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REPORT TO USAID = HONDURAS

EVALUATION OF TWO EXPORT ORIENTED
REGIONAL AGRICULTURAL SERVICE COOPERATIVES

"FRUTA DEL SOL" AND "CREHSUL"

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SUMMARY

The Fruta del Sol loss was due primarily to damaged product and secondarily to poor markets conditions. Prices were lower than they have been in at least 4 years.

The impact of the damaged product is roughly estimated at \$400,000. The shortage of containers, and the change in the shipping schedule that reduced frequency, was a major contributor to the problem, as was delays in selling the product at 6L's warehouse. However, it is our belief that there was a basic problem at the point of packing. 50% of the product was sold at distressed prices. Even with the poor shipping and handling in the States the impact should not have been that great if fully sound product were being sent.

There is no evidence that the broker conveyed to management the seriousness of the situation. However, management was also lax in not insisting on being notified of the actual sales price of each specific shipment on a timely basis. A prompt response would have gone a long way toward ameliorating this loss.

It is impossible to tell at this late date what may have been wrong. On paper the product was handled properly. Possibilities include disease damage from mosaic virus and cottony leak. We have a very strong suspicion that a major contributor was inadequate cooling of the product.

Overall, the prices 6L's received for the product seem reasonable.

Fruta del Sol is basically in a sound competitive position. Without the damage problems, the loss would have been within acceptable parameters for a farming operation.

It is of critical importance that a shipping agreement be reached for next year, and that contractual guarantees be negotiated for containers, and frequency of service. It is our understanding that FEPROEXAH is leading the way on this. However, it is essential that they begin work seriously in

resolving this problem as quickly as possible. This must be completed within the next two months.

Next, it is essential that more current accounting procedures and an adequate management information system be put into place before the beginning of next season. This will allow management to stay close to the co-ops financial situation on an immediate basis. This will also instill an organizational discipline that will allow the co-op to react promptly to problems.

Finally, an adequate pre-cooling system should be installed. With lower volume and frequent ship service the co-op may get by without one, but it is not worth the risk.

The CREHSUL loss had three components:

1. Damaged product
2. Record low market prices during the end of January and first two weeks of February.
3. High costs.

1. Damaged Product. More than one third of the product was sold at distressed prices. The root cause of the quality problem was lack of containers and the change in frequency of sailings. However, the problem was exasperated by the following:

- A. The project was much too ambitious for a first year start up operation. Management should have started with a small, simple operation instead of attempting two packing stations and the involvement of large numbers of small growers.
- B. There was insufficient management depth to handle one station let alone two. When the problems of shipping arose, management, while trying very hard to work around the problem, began to lose control. Planned outside professional help was not available due to a contract delay between ACDI and A.I.D.

- C. They did not have cold room facilities. This was a very serious problem and made a substantial contribution to the loss. Management attempted to cope by using an abandoned meat cooler, but could not maintain adequate temperature.
- D. Management did not know the extent of the problem in the U.S. Tavilla Marketing did not adequately communicate what was happening, nor did management insist on being informed. As a result, management operated under the illusion that what they were doing was getting them by.

Overall, a rough estimate of the cost of the damage problem is about \$340,000.

2. Pricing. The last week in January and the first two weeks in February saw record low prices. This was due primarily to Mexico coming on the market earlier and heavier than they had in the past. This was due to an unusually good growing season combined with some additional acreage planted. In addition, prices received by Tavilla Marketing for good product ran consistently below the apparent market. This was due to the difficulty of selling good product when a substantial portion of the shipments are bad, compounded by the use of a non-standard box which was not readily accepted by all segments of the market.

3. Costs.

a. Packing expenses were twice what they should have been. Management attributed this to problems in working around the lack of containers, the inefficiency involved in running two facilities and the lack of management depth which led to a loss of control.

b. The box cost is totally out of line with general container prices.

c. The price paid for the fruit is much too high. The rapid expansion of Dominican Republic production is changing the character of the winter melon market. You can no longer depend on astronomical prices to bail out inefficient farmers. The days of being able to get by with 100 and 200 box yields is coming to an end.

Plans for next year call for shipments during the December to mid January period. Historically, this period of time has never seen prices below \$15 for 1/2 cartons. However, with the expansion of Dominican Republic production, nothing is any longer certain.

There is no obvious inherent reason why Honduras should not be competitive with the Dominican Republic, other than for freight. The freight differential is now about 50¢. Although significant, when one considers all the other vagaries of weather and production, this is not a serious problem if all other costs stay in line.

We believe the co-op has a good chance for success in the coming year with their planned approach.

As with Fruta del Sol, it is essential that the transport problem be resolved quickly.

Management must be strengthened. Carlos is currently looking for a new packing operations manager. In addition, it is important that a good experienced consultant be retained to help them over the coming season. This will be valuable for the new Fruta del Sol melon operation as well as for CREHSUL.

As with Fruta del Sol, it is essential that a current, strong accounting and management information system be instituted.

Both co-ops should review their contracts to include provisions for reporting by the broker of actual prices and product condition, as well as provisions to protect the cooperatives in the event of non-compliance or product mishandling.

Management should do a specific evaluation of the high packing cost and devise a formal program for reduction and control.

A cold storage facility at CREHSUL's site is highly recommended. It is extremely risky to operate without one.

Despite the remaining inventory of 2/3 crates, we recommend that they be used in only in very limited quantity. 1/2 crates or cartons should be the principal package, and a good, reasonably priced supply should be found. The high price of last year's crate, combined with the freight disadvantage is enough in itself to make CREHSUL uncompetitive. We understand that this can be a major problem. That the government has a policy that protects the only local manufacturer.

Serious work must be done on increasing yields. This as well as transport is basic to survival of the industry in Honduras.

It is our opinion that it would be helpful to both cooperatives to split their shipments between two brokers.

A possibility that should be explored is for the rental of cold storage space in Pompano by a group such as FEPROEXAH, that could be used by the co-ops and others. A man could be stationed there to observe the handling and condition of the product. This can be arranged very easily and the only additional cost to the co-ops would be for the man himself.

FRUTA DEL SOL CUCUMBER EXPORT OPERATIONS

Transactions with Six L's

Roughly 50% of the shipments were sold at distressed prices or dumped. It became worse as the season progressed, with February having a much higher percentage than January.

No formal records were kept of inventory turnover. However, we were able to roughly recreate this, using 6L's shipping records and Fruta del Sol packing and shipping records. This review indicates that approximately 50 container loads were kept in 6L's warehouse for three days or longer, and approximately 25 of these were there for from 4 to 6 days. Cucumbers handled properly are expected to have a shelf life of about 2 weeks.

Approximately 44 containers were 9 days or older when they left 6L's warehouse, assuming first in first out rotation. It will take anywhere from 1 to 3 days to reach customers from the warehouse. Approximately 12 containers were 11 days or older when they left the warehouse.

There was a bad spell from December 23 to January 2, and there was another concentration with heavy volume from January 20 to February 2nd.

Distressed sales were scattered throughout. However, there was a heavy concentration during that same January 23 to February 10 period.

The above time frames assumed a first in first out situation. However, the individual boxes were not coded by lots, so sales from anyone arrival was at random. There was a potential for an additional 10+ containers to fall into the 10 day or older category.

Shipping was irregular and the Lines did not maintain their schedules, so pack planning was not efficient.

Product was traced from the packing records to the container records. An average of 1850 cases were packed per day. The average cold storage inventory

balance was 1250 cases per day. It remained fairly steady through cut the pack at about 1 day's production. The worst period was January 15 and 16 when there was two and three days inventory respectively. There is no evidence that these cases caused problems in the U.S. Again, the above assumes first in first out inventory, but without lot numbers it is impossible to test whether this in fact was done. The system, however, lends itself to a first in first out situation.

Even though inventory turned quickly there was heavy accumulation between January 16 and January 24, averaging in excess of 3,000 boxes a day. This amounted to no more than one day's pack, but it equaled the total capacity of the cooler. The crowding may have seriously affected the rate of cooling.

Management stated that product was usually packed and put in cold storage within 2 hours of arrival. On a few occasions there might be a slightly longer delay, and on one occasion there was an overnight delay. Some farmers interviewed however, complained of long delays with fruit left standing in the sun. This would rapidly age the fruit, especially in combination with poor and over crowded cooling facilities. The cucumbers are not precooled. They are put into a refrigerated room hot and allowed to cool slowly. This slow cooling shortens the shelf life substantially, as compared to rapid pre-cooling. Normally you can get away with this, if you are going to be on the market quickly. I am very surprised they haven't had problems before this. No records are kept that will allow the determination of the length of wait from the arrival of the fruit to the time it is processed. Also, beyond the control management is the time the fruit is held by the grower, and the conditions under which it is held before delivery.

With the large jump in production from the previous year and the results in the U.S. we would be surprised if the farmers' observations weren't at least partially true. However, the heaviest packing day was 5,200 boxes, and they have a rated capacity of 1,000 boxes an hour, so there should not have been any real reason for extended backups.

Disease-Cottony Leak. Most USDA inspections referred only to decay. However, a significant portion referred to cottony leak. 6L's said they

discussed this problem with Mauro Suazo. However, Mauro and his staff, and Richard Clark of ACIDI, said they did not know this was a problem. The only evidence is two letters from the University of Florida extension service, discussing the subject, and a notation in the Fruta del Sol telephone logbook on February 14 referring to a soil born disease on February 14. The letters were dated February 28 and March 7, after the pack was completed. If management had been told about it promptly, some further actions could have been taken to reduce the loss. Copies of the letters are attached.

Some growers and FHIA reported a serious outbreak of mosaic virus. Cucumbers affected by this virus tend to age much sooner (6 to 7 days) than healthy fruit. (Ryall/Lipton Handling Transportation and Storage of Fruits and Vegetables. Second edition Vol. I.): Management made a decision to ship cucumbers with 10% or less skin damage. This was no doubt a major contributor to the problem.

Mauro Sauzo states that he was in daily telephone contact with 6L's but kept no log. His operations manager had weekly telephone conversations with 6L's and did maintain a log. The contact point with 6L's was Wayne Press at Immokalee. The logged conversations were held approximately weekly, starting January 5th. General market prices quoted were close to what they eventually received for good product. On January 10th, 6L's reported that 3% of the Plains had problems. On January 15th they reported that they were continuing to have problems with the quality of Plain and Large. Mauro Sauzo has a separate note that he was told on January 21st that they had 600 boxes with 20% decay. He claims it was his first knowledge of the problem. This is a very small portion of the product shipped. Mauro states that on February 1st Wayne Press called and said he had 10,000 boxes of mediums that he can't sell. As of February 1st, the market had started down and a review of 6L's records showed that they still had a substantial quantity left of the January 29th arrival.

On February 5th, 6L's advised management to stop packing Plains, which is the lowest grade. This was at the early stages of the declining market that lasted for a month. It was good timely advice and saved the co-op from additional losses.

Mauro Sauzo flew to Miami immediately and found 10,000 boxes in the warehouse and drew the conclusion that 6L's was organizationally unable to handle his volume.

However, on February 5th, 6L's was still shipping the last of the previous shipment which arrived February 2nd and had on hand the entire February 5th shipment. This was moved out by February 8th.

Mauro Suazo saw yellow aged cucumbers, which he accused 6L's of letting back up. But the shipment that arrived on February 2nd, had some of the oldest cucumbers that management had shipped, some of which had been packed in the container on January 2nd, 11 days earlier. 6L's took up to 3 days to sell out this load, so it is possible that some cucumbers were 14 days or older at the time of shipment to the customer.

Since the boxes weren't coded, there was no way of telling when the product Mauro saw was packed.

Finally, on February 14th, it was logged that 6L's reported a 50% loss due to a "soil born disease". Apparently, Mauro having seen the full warehouse, and aged cucumbers, discounted the disease problem, and attributed the loss to 6L's inability to handle the product.

These three notes, the only serious one as late as February 14, are the only references to quality problems.

It is obvious that 6L's did not adequately advise the co-op as to the seriousness of the quality problem. And they did not advise them as to the low sales value and deficit sales value that they were receiving on the distressed fruit.

NOTE: During this period, total cucumber shipments to Florida averaged 50 to 70 containers a week. Fruta del Sol's 20 containers was a significant percentage. Also it was during February that Jamaica started shipping.

On February 19 there was an unlogged conversation between Wayne Press and Mauro Suazo. "This is just ridiculous. We can't keep up with the repacking. Don't send any squash".

Bill Lippman denies Wayne said that. He said Wayne only meant only that with the lack of mixers it would be more difficult to move out squash. Approximately 10,000 boxes were repacked.

Due to the weather problems there was very little mixed product coming out of Florida. Cucumbers are more of a mixed load than a full truck load item. The situation was so difficult for example, that in Pompano, which has over 100 buying brokers who put together mixed loads, many moved their operations to Nogales for the season. This affected 6L's ability to some extent to move the product.

Fruta del Sol planned 192 containers and wound up with 126 shipped. This was allegedly due to discontinuing packing of Plains. However a review of the pack record indicates that Plains were discontinued for only 2 weeks (weeks 8 and 9) of the pack, and could have caused a loss of only 22 containers at most. The drop of 30 expected containers from week 10 to 13 was from other reasons, probably the mosaic virus.

Despite the problems 6 L's ordered incoming inspection on only 12 containers. The inspection showed decay ranging from 5 to 10%. The implication of this is that the remaining product arrived at 6 L's in good condition and that it spoiled while in their care which is not an unreasonable assumption.

