



ZESPRI

*Producer  
Vote*  
2021

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SUPPORTING A ONE-SEASON TRIAL OF  
CHINESE-GROWN GOLD3 KIWIFRUIT

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## Dear Growers,

We're facing a complex challenge in one of our largest and most important markets.

Since first confirming the presence of Gold3 in China in 2016, it has continued to spread rapidly through unauthorised plantings, becoming a threat to the value we've created together.



*Dan Mathieson,*  
CHIEF EXECUTIVE OFFICER

Our best estimate is there is now around 5,400 hectares in the ground in China. To put this in context, we have 8,249 hectares of Gold3 licensed in New Zealand.

We estimate that around 10 million trays of unauthorised Gold3 were produced in China last season, with a Class 1 pack-out rate of approximately 40 percent. Some of this product is entering our sales channels as counterfeit Zespri Kiwifruit; much of it is sold unbranded or under other brands in tier 2 and tier 3 cities. We're seeing increasing on-orchard investment, the emergence of local Gold3 brands and some high-quality but variable fruit being produced.

Zespri has undertaken an extensive process with internal and external experts to understand our options and how to best respond. We've explored legal, regulatory, political and commercial channels in an effort to protect our plant variety rights. Our view is that the plantings are likely to continue to increase, and therefore so will supply of counterfeit and competitor fruit, putting pressure on value, sales channels and market position for New Zealand kiwifruit.

### **As an industry, we have a choice on the pathway we can take:**

1. We could continue with the current approach, including taking legal action where possible, competing against Chinese supply, and consideration for market mix reallocation. We acknowledge that to date this approach has had little success in curbing the expansion of unauthorised plantings. We would continue to compete against Chinese supply and defend our market share for Zespri-branded fruit as actively as we can. Or:
2. We engage and explore a commercial partnership with provincial governments, co-operatives and local growers. This partnership, if successful, could help us to secure our shelf space and distribution, giving us a full 12-month presence and enhancing Zespri's position in the market. Working with the Chinese industry could give us a degree of influence on the supply of Gold3 plantings and reduce the impact on our industry.

Our strong view is that taking action in a pragmatic way and working proactively with the Chinese industry and local government gives us the best opportunity to succeed.

**We're now asking for your support for this approach through this Producer Vote.**

We propose carrying out a monitoring, procurement and sales and marketing trial to determine whether Chinese-grown Gold3 can meet Zespri standards and be sold in China in a commercially viable way which supports the Zespri brand position. We're asking for your approval for an initial one-season trial. The trial would be limited to selling up to 200,000 trays of Class 1 fruit in the first season. If we could demonstrate potential, we would then seek your approval to continue the trial for up to two more years. To support the sales trial, we are asking for approval to use the Zespri brand, in a controlled manner. The use of the Zespri brand would allow us to understand how Chinese customers and consumers perceive the brand when applied to Chinese-grown Gold3 kiwifruit, as well as any risks associated with its use.

We also need to consider whether any relationships we made through that trial could help mitigate the spread of unauthorised Gold3 and strengthen Zespri's Plant Variety Rights (PVR) protection.

Growers have asked us many questions. Can we protect our intellectual property and the brand? Can we really influence the spread of the new plantings? Can we do this in a way which minimises the risks to New Zealand growers? And can we generate value to the wider New Zealand industry through a localised 12-month supply strategy which will keep our brand top-of-mind for consumers and strengthen our retail relationships? We believe the answer is yes and that the proposed trial will allow us to test this.

The consequences of not engaging in the continued spread of unauthorised Gold3 plantings are significant. Put simply, the fruit is there, it is spreading and we believe the risk of not taking action outweighs the risk of doing so.

*Importantly, in this Producer Vote we are seeking support for a one-season trial only, so we can better understand the potential of a commercial partnership.*

It does not commit us to a commercial partnership. That is a decision the industry would make based on the success or otherwise of the trial.

As an industry we have a history of taking on challenges and succeeding. We believe we can here too.

**Dan Mathieson**  
CEO

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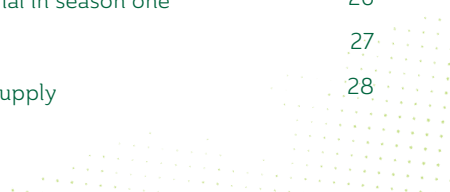
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*Zespri*  
**IN CHINA**

# ZESPRI IN CHINA

China is an incredibly important market for Zespri. It's one of our largest sales markets, returns our highest Orchard Gate Return (OGR) for Gold3 and is a critical part of our future.

## China sales 2019/20

### NZ supply

- 20.3 million trays SunGold
- 7.7 million trays Green

### NZ supply revenue

- NZ \$674 million

### ZGS supply

- 2.5 million trays

### ZGS revenue

- NZ \$62 million

### Total revenue

- NZ \$736 million

Throughout the past 20 years we've focused on building a trusted brand, resilient partnerships and strong relationships in China. We've worked hard to establish a reputation as a business and industry which does things the right way.

During that time we've faced many challenges, but our approach has helped us to overcome adversity, to learn, improve and to continue to succeed. And what we've learned is that **every time we have faced challenges in China, the key to success has been to engage constructively.**

This has helped to deliver strong results.

