



## **The New Zealand Kiwifruit Board**

**2003 / 2004**

### **Annual Report**

**The New Zealand Kiwifruit Board** was established by Regulation 32 of the Kiwifruit Export Regulations 1999 and is known as **Kiwifruit New Zealand**

## Kiwifruit New Zealand's Year

By 31 March 2004 Kiwifruit New Zealand had

Increased **Collaborative Marketing** Market and Pool Return

Improved the **flow of information** from Zespri

Put in place a process for **identifying Zespri's non core business**

Monitored Zespri's **non core business assessments** for 2003 / 04

Dealt with **complaints and inquiries** without delay

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

Kept in **contact with Growers**

### Collaborative Marketing

The results for the 2003 season were excellent. The trend over the last few seasons has been to increase both market and Pool return.

Season	Volume	Market Return	Pool Return
2000	1.1M	\$7.2M	\$5.8M
2001	1.8M	\$12.2M	\$9.9M
2002	1.6M	\$14.5M	\$10.8M
2003	1.6M	\$16.8M	\$12.2M

- Kiwifruit New Zealand worked with the collaborative marketers to encourage the **development of programmes that are wealth creating and complement Zespri's existing programmes.**
- Kiwifruit New Zealand's focus has been on **marketing in premium retail outlets** as opposed to straight no value added fruit trading.

- In line with the increase in **crop volume for the 2004 season**, the volume of kiwifruit approved for collaborative marketing has also increased to just over 2M trays.
- **Programmes for 2004 were approved for** the United Kingdom and Europe, the Baltic States, the United States, Reunion Island, India, Singapore, Malaysia, Thailand, the Philippines, Indonesia and most Pacific Islands.
- Kiwifruit New Zealand continues **to encourage and actively look for new collaborative marketing opportunities**, particularly in the United States and South East Asia.

### Information Disclosure

- Kiwifruit New Zealand has asked MAF to **update the Information Disclosure Handbook**. This Book sets out what Zespri must disclose to growers and shareholders each year normally in Zespri's Annual Report.
- The amendments are to **ensure that more information is provided by Zespri** in its annual report each year and that in turn will permit more effective scrutiny of Zespri's marketing and New Zealand based operations.

### Non Diversification

- A procedure was developed in conjunction with Zespri and was used by Zespri to **assess its activities and asset ownership and operations** to identify its non core business.
- **Zespri Fresh Produce NV** activities were reported on by Zespri to KNZ.

### Complaints and Inquiries

- **One complaint** received during the year and at year's end was on hold at the complainant's request.
- **Eight inquiries** received and resolved during the year.

### Monitoring

- **Regular meetings** with Zespri at Board and Senior Executive level were held and Zespri's activities were monitored as required by the Kiwifruit Export Regulations.
- **Market visits** to Europe, South East Asia and the United States were undertaken to monitor Zespri's and collaborative marketers' activities.

### Report to Growers

- **Growers meetings** were held through out the growing districts, a **newsletter was produced for growers** and articles were written for the **Kiwifruit Journal** explaining what KNZ was doing
- **Regular Hui held** with Te Awanui Huka Pak's growers

