



The New Zealand Kiwifruit Board

Annual Report

1 April 2014 to 31 March 2015

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

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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

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.

About Kiwifruit New Zealand

In 2000, the New Zealand kiwifruit industry was restructured through the Kiwifruit Industry Restructuring Act 1999 and Kiwifruit Export Regulations 1999.

The Act established Zespri, and provided for the making of Regulations, that in turn provided for the establishment, funding, and other matters relating to Kiwifruit New Zealand. The Regulations established on 1 April 2000 a new regulatory board, Kiwifruit New Zealand ("KNZ") and contain:

Export orientated provisions that:

- ban the export of New Zealand grown kiwifruit otherwise than for consumption in Australia, except as authorised or approved by KNZ.
- require KNZ to provide Zespri with an authorisation to export kiwifruit.
- enable KNZ to approve collaborative marketing arrangements (an arrangement by which a person may export New Zealand grown kiwifruit in collaboration with Zespri) and up to 30 April each year direct Zespri to make kiwifruit available for these arrangements.
- do not apply to the sale of kiwifruit in New Zealand, or its export for consumption in Australia (which from 2004 is regulated by the Horticultural Export Authority).

and provisions relating to monitoring and enforcement:

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

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

The Regulations deal with the export of New Zealand grown kiwifruit and mitigating the potential costs and risks of the export provisions. They do not provide for KNZ to have a general supervisory role in the kiwifruit industry or of Zespri. KNZ is prohibited from carrying out any commercial activity, including the purchase or sale of kiwifruit, or operating to make a profit.

Kiwifruit New Zealand Governance

The Regulations create KNZ as a Body Corporate of five Members (a Chairman and four others) who serve for three year terms. Producers elect three members, and the fourth member is appointed by the New Zealand Kiwifruit Growers Incorporated. The Chairman is appointed by the other four Members, and is required to be fully independent of the kiwifruit industry.

Producers (owners of land in New Zealand on which kiwifruit is produced for export sale) are eligible to vote in elections to appoint the three Producer elected members, and an election is held each year to elect a member by rotation. Candidates are nominated by Producers, and there is no restriction on who may be nominated.

The KNZ Board meets monthly, from February to November inclusive. Each Member, apart from the Chairman, also sits on two Collaborative Marketing Committees. The Chairman chairs the Collaborative Marketing Appeal Committee.

Kiwifruit New Zealand's Year

During the year ended 31 March 2015 KNZ:

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

Processed **collaborative marketing** applications and **appeals**

Monitored the **information flow** from Zespri

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

Dealt with **enquiries**

Monitored **approved collaborative marketing** arrangements for acceptable returns

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

Responded to **Official Information Act** requests.

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

- Market visits were made to Canada, China, Japan, Vietnam, and USA
- 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 New Zealand Kiwifruit Growers Incorporated Executive
- Presentations were made to New Zealand Kiwifruit Growers Incorporated, and New Zealand Kiwiberry Growers Incorporated

Information Disclosure

- Zespri's disclosure of information was monitored to ensure compliance with the Regulations
- Details of collaborative marketing for last season were published 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 reviewed by the Board
- Zespri's global supply activities were monitored, and additional information requested

Complaints and Inquiries

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

Collaborative Marketing Results

- The purpose of collaborative marketing is to increase the overall wealth of New Zealand kiwifruit suppliers
- Collaborative marketing volumes decreased marginally in the 2014 – 2015 season
- Kiwifruit collaborative marketing volumes and returns for the last ten years are as follows:

Season	Volume (millions of trays)	Market Return ¹ (NZD millions)	TFSP ² (NZD millions)	Estimated OGR ³ (NZD millions)
2005	1.7	10.8	7.9	Not available
2006	1.4	12.0	9.8	
2007	1.7	12.9	10.4	
2008	1.9	16.3	13.4	
2009	1.7	14.2	11.6	
2010	2.5	18.5	17.3	
2011	3.6	23.7	22.2	
2012	2.4	18.7	16.1	9.3
2013	1.7	15.5	13.6	8.5
2014-15 Season	1.6	16.4	14.3	9.3

