

## USDA Credit Back Authority Proposal

My name is Eric Heidman with Diamond Foods, Inc.

Thank you for the opportunity to speak today. I would like to provide my perspective coming primarily from that of a grower representative of a large handler, but also as a small family grower, and a CWB member. All of those perspectives are clearly and directly related as we are all part of the same industry working for a common goal- to keep the California walnut industry profitable and sustainable.

Simply look at the mission, vision, and priorities of the California Walnut Board (CWB) and one can see how the proposed Credit Back Authority (CBA) naturally aligns the CWB's goals.

**CWB's mission:** To cultivate industry prosperity by increasing worldwide demand for CA walnuts

**Core Values:** Do what's right for the industry long term- Operate with integrity and honesty- Strive for excellence and innovation

**Purpose:** To enhance diet and health through flavorful CA walnuts

**Strategic Priorities:** Grow domestic and international demand =196,000 tons by 2022/23 (64,000 Domestic ,132,000 Intl)

**Domestic:** Implement domestic market growth strategies through targeted distribution channels

**Retail** -Increase consumer purchases

**Industrial**- grow awareness as a desirable ingredient in product development

**Institutional**- educate decision makers about the benefits of including in menus

**Restaurants**- educate chefs of desirable traits and unique uses

My support and advocacy of the proposed CBA stems from my viewpoint into the industry and that of the growers that Diamond represents. Recent industry marketing campaigns have come under scrutiny by growers and handlers who believe they have not proven effective enough to maintain pace with supply and keep grower prices stable. As an industry we want to know our dollars are being put to the most effective use. The desire, and personal obligation to better the industry, is to challenge the status quo and find new or established methods to increase walnut demand beyond traditional programs.

The highly seasonal demand of walnuts needs to be better balanced throughout the year. Due to this seasonality and its increasingly commoditized, global nature, walnut markets have experienced great price volatility. This volatility is not advantageous to growers who ultimately bear the end result of the market changes, but it is equally detrimental to handlers, brokers, buyers, and manufacturers. The price volatility creates excessive year over year, as well as in-season, risk which not only compresses marketing windows, but ultimately suppresses the greater utilization of walnuts. No party wants to take an inventory or cash position when there is economic risk associated with market prices greatly moving up or down. This situation is not conducive to creating stable and predictable growth.

With the market swings, growers have been the recipient of incredible variability at the farm gate level. A grower's ability to sustain annual return swings of greater than 45% is exceptionally difficult for any length of time. In addition, to have 2 of the past 4 years result in returns below the cost of production, it is clear

Crop Yr	Mkt Yr	Production		USDA Pricing	
		CA Crop (tons) <sup>1</sup>	% chg crop	USDA avg finalized \$/lb <sup>2</sup>	% change USDA \$/lb
2011	2011/12	460,165	-8.3%	\$ 1.444	41.2%
2012	2012/13	495,733	7.7%	\$ 1.514	4.8%
2013	2013/14	490,553	-1.0%	\$ 1.843	21.7%
2014	2014/15	568,890	16.0%	\$ 1.669	-9.4%
2015	2015/16	601,353	5.7%	\$ 0.835	-50.0%
2016	2016/17	684,338	13.8%	\$ 0.926	10.9%
2017	2017/18	627,798	-8.3%	\$ 1.246	34.6%
2018	2018/19	672,723	7.2%	\$ 0.673	-46.0%

<sup>1</sup> Crop production data from CWB

<sup>2</sup> USDA \$/lb from Walnut Raisin Prune Report

something proactive must be done. Combine those results with future global supply projections and increasing market competition from China, Chile, Eastern Europe, etc. and, quite simply, demand for California walnuts must grow if our industry is to be sustainable. Often grower frustration with low returns falls back on the high profile CWB domestic advertising campaign and causes all parties to question if that is the best spend for a great majority of CWB assessments. This is not to criticize the intent and execution of past or present programs, but to rather illustrate the opportunity at hand to incorporate additional means to broaden the industry's marketing effort to help curb volatility.

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As defined in the CWB's strategic objectives, retail sector growth is the top priority, and current CWB objectives prioritize walnut demand growth in the snack category.

Current CWB marketing programs are generic in nature and regulations provide only for support of traditional forms of walnuts- raw. Raw snack is an important component, but to expand market development beyond raw is the most critical consideration of the CBA as significant new consumption growth will only happen via new products and forms that appeal to a larger consumer audience.

Looking at the retail snack environment, one must consider that most nut snacks have evolved beyond their raw form. Why...because that is what the consumer desires.

Milks, spreads, butters, roasted, glazed, salted walnut snacks, trail mixes, meat alternatives, etc. are all significant demand sectors that need greater walnut penetration so that our industry is able to reach a share of those consumer dollars. The CBA provides the pathway.

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Currently, handlers choosing to invest in true, direct marketing and market development of other forms of walnuts do so at their own expense and risk, yet the industry as a whole, benefits from their success.

CBA provides a fair mechanism for all handlers to access additional support for greater marketing efforts, product innovation, and adoption of CWB inspired concepts. Successful new products developed and marketed by one company will create further development of similar new products by many others.

With a structured framework and specific criteria, the CBA has accountability. Funds are reimbursed after the handler undertakes eligible, specific market building activities.

Handlers are direct merchandisers and will be able measure the success and effectiveness of spend on a year-round basis with customers. Close working relationship and targeted marketing is an advantage that handlers have above the CWB.

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As a grower and industry representative, I believe it would be a giant oversight for the industry to ignore this key mechanism that targets an essential consumer marketing opportunity and not effect a well-balanced industry marketing effort. In conclusion, I fully support the CBA proposal and believe that it would incent greater investment into the industrywide marketing effort, be complementary to the current programs, and work toward the common goal desired by all walnut stakeholders.

Thank you.