

California Walnut Board

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CALIFORNIA WALNUT BOARD MEETING MINUTES

Wednesday, May 28, 2008

*Radisson Hotel
Sacramento, California*

A meeting of the California Walnut Board was held on Wednesday, May 28, 2008 at the Radisson Hotel in Sacramento, CA. The meeting was called to order by Chairperson Dr. Siebert at 10:05 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

Earl Lindauer
Jack Mariani
Jim Frazier Jr.

Jerry Moore

Sam Keiper

Alternates:

R. Donald Norene
Walter Deardorff
Phillip Short
Pete Turner

William Tos

Jack Gilbert

Board members Al Bonturi and Earl Perez were absent. Sitting in for them were Board alternates Walter Deardorff and Bill Tos respectively. Alternate Jack Gilbert sat on the Board in Mr. Bill Wagershauser's place. Board alternates Stephen Giovannoni, Karen Klonsky, Michael Petz and Gary Ford were absent. Also in attendance were Mr. Martin Engeler of USDA/AMS, Dr. David Ramos, CWB Research Director, Mr. Duane Lindsay, CWB/CWC Technical Advisor, and CWB staff members Michelle McNeil, Jennifer Getz, Heather Donoho and Dana Steindorf.

Chairperson Siebert asked the members and audience for a moment of silence in honor of long time Board member Bill Wagershauser who recently passed away.

The first order of business was the approval of the minutes from the California Walnut Board meeting held on February 22, 2008. Mr. Frazier made a motion to approve the minutes as mailed, Mr. Keiper seconded and the motion carried unanimously.

The next item on the agenda was the Report of the Market Development Committee. Committee Chairperson Jack Mariani reported that the MDC has met twice since the February meeting to go over proposed activities for the next marketing year. He indicated that there have been no new health studies published, though there are many that are pending publication.

Despite no new health studies being published this past year, the total media impressions increased by 27 percent. This shows a carryover effect of our studies and promotional activities from the past several years. Ms. Getz showed two television clips featuring our former spokesperson Ellie Krieger and Martha Stewart using walnuts on their programs. Mr. Mariani mentioned that Martha Stewart has, besides her television show, featured walnuts in several recipes in her food magazine, *Everyday Food*, which has a distribution of about 1 million copies per month.

Mr. Mariani mentioned that another proponent of healthy living and walnuts is Dr. Andrew Weil. He promotes walnuts as a great vegetarian source of protein and omega-3 fatty acids. An article he authored, *The Secrets to Optimum Health* had over 1.5 million impressions this past spring.

Mr. Mariani introduced Ms. Getz to give more details of the MDC activities for the coming marketing year. Ms. Getz stated that we continue to work with key opinion leaders such as Drs. Oz and Roizen, Oprah's favorite doctors. In addition, the internet popularity has grown, with about 24 percent of the impressions coming from the web. An article on Yahoo Health in conjunction with *Men's Health* called *Eight Ultimate Flat-Belly Summer Foods* was just released the day before this meeting. Another article about twelve healthy foods to keep in your pantry published in *Bon Appetit's* April issue. *Prevention* also released an issue on flat belly foods that featured monounsaturated fatty acids, including walnuts.

Ms. Getz also mentioned the spring media tour which took place in April. This two-day tour from San Francisco to Sonoma launched our Smart Salad recipe contest on the website. The media event hosted a mix of both on-line and traditional media. We have been working with chef Charlie Ayers on the contest which has received 72 entries to date. The winner will be selected at the end of July. Smart salads have been in the news lately with several articles focused on the concept of making salads healthier. Along with the smart concept, we also pitched the media on smart snacking by developing a list of ten reasons to snack on walnuts along with a package of recipes. Other recent media outreach have included Mother's Day brunch recipe ideas, budget entertaining, Father's Day and recipes for test kitchens.

Mr. Mariani stated that at the MDC meeting held in March, the Committee approved a total budget to recommend to the Board of \$2,135,000. At the MDC meeting held earlier this morning, however, the Committee was presented with what appears to be a good opportunity to expand some market research. The Committee has strongly considered moving forward with the project, however, more information is needed before making the final decision. Therefore, the Committee's recommendation was to increase the budget to \$2,935,000, assuming the activities that were proposed will take place. If, for whatever reason, the proposal does not move forward, the money will not be spent and will remain in the reserves.

Mr. Mariani made a motion to recommend to the Board a Market Development Committee budget for the 2008/2009 marketing year of \$2,935,000 with the Board granting authority to the Market Development Committee to give final approval on moving forward with the proposed market research. Mr. Deardorff seconded the motion and it carried unanimously.

Chairperson Siebert called on Research Committee Chairperson Earl Lindauer to give the report of that Committee. Mr. Lindauer stated that the Research Committee met on March 20, 2008 and he moved to recommend to the Board a Production and Post-Harvest Research budget of \$725,000 for the 2008/2009 marketing year. Mr. Tos seconded the motion and it carried unanimously.

