

Single Point of Entry for kiwifruit exporting

Impacts on the New Zealand kiwifruit industry

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Executive summary

This report investigates the benefits, costs, and barriers of the Single Point of Entry (SPE) arrangement for New Zealand kiwifruit.

New Zealand's Single Point of Entry (SPE) exporting arrangement for kiwifruit is unique in the global fruit market. Zespri Group Limited (Zespri), owned by past and present New Zealand kiwifruit growers, is mandated by the Kiwifruit Export Regulations 1999 as the sole exporter of New Zealand produced kiwifruit to non-Australia countries. Other parties can only export to non-Australia countries through an approved collaborative marketing agreement with Zespri. During the 20th century SPE arrangements were common in New Zealand through marketing boards for pipfruit, meat, and wool. By the beginning of the 21st century most SPEs were disestablished in favour of a 'free market' multiple exporter approach. SPE mechanisms make a market a monopsony; where there is one buyer of a good in a market.¹ Contrary to economic predictions of these markets, the New Zealand kiwifruit industry has performed well above expectations.

Conventional economic analysis usually interprets monopsony (or monopoly) structures as technically inefficient because the buyer's (or supplier's) market power allows them to draw additional surplus from a market, thereby pulling the market away from equilibrium. Analysis conducted by the Australian Productivity Commission on SPEs in 2000 concluded that:

- An SPE subsidises exports at the expense of the domestic market
- The cost-effectiveness of services provided by an SPE is difficult to determine
- The development of alternative market structures is limited by an SPE
- With no competition there is less incentive for innovation, and there is a lack of flexibility and dynamism.

The experience of the New Zealand kiwifruit industry, however, does not align with these predicted outcomes. The SPE arrangement has been used strategically by Zespri to build a strong international brand that has drawn in significant income to New Zealand kiwifruit growers and post-harvest suppliers.

Now, 23 years later, the New Zealand kiwifruit industry is an international marketing success story. New Zealand-grown green (Hayward variety) and gold (Gold3 variety) kiwifruit command a significant premium on retail shelves across the world.

¹ Monopolies (markets with a single supplier) tend to be more common than monopsonies.

The SPE arrangement has created a brand that can manage quality and quantity to deliver high returns to kiwifruit growers.

- Zespri marketed green and gold kiwifruit draws a 10 to 20 percent higher price than competing varieties in international markets
- From March 2000 to March 2023 the 12-month rolling total of kiwifruit export receipts grew by 571 percent, compared to a 299 percent growth in quantity
- Kiwifruit orchards receive more concentrated returns per hectare than apple orchards. In 2000 both industries were similar in export returns. Kiwifruit kept its SPE arrangement and apples did not. 2020 sales and capital value data indicates kiwifruit orchards are significantly more valuable per planted hectare than apple orchards
- Average per hectare kiwifruit orchard gate return was as high as \$124,000 in 2021/22
- To maintain its reputation, Zespri requires orchards, suppliers, and distributors meet high standards for food quality and safety
- As a result of this certainty, Zespri has grown to a scale where significant investment can be made in promotion, research, and development. Since 2017 total investment has equalled:
 - Promotion: \$1.05 billion
 - Innovation: \$178.8 million
 - Vine health: \$14.3 million
- Collaborative marketing agreements allow other parties to export kiwifruit from New Zealand. To be approved, the agreement must have the purpose of improving overall grower wealth
- Zespri organises charter shipping programmes that are robust during global uncertainty. Foreign exchange hedging and advance season payments, made possible through Zespri's scale, further protect the financial certainty of growers
- The SPE arrangement has allowed Zespri to manage risks, such as supply chain disruption and plant pandemics, to the industry. This delivers certainty, in terms of quantity and quality, to overseas markets

The SPE arrangement has also created barriers in the market, some of which cost some growers more than others.

- Zespri owns the Plant Variety Rights (PVR) to Gold3, the world’s highest-performing kiwifruit. Zespri restricts the supply of new hectares that can grow Gold3 each year. These are then auctioned to growers. High demand has seen prices for a Gold3 licence reach as high as \$801,000 (including GST) per hectare. Hayward growers are at higher risk of price changes and the potential ban of hydrogen cyanamide (Hi-Cane)
- There is limited scope in New Zealand for the development of a kiwifruit breeding market. In order for a new cultivar to be grown in New Zealand and exported to non-Australia countries, it must be done through collaborative marketing. For this to happen, the new cultivar would have to be better than the current Zespri cultivars
- The SPE structure allows Zespri to discriminate between suppliers, but only if this is done on reasonable commercial grounds. Kiwifruit New Zealand (KNZ) monitors to ensure that Zespri does not discriminate unfairly. It has been noted by KNZ that minority growers (such as organic growers) are potentially disadvantaged by dispute decisions made by Zespri which affect their returns
- Zespri is required to conduct a producer vote when undertaking activities that fall outside of its ‘core business’ as defined by the Regulations. While necessary, this requirement might restrict Zespri’s ability to react to rapidly changing market conditions due to the high approval threshold required and the time needed to conduct a vote.

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1 Introduction

The export value of New Zealand kiwifruit has dramatically increased from \$1 billion in the 2015/16 season to a peak of almost \$2.9 billion in the 2021/22 season. As directed by New Zealand government regulation Zespri Group Limited (Zespri) is the sole New Zealand kiwifruit exporter to international markets. This does not include kiwifruit destined for consumers in Australia. This establishes the export of New Zealand grown kiwifruit as a monopsony market; a market with only one buyer. Since the establishment of the Kiwifruit Export Regulations 1999 the industry has changed dramatically. This analysis was undertaken to answer the research question:

What are the benefits, barriers, and costs of the Single Point of Entry for Kiwifruit growers in New Zealand?

This report gathered the existing publicly available data on the Single Point of Entry (SPE, also known as Single Desk Exporting, SDE) arrangement for kiwifruit grown in New Zealand. The SPE arrangement establishes that only one entity, Zespri, can export New Zealand grown kiwifruit overseas. This does not include kiwifruit destined for consumption in Australia. Other entities may export to non-Australia countries from New Zealand through collaborative marketing agreements with Zespri. The report also explored additional literature available on the impacts of SPE in other sectors as well as the international markets.

Currently, New Zealand kiwifruit growers supply Class I (the highest quality) kiwifruit to be sold for a premium in overseas markets. Class II kiwifruit is sold to mostly to Australia and the New Zealand domestic market through multiple fruit supply and marketing businesses, including Zespri. Zespri also exports Class II to other offshore markets. The situation is different between Hayward and Gold3. For Hayward, Zespri sells some Class II to markets other than Australia, and suppliers sell some Class II to Australia. For Gold3, Zespri sells Class II to Australia and other markets, and suppliers only sell some Class II to New Zealand (not Australia).

Almost all growers supply kiwifruit to post-harvest suppliers, who process, package, and store the kiwifruit. The terms of the supply of kiwifruit to Zespri are agreed to each year via a Supply Agreement, in which registered suppliers agree to supply kiwifruit from specified growers. Growers supply fruit to a supplier, or a supply entity, who has an agreement with Zespri. This supplier has a separate contract with a post-harvest operator to supply packing and cool-storage services. Zespri pays Fruit Service Payments (FSPs) to their suppliers who then distribute funds to growers, and pay the post-harvest operator fees. The Supply Agreement is an agency agreement, so the growers are technically owners of the fruit until title changes at Free on Board (FOB) and stowed, where the fruit is shipped from New Zealand. The payment from suppliers to growers is the Orchard Gate Return (OGR), and is the key indicator for grower income.

Whether the SPE arrangement should be amended, dissolved, or encouraged is not in the scope of this report. The conclusions are therefore a summary of research that has been completed on the SPE arrangement to date. The impacts of the SPE on kiwifruit growers is the focus of this document. For this reason, the impacts (positive or negative) on post-harvest suppliers, and growers outside of New Zealand, are mentioned but not explored in-depth.

1.1 History of the SPE for kiwifruit in Aotearoa New Zealand

In 1904 Isabel Fraser, a teacher from Whanganui, first introduced kiwifruit into New Zealand from China. At this time the fruit was called Mihoutao, Chinese for “macaque fruit”, and later became colloquially known as Chinese gooseberry in western markets.² Shortly after the fruit’s introduction to New Zealand, Bay of Plenty grower Hayward Wright bred a cultivar known as “Hayward” in 1928. This green cultivar became what is the most widely consumed kiwifruit in the world. In 1952 New Zealand first began exporting kiwifruit to England, its primary exporting destination at the time. To improve the perception of the fruit to the United States, the name change “kiwifruit” was implemented to associate the fruit with New Zealand, namely through its resemblance to New Zealand’s national bird, the kiwi.

From these beginnings, kiwifruit grew as an industry through the 1960s to establish itself in earnest in the 1970s with the establishment of the Kiwifruit Export Promotion Committee. At this time New Zealand was one of the only countries exporting kiwifruit and enjoyed little to no international competition, except against other fruit. In 1977 the Kiwifruit Marketing Licensing Authority (the Kiwifruit Authority) introduced standards, including fruit size, quality, and packaging, for kiwifruit exporting. These standards would prove to be important in establishing kiwifruit’s presence on international shelves.

