

# **Single Point of Entry**



**Kellogg's Rural Leaders Programme 2014**

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## **Appendix**

<b>Page 3</b>	<b>Introduction</b>
<b>Page 4</b>	<b>Introduction and Report Overview</b>
<b>Page 5</b>	<b>ZESPRI Performance</b>
<b>Page 6</b>	<b>Production Cost and Green Returns</b>
<b>Page 7</b>	<b>Gold Returns</b>
<b>Page 8</b>	<b>Forward Planning and ZESPRI Margin</b>
<b>Page 9</b>	<b>New Zealand Value and Innovation Spend</b>
<b>Page 10</b>	<b>Innovation</b>
<b>Page 11</b>	<b>Industry Growth</b>
<b>Page 12</b>	<b>Interviews</b>
<b>Page 13</b>	<b>Interviews</b>
<b>Page 14</b>	<b>Patterns and Trends</b>
<b>Page 15</b>	<b>Driving Change</b>
<b>Page 16</b>	<b>Post Harvest and Grower consolidation</b>
<b>Page 17</b>	<b>Other Drivers for Change</b>
<b>Page 18</b>	<b>Summary</b>
<b>Page 19</b>	<b>Conclusion</b>

## **Introduction**

Single point of Entry or SPE, three letters that create so much discussion, divide opinions and have provoked heated debate and conversation for so long. For better or for worse the New Zealand Kiwifruit Industry is extremely unique as the only exporting industry in all of New Zealand that is regulated by the government so that there must be only one exporter of Kiwifruit around the world with the exception of Australia.

Everyone that I have spoken to has an opinion, they all have views on how the SPE should operate, how ZESPRI should operate and whether the SPE should be deregulated or not.

In this introduction I am going to provide you with brief background which covers the following.

- How the SPE came about
- Some of the perceived shortfalls or issues
- What I hope to achieve
- An overview

## **History**

In New Zealand ZESPRI is the sole exporter of kiwifruit to the world and with the exception of Australia, ZESPRI has the sole rights to export to every other country. ZESPRI was formed in 1996, prior to ZESPRI it was known as the New Zealand Kiwifruit Marketing Board, which was reformed after the infamous industry collapse in the late eighties and early nineties. This collapse resulted in growers demanding change, the industry realised it had to change if it was to survive and move forward. Many people were divided on the concept of SPE, however after much debate a referendum was held in September 1988 and growers voted in favour of moving from multiple exporters to a single desk system.

To put in perspective how the industry has moved forward, in the early eighties the Kiwifruit Industry in New Zealand was exporting 22,000 tonnes of kiwifruit per season and in 2014, the industry exported 330,000 tonnes, employing tens of thousands people directly and many more indirectly. The Kiwifruit Industry in New Zealand is a billion dollar business and is about to go through another big growth period.

## **Perceived Views and Issues**

Some of the perceived views or issues that are directly related to the SPE or as result of the SPE being in place include:

1. No competition for ZESPRI, as they are a monopoly, and hold a lot of the rights, make the rules and control the power to a certain extent.

2. What is the benchmark? Are the growers getting good returns? These sorts of questions are not easily answered. As ZESPRI is the only exporter of New Zealand Kiwifruit, the growers have nothing to compare ZESPRI performance against.
3. The system is bureaucratic and out of touch, growers become less involved and the power of the organisation becomes overwhelming.
4. The system is focused on its own existence rather than those it should be serving.
5. The system adds another level of cost and compliance complexity that ultimately negates the benefit of what it was set up for.

### **What I hope to achieve**

First thing I want to achieve is a greater understanding on how the SPE and ZESPRI are performing against Chile, ZESPRI biggest competitor and other key areas of growth and innovation.

I wanted to understand what key people within the industry thoughts in regards to the SPE and ZESPRI. These key people included the Chairmen of ZESPRI Board, GM of ZESPRI, CEO and MD of Post Harvest Companies.

I conducted a number of interviews with these key people asking the same set of question to each. I got some insightful information which brought up some interesting trends and differences. I also wanted to understand where the growers are at with the SPE so I spoke with growers asking them the same questions.

I looked at what would drive change, understand some of the tension points within the industry and at the same time look at who would drive change and why. I then looked at the impact it would have on the industry.

### **Overview of the report.**

In the main body of the report I will firstly compare ZESPRI performance with other kiwifruit exporters around the world and other fruit exporters in New Zealand who are operating in a deregulated industry. This will assist in gaining a better understanding of the financial performance of ZESPRI for kiwifruit growers in New Zealand.