# Kiwifruit New Zealand's Annual Report

1 April 2003 to 31 March 2004

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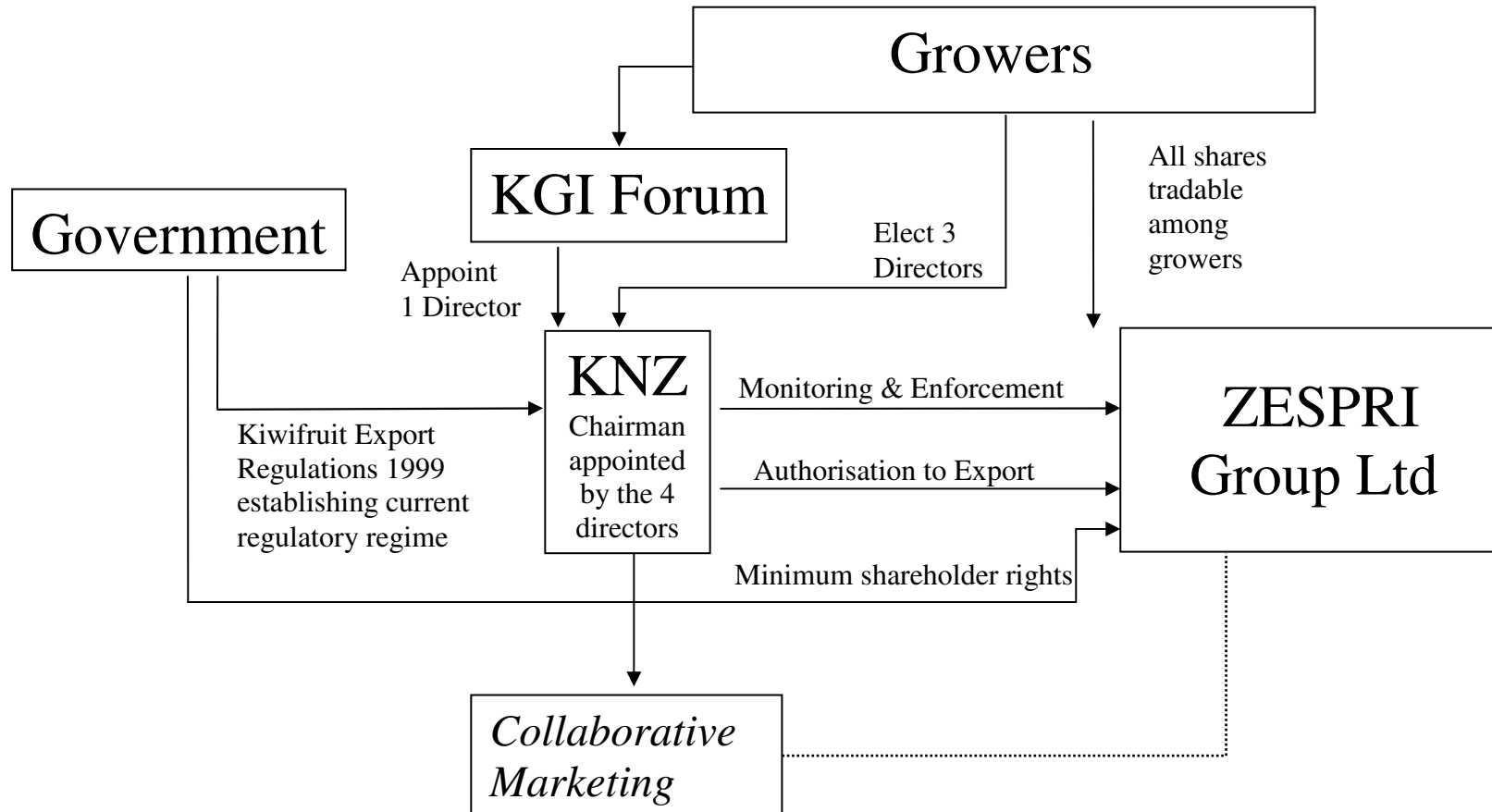
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*References to "the Regulations" or "the Kiwifruit Export Regulations" in this report are references to the Kiwifruit Export Regulations 1999*

*References to "Zespri" in this report include Zespri Group Limited and Zespri International Limited*

*References to "Zespri's Export Authorisation" in this report are references to the Authorisation to Export Kiwifruit Granted to Zespri Group Limited by Kiwifruit New Zealand*

## Regulatory Structure



## **Kiwifruit New Zealand's Regulatory Role**

Kiwifruit New Zealand was established in April 2000 to administer the Kiwifruit Export Regulations 1999.

Kiwifruit New Zealand's functions prescribed in the Regulations are:

- To authorise the export of kiwifruit by Zespri (except to Australia).
- To monitor and enforce the terms and conditions of Zespri's export authorisation.
- To monitor and enforce: the non-discrimination rule, the non-diversification rule and the information disclosure requirements – all rules designed to mitigate the impact of Zespri's monopsony.
- To determine applications to export kiwifruit in collaboration with Zespri – collaborative marketing.
- To inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing.
- For Kiwifruit New Zealand on its own initiative to inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing.
- To encourage, within the scope of KNZ's powers: innovation, efficient price signals to growers, appropriate protections for growers and Zespri's shareholders and, to promote sustained downward pressure on Zespri's costs.

**Monopsony** is defined as *a market situation in which there is only one buyer* and is typically referred to in Zespri's context as *a single point of entry to overseas markets other than Australia*.

The **non-discrimination rule** says that Zespri cannot discriminate among growers/suppliers except on commercial grounds. Commercial grounds include matters relating to product features, quality, quantity, timing, location, risk, or potential returns. The majority of the complaints made to Kiwifruit New Zealand have been made under this rule. The non-discrimination rule is designed to protect growers/suppliers against Zespri mis-using its monopsony power. See Regulations 9 and 10 of the Kiwifruit Export Regulations 1999.