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

Season	CM TFSP Return per TE	Zespri TFSP per TE	CM OGR Return per TE	Zespri OGR per TE
2005	4.79	4.82		
2006	6.85	6.71		
2007	6.27	5.90		
2008	7.01	6.80		
2009	6.79	6.39		
2010	6.82	6.48		
2011	6.21	6.38		
2012	6.71	6.94	3.85	3.99
2013	7.78	7.62	4.89	4.73
2014-15 Season	8.76	8.26	5.70	5.36

Monitoring

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

Zespri Export Authorisation

- Zespri's Export Authorisation was unchanged

¹ "Market Return" is what is returned to the Grower Pools at "Free on Board" after all in market costs, including freight, insurance, promotional expenditure, in market commissions, and before service costs, service level agreement and onshore costs, service charges and fruit incentives.

² "Fruit Return" or Total Fruit and Service Payments ("TFSP") is the Market Return less all commissions, supply costs including costs in respect of service level agreements, onshore direct costs, and the Zespri administration charge, but before service charges, fruit incentives and postharvest costs.

³ "OGR" is the return to growers at orchard gate after deduction of all downstream packing, distribution and marketing costs

Chairman's Report

2014-15 has been another very full year for Kiwifruit New Zealand and the industry, but also one in which there has been an increased focus on the future.

In the referendum conducted by the Kiwifruit Industry Strategy Project growers voted to continue to strongly support the Single Point of Entry, the cornerstone of which is the Kiwifruit Export Regulations. KNZ has also had a stronger focus than normal on the future. Both the Chief Executive and I will be retiring from KNZ later on in 2015, and the Board, mindful of the importance to the industry of the role of KNZ has devoted a considerable amount of time to the appointment of our respective successors. An employment agency has been engaged to assist the Board in this process which will involve a spike in costs, but it is essential that KNZ remain in good hands. I would encourage growers to continue their part in electing to the Board, those with the characteristics, capability and skills to help guide KNZ in the future. The Board has been well served by those who have been elected or appointed as Directors during my 11 years as Chairman.

At KNZ, we often reflect on the work of the pioneers of the Regulations which have in large measure stood the test of time and been sufficiently flexible to remain relevant. That they are is principally due to their generally non prescriptive construction. Their administration is much more than a box ticking exercise. They require the continual exercise of judgement from the Directors and Executive of KNZ as to the merits of what is placed before them and to be cost effective. However, the really special aspect of the Regulations from a growers' perspective is in their dynamics. They are constructed to incentivize accountability to growers, to provide them with appropriate protections, and to deliver outcomes in their interests. Their proper administration underpins a sense of trust and fairness within the industry, something that is essential if it is to work together for the collective good of its participants.

Operationally, the focus of KNZ continues on its two main functions under the Regulations, to authorize and approve the export of kiwifruit for other than consumption in Australia, and the mitigation provisions which sit alongside the single point of entry.

The single point of entry philosophy which is the strength of the industry in the highly competitive world market for fresh fruit has a world recognized leading marketer in Zespri. Its focus is the sale of premium grade New Zealand kiwifruit at premium prices. The respect it has earned is best seen and understood in the markets where it functions. It has been based on a model which retains widespread support from growers and has worked in good years and not so good years to the overall best interests of the industry. I can place on record that Zespri has appropriately complied with its obligations under its export authorization and the Regulations.

KNZ has a very functional and longstanding Board. Three of KNZ's Directors, Hendrik Pieters, Ian Greaves and Ruth Lee have served on the Board for many years and are the backbone of its institutional knowledge. In September 2014, Andrew Fenton was elected to the Board, replacing Alister Hawkey who took the decision not to re-stand. I thank Alister for his valuable contribution to the Board over the three years of his tenure and welcome Andrew Fenton who is well known to the industry and brings extensive knowledge to the Board table.

Richard Procter, our Chief Executive, has chosen to retire in September 2015. His commitment and contribution to the industry over 10 years has been outstanding. Richard and the Board have formed a very effective team. The Board extends their sincere thanks to Richard and wish him and his wife Audrey a well-earned and enjoyable retirement.

