



The New Zealand Kiwifruit Board

Annual Report

1 April 2012 to 31 March 2013

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	About Kiwifruit New Zealand
4	Kiwifruit New Zealand's Year
6	Chairman's Report
7	Kiwifruit New Zealand's Regulatory Performance 2012 - 2013
8	Financial Summary for 2012 - 2013
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.

About Kiwifruit New Zealand

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 ("KNZ") and contain:

Export orientated provisions that:

- ban the export of New Zealand 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.
- enable KNZ to approve collaborative marketing arrangements (an arrangement by which a person may export New Zealand 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 New Zealand 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 New Zealand 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 New Zealand 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 kiwifruit 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.

Kiwifruit New Zealand Governance

The Regulations create KNZ as a Body Corporate of five Members (a Chairman and four others) who serve for three year terms. Producers elect three members, and the fourth member is appointed by the New Zealand Kiwifruit Growers Incorporated. The Chairman is appointed by the other four Members, and is required to be fully independent of the kiwifruit industry.

Producers (owners of land in New Zealand on which kiwifruit is produced for export sale) are eligible to vote in elections to appoint the three Producer elected members, and an election is held each year to elect a member by rotation. Candidates are nominated by Producers, and there is no restriction on who may be nominated.

The KNZ Board meets monthly, from February to November inclusive. Each Member, apart from the Chairman, also sits on two Collaborative Marketing Committees. The Chairman chairs the Collaborative Marketing Appeal Committee.

Kiwifruit New Zealand's Year

During the year ended 31 March 2013 KNZ:

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

Processed **collaborative marketing** applications and **appeals**

Monitored the **information flow** from Zespri

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

Dealt with **complaints and enquiries**

Monitored **approved collaborative marketing** arrangements for acceptable returns

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

Responded to **Official Information Act** requests.

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

- Market visits were made to Hong Kong, Indonesia, Malaysia, Korea and USA
- 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 New Zealand Kiwifruit Growers Incorporated Executive
- Presentations were made to New Zealand Kiwifruit Growers Incorporated, and New Zealand Kiwiberry Growers Incorporated

Information Disclosure

- Zespri's disclosure of information was monitored to ensure compliance with the Regulations
- Details of collaborative marketing for last season were published 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 reviewed by the Board.
- Zespri's global supply activities were monitored, and additional information requested

Complaints and Inquiries

- A number of informal enquiries and Official Information Act requests were received, and actioned

Collaborative Marketing Results

- Increased collaborative marketing arrangements.
- Collaborative marketing volumes decreased in the 2012 – 2013 season
- Kiwifruit collaborative marketing volumes and returns since 2000 are as follows:

Season	Volume (millions of trays)	Market Return ¹ (NZD millions)	TFSP ² (NZD millions)	Estimated OGR ³ (NZD millions)
2000	1.1	7.2	5.8	Not available
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	1.9	16.3	13.4	
2009	1.7	14.2	11.6	
2010	2.5	18.5	17.3	
2011	3.6	23.7	22.2	
2012-13 Season	2.4	18.6	16.1	9.2

- Each year a benchmarking exercise is 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 is as follows:

Season	CM TFSP Return per TE	Zespri TFSP per TE	CM OGR Return per TE	Zespri OGR per TE
2000	5.26	5.13	Not available	Not available
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	7.01	6.80		
2009	6.79	6.39		
2010	6.82	6.48		
2011	6.21	6.38		
2012-13 Season	6.71	6.95	3.85	3.99

- The purpose of collaborative marketing is to increase the overall wealth of New Zealand kiwifruit suppliers.

Monitoring

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

Zespri Export Authorisation Re-issued

- Zespri's Export Authorisation was reviewed as to its effectiveness and confirmed

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

Chairman's Report

The kiwifruit industry has achieved considerable progress whilst facing another challenging year. Whilst uncertainties about the industry's future still remain there is an apparent emerging willingness to focus and build upon the positives so far achieved by an integrated industry. There is a trend towards improving in market kiwifruit prices which should result in improved orchard gate returns.

