Results of The Hazelnut Market Study

Presentation to the BC Hazelnut Association

April 8, 2019

Hart & Associates
Management Consultants Ltd.
Consultants to the Agri-Food Industry
I  Objective of this study

This study was undertaken for the Ontario hazelnut industry but the markets and industry structure we examined were national in scope and, therefore, many areas are applicable to the BC markets as well.

Hart & Associates Management Consultants Ltd. conducted this study for the Ontario Ministry of Agriculture, Food and Rural Affairs on behalf of the Ontario Hazelnut Association.

Undertaken for the Ontario Hazelnut Association

1. Develop an understanding of the market

   -sizing of market
   -import and domestic production values
   -pricing
   -packaging

2. Identify opportunities for Ontario hazelnut growers

   -channel
   -pricing
   -product characteristics
II Our Work Steps

1 We conducted a statistical review of international and Canadian trade data

2. We conducted personal and telephone interviews with:
   - Ontario Hazelnut growers in Ontario, BC and Oregon
   - Grower and marketing associations in Ontario, BC and Oregon
   - Major grocery chains, independent retailers in Ontario
   - Importers, distributors
   - Food processors
## III Size of Market

### World Production of hazelnuts (2016)

<table>
<thead>
<tr>
<th></th>
<th>Metric tonnes</th>
<th>Percent of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>549,000</td>
<td>71.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>112,643</td>
<td>14.6%</td>
</tr>
<tr>
<td>United States of America</td>
<td>40,500</td>
<td>5.2%</td>
</tr>
<tr>
<td>Georgia</td>
<td>39,700</td>
<td>5.1%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>31,202</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>773,045</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*in pounds* 1,700,699,000  

**Producer price/lbs** $1.23  

**Value of production** $2,091,859,770

*Source: (FAOSTAT) Food and Agriculture Organization United Nations data, 2016*
Value of Canadian Hazelnut Market 2016
($ and tonnage)

2013: $101.5, 11.28 tonnes
2014: $127.3, 12.43 tonnes
2015: $186.2, 12.28 tonnes
2016: $147.9, 12.82 tonnes

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## Canadian Market - In Shell and Shelled

<table>
<thead>
<tr>
<th>Type</th>
<th>Tonnes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelled product</td>
<td>11,907</td>
<td>92%</td>
</tr>
<tr>
<td>In-Shell</td>
<td>1,026</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>12,933</td>
<td>100%</td>
</tr>
</tbody>
</table>
# 2017 Imports into Canada

## 2017 Results

<table>
<thead>
<tr>
<th></th>
<th>Quantity (000s kg)</th>
<th>Dollars</th>
<th>Per by Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelled</td>
<td>10,134,976</td>
<td>$98,091,680</td>
<td>85.6%</td>
</tr>
<tr>
<td>Change 2016</td>
<td>-28.8%</td>
<td>-14.9%</td>
<td></td>
</tr>
<tr>
<td>In shell</td>
<td>1,514,447</td>
<td>$16,547,808</td>
<td>14.4%</td>
</tr>
<tr>
<td>Change 2016</td>
<td>47.6%</td>
<td>46.0%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$114,639,488</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

85.6% of imports are shelled.

99% of in-shell comes from US
94.7% of shelled comes from Turkey
## U.S. Imports by state into Canada (shelled product)

**2017 Shelled Imports from US**

<table>
<thead>
<tr>
<th>State</th>
<th>Quantity KGM</th>
<th>Value Cdn $</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon</td>
<td>313019</td>
<td>$3,762,809</td>
<td>94.6%</td>
</tr>
<tr>
<td>Ohio</td>
<td>9979</td>
<td>$102,114</td>
<td>2.6%</td>
</tr>
<tr>
<td>California</td>
<td>6716</td>
<td>$45,481</td>
<td>1.1%</td>
</tr>
<tr>
<td>New York</td>
<td>2085</td>
<td>$39,100</td>
<td>1.0%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>1694</td>
<td>$16,478</td>
<td>0.4%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>759</td>
<td>$7,711</td>
<td>0.2%</td>
</tr>
<tr>
<td>Michigan</td>
<td>138</td>
<td>$1,679</td>
<td>0.0%</td>
</tr>
<tr>
<td>Washington, state</td>
<td>45</td>
<td>$1,084</td>
<td>0.0%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>11</td>
<td>$178</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td><strong>334446</strong></td>
<td><strong>$3,976,634</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Oregon accounts for 95% of shelled US imports to Canada.
# U.S. Imports by state into Canada 2017 (In-shell product)

