



STRAWBERRY  
GROWERS NZ

# THE CASE FOR A **STRAWBERRY** **COMMODITY LEVY**



**Strawberry Growers New Zealand**

PO Box 10232, The Terrace, Wellington 6143

**Phone:** 04 494 9984 **Email:** karen.orr@hortnz.co.nz

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# Purpose

The purpose of this document is to outline how the strawberry industry can position itself to ensure an ongoing successful future for existing and new growers. A united voice on high-impact collective issues creates a better environment for growers and gives them access to knowledge, information, the ability to address industry-wide issues and opportunities, and bargaining power that isn't possible individually. To get the necessary tools to collectively represent strawberry growers at a national and international level, it is proposed that the industry apply for a commodity levy under the Commodity Levies Act. This document outlines how that levy could appropriately fund the industry and seeks a mandate to apply for a levy order.



# Background and Industry Profile

Strawberries are the largest component of the rising soft fruit/berryfruit sector in New Zealand. Industry farm gate value is estimated at more than \$30 million per annum. Approximately 10% of annual production by weight is exported, mainly to Asian countries.

In New Zealand, the peak body for commercial strawberry growers is Strawberry Growers NZ Inc. (SGNZ). SGNZ is an incorporated society with 70 paid up members covering about 85% of total production. The actual number of commercial growers is estimated to be around 150. Membership of SGNZ is voluntary and costs \$125/year. There are also 21 associate members for whom membership costs \$125/year. Associate members do not have voting rights.

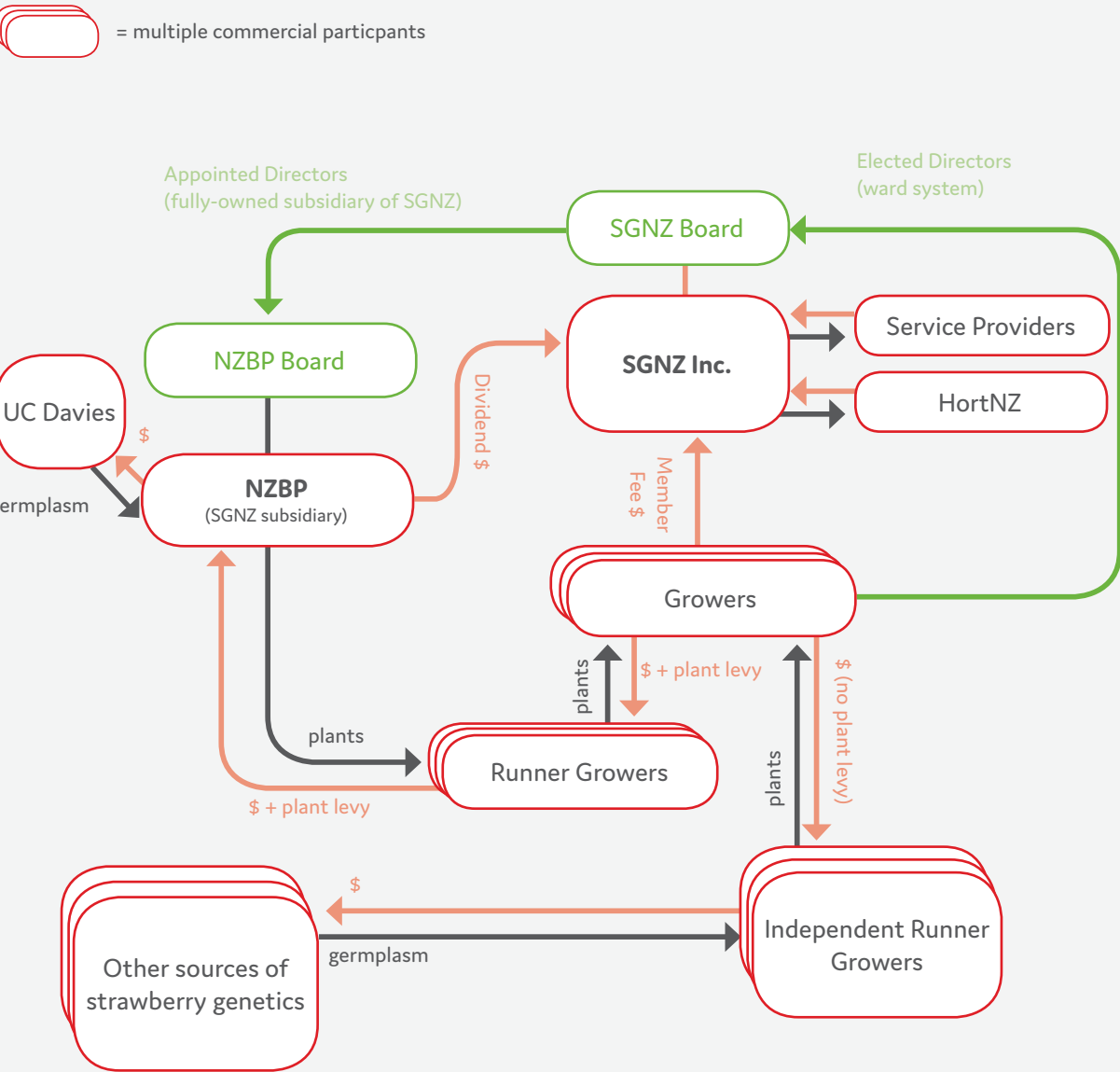
The main roles of SGNZ are to encourage and promote the interests of strawberry growers and provide representation on strawberry industry issues to Horticulture NZ and Government regarding any issues of importance to its members. SGNZ is also the sole shareholder in NZ Berryfruit Propagators Ltd (NZBP), whose role is to import and test strawberry varieties from overseas. NZBP also administers a high health scheme for the strawberry industry. In addition to NZBP, SGNZ holds key relationships with the University of California Davis (via NZBP), runner growers, Horticulture New Zealand Inc (as an affiliate),