By the 1980s, other countries had begun exporting kiwifruit. There were seven licensed kiwifruit exporters in New Zealand at this time. Criticisms of the Kiwifruit Authority exporting model began to emerge as the implications of government fiscal policy and market disruptions severely reduced kiwifruit orchard returns. In the early 1980s currency devaluation was a tool used by the government to address high inflation. This devaluation masked falling kiwifruit returns in overseas markets, which meant orchards continued to increase their producing hectares. As production increased, returns fell further in overseas markets. From 1981 to 1987, kiwifruit production increased from 22,000 tonnes to 203,000 tonnes. At the same time, sharp increases in interest rates tightened investment in kiwifruit orchards. An independent investigation into the industry was commissioned in late 1987 by the Kiwifruit Authority. The report saw little evidence for genuine competition between the seven licensed exporters, and commented that “in the particular circumstances of the New Zealand Kiwifruit Industry, the advantages that might have intuitively been expected from a competitive exporter structure are unlikely to be realised”.³

Overseas importers complained that there was a lack of discipline in the distribution of New Zealand kiwifruit, where wholesale prices were easily negotiated downwards within wide limits.⁴ One importer claimed that “dealing with New Zealand kiwifruit has been great for me [and] we have made lots of money by playing off one [New Zealand] exporter against another to get a better price.”⁵

² Zespri, 2023. What’s in a name? The Chinese Gooseberry. Webpage accessed September 2023. <https://www.zespri.com/en-US/blogdetail/whats-in-a-name-the-chinese-gooseberry>

³ Milne, B. 2014. The New Zealand Kiwifruit Industry – Challenges and successes 1960 to 1999. P.21 Thesis, Massey University. https://mro.massey.ac.nz/bitstream/handle/10179/5554/02_whole.pdf

⁴ Ibid

⁵ Ibid, p.22.

These conditions resulted in a significantly poor season for kiwifruit growers in 1987 which put many in an equity crisis. The weighted average per-tray return fell from \$9.79 in 1986, to \$5.91 in 1987. The report suggested, among seven recommendations, that “New Zealand kiwifruit should develop its own brand, and then strongly market it through stable long-term relationships with major importer/distributors.”⁶ Option Six, the report’s favoured option, included establishing a company, pursuant to the Companies Act 1955, with the exclusive right to export kiwifruit for a period of two years.

In 1988 a referendum by growers voted 84 percent (meeting the threshold of 80 percent) in favour of establishing a single-desk arrangement for exporting kiwifruit. Kiwifruit growers wanted an arrangement that would allow them to collectively develop the industry by mutually investing in branding, marketing, quality, and research and development. Combining resources would enable the industry to achieve the scale required to compete with larger exporting countries. At this time the government was strongly in favour of free-market policy approaches and many high-ranking government officials, as well as the licensed kiwifruit exporters, were against the SPE proposal. Despite this, overwhelming grower support for the arrangement ensured the restructure of the industry got across the line in 1988.⁷

The SPE was established as the New Zealand Kiwifruit Marketing Board (NZKMB), which began operation in the 1989/1990 season. From this point on the kiwifruit industry would be structured under a SPE arrangement.

The NZKMB did not get off to a great start. Due to difficulties over the 1992/1993 season, which saw oversupply result in overpayments to growers, the NZKMB was restructured and New Zealand Kiwifruit Growers Incorporated (NZKGI) was established to represent kiwifruit growers’ political and commercial interests. The Zespri brand was established in 1997 as a separate kiwifruit marketing and sales organisation to export kiwifruit under the NZKMB. It was around this time that the golden variety of kiwifruit was being developed in partnership with New Zealand Plant and Food Research.

The Kiwifruit Export Regulations 1999 (the Regulations) installed Zespri, corporatised in 2000, as the SPE for kiwifruit to countries other than Australia, supplanting the role from NZKMB. It was, and is, integral to Zespri’s structure that its shareholders are kiwifruit growers. This meant that as a company, Zespri’s aim to deliver value to growers was not in conflict with delivering maximum returns to shareholders as they were the same group. Since corporatisation the grower/shareholder balance has changed, with 47 percent of Zespri growers owning shares in Zespri in 2023. The maximum number of shares growers can own is tied to their kiwifruit tray equivalent (TE) production. In 2013, the Kiwifruit Industry Strategy Project (KISP) was launched to review the industry to ensure the settings were adequate for the changing conditions of the global marketplace. Following the KISP referendum to the kiwifruit industry in 2015, amendments were added to the Regulations to allow for an SPE structure that better reflected the industry.

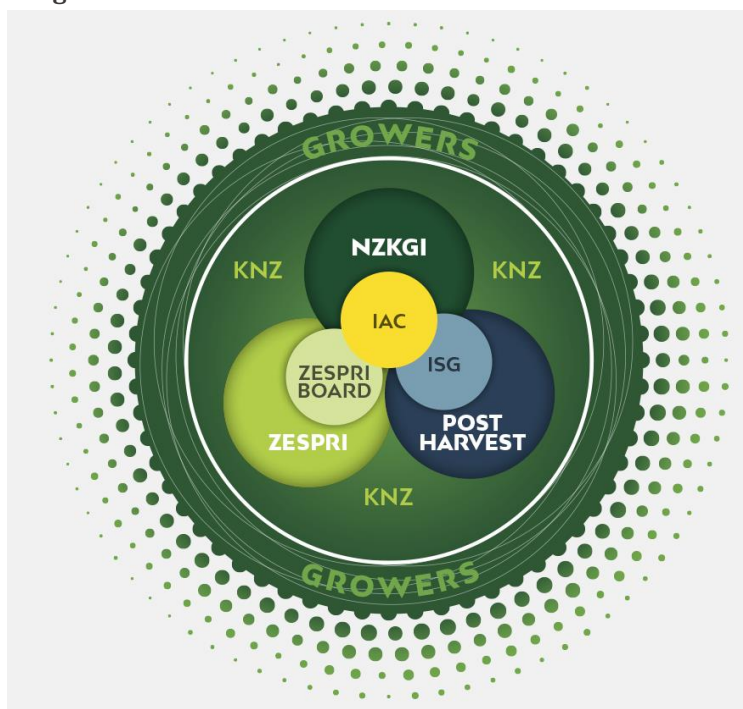
The current structure of the New Zealand kiwifruit industry is displayed in Figure 1.1. The key players are:

⁶ Ibid

⁷ Ibid, p.33

- Kiwifruit growers, located primarily in the North Island. The highest concentration of growers is in the Bay of Plenty, and other North Island regions include Gisborne, Waikato, and Northland. There are also a small number of growers in the top of the South Island. Kiwifruit growers are the backbone of the industry
- Zespri, governed by the Zespri board
- The Industry Advisory Council (IAC), which manages issues relating to supply contracts and matters that have material financial implications for growers
- The Industry Supply Group (ISG), which monitors decisions relating to the supply chain. The ISG is a subcommittee of the IAC
- NZKGI, which represents the interests of New Zealand kiwifruit growers. Māori Kiwifruit Growers Incorporated (MKGI), represents the views of Māori growers as an entity created for Māori by Māori
- Post-harvest suppliers, who process, pack, store, and transport kiwifruit on-shore to be exported off-shore by Zespri
- Kiwifruit New Zealand, which regulates Zespri as defined in the Kiwifruit Export Regulations 1999.

Figure 1.1 - Structure of the New Zealand kiwifruit industry



Source: NZKGI⁸

⁸ NZKGI, 2023. Industry players. <https://www.nzkgi.org.nz/industry/industry-players/#:~:text=Industry%20Advisory%20Council%20%28IAC%29%20The%20Industry%20Advice%20Council,and%20matters%20with%20material%20financial%20implications%20for%20growers.>

1.2 Regulations

The Kiwifruit Export Regulations 1999⁹ (the Regulations) set the current structure of the New Zealand kiwifruit industry. The Regulations back the SPE arrangement by placing an export ban on kiwifruit, other than that destined for consumption in Australia. The only organisation that can export kiwifruit to non-Australia countries from New Zealand is Zespri, or organisations that have collaborative marketing agreements with Zespri. The Regulations state that Zespri's core business is to:

- Purchase New Zealand grown kiwifruit for export
- Market New Zealand grown kiwifruit
- Develop the market for New Zealand grown kiwifruit
- Support research and development relating to kiwifruit.

Zespri's core business excludes the export of kiwifruit for consumption in Australia, and the sale of kiwifruit in New Zealand.

The Regulations recognise that while SPE provides benefits for the industry and growers, it also presents several potential costs and risks typically associated with monopoly¹⁰ market structures. Theoretical models of such markets predict reduced innovation, inefficient pricing, reduced protections on producers and suppliers, and a lack of downward pressure on costs. The Regulations aim to balance the benefits of the single-desk structure with reducing these risks. Measures to balance these include:

Non-discrimination

Zespri cannot discriminate between New Zealand kiwifruit suppliers and potential suppliers on the decision to purchase, or the purchase contract, except on commercial grounds.

Non-diversification

Zespri is prohibited from undertaking activities that are not core business, and do not support core business, unless producers have approved the activity. In addition, as far as reasonably practicable, Zespri is required to minimise the risks arising from the activity for producers who have not agreed. Zespri's core business is defined as the purchase, export, marketing, and market development of New Zealand-grown kiwifruit, and research and development relating to kiwifruit.

