



## **The New Zealand Kiwifruit Board**

### **Annual Report**

**1 April 2008 to 31 March 2009**

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

# Kiwifruit New Zealand's Annual Report

## Contents

### *Page*

2	Index
3	Kiwifruit New Zealand's Year
5	Kiwifruit New Zealand's Role
6	Chairman's Report
7	Kiwifruit New Zealand's Regulatory Performance 2008-09
8	Financial Summary for 2008-09
9	Chief Executive's Report
10	Kiwifruit Industry's Regulatory Structure
11	Directory

References to "the Regulations" or "the Kiwifruit Export Regulations" in this report are references to the Kiwifruit Export Regulations 1999

References to "Zespri" in this report include Zespri Group Limited and Zespri International Limited

References to "Zespri's Export Authorisation" in this report are references to the Authorisation to Export Kiwifruit Granted to Zespri Group Limited by Kiwifruit New Zealand

References to "the Single Desk" or the "Single Point of Entry" are referring to Zespri having the right to export kiwifruit to all countries except Australia.

## **Kiwifruit New Zealand's Year**

During the year ended 31 March 2009 Kiwifruit New Zealand:

Kept in **contact with the Markets, Zespri Marketing Managers, Collaborative Marketers, Growers and Suppliers**

Monitored the **information flow** from Zespri

Monitored Zespri's **non core business assessments**, including for 12 month supply

Dealt with **complaints, enquiries and appeals**

Monitored **collaborative marketing returns** for acceptable returns

Monitored Zespri's compliance with the **Kiwifruit Export Regulations**

### **Contact with Markets, Zespri Marketing Managers, Collaborative Marketers, Product Groups, Growers and Suppliers**

- Market visits were made into Singapore, Malaysia, Indonesia, and the Philippines
- Meetings were held with the Zespri Collaborative Marketing Manager and Zespri Marketing Managers
- Meetings were held with Collaborative Marketers
- Meetings were held with Growers and Suppliers during the year
- Meetings were held with the Zespri Board and NZKGI Executive
- Presentations were made to NZ Kiwifruit Growers Incorporated, and NZ Kiwiberry Growers Incorporated

### **Information Disclosure**

- Zespri's disclosure of information was monitored to ensure compliance with the Kiwifruit Export Regulations
- Details of collaborative marketing for last season was published by the Board to industry groups, including financial information as to the performance of the collaborative marketers

### **Non Diversification**

- Zespri's assessment of its activities was monitored and then reviewed by Kiwifruit New Zealand's Board.
- Zespri Global Supply activities were monitored regularly by Kiwifruit New Zealand, and additional information was requested and supplied

### **Complaints and Inquiries**

- One complaint was received, and is in process

- A number of informal enquiries were received

## Collaborative Marketing Results

- Increased selected country coordination by Zespri, and increased collaboration with Zespri in market and logistics by some collaborative marketers
- Increased collaborative marketing volumes in 2008-09 season
- Kiwifruit collaborative marketing volumes and returns since 2000 are as follows:

Season	Volume (millions of trays)	Market Return* (NZD millions)	Fruit Return ** (NZD millions)
2000	1.1	7.2	5.8
2001	1.8	12.2	9.9
2002	1.6	14.5	10.8
2003	1.6	16.8	12.2
2004	1.7	14.1	9.7
2005	1.7	10.8	7.9
2006	1.4	12.0	9.8
2007	1.7	12.9	10.4
2008 (2008-09 season)	1.9	16.3	13.4

\* "Market Return" is what is returned to the Grower Pools after all in market costs, including freight, insurance, promotions, in market commissions, and before service costs, service level agreement and onshore costs, service charges and fruit incentives.

\*\* "Fruit Return" (also Pool Return) is the Market Return less all commissions, service level agreement and onshore costs, and before service charges and fruit incentives.

- Each year a benchmarking exercise is also carried out between the kiwifruit collaborative marketing programmes and similar Zespri programmes, including for region, country, and market. The results of the benchmarking averaged across all programmes for fruit return before incentives are:

Season	Collaborative Marketing Return per TE	Zespri Return per TE
2000	5.26	5.13
2001	5.32	6.06
2002	6.48	6.07
2003	7.56	7.10
2004	5.57	5.56
2005	4.79	4.82
2006	6.85	6.71
2007	6.27	5.90
2008 (2008-09 season)	7.01	6.80

- Kiwifruit New Zealand is working with Zespri both to lift collaborative marketing's performance and to ensure that collaborative marketing contributes to the global marketing of NZ kiwifruit
- As at the 31 March 2009, advice had been received that three collaborative marketing applications were to be appealed

## Monitoring

- Regular meetings held with Zespri at Board and Senior Executive level and Zespri's activities were monitored as required by the Kiwifruit Export Regulations
- Market visits were undertaken to provide the context for consideration of collaborative marketing applications and to monitor Zespri's and collaborative marketers' activities

## Zespri Export Authorisation Re-issued

- Zespri's Export Authorisation was reviewed but not modified

## **Kiwifruit New Zealand's Role**

In 2000, the New Zealand kiwifruit industry was restructured through the Kiwifruit Industry Restructuring Act 1999 and Kiwifruit Export Regulations 1999.

