

California Walnut Board

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JOINT CALIFORNIA WALNUT BOARD / CALIFORNIA WALNUT COMMISSION MARKET DEVELOPMENT COMMITTEE MEETING MINUTES

Tuesday – April 22, 2014
California Farm Bureau - Sacramento, CA

A joint meeting of the California Walnut Board and California Walnut Commission Market Development Committees was held on Tuesday, April 22, 2014 at the California Farm Bureau in Sacramento, CA. The meeting was called to order at 9:41am by CWB MDC Chairperson Jack Mariani and CWC MDC Chairperson Robert Lea. Ms. Anne McConico called the roll and established that a quorum was present.

CWB MDC Committee Members

Jack Mariani, Chairperson
Frank Guerra, Vice Chairperson
Bruce Beard
Bill Carriere
Lynn Morgan
Michael Petz
Lisa Warner
Steve Zaffarano

CWC MDC Committee Members

Robert Lea, Chairperson
Donald Norene, Vice Chairperson
Carl Cilker
Robert Driver
Jeb Headrick
Pat Mecklenburg
Bill Tos
Steve Zaffarano

CWC Committee members Mr. Carl Cilker, Mr. Robert Driver, and Mr. Jeb Headrick were absent. Also in attendance were Ms. Andrea Ricci of USDA/AMS, Mr. Chuck Crain of Crain Walnut Shelling, Ms. Kiran Black, of Sacramento Valley Walnut Growers LLC, Ms. Carol Berg-Sloan, RD and CWB/CWC staff members Mr. Dennis A. Balint, Ms. Michelle McNeil, Ms. Jennifer Olmstead, Ms. Jennifer Williams, Mr. Nate Samelson, Ms. Heather Donoho, and Ms. Anne McConico.

The first order of business was approval of the Joint CWB/CWC Market Development Committee Meeting minutes of April 30, 2013 by the CWB MDC committee members and approval of the CWC Market Development Committee Meeting minutes of November 11, 2013 by the CWC MDC committee members.

CWB MDC Chairperson Jack Mariani called for a motion to approve the minutes of the April 30, 2013 meeting as mailed. Mr. Carriere so moved. Mr. Guerra seconded. The motion carried unanimously.

CWC MDC Chairperson Robert Lea called for a motion to approve the minutes of the November 11, 2013 meeting as mailed. Mr. Tos so moved. Ms. Mecklenburg seconded. The motion carried unanimously.

CWB Chairperson Jack Mariani called on Ms. Carol Berg-Sloan to proceed with the next agenda item, New Health Research Proposal Reviews. Ms. Berg-Sloan presented four health research proposals. (1) *Walnut consumption synergizes with other whole foods: approaches to reduce chronic inflammation and metabolic disease*; Neil Shay, PhD, College of Agricultural Sciences, Oregon State University. A two year animal study with a total budget of \$85,800. Walnuts and other whole foods will be fed to rats to determine if the risk of symptoms or disease caused by consumption of the typical American diet is reduced. (2) *Walnuts as a key food in driving dietary change for weight loss*; Linda Tapsell, PhD Smart Food Center/Illawarra Health and Medical Research Institute, University of Wollongong, Australia. A three year human study with a total

budget of \$208,092. The study involves 100 participants between the ages of 25-54 with a chronic illness such as type 2 diabetes, hypertension, or a predisposition to cardiovascular disease. There will be three groups in this study. Group 1 will have routine visits/counseling with a doctor or nurse. Group 2, an intervention group, will speak with a dietitian and be involved in physical activity along with psychological/behavioral modification. Group 3 involves intervention, support, and the addition of walnuts in the diet. (3) *Using walnuts as a dietary supplement for metabolic and inflammatory protection against high saturated fat meals*; Jamie A. Cooper, PhD and Chad M. Paton, PhD, Department of Nutritional Sciences, Texas Tech University. A three year human study with a total budget of \$86,562. The study involves young healthy adults ages 18-35 because they tend to eat diets high in saturated fat. The study explores replacing saturated fats with walnuts to see if there is a decrease in the outcomes of eating meals high in saturated fat. (4) *Walnut consumption/attitudes and incident metabolic syndrome in a Japanese cohort population*; Yoshihiro Kokubo, MD, National Cerebral and Cardiovascular Center, Osaka, Japan. A two year data mining study with a total budget of \$17,300. Dr. Kokubo was involved in the 25 year Suita Study which required participants to return every two years and speak with a dietitian about the foods they've eaten and if they've consumed walnuts. A database was created which can be assessed against symptoms of metabolic syndrome of the participants that consumed walnuts. Dr. Kokubo would like to do an attitude assessment to see what the Japanese population knows about the health benefits of walnuts.

