



The New Zealand Kiwifruit Board

Annual Report

1 April 2010 to 31 March 2011

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

Kiwifruit New Zealand's Annual Report

Contents

Page

2	Index
3	Kiwifruit New Zealand's Year
5	Kiwifruit New Zealand's Role
6	Chairman's Report
7	Kiwifruit New Zealand's Regulatory Performance 2010 - 2011
8	Financial Summary for 2010 - 2011
9	Chief Executive's Report
10	Kiwifruit Industry's Regulatory Structure
11	Directory

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

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

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

References to "the Single Desk" or the "Single Point of Entry" are referring to Zespri having the right to export kiwifruit to all countries except Australia.

Kiwifruit New Zealand's Year

During the year ended 31 March 2011 Kiwifruit New Zealand:

Kept in **contact with the Markets, Zespri Marketing Managers, Collaborative Marketers, Growers and Suppliers**

Monitored the **information flow** from Zespri

Monitored Zespri's **non-core business assessments**, including for 12 month supply

Dealt with **complaints, enquiries [and appeals]**

Monitored **collaborative marketing returns** for acceptable returns

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

Contact with Markets, Zespri Marketing Managers, Collaborative Marketers, Product Groups, Growers and Suppliers

- A market visit was made to India
- Meetings were held with the Zespri Collaborative Marketing Manager and Zespri Marketing Managers
- Meetings were held with Collaborative Marketers
- Meetings were held with Growers and Suppliers during the year
- Meetings were held with the Zespri Board and NZKGI Executive
- Presentations were made to NZ Kiwifruit Growers Incorporated, and NZ Kiwiberry Growers Incorporated

Information Disclosure

- Zespri's disclosure of information was monitored to ensure compliance with the Kiwifruit Export Regulations
- Details of collaborative marketing for last season were published by the Board to industry groups, including financial information as to the performance of the collaborative marketers

Non Diversification

- Zespri's assessment of its activities was monitored and then reviewed by Kiwifruit New Zealand's Board.
- Zespri global supply activities were monitored regularly by Kiwifruit New Zealand, and additional information was requested

Complaints and Inquiries

- A number of informal enquiries and Official Information Act requests were received, and actioned

Collaborative Marketing Results

- Increased in market collaboration, particularly in selected markets and generally. Increased collaboration between Collaborative Marketers and Zespri generally
- Increased collaborative marketing volumes in 2010 – 2011 season
- Kiwifruit collaborative marketing volumes and returns since 2000 are as follows:

Season	Volume (millions of trays)	Market Return* (NZD millions)	Fruit Return ** (NZD millions)
2000	1.1	7.2	5.8
2001	1.8	12.2	9.9
2002	1.6	14.5	10.8
2003	1.6	16.8	12.2
2004	1.7	14.1	9.7
2005	1.7	10.8	7.9
2006	1.4	12.0	9.8
2007	1.7	12.9	10.4
2008	1.9	16.3	13.4
2009	1.8	15.2	12.5
2010 (10 – 11Season)	[2.5]	[18.7]	[17.0]

* "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.

** "Fruit Return" 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.

Each year a benchmarking exercise is also carried out between the kiwifruit collaborative marketing programmes and similar Zespri programmes, including for region, country, and market. The results of the benchmarking averaged across all programmes for fruit return is as follows:

Season	Collaborative Marketing Return per TE	Zespri Return per TE
2000	5.26	5.13
2001	5.32	6.06
2002	6.48	6.07
2003	7.56	7.10
2004	5.57	5.56
2005	4.79	4.82
2006	6.85	6.71
2007	6.27	5.90
2008	7.01	6.80
2009	6.79	6.35
2010 (2010 – 2011 Season)	[6.73]	[6.46]

- Kiwifruit New Zealand is working with Zespri to lift the performance of collaborative marketing to ensure that it contributes to the global marketing of NZ kiwifruit

Monitoring

- Regular meetings held with Zespri at Board and Senior Executive level and Zespri's activities were monitored as required by the Kiwifruit Export Regulations
- Market visits were undertaken to provide the context for consideration of collaborative marketing applications and to monitor Zespri's and collaborative marketers' activities

Zespri Export Authorisation Re-issued

- Zespri's Export Authorisation was reviewed as to its effectiveness and confirmed