Sales of New Zealand fruit in China have continued to grow with a total of around 28 million trays sold in China last season, generating record returns. Our sales in China contributed over \$736 million to returns in 2019/20 and are a major part of driving growth in global OGR. We think there is still significant room for growth and planning is underway to more than double our sales to China over the next four years. While Green remains an important part of Zespri's portfolio mix, this additional growth will largely be driven by SunGold.

We also supply China with Zespri Kiwifruit from our Northern Hemisphere growing locations, predominantly Italy, to help us build towards 12-month supply.

In 2016 Zespri became Importer of Record. This has helped us to better manage risks at the China border and to strengthen our relationships and reputation with key government agencies while allowing us to again become closer to our customers. We've invested in brand marketing



and retail relationships into over 50 major cities, and we're planning to extend that network wider to continue to grow our sales base in China. There are over 80 Zespri staff in China to support these efforts and to help to create strong links with Chinese businesses and government agencies.

Zespri was also the first New Zealand company to be granted Key Trademark Protection Status by the Shanghai Intellectual Property Bureau in January last year. We've been well-supported by the Chinese Government to protect our brand from counterfeits.

Zespri has been given keynote platforms at major government events to tell our story and we've established ourselves as a trusted partner on nutrition education initiatives.

We must continue to adapt as China changes. We're taking into account our history, our investment and our relationships as we consider our approach to resolving our next major challenge – the unauthorised Gold3.

## UNAUTHORISED GOLD3

Unauthorised Gold3 plantings in China have increased rapidly. While predominantly centered in the main gold kiwifruit growing province of Sichuan, plantings have also appeared in other provinces including Shaanxi, China's largest kiwifruit production province.

As Zespri's networks on the ground in China have developed, **we've tracked the growth in unauthorised Gold3 hectares from an estimated 2,500ha in 2019 to 5,400ha following the grafting window this year.** From the trajectory we see, it's clear that unauthorised Gold3 is rapidly taking hold in China. This is a complex problem, made even more difficult by the huge scale of China's kiwifruit industry which extends over 200,000ha, as well as the enforcement difficulties to tackle unauthorised plantings.

Taking into account a range of growth estimates, and quality and yield predictions, there could be between 30 and 90 million trays of unauthorised Gold3 Class 1 fruit produced annually in China within the next five years.<sup>1</sup> For context, Zespri exported around 30 million trays to China last season in total, of which 95 percent was New Zealand fruit.

With each passing season, we see an increasingly sophisticated Chinese kiwifruit industry which is adopting

<sup>1</sup> This range is based on a number of assumptions including how the Gold3 returns compare to other varieties in China, improvements in packout rates and competitive brands emerging in key retail channels.

modern growing techniques which mirror New Zealand. They are also developing new varieties.

Demand for kiwifruit is growing and we're seeing a shift in how Chinese consumers buy kiwifruit. This includes increasing acceptance of quality, locally sourced brands across a range of products and sectors.

**Faced with large volumes of unauthorised Gold3 in the market our immediate concern is holding retail shelf space in the Chinese harvest season, as well as maintaining value overall.** Based on the estimated trajectory of plantings around a third of the New Zealand fruit sold in China will compete head-to-head with the unauthorised Gold3. Zespri will face competition for shelf space across our key retail channels as supply increases, putting downward pressure on our pricing as consumers become familiar with quality local Gold3 at a lower price. This will make it harder for us to defend the brand and quality premium for Zespri fruit. Holding shelf space is also important for maintaining relationships with distributors and retailers, and keeping our brand top-of-mind for consumers in the New Zealand off-season.

Without an alternative solution Zespri would need to consider reallocating volume to other markets, adjusting price and accelerating advertising and promotional spend to try and maintain our position in China. **These steps would not slow Chinese production or mitigate the impact it will have on our business and growth aspirations.** There is a significant opportunity cost.

## WHAT IMPACT COULD THE UNAUTHORISED PLANTINGS HAVE ON ZESPRI SALES?

- Drop in demand due to increased competition with unauthorised Gold3, including in our own distribution channels.
- More competition for shelf space with local suppliers securing retail position during the Northern Hemisphere supply season.
- Pressure on pricing and value due to an oversupply of variable quality Gold3, likely at lower price points, and the potential absence of a Zespri premium option for consumers during some months of the year.

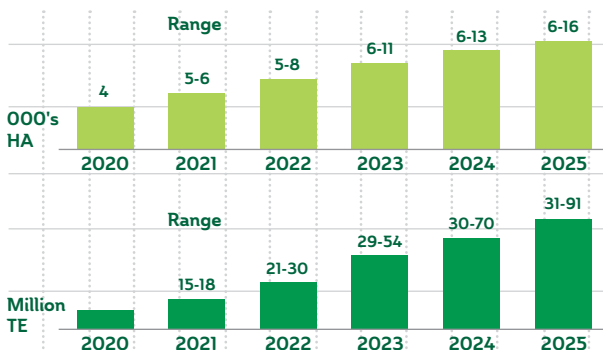
# WHAT ARE WE LEARNING ABOUT THE UNAUTHORISED PLANTINGS?

