

HASS AVOCADO BOARD BOARD MEETING MINUTES August 20, 2003

A meeting of the Hass Avocado Board (HAB) was held on Wednesday, August 20, 2003 at the California Avocado Commission (CAC) office in Irvine, California, with the following people present:

MEMBERS PRESENT

Charley Wolk-Chairman
Scott McIntyre-V. Chair
Robert Bednar-Treasurer
Alva Snider-Secretary
George Barnes
Mark Borchard
Michael Browne (Alt. Figueroa)
Eric Crawford
Len Francis
Luke Sears (Alt. DeMalo)
Donna Singmaster (Alt. Finch)

MEMBERS ABSENT

James DeMalo
Ed Figueroa
Jim Finch

CAC STAFF PRESENT

Mark Affleck, President
Tom Bellamore, Sr. VP
Betty Bohr
Jan DeLyser, VP Merch.
Angela Fraser
Laurie Hill
Michelle Spelman
Connie Stukenberg
Val Weaver, VP Finance
Guy Witney

ALTERNATES PRESENT

Giovanni Cavaletto
Bob Flack
Paul Foley
Tom Markle
Dan McGrath
Don Reeder

ALTERNATES ABSENT

Ralph DeLeon
Robert Perry

OFFICIALLY PRESENT

Margaret Irby, USDA
Mark Nicholson, USDA
Kendra Peavy, IMW
Jerome Stehly, ex officio

GUESTS PRESENT

Jack Abbott
Kari Bretschger
Morgan Brown
Irene Cabanas
Joe Charest
Kathleen DeFreitas
Jerry Dimitman
Ralph Dutra
Xavier Equihua
Aletandro Gavito
Benjamin Grayeb
Reuben Hofshi
Wes Humphrey
Paul Izenstark
Jaime Leon
J. Jesus Lopez
Doug Main
Jim McCormac
Peggy McCormick
Steven Muro
Jeanette O'Toole
Gwen Peterson
Antonio Villasenor
Gerry Watts
Ross Wileman
Liz Wilkins

CALL TO ORDER

Chairman Charley Wolk called the meeting to order at 10:05 a.m. and a quorum was established.

Introductions/Announcements

Chairman Wolk introduced Margaret Irby and Mark Nicholson, USDA/AMS, to the Board.

Approval of Minutes

MOTION: *The Hass Avocado Board approves the May 14, 2003 Minutes as submitted. (Snider/Barnes) MSC Unanimous*

ADMINISTRATION

Office of General Counsel (MOU)

The Office of General Counsel is the counsel for this board. The Memorandum of Understanding gives authorization for HAB to also engage separate, private counsel for transaction matters. Outside counsel will allow for immediate legal advice when necessary. The Office of General Counsel will represent HAB against lawsuits filed and will defend the constitutionality of the Board.

MOTION: *The Hass Avocado Board ratifies the HAB Memorandum of Understanding (MOU) between the Hass Avocado Board (HAB) and the Office of General Counsel (OGC), United States Department of Agriculture (USDA), permitting the HAB to hire outside counsel, effective August 20, 2003 through October 31, 2003. (Snider/Bednar) MSC Unanimous*

MOTION: *The Hass Avocado Board requests the extension of the Memorandum of Understanding (MOU) between the Hass Avocado Board and the Office of General Counsel, USDA, permitting the HAB to hire outside counsel, through October 31, 2004. (Snider/Bednar) MSC Unanimous*

The complete Memorandum of Understanding Between the Hass Avocado Board and the Office of the General Counsel, United States Department of Agriculture is attached to the permanent copy of these Minutes and identified as Exhibit A.

Outside Counsel Letter of Engagement

Consistent with the Memorandum of Understanding (MOU) between HAB and the USDA's Office of General Counsel, the Letter of Engagement for Legal Representation of the Hass Avocado Board sets forth the agreement for legal services to be provided by McLeod, Watkinson & Miller. This letter proposes that HAB will be billed hourly rates for any services provided, as well as for incidental expenses. The letter goes on to note that the Rules of Professional Conduct will be maintained in the course of services provided for HAB and the California Avocado Commission (CAC), who they also represent.

MOTION: *The Hass Avocado Board approves the August 19, 2003 Letter of Engagement for Legal Representation of the HAB with McLeod, Watkinson & Miller for outside legal services through October 31, 2003. (Francis/Singmaster) MSC Unanimous*

MOTION: *The Hass Avocado Board approves extension of the time period covered by the Letter of Engagement for Legal Representation of the HAB with McLeod, Watkinson & Miller for outside legal services through October 31, 2004. (Snider/Singmaster) MSC Unanimous*

The Letter of Engagement for Legal Representation of the HAB with McLeod, Watkinson & Miller for outside legal services is attached to the permanent copy of these Minutes and identified as Exhibit B.

