

Walnut Marketing Board

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REVISED

WALNUT MARKETING BOARD MEETING MINUTES

Thursday, May 31, 2007

***Radisson Hotel
Sacramento, California***

A meeting of the Walnut Marketing Board was called to order by Chairperson Dr. Siebert at 9:30 a.m. The roll was called by Executive Director Dennis Balint. Mr. Balint advised Chairperson Siebert that a quorum was present. The following members and alternates were present:

Members:

Jerome Siebert
William Carriere
Al Bonturi
Earl Lindauer
Jack Mariani
Jim Frazier Jr.
Earl Perez
Jerry Moore
William Waggershauser
Sam Keiper

Alternates:

R. Donald Norene
Walter Deardorff
Phillip Short
Pete Turner
Stephen Giovannoni

Jack Gilbert

Board alternates Janet King, Bill Tos, Michael Petz and Gary Ford were absent.

Also in attendance were Mr. Duane Lindsay, CWC Technical Advisor; Dr. David Ramos, WMB Research Director; Ms. Shereen Marino of USDA/AMS; and Mr. Pat Ferriera of DFA.

Chairperson Siebert called for a motion to approve the minutes of the February 23, 2007, meeting as mailed. Mr. Frazier so moved and Mr. Carriere seconded. The motion carried unanimously.

The next order of business was the appointment of an alternate public member. Dr. Siebert explained that Dr. Janet King is no longer serving as the alternate public member and Karen Klonsky, cooperative extension specialist at U.C. Davis, has been recommended to take Dr. King's place. Dr. Siebert asked the Board for a motion to appoint Dr. Klonsky or for other

nominations. Mr. Lindauer made a motion to appoint Dr. Karen Klonsky as the alternate public member to the Board. Mr. Frazier seconded the motion and it carried unanimously.

Dr. Siebert explained that Dr. Klonsky conducts all the cost studies with the department advisors and has a good reputation with the farm advisors. Dr. Siebert asked Mr. Balint to present the next agenda item, Adoption of Mission Statement.

Mr. Balint stated that several recommendations came about as a result of a compliance audit from USDA and our own internal audits, some of which we will be addressing today and the rest will be gradually put into place over the next twelve months. The first is a mission statement (copy attached) that was recently approved by the Walnut Marketing Board's Budget and Personnel Committee. The mission of the Board is to improve economic demand for California walnuts, specifically by improving the trade environment through the use of appropriate activities. These activities include, but are not limited to, production research, market development and economic analysis.

Mr. Frazier made a motion to accept the Walnut Marketing Board Mission Statement as presented. Mr. Moore seconded the motion and it carried unanimously.

Dr. Siebert introduced Mr. Jack Mariani to present the next agenda item, report of the Market Development Committee. Mr. Mariani stated that he will present the ongoing domestic activities and then Ms. McNeil will present the activities for 2007/2008.

Mr. Mariani began by explaining that the CWC funded several activities this year, including print advertising, continuing education for health professionals, health research, PR and health professional outreach. The Board conducts the core public relations programs including press releases and media tours. We had a record year in 2005/2006 with 3.8 billion media impressions. Seventy-four percent of impressions come from magazines and print media, twenty-three percent from on-line. The on-line segment is growing and will become even more important in the future.

In April, the industry launched a recipe contest which was kicked off in New York by Ellie Krieger who has a show on the Food Network. We also participated in several conferences this year and have a few more scheduled over the coming months. In June we are participating in the American Academy of Nurse Practitioners; in July, the School Nutrition Association show; in September, the American Dietetic Association conference; and finally, in November, the American Institute for Cancer Research conference in Washington D.C.

The *Kids on the Farm* program launched in May and ninety-nine percent of the U.S. PBS stations carried an episode. We are also continuing outreach to educators through the producers of the show and through the National Foundation for Ag in the Classroom.

We have had two studies published so far during this fiscal year, one from Rebecca Corwin at Penn State on bone health, and the other from Dr. Ros on the effects of high fat meals enriched with walnuts. Dr. Ros' study was published in the *Annals of Internal Medicine* and it had fairly high media value.

In print advertising, our budget is small and spread thin, so staff is considering narrowing the focus in order to have more impact on target groups. The continuing education program for health professionals is in the final stages of website development. We expect a fall 2007 launch of the program.

