

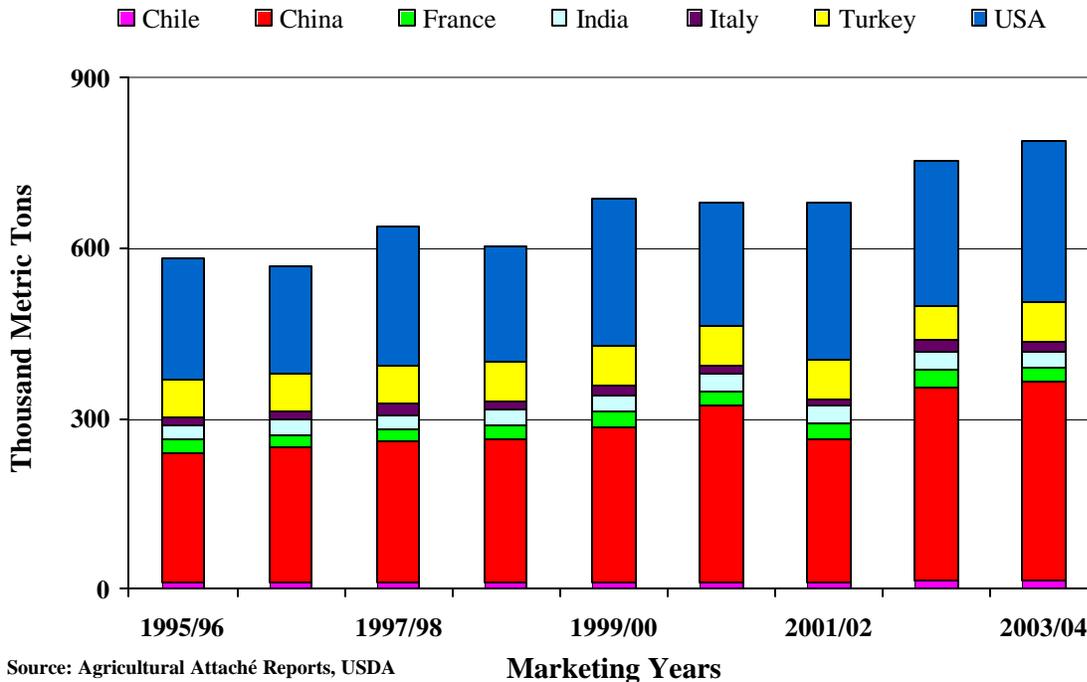
World Walnut Situation & Outlook

Production

According to the Food and Agriculture Organization, the top six walnut producers in Calendar Year (CY) 2003 were China at 360,000 metric tons (25 percent share of the world's production), followed by the United States (285,000 tons, 20 percent share), Iran (160,000 tons, 11 percent share), Turkey (136,000 tons, 10 percent share), Ukraine (58,000 tons, 4 percent share) and Romania (37,500, 3 percent share). From 1993 to 2003, world production increased 29 percent to 1.4 million tons.

The U.S. Department of Agriculture (USDA) [Production, Supply and Distribution \(PSD\)](#) database contains data on in-shell walnuts for Chile, China, France, India, Italy, Turkey, and the United States. Of the selected countries in the PSD database, the United States accounted for 36 percent of reported production in 2003/04.¹

Walnut Production in Select Countries



Walnut production for 2003/04 in the selected countries is estimated at 799,760 tons, a 6-percent rise over 2002/03-production. As illustrated above, world production grew 38 percent since 1995/96 to 2003/04, with large increases in China and the United States. While many U.S. walnut growers have expressed

¹ Split years refer to harvest and marketing period, which begins in the fall and extends to the spring. This corresponds roughly to July-October in the Northern Hemisphere and January-March in the Southern Hemisphere. For Southern Hemisphere, harvest occurs almost entirely during the second year shown.

concern over the increasing Chinese production, high levels of Chinese consumption and the increasing incomes and sophistication of Chinese consumers create opportunities for U.S. products to compete (see [FAS Attaché Report #CH3120](#) for further details).