Oregon accounts for 99% of in-shelled US imports to Canada

<table>
<thead>
<tr>
<th>State</th>
<th>Quantity KGM</th>
<th>Value Cdn $</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon</td>
<td>1486034</td>
<td>$16,335,944</td>
<td>99.2%</td>
</tr>
<tr>
<td>California</td>
<td>22266</td>
<td>$134,983</td>
<td>0.8%</td>
</tr>
<tr>
<td>Michigan</td>
<td>209</td>
<td>$1,346</td>
<td>0.0%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>163</td>
<td>$1,237</td>
<td>0.0%</td>
</tr>
<tr>
<td>Maine</td>
<td>2</td>
<td>$65</td>
<td>0.0%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>5</td>
<td>$34</td>
<td>0.0%</td>
</tr>
<tr>
<td>United States</td>
<td>1508679</td>
<td>$16,473,609</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
World Producer Price for Hazelnuts

Wholesale Mkt Price Shelled
Feb 18, 2019

$4.92/kg $2.24/lb
Up 25% from last year

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Hazelnut Pricing Structure By Channel

Foreign Growers
(e.g. Turkey)
$1.23/lbs, (fluctuates)

Foreign Aggregators/Wholesalers
$2.50 - $3.50

Canadian importer/distributor
(e.g. John Vince)
$4.50 - $6.00

Distributors (e.g. GFS)
$4.50 - $5.00

Grocery chains and retailers
(Majors: Metro, Costco)
$6.50 - $8.00

Small & specialty retailers
$6.00 - $8.50

Food Processors
$6.00 - $8.50

Food Processors
Majors: e.g. Ferrero
$3.00 - $3.50

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## Pricing Through the Channels

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;World&quot; producer price</td>
<td>$1.60</td>
</tr>
<tr>
<td>What importer pays</td>
<td>$2.50 to $4.50</td>
</tr>
<tr>
<td>What distributor pays</td>
<td>4.5 to $7.00</td>
</tr>
<tr>
<td>What large retailer pays</td>
<td>$4.50 to $6.00 or higher</td>
</tr>
<tr>
<td>Retail price</td>
<td>$8 to $27</td>
</tr>
</tbody>
</table>

Import prices change with world market conditions
The Ontario Market - All retail formats

Mostly sold as raw shelled in small plastic film or boxed packages 100, 200, 250 and 300 gram. Very little is sold in shell.

Very little is flaked/sliced
(Zehr’s no name)

Very little is organic
(Produced by Tootsi Impex)

Costco sells the largest packages 908g (Produced by Basse Nuts)

Some retailers sell roasted hazelnuts
(Loblaw private label)

Also sold in mixed nut format
(Produced by David Roberts Food Corp)
Interest in buying Ontario product

We asked if buyers would be interested in buying an Ontario grown hazelnut sometime in the future when the industry grows.

Responses:

- Price is very important. Distributors and importers said that the only criterion the major grocery chains were interested in was low price.

- Quality of the product had to match that of Turkey and Oregon (taste, shape, appearance)

- Some questioned if Ontario had the climate to grow hazelnuts

- With these conditions, yes respondents would be interested in sourcing Ontario grown product
The major hazelnuts importers

1. Basse Nuts (Laval Quebec)
   - Supplies Costco

2. Compass Foods (Toronto)
   - Imports from Turkey and Oregon, roasts
   - Sells to most of the chains as private label as branded
   - Imports from Turkey and Oregon
   - 72 tonnes

3. John Vince (Toronto)
   - Supplies private label to retailers
   - 227 tonnes

4. Trophy Foods (Toronto)

5. North American Impex Inc. (buys from John Vince) 22,000 lbs per year

6. Tootsi (Montreal)

7. Ferrero
Some of the major distributors in the Ontario include:

North American Impex (Toronto)
Royal Nuts (Toronto)
David Roberts Food Corp. (Oakville)
Gordon Food Service (Toronto)
We conducted a retail pricing review