CWC MDC Chairperson Robert Lea called for a motion to approve the four health research study proposals presented by Ms. Berg-Sloan for amounts of \$154,494 from the 2013/14 budget, \$154,614 for the 2014/15 year and \$88,646 for the 2015/16 year for a total of \$397,754. Mr. Tos so moved. Mr. Norene seconded. The motion carried unanimously.

CWB Chairperson Jack Mariani requested Ms. Jennifer Olmstead proceed with the next agenda item, 2014/15 Domestic Program discussion. Ms. Olmstead said year-to-date shelled shipments are up 1.46%, inshell is down 21% and overall tonnage is on par with last year. Attitude and usage studies are conducted every 2-3 years assessing consumers' viewpoint and purchase intent regarding walnuts. 56% identified walnuts as a food containing omega-3s, which is double that of 4 years ago. Walnuts also ranked as the healthiest nut for the first time.

Ms. Olmstead briefly discussed the 2015 U.S. Dietary Guidelines and said sustainability is listed as an area of primary importance. The Food & Drug Administration (FDA) announced a proposal to redesign the Nutrition Facts panel highlighting calories. The California Department of Food & Agriculture (CDFA) is in the process of developing oversight rules relating to health claims made in marketing communications. She said plan assumptions for 2014/15 are a crop size of at least 481,000 tons; demand in overseas markets will continue to put pressure on the domestic market; health benefits will continue to be a top driver of purchase; education on usage is key; and food safety will continue to be important to consumers. Our strategy is to expand our target audience; narrow the overall focus of our message while underscoring walnuts' four key attributes; and utilizing key influencers to spread our message.

Both a public relations agency and an advertising agency Request for Proposal (RFP) are taking place. Finalists were interviewed last week with a final decision to be made in the next couple weeks. Ms. Olmstead presented potential communication strategies for the agencies.

CWB Chairperson Jack Mariani called for a motion to give staff the authority to approve proposed strategies and concepts once the agencies are selected. Mr. Carriere so moved. Mr. Zaffarano seconded. The motion carried unanimously.

CWC Chairperson Robert Lea called for a motion to give staff the authority to approve proposed strategies and creative concepts once the agencies are selected. Mr. Norene so moved. Mr. Tos seconded. The motion carried unanimously.

Ms. Olmstead discussed the proposed marketing plan by stating our intent to market to our target audience of consumers, health professionals, media, and foodservice professionals. The target audience will be a more balanced female/male ratio made up of nut users and young health minded consumers. We have a limited budget to reach an audience of 114MM and will target those within the group who will take action and spread our message efficiently.

Regarding public relations, impressions are up at 7.3 billion from 7.2 billion the previous year. Presenting the key attributes of walnuts' health, versatility, taste, and convenience will be important to our PR plan. Activities planned are the Harvest Tour; seasonal media pitches; and partnerships with high profile chefs and cookbook authors. Media outreach will take place during key times of the year such as February which is Heart Health month. Media events will be hosted at key tradeshow with opinion leaders such as Dr. Michael Roizen, Dr. David Katz and Dr. James Beckerman. Publication of health research studies will present another opportunity to reach out to the media on a regular basis.

To gain additional exposure, the Food for Your Whole Life event will be reworked into a public event featuring top US media doctors. The event will entail a round table panel discussion on current topics within the area of nutrition and health. Ms. Olmstead said we plan to host this as a televised event in cities such as New York City, Washington DC, or Detroit with a media partner.

In the area of advertising, we plan to expand our audience by focusing on light and non-users of walnuts; emphasize how to use walnuts; and continue to underscore the Heart-Check mark as an important component. We've pulled back on Natural Defenders of the Human Body campaign to develop a new concept which has been tested with consumers. The website had 466,000 hits in 2013 and consumers are more often visiting the website by mobile devices, with a 77% increase and tablets with a 45% increase. Social media is growing with Facebook fans reaching 5,106.

Media outreach continues in foodservice by way of Chef Consultant Trent Page, who continues to support us at tradeshow and through recipe development. We will continue the 'Trending' concept adding new executions. We are considering hosting another Culinary Institute of America Walnut Summit as well as attending the Research Chefs Association, Menus of Change and PlateNight conferences.

