

ENZA 2000 and ONWARDS



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Kellogs Rural Leadership Course

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ENZA - 2000 and ONWARDS

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INTRODUCTION

Monopolies - you either love them or hate them - depending on your philosophy. This project for the 1997 Kellogg's Rural Leadership Programme does not attempt to justify nor to condemn their existence. Rather it attempts to explain the why where and when of their development and possible types of changes it could make to position the apple industry and its participants with a sustainable future by way of successful marketing thru the next 20 years.

A key objective of any possible change would have to see the de politicising of the industry i.e. make it less dependent on the whims of political interference. Debate has always been prominent on the risks vs. rewards of monopolies. This is not addressed here as even detractors of monopolies concede that the balance of power is in the buyers hands and any study on these horticultural exporters must recognise that fact. The third objective which should be addressed are the business fundamentals needed in the highly commercialised world markets that New Zealand products currently trade in.

To do this study has necessitated looking at both the Apple & Pear & Kiwifruit Industries. This has required sourcing of an enormous amount of previously published material both by the relevant industries themselves, reviewers of those industries - both supporters and detractors and experts on international trade and bussiness fundamentals.

The study aims to provide a vision but the writer believes that it is critical that scope exists in any changed structure that adaptability is kept to the fore. Hopefully the study and its conclusions would allow both industries to escape from governmental and international interference for the future.

It is a personal view point of what changes may possibly be necessary and the reasons for the changes to be sustainable. The writer may or maynot even agree with some of the realisations but hopefully the project will encourage the thought provoking exercise necessary in order to achieve sustainability.

Disclaimer:

This project is done for the Kellogg's course. It is intended to promote discussion and debate. It is a personal view point of what changes may possibly be necessary and the reasons for the changes to be sustainable. The writer may or may not even agree with some of the realizations but hopefully the project will encourage the thought provoking exercise necessary in order to achieve sustainability of the relevant industries.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank the many people who have contributed in a variety of ways to enable me to complete the project against all odds.

My family and friends for the time and opinions and proof reading that has been required.

Staff: who have had to carry on with the business during my absences and the increased workload.

ENZA staff/Directors: who have provided information and facts on the international fruit marketing realities.

Growers: who always have readily available advice.

James Lockhart and Wayne Cartright from Promotheus Ltd. for their general help and specifically their conclusions on Value Systems and Key Success Factors for Land Banded Production Systems.

Kiwifruit Industry Marketing Review October 1994 by Richard Brookes, Wayne Cartright and Mark Downey.

NZ Apple Pear Ownership Proposal September 1997

Kiwifruit Industry Review State III November 1995.

NZAPMB Performance and Efficiency Audit by Deloitte Touche Tohmatsu & Braxton Associates.

ENZA - Quality Pack 1997 Update

ENZA - Marketing Plan 1996

Others: especially my favourite university professor who has contributed in a small but no less meaningful ways, Dr. A McArthur.

HISTORICAL SUMMARY

While not wanting to dwell too much on the past it is nonetheless vital that there is some understanding of that past to see how the industry has evolved and why it must continue to change and develop in the future.

Production: The first seedlings came with the arrival of the first settlers approx. 1840's, and production began obviously soon after.

By 1860's increasing volumes were available for commercial value and were traded amongst the local population. By the early 1900's exports reached approx. 68,000 cases. At this time fruitgrowers banded together and formed the Fruitgrower Federation in order to "foster, promote and protect the fruit industry". The marketing was controlled by NZ Fruit Export Control Board which acted as the growers trustee. With the outbreak of war in 1939 growers were told that shipping space was to be conserved for products deemed to be in the national interest and consisted mainly of machinery, meat and dairy products. This resulted in a serious financial situation for growers where 50% of production was already being exported. The government undertook to purchase all fruit and hoped to find a market for apples.

By 1946 moves were underway for growers to control marketing of apples and pears and agreement was reached with the government and resulting in the creation and legislation of the Apple & Pear Marketing Act of 1948. It was hoped that this would provide security and stability for growers similar to the commercial operation that the dairy industry had already obtained. It applied to both local and export markets.

This Act is still in existence today however there have been minor changes from time to time, the major change occurred in 1993 when the industry requested the local market to be removed from the encompassing Act and hence since January of 1994 no controls nor restrictions have applied.

CURRENT STATUS

As previously mentioned to look at the possible future direction and structure of the industry one must have a reasonable knowledge of the past and current situations. This would most easily be reached by separating the industry into 3 distinctive areas:

a) OPERATIONS:

At present the board has two distinctive and different aspects to its business,

- i) To market the export quality apples and pears produced annually to maximize its values to growers,
- ii) Operate in complimentary business areas and extract the maximum value of these business's.

i) Export:

This is the division of the APB which takes control of all export fruit from the grower. The responsibility for the fruit is passed to the APB 72 hours after submission by the grower and thus the fruit enters into the inventory of the board. Subject to quality performance standards growers are paid for the fruit by way of a "pooling system". This involves separate pools for each variety with different sizes in each variety being paid on a differential basis which closely reflects market reality. Not all markets pay the same price for the fruit and the pooling system is the most efficient and transparent way for the board to market the fruit, satisfy the customer and develop new markets.

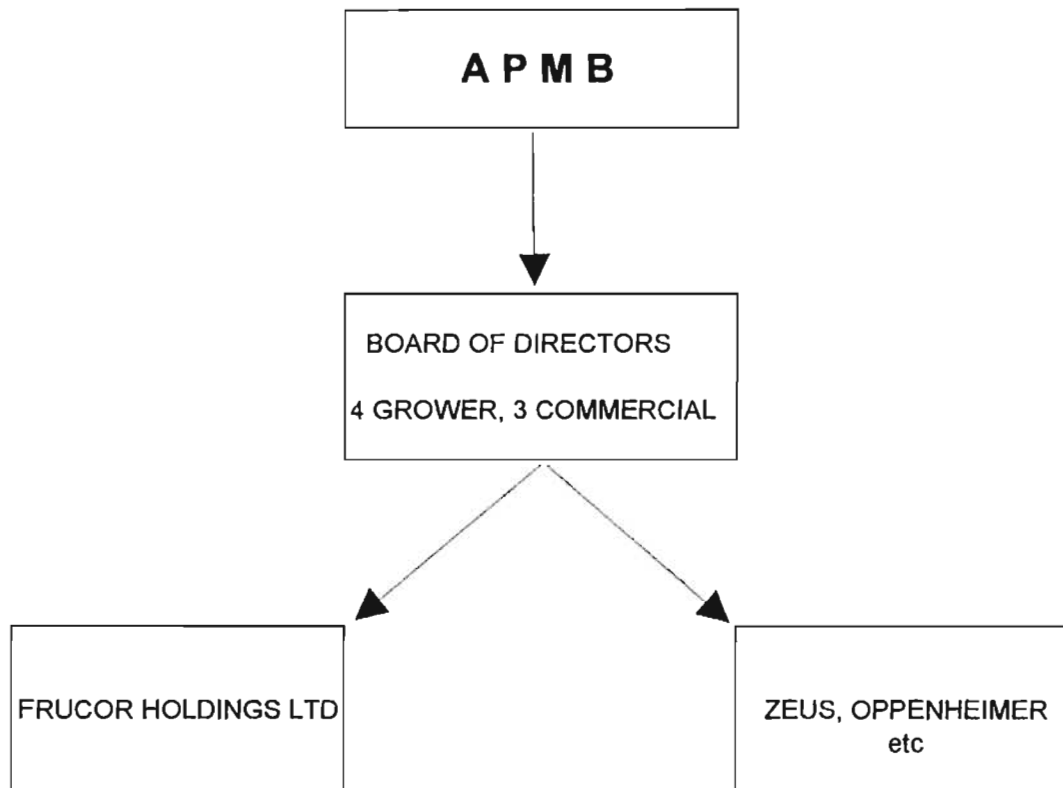
One of the key attributes has been the "control" the board has exercised throughout the logistical chain right through to the customer. This has entailed investment in some key areas through direct investment, joint ventures, exclusivity and internationally based subsidiaries from which marketing functions are performed.

