

Walnut Marketing Board

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WALNUT MARKETING BOARD MEETING MINUTES

Friday, September 14, 2007

Radisson Hotel

Sacramento, California

The Walnut Marketing Board met on Friday, September 14, 2007, at the Radisson Hotel in Sacramento, 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:

William Carriere

Alfred Bonturi

Earl Lindauer

Jack Mariani

Jim Frazier

William Waggerhauser

Sam Keiper

Jerry Siebert

Alternates:

Phillip Short

Pete Turner

Stephen Giovannoni

William Tos

Michael Petz

John Gilbert, Sr.

Gary Ford

Karen Klonsky

Board Members Jerry Moore and Earl Perez and Alternate Board Members Donald Norene and Walter Deardorff were absent. Mr. Tos sat in for Mr. Perez and Mr. Petz sat in for Mr. Moore.

Also in attendance were Mr. Duane Lindsay, CWC Technical Advisor; Dr. David Ramos, WMB Research Director; Ms. Shereen Marino 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 31, 2007, 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 gave an overview of last year's activities as well as the plans for the coming year (copy of presentation attached). He indicated that we continue to deliver the message about health, taste and versatility of walnuts. In the domestic market last year, the shelled market growth was over 5% while the inshell market declined 13%.

The U.S. public relations highlights for the 2006/07 marketing year included identifying

key opinion leaders who are both knowledgeable and respected by the public and the media. We have some of the best spokespeople in Drs. Roizen and Oz, Dr. Andrew Weil and Bob Greene, Oprah's diet/fitness guru. Mr. Mariani showed a clip of Ellie Kreiger, a well-known Food Network star, who we have been working with over the past year. The clip was from NBC's *Today* show where she represented California Walnuts. She also attended our media luncheon last fall and prepared an all-walnut meal for several media representatives.

Dr. Roizen, one of our spokespeople, was recently quoted in *Newsweek* magazine recommending a diet including walnuts twice a day, 30 minutes before lunch and 30 minutes before dinner. Because they are nutrient-dense, walnuts will produce a feeling of increased satiety. We have also had some great press from Martha Stewart *Body & Soul* and the recent issue of *Bon Appetit* that includes a several-page spread on walnuts.

Ms. Sloan thanked Mr. Mariani for his presentation and then gave an update on health research activities for the past year. She indicated that we have had three publications so far in 2007. The first one in January was a bone health study from Penn State. The second one, also from Penn State was on cytokines which are inflammatory markers of heart disease. Both of these studies are sub-studies of a large Penn State study published in 2004. In June, the first study from the PREDIMED project published in the *Archives of Internal Medicine*. This study found that omega-3s helped lower incidence of oxidation which is a marker for heart disease.

Ms. Sloan mentioned the Scientific Advisory Council meeting that took place in August. We had 27 researchers and guests and 13 updates and presentations from these attendees. Since the meeting we have received six proposals from the networking that took place and we will also, hopefully, have some co-funding with the American Institute for Cancer Research.

Moving on to pending health research publications, Ms. Sloan stated that there are seven studies ready to be released, some before the end of the year. She gave a brief overview of each project and rated each based on high to low media value (copy of presentation attached). Projects pending publication include one on breast cancer, another on prostate cancer, and others on serum lipids and antioxidants. One noteworthy study is the PREDIMED project conducted by Dr. Ros and a group of researchers in Spain. This on-going project has generated about ten papers to be published and will result in a huge database of information on heart disease and other chronic diseases to be shared by researchers around the world.

Ms. Sloan then gave a brief update on the twelve health studies in progress. These projects include: one from Dr. Joseph of Tufts University on aging and cognitive function; a diabetes/satiety study from Dr. Tapsell at the University of Wollongong; another study on diabetes from Dr. Hu at Harvard; a pregnancy and lactation project from Drs. King and Mukherjea at the Children's Hospital Oakland Research Institute; a second diabetes study from Dr. Tapsell; a metabolic syndrome study from Dr. Mantzoros at Harvard; an antioxidant study from Dr. McKay at Tufts; a cardiovascular project from Dr. Ros at the University of Barcelona; and an Alzheimer's Disease study from Dr. Chauhan at SUNY.

