

Kiwifruit



New Zealand

Annual Report

1 April 2015 - 31 March 2016



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

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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.

KNZ – A year in review

The 2015/16 year saw the following major events and changes for KNZ;

- New CEO appointed 7 Sept 2015
- New Chair appointed 30 Sept 2015
- Sir Brian Elwood awarded the 2015 Hayward Medal for Industry Leadership
- Scrimgeour/Locke Report
- MPI review of the Regulations
- Complaint sub-committee formed to investigate a wide ranging grower complaint and a full report completed
- 3 million trays approved for the 2016-17 season (up from 1.5 million trays in 2015-16)
- A Judicial Review of 3 collaborative marketing decisions (no change to the KNZ decisions)



Report from the Chair



Kristy McDonald QC

This is my first annual report as the Chair of KNZ and I am very pleased to highlight the progress being made in a number of important areas.

First, I want to recognise the twelve years of dedicated service by Sir Brian Elwood: his work has left KNZ well placed for the future.

On taking up my role I engaged with the Ministry of Primary Industries in regard to its review of the regulations. The review aims to ensure the regulations are appropriate in a fast growing Kiwifruit industry. This review process is described more fully on our website, but I believe the process has gone well and MPI has consulted widely. Any resulting changes to the governance structure and reporting by KNZ should ensure it is well placed to handle current and future issues.

KNZ has now set a work plan to review and where necessary update its internal processes and procedures. This is essential to ensure KNZ remains current and fit for purpose. This year will see changes to the collaborative marketing process designed to improve transparency, introduce more rigour in our consideration of applications and recognise the importance of collaborative marketing as a key component of the monopsony model.

KNZ is a professional, independent body charged with the responsibility of regulating Zespri's monopsony powers in the context of a successful and rapidly growing and changing industry.

I believe KNZ must remain focussed on its regulatory functions and must discharge these in a rigorous, open and professional manner.

In late 2015 KNZ received a wide ranging grower complaint which raised issues of unjustifiable discrimination, non-diversification and adequacy of information disclosure.

At the centre of the complaint was a concern that Zespri was not paying growers of Hayward kiwifruit a fair return, and was instead paying returns to the benefit of growers of Zespri PVR varieties at the expense of Hayward growers.

KNZ dismissed all aspects of the complaint but in doing so undertook a comprehensive review of the relevant regulatory provisions and extensive economic analysis of the issues. A detailed report is on our website.

KNZ's hope is that its decision will provide clear guidance to the industry on the issues raised by the complaint and will add a level of assurance on the manner in which KNZ performs its functions.

The Chief Executive's report outlines changes to our operations with a move to new independent premises and the employment of additional compliance staff.

KNZ's aim is to support the industry through professional regulatory oversight and monitoring. Good regulatory oversight allows for wealth creation and innovation with collaborative marketing, and helps New Zealand meet its international trade obligations.

Chief Executive's Report



Geoff Morgan

I joined KNZ as Chief Executive in September 2015, and have had a very busy time getting up to speed on the kiwifruit industry and KNZ's role as Regulator. I would also like to acknowledge my predecessor, Richard Procter, for his 10 years of dedicated service and commitment to KNZ and the kiwifruit industry as a whole.

I have now been through a full round of Collaborative Marketing applications, and been involved with briefing the Board on export authorisation, non-discrimination, non-diversification, and information disclosure issues. With the recent publication of Collaborative Marketing results for 2015 and the publication of this Annual Report, I have now almost completed the annual cycle of KNZ activities and look forward to the new round of Collaborative Marketing and monitoring and enforcement.

With the MPI review and a new Chair and CEO, it seemed the right time to review our processes and procedures, and set a new strategic direction for KNZ.