ii) Complimentary Business:

There are two types of businesses which operate under the defined "complimentary businesses". One are businesses which have a very close relationship with the export monopoly. Types include FIPIA, Oppenheimer USA which is jointly 30% owned by APB and Kiwifruit Board. It sells and distributes exclusively apples and kiwifruit in North America.

The second type are companies which operate in de-regulated areas of investment. These companies include a processing company, fresh fruit and vegetable supplier on the NZ domestic market, Fruitmark Pty Ltd. - Australian beverage distributor,

OPERATIONAL STRUCTURE



Frucor beverages - producers and distributing of fruit based drinks, e.g. Just Juice, McCoy etc. Zeus SA is a Chilean fruit exporter based in Chile and main products handled include grapes, summerfruit and apples. This second type of commercial business has a separate board and retains some capital while also paying returns to APB by way of dividends based on profitability.

b) STRUCTURE:

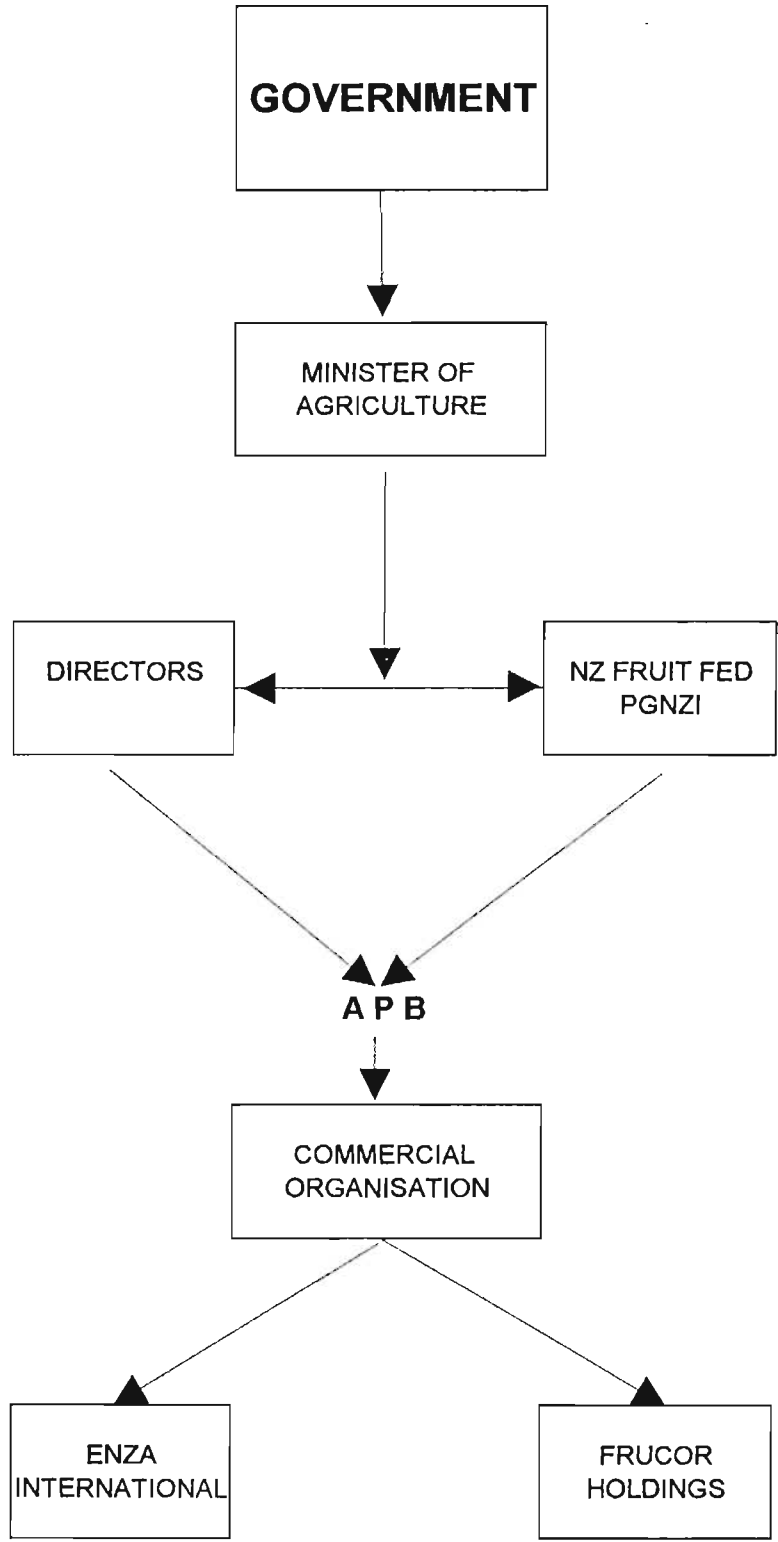
The apple and pear industry operates under the Apple and Pear Marketing Act 1948 thru the NZ Apple & Pear Marketing Board. It has as one of its core requirements to export all fruit for which quality and price standards are set in a manner consistent with its mission statement, "To maximize the return to its suppliers primarily by the worldwide marketing of pipfruit horticultural products and related products and services"

It operates as a co-operative however there are no shares nor in fact any recognizable ownership structure. It is recognized in the statute as being owned by the 'grower of the day'. Capital requirements are met by a mixture of loans, profit retention on fruit sales and capital levies - monies on a per carton basis which are levied on an annual basis and set by the board prior to each selling season. These 3 methods are also used to meet the banking covenants which are set by the boards bankers who seasonally fund the working capital requirements of the board.

