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July 2007 Almond Position Report & Season In Review

July 2007 shipments were 82.036 million pounds. This is up about 36% from the July 2006 shipments of 60.235 million pounds.

Review of 2006 Crop Year

Carry-in from the 2005 crop year: 112 million pounds

Receipts through July 31, 2007: 1.116 billion pounds

Less 3% loss / exempt: (33.5 million pounds)

Total Supply: 1.195 billion pounds

Less shipments to date: (1.066 billion pounds)

Less carry out into the 2007 crop: (129 million pounds)

The July shipments are amazing. Domestic shipments are up 16% but exports are up an unbelievable 49%. If nothing else, this is likely to ensure stability in pricing for the coming few months because not much new information will be released. The talk for the next few weeks will revolve around:

- Harvest time: is it early or is it late? How is the cool weather affecting harvest?
- When are those first shipments of Inshell Nonpareil to India going to leave?
- What about sizing? Nuts look small! (Of course, every year the first nuts look small, but it's accepted practice to ignore history and act like this is the first time that the earliest nuts, harvested off the most stressed trees from a big crop, are small. What fun will it be to admit there will be enough large sizes? How can you get the September premium otherwise? Just look at this season – between January – March 2007 NPS 20/22 hit prices of over \$3.00 per pound. No one seemed to have the product. By May-June there were offers at \$2.40 - \$2.50 per pound.)
- How will California and Europe handle the VASP requirement starting in 3 weeks?
- Is European industry covered through Christmas? If yes, what about the importers who sold to them? If yes, what about the traders who sold to them?
- How much new crop inventory is second hand holding?
- How much will the Middle East buy in the next few months now that it is too late to import for Ramadan?
- Will China and the other growth markets buy (what they absolutely must buy to help California digest this coming record crop) at these prices? Are these levels attractive enough? Are they sustainable in California?

This month we are going to leave the more detailed market analysis to others. Now that the 2006-2007 season has officially ended, we would like to take look at a few of the major news stories that made headlines in our industry during the past 12 months.¹

Voluntary Aflatoxin Sampling Plan (affectionately known as VASP). The European Food and Veterinary Office (FVO) came and audited some processing facilities and laboratories. They concluded that California processors and laboratories are not up to European standards for food safety. They were very concerned about Aflatoxin, which has been present in almonds and pistachios, two of the oldest foods known to man, for thousands of years. These are the same foods from which most of our ancestors have been getting their

¹ **There is an attempt at humor involved in the following analysis.** There is no need to e-mail us back correcting our factual omissions or misrepresentations. We are attributing these to literary license. If you don't like this analysis, write to your local government official. Better yet, stop reading now and take immediate measures to curtail your Aflatoxin intake, which is more critical anyway.

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nutrition and subsequently evolving to the top of the food chain.....but that is inconsequential. In fact, the FVO team was so concerned about Aflatoxin killing people in Europe that they put down their cigarettes and published a scathing report – and initiated a law in the EU that requires 100% of shipments not accompanied by a VASP certificate to be inspected for Aflatoxin. Notwithstanding, 5% of all shipments will be inspected anyway – VASP or no VASP. After all, what would be the fun in using logic and uniformity? California shuddered. It put the wheels into motion to get labs certified according to more stringent USDA standards in order to get the VASP certificates issued. It sent out the Aflatoxin police into the orchards. Plantings are too close, serious damage must be controlled, we need to change irrigation techniques, we need to trim and hedge more, we need to trim and hedge less, we shouldn't leave almonds in piles, we have to stop selling BSU5%, the terrorists are coming (oops, wrong list) and so on and so on.

Meanwhile, most in the industry seem to concede that Aflatoxin is in virtually every almond shipment, if you look hard enough. All it takes is for one nut to be “hot” (have Aflatoxin) for an entire load to be rejected. How's that for eviscerating the debate over the usefulness of testing at origin or testing at destination? Finding Aflatoxin is like playing Russian Roulette. But instead of a guaranteed 1 in 6 chance of blowing your brains out – you can have as little as a 1 in 18,304,000 chance (the approximate number of size 25/27 almond kernels in a 20 ton shipment) *or something a lot greater*. Who knows? It doesn't matter. Just test; get the paperwork and people will be safer. Whether consumers actually eat the nuts containing the aflatoxin in minute amounts and what happens to them will really not be known – and ultimately government officials really don't care. They just want to make sure that their asses are covered in case a journalist sees an opportunity to win notoriety by breaking a news story.

So we now seem to be at a point where an entire continent and a multi-billion dollar industry has suspended its reason and are now embarking on the holy mission to “stamp out” deadly Aflatoxin (measured in parts per billion) to protect consumers. Power in the hands of bureaucrats. Makes the futility of the Crusades seem like a quaint camping trip around the Mediterranean, doesn't it?