Finally, after 11 years, this will be my last Annual Report as Chairman. I have enjoyed my involvement and the interaction that it has brought with all parts of the industry. I have witnessed how an industry

of individual producers can work together successfully to see the fruits of their individual endeavours sold profitably in world markets. That has required good orcharding, a recognized brand, an efficient post- harvest sector, effective marketing and promotion and a supply chain which customers see as credible. Quite simply I have seen an industry which has been able to work together and achieve so much for the participants' advantage and the common good of the New Zealand economy. The outcome could have been different had the industry not stood so strongly together and been tempted to fracture a structure which has worked.

I will now watch with interest from the sidelines as the industry continues to evolve in response to changing and challenging times.

Sir Brian Elwood

Chairman

Perspectives on some issues associated with the work of Kiwifruit New Zealand

We record some general comments on a number of issues of relevance to the work of KNZ.

Collaborative marketing

KNZ authorizes Zespri and approves collaborative marketers to export kiwifruit from New Zealand. Collaborative marketing is an important tool for the industry, and represents an avenue for others to apply their own particular competitive advantages for its benefit. There are only two criteria for approval of a collaborative marketing application. An applicant must satisfy KNZ that an increase in the overall wealth of New Zealand kiwifruit suppliers will result, and the programme will be implemented in collaboration with Zespri. Apart from these regulatory requirements, there are no limitations on form, content, term, or any other aspect of a collaborative marketing arrangement.

Irrespective of the destination or cultivar involved, the same Regulatory criteria apply. Some may consider that they should be entitled to some priority to the higher paying markets, that is to "cherry pick" them, and by way of separate pooling benefit one or more growers to the detriment of other growers generally. This may be appropriate in the case of product that genuinely differentiates itself as a proposition to customers and consumers, but it is for the applicant to demonstrate how what is proposed will result in an increase in the overall wealth of NZ kiwifruit suppliers. This cannot be achieved without some effort.

How successful are collaborative marketing applications

On average, 93% of collaborative marketing applications are approved. This is a very high proportion of applications that are approved. Collaborative marketing applicants are very successful.

How successful is collaborative marketing

Success could be viewed as a high number of approved collaborative marketing arrangements, or a large volume of sales through collaborative marketing arrangements. Either could be achieved by making the price low enough with little regard for the consequences. However that is not what the Regulations intend. Collaborative marketing is only successful if it succeeds in increasing the overall wealth of NZ kiwifruit suppliers in collaboration with Zespri. In other words, collaborative marketing is successful if growers are better off as a result.

Generally for collaborative marketing to make growers better off requires applications which use the kiwifruit available more successfully than other collaborative marketers or Zespri can. At any point of time, there will be some optimum combination of sales between collaborative marketers and Zespri of NZ grown kiwifruit that increases overall wealth. Helping achieve this would be success for collaborative marketing.

Over the last 10 years there have been 283 collaborative marketing applications. From an initial focus on Europe increasingly the current applications are for arrangements into greater Asia, and toward third party cultivars. Amongst the 255 applications approved disappointingly, none have evolved into high volume, significantly innovative and wealth enhancing arrangements that meet the regulatory criteria.

The relationship between the PVR Act and the Regulations

"A grant of Plant Variety Rights for a new plant variety gives" ... the holder..."the exclusive right to produce for sale and sell propagating material of the variety"⁴ in other words a legal property right to

⁴ Intellectual Property Office web site

the propagating material. A grant is made when the Commissioner of Plant Variety Rights is satisfied that a variety is new, distinct, homogenous (uniform), and stable.⁵ A Plant Variety Rights holder may license others to produce for sale and to sell propagating material of the protected variety. Rights holders commonly collect royalties from the commercialisation of their protected varieties. For example, there may be a royalty payable on the sale of the fruit of the propagating material, not on the propagating material itself.

Since March 1985, the Intellectual Property Office records there have been a total of 58 applications for kiwifruit PVR, in respect of which 13 plant variety rights have been granted. 28 of these 58 applications have been surrendered, have lapsed, been refused, withdrawn or cancelled.

Registration involves payment of fees, on the face of it an indication that the PVR holder believes that the cultivar holds some commercial value. Nevertheless, a PVR is no more than a legally created property right, and the ultimate test of value is whether it is commercially viable as tested in the market.

KNZ is required to treat all NZ grown kiwifruit in a similar manner on the basis that all such kiwifruit is subject to the Kiwifruit Export Regulations when exported from New Zealand other than for consumption in Australia.

