



## **SUBMISSION: Exemptions for small offers of co-operative shares**

*Date:* 06/05/16  
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A handwritten signature in black ink, appearing to read "Andrew Curtis", with a long horizontal stroke extending to the right.

**(Andrew Curtis, CEO IrrigationNZ)**

Irrigation New Zealand would be happy to engage with the FMA around this submission.

### **OVERVIEW**

1. IrrigationNZ (INZ) is a national body that promotes excellence in irrigation. INZ represents the interests of over 3,600 irrigators (irrigation schemes and individual irrigators) totaling over 360,000ha of irrigation (over 50% of NZ's irrigated area). It also represents the interests of the majority of irrigation service providers (over 150 manufacturers, distributors, design and install companies and consultancies).

### **BACKGROUND**

2. Irrigation schemes in NZ are predominantly co-operatives, however there are also a number of limited liability companies that are managed through co-operative principles. When a person or entity purchases shares in an irrigation scheme, this gives them access to a defined amount of water per share (flow rate and/or volume) over a given timeframe (irrigation season) with which they irrigate their property. Some irrigation schemes also issue multiple share types, this is common during staged development phases (pre-construction and construction shares for example) or where the water supply is differentiated into reliability bands.

3. An irrigation schemes purpose is to deliver a given water supply reliability and provide water security to the farm-gate at a reasonable cost. Their share values vary greatly, between \$0 and \$8,000, the reasons for this are explained in point 8. Annual charges consist of operational and scheduled maintenance costs, and any debt servicing for past capital improvements. They vary between \$60 and \$900 and are strongly correlated to the age of the infrastructure, again explained in point 8.
4. The true value (enterprise value) of an irrigation scheme is reflected by a combination of shareholder funds, which are often minimal unless the scheme has undertaken recent capital improvements, and shareholder land value. Within an irrigation schemes command area (the area of land that it can provide water to) there is typically a \$4,000 - \$10,000 per hectare land value differential between irrigated and dryland. This differential depends on water supply charges, the reliability of the take (the conditions placed upon the take and use consent) and scarcity. The value of an irrigation scheme therefore sits predominantly in the land value of a shareholder.

## **SUBMISSION**

5. Existing and potential shareholders of an irrigation company have a high degree of awareness of the obligations and risks relating to taking up irrigation shares. Much due diligence is undertaken around any share offer as the ability to access water to irrigate their farm is fundamental to an irrigators existing of future business. The share value is also relatively small in relation to the benefits that can be accrued over time.
6. INZ strongly supports the proposal to grant class exemptive relief for co-operatives that offer co-operative shares (not having to prepare part 3 disclosure documents or comply with part 7 financial reporting and audit requirements under the FMC Act). We would also like to discuss with the FMA the exemptive relief being expanded to account for all irrigation schemes (not only co-operatives) given their unique nature.
7. As described in 2 through 4 above, for irrigation schemes there is a direct linkage between the shares issued and the shareholders relationship with the offeror. We are therefore happy with the exemption condition around shares being offered to enable shareholders to transact. However, the thresholds of being limited to a total capital investment per shareholder of \$1,000 or the value paid per share under the offer being less than 5% of the benefits received by a shareholder for each share would not be met, and thus no exemptive relief would be gained.
8. For new developments or existing scheme extensions and upgrades, irrigation scheme share values range between \$1,750 and \$8,000 per hectare. INZ holds a data set (updated February 2016) of irrigation schemes share values and would be willing to provide this to the FMA. However, these values are generally arbitrary. They instead reflect a scheme

specific balance that is struck between capital to be invested upfront and the annual charge (debt servicing in combination with operation and maintenance costs).

9. For the less than 5% of benefits condition, INZ is unsure as to the definition of this, particularly over what time frame this is to be assessed. However, for a 'typical' irrigator (noting there is no such thing as a typical irrigator due to the wide variety of irrigation systems and irrigated land uses) we do not think they would be able to meet this threshold.
10. Instead for irrigation schemes an alternative definition such as 20% of the total capital value (land, plant and equipment) could be a better threshold. However, this first needs to be tested for a range of land uses to ensure its suitability. INZ is willing to work with the FMA on this.
11. INZ holds quarterly irrigation scheme forums which all NZ schemes are invited to attend. We would like to invite the FMA to attend one of these meetings in order to:
  - a. better understand the nature of irrigation schemes,
  - b. discuss a practical exemption for them.

Given their expertise in this area we would also like to invite Cooperative Business NZ to be part of this discussion.

**SUBMISSION ENDS**