Information disclosure

Zespri must publicly disclose its financial statements, which must be prepared in accordance with generally accepted accounting practice and the Kiwifruit Information Disclosure Handbook.

The Regulations also provide that any person may apply for collaborative marketing approval with Zespri. Collaborative marketing allows for other parties to export kiwifruit to non-Australia countries in partnership with Zespri. Approval for collaborative marketing agreements is provided

⁹ <https://www.legislation.govt.nz/regulation/public/1999/0310/latest/whole.html#DLM294407>

¹⁰ In this case, the New Zealand kiwifruit market is a monopsony: where there is one buyer of a good. A monopoly is a market where there is one supplier of a good.

by Kiwifruit New Zealand, who assess if applications meet the purpose of increasing the overall wealth of New Zealand kiwifruit producers.

1.2.1 Role of Kiwifruit New Zealand

Kiwifruit New Zealand (KNZ) is the regulator of Zespri. It has three core functions:

- Issue Export Authorisation to Zespri: enables Zespri to export according to the terms and conditions of the authorisation. KNZ may take enforcement action against Zespri if KNZ considers Zespri has been non-compliant with its obligations
- Monitor and enforce mitigation measures: ensures Zespri is following the rules, as described under the Regulations, that address the risks to the industry that arise under the SPE arrangement
- Regulate collaborative marketing: determines, monitors, and enforces collaborative marketing requirements detailed in the Regulations.

Investigations and decisions made by the KNZ Committee are discussed in section 4.3.

1.3 Kiwifruit producers voted to keep the SPE

In 2013, the Kiwifruit Industry Strategy Project (KISP) was launched to review the industry to ensure its settings were adequate for the changing conditions of the global marketplace. KISP was comprised of a working group, made up of kiwifruit growers, post-harvest suppliers, and Zespri, to guide industry decision making towards a long-term strategy for the New Zealand kiwifruit industry.

In March 2015, two thirds of New Zealand growers, representing 80 percent of kiwifruit production, voted in the KISP referendum. The SPE arrangement was supported by 98 percent of respondents.¹¹ The KISP asked the industry to submit their perspectives on the SPE arrangement. Most submissions expressed full support of the SPE and stated that the SPE was the core driver of success for the New Zealand kiwifruit industry.¹² Other submissions stated that they supported the SPE, but only if it performed for all growers, with some stating that competition could incentivise Zespri to operate more efficiently.

A key conclusion of the KISP was that while competition may increase efficiency in markets, it also drives down prices which can harm producers and suppliers in a small market such as New Zealand. It was identified that achieving scale should be the key focus of New Zealand's kiwifruit industry, where significant investment can be put towards marketing, innovation, and distribution networks.

¹¹ NZKGI, 2015. KISP referendum result. <http://nzkgi.org.nz/wp-content/uploads/2016/12/KISP-Referendum-Result-2015-1.pdf>

¹² KISP, 2014. KISP consultation document.

2 What is the SPE, and is it beneficial?

In simple terms the SPE arrangement aggregates the output of domestic producers and markets it as a broadly homogeneous product, with growers receiving average (pooled) sales. This process of aggregation is the source of both the potential benefits and costs of single-desk marketing, as examined by the Australian Productivity Commission in July 2000.¹³ This section examines the key conclusions of the Commission's report.

2.1 What are the benefits of the SPE?

The Australian Productivity Commission report stated that many reasons have been given over the years to justify statutory marketing and SPE selling. Some of the benefits included:

- Promoting income or price stabilisation
- Extracting premiums in export markets
- Countering 'corrupt' selling practices of other exporters
- Countering monopoly power of domestic traders and processors
- Compensating agricultural producers for the impact of manufacturing tariffs
- Facilitating government-to-government sales
- Administering exports where quantitative import restrictions are imposed by foreign buyers
- Capturing economies of scale in marketing, finance, and distribution
- Facilitating risk management
- Providing generic market promotion and quality control.

Some of these benefits might not be relevant today, or may not be relevant for certain commodities. A key justification for the SPE arrangements is that monopoly-selling ensures higher export returns than would be obtained from competitive exporting.¹⁴ But it has been proven that monopoly-selling is only successful when a country is the sole, or nearly sole producer of a commodity. Various SPE schemes have been less successful, especially in the wheat, sugar, and barley markets, as the producers did not have a sole producer advantage. Other benefits are the transport and seasonal advantages. Lower transport and storage costs provide an advantage in export markets where commodities are extremely price sensitive.

The authors argued that Australian exporters are price-takers because they face intense competition from rival suppliers in overseas markets. In general, the power of an SPE to control export supply would be of little use if the SPE had minimal market power. If Australian exporters do possess market power, the authors ask if an SPE arrangement is the only, or best, mechanism of exploiting that power for the benefit of Australian producers. Alternative mechanisms such as export quotas

¹³ Australian Productivity Commission, 2000. <https://www.pc.gov.au/research/supporting/single-desk/singledesk.pdf>

¹⁴ Ibid

and taxes could also restrain supply. In the absence of an SPE marketing a ‘national’ brand, a targeted national levy scheme could be implemented. A national levy could also fund other activities that produce industry-wide benefits such as farm and distribution innovation research. Section 3 examines the benefits of the SPE in the context of New Zealand’s kiwifruit industry.

2.2 What are the costs of the SPE?

The report also indicated that SPE arrangements can impair industry performance for many reasons. Some of the reasons include:

- A common outcome of monopoly statutory marketing powers, over domestic and export sales, was the effective taxation of the domestic market (with proceeds accruing to the boards and producers) and the effective subsidisation of exports. In other words, domestic consumers paid for the high export returns by paying high average prices, while exporters captured the export returns from markets where the product draws a price premium
- An SPE also prevents the development of alternative market structures. For example, informal and formal integration between growers, marketers, and processors, and direct relationships with customers. It also may preclude the development, and export, of marketing expertise
- Without competition and profits and losses bundled in producer returns, the cost effectiveness of additional services provided by an SPE is difficult to determine
- SPE arrangements tend to promote the status quo in relation to the product range, production pattern, and market structure
- While these tensions have always existed within SPEs, the opportunity cost of a lack of flexibility and dynamism is likely to be increasing.

The Australian Productivity Commission’s report concluded by stating that “analysis and evidence suggests that many of the claimed benefits of single-desk arrangements can be achieved in a competitive environment, in conjunction where appropriate with targeted mechanisms to coordinate industry-wide activities, including targeted export licences, industry levies and quality control mechanisms. The advantage of a targeted approach to providing coordinated activities is that the costs inevitably associated with compulsory single-desk arrangements — most importantly their impact on marketing innovation and efficiency — can be significantly reduced.”¹⁵

The Australian Productivity Commission report was written with Australian industries in mind, namely sugar and rice (for domestic and export sales) and wheat and barley (export sales only). These products are commodities that have prices that are heavily influenced by the dynamics of overseas production, demand, and trade policy. Australian commodities did not have a high level of market power. In some cases, Australian exporters were able to dominate a narrowly defined market to hold market power. Long-term, however, new varieties with similar characteristics will be developed by other producers, or other producers of that variety will expand elsewhere. Section 4 examines the costs and barriers of the SPE in the context of New Zealand’s kiwifruit industry.

¹⁵ Ibid, p.XXVI

3 Benefits of the SPE to kiwifruit growers

The benefits of the SPE for kiwifruit growers in New Zealand are:

- The ability to manage the supply and quality of kiwifruit exported overseas to maximise the total returns to growers in New Zealand. New Zealand kiwifruit under the Zespri brand has become the world leader in kiwifruit marketing. As a result, export receipts have increased greatly, which benefits New Zealand growers and post-harvest suppliers
- A single agent has the scale to prepare for, and manage, risks to the industry. Strategies include developing new cultivars resistant to plant pandemics and climate change, hedging export returns and managing oversupply to maintain high returns to New Zealand growers
- The scale to make consistent significant investment in innovation through the kiwifruit value chain, from orchard to the consumer. New Zealand's kiwifruit industry is the most productive in the world
- The ability to implement industry-wide marketing strategies that manage kiwifruit supply at the brand, retail, distributor, and market level to maintain New Zealand kiwifruit's position as a premium product.

The rest of this section discusses these various benefits.

3.1 Managing supply and quality to create a successful kiwifruit export market

The main benefit to New Zealand kiwifruit producers from the SPE is the increasing return from overseas markets where New Zealand kiwifruit is sold.

Zespri manages the supply of kiwifruit produced in New Zealand, and from licensed producers overseas. Zespri's authority as the SPE, and as the rights holder of the kiwifruit cultivar Plant Variety Rights (PVR), allow it to control the supply of New Zealand kiwifruit cultivars to international markets. The key instruments used by Zespri are setting quality requirements (maintains the demand for kiwifruit at a premium price overseas), and cultivar licences (restrain the growth of the number of hectares producing Zespri cultivars). Zespri aims to generate sustainably high Orchard Gate Returns (OGR) to growers by ensuring that overseas markets are not over-supplied by Zespri-owned cultivars, so that exactly enough supply exists to meet demand, and by growing the demand through consistently delivering high quality kiwifruit to consumers, in combination with targeted marketing strategies.