Monies from fruit sales which combined with levies and borrowings exceed the present requirements of the board are paid back to growers by way of fruit value. It is important to note that at present there is no distinction between monies earned by way of return on assets and profits from solely fruit sales.

The NZAPMB and its commercial structure are more fully explained in the operational status.

Ultimately as under all legislated authorities responsibility is required to the government by way of Minister of Agriculture.



c) REPRESENTATION:

Currently the board of directors of the APMB consists of 4 "grower" members and 3 commercial directors. By grower we define it as a person currently in the commercial process of growing fruit. The 4 grower members go through a selection process. This involves being nominated and seconded by 2 growers who are registered as growers similar to the definition of grower directors - that is people engaged in the business of growing fruit.

Having been successfully nominated there is no formalised process apart from the final selection process which is jointly handed by PGNZI and Fruitgrowers Federation. However currently the trend is for all nominees to visit each of the main districts where general meetings are held to introduce each of the nominees and allow them to present themselves and become involved in a question and answer process. Some districts also go through a one on one interview process. At the general meetings some districts conduct a ballot to gauge the support the various nominees individually receive. District grower committees then forward their preferred choices to PGNZI in Wellington as the official endorsement of whoever they support.

PGNZI and Fruit Federation then go through a further interview selection process and arrive at a decision which is forwarded to the Minister of Agriculture for this final approval. The terms are for 3 years and a rotation system is in operation to avoid all directors coming up for election in any given year.

The commercial directors are also appointed by the Minister of Agriculture on the recommendation of the APB directors. It is important to note that growers have no involvement in the process of selecting "commercial directors". Their term is also 3 years. Currently 2 further consultants are also directors but in an unofficial capacity.

The board of Frucor Holdings "the commercial products division" of the APB (i.e. not single selling of fruit) are independent and is chaired by the CEO of APB and reports to the full board of the APB.

Growers:

Growers in districts are represented by way of pipfruit sectors of Regional Associations or regional pipfruit committees. Not all districts are the same. For instance Hawkes Bay with approx. 50% of the national crop has only 1 association H.B. Fruitgrowers Association which incorporates under its umbrella of representation Pipfruit Kiwifruit and Stonefruit. These product groups each have individual responsibility to growers and at times deal direct with the APB on local issues or then pass issues responsibilities to PGNZI or KGI for the national bodies consideration and/or action. In Nelson for example the situation is different with 4 local associations. The views from the different associations are bought together at the regional pipfruit committee

where a collective position is taken that best represents that position on behalf of all Nelson growers. This committee is also usually chaired by a PGNZI member where as in Hawkes Bay's case the pipfruit sector is currently chaired by its own selected chairman who is not at present a PGNZI representative.

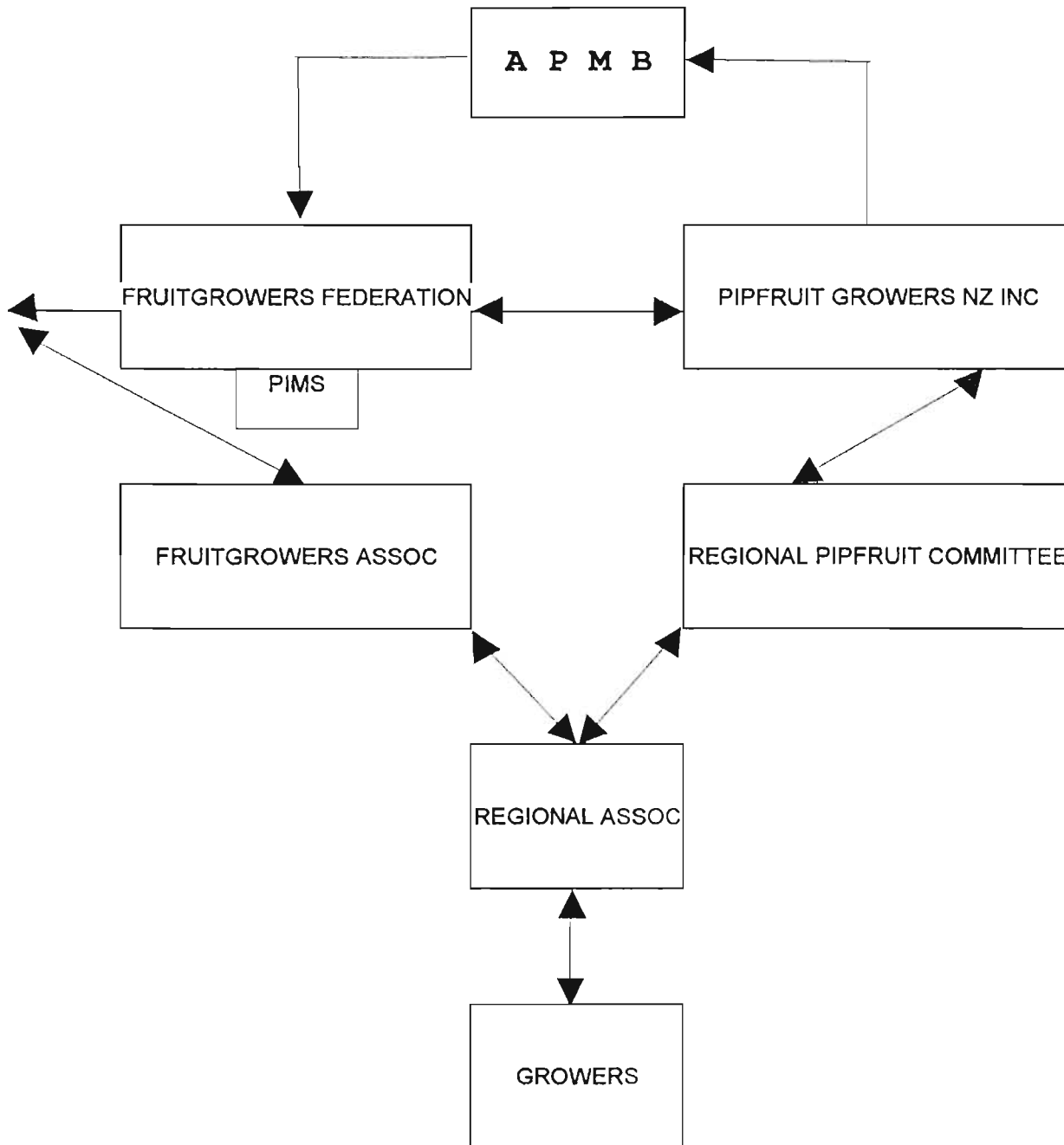
PGNZI deals on behalf of apple growers all relevant issues to the industry. It is funded by way of a commodity levy payable on all "fresh fruit" sold whether export or local market. This is currently 1.5c per carton.

