

HASS AVOCADO BOARD BOARD MEETING MINUTES August 18, 2004

A meeting of the Hass Avocado Board (HAB) was held on Wednesday, August 18, 2004 at the California Avocado Commission (CAC) office in Irvine, California, with the following people present:

MEMBERS PRESENT

Charley Wolk, Chairman
Scott McIntyre, Vice Chair
Alva Snider, Secretary
George Barnes
Mark Borchard
Eric Crawford
James DeMalo
Ed Figueroa
Jim Finch
Len Francis
Robert Perry (Alt. Bednar)
Jerome Stehly, ex-officio

MEMBERS ABSENT

Robert Bednar, Treasurer

CAC STAFF PRESENT

Mark Affleck
Tom Bellamore
Betty Bohrk
David Cruz
Jan DeLyser
Angela Fraser
Laurie Hill
Dave Howald
Aria Lukman
Michelle Spelman
Connie Stukenberg
Val Weaver
Guy Witney

ALTERNATES PRESENT

Michael Browne
Ralph DeLeon
Bob Flack
Paul Foley
Tom Markle
Don Reeder
Luke Sears

ALTERNATES ABSENT

Giovanni Cavaletto
Dan McGrath
Donna Singmaster

OFFICIALLY PRESENT

Ethel Mitchell, USDA/AMS
Kendra Peavy, IMW

GUESTS PRESENT

Kari Bretschger
Peter Bretschger
Morgan Brown
Irene Cabanas
Ron Campbell
Joe Charest
Avi Crane
Kathleen DeFreitas
Xavier Equihua
Alejandro Gavito
Mao Eugene Garcia
J. Jesus Lopez Herrera
Susan Hobbs
Ohannes Karaoghanian
Jaime Leon
Peggy McCormick
Steve Muro
Tom Pecht
Earl Rutz
Dana Thomas
Antonio Villasenor
Antonio Villasenor, Sr
Liz Wilkins

CALL TO ORDER

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

Introductions/Announcements

Chairman Wolk introduced Mr. Xavier Equihua representing the Chilean Avocado Importers Association (CAIA), Mr. Ron Campbell representing the Mexican Hass Avocado Importers Association (MHAIA), and Senor Jesus Lopez representing the Mexican Hass Avocado Importers Association.

Minutes-Review/Approval

No corrections or amendments were made to the June 16, 2004 Minutes. Chairman Wolk declared the Minutes approved as submitted.

ADMINISTRATION

Administrator Val Weaver stated that there are four existing agreements recommended to be extended for the 2004-05 year: Office of General Counsel, Memo of Understanding; Outside Counsel Letter of Engagement with McLeod, Watkinson & Miller; the HAB-CAC Administrative Services Agreement; and the HAB-CAC Program Services Agreement. There are no changes to the services at this time, and it is recommended that the Board approve these services for the 2004-05 year.

MOTION

The Hass Avocado Board (HAB) approves an extension of the Memorandum of Understanding (MOU) between the HAB and the Office of General Counsel, USDA, permitting the HAB to hire outside counsel; the Outside Counsel Letter of Engagement for legal representation of the HAB with McLeod, Watkinson & Miller for outside legal services; the Administrative Services Agreement between HAB and the California Avocado Commission; and, the Program Services Agreement between HAB and the California Avocado Commission. (Snider/Barnes) MSC Unanimous

FINANCE

Mr. Len Francis, Acting Finance Committee Chair, updated the Board on the latest recommendations by the Finance Committee. The Committee recommended approval of the 2003 California Handler Assessment Audit Report by Conrad & Associates. Ms. Weaver briefly reviewed the Independent Accountants' Report with the Board.

MOTION

The Hass Avocado Board (HAB) approves the 2003 California Handler Assessment Audit report as presented. (Finch/Figueroa) MSC Unanimous

The 2003 California Assessment Audit Report is attached to the permanent copy of these Minutes and identified as Exhibit A.

Mr. Francis discussed the Committee's recommendation to approve the 2003/04 Budget Amendment #3 in the amount of \$17,058,490 with a Reserve of \$1,378,493. The only change to the bottom line was the addition of the Program Marketing fee of \$19,300, a result of additional program activities described in Addendum #1 to the FY03-04 Domestic Marketing Plan as approved by HAB and AMS.

