

# Cooperatives NEWS

a two-monthly newsletter  
focussing on New Zealand  
cooperative enterprise

[www.nz.coop](http://www.nz.coop)

OCTOBER / NOVEMBER 2009

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## ASSOCIATION AGM

# Wellington – Friday 27 November, 10am

by Ramsey Margolis

Executive Director, New Zealand Cooperatives Association

Put the date into your diary now and book your flights: the New Zealand Cooperatives Association annual general meeting will be taking place at the Brentwood Hotel, Kemp St, Kilbirnie, Wellington on Friday 27 November.

The premier cooperative networking event of the year, tea and coffee will be available from 9am, the meeting will start at 10am and it will be followed by a light lunch at 12.30pm.

We are awaiting confirmation from the invited speaker and believe what this person has to say to be most definitely worthwhile. Members will be told the name of the guest speaker during October.

If you would like to book a room for pre- or post-AGM private meeting, phone Rachel Johnson at the Brentwood Hotel on 04 920 7314.

You are asked to advise the association office who will be coming from your cooperative. Last year's AGM saw a record number of attendees needing extra tables and chairs; please book early.

## COUNCIL

The association's council will be meeting after lunch. If you are hoping to become, or remain, a councillor, you are advised to book a return flight after 4.30pm.

Meeting face to face twice a year, the NZCA council consists of representatives of the nine sectors of the association plus the chairperson who is elected at the AGM, and the executive director. The list of current councillors is to be found on page 3 of this issue of Cooperatives News. ●



OCTOBER  
IS  
CO-OP  
MONTH

## October is Co-op Month

To find out how your  
cooperative can take  
advantage go to  
[www.coopmonth.coop](http://www.coopmonth.coop)



## Securities Act review

Representatives of member cooperatives from as far apart as Invercargill and North Shore City met recently to discuss the approach the association should take to an upcoming review of the Securities Act that is about to be conducted by the Ministry of Economic Development (above).

Following this meeting, NZCA executive director Ramsey Margolis and Alastair Hercus from Buddle Findlay had a one hour discussion with officials at the ministry.

What was most welcome was the acknowledgment that cooperative business often operates in ways that differ from regular, investor-owned business. These differences can be subtle, while at times they can be diametrically opposed. We are however confident that the review will now take note of this.

The ministry is due to publish the discussion paper towards the end of the year. ●

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NEW ZEALAND COOPERATIVES ASSOCIATION

## CO-OP GOVERNANCE

### Aligning with member interests and democratic control

by Peter Harris

Historically, cooperatives and mutuals have played a massive part in the New Zealand economy. Despite this, the standard governance texts and best practice manuals fudges the distinction between different forms of commercial incorporation.



Formerly a director of PSIS and currently a member of the Electricity Commission, Peter Harris was one of the presenters at this year's cooperative education seminar for directors

Specifically, cooperatives form to correct imbalances that develop when traditional investor-owned companies operate in market economies.

These are to:

- Protect members from poor quality, unsafe services and overpriced goods that result from weak competition;
- Gain access to markets where infrastructure is weak or expensive (eg packaging, transport, distribution);
- Provide services that are not profitable to commercial operators (such as in remote areas);
- Capture a share of value added from commercial provision;
- Secure economies of scale with buying or selling power.

#### DUTY OF CARE

Cooperatives pursue mutual interests as users of services as opposed to the investor interests of providers of services.

They therefore form and persist as an alternative to the delivery of service through conventional, investor-owned enterprises. Both are owned. Both are governed. Both have to have regard to commercial disciplines or else they will go broke. Both need to be aware of the interests of other stakeholders in order to retain patronage and support.

Where they part company is where the directors focus their attention when they exercise a necessary "duty of care". Commercial company directors do develop a set of tools that are of benefit in a cooperative company: audit and risk oversight, remuneration of senior managers, investment of treasury type funds, legal compliance disciplines and so on.

However, those common competencies are not sufficient. There is a need for an almost 180 degree reorientation of the duty of care in relation to promotion of the interests of the owners as users as

opposed to owners as investors.

In checking whether co-ops are being governed in a way that is fully aligned with member interests and democratic control, I think we can develop some tests. Here are ten questions, but this is by no means an exhaustive list.

#### 1 Do the directors ask whether there is more value to the owners from continuing in business and accumulating assets, or selling up and distributing them?

If they do, they don't get it. They are operating outside the primary area of responsibility as directors of a cooperative, elevating the interest of investors to the cardinal interest. In fact most co-op members have very little skin in the game as investors, but a lot at stake as users.

By way of example, owners of a fertiliser co-op do not really care what the value of their shares is: they care passionately that the co-op delivers the right quantity and quality of fertiliser on time at a good price.

If directors ask whether there is still a market imbalance that needs to be addressed, or whether the interests of co-op members are being met by conventional enterprises, they are still focussing on the cardinal interests of the owners.

#### 2 How often do directors review the shape and form of the benefit that their members get from participating in the co-op?

If the co-op simply matches the competition in form and price of service, it is not correcting a market imbalance: it is perpetuating it. The competition leads, the co-op follows. It competes essentially by using the margin created by its "free capital" (owners' equity and accumulated reserves on which it does not have to pay a dividend).

Nominally anyway, a "real cooperative" does pay owners market rates on capital left in the business: it just does not give voting rights pro rata with capital contributed and distributes surpluses (above those needed to sustain adequate reserves) on the basis of level of participation in co-op activities.

In practice, accumulated reserves are an undifferentiated wash-up from past activities, so payment of a market rate to contributors is not a realistic option. But this should not detract from the need to keep the member interest top of mind, or else the co-op is largely benefiting directors and staff, not members.

#### 3 Do directors regularly assess the extent to which their service configuration

An economist with an extensive background in research, analysis and advocacy, Peter Harris can be reached at [pharris@paradise.net.nz](mailto:pharris@paradise.net.nz)

and price ensure that returns to members are pro rata with their participation in the trading activities of the co-op?

If they do not, they can easily see the co-op drift as members who cross-subsidise others react to another form of market imbalance (administered imbalance) and walk away.

#### **4** What innovations has the co-op introduced in recent times?

Market outcomes change in a modern dynamic economy, so the member benefits that the co-op can capture will alter as competition and technological change both reduce old imbalances and create opportunities for new benefits.

Innovations can be quickly imitated, so an effective co-op is innovating ahead of the competition. If it simply imitates market innovations it loses that fundamental driver of its reason for being: to do things differently.

#### **5** Is there an explicit succession plan for directors?

Co-ops need to be democratic and accountable. In a profit-maximising company, shareholders who are dissatisfied with the performance of directors can simply sell their shares, extract their capital and walk away.

The threat of a hostile takeover bid tends to apply incentives to investor-owned company directors to maintain performance (although spectacular failures are still very frequent).