PGNZI deals with all "apple issues" under the authority of the NZ Fruitgrowers Federation. This is because under the APMB Act 1948 the NZ Fruitgrowers Fed is the recognized grower body with the responsibility for grower control of the APB. However as the largest product groups (Pipfruit, Kiwifruit, Stonefruit etc.) wanted product specific representation they have seeded authority and representation to those product specific groups, i.e. PGNZI. However the actual process still involves issues being passed from the APB to Fruit Fed who then pass the issue to PGNZI. The Fruitgrower Federation is also funded by a levy currently \$18 per hectare. In addition they control also the "Charitable Trust" which has investments of approx. \$12 million which produces income which is dispensed in a variety of ways. The Fruitgrower Federation deals mainly with generic issues i.e. land, User groups, Pesticide Board, Agrichemical Trust etc. They also have a commercial company called Primary Industries Management Services or PIMS.

This entity provides secretarial advisory consulting services to the product specific groups PGNZI Summerfruit Council etc. on a normal fee paying basis.

Representatives of both organizations are elected on a district by district basis. In the case of PGNZI it is by way of production weighted (mirrors levy's payable). The Fruitgrowers Federation directors are elected on a 1 man 1 vote principle. The Fruitgrowers Federation have 8 directors representing each of the main fruitgrowing regions. PGNZI has a different structure which attempts to more closely reflect production. There are 8 executive members of which Nelson has 2 and Hawkes Bay/East Coast and Wairarapa have a combined total of 3. In both cases the directors/executive members elect their own Chairman/deputy chairman. Terms for Fruitgrowers Federation are 3 years and PGNZI 2 years with normal rotation methods for elections adopted so there is a degree of consistency and continuity.

REPRESENTATIVE STRUCTURE



CHALLENGES

Background:

It is vitally important to have a basic understanding of what drives the 'value system' and the key success factors which are needed to drive that 'value system'.

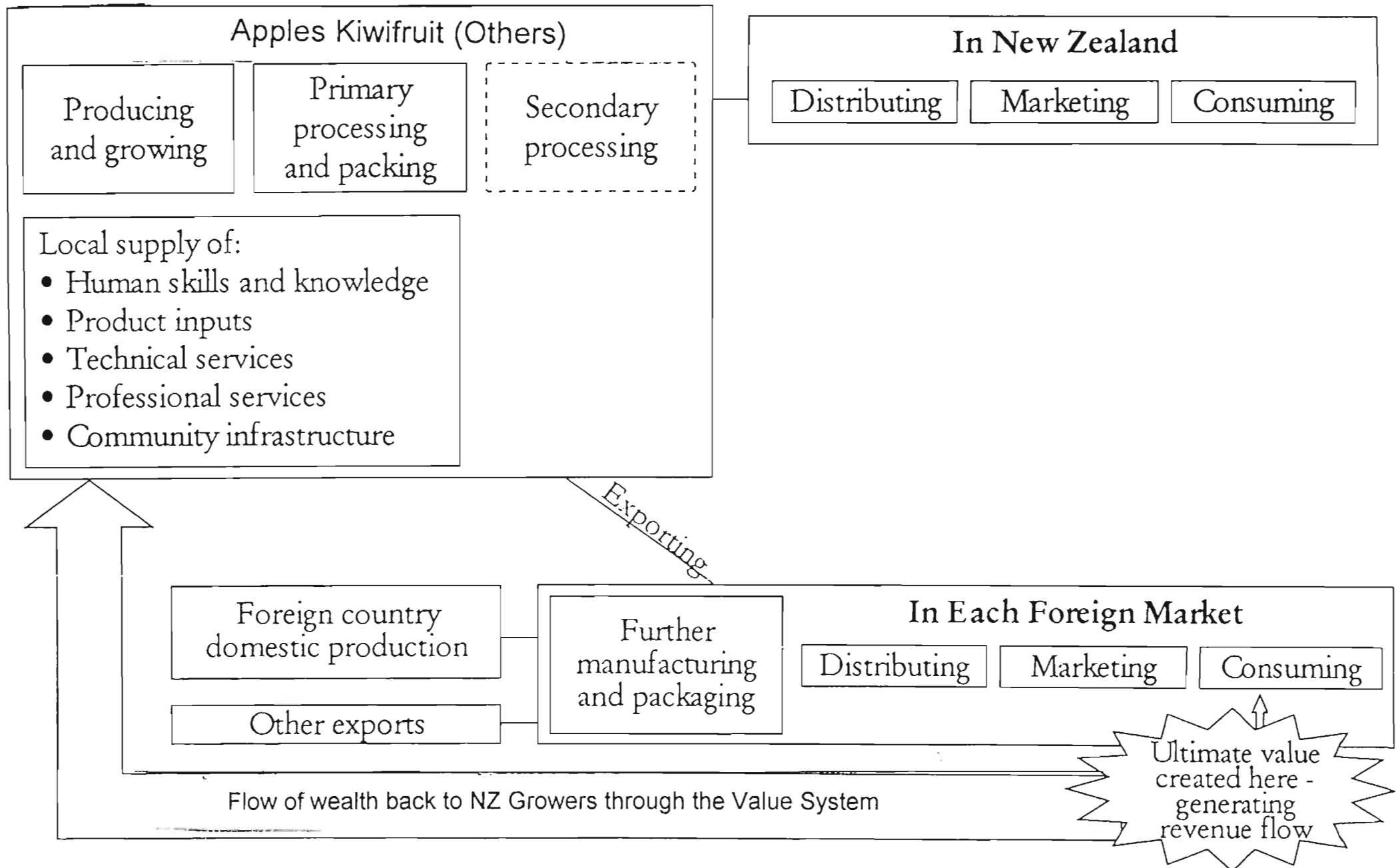
This 'value system' and success factors are not peculiar just to pipfruit but could be broadened to encompass most land based industries.

By understanding these principles it gives the vital background information by which to look at the challenges currently facing the industry and also what the future may or may not hold for pipfruit growers.

1 page Z Form International Value System - to follow

1 page Key Success Factors to follow that.