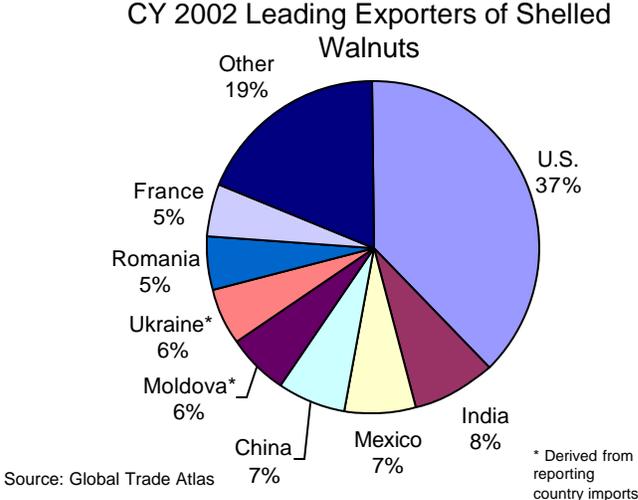
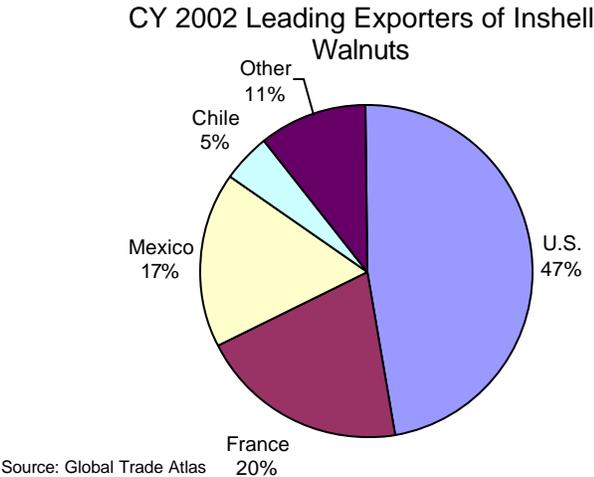
Northern Hemisphere

According to the California Agricultural Statistical Service [Objective Survey Measurement](#), the 2003/04 walnut crop is forecast to be a record 286, 000 metric tons, up 12 percent from the 2002/03 crop. The 2004/05 [Objective Survey Measurement](#) will be available in September 2004. Chinese walnut production has continued its steady increase, with an expected 2003/04 crop of 350,000 tons, 3 percent above the prior crop. The 2003 drought in Europe severely curtailed French production, which fell 30 percent to 24,000 tons. However, French production is expected to return to more normal levels in 2004/05 with forecasted production of 32,000 tons. The 2003/04 Indian walnut crop is expected to be 30,000 tons, down 6 percent. However, due to the upswing in production, the 2004/05 crop is forecast to be 33,000 tons, assuming normal weather. While Italian production was not as severely impacted by the European drought, the 2003/04 crop is expected to be 10 percent smaller at 18,000 tons, with a further decline in 2004/05 to 15,000 tons. The 2003/04 Turkish crop is forecast at 69,000 tons, which is expected to rise 1 percent in 2004/05 to 70,000 tons.

Southern Hemisphere

In Chile, the replacement of older orchards with high-yield varieties is expected to raise production in the long-term; the 2003/04-crop is only up 1 percent to 14,000 tons, due to unfavorable spring weather. Chilean production is forecast to grow 4 percent in 2004/05 to 14,500 tons.

Exports



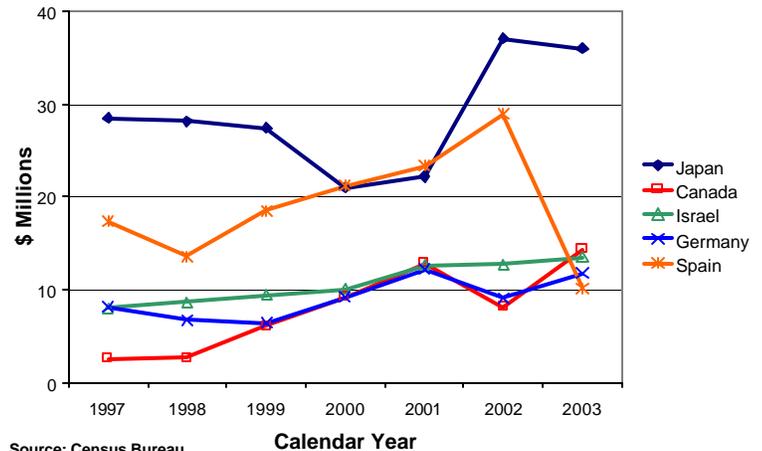
According to Global Trade Atlas (GTA), the reporting countries in CY 2002 exported a total of \$404.8 million of walnuts. Of this, 62 percent of the value was shelled walnuts at \$251 million, with in-shell walnuts