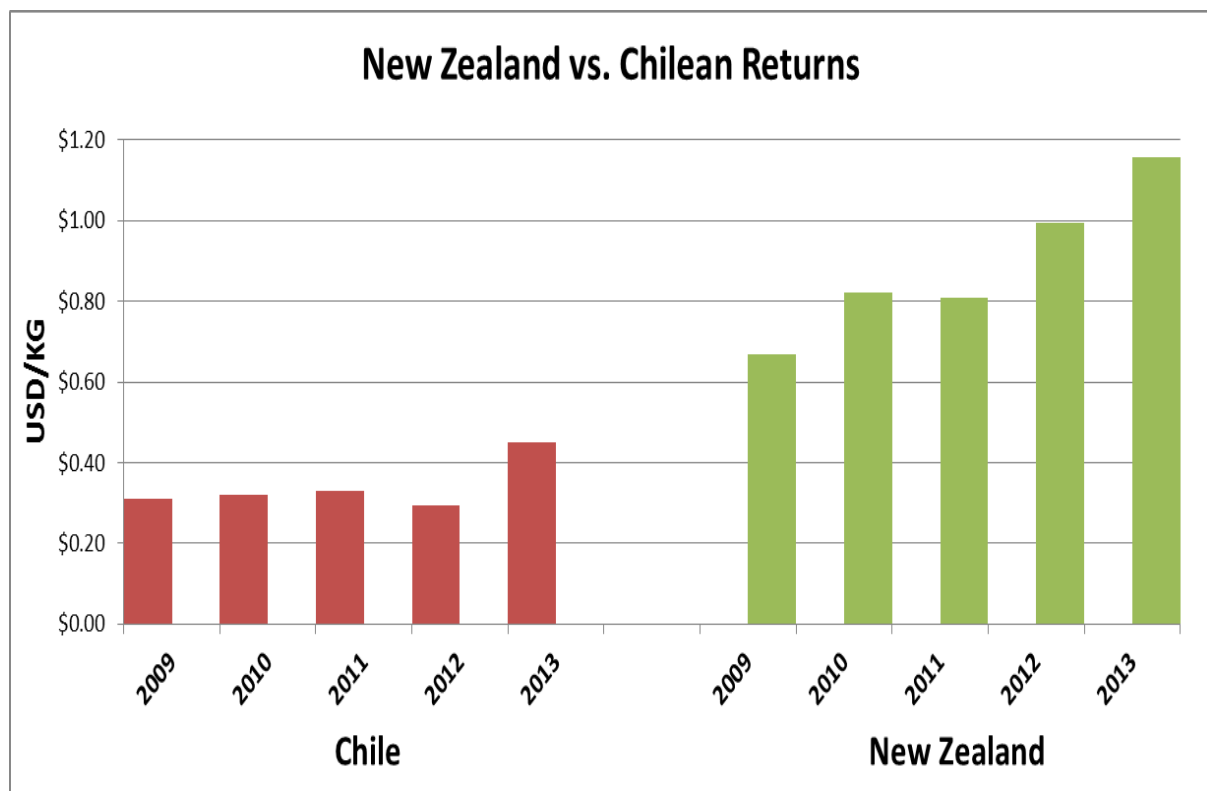
I will then go into more detail of the interviews that I conducted, taking a closer look at the trends and patterns that were found.

I will also have an in-depth look at what might cause tension points within the industry and drive change. What implications it would have for the industry if a change was to take place. Finally I will conclude the report by summarising what I have learnt through this process.

### **ZESPRI Performance**

A point of discussion often raised is that with ZESPRI being the only exporter of kiwifruit in New Zealand there is no comparison for growers to assess their returns against other exporters. Below is a comparison of ZESPRI performance in returns to growers against Chile, a country which is not regulated to a SPE and who are ZESPRI's biggest competitor in the market place. I will look at other areas of growth with different primary sectors as well to see how kiwifruit and ZESPRI compare.

### **ZESPRI returns. NZ v Chile**

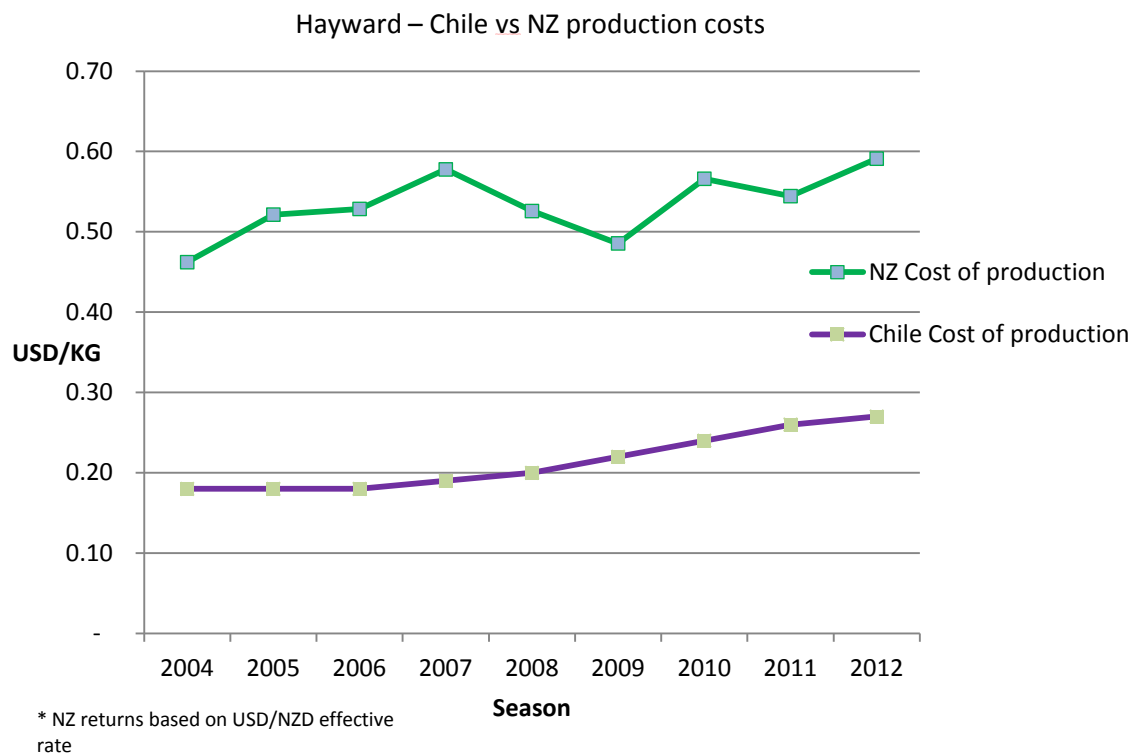


Chile is the second producer of kiwifruit in the southern hemisphere after New Zealand and they are ZESPRI's biggest competitor in the market place. If we ignore the year 2013 in this graph because by this stage the supply was reducing quite significantly due to PSA, resulting in higher than normal returns for growers that were producing.

From 2009-2011, the ZESPRI average was around \$0.80 USD/KG comparing that to Chile for the same time frame 2009-2011 was around \$0.30 USD/KG. A difference on average of \$0.50 USD/KG. New Zealand grower returns were more than double that of Chile grower returns.