The Z-Form International Value System



Generalised Key Success Factors for International Land-based Industries

Foresight	Excellent foresight about changes in customer needs and supply systems shared by all businesses in the value system
Vision	A strong and shared sense of purpose and vision for the industry as a whole, that is then interpreted by each business
Market Presence	Strong market reach and penetration, usually requiring offshore investment and substantial size
Differentiation	Products and services that are sustainably differentiated in markets, generating premium price positions, but also with continual cost reduction
End-user Perspective	All businesses in the value system understand how they contribute to meet the needs and expectations of the ultimate consumers
Connectedness	Producers and processors, as well as marketers, have a direct relationship with users and retailers with minimal roles for intermediaries
Closed System	Business transactions are 'closed' through enduring business relationships with minimal use of spot/open markets
Coordination/Branding	Strong coordination of business decisions throughout the value system supported by alignment with a strong brand identity

a) OPERATIONS:

There are many challenges in the international fruit trade at present. From a marketing perspective oversupply, branding, relationships, political intervention, supermarket strength, market access are to name just a few. At present the vast majority of growers believe that a single identity is the most advantageous organization to provide the best returns to New Zealand and ultimately the grower. This however may not always be the case and in reviewing and possibly altering the basic principles of the current situation thought must always be given to allow the greatest degree of flexibility possible.

Undoubtedly the greatest pressure will come from profitability and/or lack of profitability. The APMB must be flexible enough to seek and extract maximum value of existing markets and products and be able to identify and develop new markets which could add volume and value to the present position. Commercial reality is obviously the key ingredient.

Key Commercial Challenges are thus:

- Brands- identifiable and associated with quality,
- Relationships - need to be strong and interactive with continuity and range of products,
- Political Intervention - supply markets 12 months of the year without host countries grower political involvement,
- Supermarket strength - at present being consolidated in the hands of a few, volume and values, and single operator are best practice moderators of this phenomenon,
- Market Access - need the ability to direct resources financial and customer relationships. It is a slow and costly exercise so there needs to be some guarantee of payback,
- Innovation - needs to be clarified into various forms and policies developed to reflect these forms. Should be encouraged with simplicity, exclusivity and have a very strict accountability regime,
- R&D - need for a comprehensive policy particularly in areas of new products/varieties, better storage/transport systems, quality issues, (and on - orchard) R&D (lower cost higher quality development systems).

b) STRUCTURE:

As previously discussed the APMB currently has two separate trading organizations "ENZA International" the marketing arm primarily associated with exporting apples, pears and Asian pears and Frucor Holdings, a diverse organization dealing in non single seller segments of industry, i.e. processing, local and export sales of fresh products, beverages, and fruit distribution and plant and variety importer/exporter. To meet the challenges of the future the two organizations may or may not have the same capital requirements, management, products, clients or risk factors. Given that currently the single desk sellers only applies to apples and pears there is inherent 'risk' in associating these other activities with the single desk.

The challenge is therefore to establish a structure for the single desk and a structure for complimentary business, products etc. which do not have necessarily the same objectives and philosophies.

c) REPRESENTATION:

Unlike most existing companies a single desk company has a host of different boundaries to work with. Suppliers don't have a choice and more often than not nor any direct voting policy. Representation of producers in this environment should seek to meet goals as outlined below:

- To co-ordinate growers views on various issues,
- Interface with the APB on relevant commercial issues
- Enhance the future of the industry with other relevant organizations, i.e. governments, overseas growers, local government, R&D agencies,
- Deal with grower issues, i.e. voting entitlements.

The challenges associated with representation and the fruit industry in particular are similar to most organizations. Quality of representation and output are vital and cost effectiveness also is a prerequisite of any successful body. Like most representative bodies in the 1990's demands on time, resources, financial legal and responsibility are reducing the pool of people willing and able to perform this function.

Added to the need for effective representation to deal with the variety and speed with which challenges both domestic and overseas are forcing on people the demands are more likely to be greater rather than less. Recently PGNZI was the apple and pear growers representative body formed to deal with pipfruit issues and following a positive vote from its growers successfully applied for a commodity levy. The Fruitgrowers Federation also collects a commodity levy and

has formed a company to carry out executive type functions who are able to perform a variety of functions on a contract (PIMS - Primary Industry Management Services). These include secretarial office, advisement, monitoring etc. functions. The Fruitgrowers Federation has an elected body of 8 growers chosen regionally from a wide variety of fruitgrowing types. It mainly deals with generic issues for apple and pear and kiwifruit growers but can and does provide product specific representation for other groups.

The challenge ahead is to reduce the cost to growers and decide who is going to deal with generic issues with PIMS or Fruit Fed and who and how are other product groups going to be represented. This is particularly vital for small emerging industries.

For industry specific representation recognition must be given to issues that restrict the numbers and quality of persons willing and able to carry out the required functions and that which reward the best persons capable of achieving the aims each product group sets itself.

ENZA BEYOND 2000 - BACKGROUND

With the increasing challenges of the globalisation of the international market place it is an extremely difficult exercise to accurately predict just what the outcome of various organizations and its trading patterns and relationships will be like. However given we have looked at the historical situation and the 1997 actual operational organization and the current and potential changes it is possible to create a likely scenario and the key issues which it addresses. A number of advantages and disadvantages may or may not manifest themselves however given that flexibility is an absolute critical key factor allowed for in any of the restructuring this paper proposes. Thus while the realities may turn eventually and be some what different the structure is not too restricted.

The Apple & Pear Marketing Boards seek government approval to change their respective empowering legislation. A new Apple Pear & Kiwifruit Board would be established - the actual capital and formative objectives required would be established at that time in accordance with the relative size and financials appropriate to each product group. It would be unrealistic to estimate with any accuracy in 1997 what the relative production and financial positions of each industry in say 2010.

All apples, pears and kiwifruit from New Zealand would be sold by a joint company, i.e. NZ Apple Pear & Kiwifruit Marketing Board. This would be a Single Desk type operational company which would be licensed by a grower led panel specifically set up for that sole purpose. Tradeable shares would be distributed to growers on a product group basis which is also on an equitable production weighted basis.

In turn the Apple Pear & Kiwifruit Marketing Board would establish a second trading organization. For simplicity we would call this C.B.C. or Complimentary Business Company. This company would initially issue shares to all the combined growers defined as Apple Pear & Kiwifruit growers on an equitable basis. Some shares would be retained by the APKMB say 50% initially. The shares would be fully tradeable and listed on the New Zealand Stock Exchange - this would have the effect of maximizing the share value and allowing the most flexible capital raising possibilities. The main objective of the CBC would be generating shareholder value and operate by way of a mixture of own staff and contracting the services and management of the SD Company as and when necessary. There would be no requirement to retain shares once allocated in the CBC. However export suppliers would be required to own an equitable share of the Apple Pear & Kiwifruit Marketing Board according to an agreed pro rate formula. Income from the APKMB would primarily be by way of fruit value payments.

Companies expected to operate within the CBC group would currently comprise Frucor Processors, Fipia, Oppenheimer USA Inc., and some overseas marketing companies. Ideally a greater range and larger number of trading entities would eventually operate under the CBC.