Identity and Logo

President Mark Affleck provided a sheet of four logo options to be used by HAB for branding purposes. The options were as follows:

1. Original circular design presented to the Strategy Committee, consisting of lettering around the logo and a target in the center of the circle
2. Revised logo without a target and words placed within circle
3. Original linear design, no circle and white background
4. Blend of linear and circular design (similar to option 2) except the United States image is white

The Board reviewed images and requested to see the original design with only the target element removed. After some discussion, the Board's consensus was to move forward with the original logo concept without the target.

Additional concepts based upon the original design will be provided at the next HAB meeting.

MOTION: *The Hass Avocado Board approves revisions to the original logo design (without a target) as the corporate identity logo for HAB. (Browne/Borchard) MSC Unanimous*

The HAB Logo Sheet is attached to the permanent copy of these Minutes and identified as Exhibit C.

Proposed Rule Update

USDA issued a proposed rule terminating the definition of substantial activity as it applies to an importer's eligibility to sit on the HAB. Currently, importer Board Members must have 51% of their avocado business coming from imports. This limits the number of importers available to serve on the board. The request to eliminate the 51% criteria from the rule was submitted to the USDA and the comment period closed on May 19, 2003. No decision has been made because the USDA received nine comments, of which seven were opposed to changing the definition. Two submissions, including comments submitted by HAB, favored changing the rule.

The comments are posted online. USDA is currently reviewing the information, and is expected to issue a final rule soon.

FINANCE

Treasurer Bob Bednar reported the HAB Financials. The total projected reserve is about \$2.1 million. There will be approximately \$300,000 in start-up marketing program expenses by the end of the year, leaving the final projected reserve at \$1.8 million.

Bednar reported that he met with Mike Bush, Cal-Surance, and Val Weaver to review HAB's insurance needs. Estimated costs of general liability, property, umbrella, directors and officers, crime, travel/accident, and fiduciary liability insurance are about \$12,000. HAB may be covered under CAC's insurance policies, except for crime and directors and officers insurance. Separate policies will be procured for that coverage.

The complete HAB 2003 Financial Overview is attached to the permanent copy of these Minutes and identified as Exhibit D1.

2002-03 Budget Amendment #1

Bednar proposed a 2003 Budget Amendment #1 based upon the Finance Committee's recommendation. This amendment would change the Marketing Program Implementation Fee to the actual amount of \$149,875 (10% of the marketing program) from the estimated amount of \$100,000 that the HAB Program Services Agreement with the California Avocado Commission had originally approved. The revenue and estimated budget remain the same.

MOTION: *The Hass Avocado Board approves the 2003 Budget Amendment #1 as presented August 20, 2003 in Exhibit D-2. (Bednar/Francis) MSC Unanimous*

The complete 2003 Budget Amendment #1 is attached to the permanent copy of these Minutes and identified as Exhibit D2.

Auditor Letter of Agreement/Services

The Letter of Engagement from Conrad & Associates for year ending October 31, 2003 outlines that an audit will take place in December 2003 and be presented in January 2004. Conrad & Associates is estimating 80 hours of time to complete the audit and included hourly rates of the professionals involved in the engagement.

MOTION: *The Hass Avocado Board approves the Letter of Engagement with Conrad & Associates for auditing services for the fiscal year ending October 31, 2003. (Bednar/Snider) MSC Unanimous*

MOTION: *The Hass Avocado Board approves the extension of the time period covered by the Letter of Engagement with Conrad & Associates for auditing services for the fiscal year ending October 31, 2004. (Bednar/Snider) MSC Unanimous*

The Letter of Engagement is attached to the permanent copy of these Minutes and identified as Exhibit E.

Review of Expenditures Prior to Payment

The Review of Expenditures Prior to Payment policy is developed in order that expenditures over \$1,000 are reviewed for payment by an independent third party before funds are disbursed. This procedure has been recommended by McLeod, Watkinson & Miller and will provide supporting documentation for record keeping purposes.

Discussion followed by Board members to add “for payment” to line 3, so that it reads “Payable is approved for payment by an authorized Manager,” in order to clarify that the payable is approved to be dispersed. The Board also discussed raising the \$1,000 minimum that initiates the policy and decided to continue with this number until a better understanding of HAB spending is qualified. This minimum number will be revisited in the future.