various contractors and service companies.

SGNZ's main income is a dividend from NZBP. NZBP's main income is from sales of strawberry plants. This arrangement is shown in the figure on page 5. SGNZ has no claim on plants which are sourced and propagated outside the SGNZ-NZBP structure.

There are already increasing regulatory compliance requirements at Government agency level which are clearly best managed via a whole of industry approach. In addition, major technological change for the commercial strawberry sector is taking place off shore in varieties, growing techniques, marketing / branding and capital structures. Accordingly, there are concerns that while the current industry funding model has been successful to date, it may not be fit for future purpose for an inclusive peak industry body in the changing commercial environment.

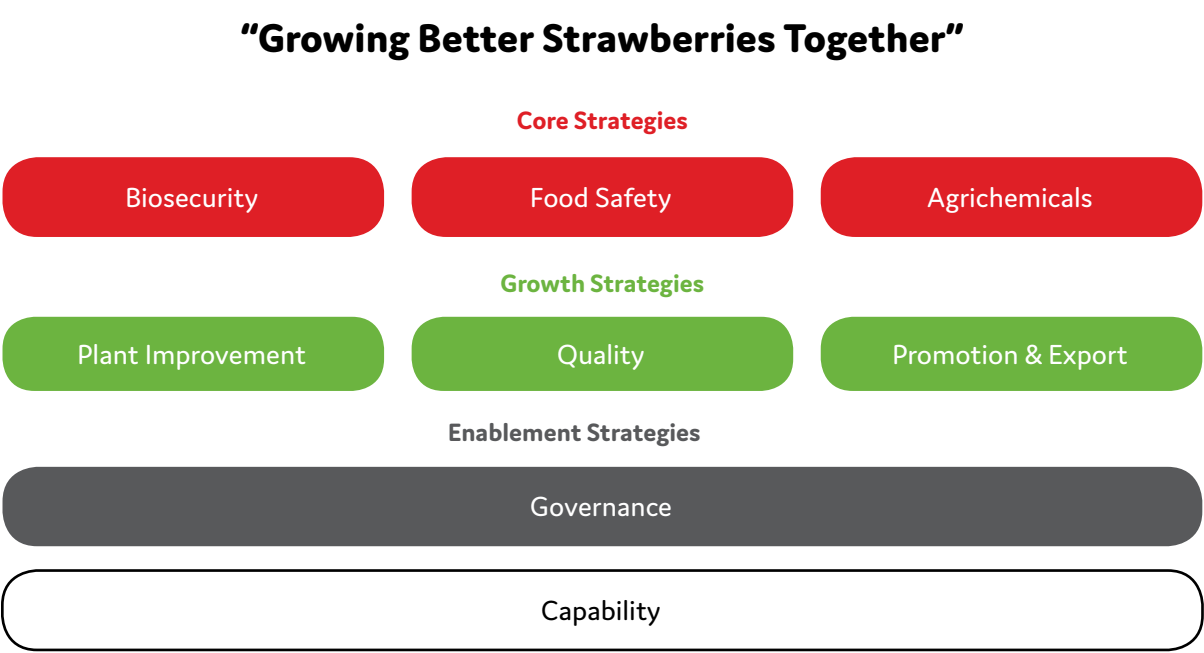
# Current Strawberry Industry Structure



# Looking Ahead

In 2015/16 SGNZ developed a strategic plan for the New Zealand strawberry industry<sup>1</sup>. This plan was delivered to the 2016 AGM and became the guiding document for SGNZ board members.

The overall proposition is “Growing Better Strawberries Together”. The plan calls for more proactive involvement by SGNZ in its capacity as a modern peak industry body. The diagram below summarises the key strategies in the plan.



**Core strategies** are those that are considered essential to the sustainability of the industry/sector. In other words, these are areas of substantial and common interest to all stakeholders/growers and which can only be effectively managed on a whole of industry basis.

**Growth Strategies** are those considered highly desirable areas of common interest for the health and progress of the sector and its stakeholders’ equity.

**Enablement strategies** are those required to implement Core and Growth.

In his Chairman’s report to the SGNZ AGM in July 2016 Anthony Rakich said “The strategic plan is a vital, longer term guiding document for the executive of SGNZ as industry peak body but frankly is worthless without strong support of grower members in particular. Funding is a core issue”. The 2016 AGM passed a motion that the strategic plan be endorsed and implemented. At the following AGM in July 2017 after further feedback, the following motion was agreed “That an application for a commodity levy in the name of Strawberry Growers NZ Inc be made to the Minister for Primary Industries after appropriate Industry consultation.”

<sup>1</sup>New Zealand Strawberry Industry Strategy 2015-2020 commissioned by SGNZ and prepared by James Morrison of Morrison Consulting Ltd. Full document can be viewed on the SGNZ web site.

