

Annual Report

2021/22



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

CONTENTS

	Page
Report from the Chair	2
Chief Executive's Report	3
Zespri Core Business and Diversified Activities	4
Regulatory Monitoring & Compliance	5
2021-22 Collaborative Marketing by the numbers	6
2021-22 Collaborative Marketing Season Results	7
China – 2021 PVR and KNZ Monitoring	8
2022 Producer Vote – Expansion of Zespri Global Supply	9
Statement of Financial Performance	10
Auditors Report	11
KNZ Board & Executive	12

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Report from the Chair



Kristy McDonald ONZM QC

The 2021 season was the industry's second year with Covid and its impact on NZ operations and international trade. This clearly presented significant challenges to Zespri and the industry. KNZ worked constructively with the industry and Zespri to discharge its functions effectively, recognising the issues raised by Covid and the need for quick decisions in response to a constantly changing international trade environment.

KNZ had a busy year both in terms of monitoring Zespri's activities following the producer vote on Zespri's proposed commercial trial with Chinese-grown G3, as well as receiving and considering an increased number of enquiries about possible discriminatory conduct during the season, and KNZ carefully monitored and considered each incident. KNZ also had a busy year with collaborative marketing with 4.1 million trays exported, which was a 17% increase over the previous year.

I believe KNZ discharged its regulatory functions in relation to all of these matters effectively and in a timely fashion, providing independent oversight in a way that supports positive outcomes for the industry.

KNZ applied significant internal and external resources to discharging its role in relation to the producer vote in a way that ensured producers were able to exercise their vote on a properly informed basis. This is discussed in more detail in this report (page 9).

I completed my second three-year term as Chair of KNZ. I was very happy to be appointed by the Minister of Agriculture for a final three-year term which will end in September 2024. Continuity of Governance is especially important in these times of change and significant international trade tensions. KNZ has a strong Board and Executive and I believe has excellent skills and the right balance of experience and knowledge to carry out its role.

The kiwifruit industry and Zespri continues to grow rapidly, and the Board of KNZ will ensure it is equipped to perform its role as a professional, accessible, and independent regulator.

Chief Executive's Report



Geoff Morgan

2021 was another busy year for the kiwifruit industry. Covid continued to present many challenges for the industry and KNZ had to maintain good communication with all sectors of the industry to ensure Regulatory requirements were not overlooked with the pressure to harvest, pack and export a record kiwifruit crop in difficult circumstances.

The 2021 producer vote on Zespri's proposed commercial trial with Chinese-grown G3 was not successful as support was below the 75% threshold. KNZ's role in the producer vote is detailed on page 8 of this report. The producer vote was an important milestone in the industry and KNZ applied considerable time and resources so producers were 'informed' on the issues in order to make a considered decision and to ensure the correct process under the Regulations were followed. Producers rely on KNZ to carry out its role as an independent Regulator, both before the vote and also in relation to monitoring Zespri activities after the vote. NZKGI also played an important role in facilitating discussion on the issues and engaging with a range of groups and views in its podcasts.

As a consequence of the vote and Zespri's decision to continue research and development (R&D) activities with Chinese-grown G3, it was clear that KNZ and Zespri needed a working definition of R&D to determine the parameters of R&D activities under the Regulations. This provides greater certainty for Zespri to undertake activities within those boundaries and for KNZ to assess and monitor Zespri's activities against those parameters.

KNZ received a number of enquiries about possible discriminatory conduct by Zespri (Regulations 9 & 10). Under these Regulations Zespri must not unjustifiably discriminate among suppliers or potential suppliers in respect of a decision to purchase kiwifruit or in relation to the terms of the purchase contract (the Zespri Supply Agreement). KNZ's approach to the consideration of any complaint of potential discrimination is set out in the Export Authorisation, (a copy can be found on the KNZ website [www.knz.co.nz]). Every complaint is considered on a case-by-case basis, but many have common themes. Where possible KNZ's decisions on complaints and investigations are published on the KNZ website for transparency and so the wider industry can see how and when the Regulations can be applied.

2021 was a significant year for Collaborative Marketing (CM), being the biggest season for CM volumes with 4.1 million trays exported, but also presented many challenges for CM exporters. Zespri's size and scale allowed it to spread additional costs over a large volume, whereas the smaller scale CM activity meant that Covid related delays and costs had a greater impact, and CM returns did suffer accordingly. Nonetheless strong results were achieved in key markets.