Occasionally there is a view advanced that a PVR holder should be granted an automatic right to export kiwifruit the subject of a PVR. If that occurred, there could be many existing and potential future kiwifruit PVR holders able to parallel export kiwifruit out of New Zealand, independent of Zespri and effectively outside the provisions of the Kiwifruit Export Regulations. Unlike with collaborative marketing pursuant to the Regulations, there would be no requirement that the purpose be to increase the overall wealth of NZ kiwifruit suppliers in collaboration with Zespri. The purpose of the Regulations may be lost.

Pooling

The practical effect of pooling is that participants in the pool (growers) share returns from the overall mix of higher and lower returning markets. Pooling of returns is fundamental to working together. Rather than face the necessity to compete against other grower groups for customer orders, growers work together using Zespri to achieve an increased overall return. To achieve this the NZ kiwifruit industry has historically invested heavily in promotion, brand and systems, the effect of which manifests itself in a price premium, increased sales, or both.

Common pooling enables the capture of the economy of scale cost and marketing benefits⁶ including for freight. Pools also provide a mechanism to address the return and cost issues originating from the agronomics. Kiwifruit is picked over a time frame of approximately 13 weeks and sold over 40. Unless the costs of early picking and holding costs are somehow compensated, the natural consequence is that downward pressure on prices is maximized when fruit supply is most available, as a result of supply pressure. Pooling permits the orderly optimisation of promotion and holding costs, and the sale window.

Separate pooling can be an attractive proposition for collaborative marketers, and is most likely to involve a different cultivar. The understandable incentive on the collaborative marketer is to access higher returning markets in the time frame when the net benefit of differential holding costs, or their avoidance, is maximised ('cherry pick') while at the same time accessing the benefits of Zespri's economies of scale and marketing system and channeling the returns to one or more growers. Pooling the returns into the Zespri pools eliminates at least some of the incentives to game the system for the benefit of a limited group of growers.

Alternatively, that risk could be addressed by compensatory payments to or from the Zespri pools, with the objective of eliminating any implicit subsidies. While this could achieve the same outcome as common pooling, in practice assessment and calculation of what those payments might be is likely to be

⁵ Plant Variety Rights Act 1987, Clause 10(2)(d).

⁶ Marketing benefits are captured by the application of the marketing strategy developed in one market across all markets in which kiwifruit is sold.

difficult at best. A collaborative marketer may be reluctant to agree there is any benefit from the industry promotion investment made since the introduction of the current regulations, that results in price premium for both current and future products.

Ultimately, grower returns depend on customers and consumers being prepared to pay for what they regard as value. For example brand communicates an expectation around value, not only as to what might be expected from existing product offerings, but also new offerings. In this sense there is a historical and ongoing infrastructure and marketing investment that results in price premiums for both current and future products.

A new cultivar can be either a direct substitute replacement for an existing product, or a new product that adds to the portfolio of products on offer. Historically Hayward is an example of the benchmark product in the Green kiwifruit category. A consumer is likely to purchase either a Hayward or an in type substitute, one or the other at one time, not both.

A genuine new product that results in an expansion of the overall market for kiwifruit or for which the consumer is prepared to pay some premium can be a different proposition. For example, a kiwifruit that matures and can be marketed earlier than any alternatives has a clear differential advantage, the potential to earn an associated price premium, and provide enhanced returns. Under these circumstances, while some cross subsidy issues could remain (particularly as a result of investment in markets, promotion and brand, and scale economies), nevertheless the case for separate pooling could be stronger. However, also, any such differential advantage may be temporary, as alternatives emerge, and industry capability to grow, condition and store kiwifruit evolves.

It is up to the collaborative marketer to present their case to justify separate pooling.

Market agents and compliance

It is likely that an exporter of kiwifruit will make use of a number of agents depending on the extent of the exporters own resources, and the point at which the exporter is perceived to cease being responsible for any risks. Compliance risk can increase with the number of agents involved, in that they may be more attuned to the requirements of their own business. In respect to post sale risks, while title may have passed, the responsibility for adverse outcomes may in some way be passed or inferred back to the exporter. As an example, an exporter may be held responsible for duty and value added tax even though this is an accountability of an importer acting on behalf of a purchaser. An exporter provides information to an importer about the contents of a container. If this information is incorrect, fines and other consequences may eventuate, for which the purchaser will in all probability seek re-dress from the exporter. This presents a compliance risk.