The health professional outreach involves a small advertising program in key publications targeting registered dietitians and nurse practitioners. We will be present at tradeshow that health professionals attend including the Academy of Nutrition & Dietetics Food Nutrition Conference & Expo, American Institute of Cancer Research (AICR), Dr. Roizen's Preventive & Integrative Medicine Conference, Pri-Med West, Dr. Weil's Nutrition & Health Conference, American Academy of Nurse Practitioners (AANP) and American Association of Diabetes Educators (AADE). We are networking with a small group of health professionals to assist us by way of communications to clients and patients. The group is currently made up of 4 dietitians and 1 nurse.

Ms. Olmstead mentioned a plan to work with HealthCorps by sponsoring 4 schools in California where coordinators will be placed at schools and teach fitness, nutrition and mental resilience. HealthCorps also plans to partner with four California NBA teams. This partnership gives HealthCorps exposure as well as an opportunity for exposure to walnuts during half time shows. Ms. Olmstead stated the cost is minimal when compared to working directly with the NBA.

CWC Chairperson Robert Lea called on Ms. McNeil to proceed with the next agenda item, 2015 Export Program Discussion. Ms. McNeil said exports accounted for 62% of shipments last year with a total export value of \$1.2 billion. Currently the largest markets are China, Germany, Japan, Korea and Turkey. Inshell shipments are down due to a decline in the Chinese market however there is resurgence in the European market. Planning assumptions are the MAP program will hold at \$200 million (although the program allocations will continue to decline with FAS program and administrative costs rising); production will be stable with a crop estimate of 481,000 tons; MAP funding will be optimized with emphasis on emerging markets; the industry contribution will continue at 85%; and the currency markets will remain steady.

FAS requires we conduct tracking studies against performance measures and these are trending favorably. Ms. McNeil reviewed the market development selection criteria against potential new markets Russia, Malaysia and Indonesia. In Indonesia the government placed a ban on imports. This presents access issues for us therefore it would be inadvisable to move forward. The mature markets are South Korea, Japan, Germany, Spain and the EU regional program and emerging markets include China, India, Turkey, Russia and Malaysia. Our core targets are consumer, key opinion leaders and trade. Key message points of California origin, quality, taste, health, versatility are used with all audiences. Trade and food service activities seek to increase availability, distribution and usage of walnuts.

In Korea there is continued pressure from competitors including the Chileans. This makes it important to maintain activities in Korea. Advertising includes print, digital, MegaBox 2, and outdoor ads in Seoul and Busan subways and buses. Ms. McNeil stated the health communications program in Korea involves attendance at health care professional conferences and hospital lectures. We will also work with ICAN to develop materials providing nutrition information for children. Public relations activities include reaching the consumer through Facebook, Pinterest, and the private social network Band. Media tie-ins involve the Men's Health Cool Guy competition and developing sports partnerships. Tie-in promotions are key in reaching consumers to promote walnuts during peak seasons in bakery chains and retail outlets. Retail sale contests continue to generate a favorable return on investment with retailers competing to move the most volume. The Product of the Year contest continues to showcase new walnut products. Ms. McNeil said for food service we plan to collaborate on a sampling program with Nutriand. In addition, we will work with the Agricultural Trade Office (ATO) culinary camp to showcase walnuts with up and coming chefs.

Ms. McNeil spoke briefly about the European Union stating that we are heavily leveraged in the retail sector. The program goal is to expand industrially within the region and develop relationships with trade sector contacts. There has not been a great deal of volume however we plan to continue the outreach through targeted trade shows, technical seminars and one on one meetings. The Quality Samples Program (QSP) will be leveraged to utilize walnut samples for activities in this region.

In Germany digital advertising will be conducted through year round Google displays, AdWords and seasonal ad rotations. Social media includes Facebook, Pinterest and YouTube. The PR program entails seasonal media pitches and media cooperations with targeted publications such as Vital, and Diabetic Living. The walnuts website in Germany is a core element in reaching out to consumers monthly and quarterly to health professionals. Health professional engagement will also involve attending the FENS European Nutrition Conference in Berlin, working with the INC since several Scientific Advisory Council (SAC) members will be in attendance.

Public relations in Spain will include pop-up events for the National Day of Nutrition, participation in the women's race and tie-ins to feature walnuts on cooking programs such as Master Chef which has 28 million viewers, representing 63% of the population in Spain. The Spanish Society of Diabetes, Spanish Society of Cardiology and VI Congress of Spanish Association of Nutrition, Food & Dietetics Society are some key conferences we plan to attend. We will conduct a year round Google advertising campaign as well as social media content on Facebook, Pinterest, Spotify and YouTube to drive traffic to the website. Original recipes will be developed by way of a blogger cooking challenge.