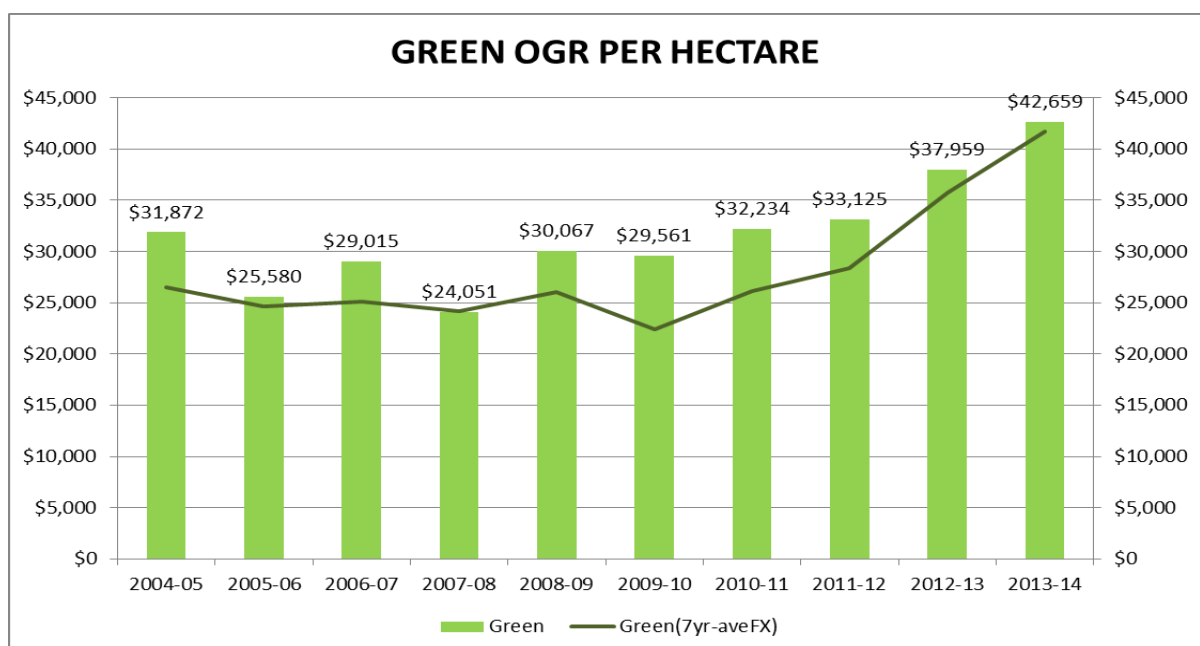
Some would argue that this could be solely contributed to the SPE and ZESPRI, where others would argue that it is New Zealand growing practices resulting in higher tasting, larger size

and better grade being the reason. I personally believe it is most likely a combination of both.



It is very important that New Zealand growers can demand a premium for kiwifruit compared to Chile. As you can see in this graph the cost of production is significantly higher, therefore the a higher return as highlighted in the previous graph is so important ensuring growing kiwifruit in New Zealand is a financial viable businesses.

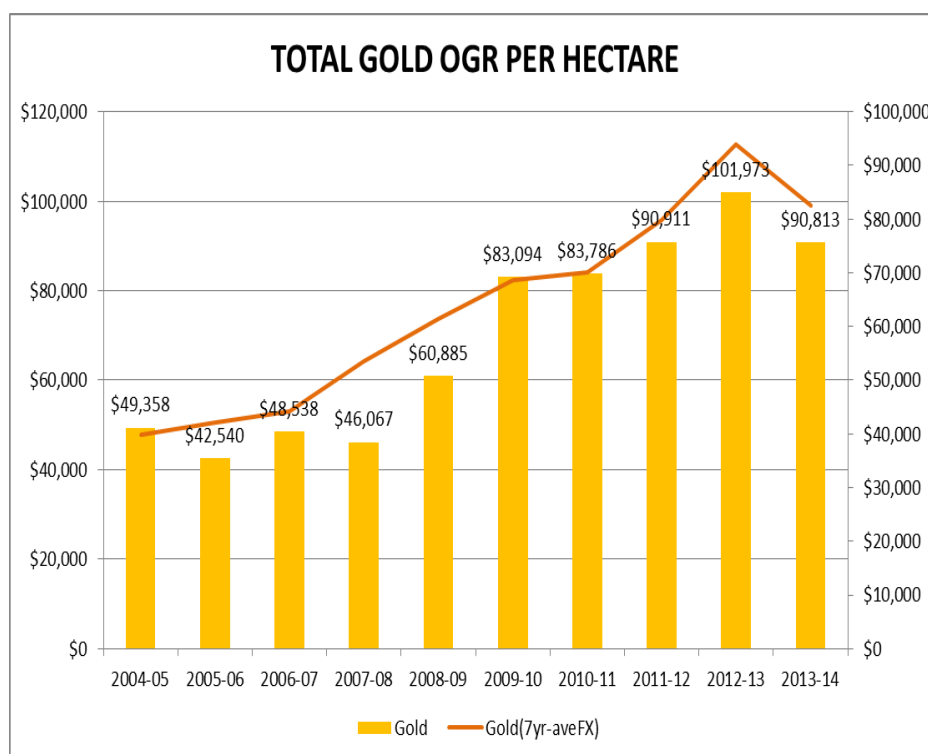
### Green returns



I wanted to highlight this graph “green ocr per ha” on the previous page referring forward to a point made on page 11. The point is that many people have short memories and I wonder if I had asked the same question in 2007-08 “do you think the SPE has been a successful model to date?” whether I would have got a different answer. On average, the growing and harvest cost per ha for green grower is between \$25,000-\$30,000 with a return in 2007/08 of \$24,051 many growers would have lost money and in fact from 2004-2011 it was a very marginal business at best for green growers and it has only been in recent years with the reduced volume for ZESPRI to sell due to PSA have returns increased to more profitable position for green growers.