MOTION ***The Hass Avocado Board (HAB) approves the HAB 2003-04 Budget Amendment #3 in the amount of \$17,058,490 with a Reserve of \$1,378,493. (Francis/Snider) MSC Unanimous***

Mr. Francis briefly reviewed an Assessment Refund Processing fee of \$100 for importers or brokers who request a refund from HAB when assessments have been incorrectly paid. Currently, five requests for refunds have been received which require considerable time and effort to process. The Finance Committee recommended that the Board not approve this \$100 fee, but requested an update when necessary.

The Finance Committee recommended that the Board approve the 2004-05 HAB Administrative Budget in the amount of \$789,368. This will be a 2.5 percent increase from last year.

MOTION ***The Hass Avocado Board (HAB) approves the HAB 2004-05 Administrative Budget in the amount of \$789,368. (Francis/Snider) MSC Unanimous***

The Finance committee also recommended to the Board that it approve the 2004-05 Budget in the amount of \$19,356,853 with a reserve of \$1 million. The reserve amount is a change from the initial documents sent to the Board that included only \$605,647. Chairman Wolk deferred the motion to the afternoon so that everyone in attendance could consider the plan.

The Finance Committee recommended the Board's approval of the Auditing Services Letter of Engagement between HAB and Conrad & Associates.

MOTION ***The Hass Avocado Board (HAB) approves an extension of the Auditing Services Letter of Agreement between HAB and Conrad & Associates for the fiscal year ending October 31, 2005. (Francis/DeMalo) MSC Unanimous***

Mr. Francis also discussed a meeting that Ms. Weaver and Chairman Wolk had with USDA in which they were told they could review USDA's records to better understand the administrative and supervisory costs AMS has charged to HAB. The Finance Committee recommended sending Ms. Weaver and Committee Chairman Bob Bednar to Washington D.C. to conduct a review of the AMS accounting.

MOTION ***The Hass Avocado Board (HAB) approves travel for Ms. Weaver and Treasurer/Finance Committee Chairman Bob Bednar to Washington D.C. to conduct a review of USDA-AMS administrative and supervisory expenses in an effort to better understand the charges/expenses billed by USDA-AMS to HAB. (Francis/Figueroa) MSC Unanimous***

The Finance Committee recommends that the Board change the Travel Policy that allows for spousal travel reimbursement to reflect the guidelines under which AMS works. AMS does not allow a spouse's travel to be reimbursed.

MOTION ***The Hass Avocado Board (HAB) approves deleting the “Spouse Expense” section (VII. Miscellaneous, 7-B, pg 3) in the HAB Travel Policy. (Francis/Snider) MSC Unanimous***

The complete HAB 2003-04 Travel Policy is attached to the permanent copy of these Minutes and identified as Exhibit B.

2003-04 Financial Update

Hass Volume for the year is projected to be 716.9 millions pounds (64 million pounds above budget), revenues are estimated at \$17.9 million (\$1.6 million above budget). However, HAB net revenue is up approximately \$900,000 due to higher volume from Mexico and California. Ending Reserves are now estimated at \$2.3 million.

The complete HAB 2003-04 Financial Overview is attached to the permanent copy of these Minutes and identified as Exhibit C.

Finance Committee Functions and Procedures

The Finance Committee reviewed and approved the Cash Management Procedures & Investment Policies, the Finance Committee Functions & Responsibilities and the Finance Committee Chairperson Functions & Responsibility.

The Cash Management Procedures & Investment Policy provides guidelines to safely invest funds in safe, short-term and risk-free investments. Approval of these procedures allows the Board to invest in instruments with higher bearing interest.

MOTION ***The Hass Avocado Board (HAB) approves the HAB Cash Management Procedures & Investment Policy. (Finch/Borchard) MSC Unanimous***

The other policies define the duties and responsibilities of the Finance Committee chairperson and members.

MOTION ***The Hass Avocado Board (HAB) approves the HAB Finance Committee Functions and Responsibilities and the HAB Finance Committee Chairperson Functions and Responsibilities. (Francis/Figueroa) MSC Unanimous***

The complete HAB Cash Management Procedures and Investment Policy is attached to the permanent copy of these Minutes and identified as Exhibit D.