## Primary drivers for change

SGNZ needs independent and increased funding lines to appropriately manage and execute the responsibilities of a well-functioning, modern, peak industry body. Of critical importance is industry wide representation to Government agencies on;

- Biosecurity
- Food safety compliance
- Export compliance/market access – Phytosanitary
- Agrichemicals / bio pesticides / biological controls (Crop protection)
- Opportunities for leveraging external funding for industry research and development

## Additional drivers

SGNZ needs to position itself for the future that includes new entrants, new material, new ideas. There is an opportunity to redesign SGNZ as a peak body fit for future purpose provided adequate and independent funding lines are in place.

## Issues to be resolved

The current structure has been well suited to past and immediate industry needs and has served all growers very well while SGNZ has operated at a very modest financial level. However, significant future issues are anticipated if SGNZ funding remains totally dependent upon NZBP plant sales as the primary source of SGNZ income and industry good activity. The four key issues are:

- The level of funding required to manage and coordinate responses to various regulatory challenges and demands being placed on the sector is greater than in the past. This demand may be greater than can be reasonably tolerated by way of plant price increases on UC Davis varieties, and will potentially drive industry participants to alternative sources of plants which would then further erode and destabilise the current funding arrangement.
  - NZBP has a current net equity of \$445,000. After establishment of the commodity levy funding structure there will be a transfer of some current NZBP payment obligations to SGNZ. Operation costs of NZBP are then projected to be approximately \$270,000/ year. Allowing for a continuance of the current NZBP policy of maintaining reserves to approximately one year of operating costs, \$180,000 would become available for transfer to SGNZ as “seeding costs.”
- Factual and perceived lack of independence from NZBP and its sole supplier of breeding plants – University of California, Davis. As we seek to provide a more inclusive industry body, SGNZ will need to distance itself financially from NZBP.
  - Upon granting of the commodity levy to SGNZ by the Minister of Agriculture, the incoming SGNZ Board will seek professional advice as to how best to divest itself of its 100% shareholding in NZBP. Likely alternatives will include a transfer to a separate grower ownership structure.