However, because co-op shares can be issued with a nominal value and can be redeemed, capital market disciplines on directors are virtually non-existent. There is nothing wrong with that: it is just a consequence of the orientation of a co-op.

Especially in larger co-ops with diffuse memberships, it is very hard to articulate effective member voice. Hence democracy, transparency and accountability have to be worked on and led.

#### **6** Is there a regular review of whether the organisation has been captured by a minority or special interest: be that an activist grouping within the membership, management and staff, or the incumbent directors themselves?

It is very easy, in a large organisation where owners have very little investor interest in its asset base, for complacency to set in, and for directors and managers to overlook the vested interest of minority activist groups. They are the ones that need to be pacified, so it is easy to build up a comfort blanket that says that the activists are the members.

#### **7** Are there formal limits on the scope and level of trading with non-members?

Some form of transactions with non-members is inevitable in any co-op. The question becomes whether non-member transactions start to dominate the financial affairs of the cooperative to the extent that they subordinate the interests of members.

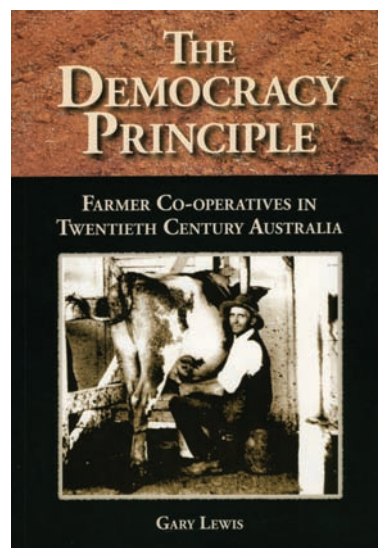
This is particularly acute when various covenants are placed on the terms of loans and when constraints are placed on the discretion of the organisation as a contractual condition of some other transaction.

The risk is that there can be a tipping point, beyond which the non-members, by virtue of financial weight, become de facto cardinal stakeholders, and the fundamental character of the co-op is lost.

#### **8** What processes are in place to ensure capital adequacy to underpin possible expansions of activity and to ride through periodic difficult trading conditions?

There is a delicate balance to be struck. With relatively few exceptions (Fonterra being a major one!), members of co-ops do not have a fundamental commercial interest in the co-op: it is a part of their lives, not the centre of them.

Hence they will stump up a joining fee in the form of a capital contribution but cannot be expected to regularly subscribe to new capital



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- The challenges they met – and failed to meet
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#### **NEW ZEALAND COOPERATIVES ASSOCIATION**

#### **COUNCILLORS ELECTED NOVEMBER 2008**

**Chairperson**  
Peter Macdougall  
Millers Flat  
RD2 Roxburgh

**Arable & Horticulture**  
Rod McKenzie  
New Zealand Honey Producers Cooperative  
Blenheim

**Dairy**  
Christine Burr  
Fonterra Cooperative Group  
Auckland

**Fertiliser & Top Dressing**  
Tony Reilly  
Ravensdown Fertiliser Cooperative  
Takaka

**Financial Services**  
Girol Karacaoglu  
PSIS  
Wellington

**Meat & Fibre**  
Michael Horn  
Alliance Group  
Invercargill

**Trading Societies**  
Don McFarlane  
CRT Society  
Temuka

**Grocery Wholesale**  
Chris Knowles  
Foodstuffs South Island  
Christchurch

**Trades & Retail Services**  
Stuart Russell  
Composite Retail Society  
Auckland

**Other Members**  
John Timoti-Hohaia  
Hato Paora Cooperative  
Auckland

**EXECUTIVE DIRECTOR**  
Ramsey Margolis  
Wellington

Councillors can be contacted through the Association

issues, especially since the co-op is not designed to serve their interests as investors.

There are many options for capital raising: retained surpluses, joint ventures, preference shares, subsidiary investor-oriented companies, capital notes and the like.

The point here is that it is usually too late to seek capital to ride out a crisis, but over-capitalising “in case” runs into demoting the member service orientation of the company.

A formal recognition of where the capital adequacy boundary lies, how it is to be sustained, and how capitalisation strategies support the member interest focus of the co-op is required: capital management should not be a default outcome of governance.

## **9** Are special steps taken to reinforce a sense of belonging among members: to reinforce and refresh the “common bond”?

A robust cooperative relies partly on individual members seeing personal value in the collective benefits that flow out of their joint activities, but that attachment can be weak and fickle.

The co-op can be reinforced if there are routine reviews of what binds members as opposed to simply what benefits them.

## **10** Is there a director approved programme of induction of managers and staff to reflect the member benefit orientation of the organisation?

Organisational values penetrate management and staff slowly and unevenly, and can be a source of tension within the staff (especially among managers) if they are not formally communicated and

supported.

Fundamentally, the question that directors need to ask is whether the co-op is a membership mutual benefit organisation, an insiders’ support facility, or a directors and staff benevolent society.

### **SHORTCOMINGS**

The Institute of Directors has assembled a framework for the governance of companies that brings together values, principles and practices.

On the face of it, they seem like the sorts of values that might sit easily with any co-op: integrity, enterprise, fairness, transparency, accountability and efficiency.

What is missing is a clear specification of what the interests of the “shareholder” are. There is not a robust recognition that the very reason for owning an enterprise can reflect different and divergent dimensions of the personal interests of the shareholder.

It is covered in the overall wash-up of achieving the “mission and purpose” of the organisation, and to be fair that can be something other than value maximising.

My question, though, is if in practice the natural orientation of directors of co-ops leads them as a matter of first principle to question the fundamental orientation of the interests of the owner.

Even if it happens, I really doubt that it is pervasive, but for co-ops to be fully on mission, that orientation needs to be pervasive.

If it is, all is well.

If not, the question becomes how to overhaul cooperative director induction, training, assessment, and compliance routines and manuals to achieve it. ●

This article is based on Peter Harris’s presentation at the August education seminar for cooperative directors, which is available in the member area of the association website at [www.nz.coop](http://www.nz.coop)

**DURING** August, directors and executives from New Zealand cooperatives came to Wellington for two seminars, each with the title “Don’t Waste A Recession!”.

While participation was lighter than hoped for, those who made it along had a real treat. Without exception, all the presentations were excellent.

One participant reported his seminar being “very useful in terms of personally providing context in terms of what it means to belong to the co-op movement”.

Another wrote that it was “interesting to hear from other co-op managers on how their businesses are structured, and be able to recognise the commonality of issues.”



Foodstuffs South Island’s Malcolm Wratt was only able to attend one of the two days of the executive seminar. He wrote that he “enjoyed the opportunity, and opened my eyes to the diversity of co-ops, and the variety of different models that exist. Next time I’ll make sure I attend the two days.”

