Part 1: Request of Inward Processing

You can find in the attached excel file (please refer to Annex 1) all the information related to our request on Inward Processing.

In details: raw hazelnuts are stored inside big bags within the warehouse. Before being roasted, hazelnuts are “cleaned” in a machine that remove all stones, and any other part that it is not hazelnuts.
Then the roasting process can start: hazelnuts are put inside the roaster where there are 3 stages, in the first 2 the temperature is greater than XXX degree, while in the last one the temperature is greater than XXX degree.
During the roasting process, an intense microstructural change in the kernel is produced: oil reserve bodies (oleosomes) are destroyed by heating, thus compromising the compartmentation between enzymes and fatty acids. Moreover, nut pore volume and inner surface area increase (due to the effect of high temperature) and oxidative reactions take place. Hydro-peroxides produced from auto-oxidation react through an auto-catalytic radical mechanism with other nut components (e.g. amino acids and proteins and other lipids) leading very fast to nut rancidity which compromise nut quality.
So, after the roasting process, hazelnuts are very quickly grained (broken) in another machine and the final product obtained is then stored before being used for production of finished products.

Finally, in our report, according to the data submitted, it is also clear that the application of this regime did not damage the European production of hazelnuts which remained stable during the course of the years.

Part 2: Respect of Economic Conditions:

2.1) **Quantitative Analysis: European Production is not enough to satisfy our needs**.

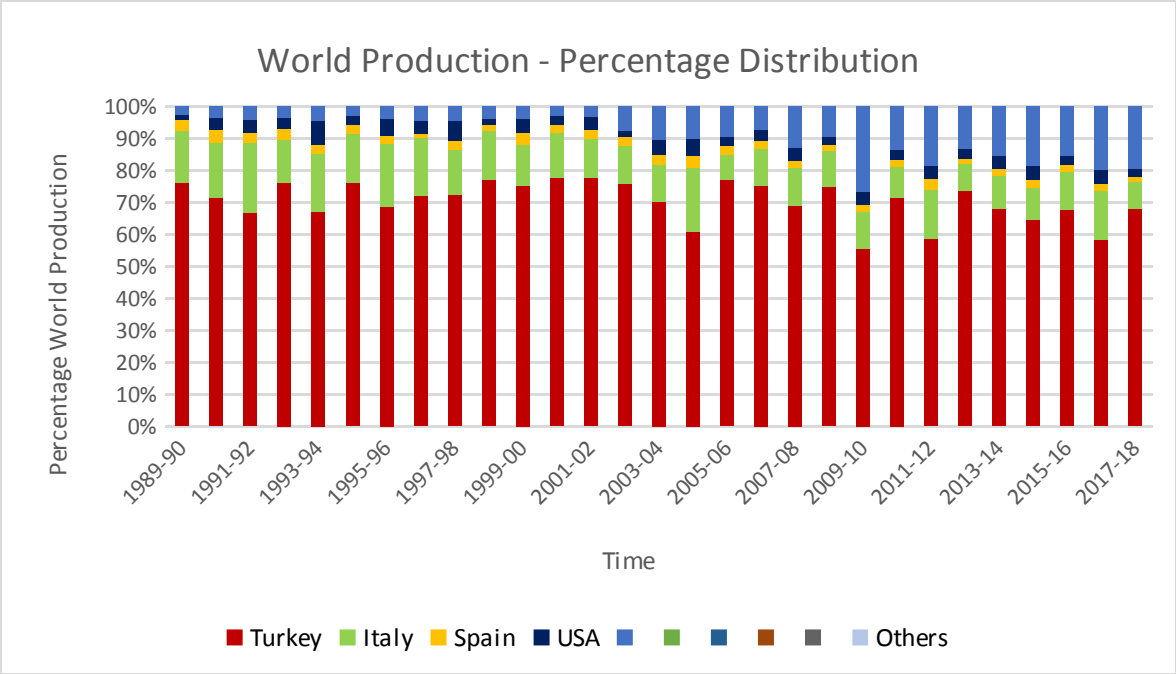
First of all you can find here below the data concerning hazelnuts world production; these data are taken from:

Fiskobirlik (Turkish National Association of Hazelnuts Producers);
INC (International Nut and Dried Fruit Council).