There are six newly funded projects getting under way in a variety of health topics including diabetes, antioxidants, gender-related cancers (ovarian and prostate) and breast cancer.

Mr. Mariani thanked Ms. Sloan for her presentation and introduced Mr. Balint to give an update on the results of market research. Mr. Balint explained that we have been doing health research since 1991 and have had many studies published. But who do we target with this information? Traditionally, our target has been the 25+ age group, specifically the female age 25-55 group because they are the caretakers, homemakers, have grandchildren, etc. However,

women play a dual role and our market research has shown that the biggest reason for the decline in walnut consumption in the home is the amount of time the female head of household spends away from home. The time has come to redefine our target because we are weak in getting through to the 25-35 year old women—and they are the future of the business.

Based on recent focus groups conducted in San Diego, New York and Chicago of about 60 women ages 25 to 35, we discovered that this group has a willingness to learn and different ways of learning than in the past. They are health conscious and the internet is the most important source of information for them. Nuts are perceived to be healthy, however, there is confusion and lack of understanding, especially when it comes to omega-3. Antioxidants are a hot topic, however, most 25 to 35 year olds do not really know what they are, how much to take, and what they actually do.

Mr. Balint explained that the conclusions to the market research include: keeping messages simple; relating the benefits of walnuts to multiple chronic illnesses which will elevate them in the minds of the target group; using the internet to draw consumers to our message of health, taste and versatility; continuing to use recognizable spokespeople like Dr. Oz; keeping our flow with media events which are triggered by science; and finally, staying relevant and clearing up confusion especially about omega-3.

Chairperson Siebert thanked Mr. Balint for his presentation and then introduced Ms. McNeil to give the marketing review. Ms. McNeil stated that her presentation (copy attached) would focus on consumer outreach, media and outreach to health professionals. Media continues to influence consumers and in order to capitalize on that, we conducted a recipe contest using a Food Network celebrity, Ellie Krieger, and also held a summer road show, “You Tour,” with Drs. Oz and Roizen. The recipe contest generated over 800 entries with the final top 12 recently being taste-tested. The results will be announced in October. The roadshow tour with Drs. Oz and Roizen went to five cities and they presented a lot of information about a healthy lifestyle and integrating walnuts into the diet. A media crew joined the tour to conduct interviews of both doctors; the footage will be used on our website.

We also had tremendous success with the PBS “Kids on the Farm” episode that featured Board member Bill Carriere and his family, along with chef Michael Mina. The episode received top ratings in several key markets with an average of 14 million viewers.

We had over 2.8 million impressions this past year, down slightly from last year. We did have only three health studies published which could have contributed to the downward trend. Media interest in walnuts remains high, though. Martha Stewart featured a walnut recipe as her “Cookie of the Month” recently and as Mr. Mariani mentioned, *Bon Appetit* ran a several page exposé on cooking with walnuts and the health benefits of walnuts. In October we are hosting a harvest event with media from the U.S. and Canada invited.

For health professionals, we are updating our continuing education program and the interactive version will be available on our website at the end of the month. We will be giving a demonstration of the course in our booth at the American Dietetic Association conference in October. Other tradeshows we will be attending this year include the School Nutrition Association, the American Diabetes Association and the American Association of Nurse Practitioners. We will also be participating in the Culinary Institute of America’s conference which focuses on health professionals and health education.

Mr. Mariani thanked Ms. McNeil for her report. This concluded the report of the Market Development Committee. Chairperson Siebert moved on to agenda item E, Update on the Marketing Order Revision. Mr. Balint stated that he had intended to discuss the informal

rulemaking process that the Board will be embarking upon as soon as the revisions to the order are effective. Those revisions are not in place yet, however, so the discussion about informal rulemaking would not be appropriate at this time. Mr. Balint asked Chairperson Siebert to move to agenda item R, USDA Report, so that Ms. Marino can update the Board on the marketing order revisions.