When we consider the trajectory of the unauthorised plantings and their potential impact on the market, we can see:

- Chinese Gold3 performing well on-orchard and with returns to growers comparable to or better than alternative Chinese varieties.
- Variable fruit quality with some orchards producing high-quality, good-tasting fruit.
- Consolidation of Chinese Gold3 orchards and the emergence of major players.
- Establishment of local Chinese Gold3 brands.
- Chinese Gold3 – both local brands and counterfeit Zespri - appearing in our sales channels.

Given the superior performance of Gold3 for growers compared to many other local varieties, it's likely to continue to attract support from local government and interest from Chinese growers. Gold3 could start to dominate local kiwifruit production.

## HOW BIG ARE THE UNAUTHORISED GOLD3 PLANTINGS LIKELY TO GET?



**Unauthorised growing forecast to surpass Zespri exports into China by 2023**

Source: Zespri International Limited modelling.

# WHAT IMPACT COULD UNAUTHORISED GOLD3 HAVE ON GROWER RETURNS?

The range of growth scenarios makes it difficult to accurately model what the impact of the unauthorised Gold3 plantings could be on New Zealand OGRs. Hectare growth, variety performance, quality, retail channels, price point and the split between counterfeit and branded competition remain to a large extent unknown.

However, the high-level modelling we have done using a mid-range impact scenario forecasts a negative impact of up to \$1.60 per tray on overall global Gold3 OGR by 2030<sup>2</sup> for New Zealand-grown fruit. This scenario factors in 15,000ha of unauthorised Gold3 hectares by 2030 producing 55 million trays of Class 1 equivalent fruit. It indicates the impact of price suppression, and increased marketing and promotion spend to drive sales harder in the competitive shoulder season if we are to try and maintain our forecast New Zealand supply volumes into China by increasing run rates in the earlier part of the New Zealand growing season.

**There are mitigation steps that we could take to reduce the anticipated impact on OGR.** Around 30 percent of New Zealand fruit is sold in the shoulder season from October to February in China (when both New Zealand-grown and Northern Hemisphere fruit sales are in the market at the same time). New Zealand season fruit could be reallocated to other lower-returning markets, initially Europe in the short to medium term, and Japan and Korea in the longer term. The markets receiving reallocated fruit would also need to increase their marketing investment to sell the additional fruit, further impacting OGR. Our modelling suggests these steps could reduce the impact on global Gold OGR to around \$0.50 per tray by 2030, in a best-case scenario.

In modelling these scenarios, Zespri has assumed its planned Gold3 licence hectare release programme in New Zealand remains unchanged. It should be stressed that this modelling is purely. There are a significant number of factors and assumptions which remain fluid. The Chinese-grown Gold3 volume — and the financial impact on New Zealand growers — depends on yield, quality and the performance of other varieties in China.

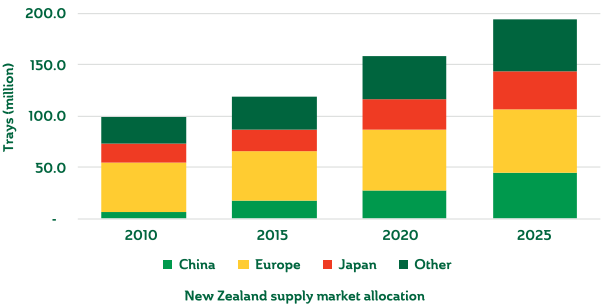
<sup>2</sup> Using estimated costs in 2030.

Understanding these factors and how they are unfolding is a key driver behind the proposed trial.

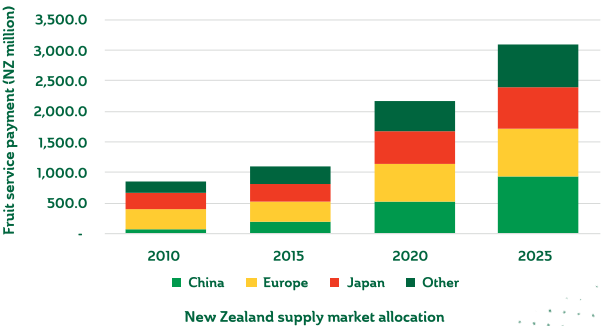
With any reallocation out of the China market, the most significant downside is the market mix opportunity cost. Every tray we don't sell in China is sold in a lower-returning market and potentially reduces China returns in the future. China is a valuable market and a considerable contributor to global OGR.

The Zespri Board reviews and approves the New Zealand season allocation plan before the start of each season. The final amount of fruit allocated to mainland China can vary from year-to-year depending on total volume, market conditions and allocations through the season. Under the current supply-constrained Zespri five-year plan, we are planning to allocate no more than 31 percent of SunGold volume to mainland China between now and 2025.

**Market allocation over time – New Zealand supply**



**Fruit service payment by market contribution**









*Steps*  
**TAKEN BY  
ZESPRI IN CHINA  
SO FAR**

There is no simple solution to addressing the unauthorised plantings in China. We've learned during our 20 years of business in China that success will require a multifaceted and pragmatic approach across legal, regulatory, political and commercial fronts.

