

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

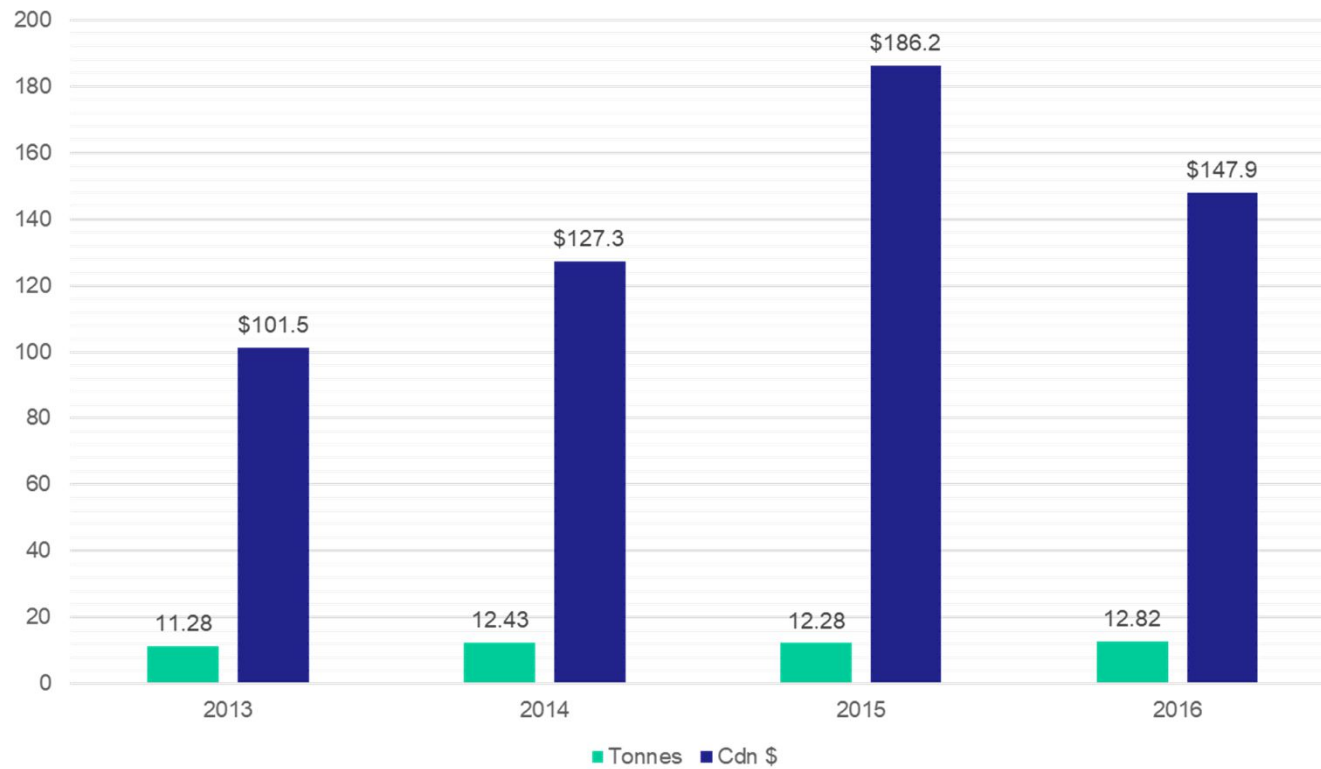
World Production of hazelnuts (2016)

Size of Hazelnut World Production, 2016

	Metric tonnes	Percent of production
Turkey	549,000	71.0%
Italy	112,643	14.6%
United States of America	40,500	5.2%
Georgia	39,700	5.1%
Azerbaijan	31,202	4.0%
Total	773,045	100.0%
<i>in pounds</i>	<i>1,700,699,000</i>	
<i>Producer price/lbs</i>	<i>\$1.23</i>	
<i>Value of production</i>	<i>\$2,091,859,770</i>	

Source: (FAOSTAT) Food and Agriculture Organization United Nations data, 2016

Value of Canadian Hazelnut Market 2016 (\$ and tonnage)



Canadian Market- In Shell and Shelled

<u>Type</u>	<u>Tonnes</u>	<u>Percentage</u>
Shelled product	11,907	92%
In-Shell	<u>1,026</u>	<u>8%</u>
Total	12,933	100%

2017 Imports into Canada

2017 Results

	Quantity	Dollars	Per by Dollar
Shelled (000s kg)	10,134,976	\$98,091,680	85.6%
Change 2016	-28.8%	-14.9%	
In shell (000s kg)	1,514,447	\$16,547,808	14.4%
Change 2016	47.6%	46.0%	
Total		\$114,639,488	100.0%