MOTION: *The Hass Avocado Board approves the Review of Expenditures Prior to Payment Policy, as attached here in its entirety as Exhibit F with an amendment to add the verbiage “for payment” to Item number 3.*

The Review of Expenditures Prior to Payment is attached to the permanent copy of these Minutes and identified as Exhibit F.

2003-2004 Lamb Hass Assessment

Chairman Wolk explained that the Board is authorized to levy taxes on Hass and Hass-like avocados. Lamb Hass volume is continually increasing and it is time to decide if the Board will create an assessment for this variety. The Executive Committee recommended that Lamb Hass should be assessed; however, they did not want to begin until the new growing season starts on November 1, 2003.

The floor was opened to discussion. According to the regulations, the board has the authority to assess those avocados so similar to the Hass avocado that they are indistinguishable to the consumer in fresh form. Currently, the Lamb Hass boxes must be marked as Lamb Hass. At this time, the market for Lamb Hass avocados is limited; however, in the current crop year from June through October Lamb Hass avocados would have generated \$57,000 to HAB had they been taxed. The same PLU # is used for Hass as well as Lamb Hass avocados in the market, so they are both being sold as Hass avocados.

However, dry weight standards have not been set for Lamb Hass and some concerns were raised whether an assessment should be established.

MOTION: *The Hass Avocado Board approves an assessment on Lamb Hass variety avocados effective November 1, 2003, having determined that the Lamb Hass variety is so similar to the Hass variety avocado as to be indistinguishable to consumers in fresh form. (Bednar/Snider) MS*

Following discussion this motion was offered:

MOTION: *The Hass Avocado Board moves to table the assessment motion until discussion about fruit quality is held.
(Francis/Borchard) MS and Failed 7 to 3 by Roll Call Vote*

ROLL CALL VOTE:

3 For: Barnes, Borchard, Foley
7 Against: Bednar, Crawford, Sears (Alt. DeMalo), Singmaster (Alt. Finch),
 Browne (Alt. Figueroa), McIntyre, Snider
 Chairman did not vote

Next the original motion to approve assessment of Lamb Hass was voted upon. ***The motion was unanimously favored. Resolved: Lamb Hass will be assessed effective November 1, 2003.***

2003-04 HAB Assessment Rate

Delayed until afternoon.

ISSUES (moved forward on agenda)

Quality

HAB Strategy Committee Chairman Scott McIntyre gave an overview of the discussion held earlier that morning regarding quality and standardization of Hass avocado fruit. The committee found that changing the marketing order law to impose quality standards is a difficult task since differences from industry to industry and season to season must be reconciled.

The committee did, however, keep the issue alive and will continue to evaluate fruit arrivals and trends in this important area of the business. Specifically, HAB's innovative InfoTech System will be carefully monitored to determine if it has a positive impact on quality, though it is not designed for that purpose.

Hofshi Request for Financial Support for Quality Conference

Chairman Wolk introduced Reuben Hofshi who requested \$25,000 in financial support from HAB for expenses associated with bringing panelists to the Brainstorming '03 Postharvest Session in late October 2003. This contribution would pay for travel, room and board expenses of the attending researchers. The researchers will be discussing quality issues at a special one-day event to be held on October 31, 2003 in California. Mark Affleck was first to voice support, saying, "This is the type of program that can clearly demonstrate to the global avocado industry that HAB is a serious and committed player on issues affecting growers and sellers everywhere."

Discussion strongly favored support of the program. Hofshi agreed to a board request to supply a post-event summary of findings.

MOTION: *The Hass Avocado Board approves the expenditure of \$25,000.00 to offset travel and expenses of panelists at the Avocado Quality Conference to be held on October 31, 2003.
(Browne/Sears) MSC Unanimous*

The *Letter of Support for the Brainstorming '03 Postharvest Session* is attached to the permanent copy of these Minutes and identified as Exhibit G1.

The *List of Panelists* is attached to the permanent copy of these Minutes and identified as Exhibit G2.

Importer Member Verification

The issue was not discussed.

ADJOURN FOR LUNCH

The Board adjourned for lunch at 11:35 a.m. and reconvened at 12:20 p.m.

MARKETING

Program—Development Costs

Chairman Wolk framed the marketing discussion by stressing that HAB's primary focus must be on grower value—for ALL suppliers. He then called on CAC President Affleck to present an overview of the proposed 2003-04 HAB Program which included the Strategic Platform recommended by the Strategy Committee.

