

**CALIFORNIA AVOCADO COMMISSION  
BOARD MEETING MINUTES  
October 18, 2007**

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A meeting of the California Avocado Commission (CAC) Board was held on Thursday, October 18, 2007 in the Commission boardroom in Irvine, California, with the following people present:

**MEMBERS PRESENT**

Scott McIntyre, Chairman  
Rick Shade, Vice-Chair  
Carol Steed, Treasurer  
Scott Bauwens  
*(Wileman's Alternate)*  
Gene Carbone  
Will Carleton  
Avi Crane  
Laura Eggering  
Ohannes Karaoghlanian  
John Lamb  
*(Pecht's Alternate)*  
Tom Markle  
Bradley Miles  
Susan Randolph,  
*Public Member*  
Don Reeder  
Jerome Stehly  
Charley Wolk, ex-officio

**MEMBERS ABSENT**

Tom Pecht, Secretary  
Ross Wileman

**CAC STAFF PRESENT**

Mark Affleck  
Tom Bellamore  
Betty Bohr  
Dave Cruz  
Jan DeLyser  
Angela Fraser  
Dave Howald  
Aria Lukman  
Connie Stukenberg  
Val Weaver  
Guy Witney

**ALTERNATES PRESENT**

Chris Ambuul  
Andrew Bailard  
Robin Leason  
John Lindstrom  
Ed McFadden  
George McManigle  
Robin Osterhues  
Earl Rutz  
Noel Stehly  
Reed Webb

**ALTERNATES ABSENT**

Ernie Arana

**OFFICIALLY PRESENT**

Dennis Manderfield  
CDFA  
Jose Luis Obregón, HAB  
Managing Director  
Debbie Simmons, USDA /  
*AMS Via Teleconference*

**GUESTS PRESENT**

Jack Abbott  
Jennifer Baker-Assidao  
Wayne Brydon  
Mandi Dossin  
Austin Gavin  
Tim Hanify  
Kathleen Johnson  
Doug Koegeboehn  
James McCormac  
Peggy McCormick  
Marji Morrow  
Steven Muro  
Darrell Nelson  
Barbara Peirce  
Mark Pepping  
Joel Pelter  
Sean Pirtle  
Gwen Peterson  
Enola Price  
Samantha Sackin  
Ann Segerstrom  
Lori Small  
Catherine Sosa  
Nick Stehly  
Sandra Wellhausen  
Tom Utley

**CALL TO ORDER**

Roll Call

Chairman Scott McIntyre called the meeting to order at 9:55 a.m. with a quorum present.

Approve Minutes

**MOTION:    *The CAC Board of Directors approves the September 20, 2007 Board Meeting Minutes as presented. (Shade/Markle) MSC Unanimous***

Thatcher memoriam

Val Weaver mentioned to the Board that Greg Thatcher, past Board member and handler, had recently passed away. She proposed that a donation be offered to the family's charity of choice in his honor.

**MOTION:    *The CAC Board of Directors expresses its sympathy to the family of Greg Thatcher, past Board member and avocado handler of Cal Flavor, with a donation to be made to the American Cancer Society in the amount of \$100.00. (Markle/Steed) MSC Unanimous***

Announcements

Chairman McIntyre announced that this was his last meeting as Chairman. He expressed his gratitude to those he has worked with over his term, particularly the Directors and Alternates, and stated that he is proud of their accomplishments together.

McIntyre also thanked all of the agencies that represent the Commission, commenting how their professionalism was evident, as was their hard work on the growers' behalf.

He thanked the CAC staff for being diligent in everyday operations, with specific recognition to:

Dave "Shaq" Cruz, Trade Marketing Manager for his energy and good nature.

Dr. Guy Witney, Director of Industry Affairs, for his production research work and crop information that's always timely.

Ms. Angela Fraser, Marketing Programs Manager, for her dedication to assisting the Chairman; specifically with nutrition seminars and the Produce Marketing Association (PMA) Convention.

Laurie Hill, Industry Affairs Coordinator, for her constant communication.

McIntyre stated that he wished he could communicate how hard upper management works for the growers and the professionalism they always display. He further recognized:

Val Weaver, Vice President Finance/Administration, for accurate industry statistics and clean audits.

Jan DeLyser, Vice President Marketing, for her retail expertise and the value received by the industry from her efforts.

Tom Bellamore, Sr. Vice President & Corporate Counsel, in managing CAC's litigation and for his dedication, confidence and industry accomplishments.

Mark Affleck, CEO who excels in a challenge, is dedicated and works tirelessly for the industry. McIntyre stated he appreciates his never-ending support.