**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

*Oregon accounts for 95%
of shelled US imports to Canada*

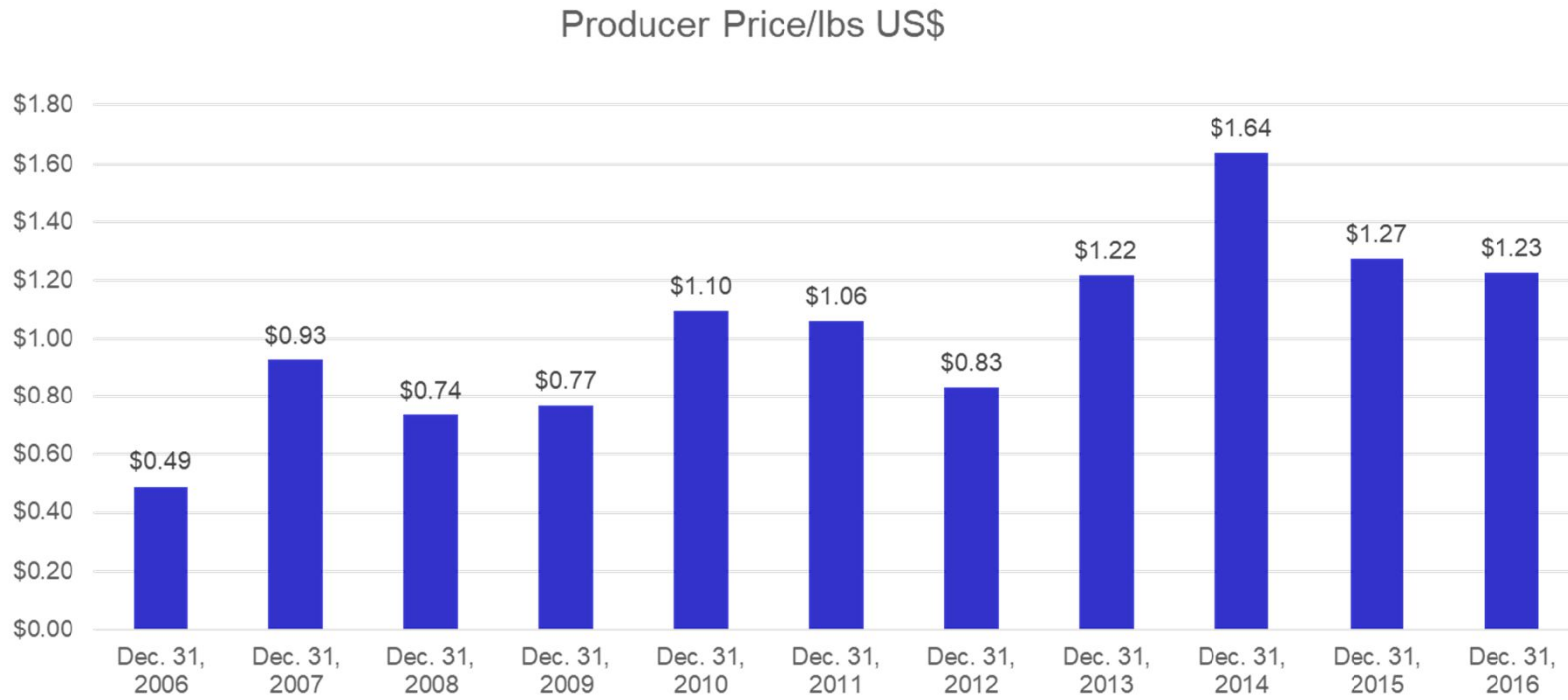
State	Quantity KGM	Value Cdn \$	Percent
Oregon	313019	\$3,762,809	94.6%
Ohio	9979	\$102,114	2.6%
California	6716	\$45,481	1.1%
New York	2085	\$39,100	1.0%
Minnesota	1694	\$16,478	0.4%
New Jersey	759	\$7,711	0.2%
Michigan	138	\$1,679	0.0%
Washington, state	45	\$1,084	0.0%
North Dakota	11	\$178	0.0%
United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

U.S. Imports by state into Canada 2017 (In-shell product)

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

State	Quantity KGM	Value Cdn \$	Percent
Oregon	1486034	\$16,335,944	99.2%
California	22266	\$134,983	0.8%
Michigan	209	\$1,346	0.0%
New Jersey	163	\$1,237	0.0%
Maine	2	\$65	0.0%
Massachusetts	5	\$34	0.0%
United States	1508679	\$16,473,609	100.0%