A complete copy of the HAB Finance Committee and Finance Chairperson Responsibilities is attached to the permanent copy of these Minutes and identified as Exhibit E, 1-2.

2003 Implementation Costs/Credit

Ms. Weaver updated the Board on a discrepancy between HAB and Agricultural Marketing Services (AMS) books regarding the matter of implementation/administrative/supervisory costs. Originally, USDA sent billing in the amount of \$65,952. The actual bill came in at \$56,188. This was a credit difference of \$9,764 that USDA then billed as an Office of General Counsel (OGC) charge. However, the latest findings from OGC show that HAB actually owes \$72,292. Instead of paying in a lump sum, AMS is taking the difference of \$6,340 and applying it to what HAB is paying back over the three-year time period.

AVOHQ.COM

CAC President Affleck announced that everything is on schedule with AvoHQ. The intranet is complete and populated with data. The import associations have been notified of its availability. The trips to interface with participating countries are planned. Soft launch is set for September with a hard launch in November. Retailers have embraced the program.

Mr. Affleck introduced the DVD that will be used to introduce stakeholders to the intranet. It runs six minutes and Kari and Peter Bretschger from IMW produced the DVD with Inter@ctivate.

Mr. Bretschger took the Board through the program and options. The English version of the program was played to the Board. At the end of the presentation, Mr. Affleck said copies will be made if the Board does not object. The Board did not comment.

Team Hass

Mr. Affleck introduced the Team Hass Advertising Campaign to the Board that has been developed to reduce the negative psychology that may arise as the market responds to uncertainties surrounding the new season.

Mr. Affleck introduced a double-page advertisement that includes a letter to the trade outlining what HAB will be doing to help move the volume coming into the marketplace. This advertising campaign includes a series of 12 advertisements that will work to create HAB's story of a strong, unified front. HAB must address the psychology with confidence and reassure the trade that the industry is prepared to address critical issues such as fruit flow and timing with strategic marketing programs. The first advertisement will run next month in the *Produce News* and *The Packer*.

Mr. Affleck introduced the first, full-page, double-spread advertisement. Board discussion ensued as to how these advertisements will be received. The Board specifically requested that the first line of the letter be reviewed, as well as the flags being used.

Ms. Jan DeLyser spoke to the Board about how retailers look at the category and view the merchandisers not as California Avocado Commission representatives but as representatives of Hass avocados. Board discussion continued on the importance of keeping communication open amongst the import associations. Mr. Affleck added that

this advertisement is a revolutionary move by the Board to introduce the unified front of HAB.

The complete Team Hass Advertising Campaign is attached to the permanent copy of these Minutes and identified as Exhibit F, 1-2.

The complete HAB Double Page Spread Advertisement #1 is attached to the permanent copy of these Minutes and identified as Exhibit G.

ADJOURN FOR LUNCH

Chairman Wolk adjourned the Board for lunch at 11:45 p.m. and the Board reconvened at 12:30 p.m.

2004-05 PRELIMINARY BUSINESS PLAN/BUDGET

Mr. Affleck reviewed the strategic frame presented in June for the 2004/05 season and opened the Board to discussion on the Preliminary Strategic Frame that was mailed to the Board in June. Mr. Affleck ran through the key pillars of the platform: unification, strategy, branding, demand, and InfoTech. The program will involve InfoTech and MarCom but no paid media.

Mr. Affleck reviewed the budgets for InfoTech and MarCom. Mr. Steven Muro of Fusion Marketing and Mr. Morgan Brown of Inter@ctivate discussed the details of the InfoTech program, including budget explanations on Information, Analysis and NMC/AvoHQ Systems. Ms. DeLyser emphasized that this budget helps lay the groundwork for what HAB brings to the table for retailers.

Board discussion ensued over the importance of buying information and sharing information so as not to duplicate data gathering efforts by other boards.

Mr. Affleck then moved discussion to MarCom and the marketing plan. The amount of money has been increased by \$1.7 million for 2004/05 to enhance marketing efforts for HAB. The program is based on a construct of consumer communications, on-line marketing, trade communications, industry communications, and marketing information. The program will focus on a national, region-specific program that will work to increase consumption and the number of new users.

