

# Annual Report

2020/21



The New Zealand Kiwifruit Board was established by Regulation 32 of the Kiwifruit Export Regulations 1999 and is known as **Kiwifruit New Zealand**

## CONTENTS

	<b>Page</b>
Report from the Chair	2
Chief Executive's Report	3
2020-21 Collaborative Marketing by the numbers	4
2020-21 Collaborative Marketing Season Results	5
Zespri Core Business and Diversified Activities	6
China and Gold3 PVR Producer Vote	7
Statement of Intent 2020-2023	8
Regulatory Monitoring & Compliance	9
Statement of Financial Performance	10
Auditors Report	11
KNZ Board & Executive	12

# Report from the Chair



Kristy McDonald ONZM QC

This year has been a challenging one for the New Zealand kiwifruit industry. From growers, orchard workers, packhouses and Zespri, all have had to adapt their practices to the new realities of international trade in a Covid dominated environment.

Zespri, as the single desk exporter, had a huge role to play. KNZ maintained close communications with the industry and Zespri throughout the year, listened to concerned growers and post-harvest operators, and worked with Zespri to ensure compliance with the Regulations.

KNZ is an independent regulator. Its actions improve the transparency of the reasoning and processes of decision-making, thus enhancing predictability and reducing uncertainty.

“Regulators operate in a complex environment at the interface among public authorities, the private sector and end-users.... They must balance competing wants and needs from different actors. This means that they must behave and act objectively, impartially, and consistently, without conflict of interest, bias or undue influence – in other words, independently. What distinguishes an independent regulator is not simply institutional design. Independence is also about finding the right balance between the appropriate and undue influence that can be exercised through the regulators’ daily interactions with ministries, regulated industries and end-users.”

*(OECD Network for Economic Regulators, published 19 July 2016)*

The issue of illegal Gold3 in China was a major focus for KNZ this year. KNZ communicated clearly to Zespri the regulatory steps required for it to carry out any commercial activity with illegal Gold3 in China. Zespri has proceeded with a Producer Vote and KNZ worked closely with all parties involved to ensure the Producer Vote gave all New Zealand growers the opportunity to have their say on the future direction of the industry.

The KNZ Board comprises six Directors, with three elected by growers and two, plus the Chair, appointed by the Minister. In 2020 Neville Harris was reappointed by the Minister for a second three year term and Tim Main stood down. The Minister appointed Sarah Paterson to take Tim’s place and Sarah joined the Board in September 2020. I would like to thank Tim for his significant contribution and welcome Sarah to the Board.

KNZ’s operating model is a small but effective executive team and I express the Board’s appreciation for their commitment and achievements this past year.

The challenges of the past year have shown KNZ to be a strong and independent regulator and demonstrated that the Regulations are fit for purpose now and in the future.

# Chief Executive's Report



Geoff Morgan

Kiwifruit export revenue continues to grow strongly with an average annual increase of 18% per annum since the March 2018 year, resulting in kiwifruit export revenue of NZ\$2.7 billion at March 2021.

The 2020-2021 year was all about communication for KNZ. As the season and the year progressed under an evolving Covid landscape, we kept in close contact with Zespri and all sectors of the industry.

Early identification of potential issues, listening to and understanding grower and industry concerns was essential in providing regulatory guidance to Zespri and the industry.

Collaborative marketing exporters worked well with their offshore customers and Zespri, to ensure a smooth flow of product to the markets despite logistical challenges. This was a year where all parties focused on collaboration, both in the sales and marketing of fruit in 2020, and in forward planning for 2021.

The issue of illegal Gold3 in China was, and still is, a key topic for KNZ. A commercial trial of this China crop by Zespri is outside core business and the Regulations define a clear path that Zespri must follow if it wishes to engage in “non-core” activities. The KNZ team has had many meetings with Zespri, growers and industry groups to explain the regulatory pathway, and importantly to point out that it is not for KNZ to approve non-core activities, but to ensure grower oversight is engaged so they can decide on any changes to their industry.