Ms. Marino stated that USDA recently held a referendum. The ballots were tabulated and the results sent to Washington, D.C. for final review. After review, a press release will be issued and published announcing the results of the referendum. She anticipates that will happen in the next two or three weeks. After the press release is published, a handler sign-up will be sent out which is a companion document that accompanies the marketing order. This document will determine if there is handler support for the marketing order.

Ms. Marino commented that the Marketing Order Revision Committee which was created for the formal rulemaking process was not originally set up for informal rulemaking. If the Board would like the committee to continue on in addressing the informal rulemaking changes, it would be a good idea for the Board to redefine the purpose of the committee. She indicated that it would be acceptable for the MORC to begin meeting as soon as the press release is published. MORC can then begin planning the changes to informal rulemaking, present their recommendations to the Board, and the Board would make the motion to move forward with those proposals for informal rulemaking.

Chairperson Siebert asked for a motion for the Chair to re-define and re-appoint the Marketing Order Revision Committee to proceed, after the publication of the USDA press release, with the planning for informal rulemaking changes. Mr. Lindauer so moved, Mr. Frazier seconded the motion and it carried unanimously. Chairperson Siebert stated that he will move as quickly as possible to reappoint MORC and redefine its position.

The next item on the agenda was the report of the Production and Post-Harvest Research Committee. Mr. Lindauer, Chair of the Research Committee, gave an overview of the activities since the last Board meeting. He indicated that the Research budget last year of \$650,000 was allocated for the following projects: three projects on insects; five for diseases such as blight, crown gall and cankers; two for nematodes; two for growth and development; two for genetic improvement; three on rootstocks; and three consulting contracts.

The Committee also budgeted for an online research index which links to PDF files of research reports. At this time, a password is needed to access this index; however, Mr. Lindauer would like to ask the Board for permission to eliminate the need for password access to the database. Mr. Keiper asked if the reports are available to the general public in a different form. Mr. Lindauer confirmed that the reports are available in printed form and on CD each year. Hearing no objections to the removal of the password protection, Chairperson Siebert indicated that the Committee had the Board's permission to remove it.

Mr. Lindauer stated that the Board approved a budget for the coming year of \$650,000 again. He indicated that the Board gets more for its money than most realize due to matching funds. He introduced the Walnut Marketing Board's Research Director, Dr. David Ramos, to comment briefly on the matching funds.

Dr. Ramos explained that our research program measures up very well against some of the other major commodity groups, such as the almond industry, due in part to generous support from the walnut industry, but also through matching grants. In 2007, the walnut industry's research budget is \$650,000, but we will also receive \$350,000 in matching funds. One project, a pheromone-based mating disruption program, received \$35,000 from the walnut

industry and also received an additional \$90,000 obtained through USDA and the National Resource Conservation Service. Just yesterday, Dr. Ramos received word that we have been approved by USDA to receive in 2008 a \$4 million contribution that will be split between almonds, walnuts and pistachios over five years. The money will be used to embark on developing a pheromone-based mating disruption program for navel orange worm. We have also partnered with IAB on domestic wasp control studies and developing resistant rootstocks.

Dr. Ramos stated that the development of disease- and pest-resistant rootstocks is becoming more valuable to the industry with each passing year, especially with the loss of methyl bromide. A couple of years ago we embarked on a large study of a functional genomic analysis of the root lesion nematode problem. We partnered with a granted program at the University of California in the four-year study which is still on-going.

The most ambitious and visionary study this year, is a program to map the walnut genome. This is a four-year program of \$1.2 million to be shared equally between the UC Discovery program grant and the Walnut Marketing Board.

