

Kiwifruit



New Zealand

ANNUAL REPORT

2017-18

Kiwifruit New Zealand's Annual Report

CONTENTS

	Page
Report from the Chair	2
Chief Executive's Report	3
KNZ Year in Review	4
About KNZ	5
KNZ's Strategic Framework	6
Kiwifruit Regulation Overview	7
Regulatory Monitoring & Compliance	9
Collaborative Marketing 2017-18 by the numbers	10
Collaborative Marketing Results	11
Statement of Financial Performance	12
Auditor's Letter	13
KNZ Board & Staff Contact Details	16

Report from the Chair



Kristy McDonald QC

The 2017/18 year was one in which KNZ saw significant change with the amendment to the Kiwifruit Export Regulations.

The last 17 years have seen the rapid expansion of the kiwifruit industry and an evolving regulatory landscape. The industry has reached a new level of complexity reflecting international and domestic expectations around trade, competition, and economic growth.

Kiwifruit exports now earn New Zealand over 2.5 billion dollars annually and the industry continues to grow strongly each year. This growth is occurring in the context of rapidly changing and complex international trade issues.

These international trade issues present a continuing challenge for the industry and it is therefore vital that the regulatory environment remains strong and fit for purpose and that all stakeholders work together to ensure the success of the industry and the regulatory process. I am very pleased to say that is the environment we are working in.

One of the major changes to the Regulations was a broadening of the definition of what “core business” Zespri may undertake and those activities that “support core business”. KNZ is currently working through the implications of these changes to ensure Zespri and the industry have clarity so they can make informed commercial decisions.

The amendments to the Regulations also saw a number of changes to the governance, accountability and funding arrangements for KNZ. The Board is now comprised of six members who include two new directors appointed by the Minister. We are fortunate to have Tim Main and Neville Harris join the Board. Tim has a strong economics and finance background and Neville has strong regulatory, legal, and governance experience.

Ruth Lee’s term on the Board ended this year after 15 years of service. I would like to acknowledge Ruth’s valuable contribution to the KNZ Board. She played a major role for KNZ given her extensive kiwifruit knowledge, legal skills, and tribunal experience.

As part of its statutory role KNZ undertook a significant investigation this year in response to a complaint of alleged discrimination by Zespri in relation to the Minimum Taste Standard (MTS) regime. The MTS is a fundamental factor in the purchase criteria for kiwifruit and affects the value and quality of New Zealand kiwifruit. KNZ considered it important to conduct a thorough investigation of the complaint and while it found that Zespri had not breached the non-discrimination rule, the findings provided clarity and certainty for Zespri, growers, and the industry.

As an independent regulator, KNZ is mindful of maintaining transparency and accountability. With this in mind, KNZ produced its first Statement of Intent. This is summarised on page 6 of this report, and sets out our values and strategic objectives and shows how we measure the performance of our organisation.

I would like to thank our CEO Geoff Morgan and his team, Megan Anderson and Amy Te Whetu for their skill, hard work and commitment. I also acknowledge our Board and thank them for their contribution to a successful year.

I believe KNZ is doing well. Another busy year looms ahead as we implement the new Regulations and continue work on our key priorities and strategies. KNZ also remains focused on maintaining its excellent working relationships with Zespri, NZKGI, MPI and other key industry stakeholders.

Chief Executive's Report



Geoff Morgan

It's been another interesting year for KNZ with a great deal of our focus being placed on the revision and amendments to the Kiwifruit Export Regulations 1999. As well as providing expert independent input into the government process, KNZ consulted closely with Zespri and NZKGI to ensure a clear understanding of the industry implications and practicalities were identified.

KNZ has been working closely with Zespri through the transitional provisions of the amendments and continues to work through some of the substantial and complex issues particularly in relation to diversified activities. Over the next year KNZ expects to develop key working definitions which will provide the industry with a more certain regulatory environment to assist the strategic decision making necessary for the future growth and development of the industry.

KNZ's first Statement of Intent (SOI) was published in October 2017. This details KNZ's strategic goals, priorities, and performance measures for the next three years. KNZ will measure and report its performance against the SOI measures on an annual basis to MPI.

Collaborative marketing remains a key component of KNZ's responsibilities. As Zespri becomes larger and more successful globally, the opportunities for collaborative marketing arrangements may become more challenging given these arrangements are in collaboration with Zespri. However, KNZ continues to see applications from exporters that may have a comparative advantage in particular markets or where there may be opportunities for innovation in untapped market segments.

After a comprehensive review of the collaborative marketing application process in the 2016/17 year, new more "user friendly" guidelines were published in July 2017. Changes were made to the timing of applications, and a more efficient and streamlined process was adopted. The feedback on the changes has been positive and resulted in a more efficient and less time-consuming and fair application process. With a robust process in place it's likely that in future years it will be more a matter of making refinements to the process rather than substantial change.