The Board thanked Scott McIntyre for the great job he has done as Chairman.

## **FINANCIAL REPORT**

### **2006-07 Financial Update**

Ms. Weaver updated the Board and reported that 10 months of Assessment Reports have been received and statistics for the year are as follows:

#### a) November 2006 – Aug 2007 (10 Months)

Crop Volume is above budget as follows:

- o 247.7 MM lbs --- up 2.7 MM lbs from the 245.0 MM lb. estimate.

Crop Value is below budget as follows:

- o \$231.6 MM --- down \$3.1 MM from the \$234.7 MM estimate.

Total Assessment Revenue is slightly below budget as follows:

- o \$10.0 MM --- down \$.1 MM from the \$10.1 MM estimate.

#### b) FY November 2006 – October 2007 (12-Months)

Crop Volume, crop value, assessment revenues and reserves are tracking above budget as the crop winds down for the year. Projections for the FY are as follows:

Estimated Annual Crop Volume = 258.7 MM lbs. (up 6.7 MM lbs. over the 252.0 MM lb. budget)

- Estimated Annual Crop Value = \$244.7 MM (up \$.9 MM from the \$243.8 MM budget)
- Estimated CAC Revenues = \$10.5 MM (up \$.1 MM from the \$10.4 MM budget)

Estimated CAC Reserves = \$1.9 MM (up \$.2 from the \$1.7 MM budget)

#### 2006-07 Aggregate Volume Outlook

The aggregate volume outlook for FY 2006-07 for all varieties has been updated to reflect import data received from Customs through September 2007 and grower data from California handlers through August 2007 as follows:

Aggregate volume of all varieties in the U. S. market is now tracking at 1.0344 billion lbs., 30.1 MM lbs. higher than last month's estimate of 1.0043 billion lbs., due to additional volume from Mexico and Florida.

#### Office Lease Update

Ms. Weaver presented an update on the office lease renewal. She reported that the Executive Committee met and reviewed three 5-year office lease options proposed by The Irvine Company (TIC) as follows:

- Option #1: Average per square foot (psf) lease rate of \$1.80, with no tenant improvements,
- Option #2: Average psf lease rate of \$1.83, with \$8 psf (\$85,184) tenant improvements, and
- Option #3: Average psf lease rate of \$1.81, with \$2 psf (\$21,296) tenant improvements.

The Committee directed Ms. Weaver to present TIC with a counter proposal on office lease Option #3 adding a section to allow cancellation of the lease early after 3-years. Weaver reported that CAC must give TIC notice of its intentions regarding lease renewal in December.

#### Inflation Charts

Weaver reported that a misconception arose at the September 2007 Board meeting over inflation charts she had developed and inflation charts Commissioner Ohannes Karaoghlanian had distributed. Karaoghlanian made a statement that the data Weaver had presented adjusted for inflation was incorrect and included an inaccurate measure of "adjustment for inflation" and that the charts he presented were calculated correctly. In order to set the record straight, she sent all the charts and data to economics Professor Dr. Bowman Cutter at the University of California Riverside to evaluate. A packet with Dr. Cutter's credentials was distributed to the Board. After a review of all the charts and data, Professor Cutter stated that both Weaver and Karaoghlanian's charts were correct and illustrated different ways of looking at the numbers.

#### 2007-08 Aggregate Volume Outlook

Projected FY 2007-08 aggregate volume for all varieties in the U. S. is estimated at 1.016 billion lbs., which has been reduced by 25 MM lbs. from last month's estimate mainly due to Chile dropping their volume after their freeze (-40 MM

lbs.) and California increasing their volume (+15 MM lbs.) based on the industry's early crop survey.

2007-08 Crop Update

Dr. Guy Witney stated that grower surveys are being received and the 2007-08 crop is estimated higher at approximately 365 MM lbs. giving CAC additional revenue in the budget. The anticipated volume increase enables a lower assessment rate. Witney stated that it is difficult to provide a precise estimate at this time as they are still waiting for estimate returns from a significant proportion of the acreage.

It was noted that the current volume range is 365 - 375 MM lbs. Witney stated that the Crop team will meet on October 31 to review survey results and finalize the early season estimate.