While at 6 L's we reviewed records and traced shipments on 18 invoices, 17 of them problem shipments and one problem free shipment. We found total documentation for freight bills and other charges and were able to trace the transactions to the liquidation settlement sheets.

All but two problem shipments had supporting USDA inspection reports. Mauro Suazo was particularly concerned with deficit sales. These came about as follows:

- 1) The product would be sold at regular prices to a customer.
- 2) The customer would reject it and have a USDA inspection made to support his rejection. A copy of this was then sent to 6 L's.
- 3) The product would then be transferred to a terminal market operator on consignment for him to get the best price he could.
- 4) Often the amount realized would not be sufficient to cover the freight to the original customer, the transfer freight and the commission and handling expenses of the terminal market operator, thus giving rise to the deficit sale.

Of the invoices reviewed Decay ranged from 17% to 66%. 6 L's claimed this happened in route due to the disease. Though possible, I find it difficult to believe that they weren't shipping bad fruit that should had been junked at Immokalee.

Pricing

During December/January Super prices received by 6 L's ran on the high side of USDA reported prices. During February it ran on the low side usually just short of USDA reported pricing. This was due to 6 L's having lost their regular customers due to the quality problems, and starting to run into increasing difficulties selling the product.

The spread between super and select tended to be greater than normally experienced. This may be the result of their upgrading of the better select.

Overall, 6 L's did an acceptable job on pricing per se. There is no way of evaluating distressed merchandise. You are pretty much at the mercy of the few people who are willing to handle it.

As stated above, management was not informed as to how much distressed merchandise there was nor as to how little they were being paid for it. 6 L's gave them general market conditions but not specific pricing for their product on a timely basis, nor did 6 L's adequately conveyed the seriousness and extent of the quality problems.

The only report of actual prices that was made was a computer run-off prepared each week and it included those invoices that were paid during the week. 6 L's stated the average customer took in excess of 30 days to pay, which means it is 5 weeks after the sale before the run is completed, sometimes into the 6th week. Then the run is mailed to Honduras. It could be 8+ weeks before management would have any hard data on sales. In addition, the distressed merchandise that was transferred to a consignment account would result in an even longer wait. In one case, it was an excess of 60 days before it was paid.

If 6 L's and management had been on top of the situation, the magnitude of the loss they were facing would have been obvious. Expert opinion should have been sought on an immediate crash basis. I have no doubt that a timely reaction would have minimized the loss to a significant extent.

Competition

January and February was one of the weakest markets in at least 4 years. Prices bottomed out at the end of February and started to get stronger the second week of March.

During the 10-week period 12/27 to 3/7 there was a 448 truck-load increase (14%) over the same period last year coming out of Mexico and a 114 truck increase (22%) coming out of south Florida. No breakdown is available on the source of south Florida shipments.

Mexican cucumbers are grown in the Culiacan Valley. Hard data is not available but the increase in production was attributed by some observers to outstanding growing conditions with some increase in acreage. Observers also felt that shipments from Puerto Rico, the Dominican Republic and the Bahamas were within their normal range, possibly on the high end in the case of the Bahamas.

Jamaica was the only new exporter of any significance. It is possible that Honduras and Jamaica accounted for most of the increase. Belize started shipments after March 1st and was not a significant factor.

We estimate that Mexican shipping costs from Culiacan would run from a \$1 to \$2 a box, and duty is \$1.10 a box. South Florida has a \$1 to \$2 a box freight advantage over Nogales in the northeast. That means from a freight and handling standpoint Honduras must land the product at the shipping point in South Florida at about \$4 a box. The current cost is approximately is \$4.30. Thirty cents is not a significant difference.

A University of Missouri professor has completed a study of Mexican production and marketing costs which is due to be published shortly. This study shows Mexico in an even less competitive position. The details are not available as yet but his study shows pre-harvest costs in Mexico of \$1.60 a box, harvesting and packaging are \$2.20 a box, and marketing at \$4.90 a box for a total of \$8.80 a box. This compares with \$7.80 budgeted cost for Honduran cucumbers FOB south Florida. It is not clear what is contained in

his marketing cost, which seem very high, so this may not be a valid comparison. However the implication of this is that on a worst case basis the Honduran cucumbers are competitive with Mexico.

BAHAMAS. The Bahamas are to an overwhelming degree the cucumber of choice. We were not able to get good data on the situation there. However they have been growing and shipping for at least 5 years and must have some limiting factors or they would have completely taken over the market by now.

DOMINICAN REPUBLIC. They are aggressively developing their agricultural sector. Ship service is frequent. Last season cucumbers were landed FOB Miami for about \$0.20 a box cheaper than Honduras. They have expanded their overall production to the extent that they have attracted excellent shipping. They experienced heavy rain during the past season which cut down the quantity and quality of their production.

JAMAICA. There are major projects afoot in Jamaica. However, they have been trying to develop their fresh vegetable exports for at least four years with little success. Last year, as poor as it was, was their best year yet. They have had continuous quality problems and shipped heaviest during the worst market. They do not have adequate transport with only weekly shipments direct to Miami, though for about \$0.50 a box less than Honduras, exclusive of in-land freight. In addition, they have Sealand service through Puerto Rico which is expensive and undependable. We believe Jamaica is years away from being a serious threat and markets like last year may totally discourage them. They had an agreement to charter a vessel last year but the deal fell through.

BELIZE. I believe they planted close to 200 acres last year. The first planting was washed out. The second planting got very good yields and hit the market during the high prices of March. They had to fly most of their product out at about \$10 a box. Some went by ship (10 day frequency). Since the market held, they were able to break even, I understand, for the year. This is a partnership of two Florida growers, and it is to the extent possible a highly mechanized operation. They had also planned ship charters but their deals fell through after planting. Both, the Belize and Jamaica shipping

experiences, point to the urgency of getting good contracts not just understandings, from the shipping companies before plantings' begin.

The growers in Belize plan on going at it again on a large scale next year. But we still don't see how they can overcome the transport situation.

General

Management prides itself on using a much tougher grading standard than is used in the U.S. However, this only causes confusion. The product should be graded as closely as possible to market standards so that when they are done packing on a given day they know precisely what it is they have and what they might expect to get for it. This is essential information. For example when word came from 6L's to discontinue packing selects, I'm not sure that they knew precisely what they were supposed to discontinue.

Last season the following was upgraded:

	<u>GRADES AS PACKED</u>	<u>GRADES AS SOLD</u>
Super	17,000	45,000
Select	22,000	27,000
Plain	38,000	0

The normal pricing spreads in the case of a \$10 price for Supers would be \$8 for Select, and \$6 for Small and Large. During strong markets, consideration should be given to shipping Smalls. There should be an automatic trigger mechanism to change what is packed in response to market conditions.

Comparison of Grades Packed

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
Yields Per Ha.	949	N/A	1,200*	844
Super Select	60%	N/A	2%	20%
Select	<u>20%</u>	N/A	<u>25%</u>	<u>25%</u>
Sub-total	80%	N/A	27%	45%
Plain	(included below)	N/A	63%	42%
All Other	10%	N/A	10%	13%

Multiplying the yield per hectare by the sub-total percentage gives you the following high quality fruit yield per hectare:

1981/82	759 boxes
1983/84	324 boxes
1984/85	379 boxes

This would indicate that there has been some deterioration in quality of cucumbers being grown. At 380 boxes a hectare times \$2 a box price differential would equal a \$760/ha. revenue loss.

However, if the loss is due to practices that increased the total yield to 1,200 you would have to take the 250 additional boxes times the incremental income to determine if it pays. They would have to average roughly \$10 a box to break even.

Management states that these figures are not the result of poor quality but of stricter grading. This area deserves further study.

ACCOUNTING. A superficial review indicates that adequate, formal accounting is maintained. However, the minutes of the January 10 meeting, recalled one instance where a check was written in excess of the amount due the grower. This indicates a possible lack of control. We believe a professional audit should be done to determine the adequacy of their internal control and that it should continue to be done routinely each year.

In addition, records are not kept nor are reports made that would assist in the management of the business on-going current basis. Among other things, a weekly P&L using actual sales and production expenses should be prepared. This need not be a very time consuming job in as basically a simple operation as they have if a better and more current accounting system is maintained.

The maintenance of a current accounting system will instill an organizational discipline and will result in isolating serious problems as they occur, forcing a reaction to them before they get out of hand.

In addition, although we found 6L's records in excellent shape, Fruta del Sol is not in a position to verify the accuracy of their liquidation figures. We believe that it would be useful to have an audit of their records. This need not be very elaborate or expensive.

FRUTA DEL SOL OPERATING ANALYSIS

1984/85 SEASON

Although Fruta del Sol books were not yet closed at the time of our visit, they were able to supply us with the following cost data:

Packing Cost: Fixed	\$0.43
Boxes	\$1.15
Other Direct Variable	\$0.15
Administrative	<u>\$0.24</u>
Total Packing Cost	\$1.97
Shipping Cost	
Honduras Inland Freight	\$0.21
Ocean Freight and Related Charges	\$3.55
Custom Broker and Florida Drayage	\$0.29
Handling at Immokalee	<u>\$0.25</u>
Total Shipping	\$4.30
TOTAL COST	\$6.27/box

Without the damage we estimate that this would have translated into the following approximate P&L:

Sales Value	\$880,000
Less Commissions	<u>\$88,000</u>
NET	\$792,000
COST	\$655,000
Net Available to Grower	\$137,000

This does not include the 17 cents co-op surcharge.

Estimated grower cost was \$1,700 for production and \$250 harvesting per hectare. This times the 120 hectares planted would have brought his cost to \$234,000. Without the damage the growers would have lost about \$97,000. (\$234,000 less \$137,000). The yield loss from mosaic virus probably accounted for most of this.

Generally, the cost of operation seem reasonable and lower box cost on imported boxes are being explored for next year. With the help of FHIA, they are very optimistic about improving yields and growing costs. New varieties of cucumbers are being explored, which should help with the mosaic problem. FHIA is also assisting them in the more economic use of materials.

CREHSUL CANTALOUPE EXPORT OPERATIONTransactions with Tavilla Marketing

Crehsul management did not know the extent of the damage, nor the prices being paid for damaged merchandise until early May. Until that time, repeated requests for specific prices were answered with quotes of general market conditions, and vague estimates of "\$13.00" to "\$14.00 average" for the season. Although both Crehsul and Tavilla Marketing had telexes, a review of the message copies show only four messages referring to damage product and one of these Sealand was liable for, and one was relatively minor. There was one telex congratulating the co-op on excellent product.

As for pricing there was only one telex from Tavilla Marketing which discussed seriously deteriorating market conditions in general. There were three requests for pricing data from Crehsul which were ignored.

We reviewed the liquidation records submitted by Tavilla and compared the totals to the copies of supporting invoices. There was no support for sales invoices. Many of the invoices for expenses were missing, and many that were provided could not be reconciled.

When visiting Tavilla Marketing, we took a random sampling of eight invoices, and compared pricing to the customer, to that reported on the liquidation, and found no discrepancies.

We compared dates shipped to customer against dates unloaded from vessel, and found the product invariably moved in one to two days.

We attempted to confirm bad product with USDA inspection reports, but were unable to do so. There were only two inspection reports on incoming merchandise, and eight inspections at point of delivery. This covered only a small portion of the 15,000+ bad cases of product. Tavilla marketing admitted they were weak in this area and reviewed with us new procedures that would be put into place next year.

We were not able to get sufficient back-up invoices for expenses, that would tie into the liquidation sheets. There were no detail computations which would explain allocations of trucking expenses. Out of 30 charges for handling product at Top Notch Cold Storage, only one was supported by an invoice. Tavilla Marketing could not find any supporting invoices in their files. However, the 35¢ per box charge by Top Notch is reasonable.

Two out of the eight invoices reviewed were sold to or through other brokers. Sales by one broker to another is very commonplace in the produce industry. Primarily it involves sales to brokers putting together mixed loads. In times of shortages, brokers will buy and resell products from other brokers at little or no mark-up, merely to keep their customers supplied, so they do not look elsewhere. In times of oversupply, a broker will often be grateful to anyone who will take the product off his hands. And there are some customers to whom you can't sell unless you go through specific brokers.

The above notwithstanding, we feel very uncomfortable with the practice. Excessive reliance on other brokers could be an indication that the broker has an inadequate customer base, for the volume being handled. This should be monitored by management, so as to be certain that they are not being penalized by the practice. The two out of eight invoice sample mentioned above was too small a sample to have any meaning in terms of evaluating Tavilla Marketing's use of other brokers.

One of the eight sales invoices reviewed covered a sale to Tavilla Wholesale in Miami. This was at a price substantially lower than sales to other customers, during this same period. There were no USDA inspection report indicating damage, nor were there any notes in the folder to indicate problem merchandise. John Williams could not recall the circumstances. One would guess that it was bad product moved to Tavilla in Miami for quick disposal, however there is no way of knowing that. Since there is the obvious conflict of interest, Tavilla Marketing should go out of its way to keep these transactions as clean as possible.

In our opinion, all of the above is the result of carelessness, rather than anything more sinister. However it is not, a good situation and, as with 6L's, we believe a short formal audit of their records should be made.

Pricing

A comparison was made between prices reported on the broker liquidation report, adjusted for U.S. inland freight where appropriate, and the USDA F.O.B. market reports for South Texas, CBI Import Report, and the Hunts Pt. Terminal Report.