The Act established Zespri, and provided for the making of Regulations providing for the establishment, funding, and other matters relating to Kiwifruit New Zealand. The Regulations established on 1 April 2000 a new regulatory board, Kiwifruit New Zealand and contain:

Export orientated provisions that:

- ban the export of NZ grown kiwifruit otherwise than for consumption in Australia, except as authorised or approved by KNZ.
- require KNZ to provide Zespri with an authorisation to export kiwifruit.
- allow KNZ to approve collaborative marketing arrangements, each of which is an arrangement by which a person may export NZ grown kiwifruit in collaboration with Zespri, and direct Zespri to make kiwifruit available for these arrangements.
- do not apply to the sale of kiwifruit in New Zealand, or its export for consumption in Australia (which from 2004 is regulated by the Horticultural Export Authority).

and provisions relating to monitoring and enforcement:

- the non-discrimination rule that limits Zespri from unjustifiably discriminating in the way it purchases kiwifruit and sets the point of purchase of NZ grown kiwifruit at not earlier than FOBS (free on board ship).
- the non-diversification rule that requires, unless the risks are minimal, that the providers of capital agree to the ways in which their capital is used outside that necessary for the purchase and export of NZ grown kiwifruit (other than for consumption in Australia and sale in New Zealand).
- the information disclosure requirements that require information disclosure by Zespri and KNZ.

The scope of the Regulations and the responsibility of KNZ is limited.

The Regulations deal with the export of NZ grown kiwifruit and mitigating the potential costs and risks of the export provisions. They do not provide for KNZ to have a general supervisory role in the industry or of Zespri. KNZ is prohibited from carrying out any commercial activity, including the purchase or sale of kiwifruit, or operating to make a profit.

## **Chairman's Report**

The 2008-09 season turned out to be very different to the way it started. Perceived job security, a high appetite for risk, easy credit, and booming rural and urban land prices had driven the world economies over an extended period of time. Then came the credit crisis. By year end asset prices were depressed, the world economies were generally in recession, and the NZ dollar exchange rate had depreciated significantly.

Last year I observed that the Kiwifruit Regulations and the Zespri system together would help lessen the impact of a high exchange rate and marketing pressures that would arise from increased production and competition. In the current environment of increased production, and recession in the major markets into which New Zealand kiwifruit is exported, the same observation is again relevant. A set of Regulations that put in place a supply regime that deters fractionation of international marketing to grower disadvantage in combination with the now well recognised Zespri brand and marketing system are a combination that should again serve the industry well.

During the year KNZ Directors kept in touch with kiwifruit market conditions to ensure there is a good understanding of the circumstances against which collaborative marketing applications must be considered. 16 kiwifruit and 6 kiwiberry collaborative marketing arrangements have been approved so far for the 2009-10 season. Other applications are still under consideration. One new complaint within jurisdiction was received, and is under consideration.

Collaborative marketing is an important marketing tool for the New Zealand kiwifruit industry. Zespri has acknowledged that and has appointed designated staff to consider collaborative marketing proposals brought to it. Collaborative marketing is not just about getting authority to export New Zealand grown kiwifruit. It is about collaboration with Zespri with the purpose of increasing the overall wealth of kiwifruit suppliers, requiring a broadly based consideration of Zespri's world-wide market strategies and the potential demands and profitability of alternative markets. Collaborative marketing represents an opportunity for both Zespri and collaborative marketers. For Zespri it represents an opportunity to further the interests of New Zealand kiwifruit suppliers by using collaborative marketing as a marketing tool, such as to open up new markets earlier than otherwise might be the case. For collaborative marketers it is an opportunity to use their commercial relationships to contribute to increasing the overall wealth of kiwifruit suppliers.

During the year, Mark Bayly resigned from the Board following his election to the Board of Zespri, and John Allen was elected to join our Board in his place. The Board thanks Mark for his contribution as a Board Member, and welcomes John Allen in his place.