*A copy of the Memorandum to the Board, is attached in its entirety to the permanent copy of these Minutes and identified as EXHIBIT A.*

*The complete Financial Budget, Revenue Outlook, Crop Summary and Cash Flow Projection dated October 18, 2007, is attached to the permanent copy of these Minutes and identified as EXHIBIT B.*

*The 2006-07 Fiscal Year U. S Aggregate Avocado Volume is attached to the permanent copy of these Minutes and identified as EXHIBIT C.*

*A copy of the Professor Bowen Cutter attachment, is attached in its entirety to the permanent copy of these Minutes and identified as EXHIBIT D.*

*The 2007-08 Fiscal Year U. S Aggregate Avocado Volume is attached to the permanent copy of these Minutes and identified as EXHIBIT E.*

**BOARD CHAIRMAN'S REPORT**

Produce Marketing Association Convention Report

Vice Chairman Shade reported that attending PMA was a valuable experience, and he encouraged everyone to go at least once. He mentioned that large and small retailers visited the CAC booth throughout the show and it was clear that the merchandising team carries considerable respect within the industry. Shade emphasized the power of the relationships that CAC has with many key players. A common theme throughout the convention was "locally grown," signaling that CAC's current campaign was on point.

Shade also commented on the effectiveness of the Chef CAC had engaged to promote CA avocados. Public Member Susan Randolph added that the CAC booth at the American Dietetics Association Convention was also well attended and always crowded with industry professionals. CAC staff distributed targeted materials to update and educate the attendees on the health attributes of CA avocados.

## **2007-08 BUSINESS PLAN & ASSESSMENT RATE**

### 2007-08 Plans & Budgets

Affleck explained that new production estimates allowed the proposed 3% assessment to be dropped to 2.62% without any budget cuts. Recognizing that some growers would like to see a level assessment rate, Affleck requested cancellation of the 2007-08 staff bonus plan and to continue for a second straight year the freeze on staff compensation. In addition, Affleck had prepared budget cuts of \$500,000 (which would reduce the assessment to 2.45%), \$750,000 (to avoid increasing the assessment, keeping it at 2.15%).

Board discussion ensued.

Dr. Guy Witney addressed achieving greater efficiencies in the Production Research Program. He recommended hiring Wayne Brydon as a CAC employee, with the eventual aim of reducing dependence on UCR support staff by having Brydon involved in field plot selection and field research oversight. Witney also mentioned that CAC had submitted a UC Discovery grant proposal that could provide additional funds for genetic research and some savings in the Production Research budget. Production Research Committee Chair, Darrell Nelson endorsed the proposals put forward by Dr. Witney.

Commissioner Eggering reported that the growers she has spoken with in her district have responded favorably to CAC's '*Hand Grown in California*' campaign but most did not want an assessment rate increase. She supported maintaining the assessment rate for another year. She thanked Affleck for an excellent presentation and answering many of the growers' questions and Weaver for explaining the budget numbers.

Commissioner Stehly said he supported a 15% reduction to the Production Research program after seeing how that program came in above the allotted allocation, forcing cuts in marketing programs.

Tom Bellamore explained that litigation costs were likely to continue in 2008. Yesterday, CAC was presented with a demand letter for \$5.2 MM from APEAM's attorney, a precursor to further litigation. Litigation expenses could easily exceed the \$60,000 already budgeted and, unfortunately, CAC must be prepared to spend more.

There was additional discussion concerning the various assessment rates and budget cuts.

Don Reeder made a motion to set the assessment at 2.62%. Rick Shade seconded.

Bellamore outlined the (CAC and HAB) rates of each proposed assessment:

At 2.62%, the combined HAB and CAC assessment rate would be 5.37%,  
at 2.45%, the combined rate would be 5.20%,  
at 2.36%, the combined rate would be 5.11%,  
at 2.15%, the combined rate would be 4.90%.

A question arose about whether Brydon's salary or staff salary increases had been accounted for in the 2007-08 budget. McIntyre confirmed that both were included, noting that he declined Affleck's offer to freeze staff salaries because of the high level of employee performance and the need to maintain morale going into 2008.

HAB Chairman Charley Wolk, an ex-officio member of the Commission, commented that he could no longer sit silent on the assessment issue. Wolk's years of service on the board have convinced him that CAC's strategically designed programs and steady spending have generated results unmatched in the history of American produce. He cautioned against reduced spending in the face of heightened competition, questioning the viability of growers who were reluctant to shoulder an increase that would amount to 4/10 of one cent per pound.

A call for the question was made by Rick Shade.

Assessment Rate

**MOTION: That the CAC Board of Directors approves the 2007-08 CAC assessment rate at 2.62 percent of the gross dollar value of sales for all varieties during any full or partial month the federal Hass Avocado Promotion, Research, and Information Order (Order) assessment is in effect, and at 5.37 percent of the gross dollar value of sales for all varieties during any full month the federal assessment under the Order is not in effect. (Reeder/Shade) MSC**

**8-Yes; 6-No (Steed, Stehly, Eggering, Karaoghlanian, Carbone, Carleton)**

Board Discussion continued.