These are an admittedly rather imprecise basis for comparison. The CBI report in Florida, and the South Texas border crossings, represent announced F.O.B. prices in both areas. There is frequently discounting from this price, the extent of which is impossible to measure. Some industry sources guessed at approximately 20% of the sales being discounted, with reductions in the range of 25¢ to 50¢ a box, occasionally to \$1.00. In soft markets, with product backing up, even deeper discounts may be given to customers who can move large quantities quickly. The Hunts Pt. Terminal market is often used for this dumping.

The Hunts Pt. price report is the prices that the terminal operators report as receiving from their customers. To arrive at an estimated F.O.B. Florida price one would have to deduct freight, and an estimated mark-up for the operator. This mark-up could be almost anything, even a loss.

Further, the CBI and South Texas reports were not started until February, so terminal market reports had to be relied on for December and January.

However, the above problems notwithstanding, there still seemed to be a persistent pattern in prices being received as being below market.

Generally the prices for the 2/3 crate tracked well with prices for the 1/2 carton, where there should have been a \$4 to \$5 premium. However, in the final analysis, the market for a product is what one is able to get for it, and the sampling of invoices to the liquidation sheet showed no discrepancies from actual sales to reported sales. As mentioned earlier, it is difficult to sell good product when a substantial portion is bad, which was further complicated by the use of the standard box.

Competition

DOMINICAN REPUBLIC. Honduras' most important competitor is the Dominican Republic. The Dominican Republic now ships from December through April, challenging even Mexico during Mexico's heavy March/April shipping period.

Included as part of the Economic Viability analysis in the next section is a schedule comparing confidential cost figures, received from a large Dominican Republic shipper, with Honduran cost. Honduras now has a \$2.00 to \$7.00 disadvantage.

The Dominican Republic is in the melon business to stay, and they are in it in a big way. For the Honduras melon business to survive they must be able to come closer to the Dominican Republic costs. We believe that is possible, and will discuss it further in the next section.

MEXICO. Cantaloupes are shipped from Sonora from October through December, from January through March they are from Apatzingan and from mid-March on are from northern Sinaloa.

Volume is usually light until the last week in February. This year saw unusually heavy shipments starting at the end of January and continuing through the first half of February, which depressed prices. No hard data is available, but observers feel that this glut was caused by an extraordinarily good growing season combined with some additional planted acreage.

Hard costs on Mexican production was not available, however it is doubtful if it is any cheaper than the Dominican Republic.

This will give them a \$5.47 production and packing cost. We estimate the freight to South Texas at roughly \$2.00 a box, which would put it at a total border of \$7.47. There is a 35% duty which will bring it to \$10.08. Assuming a markup for the reseller equivalent to a 35% handling charge and a 10% commission, the breakeven point becomes \$11.59 compared to the Dominican Republic \$10.19. This would explain why the Dominican Republic has not

hesitated to ship during even the heavy Mexican shipping season, and why this may be possible for Honduras as well, once costs are in line.

PANAMA. Panama started substantial shipments of cantaloupes last season. Although they had very cheap ocean freight, the service was only weekly which caused problems; some smaller shippers did all right, but the major shippers, a consortium of three American brokers, and a Canadian, resulted, rumor has it, in a loss of \$500,000 to the growers, and the supporting government institutions. They are not expected to resume operation next year. We believe Panama is more apt to be competitive with the more stable melons, and because of rainfall patterns, will only be able to start shipping from mid February at the earliest.

Economic Viability of the CREHSUL Melon Export Operation

Attached is a copy of the Crehsul melon operation profit and loss statement for the 84/85 season (Schedule B). This is based on un-audited numbers, supplied by management.

It presents a picture of an excessively high cost, un-competitive operation. However, we see no structural reason for this, and see no obvious reason why Crehsul should not be competitive with shippers in the Dominican Republic, their primary competition.

1) Packing Cost

Packing cost amounted to about L 7.16, or \$3.58 a box. In my experience, packing costs will normally run around \$2.00 a box, though not always for the same reasons. Note that Fruta Del Sol's cost, discussed earlier, is \$1.97, and the Dominican Republic cost on the attached schedule B is \$2.05.

A) Box Cost. This is the largest component of packing cost at L 3.36 or \$1.68. Actual purchase price was \$1.60. This is a wooden 2/3 crate, which is non-standard, so it is difficult to get price comparisons. However for example purposes, Fruta Del Sol paid \$1.15 for a fiber 1-1/9 bushel carton.

Our recommendation is to switch to a 1/2 carton (fiber) or crate (wood) for the coming season. We do not have prices on wooden crates, however cartons could have been delivered to Crehsul for less than \$1.00 last season.

Crehsul keeps wood due to the pre-cooling system they recently installed. This system is designed to hydro-cool the melons after they are packed in the box, which requires packing in wood. An alternate system is to do this before they are packed, which allows the use of fiber cartons.

The decision to cool after packing was made to expedite the flow of product, in a situation where large numbers of growers would be making a great many small deliveries.

Since the plan is now to stay with only a small number of larger growers, this management obstacle is largely removed. If it becomes necessary to pay a substantial premium for wooden crates, CREHSUL should evaluate the economic feasibility of converting their pre-cooling system.

We understand the second obstacle to lower cost cartons is the government of Honduras' desire to protect a local manufacturer. This can be useful for products destined for local consumption. However they do not have that luxury, when competing in the export market. If Crehsul cannot be competitive, the box manufacturer will wind up with 100% of nothing, and the entire economy of Honduras will suffer, losing literally millions of dollars in potential foreign exchange. Again it must be underscored that winter export melons have become a very competitive business, and can no longer support inefficient operations.

B. Other Packing Costs. These amounted to L3.80. Management should target a reduction of L2.00, to about L1.80.

Direct packing labor is the largest charge, at L1.66. They should be able to reduce this to less than L.50. Overhead salaries of L.39, packing supplies of L.35, office expense of L.50 and gas costs of L.26 are all much too high.

The ice cost of .33 will be virtually eliminated with the use of the hydro-cooler next year, but there will be a substantial increase in their energy costs.

The reason for each of these costs should be thought through by management, and a budget and a realistic approach to reaching this budget be prepared by management before the start of the season.

2) Production Costs

The basic problem in Honduran production costs are the extremely low yields. The actual cost per mz. of \$1425, is actually on the low side, which may also be related to the low yield.

Lack of irrigation was given as the reason for the low yields. However, even the gravity irrigated yields are substantially below what we would expect. Attached is a schedule showing break-even sales level at various yield and cost levels, including comparison to the cost figures of a large Dominican Republic shipper. Although the Israeli yield estimates are very high, we believe they are achievable, and Honduras, with the proper varieties and cultural practices, should be able to match the Dominican Republic on gravity irrigated land.

The co-ops plan of growing 85 mz. of cantaloupes (50 drip and 35 gravity), and contracting for 65 mz. of gravity irrigated land with two growers, for harvest during the period December 1 through January 15, makes sense to us. Rain is a serious problem with melons, but management advised that it is dependably dry, in terms of the melons' needs from the end of October on.

Despite last year's experience, they should consider spreading the crop into the first week in February, to balance to some extent against possible unusual problems in early December.

Once costs are in line, and more operating experience gained, there is no reason why Honduras should not plan on shipping through April.

3) Marketing Costs

The nub of this is shipping, which is discussed in a later section. Essentially, Honduras is at a 50¢ disadvantage vis-a-vis the Dominican Republic.

In summary, what the attached Schedule A illustrates, is that with increased yields and reduced packing costs, CREHSUL can compete with the Dominican Republic and make money.

SCHEDULE A
COMPARATIVE COSTS AND SELLING PRICES OF
1/2 (401b) CARTONS

	NON IRRIGATION	GRAVITY IRRIGATION CREHSUL	GRAVITY IRRIGATION DOM. REP.	DRIP IRRIGATION CREHSUL (4)	DRIP IRRIGATION ISRAELIS (5)
Est. Yield per mz (1/2 Crt)	150	300	500	750	1,200
Est. Production Cost (delivered)	L 2,850	L 2,850***	N/C	L 6,500	L 6,500
Est. " " " "	\$ 1,425	1,425	1,710	3,250	3,250
Production and Harvest Cost per box	\$9.50	4.75	3.42	4.33	2.71
Packing Cost (Est.*)	2.00	2.00	2.05	2.00	2.00
Marketing Cost (Excl. Comm.)	4.20	4.20	3.70	4.20	4.20
Sub-Total	15.70	10.95	9.17	10.53	8.92
Commission	1.74	1.21	1.02	1.17	.99
Breakeven Sales Level	17.44	12.16	10.19	11.70	9.91
	=====	=====	=====	=====	=====
Est. F.O.B. Prices **	DEC	JAN	FEB	MAR	APR
1984/1985	\$ 22	\$9-\$16	\$10-\$15	\$16-\$18	\$15-\$17
1983/1984	\$15-\$17	\$12-\$23	\$12-\$18	\$11-\$16	\$11-\$14
1982/1983	N/A	\$13-\$22	\$ 9-\$19	\$ 9-\$13	\$ 9-\$13

* Assumes cost reduction can be attained

** For 15-18's 12's would run \$1 less and 23's \$2 less

*** Additional cost to irrigate not available

(4) Yield estimate per CREHSUL management

(5) Yield estimate per Israelis

NOTE: Interest cost not included above.

SCHEDULE B
EST. CREHSUL P&L
1984/1985 MELON SEASON

		PER BOX SOLD
Boxes Packed (2/3 crates)	54,750	
Boxes Sold (2/3 crates)	45,832	
Sales Export (1)	L 877,000	19.13
Local	100,000	2.18
Total	977,000	21.32
Cost of Melons Shipped	928,000	20.24
Cost of Packing Operation		
Direct Packing Labor	76,000	1.66
Overhead Salaries	18,000	.39
Boxes	154,000	3.36
Ice	15,000	.33
Packing Supplies	16,000	.35
Gas	12,000	.26
Utilities	5,000	.11
Office Expense	23,000	.50
Miscellaneous	2,000	.04
Depreciation	7,000	.15
TOTAL	328,000	7.16
Marketing Cost		
Honduran Custom Broker	17,000	.37
Honduran In-land Freight	58,000	1.28
Ocean Freight & Attendant Cost	372,000	8.11
U.S. Drayage	12,000	.26
Customs Brokers	18,000	.39
Cold Storage and Handling	40,000	.87
Commission	62,000	1.35
Miscellaneous	14,000	.31
TOTAL (1)	593,000	12.94
Loss on Fruit Dumped	139,000	3.03
Interest	\$ 69,000	1.50
SUB-TOTAL LOSS	L 1,080,000	23.56
(2) Unidentified Cost	63,000	1.38
Reported Loss as of 4/30/85	L 1,143,000	24.94
	=====	=====

(1) L64,000 US in-land freight reclassified to reduce sales value

(2) Individually identified increments did not balance to control total at date of visit.

SHIPPING

We met with representatives of Seaboard Marine in Miami and with representatives of Seaboard Marine, CCT and Sealand in Tegucigalpa. Seaboard Marine expressed a willingness to work with the cooperatives to guarantee to have as many containers available as needed, based on a planting and harvest schedule the coops should provide to them by September 23 at the latest.

Both Seaboard and CCT are willing to discuss arranging their sailing schedules so as not to have conflicting departure dates and to jointly operate a third weekly ship. In addition they are willing to discuss the interchange of containers. Until now, neither company would accept containers from the other. However, both say they intend to charge the coop the cost of equipment and driver if it sends back an empty container. Seaboard stated that they would only charge the cost of the trip from Puerto Cortes - to the co-op - to Tegucigalpa, not the full round trip. Both companies are willing to accept payment in Lempiras--CCT at time of departure, while Seaboard is amenable to extending credit up to a maximum of 30 days.

CCT further reported that it is now disposed to ship to New Orleans as well as Miami and allow the container to be taken to the broker's facility, rather than requiring that it be unloaded at the port. Both companies also stated their intentions to maintain the current prices.

Sealand reported that they would have containers available in Honduras with a minimum of 15 days notice, but 30 is preferable. Since they are a worldwide organization, the containers can be delivered anywhere in the U.S. without having to be unloaded at the port. One key problem they have is that their refrigerated containers are only 35 ft., and use butane gas. The other companies use 40 ft. diesel powered ones. There must be adequate planning to assure sufficient handling of the butane.

Because of time constraints, Sealand can only be used for shipments to New Orleans, and New Orleans is a difficult port to use due to its lack of sound infrastructure for handling produce. However, the port is aggressively seeking cargo, and the possibility exists that, with the cooperation of the

local brokers, truckers, and storage companies, etc., it could be used very economically for limited shipments of cantaloupes. Cucumbers, which are sold primarily as part of mixed loads, will be better restricted to Miami for now.

According to Coleman of Seaboard Marine, the shortage of containers was due to (1) CCT transferring 300 empty containers to Mexico to handle beef just before the season opened and (2) Seaboard Marine's planned purchase of a substantial number of new containers for September delivery, was delayed until February due to a decision to lease instead of buy the equipment.

CCT and Seaboard Marine now say they have adequate equipment to handle Honduras needs, if proper planning can take place. They also indicated that they are willing to discuss signing formal contracts guaranteeing availability of equipment and frequency of sailings. This reliability as to equipment and sailing is the key issue. However, it is important that lower costs should also be pursued.