Pasteurization:² This arose out of the second domestic salmonella finding related to almonds. Many tense meetings were held in Modesto, California, the headquarters of the Almond Board of California (ABC). Dr. Michael Osterholm, director of the Center for Infectious Disease Research and Policy and associate director of the Department of Homeland Security's National Center for Food Protection and Defense himself came and spoke to the industry. (That must be the most impressive title ever given. It certainly beats “Vice President of Sales”). He warned about the danger of another Salmonella outbreak and how the US government would then come in and regulate the almond industry. Everyone was impressed, scared out of their wits and very attentive. You could have heard a pin drop when he was speaking. After all, this guy had been on Oprah.

The pasteurization date was set for September 1, 2007. There was industry-wide mobilization. First, domestic and export shipments were all going to get pasteurized. Then exports were not going to be pasteurized, except for Canada and Mexico...which apparently are not considered to be other countries. This modification came about because many companies around the world said they did not want anything done to their almonds. They wanted to treat or not treat the nuts as they saw fit. Then a further exception was made for domestic shipments: they would not have to be pasteurized if the almonds were being shipped to Direct Verifiable (DV) users who were going to themselves have a (salmonella) kill step in their processing. Existing pasteurization technology was investigated and hotly debated.

² Not all the events happened this past season; but enough of the impact was felt during the past 12 months to warrant including this section under the notable events for 2006-2007.

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Ultimately, pasteurization machines were bought, warehouses were rented, plans were made, life savings were invested. Then the pasteurization date was postponed to March 1, 2008. Those who invested in the pasteurization technology saw their life flash before their eyes. They consulted with bankruptcy attorneys and sent "Thank You" notes to the Almond Board for the delay. Then global warming came and the ice caps melted, coastlines flooded, almond orchards became ocean front property. Developers came and hotels were built on the new California coastline, The Eagles even wrote a song about it.....but we digress.

Bees. When someone in the clothing business pulls you aside at a cocktail party, leans in, and asks you with a grave, concerned voice about "the bee situation," you know you've got something serious on your hands. The bees are dying. Not everywhere but in enough places to make the national news since October – November 2006. The facts are now known to all: a 15 billion dollar a year honey-bee industry; 2.4 million bee colonies; farmers need bees to pollinate a myriad of crops; etc. If this keeps up, global famine will ensue. Just ask the Ethiopians, who used to have thriving bee colonies throughout their country.

So either the bees are flying off and not returning to their hives, or the hives are just full of dead bees. Some are calling it Colony Collapse Disorder (CCD). But who or what is to blame? Is it intentional poisoning? Is it genetically modified crops? Is it the radiation from cell phones and radio towers?³ A bee specialist in the Netherlands, Dr. Tjeerd Blacquiere from the University of Wageningen, thinks it is US beekeepers who have failed to control the varroa mite. This mite comes from Asia and paralyzes the larvae in the hive, weakening the colony and making them susceptible to diseases and the cold weather. To think that there were some people here thinking that the biggest problem out of Asia was the Chinese selling \$9 billion in US bonds and causing a collapse of the US Dollar and a recession in the US economy.

Ultimately, there has not been a conclusive answer on CCD. The industry is still very concerned and has made this one of the top priorities. The situation has become so dire that we now have a US Senator involved. Things are certain to get worse.

Record Shipments: In the midst of all the above, we managed to ship 1.066 billion pounds this season – a new record, surpassing the previous record of 1.024 billion pounds set in the 2003 season. A whole bunch of other records were broken, including average shipment per month, domestic seasonal shipments (with 10 of 12 months setting new records), and export shipments (records in January and July; and the second highest seasonal export total ever). Pass the peanuts....let's talk about why prices need to come down.

Conclusion

Look at the past two years and honestly say which of the events you would have predicted 3 years ago. Pasteurization? VASP? The bee die off? The dramatic price fluctuations (Nonpareil Supreme 23/25 went from \$1.85 per pound to \$4.15 to \$2.35 and is now around \$2.25 for new crop)? Record shipments with record prices? We will continue to be worried about things that will not happen (what we refer to as "paying interest on a debt we may never owe") and our lives will change based on some things that we have not even considered.

So with that in mind, buy and sell within your means to pay and deliver. Meet the ethical thresholds and be a responsible member of an industry with great potential. The rest is inconsequential (and likely to completely surprise you anyway!).

Best regards,
DERCO FOODS

³ We tried to reach the CEO of NOKIA, Olli-Pekka Kallasvuo, to ask him why he's killing the bees – he was unavailable for comment.