Dr. Ramos commented that the Walnut Marketing Board is funding a full, broad array of research projects, covering most of the priority needs for growers. Having such a broad-based program, we have scientists working for the walnut industry whose expertise can assist us in other areas such as methyl bromide issues and VOC regulations.

Mr. Lindauer thanked Dr. Ramos for his input and asked Mr. Duane Lindsay to give the Board the status of the Methyl Bromide Critical Use Exemption. Mr. Lindsay stated that he and the staff of the Walnut Marketing Board have completed the methyl bromide CUE application for 2010 and submitted it to the EPA. We are waiting for their response. In talking with Mr. Balint and Dan Haley in Washington D.C., Mr. Lindsay commented that the issues that face the industry in regard to methyl bromide are serious. There seems to be a sentiment among the MBTOC and TEAP committees that Profume (sulfuryl fluoride) is a drop-in replacement for methyl bromide. As an industry, we have no experience with Profume as an effective alternative to methyl bromide and continue to express that in our CUE applications. Mr. Lindsay asked for industry support in writing letters and talking to regulators from the grower standpoint.

Mr. Balint explained that Dan Haley is working with us on determining whether we want to support globalization of the methyl bromide allocation, or sector allocation. Globalization means that there is one amount and everyone competes for an allocation. The sector initiative would allocate methyl bromide by sector, i.e. nuts, and more specifically walnuts. Regionalization is a compromise between the two and would limit our competition, we're assuming, in the state of California. Mr. Haley should have a recommendation to use sometime in early October.

Mr. Balint asked Mr. Lindsay to explain what has been happening in the industry with VOCs (volatile organic compounds), the pesticides we use on our crops. Mr. Lindsay stated that there has been a judgment against the State of California by environmental groups that requires a 20 percent reduction in VOCs. We are allowed to use them by permit, but a 20 percent reduction would be very restrictive to our industry. Mr. Lindsay asked for industry member assistance in contacting the Department of Pesticide Regulation and letting them know about industry concerns on the VOC issue. Mr. Balint indicated that the California Walnut Commission will get a form letter out that industry members can modify as they wish.

Chairperson Siebert moved to the next agenda item, the report of the Grades & Standards Committee. Committee Co-Chairperson Pete Turner stated that there was nothing

new to report. Mr. Balint asked if the load size sampling was already voted on by the Board. Mr. Charles Crain stated that it was; sample sizes go up to 5,000 pounds versus the previous 1,000 pound criteria and that is in place for the 2007 crop.

Chairperson Siebert introduced Mr. Vic Tolomeo of CASS to present the next agenda item, Objective Crop Forecast. Mr. Tolomeo described the procedures for collecting samples. The field work for the objective survey was conducted on 665 orchard blocks, two trees per sample, during the period of August 1 through August 25. Every 5th walnut on the selected branch was picked for size measurements. At the measuring station, the hulls were cut off, the nuts weighed inshell and then measured by width and length with calipers. The measurement along the suture is what determines the size distribution of the nuts (jumbo, baby, etc.).

After measurements were taken, the nuts were cracked open and graded based on percent sound, sunburn, insect damage, blight or anything else that might impact quality. All the measurements and grades were then entered into the CASS model in order to generate the objective survey. Mr. Tolomeo stated that the walnut crop estimate for 2007/2008, released on September 5th, is 320,000 tons, down from last year's crop of 346,000.

Mr. Tolomeo then presented several slides showing a comparison of objective forecasts versus final production, bearing acres and yield per acre. He then discussed the conditions during the walnut growing season. He indicated that there was a lack of chilling hours in the winter. Weather during bloom was favorable as was the weather during June with temperatures at or below normal. Weather in July and August was also ideal with a heat wave at the beginning of July and the end of August. The sunburn damage was down slightly from last year.

Mr. Tolomeo indicated that state average nut set per tree is down by an average of 7 percent with San Joaquin Valley down by 8 percent and the Sacramento Valley down by 7 percent. Nut set by variety indicates that Hartley is down by 8 percent, Serr is up substantially at 46 percent and Chandler is down by 23 percent.