## LEGAL AND REGULATORY

In New Zealand we've successfully prosecuted the grower who took the Gold3 variety to China (case under appeal). We're also pursuing other cases in China. The pathway for PVR enforcement in China is more challenging than in other jurisdictions. PVR enforcement also results in a civil case rather than a criminal one. Which means legal action is time consuming, expensive and uncertain given the scale of the infringement.

The experience of Zespri and many other companies dealing with PVR protection in China is that a legal approach is unlikely to succeed on its own and we could face potential brand damage if legal action against local farmers plays out in front of Zespri consumers and stakeholders. Legal action needs to be balanced against potential negative perceptions from Chinese consumers and government.

## COMMERCIAL

On the commercial front, we're doing everything we can to protect sales of Zespri-branded fruit, including significant investment in market monitoring and enforcement against counterfeits. But we're facing ongoing pressure from customers to provide Zespri-branded fruit 12-months of the year. Where we can't do this, it creates space for our competitors.

## POLITICAL

Our efforts on the political front have seen us engage with key players at multiple levels in China, seeking support for our efforts and options for enforcing our PVR and mitigating the spread of the plantings. However, supporting rural communities and alleviating rural poverty remains a key priority for the Chinese Government, adding complexity to our challenge around Gold3.

Throughout our meetings with Ministers and officials in China and New Zealand, with key industry associations and other influential players, we've worked to build key relationships and find a way forward which acknowledges both the challenge faced by Zespri and the Chinese Government's focus on supporting its rural communities. To gain any traction, we must find a way forward which benefits both sides.

## CONSUMERS

We know Chinese consumer attitudes to local produce are changing. A conceptual research project held with consumers in five key cities at the end of 2020 concluded that consumers are as interested in locally grown Gold3 under the Zespri brand as they are in New Zealand-grown Gold3 and the product concept meets their expectations. Research also indicated that Chinese-grown Gold3 under the Zespri brand could command a similar price premium to New Zealand-grown Gold3. Importantly, there was no negative impact on Zespri's brand equity and imagery when tested with consumers.







*What*  
**IS PROPOSED?**

## A WAY FORWARD

Our experienced New Zealand and Chinese advisors tell us that a pragmatic approach to the issue is the most effective way forward.

**Their advice is that engaging with the Chinese industry and central and provincial governments may be the best way to address the issue and to generate some influence over future plantings.** It also means if we get it right, we could strengthen Zespri's reputation and commercial position in China.

The Sichuan State Owned Enterprise and Zespri have agreed to investigate the benefits that working together could bring and how they could play a role in supporting or coordinating the management of local suppliers and supply chain partners. This includes how they could help promote the importance of PVRs to value creation. In parallel, and as the first phase of the trial, **Zespri would evaluate Chinese-grown Gold3 kiwifruit and assess whether it has potential to meet required standards to be considered for supply to and sale by Zespri.**

While Zespri has some ability to explore this opportunity under our core business mandate, that ability is constrained by the Kiwifruit Export Regulations 1999 (Regulations). The core business definition in the Regulations includes R&D relating to kiwifruit. This means for example we could carry out orchard monitoring and testing without requiring producer approval.

However, this information on its own would not answer the question of whether the commercial procurement model is viable. To test this fully, we need to explore the sales and marketing end-to-end supply chain potential, including the impact of the Zespri brand on Chinese-grown Gold3. This element requires producer approval.



# WHY ARE WE GOING TO A PRODUCER VOTE?

Zespri acknowledges that some of the activities in the proposed trial do not support core business (as defined by the Regulations), and in particular that they pose more than a low risk to the interests of producers. Therefore, we seek grower approval for these activities in this Producer Vote under Regulation 11.

## THE TWO RESOLUTIONS

- 1. That the producers agree to Zespri conducting an orchard monitoring, procurement and sales and marketing trial over one season to 31 March 2022, involving the sale of up to 200,000 trays of Chinese-grown Gold3 kiwifruit which meet Zespri's Class 1 standards.*
- 2. That the producers agree that a Zespri label<sup>3</sup>, which identifies the fruit as Chinese-origin, can be used as part of the sales trial, in order to understand consumer response.*

<sup>3</sup> Label using the Zespri brand and logo.





## **RESOLUTION 1: THE PROPOSED COMMERCIAL TRIAL**

**That the producers agree to Zespri conducting an orchard monitoring, procurement and sales and marketing trial over one season to 31 March 2022, involving the sale of up to 200,000 trays of Chinese-grown Gold3 kiwifruit which meet Zespri's Class 1 standards.**

**As part of this we would:**

- Evaluate orchard performance and fruit quality including yield, size, dry matter, orchard inputs, residue testing, storage, food safety, pests and disease.
- Evaluate if, how and when we could get the fruit procured from trial growers to put Class 1 quality fruit on retail shelves.
- Assess the commercial and strategic outcomes for all parties.
- Evaluate consumer perception and sentiment towards Chinese-grown Gold3 through structured consumer research and evaluation programmes.