In Japan, online and offline promotions will be targeted toward the media through media tie-ins, paid publicity, and Facebook and Twitter. In the baking sector the Walnut Bread of the Year contest continues to generate favorable results and involves consumers and trade. In the bakery sector seminars are reaching a new generation of chefs and bakers.

Ms. McNeil then discussed the emerging markets. This year in China we are working with a new public relations firm, Weber Shandwick. The agency is charged with ramping up direct consumer communications and has begun a campaign via Weibo to reach out to consumers and key opinion leaders. A series of

educational promotions positioning health and taste content moved our fan base from 400 to 66,000 fans this past year. We are also working with a new advertising agency, Grey-China, who is charged with increasing consumer engagement. Trade print advertorials continue in the bakery and confectionary sectors. We will participate in key tradeshow including the China Tree Nut Association because it is closely aligned with the Chinese government as well as being involved with recommendations concerning potential imposed rules. Competitions will be held targeting the baking and snacking sectors. Bakers will be asked to develop 8 to 10 new products and the snacking sector to develop 5 to 6 new products to showcase. Ms. McNeil said retail promotions are challenging because packaging does not include origin. We will work with a key partner in Hong Kong to promote California walnuts in mainland outlets where the product reaches the market directly.

Ms. McNeil stated that we are just a few months into our program in India and that it will take time to develop. India has a population of 1.3 billion of which 150 million are middle class. The peak walnut consumption period is between September and January and domestic walnut consumption is increasing. Exposure to international products is growing along with the western lifestyle. This past year we conducted consumer research in Delhi and Chennai to assess consumer attitudes. The consumer purchase frequency is stronger in Delhi than Chennai. Key uses are as a home baking ingredient and in salads. Walnuts are considered a healthy addition to the diet. Ms. McNeil said our trade program will partner with the India Bakers Association to conduct seminars as well as participate in tradeshow. Retail tie-in promotions will target the regions of Delhi, Mumbai and Bangalore. Ms. McNeil explained we plan to expand activities in India because we anticipate an increase in distribution of product in the market.

Ms. McNeil said the current political environment in Russia is challenging due to sanctions which could affect trade. Population is 143MM with 104MM middle class. 3,500 metric tons of walnuts are grown in Russia for private consumption. The tree nut sector is growing and the walnut share accounts for 26%. The majority of imports come from the commonwealth independent states such as the Ukraine, with small amounts from China and Turkey. Ms. McNeil said currently the import duty is 5%; consumption is projected to increase 5% annually; 40% of the Russian income is spent on food and non-alcoholic beverages; 60% of nuts are used by the confectionary, baking and dairy industries and the remaining 40% on snack production; and the Central Federal District accounts for 34% of retail sales in Russia. Consumer research found 30% of consumers are using more walnuts than a year ago and top walnut products purchased are bakery items, cakes/cookies and chocolates. When consumers were asked why they purchase walnuts they said because walnuts are healthy, taste good and are nutritious. California/USA origin is not a motivating factor for purchase. Trade research findings were similar to that of the consumer findings in terms of health benefits, taste, size, value and quality as drivers for market expansion and purchase. The trade is aware of California/USA quality, however at a higher cost. Walnut use is increasing as an ingredient in the food processing sector. There is currently a 5% duty and no trade sanctions. However, this could change. Ms. McNeil recommends a market development trip to obtain firsthand trade knowledge and look into concerns about government stability before moving into the Russian market. If the visit is favorable Ms. McNeil suggests a provisional program for the market in the fall of 2015.

An RFP for the program in Turkey will be placed in May with the program beginning in September 2014. Ms. McNeil stated consumer research found walnuts are the nut purchased most often by 85% of consumers who are likely to purchase if aware that walnuts reduce the risk of heart disease, metabolic syndrome, protect against Alzheimer's and reduce cholesterol, and that a handful could improve health. Top uses for walnuts are as a home baking ingredient and a healthy addition to the diet. Origin awareness is low at 6%, with 89% stating they don't know where the product originates because it is sold in bulk. Ms. McNeil said promoting origin would be key in this market on both the consumer and trade sides. Cookies, cakes, Baklava and bakery items containing walnuts are purchased by consumers. Trade research found the demand for walnuts increases 10-25% annually; consumption is strong due to health benefits; awareness of California/USA is favorable. Ms. McNeil explained the program would entail year round communications promoting origin awareness and health benefits. She suggested conducting media events, tie-ins and paid publicity as well as a media tour to California. Key elements to the trade program are trade education, technical seminars for industrial/food service and an origin campaign with retailers and wholesalers.