Mr. Mariani introduced Ms. McNeil to present the 2007/2008 activities. Ms. McNeil explained that in the coming year, the focus will be on a few key areas that we know are contributing to our overall success. In the fall and spring we will be conducting media tours. We

will identify a new spokesperson beyond Dr. Roizen and Dr. Oz who will have a reach across the broad age range of our target audience. We will continue to work with Dr. Roizen and Dr. Oz who continue to promote the healthy benefits of walnuts.

Based on our Strategic Planning that took place in January, we will continue to target appropriately, focusing our activities on shelled growth. We are also looking to target the younger end of our target age range, the 25- to 35-year-olds, by drawing them into our website and providing them with information that will continue to bring them back to the site. We will continue our outreach to health professionals by expanding the dialogue and conventions that we are participating in. Our focus will continue to be taste versus versatility and health. Health remains the activity that leverages our messaging. Health research plus the public relations conducted to promote those studies enables us to increase website activity.

Other key activities include special web-based programs with an emphasis on snacking designed to drive target groups to our website. We are also developing new nutrition brochures this year and we will be participating in the media tour with Dr. Oz and Dr. Roizen. We are also continuing our attendance at health professional conventions, including the American Diabetes Association, the American Nurse Practitioners and the American Dietetic Association.

This concluded Ms. McNeil's report on the marketing activities for 2007/2008. Mr. Balint commented that health research plus public relations equals web hits is just a small part of the formula when it comes to promoting health research studies. He stated that there is a direct relationship between the number of studies of high media value that publish and our success in the marketplace. Timing publications to our benefit is difficult, however. There may be periods of time where nothing occurs for several months and then three or four studies may publish in rapid succession. We are trying to work on that to assure a better flow into the market, if at all possible.

Mr. Mariani stated that at the recent Market Development Committee meeting, the committee labored long and seriously over the budget and the projects that were presented to them, being mindful and cautious about the assessed dollars available to them. With all the excellent opportunities available for the coming year, the committee unanimously voted to increase the budget to accommodate the marketing activities.

Mr. Mariani made a motion to recommend to the Board a Market Development budget for 2007/2008 of \$2,002,000. Mr. Frazier seconded the motion and it carried unanimously.

The next item under Market Development was the Adoption of the Strategic Plan. Mr. Balint stated that in January, the Board and Commission met for two days to discuss a variety of topics including production strengths and weaknesses, production and post-harvest research, market development, health research, and every component of what the Board and/or Commission do. They also made judgments about what influence the Board or Commission could have over each activity through interaction with governments, foreign or domestic. The Strategic Plan that was developed from this meeting was put together and sent out to the Board and Commission for their review. The Commission Executive Committee has already adopted the Strategic Plan and it is the recommendation of the Board's Budget and Personnel Committee to also adopt the plan.

Mr. Moore made a motion to adopt the Strategic Plan as mailed to all members. Mr. Perez seconded the motion and it carried unanimously.

Chairperson Siebert introduced Mr. Lindauer to present the report of the Production and Post-Harvest Research Committee. Mr. Lindauer stated that the Committee met on February 13, 2007 and approved 17 projects which were presented to the Board in February and

approved at that time. The Board also delegated authority to the Production and Post-Harvest Research Committee to recommend projects directly to USDA.

The Committee met again on April 5, 2007 and approved two additional projects and corrected the budget amount on one that was previously approved. The correction was for the consulting contract which should have been \$6,200, but were approved at \$6,000. The Committee approved the additional \$200 for consulting contracts along with \$140,000 for a genetic mapping project and \$14,000 for a water quality project. This brought the total for the projects approved to \$649,244. USDA has already approved the projects and amounts as presented.

Mr. Lindauer stated that the Production and Post-Harvest Research Committee is recommending to the Board a budget for 2007/2008 of \$650,000 and he made a motion to that effect. Mr. Waggerhauser seconded the motion and it carried unanimously.

Mr. Lindauer made a motion for the Board to delegate authority to the Production and Post-Harvest Research Committee to recommend research projects directly to USDA for the 2007/2008 marketing year. Mr. Keiper seconded the motion and it carried unanimously.