Psa aside, one of the major changes for the kiwifruit industry over the last few years has been the proliferation of new kiwifruit cultivars. This has impacted on KNZ. This year, for kiwifruit, excluding kiwiberry, collaborative marketing applications were received for six different kiwifruit cultivars.

Not too many years ago, collaborative marketing applications were mostly for the same and a small number of kiwifruit cultivars. The characteristics of those cultivars were well known, were all sourced from the same quality control system and made available to collaborative marketers at FOBS. With the emergence of new cultivars, consideration of collaborative marketing proposals has moved from being largely an assessment of the advantage a collaborative marketer could bring to the marketing of kiwifruit to an assessment of whether a particular new variety would likely perform better from orchard to market and increase the overall wealth of New Zealand kiwifruit suppliers. As other cultivars have emerged, increasingly assessment of the merits of individual proposals has necessitated the consideration of grower OGR and orchard yield and the impacts on orderly marketing of the substantial crop of exported New Zealand kiwifruit. This is placing increased demands on the Board and management of KNZ as it considers these applications. However, the Regulatory requirements of a collaborative marketing applicant remain unchanged. An applicant must satisfy KNZ that an increase in the overall wealth of New Zealand kiwifruit suppliers will result, and the programme will be implemented in collaboration with Zespri.

An increase in the complexity of collaborative marketing is not the only trend affecting KNZ. Increasingly we are seeing a growth in the number of requests for information under the Official Information Act. Although KNZ receives no Government funding it is subject to that Act by reason of it being constituted under the Regulations. The requests often raise a conflict between a requestors desire to obtain information and the privacy interests of those whose information is considered personal and commercially sensitive. KNZ endeavours to deal sensitively with these conflicts and withholds information in its possession where an affected party satisfies it that to release the information would cause unreasonable commercial prejudice.

The Board has completed a busy year in respect to all its activities, which has at times stretched its capacity to undertake its regulatory responsibilities. Again Chief Executive, Richard Procter has been required to extend substantially the time he spends on Board activities and we are grateful for the energy he has devoted to ensure the extra workload has been completed without compromise to efficiency.

During the year Hendrik Pieters was elected for a further three year term to the Board. Hendrik has been on the Board since its inception, and his contribution and experience are invaluable.

Sir Brian Elwood
Chairman

Kiwifruit New Zealand's **Regulatory Performance 1 April 2012 to 31 March 2013**

KNZ Function	Relevant Regulation	Performance
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7, 33(1)(a) and 42(2)	Monitored during 2012-2013, 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 2012-2013.
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 2012-2013.
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 2013, 29 kiwifruit collaborative marketing programmes were approved, operated into 18 countries, involving 13 collaborative marketers. 5 kiwiberry collaborative marketing programmes operated into more than 14 countries. For the year ended 31 March 2014 (2013-14 season), 30 kiwifruit collaborative marketing programmes are approved to operate into more than 18 countries, involving 14 collaborative marketers. In addition, 7 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 and actioned.

Copies of the Zespri Group Limited Export Authorisation and the Report on Collaborative Marketing Results for the 2012 - 2013 season are available from Kiwifruit New Zealand on request.

Financial Summary 1 April 2012 to 31 March 2013

	2012-13	2011-12	2010-11
	\$NZ	\$NZ	\$NZ
<u>Income</u>			
Regulation 39(a) from Zespri International Ltd	280,450	243,970	234,232
Regulation 39(b) from Collaborative Marketing	279,280	214,820	227,042
Interest and Miscellaneous Income	2,888	8,941	821
Total Income	562,619	467,731	462,095
<u>Expenditure</u>⁽¹⁾			
Kiwifruit New Zealand Board	152,437	136,297	128,824
Kiwifruit New Zealand Executive	105,355	93,966	81,097
Collaborative Marketing	279,280	214,820	227,043
Operations	6,086	3,072	6,047
Administration and Overheads	19,088	19,740	19,065
Total Expenses	562,247	467,894	462,076
Income Tax	373	172	0
Net Surplus (deficit) to Accumulated Funds	(1)	(335)	19
<u>Accumulated Funds</u>			
Opening Funds	20,242	20,576	20,557
Net Surplus for Year	(1)	(335)	19
Total Funds as at Year End	20,241	20,242	20,576