The **non-diversification rule states** that Zespri must not carry out activities, and must not own or operate assets, that are not necessary for the core business unless:

- The providers of capital, generally shareholders and suppliers, whose capital is used or to be used for those activities have been asked and have agreed to the use of their capital for those activities; and
- The providers of capital who have not agreed are not exposed to more than a minimal risk from those activities.

This rule does not apply to sales in New Zealand of kiwifruit up to the limit of 300,000 trays each season. See Regulations 11 of the Kiwifruit Export Regulations 1999.

The **non-diversification rule has the following purposes:**

- To protect shareholder capital when Zespri invests in activities or assets that are not necessary for the purchase of NZ grown kiwifruit for export.
- To mitigate the impact of Zespri's monopsony by preventing it becoming involved in NZ supply activities that are not related to the marketing of NZ grown kiwifruit, so that there is commercial contestability among Suppliers. (Zespri may only purchase kiwifruit at dockside.)
- To keep Zespri focused on marketing NZ kiwifruit and only diversify into non-related activities with the consent of the providers of capital.

**Core business** is defined in the Kiwifruit Export Regulations 1999 as:

*the purchase of NZ grown kiwifruit for export where the point of acquisition of title to fruit is at FOBS. It excludes kiwifruit at FOBS exported to Australia and it excludes the sale of kiwifruit in NZ up to 300,000 trays each season.*

The **information disclosure regime** is designed to ensure that Zespri shareholders and growers/suppliers get the information they need to evaluate Zespri's performance and, if necessary, they can then put pressure on Zespri to perform and to not abuse its dominant position. See Regulations 12 to 14 of the Kiwifruit Export Regulations 1999.

## **Chairman's Report**

Last year I reported a successful year for Kiwifruit New Zealand. Success is not normally a term that sits comfortably with an industry regulator but since its establishment in April 2000, Kiwifruit New Zealand had been working progressively to position itself as an integral and valued part of the New Zealand Kiwifruit Industry. I believe it achieved that goal with its appropriate regulatory vigilance and the gains it made in collaborative marketing that have all enabled and contributed to the Industry's overall success and wealth. In that vein I am pleased to report that Kiwifruit New Zealand has continued to operate successfully and to enable and contribute to another successful year for New Zealand's Kiwifruit Industry. The details of its 2003 achievements are set out in the Summary at the beginning of this report.

This does not mean that Kiwifruit New Zealand's work is over. There is still much to do and I am pleased to report that the Board has been constantly able to review its goals and its performance to ensure that they meet the contemporary requirements of the Industry.

Kiwifruit New Zealand was established by the parliamentary enactment of the Kiwifruit Industry Restructuring Act 1999 and the making of the Kiwifruit Export Regulations 1999. The Act and the Regulations established it as a new regulatory Board charged with ensuring that Zespri Group Limited and its subsidiaries complied with the obligations of an efficient single desk regulatory regime from the date on which that company issued shares to kiwifruit growers.

Looking back over those last four years, it can I think be said that the Kiwifruit Industry has adapted successfully to its new regulatory and collaborative marketing regimes and has, perhaps co-incidentally, enjoyed successive years of increased returns. From a standing start Kiwifruit New Zealand has, with the Industry, developed an effective regulatory organisation that operates cost effectively. Its approach has been to build an effective and constructive working relationship with Zespri and to avoid unnecessary confrontation. Its strategic focus has been on:

- doing its utmost to keep the Industry integrated;
- building grower wealth;
- interpreting the regulations in a positive, permissive and contemporary way; and
- minimising to the greatest degree possible the need to enforce the Regulations.

This has been a successful formula, well suited to the Industry's co-operative regulatory environment. As a Board we are satisfied that an aggressive or overly legalistic approach to the Board's role would not have been appropriate; nor would it have been in the best interests of the Industry. The key requirement for Kiwifruit New Zealand was to make the new regulatory system work to protect growers' interests and to increase growers' wealth and that is what has been achieved.

An updated approach may well be required in the future as the Industry looks to improve its efficiency but whatever model develops, an industry specific regulator such as Kiwifruit New Zealand, must focus on what is in the best interests of growers.

Broadly speaking there are three regulatory regimes established by the Kiwifruit Export Regulations 1999. They oblige Kiwifruit New Zealand to ensure that Zespri:



- treats like growers alike when it purchases their fruit – the non-discrimination rule;
- seeks shareholder approval for any new activities that may not be necessary for the effective purchase and export of New Zealand grown kiwifruit where shareholders provide the capital – the non-diversification rule; and
- provides quality publicly disclosed information to enable its shareholders and growers to monitor and ensure its efficient operation – the information disclosure requirements.