Mr. Lindauer asked Mr. Duane Lindsay to give the update on the methyl bromide critical use exemption. Mr. Duane Lindsay stated that the MBTOC Committee wants to cut our 2009 critical use exemption by 20 percent; that is in addition to the 20 percent they have already cut. We have presented letters to EPA expressing the problems the walnut industry has with sulfuryl fluoride as a replacement for methyl bromide. There have been handlers who have tested sulfuryl fluoride and have found that they used considerably more product which results in a higher cost; another handler had problems with live infestation following fumigation with sulfuryl fluoride. There is also information that sulfuryl fluoride is also an ozone depleter, ranked at a considerably higher level than methyl bromide. We are hopeful that the additional information we have provided to EPA will result in a full critical use exemption for methyl bromide.

Chairperson Siebert called on the Grades and Standards Committee co-chairpersons, Mr. Pete Turner and Mr. Steve Lindsay, to present the report of that committee. Mr. Turner stated that the Grades and Standards Committee met prior to this meeting to discuss two major issues: the first, increasing the shelled pound lots from 1,000 to 5,000 pounds; and second, the issue of walnut meal and inspections.

Mr. Steve Lindsay continued by stating that presently the DFA inspection manual authorizes an analysis of 200 grams for every 1,000 pounds of shelled walnuts or every half hour, whichever is less. The Committee would like to recommend modification of the DFA manual to reflect one test of 200 grams for shelled lots up to 5,000 pounds. They would also like to increase the floor stock tubs to a maximum of 5,000 which would allow the combining of bins and pallets or tubs.

Mr. Keiper made a motion for the Board to accept the recommendation to modify the DFA inspection manual as put forth by the Grades and Standards Committee. Mr. Mariani seconded the motion and it carried unanimously.

Chairperson Siebert stated that the Board needed to return to agenda item F(2), the update on the Health Research and New Marketing Initiatives, as it was skipped over earlier. He introduced Ms. Carol Sloan to make the presentation (copy of presentation attached).

Ms. Sloan started by presenting the two health research studies that recently published: a study from Penn State on bone health which received high media value; and a small study with low media value, also from Penn State, on anti-inflammatories in blood. She also explained that there are six publications pending, including: one from Loma Linda on the effect

of fatty fish versus walnuts on serum lipids; a study from Dr. Elaine Hardman, co-funded by the American Institute for Cancer Research, on the effect of walnuts on breast cancer; another from Dr. Terry Hartman at Penn State on prostate and vascular health; an antioxidant study from Dr. Haddad at Loma Linda; an endothelial cell function study from Dr. West at Penn State; and finally, a small off-shoot study from a larger study by Dr. Kris-Etherton at Penn State looking at chronic disease states.

Ms. Sloan then presented information on the nine health research projects currently in progress. They are: a cognitive function project from Dr. Joseph at Tufts University; a study on satiety and energy balance in diabetic patients from Dr. Tapsell at the University of Wollongong; another diabetes study being conducted by Dr. Hu at Harvard University using a huge database from their School of Public Health; a study from Dr. Mukherjea and Dr. King on the effect of walnut consumption during pregnancy and lactation; another diabetes related study from Dr. Tapsell; a study from Dr. Christos Mantzoros at Harvard on the effects of walnut consumption on metabolic syndrome; an antioxidant study from Dr. Diane McKay at Tufts University; a cardiovascular disease study from Dr. Emilio Ros at the University of Barcelona; and finally, a study on the effect of walnuts on Alzheimer's disease from Dr. Chauhan.

There are eight newly funded projects for the coming year covering a wide range of health issues, including: endothelial function in diabetic patients; antioxidants and cardiovascular risk factors; prostate, ovarian and breast cancer; and cognitive performance.

Mr. Keiper asked Ms. Sloan how she determines the media value of low, moderate or high. Ms. Sloan explained that it is partially based on the history we have with the research and previous projects, but that it is also based on whether the subject matter is cutting edge and will find a niche within the media.

Chairperson Siebert asked Mr. Balint to cover the next agenda item, Review of the 2006/2007 Supply and Demand. Mr. Balint reviewed the current shipment report which showed that the industry is doing very well in domestic shelled. Almost all the inshell markets were down this year. Overseas shelled markets had increases in Spain, Italy and Australia. Japan is down about 1.5 million pounds in shelled, however, Hong Kong and China were up by about 800,000 pounds. We know most of that product is going into Japan. Korea is doing well, up about 1.6 million pounds.

Mr. Balint commented that projecting utilization and inventory trends is difficult this time of year. For 2005/2006 we ended with 66,000 tons and we will end this year with minimal inventories as well.