Zespri's Core Business and Diversified Activities

The Kiwifruit Export Regulations 1999 ('Regulations') prohibit Zespri from carrying out any activities that are not 'core business' unless those activities 'supports the core business' (as defined in Regulation 10A), or are approved by a producer vote under Regulation 11. Core business is defined in the Regulations as:

"core business—

(a) means the purchase of New Zealand-grown kiwifruit for export where the point of acquisition of title to fruit is at FOBS and the export of that fruit:

(ab) includes the following activities:

- (i) the marketing of New Zealand-grown kiwifruit; and*
- (ii) market development for New Zealand-grown kiwifruit; and*
- (iii) research and development relating to kiwifruit:*

(b) excludes the export at FOBS of kiwifruit for consumption in Australia:

(c) excludes the sale of kiwifruit in New Zealand"

If an activity is 'core business' Zespri can undertake that activity without any externally reviewed risk assessment, regulatory oversight or control by producers (other than through normal voting structures).

KNZ has the function under Regulation 33 of monitoring whether an activity meets the definition of core business. The Regulations do not define the core business activities set out in (ab) above, being marketing of and market development for New Zealand-grown kiwifruit and research and development relating to kiwifruit ('Core Business Activities'). To assist with the assessment of Zespri activities and to ensure that producer oversight is engaged where it ought to be, KNZ is developing 'working definitions' for the Core Business Activities. These will be published on KNZ's website. Each working definition is subject to review and changes by KNZ and include general principles of application which will be applied and analysed on a case-by-case basis.



Regulatory Monitoring and Compliance

1 April 2021 to 31 March 2022

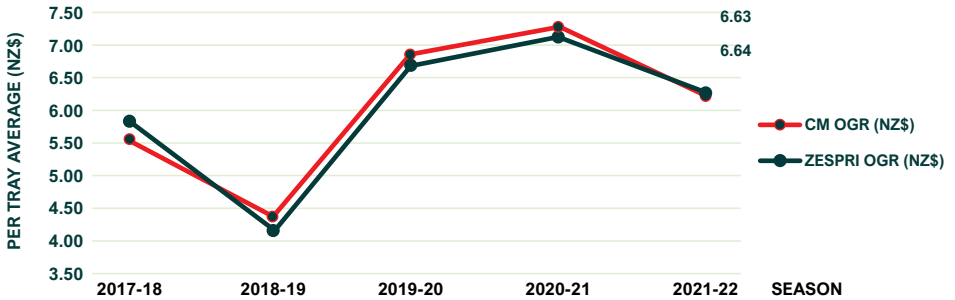
KNZ Function	Relevant Regulation	KNZ Actions
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7, 33(1)(a) and 42(2)	Reviewed and reissued the Export Authorisation. Monitored all kiwifruit exported from NZ in conjunction with NZ Customs
To monitor and enforce the point of acquisition of title to kiwifruit at FOBS	Regulations 5(c) and 33(1)(b)	Annual Supply Agreement, related SLA's (Service Level Agreement) and compliance monitored
To monitor and enforce the terms and conditions of Zespri's export authorisation	Regulation 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 complaints undertaken.
To monitor and enforce the prior notice rule	Regulations 10(a) and 33(1)(b)	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

KIWIFRUIT - 2021-22

4.1m

CM TRAY EXPORTS

OGR COMPARISON BETWEEN CM & ZESPRI



KIWIFRUIT CM APPLICATIONS COMPARISON

2021-2022		2020-2021	
APPLICATIONS RECEIVED	24	APPLICATIONS RECEIVED	25
APPLICATIONS APPROVED	23	APPLICATIONS APPROVED	23 <i>(1 application withdrawn)</i>
APPLICATIONS DECLINED	1	APPLICATIONS DECLINED	1

KIWIBERRY - 2022

NET RETURN PER TRAY

\$26.27

(up 5%)
(excluding Australia)

TOTAL CM TRAY EXPORTS

89,935

(down 6%)
(excluding Australia)

2021-22 Collaborative Marketing Season Results

2021-22 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 ¹ (NZD millions)	TFSP ² (NZD millions)	Estimated OGR ³ (NZD millions)
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
2021	4.1	40.1	38.9	27.3

Each year a benchmarking⁴ exercise is carried out between the kiwifruit collaborative marketing programmes and similar Zespri programmes, on a comparable basis for region, country, market and time.

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
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
2021	9.45	10.25	6.63	6.64

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

China – 2021 PVR and KNZ Monitoring

In June 2021, Zespri held a producer vote under Regulation 11 for the proposed activity of Zespri conducting an on-orchard monitoring, procurement and sales and marketing trial over one season, involving the sale of up to 200,000 trays of Chinese-grown G3 kiwifruit which met the Zespri Class 1 standards and the ability to use the Zespri label on the kiwifruit for the sales trial.