Kiwifruit New Zealand's Role

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 providing for the establishment, funding, and other matters relating to Kiwifruit New Zealand. The Regulations established on 1 April 2000 a new regulatory board, Kiwifruit New Zealand and contain:

Export orientated provisions that:

- ban the export of NZ 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.
- allow KNZ to approve collaborative marketing arrangements, each of which is an arrangement by which a person may export NZ grown kiwifruit in collaboration with Zespri, and direct Zespri to make kiwifruit available for these arrangements.
- do not apply to the sale of kiwifruit in New Zealand, or its export for consumption in Australia (which from 2004 is regulated by the Horticultural Export Authority).

and provisions relating to monitoring and enforcement:

- the non-discrimination rule that limits Zespri from unjustifiably discriminating in the way it purchases kiwifruit and sets the point of purchase of NZ grown kiwifruit at not earlier than FOBS (free on board ship).
- the non-diversification rule that requires, unless the risks are minimal, that the providers of capital agree to the ways in which their capital is used outside that necessary for the purchase and export of NZ grown kiwifruit (other than for consumption in Australia and sale in New Zealand).
- the information disclosure requirements that require information disclosure by Zespri and KNZ.

The scope of the Regulations and the responsibility of KNZ is limited.

The Regulations deal with the export of NZ 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 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.

Chairman's Report

The Board has completed a busy year in respect to all its activities, which has at times stretched its capacity to undertake its regulatory responsibilities. Chief Executive, Richard Procter has been required to extend substantially the time he spends on Board activities and we are grateful for the energy he has devoted to ensure the extra workload has been completed without compromise to efficiency.

During the year the Board received a major collaborative marketing application which covered a multi year multi country export of new cultivar kiwifruit. The application which covered up to 20 years could be seen as having real significance for the New Zealand kiwifruit industry and required careful consideration. After a hearing by the full Board an interim decision was issued to allow the applicant to undertake further discussions with Zespri to see if it may be possible to put before the Board a proposal for a collaborative marketing programme which was consistent with the provisions of the Kiwifruit Export Regulations. The Board indicated that on the material before it, it was not satisfied that the proposed programme would either increase the overall wealth of NZ kiwifruit suppliers or that the applicants stated intention to collaborate with Zespri was the collaboration required by the Regulations. The Board further indicated that any proposal put to it should be sufficiently detailed and constructed so as to clearly demonstrate that the purpose of collaborative marketing spelt out in the Regulations would be achieved and the means by which collaboration was to be undertaken on a continuing basis would be robust and practical. The Board advised that a further hearing would be arranged to consider any amended or new application, but in the absence of either, would issue a final determination on the basis of what was before it. At years end no further approach had been made by the applicant.

~~Achieving a strong, balanced, and sustainable world recovery was never going to be easy. Two fundamental and difficult economic rebalancing acts are required. First, internal rebalancing: When private demand collapsed, fiscal stimulus helped alleviate the downside. But fiscal stimulus has to eventually give way to fiscal consolidation, and private demand must then be strong enough to take the lead and sustain growth. Second, external rebalancing: Many advanced economies relied excessively on external borrowing to stimulate domestic demand, and must now rely more on net exports. Conversely, many emerging market economies, most notably China, which relied excessively on net exports must now rely more on domestic demand.~~

~~This is an emerging dichotomy. In the advanced economies, weak consumption and investment, together with little improvement in net exports and low growth predominate. By contrast in many emerging economies consumption, investment and net exports are all contributing to growth. Many economies in Asia, other than Japan have enjoyed a strong rebound. In the USA, the platform for rebound is gradually emerging. In the euro area bank credit is restraining demand. For New Zealand kiwifruit this is likely to result in stronger demand from its more prosperous near neighbours, and considerable uncertainty for the consumers of and weaker demand from the more distant markets.~~

~~Anecdotal evidence points to another dichotomy. Domestically New Zealand was one of the first countries of the world to go into recession. Recovery continues but at a rate that is slow compared to past economic cycles. Assisting progress has been strong pricing for some of New Zealand's major export commodities, particularly dairy, and strong growth from major trading partners in the Asia region, including Australia. Conversely, other New Zealand's exports, including horticultural exports have not performed so well. Inhibiting progress has been a strong New Zealand currency and the Christchurch earthquakes, the former reducing the benefit from New Zealand's exports generally and the latter significantly affected confidence and tourist numbers.~~

[2 sentences re exports] The New Zealand kiwifruit industry has faced its own challenges, particularly the emergence of Psa. Domestically, this has added to the uncertainty facing growers. However, unlike what seems to be the outcome for horticulture generally, where growers seem to be struggling to achieve returns to cover their costs, the kiwifruit industry has continued to perform effectively. It seems that a set of Regulations which operate to deter the fractionation of international marketing of New Zealand's kiwifruit crop to grower disadvantage in combination with the strong Zespri marketing brand and marketing system continues to serve the industry well, irrespective of the market circumstances of customers.