### **Gold Returns**

The gold is a different story with slightly higher growing cost \$30,000-\$35,000 per ha, but returning a much higher return, the probability has been good for gold growers. This has been further exaggerated in recent years due to the reduction in crop volume to PSA. There are of course some significant costs involved in grafting over to a new variety. But up until the introduction of PSA, the gold variety had been a major success story for ZESPRI and the industry and it certainly unfortunate that it has such a low tolerance for PSA.



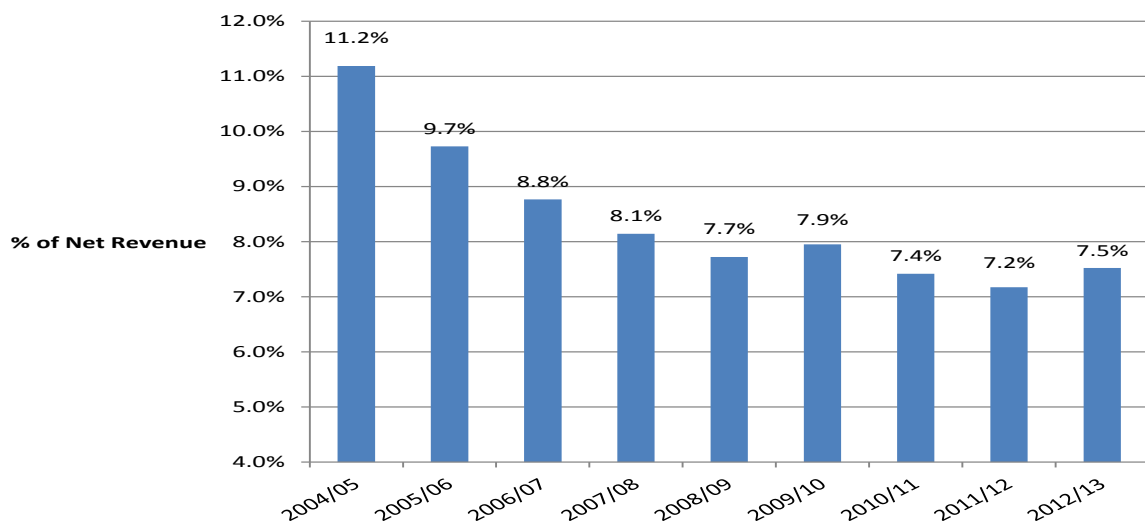
### **Forward Planning**

Undoubtedly the SPE gives ZESPRI a great ability to forward plan, probably better than any other kiwifruit exporting company in the world. Below is an example, if implemented correctly it could pay dividends for growers and share holders.



### **ZESPRI Margin**

ZESPRI has reduced its margin from 11.2% in 2004 to 7.5% in 2012. The board is now considering a new structure that will see ZESPRI receive 1% of revenue from sales after all operating costs for ZESPRI are met, guaranteeing ZESPRI a profit regardless of performance or cost which I am not in favour. ZESPRI could lose the commercial drive to keep costs as low as possible as it would no longer come out of their profit.

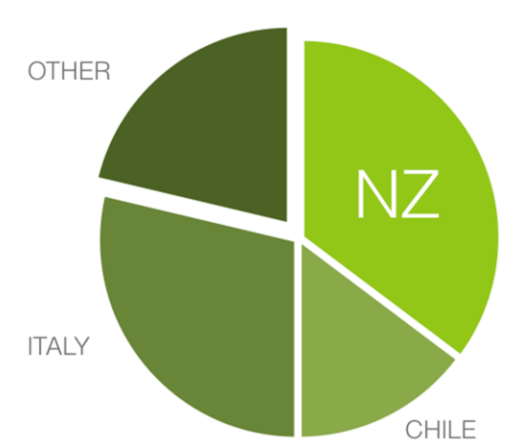




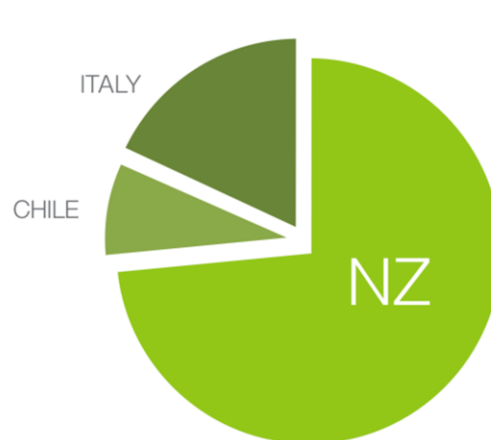
## **New Zealand Value**

The graph below to the left illustrates the global volume of trays produced. NZ New Zealand makes up around 1/3 of that volume. The graph on the right compares the value generated from the Big 3 “NZ, Italy & Chile”. This graph illustrates that NZ is receiving closer to 70% of the value although it is only producing 30-40% of the fruit. This is a very good endorsement for ZESPRI and New Zealand growers as they are receiving a much greater value for their fruit compared to Italy & Chile.