Zespri did not obtain the required proportion of votes under Regulation 11 and therefore it can not carry out the proposed activities of the 2021 producer vote. Zespri can, however, carry out core business under the Regulations which, as noted on page 4, includes marketing and market development of New Zealand-grown kiwifruit and research and development relating to kiwifruit ('R&D').

Zespri has confirmed that it will continue to carry out R&D activities in China as part of its core business, including on-orchard monitoring and fruit testing, but would not sell any fruit procured for R&D purposes. Zespri advised producers after the vote that it intended to keep engaging in China to better understand the unauthorised plantings, their potential impact and possible ways forward.

As a result of the producer vote, KNZ's function is to monitor the activities undertaken by Zespri in China to ensure they fall within the definition of core business under the Regulations including ensuring any activities related to Chinese-grown kiwifruit is within the definition of R&D. KNZ has developed a monitoring plan in respect of Zespri's China R&D and producer vote activities. A copy of the monitoring plan can be found on the KNZ website.

KNZ has made a number of information requests and reviewed various contracts and documentation relating to Zespri's activities and commitments in China. KNZ will continue to monitor Zespri's activities in China and will establish ongoing reporting requirements and will engage external parties to assist or investigate further if necessary.



2022 Producer Vote – Expansion of Zespri Global Supply

In March 2019, a producer vote was carried out and a resolution was passed (receiving more than the required 75% of support from producers) for Zespri to carry out the 12-month supply business ('ZGS'). The approved activities ZGS are growing, procuring and selling kiwifruit grown in overseas countries (excluding China and Chile), including use of Zespri owned PVRs, managing growing practices by overseas growers, managing supply chain from overseas growers to market and marketing and market development for fruit grown overseas.

Zespri is proposing to expand the current ZGS programme by increasing the planted hectares of G3 in overseas countries by up to 10,000 additional hectares and any new kiwifruit variety in overseas countries by up to 1,000 additional hectares. Any changes that take an activity outside the scope of the approval granted in 2019, must be approved by a further producer vote. Zespri have confirmed that a producer vote will be undertaken in July/August 2022 to seek approval from producers to expand the current ZGS programme.

KNZ's function in the context of a producer vote is to monitor whether the process Zespri has carried out meets the requirements of Regulation 11. As part of this KNZ will monitor:

- the process by which Zespri intends to inform producers of the proposed activity, including the steps Zespri will take to ensure all producers receive the information in a timely manner in order to exercise their vote;
- whether sufficient information is provided to producers in a form that is clear in its presentation, to ensure producers are in a position to make an informed decision on the risks to their interests from the proposed activity;
- how the votes will be calculated and counted and whether the required proportion of votes has been obtained; and
- if the required proportion of votes has been obtained, whether Zespri has and continues to minimise, as far as reasonably practical, the risks arising for producers who have not agreed to the activity.



Statement of Financial Performance

Revenue	2021-22	2020-21	2019-20
Funding from Zespri Group	575,477	584,573	614,520
Funding from Zespri Corporate (Prior Notice costs)	0	86,265	0
Funding from Collaborative Marketing Fees	277,071	279,710	271,989
Interest Received	11	39	144
Total Revenue	852,558	950,587	886,652

Expenses	2021-22	2020-21	2019-20
Board Expenses	174,974	182,798	180,982
Executive Expenses	251,170	218,515	231,820
Collaborative Marketing Expenses	328,802	345,122	349,196
Other Expenses – Operations	41,611	51,276	66,741
- ZGL Prior Notice – China G3 costs	0	86,265	0
Other Expenses – Overheads	56,001	66,611	57,913
Total Expenses	852,558	950,587	886,652

Surplus before tax	0	0	0
Income Tax Expense	0	0	0
Surplus/(Deficit) for the year	0	0	0

KNZ has a focus on financial efficiency, to ensure that maximum benefits are delivered at minimum cost. 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

Auditors Report



29 June 2022

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 2022.

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 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

Audit Completion Report

KNZ Board & Executive

KNZ BOARD



From left to right:
Peter Ombler, Neville Harris, Andrew Fenton, Kristy McDonald ONZM QC, Colin Olesen, Sarah Paterson

KNZ EXECUTIVE



Geoff Morgan
Chief Executive



Pip Allen
Senior Legal Counsel



Amy Te Whetu
Executive Assistant

Contact details

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www.knz.co.nz

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