ENZA BEYOND 2000

a) OPERATIONS:

It would be simplest to examine how operations would look in 2010 by separating the operations into two parts,

- i) the SD or APKMB,
- ii) CBC group

i) SD or APKMB:

A full merging of the two (at present) marketing boards with the formation of a new board for these purposes called the Apple Pear Kiwifruit Marketing Board. The main function of the new board would be to maximize the value of apples pears and kiwifruit produced by New Zealand Growers. The board would operate under a license system alongside other competent New Zealand exporters. (This licensing system is more fully explained in the representation segment immediately following). All returns from the SD or APKMB would be passed back to growers by way of fruit value (returns). It is envisaged the possible make up of the board would be 3 grower directors for apples/pears and 3 grower directors for kiwifruit. Another 3 directors engaged for their commercial acumen would compliment the 6 in total grower directors to give 9 directors in total. A chair/deputy chairperson would be elected internally.

At present the Apple & Pear Marketing Board and the Kiwifruit Marketing Board are jointly working on a number of strategic initiatives to combine resources/capital etc. to produce tangible benefits to both industries. They range from an updated information logistics system to "in market" sales promotion etc. The benefits

ii) CBC:

As previously stated the non core or investments outside of Apples Pears and Kiwifruit SD would be amalgamated under the CBC group structure.

The CBC will primarily deal with fresh fruit vegetables and marketing in other goods including new plants/varieties and predominantly operate on a commission basis. A big focus of its trading activities would be to sell complimentary products that maintain our presence in the markets, more efficiently manage the 'shoulder season' of competitors fruit, and to utilize products to increase demand from consumers for some of New Zealand's unique products/services. Each product/service business activity entered into would be separately accounted

for allowing management to be fully accountable for each of these individual business activities.

The four main regional sales offices would be the central focus for these activities and should as a matter of course through the employment of local experts have the knowledge contacts and experience of operations in each of these markets. They would naturally have the infrastructure, investment and capital resources to operate as such so those regional offices should operate as fully independent subsidiaries each reporting directly to the CEO of CBC.

Success would ultimately result in CBC being a similar operator as a Dole Chiquita etc.

b) STRUCTURE:

The structure is now separated into two distinctively different business units - each with its own objectives, goals and capital structure.

SD or APKMB:

It is envisaged that the International Regional Companies would commission sell the SD products namely Apples Pears Kiwifruit. Knowing that to produce premiums in the market and thus to growers - continuity of value and the value system importance it thus becomes apparent that the SD would need to maintain effective control of the CBC. It is debatable whether the shareholding would need to be more than 50% as effective control could still be possible with say 40% shareholding. The result thus would be that no controls should be placed on the SD as to alter its ability to either sell down or conversely purchase more shares to become a greater than 50% shareholder in the CBC.

The licensing system proposed for SD should be controlled by the industry. The proposal is thus of a 6 member consents committee. Three growers would be selected from the representative growers body and 3 commercial or non growers selected from the Apple Pear Kiwifruit Marketing Board. This would give a sense of commercial reality and also have the notion that to increase the wealth and volume by value to New Zealand growers that it is ultimately beneficial to all within the industry to have as much product exported as possible.

The process must not only be fair but seem to be fair so obviously resulting in a great importance of accountability in its structure and business approach to applicants. It is envisaged that the SD would have to apply for licenses like anybody else.

C.B.C.

The Apple Pear Kiwifruit Marketing Board would have the right to appoint the number of directors relevant to the size of shareholding in the CBC. Growers would initially have the ability to appoint their own directors relevant to the direct shareholding they have in the business. This proposal would not restrict outside (non growers) people with the appropriate commercial abilities being appointed to the board of the CBC. It is proposed that 9 directors in total are appointed.

c) REPRESENTATION:

With the merging of the two marketing boards (Apples and Pears and Kiwifruit) one would also have to look at the representative structure simultaneously. An added complication for this process however is where the Fruitgrowers Federation fits into the general picture. As part of the equation the management company 'PIMS' would also have to be included in the review.

Remembering that the Fruitgrowers Federation performs general representation for small product groups and generic type issues for most fruitgrowing types. The generic issues include general fruit promotion, agrichemical issues, development of Regional Council air water plans and general government advocacy lobbying and utilisation of funds from the Charitable Trust.

The proposed restructure is divided into two separate parts. The first deals with the specific industry representation i.e. Apples Pears and Kiwifruit and the second part deals with generic type issues.

l) Apple Pear and Kiwifruit Growers Incorporated:

This body would represent all growers and be the primary industry representative body. It would be equally represented by four growers from Apples and Pears and four growers from Kiwifruit. A chairman and Vice Chairman would be elected internally by the representatives. Like all elections representatives would be elected on a per carton or per tray basis i.e. production based voting system.

The functions performed would include consultation and representation between growers and the APKMB, government liaison, control of licensing of exporters, statutory performance reviews independent marketing and benchmarking of efficiencies and performance. Generic issues could either be dealt with or delegated to 'PIMS'.

Representation of growers from "grassroots level" would see the continuation of regional Pip and Kiwifruit associations feeding into the national associations. These local regional associations are important for knowledge and contact by localised growers, contact points for media and local government and also could handle local interface issues with the regional offices of the New Zealand Apple Pear Kiwifruit Marketing Board. The members would elect the local committees by way of a direct production based voting system.

11) PIMS & Fruitgrowers Federation:

This review proposes the winding down of the Fruitgrowers Federation to the point of the Federation only having a very informal type structure of the President and Vice President. It

would largely deal with the advocacy on behalf of all fruitgrowing types in a co-ordinational type role and with only two directors who would largely be figure-head with little day to day roles. The current projects and roles undertaken by the Fruitgrowers Federation would be transferred to PIMS. PIMS would be required to perform in a commercial manner employing people with the skills required to be competitive efficient and experienced in dealing with rural type issues. As part of its commercial realities it would be encouraged to liaise and possibly look at a joint role with other rural bodies i.e. Federated Farmers. It would be governed by a board of directors including President and Vice President of Fruitgrowers Federation and on an equitable basis by other product groups. This would obviously include the Chairman of the NZ Pip and Kiwifruit Growers Incorporated and perhaps two other representatives from the other product groups. It is recommended 2 non grower directors be also appointed for their commercial skills bringing the total number of directors to seven or eight.

It is envisaged th PIMS being commercially and efficiently driven could generate outside consultancy/advocacy work to a wide range of business types on a contracted basis. A primary objective should be that it is profit driven.

CONCLUSIONS

a) OPERATIONS:

Merging of Apple Pears and Kiwifruit Marketing Boards to one single body.

Competition for exclusive marketing of products on a segmented basis for all markets by way of licenses.