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

	2012-13	2011-12	2010-11
	NZ\$000	NZ\$000	NZ\$000
Funding as reported in Zespri Accounts	285	244	234
Refunded to Zespri after year end less refund after last year end (net refund)	5	-	-
Regulation 39(a) funding from Zespri as per KNZ accounts	280	244	234
Funding transferred from one year to another by KNZ (net (surplus)/deficit)	(1)	-	-
Actual funding by Zespri used each year	279	244	234
Collaborative marketing fees and interest	282	224	228
KNZ actual costs (including collaborative marketing)	562	468	462

Notes: (1) KNZ allocates its expenses between collaborative marketing and general (other) expenses.

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

Chief Executive's Report

For Kiwifruit New Zealand, the financial year ended 31 March 2013 saw an elevated level of activity. There were more collaborative marketing enquiries, more applications, many of increased complexity, and increased market visits were undertaken to provide the context for consideration of these collaborative marketing applications. There were also more enquiries for other information. This increase in activity, most of which is not within KNZ's control, resulted in an increase in KNZ's costs for the year.

Collaborative marketing

In the 3 years between 2009 and 2012, kiwifruit (excluding kiwiberry) collaborative marketing applications averaged 23 per year. In the last two seasons (including 2013-14), they have averaged 31. At the same time, the collaborative marketing process has become more complex. Much of this is due to applications involving third party cultivars accounting, for the 2013-14 season, just under a quarter of applications, and each bringing with them increased demands on the applicant and KNZ. Many of these applications have been approved as trials to enable the collaborative marketer to be able to demonstrate their capability to deliver at the same time providing access to the markets to enable consumer reaction to the cultivar. It is for the applicants to take advantage of this opportunity made available to them.

To be successful, a collaborative marketing application must carry with it the prospect of increasing the overall wealth of New Zealand kiwifruit suppliers and be in collaboration with Zespri. Each prospective arrangement needs to be packaged into a successful business case that meets the Regulatory criteria. Essentially the application must demonstrate some differential advantage, for example arising as a result of a particular capability of the applicant, a particular niche in the market, or a particular capability of the cultivar. To simply seek to substitute, rather than add wealth, is not sufficient.

In the 2012-13 season, 29 collaborative marketing arrangements were approved. Three lapsed because the Collaborative Marketers concerned decided not to operate the arrangements. The remainder operated into 18 countries, involving 13 collaborative marketers. 5 kiwiberry collaborative marketing programmes operated into more than 14 countries. To date for the 2013-14 season, 30 kiwifruit collaborative marketing programmes have been approved, to operate into more than 18 countries (some approvals are for multiple countries), involving 14 collaborative marketers. In addition, 7 kiwiberry collaborative marketing programmes were approved. Included in the 2013-14 season applications were seven involving cultivars not owned by Zespri.

In the last 5 years, over 90% of all kiwifruit collaborative marketing applications submitted have been approved. Of the third party cultivar applications, 100% have been approved.

Monitoring and Enforcement of the Non-diversification and Information Disclosure Rules

During the year, Kiwifruit New Zealand monitored Zespri's compliance with the non-diversification and information disclosure rules. All potential diversification activities were evaluated and reviewed. Monitoring of Zespri's twelve month supply activities continues.