The percent distribution of walnut shell suture sizes for the Hartley variety indicates that jumbos are 63%; large are 14%; medium are 13%; and babies are 9%. One thing CASS would like to do is get rid of the mammoth category. As everyone remembers, the numbers last year looked strange, with jumbo down to 52% and babies up to 20%. This resulted in CASS comparing the inshell width versus the cross-width and releasing a supplemental report following the objective forecast last year. The comparison chart indicated a substantial difference in size between the two widths. This year they appear to be in line with where they should be.

Chairperson Siebert called for questions for Mr. Tolomeo. Mr. Keiper asked if CASS were to make procedural changes in how the estimate is evaluated and calculated, such as using sizing cards versus calipers, would that be a long, drawn out process. Mr. Tolomeo explained that there is no USDA requirement other than the statistical methodology CASS must follow. CASS has been collecting data using the same methods for quite some time and has built historical data based on that methodology. If they make a change to the methodology, the historical data is lost and it takes years to rebuild it.

Mr. Keiper stated that looking at the CASS estimate versus the actual crop size, CASS has been quite accurate, anywhere from 5 to 8 percent in either direction of the actual crop size. As an industry, he thinks that we may want to look deeper into the data on varieties. Last year there were some inconsistencies in the data on inshell varieties, including Hartleys. Nut set changes from year to year may also be something we should be looking at closer. Mr. Keiper made a recommendation that the Grades & Standards Committee take under review the

possibility of meeting with CASS and evaluating the methodologies used and whether or not to make changes. He also suggested that maybe the Board should consider conducting an acreage survey on an annual basis, rather than every other year.

Chairperson Siebert stated that Grades & Standards may not be the appropriate committee for reviewing the CASS data, that it should probably be Production Research. Mr. Robert Driver suggested that rather than changing the protocol of the CASS measurement, they should just add the sizing card to their existing procedure. Mr. Keiper stated that the intent of his suggestion was not to deal with any specifics at this time, but to review it at the Committee level and have the Committee make recommendations to the Board.

Chairperson Siebert asked Ms. Marino if a motion was in order for referring this issue to committee for further review and discussion. Ms. Marino suggested a motion would be appropriate and thought that Mr. Keiper's recommendation was a motion.

Mr. Keiper restated his recommendation in the form of a motion to have the Production Research Committee review the existing CASS methodologies and determine whether or not any changes are in order. Mr. Petz seconded Mr. Keiper's motion and the motion carried unanimously. Chairperson Siebert asked the Production Research Chairperson, Mr. Earl Lindauer, to report to the Board at a future meeting what the Committee recommendations would be.

Mr. Carriere made a motion to accept the crop estimate as reported by Mr. Vic Tolomeo. Mr. Keiper seconded the motion and it carried unanimously.

Chairperson Siebert asked Mr. Balint to present agenda items I, J, K and L. Mr. Balint began with a review of the 2006/2007 year-end shipment, inventory and utilization numbers. The year-end inventory of inshell equivalent product was at 40,596 tons, the lowest number in the last decade.

The next slide that Mr. Balint presented was the schedule of competing tree nuts. Hazelnuts are down 10,000 tons from last year and the almond crop is forecast at just over 1.3 billion pounds. There is no published forecast for pecans or pistachios at this time.

The next table showed that the foreign walnut production is forecast at about the same levels as last year. Chile is gradually increasing production. The numbers for China are not available at this time, however, the Chinese crop is probably going to come in at about 410,000 tons.

The next slide Mr. Balint presented was the exchange rates. Korea has a very favorable situation right now, Japan is holding its own and the Euro continues to strengthen. Overall, exchange rates have not presented any major problems for us.