Chairperson Siebert moved on to a series of Resolutions to present to the Secretary for approval. The first was the authority for the Executive Director to execute research contracts. Mr. Frazier made a motion to approve the resolution, Mr. Carriere seconded the motion and it carried unanimously.

The next resolution was agenda Item K, authority for the Executive Director to execute market development and health research contracts. Mr. Keiper made a motion to accept this resolution. Mr. Frazier seconded and the motion carried unanimously.

Next was the resolution giving authority to the Executive Director to execute research contracts with the Department of Pesticide Regulation. Mr. Perez moved to accept the resolution, Mr. Lindauer seconded and the motion carried unanimously.

Chairperson Siebert called on Mr. Mariani to give the report of the Budget and Personnel Committee. Mr. Mariani stated that at the recent meeting of the Committee, they approved the mission statement and Strategic Plan along with a few other administrative procedures as

recommended by the USDA compliance audit, including the adoption of a purchase order policy for staff and the creation of a formal cost sharing agreement with the California Walnut Commission. These will be covered in further detail by Mr. Balint later in the meeting. The Budget and Personnel Committee also approved the recommendation from the compliance audit to form an Audit Committee to monitor the financial activities of the Walnut Marketing Board.

Mr. Mariani stated that the Budget and Personnel Committee approved for recommendation to the Board an overall budget for the 2007/2008 marketing year of \$3,777,120 with an assessment rate of \$1.22 per hundredweight of shelled product. Mr. Mariani made a motion to the Board to approve the budget and assessment rate as put forth by the Committee. Mr. Lindauer seconded the motion and it carried unanimously.

Chairperson Siebert presented the next agenda item, a resolution recommending for the approval of the Secretary a compliance plan for the 2007/2008 marketing year and authorizing the Executive Director to make controlled buys. Mr. Keiper made a motion to adopt the resolution, Mr. Moore seconded and the motion carried unanimously.

The next resolution was the approval to allow the Executive Director to obtain outside legal counsel on personnel matters and on the use of our health claim. Mr. Lindauer made a motion to approve the resolution. Mr. Carriere seconded the motion and it carried unanimously.

The final resolution was the approval to allow the Executive Director to obtain outside legal counsel to review general contracts. Mr. Carriere made the motion to approve the resolution. Mr. Bonturi seconded the motion and it carried unanimously.

Chairperson Siebert called on Mr. Balint to present item R, Appointment of Treasurer and Secretary. Mr. Balint stated that the recommendation from the compliance audit is that the Board appoint a treasurer and secretary. The Commission will do likewise when it meets in September. The Secretary's position is to oversee the minutes and other records of the Board. The Treasurer's role is to chair the Audit Committee. The Treasurer should not be a member of any committee nor should the members of the Audit Committee. The Treasurer and Audit Committee will oversee the full Board, the standing committees and staff. The Treasurer's role will include reviewing information quarterly, such as bank statements and credit card expenses to make sure everything is in order. Staff, with Board approval, will be developing policies on travel as a guideline for the treasurer to measure our compliance.

Ms. Marino suggested that the Board first make a motion to create the Audit Committee which would include the positions of Treasurer and Secretary. Mr. Frazier made a motion that the Board establish an Audit Committee and the positions of Treasurer and Secretary. Mr. Keiper seconded the motion and it carried unanimously.

Mr. Balint stated that the next step is to nominate candidates for the positions of Treasurer and Secretary. Then with their direction, the Board may select the members of the Audit Committee at the next Board meeting.

Mr. Keiper nominated Mr. Martin Mariani for the position of Treasurer. Hearing no other nominations, the Board unanimously appointed Mr. Martin Mariani to the position.

Mr. Perez nominated Mr. Keiper for the position of Secretary. Mr. Jack Mariani commented that the Secretary cannot serve on any other committees besides the Audit Committee. Mr. Keiper withdrew his name from nomination. Mr. Perez nominated Mr. Lindauer for the position of Secretary. Mr. Lindauer likewise withdrew his name from nomination.