accounting for 38 percent valued at \$153 million. While CY 2003 totals are not yet available, preliminary data suggest strong increases in U.S., Mexican, and Chinese exports, while French exports have declined.

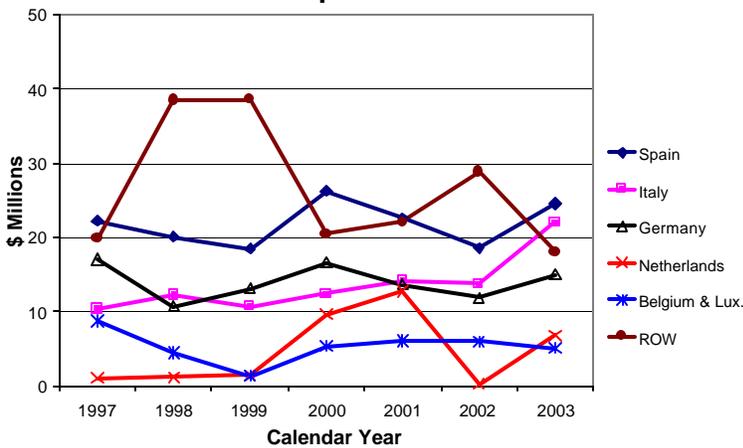
United States

In CY 2002, the United States is the leading exporter of both shelled and in-shell walnuts with over 45 percent of exports among the countries in the GTA database. Since 2000, exports of walnuts (shelled and in-shell) have grown 9 percent to reach \$183 million in CY 2002. Of this, 40 percent or \$72 million were in-shell walnuts, while the remaining 60 percent (\$111 million) were shelled walnuts. Leading exports destinations for in-shell U.S walnuts are primarily EU countries (Spain, Italy, and Germany). Leading destinations for shelled exports include Japan, Germany, Canada, and Israel.

CY 2003 U.S. Exports of Shelled Walnuts



CY 2003 U.S. Exports of In-shell Walnuts



tariffs for all WTO trading partners.

Chile

For 2003/04, Chilean walnut exports are forecast at 22,000 tons, with future expansion anticipated due to increasing production. Chilean exporters have recently expanded their marketing activities beyond their traditional Latin American trading partners to the more lucrative EU market. This shift in markets is a reaction to the weakening Latin American economies and is expected to continue with over 65 percent of

Despite being the leading exporter, U.S. walnuts still face many access barriers in foreign markets. For example, walnut exports to the EU currently face a 4 percent and 5.1 percent tariff on in-shell and shelled walnuts, respectively. For further trade issues that impact walnuts and other horticultural products, please see the [FAS Quarterly Reference Guide to World Horticultural Trade: Trade Issues Edition](#). For information on tariffs, the [FAS WTO Tariff Schedules Search Engine](#) will provide the current

exports now entering the EU. The Chile-EU Free Trade agreement has reduced all EU tariffs on tree nuts to zero and is expected to increase trade. Chilean exports to the United States currently face a zero duty and 14.1 cents/kg duty on in-shell and shelled nuts, respectively. However, the shelled walnut tariff will be reduced to zero in four years. Chile currently bans the importation of U.S. in-shell walnuts due to weevils and navel orange worm. Shelled imports are permitted, provided they have received the proper fumigation treatment. For further details, please see the [2004 Chile Walnut Annual](#).

China

Exports of Chinese walnuts are expected to be 22,000 tons in 2003/04, up 45 percent from 2002/03. Chinese in-shell walnuts are primarily destined for regional and Middle Eastern markets where they are extremely competitive, due to low-costs, short shipping routes and consumer familiarity. Chinese shelled walnut exports continue to grow, with key markets in Japan, Canada, Germany, and Hong Kong.