Globally Traded Kiwifruit – Volume Share

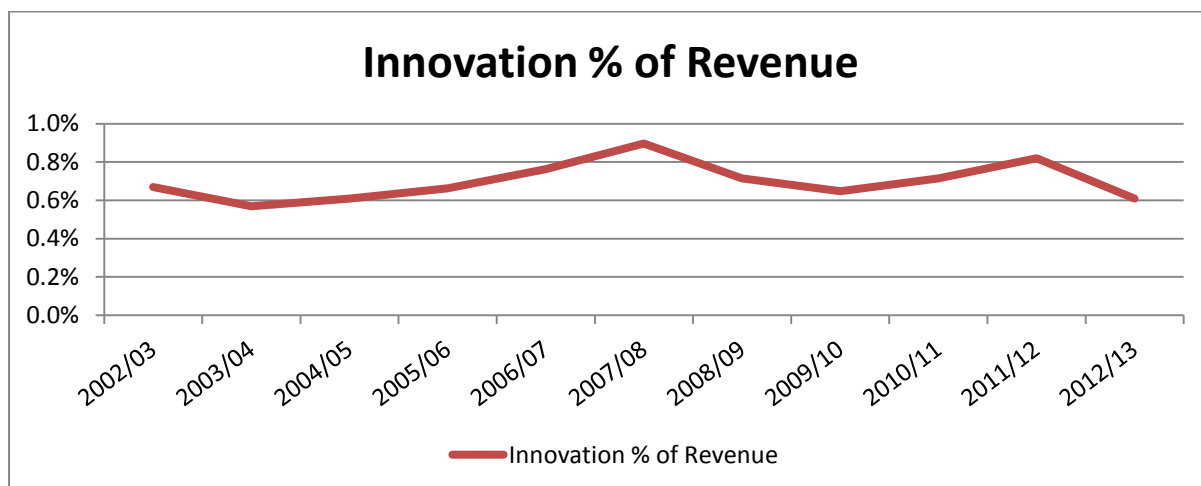


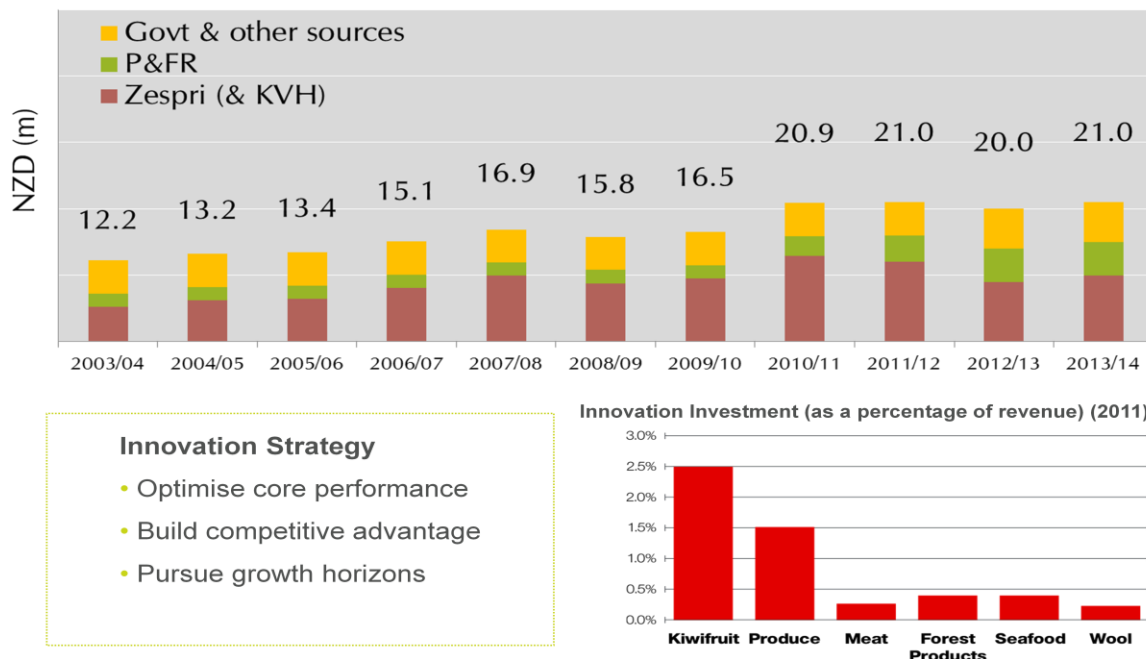
Big 3 – Value Share



## **Innovation Spending**

The next two graphs show how much the kiwifruit Industry has spent on innovation. In the past 10 years, the industry has spent on average 16 million dollars a year or around 2.5% of total revenue. The first graph shows ZESPRI spend which is included in the second graph is around 0.7% of revenue.





What is really interesting is the difference in innovation investment as a percentage of revenue between the different primary sectors. Most notably the difference between kiwifruit and produce, the two sectors would be the most similar in terms of products and the kiwifruit industry is spending as a percentage 1% more revenue or 40% more on innovation than produce.

The meat, forest, seafood and wool sectors are spending less than 0.5% as a percentage of revenue. There is no doubt the security that the SPE gives ZESPRI gives them the opportunity to use some of the revenue generated into innovation and not return to the grower which they would be more likely to do if they were competing against other exporters for grower returns.

Providing that this level of revenue is a good investment and the growers see the financial benefits from the likes of new varieties and improved understanding of fruit maturity, quality and storability then it is money well invested. To date we have seen the commercialisation of three new gold varieties of which two have been a success. As well as two green varieties of which one has been de-commercialised and the second and most recent is proving to be difficult to grow well.

So I think overall, the innovation spend has been invested well and it gave the industry a variety when it needed it most, when PSA hit and wiped out Hort 16A.

### **Industry Growth**

Since the 2000's, many people have spoken about the dairy boom, but in fact between 2000 and 2009, the kiwifruit industry actually outperformed the dairy industry for percentage growth at 9.88% per year, doubling the total revenue in that time to become a billion dollar industry.

What I find even more interesting is the difference between apples and kiwifruit. In 2001 the labour government took away the SPE regulation for the apple industry. Since that time revenue for the apple industry has actually reduced, meanwhile during the same period the revenue for the kiwifruit industry has more than doubled.

Of course there are many factors that have contributed to these results, but undoubtedly the SPE either in place or not as the case for the apple industry has had a significant impact on both industries revenue growth.