Zespri's commitment to only exporting high quality kiwifruit has seen the reputation of New Zealand kiwifruit surpass cultivars from other countries. As the SPE, Zespri is required to accept and sell kiwifruit grown in New Zealand that meets its quality standards.

As of June 2023, Zespri exports the following cultivars of Kiwifruit:

- Zespri Green (Hayward cultivar): The classic kiwifruit which is familiar in most markets. Anyone is free to grow and sell Hayward kiwifruit as no entity owns the cultivar. Hayward is grown in many other countries and is in competition with Zespri in overseas markets
- Zespri SunGold (Gold3 cultivar): The highly sought after golden kiwifruit which was developed by Zespri and Plant and Food Research. Zespri owns the rights to Gold3 and authorises growers via a hectare licensing mechanism. Gold3 has higher productivity and larger fruit than other varieties. It also has a popular sweet taste, and stores and transports more easily than Hayward. Gold3 is relatively more tolerant to the Psa bacterium (Psa-V *Pseudomonas Syringae* Pv. Actinidine), which threatened the New Zealand kiwifruit industry at the beginning of the 2010s, than other yellow varieties, such as Hort16A. There is also an active management programme to reduce Psa risk.
- Zespri SweetGreen (Green14 cultivar): A sweeter version of the normal Hayward green kiwifruit
- Zespri RubyRed (Red19 cultivar): A red-fleshed kiwifruit that is smaller and more seasonally restricted than other cultivars. The Red19 cultivar has been earmarked as a promising novel product for overseas markets. Red19 has recently been commercialised, with a limited number of hectares. Growers are still learning how to grow the cultivar to maximise quality and quantity.

Zespri also markets organic Hayward and Gold3, which conform to strict quality and safety standards.

3.1.1 Growing kiwifruit's premium price

Kiwifruit grower income in New Zealand relies on the number of exported kiwifruit, namely Class I fruit, and the price of Class I kiwifruit charged to overseas markets. Australia and the New Zealand domestic markets are the key destinations for Class II kiwifruit, which are kiwifruit that do not meet the Class I standard for exporting overseas. Eight entities, including Zespri, export Class II kiwifruit to Australia. The main reason Class I fruit is downgraded to Class II is because of blemishes on Gold3 and the shape of Hayward.

The price of kiwifruit is strongly influenced by the volume of kiwifruit that is exported, relative to market demand. Zespri can influence the number of hectares that grow Zespri cultivars, to restrain growth in the number of these cultivars available to export overseas. Zespri has little influence, however, on the number of hectares that produce Hayward kiwifruit in the global market, which has been reducing worldwide. For this reason, the supply of Hayward kiwifruit is more price sensitive than Gold3. Zespri provides market signals to growers so that they can understand the level of demand, and the relationship between supply and demand, and make decisions about where they direct their investments accordingly. In this sense, Zespri has three key levers to influence kiwifruit export receipts: ensuring high quality kiwifruit is produced and distributed to markets; advertising to established and new consumer markets to keep demand ahead of supply; and managing kiwifruit production growth through hectare licensing and global supply agreements. There are several mechanisms within each of these levers, used by Zespri to keep the kiwifruit value chain growing, which are discussed in the following sections of this report.

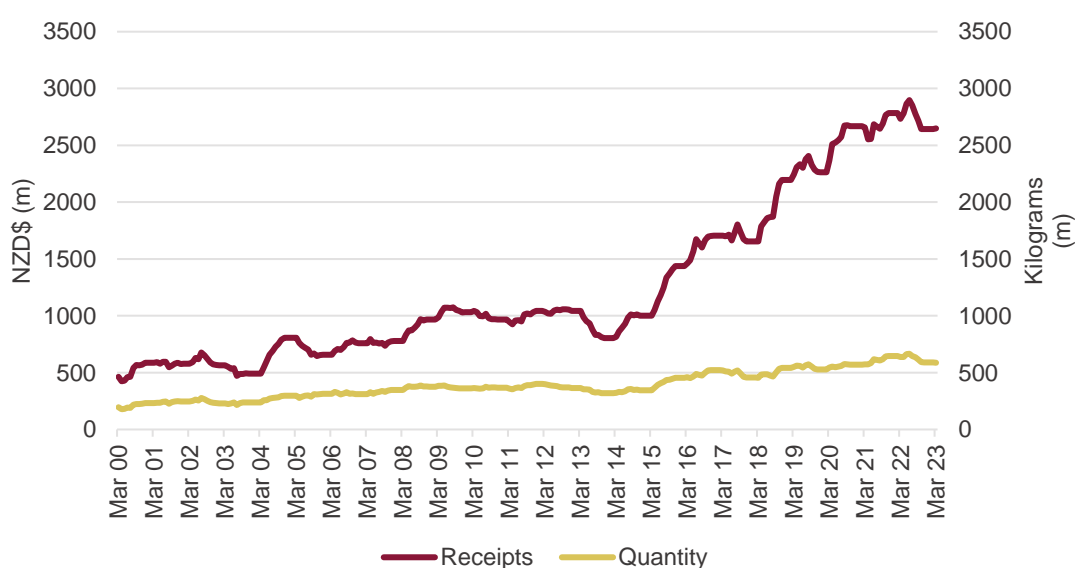
The benefits of effective marketing and quality standards can be noted in the performance of New Zealand Hayward kiwifruit against Hayward kiwifruit from other countries. According to data from some of Zespri’s core markets (Spain, China, Taiwan, Belgium, Germany, the Netherlands, and France), kiwifruit marketed as Zespri Green draws a 20 percent higher average price than competing Hayward kiwifruit (index price of 147 compared to 123, excluding China prices, during the New Zealand fruit season). Zespri Green kiwifruit which has been produced by other countries via Zespri Global Supply agreements (discussed in Section 3.4.2), also draws a similar price premium. Kiwifruit marketed as Zespri SunGold draws a 10 to 20 percent higher price than competing gold varieties (index price 137 compared to 110, excluding China prices, during the New Zealand fruit season), although there is not as much competition during New Zealand’s supply season in these markets.

Zespri kiwifruit is positioned in a small but unique place on overseas retail shelves. The price of Zespri kiwifruit is more than twice that of standard fruits such as apples, bananas, and oranges. Compared to premium fruits, such as strawberries and blueberries, Zespri kiwifruit is around a third cheaper. Zespri kiwifruit is often more frequently chosen by consumers than other premium fruits. This positioning resembles that of avocados and grapes, where the fruits demand a relatively high price while still drawing a reliably high level of demand. The marketing of kiwifruit has focused on its health benefits, which are among the highest of all fruits, and its unique taste profile.

High export returns

Since the 2015/16 season, New Zealand kiwifruit export receipts have grown significantly. The export receipts and quantity of New Zealand kiwifruit, since the establishment of the Regulations, are displayed in Figure 3.1. The role of premium pricing can be seen in the relatively limited growth of kiwifruit quantity, compared with the substantial growth of revenue. From March 2000 to March 2023, the 12-month rolling total grew by 299 percent in quantity, and by 571 percent in receipt value.

Figure 3.1 - Kiwifruit export quantity and receipts, 12-month rolling total, 2000 to 2023

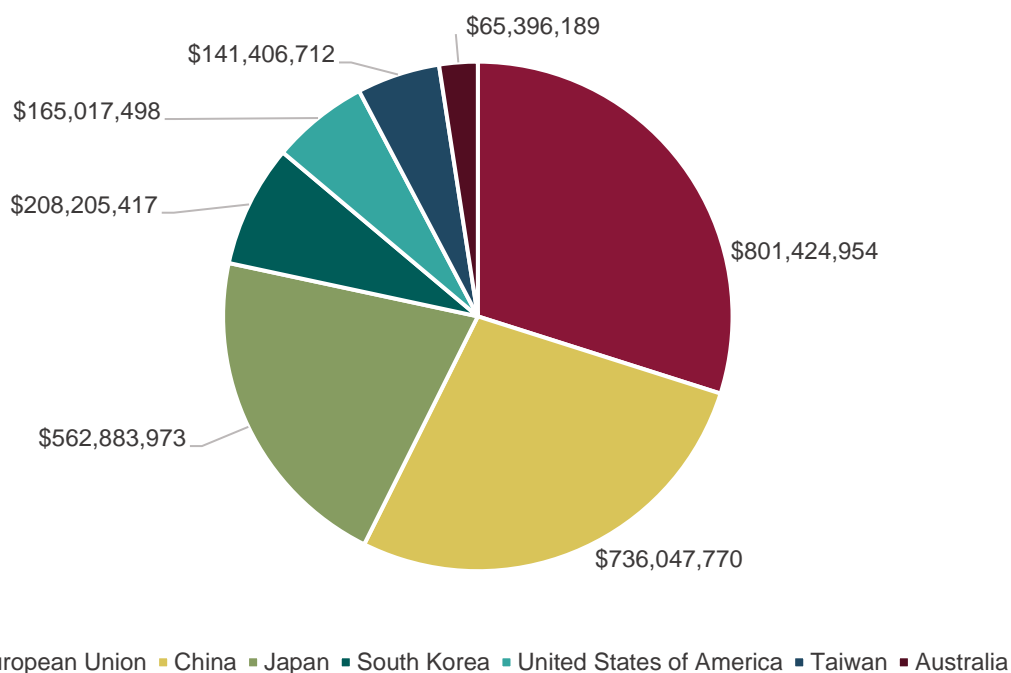


Source: Statistics New Zealand, 2023



At its peak in the 12 months to June 2022, kiwifruit export receipts totalled \$2.9 billion, making it New Zealand's fourth most valuable export behind dairy (\$18.2 billion), meat (\$9.5 billion), and forestry (\$4.7 billion). New Zealand's top kiwifruit exporting destinations are displayed in Figure 3.2. The European Union, China, and Japan were the top three destinations, collectively comprising 72 percent of total export value. Australia placed seventh, comprising only two percent of total export value.

