

## Discussion paper on the allocation mechanism for Gold3 License (June 2017)

### 1. Purpose

The purpose of this paper is to seek feedback on the license release mechanism used in 2016 & 2017 to release 400 ha of Sungold. This follows consideration given to the topic by NZKGI in September 2016 following the first license release. Now that there have been two years of release using largely the same mechanism, NZKGI seeks to determine if views have changed prior to the next release.

NZKGI intends to follow a similar feedback process to last year in summarising the varied views of growers. These will be presented to Zespri who make the decision on the release mechanism.

### 2. Background

The variety 'Sungold' also known as G3 was first released by Zespri in 2010. Its commercialisation occurred before PSA but was increased to transition growers from Hort16A to the more tolerant variety G3. Existing Hort16A growers were able to purchase G3 license for \$8,000 per hectare on a GOFO (gold one for one) basis (1 ha of Hort16A for 1 ha of G3). Hayward growers have also had opportunities to purchase G3 via both Closed Tender Bids and Fixed Price in the years 2010-2013 and Closed Tender Bids in 2016 and 2017 (Appendix 1). Since being introduced, G3 has performed extremely well and is now the preferred Gold variety globally. There is significant demand in export markets for the fruit and as a result, in 2016, Zespri announced it would release up to 1600 ha of G3 license over a four year timeframe. This has since been extended to 2000 hectares over a five year timeframe. However, a final decision on a future release in any given year would not be finalised until the end of each season based on the variety's performance and projected future demand relative to projected future supply. Despite some feedback to the contrary, Zespri used a closed tender pricing mechanism to release license in 2016 and in 2017, a further 400 ha of license was released through largely the same mechanism.

NZKGI is now seeking further feedback on the license release mechanism through this discussion paper.

NZKGI seeks feedback on this discussion paper until 31 July. Feedback can be provided by:

- Emailing ([info@nzkgi.org.nz](mailto:info@nzkgi.org.nz)) or phoning the NZKGI office (0800 232 505)
- Completing the on-line survey through the NZKGI website ([www.nzkgi.org.nz](http://www.nzkgi.org.nz))
- Attending an NZKGI Regional Grower meeting
- Contacting a NZKGI Forum member

### **3. Release mechanism**

#### **3.1. 2016 Release**

In March 2016, Zespri made 400ha of Gold 3 license available in a closed tender allocation process. The key elements of the license release included:

- 200 ha available only to Hayward/Green 14 growers
  - Closed tender
  - Bid area could not exceed existing canopy area of Hayward/Green 14 (from which fruit has been supplied to Zespri)
  - Must be grafted (stump or notch) by 31 January 2017
- 200 ha unrestricted
  - Closed tender
  - Maximum total bid area per legal entity = 20ha
  - Must be grafted/planted by the bidder by 31 January 2018
- Payment
  - If growers settle in full by 29 July 2016, they will receive a 9% discount on their bid price
  - Deposit of 25% required at the time of bid submission
  - Deferred payment available (where price after deposit exceeds \$10,000)
    - 25% payable 31 August 2018
    - 25% payable 31 August 2019
    - 25% payable 31 August 2020

#### **3.2. 2017 Release**

In November 2016, Zespri announced the terms for the 2017 licence release. The License documents were released on 15 February and bids were required to be submitted by 15 March 2017. The mechanism was a closed tender as it was in 2016, but there were some changes:

- No deferred payment terms were offered - 25% due upon application and the balance due the end of July 2017;
- A maximum of 20Ha in total could be bid by any legal entity (whether restricted or unrestricted bids)
- A 'use it or lose it' grafting requirement expiring 31 January 2019 will apply to all licences issued in 2017
- A Single Bidding Pool was used to rank the bids, but successful unrestricted bids were limited to 200Ha. This means that 200ha were guaranteed to go to Hayward/G14 growers but that could have been more if bids from these growers were higher than bids from the unrestricted bidders.

#### **3.3. 2017 Release Outcomes**

To assist growers in providing feedback on the license mechanism, a summary of outcomes has been provided:

- Summary outcomes from both the 2017 and 2016 bid processes (Table 1).
- Regional spread of license for 2017 (Table 2).

- The NZKGI Forum considered the outcome of the 2017 license released in April 2017 and posed a number of questions to Zespri (Section 8).