Sir Brian Elwood  
Chairman

## **Kiwifruit New Zealand's Regulatory Performance 1 April 2008 to 31 March 2009**

<b>KNZ Function</b>	<b>Relevant Regulation</b>	<b>Performance</b>
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7, 33(1)(a) and 42(2)	Monitored during 2008/09, authorisation and the effectiveness of the enforcement regime reviewed. Authorisation continued unchanged.
To monitor and enforce the point of acquisition of title to kiwifruit which currently is at FOBS	Regulations 5(c) and 33(1)(b)	Compliance monitored during 2008/09.
To monitor and enforce the terms and conditions of Zespri's export authorisation.	Regulation 33(1)(b)	Monthly reports from and meetings with Zespri Group Limited plus the provision of relevant information.
To monitor and enforce the non-discrimination rule	Regulations 9 and 33(1)(b)	Compliance monitored during 2007/08. One complaint was received and is under consideration.
To monitor and enforce the non-diversification rule	Regulations 11 and 33(1)(b)	Chief Executive monitored Zespri making its assessments and Zespri presented its assessments to KNZ's Board.
To monitor and enforce the information disclosure requirements	Regulations 12 to 14 and 33(1)(b)	Monitored Zespri's compliance.
To consider requests for exemption from ZGL from the information disclosure requirements	Regulation 21	Considered Zespri requests and exempted some information.
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	For the year ended 31 March 2009, 25 kiwifruit collaborative marketing programmes (including 3 not active) operated into 15 countries, involving 14 collaborative marketers. 6 kiwiberry collaborative marketing programmes operated into more than 14 countries.  For the year ended 31 March 2010 (2009/10 season), currently 16 kiwifruit collaborative marketing programmes were approved to operate into 11 countries, involving 12 collaborative marketers. In addition, 6 kiwiberry collaborative marketing programmes were approved.
KNZ will inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure regime and collaborative marketing requirements	Regulation 33(1)(b)	A number of informal enquiries were received. One complaint was received, and is in process.

**Copies** of the Zespri Group Limited Export Authorisation and the Report on Collaborative Marketing Results for the 2008-09 season are available from Kiwifruit New Zealand on request.

## **Financial Summary 1 April 2008 to 31 March 2009**

	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
	\$NZ <sup>(1)</sup>	\$NZ	\$NZ
<b><u>Income</u></b>			
Regulation 39(a) from Zespri International Ltd	219,407	270,712	316,975
Regulation 39(b) from Collaborative Marketing	150,528	101,603	145,334
Interest and Miscellaneous Income	3,253 <sup>(2)</sup>	2,554 <sup>(2)</sup>	2,916 <sup>(2)</sup>
<b>Total Income</b>	<b>373,188</b>	<b>374,869</b>	<b>465,225</b>
<b><u>Expenditure</u></b>			
Kiwifruit New Zealand Board	117,455	155,024	190,420
Kiwifruit New Zealand Executive	71,937	124,904	101,967
Collaborative Marketing (exclg overheads)	180,912	77,441	115,957
Operations	4,908	6,914	6,522
Administration and Overheads	13,580	28,296	35,734
<b>Total Expenses</b>	<b>388,791</b>	<b>392,579</b>	<b>450,600</b>
<b>Net Surplus (deficit) to Accumulated Funds</b>	<b>(15,603)</b>	<b>(17,709)</b>	<b>14,625</b>
<b><u>Accumulated Funds</u></b>			
Opening Funds	37,225	54,934	40,309
Net Surplus for Year	(15,603)	(17,709)	14,625
<b>Total Funds as at Year End</b>	<b>21,622</b>	<b>37,225</b>	<b>54,934</b>

### **Reconciliation of Zespri Funding with Zespri accounts and actual KNZ expenses:**

	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
	<b>NZ\$000</b>	<b>NZ\$000</b>	<b>NZ\$000</b>
Funding as reported in Zespri Accounts	<b>219</b>	<b>270</b>	<b>315</b>
2006 Surplus carried forward from 2005-06	-	-	23
Refunded to Zespri after year end	-	-	(28)
Regulation 39(a) funding from Zespri as per KNZ accounts	<b>219</b>	<b>270</b>	<b>310</b>
Funding transferred from one year to another by KNZ (net surplus)/deficit)	16	18	7
Actual funding by Zespri used each year	<b>235</b>	<b>288</b>	<b>317</b>
Collaborative marketing fees and interest	154 <sup>(2)</sup>	104 <sup>(2)</sup>	134 <sup>(2)</sup>
KNZ actual costs (including collaborative marketing)	<b>389</b>	<b>392</b>	<b>451</b>

- Notes:** (1) KNZ allocates expenses between collaborative marketing and general (other) expenses. In 2008-09, as a result of a reassessment of the time taken by each set of activities, the proportion of KNZ's expenses allocated to collaborative marketing was increased.  
(2) Net of income tax (\$1,110 in 2008-09).