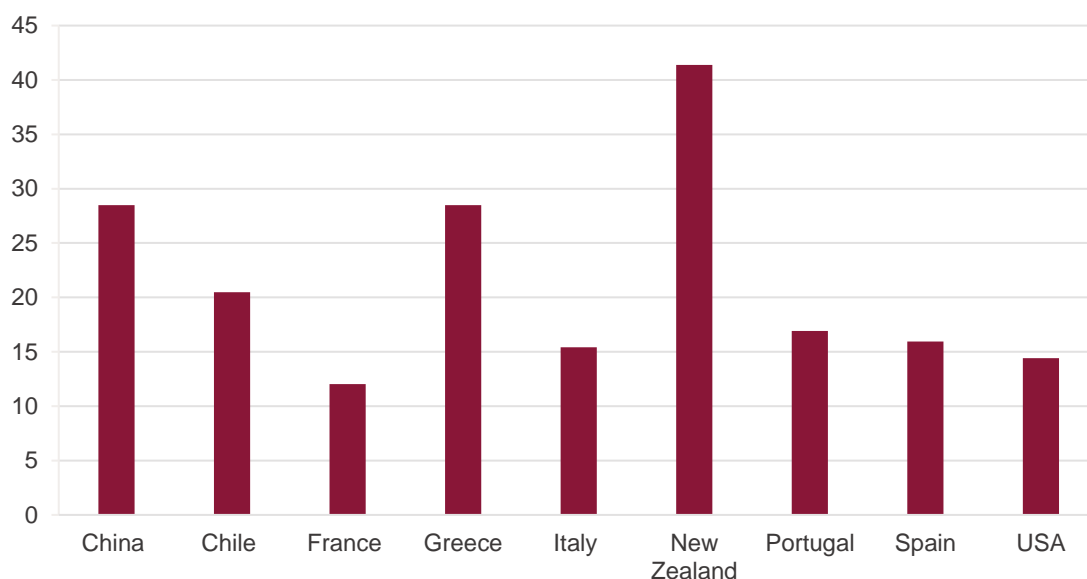
Figure 3.2 - Kiwifruit export value by destination, 2021/22



Source: New Zealand Horticulture Export Authority, 2022

The export performance of kiwifruit has been strong, not from just a New Zealand perspective, but also from a global perspective. New Zealand's kiwifruit industry is the most productive per hectare kiwifruit industry in the world. As Figure 3.3 shows, New Zealand leads the world with approximately 41 tonnes of kiwifruit produced per producing hectare, followed by Greece with 29 tonnes per producing hectare. It should be noted that China produces significantly more kiwifruit in total than any other country (estimated 162,332 producing hectares, compared to the next largest, Italy, with 23,661 producing hectares), but it does not export the majority of this produce.

Figure 3.3 - Kiwifruit produced per hectare, top kiwifruit producing countries, 2022



Source: International Kiwifruit Organisation (IKO)

The global kiwifruit industry is expanding

The global kiwifruit market has been experiencing strong growth in recent years. Export value data of the top fresh kiwifruit exporting countries, displayed in Table 3.1, shows that New Zealand leads the market in terms of export value share.¹⁶ Despite New Zealand owning the largest share, almost all the other top 10 kiwifruit exporting countries have seen growth in their kiwifruit export value across the 2016 to 2021 period.¹⁷ Some countries, such as Greece, Netherlands, Portugal, and Spain, have experienced faster growth in their kiwifruit export value by up to 272 percent, exceeding New Zealand's growth. This data indicates that upholding the premium positioning of kiwifruit, influenced by Zespri's share of the market, benefits other countries that produce kiwifruit. As more consumers are made aware of the benefits of kiwifruit, particularly its health aspects, there is solid traction for the continued growth of the global kiwifruit market.¹⁸

¹⁶ Tridge, 2023. Global kiwifruit trade overview. Accessed online July 2023 from

<https://www.tridge.com/trades/data?code=081050&reporter=CL&partner=WL&flow=e&classification=HS2012>

¹⁷ Country of export denotes the country where the goods are physically shipped from, not the country of origin.

¹⁸ Allied Market Research, 2023. Kiwi Fruit Market by Application (Direct Consumption, Jams, Sauce, Ice cream, Salad, Others) and by Distribution Channel (Store-based, non-Store-based): Global Opportunity Analysis and Industry Forecast, 2023-2032 (Forthcoming). <https://www.alliedmarketresearch.com/kiwi-fruit-market-A14297>

Table 3.1 - Export value share and growth, by country, 2016-2021¹⁹

Rank	Country	Export value (2021, USD\$m)	Share in export value (%)	Five year growth in export value (%)
1	New Zealand	2,330	56.52	89.9
2	Italy	560	13.61	17.8
3	Belgium	284	6.89	9.5
4	Chile	233	5.66	32.9
5	Greece	232	5.63	144.9
6	Netherlands	149	3.61	271.8
7	Spain	73	1.77	176.0
8	Portugal	43	1.03	215.3
9	United States	41	0.99	63.9
10	Iran	39	0.94	-22.9

Source: Tridge, 2023

Zespri Global Supply

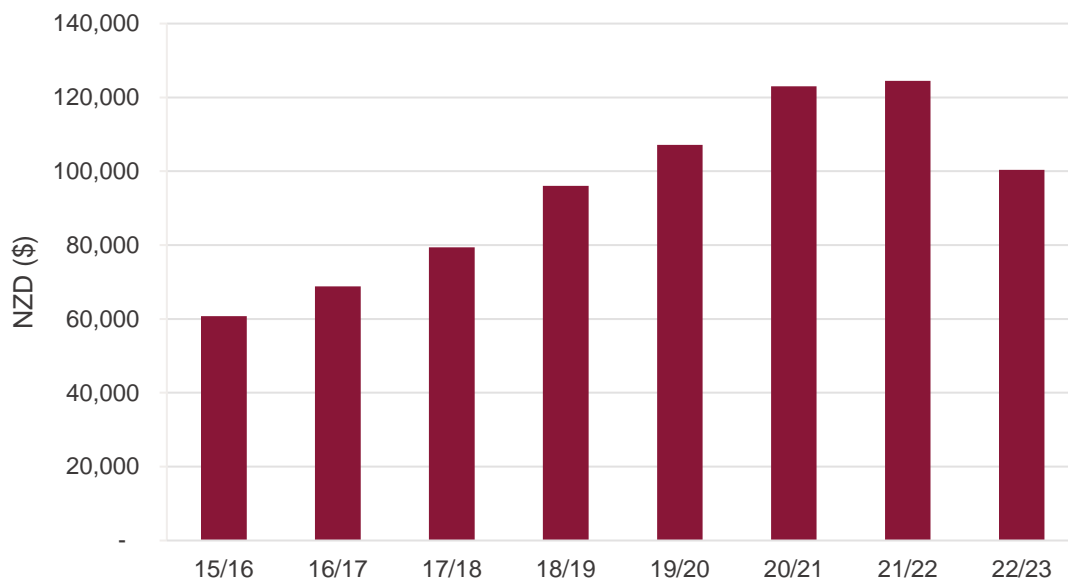
To sustain the competitive advantage of New Zealand kiwifruit on international shelves Zespri maintains licence agreements, called the Zespri Global Supply programme (ZGS), with overseas kiwifruit producers to allow them to grow Zespri-owned cultivars during the Southern Hemisphere's off-season. Zespri maintains licence agreements with producers in Italy, France, Greece, Japan, and South Korea. In 2022 Zespri asked producers in New Zealand to vote on whether to expand the number of ZGS hectares, but the vote did not pass the 75 percent threshold for support. The number of ZGS approved hectares remains at 5,000, as voted in 2019, which Zespri expects to complete planting by 2024. For the 2021/22 season ZGS sales equalled \$537 million, and in the 2022/23 season equalled \$519 million as the ZGS was impacted by sustained hot weather across all regions. After payments to international suppliers, the profit from the ZGS (\$29.5 million in 2022/23) flows into Zespri's corporate profit which benefits New Zealand growers who are shareholders in Zespri. ZGS also benefits growers in other ways. The presence of Zespri kiwifruit on retail shelves during New Zealand's off-season (which is the on-season for Northern Hemisphere countries), allows for the continued promotion of Zespri kiwifruit throughout the year. ZGS agreements ensure that shelf space is not dominated by competing brands during New Zealand's off-season.