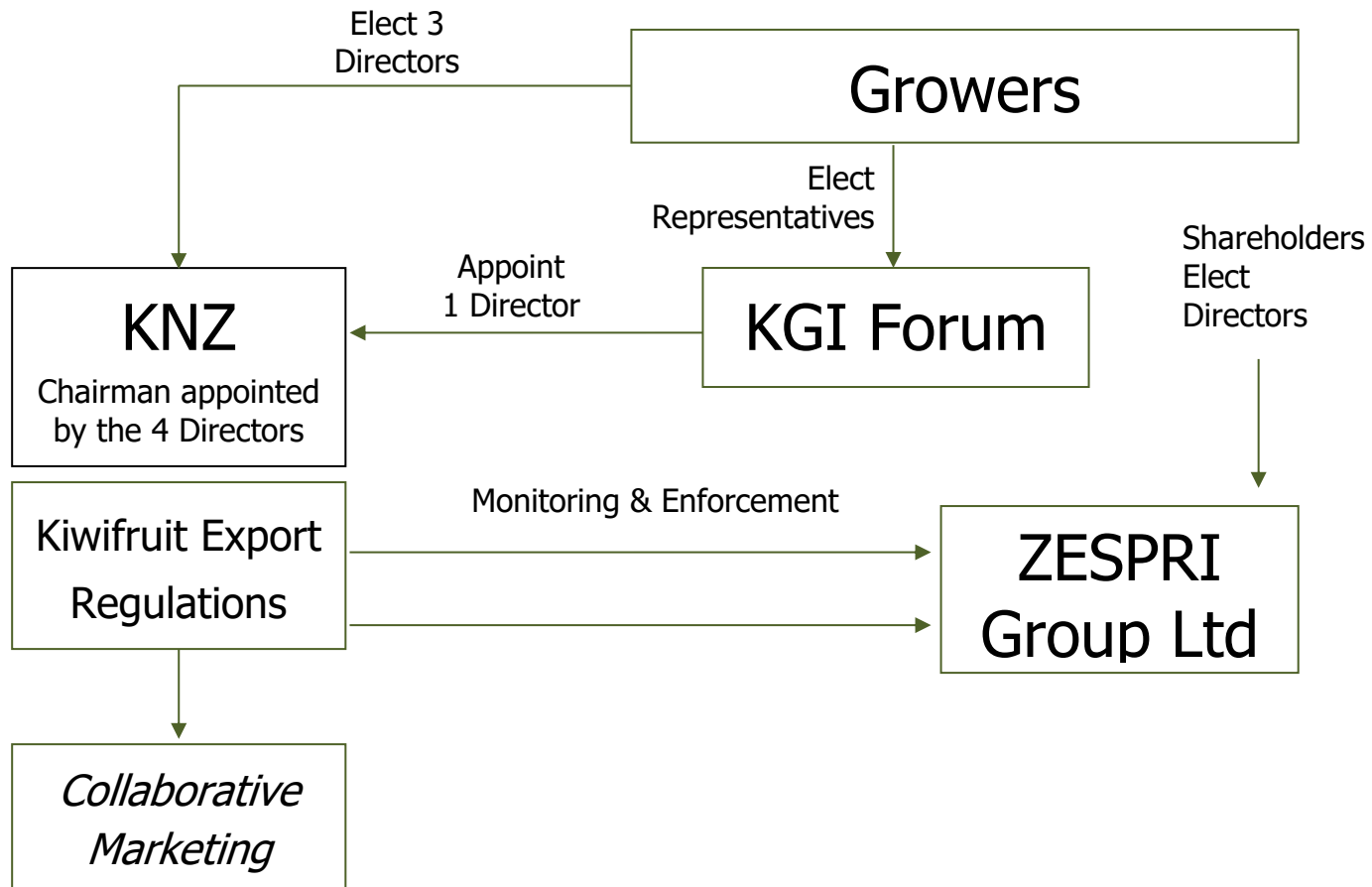
Complaints and Information Requests

The last financial year saw a number of informal complaints and official information requests. At the end of the 2011-12 financial year, an Ombudsman investigation was under way of a decision by Kiwifruit New Zealand to refuse to release information under the Official Information Act. The Ombudsman has recently approached KNZ for further information.

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. Ian Greaves position as director is up for election this year. The Kiwifruit Export Regulations 1999 require the Chairman to be fully independent of the kiwifruit industry.

Kiwifruit New Zealand:

Chairperson	Sir Brian Elwood	(Term expires in July 2013)
Deputy Chairperson	Hendrik Pieters	(Term as member expires in September 2015)
Members	Ian Greaves	(Term expires in September 2013)
	Alister Hawkey	(Term expires in September 2014)
NZKGI Appointed Member	Ruth Lee	(Term expires in July 2014)

Kiwifruit New Zealand Executive:

Chief Executive	Richard Procter
Administration Assistant	Amy Te Whetu

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, 3149

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.