There can also be a reputational risk. Performance failure can have reputational consequences for the importer, which can be far reaching. On the face of it, it appears that China takes the view that it is countries from which it imports, not manufacturers. Failure of one can affect all.

Diversification

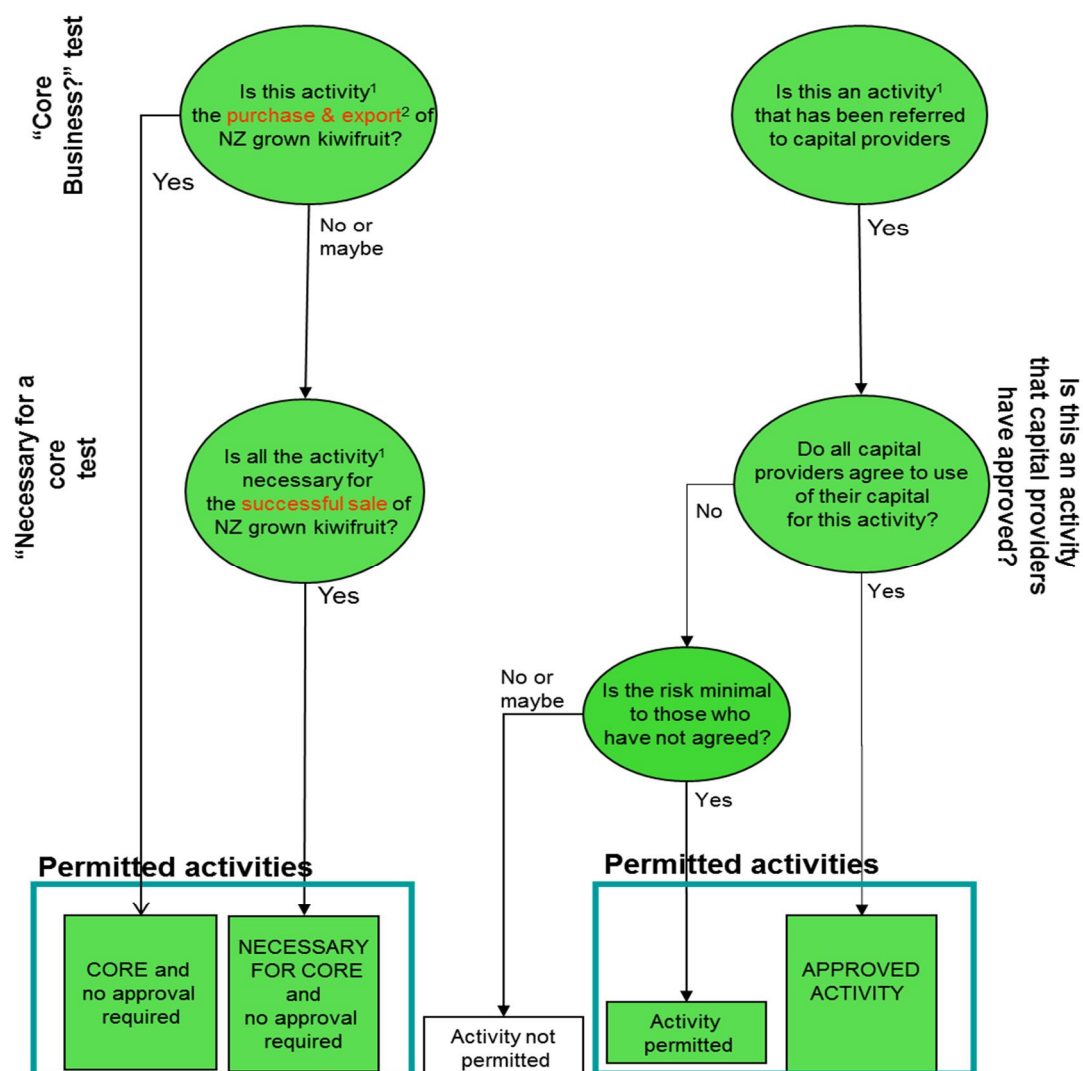
The Non-Diversification rule, in Regulation 11 protects the providers of capital, by placing restraints on the use of that capital by Zespri. Under Regulation 11(1), Zespri must not carry out an activity, or own or operate assets requiring the use of capital unless that capital is necessary for the core business, unless the providers of capital have been asked and have agreed to the use of their capital, and the providers of capital who have not agreed are not exposed to more than minimal risk from those activities.