In the past four years Kiwifruit New Zealand has made significant advances in each of these areas.

### **Non-Discrimination**

Expect for sale in New Zealand and Australia, growers have no option but to supply their fruit to Zespri. It is therefore vital for Zespri to treat all growers fairly - to treat all like growers alike when it purchases their fruit. Kiwifruit New Zealand has wide ranging powers to ensure that this happens and to direct Zespri what to do when appropriate, including the paying of compensation.

In April 2000 there were no precedents or jurisprudence for Kiwifruit New Zealand to rely on but over the past four years it has developed that jurisprudence by requiring that like suppliers are treated alike with the objective of protecting growers and suppliers from discriminatory action by the holder of monopoly power; from it exercising a discriminatory power that cannot be justified on commercial grounds.

Kiwifruit New Zealand has also become adept at handling complaints, and inquiries that may otherwise become complaints, in this area.

### **Non-Diversification**

In the last year significant work has been undertaken on the application of this rule. Kiwifruit New Zealand has worked with Zespri to set up and develop an assessment system that enables Zespri to assess its activities and its ownership and operation of assets and to ensure that they are necessary for its core business. Where that assessment ascertains activities that might not be necessary for its core business, then Zespri is obliged to:

- obtain the agreement of the shareholders who provide the capital used or to be used for those activities; and
- ensure that those shareholders who have not agreed are not exposed to more than a minimal risk from those activities.

Kiwifruit New Zealand monitors Zespri's compliance with this rule. The assessment system provides a structure and process to enable these assessments to be made regularly and easily and to yield consistent and sustainable results that enable Kiwifruit New Zealand to ensure that Zespri seeks and obtains appropriate approvals at its Annual General Meetings and thus protect its shareholders.

### **Information Disclosure**

The Board of Kiwifruit New Zealand has for some years actively campaigned to increase the flow of meaningful and useful information to growers and Zespri shareholders. It is not empowered to analyse, audit or criticise Zespri's performance. Its power and obligations are to ensure that Zespri provides the information to its growers and shareholders. Within the course of the last year Zespri has, to its credit, voluntarily increased the flow of information to its growers and its shareholders and Kiwifruit New Zealand has sought the right to require expanded and more appropriate information to be published each year. It has focused on encouraging Zespri to provide information that is useful and in a form that can be understood easily. Growers may have noticed that more information in understandable form is being supplied in Zespri's Annual Report; that alternative revenue statements

now detail the expenses incurred in marketing and selling growers' fruit; that reports on pool costs as a percentage of revenue are now provided; that cause of change reports details what expenses have changed and that a series of financial ratios depicting Zespri's financial health are now provided.

The alternative revenue statements give detailed information on Zespri's two main functions:

- marketing New Zealand grown kiwifruit for which it takes a sales margin; and
- administering the growers' Pools on behalf of growers

that now enables all growers to place Zespri's expenditure under scrutiny and to themselves make informed decisions.

The report on pool costs as a percentage of revenue in part identifies the costs and risks arising from Zespri's monopoly. The provision of cost ratios over a period of time provide trends and indicators about the efficient operation of the monopoly and allows the benchmarking of costs against other similar businesses.

The Cause of Change report usefully provides the financial information to point out what has caused movements in Zespri's returns and profitability. It highlights the key drivers of profitability and their impact on results as compared to the previous year. This can be particularly useful in Zespri's business of exporting horticultural produce where the volatility of volumes produced, prices achieved and movement in exchange rates can and have had a significant impact on returns.

Kiwifruit New Zealand believes that these changes will provide growers with valuable information about the cost of Zespri's selling of their kiwifruit, information that may not otherwise be available to shareholders and growers. It will enable growers to scrutinise Zespri's performance in relation to its obligation to:

- promote efficient pricing signals to shareholders and suppliers/growers; and
- provide appropriate protections for its shareholders and suppliers/growers; and
- promote sustained downward pressure on its costs.

### **Collaborative Marketing**

Kiwifruit New Zealand's other area of responsibility is the authorising of collaborative marketing arrangements with Zespri. The 2003 collaborative marketing programmes have, on the whole, been successful, reflecting in the main Zespri's own performance. They have increased their market returns from \$4.5M in the 2002 season to \$6.8M for the 2003 season. Their 2003 return to the grower pools was \$2.2M, an increase of \$1.4M over the previous season.

Significantly this enhanced result was achieved with a volume of fruit that was similar to what was marketed in 2002 at 1.6m trays. But this pleasing result is not by chance. Kiwifruit New Zealand has worked diligently with its collaborative marketers to encourage them to develop their programmes, to make sure that they are wealth creating, and for their programmes to complement Zespri's own programmes. Our focus in each market has been on marketing to premium retail outlets as opposed to straight fruit trading that does not add value.