Commissioner Carbone made a motion to approve a budget of \$16,662,500 which does not include the 2007-08 incentive plan (Tentative budget of \$16,889,500 - \$227,000 incentive plan = \$16,662,500).

A call for the question was made by Rick Shade.

**MOTION:**    ***The CAC Board of Directors approves the 2007-08 CAC Business Plan and Operating Budget of \$16,662,500. (Carbone/Miles) MSC***

***13-Yes; 1-No (Karaoghlanian)***

*A copy of the CEO contingency budget cuts is attached in its entirety to the permanent copy of these Minutes and identified as EXHIBIT F.*

*A copy of the 2007/08 Budget tentatively approved by the Board dated September 20, 2007 is attached to the permanent copy of these minutes and identified as EXHIBIT G.*

### **ADJOURN FOR LUNCH**

Chairman McIntyre adjourned the Board for lunch at 11:45 p.m. and reconvened the Board meeting at 12:35 p.m.

Commissioner Bradley Miles informed the Board that just recently he had opened an email thinking it was a legitimate market report that he receives from his handler and upon reading it, he found it to be a lengthy letter from CAC Board Member Karaoghlanian. Miles maintained that it was a conflict of interest for a board member to act as an agent for a handler and use a handler's grower list to impart his opinion to growers throughout the industry. Miles pointed out that he felt Karaoghlanian compromised his position on the Board and that his conduct should be reviewed by the Fair Political Practices Commission in Sacramento.

Handler Alternate Chris Ambuul recalled a similar experience he had and then expressed concern that this type of activity was causing confusion in the field, forcing his grove management firm to clarify to its clients that the circulating email wasn't from their packing company or the Commission.

The Board directed staff to develop a Code of Conduct for the Board of Directors.

### **HASS AVOCADO BOARD REPORT**

HAB Chairman Charley Wolk reported that HAB participated at this year's PMA Fresh Summit Exhibition in Houston, Texas. He was pleased with the booth activity and mentioned that a good number of attendees including growers, packers, importers, exporters and avocado association representatives from the U.S. and abroad visited with HAB. Wolk stated that Jose Luis Obregón, HAB's Managing Director, continued to sign up users for the avoHQ.com Web site. He also stated that he was amazed to see the strong presence of avocados at PMA. Due to a change of strategy, this is the last year that HAB will participate as an exhibitor at the PMA Fresh Summit.

It was reported that the second wave of interviews for the Hispanic Research study that was initiated earlier this year has been completed and the results should be available for HAB's November Board meeting.

Wolk informed the Board that he will attend the World Avocado Congress which will be held in Chile this November. He stated that Obregón will be giving two presentations, one on avoHQ.com and the other one on HAB's Hispanic Research Study. Wolk will also be giving a presentation about the history of HAB.

Lastly, Wolk mentioned that HAB is in the process of planning a Summit Meeting with all of the agencies that work with CAC, CAIA, MHAIA, APEAM and HAB. He mentioned that communication and coordination are important and that meetings like this are beneficial for the category.

## **INDUSTRY AFFAIRS**

### Water

Bellmore provided a short summary of an updated Water Supply Outlook that was in the Board meeting materials and posted on the Commission's Web site. Metropolitan is still projecting a shortfall of 1 MAF in 2008, some 700 to 800 TAF of which can be met through Water Surplus and Drought Management Plan actions such as conservation, spot market transfers, maximizing groundwater production and cutting agricultural deliveries. Formal notice of the 30% reduction in Interim Agricultural Water Program (IAWP) deliveries is expected on October 22, 2007. Meanwhile, Metropolitan has made changes to the administrative code regarding the IAWP, including calling for member agency certification of agricultural deliveries every 3 months, a \$10,000 penalty for late certification, and a penalty for overuse equaling two times the tier two rate, or about \$800 per acre-foot. Member agencies must update the reduction plans each year by June 30.

It was also noted that Metropolitan is developing a shortage allocation plan in the event it is unable to meet all demands for firm (non-IAWP) deliveries in 2008, with a goal of limiting regional economic impact as much as possible. Metropolitan's board has also started to evaluate rate issues as it develops its long-range finance plan, including the rate for agricultural water, which the agency presently views as a negotiated rate (rather than a rate based on cost of service). An agricultural workgroup is being formed and CAC is working to ensure that the member agency representatives selected to participate understand the industry's position.

The next water team meeting will be on December 18, 2007 at the Pala Mesa Resort. The format for the meeting includes agency presentations by Valley Center, Rainbow, Fallbrook and Rancho California water districts regarding their plans for implementing cuts under the IAWP.