Table 1: Summary of outcomes from the 2016 and 2017 G3 license allocation process

Item	2017 Result	2016 Result*	Difference
Median Price (\$ GST excl)	235,000	171,000	64,000
Median Price (\$ GST incl)	270,250	196,650	73,600
Minimum Accepted Price (\$ GST excl)	221,000	142,000	79,000
Minimum Accepted Price (\$ GST incl)	254,150	163,300	90,850
Total Area allocated (Ha) RCTB	202	200	2
Total Area allocated (Ha) UCTB	198	200	-2
Total number of bids	938	1,081	-143
Total number of <u>bidders</u>	586	745	-159
Total number of successful bids	235	266	-31
Total number of successful <u>bidders</u>	156	178	-18
Average size of successful bids (Ha)	1.7	1.5	0.2
Total Hectares bid for (Ha)	1,277	1,359	-82

\* Combined pools

Table 2: Regional Spread of license allocation in 2017

Row Labels	Hectares Successfully bid for	Hectares Unsuccessfully bid for
Auckland	6	26
Bay of Plenty	262	649
Hawkes Bay	-	8
Nelson	6	3
Northland	2	14
Poverty Bay	12	19
Sth North Island	-	1
Waikato	2	17
<b>Grand Total</b>	<b>290</b>	<b>736</b>

#### 4. Release Principles

During the 2016 consultation, a number of key outcomes from the release of new G3 license were discussed. There was agreement that these included:

- Controlled growth of the G3 market (not oversupplying)
- Equity of opportunity - all growers have an opportunity to grow G3.

Other principles were discussed but views differed on whether these were desirable:

- Encouraging Hayward-only growers to diversify by having some G3 license
- Continuing to re-balance the industry's variety portfolio by shifting Hayward hectares into higher-performing varieties
- Return on investment to Zespri for breeding the variety

- Spread of license - not allowing license to be purchased by a small number of larger growers
- Allowance of new entrants into the industry

Q1. Which of the following principles for release of license do you support (Yes/No to each option)?

- Controlled growth of the G3 market (not oversupplying)
- Equity of opportunity - all growers have an opportunity to grow G3.
- Encouraging Hayward-only growers to diversify by having some G3 license
- Continuing to re-balance the industry's variety portfolio by shifting Hayward hectares into higher-performing varieties
- Return on investment to Zespri for breeding the variety
- Spread of license - not allowing license to be purchased by a small number of larger growers
- Allowance of new entrants into the industry

## 5. Elements of Release Mechanism

There are five key elements to the license release mechanism. This section of the discussion paper outlines the feedback that NZKGI has received to date on each of these key areas. The Zespri Board will be asked to consider each of these key areas when making a decision on the future mechanism for license release.

### 5.1. Pricing mechanism

There are varying views on the most appropriate pricing mechanism. Prior to the 2016 release, NZKGI felt that a fixed price model was most appropriate to ensure that growers had equal opportunity to access G3 license. Feedback prior to the 2017 release was mixed with equal support for the status quo closed tender system and the book build system and some support for a fixed price for green growers.

#### a) Fixed Price

Grower feedback received following the 2016 allocation has indicated that while a fixed price mechanism would have provided equity and certainty for growers, the high level of demand meant that a fixed price mechanism would be very difficult to manage. License would have to be pro-rated across all bidders and would potentially result in areas of license being too small to be practical.

#### b) Book build

The concept of a book build was discussed prior to the first license release but was discounted as a feasible option due to the short timeframe that was available to organise the system. Book build operates by the lowest successful tender price becoming the price for all successful tenders, or to establish the maximum price for the full allocation to be consumed. An external provider would be needed to operate the book build. Education of growers would be required to explain the system of a book build.

#### c) Open tender (online auction)

It has been suggested that the online auction process provides the same outcomes of commercially driven pricing as a closed tender but allows for transparency in the bidding process. It was felt that the open bidding mechanism would result

in a more realistic commercial price as growers would not need to guess what might be required to be successful. Conversely there are views that the open auction process would increase the bid price and growers may feel pressured to increase their bids beyond their calculated maximum in order to secure license. There would need to be some investigation as to a platform that could be used for an online auction system.

d) Closed tender (status quo)

The closed tender mechanism has now been used from 2011-2014 and again in 2016-2017. Given the high demand scenario, feedback has been received that the closed tender mechanism is the most appropriate. It also allows for a market price to be set on a purely commercial basis and maximises the value of the license to Zespri. It was noted that growers are now familiar with the closed tender process, it is simple to understand and simple to administer.