During the year Ian Greaves was re-elected to the Board for a further year term. Ian had served on the Board for six years before his re-election, and his ongoing contribution is valued and welcomed.

Sir Brian Elwood

Chairman

Kiwifruit New Zealand's

Regulatory Performance 1 April 2010 to 31 March 2011

KNZ Function	Relevant Regulation	Performance
To authorise the export of kiwifruit by Zespri (except to Australia).	Regulations 4, 5, 6, 7, 33(1)(a) and 42(2)	Monitored during 2010 / 2011, authorisation and the effectiveness of the enforcement regime reviewed. Authorisation continued unchanged.
To monitor and enforce the point of acquisition of title to kiwifruit which currently is at FOBS	Regulations 5(c) and 33(1)(b)	Compliance monitored during 2010 / 2011.
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 2010 / 2011.
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.
To monitor and enforce the information disclosure requirements	Regulations 12 to 14 and 33(1)(b)	Monitored Zespri's compliance.
To consider requests for exemption from ZGL from the information disclosure requirements	Regulation 21	Considered Zespri requests and exempted some information.
To determine collaborative marketing applications	Regulations 24 to 31 and 33(1)(c)	<p>For the year ended 31 March 2011, 22 kiwifruit collaborative marketing programmes operated into 17 countries, involving 13 collaborative marketers. 6 kiwiberry collaborative marketing programmes operated into more than 14 countries.</p> <p>For the year ended 31 March 2012 (2011/12 season), currently 23 kiwifruit collaborative marketing programmes are approved to operate into 20 countries, involving 13 collaborative marketers. In addition, 5 kiwiberry collaborative marketing programmes are approved.</p>
KNZ will inquire into complaints about the application of the non-discrimination rule, the non-diversification rule, the information disclosure regime and collaborative marketing requirements	Regulation 33(1)(b)	A number of informal enquiries were received and actioned.

Copies of the Zespri Group Limited Export Authorisation and the Report on Collaborative Marketing Results for the 2010 - 2011 season are available from Kiwifruit New Zealand on request.

Financial Summary 1 April 2010 to 31 March 2011

	2010-11	2009-10	2008-09
	\$NZ	\$NZ	\$NZ⁽¹⁾
<u>Income</u>			
Regulation 39(a) from Zespri International Ltd	234,232	243,957	219,407
Regulation 39(b) from Collaborative Marketing	245,042	220,087	150,528
Interest and Miscellaneous Income	821	566	3,253 ⁽²⁾
Total Income	480,095	464,609	373,188
<u>Expenditure</u>			
Kiwifruit New Zealand Board	128,824	133,559	117,455
Kiwifruit New Zealand Executive	81,097	88,666	71,937
Collaborative Marketing	227,043	220,028	180,912
Operations	6,047	6,336	4,908
Administration and Overheads	19,065	17,536	13,580
Total Expenses	462,076	466,125	388,791
Prior Period Adjustment	0	449⁽³⁾	0
Net Surplus (deficit) to Accumulated Funds	18,019	(1,066)	(15,603)
<u>Accumulated Funds</u>			
Opening Funds	20,557	21,622	37,225
Net Surplus for Year	18,019	(1,066)	(15,603)
Total Funds as at Year End	38,576	20,557	21,622

Reconciliation of Zespri Funding with Zespri accounts and actual KNZ expenses:

	2010-11	2009-10	2008-09
	NZ\$000	NZ\$000	NZ\$000
Funding as reported in Zespri Accounts	289	311	219
Refunded to Zespri after year end	55	67	0
Regulation 39(a) funding from Zespri as per KNZ accounts	234	244	219
Funding transferred from one year to another by KNZ (net surplus)/deficit	-	2	16
Actual funding by Zespri used each year	234	246	235
Collaborative marketing fees and interest	228	220	154 ⁽²⁾
KNZ actual costs (including collaborative marketing)	462	466	389

- Notes:** (1) KNZ allocates expenses between collaborative marketing and general (other) expenses. In 2008-09, as a result of a reassessment of the time taken by each set of activities, the proportion of KNZ's expenses allocated to collaborative marketing was increased.
(2) Net of income tax.
(3) Tax overpaid in prior years.