3.1.2 Transferring export value to growers

When kiwifruit is sold in overseas markets the revenue travels back down the value chain to growers via Fruit and Service Payments (FSPs). The OGR reflects the proportion of the FSPs, paid to suppliers by Zespri, received by growers. Suppliers deduct payments for post-harvest operators from the FSPs, before paying kiwifruit growers for the fruit supplied. Many kiwifruit growers also own shares in post-harvest operators. Loyalty premiums and fruit quality incentives are also provided to growers within FSPs. The average OGR from the 2015/16 season to the 2021/22 season is displayed in Figure 3.4. Average OGR increased from around \$61,000 per hectare in 2015/16 to \$124,000 per hectare in 2021/22. The OGR varies widely by variety, and is broken down in Figure 3.5. The 2022/23 season was adversely impacted by fruit quality issues due to labour shortages that reduced the average OGR to \$100,000. Zespri forecasts the OGR to recover by 2024.

¹⁹ Country of export denotes the country where the goods are physically shipped from, not the country of origin.

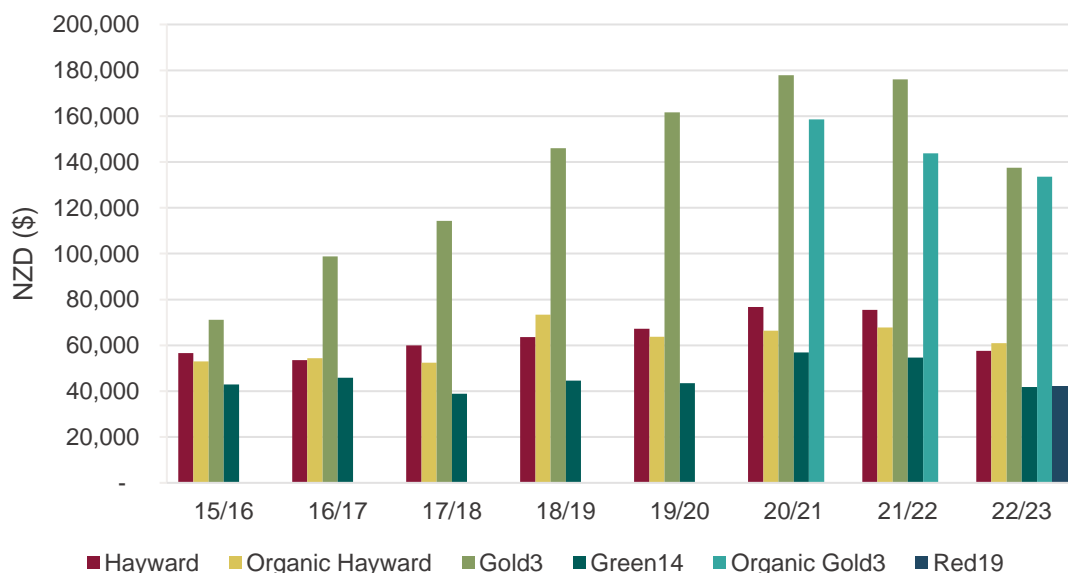
Figure 3.4 - Average OGR per hectare, 2015/16 to 2022/23



Source: Zespri annual reports

Figure 3.5 displays the orchard gate return by cultivar type. The data shows that average OGR growth has largely been driven by the rapidly increasing value of gold kiwifruit, which slowed in the 2021/22 season and fell in the 2022/23 season. Prior to 2020/21, Organic Gold3 was included in the Gold Pool and paid a 'top-up' return to reflect its premium pricing.

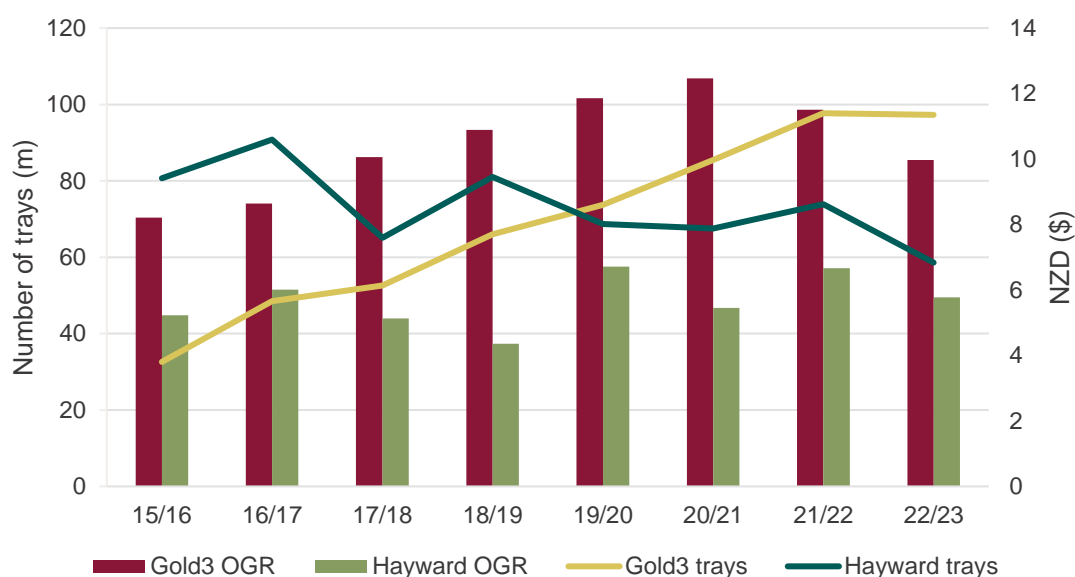
Figure 3.5 - Average OGR per hectare, by cultivar, 2015/16 to 2022/22



Source: Zespri annual reports

The number of trays supplied, and their price, displayed in Figure 3.6, is another way to look at kiwifruit growers' OGR. The trend shows that the number of Gold3 kiwifruit has been steadily rising to around 97 million trays in 2022/23, while Hayward kiwifruit supply decreased to around 59 million trays supplied in 2022/23. Per-tray OGR for gold was increasing until the 2021/22 season to around \$12.46 per tray, then decreasing to \$9.97 in 2022/23. Hayward per-tray OGR has remained around the \$5.50 to \$6.80 mark since 2019/20.

Figure 3.6 - Per tray OGR and trays supplied, green and gold kiwifruit, 2015/16 to 2022/23



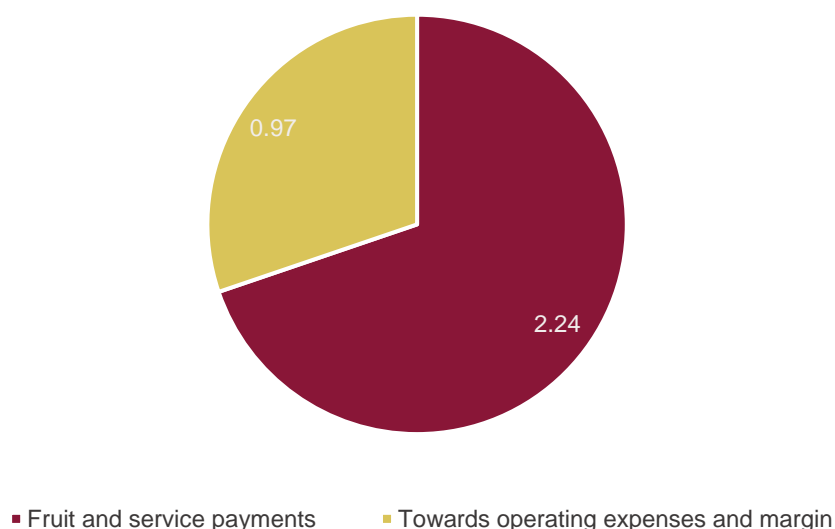
Source: Zespri annual reports

For the 2022/23 season, 2,619 growers produced kiwifruit from 14,412 hectares of orchards, comprised of approximately half Hayward and half Gold3 kiwifruit. Multiplying the number of hectares with the average OGR of that season provides an estimated \$1.45 billion in total OGR paid to growers, or an average of OGR revenue of \$552,200 per producing grower.

As displayed in Figure 3.7, approximately 70 percent (\$2.24 billion) of Zespri New Zealand kiwifruit sales (\$3.2 billion) went towards FSPs (including loyalty payments) in the 2022/23 season. The remaining 30 percent (\$971 million) contributed towards Zespri operating costs and profit margin.²⁰ Of the FSP, growers receive around 67 percent per Gold3 tray and 59 percent per Hayward tray, with the remainder being received by the post-harvest operator.

²⁰ Zespri's margin is calculated in accordance with the New Zealand Supply Agreement to be equivalent to five percent of net sales and 6.75 percent of fruit payments to suppliers.

Figure 3.7 - Share of Zespri New Zealand fruit sales, 2022/23 (\$ billion)



Source: Zespri annual report 2022/23

3.1.3 Shareholder returns

The total number of shares in Zespri was 183.25 million as of the 2022/23 season. Around 47 percent of New Zealand kiwifruit growers are shareholders in Zespri. A current challenge for Zespri is convincing a greater proportion of growers to purchase shares in Zespri to ensure that the proportion of shareholders reflects growers in New Zealand who are activity producing kiwifruit. Once a share becomes 'dry' (owned by a non-producing grower) for three years, the share converts to Class B, which does not receive dividends. This is to encourage dry shareholders to sell their shares to producing growers.

