

VELCONZ

INFORMATION DOCUMENT

Information for velvet producers

- » Who is going to be responsible for growth in the New Zealand velvet industry if we, as velvet producers, are not?

 - » By taking one small step, NZ velvet producers can put a platform in place to create stability for producers AND processors, exporters and their partners.

 - » NZ velvet should be sold and marketed by people who are commercially accountable to the velvet producers who grow the velvet, and who have invested ten's of millions in the industry.
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This information has been produced by a Working Group of Velvet Producers which is behind the Velconz velvet selling concept. It is provided for 4 reasons:

- 1 **Communicate the problem that NZ velvet faces**
- 2 **Provide our view of how to solve the problem**
- 3 **Tell you what we have done so far**
- 4 **Ask for your input.**

The Velconz Working Group firmly believes there are simple ways to improve how velvet is sold. We hope this information is thought provoking, and we encourage you to get involved - at the end of the day, it's your industry.

KEY POINTS:

The Problem:

Velvet producers do not take responsibility for how their velvet is sold and marketed - and in fact, presently no one is really responsible. This leads to a short term focus with no consideration of what's really in the best interests of the industry.

Many producers have expressed dissatisfaction with the current velvet sales system. They have commented that velvet disappears into a broker model focused on margins on turnover rather than adding value and considering the longer term position and development of the industry.

DINZ wanted to know whether this dissatisfaction comes from a small, but vocal minority or whether it's a widespread view. Industry meetings called by DINZ in March and April received strong producers support to investigate and progress options to improve returns by acting cooperatively for the collective good. Producers representing some 200 tonnes of velvet indicated clear support for change. Further the NZDFA passed a resolution at their AGM that "That NZDFA support the establishment of an industry-wide velvet producers' organisation to provide producers with representation as to how New Zealand velvet is sold."

Solving the Problem

To effect any change, it has to be 'the will of the people'. As such an 8 person industry working group has formed to take over the development of the DINZ-initiated 0800 VELVET concept. The working group, chaired by Ponty von Dadelszen, signalled ownership of the concept by changing the working name of the concept to vel.co.nz or Velconz.

In conceptual terms, Velconz does not mean wholesale change to industry structures. It means a small, but very significant step for the velvet industry. The change envisioned will empower producers to be more responsible for their velvet, the industry, and its future. It will also encourage investment in the value chain.

In a nutshell, Velconz wants industry responsibility and therefore ownership of the pool operated by PGG Wrightson. In return PGG Wrightson will continue to collect, grade, store and offer velvet for sale on a 'fee for service' basis. Velconz believes that the 'value' or worth of the pool lies in two areas:

1. **The logistical systems to handle velvet**
2. **The producer patronage of the pools**

Velconz believes that the logistical system belongs to PGG Wrightson and it's fair that producers pay to use that system. But producer patronage should belong to producers because it's their

"We have a problem. But it's also an opportunity. If producers have the resolve, we can do something about it. It's important to remember, it's very hard to deny the will of the people."

David Stevens, member of the Velconz Working Group.

"When other industries face issues such as over-supply, many are in a position to do something about it, eg the Kiwifruit industry or even venison exporters. They do whatever they have to do to avoid destroying key markets. We in the velvet industry account for the majority of velvet traded in the world. If anyone was motivated to avoid destroying value in key markets, it's us. Yet we do nothing about it. Who is responsible at the moment? Nobody. Producers have the largest investment in the future of the velvet industry. We have to take responsibility for how we want our industry to be."

Ian Scott, member of the Velconz Working Group.

Velconz wants to be a leader in change toward a sustainable industry. Encompassed in this is:

1. *Where previously fragmented, velvet producers will have a vehicle for change*
2. *Low barriers of entry into the model will motivate low volume producers to participate as well as velvet specialists*
3. *Producers governing the sale of velvet will see selling decisions driven by the motivation to improve returns to producers.*

patronage, and there is significant value in that patronage.

Operation under Velconz means that those making decisions on how velvet is sold are answerable to producers, and are therefore motivated to make selling decisions aimed at stabilising and maximising returns to producers.

PGG Wrightson would operate the pool as they do now, reflecting their excellent systems already in place. The only difference is that the decisions being made about how the velvet is sold, to whom and for how much will be made by a Velconz governance board and its executive.

Velconz would be responsible for evaluating and implementing decisions on a commercial basis. For example, will an action such as the removal of lower tynes provide a better financial return to producers? Or, ensuring that velvet grading is optimised to maximize industry returns.

While seemingly only a small step, it's still a very big one. It reflects the situation that currently, a pool or auction process is NOT primarily motivated to increase returns. Auctions simply clear volumes at a price.