# 2018 Strawberry Growers Commodity Levy Proposal

SGNZ is now proposing that the industry apply for a commodity levy order under the Commodity Levies Act. Ideally, this levy would be on the basis of strawberry plant sales to or by a commercial grower. This arrangement would effectively replace the additional margin charged on plant sales from runners sourced via NZBP, and also the voluntary membership fees to SGNZ. SGNZ would manage levy collections directly with runner growers, instead of relying on a dividend from NZBP. The levy would also apply universally, not just those plants sourced through NZBP. NZBP will continue as a plant variety supplier. The revised schematic for this proposal is shown below.



## Benefits of proposed Strawberry Commodity Levy

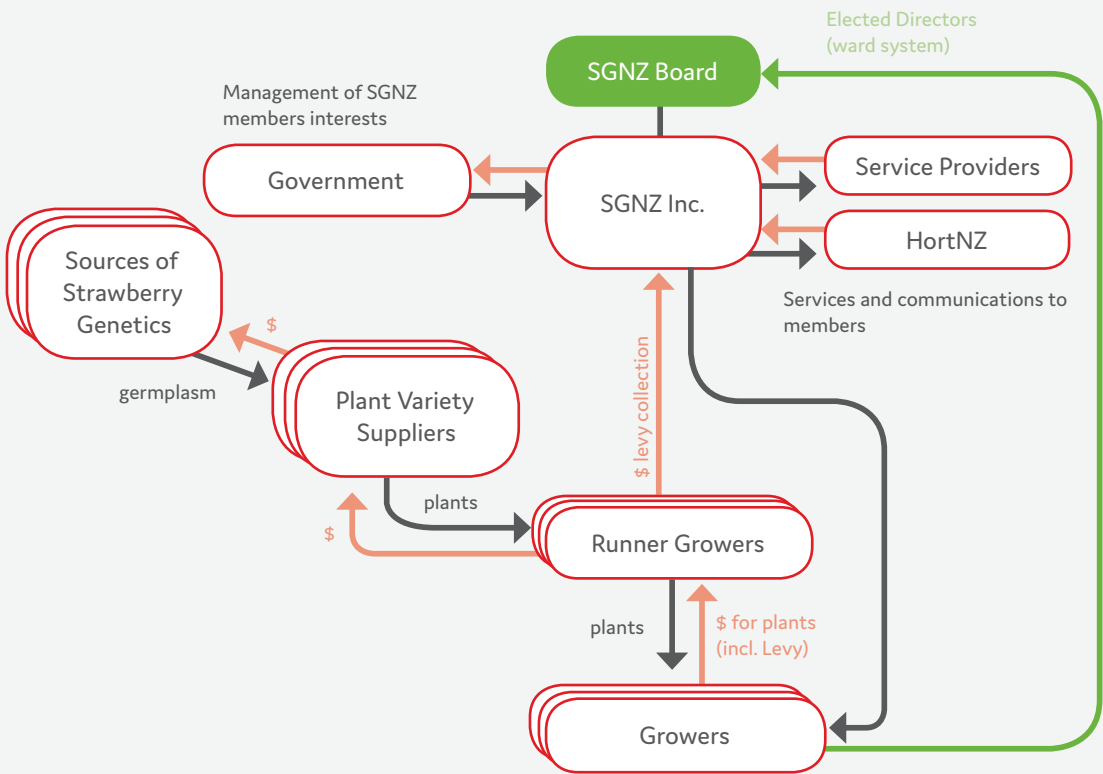
- Inclusive of all current and future participants in the NZ commercial strawberry sector
- Makes the cost and benefits of SGNZ activity more equitable and inclusive across the whole sector (removing any potential for a grower to benefit from SGNZ's activities without contributing)
- Allows members to set the levy at the right level to manage the interests of the sector
- Facilitates satisfactory mitigation of current conflicts of interest in the sector
- Surety for medium-term initiatives from the longer-term (6-year) levy funding commitment
- Enhances leverage for public co-funding of, and CRI contribution to, sector initiatives
- Greater control of spending by levy payers through the accountability a levy requires eg approving budgets and annual reports at AGM's plus voting by referendum every 6 years