President Affleck set the context by going through the history of California avocado industry turmoil up to 1988, at which time reorganization took place and record success followed. The strategic orientation that California embraced at that time led to success in subsequent years, creating high values that have attracted other suppliers to the U.S. market. The increase in import volume that resulted led the California industry in 2000 to begin steps toward establishing a Federal Promotion Order (FPO) to assess all Hass avocados sold in the U.S. This move was in response to the clear consensus that a marketing response was needed to deal with the new volume and protect the market's stability for growers, sellers and consumers.

However, USDA created the "85% Importers Refund Provision" after the order's initial construction and both Chile and Mexico announced plans to claim their 85% Refund for the 2003-04 marketing year. With the combined "flight" of 85% Refunds by California, Mexico and Chile, Affleck adjusted HAB's 2003-04 Strategy to **focus on the marketplace** and coordinate real-time market reports and promotional tactics in by region across the entire 12-month "season" before the fruit arrives. It is the Strategy Committee's belief that throwing money into the market in the form of advertising as the extra fruit arrived would not yield a return.

Affleck explained that the proposed 2003-04 STRATEGY would have two planks:

1. INFORMATION TECHNOLOGY

- Share strategic marketing information to import associations to show that HAB supports their efforts
- Develop a unified, year-round cohesive strategy
- Disseminate information to everyone through linked communication technology to coordinate all marketing activities

- Launch *AvoHQ.com Intranet* system linking growers, packers and importers who sell Hass avocados in the U.S. market to help all suppliers adopt a unified and cohesive marketing strategy

2. COMMUNICATIONS

Execute aggressive Communications Programs in the markets identified above in the Information Technology component in support of the unified plan. The communication plan will include both consumer and industry communications.

The Board's feedback was positive on the proposed Strategic Platform for 2003-04.

FUNDING

Afleck claimed that since a massive \$15 million consumer advertising program would not be possible after the 85% Refunds, this new, two-plank strategic orientation could be funded at an assessment level below the current 2.5 cents per pound, as low as 1.5 cents per pound. Board members were vehemently opposed to any reduction in funding levels as the new organization began operation into an unknown future.

The Marketing Strategy Cycle is attached to the permanent copy of these Minutes and identified as Exhibit H.

The Backgrounder to HAB Strategic Recommendation is attached to the permanent copy of these Minutes and identified as Exhibit I.

MOTION: ***The Hass Avocado Board approves the recommended Information Technology and Communications strategies and program plans for the year ending October 31, 2003 and FY 2003-04. (Bednar/Francis) MSC Unanimous***

The HAB Strategy Recommendation is attached to the permanent copy of these Minutes and identified as Exhibit J.

The Strategy #1 Info Tech Handout is attached to the permanent copy of these Minutes and identified as Exhibit K.

The Strategy #2 Communications Handout is attached to the permanent copy of these Minutes and identified as Exhibit L.

HAB Assessment Rate & Budget

CAC Vice President Finance Valetta Weaver presented different scenarios of generated revenue and expenditure projections based upon a 1.5 cents, 1.8 cents, 2.0 cents, and 2.5 cents assessment rates. While examining the numbers, it was made clear that the administration costs are under the 10% ceiling dictated by the order. The Board decided to keep the assessment at 2.5 cents and set a budget at \$16,846,190.

MOTION: ***The Hass Avocado Board approves a HAB assessment rate of 2.5 cents per pound for the fiscal year November 1, 2003 through***

October 31, 2004. (Sears/Francis) MSC Unanimous

MOTION: The Hass Avocado Board approves the 2003/04 Budget in the amount of \$16,846,190 for 2003/04. (Snider/Barnes) MSC Unanimous

The 2003/04 Preliminary Resource Analysis Handout is attached to the permanent copy of these Minutes and identified as Exhibit M1-9.

MOTION: The Hass Avocado Board approves the extension of the time period covered by the Program Services Agreement between the HAB and the California Avocado Commission through the fiscal year ending October 31, 2004 at the same compensation rates and contract terms. (Borchard/Snider) MSC Unanimous

MOTION: The Hass Avocado Board approves the extension of the time period covered by the Administrative Services Agreement between the HAB and the California Avocado Commission through the fiscal year ending October 31, 2004 at the same compensation rates and contract terms. (Snider/Barnes) MSC Unanimous

NEW BUSINESS

No new business at this time.

ADJOURNMENT

Chairman Wolk adjourned the HAB meeting at 2:45 p.m. The next HAB meeting will take place on Wednesday, October 15, 2003.

The 2003 HAB Calendar is attached to the permanent copy of these Minutes and identified as Exhibit O.

Respectfully submitted,

Kendra Peavy

I certify that the above is a true and accurate statement of the August 20, 2003 Minutes approved by the HAB Board of Directors on October 15, 2003.

Alva Snider, HAB Board Secretary