As part of this, KNZ has recruited an additional staff member to work in the compliance area. Megan Anderson is a qualified lawyer and has significant regulatory, commercial and compliance experience in New Zealand and offshore. This additional resource will improve our ability to discharge our regulatory functions to the highest standard, and allow us to be more proactive in our monitoring and enforcement role, in order to ensure that a \$ 2 billion dollar industry is being managed fairly, appropriately, and is meeting all industry and regulatory obligations.

KNZ believes it is appropriate to be in a separate office location and has moved to new premises at 81 Girven Road, Mt Maunganui. The new offices have better facilities for staff, improved space for meetings, and ensure we can interact with all stakeholders in a private and confidential setting when that is needed.

Collaborative Marketing is a significant part of KNZ's role, and our CM processes and procedures have been reviewed and amended for the 2017 season. The new process will operate from the end of July 2016 and full details and guidelines are available on our website. The aim is to provide a more stream-lined process, at a lower cost, and to make collaborative marketing easier to understand and more accessible to all applicants.

I am looking forward to the 2016/17 year and the implementation of the amendments to the Regulations, and I believe KNZ is well placed to continue to provide professional and independent oversight of this very successful New Zealand kiwifruit industry.

Statement of Financial Performance

	2015-16	2014-15	2013-14
	\$NZ	\$NZ	\$NZ
Revenue			
Funding from Zespri Group Ltd	481,592	390,309	351,487
Funding from Collaborative Marketing Fees	311,920	252,235	222,984
Interest Received	5,010	4,176	9,278
Other revenue	11,681		
Total Revenue	810,203	646,719	583,7488
Expenses			
Board Expenses	185,894	165,257	166,161
Executive Expenses	133,803	128,340	112,707
Collaborative Marketing Expenses	374,103	306,162	271,139
Other Expenses - Operations	109,330	20,622	12,266
Other Expenses - Overheads	26,933	24,785	20,690
Total Expenses	830,063	645,166	582,963
Surplus before tax	(19,860)	1,552	785
Income Tax Expense	(1,281)	(652)	(785)
Surplus/(Deficit) for the year*	(21,141)	900	0

Retained Earnings

During the 2016 financial year the Board has realigned itself with the specific wording of Section 35 of Kiwifruit Export Regulations 1999 which states that it "must not operate to make a profit". The Board has not operated to make a profit previously but in 2016 has deemed that any retained earnings from prior surpluses should be distributed back to Zespri Group Limited to reduce retained earnings to nil. Going forward this will be done annually.

A copy of Kiwifruit New Zealand's audited accounts is available on our website www.knz.co.nz

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF KIWIFRUIT NEW ZEALAND

Report on the Performance Report

We have audited the accompanying performance report of Kiwifruit New Zealand on pages 1 to 12 which comprises the entity information, the statement of service performance, the statement of financial performance and statement of cash flows for the year ended 31 March 2016, the statement of financial position as at 31 March 2016, and the statement of accounting policies and other explanatory information.

The Responsibility of the Board for the Performance Report

The Board is responsible on behalf of the entity for:

- (a) Identifying outcomes and outputs, and quantifying the outputs to the extent practicable, that are relevant, reliable, comparable and understandable, to report in the statement of service performance;
- (b) the preparation and fair presentation of the performance report which comprises:
 - the entity information;
 - the statement of service performance; and
 - the statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance reportin accordance with Public Benefit Entity Simple Format Reporting - Accrual (Not-For-Profit) issued in New Zealand by the New Zealand Accounting Standards Board, and;
- (c) for such internal control as the Board determine is necessary to enable the preparation of the performance report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the performance report based on our audit. We conducted our audit of the statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance report in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)), and the audit of the entity information and statement of service performance in accordance with the International Standard on Assurance Engagements (New Zealand) ISAE (NZ) 3000 (Revised). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the performance report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance report, including performing procedures to obtain evidence about and evaluating whether the reported outcomes and outputs and quantification of the outputs to the extent practicable, are relevant, reliable, comparable and understandable. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the performance report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the performance report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the performance report.