Product	Revenue 2000 (\$,000)	Revenue 2009 (\$,000)	CAGR (%) 2000-2009
Kiwifruit	458,964	1,071,679	9.88%
Dairy Produce	3,894,690	8,969,160	9.71%
Other Fruit and Nuts	971,536	1,608,141	5.76%
Meat	3,379,382	5,525,721	5.62%
Forest Products	3,290,540	3,526,786	0.77%
Seafood	1,229,666	1,299,822	0.62%
Apples	404,494	395,673	-0.24%
Wool	801,938	569,754	-3.73%
All merchandise goods	26,111,197	43,015,197	5.70%

## Interviews

### Digging Deeper

Although most would argue that the last seven pages portray a good picture for the SPE and ZESPRI sometimes you need to dig a little deeper. There are three key bodies which make up the kiwifruit industry in New Zealand, Growers, Post Harvest and ZESPRI. Each section has different drivers and personalities and trying to wrap them altogether in working circle can be challenging.

I felt it was really important to get around and speak to a number of key people that are having and will continue to have a major contribution to the kiwifruit industry and find out more about what they think about the SPE. I met with a GM of ZESPRI, chairman of the board of ZESPRI, CEO and MD of Postharvest companies, company directors and growers asking them all the same four questions. The SPE is a major topic so I limited my questions to just four, focusing more on the here and now and what they thought could threaten the SPE and why.

The four questions:

1. Three positives about the SPE
2. Did they think the SPE had been successful model so far
3. What they saw as the single desk's biggest threat and why
4. Did they think the kiwifruit industry would be deregulated by 2024

The first question looked at three positives about the SPE. This is was really interesting depending on who I spoke to, some people could of spoken for half an hour on the positives of the SPE others struggle to come up with three points.

I have summarised some of the key points from interviews in no particular order.

- ❖ Supply and demand into markets having the ability to control how much fruit goes into what market gives ZESPRI a much stronger position when it comes to negotiating a price from that market, a simple supply and demand.
- ❖ Consistency of the product i.e no matter which grower or post harvest entity supplies ZESPRI with kiwifruit, it is all of the same standard. That gives ZESPRI the flexibility to put fruit anywhere in the world and know that the quality is the same and they can stand behind it.
- ❖ It is better to have one exporter/marketer in the markets doing the very best they can for the entire kiwifruit industry rather than having 47 different exporters all out pushing their own product.
- ❖ Being able to protect the Japanese market, by that I mean control the supply into Japan. Japan is by far and the highest returning market in the world, however it only takes 15% of the supply but contributes over 30% over the returns. If the SPE

wasn't in place, it would be very easy for exporters to over supply Japan flooding them with supply which would undoubtedly result in significant drop in price.

- ❖ Commercialising of Hort16A and G3 varieties.
- ❖ Volume security i.e having the security of volume year after year gives ZESPRI the ability to forward plan and spend money on advertising, R & D and new cultivars.
- ❖ Critical mass and the cost saving efficiencies enjoyed from that.

The second question looked at whether or not they thought the regulation of a SPE for the kiwifruit industry had been a successful model to date. The general consensus was that it had been. I was relatively surprised that not one person answered the question with a no. Perhaps timing had a lot to do with that answer. The kiwifruit industry has just been through a major rebuild phase after grappling to survive the vine killing disease PSA and the current supply or more to the point shortage of it has seen record payouts for growers.

Many people tend to have short memories and I wonder if I had asked the same question in 2009 when Green kiwifruit returns to growers were at \$0.60 USD per kg if I would have got a different answer. To give you an idea of how much that has changed in 2013 the returns for green growers were \$1.18 USD per kg close to double. This has lifted the profitability of green growers and eased the financial strain they had been under.

Never the less ZESPRI, post harvest representatives and growers believed that by in large the SPE had been successful model to date.

Question three looked at what the biggest threat to the SPE was. This threw up an interesting trend. Every person I spoke to all made mention of ZESPRI behaviour. How they (ZESPRI) conducted themselves was overwhelming the most common threat amongst my discussion, not market brand or price or growers returns, these issues were raised of course, but the one point that shone through was the behaviour and the internal threat that lies within ZESPRI.

Some of the other threats raised.

- ❖ A competitor coming up with a "better" new variety.
- ❖ Foreign direct investment
- ❖ Industry politics
- ❖ Post harvest consolidation
- ❖ Grower consolidation
- ❖ Non performance by ZESPRI
- ❖ Market lead
- ❖ WTO, Free trade or globalisation of trade

The fourth and final question looked at whether or not they thought the kiwifruit industry would be deregulated by 2014. The general consensus was, that no it would not be. Many believed that the SPE is an extremely fragile concept and that it wasn't going to last forever

and in fact was probably going to have a relatively short life span. However it has survived since its conception and has been through some extremely tough challenges, different personalities and commercial drivers. There were some that believed a different model could improve the efficiencies and grower returns and I will look more into that later in the report. But I come back to the point that most held the view that deregulating the industry would do more harm than good and would be detrimental to grower returns.

### **Pattern and Trends from interviews**

The one obvious trend that stood out from the interviews was that the most significant threat to the SPE lies from within. Everybody I spoke with touched on the point that ZESPRI themselves and the way they conduct themselves in behaviour and governance with growers, countries, customers and markets is a significant threat to the SPE.

Other pattern and trends included?

- ❖ Post Harvest and Grower consolidation. Since the outbreak of PSA in 2011 we have seen a consolidation of some post harvest companies and it was an opportunity for growers to expand, purchasing orchards at lower values.
- ❖ The value of guaranteed crop in assisting ZESPRI with forward planning is immeasurable, but hugely important.
- ❖ The protection of the Japanese market.
- ❖ Deregulating the industry would do more harm than good.
- ❖ Commercialising of new varieties.
- ❖ That the SPE is here to stay.