Mr. Lindauer also made a motion that the Board establish a \$30,000 contingency fund in the 2008/2009 budget to cover any unexpected research related issues or activities such as methyl bromide or UN/ECE activities. This contingency fund would be separate from the Research Committee budget. Mr. Moore seconded the motion and it carried unanimously.

Ms. Steindorf presented the next agenda item, Review and Approval of the GMO Statement and explained that this statement had been reviewed and approved by the Research Committee and is being presented to the Board for their approval. She read the statement aloud for the Board (copy attached). Mr. Lindauer made a motion to approve the California Walnut Board GMO Statement as read. Mr. Carriere seconded the motion and it carried unanimously.

Chairperson Siebert presented the next agenda item, Update on Production Research Advisory Committee (PRAC). He stated that PRAC was established in February 2005 as an advisory committee to the Production Research Committee. The vision is that the Production Research Committee is responsible for setting overall priorities and budget allocations for research. The establishment of PRAC did not change that vision. Essentially PRAC was created to function similarly to the Scientific Advisory Council on the Commission, by assessing the science applicable to research issues.

Chairperson Siebert explained that the Production Research Committee facilitates the identification of research issues and the communication of those issues into the research base. The researchers will assess the best science available to research a problem. Once the research results have been completed, they are communicated to the grower/handler community for their application. Again, the Production Research Committee and the California Walnut Board facilitate that particular process. Once that is done, the user community provides feedback on research and the application of its results. How good was the research? Did it work? What remaining problems are left to be identified? Then the process starts all over again. In the short term this process could take two or three years, or as many as 20 years in the long term. Interactive communication is required amongst the various parties involved for this process to be successful.

PRAC serves as an overall coordinating committee. Chairperson Siebert serves as the chair of PRAC, with Board member Jim Frazier as vice-chair. Other industry representatives seated on PRAC are Brent Barton, Bill Carriere and Sam Keiper. The research members of PRAC are: Dan Kluepfel, plant pathologist from USDA; Steve Welter, entomologist at U.C. Berkeley; and Jim Thompson, from U.C. Davis engineering department. The farm advisors serving on PRAC are: Rick Buchner, Tehama; Janine Hasey, Sutter/Yuba; and Joe Grant, San Joaquin. PRAC also relies on Dr. Dave Ramos to keep the group organized, help set agendas and guide the whole process.

PRAC is divided into five working groups: Genetic Improvement, co-chaired by Janine Hasey and Bill Carriere; Entomology, chaired by Steve Welter; Plant Pathology, chaired by Dan Kluepfel; Orchard Management, co-chaired by Joe Grant and Rick Buchner; and Post Harvest, chaired by Jim Thompson. The working groups will have their meetings in the summer and fall. The meetings are open to everyone and they usually have a good attendance of researchers and industry members. PRAC met in December 2007 and each working group chair presented their findings and recommendations which were in turn presented to the Production Research Committee in March 2008. This process will repeat itself this summer and fall with working group meetings, a PRAC meeting in December, the Walnut Research Conference in Bodega Bay in January 2009 and then the Production Research Committee meeting in the spring of

2009. The working group meetings and PRAC meeting will be publicized and we hope for industry attendance and participation.

Chairperson Siebert concluded by stating that the academic community is excited about the process because they look at it as a peer review process where they hope to provide valuable input and contribution to the industry. The process is new and still developing, but there is progress being made through industry interaction.

Hearing no questions, Chairperson Siebert moved to the next agenda item, Methyl Bromide Status. Mr. Duane Lindsay reported that we continue to apply for critical use exemptions for methyl bromide and we continue to receive substantially less than we ask for. This year we had a 120,000 pound demand and received an allocation of 96,000 pounds. We continue to have trouble with sulfur dioxide as a replacement for methyl bromide because it is not as effective on egg kill. We are working with Dr. Leesch on a research project funded by USDA/ARS on sulfur dioxide and the diapause stage of the codling moth.

Mr. Lindsay commented on another matter, maximum residue levels (MRLs). Nut industries have had pressure from the European Union and Japan on the reduction of MRLs. These reductions are being done arbitrarily with no science involved. The USDA and DFA have set standards for California walnuts based on sound scientific data so these arbitrary reductions in MRLs are a big problem for us. Walnuts, because of the hull and shell, are in a better position than many other tree nuts, however.

On the issue of volatile organic compounds (VOCs), Mr. Lindsay commented that the Commission has hired a consultant, Jim Wells, to work with us on our communications with the Department of Pesticide Regulation (DPR). A group of environmentalists sued DPR because they believed VOC emissions were too high. As a result, DPR has to reduce VOCs in the atmosphere by 20 percent. Even at zero fumigant emissions, according to Jim Wells, a 20 percent reduction goal will not be met in San Joaquin Valley without reducing nonfumigant emissions. That would mean changing our preplant methods; preplant would have to occur in August or November and April, cooler times during the year.