The obligations under Regulation 11 are for Zespri to satisfy, and require Zespri to currently consider whether an activity meets the criteria of Regulation 11 before it can be undertaken.

KNZ's obligation under the Regulations is to monitor and enforce the provisions of Regulation 11, and for these purposes a regular audit is conducted of all activities undertaken by Zespri on an annual basis, and as a matter of course informal monitoring is undertaken through the attendance of Zespri Board Members, the Zespri Chief Executive and other senior Zespri management at KNZ's Board Meeting, the provision of regular monthly reports by Zespri to the KNZ Board, and the wider participation of KNZ's Members in the kiwifruit industry.

Table 1 (below) sets out how this Regulation is interpreted. Based on their current form, all activities undertaken by Zespri are regarded as core business or necessary for core, leaving Zespri able to use the supplier and shareholder capital available to it appropriately.

Table 1: Regulation 11 Non – Diversification



Notes: 1. Includes activities, ownership or operation of assets

2. Core business: The purchase of NZ grown kiwifruit for export at FOBS and the export of that fruit, excluding exports for consumption in Australia and NZ sales

Kiwifruit New Zealand's Regulatory Performance 1 April 2014 to 31 March 2015

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 2014-2015, 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 2014-2015.
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 2014-2015.
To monitor and enforce the non-diversification rule	Regulations 11 and 33(1)(b)	Chief Executive monitored Zespri making its assessments. Zespri assessments presented 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 2015, 27 kiwifruit collaborative marketing arrangements were approved, operated into more than 18 countries, involving 14 collaborative marketers. 7 kiwiberry collaborative marketing arrangements were approved.</p> <p>For the year ended 31 March 2016 (2015-16 season), 27 kiwifruit collaborative marketing arrangements are approved to operate into more than 15 countries, involving 14 collaborative marketers. In addition, 7 kiwiberry collaborative marketing programmes were 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. There were no formal complaints.

Copies of the Zespri Group Limited Export Authorisation and the Report on Collaborative Marketing Results for the 2014 - 2015 season are available from Kiwifruit New Zealand on request.

Financial Summary 1 April 2014 to 31 March 2015

	2014-15 \$NZ	2013-14 \$NZ	2012-13 \$NZ
Income			
Regulation 39(a) from Zespri International Ltd	390,309	351,487	280,450
Regulation 39(b) from Collaborative Marketing	252,235	222,984	279,280
Interest and Miscellaneous Income	4,176	9,278	2,888
Total Income	646,719	583,748	562,619
Expenditure⁽¹⁾			
Kiwifruit New Zealand Board	165,257	166,161	152,437
Kiwifruit New Zealand Executive	128,340	112,707	105,355
Collaborative Marketing	306,162	271,139	279,280
Operations	20,622	12,266	6,086
Administration and Overheads	24,785	20,690	19,088
Total Expenses	645,166	582,963	562,247
Income Tax	652	785	(373)
Net Surplus (deficit) to Accumulated Funds	901	0	(1)
Accumulated Funds			
Opening Funds	20,241	20,241	20,242
Net Surplus for Year	901	0	(1)
Total Funds as at Year End	21,142	20,241	20,241

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

	2014-15 NZ\$000	2013-14 NZ\$000	2012-13 NZ\$000
Funding as reported in Zespri Accounts	433	318	285
After year-end charge to Zespri (refund)	(43)	33	(5)
Regulation 39(a) funding from Zespri as per KNZ accounts	390	351	280
Funding transferred from one year to another by KNZ (net (surplus)/deficit)	-	-	(1)
Actual funding by Zespri used each year	390	351	279
Collaborative marketing fees and interest	256	232	282
KNZ actual costs (including collaborative marketing)	645	583	562

Notes: (1) KNZ allocates its expenses between collaborative marketing and general (other) expenses.