## New Strawberry Industry Structure with Commodity Levy



= multiple commercial participants



## How a levy would work

The SGNZ board has board has considered the following key questions:

- Q:** Could we use plants sales as the basis for a commodity levy?  
**A:** Yes, this is within the Commodity Levies Act 1990. As an example, the egg industry uses chick hatchery sales to collect a levy on eggs.
- Q:** What will be the voting process and what are the thresholds we would need to achieve for the Minister of Agriculture to recommend the Strawberry sector for a Commodity Levy under the Commodity Levies Act?  
**A:** The Act requires industry consultation on the introduction of such a levy. A referendum must then be taken to demonstrate a mandate from potential levy payers. Support of at least 50% of growers by number and also 50% by value of those voting, is required to advance the process and to seek Ministerial approval.

### Consultation Process

Only growers can vote in the levy process

SGNZ has therefore embarked on a consultation process with growers with a view to seeking mandate to make application to the Minister of Agriculture for a levy under the Commodity Levies Act.

Steps in this consultation process are as follows<sup>2</sup>;

1. Notice via direct email and letter to growers plus an article in The Grower magazine of the intention to consult
2. Preliminary consultation document produced
3. Meetings to be called in each of the SGNZ wards as outlined in the constitution. ie Auckland, Waikato/ Bay of Plenty, Central North Island and South Island
4. Ballot paper drafted and circulated for consultation
5. Time for questions and submissions from growers
6. A referendum will be held to assess support of the final proposal

An important element of the modern peak body is appropriate inclusiveness of non-grower stakeholders to meet the outcomes of the strategic plan. Runner growers for example already have an observer at SGNZ board meetings. An even wider “whole of industry” approach should be considered to harness the capability of other players in the production and distribution chains via subcommittees.

Other stakeholders;

- a) Service companies – agrichemicals, fertiliser, biological suppliers, contractors including fumigation service providers
- b) Runner growers
- c) Plant breeders
- d) Science providers
- e) Packaging suppliers
- f) Exporters
- g) Wholesalers, retailers

All the above could be associate members at relatively nominal cost because participation and engagement is where their value of contribution should lie. Decision making with respect to levy rates and levy spending will lie with levy payers.

### Feedback

SGNZ welcomes feedback on this proposal as part of its consultation process. Enquires and responses should be directed to the Executive Manager, Michael Ahern and Chairman, Anthony Rakich at mahern@primaryservices.co.nz. Michael and Anthony's are also available to take phone calls.

Michael Ahern: Mob 021 753153  
Anthony Rakich: Mob 027 2273375

### Attachment A – Timelines:

APPROXIMATE TIMELINE: 12 – 18 MONTHS TOTAL			
Stage	Industry consultation/ consideration Industry develops proposal and ballot paper	Referendum held Application to Minister	Minister considers application Cabinet process Order promulgated
Duration	6-9 months	2 months	4-6 months
Steps	Industry consideration process well underway	Should allow for three weeks between the posting of paper ballots and their return date	If the application is lodged with the Minister by August 2019, allow 6 months for the process to be completed.
	Consultation at AGM in August 2018	Run postal and electronic ballot (via Electionz) which allows Electionz to serve as returning officer	Order promulgated and in effect by May 2020 for 2020 season
	Use proposal and draft ballot paper as the basis for industry meetings led by the steering group – May 2019	Aim to have Application to the Minister by August 2019	

<sup>2</sup> Attachment A outlines the timeline



# Attachment B – FAQs

## What is a Commodity Levy?

The Commodity Levies Act 1990 provides a mechanism for primary industries to fund their work in a fashion where all those who will benefit from this work contribute towards its funding. A compulsory levy has safeguard provisions to reduce adverse effects and ensure accountability.

These provisions include;

1. Restricting the uses of the levy
2. Prescribing the requirements to be met before the government will authorise a levy
3. Prescribing the practices to be carried out by the body that is the recipient of the levies.
4. Conscientious objector provisions
5. Provisions for record keeping and accountability to levy payers
6. A sunset clause on the levy order
7. Provision for compliance audits

Levy orders therefore contain reporting requirements which bring levy payers greater control of spending through the approving of budgets and annual reports at AGM's plus voting by referendum every 6 years. This provides opportunity to discuss rates and spending.