Chinese imports have shifted from in-shell walnuts to shelled walnuts, most likely due to improvements in the quality of domestic in-shell walnuts and increased awareness of shelled walnuts by the bakery sector. U.S. walnuts being shipped to China face a 41.25 and 35.60 percent tariff on in-shell and shelled walnuts respectively. For further details, please see the [2004 Peoples Republic of China Tree Nut Annual](#).

France

While France is the largest producer and exporter of walnuts in the EU, exports for 2003/04 are expected to be down 28 percent to 16,000 tons due to the small harvest and poor quality. However, exports are expected to rebound 44 percent to 23,000 tons assuming a normal harvest in 2004/05. Although France is a net exporter of walnuts, the best U.S. market opportunity is in shelled walnuts and pieces. The in-shell market is dominated by the domestically produced and appellation-labeled walnuts. For further details, please see the [France Semi-Annual Tree Nut Report](#).

India

Indian walnut exports fluctuate widely on export demand and domestic prices. Exports for 2003/04 are forecast to be 15,000 tons due to tight supplies, but are expected to increase to 17,000 tons in 2004/05. The bulk of India's exports of shelled walnuts are sold to European countries, primarily Spain, Greece, Germany, and France. For further details on Indian tree nut production and trade, please see the [2003 India Annual Tree Nut Report](#).

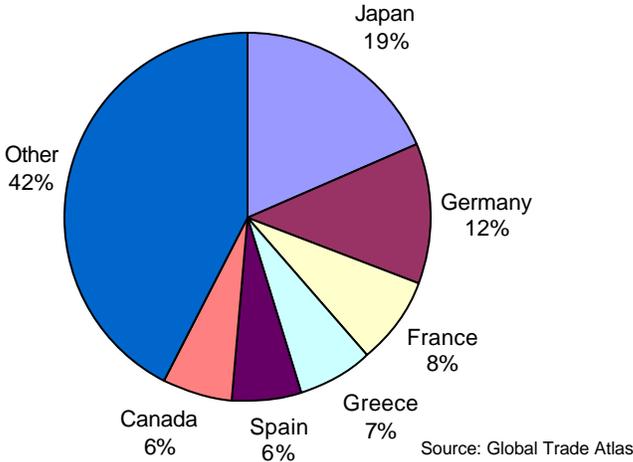
Imports of U.S. walnuts into India face tariffs and strict import conditions. India has a 35.2 percent tariffs on walnuts. The Government of India (GOI) has also implemented the [Proposed Amendment to the Prevention of Food Adulteration Act](#), which set new stringent quality standards on dry fruits and nuts. The GOI has also implemented the [Plant Quarantine \(Regulation of Import into India\) Order, 2003](#), which established new import procedures and quarantine requirements on agricultural products imported into India including products of export interest to the United States, namely citrus fruits, grapes, peas, pome fruits, and

dry fruits and nuts for consumption. However, the GOI issued [Plant Quarantine \(Regulation of Import into India\) Order, 2004](#), which provided some flexibility to U.S. exporters. The USDA Foreign Agricultural Service (FAS) and the USDA Animal and Plant Health Inspection Service (APHIS) will continue to work with the affected U.S. industries and the Government of India to ensure unimpeded trade of agricultural products to India.

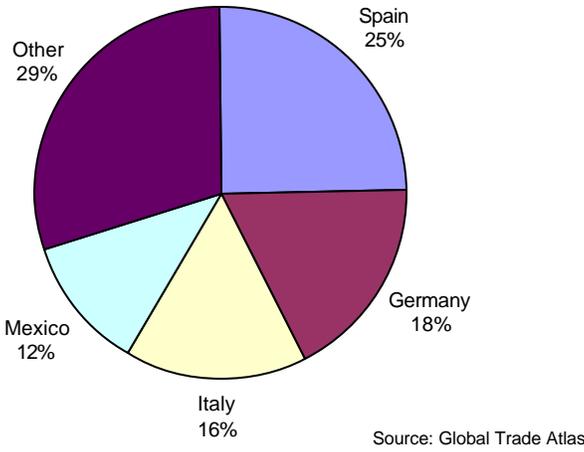
Imports

The top five walnut importers (shelled and in-shell) in 2002 were Germany (\$53.4 million), followed by Spain (\$47.6 million), Japan (\$46.5), Italy (\$28.5 million), and Mexico (\$19.7 million), according to GTA statistics. For EU external trade, the United States is the most important trading partner. The United States has 26 percent of EU imports of shelled walnuts and 91 percent of in-shell imports. The second largest supplier of in-shell walnuts to the EU is India, with 18 percent of the import market. For shelled walnuts, Chile is the second largest supplier to the EU with nearly 5 percent of the market in CY 2002.