Table A: Hazelnuts world production (in shell) Source : FKB - INC

Year	Turkey	Italy	Spain	USA	Others	World Total
1989-90	550	117	24	12	20	723
1990-91	375	90	22	19	20	526
1991-92	380	126	18	23	25	571
1992-93	530	94	25	24	25	698
1993-94	300	82	12	35	20	449
1994-95	600	118	24	21	25	788
1995-96	435	125	14,8	35	25	635
1996-97	464	115	10	25	30	644
1997-98	470	90	20	40	30	650
1998-99	600	120	15	15	30	780
1999-00	585	100	30	35	30	780
2000-01	495	90	15	18	20	638
2001-02	725	115	25	40	30	935
2002-03	630	100	24	16	64	834
2003-04	480	80	22	32	72	686
2004-05	400	133	25	33	68	659
2005-06	620	65	20	25	76	806
2006-07	825	130	28	36	82	1101
2007-08	550	95	18	33	104	800
2008-09	900	135	26	30	114	1205
2009-10	450	95	18	32	218	813
2010-11	630	87	20	25	122	884
2011-12	450	120	25	32	144	771
2012-13	740	84	16	32	133	1005
2013-14	650	100	18	40	149	957
2014-15	500	80	18	35	145	778
2015-16	710	125	22	28	164	1049
2016-17	500	130	18	39	171	858
2017-18	750	90	19	27	216	1102
						*inshell ktons

Table B – World Production – Percentage Distribution Source : FKB - INC



From the above data we can recognize that Turkey is surely the world leader in the production of hazelnuts; its percentage it is around 70%, and this percentage may not be stable during the course of the years as hazelnuts production is very sensitive to climate conditions.

For what concern European production, the only countries considered at global level are Italy and Spain because the value of other countries production is too low to be taken into account; please also note that countries with low production level, normally, self consumes the local production.

In any case, the graphic shows a level of production of Europe that is about 15% (average of the last 5 years of production – 2013/2018), which means around 130,000 tons in shell (which corresponds about to 62,400 tons of shelled hazelnuts using a conversion rate of 0.48).

For what concern the world and European consumption, you can find the information written below in the tables contained in:

- Annex 3: “Estimated World Hazelnuts Production – Shelled Hazelnuts – 2016/2017 and 2017/2018”;
- Annex 4: “Estimated World Hazelnuts Production – In-Shell Hazelnuts – 2016/2017 and 2017/2018”.

In these tables, which summarize Total Supplies of the major countries that crop hazelnuts, it is possible to determine local consumption by subtracting to the total supply the ending stock.
These data, related to the last 3 years (including a forecast on 2018/2019), are taken from the data presented at the Annual Meeting of INC (International Nut Council) which is the main official source that provides production and consumption data of the main producing countries.

As you can see from the data related to the 3 main European producers (Italy, Spain and France), it is clear that even more than 90% of the local supply is sold, and that the level of stock remains the same during years with a low level of crop, while it increases a little when the crop is successful.
Moreover, we should also consider the fact the level of stock in Europe, compared to the Worldwide production is very minimal (2% or 3%).

Finally, it should be noted that this stock is strategic, because it is kept on purposes by producers, in order to allow them to sell the hazelnuts during periods of the year which are far from the period of cropping.

Moreover, from an export perspective, we have the following information provided by “Market Access Database” (Database of EU Commission containing import and export data of all goods from Europe):

Type of Hazelnuts	Year	Tons Exported from EU[1]
In shell	2013	1,087
In shell	2014	919
In shell	2015	566
In shell	2016	757
In shell	2017	441
Shelled	2013	4,638
Shelled	2014	3,636
Shelled	2015	3,312
Shelled	2016	3,153
Shelled	2017	2,890

These data, combined with the data provided above, shows that the amount of export is very residual (2 or 3% of the total EU production), and the reason is that all the other amounts are consumed or stocked.