PARTNERS: Fraser Lellman CA Paul Hodson CA Kenneth Brown CA Janine Hellyer CA Jenny Lee CA
Paul Manning CA CONSULTANT: Jeff Roberts

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the entity information, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance report and our qualified audit opinion on financial performance.

Other than in our capacity as auditor we have no relationship with, or interests in, Kiwifruit New Zealand.

Other Matter

The financial statements of Kiwifruit New Zealand for the year ended 31 March 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 22 June 2015.

Opinion

In our opinion,

- (a) the reported outcomes and outputs, and quantification of the outputs to the extent practicable, in the statement of service performance are suitable;
- (b) the performance report on pages 1 to 12 presents fairly, in all material respects:
 - the entity information for the year then ended;
 - the service performance for the year then ended; and
 - the financial position of Kiwifruit New Zealand as at 31 March 2016, and its financial performance, and cash flows for the year then ended in accordance with Public Benefit Entity Simple Format Reporting - Accrual (Not-For-Profit).

BDO Tauranga

26 July 2016



**525 Cameron Road
Tauranga
New Zealand**

Collaborative Marketing 2015-16 by the numbers

KIWIFRUIT

1.5 m

**CM TRAY
EXPORTS**

CM OGR

\$5.73

per/te average

ZESPRI OGR

\$5.42

per/te average

KIWIBERRY

\$26.30

NET RETURN PER TRAY

TOTAL VOLUME EXPORTED

77,577

(excluding Australia)

...COMPARED TO LAST YEAR...

2015-16 SEASON

2014-15 SEASON

APPLICATIONS
RECEIVED **29**

APPLICATIONS
RECEIVED **38**

APPLICATIONS
APPROVED **27**

APPLICATIONS
APPROVED **27**

APPLICATIONS
DECLINED **1**

APPLICATIONS
DECLINED **5**

Collaborative Marketing Results

2015-16 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)
2006	1.4	12.0	9.8	Not available
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	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
2015-16 Season	1.5	14.2	13.6	8.5

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.

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
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	6.71	6.94	3.85	3.99
2013	7.78	7.62	4.89	4.73
2014	8.67	8.02	5.60	5.16
2015-16 Season	9.22	8.88	5.73	5.42

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

Regulatory Monitoring & Compliance

1 April 2015 - 31 March 2016

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)	Monitored kiwifruit exports from NZ during 2015-16. The export 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 2015-2016.
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 specific requests for relevant information.
To monitor and enforce the non-discrimination rule	Regulations 9 and 33(1)(b)	Compliance monitored during 2015-2016, plus Grower Complaint inquiry.
To monitor and enforce the non-diversification rule	Regulations 11 and 33(1)(b)	KNZ monitored Zespri's disclosure of diversified activities.
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 that was commercially sensitive.
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	For the year ended 31 March 2016, 27 kiwifruit, and 7 kiwiberry collaborative marketing arrangements were approved. For the year ended 31 March 2017 (2016-17 season), 21 kiwifruit, and 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 inquiries were received and actioned, and a full inquiry was carried out into one substantial complaint. The final report is available at the KNZ website.

About KNZ

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, that in turn provided 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 up to 30 April each year 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 necessary for the purchase and export of New Zealand grown kiwifruit (other than for consumption in Australia and sale in New Zealand), that the providers of capital agree to the ways in which their capital is used unless the risks are minimal.
- 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 Chair 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 Chair 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.

KNZ – Board & Executive

KNZ BOARD



From left to right:
Andrew Fenton, Ruth Lee, Ian Greaves, Kristy McDonald QC and Hendrik Pieters

KNZ EXECUTIVE



Geoff Morgan
Chief Executive



Amy Te Whetu
Executive Assistant

Contact details

Kiwifruit New Zealand offices are situated at:
81 Girven Road, Mount Maunganui 3116

Postal Address:
PO Box 4683
Mt Maunganui South 3149

Phone: 07 572 3685
Website: www.knz.co.nz