Andrew Baird from Capricorn Society wrote, “This was my first experience of a Cooperatives Association seminar. I found the topics interesting and useful and the opportunity to network great.”

Some of the presentations from these seminars are available in the member area of the association website at [www.nz.coop](http://www.nz.coop). ●

## GUEST EDITORIAL

### Regulators need to understand cooperative values and practices

by Chris Knowles

Company Secretary, Foodstuffs South Island Ltd

As I fast approach retirement, I have been reflecting on my involvement not just in my cooperative but the movement as a whole over the last 19 years.

I have seen the cooperative I work for grow from a turnover of \$500 million to \$2.3 billion dollars, member rebates go from \$27.764 million to \$163.799 million, and market share in an incredibly competitive market increase from 35 percent to 59 percent.

This period of sustained growth however has been hampered over the last years by more and more regulation which, in the main, seems to be drafted by and implemented by people who have little understanding of cooperative values and the mechanisms under which we operate.

By way of example, one can point to the huge amount of cooperative movement executive time that was spent negotiating a change to International Accounting Standard 32 so that cooperatives could have their shares recorded as equity as opposed to debt in their financial accounts.

#### COMMON LAW

Currently, my cooperative chooses to comply with a common law interpretation, established under the Securities Commission versus Kiwi Cooperative Dairies Ltd, as to whether each of our members also remains a member of the public as opposed to a close business associate when they join the cooperative.



Consequently we use a debt prospectus to establish deposit accounts into which to pay our members' rebates and interest on those rebates while they are in these deposit accounts.

In response to the recent general failures of finance companies, our government decided to regulate what they have termed non-bank deposit takers. Because we pay rebates into deposit accounts, we are considered a non-bank deposit taker.

This means we are now subject to a new wave of regulation designed to control errant finance companies which will see us, among other things, forced to obtain a credit rating from an international firm unless we can gain exemption, restricted as to who can be directors of our cooperative



because of related-party difficulties, and to have two so-called independent directors on our board, one of which has to be chairman.

#### SAFETY IN NUMBERS

In a trading climate during what is arguably one of the greatest financial crises in the last 80 years, our member deposits have increased as members saw these deposit investments as safer than government guaranteed deposits.

This is surely a greater endorsement of our directors' capabilities and their ability to protect members' deposits than will ever be achieved by the statutorily imposed watchdog of two so-called independent directors.

I would suggest that most of the unnecessary complexity we face in regulation could be avoided if the educators of, and professional bodies to which the majority of our civil servants and regulators are affiliated, had the study of cooperatives as a prerequisite of qualification or membership.

This would surely cause these regulators to reflect on the damage their regulatory brain waves could do to cooperatives, the generators of 20% of New Zealand's GDP, before they implement them. ●



Foodstuffs South Island  
can be found online at  
[www.foodstuffs-si.co.nz](http://www.foodstuffs-si.co.nz)

Sorting the groceries for  
the stores

PHOTO: FOODSTUFFS SOUTH  
ISLAND LTD

**Chris Knowles,**  
company secretary  
Foodstuffs South Island  
Ltd

PHOTO: FOODSTUFFS SOUTH  
ISLAND LTD

## SHARED VALUES

### We can all take strength from the cooperative spirit

by Blue Read

During June, I had the privilege of speaking with Fonterra networkers and other suppliers at the annual Fonterra network conferences in Christchurch, New Plymouth and Hamilton.



Blue Read,  
chairman, Fonterra  
Shareholders Council

PHOTO: FONTERRA  
COOPERATIVE GROUP LTD

At all three conferences there was a clear acknowledgement and acceptance of the economic circumstances the world, and more specifically we farmers, are facing.

I know of no expert or commentator who can accurately pick the end to the turmoil. Many of the farmers I spoke with at the conferences were somewhat annoyed about what's happened and concerned about what might yet still happen.

That aside, they all seemed resigned to the reality that there are many circumstances that are beyond our control, and that the only real thing we can do is hunker down, act carefully, and ride this particular storm out.

#### HEARTENING

I was encouraged by the attitude I encountered at these conferences. It was heartening to see those who are facing economic uncertainty and hardship embracing the values and attitude of the cooperative spirit.

It reminds me of what Benjamin Franklin is reported to have said at the signing of the American Declaration of Independence in 1776. Questioned about his stand against British rule, Franklin was asked if he was worried about the

risk to personal safety involved in opposing the British. He answered: "Gentlemen, we must all hang together or we shall most assuredly hang separately."

It is this spirit of unity that has driven the formation and subsequent longevity of cooperative structure, and it is the same unity of purpose that will see us ride these current circumstances out.

There is strength to be taken from the realisation that we are all in this together. That realisation has proved to be a powerful reminder of the strength of the cooperative.

That strength and longevity has never been driven by short-term thinking or planning; we have always taken a long-term view and been prepared to pay a price in the interim to ensure inter-generational success.

#### PROVIDING SUPPORT

We read, almost daily, that a number of our farmers are overcommitted financially, and facing difficult and life changing decisions. I don't doubt that for a minute, and expect that there will be some in positions from which economic recovery will be difficult.

It is important, and part of that vaunted cooperative ethos, that we do what we can to assist and to provide support to those in difficulty. However, it cannot be at a cost to the overall health of the cooperative.

We can help in a collective sense, but we cannot take ownership of individual business decisions. After all, the cooperative, at its most basic, is made up of a number of individual and self-owned businesses that have joined together to form the collective strength that enables us to collect, process and market our product.

The reach of the cooperative cannot be expected, or would we as individual business people want it,



This article is reprinted with thanks from the July 2009 issue of Farmlink, Fonterra's magazine for members

Blue Read can be reached at [bluread@xtra.co.nz](mailto:bluread@xtra.co.nz)

Feature letter in the Dominion Post on 28 September, 2009, it is reprinted with kind permission of the Dominion Post and the author

Lou Bird is a former apple grower who mourns the loss of ENZA to investors  
See also the cartoon on the back page

## Dairying co-op model works

**B**ruce McKay's claim that dairy farmers lack vision (The Analyst, Sept 23) is ludicrous. New Zealand is unique among dairy-producing countries: we consume our surplus production domestically. Others export theirs.

About 15 percent of our dairy production is for local consumption. As a result, New Zealand-specific solutions to organising the industry are required. The

cooperative model secures farmers a market for their produce and ensures the focus is returned to the owners – the farmers.

In our major agricultural sectors, only those with the cooperative structure – dairy and kiwifruit – show consistent profitability at the farm gate.

Dairy farmers are the wise pig with the house of bricks, McKay the frustrated hungry wolf. He should look at how successful the kiwifruit

industry is now after it nearly disappeared under debt in the 90s. Where is the once-flourishing, recently deregulated apple-and-pear industry now?