The next table addressed supply and utilization. The total availability for the 2007/2008 year is projected to be 721 million pounds, about a hundred million pounds less than one year ago. The projected utilization, on an inshell basis, is 640 million pounds. The next slide Mr. Balint presented was the parity price chart which indicates that price will most likely not exceed parity this year. Finally, Mr. Balint presented the Walnut Marketing Board Policy Computation Table for the 2007/2008 marketing year.

Chairperson Siebert called on Mr. Jack Gilbert to get 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.

Waggershauser made a motion to accept the Export Committee recommendation of 100% free tonnage with no reserves and no minimum export price for the 2007/2008 crop. Mr. Frazier 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. Frazier so moved, Mr. Petz seconded and the motion carried unanimously.

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

Chairperson Siebert asked Mr. Balint to present the next agenda item, Proposed Rescheduling of the Walnut Marketing Board's Meetings. Mr. Balint explained that this past year was the first time we have held three meetings of the full Board and likewise, three meetings of the Commission. Traditionally we have met in September, the beginning of the crop year, in order to approve the crop estimate and budgets. In February, we have a meeting mid-point of the year to reflect back on what has happened so far during the crop year, to review the inshell shipments, and to get feedback from the Board and Commission on administrative and marketing issues that may need attention.

This past year we held a meeting in May of the Walnut Marketing Board. Since the Board now uses the previous year's actual production as the basis for the assessment rate, we are able to get approvals from USDA prior to the beginning of the marketing year by approving budgets in the spring. Normally, the approval of the assessment rate does not happen until late October or November, and as a result, we have to bill at the old rate until the new rate is approved by Washington.

Mr. Balint expressed his opinion that the three meetings are all beneficial to the industry, however, the additional meeting does come at a cost of less than \$10,000. He asked the Board for their thoughts and recommendation for upcoming years. Chairperson Siebert asked if any member would like to entertain a motion to continue with three meetings or to make an alternative recommendation.

Mr. Mariani made a motion that the Board should continue to conduct three meetings annually. Mr. Lindauer seconded the motion and it carried unanimously.

The next item on the agenda was the approval of the 2007/2008 Compliance Plan. Chairperson Siebert stated that all Board members should have received a copy of the compliance plan. Mr. Balint explained that the compliance plan is very similar to the one from last year. We had expected there to be more changes to the compliance plan based on the marketing order revision, however, the referendum process has taken longer than we anticipated. The only significant change to the plan at this time is the way we are going to implement the controlled buy plan.

Mr. Frazier made a motion to accept the Compliance Plan as mailed. Mr. Lindauer seconded the motion. Mr. Waggershauser pointed out that on page 1 of the Compliance Plan there is a reference to "co-op". Chairperson Siebert stated that staff will make that change to the Compliance Plan and called for the question on the motion including the language correction. The motion carried unanimously.

Ms. Marino commented that the Walnut Marketing Board budgets and assessment rates are still pending approval from USDA in Washington D.C. The ruling should publish very soon.

Chairperson Siebert asked Mr. Stefani to present the next agenda item, the Report on the University of California Chair Financials. Mr. Stefani stated that the market value on 7/31/07 was \$1,377,857 with a book value of \$1,124,373. The distribution this year was \$46,098. The net distribution goes to offset the U.C. Davis program.

Chairperson Siebert asked Mr. Balint to update the Board on the School Lunch Program. Mr. Balint stated that based on the anticipated short crop, we are not making a request for a buy. Because of our continuing absence in the school lunch program, we are also eliminating some of the marketing activities that were targeting the school lunch sector. If at any time the industry feels that walnuts are a viable day-to-day ingredient or snack item in the schools, we can reinstitute the program.

The time and place of the next meeting will be determined by the Chair. Hearing no further business to come before the Board, Chairperson Siebert adjourned the meeting at 12:08 p.m.

I HEREBY CERTIFY that the above is a full, true and correct copy of the minutes of the meeting held on September 14, 2007, in Sacramento, California, by the Board of the Walnut Marketing Board.

Date

Dennis Balint, Executive Director