## Other information

Levy orders can only be established with the consent of a majority of potential levy payers who have voted and a majority of production represented in the vote.

The Act requires industry consultation, feedback consideration and a mandate through referendum. Mandate is achieved if both over 50% of the industry by grower/growing entity and over 50% by volume (plant numbers) of growers who have voted, are in favour of the levy proposal.

A levy order requires the approval of the Minister for Agriculture and is valid for 6 years. It can be renewed through further consultation and referendum.

There are approx. 30 commodity levies in place in NZ. Examples in the horticulture sector include kiwifruit, apples and blackcurrants. Similarly, New Zealand's meat and dairy sectors have commodity levy orders.

## Why do we need a levy?

A levy of this kind is needed to fund the management of the Industry wide issues and opportunities as identified in the Strategic Plan. Very importantly, commodity levy funding has proven to help leverage additional external funding for Research & Innovation projects in particular (from the government).



## What will it possibly cost?

To fund the industry body activities, it is estimated that expenditure of \$375k<sup>1</sup> per year is required. At the moment SGNZ obtains dividends from its 100% owned subsidiary company Berryfruit Propagators Ltd in order to conduct the business of SGNZ. Dividends are derived from proceeds of plant sales. Current prices for NZBP sales are \$44/'000 for royalty bearing varieties and \$30/'000 for those that are not. Within these figures, approximately \$18/'000 is required to operate NZBP and to make plant royalty payments. \$26/'000 is therefore the component that is available for industry good activities including research and development. Several components of this R&D work are currently invoiced directly to NZBP but will fall to SGNZ under the new structure. This figure of \$26/'000 is therefore the proposed amount to apply as the initial levy under the Commodity Levies Act for strawberries. This also means that the levy proposed is possible without any additional outlay required of growers. To be prudent however, a maximum levy rate of \$35/'000 plants is also proposed to be included in the levy order to allow for any increase in activity which an AGM of SGNZ may approve within the first years of the life of the order.

## What are the proposed key components of the Strawberry Levy?

1. The organisation: Strawberry Growers New Zealand Inc
2. The Commodity: Strawberries
3. Persons primarily responsible for paying the levy: Commercial growers of Strawberries
4. Basis on which the levy is to be calculated: \$ Per 1000 plants
5. Persons who are to collect and pay the levy to SGNZ: Strawberry plant propagators/runner growers
6. The means of recovery: Invoicing of growers of the proposed amount per 1000 plants by propagators as collectors and transfer of those amounts to SGNZ.
7. How is the organisation to spend the levy:
  - Biosecurity
  - Research and development
  - Food safety
  - Export market access and intelligence
  - Plant evaluation
  - Industry representation
  - Management and administration of SGNZ

<sup>1</sup> See Appendix C

# Attachment C – Budget

SGNZ Budget Projection		Current expenditure & funding*	Current expenditure & funding*	Notes	Projected 2020	Notes to projected
		*SGNZ and NZBPL 01/12/2017 actual	*SGNZ and NZBPL 01/12/2018 actual	*SGNZ and NZBPL	SGNZ	
Income \$					\$	
	Grower Membership Fees	5,500	6,500	Voluntary	0	All growers are automatically members. Compulsory.
	Associaties Membership Fees	1,625	1,750	Voluntary	2,000	Approx 20 members. Voluntary.
	Commodity Levy				375,000	\$26/000 plants, 15.0 Mil plants. Less 4% collection fee.
	NZBP Divi	48,000	99,000			
Total Income		\$55,125	\$107,250		\$377,000	
Expenditure \$						
Industry and Research						
	Comms & Management	20,000	21,992		22,000	
	Cyclamen Mite	13,900	4,400		0	
	Consultancy	1,255	0		2,500	
	Pest Management	14,125	8,391		28,000	
	Weed control		0		2,000	
	IPM New Chemicals Testing	11,675	9,250		65,000	
	PGP management fee				17,000	
	Spray Programme online		0		5,000	
Meetings & Travel						
	SGNZ Executive	2,461	1,517		5,000	
	AGM	4,189	7,486		6,000	
	Travel		0		3,500	
	Com levy consult		243.48		5,000	
Administration						
	Accounting and Audit	4,070	4,260		7,500	
	Management fee	50,200	50,200		85,000	
	HortNZ Secretarial	9,973	14,260		15,000	
	Office expenses		0		3,000	
	United Fresh Subscription	1,000	1,000		1,000	
	Hort NZ Levy	44,625	45,278		50,000	
Food Safety						
	NZ GAP pack		0			
	MPI engagment		0		8,000	
	Mystery Shopping	26,000	26,000		26,000	
Website/Newsletters		12,000	6,500	New design	3,500	Maintenance and oversight
Promotion			15,302			
Market Access						
	Vietnam and Myanmar	3,263	150		2,000	Submissions to MPI and MPI charges
	Thailand		0		1,000	Submissions to MPI and MPI charges
	New				2,000	Submissions to MPI and MPI charges
Biosecurity						
	GIA engagement				2,000	
	Readiness eg Fruit fly, Drosophila suzukii				10,000	eg Fruit fly, Drosophila Suzukii
Total Expenditure		\$218,736	216,229		377,000	
Balance					\$0	
Reserves provision					\$180,000	Transferred by NZBPL