To recognise the valued achievements of collaborative marketers, Kiwifruit New Zealand is to launch a Collaborative Marketer of the Year award in 2004 with straight-forward criteria of:

- outstanding market development and product promotion; yielding
- outstanding returns, in excess of Zespri's returns in the same or similar markets.

### **Industry Relationships**

It is important for Kiwifruit New Zealand to have a close relationship with New Zealand Kiwifruit Growers Incorporated, the growers' organisation. It is equally important for Kiwifruit New Zealand to have a cordial and co-operative working relationship with Zespri and a similar on-going relationship with the post harvest sector, especially the Suppliers. But Kiwifruit New Zealand's key relationship is with growers and with the growers' organisation. Kiwifruit New Zealand has always shared its office and its administration with NZKGI and Kiwifruit New Zealand's Chief Executive has always assisted NZKGI with its administration and the co-ordination of its staff and its Executive Committee. Whilst these are practical and cost effective arrangements they must not be allowed to impede Kiwifruit New Zealand's ability to act in the best interests of the Industry as a whole and to ensure that Kiwifruit New Zealand's actual and perceived independence is maintained. A vigilant Board has ensured that these key indicators prevail.

I am satisfied that past arrangements have worked well and have ensured that NZKGI is a strong vital and viable organisation. But if their organisation ever loses those qualities then growers will have lost their rightful place in the sun, their innate strength in the Industry's structure and their ability to influence Industry decision-making by their independence. Kiwifruit New Zealand's role in this regard is therefore an important ingredient in maintaining an integrated Industry where growers are well represented and their voice is heard.

NZKGI also provides Kiwifruit New Zealand with a link to growers. One of Kiwifruit New Zealand's Members is appointed by NZKGI and that Member makes regular reports to NZKGI's Forum meetings. Each year I have had the privilege of reporting to NZKGI's Annual General Meeting on Kiwifruit New Zealand's performance and allowing growers' representatives the opportunity to scrutinise that performance. The NZKGI link with Kiwifruit New Zealand is of inestimable value.

This is my final report as Chairman of Kiwifruit New Zealand. In closing I acknowledge the contribution made by the individual members of the Kiwifruit New Zealand Board since my appointment four and a half years ago and of our Chief Executive. Their dedication and competence has seen Kiwifruit New Zealand come of age and make a difference.

Peter Trapski  
**Chairman**



## **Strategic Focus**

### **What we are:**

We are the guardian of the single point of entry for the export of NZ kiwifruit on behalf of growers.

### **How do we operate?**

We are a facilitator rather than a participant or a doer.

### **Our focus is:**

- To minimise the need to enforce the Kiwifruit Export Regulations 1999.
- To interpret the Kiwifruit Export Regulations 1999 in a positive, permissive and contemporary way.
- To keep the Industry integrated.
- To build grower wealth.

**Kiwifruit New Zealand's**  
**Regulatory Performance 1 April 2003 to 31 March 2004**

Activity	Kiwifruit Export Regulation	Performance
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4 and 33(1)(a)	Compliance monitored during 2003
To monitor and enforce the terms and conditions of Zespri's export authorisation.	Regulation 33(1)(b)	Monthly reports from and meetings with Zespri Group Limited plus the provision of relevant information
To monitor and enforce the non-discrimination rule	Regulations 9 and 33(1)(b)	Compliance monitored during 2003
To monitor and enforce the non-diversification rule	Regulations 11 and 33(1)(b)	Chief Executive monitored Zespri making its assessments and Zespri presented its assessments to KNZ's Board  Assessment chart developed and used by Zespri to assist Zespri make it non core business assessments
To monitor and enforce the information disclosure requirements	Regulations 12 to 14 and 33(1)(b)	Monitored Zespri's compliance  Amendments to the Information Handbook to provide additional and information to growers and shareholders proposed to MAF
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	Approved 19 programmes (1 programme did not proceed) marketing 1.6M trays of kiwifruit that earned a market return of NZ\$16,774,795
To inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing	Regulation 33(1)(b)	One complaint received which was on hold at the end of financial year at the request of the complainant  8 Inquiries received and resolved during the year

**Copies of:**

- Zespri Group Limited Export Authorisation
  - Report on Collaborative Marketing Results for the 2003 season
- are available from Kiwifruit New Zealand on request.**