**Q2. What is your preferred licence release mechanism:**

- a) Fixed price
  - i. \$\_\_\_\_\_/ha
- b) Book build
- c) Open tender
- d) Closed tender (status quo)
- e) Other

**5.2. Deferred payment**

In the 2016 release Zespri made a deferred payment system available to growers' due to the short timeframe between announcement of the license release and the close of the tender process. During the last feedback round, the majority of growers supported removal of the deferred payment system and it was not offered by Zespri in the 2017 release. Key concerns expressed were that Zespri should not be acting as bank and commercial terms should apply. It was considered more appropriate for banks to fund license purchase. Deferred payment was considered by some growers as a contributor to the high tender price. In asking this question, it is noted that Zespri do not have plans to reintroduce deferred payment.

**Q3. Do you support deferred payment?**

**5.3. Maximum bid size**

In both the 2016 and 2017 releases, the maximum that any one entity could bid for 20 ha. The spread of bid sizes is captured in the table below.

Table 3: Size of successful license bids in 2016 and 2017

Category	2016 number of bidders	2017 Number of bidders
Bidders allocated over 10 hectares	4	6
Bidders allocated 5-10 hectares	12	15
Bidders allocated >2 and <5 hectares	45	34
Bidders allocated less than 2 hectares	117	101

<b>TOTAL</b>	<b>178</b>	<b>156</b>
<b>Category</b>	<b>2016 Hectares</b>	<b>2017 Hectares</b>
Bidders allocated over 10 hectares	79	94
Bidders allocated 5-10 hectares	82	104
Bidders allocated >2 and <5 hectares	132	110
Bidders allocated less than 2 hectares	106	92
<b>TOTAL</b>	<b>400</b>	<b>400</b>

During the consultation phase following the 2016 release, the principle of spreading the license across as many growers as possible was supported by growers. Further, there was support for introducing more discipline to this by reducing the maximum bid size with a proposal to reduce the maximum bid size for green cutover to 2-5 ha and the unrestricted bid to 5-10 ha.

An alternative option of restricting bid size by a maximum percentage of KPIN area was proposed. More consideration will be given to this option to understand how it might work in practice.

A suggestion was also received that maximum bid sizes should be set by related party rather than by entity to ensure some parties were not circumventing the maximum bid restriction. Zespri have indicated that enforcement of related parties is difficult and involves a high level of subjectivity.

**Q4. What do you support as a maximum area (hectares) that can be allocated to any one entity:**

- a) 20 ha (Status quo)
- b) 10 ha
- c) 5 ha
- d) 2 ha

**Q5. Do you support different maximum bid sizes for green cutover and greenfields?**

- a) Yes
  - I. \_\_\_\_\_ ha for greencutover
  - \_\_\_\_\_ ha for greenfields
- b) No

#### **5.4. Restricted pools**

In both the 2016 and 2017 release, there were two pools;

- Restricted Closed Tender Bid (RCTB) - for producing Hayward and/or Green14 with a maximum bid area limit of the total producing Hayward and/or Green 14 area on the bidding KPIN.
- Unrestricted Closed Tender Bid (UCTB) - no eligibility criteria

However, in the 2017 process, all bids were ranked in a single bidding pool.

- All valid Restricted bids were allowed into the ranking process

- Only the top priced 200Ha of Unrestricted bids were into the ranking process

This design favours cutover of existing orchards as it guarantees that restricted bids have had at least 200 Hectares allocated to them, and possibly more. On the other hand, unrestricted bids had a maximum allocation of 200Ha.

Feedback from the last consultation round was mixed with support for a single pool, the status quo and for a change in the mix to 300ha restricted, 100ha unrestricted. The importance of allowing new entrants into the industry was noted.

It has been suggested that in order to allow green only growers the greatest opportunity to access some gold license, a separate pool be made available to green only growers. It was suggested that this pool would have a small maximum bid size (e.g. 0.5ha) and be restricted to a total of 50 hectares. This would mean that 12.5% of the 400ha license release each year would be allocated to green only growers and would transition 100 growers in each year to become green and gold growers.

There was also some support for a small pool being made available to growers to allow them to buy small amounts of license for finishing off existing blocks. It could also be used in situations where GPS mapping has altered a grower's licensed area and would provide a much fairer outcome than having to buy treasury stock. This pool would have a small maximum bid size (e.g. <0.5ha) and growers would need to demonstrate that the license will be used for completing an existing block.

**Q6. Which of the following pool systems do you support:**

- A single pool
- Two pools
  - Split 50/50
  - Split with preferential access to green
  - Other?

**Q7. Do you support a small pool of 50 ha for green only growers with a maximum bid size of .5ha**

- Yes
- No
- Don't know

**Q8. Do you support a small pool of 50 ha for completing an existing block with a maximum bid size of .25ha**

- Yes
- No
- Don't know

### **5.5. Implementation restrictions**

In the 2016 release, there was a differential grafting timeframe for unrestricted bidders (2 years) and restricted bidders (1 year). In the 2017 release, all successful bids regardless of the pool were restricted to grafting by 31 January 2019.

