CASE STUDY: HAZELNUTS

Introduction
In October, 2003, the U.S. hazelnut industry filed an antidumping petition claiming that Turkey was selling certain processed hazelnuts at less than normal value in the U.S. market, and these imports were causing material injury to the domestic industry. Although the U.S. International Trade Commission (ITC) issued a preliminary decision agreeing that the domestic industry was indeed injured by Turkish imports, the petition was later withdrawn when the domestic industry reached a settlement agreement with the Turkish government.

Background: The Global Hazelnut Industry

Turkey is by far the largest producer of hazelnuts in the world, accounting for approximately 80 percent of world production. Italy, Spain and the United States account for the remaining production. Although hazelnuts are sold as shelled nuts in containers, the largest consumer of processed hazelnuts is the food processing industry which uses them primarily as ingredients in chocolate candies.

Although the varieties of hazelnuts produced by each country are similar, there are key differences. For example, Turkish varieties tend to have higher oil content and a somewhat different taste, as well as a skin that is more easily removable.\(^1\) As a result, historically most Turkish varieties must be processed in some way, while U.S. hazelnuts are primarily sold still in their shell.\(^2\)

Over 99 percent of U.S. hazelnuts are produced in Oregon, with Washington accounting for the remaining production. U.S. production is extremely volatile. U.S. hazelnuts grow in a two-year cycle—in the first year production is extremely high and in the second year production is extremely low. Production has been hampered in recent years by the Eastern Filbert Blight, a disease that eventually kills the hazelnut trees it infects. Between 1995 and 2005, Oregon lost more than 1,600 acres of trees to the blight.\(^3\)

Domestic sales by U.S. producers are highly regulated. It is more profitable for U.S. producers to sell hazelnuts still in their shell, but these sales are subject to a marketing order. The Hazelnut Marketing Board (HMB) establishes the volume of in-shell nuts that may be freely sold in the U.S. market each year in order to maintain in-shell hazelnut prices. All other U.S. production must either be exported or processed in some way. In the 2004-2005 marketing year, just 6.5 percent of U.S. hazelnut production could be sold freely; the remaining 93.5 percent had to be exported or processed.\(^4\)

\(^1\) USITC, pg. I-3.
\(^2\) Virtually all Turkish hazelnut exports are processed in someway, while approximately 65 percent of U.S. production is sold in-shell.
\(^3\) Rukmini Callimachi, “American growers seek more demand for hazelnut,” Associated Press Wire, June 18, 2005.
\(^4\) Note that at the time of the antidumping investigation, however, 18.4 percent of U.S. production could be sold freely.
Much of the restricted sales are exported rather than processed. In the 2004-2005 marketing season, 80.1 percent of U.S. hazelnut production was exported and, as noted above, historically most U.S. hazelnuts have been exported still in their shells. However, the percentage of in-shell sales has gradually been declining, in part because the trees developed in recent years to resist the Eastern Filbert Blight produce hazelnuts more suitable for further processing.

Unlike the United States, Turkish hazelnuts do not grow in a two-year cycle. Exports of Turkish hazelnuts account for between 79 and 86 percent of annual production; most Turkish hazelnuts are exported to the European Union, while two to four percent of annual production is exported to the United States. As noted above, virtually all Turkish hazelnut exports are processed in some way.

Prior to the filing of the antidumping petition in October of 2003, production of processed hazelnuts declined dramatically—falling over 19 percent between 2000 and 2002 and by 63 percent from the first six months of 2002 to 2003. At the same time, Turkey’s U.S. market share climbed steadily from 57 percent of total U.S. consumption in 2000 to 82 percent of consumption in the first six months of 2003. This surge in imports can be seen in Figure [1]. The price of both Turkish and U.S. produced hazelnuts products fell irregularly between 2001 and the first six months of 2003, as can be seen in Figure [2]. The net income of the six firms filing the antidumping petition fell from $1.8 million in 2001 to only $0.2 million in 2002, and fell an additional 144.5 percent in the first six months of 2003.