On the other hand, import data of hazelnuts in Europe shows the following results:

Type of Hazelnuts	Year	Tons Imported in EU (of which Turkish)[2]
In shell	2013	7,981 (19)
In shell	2014	9,505 (25)
In shell	2015	4,944 (31)
In shell	2016	1,051 (6)
In shell	2017	1,414 (41)
Shelled	2013	130,111 (106,142)
Shelled	2014	116,207 (97,518)
Shelled	2015	121,351 (97,606)
Shelled	2016	119,193 (84,784)
Shelled	2017	121,485 (95,975)

1 Please refer to Annex 5 (“Extract from MADB) which contains the extraction from Market Access Database (highlighted in Yellow)
2 Please refer to Annex 5 (“Extract from MADB) which contains the extraction from Market Access Database (highlighted in Green)

Table C – Estimated World Hazelnuts Consumption 2012-2016[3]

ESTIMATED WORLD HAZELNUT CONSUMPTION (Kernel Basis)

COUNTRY	2012			2013			2014			2015			2016		
	Consumption (MT)	Cons. per capita (kg/year)[1]	Estimated Cons. per capita (kg/year)[2]	Consumption (MT)	Cons. per capita (kg/year)[1]	Estimated Cons. per capita (kg/year)[2]	Consumption (MT)	Cons. per capita (kg/year)[1]	Estimated Cons. per capita (kg/year)[2]	Consumption (MT)	Cons. per capita (kg/year)[1]	Estimated Cons. per capita (kg/year)[2]	Consumption (MT)	Cons. per capita (kg/year)[1]	Estimated Cons. per capita (kg/year)[2]
Italy	71,884	1.19	1.58	88,227	1.46	1.94	79,130	1.33	1.77	89,473	1.50	2.00	78,000	1.31	1.75
Turkey	84,214	1.15	2.30	65,000	0.89	1.78	60,531	0.80	1.60	40,000	0.51	1.02	60,000	0.75	1.51
Germany	52,599	0.64	1.29	61,676	0.75	1.51	51,252	0.63	1.26	58,615	0.73	1.45	55,572	0.68	1.36
France	27,880	0.44	1.77	26,145	0.42	1.66	24,699	0.37	1.49	27,181	0.42	1.69	25,290	0.39	1.56
USA	15,067	0.03	0.08	16,289	0.02	0.07	17,131	0.04	0.11	8,276	0.03	0.08	15,284	0.05	0.14
Canada	11,105	0.33	0.98	9,596	0.28	0.85	9,504	0.27	0.82	12,652	0.35	1.07	11,331	0.31	0.95
Spain	10,922	0.24	0.47	12,343	0.27	0.54	11,000	0.23	0.47	12,228	0.27	0.53	10,038	0.22	0.43
Azerbaijan	7,611	0.84	0.93	5,150	0.57	0.63	1,604	0.17	0.19	7,873	0.81	0.90	9,917	1.02	1.13
Switzerland	8,556	1.09	1.46	9,737	1.24	1.66	9,651	1.19	1.58	8,607	1.04	1.38	9,206	1.10	1.46
Russian Fed.	13,174	0.09	0.37	9,168	0.06	0.26	11,217	0.08	0.32	6,200	0.04	0.17	5,479	0.04	0.15
Belgium	6,684	0.61	0.82	6,959	0.64	0.85	6,547	0.59	0.79	4,606	0.41	0.54	4,652	0.41	0.55
Poland	10,159	0.27	1.06	8,673	0.23	0.91	7,833	0.21	0.82	11,494	0.30	1.19	3,449	0.09	0.36
Australia	2,763	0.12	0.38	2,886	0.13	0.34	2,594	0.11	0.30	2,548	0.11	0.28	2,819	0.12	0.35
Brazil	2,801	0.01	0.06	2,385	0.01	0.05	3,040	0.02	0.06	3,044	0.01	0.06	2,635	0.01	0.05
Austria	1,663	0.20	0.40	2,312	0.28	0.55	2,603	0.31	0.61	2,293	0.27	0.54	2,026	0.23	0.47
Egypt	3,578	0.05	0.18	2,773	0.04	0.14	2,059	0.02	0.10	1,882	0.02	0.08	1,832	0.02	0.08
UK	1,689	0.03	0.08	2,246	0.04	0.11	1,638	0.03	0.08	1,625	0.03	0.08	1,214	0.02	0.06
Greece	1,953	0.17	0.69	1,884	0.17	0.67	1,400	0.13	0.50	1,086	0.10	0.40	1,196	0.11	0.43
Israel	1,704	0.22	0.90	1,182	0.16	0.62	1,264	0.16	0.63	996	0.12	0.49	1,116	0.14	0.55
Saudi Arabia	731	0.03	0.11	723	0.03	0.10	663	0.02	0.09	763	0.02	0.10	857	0.03	0.11
WORLD TOTAL	**357,993**	**0.05**		**433,270**	**0.06**		**380,915**	**0.05**		**436,015**	**0.06**		**424,139**	**0.06**	