Below is a comparison of Dominican Republic and Honduran freight costs landed Miami, for cantaloupes.

	Dominican	
	<u>Republic</u>	<u>Honduras</u>
Inland Freight (D.R./Hond.)	\$ 300	\$ 405
Ocean Freight	2070	2375
Miami Handling	225	315
Miscellaneous Container Charges	<u>200</u>	<u>155</u>
TOTAL	\$2795	\$3250
At 900 1/2 Cartons per Container	\$3.11	\$3.61

In addition, on direct service to New York City, the Dominican Republic has an additional 90¢ per box savings. However, this service, via Sealand, takes a minimum of 7 days sailing time, which limits its usefulness.

The point must be made with the shipping companies, that for Honduras to remain in business, the shipping companies must allow them to be competitive. The landed cost of cucumbers is \$2850 for Dominican Republic vs. \$3050 for Honduras.

In the meantime FEPROEXAH plans to take the lead in organizing the exporters and negotiating with the shipping companies. They have been in contact with several non-conference carriers who expressed interest in serving Honduras. It would be very useful for everyone concerned to channel the negotiations, and the planning, through one central committee. The Honduran Exporters must be brought to realize that their real competition is not with each other.

REVIEW OF BROKER CONTRACTS

Attached is a copy of the 1984 Tavilla Marketing contract to be used as a basis for discussing standard brokers agreement for the two cooperatives.

There is no need for "exclusivity". However, we think it is important that management make firm commitments for a stated percentage of their shipments to each of the brokers used, and that these commitments be honored. It is impossible for the broker to do a good job for the shipper unless he can depend on the regularity of his supply.

However, if it becomes apparent after an extended period of time that one broker is consistently under performing, there should be provision in the contract for management to be able to drop him at its pleasure. It is a critical point that management not have to justify dropping a broker.

There is no provision in the attached agreement for reporting prices. There is a provision for paying 50% of the estimated gross market value within 4 working days of the products arrival. This was not being done once Tavilla starting paying the ocean freight.

This should be changed to 50% of net market value within two working days of the product being shipped to the customer with settlement being made once a week. The brokers should report quantity, reference number, date of shipment, and FOB price. Standard (estimated) deductions can then apply and assuming the broker pays ocean freight, he can then deposit one half the balance due. The bank should send an overnight (telex) confirming the deposit.

We suggest that this happen once a week on Friday, covering one-week sales through Wednesday.

The type of bank account was not covered in our study, however some type of interest bearing deposit should be arranged.

Each Friday the broker would telex sales data for that week, including the adjustments from the previous week as stated above, and deposit the check.

By the close of business Friday evening, management should have a weekly P&L statement available for review.

It is possible to estimate shipping and handling very closely. This procedure will not be an undue burden on the broker.

NOTE ON RECONSIGNMENT SALES. This will be considered a sale when the broker is notified by the consignee of the ultimate selling price. Provision should be made that the sales price of reconsigned product should be reported within a week of the date it is received by the consignee. Management should be briefed in the regular telephone conversations as to how much product is being sold by consignment. Reconsignment usually is only necessary during soft markets and the total amount should be not excessive. If reconsignments are being made during strong markets, a very critical eye should be put to evaluating the proceeds from these sales as compared to fixed price sales.

We believe the practice of the broker forwarding copies of invoices supporting expenses be discontinued. It was sloppily done and incomplete, and since it did not include sales invoices it really didn't prove much. We don't think any broker will release copies of the sales invoices.

In its place, we would recommend that an outside audit of the transactions be routinely done each year. It need not be elaborate or expensive.

It should be understood that minor discrepancies may very well arise and can be resolved at the end of the season.

Any quality problems should be reported to the cooperative by telex or by phone with telex confirmation within 24 hours of discovery. For possible and actual losses in excess of \$ _____ USDA inspection should be done and when product is dumped, certification must be supplied.

If the broker fails to comply with the reporting and certification stated above, he will be liable for any losses.

The above are not unreasonable requests. It forces the broker to pay closer attention to your account.

All brokers must be supervised and managed. They are working for you and you have a right to expect them to respond to your needs. To the extent that you do not stay very close to what they are doing, they will invariably get sloppy in handling your account.

In addition to the formal reporting discussed above, management should maintain regular telephone contact with the broker to be appraised of market conditions and the brokers' response to them. This is where having more than one broker is helpful. It will give management a broader view of the situation, and of their marketing options.

Page 6 of the agreement allows the broker to withhold sufficient monies to cover possible future losses (i.e. paying for container loads of rotten fruit). This should be deleted from the contract as it can allow too broad an interpretation.

The co-op is trusting the broker to a very large extent, and it is not unreasonable to expect the broker to reciprocate, since his total exposure would be relatively minor.

Article 11. Litigation. Any dispute should be subject to binding arbitration, rather than litigation. This is faster and cheaper.

On page 4, Section F and H. There should be an attempt to put in a paragraph that if damage is caused to the product by the negligence of the broker or by some action or lack of action that one would reasonably expect in the course of handling the product, that the broker will be liable for the damage. This will be a tough one to get in, but we believe some variation of this should be in the contract.

We recommend that a good bilingual lawyer be hired to review and prepare the final draft of the contract. This can be done once for a master contract for use by both co-ops with all brokers.

And, finally, before any contract is signed, it should be determined that the entity you are dealing with has adequate financial resources to cover their commitments. And if there is any doubt, then either personal guarantees, or guarantees of associated companies should be required.

INTERNAL COOPERATIVE OPERATIONS

Policies

1. CREHSUL

CREHSUL adopted the following principles which are basic to all cooperatives:

- a. free entry and voluntary withdrawal,
- b. democratic control,
- c. distribution of earnings according to patronage,
- d. interest limited to capital,
- e. political, ethnic and religious neutrality,
- f. development of cooperative member education, and
- g. cooperative member integration.

In addition, the co-op has a general objective to procure by all lawful means at its disposal the economic, social and cultural betterment of its members, for which reason it will be able to realize all or any of the following activities:

- a. Function as a regional center of operations and of all farm services that are believed necessary for the development of its activities.
- b. To bring together the growers of the region and lend them whatever services are available, related to the production, manufacture, transport, storage, and commercialization.
- c. Develop and improve the systems and modern farm exploitation techniques for the purpose of increasing their production.
- d. Acquire or produce machinery, farm implements, spare parts, furniture, boxes, selected seed, fertilizers, insecticides and fungicides and any other items and raw materials needed for farm exploitation.

- e. Obtain financing from national and international institutions for developing the cooperative's own operations.
- f. Build and operate agroindustrial and industrial installations.
- g. Acquire by purchase, donation or rent farmable land and real estate for its members and for its own installations or operations.
- h. Promote by means of diverse lawful ways the capital formation for the organization's operational and economic ends.
- i. Contribute to the development and integration of the cooperative system.
- j. Realize whatever other activity that tends to improve the social, cultural and economic conditions of its members.

Outside of the objectives listed above, there appear to be very few specific policies made by the General Assembly or the Board of Directors under delegated authority of the General Assembly. Going back over the last two years we noted the shift from producing and selling melons to PATSA, to handling the commercialization through the cooperative itself directly to the United States market. It was also decided to create some sanctions against members who produced melons for PATSA rather than sell them to the co-op, such as prohibiting their attendance at GLA meetings and from occupying any board positions. Prices to be paid to growers who delivered their melons to the co-op were set, including the procedures for liquidating any outstanding loan against the money to be received. For sales of melon ("pachanga" or fruit rejected by the packing plant) in the local/national market, the co-op charges the members L 0.02 per unit. At the same time, it tries to control the volume in the market to stabilize the price at the highest possible levels.

Analysis of CREHSUL'S performance against set policies

We did not notice, nor hear of, any violations of the basic cooperative principles. With respect to the general objectives, it appears that CREHSUL has attempted to provide a full range of services to its members at

competitive prices. At least through the production phase, growers who qualified were able to secure a loan, obtain the necessary inputs, and receive extension services. The cooperative has not yet been able to offer farm machinery services directly. This is an area that the co-op may want to pursue in the short term, since one complaint of the growers was the shortage of farm machinery. The 84/85 season was the first where export marketing services were available. Given time, improved financial situation and adequate planning, the services not currently available may become a reality. The commercialization service was unfortunately a severe financial loss for CREHSUL, as more fully described in the profitability evaluation section of this report. Nevertheless, the members who did sell their melons to the co-op received the set prices that were agreed upon, thus shifting the burden of the BANADESA debt repayment on CREHSUL.

2. FRUTA DEL SOL

Fruta del Sol has the same basic principles and substantially the same general objectives as CREHSUL, except for item (h) above. On the other hand, they have as a complementary objective that of improving the Honduran diet and increasing the country's foreign exchange.

Analysis of Fruta del Sol's performance against set policies

Based on a review of the minutes of the Board of Directors meetings, personal interviews and other available documentation, it appears that the leaders of this cooperative are also trying to improve the institution and its members. The co-op's first year of direct export brought modestly favorable results from the 67 hectares planted. They decided to double the land planted for the 84/85 season and, as explained herein, they encountered a series of problems resulting ultimately in a significant loss. The exact amount is not available because Fruta del Sol had not closed their books yet, incorporating the final liquidation figures from the brokers. For any new growers, they must plant a small plot of cucumbers. If they show the capacity to handle it, they can apply for credit to plant on a larger (commercial) scale.

A stipulation for receiving the loan is that the grower must make a capitalization contribution equivalent to 10% of the amount borrowed, and another 10% or L1.00 per box packed, whichever is higher. For succeeding years, if the grower does not increase the size of his crop, no additional contributions are required. If he increases the area, he must contribute 20% of the amount borrowed corresponding to the size of the increase.

Planning and Execution

1. CREHSUL

The cooperative CREHSUL prepares both an Annual Work Plan and an Annual Budget. In the past, they were prepared on a calendar year basis. However, this year they are switching over to a fiscal year (May 1 to April 30). Therefore, the budget for January 1 through April 30, 1985, is based on 1/3 of last year's estimates. A new budget and work plan for FY 85/86 is being completed and will have to be approved by the General Assembly when it meets in July 1985. Historically, the actual monthly numbers are compared to the budget and a copy of the monthly report is sent to ACDI. Based on the information that was provided during our review, there was no noticeable evidence that any critical analysis was done of the data (variance, reason for variance, etc.).

The 1984 budget and work plan called for a main packing plant in Choluteca and one each in San Bernardo and Agua Fria. It would also be necessary to improve the main plant by adding a pre-cooling system and complementary equipment, paid for with a L380,000 loan over 10 years. Tavilla Marketing offered to market the melons at a commission of 8% of sales. ACDI would provide assistance. The goal was to export 60,000 boxes of honey dew and 90,000 boxes of cantaloup to the U.S. between December 1984 and February 1985, based on 1,200 manzanas planted by 80 members, while the co-op will only finance 600 manzanas. Total operating costs were estimated at L2,562,460 on total revenue of L4,800,000.

Based on the most recent data, CREHSUL did not operate a packing plant in Agua Fria. The pre-cooling equipment arrived during the harvest, but did not become operational for the lack of a tube. Forty-five thousand boxes were ultimately exported. Total operating costs as of the April 30, 1985 Income Statement were L2,183,380.69. Total melon sales only reached L1,040,554.12.

2. FRUTA DEL SOL

Fruta del Sol also prepares an Annual Budget and Annual Work Plan. For the 84/85 period, which they are currently completing, they projected a doubling of hectares of cucumber planted to 120 and an expected exportation of 144,000 boxes. The plan also called for planting 10 hectares of squash for export, as well as tomato and other crops for sales within Honduras.

In general terms, the budget and work plan was fairly complete. A breakdown was provided by type of crop, showing expected revenues and costs by type of product or service. Their plan also projected out annually through the 87/88 period. Copies of monthly reports showing Fruta del Sol's performance against the budget are sent to ACIDI. We understand that this report also serves, to the extent possible, to support the AID subsidy payments to both cooperatives. Nevertheless, as with CREHSUL, we did not notice any analysis of the data (variance, reason for variance, etc.) which would indicate that the budget or plan were used as financial tools.

For the 85/86 season, Fruta del Sol expects to cut back its cucumber production and attempt to export some cantaloups. They hope to complete a major construction project: Administration building, guest apartment, cucumber packing galley, fences and air-conditioning for the warehouse. AID money is available. However, the cooperative still does not have clear title to the land. The request to pass title is somewhere in the Ministry of Natural Resources' legal area. More than one year has passed since the initial request was made. Meanwhile, construction is partially delayed.

Recommendations

Both cooperatives have to take a hard look at attempting to control costs while still maintaining adequate management control, giving serious consideration to investments which are absolutely necessary and which will generate revenues and improve services. Financial resources, on the other hand, must be provided in a timely, expeditious fashion and be sufficient to cover their expected needs. We don't see the need for a guest apartment, nor air-conditioning for the warehouse and improvements to the administrative

building in light of the current financial condition. If either UNIOCOOP or FEPROEXAH begin to consolidate input orders for their constituents to import at lower prices, the co-op would not need to store large quantities in their warehouse.

Neither co-op prepares a cash flow budget, which, given the seasonality of their business, is an invaluable management tool.