As a follow up to the MRL issue, Mr. Balint commented that we are working with DFA to increase sampling to look at pesticide MRLs. On the Commission budget in the afternoon, there will be a line item to fund additional sampling from DFA since this relates to export shipments. It is a relatively modest expenditure of \$20-25,000.

Chairperson Siebert moved on to the next agenda item, the report of the Grades and Standards Committee. Before giving his report, Committee Chairperson Sam Keiper asked Mr. Lindsay to give an update of the UN/ECE activities. Mr. Lindsay stated that we have been in discussions with the UN/ECE committee regarding changes to the inshell walnut tolerances for the past three years. The German delegation is trying to lower the tolerances to levels that would result in us losing between 17 and 70 percent of our extra class product. We do have the support of the French delegation and the INC. Mr. Lindsay, along with Dave Priester and Dan Haley, will be traveling to Geneva in June for the UN/ECE conference and hope to persuade the German delegation to table their standard and maintain the 2001 standard that is in place.

Mr. Keiper continued with his report of the Grades & Standards Committee. He indicated that the Committee had a meeting the week prior and had discussed an issue that came before the Committee in July 2006; the inspection process on product one-eighth inch in size or smaller. This product, commonly referred to as fluff or meal, is generated as a by-product of the chopping process. Currently the order requires that any product that is going to

be chopped with particle sizes less than 1/8 inch in size must go through an inspection process prior to chopping. That inspection certificate would then apply to all the outputs after it has been chopped. A handler can end up with four different sizes (less than 1/8 inch, 1/4 inch, 3/8 inch and 1/2 inch) and the certification that was put on the original product might read large pieces or halves and pieces. That could mean the product that is actually shipping to the customer is not labeled correctly; the certification could be on a size that doesn't fit the end product. Mr. Keiper also explained that about 5% of the material coming from the chopping process is meal; it takes a long time at 5% runs to get a shippable lot from the process. This can become a problem to manage inventory in the plant.

The proposed recommendation by the Committee for Board approval is to forgo the inspection prior to chopping and instead have the inspection done on the material after chopping. The Committee appointed a working group comprised of Gus Mariani, Chuck Crain, Steve Lindsay and Duane Lindsay to work with USDA to develop the regulatory language that is necessary to begin the informal rule making process to implement the change to the standard.

Mr. Keiper made a motion as recommended by the Committee that product smaller than 8/64ths round hole screen will be inspected to the standards of the product of the next larger size product, excluding color, 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. Carriere seconded the motion and it carried unanimously.

Mr. Keiper stated that the Committee also discussed a meeting that a group of U.C. Davis researchers held recently concerning the microbiological impact of food borne pathogens. The concern the Committee has is that the Board, probably through the Production Research Committee, should have the opportunity to weigh in on third party research that comes out of the university system before we are lumped together with other commodities that may be perceived as being higher risk for certain food borne pathogens. Mr. Balint commented that almonds faced a situation with salmonella a couple of years ago, and often we are judged based on other commodity issues that do not affect us; our goal is to avoid any formal involvement. Mr. Keiper stated that there is no action necessary.

Chairperson Siebert asked Mr. Balint to present the next agenda item, Review of 2007/2008 Supply and Demand. Mr. Balint stated that there are no tables to present just commentary. He indicated that shipments have fallen behind where we were a year ago due to the supply situation. We have heard of some imports coming in which need to be reported to the Board by handlers and inspected by DFA. Board staff contacted all handlers last month and sent each a form for reporting imports.

Chairperson Siebert moved on to the next agenda items (H, I, J, M, N and O), resolutions needing Board approval. Mr. Balint asked Mr. Engeler if the resolutions could be approved by the Board as a group. Mr. Engeler indicated that would be acceptable.

Mr. Lindauer made a motion to approve the following resolutions: Authority for the Executive Director to Execute Research Contracts; Authority for the Executive Director to Execute Market Development and Health Research Contract; Authority for the Executive Director to Execute Research Contracts with the Department of Pesticide Regulation; Authority for the Executive Director to Execute the Compliance Plan for the 2008/09 Marketing Year and Authorization to Make Controlled Buys; Approval to Allow the Executive Director to Obtain Outside Legal Counsel on Personnel Matters and on the Use of our Health Claim; and Approval

to Allow the Executive Director to Obtain Outside Legal Counsel to Review General Contracts. Mr. Frazier seconded the motion and it carried unanimously.