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

Chief Executive's Report

For Kiwifruit New Zealand, the financial year ended 31 March 2015 saw a more "normal" level of activity. KNZ launched its website in February 2015, which is experiencing a significant amount of activity.

KNZ Costs

KNZ has employed an agency to assist in appointment of a replacement Chairman and Chief Executive. Part of the one-off costs involved will be incurred in the 2014-15 financial year and the balance in 2015-16, which has seen an increase in KNZ's total expenses, as follows:

	2014/15	2013/14	2012/13
Normalised expenses	619	583	562
Actual expenses	645	583	562

Of KNZ's 2014-15 costs, sixty percent were recovered from Zespri Group Limited, and thirty-nine percent from collaborative marketers.

Collaborative marketing

Collaborative marketing continues to evolve. A summary of collaborative marketing applications for the last five years (2011-2016), compared with the previous five years (2004-2010) is set out in the table below:

Five Year Period:	Applications	Approved Applications	% of applications approved	Non Zespri cultivar Applications
2004-2010 inclusive	134	117	87%	4
2011-2016 inclusive	149	138	93%	39
Total	283	255	90%	43

Approximately 30 collaborative marketing applications are received each year. In the last 5 years, an average of 93% of the applications received have been approved. The number of collaborative marketing arrangements for the five third party (non Zespri) cultivars has increased to 39% of the approvals and 18% of the volumes.

2015-16 Season collaborative marketing

For the 2015-16 season twenty seven applications or 96% of applications received were approved. For the 2015-16 season, and further to Regulation 39, KNZ charged a standard approved fee of 16.5 cents per tray. Any over-recovery of collaborative marketing fees is rebated to collaborative marketers. This year the rebate paid to each collaborative marketer reducing the KNZ per tray fee by 15 percent to 13.9 cents per tray.

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 a number of informal complaints and official information requests. The Ombudsman investigation undetermined at the end of the 2011-12 financial year has been resolved satisfactorily. A further Ombudsman investigation remains outstanding at year end.

This will be my final report for KNZ. I would like to thank the Board, and the industry for the help and cooperation that I have received over what is near enough to the last ten years. Every one of the Board and staff of KNZ has contributed significantly to my time in the industry. I am grateful for the benefit of their collective wisdom.