World Producer Price for Hazelnuts



Wholesale Mkt Price Shelled
Feb 18, 2019

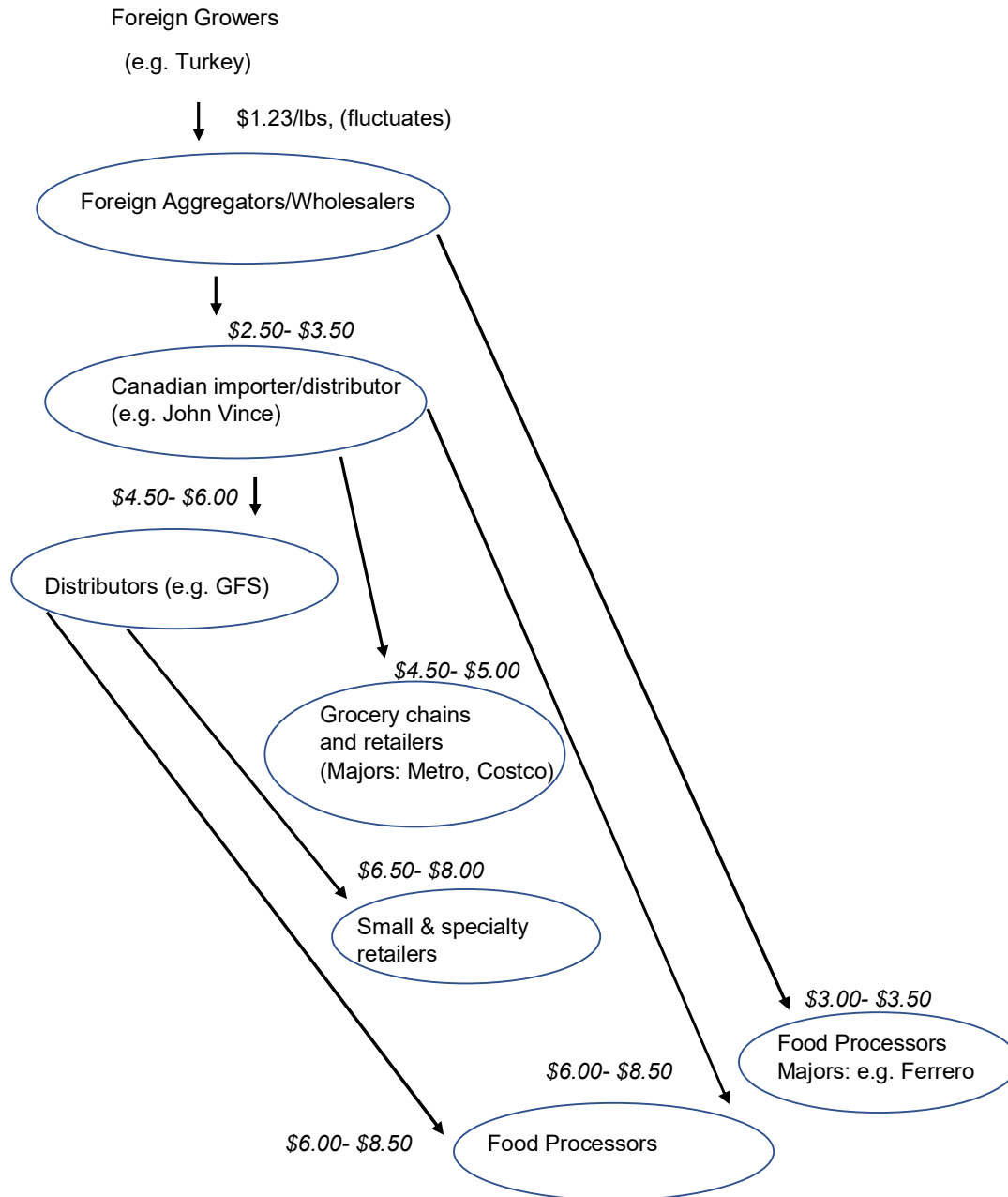
\$4.92Kg

\$2.24/lbs

Up 25% from last year

Hart & Associates
Management Consultants Ltd.

Hazelnut Pricing Structure By Channel



Pricing Through the Channels

	Price
"World" producer price	\$1.60
What importer pays	\$2.50 to \$4.50
What distributor pays	4.5 to \$7.00
What large retailer pays	\$4.50 to \$6.00 or higher
Retail price	\$8 to \$27

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
(Loblaws 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)