Producers would have a shareholding in Velconz in the form of ordinary shares, allocated in proportion to how much velvet they supply (although the final capital structure is yet to be determined pending the negotiation with PGG Wrightson).

The entity will help provide stability in a traditionally volatile market, by addressing weaknesses in the current supply chain and encouraging investment in velvet.

Current Situation

A sub-committee of the working group put together a Heads of Agreement for PGG Wrightson's consideration as a starting point. The sub-committee has formally met with PGG Wrightson three times. PGG Wrightson, while willing to talk, appears unwilling to accept the sub-committee's opening position. PGG Wrightson has indicated several times in the media that 'the idea of a farmer-owned company controlling the pool is not commercially acceptable'.

PGG Wrightson has now indicated a possible joint venture arrangement that allows both parties to work together to achieve an outcome that will add value to the velvet industry. Further discussion will be ongoing to create a structure that with good will should be the launching point for reform of the velvet selling process.

The group will be continuing further discussions with industry participants including producers, PGG Wrightson, road buyers and velvet processor/exporters. The members of the group are: Bill Taylor, David Acland, David Stevens, Ian Scott, John Fogarty, Jonathan Wallis, Neville Cunningham, and Ponty von Dadelszen (Chairman).

Your Input

The Working Group is operating under the assumption that it has a mandate to investigate and effect change following support from the DINZ round of meetings, NZDFA's resolution and DINZ endorsement.

If, as a producer, you believe that Velconz's course of action is wrong, it is very important that you advise the working group either by calling one of them (see back page) or emailing Ponty von Dadelszen. pvond@xtra.co.nz.

"Those that resist change because the Status Quo suits them assume that when velvet prices improve a little, velvet producers will settle for the same old system. But the cold, hard reality is that the fundamental problems of how New Zealand sells velvet will remain, and the industry will just enter another boom-bust cycle. We have to change."

Ponty von Dadelszen, Chair of the Velconz Working Group.

"I know of no producer in agriculture that takes their product to the world market via an auction system and then creates any substantial value for themselves, let alone their children. This is particularly so if that product is, in part, then passed through a non legitimate value chain, as is the case for velvet antler."

Stuart Natrass, Velconz Working Group Sub-committee.

The Velconz Concept is built on three critical elements:

- 1 Owning the 'place' that currently handles the majority of the product
- 2 Influencing the ill-informed selling
- 3 Being a commercially robust entity

THE VELCONZ CONCEPT

SOME QUESTIONS WE'VE RECEIVED:

How is this going to make a difference to me?

The boom bust cycle the velvet industry goes through does nobody any favours in the long term. Velconz seeks to stabilise the way velvet is sold and marketed. It can do it if it gets ownership of the many of small sellers that create the critical mass. But, it's not about holding buyers to ransom or acting unpragmatically. It's about providing a sound platform for growth and investment.

Am I still going to be able to choose who I sell my velvet through?

Producers will still have choice, although ideally they will choose only to supply Velconz.

What is it going to cost to 'join' Velconz?

Velconz needs to be an entity that catches the low volume producer, so barriers to entry need to be very low. It is envisioned there will be no upfront cash investment required to join Velconz.

Who formed the working group and do they have the mandate to be trying to make this change?

DINZ met with producers in March and April to find out if the industry wanted change, and 99% of those met with supported DINZ exploring options. As a result of the widespread desire for change, DINZ facilitated a meeting of producers selected for their critical reasoning and interest in exploring change. The producers decided to form a working group and lead the initiative.

What part did DINZ play in this?

One of DINZ's roles under legislation is to promote and assist the development of the deer industry in New Zealand. DINZ believes that consideration of better selling structures is part of 'assisting development' if it is what producers want. DINZ is therefore supportive. But change has to be producer led and driven for it to be successful. DINZ therefore plays a supportive and facilitating role - as it does with a range of other organisations and companies.

I am a Velexco shareholder. Why isn't Velexco involved in this?

The Working party believes that if they can achieve one small change it will make a huge difference to all producers (including Velexco shareholders), and that is for producers to have a governance role in PGG Wrightson's pool. The Working Group's focus, by necessity, is on this, and if it is successful, then it can look at further benefits to producers, including Velexco shareholders. Some Working Group members are also Velexco shareholders, and are mindful of the issues facing Velexco. At this stage, however, the focus is on negotiating an arrangement in good faith with PGG Wrightson that benefits all participants in the velvet supply chain.

FOR MORE INFORMATION:

To talk to someone directly about Velconz, please contact one of the Working Group:

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