**Q9. Which grafting restriction do you support?**

- a) 1 year for all
- b) 2 years for all
- c) Split (2 years for unrestricted and 1 year for restricted)
- d) Other

## 6. Administration of the bid process

In the last consultation round, feedback was sought and provided on several aspects of the bid process. As a result, it was determined that bids should not be opened before the closing date. Feedback is sought from growers involved in the bidding process on any improvements that could be made.

**Q10. What improvements could be made to the administration of the bid process?**

## 7. Feedback

NZKGI seeks feedback on this discussion paper until 31 July. To assist in gathering feedback, a number of specific questions have been asked. Growers are welcome to provide feedback on other areas not covered by the questions.

Feedback can be provided by:

- Emailing ([info@nzkgi.org.nz](mailto:info@nzkgi.org.nz)) or phoning the NZKGI office (0800 232 505)
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## 8. Q&A's

The NZKGI Forum discussed the outcomes of the 2017 license release on 27 April 2017. Zespri provided answers to a number of questions asked by Forum members and these have been provided below as background.

### 1. What was the average and range of G3 orchard sizes by KPIN.

**A:** Pre 2017 CTB allocation: Avg G3 KPIN size is 2.84ha. The largest is 29.98ha and the smallest is 0.1ha

### 2. How many hectares of G14 succeeded in securing G3 Licence, in either Restricted or Unrestricted Tender?

We know that 7.5ha of G14 in total of the successful RCTBs will be converted. We do not yet know the intentions of the UCTB as bidders were not required to advise the blocks they were converting if they supplied a KPIN at the time of bidding.

### 3. How many greenfield hectares succeeded in the Unrestricted Tender?

**A:** There were 105ha (17 bidders) bid for in the UCTB where no KPIN was advised. We are yet to seek intentions from these bidders as to whether the awarded area will be allocated to an existing KPIN replacing Hayward or whether it is to develop a new block/s.



4. **What was the average area for each of the separate Tenders?**  
A: Average successful areas: RCTB 1.4ha UCTB 2.17ha.
5. **Of those who succeeded, in either Tender, how many growers already have a large proportion of their holdings already producing G3, say in excess of 60%.**  
A: Of the 168 successful KPINs (excludes UCTB where no KPIN was advised) 22.3% of them now have more than 60% of their KPIN in G3.
6. **How many growers and hectares remain Green only?**  
A: There were 15 "green only" growers (who currently have 79ha of producing HW) that were successful in the 2017 release.
7. **Is 20 ha maximum bid hectares too much, would you consider a maximum of say 5ha so that more growers/orchards were able to share in the Gold licence releases?**  
A: In conjunction with the question below, Zespri is willing to engage in a conversation with growers regarding these proposals.
8. **There has been talk around the process being brought forward to November, what are Zespri's views on this?**  
A: We will look into timeframes as part of our review this year.
9. **If a further 100 Hectares had been released, how many bidders would have been successful?**  
A: The number of hectares released is determined by referring to our projection of market demand for Gold3, not grower demand for licence. If a further 100Ha had been released a further 61 growers would have been successful. 25 of the new successful bidders would have been prorated to less than their bid area.
10. **If a further 200 Hectares had been released, how many bidders would have been successful?**  
A: The number of hectares released is determined by referring to our projection of market demand for Gold3, not grower demand for licence. If a further 200Ha had been released we estimate a further 118 growers would have been successful for 158 of the hectares. 5 of the new successful bidders would have been prorated to less than their bid area.
11. **How many bidders were wholly unsuccessful?**  
A: There were 703 unsuccessful bids, made by 460 bidders. In addition of the 460, 30 were successful with other bids. This means the total number of bidders that were wholly unsuccessful is 430.

## Appendix 1 - Summary of release mechanism for G3 Licence since 2011

Year	Variety	No. Of Hectares	Release Mechanism
2011	G3	207ha	Fixed Price Bid
	G3	49ha	Closed Tender
Year	Variety	No. Of Hectares	Release Mechanism
2012	G3	1,846ha	GOFO
	G3	359ha	Fixed Price Bid
	G3	97ha	Closed Tender
2013	G3	649ha	GOFO
	G3	589ha	Fixed Price Bid
	G3	100ha	Closed Tender
Year	Variety	No. Of Hectares	Release Mechanism
2014	G3	14ha	Closed Tender
2014	G3	398ha	GOFO
2015	G3	191ha	GOFO
2016	G3	400ha	Closed Tender Bid
	G3	48ha	GOFO