

Kiwifruit



New Zealand

ANNUAL REPORT

2016 - 2017

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

KNZ – A year in review

The 2016-17 year saw the following major events and changes for KNZ;

- Moved to independent office premises July 2016
- New Compliance Officer appointed August 2016
- MPI review of the Regulations
- Reviewed and updated the Export Authorisation
- 30 collaborative marketing applications considered, with 22 being approved totalling 3.4 million trays for the 2017 season (up from 3.0 million trays in 2016)
- 2017 CM approvals reviewed and adjusted due to changes in crop estimates and size profile (reduced to 3.0 million trays for 2017)
- Comprehensive review of collaborative marketing process for 2017 applications for the 2018 season.



Report from the Chair



Kristy McDonald QC

I am delighted to present the 2016/17 annual report for Kiwifruit New Zealand, including our activities and achievements through this last year.

KNZ has a unique role to play in the kiwifruit industry. As the independent statutory body, it is committed to carrying out its responsibilities in an independent and professional manner. This year has seen KNZ continue to evolve and refine its work under the regulations.

The natural and commercial worlds of kiwifruit are complex and dynamic; we must therefore be willing and able to adapt to changing circumstances. Much of our success can be attributed to our willingness to maintain close engagement with the various stakeholders, including growers, Zespri, collaborative marketers, New Zealand Kiwifruit Growers (NZKGI), Ministry for Primary Industries (MPI) and various other New Zealand and international organisations. While not all parties will agree with KNZ's decisions, our better and more transparent processes mean that stakeholders can have confidence in the robustness of our decisions. KNZ has been developing improved professional standards in the organisation and will continue to do so in coming years.

Despite the complexity and changes in the industry, KNZ has been working to Regulations established 17 years ago. We therefore welcome the government's review of the Regulations and consider that the changes mean KNZ will be better placed to achieve its functions. We look forward to implementing the changes in 2017.

While the focus of this annual report is on our achievements and challenges in the last year, I think it is also useful to signal the strategic goals KNZ has set itself in the coming year. Key initiatives are noted below:

- 1) As a professional organisation, KNZ believes it is important to define further its core values to shape its work and culture.
- 2) The kiwifruit industry and wider public must have confidence that KNZ, as an independent organisation, is meeting its statutory responsibilities. Key to this are accountability, good governance, and adequate performance measures.
- 3) KNZ must continue to improve the effectiveness of its stakeholder engagement.
- 4) We must maintain and further develop effective oversight of Zespri's obligations under the Regulations.
- 5) We should of course ensure costs are allocated and recovered to maximise benefits at minimum cost.

The coming year will be a busy one, but I am confident we have the right skills and expertise at KNZ to continue to manage what will be complex and challenging issues successfully. I look forward to sharing our successes with you next year.

Chief Executive's Report



Geoff Morgan

The 2016/17 year has been an important and busy year for KNZ.

In July 2016, we moved premises from the Zespri building to our own separate offices at Girven Road, Mt Maunganui. The new office gives further reinforcement to our independent status, provides more working space, and has much better meeting facilities. This meant for the first time we could hold all our collaborative marketing meetings and hearings at our office, and this is more cost effective and efficient for all concerned.

In August 2016 Megan Anderson joined the organisation as Compliance Officer. Megan is a New Zealand Barrister and Solicitor, and has spent the last 15 years in senior compliance roles in the financial services sector in London. Megan's legal skills and experience has certainly helped KNZ to improve its processes, and enhance our monitoring and enforcement role in the industry.

In the last year KNZ has also reviewed and updated the Zespri Group Limited Export Authorisation. This document authorises Zespri to export kiwifruit, sets the point of purchase at FOBS, provides for a monitoring and enforcement regime, and requires Zespri to enter into Collaborative Marketing arrangements. This is reviewed annually by KNZ but has not been amended since 2010. This year a number of changes were made to bring it up to date and better reflect the current export environment.

Collaborative Marketing remains a very relevant and important part of the regulations, and KNZ is constantly looking to improve the process and outcomes for all participants. While some changes were made in 2016, the KNZ executive conducted a comprehensive review in early 2017, and further refinements and improvements are planned for the next round of applications for the 2018 season.

The 2016 season was a record production year for the industry with over 140 million trays packed. Collaborative Marketing volumes also showed a marked increase from 1.5 million trays in 2015 to 2.8 million trays exported in 2016 (Full details on pages 8 & 9 of this report).

Another focus for the coming year is increased engagement with all stakeholders. We have regular meetings with Zespri and KGI and will continue to take the opportunity to interact with post-harvest operators and growers whenever possible.

We look forward to implementing the new amended Regulations when they come into force on August 1st, 2017. We believe we have the people, policies and procedures in place to provide the independent oversight expected of us by the industry and the government.