Management and Staff Capabilities

1. CREHSUL

a. Carlos H. Rodriguez - Manager

Mr. Rodriguez was born and raised in Choluteca. He received an agricultural engineering degree from the University of Honduras (Puerto de La Ceiba). At the University of Mississippi he worked on a master's degree in agricultural economics, falling three courses short of completion. Since June 1983, he has been the manager of CREHSUL. In terms of his capabilities as manager, we feel that he has done a good job in light of the difficulties (both in terms of physical dangers to ones person and the external factors affecting the last export season) that he has been confronted with. However, we feel he should assume a stronger, more forceful leadership role in implementing ideas he thinks are necessary, based on his well-rounded background and experience.

b. Extensionists (4)

The four extensionists have worked for CREHSUL an average of 1 1/2 years each. Prior to that they all worked for the Ministry of Natural Resources anywhere from 10 months to 4 years. Each one also has his agronomist degree, averaging 15 years of formal education. They are young and very hard workers. During the melon season they work 9 to 12 hour days, sometimes longer. Their weekly work plan (6 days) has them visiting each grower in their respective sectors at least three times; inspecting the fields for problems, demonstrating how to do certain things like fumigate, turn fruit, etc., and writing recommendations. The growers who were interviewed were very satisfied with the extension service. Since we were not in Honduras for the growing season to see their performance, our comments are therefore based on the word of third parties. We did learn that many of the reform growers are more resistant to technological or other changes either because they don't have the desire, they think they know how to grow melons by now, or they want to resell the inputs.

ACDI reported that they trained the extensionists to teach cooperativism to the members. When asked what their responsibilities and functions were, none of them mentioned co-op training. It is suggested that this responsibility be performed by DIFOCOOP and only reinforced by the extensionists. Additional support should be provided by ACIDI/UNIOCOOP and the Ministry of Natural Resources.

c. Reina Ivonne C. de Araujo - Accountant

The only other person we had contact with was the accountant. She seemed to have a good grasp of her job. The system she is working with is one established by ACIDI under their technical assistance agreement. She has had some accounting experience by working with a private company for several years. She completed her basic requirements in Honduras (12 years of schooling) to earn what they call an accounting title.

d. Manager of Packing Operation

This position is currently vacant. The last one was fired after this last season. The manager is searching for a replacement.

2. FRUTA DEL SOL

a. Mauro Suazo - Manager

Mr. Suazo has an agronomist degree from the Escuela Agrícola Panamericana of El Zamorano, a B.S. degree (1981) in Agricultural Business Management and an M.S. degree (1984) in Agricultural Marketing, both from the University of Florida. Before joining Fruta del Sol in June 1984, he had some prior work experience as a consultant for CIDA (Canadian International Development Agency) for six months and as a consultant for DIFOCOOP. He also gained some export experience vis-a-vis his family's shrimp export business, which they have owned since 1980.

Mr. Suazo appears to possess the qualities of a good manager. He deals with problems directly and is very outgoing. However, for the lack of timely

and accurate information from the broker regarding the actual sales price and to an extent the quality of the cukes, his ability to correct some of the local problems was hindered. When he did have information, he took action, e.g., paying the shippers in dollars to secure containers in which to ship the cukes, tightening up the selection process to assure that only good fruit was sent, etc.

b. Humberto Gaekel - Packing Chief

Mr. Gaekel has been with the co-op two years now. He received a B.S. degree in Agricultural Business Management from the Private University José Cecilio del Valle in Honduras. His work experience includes two years as the assistant administrator for the co-op's Agroindustrial project.

c. Extensionists (3)

The three Fruta del Sol extensionists average almost 13 years of formal education each. However, they have broader work experience. One worked for Standard Fruit for 13 years. Another has 9 years with diverse public and private sector companies/organizations and 7 with the co-op. The other two average two years at Fruta del Sol. Their daily work routine was very similar to CREHSUL's extensionists. Teaching members about cooperatives was not a role they mentioned in their job description.

As with CREHSUL, the growers we interviewed in Comayagua were basically pleased with the frequency and quality of the extension services they received.

PRODUCTION FACTORS

1. CREHSUL (Choluteca)

a) Climate

Choluteca's climate averages about 82^oF (28^oC). The range is from a low of 59^oF (15^oC) to reported highs of 107^oF (42^oC). There are two distinct seasons--rainy and dry. The rainy season runs from about May to October and the dry season from November to April.

b) Soils

There is a wide variation in the types of soils found in this area, ranging from sandy to dense and heavy. The soils around Choluteca are more fertile and less rocky than around San Bernardo, which is closer to the coast. The best areas are Palenque and Los Llanitos. After the rainy season, the soils hold good moisture, making it an area conducive for growing melons. San Bernardo's farmland is not level and has many gorges and rocks.

c) Irrigation

San Bernardo does not have any irrigation system. In the Choluteca area some growers have irrigation either from wells or from the river. Using wells in San Bernardo will not work because it is located so close to the Pacific coast, and getting salt (sea) water is a danger.

2. Fruta del Sol (Comayagua)

a) Climate

The temperature in the Comayagua Valley averages 75^oF (24^oC). High temperatures can reach 97^oF (36^oC) between April and June.

The rainy and dry seasons are the same as for CREHSUL. However, winds can become very strong at times and damage the crops.

b) Soils

Based on field visits and conversations with several growers, it was pointed out that there are two basic types of soils in this area: sandy and compacted. The sandier soils are found in the areas called Comayagua, Palo Pintado, and Las Liconas (where most of the large independent growers are located). Compacted soils are found in the areas called Playitas, La Paz and Vila de San Antonio (where many small growers have land).

c) Irrigation

Comayagua has three unlined, state-run irrigation canals to service that whole zone. Water is taken from the Comayagua river. Last year, growers on the list could obtain water approximately every eight days.

AVAILABILITY OF TECHNICAL ASSISTANCE

The following is a list of those entities, both national and international, that have provided technical assistance to both model cooperatives. Unless otherwise specifically noted, they are still providing support (or will be available to provide it when needed).

1. Honduran Agricultural Research Foundation (FHIA)

FHIA is a relatively new entity, still in the process of getting itself organized and staffed. By September or October 1985, they should be ready to offer their full complement of services. Presently they are doing soil analyses, developing new varieties of certain major crops which are resistant to known diseases in the areas grown, cataloging insects and other pests, and other kinds of plant research.

The Foundation is located just outside of San Pedro Sula near the airport. It now occupies the research facilities formerly owned by United Fruit Company. The whole operation is quite impressive and professional. Since it only began on July 1, 1984, it had to overcome grower skepticism/resistance. Now, FHIA has respect and credibility. Being a non-profit organization, it has to seek outside funding sources to supplement what revenue it generates from selling its services. USAID has provided some core funds; however, they are looking to secure additional support from Europe and Japan. As they grow, substations will be opened in other areas.

2. Ministry of Natural Resources

The Ministry has regional offices in both Choluteca and Comayagua, which provide agricultural technical support and some applied research to improve varieties and yields.

3. Peace Corps in Honduras

The Peace Corps has two programs which are available to the cooperatives if they desire to request volunteers. The first is Agricultural Extension.

An entomologist was working in Choluteca until late June, 1985. The second program is called Small Business/Coops. At the present time there are no volunteers working with these two model cooperatives, only because assistance has not been requested by them.

4. Agricultural Cooperative Development International (ACDI)

For the past two years, ACDI has been providing administrative support to CREHSUL and Fruta del Sol. Most of their efforts have been to help with the organizational aspects and establishing accounting and other control systems as needed. ACDI will be relinquishing these responsibilities once the new Cooperative Union is operational. At that time, ACDI resources will be devoted to advising the Union.

5. Regional Agricultural Services Cooperatives Union (UNIOCOOP)

The Union is in the formation process and will take over the offices currently occupied by ACDI in Tegucigalpa. ACDI will be an advisor to the Union through August 1986, at which time its contract with AID terminates. With the exception of the two top ACDI officials, the remaining staff will form the core staff for UNIOCOOP. The Union is a second tier cooperative (co-op of co-ops) for the four model co-ops. Several of its projected objectives will be to find the best input prices abroad and import bulk quantities for its members, coordinate and provide technical administrative support, direct co-op education, and so forth. CREHSUL and Fruta del Sol have agreed to belong and have both delegated three members to represent them.

6. Honduran Agricultural Producers and Exporters Federation (FEPROEXAH)

FEPROEXAH is presently working with 17 associations with 200,000 members. It is also relatively new organization, beginning last year. Of the many projects that FEPROEXAH can work on, they want to coordinate export shipments and build cold storage facilities (with back-up generators) in strategic locations. Of these two projects, the first would probably get done the soonest, although it is unlikely that it will be this year. They are still

negotiating with conference and outside conference shipping companies who are interested. The second project is still in the study stage.

7. Cooperative Development Directorate (DIFOCOOP)

Because of the number of existing cooperatives and volume of new applications, DIFOCOOP's ability to work with CREHSUL and Fruta del Sol is limited. DIFOCOOP controls the disbursement of AID subsidy monies and therefore gathers monthly information on such areas as co-op memberships, shares, capitalization fund balance, status of loans, and operating expense detail, to determine if the disbursement is justified. Any by-laws changes must be reviewed and approved by their legal people. Another major area of responsibility is co-op training.

SUMMARY OF RECOMMENDATIONS

1. A shipping agreement must be reached for next year that contractually guarantees sufficient containers and frequency of service.
2. An attempt should be made to reduce ocean freight and handling rates to the same level as the Dominican Republic.
3. That more current accounting procedures and an adequate management information system be put into place for both co-ops before next season.
4. Fruta del Sol should change their accounting year from the calendar year to a fiscal year ending at a more natural point, after all the crops are in.
5. Fruta del Sol needs a pre-cooling system.
6. A manager should be hired by CREHSUL for the melon operation. The manager should have strong skills in handling people and be detail-oriented. Knowledge of the business is secondary.
7. A consultant should be retained to help in CREHSUL's and Fruta del Sol's melon operation. He should have substantial hands-on cantaloupe packing experience, and be a very strong organizer.
8. CREHSUL needs adequate cold storage capabilities.
9. CREHSUL should be absolutely certain that their pre-cooler is working, and that they have key spare parts on hand. The ice spraying equipment should be kept in working order for back-up.
10. Both co-ops should have back-up generators.
11. Cantaloupe box costs must be lowered substantially.

12. Despite inventory of 2/3 crate, CREHSUL should switch most of their production for the coming season to 1/2 cartons or crates.
13. A substantial amount of work must be done in improving cantaloupe yields.
14. Both co-ops should develop better broker contracts that provide for reporting of actual prices and product conditions, and to protect the cooperatives in the event of mishandling.
15. CREHSUL must do a specific evaluation of their high packing cost, and prepare a formal program for cost reduction and control.
16. Both cooperatives should split their shipments between two brokers.
17. Consideration should be given to both co-ops leasing their own cold storage in Pompano, possibly in conjunction with FEPROEXAH.
18. Fruta del Sol should mark their boxes with code numbers, indicating, at the very least, the day packed.
19. Audits should be done of both brokers' records. Tavilla Marketing has, and 6L's has not, a contractual obligation to comply. These audits should be done routinely each year.
20. Both cooperatives' books should be audited and certified by a professional accounting company. This should be done routinely each year.
21. Both co-ops should keep operations logs during packing, noting key events of each day. These have a way of becoming invaluable.
22. Management should stay in regular contact with the brokers during the season, and monitor their activities.
23. Fruta del Sol should grade cucumbers as closely as possible to market standards.

24. The apparent drop in yield of select and super select cucumbers should be investigated.
25. Fruta del Sol should continue the cooperation with FHIA started late last season, to develop more economic use of materials, explore new varieties of cucumbers, and to solve their disease problems.
26. Despite last year's experience, CREHSUL should consider extending its season into the first week in February, as balance against possible unusual problems earlier.
27. The possibility of limited cantaloupe shipments, through New Orleans, should once again be explored.
28. Fruta del Sol's plans for improvements to the administrative offices, a guest apartment, air conditioning for the warehouse, etc. should be deferred. Under present conditions monies should only be spent for absolute necessities, or items that will result in substantial and demonstratable cost savings.
29. All wage increases should be deferred, and replaced by a procedure for bonuses, contingent upon the profitability of next year's operation.
30. Both cooperatives should prepare annual cash flows broken down by months, and use them as barometers to measure their actual performance. Any variances should be analyzed, with explanations provided as to the probable cause and comments on how they plan to get back on course. This same analysis should be done with their Annual Budget and Work Plan.
31. DIFOCOOP should take an active role in cooperative education for the model cooperatives, if they are to be truly "model." In lieu thereof, another entity should be designated and supported by DIFOCOOP, such as UNIOCOOP or FEPROEXAH. We further suggest that the diverse backgrounds and experiences be kept in mind when structuring courses/seminars.

