

2019 Supply Agreement Schedule 5 (yellow form): An Independent Guide

This document provides an independent guide to the Zespri Contract process. We recommend you take time to carefully consider your options and seek professional advice before signing and returning the forms to Zespri.

You are being asked by Zespri to complete Schedule 5 stating your Option A or Option B choice. Contract Forms are to be signed and returned to Zespri by **14 March 2019**.

If you have queries about the forms and the process, please contact Zespri Grower Support Services on 0800 155 355.

If you would like to discuss your options in more detail, please contact your NZKGI Forum Representative or NZKGI's Office on toll free 0800 232 505 or (07) 574 7139.

You have two choices:

- **Option A:** To supply your Class 1 fruit to Zespri through your nominated Registered Supplier ("Registered Suppliers" are the only suppliers allowed to supply fruit to Zespri).
- **Option B:** To enter into a direct contract with Zespri.

Option A: Main features

- Option A growers do not have a direct contract with Zespri for supply of their Class 1 fruit to Zespri.
- The Registered Supplier chosen by an Option A grower has full responsibility to Zespri for meeting all the obligations of the Supply Agreement for fruit supplied by Option A growers. The Registered Supplier manages:
 - The Option A grower's financial relationship with Zespri.
 - The supply of the Option A grower's fruit to Zespri including meeting Zespri's requirements for picking, packing, cooling and conditioning of their fruit.
- In most situations, the returns of Option A growers are pooled by their Facility which gives them the advantage or disadvantage of being one of many growers that are exposed, for example, to combined fruit loss risk of the grower pool.

Option B: Main features

- Option B growers have a direct contract with Zespri for the supply of their Class 1 fruit to Zespri.
- Option B growers can choose to get direct payments from Zespri and not through their Facility i.e. they can choose not to assign any payments.
- Option B growers are responsible under the supply agreement for meeting Zespri's requirements for picking, packing, cooling and conditioning their fruit up to the

point of load out from coolstore for delivery to Zespri at the wharf. Option B growers must make arrangements to have their fruit picked, packed, cooled and conditioned ready for load out. Option B growers will most likely contract a Facility to do this for them.

- This is a key point of difference between Option A and Option B growers - the Option A growers Registered Supplier takes responsibility *for picking, packing, cooling and conditioning the Option A grower's fruit*. This is the Option B grower's responsibility.
- Option B growers must ensure that these arrangements specify how, and to what extent, their contracted facilities are to share or back up the Option B grower's liability to Zespri for the performance of all their obligations up to load out.
- Option B growers must contract a Registered Supplier to be responsible, under the Supply Agreement, for planning that occurs prior to the delivery of fruit ex-coolstore, i.e. crop estimate, packaging plans, order management and for the delivery of fruit in-spec to Zespri at the wharf.

Ensure your Registered Supplier and Facility will service your requirements as an Option B grower.

Option B: Payment Assignment

- Second page of the yellow form
- Option B growers have four payment component assignment options:
 1. Fruit payments; and/or
 2. Fruit incentives (excluding Supplier Accountability); and/or
 3. Fruit incentives (Supplier Accountability only); and/or
 4. Assignable service costs.
- You could assign all four payments, or you could decide to assign one or more payments and take one or more direct payments yourself. Assigning all payments to your Facility is very similar to dealing through your nominated Registered Supplier - Option A.
- If you take a direct payment i.e. no payment assignments, you will need to arrange to pay your Facility direct. For example - the standard advance payments you get from Zespri, in part, pays for your packaging costs. If you take a direct payment, you will need to pay for your picking and packing yourself. You will need to negotiate this with your supplier or Facility.
- Also, if you take a direct payment you will most likely not be able to participate in a Grower Pool - so check with your Facility before making your assignment decision.
- Payment Components 5 and 6 (below) are non-assignable payments and cannot be assigned; they are paid directly to your Registered Supplier.
 5. Grower pooled payments where payment is not able to be attributed to a Grower Number and is made to the Registered Supplier.
 6. Other Service Costs paid directly to the Registered Supplier.

Option B: Increased Supplier Accountability

One of the key reasons for electing to become an Option B grower is that you back the quality of your fruit. Backing the quality of your fruit onshore, where you have control over it as an Option B grower is a pragmatic and commercial decision. However, backing the quality of your fruit offshore through the Increased Supplier Accountability systems is riskier. Therefore, you may want to share this risk and select payment option 3 and make arrangements with your Facility to pool this risk.

Option B: Considerations for direct growers

- You can take control of your fruit through the post-harvest operation.
- You can make the deal with your post-harvest operator for the processing of your fruit - for example, when it will be drawn down, and how it will be treated.
- You don't have to share other growers' fruit loss.
- You can have a direct supply relationship and contract with Zespri which gives you full access to all the information about your fruit.
- You can manage your finances as you have the payment option of getting your money directly from Zespri and can then reach agreement with your Facility about what you pay, and when.
- You get total transparency.

Option B: Checklist for determining to be an Option B grower

1. To be an Option B grower with no assignments answer YES to the following questions:
 - Do I want to receive payment direct from Zespri?
 - Am I prepared to take responsibility and liability for meeting Zespri's requirements for my fruit - i.e. picking, packing, cooling and conditioning my fruit?
 - Do I believe that I will have little fruit loss after picking?
 - Do I want to take control of the processing and the on-shore storage of my fruit?
 - Do I want to manage my finances?
2. As an Option B grower, do I want to make any assignments and share in the benefits of a pooled return - Payment Options 1., 2. and 4.?
3. As an Option B grower, do I want to assign my Supplier Accountability payments and costs and so share the risk and / or Supplier Accountability - Payment Option 3?
4. Have I spoken to, and made arrangements to be an Option B grower with my Registered Supplier and Facility?
5. Have I covered my liability for my fruit meeting Zespri's requirements?

Definitions

The word “Facility” is used in this guide to mean the entity that you contract with. This can be a post-harvest operator, registered supplier, supply entity, coolstore pool or other arrangement to manage payments made by Zespri and to pack, cool, condition and deliver your fruit to Zespri.

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