Statement of Financial Performance

	2016-17	2015-16	2014-15
	\$NZ	\$NZ	\$NZ
Revenue			
Funding from Zespri Group	496,349	481,592	390,309
Funding from Collaborative Marketing Fees	362,873	311,920	252,235
Interest Received	1,289	5,010	4,176
Other Revenue	1,771	11,681	-
Total Revenue	862,282	810,203	646,719
Expenses			
Board Expenses	143,346	185,894	165,257
Executive Expenses	172,361	133,803	128,340
Collaborative Marketing Expenses	410,457	374,103	306,162
Other Expenses – Operations	90,763	109,330	20,622
Other Expenses – Overheads	45,139	26,933	24,785
Total Expenses	862,066	830,063	645,166
Surplus before tax	216	(19,860)	1,552
Income Tax Expense	(216)	(1,281)	(652)
Surplus/(Deficit) for the year*	-	(21,141)	900

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

Opinion

We have audited the performance report of Kiwifruit New Zealand ("the entity"), 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 2017, the statement of financial position as at 31 March 2017, and the statement of accounting policies and other explanatory information.

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 accompanying performance report presents fairly, in all material respects:
 - the entity information for the year ended 31 March 2017;
 - the service performance for the year then ended; and
 - the financial position of the entity as at 31 March 2017, 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) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

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) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("ISAE (NZ) 3000 (Revised)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Performance Report* section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the entity.

Responsibilities of the Directors of the Performance Report

The directors are responsible 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 on behalf of the entity 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 report
- in accordance with Public Benefit Entity Simple Format Reporting - Accrual (Not-For-Profit) issued by the New Zealand Accounting Standards Board; and
- c) for such internal control as the directors determine is necessary to enable the preparation of the performance report that is free from material misstatement, whether due to fraud or error.

In preparing the performance report, the directors are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

PARTNERS: Fraser Lellman CA Kenneth Brown CA Janine Hellyer CA Jenny Lee CA
Donna Kemp CA Paul Manning CA

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Auditor's Responsibilities for the Audit of the Performance Report

Our objectives are to obtain reasonable assurance about whether the performance report is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAE (NZ) 3000 (Revised) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this performance report.

As part of an audit in accordance with ISAs (NZ) and ISAE (NZ) 3000 (Revised), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the performance report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the performance report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the performance report, including the disclosures, and whether the performance report represents the underlying transactions and events in a manner that achieves fair presentation.
- Perform procedures to obtain evidence about and evaluate whether the reported outcomes and outputs, and quantification of the outputs to the extent practicable, are relevant, reliable, comparable and understandable.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Who we Report to

This report is made solely to the entity's directors as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the entity and the entity's directors, as a body, for our audit work, for this report or for the opinions we have formed.



BDO Tauranga
Tauranga
New Zealand
22 June 2017

KIWIFRUIT

2.74 m CM TRAY EXPORTS

CM OGR
\$4.26
per/te average

ZESPRI OGR
\$3.89
per/te average

KIWIBERRY

\$24.00
NET RETURN PER TRAY
(excluding Australia)

TOTAL TRAYS EXPORTED
81,918
(excluding Australia)

...COMPARED TO LAST YEAR...

2016-17 SEASON		2015-16 SEASON	
APPLICATIONS RECEIVED	30	APPLICATIONS RECEIVED	29
APPLICATIONS APPROVED	22	APPLICATIONS APPROVED	27
APPLICATIONS DECLINED	8	APPLICATIONS DECLINED	1

Collaborative Marketing Results

2016-17 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)
2007	1.7	12.9	10.4	Not available
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	1.5	14.2	13.6	8.5
2016-17 Season	2.7	22.4	21.6	11.7

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
2007	6.27	5.90	Not available	Not available
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	9.22	8.88	5.73	5.42
2016-17 Season	7.86	7.00	4.26	3.89

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 2016 - 31 March 2017

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 which currently is at FOBS	Regulations 5(c) and 33(1)(b)	Compliance monitored during 2016-17
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)	Monitored Zespri's compliance
To monitor and enforce the non-diversification rule	Regulations 11 and 33(b)(1)	Monitored Zespri's compliance
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's requests and exempted information where Regulation 21(1) and (2) were satisfied
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	For the 2016-17 season, there were 22 kiwifruit and 7 kiwiberry collaborative marketing arrangements For the 2017-18 season 24 kiwifruit and 7 kiwiberry collaborative marketing arrangements were approved.
KNZ will inquire into complaints about the application of the no-discrimination rule, the non-diversification rule, the information disclosure regime and collaborative marketing requirements	Regulation 33(1)(b)	KNZ received a number of enquiries, and met with industry participants and groups to discuss the application of the regulations. An inquiry into one substantial complaint, was concluded and published on 16 June 2016.

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 created KNZ as a Body Corporate of five Members (a Chair and four others) who serve for three year terms.

The Kiwifruit Export Amendment Regulations 2017 come into effect from 1st August 2017 and the board structure will change to comprise of three grower elected members, two independent members and an independent Chair.

Further details are available on the KNZ website.

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



Megan Anderson
Compliance Officer

Contact details

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