In summarising the first three points, the SPE was born out of necessity as the industry was in trouble and recognised it needed to change if it was to survive effectively. Regulation brought about the New Zealand Kiwifruit Marketing Board and then ZESPRI. The industry has seen massive growth since then, increasing by more than 308,000 tonnes per season.

The interviews showed that key people within the industry held similar views on the SPE and that the threat to its survival lay largely from within. Not surprising as the industry has grown, companies and individuals have grown with it, many see this as a potential risk to de-stabilising the SPE. But what may be more of a risk is the sleeping giant that is FDI or foreign direct investment.

There was some criticism of the SPE and perhaps more aimed at ZESPRI but not as much as I had expected, again I believe timing is certainly a factor in this.

But what was clear was that they all believed that the SPE is here to stay, well at least in the short to medium future and that any deregulation would do more harm than good, impacting negatively on growers financial returns.

## **Driving Change**

I am now going to look more into what and who would drive change, what implications the changes would have for those involved and what effect it would have on the wider industry.

### **1. ZESPRI performance and governance**

As alluded to above this was the most common trend amongst the interviews, everybody I spoke to touched on how important ZESPRI performance and governance is, and how crucial it is to its survival. What I took out of the interviews was that the governance part was even more important than the performance. Any poor performance in this area would be further exposed by those against the SPE and would be used against ZESPRI to de-stabilise the SPE.

It's hugely important for the government as well, who have granted ZESPRI with a huge amount of power and privilege as being the SPE for the New Zealand Kiwifruit Industry, so certainly poor governance would be damning to ZESPRI. The government has long said they would continue to support the SPE providing it had the support from the growers.

In recent times ZESPRI has had an issue with an importer and customer in China using two different invoicing books and declaring the lower of the two to customs and government officials in China in attempt to pay fewer taxes. Consequently the importer was jailed and fined. ZESPRI too were fined ten million dollars and an employee of ZESPRI has been jailed for five years. Furthermore, SFO or serious fraud office is now investigating ZESPRI head office in New Zealand to determine if knowledge of this practice was known onshore.

This sort of behaviour is hugely damaging to the company and brand of ZESPRI. Many growers understand some of the complexities of doing business in China and although that is not accepted as an excuse, reason or justification for the behaviour it is seen in a much different light as to if the SFO were to uncover similar sort of issues going on in New Zealand. That is why the SFO investigation in New Zealand is so important.

If the SFO were to find indiscretion in New Zealand, then it would certainly open the door for those opposed to the SPE with new ammunition to take to the media, growers and government and potentially de-stabilise the SPE.

If the growers or government were to remove the SPE it would have wide spread effect and would change the industry overnight. You would see multiple exporters pop up giving growers more options on choosing an exporter. Consequently the same exporters would be competing against each other in the market place.

It would add more complexity to the Post Harvest sector with new packaging, fruit quality standards, maturity standards, pest and disease regulations and food safety. It may however be an opportunity to review all of the above and remove some of the over the top complexity that has steadily been put on the industry year after year.

There would of course be great opportunity for some as exporting kiwifruit is big business, for example in the 2011/12 exporting season ZESPRI received \$1,596,943,000 gross sales for New Zealand Kiwifruit. With an agreed margin percentage of 5% net sale and 7.75% of fruit payments to suppliers, ZESPRI totalled a net profit before tax of 20.5 million.

This risk of course is that there would be multiple exporters competing against each other and off shore markets and customers would use this against exporters to drive down the price lowering the returns to growers in New Zealand. The other benefit that would be lost is ZESPRI economy of scale in regards to global logistics, reduced volume would result in higher logistic costs, again effecting bottom line return for the exporter and the grower.

The other big risk is the Japanese market, this market is very unique and although it only takes 15% of the annual volume produced by New Zealand, it contributes over 30% of the revenue that ZESPRI receive, such is the premium that New Zealand kiwifruit is sold for in Japan. It would be very easy for one or two exporters to focus solely on the Japan market and create an oversupply of fruit crashing the sale price for the exporter lowering the return for growers.

On the other hand we could see the opposite effect. Exporters may be able to improve the logistic costs, advertising, marketing, sales and generate a higher return for the growers. In the case of Japan, if the industry could agree to a supply plan for Japan giving each exporter an even and equal amount into the one market, it could still be controlled by setting a limit into the country by week for example, but it certainly would not be as easily controlled as if there was only one exporter.

## **2. Post Harvest and Grower Consolidation**

Since the outbreak of PSA in 2011, we have seen a consolidation amongst some post harvest companies in attempt to manage overheads and debt against reducing revenue caused by a short fall in crop volumes as the Hort16A gold variety succumbed to the deadly disease. It also put a large financial strain on growers with reduced or no income and the cost of converting to a new variety. The lack of confidence in the industry saw orchard prices fall dramatically, some growers choosing to sell up and some used this time as an opportunity to purchase orchards at lower values and grow their own business, so you saw a consolidation of growers as well.

With this increased critical mass, it has raised some concerns over the potential for post harvest entities to have the supply volumes to drive change around the SPE. Two post harvest companies now supply over 50% of the total volume, with the other 50% made up of smaller companies.



From my interviews conducted and my own experience as a General Manager of a Post Harvest company, to date I have seen no indication or evidence that deregulating the SPE would be driven from a post harvest company. Given that, the biggest revenue earner is in the gold varieties of which ZESPRI hold the PVR's it would be incredibly unlikely that ZESPRI would allow another exporter to sell their variety.

With the increased complexity on post harvest business in recent years with new varieties been added to the mix, the focus has been on survival and now recovery to a more financially stable position, not on de-stabilising the SPE.

Another trend that was brought up amongst the interviews was the threat of a new cultivar. ZESPRI have been very clever in their strategy in investing heavily in R&D for new cultivar development in conjunction with plant and food they have the largest plant development breeding programme in the southern hemisphere. There is however the risk an external company develops a superior variety and either can't or won't work collaboratively with ZESPRI and lobbies for growers to vote for change to take part in the growing of this variety.