32. CREHSUL's Vigilance Committee should obtain a minutes book to record decisions they make in their meetings. The committee should set-up an annual work/meeting schedule by quarters and comply with their responsibilities as detailed in the by-laws.
33. It is also suggested that both CREHSUL and Fruta del Sol obtain minutes books for their Credit Committees, which they should use to record the decisions made by the committee in any regular or extraordinary sessions.
34. Fruta del Sol should acquire a minutes book for the General Assembly and for each of the other Committees: Vigilance, Credit, and Consultant. Complete and accurate records should be maintained in them and kept current. The Board of Directors' Minutes book should be brought up-to-date and kept current with complete and accurate records of all their ordinary and extraordinary meetings.
35. In view of the fact that the Board of Directors of each co-op takes the minutes of each meeting on loose paper and later transfers them to the Minutes book, communication among the members could be facilitated by posting the draft minutes (or copy of final) on a bulletin board strategically positioned near the co-op offices for all to read. It should be current, having no more than the last two meetings posted at any time. Space could also be provided on the bulletin board for minutes of the other committees, important notices, actual prices received for their export products, and so on.
36. Both co-ops should insure that all members have copies of their by-laws. CREHSUL did not have their by-laws printed and bound in booklet form, but typed on legal size paper and xeroxed. We could not verify if all members have a copy, but we suspect that they do not.
37. CREHSUL may want to begin exploring the feasibility of buying some farm machinery (tractors and implements) and rent the service to its members. Service is currently provided by individuals who own their equipment, and by an agency of the government called "PROMECA." The government-owned equipment was reported to be less dependable, often running short of fuel,

breaking down frequently and taking a long time to get repaired because of the bureaucracy. Some of the operators are also not very good.

38. AID or some other entity (national or international) must take the initiative to get all of the assistance organizations together to define and coordinate the roles of each in this whole process, and to hold each one accountable for fulfilling its responsibilities. (We understand from DIFOCOOP that a second attempt to do this is in progress and should be followed-up.)
39. Procedures and understandings must be arrived at with the shipping companies to determine their liability for damaged product, and to expedite payment of claims. That can now take years, and is often for substantially less than the claimant believes is due them.
40. Adequate bookkeeping and follow-up procedures must be instituted at both co-ops for the collection of claims against shipping companies. There are apparently two open claims from last season, one for each co-op, that has not been booked, and on which the status both the brokers and the co-op management were very vague.

APPENDIX A

LIST OF PEOPLE CONTACTEDCooperative "CREHSUL"

Management:

Carlos Rodriguez, Manager
Samuel Vazquez, Extensionist
Edilberto Rodriguez, Extensionist
Cupertino Morales, Extensionist
Jose David Portillo, Extensionist

Independent Growers:

Ricardo Oliva - Choluteca (Voting Member of Board of Directors)
Ricardo Pacheco - Choluteca
Lorenzo Centeno - San Bernardo

Reform Growers: (San Bernardo only)

Marcelino Oliva - San Bernardo Co-op
Rodolfo Baquedano - Agreement group "San Francisco"
Jose Candido Meza - Agreement group "San Francisco"
Santos Suazo - Ojo de Agua Co-op

APPENDIX A

LIST OF PEOPLE CONTACTEDCooperative "Fruta del Sol"

Directors and Management:

Mauro Suazo, Manager
Enrique Miselem, President
Roberto Romero Larios, Vice-President
Alvaro Suazo, Secretary
Amado Suazo, Treasurer
Marco Portillo, Voting Member
Mario Arias, Vigilance Committee Member
Humberto Gaekel, Packing Chief
Francisco Alvarenga, Extensionist
Juan J. Sabio, Extensionist
Rene Carcamo, Extensionist

Growers:

Jorge Alberto Alfaro, Las Liconas
Carlos Leopoldo Torres, Playitas
Trifilio Bonilla, Playitas
Pablo Maldonado, Playitas
Angel Adalid Padilla, Ajuterique
Juan Angel Vasquez, Ajuterique
Juan Alberto Arias, San Sebastian
Rolando Barahona, Comayagua

Brokers:

William Lipman, President, 6 L's Packing Co.
 Jeffrey Frady, Controller, 6 L's Packing Co.
 Moe Boris, President, Mo-Bo Enterprises, Inc.
 Paul Boris, Vice-President, Mo-Bo Enterprises, Inc.
 John Williams, Vice-President, Tavilla Marketing, Inc.
 Buck Wheatley, Owner, R.L. Wheatley & Son (produce brokerage)
 Steve Blum, Manager, Campbells Soup Company, Produce Division

Shipping Companies:

Kenneth J. Coleman, Senior Vice-President, Seaboard Marine Ltd., Miami
 Jose Concepción, Pricing Manager, Seaboard Marine, Ltd., Miami
 Nubia Martinez, Manager, Seaboard Marine, Ltd., Tegucigalpa
 Lisandro Flores Guillen, General Manager, CCT, Tegucigalpa
 Moises Cruz Cabús, Regional Manager, Sealand, Tegucigalpa
 Ricardo Sussman, Regional Manager, Sealand, San Pedro Sula

Other Organizations:

Ilsa Diaz Zelaya, President, FEPROEXAH
 Eduardo Norris, Exportation Advisor, FEPROEXAH
 Juan Alvarez, Director, ACDI-Honduras
 Richard Clark, Advisor, ACDI-Honduras
 Rafael Rodezno, Manager, UNIOCOOP, ACDI-Honduras
 Rosalia Urquia, Auditor, ACDI-Honduras
 Carolina Mena, Credit Manager, BANADESA
 Chris Millensted, Acting Director, FHIA
 Mario Contreras, Research Director, FHIA
 Steve Smith, Consultant to CREHSUL (Canteloups & Honey dew)
 Emil Belibasis, Asst. Researcher, Food & Resource Economics Dept.,
 University of Florida at Gainesville
 Marta Ortiz, Marketing Professor, Florida International University
 James Cunningham, USDA Market Reporter for Caribbean Basin Imports,
 Pompano, Fla.
 Michael Pflueger, Market News Reporter, Hunts Point Terminal, N.Y.

Other Organizations (Continued):

Katherine Brubaker, Market News Reporter, Nogales, Arizona

Peter Stevens, Director, Peace Corps, Honduras

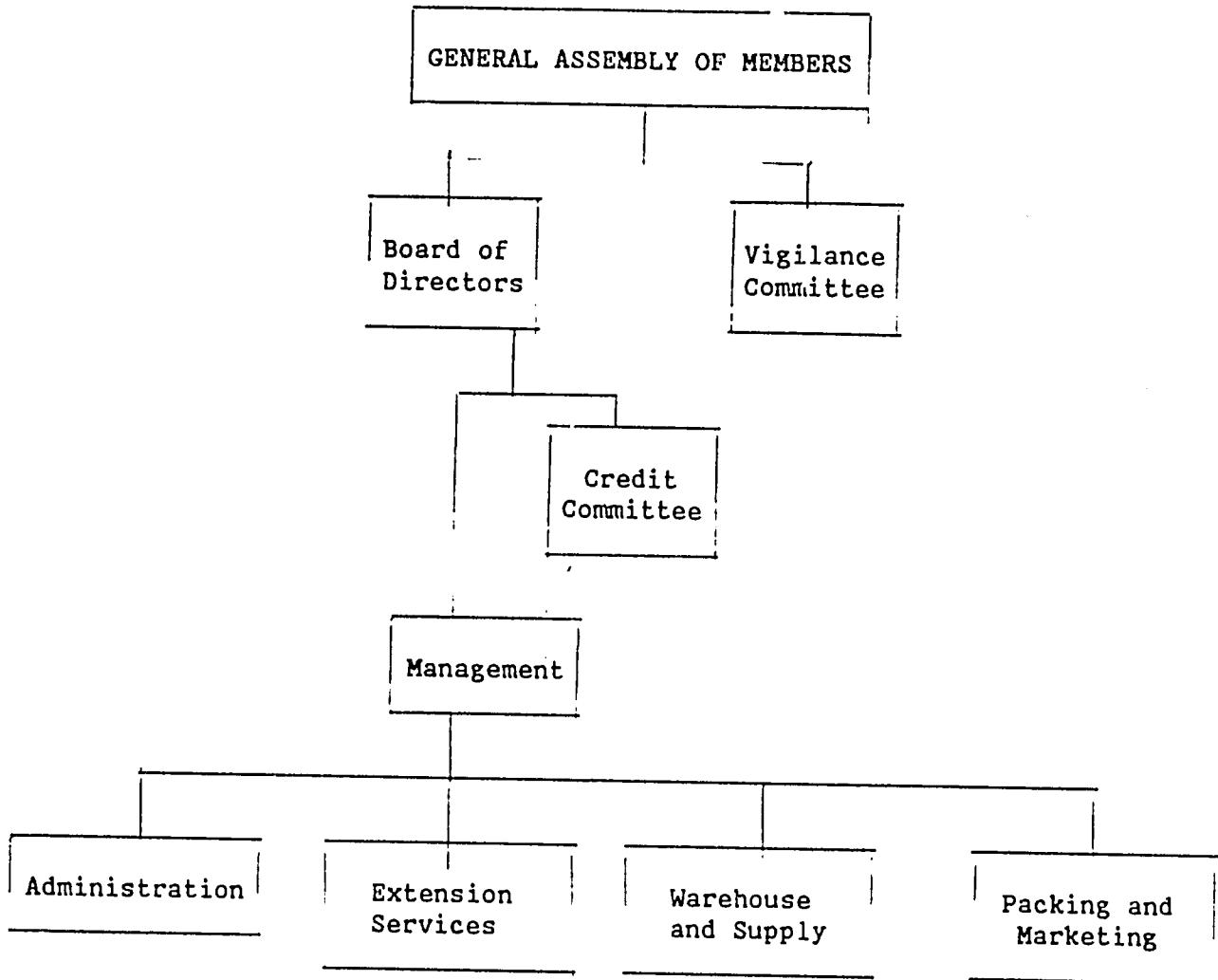
Alfonso Barahona, Agriculture Program Office, Peace Corps

Alejandro Corpeno, Community Service Program Officer, Peace Corps

German Mejia Gallardo, Head of Regional Co-ops Division, DIFOCOOP

Herbert Hernandez, Regional Co-ops Division, DIFOCOOP

APPENDIX B

ORGANIZATION CHARTCOOPERATIVE "CREHSUL"

1. The General Assembly is comprised of independent farmers and delegates of the settlement groups and cooperatives, who must meet once a year (within three months of the fiscal year end). It is the highest organ of the cooperative and makes all major decisions. Some powers of the General Assembly include: electing members to the Board of Directors and Vigilance Committee; approving the annual budget; etc. Most decisions require a simple majority vote of the members present.

In a review of the minutes of the General Assembly, we discovered that there was no annual meeting in 1982. The sixth meeting was held on 5/16/81, followed by the seventh on 7/30/83. We were told that the reason was that, during that period, the reform growers were in the majority and ran the co-op the way they wanted. This is a very dangerous situation. DIFOCOOP (or another designated agency) should insure that each cooperative holds a General Assembly meeting annually. One suggestion would be to require the co-ops to notify DIFOCOOP that a meeting was held, within two weeks after the date of the meeting.

2. The Board of Directors is elected by the General Assembly for 2 year periods and can be re-elected. In CREHSUL, the Board is composed of the President, Vice-President, Secretary, Treasurer and as many Voting Members as the General Assembly decides. Currently there are three Voting Members on the Board. Responsibilities include: carrying out decisions of the General Assembly; overseeing the daily operations of the organization; hiring a manager; and creating a Credit Committee, Education Committee and others. They must meet at least monthly and record their decisions in the minutes book.
3. The manager is hired by, and directly accountable to, the Board. His primary responsibilities are: to administer the co-op; hire personnel; attend General Assembly and Board meetings; prepare and manage the budget and work plan; give monthly financial reports, balances and reconciliations to the Board; and so forth.
4. A Credit Committee was formed by the Board to review and approve/disapprove members' loan applications. The Committee presently consists of the Board's President and Treasurer and the Manager. Meetings are apparently held whenever any applications need to be acted upon.

We suggest that this committee acquire and maintain its own Minutes book to record any decisions made such as member loan applications, policies or procedures, and others.