[1] Total consumption expressed in Kg per person. Population data from United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision.
[2] Based on the estimated percentage of population consuming the specific product.

Finally, Table C shows the "Estimated world hazelnuts consumption" of shelled hazelnuts; of course this data are estimates, but they clearly show a very high consumption in Europe; in fact, if we sum up the consumption of the EU countries (Italy, Germany, France, Spain, Belgium, Poland, Austria, UK, Greece), we will have the following data:

European Consumption - Year	Tons of shelled hazelnuts
2012	185,433
2013	210,465
2014	186,102
2015	208,601
2016	181,437

A consumption of about 190,000-200,000 tons of Shelled hazelnuts corresponds (at a conversion rate of 0.48) to a consumption of about 395,000-416,000 In Shell Hazelnuts in Europe.

From the tables above, we can draw the following conclusions:

- Europe Produces around 62,000 tons of shelled hazelnuts;
- This production is mainly consumed internally (as shown in Annex 4 and 5) or exported (very small percentage) or stocked for strategic reasons;

3 Please refer to Annex 6: "Statistical Year Handbook 20172018" Page 29.

- Statistics from “Market Access Database” shows the huge amount of hazelnuts imported in Europe, which is around 120,000 tons (nearly 80% from Turkey) of shelled hazelnuts (that represents the double of European production!).

This also shows that European consumption of hazelnuts is nearly 200,000 tons (of shelled hazelnuts – 400,000 of In shell) given by the sum of local production (62,000) plus import from Extra EU countries (120,000).

2.2) **Qualitative Analysis: European Production does not always met our quality requirements**.

From a quality perspective, we should first of all point out that not all the European production (130,000 in shell – 62,000 shelled) can satisfy the quality requirements of the confectionery, for the following reasons:

1. Certain kind of European hazelnuts does not always have a round shape (like the Turkish ones), therefore they are not suitable for our pralines;
2. Certain kind of European hazelnuts are difficult to peel (while hazelnuts used in our products must be completely peeled);
3. Certain kind of European hazelnuts have a level of humidity that is too high.

In the light of the above, and due to the fact that our requirements are linked to the goal of maintaining an excellent standard of quality for our products and to guarantee also the consumers, the amount of European hazelnuts available for us is around 45/50,000 tons in shell.

However, the Company consumes around 220,000 tons (in shell) per year (107,000 shelled), **which means 400% of the total of European hazelnuts that satisfies the quality requested.**

Moreover, the Company buys in any case as much as European hazelnuts as possible, which means around 30,000 ton (in shell) in Italy, so around 25% of EU production and 60% of the total amount of hazelnuts available (i.e. that respects our quality standards).

2.3) **Sanitary Measures: sanitary measures do not damage the interests of European producers**.

The necessity to analyze the economic conditions is due to the fact, as clarified by Article 166 of EU Delegated Regulation 2446/2015, that we requested to apply article 85 of the Union Customs Code and, the goods concerned (hazelnuts) are covered by a Commercial Policy.