**The proposed trial would also include:**

- Only Class 1 fruit would be sold as part of the trial in China.
- Sourcing fruit from approximately 50ha of Chinese-grown orchards (selected from among the existing plantings), involving six farm cooperatives.
- Assessing/monitoring on-orchard practices against Zespri growing systems and the standardised orchard monitoring programme.
- Procuring each crop at 'orchard gate' with Zespri oversight through a managed post-harvest supply chain to monitor and assure quality.
- Ensuring the fruit sold meets Zespri's quality standards.
- Testing the brand positioning with customers and consumers through dedicated key account channels. Our marketing team in China would manage research into the sensory evaluation, packaging, and brand proposition.
- Selling and controlling fruit directly through dedicated Zespri direct key account channel(s).

Trial costs would be met by Zespri.





## **RESOLUTION 2: USING THE ZESPRI BRAND ON TRIAL FRUIT IN THE SALES PROGRAMME**

**Note: For the Zespri brand to be used on trial fruit, both Resolution 1 and Resolution 2 must be successful.**

**If only Resolution 1 is passed, the Zespri brand can't be used on trial fruit, which means we can't determine the level of value this could bring.**

**That the producers agree that a Zespri label\*, which identifies the fruit as Chinese-origin, can be used as part of the sales trial, in order to understand consumer response.**

\*The label would use the Zespri brand and logo.

**As part of this we would:**

- Work with a dedicated retail channel in a single province to evaluate the sales performance of Chinese Gold3 when marketed under the Zespri brand.
- Evaluate the relative price-point and premium of local Chinese Zespri SunGold versus non-Zespri local Gold3 of comparable quality.
- Validate consumer sensory and sentiment research to test consumer support for Chinese-grown Zespri SunGold Kiwifruit with commercial sales data.

The one-season Zespri-branded sales trial would look to validate the view that Chinese consumers are increasingly favourable to local produce in actual market conditions from the end of December to the end of February – after the New Zealand sales season. It would allow us to compare the performance of China-grown Gold3 Class 1 fruit under the Zespri brand with the same quality fruit in a different brand, with branding displayed on fruit labels, trays and point-of-sale material.

The Zespri-branded sales trial would be conducted in a single retail channel, in one geographic location to help create a managed environment for the trial. This would allow us to closely monitor the trial and consumer sentiment (including closely assessing online commentary) and proactively manage any risk to the Zespri brand. Having Zespri staff directly involved across the supply chain, from packing to delivery, would further mitigate this. Zespri specifications would be used for sourcing all packaging materials and on-shelf inspections would ensure consumers get fruit of a similarly premium quality.

The trial would determine the level of value the Zespri brand could bring to the sale of Chinese-grown Gold3.

Identified risks and mitigation strategies relating to the trial are covered on pages 32 and 33.

# PROPOSED TIMELINE —TRIAL IN SEASON ONE

## PROJECT TIMELINE

NOV - DEC → DEC - FEB → FEB - MAR

On-orchard  
analysis  
complete

Consumer and  
brand sensory  
work

Zespri recommends  
to growers whether  
or not to proceed  
to Years 2 and 3. If  
yes, go to second  
Producer Vote.



# KEY SUCCESS FACTORS

We want to understand how Gold3 is grown and how it performs in the Chinese environment – the same approach we use with our research R&D trials around the world, and then how it performs in market. In sales channels we want to know how the fruit is perceived by Chinese consumers.

## **These success factors would include:**

- The ability to source kiwifruit which meets Zespri quality standards, including food safety systems.
- Demonstrated acceptance by Chinese consumers of Chinese-grown, Zespri-branded Gold3.
- Value added by using the Zespri brand.
- Clear signals on progress with limiting the spread of plantings and strengthening PVR protections.
- Establishing a base-line data set to underpin that there is a commercially viable proposition and business model.

If these are met, we would seek support from growers in another Producer Vote to continue the trial. The scope for Years 2 and 3 would be outlined to growers then.

There are decision points built into the trial, with the Zespri Board reviewing the results of each year's fruit performance in relation to the success factors set for performance from the orchard through the supply chain. This would take place around February/March each year once the harvest and consumer information has been collated following the September/October harvest and subsequent sales season.

While we are yet to fully understand China's potential as a growing location, it is clear that if the trial proves successful, developing a local supply programme in China could have real and ongoing benefits for New Zealand kiwifruit growers.

# BENEFITS OF 12-MONTH SUPPLY

Zespri's 12-month supply programme has been operating for more than 20 years and continues to deliver benefits and add value to New Zealand growers.

**These include:**



## MORE VALUE FROM OUR MARKETING INVESTMENT

Having the brand in market all year-round maintains brand awareness and the ability to keep providing fruit to our most loyal consumers throughout the year.



## LOWER PROMOTIONAL COSTS TO LAUNCH THE SEASON

With the brand present 12 months of the year, Zespri does not have to spend as much on marketing promotion at the start of the New Zealand season each year to re-introduce the brand to market.



## STRONGER RELATIONSHIPS WITH TRADE

Being able to offer our product all year strengthens our offering to distributors and retailers.



## STRONGER GOVERNMENT RELATIONSHIPS

Our investment and partnership with local growers is recognised by governments as a positive contribution to local communities and the local economy.



## THRIVING COMMUNITIES

Building stronger communities through the contributions we're making and our ongoing focus on sustainability.









*Risks*  
**AND**  
**MITIGATIONS**

# POTENTIAL RISKS AND PROPOSED MITIGATIONS

There are potential risks involved with the trial, as there are with all business decisions and activities. Zespri has adopted a robust planning process for the trial with mitigations to minimise foreseen risks.