Discussion ensued regarding the way that retailers will move the volume coming in. Ms. DeLyser reiterated that HAB's job is to provide opportunities for retailers to sell avocados during non-traditional holidays and help them build demand for avocados in the marketplace. Conversation continued on the importance of communication with other import associations so that a cohesiveness is present as the year and programs develop. The AvoHQ site offers a matrix of the programs so that the industry knows what programs are in motion, while consumer efforts will coordinate with a consumer site to draw avocado consumers.

The Board reviewed the details for the trade side of the plan that includes creating a booth and participating in the Produce Marketing Association (PMA) trade show, as well as efforts being initiated in Foodservice and Retail programs.

Industry Communications for 2004/05 rely on getting individuals to visit AvoHQ.com, while Marketing Research discussion revolved around the RipeScan and LEEMAS programs to gather data and then analyze advertising activity after it happens.

Mr. Affleck pointed out that \$3.4 million will be spent to implement the two-plank strategic program. Chairman Wolk requested that Board members read the Preliminary Strategic Frame thoroughly to appreciate the significance and impact of the program with so little resources.

The complete Preliminary Strategic Frame is attached to the permanent copy of these Minutes and identified as Exhibit H.

Budget

Mr. Affleck asked the Board to review the 2004-05 Proposed Budget and think about whether the reserves should stay at \$605,647 or be changed to a \$1 million dollar reserve. Mr. Affleck's concern is that the Board may leave too much money in suspense, not allowing the money to be spent against the marketplace.

Board discussion ensued regarding the conservative nature of the proposed budget and the volume numbers being used to project the revenue and reserves.

MOTION ***The Hass Avocado Board (HAB) approves the HAB 2004-05 Budget in the amount of \$19,356,853 with a reserve of \$605,647 for the fiscal year November 1, 2004 through October 31, 2005. (Finch/Snider) MSC Unanimous***

The complete 2004-05 Hass Avocado Board Proposed Budget is attached to the permanent copy of these Minutes and identified as Exhibit I.

Assessment Rate

The Board kept the assessment rate the same as 2003-04 at 2.5 cents for the 2004/05 fiscal year.

MOTION ***The Hass Avocado Board (HAB) approves the HAB 2004-05 Assessment Rate of 2.5 cents per pound for the fiscal year November 1, 2004 through October 31, 2005. (Francis/Borchard) MSC Unanimous***

ISSUES

Litigation Update

The U.S. Court of Appeals ruled on June 18, 2004 that the Hass Avocado Act does not require the importers to exhaust their administrative remedies before seeking judicial review. The Court of Appeals said, however, that the District Court judge could exercise her discretion and require exhaustion, and then remand the case for further proceedings.

The District Court set up a briefing schedule to hear argument on whether discretionary exhaustion should be exercised. A decision is expected sometime after September 1, 2005.

Quality Task Force

Mr. Dana Thomas gave a brief background on the Quality Task Force. The group reviewed several options to establish grades and standards for Hass avocados. The Quality Task Force believes the best plan of action is to implement a *voluntary* standard. This approach would mean that each organization would agree to live by these grades and standards. The USDA would then inspect Hass avocados against these grades and standards when requested.

Counsel in Washington D.C. has stated that the development of standards is not within HAB's jurisdiction. Thus, Task Force must go to the producing country associations and ask each of them to appoint a representative and financial backing to an ad-hoc, non-HAB committee.

Mr. Thomas reinforced that he would like the existing Task Force to recruit the new committee and then disband once the new committee is in place. Mr. Thomas also requested that this new Quality Task Force continue to convene in conjunction with HAB meetings so that those who are traveling can participate in both meetings.

The Board did not object to this plan of action.

ADJOURNMENT

Chairman Wolk adjourned the HAB meeting at 2:35 p.m. The next meeting will be held on October 20, 2004.

Respectfully submitted,

Kendra Peavy

I certify that the above is a true and accurate statement of the August 18, 2004 Minutes approved by the HAB Board of Directors on October 20, 2004.

Alva Snider, HAB Board Secretary