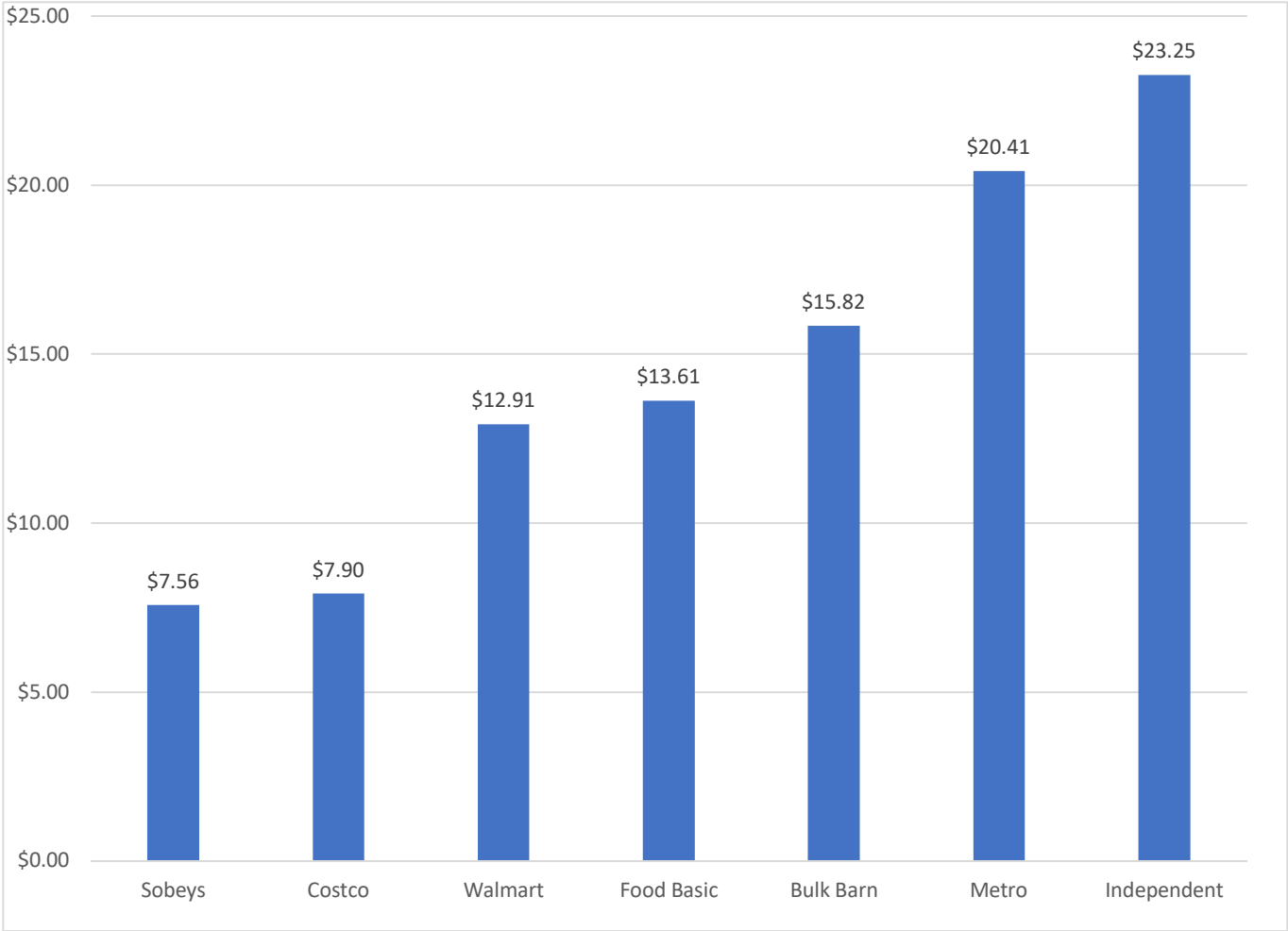
David Roberts Food Corp. (Oakville)

Gordon Food Service (Toronto)

We conducted a retail pricing review

Store	Independent	Metro	Bulk Barn	Food Basic	Walmart	Costco	Sobeys
Brand	Store brand	Store brand	Bulk	Store brand	Store brand	Store brand	Branded
Type	Whole- raw	Whole	Whole- raw	Whole- raw	Whole- raw	Whole- raw	In shell
	Bagged	Selection	Bulk	Bagged	Bagged	Bagged	
Pack Size	250	100	100	200	100	908	300
Price	\$12.79	\$4.49	\$3.48	\$5.99	\$2.84	\$15.79	\$4.99
Price per Kg	\$51.16	\$44.90	\$34.80	\$29.95	\$28.40	\$17.39	\$16.63
Price per pound	\$23.25	\$20.41	\$15.82	\$13.61	\$12.91	\$7.90	\$7.56

Hazelnut Ontario Retail Price Per Pound Comparison



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 80,00 acres now

-only about 40,000 of this is in production

-most growers have 3 to 10 acres

The Oregon Industry Is Well Supported

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

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

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!

Hart & Associates

Management Consultants Ltd.

Consultants to the Agri-Food Industry

Hart & Associates

Management Consultants Ltd.