

## **FLANZ Annual Report to the inaugural Annual General Meeting, December 2006**

Monday 4 December 2006

This is a report on behalf of the chair and the board on the first 18 months of activity presented to the members of the company; Oxfam NZ, Oxfam Aus, CWS NZ, & FoE Aus, at this the first Annual General Meeting of Fairtrade Labelling Australia and New Zealand.

Fairtrade Labelling Australia & New Zealand was incorporated in Australia on 19<sup>th</sup> July 2005 as a company limited by guarantee with four organisations as members. A board of directors was appointed and FLANZ was registered in New Zealand as an overseas company operating in New Zealand.

In August 2005 FLANZ became a full member of Fairtrade Labelling Organisations, the international organisation that governs the use of the Fairtrade Label worldwide. As a full member of FLO, FLANZ has the sole right to license the use of the International FAIRTRADE Label in Australia and New Zealand.

FLANZ sets policy, within the international guidelines, and administers the Fairtrade Labelling scheme in Australia and New Zealand. To carry out these activities 3 staff were appointed:

Audrey Jacometti, the Labelling Officer, is responsible for the administration of the Labelling scheme. This includes processing licensee applications, approving product packaging and promotional use of the label, raising invoices for license fees and maintaining all the necessary records and information. Audrey is also the company secretary.

Cameron Neil, Trade Certification Analyst, is responsible for the trade audit function of the labelling system. Cameron cross checks flow of goods reports and supply chain information, in order for FLANZ to maintain a system that provides a robust guarantee that products that carry the FAIRTRADE label come from a Fairtrade Certified source and comply to international Fairtrade standards. Cameron is also responsible for developing Labelling policy and making certification recommendations.

Steve Knapp was appointed as the Executive Director of Fairtrade Labelling Australia & New Zealand and is also the Executive Director of the Fair Trade Association of Australia and New Zealand. Steve is responsible for the effective management of both organisations. Within FLANZ, Cameron and Audrey both report to Steve, and as the Executive Director, he reports to the board.

The Board of directors has met 5 times in the first 18 months of operations, 3 times physically and twice by teleconference. The Board's main responsibilities are to receive reports on activities, manage risk, determine forward strategy and make final certification and policy decisions.

The board are in turn accountable to the members. The members are, in effect, the owners and guardians of the company and the integrity of the FAIRTRADE Label in Australia and New Zealand.

In order to be guardians of the company and integrity of the FAIRTRADE Label and system, members need communication and information from the Board. As a new organisation we do not have all these systems currently in place. This is also an ongoing

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process and will develop as we develop as an organisation. The AGM is an important opportunity for members to receive information and provide feedback to the Board.

At the AGM, members are responsible for electing new board members, receiving annual reports and the audited financial statements, and appointing company auditors for the coming year. Any changes to the constitution also require approval by the members. At this meeting there is a proposed change to the constitution that to take effect requires members approval.

FLANZ has made tremendous progress in it's first 18 months. We are operating in a dynamic and fast growing market. When FLANZ was incorporated the FAIRTRADE Label was already being used by 24 companies in Australia and 15 in New Zealand. These companies were licensed to use the Label through the Fairtrade Foundation in the UK. One of the first priorities for FLANZ was to develop our own license agreement and transfer all these companies over. 18 months later we now have almost 100 licensees, about 70 in Australia and 30 in New Zealand.

The range of Fairtrade Labelled products is also growing. Coffee is still the main product, but sales of tea and chocolate are growing fast. New Labelled products, although, still with limited availability, are sugar, sportsballs, rice, quinoa and cotton.

The estimated retail sales of Fairtrade Labelled products in ANZ in 2004 were AU\$1.5m in value and 50MT in volume. By end of 2005 this had increased to AU\$6m and 160MT. By the end of 2006 we are expecting well over AU\$10m in sales value and more than 300MT of product.

Wholesale sales of Fairtrade Labelled products provide FLANZ with a 2% license fee paid by businesses that are licensed to use the Label to identify their products as Fairtrade. Our business plan forecast for wholesale sales in the 2005/06 financial year was AU\$5m that was projected to generate a license fee income of AU\$100k. So far reported wholesale sales are AU\$6.85m for the period.

However there is a time lag between FLANZ receiving license fees and when the recorded sale was made and this is reflected in the cash position in the financial reports. Although we expect to receive a license fees of AU\$130k for sales reported made in the 2005/06 FY, only AU\$82k license fee income was received in the period. We currently estimate 6 months from the date of the reported sale to actually receiving license fee income.

This and a backlog of reporting, and consequently invoicing, put some pressure on the company's cash flow position over the course of the year. This was solved with an agreed loan from the Fair Trade Association of Australia and New Zealand. This shows as a AU\$42k liability in the financial reports. These issues have now been resolved; there is no longer a backlog of reporting or invoicing, outstanding receivables are being collected and the loan to FTAANZ has now been repaid.

At June 2006 FLANZ has a net asset position of AU\$21k, this retained profit is license fee income that is surplus to the direct running costs of FLANZ. Although FLANZ contracts Cameron directly to provide trade audit services, both the Labelling Officer and the Executive Director are currently employed by FTAANZ. Consequently FTAANZ and FLANZ have drawn up a services agreement by which FLANZ contracts FTAANZ to supply a schedule of services, in order to begin to cover the costs of the administration of

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the Labelling system, that are currently borne by FTAANZ, and supported by NZAID and Oxfam Australia seed funding.

The intention is for surplus license fee income, beyond FLANZ running costs and development needs, to be used to contract services from FTAANZ to further the objectives of FLANZ. Initially these are the costs of administering the Labelling system, but as income increases will potentially be extended to include business development services, promotion and education activities, building the fair trade movement and producer support.

Because of the close relationship between FTAANZ and FLANZ this contract for services is regarded as a related party transaction and is currently not permitted under the FLANZ constitution. Hence there is a proposed constitutional change and this and the related party transaction that to take effect requires your approval as members. These proposals are also tabled at this meeting.

FLANZ has also taken its role within the international Fairtrade labelling system seriously, and although it is a long distance to travel, has attended all 3 FLO MoMs at the FLO offices in Germany, since we became a full voting member and we have engaged and contributed to current international debate on FLO governance and the direction of Fairtrade labelling.

The FLANZ Certification Analyst has also attended this year an international Trade Audit meeting in Vienna, and we learnt that many of the Trade Audit issues that we are working on solutions for after 18 months of operations, are the same issues that the more established Labelling Initiatives are also grappling with.

As a result of this meeting, and previous board discussions, we are currently developing a proposal for a new Trade Audit system that audits traceability and licensees' systems, primarily through external audit and inspections, that will replace the unpopular and onerous Flow of Goods reporting that attempts to track all flow of goods through the system. We hope to implement this system in the coming year.

Next year will continue to be exciting and challenging for Fairtrade Labelling. We expect the market to continue to grow and we will concentrate on consolidating and maintaining our internal systems to manage this growth. We aim to provide more business development services to licensees and continue to support the growth of the fair trade movement in order to provide increased benefits to the marginalised and disadvantaged producers of the products we consume everyday.

Steve Knapp, Director  
Diana Gibson, Chair