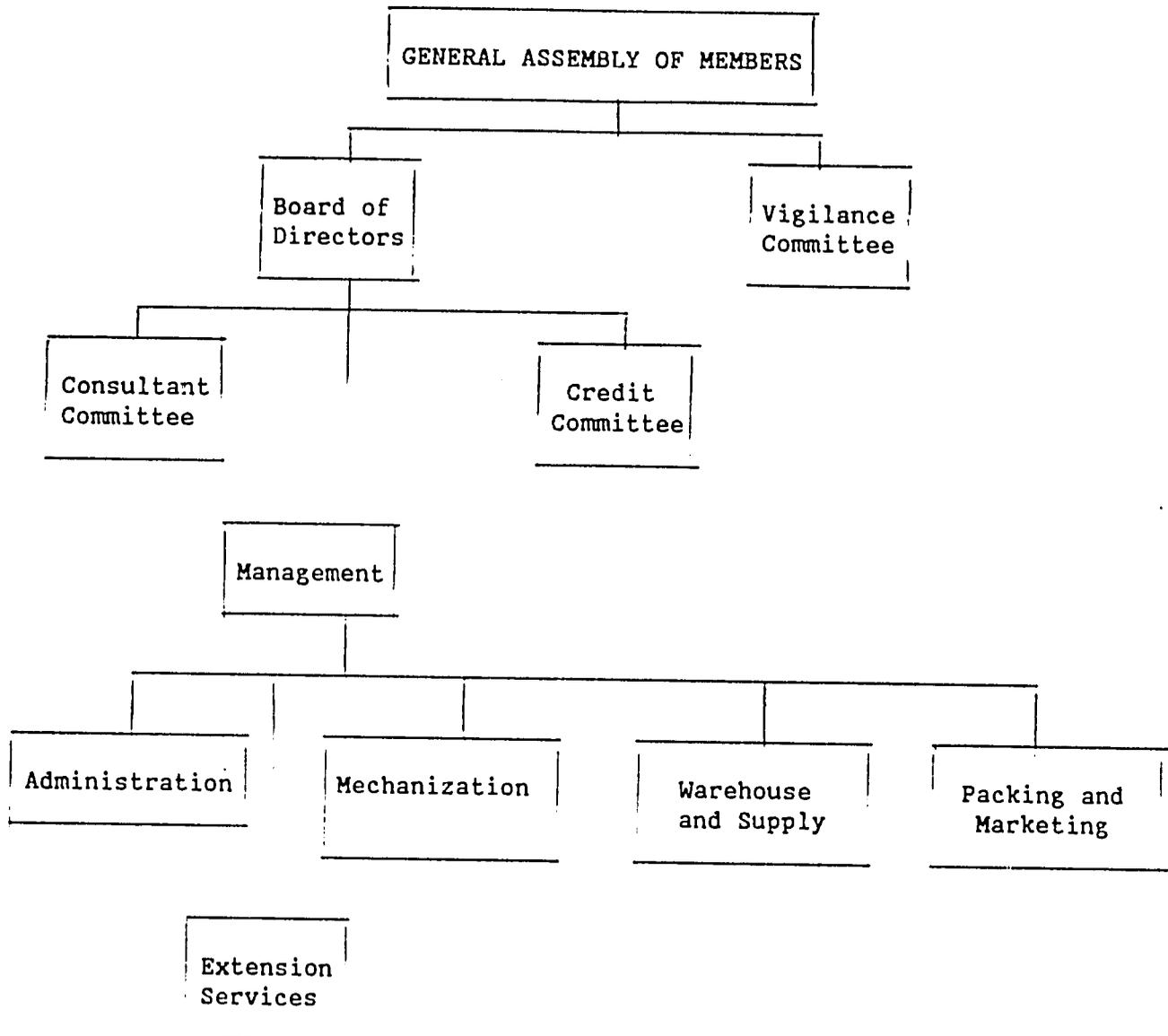
5. A Vigilance Committee was elected by the General Assembly, containing three principal members and three reserves. At its first meeting, the principal members elect who will be President, Secretary, and Voting Member. They should meet at least quarterly and record their decisions in the Minutes book. Their primary duties include proving the accuracy of the inventory and financial statements, verifying the cash balance periodically, reviewing or requesting an audit of the books, and, in general, investigating any financial or economic-administrative irregularities they might find. We found that only over the last couple of years has this committee begun to function as it is required. Whenever they found any discrepancies in the co-op operations, they would write memos to the Board. However, there are no minutes of their meetings. With the recent election of the new committee, they are not meeting as often as required because the President lives in Choluteca and the other two members live in San Bernardo.

We recommend that the Vigilance Committee begin to record their meetings in a Minutes book, set up an annual work/meeting schedule, and make sure they comply with their responsibilities.

General Observations:

CREHSUL keeps good records of its General Assembly and Board meetings. Over the past two years, the Board seemed to call extraordinary sessions whenever they had to discuss critical issues. As best we can determine, decisions that required some form of follow-up were completed, otherwise new deadlines were set. It was also observed that both minutes books did not have page numbers and occasionally they left pages or large parts of pages between sessions blank. These could become problems later on and therefore it is suggested that they number each page sequentially, note on the first page of each book the number of pages it contains, and draw a diagonal line (or other marking) from the last entry to the beginning of the next one.

APPENDIX B

ORGANIZATION CHARTCOOPERATIVE FRUTA DEL SOL

1. The General Assembly is composed of independent farmers and representatives of each GLA and is the primary governing body. It must meet once a year, and makes all major decisions. As one of its functions, it elects members to the Board of Directors and Vigilance Committee.

Fruta del Sol only had minutes for one General Assembly meeting in 1983. It was found in the folder with the untranscribed minutes of the Board.

We recommend that the draft minutes be entered in a separate Minutes book as soon as possible after they are approved (rather than co-mingled with the Minutes of the Board of Directors), and assure that each meetings' minutes be duly signed and sealed.

2. The Board of Directors is elected by the General Assembly for 2 year periods* and can be re-elected for one additional term. They are delegated with the responsibility to oversee the daily operations of the cooperative and execute decisions made by the General Assembly. The Board must meet monthly and record decisions in the Minutes book. It is composed of five members: President, Vice-President, Secretary, Treasurer and one Voting Member. The Board can also create an Education Committee and other committees as deemed necessary.

We recommend that the Minutes book be kept current. As of the date of our review, the last meeting was #32 (October 19, 1984), while 11 subsequent meetings were held. The most recent meeting was #43, dated May 31, 1985. These last minutes are written on loose paper in a folder. Each is signed and sealed.

3. The Manager is hired by the Board and is directly accountable to it. His primary responsibility is to manage the office, hire the people to staff it, oversee the other operational departments of the organization, prepare the Annual Work Plan, present and control the Annual Budget, attend meetings of the General Assembly, Board, Credit Committee and Consultant Committee, present monthly reports and financial information, and so forth.

*Staggered so that in any given year, two or three are elected to fill vacancies of two or three who complete their terms.

4. A Credit Committee was formed by the Board to review and approve/disapprove the members' loan applications. It was reported to consist of two members of the Board plus the Manager. Meetings are apparently held whenever any applications need to be acted upon.

We recommend that this committee obtain a Minutes book and record all decisions made.

5. The other committee elected by the General Assembly is the Vigilance Committee, whose responsibilities include: proving the exactness of the financial statements and giving their opinion to the General Assembly; verifying the cash and bank accounts; asking DIFOCOOP for an audit of the co-op books; and in general, investigating any financial or economic-administrative irregularities they might find. The General Assembly elects three principal members and three reserves to this committee each year. In their first meeting, the three principal members designate who will be the President, Secretary and Voting Member. They should meet at least quarterly and any decisions taken should be written in the Minutes book by the Secretary.

No evidence was found that this committee conducts any meetings. We did notice that they usually had one member present at Board meetings, however.

We recommend that this committee acquire and maintain a Minutes book and record all meetings in it.

6. Fruta del Sol established in its by-laws what is called a Consultant Committee, consisting of one representative from each GLA. Its function is to advise the Board on the decisions they make, in accordance with the by-laws. We were informed that this committee is currently non-operative.

General Observations:

The Board minutes that were provided were well kept and contained adequate detail. Extraordinary sessions were frequently called to discuss specific issues. Attendance was good. As best we could determine, action was usually taken on those decisions which required some follow-up. Care should be taken to avoid leaving whole pages or parts of pages blank between meetings. It is suggested that a diagonal line (or other marking) be drawn from the last entry to the beginning of the next one.

NOTE: The Board of Directors and manager are discussing a change to this organization chart--to create a new position between management and the various operation departments called "Extension and Services Coordinator." The intention is to move the extensionist with the most seniority into the position and hire another extensionist. The function of the coordinator will be to oversee all operation departments and report directly to the manager, thereby freeing the manager to devote more time to the export area and more important day-to-day matters.

APPENDIX C

DETAIL TO GROWERS: INTERVIEWS

FRUTA DEL SOL

Problems Mentioned by Growers in Interviews

1. Low market price for cucumbers
 - a) Would not have produced or harvested if they had known, in order to reduce losses;
 - b) Actual prices were lower than prices initially reported.
2. Lack of sufficient containers during peak production period
 - a) Had to stop harvesting;
 - b) Some of the already harvested cucumbers ripened before they could be shipped to port;
 - c) Had to turn cucumbers over in field or chop and feed them to the cattle.
3. Change in shipping schedules to one time per week, thereby reducing number of harvests.
4. Selection process in packing plant too strict during the peak. There was at least one occasion when cucumbers brought in one day were not packed until the following day.
5. The "mosaic" disease was severe in all areas but Comayagua, reducing yields. (Some producers did not follow recommended procedures for controlling it.)
6. Aphids were a problem. They ate the leaves, and the growers could not fumigate until night to avoid killing the bees.

7. Fear they will have to pay this huge debt to BANADESA and they (especially small growers) don't have the capacity to pay.
8. The newly hired packing women were not adequately trained.

FRUTA DEL SOL

Other Grower Comments/Observations

1. Will plant cucumbers again next season if the export problems of last season are resolved and good prices assured.
2. Yields would have been better if they could have harvested the cucumbers regularly.
3. Extension service was good.

CREHSUL

Problems Mentioned by Growers in Interviews

1. What went wrong was not the fault of the cooperative or management, but rather shipping, containers and broker.
2. Need more farm machinery.
3. Selection process of San Bernardo packing facility too strict at times.
4. Bacteria hit one grower heavily, losing 40%-50% of his production.
5. Land (San Bernardo) better suited for cattle.

CREHSUL

Other Grower Comments/Observations

1. Technical assistance was necessary, timely and good. Experienced people; hard workers; almost daily visits.
2. One grower mentioned never having attended a co-op course; not offered very often. He planted tomatoes, sweet chile peppers, sugar cane and cotton. Only profitable crop was melon, with good yield.

APPENDIX D

CREHSUL
Balance Sheet

(in 000's Lempiras)

	<u>4/30/84</u>	<u>4/30/85</u>
Assets:		
Cash & Banks	132	236
Accounts receivable (net)	45	29
Inventory	9	495
Subsidy receivable	20	70
Other current assets	<u>4</u>	<u>12</u>
Total current assets	210	842
Property, plant & equipment (net)	211	506
Loans receivable - members (net)	100	301
Other non-current assets	<u>1</u>	<u>8</u>
Total fixed assets	<u>312</u>	<u>815</u>
Total Assets	522*	1,657*
	===	=====
Liabilities & Net Worth		
Bank loans - s/t	133	2,040
Accounts payable	-	217
Interest payable	5	63
Advance payable (AID/DIFOCOOP)	<u>15</u>	<u>30</u>
Total current liabilities	153	2,350
Bank Loans - L/T	<u>168</u>	<u>143</u>
Total liabilities	321	2,493
Fund balances	34	237
Shareholder contributions	143	195
Capital Surplus	-	38
Donations (AID)	81	105
Retained earnings	<u>(56)</u>	<u>(1,412)</u>
Total Net Worth	<u>202</u>	<u>(837)</u>
TOTAL LIABILITIES & NET WORTH	523*	1,656*
	===	=====

*Totals do not add because of rounding.

NOTE: This financial information is shown in order to give the reader an idea of the magnitude and impact of the 1984/1985 loss to the cooperative, compared to the 1983/1984 period. Data for 4/30/85 have not been reviewed by the Vigilance Committee nor approved by the General Assembly, since the books were not closed until the last half of June. As one can see, CREHSUL has negative working capital (L-1,508,000) and net worth (L-837,000). Unless the bank debt is refinanced over a long term and additional capital is injected, the co-op is bankrupt. A similar balance sheet could not be prepared for Fruta del Sol, as their books had not yet been closed.

APPENDIX D

CREHSUL

Income Statement

	(in 000's Lempiras)	
	<u>4/30/84</u>	<u>4/30/84</u>
Net Sales	795	1,701
Less: Cost of Sales	<u>718</u>	<u>2,782</u>
Gross Profit (loss)	77	(1,081)
Less: Operating Exp.	20	64
Selling, Gen. & Adm.	127	171
Depreciation	<u>19</u>	<u>39</u>
Operating Profit (loss)	(89)	(1,355)
Other Income	54	69
Subsidy	100	108
Less: Other expense	5	12
Interest expense	13	87
Bad debt expense	<u>-</u>	<u>38</u>
Net Income (Loss)	47	(1,315)
	==	=====



UNIVERSITY OF FLORIDA
INSTITUTE OF FOOD AND AGRICULTURAL SCIENCES

AGRICULTURAL RESEARCH CENTER
Route 1, Box 2G
Immokalee, Florida 33934

February 28, 1985

Mr. Wayne Press
Six-L's Packing
P.O. Box 936
Immokalee, Florida 33934

Dear Wayne:

Recently your company submitted to me a box of cucumber fruit under the label "Fruta-Del-Sol". Many of these fruit showed a soft watery rot and were covered (in part) by a white fungus growth. This fungus was identified, to the best of our ability, as Pythium species, commonly called "Cottony Leak". The fungus is wide spread, particularly in warm-wet climates. It causes fruit and/or root rot of cucumber and many other fruit and vegetable crops.

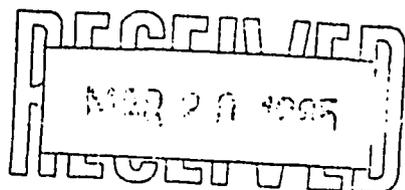
The fungus can enter either through old flower parts or through wounds in the fruit. If fruit are in contact with the soil the fungus can enter directly into the fruit. Since these cukes, as you mentioned, were stake I discount the later mode of entry.

To reduce the problem with this disease, I would suggest a good spray program to control other cuke diseases and insects. Also, and perhaps most important, harvesting and transportation of the fruit should be done in such a way as to minimize scratches, bruises, etc. Precooling the fruit to 50°F before shipment and during transit will help.

If I can be of further help, please let me know.