Fonterra suppliers should stick to their guns. After all, cooperatives didn't give us the global recession. And I don't hear the government praising the finance sector for leading New Zealand's recovery.

LOU BIRD  
Wadestown

to come in the farm gate beyond that supply relationship.

### LONG-TERM CHANGES

I suspect the current situation will lead to some fundamental long-term changes. A reliance on capital gains as justification for investments will surely be challenged as a business model. Clearly in some situations there will be lessons learnt about prudent management of cash, and every one of us will be examining our cost structures to ensure we stay in business.

But farming is still much more than a business for most of us, it is a family enterprise, a way of life, and no matter how small or big our operations are, they are not simply investments. Farming is our life, and our values.

It is this affinity, this common sense of values and close involvement which will ensure that we share the bad times and the good.

To many of those I spoke to at the Fonterra network conferences, the greatest strength they could take in these times is knowing that we are all in the current circumstances and uncertainty together. We are not hanging separately but hanging together and facing up to the challenges.

The sense of strength that exudes from this is great and bodes well for a successful future.

I am very happy to be part of this cooperative. ●

## VIEW FROM THE BEEHIVE

### Cooperatives – their role in New Zealand’s growth strategy

by Hon Simon Power MP, Minister of Commerce

The government is currently dealing with the effects of the deepest global recession since the 1930s. That’s why a very big part of our economic attention this year has been on managing our way



through the immediate impacts of the recession.

Although New Zealand still faces significant challenges as a result of the global financial crisis, we’ve shown the resilience to avoid the worst effects of the crisis and now it’s time to really focus on the long term.

The government’s focus is on three key economic objectives: increasing New Zealand’s productivity growth, maintaining high levels of employment, and reducing our vulnerability to adverse events.

Recently, Prime Minister John Key announced

the economic growth agenda for New Zealand, which is all about maximising our opportunities and emerging from the downturn in a stronger position relative to the countries we compete with.

With this in mind, the government is working on six policy drivers to get our economy up and moving again. They are: regulatory reform, investment in infrastructure, innovation and business assistance, a world-class tax system, better, and more efficient, public services, and education and skills.

As Minister of Commerce, one of my main aims is to ensure that effective policy and regulatory frameworks are in place to promote competition, support efficient business transactions, lower compliance costs, improve business confidence to make investments, and develop international linkages.

A high-quality regulatory environment is essential if we are to overcome the economic disadvantages of our small size and geographical isolation.

I’m working on ways to improve the regulatory environment under which all types of company, including cooperative businesses, operate. The government’s role is to provide an environment in which the private sector can thrive, and I believe dialogue between business and government is a very important way of achieving this.

Our corporate governance legislative frameworks provide for a range of corporate forms, giving people establishing a business the choice as to which is most appropriate for their circumstances.

Compared to many countries, New Zealand has a relatively high proportion of the economy made up of cooperatives. The scale and diversity of our cooperative sector means cooperatives have a key role in contributing to the achievement of the government’s economic objectives.

In my view, the legal framework applying to cooperatives provides the flexibility for such businesses to prosper.

Though the nature of cooperatives means shareholders face different incentives from those of shareholders in a company, cooperatives confront many of the same issues as those confronted by other forms of business organisation.

The government’s drivers of economic growth – such as removing unnecessary red tape, improving infrastructure and developing our capital markets – will benefit all types of businesses.

As I’ve noted above, we can all emerge from this recession strongly and more competitively, but the government can’t itself create prosperity. We can create the right regulatory environment, but a strong and dynamic economy relies on the business sector, and especially the exporting sector. ●

If you wish to respond to what the minister has written, write to:

Hon Simon Power  
Minister of Commerce  
Parliament Buildings  
Wellington 6160  
New Zealand

Please send a copy of your response to the association office

As well as being Minister of Commerce, Member of Parliament for Rangitikei, **Hon Simon Power** is Minister of Justice, Minister for State Owned Enterprises, Minister Responsible for the Law Commission, Associate Minister of Finance and Deputy Leader of the House

## CO-OP OR MUTUAL?

### The feeling's mutual

by Ramsey Margolis

Executive Director, New Zealand Cooperatives Association

Following a conversation in which FMG's new chief executive, Chris Black, Girol Karacaoglu, chief executive of PSIS and I failed to differentiate satisfactorily between a mutual and a cooperative,



I sought some views from around the world.

The ICA's definition of a cooperative is pretty straightforward: "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."

And Simply Legal, a Cooperatives UK publication, describes a mutual reasonably clearly:

"A mutual is a membership-based organisation where there is an identity between the people involved in the business and its members. Some mutuals are fully mutual, where only members can benefit from the services provided by the mutual.

"Consumer cooperatives which run retail outlets and worker cooperatives are mutual organisations but generally cannot be fully mutual as that would involve them refusing to serve customers who were not members. Most agricultural cooperatives are mutual, but not all."

I was beginning to see a difference. New Zealand business, however, doesn't seem to fit these concepts so well. Alan Robb's told me that "mutuality means 'beneficial interdependence' and accordingly is central to cooperatives. All co-ops exist to provide benefits to members as a result of their joining together for some common purpose.

"While the members of a farmers' supply cooperative will benefit by combining their individual

purchases and so obtain lower input costs, members of a farmers' marketing cooperative will benefit by the leverage – and higher prices – they obtain from pooling their products.

"Financial cooperation through credit unions or other mutual/cooperative organisations provides benefits to both savers and borrowers, while the rate of savings determines the rate of lending. Could there be any doubt," Alan asks, "about the interdependence and mutual benefits?"

#### MUTUALISM

Race Mathews was an Australian federal MP, a state MP and minister, and was chief of staff to opposition Labour leader Gough Whitlam from 1967-72. He was also chairman of Waverley Credit Union and has written perceptively about the centrality of mutuality and beneficial interdependence.

His view is that there is *no* difference between cooperatives and mutuals. In *Strengthening the Foundations: Mutuality and the Arts*, he wrote:

"Mutualism is about self help – about people helping themselves by helping one another. What mutualist bodies – bodies such as mutual life assurance societies, permanent building societies, friendly societies, credit unions and cooperatives – also have in common is that they are almost always a response to urgent community needs.

"Credit cooperatives – otherwise known as credit unions – were a response to the need for affordable carry-on loans for smallholder farmers and later for affordable consumer finance. Friendly societies were initially a response to the need for funeral benefits, and, later, for unemployment benefits, sickness benefits and medical and hospital care. Access to affordable life assurance was offered by mutual life assurance societies, as was access to affordable home loans by building societies.