Chairperson Siebert asked Mr. Mariani to give the report of the Budget and Personnel Committee. Mr. Mariani stated that that Committee met in April to review the budget, office expenses and activities for the Board. One of the items the Committee discussed was the ability of the Board to establish a reserve now that the marketing order revisions have been approved. The amended order allows for two years of operating expenses to be held in reserve. The Committee thought that it would be a good idea to try to start accumulation of small amounts of reserves on a year-to-year basis to facilitate activities such as the Commission is able to do. Mr. Mariani also stated that USDA determined the next Board election will be held in early 2009.

The Budget & Personnel Committee also discussed the budget for the current 2007/2008 marketing year and the challenges a short crop brings. There had to be some changes and modifications to the program activities throughout the year in order to accommodate the smaller budget. Mr. Mariani complimented the marketing team for accomplishing virtually all the goals of the marketing year without much upheaval in the program.

Mr. Balint stated that the domestic marketing budget for 2008/2009 is \$2,935,000 which includes an increase to accommodate the Predictor Study as approved by the Market Development Committee earlier in the morning. The Committee had looked at the results of the research done in Korea, Japan, Spain, Germany and the U.S. markets (the Predictor study). Predictor tells us that if we spend more money on certain activities, will we increase sales. The Market Development and Budget and Personnel Committees have both approved increases in two programs, Korea and Spain, as a result of Predictor. We have also made some judicious reductions in a couple of other markets to help offset the increase. The Board marketing budget for 2008/2009 reflects an increase of \$800,000 for additional Predictor research. We will be quickly rerunning some research done last year that used spring 2007 retail prices; we need to determine if, at current price levels, we will still see the same incremental sales gains to justify the \$800,000 cost. The Board has already delegated to the Market Development Committee the authority to move forward if the new price level research shows at least a \$8,000,000 sales increase to justify the spend. If it does not, the money will be held in reserves.

Mr. Balint stated that the proposed total California Walnut Board budget for 2008/2009, including Commission expenses, is \$4,594,300 which translates to an assessment rate of \$1.58 per hundredweight. Mr. Mariani made a motion to the Board for their approval of the 2008/2009 budget and assessment rate as stated. Mr. Carriere seconded the motion and it carried unanimously.

Chairperson Siebert moved to the next agenda item, Policy & Procedures Review and/or Adoption. Ms. Donoho stated that the Board members and alternates were recently sent a packet of documents including the internal control policy and the employee handbook. The internal control policy includes sections on environment, risk assessment, activities, information and communication, monitoring, assets, payroll and HR, project management, check controls, file storage and travel procedures. Ms. Donoho explained that most of these policies and procedures, if not all, have never been formalized by the Board, but according to the USDA compliance internal control audit, we have been performing them satisfactorily. We also added a section to our procedures for purchase requests which we implemented about a year ago, and sections on RFP guidelines and contract extension procedures.

Ms. Donoho explained that the employee handbook will require another revision after the one that the Board has been presented. It will include minor housekeeping changes. The version the Board was mailed included some changes to better define some sections, such as conflict of interest, code of conduct, and dress code. Some changes have been made to reflect current California laws regarding COBRA benefits, sexual harassment and employment at will. Ms. Donoho asked the Board for a motion to approve the changes as presented along with allowing staff the ability to make housekeeping changes as needed.

Mr. Balint commented that about four years ago, the Board and Commission gave staff the approval to make housekeeping changes and changes to keep us current with the law. We need to renew that approval. Along with that approval, Mr. Balint would like to request Board approval for staff to have the authority to plan meetings and events which would include meals and beverages.

Mr. Keiper made a motion to approve the internal control policies and procedures and the employee handbook as presented and allow staff the authority to make housekeeping changes to these documents as needed in order to be in compliance with regulatory laws, along with the authority for staff to plan meetings and events that include food and beverages. Mr. Moore seconded the motion and it carried unanimously.

Under other business, Mr. Carriere asked if the Treasurer will be presenting a report to the Board in September. Mr. Balint indicated that staff tried to schedule a meeting of the Treasurer and Audit Committee prior to this meeting, however, were unable. That meeting will be scheduled as soon as possible and the Audit Committee will report to the Board in September.

Mr. Balint commented that the acreage report was release by CASS in early May. Since 2005 we have increased our bearing acres from 215,000 to 218,000. Nonbearing acreage went down from 26,000 to 25,000. Our total acreage is up 2,000 acres over a two-year period.

Mr. Balint stated that the next California Walnut Board meeting will be held on September 12, 2008, at the Marriott in Rancho Cordova.

Hearing no other business to come before the Board, Chairperson Siebert adjourned the meeting at 11:30 a.m.

I HEREBY CERTIFY that the above is a full, true and correct copy of the minutes of the meeting held on May 28, 2008, in Sacramento, California, by the Board of the California Walnut Board.

Date

Dennis Balint, Executive Director