Zespri's net profit after tax for the 2022/23 season was \$238.7 million, down from \$361.5 million in 2021/22. This resulted in a dividend of \$0.99 per share, or a net yield of 15.84 percent per share. The 2021/22 was a peak profit result which resulted in a dividend of \$1.78 per share, or a net yield of 20.11 percent. A significant proportion of Zespri's profit is sourced from the sale of gold licenses to New Zealand growers, and corporate profit from offshore (ZGS) growers.

3.1.4 Incentives for growers

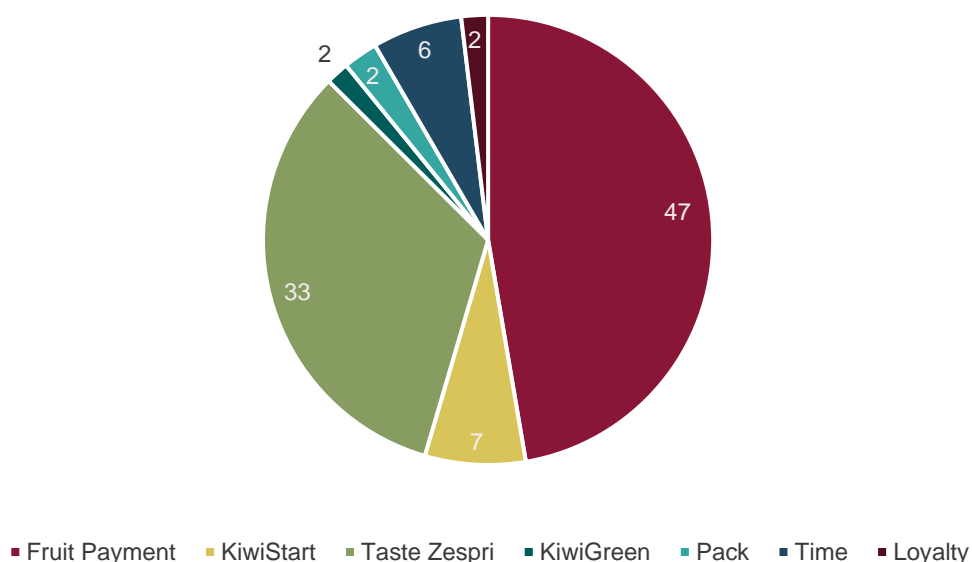
Zespri offers premiums which can increase the profitability of growers. The premiums are designed to incentivise high quality fruit production and timely growing cycles to maximise the cohesiveness of kiwifruit exporting from New Zealand. In a theoretical deregulated market, multiple kiwifruit exporters would compete for kiwifruit growers by offering premiums and benefits to encourage quality and quantity performance. The SPE prevents such competition occurring, so Zespri maintains these incentives to keep production in New Zealand globally competitive. The premiums are for:

- The taste of fruit (measured as average percentage of dry matter in a sample)

- Supplying fruit early
- Supplying fruit late
- Supplier Accountability (a small incentive for post-harvest suppliers to deliver fruit with low levels of storage defects).

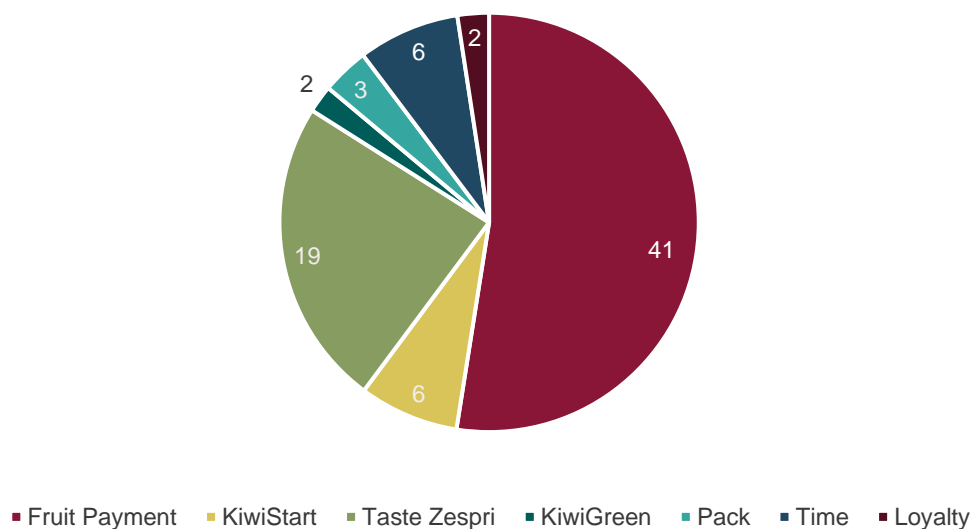
In the 2022/23 season, around \$246.1 million was paid to growers of Zespri Hayward kiwifruit in incentive payments, and \$637.6 million was paid to gold growers in incentive payments. Figure 3.8 and Figure 3.9 show the payment breakdown to growers and suppliers for the 2022/23 season for Hayward and Gold3 kiwifruit. Incentive payments were the same for both cultivars, with fruit payments slightly higher for Gold3 kiwifruit, and service payments slightly higher for Hayward kiwifruit.

Figure 3.8 - Fruit payment share to growers per submitted tray, Gold3, 2022/23 (%)



Source: Zespri annual report 2022/23

Figure 3.9 - Fruit payment share to growers per submitted tray, Hayward, 2022/23 (%)



Source: Zespri Annual report 2022/23

The percentages outlined above were taken from 2022/23 Class I Fruit and Service Payments, before onshore fruit loss and post-harvest costs were deducted. Gross submitted trays return (including onshore fruit loss, Class II, non-standard supply, and other non-dividend income) for Hayward was \$9.81, and for Gold3 was \$14.94. Post-harvest costs were equivalent to 33 percent of the Fruit and Service Payments for Gold3, and 41 percent for Hayward.

Further analysis into the per-hectare value of kiwifruit orchards, in comparison with apple orchards, is discussed in sections 5.2.1 and 5.2.2.

3.2 A single agent to manage risks

The kiwifruit industry is prone to domestic and international factors that can disrupt the supply, quality, and demand for kiwifruit. The primary risks to the industry include:

- Biosecurity issues including plant-based viruses, bacteria, and fungus eradicating crops
- Oversupply of Class I kiwifruit, or severe reduction in kiwifruit demand
- Fluctuations in foreign currency value
- International competitors producing the same or similar cultivars to New Zealand producers
- Natural disasters including storms, frosts, and heatwaves impacting kiwifruit quantity and quality. Climate change also increases the risk of geopolitical instability and the loss of market access
- Labour and skills shortages.

As a single large entity, Zespri can allocate considerable resources to research and development (R&D), market development, and industry development initiatives to prepare the kiwifruit value chain

for predicted disruption. The following sections outline how Zespri has used its SPE status to manage risks to the New Zealand kiwifruit industry.

3.2.1 A world leading plant breeding programme

Psa-V *Pseudomonas Syringae* Pv. *Actinidiae* (Psa) is a bacterium that can rapidly cause widespread damage to kiwifruit vines. In 2010 Psa severely impacted the kiwifruit industry; at its peak in the 2013/14 season grower payments decreased by 17 percent due to a 55 percent reduction in gold kiwifruit production (at this time, Hort16A was the gold cultivar).

As the SPE, one of the core operations of Zespri is the development of new cultivars. At the time of the Psa outbreak, a new golden cultivar (Gold3) was already in its trial stages. Gold3's primary benefit was that it was more seasonally flexible than Hort16A. During the outbreak of Psa, however, it was discovered that Gold3 was more tolerant than other yellow kiwifruit to the bacterium. Zespri and NZKGI mobilised New Zealand kiwifruit growers to replace Hort16A cultivars with the more tolerant Gold3 cultivar in a matter of months, with a nominal fee of \$8,000 per hectare. In addition to higher tolerance, Gold3 was also more productive. The widespread shift to Gold3 was one of the factors which led to the kiwifruit industry boom from the 2015/16 season. Kiwifruit Vine Health (KVH) was established to continue research into improving the resilience of kiwifruit vines.

In 2021, Zespri and Plant & Food Research (PFR) launched the Kiwifruit Breeding Centre (KBC) to further boost innovation in new cultivar breeding. The KBC also works with overseas growers through the ZGS programme. This improves the understanding of cultivars that are grown in other climates and by different methods, and in the presence of other pests, diseases, and viruses that are not present in New Zealand. The success of Gold3 shows how important new cultivars are to the ongoing success of the industry. Zespri's Plant Variety Rights (PVR) to Gold3 expires in 2036. Without the PVR Zespri will be unable to limit new hectares that can grow Gold3, which might put pressure on the supply and price of Gold3 globally. The process to develop new cultivars takes around 10 years, and a substantial amount of testing is undertaken before a cultivar makes it to a pre-commercial trial. Red19 is only just starting its introduction into the global kiwifruit market, with its first volume of commercial harvest exported in 2022.