This would see perhaps a model similar to the dairy industry where you have one major player ZESPRI and a smaller alternative option. I believe this system would only work if there was a genuine point of difference i.e a new superior variety that appeals to new customer base widening the portfolio for the kiwifruit industry. The market mix would still need to be regulated to ensure Japan is not over supplied and each exporter has an equal and even share. Volume supply could be regulated through PVR and licensing of the variety to growers.

Foreign direct investment is another risk that was commonly spoken about in the interviews (more amongst ZESPRI group I spoke to) and I get the feeling that majority of growers are unaware of the risk that this poses. There are foreign investors considering New Zealand as a potential business development for large scale planting of kiwifruit. Similar companies have planted tens of thousands of hectares of citrus in California and they bring a size and scale that we are not familiar with in New Zealand.

They have potential to significantly increase the volume of green kiwifruit in New Zealand currently there is around 8,000ha of green and 4,000ha of gold kiwifruit grown. There are no PVR or licensing of the green variety so anyone is free to plant the variety. These investors have the scale to plant thousands of hectares of kiwifruit drastically changing New Zealand supply to the world.

The threat is that current customer base is not capable of such rapid growth and the existing customer base would be flooded with kiwifruit and oversupply situation would occur resulting in a drop in price to sell extra fruit and lower returns for exporters and growers.

## **Summary and Conclusion**

In summary, there are four key points to cover off:

- ❖ ZESPRI performance
- ❖ A greater understanding of key people's opinion on the SPE
- ❖ What is likely to drive change?
- ❖ Would the kiwifruit industry be deregulated by 2024?

ZESPRI performance can be summarised in two distinct different areas, green and gold kiwifruit. The returns of the green variety for a long time had been low and made the business of growing green kiwifruit very marginal. Although ZESPRI price and return is significantly higher than in Chile, the onshore cost for New Zealand growers is significantly higher than Chile growers. I am not implying that the higher cost of producing kiwifruit is ZESPRI's fault. The fact of the matter is labour is much more expensive in New Zealand.

However ZESPRI higher grade standards and request for higher dry matter fruit has resulted in more work being done on the orchards lifting the cost of production. But it is because of these factors along with others that ZESPRI are able to demand a premium over other exporters like Chile. In recent years we have seen a lift in returns for green growers as the crop volume has reduced with conversions to gold ZESPRI has sold less volume into Europe which is historically a low returning market putting more fruit into the Asia markets which are higher paying. This trend looks set to continue and the returns for green growers look positive in the short to midterm.

Green forecasts range from \$4.50-\$6 per tray or \$45,000 – \$60,000 per hectare. After operating costs, this would provide growers with a profit of \$15,000 – \$30,000 per hectare.

Gold on the hand is a different story. In the initial years, its returns were low as a lot of money was spent on marketing and advertising in the markets. Once this was completed, the returns move upwards and it made for a good returning business for growers. Unfortunately the incursion of PSA has eliminated most of the original gold variety. Since then, growers have grafted over to a new gold variety which is more tolerant to PSA. In recent years, crop volume has been low and the returns extremely high. The outlook on gold looks promising. ZESPRI will have to sell 50-60 million trays of gold which they have never done before. They have forecasted returns of between \$6-\$7 per tray or \$90,000 - \$105,000 per hectare. After operating costs this would provide growers with a profit of \$50,000 - \$60,000 per hectare.

So in conclusion ZESPRI performance in recent times it has been good, particularly with the gold, but lifting green returns is even more pleasing. The work completed in innovation and new varieties is immeasurable but is something ZESPRI has done well securing their own position in the future as well. The challenge now is as volumes return can ZESPRI deliver on the projected forecast.

Interviewing key people from the industry was a great way to learn more about what others thought and the way they see things. I was a little surprised that there wasn't more negativity towards the SPE or ZESPRI. But credit must be given to ZESPRI for the way they are connecting with the industry and no doubt that recent year's performances have helped galvanised support for the SPE and ZESPRI. I do believe had I conducted the interviews in 2004, I would have got a different response from some. But this doesn't change the fact that the vast majority of key people absolutely believe and support the SPE and ZESPRI.

Conducting the interviews also highlight key areas that could drive change. The most common being ZESPRI governance and internal behaviour. The China incident was a huge wakeup call and some serious lessons were learnt. It is always a risk with a large monopoly or corporate that it becomes too involved in its own existence and loses touch with growers. ZESPRI is acutely aware of this and have done a very good job in staying in touch. Being based in Bay of Plenty, kiwifruit growing heartland and the many number of grower road shows, field days and correspondence to growers has kept growers and feeling part of the ZESPRI.

So is the industry going to be deregulated by 2024? I believe not.

The main reason I say that is because of ZESPRI strategy in regards to innovation, plant and variety development. Because ZESPRI hold the PVR on the more lucrative gold varieties, if the industry was to be deregulated they would still hold the rights to export their varieties. This has been a very successful strategy in securing their future. I honestly believe that if the industry was to lose the gold varieties and there was just green, it would not be a case of if the industry would be deregulated, it would be a case of when.

Underlying that is an overwhelming support for the concept that is the SPE. That having one exporter doing its very best for the whole industry is better than having multiple exporters competing against each other.

One of the key reasons the SPE works for the kiwifruit industry is because of the uniqueness of the Japanese and in time Chinese market. Having a market like Japan that contributes over 30% revenue for fruit sales, it's so important that it is not over supplied. Losing the SPE would lose that ability to control that volume into these key markets.

I believe that the SPE is here to stay, it has survived 25 years of tough challenges and different personalities and if the industry would be deregulated it would do more harm than good, taking many years for the industry to re-shape itself.

*Thank you to the many people who gave up there most precious asset "time" to help me with this report.*

Brendon Lee.