Kiwifruit New Zealand (KNZ) identified the areas below as more than low risk in its earlier draft decision on our initial prior notice for a three-year trial last year. It is important to note the Producer Vote has a different risk profile to the test described in the prior notice. Zespri is not required to meet a particular risk threshold. The table provides a broad overview of the risks and Zespri’s proposed mitigations, with processes in place behind each of these mitigations.

We believe the trial risks are manageable and the potential benefits to New Zealand producers more than outweigh these concerns. While the table below is not exhaustive it highlights the broad parameters of our approach to managing risk.

RISK	MITIGATION
<p><b>Brand reputation and customer perception – food safety and quality.</b></p> <ul style="list-style-type: none"> <li>• Risk of a food safety breach which causes brand reputation damage</li> <li>• Chinese consumers react negatively to the concept of China-grown Gold3 which impacts reputation of New Zealand-sourced fruit.</li> </ul>	<ul style="list-style-type: none"> <li>• Trial restricted to the sale a maximum of 200,000 trays in the first season</li> <li>• Sales restricted to one customer within one province, ensuring more control of supply chain traceability of Zespri fruit and connectivity with end consumers</li> <li>• Implement established Zespri pre- and post-harvest protocols in line with standard procedures for all Zespri fruit including ZGS. These are proven processes for helping ensure only the best quality fruit gets to our consumers</li> <li>• 100% residue testing of all supplying orchards to ensure fruit meets Zespri quality standards</li> <li>• Managed consumer engagement through independent marketing agency – this involves testing different brand configurations to measure the value-add from using the Zespri brand and/or local variations to assess reaction to and value of local provenance in marketing</li> <li>• Social media monitoring to understand if any concerns are being raised by consumers</li> <li>• In-depth consumer research to build on existing understanding of brand perception and impact on Zespri brand of China-grown Zespri SunGold</li> </ul>

### **Hasten leakage of on-orchard and post-harvest expertise.**

- New Zealand knowledge and techniques being more broadly applied on China orchards outside of the trial
- Zespri standards and protocols through post-harvest supply chain become widely adopted, lifting overall quality

- Undertake gap analysis between China and New Zealand practices and techniques
- Trial restricted to approximately 50ha in the first season
- Implementation of clear R&D trial processes to ensure protection of data and industry know-how
- Zespri staff to manage and retain all trial data and technical specifications
- Tests on soil, water, leaves, agrichemicals, fertilisers and residues are managed by an independent, certified laboratory company. Zespri's contracted laboratory partner in China would run the maturity clearance testing
- Segmentation of different stages of the supply chain, rather than integrating third parties into the full Zespri system
- No printed materials or digital formats supplied to partners, helping ensure knowledge is not widely transferred

### **Damage to relationship with government stakeholders at end of trial**

- If the trial is unsuccessful, the New Zealand kiwifruit industry could be negatively regarded by some stakeholders, undermining Zespri's position in China

- Open and transparent dialogue around trial parameters and regulatory processes
- Regular engagement with provincial and central government to ensure our expectations are clear and Chinese partners understand our regulatory requirements, and what would be required to proceed with the trial
- A broad programme of ongoing engagement including with industry and government to ensure we continue to build strong and trusting relationships. This includes continued involvement in high-profile collaborations and forums, in support of government-to-government dialogue
- Utilising our strong and experienced Government Relations teams in China and New Zealand as they continue to work in parallel with government and industry partners towards a successful outcome
- Continued use of expert advisors



## WHAT ARE THE RISKS OF NOT ACTING?

**Zespri's clear view is that the risks posed by not doing the trial are far more significant than the risks of doing the trial.** For the past few years, Zespri has investigated other legal, regulatory, political and commercial channels to reduce the spread of the Gold3 plantings. This alone will not allow us to address this issue. The trial is the best option to see if we can bring a positive outcome from the situation in China, including strengthening our presence in the market and influencing the spread of the plantings.

## HOW WOULD ZESPRI MINIMISE THE RISKS FOR GROWERS WHO DON'T AGREE TO THE ACTIVITY?

If the vote is successful Zespri is required by the Regulations to minimise the risks for those who don't vote in support of the resolution, and those that don't vote.

The risks for growers who don't vote in support, or don't vote, are the same as those who vote yes so the mitigations above are designed to reduce risk for all growers. Zespri considers that these mitigations are sufficient to meet the requirements under Regulation 11. Costs would also be met by Zespri.



# WHAT WOULD ZESPRI DO IF THE TRIAL ISN'T APPROVED?

Zespri strongly believes the commercial trial is the best way to determine whether we can achieve a positive long-term outcome for the industry, and **we encourage growers to support the Producer Vote by voting in favour of both resolutions.**

Should growers not approve the trial then we would **continue to protect our brand and market position as vigorously as we can.** This may include:

- Reviewing our sales footprint
- Condensing the New Zealand sales window
- Lifting advertising and promotional spend in China and other markets which are allocated more fruit
- Reviewing market mix
- Increasing IP protection where possible.

We would continue R&D activities in China though this would not give us enough information to determine whether a full commercial procurement model is viable.