KNZ has a small team but for important and complex issues we engage outside consultants. The work carried out by our external legal and economic consultants provides clear guidelines for the current issue and any future activities outside core-business.

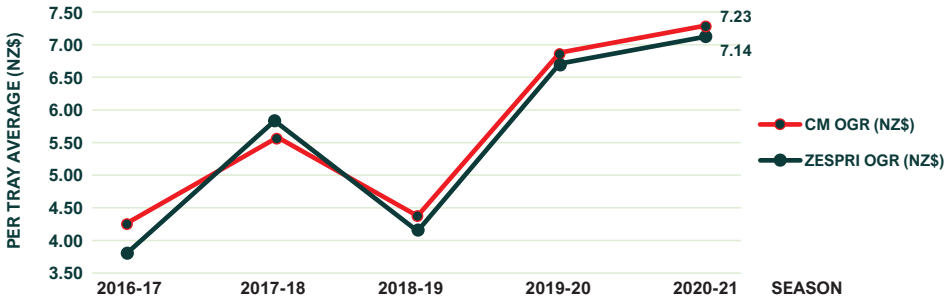
KNZ is subject to the Official Information Act 1982 (OIA) and has had a number of requests relating to China Gold3. KNZ has provided the information as required by, and in accordance with the OIA and has, in some circumstances, redacted information when it was provided in confidence or where it contained commercially sensitive information when it was provided in confidence or where it contained commercially sensitive information. KNZ took the view that it was important that everyone had access to key information, so KNZ has created an OIA page on its website to ensure all have access to the relevant reports and documents on these important issues. Openness and transparency are important elements in balancing the information disparity that can occur with a single-desk exporter.

KNZ has had a change in personnel during the year with Megan Anderson leaving, and Pip Allen joining KNZ as Senior Legal Counsel. We wish Megan well in her new endeavours and Pip is enjoying being part of this very important New Zealand industry.

## KIWIFRUIT - 2020-21

# 3.5m

## CM TRAY EXPORTS



## KIWIFRUIT CM APPLICATIONS COMPARISON

2020-2021		2019-2020	
APPLICATIONS RECEIVED	<b>25</b>	APPLICATIONS RECEIVED	<b>21</b>
APPLICATIONS APPROVED	<b>23</b> <small>(1 application withdrawn)</small>	APPLICATIONS APPROVED	<b>21</b>
APPLICATIONS DECLINED	<b>1</b>	APPLICATIONS DECLINED	<b>0</b>

## KIWIBERRY - 2021

NET RETURN PER TRAY

# \$24.98

(down 1%)  
(excluding Australia)

TOTAL CM TRAY EXPORTS

# 96,019

(down 11%)  
(excluding Australia)

# 2020-21 Collaborative Marketing Results

## 2020-21 Collaborative Marketing Season

- The purpose of collaborative marketing is to increase the overall wealth of New Zealand kiwifruit suppliers
- Kiwifruit collaborative marketing volumes and returns for the last ten years are as follows:

Season	Volume (millions of trays)	Market Return <sup>1</sup> (NZD millions)	TFSP <sup>2</sup> (NZD millions)	Estimated OGR <sup>3</sup> (NZD millions)
2011	3.6	23.7	22.2	Not available
2012	2.4	18.7	16.1	9.3
2013	1.7	15.5	13.6	8.5
2014	1.7	16.6	14.5	9.4
2015	1.5	14.2	13.6	8.5
2016	2.7	22.4	21.6	11.7
2017	2.3	19.8	18.9	12.7
2018	3.16	25.4	23.9	13.5
2019	2.9	28.6	27.7	19.7
2020	3.5	36.3	34.7	26.3

Each year a benchmarking exercise is carried out between the kiwifruit collaborative marketing programmes and similar Zespri programmes, on a comparable basis for region, country, market and time.<sup>4</sup>

The results of the benchmarking averaged across all programmes for fruit return is as follows:

Season	CM TFSP Return per TE	Zespri TFSP per TE	CM OGR Return per TE	Zespri OGR per TE
2011	6.21	6.38	Not available	Not available
2012	6.71	6.94	3.85	3.99
2013	7.78	7.62	4.89	4.73
2014	8.76	8.26	5.70	5.36
2015	9.22	8.88	5.73	5.42
2016	7.86	7.00	4.26	3.89
2017	8.34	8.71	5.58	5.86
2018	7.70	7.30	4.35	4.15
2019	9.65	9.56	6.86	6.73
2020	9.99	10.05	7.23	7.14

1 "Market Return" is what is returned to the Grower Pools at "Free on Board" after all in market costs, including freight, insurance, promotional expenditure, in market commissions, and before service costs, service level agreement and onshore costs, service charges and fruit incentives.

2 "Fruit Return" or Total Fruit and Service Payments ("TFSP") is the Market Return less all commissions, supply costs including costs in respect of service level agreements, onshore direct costs, and the Zespri administration charge, but before service charges, fruit incentives and postharvest costs.

3 "OGR" is the return to growers at orchard gate after deduction of all downstream packing, distribution and marketing costs.

4 Benchmarking is the financial assessment made as defined by Regulation 15(c) and reported on our website [www.knz.co.nz](http://www.knz.co.nz)

# Zespri's Core Business and Diversified Activities

Kiwifruit New Zealand monitors and enforces Zespri's compliance with the mitigation measures in the Kiwifruit Export Regulations 1999 ('Regulations'). The Regulations prohibit Zespri from carrying out any activities that are not 'core business' (as defined in the Regulations and summarised below), unless those activities 'supports the core business', as defined in regulation 10A, or are approved by a producer vote under regulation 11.

The intent of these provisions is to establish the appropriate level of control by producers over Zespri's engagement in activities that are not 'core business.' It is important to note that KNZ's role is not to make a decision about the desirability of an activity, to manage the risks undertaken by Zespri, to decide whether those risks are appropriate, or to determine whether the benefits of an activity outweigh the risks involved. Rather, KNZ's role is to ensure that producer oversight is engaged where it ought to be.

## Core business definition

- a) Purchase of NZ grown kiwifruit for export, acquiring title at FOBS (Free On Board Stowed)
  - i. Marketing of NZ grown kiwifruit; and
  - ii. Market development of NZ grown kiwifruit; and
  - iii. R&D relating to kiwifruit.
- b) Excludes exports to Australia.
- c) Excludes sale of kiwifruit in NZ.



# China and Gold3 PVR

The Gold3 PVR owned by Zespri has been taken illegally to China and unauthorised plantings are spreading rapidly.

Zespri has stated that if this remains unchecked it will impact on Zespri's business and returns to New Zealand growers.

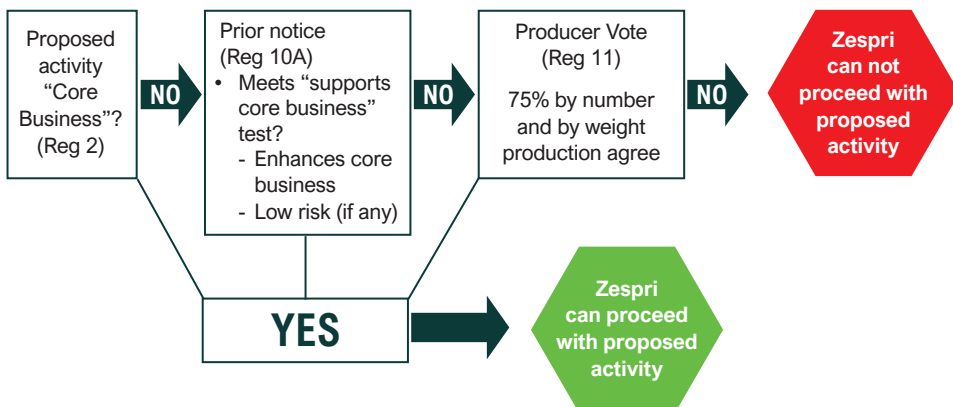
Zespri developed the idea of a commercial trial to purchase Gold3 grown in China that meets its quality standards, and market it under the Zespri brand in the Northern hemisphere season.