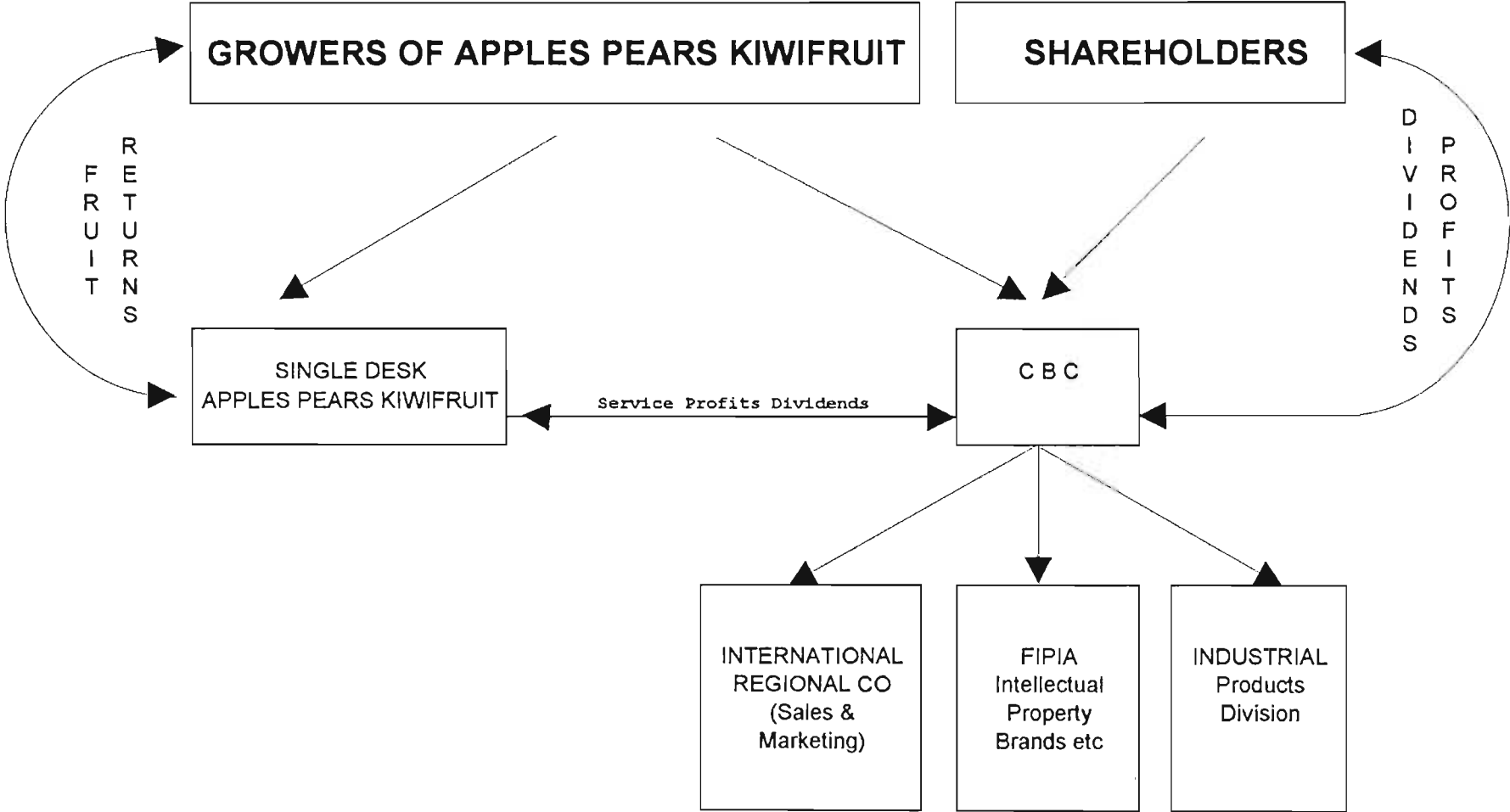
Licensing body controlled by growers (with ability to co-opt commercial representatives as and when required).

SD or NZAPKMB's present role divided into one corporate structure to market Apples Pears and Kiwifruit.

CBC created to invest procure and market different products, services, invest in complimentary type activities.

It is imperative that operational restructuring is used to maximise the value chain to the benefit of New Zealand and more ultimately to New Zealand growers.