## **Financial Summary 1 April 2003 to 31 March 2004**

	<b>2003/04</b>	<b>2002/03</b>	<b>2001/02</b>
	\$	\$	\$
<b><u>Income</u></b>			
Regulation 39(a) from Zespri International Ltd	477,420	341,928	552,666
Regulation 39(b) from Collaborative Marketing	48,169	43,772	105,000
Interest and Miscellaneous Income	-	605	1,054
<b>Total Income</b>	<b>525,589</b>	<b>386,305</b>	<b>658,720</b>
<b><u>Expenditure</u></b>			
Kiwifruit New Zealand Board	182,414	116,798	208,945
Kiwifruit New Zealand Executive	195,074	174,459	280,404
Collaborative Marketing	55,013	44,770	87,721
Operations	52,842	-	-
Administration and Overheads	40,734	35,835	95,901*
<b>Total Expenses</b>	<b>526,078</b>	<b>371,862</b>	<b>672,971</b>
<b>Net Surplus to Accumulated Funds</b> (After tax, prior period adjustment and Non-deductible expenses deducted)	<b>(489)</b>	<b>13,142</b>	<b>(14,545)</b>
<b><u>Accumulated Funds</u></b>			
Opening Funds	15,370	2,228	16,773
Net Surplus for Year	(489)	13,142	(14,545)
<b>Total Funds as at Year's End</b>	<b>14,881</b>	<b>15,370</b>	<b>2,228</b>
Collaborative Marketing Income Received in Advance**	55,000	-	-

\* Includes NZKGI's Overheads

\*\* The Collaborative Marketing Reserve allocation is collected from collaborative marketers during the collaborative marketing application process for the 2004 season and is used by Kiwifruit New Zealand during the 2004 season to manage and administer the 2004 collaborative marketing programmes.

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

## **Chief Executive's Report**

Regulation 8 of the Kiwifruit Export Regulations 1999 sets out the purposes for Part 3 of the Regulations. Part 3 establishes the Regulatory regime that applies to Zespri:

- The requirement to treat all like growers the same when Zespri purchases kiwifruit - the non discrimination rule;
- The requirement not to depart from Zespri's core business of purchasing NZ grown kiwifruit for export without shareholder's or the provider of capitals approval - the non diversification rule; and
- The requirement to provide sufficient information to permit shareholders and growers to scrutinise Zespri's operations – the information disclosure regime.

Monitoring Zespri's compliance with these rules and the information disclosure regime is one of Kiwifruit New Zealand's core functions. In addition Kiwifruit New Zealand has enforcement powers which empower it after an investigation to impose any of the following penalties on Zespri:

- *no enforcement action;*
- *issue a private warning or reprimand;*
- *issue a public warning or reprimand;*
- *impose a financial penalty;*
- *order the payment of compensation;*
- *require Zespri to do any specified thing for the purpose of remedying any non-compliance;*
- *make a cease and desist order restraining non-compliant conduct; or*
- *make orders providing for any other reasonable remedies, undertakings, or penalties that Kiwifruit New Zealand considers appropriate.*

These remedies can be imposed on Zespri either after a complaint is made by a supplier or grower or after Kiwifruit New Zealand has carried out an investigation that Kiwifruit New Zealand initiates itself. In the last year there have been no investigations that have resulted in any of these remedies being used. These remedies give Kiwifruit New Zealand the ability to deal with any transgression of the Kiwifruit Export Regulations 1999 by Zespri.

The basis for exercising these remedies lies in the purposes established by Regulation 8 which are:

*The purpose of this Part is to mitigate the potential costs and risks arising from the monopsony, by—*

- (a) *Encouraging innovation in the kiwifruit industry while requiring that providers of capital agree to the ways in which their capital is used outside the core business; and*
- (b) *Promoting efficient pricing signals to shareholders and suppliers; and*
- (c) *Providing appropriate protections for Zespri's shareholders and suppliers; and*
- (d) *Promoting sustained downward pressure on Zespri's costs.*

These four purposes are the basis of the current Regulatory system and are translated into the non discrimination rule, the non diversification rule and the information disclosure regime.

### Strategic Planning

Kiwifruit New Zealand earlier this calendar year started an on-going strategic planning review designed to:

- Firstly review how these four purposes are being met by the current Regulatory regime established by the Regulations; but more importantly
- Secondly to see whether there are other ways these four purposes can be met that are beneficial to growers and the kiwifruit Industry.

The past five seasons have seen Zespri's and collaborative marketing returns increase. Indications are that this trend will not continue indefinitely. This will inevitably put the kiwifruit Industry under some stress and Kiwifruit New Zealand's role will of necessity assume greater importance.