As this activity is outside the definition of core business, Zespri has had to follow the process set out in the Regulations to obtain approval to proceed. On 28 October 2020, Zespri gave notice to KNZ under Regulation 10A that it proposed to carry out an activity that was not core business, being a three-year trial of a commercial procurement model for Chinese-grown Gold3 kiwifruit, involving up to 1.95 million trays. Zespri's view was that the proposed activity met the definition of 'supports the core business', being that it is likely to enhance the performance of Zespri's core business, and poses no more than a low risk (if any) to the interests of New Zealand producers.

KNZ engaged Sapere Research Group to undertake a detailed analysis and provide advice on whether the notified activity met the definition of 'supports the core business'. Zespri facilitated engagement between Sapere and its own expert advisors and staff which, under the Regulations, was a very useful process. KNZ also engaged a former New Zealand Ambassador to China, to work with Sapere. Sapere's final report to the KNZ Board was received on 6 January 2021.

The KNZ Board met on 8 January 2021, and a Draft Board Decision Document was issued that made a preliminary determination that the notified activity met the first leg of the Regulation 10A test and was likely to enhance performance of the core business. However, after considering the risks and the mitigation measures proposed to reduce the risk, KNZ came to the conclusion that there were three areas of risk that posed more than a low risk to the interests of producers and therefore, the activity would not support the core business.

On 15 January 2021 Zespri wrote to KNZ stating that it wished to 'withdraw' its Prior Notice and would proceed to a Producer Vote in accordance with Regulation 11. That producer vote was held in June 2021 and the results are available on both the KNZ and Zespri websites.





# Statement of Intent 2020 – 2023

The KNZ Statement of Intent sets out our values, strategic goals and initiatives, and how we measure our performance.

KNZ's way of working is underpinned by our core values;



## Strategic Objectives and Priorities

### Outcome 1. Effective monitoring and enforcement

- KNZ ensured compliance with the China import protocol by monitoring key wholesale markets in China during the kiwiberry season to ensure no NZ grown kiwiberry was available in the market.
- KNZ has engaged with Zespri, growers and industry groups to monitor Zespri's compliance with Regulation 11 in respect of the Producer Vote.
- KNZ received and commenced a preliminary assessment into a complaint in accordance the Export Authorisation.
- KNZ takes a risk focussed and responsive monitoring and enforcement approach to collaborative marketing obligations and commitments.

### Outcome 2. Robust regulation and decision making

- The KNZ Board issued a Draft Board Decision Document under Regulation 10A on whether the notified activity, a proposed commercial procurement model trial in China, supports 'core business'.
- KNZ has processes in place to assist applicants and give transparency to stakeholders on KNZ's collaborative marketing decision making processes.

### Outcome 3. Improved industry and stakeholder communications

- KNZ published key documents that had been released under Official Information Act 1982 requests on its website.
- KNZ Executive attended industry events, engaged and met with growers, post-harvest operators and collaborative marketers.

### Outcome 4 Improved efficiency from systems and technology

- KNZ staff have the ability to work from home, meetings are often held via video conferencing and the KNZ website is updated regularly.
- KNZ ensures its systems and technology is of an appropriate standard to support KNZ's operations.

