

**California Walnut Commission**

101 Parkshore Drive, Suite 250

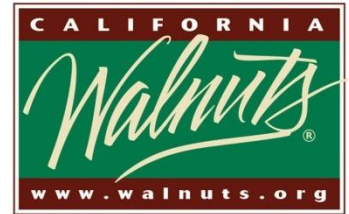
Folsom, CA 95630-4726

Phone: (916) 932-7070

Fax: (916) 932-7071

info@walnuts.org

*An Equal Opportunity Employer and Provider*



Office of the United States Trade Representative  
600 17th Street Northwest  
Washington, DC 20508  
Electronic submission via <http://www.regulations.gov>

**Re: Request for comments Transatlantic Trade and Investment Partnership (TTIP)**

Dear United States Trade Representative,

In response to notice from the United States Trade Representative (USTR) published in the Federal Register April 1, 2013, the California Walnut Commission is providing comments on behalf of the California walnut Industry with respect to the proposed Transatlantic Trade and Investment Partnership (TTIP) negotiations.

**Walnut Industry Background**

The California Walnut Commission (CWC) represents over 4,100 walnut growers and 89 handlers (processors) on regulatory matters affecting walnuts. The CWC has worked closely with USTR and United States Department of Agriculture (USDA) to open markets and expand walnut exports through free trade agreement negotiations and bilateral talks. These efforts have resulted in export market growth, reaching 58% of all industry shipments in 2011, valued at \$970 million.

For many decades the California walnut industry has not only exported walnuts to Europe but conducted marketing programs through the Market Access Program and its predecessors. The European Union has continued to be the industry's largest export market valued at \$286 million (excluding Turkey), predominantly for traditional consumption of in-shell walnuts, however; the shelled market continues to develop with shipments reaching over 38 million pounds. The EU member states of Germany, Spain and Italy account for the predominance of the volume however; as new member states such as Turkey enter the EU, the walnut industry's volume will continue to increase.

The industry has experienced record growth in the last ten years, reaching \$1.32 billion in farm gate revenue during the 2011 crop year. Production has nearly doubled in the past ten years to reach 496,000 short tons. Future crops are anticipated to grow as the industry continues to plant more high yielding varieties, as well as increase overall acreage. As of the crop year ending 2011 Europe accounted for the following:

	<u>In-shell</u>			<u>Shelled</u>			<u>Total EU</u>
	% of Exports/Crop	Volume	Value	% of Exports/Crop	Volume	Value	
EU- 27	27% of exports, 25% of total inshell crop	61 million lbs.	\$113 million	29% of shelled exports, 13% of total shelled crop	38.1 million lbs.	\$173 million	<u>Volume: 99.1 million pounds, Value: \$286 million</u>
EU with Turkey	48% of exports, 44% of total inshell crop	108 million lbs.	\$198 million	30% of shelled exports, 13% of total shelled crop	38.2 million lbs.	\$174 million	<u>Volume: 146.2 million pounds Value: \$372 million</u>

Source: CWB/CWC – Monthly Management Report 09/17/12, Value calculated at average wholesale cost

The playing field in the EU is not equitable. Walnuts from California are subject to tariffs of 4.0% on inshell walnuts (0802310000) and 5.10% for shelled walnuts (0802320000). However; tariff rate preferences granted to the producing nations of Chile, China and Turkey have resulted in tariffs of 0% for these nations. The Ukraine has a 0% duty on inshell walnuts and 1.6% duty on shelled walnuts entering the market. The EU also has a Free Trade Agreement with South Korea which was established in 2011 resulting in 0% tariff rate preference for inshell and shelled walnuts. Further, the EU is in trade negotiations with the Ukraine. Any tariff preference granted through this agreement could result in further economic loss for the California Industry.

### UN/ECE Background

The United Nations Economic Commission for Europe (UN/ECE) defines norms, standards and conventions to facilitate international cooperation within and outside the region. To this end the UN/ECE has established import standards for many commodities including both shelled and inshell walnuts. The standards process has evolved slowly due to the complexity of the standards, as well as the desire of the EU contingent for a standard which favors product produced in the EU. Over time the chairperson, committee heads and delegate members of the committee have changed multiple times resulting in a re-education process to understand how the California walnut trade has operated for the past 65 years.

The UN/ECE has established classes (grading) for walnuts shipped into the EU as *Extra Class, Class 1 and Class 2* based on both experience and science. The classification standards are defined by color, damage, mold, etc (please see Appendices B and C for full standards). In particular the color classifications are of utmost importance as they are predominant in determining the quality classification. The weather in California, particularly the warm summers in southern latitudes, tends to darken the pellicle of the nut meats. This is not the situation with the more moderate temperatures experienced by walnut producing EU member states located in the cooler northern latitudes. EU walnuts kernels are lighter and less apt to be darkened by the sun during the growing period prior to harvest. Ensuring that California walnuts are classified appropriately is critical to ensuring not only the quality but the market value of the product.

In 2012 a draft specification for inshell walnuts was approved by the working parties and was formatted into the established layout used by other commodities. This layout will assist importing countries to uniformly analyze incoming walnuts in a consistent manner through the

EU member nations. Currently the UNECE working parties are drafting an inshell Explanatory Brochure. The first draft will be reviewed at the 2013 meeting this June in Geneva. This brochure will have photographs and descriptions of all the defects established in the new specification and will be used by inspection agencies for consistent evaluation for incoming walnuts.

**Action Requested:**

*In regard to item (b) Economic Costs and benefits to U.S. producers and consumers of removal of tariffs and removal or reduction in non-tariff barriers on articles traded with the EU.*

The tariffs of 5.10% on shelled walnuts and 4% on inshell walnuts are without justification. Tariff rate preferences granted to other foreign producers economically disadvantage California. With the elimination of the tariffs, which cost the industry \$13.3 million in the 2011 crop year, the market could be substantially larger than present. The tariff elimination will ensure further market expansion through static and dynamic welfare gains in the economy, directly impacting EU importers, distributors, food processors and consumers.

Tariff elimination is supported by local German and Spanish importers, because locally grown European walnuts cannot fulfill the needs of the market.

The California walnut crop has doubled in the past ten years to reach 496,000 tons in the current crop year. The two previous production years totaled 460,000 short tons and 503,000 short tons. The most recent five year average crop size is nearly 466,000 short tons. These recent increases beg for this solution. The European market is price sensitive and has become more so in recent years. The elimination of this tariff would be a step toward providing a degree of immediate relief in our most significant export market.

*In regard to item (h) Opportunities to Enhance customs cooperation between the United States and EU and its members states, ensure transparent and efficient and predictable conduct of customs operation and ensure that customs measures are not applied in a manner that creates unwarranted procedural obstacles to trade*

The grade standards are under constant pressure from EU States who want to arbitrarily lower the tolerance levels of certain defects. California inshell walnuts are of superior quality. A few EU countries would like to use these standards as a trade barrier. Lower tolerances reduce the industry's ability to supply the market place. Should the California walnut industry be restricted in the grading of product due to lower tolerances, or rejection at the receiving point, volume in the market would be reduced resulting in higher prices to the consumer. Any negotiations that take place through the Transatlantic Trade and Investment Partnership (TTIP) should harmonize with those established under the UN/ECE to ensure a unified approach to grade standards.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis A. Balint". The signature is written in a cursive style with a large initial "D".

Dennis A. Balint  
Chief Executive Officer  
California Walnut Commission