<table>
<thead>
<tr>
<th>Store</th>
<th>Independent</th>
<th>Metro</th>
<th>Bulk Barn</th>
<th>Food Basic</th>
<th>Walmart</th>
<th>Costco</th>
<th>Sobeys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand</td>
<td>Store brand</td>
<td>Store brand</td>
<td>Bulk</td>
<td>Store brand</td>
<td>Store brand</td>
<td>Store brand</td>
<td>Branded</td>
</tr>
<tr>
<td>Type</td>
<td>Whole- raw</td>
<td>Whole</td>
<td>Whole- raw</td>
<td>Whole- raw</td>
<td>Whole- raw</td>
<td>Whole- raw</td>
<td>In shell</td>
</tr>
<tr>
<td></td>
<td>Bagged</td>
<td>Selection</td>
<td>Bulk</td>
<td>Bagged</td>
<td>Bagged</td>
<td>Bagged</td>
<td></td>
</tr>
<tr>
<td>Pack Size</td>
<td>250</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>100</td>
<td>908</td>
<td>300</td>
</tr>
<tr>
<td>Price</td>
<td>$12.79</td>
<td>$4.49</td>
<td>$3.48</td>
<td>$5.99</td>
<td>$2.84</td>
<td>$15.79</td>
<td>$4.99</td>
</tr>
<tr>
<td>Price per Kg</td>
<td>$51.16</td>
<td>$44.90</td>
<td>$34.80</td>
<td>$29.95</td>
<td>$28.40</td>
<td>$17.39</td>
<td>$16.63</td>
</tr>
<tr>
<td>Price per pound</td>
<td>$23.25</td>
<td>$20.41</td>
<td>$15.82</td>
<td>$13.61</td>
<td>$12.91</td>
<td>$7.90</td>
<td>$7.56</td>
</tr>
</tbody>
</table>
Hazelnut Ontario Retail Price Per Pound Comparison

<table>
<thead>
<tr>
<th>Store Type</th>
<th>Price Per Pound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sobeys</td>
<td>$7.56</td>
</tr>
<tr>
<td>Costco</td>
<td>$7.90</td>
</tr>
<tr>
<td>Walmart</td>
<td>$12.91</td>
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<tr>
<td>Food Basic</td>
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</tr>
<tr>
<td>Bulk Barn</td>
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</tr>
<tr>
<td>Metro</td>
<td>$20.41</td>
</tr>
<tr>
<td>Independent</td>
<td>$23.25</td>
</tr>
</tbody>
</table>
**Oregon Pricing- Reacting to low prices by setting a floor**

In response to low prices, implemented a three-tiered pricing system on Oct 2, 2018 (Oregon Hazelnut Bargaining Association) based on type of nut.

To encourage planting of high “shell-out” varieties, such as Casina, McDonald and Sacajawea, which have a higher proportion of kernel within the nut and will earn at least **91 cents per pound this year**.

Mid-shell-out cultivars, including Lewis, Willamette, Santiam, Doris, Yamhill, Clark and Webster, will receive at least **81 cents per pound**.

In-shell varieties such as Jefferson and Barcelona, which have a relatively low ratio of kernel to shell, will earn at least **62 cents per pound**.

Those prices are all down from last year's initial level of **96.5 cents per pound** and the 2016 initial price of **$1.18 per pound**.
The Oregon Market

2018 was a bad year for Oregon growers.

Good crop- but poor prices

US and China in a trade war – hazelnuts got caught up in it.

- China has put a 65 cents per lbs. tariff on US hazelnuts and with the devalued Turkish lira (down by 50%) drove down prices for Turkish hazelnuts.

- Other countries, Turkey, Chile, don’t pay a tariff so their product in China is cheaper.

- Barcelona trees were susceptible to Eastern Filbert Blight, a fungal pathogen been replaced with Jefferson, another in-shell variety resistant to the disease,

Low profits for Oregon growers
- some will reduce nitrogen fertilizer applications and apply a less expensive fungicide to his orchards to cut costs.