# Regulatory Monitoring and Compliance

## 1 April 2020 to 31 March 2021

KNZ Function	Relevant Regulation	KNZ Actions
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7, 33(1)(a) and 42(2)	Reviewed and reissued the Export Authorisation. Monitored all kiwifruit exported from NZ in conjunction with NZ Customs
To monitor and enforce the point of acquisition of title to kiwifruit at FOBS	Regulations 5(c) and 33(1)(b)	Annual Supply Agreement, related Service Level Agreement and compliance monitored
To monitor and enforce the terms and conditions of Zespri's export authorisation	Regulations 4 to 7 and 33(1)(b)"	Monthly reports from and regular meetings with Zespri plus specific requests for information
To monitor and enforce the non-discrimination rule	Regulations 9 and 33(1)(b)	Compliance monitored and investigation of a complaint undertaken.
To monitor and enforce the prior notice rule	Regulations 10(a) and 33(1)(b)	Draft Board Decision issued under Regulation 10A and compliance monitored
To monitor and enforce the non-diversification rule	Regulations 11 and 33(b)(1)	Compliance monitored, including Producer Vote process
To monitor and enforce the information disclosure requirements	Regulations 12 to 14 and 33(1)(b)	Compliance monitored
To monitor and enforce the collaborative marketing requirements	Part 4 and Regulation 33(1)(b)	Compliance monitored and annual review of process completed.
To consider requests for exemption from ZGL from the information disclosure requirements	Regulation 21	Considered Zespri's requests and exempted information where Regulation 21(1) and/or (2) were satisfied

# Statement of Financial Performance

Revenue	2020-21	2019-20	2018-19
Funding from Zespri Group	584,573	614,520	598,924
Funding from Zespri Corporate (Prior Notice costs)	86,265		
Funding from Collaborative Marketing Fees	279,710	271,989	225,830
Interest Received	39	144	336
Other Revenue	0	0	847

<b>Total Revenue</b>	<b>950,587</b>	<b>886,652</b>	<b>825,937</b>
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Expenses	2020-21	2019-20	2018-19
Board Expenses	182,798	180,982	167,596
Executive Expenses	218,515	231,820	209,971
Collaborative Marketing Expenses	345,122	349,196	314,474
Other Expenses – Operations	51,276	66,741	89,430
- ZGL Prior Notice – China G3 costs	86,265	0	0
Other Expenses – Overheads	66,611	57,913	44,466

<b>Total Expenses</b>	<b>950,587</b>	<b>886,652</b>	<b>825,937</b>
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<b>Surplus before tax</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Income Tax Expense</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Surplus/(Deficit) for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>

KNZ works hard to control costs and as you can see from the above numbers, Board and Executive expenses have remained very stable over the last three financial years.

Total costs are dictated by necessary monitoring activity, enforcement events and Collaborative Marketing applications which will vary each year. However, KNZ strives for productivity gains through the use of technology and best-practice systems and procedures.

*A copy of Kiwifruit New Zealand's audited accounts is available on our website [www.knz.co.nz](http://www.knz.co.nz)*

# Statement of Financial Performance



29 June 2021

Kiwifruit New Zealand  
PO Box 4683  
Mount Maunganui South  
3149

Dear Board of Directors

We have pleasure in presenting our Audit Completion Report for our audit of Kiwifruit New Zealand's financial statements for the year ended 31 March 2021.

We set out the findings of our audit work for that year in the report attached to this letter.

We take this opportunity to express our appreciation for the assistance and co-operation provided by the Geoff and Amy during the audit.

The primary aim of our audit is to form an opinion as to whether your financial statements fairly reflect the results of your organisation's activities for the reporting period and its financial position at balance date. The audit report expresses this opinion.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation upon which we rely on for audit purposes. Our examination may not have identified, and should not be relied upon to identify, all control weaknesses that may exist.

We have received full and frank cooperation throughout our audit.  
There is nothing we wish to raise solely with the Board.

Yours faithfully,  
BDO Tauranga

A handwritten signature in blue ink that reads 'Donna Taylor'.

Donna Taylor  
Partner  
Audit & Assurance Services

Email: [donna.taylor@bdo.co.nz](mailto:donna.taylor@bdo.co.nz)

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Audit Completion Report

# KNZ Board & Executive

## KNZ BOARD



From left to right:

Peter Ombler, Neville Harris, Andrew Fenton, Kristy McDonald QC, Colin Olesen, Sarah Paterson

## KNZ EXECUTIVE



**Geoff Morgan**  
Chief Executive



**Pip Allen**  
Senior Legal Counsel



**Amy Te Whetu**  
Executive Assistant

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