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

Chief Executive's Report

Every year brings its challenges, and the financial year ended 31 March 2011 was no exception. The economic downturn was international in its effect, but affected each country differently. Nature also had its say, with two major earthquakes in Christchurch, and significantly for the NZ kiwifruit industry, an even bigger earthquake in Japan followed by a devastating tsunami. Unfortunately also, Psa was discovered in kiwifruit orchards in the Bay of Plenty

For Kiwifruit New Zealand, the financial year ended 31 March 2011 saw a marked upturn in activity. There were an increased number of collaborative marketing arrangements approved, and an increased level of complaints and requests for information.

Collaborative marketing

In the 2010-11 season, 22 kiwifruit collaborative marketing programmes operated into 17 countries, involving 13 collaborative marketers. 6 kiwiberry collaborative marketing programmes operated into more than 14 countries. To date for the 2011-12 season, 23 kiwifruit collaborative marketing programmes have been approved, to operate into 20 countries, involving 13 collaborative marketers. In addition, 5 kiwiberry collaborative marketing programmes were approved. For the last 5 years, over 88% of all kiwifruit collaborative marketing applications submitted have been approved.

One such application approved for the 2011-12 season is for a trial of the Y356 cultivar in market. Although for that season the Y356 cultivar application was the only successful new cultivar there have in the past been successful applications relating to Hort16A and Wilkins varieties. Y356 is an early gold variety protected under the Plant Varieties Act 1987, which provides protection to a holder of a variety that is "new, distinct, homogenous, and stable" and carries with it the right to "produce for sale, and to sell, reproductive material of the variety concerned." The Kiwifruit Export Regulations on the other hand are concerned with export of the fruit, not the sale and production of the reproductive material. Collaborative marketing is about collaboration with Zespri with the purpose of increasing the overall wealth of New Zealand suppliers. There are only two requirements of a collaborative marketing arrangement. In regard to Y356 it is the potential for the successful delivery, marketing and market acceptance of the kiwifruit to consumers that is of significance, not its genetic origins.

Monitoring and Enforcement of the Non-diversification and Information Disclosure Rules

During the year, Kiwifruit New Zealand monitored Zespri's compliance with the non-diversification and information disclosure rules. All potential diversification activities were evaluated and reviewed. Monitoring of Zespri's twelve month supply activities continues.