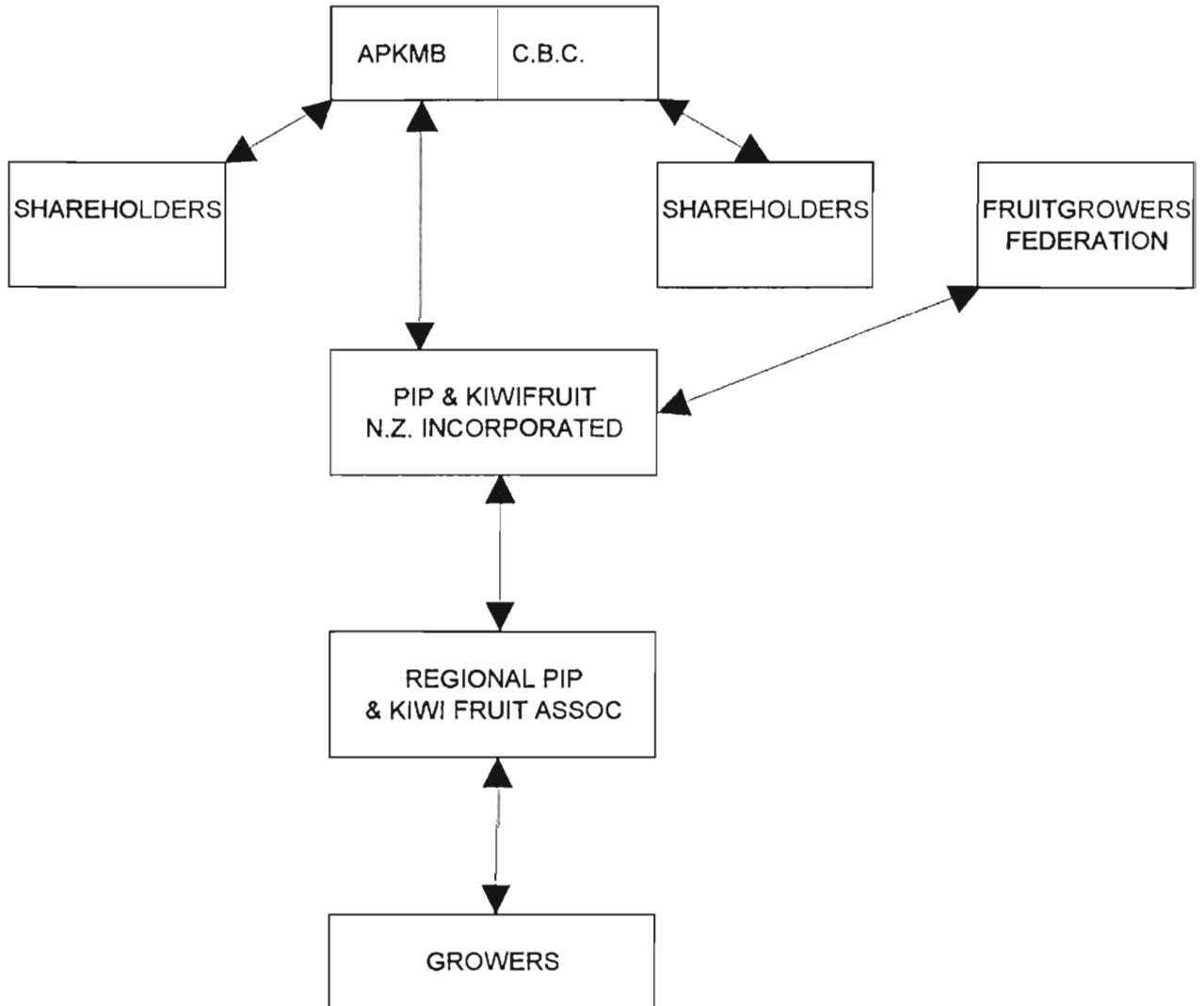
OPERATIONAL PROPOSED



b) STRUCTURE:

- SD or APKMB to sell primary horticultural products (apples pears and kiwifruit).
- Growers owing shares directly in the SD on a supply based formula.
- Formation of a licensing authority controlled by a consents committee with a balance of grower/commercial representation.
- CBC initially to growers again based on volume (supply) but no trading limitations and publicly listed on the stock exchange.
 - separate board although cross membership with SD to accurately reflect shareholding,
 - unlimited ability to invest, market and operate in international products,
 - important to set goals and objectives here that would be complimentary to SD with the prime aim of a commercially realistic return on capital invested.

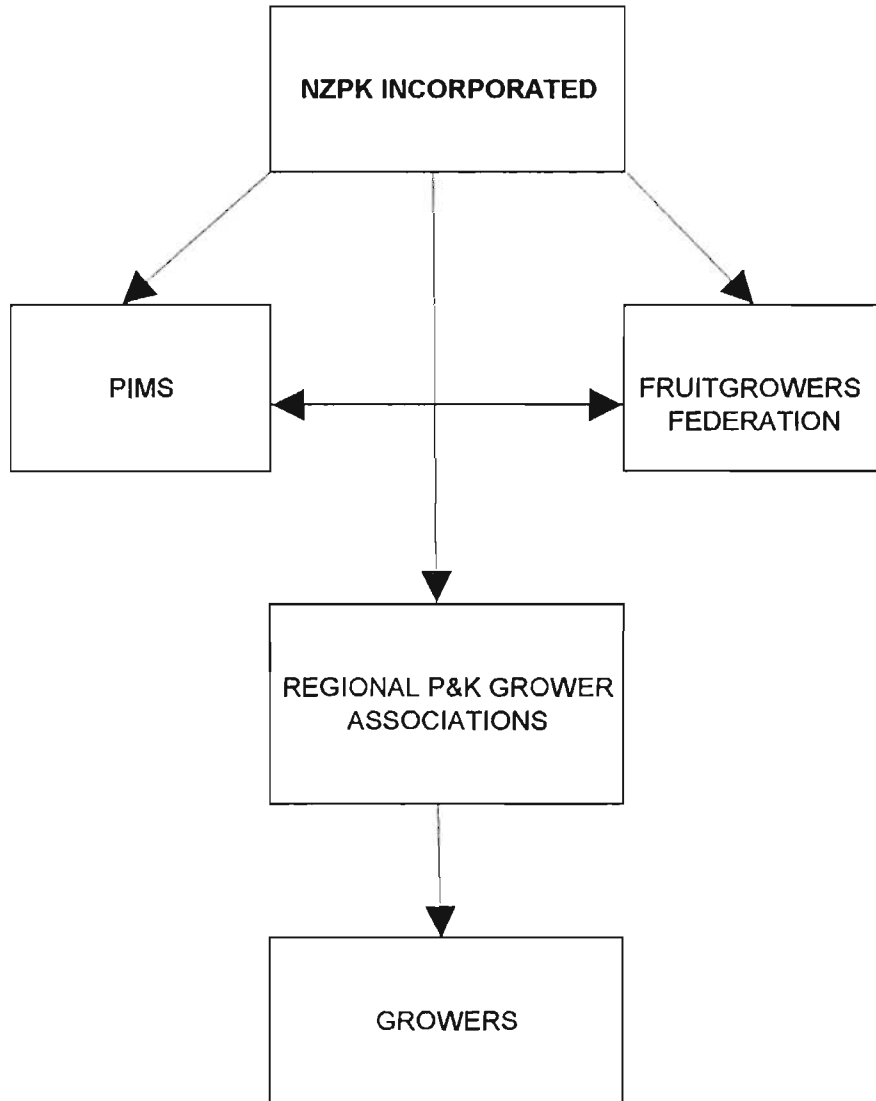
INDUSTRY STRUCTURE



c) REPRESENTATION:

- Downsizing of role of Fruitgrowers Federation to figure-head primarily i.e. President and Vice President.
- Appropriate reorganisation of financial resources.
- Disbursement of the "Charitable Trust" to more accurately reflect the original sources of capital. Would eventuate that product specific groups would receive their proportional share of the Trust Funds.
- This would allow for more accurate and appropriate resources to be used, better time management, more focus and higher level of accountability. Directors should be reasonably remunerated for time and effort and thus hopefully attract highly capable directors to oversee the functions of the organisation. This body would oversee the election of the export consents committee. All voting for directors to P&KGI would be on a production basis.
- Merging of the apple and kiwifruit growers into one body.
- Development of appropriate local fruitgrower associations to deal with local issues.
- At national level - a continuation of either the current executive functions on behalf of all grower types i.e. the PIMS management company or appropriate consultants employed on a case by case basis.
- Possible full integration with the Vegetable/Arable growers associations and Federated Farmers.

REPRESENTATIONAL STRUCTURE PROPOSED



GLOSSARY

APMB	Apple & Pear Marketing Board
APKMB	Apple Pear Kiwifruit Marketing Board
Cases/TCE's	Tray carton equivalents = 18kg of fruit weight
CBC	Complimentary Business Company
CEO	Chief Executive Officer
ENZA	Trading arm of the Apple & Pear Marketing Board
FF	Fruitgrowers Federation
FIPIA	Fruit Improvement & Plant Improvement Agency
FRUCOR	Current commercial group of companies
KGI	Kiwifruit Growers Incorporated
PGNZI	Pipfruit Growers New Zealand Incorporated
PIMS	Primary Industry Management Services
R&D	Research & Development
SD	Single Desk