"Agricultural processing and marketing cooperatives met a pressing need on the part of farmers to capture value added to their produce beyond the farm gate. Worker cooperatives responded to the need on the part of workers for secure employment by enabling them to own their workplaces and jobs. Trade unions were originally mutualist bodies or cooperatives formed by employees in

New Zealand  
Cooperatives Association  
executive director  
**Ramsey Margolis**  
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For more of Race  
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response to a pressing need to obtain a better working conditions and a just price for their labour.”

### DISTINGUISHING FEATURES

Based in Perth, Western Australia, Trent Bartlett, chief executive of NZCA member co-op Capricorn Society, also serves as director of Capricorn Mutual. His response began somewhat diffidently: “This topic is like wrestling with smoke! Of course the principles and values are very similar – some would almost say interchangeable.”

“ICMIF, the International Cooperative and Mutual Insurance Federation, came out of the International Cooperative Alliance, and some ICA members are members of ICMIF as well. This tends to be in the European countries where cooperatives operate as mutual insurers, or indeed cooperative insurance companies.

“In Australia, mutuals are licensed by the Australian Securities and Investments Commission and typically do not have shareholders, only members. In other countries, mutuals can have shareholders, so long as the shares are only owned by members.

“As I understand it, in most common law countries, cooperatives and mutuals alike typically enjoy tax benefits from the doctrines of mutuality or cooperation. Where the income from the operations of the co-op or mutual is not taxed, so long as a certain threshold is maintained of dealing with the members or shareholders (i.e no less than 90% of income from operations is derived from dealing with the members). Anything outside of this is taxable, as is investment income.

“One potential distinguishing feature is that mutuals may only trade with and amongst the membership, whereas co-ops do not necessarily have that restriction.

“Also, in some countries, especially Europe and specifically France, on winding up all money must go back to the members as opposed to third parties, while in the case of some co-ops the last man standing rule applies.”

### INSURANCE MUTUALS

I then sought ICMIF CEO Shaun Tarbuck’s views. “There is obviously a difference in law,” he wrote. “Most countries either have a cooperative or mutual law that governs insurance. We at ICMIF group both together as they have the same values and ultimately exist for customers, not shareholders.

“To me the main difference is one of governance. A mutual is owned by its customers, who in most cases are all members. In some mutuals, though,

certain products don’t confer membership rights. Whereas a cooperative can very often be set up as a stock company with the shares owned by cooperative individuals or groups. In this scenario, you can be an owner without being a customer. A similar analogy is that of a farming co-op set up for the producers, but the customers (if they sold direct to the public) would not be the owners, they are just customers.

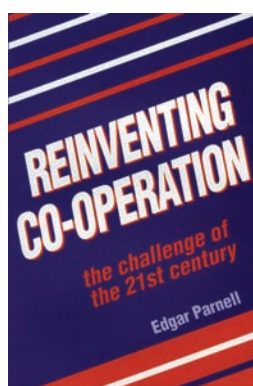
“There are many different types of insurance organisations that exist only for the customers, such as cooperative, mutual, fraternal, reciprocal, discretionary mutual, friendly society, *takaful* and they are all legal groups in their own area.

“Then within these there are different variations of governance, particularly the cooperative model which seems to be most flexible. That’s just the insurance industry.

“Maybe other industries are not quite as diverse, which is why ICMIF membership is open to ‘organisations whose essential purpose is to operate predominately for the benefit of their insureds and to serve their insurance needs, subject, in fact, to a system of democratic control by or on behalf of their insureds whose economic interests are their paramount concern.”

### THE CASE FOR MUTUALITY

So, while there can be differences, the overlap is far greater. What is very clear is that the members of New Zealand cooperatives might well be better served if their directors and executives look beyond the somewhat narrow range of cooperative



***A must read for cooperative directors and senior executives – for anyone hoping to run a successful cooperative business***

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businesses currently operating here for inspiration on how best to serve member interests.

The 1998 paper *Mutuality for the Twenty-First Century* by former UK Building Societies Commissioner Rosalind Gilmour is a case in point. In it, she argues a strong case for mutuality, suggesting the need for a new legislative framework which would allow this to flourish.

“Mutuality defies neat description,” Gilmour writes. “It is a moving, changing life form, not a stable knowable entity. In fact, mutuals are so diverse that isolating what they have in common is not at all easy. To approach that task, one must set them in historic context: try to deal with what has differentiated their constitution and behaviour and think imaginatively about what might differentiate them in future.”

“Mutuality,” she states, “is a form of organisation which tends to grow where markets are failing producers and consumers or where the state plays a minimalist role; which is not easy to set up; which can be more efficient, more customer-responsive and more stable, but more stodgy; and which can also move away from its roots over time as it becomes less driven by its founding values, less focused, or just bigger.”

Whatever differences we may have with her, let’s leave Gilmour the last word: “How strongly mutuality prospers depends primarily on how those engaged – members and managers – build on its strengths and repair or avoid its weaknesses.” ●

## ACCOUNTING STANDARDS

### ICA IAS working group confirms strategic objectives

by Ramsey Margolis

Executive Director, New Zealand Cooperatives Association

The activities of the International Cooperative Alliance (ICA) international accounting standards (IAS) working group have featured in many Cooperatives News articles over the last five years as the new accounting standards, as if straight out of Alice in Wonderland, turned the equity members had in their cooperative into debt.

At their most recent meeting in Oslo, Norway, on 9 September, during the course of a one hour discussion, the ICA IAS working group looked at a number of issues. Among these were:

- the International Accounting Standards Board (IASB) document *Financial Instruments: Classification and Measurement*;

- a US Financial Accounting Standards Board (FASB) document *Financial Instruments with Characteristics of Equity*;

- the terms of reference and future strategy of the working group; and

- preparations for the ICA general assembly which will be taking place in Geneva in November.

I attended by teleconference, and this report is an overview of what this ICA working group does from which New Zealand cooperatives benefit.

#### THE START OF THE ISSUE

The IAS working group was established by the ICA Board in December 2004. It is chaired by Jean-Claude Detilleux, a member of the ICA Board who is also president of the French cooperative apex organisation *Groupement National de la Coopération*.



It aims to bring together representatives of the cooperative movement globally from all sectors to work on international accounting standards, exchange information and coordinate, as much as possible, actions and positions promoted by cooperatives in the field of accounting standards.

The terms of reference adopted by the ICA Board and the members of the working group in 2005 stipulate that the working group shall:

- examine ways of improving coordination within the global cooperative movement in dealing with the International Accounting Standards Board (IASB);

- ensure full recognition and understanding of the special nature of the cooperative enterprise by the IASB at the highest level;

- establish with the IASB a method of corresponding and liaising and ensure the participation of cooperatives in the elaboration and implementation of IAS; and

- report regularly to the ICA board on the conclusions of the working group.