They are taking a longer term view- hope things improve once trade war ends.
Oregon Market

-about 900 member of the Oregon Hazelnut growers

-30,000 acres a few years ago

-67,000 to 80,000 acres now

-only about 40,000 of this is in production

-most growers have 3 to 10 acres
## The Oregon Industry Is Well Supported

<table>
<thead>
<tr>
<th>Association/Organization</th>
<th>Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hazelnut Growers of Oregon</td>
<td>Grower-owned organization, operates a processing and distribution plant</td>
</tr>
<tr>
<td>Oregon Hazelnut Marketing Board</td>
<td>Promotion and volume control</td>
</tr>
<tr>
<td>Nut Grower’s Society</td>
<td>Information and education arm for the industry</td>
</tr>
<tr>
<td>Oregon Hazelnut Commission</td>
<td>Commodity commission and agency of the State of Oregon-conducts production research</td>
</tr>
<tr>
<td>The Hazelnut Growers Bargaining Association</td>
<td>Helps growers get better prices, provides branding services to growers</td>
</tr>
</tbody>
</table>
The BC Market

There is a very small grower base in BC

Suffered a blight from 2001 to 2005- lost 1,000 acres

Limited data on the BC industry

-about 300 acres now, much fewer producing nuts

-about 30 to 40 growers

-most have 2 to 4 acres

-a few large ones (one has 35 acres, another has 60 acres)

-now undertaking a replanting program to increase acreage
Ontario Growers

From our interviews we found:

Number of acres growing: 110 - not all producing
Number of trees: Over 16,000 – again not all producing yet
Number of pounds yield: 1,800 lbs. Significantly more in another 2 to 3 years

Only two sizeable growers (30 and 55 acres, others have 1 to 8 acres)

The smaller growers are testing the crop
The larger ones have plans to expand

None are expecting or relying on potential Ferrero business at this point

How they sell:

Most like selling at farmers’ market (a few sell at farm gate but this is seen as intrusive for their families.

Some are selling to local restaurants, specialized retailers
Where is the Ontario industry now?

- Growers are increasing acreage
- Searching for best types of trees to grow
- Good success with Jefferson, Yamhill and other varieties
- Challenge to control animals
- Farmers have interest in expanding hazelnut operations
  - see higher profit than corn, grapes, apples
  - challenge is finding cost-effective equipment
  - perhaps an opportunity for a Co-Op to own and rent out supply pruners, sprayers, harvesters.
- the larger growers are buying their own equipment
Opportunities for Ontario Growers

Food processing sector

- largest segment of the hazelnut marketplace in Ontario, specifically with Ferrero as a major buyer.

- other food processors are possible customers (other confectionary companies, bakeries although at considerably lower volume than Ferrero.

The bakery sector has no strong preference on the type of hazelnut used in their products.

From all segments - strong interest in buying Ontario hazelnuts in the future provided that prices and quality were good and supply was available.

Opportunity is huge;

Ferrero buys 14,000 tonnes
Importers bring in 1,500 tonnes (represents 3,000 acres)

Total 15,500 tonnes = 31,000 tonnes of in-shell= 31,000 acres!

You won’t likely sell to Ferrero in the next few years until there is a sufficient industry volume but there are other markets you can enter. Slowly replacing some of the 1,500 tonnes of imported product that goes to the distribution and grocery channels is your target.
Recommended Growth Strategy

Prioritized steps

1. Continue to increase crop production.
   - identify the best variety for you

2. Take a “ramp-up” strategy
   
   Sell low volume to: (provides you highest profits but low volume)
   - farm gate
   - farmers markets
   - then begin retail sales

3. Sell to local and specialized retailers
   
   - in the GTA and other cities in Ontario
   - These small stores individually may only buy about 200 pounds or more of hazelnuts
   - these companies are open to buying from Ontario growers
5. **Recommended Growth Strategy**

4. Sell to small distributors/processors
   - offer high quality product at competitive prices.

5. Sell on the spot market to importers/distributors
   - Ontario producers can realize a price higher on a spot market.
   - Each of the importers/distributors gets shorted on their supply must buy on the spot market to their grocery retail customers. $$

6. Sell to Ferrero and other food processors
   - require volumes
   - product requirements (round, uniform)
   - an aggregator may be best able to fill this need.
Thank You!

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