Zespri's view is that in this scenario, as per our current position, we would have very limited ability to influence the growth in Gold3 plantings and the expansion of Chinese Gold3 brands. Not doing the trial presents a significant opportunity cost both financial and in the context of building relationships.





*Producer*  
**VOTE**

# HOW AND WHEN TO VOTE

More information on the voting process including voting papers will be sent to you separately in a voting pack.

Additional information and opportunities to engage on the Producer Vote are advertised on the Canopy website, and in industry publications including *Kiwiflier*. In addition a dedicated Producer Vote website [zespriproducervote.zespri.com](https://zespriproducervote.zespri.com) has been created where growers can view these, and additional materials including FAQs.

**The Zespri Board of Directors encourages you to vote FOR both resolutions.**

## VOTING PERIOD

**Opens: 12am 31 May 2021**

**Closes: 12pm 25 June 2021**









*Further*  
**INFORMATION**



# THE REGULATIONS

New Zealand's kiwifruit industry is regulated. The Kiwifruit Industry Restructuring Act 1999 (Act) and the Kiwifruit Export Regulations 1999 set out the current industry structure. The Act and the Regulations establish Zespri as the primary exporter of New Zealand-grown kiwifruit to all countries other than Australia. This arrangement is commonly referred to as the Single Point of Entry (SPE).

The Regulations were updated in 2017 in response to grower feedback on the direction of their industry and one of those changes was to the **definition of Zespri's core business – as well as the purchase and export of New Zealand-grown kiwifruit, this was updated to cover marketing and market development of New Zealand-grown kiwifruit, and R&D relating to kiwifruit.**

To undertake activities not covered under core business, Zespri needs to seek regulatory approval either via providing prior notice to KNZ (Regulation 10A) or via approval from growers in a Producer Vote (Regulation 11). To gain approval, the Producer Vote needs at least 75 percent support from those growers who vote by both number of voters, and by volume (weight) of production.

Zespri must also minimise, as far as is reasonably practicable, the risks that arise from carrying out the proposed activities, for the growers who have not agreed with this activity or do not vote.

## 2019 PRODUCER VOTE

We asked growers in 2019 for approval for Zespri to grow and procure fruit through our non-New Zealand Zespri Global Supply (ZGS) business. Growers approved this Producer Vote with 85 percent of those who voted in support of both activities.

As a part of the previous Producer Vote, Zespri made clear that if we wanted to undertake those activities in China or Chile, we would come back to growers to discuss the matter and seek another approval.

# 2021 PRODUCER VOTE

This Producer Vote is to ask growers to approve a one-season trial in China. The trial would involve the monitoring, procurement, sale and marketing of up to 200,000 trays of Chinese-grown Gold3 kiwifruit. Growers are also asked for their support to use the Zespri brand on Chinese-grown Gold3 kiwifruit which meets Zespri Class 1 standards, within the trial. That fruit would be sold in dedicated retail outlets. The initial indications from the first season would inform whether we recommend to growers that they approve extending the trial to Years 2 and 3.

## THE REGULATORY PROCESS SO FAR

**October 2020** – The Zespri Board considered and approved progressing a China trial proposal, initiating engagement with industry and KNZ on the terms of the proposal. Zespri submitted a prior notice to KNZ for a three-year trial under Regulation 10A, which requires Zespri to inform the KNZ Board before carrying out activities that ‘support core business’.

Before progressing from a trial to a commercial model (should that have proved warranted). Zespri's intention was to ask for growers' support in a Producer Vote.

**November/December 2020** – KNZ assessed whether the proposed three-year trial met the two-part ‘support core business’ test: firstly, is it likely to enhance the performance of Zespri's core business and, secondly, does it pose no more than a low risk (if any) to the interests of producers. Both of these requirements must be met to satisfy the test under Regulation 10A and carry out the activity.

**January 2021** – KNZ provided Zespri with a draft decision on the prior notice under Regulation 10A, concluding that while the trial was likely to enhance the performance of Zespri's core business (satisfying the first part of the test), KNZ considered it posed ‘more than a low risk’ to the interests of producers (failing the second part of the test). Refer to the previous section ‘Risks of the Trial and Proposed Mitigations’ for more detail. KNZ's draft decision on the prior notice and consultant's report is available to be viewed on KNZ's website [www.knz.co.nz](http://www.knz.co.nz).

Zespri considered KNZ's draft decision, in particular the key risks identified, the interpretation of the 'no more than low risk (if any)' threshold applied by KNZ, and the intent of the Regulations for growers to determine Zespri's ability to conduct activities that do not meet this threshold. Zespri decided to withdraw the prior notice and reconsider its approach to meet regulatory requirements for the trial.

**February 2021** – Zespri proposed to proceed to a Producer Vote under Regulation 11 and KNZ provided its response and conditions under which this would meet the regulatory requirements. Accordingly, some aspects of the proposed trial are acknowledged by Zespri as not supporting core business and, in particular, posing more than a low risk to the interests of producers. On this basis, KNZ agrees that Zespri could proceed to a Producer Vote under Regulation 11.

KNZ advised that its role in the Producer Vote process is to make sure Zespri informs all growers of the proposed activities, and that the information is sufficient, accurate and fairly balanced, especially in relation to risk and mitigation measures.