A copy of Kiwifruit New Zealand's audited accounts is available on request.



## **Chief Executive's Report**

The functions of the Board are to authorise Zespri export of kiwifruit at FOBS, determine collaborative marketing applications, and monitor and enforce the non-discrimination rule, the non-diversification rule, the information disclosure requirements, the terms and conditions of the authorisation and the collaborative marketing requirements. We are mindful that Kiwifruit New Zealand is funded by the industry to perform these functions, and we are focussed on quality delivery of what is required in a manner that is as efficient and cost-effective as possible. This year, Kiwifruit New Zealand has again reduced its overall costs. This has partly been achieved through effective use of available resources and careful cost management, but it also reflects that some of the expenditure associated with Regulatory activities not being required. This will of course not always be the case.

In the year ended 31 March 2009, KNZ received 28 kiwifruit and kiwiberry collaborative marketing applications for the 2009-10 season, and one formal complaint. One of the collaborative marketing applications was withdrawn. In addition, KNZ undertook market visits, monitored Zespri's information disclosure, reviewed Zespri's export authorisation and diversification assessment, considered the Zespri Supply Agreement, and otherwise monitored the activities in which Zespri is involved.

### **Collaborative Marketing**

KNZ visited South East Asia during 2008, and was encouraged by the close collaboration (between Zespri and Collaborative Marketers) that was taking place in market for the benefit of growers under the leadership of Zespri's Yu Jan Chen and Daniel Mathieson. The result is increasing sales at strong prices. We think there are some lessons from this for elsewhere. Utilising the historical investment in the Zespri brand and system, while leveraging the resources available in the wider fruit industry should result in higher returns for growers, through increased presence in some markets earlier than would otherwise be the case and increased demand. This model represents an opportunity for Zespri and collaborative marketers.

Fruit returns from collaborative marketing were up at NZ\$13.4 in the 2008-09 year, above the Zespri benchmarks on an average per tray basis, and at a level of returns better than the alternative use destinations. Zespri contributed to this result, variously collaborating in the development and operation of programmes, and contributing to their success through direct management, in market coordination of programmes, marketing expertise, promotional support, and the sharing of logistics arrangements.

Kiwifruit New Zealand constantly monitors collaborative marketing to ensure that it is making a positive contribution to the kiwifruit Industry. We will continue to focus on encouraging performance in all programmes.

### **Monitoring and Enforcement**

During the year, Kiwifruit New Zealand monitored Zespri's compliance with the non discrimination, the non diversification and information disclosure rules. All potential diversification activities were evaluated and reviewed by the Kiwifruit New Zealand Board. Monitoring of Zespri's twelve month supply activities has again been increased.

### **Complaints**

During the year, KNZ were approached on an informal basis on a number of issues. One formal complaint was received during the year from a grower, and was still in process at year end.