Kiwifruit New Zealand clearly has the authority and power (jurisdiction) to work within the four corners of the current Regulatory regime established by the Regulations. Kiwifruit New Zealand does not have jurisdiction to expand the Regulatory regime beyond what is established by the Kiwifruit Export Regulations.

Kiwifruit New Zealand's on-going strategic review will in part prepare it to deal with any increase in Kiwifruit New Zealand's activities. But the key result from the strategic review will be (hopefully) to give Kiwifruit New Zealand some more ways and strategies in which:

- To keep the Industry integrated; and
- To build grower wealth,

both within the four corners of the Kiwifruit Export Regulations and by an extension of Regulation 8 purposes.

Kiwifruit New Zealand's focus has since its creation in April 2000 been largely on Zespri with contact being maintained with the other Industry participants: NZKGI, Supply Entities, Suppliers and post harvest operators. Regular grower meetings have been held and informative letters about Kiwifruit New Zealand's role have been sent to all growers. Annually Kiwifruit New Zealand has made a report to NZKGI's Forum outlining its activities in the previous year. Kiwifruit New Zealand's development of its new strategic plan and its search for new ways in which to apply the Regulation 8 purposes will likely result in closer relationships being forged with the Industry. These relationships will be the basis for Kiwifruit New Zealand working for continued Industry integration and building grower wealth. Kiwifruit New Zealand will also study other industries to see what lessons can be learnt and applied to the kiwifruit Industry. This strategic planning is not an easy task and will take some time to develop and implement. Kiwifruit New Zealand considers its strategic planning to be a vital step for it to take to secure the kiwifruit Industry's future.

As the Chairman's report demonstrates Kiwifruit New Zealand has made significant progress with the application of the Regulatory Rules and information disclosure regime. Further development work under consideration as part of Kiwifruit New Zealand's on-going strategic review includes:

- Kiwifruit New Zealand taking a more proactive interest in Industry affairs and instead of being reactive and waiting for complaints to be made to it, investigating possible breach on its own initiative.
- Building on the progress made with the non diversification assessments in the last year to ensure accurate and thorough assessments are made in conjunction with Zespri on a regular basis to account for any changes in Zespri's activities or asset ownership or operation.
- Continuing to work with Zespri to increase the meaningful supply of information to growers so that they can effectively scrutinise Zespri's operations.



### Marketing Overseas

The other core Kiwifruit New Zealand function is authorising Zespri to export New Zealand grown kiwifruit and approving other companies to market New Zealand kiwifruit along side Zespri through collaborative marketing. Even without this core function Kiwifruit New Zealand needs to have a good understanding of the market as Zespri is essentially a marketing company. Zespri's core activities apart from the purchase of NZ grown kiwifruit are exclusively focused in the 60 plus markets that Zespri sells kiwifruit in. For Kiwifruit New Zealand to be able to make assessments under the non diversification rule and to ascertain what sort of information is valuable for growers it needs to have a good understanding of Zespri's activities and asset ownership and operation overseas.

Kiwifruit New Zealand also needs a good understanding of the overseas markets to enable it to assess collaborative marketing applications. Regulation 24 of the Kiwifruit Export Regulation succinctly sets out the sole purpose for collaborative marketing:

*The purpose of this Part is to enable the Board to require ZGL to enter into collaborative marketing arrangements for the purpose of increasing the overall wealth of New Zealand kiwifruit suppliers.*

To ensure that this purpose of wealth creation is achieved Kiwifruit New Zealand has established collaborative marketing criteria – a yardstick to be used when assessing collaborative marketing applications. The essence of these criteria is the requirement that collaborative marketing programmes:

- Collaborate with Zespri rather than compete with Zespri.
- Market fruit, not just export and trade it.
- Develop niche and innovative marketing opportunities.
- Develop new marketing opportunities in third world countries.

The result is that collaborative marketing:

- Gives everyone - marketer, organization and person a chance to market kiwifruit overseas including those who are opposed to Zespri's monopoly;
- Tests Zespri's performance in the market – gives Zespri the taste of competition; and
- Picks up marketing opportunities that Zespri has not targeted.

Crop volume for the 2004 season has increased. The volume of fruit approved for collaborative marketing has similarly increased - to just over 2m trays - with programmes in the United Kingdom and Europe, the Baltic States, the United States of America, Reunion Island, India, Singapore, Malaysia, Thailand, the Philippines, Indonesia and most Pacific Islands. Despite an expectation of reduced returns to growers because of the high New Zealand dollar, Kiwifruit New Zealand continues to seek and encourage new collaborative marketing programmes and to work to reduce the opportunities for kiwifruit to be re-exported from Australia to higher paying markets around the world reducing growers' return.