At the European level, the ICA IAS working group works closely with the European Association of Cooperative Banks, which is a cen-

International Accounting Standards Board member **Tricia O'Mailley** with ICA IAS working group chair **Jean-Claude Detilleux** at the October 2007 working group meeting in Singapore  
PHOTO: RAMSEY MARGOLIS

#### THE INTERNATIONAL COOPERATIVE ALLIANCE PRINCIPLES

- voluntary and open membership
- democratic member control
- member economic participation
  - autonomy and independence
- education, training and information
- cooperation among cooperatives
  - concern for community

tral contact point, both as the coordinator of the Cooperatives Europe accounting standards working group and as the main cooperative organisation in direct contact with the IASB.

In North America, the ICA IAS working group works closely with the National Cooperative Business Association (NCBA), which has developed over the years a constructive collaboration with FASB.

As well as involvement from this association, the ICA IAS working group also includes representatives of cooperative organisations from Canada, Japan, South America and the UK.

Last year, the ICA IAS working group prepared three comment letters which were adopted by the ICA Board as a response to three consultations on Financial Instruments with Characteristics of Equity which were led by the European Financial Reporting Advisory Group (EFRAG), FASB and IASB.

These comment letters insisted on the equity nature of cooperative shares and analysed the consequences on cooperative shares of the various approaches proposed by international accounting standard setters.

#### CONTINUING OBJECTIVES

Over the coming years, the ICA IAS working group will be pursuing and improving the implementation of the strategic objectives adopted by the ICA Board. It will:

- *Examine ways of improving coordination within the global cooperative movement in dealing with the International Accounting Standards Board.*

This objective has been achieved by the ICA IAS working group, notably in 2008 when the cooperative organisations coordinated their answers to the FASB, EFRAG and IASB consultations, adopting a common position at the ICA level on behalf of the global cooperative movement.

Regular meetings of the ICA IAS working group ensure a means of permanent coordination between those cooperative organisations which are active on international accounting standards issues.

- *Ensure full recognition and understanding of the special nature of the cooperative enterprise by the IASB at the highest level.*

This objective has also been achieved. FASB and IASB have a far better knowledge of cooperative enterprises, issues and specificities than they used to, but we cannot relax our guard.

We can confidently state that accounting for cooperative member shares is now taken into con-

sideration seriously by international accounting standard setters each time a new classification approach is developed.

- *Establish with the IASB a method of corresponding and liaising and ensure the participation of cooperatives in the elaboration and implementation of IAS.*

This objective has not been fully met by the ICA IAS working group. Relations with the IASB have



NZCA executive director **Ramsey Margolis** addressing the 2007 ICA general assembly in Singapore

PHOTO: ONNO VAN BEKKUM

been limited, for the time being, to comment letters to public IASB consultations.

A meeting of a cooperative delegation with IASB chairman Sir David Tweedie has been suggested but not yet been agreed upon.

- *Report regularly to the ICA board on the conclusions of the working group.*

The president of the ICA IAS working group reports regularly to the ICA board on the work undertaken by the working group, three comment letters drafted by the ICA IAS working group have been submitted and adopted by the ICA Board members in 2008.

Michael Horn, Alliance Group company secretary and a member of the New Zealand Cooperatives Association's own IAS working group, believes the ICA's IAS working group has done a good job over the years.

"It's important they continue," he said, "and we recognise that this is an ongoing task, and need to provide what support we can." ●

## The Cooperative Advisory Group

*Need help setting up a cooperative?*

*Perhaps you want to discuss issues in your co-op?*

*Phone the NZCA office on 04 384 4595*

#### THE NEW ZEALAND COOPERATIVES ASSOCIATION AIMS TO:

- encourage, promote and advance New Zealand cooperatives
- act as a representative association for those engaged as cooperatives
- promote discussion and cooperation with decision-makers at all levels of government, designed to further the interests of the cooperative movement
- provide services and expertise to those engaged in the cooperative movement and to carry out research into all aspects of the movement
- collect, verify and publish information relating to the cooperative movement

## ROBB ON COOPERATION

### Discretionary mutuals

by Alan Robb

Adjunct Professor, St. Mary's University, Canada

Earlier this month I was a keynote speaker in Canberra at the Unimutual 20th anniversary conference. Unimutual is a not-for-profit discretionary mutual that was formed to offer higher



education and research institutions a commercially feasible alternative to insurance.

Its membership comprises 18 universities and 15 other education and research institutions, all Australian. It is, however, open to applications for membership from New Zealand and elsewhere.

As a "discretionary" mutual the board has the absolute discretion to decide:

- whether or not to accept applications for membership;
- the level of protection it will grant – each member is individually rated according to its risk profile, individual claims history and pays contributions accordingly for the protection provided;
- the payment it will make on receipt of a claim.

Its publicity states that in exercising its discretion, "the Board is guided by principles of fairness and natural justice, governed by its constitution, rules and protection wordings, and the balance between individual members' interests and those of the group as a whole."

This means that Unimutual has the ability to consider claims in circumstances where they would be declined in the commercial market.

At first sight a discretionary mutual seems different from a cooperative where open membership has been the norm. But open membership can allow for discretion to decline to admit new members where there is a capacity constraint.

The discretion to treat members differently also exists in cooperatives. Co-ops have always recognised the need to guard against subsidizing some members by others. Thus a supply co-op will normally give a greater rebate for large purchases than for single purchases of the same item.

What is common to discretionary mutuals and co-ops is the belief that the board should be guided by principles of fairness and natural justice to balance the interests of individuals and those of the group as a whole.

Unimutual has an excellent website and their

members' area contains a number of informative case studies which show members how their organisation benefits them in ways that an investor-owned insurance company could not.

It was very clear from the discussions at the conference that Unimutual is walking the talk about being guided by principles of fairness and natural justice.

On my way home from Canberra, I purchased a copy of *Other People's Money* by Andrew Main. The story of HIH, an Australian insurance company which collapsed in 2001, the blurb describes it as "a chronicle of arrogance, ignorance and self-delusion."

I am sure the policy holders of HIH now wish they had been dealing with a mutual and that their protection was in the hands of people guided by principles of fairness and natural justice. ●

## EDUCATION MATTERS

### Massey co-op and mutuals course to start next year

by James Lockhart

Associate Pro Vice-Chancellor (Executive Education)  
College of Business, Massey University

Massey University College of Business will be introducing a graduate level course in cooperatives and mutuals in 2010.

The New Zealand Cooperatives Association approached the university in 2008 with a request that it introduce a graduate level course on cooperative and mutual business.

The association expressed a concern that their specific educational needs were not currently being met in New Zealand, identifying the need to improve the level of understanding among both employees and directors of the differences between cooperative and mutual, and investor-owned businesses.

The result of this request is the introduction in 2010 of a graduate level, first semester course titled *Advanced Studies in Cooperatives*.