Sincerely,

Paul H. Everett
Professor (Soil Chemist)



PHE/vs

copy to CARLOS + Marcelino



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INSTITUTE OF FOOD AND AGRICULTURAL SCIENCES

AGRICULTURAL RESEARCH CENTER
Route 1, Box 2G
Immokalee, Florida 33934

819

~~205-657-7851~~

March 7, 1985

- NCSAIC -
- CORNELL UNIV

Mr. Wayne Press
Six-L's Packing
P.O. Box 936
Immokalee, Florida 33934

Dear Wayne:

This is a follow-up to my letter of February 28, 1985. Yesterday I talked with Lou and learned a little more about the situation concerning the "Fruta-del-Sol" cucumbers. With these new facts, I would make the following comments that might help reduce the problem. Most of these will concern sanitation.

1. Avoid as much as possible, fruit touching or laying on the ground from the time it is picked until it is in the packing house.
2. Chlorine concentration in dump tank should be monitored frequently. Maybe as often as every hour or two.
3. Temperature of water in dump tank should be about the same or slightly higher than fruit temperature.
4. Field containers, etc., should be cleaned with a chlorine solution.
5. Cooling rooms should be cleaned with a chlorine solution.

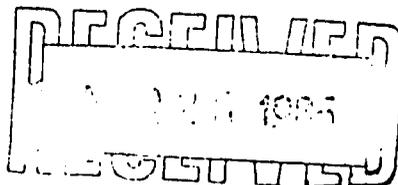
Accomplishing the above, in addition to the suggestions made in my earlier letter, should minimize the fruit-rot problem.

Sincerely,

Paul

Paul H. Everett
Professor (Soil Chemist)

PHE/vs



Handwritten signature/initials

MARKETING AGREEMENT

In CHOLUTECA, HONDURAS on the JUNE 28, 1984 between Tavilla Marketing, Inc., with its offices in Tampa and Miami, Florida, U.S.A., hereinafter called the Company and THE COOPERATIVA DE HORTICULTORES SURFRAIOS LIMITADA, of CHOLUTECA, HONDURAS, hereinafter called the Exporter, the following free consignment Marketing Agreement has been agreed upon within the following terms and conditions set forth herein.

I. Appointment of Company. The Exporter hereby appoints the Company as the exclusive agent to market, on free consignment in all receptive markets of North America, the following products (the "Products") and quantities. (Quantities stated herein are estimates of the Exporter's total output of Product. These estimates notwithstanding, Exporter agrees herein that 100% of its conforming product will be sold under the terms of this Agreement.) X

Product	Quantity
a) CANTALOUPE	100,000 BOXES
b) Honey DEWES	40,000 BOXES
c)	
d)	
e)	

II. Shipments. The Exporter shall export and send to the Company the forementioned Products in the harvest period which it approximates to be between DECEMBER 1, 1984 and MARCH 1, 1985. The Company, or its representatives, will receive the Products at Port(s) of Entry of United States of America and/or Canada as designated by the Company.

III. Production and Shipping Conditions. The Exporter will be responsible to perform the following work:

- a) All arrangements necessary up to the delivery of the Products at the United States or Canada Port of Entry. This will include, among others, selection, packing, materials, hauling, correct temperature maintenance, storing, processing, fumigation, inspections, land, ocean/air transportation, shipment documentation, and any other related operation as applicable.

- b) Performance of all operations will be with the purpose of using its best efforts to ensure arrival of Products at location of Company's clients in compliance with U.S. No. 1 Grade Standards as established by the United States Department of Agriculture (U.S.D.A.) for products. The Exporter and the Company state they are familiar with the regulations mentioned herein.
- c) Prior to commencement of shipments, the Exporter will provide the Company with a detailed estimated shipping program of the contracted volumes and will keep the Company timely advised of any changes. Immediately after departure of each shipment, the Exporter will provide a telex to the Company with full shipment details of product, label, packaging, sizes, palletization, documentation and any other related information.

IV. Payments. The Company, or its representatives, shall make payment, for the account of the Exporter, of the following expenses incurred in North America: All other payments, including ocean/air freight to North America, are to be made directly by the Exporter.

- a) Port of Entry charges, inspections, insurance, expediting, carting, fumigation, storage, custom duties, custom broker, commissions, brokerage, demurrage, drayage, refrigeration, application of atmospheric conditions, overland freight charges, and any other expenses necessary related to final delivery of the Products to the location of the Company's client.

The Exporter will be responsible for any false freight charges from the ocean/air transportation company as well as prosecution of freight claims.

- b) Retroactive Assessment of U.S. Customs Duties. It is recognized by the Exporter that amounts of payments of U.S. Custom duties for entry to the United States, are subject to retroactive adjustments by the U.S. Customs authorities following their final scrutiny and assessment after the end of the season, possibly beyond the expiration date of this Contract.

Accordingly, it is agreed that the Company will attempt to amend the Commercial Invoices of the Exporter to anticipate as near as possible the duty payable to U.S. Customs by the Company on behalf of the Exporter.

It is agreed that any such retroactive payment demands from the U.S. Customs authorities relating to this Contract and paid by the Company, even if they be beyond expiration date of this Contract, will continue to be for the account of the Exporter and shall be reimbursed to the Company immediately by the Exporter. Similarly, the Company, upon receipt from U.S. Customs of any net overpayment of duties, will render such monies to the Exporter.

V. Marketing and Sales Conditions. The Company will perform or cause to be performed, using its best efforts, all operations appropriate for and commonly associated with marketing the Products once pertinent authorities in the United States or Canadian Port of Entry put the Products at the Company's disposal. This will include coordination of shipments from Port of Entry to the Company's client, supervision, U.S.D.A. inspections, expediting, carting, fumigation, cold storage, custom duties, custom brokers, demurrage, drayage, and refrigeration, all as applicable.

- a) Marketing. The Company will market the Products on behalf of the Exporter on free consignment conditions in all receptive markets of North America.
- b) Commission. The Company will receive a commission of eight percent (8%) from the Exporter, for the marketing of the Products which will be calculated from the value obtained after the deduction of the expenses of internal North American overland freight to Company's client, and temperature recorders. The final liquidation sent to the Exporter shall reflect the eight percent (8%) commission.
- c) Prices. The Company will attempt to obtain the best prices available for the fruit, but there can be no assurance that the best price will be obtained or that the Products can or will be sold at any price.
- d) Adjustments. The Company may make any adjustments or grant any allowances that, in its opinion, are justifiable or

necessary in order that sales can be consummated at destination.

- e) Shipment to Company's Client. The Company will make every reasonable effort to sell the Product F.O.B. at the North American Port of Entry. However, if in the Company's opinion, a better price may be obtained by selling through local or destination brokers, or by shipping the Products for delivered sales, joint account, or on consignment basis, or reconsignment, the Company shall have the right to make sale of the Product, or any part thereof, on such basis. In this event, the cost of freight, refrigeration, application of atmospheric conditions, inspections, commissions, brokerages, hauling, marketing, and other charges or expenses incurred in connection with the shipping and marketing of the Product, shall be for the account of the Exporter and shall be deducted from the proceeds received from the sale of the Products.
- f) Risk of Loss. The Exporter will retain title to the Products until they have been sold by the Company, and will bear all market risks and risks of loss to the Products until such sale has been effected. No such risk will be borne by the Company.
- g) Compliance. The Company is authorized to comply with any governmental regulation or order that would, in any way, effect the Products and to act with full authority with reference to any proration under any Federal or State law or order pertaining to the Products. The Company will notify the Exporter of any such breaches of those regulations if they occur. Any expense incurred thereby will be for the account of the Exporter and shall be deducted from the proceeds of the sale.
- h) Good Faith Judgment. The Company shall not be liable for errors in judgment in exercising its rights or discharging its obligations under this Contract, if the Company uses its best efforts, acts in good faith, and acts in a fiduciary relationship with the Exporter.

VI. Proceeds of Sale.

- a) Collections of Proceeds. The Company will bear the risk of collection of payments for all the Product sold, provided that no claim is asserted by its client that the Product is nonconforming as to quality, condition size, quantity or weight.
- b) The Company is also authorized to take, in its own name and at its expense, all steps that, in its judgment, are necessary (1) to enforce collection, including assignment to collection agencies and filing and prosecution of court proceedings, as well as proceedings before Federal and State agencies or bureaus having jurisdiction over such matters, and (2) to defend against any charge or claim that may be asserted against the Company in connection with a sales transaction under the terms of this Contract, including, in each case, the retention of counsel.
- c) All costs and expenses incurred by the Company in (1) prosecuting any claims against a carrier or (2) defending or otherwise resolving any claims by the purchaser that the Product was non-conforming as to quality, condition, size, weight or quantity, shall be for account of the Exporter and shall be deducted from the proceeds of the sale of the Product. Any sum collected or received on this claimed portion of the sale shall be deemed proceeds of sale for purposes of this Agreement.
- d) Account Sales and Remission of Proceeds. From the gross proceeds of sale received by the Company, the Company shall make all other retentions and deductions provided in this Agreement.

Within 4 working days of delivery of Product of good quality and condition according to U.S.D.A. Grade Standards as per Clause 3b at the North American Port of Entry, the Company will make an advance payment to the Exporter as scheduled below or 50% of Company's estimate of the Product's market value, whichever is less.

Product	ADVANCED PAYMENT
a) <u>CRANTHLOUPE</u>	<u>\$ 10.00 / BOX</u>
b) <u>HONEY DEW</u>	<u>\$ 2.50 / BOX</u>
c) _____	_____
d) _____	_____
e) _____	_____

The Company will make final payments of amounts due to the Exporter within 30 days after the receipt, at the location of the Company's client, of the Products in good quality and condition according to U.S.D.A. Grade Standards as referred to in Clause 3b of this Agreement. In the event that a claim has been asserted by the Company's client that the Products are non-conforming (as to quality/condition, size, weights, or quantity), or that marketing conditions necessitated consignment sales, the payment to the Exporter for the Products from that shipment, will be withheld until 30 days after the sales value of said Products is established.

The Company may retain sufficient return from sales value to protect and indemnify itself for any advances or expenses made before final accounting and for any loss in connection with handling any subsequent shipments of Products. In any event, any balance of monies which may result in favor of the Company at the end of the Agreement, must be paid by the Exporter to the Company prior to the termination of this Agreement.

e) Records. The Company agrees that all books of account and records relating to the sale of the Products under this Agreement, shall be open to inspection and copying by the Exporter or its representative, at reasonable times during business hours at the Company's offices and for a period of not exceeding one (1) year following any transaction. The Company shall not be obligated to keep or retain any of its records more than three (3) years following the consummation of any given transaction under this Contract, and shall not be liable for any adjustment in an accounting

unless specific objection is made in writing to the Company by the Exporter or its representative within one (1) year after delivery of the accounting to the Exporter.

- f) All payments by the Company to the Exporter are to be made to an account in the Exporter's name at Southeast Bank, N.A., in Tampa, Florida, U.S.A.

VII. Impossibility of Performance. It is agreed that neither party to this Agreement shall be required to perform, or be liable for failure to perform, if nonperformance is caused by strikes, work stoppages, or labor demands or difficulties, labor shortages or inability to procure labor, shortages of equipment, materials or supplies, shortages or lack of cooling or processing facilities, water shortages, truck shortages, transportation difficulties, war, hostilities or national emergencies, acts of God, the elements, mechanical breakdowns, power failure, or other cause beyond the control of the party unable to perform. *INCOMPLETE PERFORMANCE*

VIII. Exporter Warranties. *(FRANCE)*

a) Product Warranty. The Exporter warrants that the Products will not be adulterated within the meaning of the U.S. Federal Food, Drug and Cosmetic Act, nor subject to, nor contaminated with any substance prohibited by Federal or State statutes or regulations.

b) Warranty of Title. The Exporter warrants that (1) the Company has the right to possession of all Products exported by the Exporter under this Contract, free of all third party claims and to exercise fully its rights and obligations under this Agreement and (2) upon the sale of the Products by the Company for and on behalf of the Exporter, the purchaser of the Products will acquire full title to the Products free of any claims, liens or encumbrances asserted by third parties, against the purchaser or the Company.

IX. Services. At its election, the Company may cause any services to be performed by it under this Agreement, to be performed by others, with the exception of marketing of Products which will be limited to the Company.

X. Terms. The term of this Agreement will be from this date until June 30, 1985.

XI. Litigation. Any dispute, controversy, or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, which cannot be otherwise settled by the parties, shall be litigated in the Circuit or County Court in Dade County, Florida and Florida law shall apply.

XII. Notices. All notices to be given under this Agreement shall be sent to the following addresses:

To the Exporter: OPENSCU
COOPERATIVA HONDURENSES
CENTRAL AMERICA

To the Company: TAVILLA MARKETING, INC.
Suite 220
202 W. Bearss Avenue
Tampa, Florida 33612 U.S.A.
Telex 529374

or to such other place as a party may, by written notice, designate.

XIII. This Agreement shall be binding on, and inure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto.

XVI. This Agreement is signed in duplicate, each party keeping one original.

COMPANY:

EXPORTER:

JOHN WILLIAMS
Vice President
TAVILLA MARKETING, INC.
Suite 220
202 W. Bearss Avenue
Tampa, Florida 33612 U.S.A.

Carlos Rodriguez
MANAGER
COOPERATIVA REGIONAL DE HORTICOLAS
DE SAN PEDRO DE PASADUPEL
COMUNIDAD, HONDURAS.
CENTRAL AMERICA

THE COMPANY AGREES THAT IT WILL NOT MARKET ANY OTHER HONEY DEW OR PASADUPEL FROM HONDURAS DURING THE TERM OF THIS AGREEMENT.