### Quality

The CAC Board previously approved legislative language that would create an expedited track for a U.S. Department of Agriculture (USDA) review of a grades

and standards marketing order, should the industry wish to establish one. On October 2, CAC staff met with USDA-AMS Administrator Lloyd Day via videoconference to review the language. After minor adjustments, the language was deemed "workable" by AMS. The Commission's Washington, D.C. representatives subsequently met with Senate Agriculture Committee staff and the new language is now included in Chairman Tom Harkin's mark of the 2007 Farm Bill, which is scheduled for mark-up on October 22, 2007. It is estimated that there is a fifty percent chance of Farm Bill passage by the end of the calendar year.

#### Armored Scale

The California Department of Food and Agriculture recently adopted an emergency regulation establishing that armored scales of the family *Diaspididae* found on commercial shipments of fruit intended for consumption shall not be subject to any regulatory actions. CDFA's new policy essentially mirrors that of the federal government. Agricultural Commissioners will be bound by the new policy, which must be adhered to at the local level.

#### Peru

Sources in Washington, D.C. have told the Commission that a Proposed Rule concerning access for Peru to U.S. avocado markets is in the early draft stage and that a regulatory work plan will likely be completed by the end of 2007. The Proposed Rule is expected to be published by summer 2008.

#### Chile

In August, the CAC Board discussed a provision under the U.S.-Chile Free Trade Agreement that allows for acceleration of tariff elimination if the governments of the two countries agree. The Chilean government sought accelerated tariff elimination for 7 products, including avocados, but our industry was given short notice by the U.S. Trade Representative when that office inquired regarding our position. Board instructed staff to engage in discussions with the Chileans regarding support for accelerated tariff elimination in exchange for increased investment in U.S. market development. Since that time, however, the Chileans have reconsidered, believing only about \$250,000 in additional funds would be available if tariffs were eliminated early. Although the issue is no longer urgent for the Chileans, it was agreed that discussions should continue with the objective of reaching an agreement that would be symbolic of the cooperation between our two industries.

#### Disaster Assistance

An omnibus appropriations bill signed earlier this year included benefits to farmers and ranchers who suffered crop losses due to natural disasters. Qualifying farmers will have to pick one year (2005, 2006, or 2007) for which to file and must have had crop insurance at the time the disaster occurred. USDA's

Farm Service Agency has announced that sign-up began on October 15, 2007. Information has been posted on the Commission's web site.

Dr. Guy Witney, Director of Industry Affairs, reported the following:

Crop Update: Witney summarized the weekly crop shipping volumes for the week ending October 13, 2007. California contributed 620,742 pounds; imports 7.9 million pounds; and Florida 2.9 million pounds for a grand total of 20,647,123 million pounds shipped.

He stated that the crop indicator was trending toward 258 million pounds shipped, slightly above the crop total predicted during the mid-season crop estimate.

Witney said he had some serious news to report on avocado susceptibility to Diaprepes root weevil feeding underground. In experiments conducted at UCR under quarantine, it was found that Duke 7 and Dusa rootstocks were both very susceptible to weevil feeding and full development through pupation.

He also suggested that signing up in the Federal Crop Insurance Program prior to November 1 might be worthwhile if the drought persists and local water supply situations worsen. He noted that if we had three years of drought as some meteorologists are predicting, you could use this year as a base year.

Dr. Witney noted that the Board packets contained end-of-year summaries of all CAC-sponsored research except Dr. Arpaia and these will be posted online in the next few days.

Witney congratulated Rick and Trish Shade for their hard work at the Carpinteria Avocado Festival on October 5-7, and commented on the amazing public relations and avocado awareness effort with the community.

*Dr. Guy Witney's complete Industry Affairs Department Report, dated October 18, 2007 is attached to the permanent copy of these Minutes and identified as EXHIBIT H.*

### **CLOSED SESSION**

A closed session was held in the Board Room at 1:20 p.m. to evaluate President Affleck's previous year's performance, pursuant to *California State Government Code Section 11126 (e)*. Closed session adjourned at 1:35 p.m.

### **ADJOURN MEETING**

There being no further business, he adjourned the Board meeting at 1:40 p.m. The next Board meeting will be held on November 29, 2007.

California Avocado Commission  
Board Meeting Minutes  
October 18, 2007

Growers are now able to view the CAC Board meetings via the Internet. The address for web broadcasts is: <http://video.avocado.org>

Respectfully submitted,

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Laurie Hill, CAC Staff

I certify that the above is a true statement of the Minutes of October 18, 2007 approved by the CAC Board of Directors on November 29, 2007.

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CAC Board Secretary