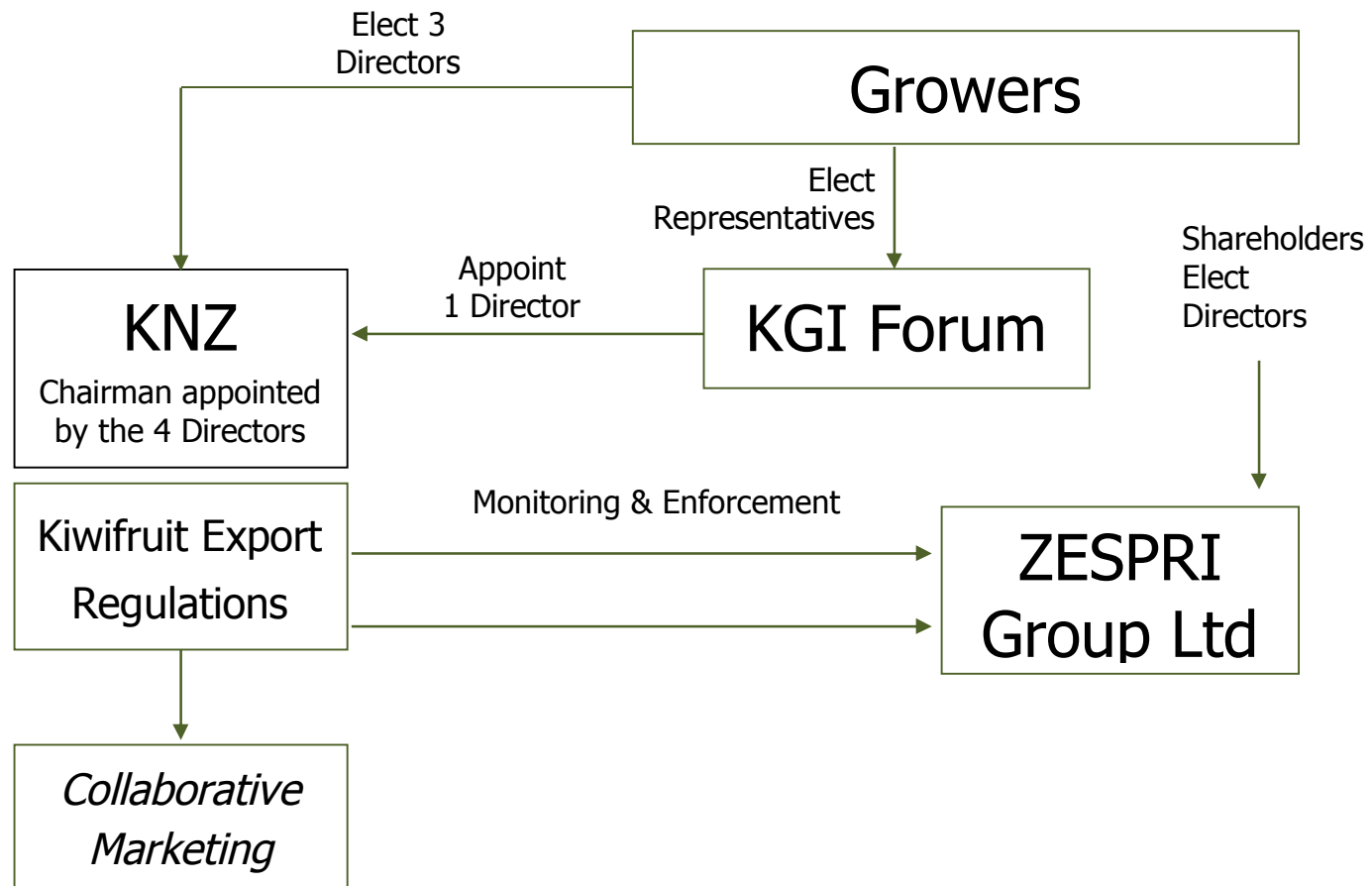
Sir Brian Elwood is also retiring this year, and I would like to thank him particularly for the guidance and support that he has provided over those ten years. I would like to wish him and Lady Dawn all the best for the future.

Finally, an observation. New Zealand as a trading nation has a number of competitive disadvantages, distance to market being one of them. Distance matters. Without a large domestic market, and a propensity toward a right for individuals to want to "do their own thing", competitive advantage of scale is limited, and a constraint on performance. It is sometimes difficult to convince some that they should sacrifice some of their freedom, some of their personal goals, and some of their self-interest, for the sake of the "common good." Paradoxically, it is exactly these benefits from working together that leads individuals to join together to provide capital for and work in the small and large companies of the world. It is hard to imagine the "Apple's" and "Coca-Cola's" being successful without also being a large association of people prepared to work together. The same applies to the kiwifruit industry, just the pathway to get there was different.

The KISP vote demonstrated solid support for the single desk. In the Regulations and its willingness to work together substantially through a single strong marketer, the kiwifruit industry has something special, earned as a result of its collective endeavours and dedication over many years to what is essentially a marketing cooperative of scale. As I have worked with the Regulations over the last 10 years, I have nothing but admiration for those that had the foresight to establish the single desk. Eventually there is no argument with performance.

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. Hendrik Pieter's position as director is up for election this year.

Kiwifruit New Zealand:

Chairperson	Sir Brian Elwood	(Term expires in July 2015)
Deputy Chairperson	Hendrik Pieters	(Term as member expires in September 2015)
Members	Andrew Fenton	(Term expires in September 2017)
	Ian Greaves	(Term expires in September 2016)
NZKGI Appointed Member	Ruth Lee	(Term expires in July 2017)

Kiwifruit New Zealand Executive:

Chief Executive	Richard Procter
Administration Assistant	Amy Te Whetu

Kiwifruit New Zealand offices are at:

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Phone 07 572 3685

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Web Site www.knz.co.nz

Postal Address:

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Mount Maunganui South, 3149

Procedures Manual

A procedures manual is available on the KNZ website. 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.