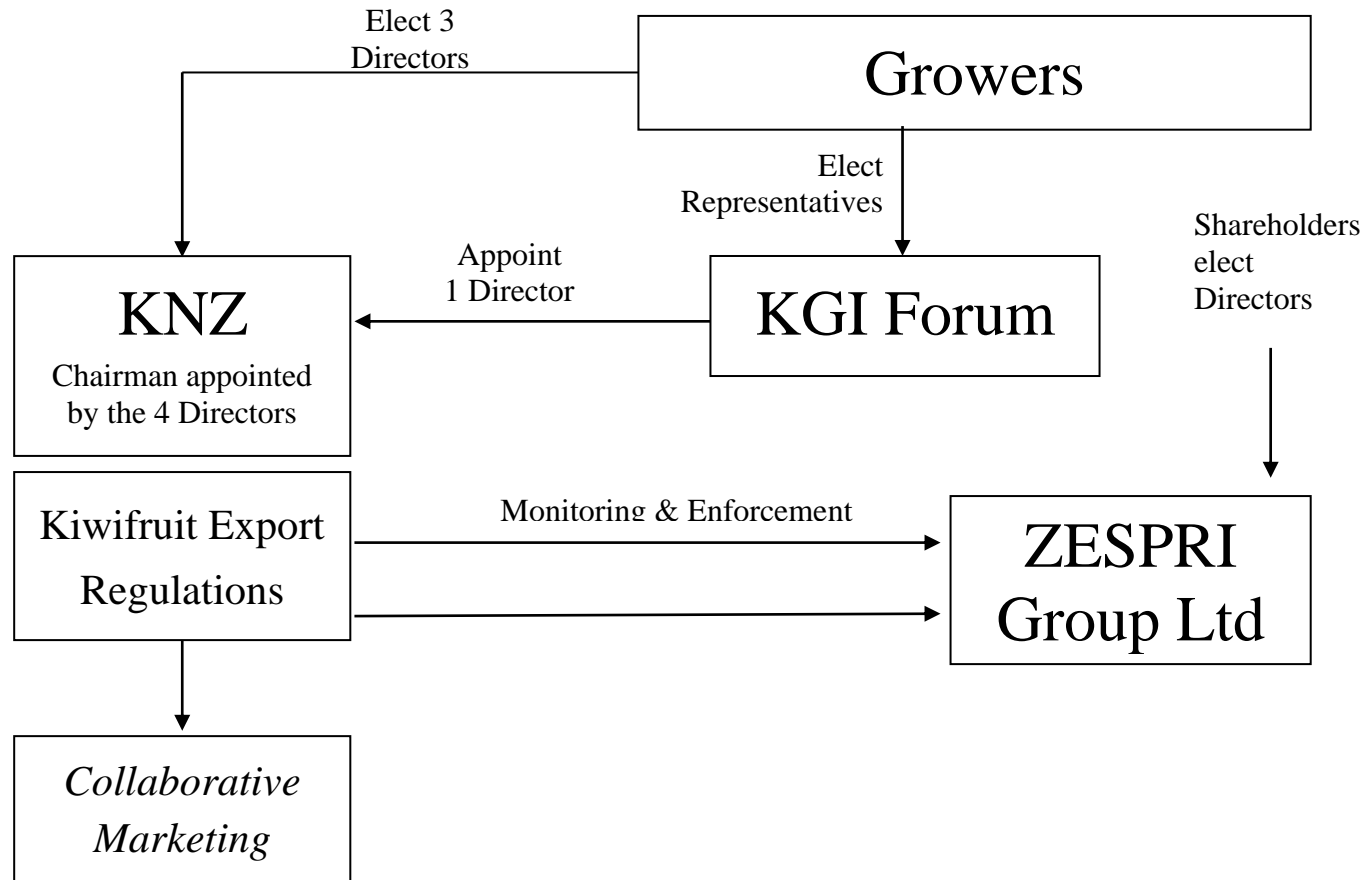
### **Finance**

In the year ended 31 March 2008, Kiwifruit New Zealand's expenses declined by \$3,000.

I would like to thank the Board, and industry for the help and cooperation that I have received over the last year.

Richard Procter  
**Chief Executive**

## Regulatory Structure



## **List of Members and Staff**

Kiwifruit New Zealand is comprised of the Chairman and four members who serve for three year terms. Growers elect three of the members, and the fourth member is appointed by the New Zealand Kiwifruit Growers Incorporated. The four members appoint the Chairman. The Kiwifruit Export Regulations 1999 require the Chairman to be fully independent of the kiwifruit industry. During the year, Mark Bayly retired from the KNZ Board and was elected to the Board of Zespri, and John Allen was elected in his place on the KNZ Board for a three year term. Ruth Lee was reappointed to the Board as the NZKGI Appointed Member for a further term.

### **Kiwifruit New Zealand:**

Chairperson	Sir Brian Elwood	(Term expires in July 2010)
Deputy Chairperson	Hendrik Pieters	(Term as member expires in September 2009)
Members	John Allen	(Term expires in September 2011)
	Ian Greaves	(Term expires in September 2010)
NZKGI Appointed Member	Ruth Lee	(Term expires in July 2011)
	Mark Bayly	(Retired July 2008)

### **Kiwifruit New Zealand Executive:**

Chief Executive	Richard Procter
Administration Assistant	Jo Cunningham

### **Kiwifruit New Zealand offices are at:**

Zespri Building  
400 Maunganui Road  
Mount Maunganui, 3116

**Phone** 07 572 3685

**Fax** 07 572 5934

### **Postal Address:**

PO Box 4683  
Mount Maunganui South, 3116

## **Procedures Manual**

A procedures manual is available on request. The procedures manual is designed to provide general advice and guidance on the role and function of Kiwifruit New Zealand Board and its application of the Kiwifruit Export Regulations 1999. It will be updated and revised from time to time. The procedures manual includes KNZ's Code of Conduct for the Conflicts of Interest, and Code of Conduct for trades in Kiwifruit Company Securities.