Hearing no other nominations, the Board decided to consider additional members for nomination to the position of Secretary over the coming weeks and revisit the issue at the meeting in September.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Policy and Procedures Review and/or Adoption. Mr. Balint explained that adoption of policies, procedures and codes is motivated by both the private audit and the USDA compliance audit. In auditing other commodity boards here in California, USDA found some questionable activity that resulted in many commodity boards reviewing their policies and procedures and making changes as necessary. With that in mind, Board staff would like to present several issues relating to policies and procedures of the Walnut Marketing Board for review.

The first issue presented by Mr. Balint was the purchase order policy. This is simply to put controls in place on purchases and is one item that the Treasurer will periodically review. The procedure (copy attached) is simple and straightforward and will require a purchase order on any acquisition over \$100 to be signed off on by the Budget Director and Executive Director.

Mr. Frazier made a motion to adopt the purchase order policy as presented by Mr. Balint. Mr. Bonturi seconded the motion and it carried unanimously.

The next issue for discussion was the relationship between the Board and the California Walnut Commission; the cost sharing policy (copy of policy attached). Mr. Balint read the policy to the Board. It essentially states that operating expenses will be split 50/50. Marketing, research and other vendors will be paid by the contracting entity, either the Board or the Commission.

Mr. Keiper made a motion to adopt the cost sharing policy as presented by Mr. Balint. Mr. Carriere seconded the motion and it carried unanimously.

The next issue Mr. Balint presented was the change to the employee handbook. Currently, the section on disability reads that all regular, full time employees are paid for by the employer. Short-term disability is also provided, however, it's contributory. Staff would like to change it to all regular, full-time employees are eligible for long-term disability insurance with premium paid by the employer, and all employees are provided short-term disability beginning the first day of employment with premium paid by the employer. Mr. Stefani stated that the annual cost associated with this change would be about \$1,100.

Mr. Carriere made a motion to adopt the change to the handbook as presented by Mr. Balint. Mr. Perez seconded the motion and it carried unanimously.

Mr. Balint commented that Mr. Stefani had mailed to the Board members a booklet of information on the other issues for discussion, Code of Ethics, Conflict of Interest and Self Inspection Audit Policy. These are policies and procedures that we will evaluate and implement over time.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Report of the Marketing Order Revision Committee. Mr. Balint commented that the Committee has had no further activity since the proposals were submitted to AMS and the subsequent hearing took place. We are now waiting for the referendum which will probably take place sometime in early July. The Walnut Marketing Board will do a mailing as soon as we learn the exact date of the referendum. Mr. Balint asked Ms. Marino if the votes on the referendum ballot will be an "all or none" vote or if the grower will be able to vote for each individual proposal. Ms. Marino indicated that the ballot will be set up for the person to vote for each proposal individually.

Mr. Ren Fairbanks asked about the proposal that talks about the inspection agency in the new order. He thought it would allow for DFA to provide the same type of inspection service as USDA. Mr. Balint commented that the change in the marketing order only gives the power to select an alternative inspection service; it does not say which service. We will approach AMS through informal rulemaking when we get to the point of recommending an inspection alternative.

Chairperson Siebert moved on to agenda item U, Realignment of Committees. Mr. Balint presented a policy for appointments to major standing committees (copy of policy attached). He commented that when he and Chairperson Siebert began to look at committee structure, they realized they would need people who were not serving on other committees to serve on the Audit Committee. They came up with a policy that would allow for broad representation of Board and Commission members and alternates on all committees. This policy was adopted by the California Walnut Commission Executive Committee on May 23, 2007.

Mr. Keiper made a motion for the Board to adopt the Policy for Appointments to Major Standing Committees. Mr. Frazier seconded the motion and it carried unanimously.

Mr. Balint stated that the next meeting of the Board and the newly elected Commission will take place sometime in the first week or two of September. The Board meeting will consist of acceptance of the crop estimate; also, the Export Committee will meet to make their recommendations to the Board on free and reserve tonnage and parity price. The newly seated Commission will meet in the afternoon following the Board meeting.

Mr. Perez asked Mr. Balint if the Walnut Marketing Board carries adequate B&O insurance. Mr. Balint commented that in light of certain situations that have occurred with other Boards and Commission, the answer is probably not. He and staff will research that issue and report back in September.

With no further business to come before the Board, Chairperson Siebert adjourned the meeting at 11:10 a.m.

I HEREBY CERTIFY that the above is a full, true and correct copy of the minutes of the meeting held on May 31, 2007, in Sacramento, California, by the Board of the Walnut Marketing Board.

Date

Dennis Balint, Executive Director