Leading Importers of Shelled Walnuts



Leading Importers of Inshell Walnuts



Germany

Germany as the world’s largest importer of walnuts, imported \$38 million of shelled and \$22.5 million of in-shell walnuts in CY 2003. The United States was the dominant supplier for both categories, with 26 percent of shelled and 50 percent of in-shell walnut imports.

Italy

In CY 2003, Italy imported \$38 million worth of walnuts. Of this, 73 percent were in-shell walnuts and 27 percent were shelled walnuts. The United States is the predominant supplier of in-shell walnuts accounting for 72 percent (\$22 million) of Italian imports. However, Chile has recently edged the United States as the main supplier of shelled walnuts, claiming 32 percent (\$3.2 million) of the Italian shelled imports compared to 22 percent (\$2.2 million) for the United States in CY 2003.

Japan

In CY 2002, Japan imported over \$44 million of walnuts, of which 99 percent were shelled walnuts. The leading supplier to Japan is the United States supplying 89 percent of shelled market (\$39 million) and 100 percent of the in-shell market (\$240,000). Presently, Japan has a 10 percent tariff on shelled and in-shell walnut imports.

Mexico

Mexico's walnut trade is mostly with the United States. Mexico's total walnut imports for CY 2003 were \$13.2 million with 76 percent (\$11 million) as in-shell walnuts and 14 percent (\$1.9 million) as shelled. However, Mexico exported \$35 million of shelled and \$42 million of in-shell walnuts to the United States.

Spain

In CY 2003, Spain imported \$37 million of in-shell walnuts and \$19 million of in-shell walnuts. The United States is the leading supplier accounting for 76 percent (\$27 million) of in-shell and 34 percent (\$9.6 million) of shelled walnuts imports.

Turkey

Turkish exports of walnuts are forecast to be 500 tons for both 2003/04 and 2004/05. However, imports are expected to rise from 6,000 tons in 2003/04 to 8,500 tons in 2004/05 due to a downswing in the production cycle. For more detail, please see the [2003 Turkey Tree Nut Annual](#).

Marketing and Export Programs

The GSM-102 program makes available credit guarantees for sales of U.S. agricultural commodities overseas. USDA does not provide financing, but guarantees payments due from foreign banks. USDA typically guarantees 98 percent of the principal and a portion of the interest. The GSM-102 program covers credit terms from 90 days to 3 years.

Under the program, once a firm sale exists, the qualified U.S. exporter applies for a payment guarantee before the date of export. The U.S. exporter pays a fee calculated on the dollar amount guaranteed, based on a schedule of rates applicable to different lengths of credit periods. The foreign bank approved by the Commodity Credit Corporation (CCC), issues a dollar-denominated, irrevocable letter of credit in favor of the U.S. exporter, ordinarily advised or confirmed by the financial institution in the United States agreeing to extend credit to the foreign bank. The U.S. exporter may negotiate an arrangement to be paid as exports occur by assigning the U.S. financial institution the right to proceeds that may become payable under the guarantee, and later presenting required documents to that financial institution. Such documents normally include a copy of the export report.

If a foreign bank fails to make any payment as agreed, the exporter or the assignee may file a claim with USDA for the amounts due and covered by the guarantee. USDA will pay the U.S. bank and will take on the responsibility of collecting the overdue amount from the foreign bank.

Additional information about the GSM-102 program, regulations, country specific press releases and program announcements, and a Monthly Summary of Export Credit Guarantee Program Activity may be accessed at <http://www.fas.usda.gov/excredits/exp-cred-guar.html>.

(For information on production and trade, contact Kyle Cunningham at 202-720-0875. For information on marketing contact, Ingrid Mohn at 202-720-5330.)