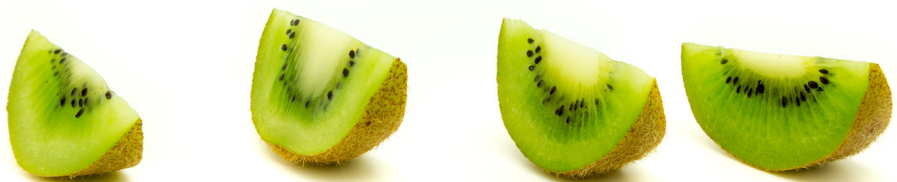
Kiwiberry also comes under KNZ's jurisdiction, and the recent 2018 season was a challenging one for Kiwiberry exporters as the China market remained closed to imported kiwiberry, and the returns from some other markets were less than expected. KNZ will continue to work closely with the New Zealand Kiwiberry Growers group and will also work with the seven kiwiberry exporters who hold collaborative marketing approvals.

We look back on the 2017/18 year with satisfaction that KNZ carried out its functions in an independent and professional manner, and we will continue to strive to do the same in the 2018/19 year.

KNZ – A year in review

The 2017-18 year saw the following major events and changes for KNZ;

- Two directors were appointed by the Minister
- NZKGI Grower Representative, Ruth Lee, left the KNZ board after 15 years of service
- Amended Regulations came into effect from 1st August 2017
- New Export Authorisation was issued
- Thirty three collaborative marketing applications were considered, with thirty one being approved totalling 3.4 million trays for the 2018 season (increase on 2017 season)
- Minimum Taste Standard (MTS) complaint was received and investigated by KNZ
- Kiwifruit Export Information Disclosure Handbook was reviewed in anticipation of MPI review.



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 contain export and activity oriented 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 may direct Zespri to make kiwifruit available for these arrangements.
- define what Zespri's core business is and the activities that support such business

and provision relating to the monitoring and enforcement of

- 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 prior notice rule that requires Zespri to inform KNZ before carrying out any activities that do not support core business but do support the core business by enhancing the performance of core business and the activity poses no more than a low risk (if any) to the interests of producers.
- The non-diversification rule that requires that Zespri must not carry out any activities that are not core business and do not support core business unless agreed by producers in accordance with the process detailed in the Regulations,
- the information disclosure requirements that require information disclosure by Zespri and KNZ.
- The collaborative marketing requirements which include ensuring that Zespri has entered into contracts with collaborative marketers which are consistent with the approval issued by KNZ and that Zespri makes a certain volume of kiwifruit available for collaborative marketing arrangements.

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 six members (a Chair and five others) who serve for a term of three years after which they are eligible for re-appointment or election for a maximum of three terms. The Chair and two directors are appointed by the Minister. The three other directors are elected by kiwifruit producers.

The KNZ Board meets monthly on average throughout the year. The Board may also, from time to time, where appropriate, appoint committees to consider the matters before it.

KNZ's Strategic Framework

KNZ'S VALUES

Promote a culture of professionalism and capability

Act with integrity

Maintain independence through good governance

Deliver accountable, consistent, and transparent processes

KNZ'S FUNCTIONS

1 Grant Export Authorisation

2 Regulate through the mitigation measures

3 Regulate collaborative marketing

MEASURING RESULTS

Strategic Objectives

- Delivering effective oversight of Zespri's activities under the Regulations.
- Providing fair processes that result in consistent and sound decisions.
- Maintaining and enhancing effective stakeholder engagement and participation to increase trust and confidence in KNZ's work.
- Ensuring that costs are recovered consistently with the principles of equity, efficiency, justifiability and transparency.
- Developing KNZ's organisational capability to maintain and improve its position as the impartial independent expert regulator thereby adding value to the kiwifruit industry.

Outputs and Performance

Monitoring and enforcement

Collaborative Marketing Processes

Recover costs effectively

Manage Complaints and Investigations

Official Information Act Requests

Manage Information and Confidentiality

HOW KNZ WORKS

Effective Stakeholder Engagement

Our People

Transparency and Accountability

Kiwifruit Exporting Regulation

KNZ authorises Zespri and collaborative marketers to export New Zealand grown kiwifruit. In addition to exporting the Regulations also define Zespri's core business as:

- the marketing of New Zealand grown kiwifruit; and
- market development for New Zealand grown kiwifruit; and
- research and development relating to kiwifruit.

Controls

Zespri must not unjustifiably discriminate in the way it purchases New Zealand grown kiwifruit.

Zespri must inform KNZ before carrying out activities that support its core business.

To undertake activities that are not core business and do not support its core business, Zespri must follow a kiwifruit producer vote process.

Information disclosures ensure stakeholders are informed and able to evaluate Zespri's performance. Zespri must publicly disclose financial information, kiwifruit purchase conditions, and its kiwifruit payment methodology.

When approving collaborative marketing programmes, KNZ may impose terms and conditions on such programmes. Zespri is also required to enter into contracts with collaborative marketers which are consistent with the KNZ approval.