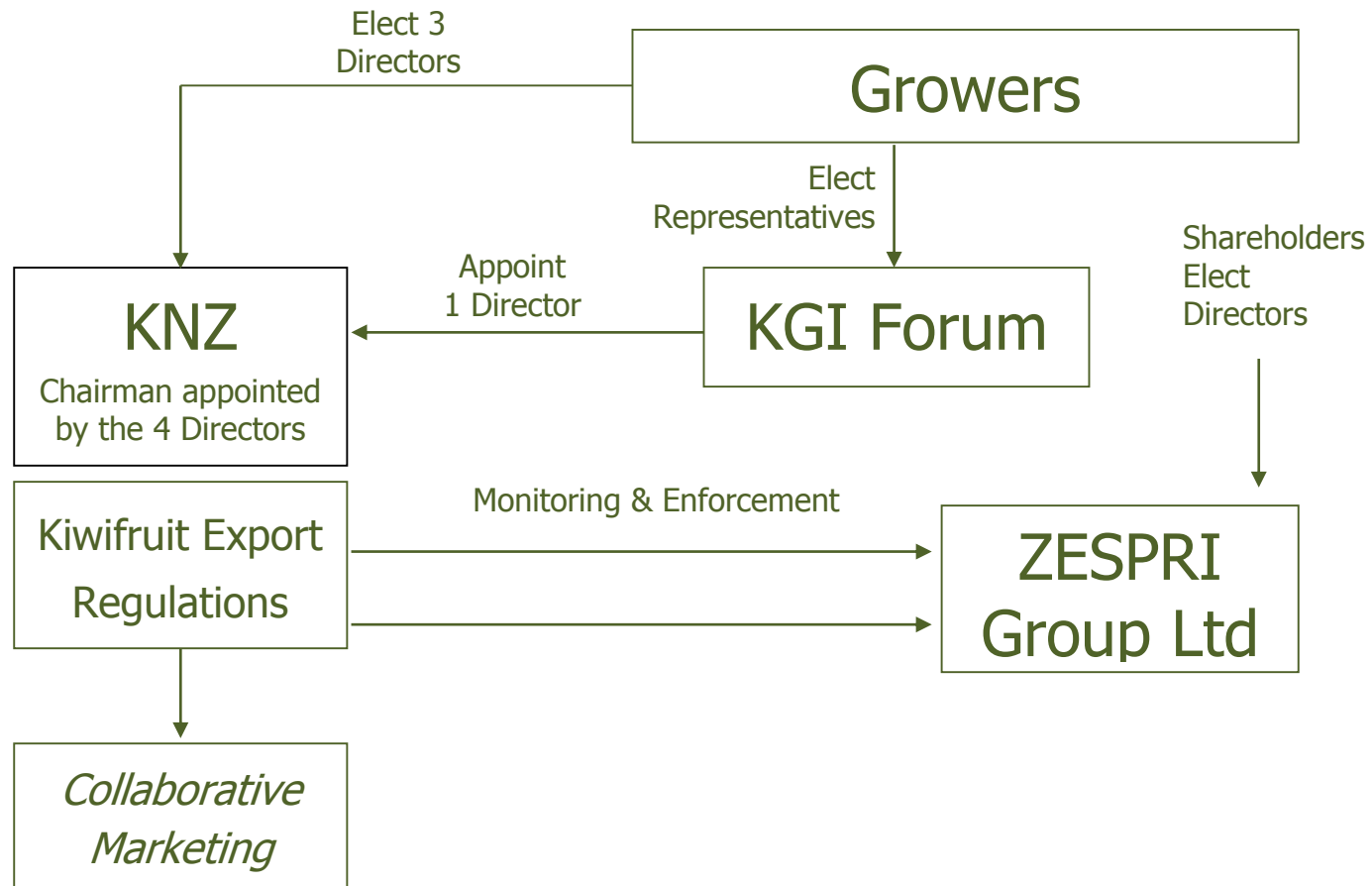
Complaints and Information Requests

The last financial year saw an increase in informal complaints and official information requests. At the end of last financial year, an Ombudsman investigation was under way of a decision by Kiwifruit New Zealand to refuse release of information under the Official Information Act. Kiwifruit New Zealand's decision not to release the information was supported by the Ombudsman.

I would like to thank the Board, and industry for the help and cooperation that I have received over the last year.

Richard Procter
Chief Executive

Regulatory Structure



List of Members and Staff

Kiwifruit New Zealand is comprised of the Chairman and four members who serve for three year terms. Growers elect three of the members, and the fourth member is appointed by the New Zealand Kiwifruit Growers Incorporated. The four members appoint the Chairman. The Kiwifruit Export Regulations 1999 require the Chairman to be fully independent of the kiwifruit industry. Ian Greaves was re-appointed as director for a further 3 years. John Allen's position as a director is up for election this year. The term of the New Zealand Kiwifruit Growers Incorporated appointee also expires this year.

Kiwifruit New Zealand:

Chairperson	Sir Brian Elwood	(Term expires in July 2013)
Deputy Chairperson	Hendrik Pieters	(Term as member expires in September 2012)
Members	Ian Greaves	(Term expires in September 2013)
	John Allen	(Term expires in September 2011)
NZKGI Appointed Member	Ruth Lee	(Term expires in July 2011)

Kiwifruit New Zealand Executive:

Chief Executive	Richard Procter
Administration Assistant	Jo Cunningham

Kiwifruit New Zealand offices are at:

Zespri Building
400 Maunganui Road
Mount Maunganui, 3116

Phone 07 572 3685

Fax 07 572 5934

Postal Address:

PO Box 4683
Mount Maunganui South, 3149

Procedures Manual

A procedures manual is available on request. The procedures manual is designed to provide general advice and guidance on the role and function of Kiwifruit New Zealand Board and its application of the Kiwifruit Export Regulations 1999. It will be updated and revised from time to time. The procedures manual includes KNZ's Code of Conduct for the Conflicts of Interest, and Code of Conduct for trades in Kiwifruit Company Securities.