In particular, the Commercial Policy is represented by the fact that hazelnuts are covered by Sanitary Controls, as provided for by EU Commission Implementing Regulation n. 884/2014.

However, it is the same Regulation n. 884/2014, in its original version, to state in Whereas number 7 that:

“Based on the control results and the outcome of Food and Veterinary Office (FVO) audits, following changes to products to be subject to specific conditions and/or control frequencies are appropriate:
— (…)

— reduction of sampling frequency on hazelnuts from Turkey given the favorable control results and favorable outcome of FVO inspection audit, (…).”

And in fact, in the current consolidated version of EU Reg. n. 884/2014, sanitary controls on hazelnuts from Turkey are the lowest amongst all the others, 5% versus 20% or even 50% foreseen for other origins.

Finally, and we believe that this is the most important point, even in case of application of Inward Processing Regime, the Sanitary Controls are due and will be performed; therefore there is no risk to damage European Producers from a Sanitary perspective, because the import process, from a Sanitary perspective, does not change in case of a normal importation or in case of application of Inward Processing regime.

As a further example, the Protocol concerning the way in which sanitary controls are performed by the sanitary authority of Rouen (France) confirms this: even if different special procedures are applied (e.g. Transit, Customs warehouse and Inward Processing) sanitary controls are always due in the following measure (as foresee by Regulation EU N. 884/2014):

- 100% of documentary check;
- physical and identity check according to the frequency indicated in EUR Reg. 884/2014 (which is 5% for Turkish hazelnuts).

In brief, checks take place in the following way: all hazelnuts, after their arrival in the port of entry, are placed under Transit regime and sent to a bonded warehouse. The customs broker sends to the relevant sanitary office all the documents issued at departure plus Part I of CED (common entry document). After this documental check, the sanitary office selects the lots that will be subject to physical and identity checks. Once again, all lots will be subject to this procedure, no matter if they will be placed under inward processing in the local plant or if they will be sent to other European plants under Transit regime. The only lots that are not subject to this procedure are those for which the release into free circulation was already authorized by the relevant authority of the designed point of entry of another EU member state.

Once that a lot is selected for controls, the same is sampled under the supervision of the agents of sanitary office; until analysis conformity results are received, all lots received and placed under transit regime cannot be transferred in another warehouse or placed to any other use (including placing them under inward processing).

In case of presence of aflatoxins, the lot will have to be returned to the country of origin and controls are enhanced (the supplier is subject to 10 sampling in a row and all the controls need to have negative results).

In the light of the above, given that the application of sanitary measures is not linked to the kind of special procedure applied, but it is due in any case, there is no link between the use of inward processing and the possible damage to the European Producers.

3) Conclusions

a) The European production of hazelnuts, considered in its entirety (for all kind of hazelnuts) is clearly not sufficient to satisfy the internal needs. In order to compensate this deficit, it is necessary to import hazelnuts from Extra EU countries (Turkey in particular for quality and quantity).

b) On average, the totality of hazelnuts produced in Europe, despite the lower quality, are sold during the season.
c) The Company, considering that it is buying around 25% of the total European production and 60% of the European hazelnuts that satisfies the quality requirements of the confectionery industry, it is forced to satisfy its demand with the import of Extra European hazelnuts in order to guarantee the best quality of its products for its consumers.
d) The Company maintains in Europe 80% of its total production of finished products containing hazelnuts and represents the biggest user of this raw material in the European Union; moreover, the use of Processing Under Customs Control Regime (before Union Customs Code) and of Inward Processing, clearly allowed the Company to maintain the transformation activity within the European Union territory. Of course, this transformation activity can be moved to Turkey with the consequence of reducing the labour force in Europe engaged in this activity, especially because the import of Turkish roasted and grained hazelnuts (NC 20081919) would be 0% duty. On the other hand, the use of this regime, would allow the Company to maintain this activity in Europe (including the labor force working in the factories and people working indirectly on this - logistic and customs operators for example) and to maintain a competitive level of price for the export of finished products.