Powers

KNZ is required to monitor and enforce the above controls. Its enforcement regime is detailed in the Export Authorisation and the collaborative marketing terms and conditions.

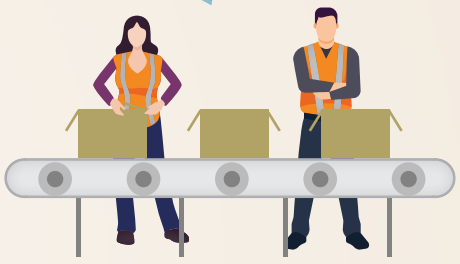


RETURNS



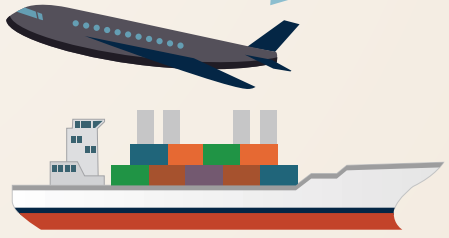


KNZ



ZESPRI

**COLLABORATIVE
MARKETERS**



Regulatory Monitoring & Compliance

1 April 2017 to 31 March 2018

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
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 9,10 & 33(1)(b)	Compliance monitored and investigation of complaint undertaken
To monitor and enforce the prior notice rule	Regulations 10(A) & 33(1)(b)	Compliance monitored
To monitor and enforce the non-diversification rule	Regulations 11 and 33(b)(1)	Compliance monitored
To monitor and enforce the information disclosure requirements	Regulations 12, 14, 17, 20 and 33(1)(b)	Compliance monitored
To monitor and enforce the collaborative marketing requirements	Part 4 and Regulation 33(1)(b)	Compliance monitored
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
To determine collaborative marketing applications	Part 4 and Regulation 33(1)(c)	For the 2017-18 season 24 kiwifruit and 7 kiwiberry collaborative marketing arrangements.

KIWIFRUIT

2.31 m CM TRAY EXPORTS

CM OGR
\$5.58
per/te average

ZESPRI OGR
\$5.86
per/te average

KIWIBERRY

\$21.89
NET RETURN PER TRAY
(excluding Australia)

TOTAL CM TRAY EXPORTS
90,672
(excluding Australia)

KIWIFRUIT CM APPLICATIONS COMPARISON

2017-18 SEASON		2016-17 SEASON	
APPLICATIONS RECEIVED	30	APPLICATIONS RECEIVED	30
APPLICATIONS APPROVED	24	APPLICATIONS APPROVED	22
APPLICATIONS DECLINED	6	APPLICATIONS DECLINED	8

Collaborative Marketing Results

2017-18 Collaborative Marketing Season

- The purpose of collaborative marketing is to increase the overall wealth of New Zealand kiwifruit producers
- 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)
2008	1.9	16.3	13.4	Not available
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	2.7	22.4	21.6	11.7
2017-18 Season	2.3	19.8	18.9	12.7

Each year an exercise is carried out to assess whether the returns to suppliers were greater than if the collaborative marketing arrangement had not been approved.

The results of the benchmarking averaged across all programmes for fruit return are as follows:

Season	CM TFSP Return per TE	Zespri TFSP per TE	CM OGR Return per TE	Zespri OGR per TE
2008	7.01	6.80	Not available	Not available
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	7.86	7.00	4.26	3.89
2017-18 Season	8.34	8.71	5.58	5.86

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.

Statement of Financial Performance

	2017-18	2016-17	2015-16
	\$NZ	\$NZ	\$NZ
Revenue			
Funding from Zespri Group	598,715	496,349	481,592
Funding from Collaborative Marketing Fees	281,592	362,873	311,920
Interest Received	436	1,289	5,010
Other Revenue	9	1,771	11,681
Total Revenue	880,753	862,282	810,203
Expenses			
Board Expenses	179,967	143,346	185,894
Executive Expenses	232,137	172,361	133,803
Collaborative Marketing Expenses	351,379	410,457	374,103
Other Expenses – Operations	74,364	90,763	109,330
Other Expenses – Overheads	42,906	45,139	26,933
Total Expenses	880,753	862,066	830,063
Surplus before tax	-	216	(19,860)
Income Tax Expense	-	(216)	(1,281)
Surplus/(Deficit) for the year*	-	-	(21,141)

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 2018, the statement of financial position as at 31 March 2018, 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 2018;
 - the service performance for the year then ended; and
 - the financial position of the entity as at 31 March 2018, 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.

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

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Responsibilities of the Boards for the Performance Report

The Board is 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) such internal control as the board determines 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 board is 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 Board either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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 Board 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 Board 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 2018

KNZ – Board & Executive

KNZ BOARD



From left to right:
Hendrik Pieters, Neville Harris, Tim Main, Andrew Fenton, Ian Greaves, Kristy McDonald QC

KNZ EXECUTIVE



Geoff Morgan
Chief Executive



Amy Te Whetu
Executive Assistant



Megan Anderson
Senior Legal Counsel

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



www.knz.co.nz