KNZ will also monitor whether Zespri has minimised as far as reasonably practicable the risks arising from carrying out the proposed activity for the producers who have not agreed (whether or not those producers voted).

# IS THE PROPOSED ACTIVITY 'CORE BUSINESS'?



Zespri can carry out the activity.

## OPTION 1 - PRIOR NOTICE

Inform KNZ before carrying out the activity if it meets both parts of the "support core business" test. It must:

- Be likely to enhance the performance of the core business; and
- Be no more than a low risk (if any) to the interests of producers.

Does KNZ agree the test has been met?



Zespri can proceed, KNZ monitors.



Zespri must not do the activity.

## OPTION 2 - PRODUCER VOTE

Has Zespri informed all producers and have they agreed to Zespri carrying out the activity – at least 75 percent by number and by weight of production of those who voted?



Zespri can proceed, KNZ monitors.



Zespri must not do the activity.

## REGULATION 10A

Zespri must inform KNZ before carrying out an activity that supports core business. An activity supports core business if it is likely to enhance the performance of the core business and it poses no more than a low risk (if any) to the interests of producers (Regulation 10A). Zespri can carry out the activity unless KNZ determines the test has not been met.

## REGULATION 11

For activities that do not support core business, Zespri can still carry out the activity as long as producers agree in a Producer Vote carried out in accordance with Regulation 11.

Regulation 11 requires Zespri to carry out a process in which all producers are informed of the proposed activity and asked to agree by vote to Zespri carrying out the proposed activity. There is no risk threshold that Zespri is required to meet. If Zespri secures at least 75 percent support of the growers who vote – by number and by production volume by weight of production – then Zespri may carry out the activity. Zespri must minimise as far as reasonably practicable the risks arising from the proposed activity for the producers who have not agreed.

## THE LEAD-UP TO THE PRODUCER VOTE

Zespri engaged with KNZ to outline the objectives of the trial in a prior notice under Regulation 10A. KNZ provided to Zespri a draft decision which determined the Regulation 10A test was not met and Zespri couldn't engage in the activity under Regulation 10A without first having a Producer Vote under Regulation 11. While KNZ agreed the three-year proposed trial in China does enhance the performance of Zespri's core business, it posed more than a low risk to the interests of producers, so it did not meet the 'support core business test' as per page 45. As a result, Zespri is asking producers to agree to Zespri conducting the China trial for the first season by taking part in this Producer Vote.

The draft decision provided by KNZ outlined key risks to producer interests, which Zespri has taken into account when formulating the current proposal.

# HOW DOES THE VOTE WORK?

This is a grower (or “producer”) vote, not a shareholder vote.

Each producer votes once. A producer is a landowner or a lessee (with a lease of at least one year’s duration as at 3 May 2021) of land on which only Zespri Kiwifruit varieties are grown for supply to Zespri.

Each vote is counted in two ways.

**Producer Count** - The first count of votes is a simple count of only landowners and lessees who voted, and the number of those that vote in favour. This is referred to as the ‘Producer Count’.

**Fruit Weight Count** - The second count is of the production weight in kilograms (not trays) of those who vote. It is based on an average of the last two completed seasons – in this case that is the 2019 season (ending 31 March 2020) and 2020 season (ending 31 March 2021) – and includes all fruit supplied to Zespri. This is referred to as the ‘Fruit Weight Count’.

Owners of orchards which have not yet reached production can exercise their Producer Count vote and do not have a Fruit Weight Count vote.

For leased orchards, the vote of the landowner is counted by default for that orchard’s production weight. However, if the landowner has notified Zespri that the lessee’s vote will count for the production, then the lessee’s vote will be counted for the Fruit Weight Count.

To pass, each Producer Vote resolution must be passed by 75 percent of those who vote (the ‘Producer Count’), and by at least 75 percent of the production in kilograms of those who vote (the ‘Fruit Weight Count’).

## There are two ways the vote needs to pass:

- ✓ 75% of growers by number who vote in favour
- ✓ 75% by fruit weight who vote in favour



## WHAT HAPPENS IF THE PRODUCER VOTE DOESN'T PASS?

If either aspect of the 75 percent threshold is not achieved, Zespri must not carry out any parts of the activity that are outside its core business.

This would mean we couldn't undertake some of the activities that form part of the trial in China, but we could continue the R&D-type activities that we carry out now in China as part of our core business, including orchard monitoring and fruit testing. In particular, Zespri would not sell any fruit procured for R&D purposes.



## WHAT IS THE REGULATOR'S ROLE IF THE VOTE PASSES?

If the Producer Vote passes, Zespri is required to mitigate the risks for producers who did not vote in favour of the resolution (whether or not those producers voted), as it does with all producers. Given the nature of the proposed trial, the mitigation steps outlined on pages 32 and 33 are the same for growers who vote yes as they are for those who vote no or choose not to vote.

It is KNZ's role to monitor and enforce compliance with the Regulations and the mitigation of risk.







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**FOR MORE INFORMATION, VISIT THE DEDICATED PRODUCER  
VOTE WEBSITE ZESPRIPRODUCERVOTE.ZESPRI.COM**



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