The course will provide an advanced study of the theory and practices of cooperatives and mutuals.

Emphasis will be placed on the ownership, governance, and management of cooperatives, and their subsequent performance in meeting the conflicting demands placed on them through shareholder/supplier or shareholder/buyer complexity.

The competitiveness of cooperatives in the global environment will also be explored.

The course is offered at graduate (700) level.

Alan Robb is an independent consultant and commentator on financial accounting, cooperatives, corporate governance and business ethics

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and on 021 061 6867



Unimutual can be found on the internet at [www.unimutual.com.au](http://www.unimutual.com.au)

Each Robb on Cooperation column is now posted on [www.nz.coop](http://www.nz.coop) as a blog, and your comments are welcome

His other writings can be found on the internet at [www.alanrobb.coop](http://www.alanrobb.coop)

## AROUND THE CO-OPS

### Capricorn continues to grow and diversify

by Trent Bartlett

Chief Executive Officer, Capricorn Society Ltd

Capricorn Society Ltd was established in Australia in 1975 as a cooperative for the automotive service and repair industry. Operating now in three countries, including New Zealand,



Capricorn is one of the southern hemisphere's largest automotive parts buying groups, with over 12,000 member businesses buying around NZ\$1bn in goods and services each year from a preferred supplier network of 1,300 top name automotive suppliers.

From 2006, and prior to constitutional and corporate change, Capricorn had expanded services to members with the establishment of Capricorn Mutual Ltd, an insurance alternative, and was operating a travel agency through a subsidiary.

The co-op also has an extensive IT department which had developed software to assist the management of Capricorn's cooperative business, similar to CAPlink, which now handles more than 400,000 transactions per month via secure electronic data transfer.

#### FINANCIAL SERVICES

To allow the cooperative to operate in other areas of commerce, including financial services, Capricorn converted to an Australian public company in 2006. Its cooperative principles, however, are enshrined in the constitution, and the business remains governed by a board which comprises predominantly member elected directors, who are themselves Capricorn members.

Shortly after this constitutional change, Capricorn Society Financial Services Pty Ltd was established as a wholly owned subsidiary. Then Regis and Partners Pty Ltd was established, bringing together the specialist mutual skills of Regis Mutual Management out of London with the cooperative strengths of Capricorn. Regis and Partners is a joint venture between Regis Mutual Management (Australia) Pty Ltd and CSFS.

Setting up Regis and Partners has allowed Capricorn not only to manage its own mutual but also provide mutual services to others, including:

- Unimutual Ltd, which provides property and liability protection for universities in Australia and

Candidates are expected to be, and will be treated, as graduates. Therefore, a working (as opposed to academic) knowledge of company law, transaction and management cost economics, strategic management, and governance will be assumed at admission.

The learning outcomes listed below have been informed by the Association's needs. Essentially, they are based on a desire to understand the underlying theory and purpose of cooperatives, why they are formed and what and how they endeavour to deliver to their members.

#### EXPECTATIONS

Most important is the desire to understand the various alternative structures and strategies adopted by cooperatives as they deliver to their members and to have a better understanding of how to assess performance over time.

The course will:

- demonstrate advanced knowledge on the theory and practices of cooperatives
- rationalise the complexity of supplier/shareholder and buyer/shareholder fiscal policies
- critically appraise cooperative performance measures, membership and equity issues
- evaluate cooperative governance models, and
- analyse cooperative strategies from the perspective of shareholding members.

At the successful completion of the course, candidates will be able to demonstrate scholarly achievement in the understanding of cooperative studies.

While the course content has been motivated by similar courses offshore, it has been tailored to meet the needs of New Zealand cooperatives and mutuals.

There will be a mix of theory and application with the opportunity for all candidates to apply their learning to their place of work.

The course will be delivered through a mix of study material, texts, cases and two two-day contact courses which we are expecting will be held in Palmerston North.

#### NOW IS THE TIME TO ENROL

With just five months until the new term starts, now is a good time to enrol an executive, a member or a director from your cooperative on the course. Massey university requires a minimum of 20 students for the course to run.

Expressions of interest should be sent to Dr James Lockhart, Associate Pro-Vice Chancellor (Executive Education) in the College of Business by emailing [l.j.currie@massey.ac.nz](mailto:l.j.currie@massey.ac.nz).

Trent Bartlett, chief executive officer, Capricorn Society Ltd, and director Capricorn Mutual Ltd  
PHOTO: CAPRICORN SOCIETY LTD

New Zealand; and

- John Holland Group Mutual Ltd, which provides a facility that enables Australian JHG group companies to provide employee sickness, disability and death benefits.

This type of mutual is in essence an organisation which is established as an alternative to insurance for its members. Collectively owned by its members, it operates for the benefit and in the best interests of those members.

Typically, a mutual is formed to look after a group whose members share a high degree of similarity in their risk profiles. Together, these members are able to achieve benefits cooperatively which they could not obtain individually through sharing or pooling risk.

Mutuals and cooperatives share certain common values that will be instantly recognisable to the readers of Cooperatives News:

- Cooperation
- Trust
- Transparency
- Fair dealing.

#### **BENEFITS OF MUTUALITY**

Among the many benefits that result from mutual membership are:

- Control – greater control over protections with cover tailored for specific member needs;
- Cost – as not-for-profit organisations, mutuals strive to offer members cost effective, high quality services;
- Compatibility – mutuals are selective in offering membership, accepting only those aspiring to good risk management;
- Continuity – mutuals provide members with a long-term, viable protection solution that complements their needs. Given that mutuals do not pay dividends to shareholders (as investor-owned insurance companies do) their financial investments and long-term management combine to secure long-term benefits and returns while maintaining the loyalty of members; and
- Returns – once claim reserving targets and administration costs have been met, excess earnings belong to the membership as there are no investor shareholders to be paid. The board of the mutual decides how to distribute this benefit to their members.

A mutual also pays claims at the discretion of its board under the following circumstances:

- without the demands of investors, the owner-members can expect that all valid claims will be paid, sometimes supporting the member even

when outside the strict wording of the protection;

- mutuals do not need to be capitalised to the same extent as commercial insurance companies; and

- the strength of mutuals is founded on the superior risk profile of the membership and the pooling of risk, coupled with the purchase of wholesale cover to protect the mutual against unacceptably large single losses or an unexpected aggregation of smaller losses.

Professional management is clearly essential for the success of every mutual. Management at Regis and Partners works under an experienced board of directors.

#### **SERVICES FOR OTHER CO-OPS**

In addition to expanding into the financial services sector, Capricorn recently decided to expand its cooperative services outside of the automotive aftermarket.