### Finance

It cost more to run Kiwifruit New Zealand in 2003 / 2004. This was because of increased activity which included overseas market visits being made to Europe, South East Asia and the US, expenditure on re-export investigation (which was shared 50:50 with Zespri) and opinions from lawyers and economists being sought on United States anti trust law due to collaborative marketing being re-introduced in the United States. For the 2004 / 2005 year I am pleased to report that Kiwifruit New Zealand has budgeted a \$64,000 reduction in its funding from the grower Pools via Zespri.

Mike Chapman  
**Chief Executive**

**Kiwifruit New Zealand's**  
**Regulatory Activities for 2004 / 2005**

<b>Regulatory Role</b>	<b>Kiwifruit Export Regulation</b>	<b>Activities for 2004 / 2005</b>
To <b>authorise the export of kiwifruit by Zespri</b> (except to Australia)	Regulations 4 and 33(1)(a)	Chief Executive to monitor during year reporting any issues that may give rise to an amendment being considered  KNZ Board to review Zespri's Export Authorisation at its November 2004 Meeting
To monitor and enforce the terms and conditions of <b>Zespri's Export Authorisation</b>	Regulation 33(1)(b)	Chief Executive to monitor during year reporting any irregularities to the KNZ Board  KNZ Board to meet as required to monitor, investigate and enforce the terms of conditions of Zespri's Export Authorisation
To monitor and enforce the <b>non-discrimination rule</b>	Regulations 9 and 33(1)(b)	Chief Executive to monitor during year reporting any possible issues for investigation to the KNZ Board  Non-conflicted KNZ Board Members to Review Service Level Agreements for fruit purchase to ensure compliance at the August 2004 KNZ Board meeting
To monitor and enforce the <b>non-diversification rule</b>	Regulations 11 and 33(1)(b)	Chief Executive to monitor Zespri's assessment process during 2004  KNZ Board to review Zespri's non diversification assessments at its April 2004 and February 2005 Meetings
To monitor and enforce the <b>information disclosure</b> requirements	Regulations 12 to 14 and 33(1)(b)	Ways in which to improve Zespri's provision of information to shareholders and growers to be explored to provide meaningful and timely information to shareholders and growers  Amendments to the Information Disclosure Handbook proposed to the Director General of MAF to increase Zespri's information disclosure requirements  KNZ Board to review Zespri's compliance with the information disclosure regime at its August 2004 Meeting
To determine <b>collaborative marketing applications</b>	Regulations 24 to 31 and 33(1)(c)	Collaborative marketing processes to be simplified; innovative and new programmes identified; and overall growers' wealth increased  The 2004 collaborative marketing programmes returning wealth to growers as good as or better return than Zespri's programmes  The 2005 collaborative marketing approval process fairly completed before start of 2005 season
To <b>inquire into complaints</b> about the application of the non-discrimination rule, the non-diversification rule, the information disclosure requirements and collaborative marketing	Regulation 33(1)(b)	All complaint investigations expeditiously handled with the initial investigations being conducted by the Chief Executive  KNZ's Board to meet as required to consider and determine complaints

## **List of Members and Staff**

Kiwifruit New Zealand comprises of the Chairman and four members. Growers elect three of the members, one is appointed by the New Zealand Kiwifruit Growers Incorporated and the four members appoint the Chairman. The Kiwifruit Export Regulations 1999 require the Chairman to be fully independent of the kiwifruit industry.

### **Kiwifruit New Zealand:**

Chairman	Peter Trapski	(Term expires in September 2004)
Deputy Chairman	Hendrik Pieters	(Term as member expires in September 2006 and term as Deputy Chairman in May 2005)
Members	Grant Eynon	(Term expires in September 2004)
	Brian Calcinai	(Term expires in September 2005)
KGI Appointed Member	Ruth Lee	(Term expires in March 2005)

### **Kiwifruit New Zealand Executive:**

Chief Executive	Mike Chapman
Executive Assistant	Valda Middlemiss

### **Kiwifruit New Zealand offices are at:**

25 Miro Street  
Mount Maunganui

**Phone** 07 574 7139

**Fax** 07 574 7149

### **Postal Address:**

PO Box 4246  
Mount Maunganui South

## **Directory of Policies**

- Code of Conduct: Conflicts of Interest and Confidential Information
- Securities Code of Conduct
- Programme for the Disclosure of Kiwifruit Purchase Conditions
- Requests for Confidentiality under Regulation 21

Copies of the Policies are available from Kiwifruit New Zealand on request