Figure 1

![Graph showing imports of processed hazelnuts from Turkey](image)

Source: U.S. Census Bureau

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5 USITC, pgs. IV-1 -- V-5.
6 USITC, pg. VI-2.
The Antidumping Petition

On October 21, 2003, a coalition of hazelnut producers filed an antidumping petition, claiming that processors from Turkey were selling their products at less than fair value and that these imports were causing material injury to the U.S. industry.\(^7\) The petition, while excluding in-shell hazelnuts, included most forms of processed hazelnuts.\(^8\) Because the hazelnut industry, like most agricultural products, is highly competitive and characterized by a number of growers, the Department of Commerce (DOC) initiated an investigation to determine whether the petition had sufficient industry support.\(^9\) After gathering more information from the hazelnut industry, the DOC found sufficient support for the initiation of the investigation on December 1, 2003.

Under U.S. law, the “fair value” is at the most basic level the price charged in the exporting country. However, if all foreign market sales are made below the cost of production than the normal value is defined as a “constructed value” based on the foreign cost of production. Petitioners requested that the DOC initiate a “sales-below-cost” investigation. In their petition, domestic producers estimated a dumping margin of 31.80 percent by comparing a constructed value of Turkish production to actual U.S. export prices.

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\(^7\) The coalition included: Westnut LLC, Northwest Hazelnut Company, Hazelnut Growers of Oregon, Willamette Filbert Growers, Evergreen Orchards, and Evonuk Orchards.

\(^8\) This includes kernels that had been roasted, blanched, sliced, diced, or chopped, paste, meal, flour, croquant, and butter.

\(^9\) All antidumping petitions must be filed on behalf of a domestic industry. A petition meets the requirement if domestic producers who support the petition account for at least 25 percent of total production and more than 50 percent of production of those that support and oppose the petition.
The Case Outcome

On December 15, 2003, the ITC issued its preliminary finding there was “a reasonable indication” that the industry was materially injured due to imports of Turkish hazelnuts based on many of the market characteristics described above.

However, on January 28, 2004 the coalition officially withdrew their petition. In a letter to the DOC and ITC, industry representatives noted that the government of Turkey, through its Undersecretariat of Foreign Trade, offered a number of concessions to the U.S. industry conditional on the withdrawal of the formal petition. First, the government of Turkey offered U.S. producers access to Turkey’s gene repository, a repository of over 700 hazelnut tree varieties. U.S. producers were hopeful that access to this material would help them develop new varieties of hazelnut trees that were immune to the Easter Filbert Blight. Turkey also offered to significantly increase funding to a U.S.-Turkey marketing/promotion program for hazelnuts, the Hazelnut Council which was established in 1996. Other reported elements of the settlement agreement included a Turkish donation of $125,000 to Oregon State University’s hazelnut breeding program over the course of two years, as well as Turkish funding of Oregon internships for Turkish students.10

The petitioners noted in their letter to the DOC and ITC that they understood that the government of Turkey would prevent Turkey’s hazelnut producers from requesting duty-free status for hazelnut under the Generalized System of Preferences (GSP), a program that allows duty-free imports of certain products from developing countries, which they had done unsuccessfully twice before. However, this was not part of the official settlement offer.

Since the settlement agreement, the joint U.S.-Turkey Hazelnut Council indeed increased spending to promote sales of hazelnuts from $1.0 million for the 2004 crop to $1.5 million for the 2005 crop. Of this amount, U.S. growers paid only $100,000. It remains unclear how much success the Hazelnut Council has had. Although U.S. consumption of hazelnuts increased 48.7 percent from the 2003/2004 to the 2004/2005 marketing year, total world consumption actually fell 31.9 percent.11

U.S. imports have fallen significantly since the antidumping case was filing and unit prices have increased, as can be seen in Figures [1] and [2]. Total U.S. imports of hazelnuts fell 65.8 percent between the 2002/2003 and the 2004/2005 marketing years, while U.S. production increased 100.9 percent during this same time period.12 However, the decrease in imports from Turkey and the price increase can be traced to low production levels in Turkey during the past two seasons and not the antidumping petition. The United States continued to combat the Eastern Filbert Blight.

12 Ibid.
References
