2008/09. This would leave a projected inshell equivalent ending inventory of about 49,000 tons.

Mr. Balint then presented the Marketing Computation Policy table for the Board's review and recommendation following the report of the Export Committee. Chairperson Siebert called on Mr. Jack Gilbert to give the report of the Export Committee. Mr. Gilbert stated that the Export

Committee met the previous afternoon and it is their recommendation that no reserve and no minimum export price should be established. Mr. Carriere made a motion to accept the Export Committee recommendation of 100% free tonnage with no reserves and no minimum export price for the 2008/2009 crop. Mr. Petz seconded the motion and it carried unanimously.

Chairperson Siebert asked for a motion to adopt the Marketing Computation Policy as presented by Mr. Balint. Mr. Petz so moved, Mr. Frazier seconded and the motion carried unanimously.

Chairperson Siebert asked for a motion that parity will not be exceeded. Mr. Deardorff so moved, Mr. Petz seconded and the motion carried unanimously.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Budget and Assessment Review. Mr. Balint stated that the Board at the May 2008 meeting approved an assessment rate based on a budget that included a marketing research program based on the results of the Predictor study. That resulted in an assessment rate for the 2008/2009 crop year recommended to USDA of \$1.58 per hundredweight of shelled product. As it turns out, because of the uncertainty in the economy and changes in the buying patterns of consumers, coupled with our high prices, the Predictor model we re-ran with today's prices shows no return in investment, a temporary situation, but a situation that does not warrant spending any addition money on market research at this time.

Mr. Balint presented a new Board budget that will result in an assessment rate of \$1.31 per hundredweight of shelled product for the 2008/2009 crop year. Because USDA is in the process of approving the earlier recommended rate of \$1.58, there is some question about what the Board will have to begin billing at starting September 1, 2008 (the beginning of the new marketing year). Mr. Martin Engeler will get back to Mr. Balint and let him know USDA's decision on what rate the Board should bill.

Mr. Gilbert made a motion to approve the revised 2008/2009 budget as presented with an assessment rate of \$1.31 per hundredweight of shelled product. Mr. Frazier seconded the motion and it carried unanimously.

The next item on the agenda was the approval of the 2008/2009 Compliance Plan. Chairperson Siebert stated that all Board members should have received a copy of the compliance plan in the mail recently. Ms. Steindorf explained that she distributed a revised copy of the 2008/2009 Compliance Plan to the Board members that they will find on the table in front of them. This revised copy includes a recommendation from USDA to add a sentence to Sections 5.2 and 5.3 on page 11, stating "File copies of letters in individual handlers' folders and assessment binders." Also, there is a typo on the bottom of page 4 where it reads "walnuts are inshell or inshelled." This will be changed to read "walnuts are inshell or shelled." Also, on page 7, Item J, the words "The Executive Director oversees all programs and is responsible for office management" were added.

Mr. Deardorff made a motion to approve the 2008/2009 Compliance Plan with the noted revisions as presented. Mr. Carriere seconded the motion and it carried unanimously.

Chairperson Siebert called on Mr. Balint to present the next agenda item, Status of Marketing Order Implementation. Mr. Balint explained that when the Board went through the process of revising the marketing order, there were 21 proposals presented to USDA. One of the proposals was for conformity which means the authority to change anything in the document to make sure it is consistent throughout. Despite that clause, we have a situation where we

need to make an adjustment because it was not presented in the final document. Mr. Balint turned the discussion over to Mr. Engeler to explain.

Mr. Engeler stated that the Board has before them a section of the rules and regulations in the marketing order (copy attached) that relates to how grower members can be nominated to fill a Board seat. This is something that has been part of the order for a long time, however, with the recent order amendments this sub-section of the regulations should also be changed to be consistent with the order. This change will bring the language in conformity with the changes to the order through the informal rule making process.

Mr. Frazier made a motion to adopt the marketing order language in section 984.437 as presented. Mr. Petz seconded the motion and it carried unanimously.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Block Grants. Mr. Balint stated that as a result of the Farm Bill, there is some money available in the form of block grants on a state-wide basis. The first bid in California was for a total of \$1.6 million split into four quadrants, one of which was nutrition, health and food safety with \$400,000 available. The Board applied for a grant, as did the Commission and Loma Linda University, and not surprisingly, all three were turned down. Mr. Balint has had a conversation with Secretary Kawamura who has pledged to find out as much as he can about the proposal submission process for the upcoming second wave of funding. We would like to know what we can do to improve our chances of funding approval.

Chairperson Siebert asked Mr. Balint to comment on the next agenda item, USDA/AMS Conference in Denver. Mr. Balint stated that as the Board members are probably aware, USDA has begun looking very closely at all marketing communications, brochures, websites, etc. for all federal programs. A conference call between 18 marketing managers took place back in early August to discuss the mutual problems and points of view of all the programs. As a result of that call, there is a letter being sent to USDA with recommendations about how to make the requirements fair and equal. USDA has also put together a conference for program managers to be held in Denver next week. Mr. Balint is attending along with the Board marketing staff and Dr. Siebert. He will report back any results at the next Board meeting.

The time and place of the next meeting will be determined by the Chair. Mr. Balint stated that the February Winter Meeting will be taking place at the Monterey Plaza Hotel in Monterey during the same week at the DFA meeting. We are combining the venues and organizing activities to minimize conflicts for those industry members who wish to attend both meetings.

Hearing no further business to come before the Board, Chairperson Siebert adjourned the meeting at 12:10 p.m.

I HEREBY CERTIFY that the above is a full, true and correct copy of the minutes of the meeting held on September 12, 2008, in Sacramento, California, by the Board of the California Walnut Board.

Date	Dennis Balint, Executive Director