## Attachment D – How will the levy work?

### Who will be responsible for paying the levy?

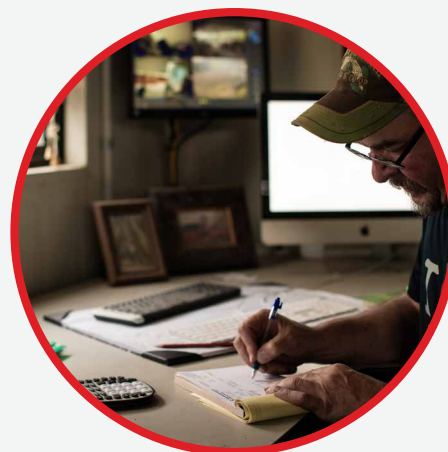
All commercial strawberry growers who buy strawberry plants from propagators or runner growers will be primarily responsible for paying the levy.

### How will the levy be calculated?

It is proposed that the levy is calculated on the basis of the number of strawberry plants sold to commercial growers by the propagator or runner grower.

### How is the levy to be paid?

A plant propagator or runner grower that sells strawberry plants to a grower will pay the levy payable on their sale and may recover the levy (and any goods and services tax paid in respect of it) from the grower by including it in the price payable for the plants. The propagator or runner grower will pay the levy collected to Strawberry Growers New Zealand Inc (SGNZ).



### How much will the levy be?

The rate for the initial levy year is proposed to be set at \$26 per 1000 plants. The maximum rate of levy is proposed to be \$35 per 1000 plants. The rates are GST exclusive.

### How will the actual levy rate be set?

The rates for any levy year will be set by a vote at the SGNZ Annual General Meeting except in the initial levy year when the rate will be set by SGNZ Board. Where no rate is set the rate of levy in the previous year will be applicable.

### What returns will need to be made?

A plant propagator or runner grower must provide strawberry plant sales figures to SGNZ accompanying the levy payments. The plant propagator or runner grower will inform SGNZ in writing of the full contact details of every grower they collect levy on behalf of including the growers full name, address, email addresses and phone details.

### Record keeping requirements

SGNZ must, for each levy year, keep records of each amount of levy money paid to it and, in relation to each amount, the plant propagator or runner grower who collected the levy; and the growers who were liable to pay the levy; and how levy money paid to it has been invested or spent.



### How will SGNZ spend the levy?

It is proposed that the levies will be used for the following purposes relating to strawberries or strawberry growers:

- Biosecurity
- Research and development
- Food safety
- Export market access and intelligence
- Plant evaluation
- Industry representation
- Management and administration of SGNZ

SGNZ will consult with growers on how the levy is spent through growers' representatives and at the SGNZ Annual General Meeting.



# NOTES

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GROWERS NZ**

## Strawberry Growers New Zealand

PO Box 10232, The Terrace, Wellington 6143

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PO Box 10232, The Terrace, Wellington 6143

**Phone:** 04 494 9984

**Email:** [karen.orr@hortnz.co.nz](mailto:karen.orr@hortnz.co.nz)