Capricorn's Strategic Alliance Business Unit was established to explore the opportunity to provide services to customers involved in:

- Aged care
- Newsagents
- Hotels and motels
- Hardware
- Building and construction
- and anywhere else that Capricorn's cooperative business model could benefit people who wanted to work together to achieve something special they could not achieve on their own.

Through our Strategic Alliance Business Unit, Capricorn is able to provide professional management services and other solutions to meet the business needs of other co-ops as well as those individuals wishing to form a cooperative in the uniquely Capricorn way that has marked Capricorn's continued success and growth over three decades.

Well placed to provide such services and assistance, Capricorn continues to operate on the ICA's seven principles of cooperation. At this point, Capricorn is providing services to a chemists' cooperative as well as to a number of primary producer cooperatives.

Currently, Capricorn is in discussion with a wide range of parties to provide such cooperative services and these parties have indicated that they are clearly recognising the difference Capricorn can make.

Steve Barraclough, general manager of Capricorn's SABU, is available to discuss the benefits Capricorn can offer on +61 8 6250 9500. ●



A member of the New Zealand Cooperatives Association, Cooperatives WA and the International Cooperative Alliance, Capricorn Society can be found on the internet at [www.capricorn.coop](http://www.capricorn.coop)

## New avocado co-op ready with big share of crop

by Lesley Board

With a provisional export licence now in hand, new packaging at the ready and at least 30 growers prepared to commit around 300,000 trays of fruit, the new avocado cooperative New Zealand Avocado Marketing Ltd (NZAML) is keen to perform well in its inaugural season.

Registered under both the Companies Act and the Cooperative Companies Act, NZAML has a strong commercial focus, which managing director Mark Yortt says is reflected in the background of its six directors who are Mark Clayton, Kim Crocker, Paul Jones, Jeremy Meehan, Don Rodee and Mark Yortt. Their respective alternates are Bryan Cheshire, Owen Hopping, Craig Greenlees, John Burke, (Don Rodee's alternate still to be appointed) and Sam Pepper.



Yortt said obtaining the licence from the NZ Horticultural Export Authority had taken a bit longer than anticipated but they had pushed on with seasonal preparations regardless.

“A lot of exporting companies start with a provisional licence, which just means that you have to report a bit more frequently. I don't think any other exporter would have had a better business and marketing plan in place. Ours is very robust, we have a management team with a great deal of industry experience and they know what has to happen.”

Yortt said the co-op had originally set a target of 400,000-500,000 export trays but a reduced industry estimate and a series of weather events had reduced crop volume. Even with this revised estimate, NZAML would be a significant player and one of the four largest exporters in the industry in its first season of operation.

“Though we have formed alliances with some outstanding marketing and distribution partners we are not promising a premium in the market

place. The improvement to grower returns will come from developing ways to add value to the crop, increased efficiency and cost cutting which includes reducing the exporter commission costs from a flat rate as a portion of FOB value, to the bare cost of running the marketing operation. This will result in profits which will be rebated back to shareholders, who must be growers with a registered P-pin.”

Another advantage to members will result from the co-op's success in having negotiated some “fairly unique terms of trade,” the details of which are commercially sensitive.

### CLEAR STRUCTURE

In setting up the co-op, care had been taken to ensure that individual growers with large scale production could not unduly influence or control the company structure or governance.

“At this early stage we have commitments from larger growers each producing over 40,000 trays and a number of smaller growers expecting to harvest up to 10,000 trays, with a solid middle sized group. We have deliberately structured the voting rights for larger growers so they are not in direct proportion to production. In that way, those larger growers cannot dominate.

“The structure actually means that any four small growers together have the same influence as one of the largest shareholders. This is a true cooperative.”

A short form prospectus is to be issued and is now with the Securities Commission for approval. Yortt said it provided an opportunity for committed smaller growers to enjoy the benefits of shareholding.

“Grower supply groups from Satara, DMS and Huka Pak are already involved, so smaller growers can gather round their service provider and still enjoy the benefits without having to commit the total capital required of an individual shareholder.”

He said the return on investment was very good, with a commitment to a 15 percent dividend on shareholding, and NZAML calculate that almost all growers would recover their share investment in the first season after joining from rebates alone. Those rebates will improve with volume.

The more trays handled, the more shareholders would benefit and Yortt said while it may seem a safety move for growers to split crop, this actually detracted from the intent and practice of the cooperative. It had the effect of reducing the rebate potential through reducing the volumes which would otherwise be available, and that affected



This article first appeared in the August issue of The Orchardist and is reproduced with thanks

NZAML business manager Peter Jenkins (left) with managing director Mark Yortt (right) hold the new packaging and stickers for the co-op's first exports to the US

PHOTO: LESLEY BOARD, THE ORCHARDIST



New Zealand Avocado Marketing Ltd can be found online at [www.nzaml.com](http://www.nzaml.com)

every grower within the cooperative, not just the individual.

**MARKETING AGREEMENTS**

“Of huge benefit to us are the agreements we have with Calavo in North America and with Fresh Exchange, a subsidiary of Costa Exchange, the largest fresh fruit distributor in Australia. Calavo is one of the major drivers of the industry in the US. It started as a cooperative, has a long established business there and markets in Japan and South East Asia.”

Yortt said the more dealings he had with Costa, the more he realised their rock solid worth and the benefits which would accrue from their 12 month supply arrangements in the Australian retail market.

“This season we will be supplying fruit from mid-October until the end of February, dovetailing with their Australian grower/suppliers within a common marketing plan rather than on a New Zealand v Australia basis.

“The Costa Group has huge experience, is the preferred supplier with Coles supermarkets, has links with all other major retail chains and has invested heavily in sophisticated ripening rooms throughout Australia.

Yortt said he also liked the idea of having to deal with just one dedicated avocado category manager

for the entire Australian market. NZAML fruit would bear the Zavo-New Zealand Avocado label.

The prospect of a high pressure processing (HPP) business for avocados, under the co-op’s stand-alone company New Zealand Avocado Processing Ltd (NZAPL) has sparked widespread interest.

Liz Muller, an experienced food technologist, manager, food processor, exporter and marketer who has had involvement with the dairy industry and with high profile companies such as Heinz Watties, has been contracted to do a thorough feasibility study of the options.

**2010 PROCESSING ON TARGET**

“What we are finding confirms the viability of the move into HPP for avocados but we are looking closely at the size of machinery for initial set-up. We will probably start from a small base and grow with the supply of fruit.

“There are opportunities for the plant to handle other products but our study is based on avocados and the target is to be operational for the 2010 season with site options already available.

“A lot of work has been done to reach this stage and we already have a good deal of support. It is all positive.

“There is nothing getting in the way of this cooperative venture, and so far it has been exciting and rewarding.”●



New stickers ready for the co-op’s first exports to the United States

PHOTO: LESLEY BOARD, THE ORCHARDIST

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