Ms. McNeil proceeded with the Malaysia market overview. She said Malaysia has a population of 29.6MM consumers and is culturally diverse with Indian, Chinese and Malay. 60% of the population is Muslim. The middle class is estimated at 61% and income disparity is high with 25% having significant wealth. Food accounts for 25% of the household consumption; 70% of the food is imported; and the tree nut sector grew 19.3% from 2009 to 2012. There is no duty importing to Malaysia. A Malaysia Federal Marketing Authority study shows that origin and food safety are an important criteria for purchase. Projected growth is rated at 10% over the next 3-5 years. 75% of walnuts consumed in Malaysia come through retail channels. The Malaysia Ministry of International Trade & Industries (MITI) along with leading manufacturers such as Unilever are creating a global halal food hub to serve the \$560 billion halal processed food market which could present some interesting potential opportunities for walnuts. Currently the food service sector is valued at \$5-\$6 billion and is growing 7-10% annually. Tourism is the 2nd largest industry and walnuts consumed via this sector remain small with opportunity for growth within the sector. Ms. McNeil said there is much more to learn about the market and recommends a market feasibility study using the Emerging Markets Program. This would provide an opportunity for further discussions within the trade sector to determine the retail, food processing and industrial food service opportunities along with consumer attitudes and purchase behavior.

CWC Chairperson Robert Lea called for a motion to approve export marketing program inclusive of strategy and creative. Ms. Mecklenburg so moved. Mr. Tos seconded. The motion passed unanimously.

CWB Chairperson Jack Mariani proceeded to the next agenda item, Review & Approval of Proposed Budgets. Ms. Olmstead gave a brief domestic budget overview. She said we pulled back on the advertising program in order to refine new concepts which will save \$1.4MM for the Board this year. Instead of holding the Food for Your Whole Life Symposium we plan on conducting a public event next year which saves \$500,000 for the Commission.

Ms. McNeil gave a brief export budget overview noting a decrease in spending in Europe. She did not anticipate resistance because a high level of direct to consumer activity and engagement with the trade will be maintained. She said we are also taking a decrease in Japan however, during her visit in July she will talk the trade through strategies to maintain our budget in the market. In Korea the budget recommendation is on par with last year due to increased competition therefore we will need to keep the level of origin in front of the consumer. China has a small budget increase because we've brought on an advertising firm to reach directly to the consumer. In anticipation of market growth in India we will expand core activities including public relations, tie-in promotions and trade activities. We will spend incrementally in Turkey against some of the core activities to grow our presence in the market. She said the Russia program is introduced as a provisional activity pending the outcome of our visit. If successful the program is targeted to start in September of 2015. We plan a feasibility study for Malaysia through the Emerging Markets Program (EMP). She said we also have allocations pending for the 2014 Quality Samples Program (QSP) and EMP. Ms. McNeil summarized the budget as a 2015 MAP request of \$5,819,500, CWC funding of \$4,464,000, for a total program budget of \$10,283,500.

CWB MDC Chairperson Jack Mariani called for a motion to approve the proposed 2014/2015 California Walnut Board domestic marketing budget of \$5,742,000. Ms. Morgan so moved. Mr. Petz seconded. The motion carried unanimously.

CWC MDC Chairperson Robert Lea called for a motion to approve the proposed 2014-2015 California Walnut Commission domestic marketing budget of \$2,307,450. Ms. Mecklenburg so moved. Mr. Zaffarano seconded. The motion carried unanimously.

CWC Chairperson Robert Lea called for a motion to approve the proposed 2015 California Walnut Commission export marketing budget of \$4,464,000 and a MAP proposal of \$5,819,500 for a total California Walnut Commission export marketing budget of \$10,283,500. Mr. Tos so moved. Ms. Mecklenburg seconded. The motion carried unanimously.

CWB MDC Chairperson Jack Mariani moved to the next agenda item, Other Business. Mr. Balint invited Ms. Andrea Ricci of USDA/AMS to clarify the potential referendum problem in which ballots were not received by growers in a timely manner. Ms. Ricci explained that some of the ballots for the referendum on continuation of the California Walnut Board were mailed on March 31st but only received the week of the April 14th. She said if an influx of ballots are received after the postmark date the referendum would have to be conducted again and this decision would be made in Washington DC. Ms. Ricci said she will start tabulation on April 29th and the referendum results should be available by the middle of May.

An Executive Session was not required. Time and place of the next meeting will be determined at a later date. Hearing no further business the meeting was adjourned by CWB MDC Chairperson Jack Mariani and CWC MDC Chairperson Robert Lea 12:40pm