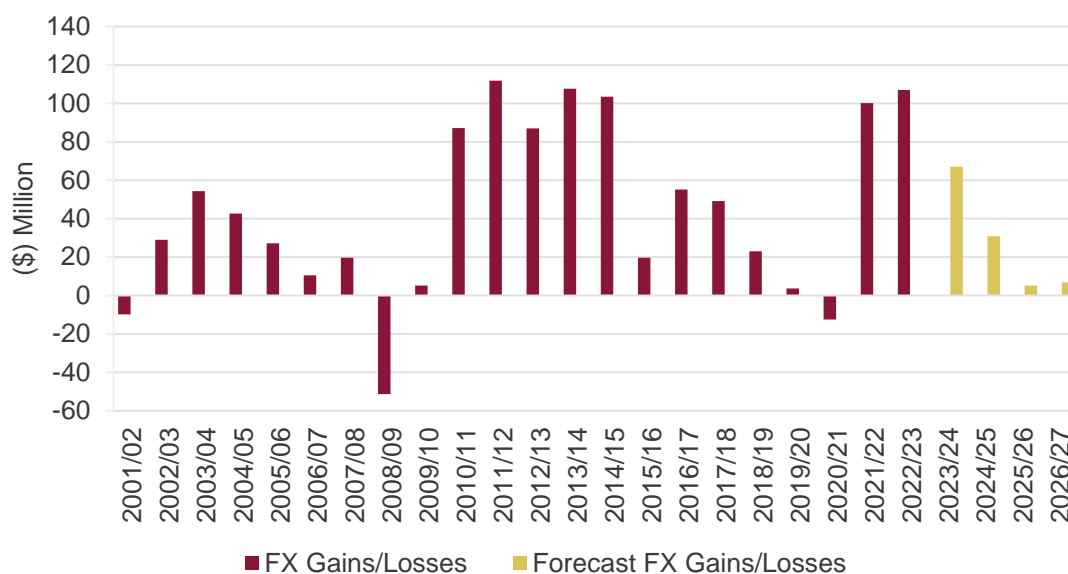
3.2.2 Hedging programme reduces risk from exchange rate volatility

Zespri's strong equity base supports the bank credit lines required to operate a large and long-dated hedging strategy on behalf of NZ growers. The hedging conducted for growers is supported by independent expert advice and governed by strict policies, which over the long-term has not only resulted in reduced volatility of returns but has also added significant additional value.

Zespri hedges New Zealand supply returns in foreign exchange and oil in advance, which means the returns to producers are not influenced as strongly by volatility in exchange rates. In the 2021/22 season the hedging program reduced the cost of exchange rate changes from \$126.5 million to \$26.4 million. Over the 2001/02 to 2022/23 period, the foreign exchange hedging programme has reduced total costs by \$983 million. The gains and losses over time, as well as forecast gains and losses, are displayed in Figure 3.10. Note that while growers receive the gains of hedging, they also pay the

costs should the hedging make a loss. Such cases have been rare, most notably during the 2008/09 global financial crisis. This loss was offset by the 2010/11 season. Due to the certainty of supply due to the SPE arrangement, the foreign exchange hedging programme can lock in ideal exchange rates with minimal risk of supply or price uncertainty.

Figure 3.10 - Foreign exchange hedging programme gains and losses, 2001/02 to 2026/27



Source: Zespri

3.2.3 Advance funding to secure grower income

Zespri arranges and manages annual funding facilities with banks to cover early season activities and payments to growers before revenue is received from receipts overseas. The grower revenue pool is not charged with the cost of maintaining and managing the facility.²¹ Instead, the facility is funded through Zespri’s equity. This advance funding provides certainty of cashflow to growers at the start of each season, and a favourable rate for this funding can be negotiated due to Zespri’s scale.

3.2.4 Fair strategies to manage oversupply

Zespri must ensure that supply does not exceed demand for kiwifruit in overseas markets. The main mechanism for restricting supply is by restricting the growth of hectares that can produce Zespri cultivars through the licencing of new hectares. The implications of oversupply were one of the drivers that led to the Kiwifruit Export Regulations 1999. In 1992, there was a sharp decrease in kiwifruit prices received by New Zealand kiwifruit growers due to world supply increasing by 90 percent.²² Zespri can also undertake onshore crop management that removes the lowest quality fruit, or fruit sizes that are over-supplied when there is excess supply. Zespri can change plans for kiwifruit supply around markets according to consumer demand. In some cases, Zespri has

²¹ Zespri, 2023. Pool policy manual. <https://www.zespri.com/content/dam/zespri/nz/corporate-information/regulatory-affairs/Pool-Policy-Manual-Redacted-2023.pdf>

²² Milne, 2014. The New Zealand Kiwifruit Industry – Challenges and successes 1960 to 1999. Massey University. https://mro.massey.ac.nz/bitstream/handle/10179/5554/02_whole.pdf

undertaken special supply agreements to redirect higher and lower quality kiwifruit to different markets to avoid reducing overall grower income.

In the 2008/09 season there was an oversupply, relative to demand, of Class I kiwifruit produced in New Zealand. To avoid oversupplying the international export market, and driving down OGR to growers, excess Class I kiwifruit was instead exported to Australia under Service Level Agreements (the Agreement) with Australian distributors. This was to focus price impacts on the Australian market, rather than the more valuable international market. The Agreement was approved by most of the kiwifruit industry as the most commercially viable option to reduce the revenue loss of oversupply. The Agreement also planned for compensation, and destruction, of Class II kiwifruit not exported to Australia due to the Agreement. However, this ended up occurring naturally from hailstorms that season. Turners & Growers, a primary exporter kiwifruit to Australia, took Zespri to Court over this action claiming, among other things, that the Agreement was intended to lessen competition in the acquisition and supply of kiwifruit to Australia.

The Court ruled that the provisions of the Agreement did not have the purpose of substantially lessening competition in the market for the acquisition and supply of kiwifruit for export to Australia because:

- The purpose of the Agreement was to provide a solution in the best interests of the industry in response to the anticipated surplus of Class I kiwifruit
- The purpose of restricting the export of Class II kiwifruit to Australia, and providing compensation to growers, was to support export returns from all overseas markets, including Australia, for the benefit of the industry
- The provisions of the Agreement were intended to facilitate substitution between Class II and Class I kiwifruit in the Australian market, not to hinder competition for the acquisition of Class I kiwifruit.

Overall, without the Agreement, Zespri would have had to accept all Class I kiwifruit produced and export it to countries other than Australia, which would have had an adverse impact on the New Zealand kiwifruit industry. Furthermore, there was no evidence of harm to participants in the New Zealand kiwifruit market, due to the Agreement, after the 2008/09 season.

3.3 Significant investment in the kiwifruit value chain

There has been pressure on exporting industries to reveal and address their carbon, water, and waste footprints. As the SPE, Zespri can monitor environmental indicators across the value chain from growing, post-harvest supply, and export distribution to overseas markets.

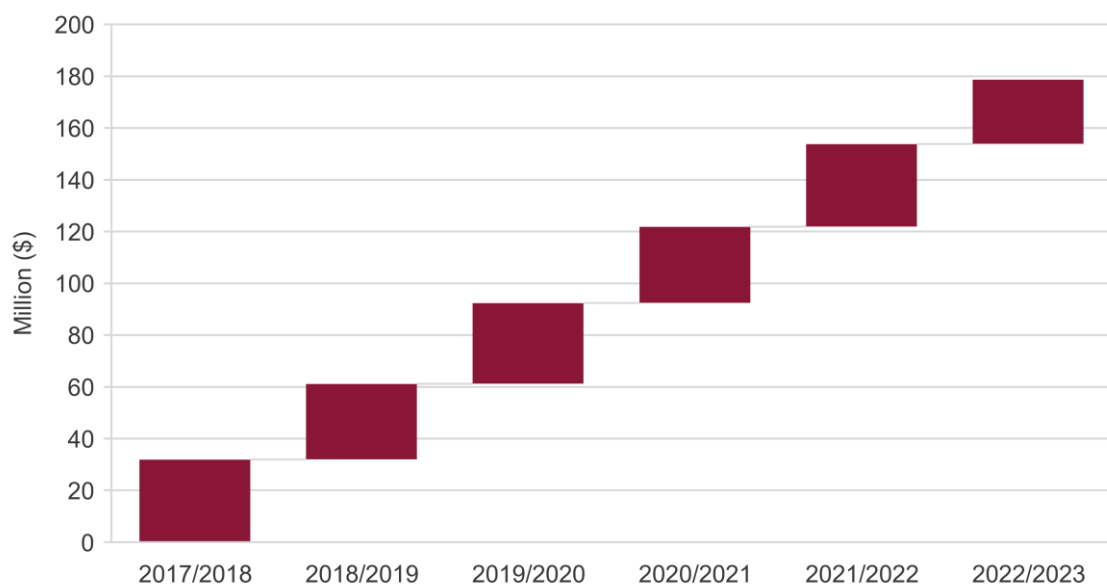
The ability to monitor and adapt the value chain system presents twofold benefits for New Zealand growers. The first is that the overall efficiency and effectiveness of the system reduces the proportion of kiwifruit that is lost or damaged, both onshore and offshore. This results in higher OGR for growers. The second benefit is that improvements to the environmental and ethical credentials of the industry improve the value of kiwifruit overseas, particularly in markets where 'clean and green' products fetch price premiums, provided this claim is validated. For example, the

European Commission has proposed new rules for substantiating green claims to allow consumers to make purchasing choices based on transparent and reliable information on the sustainability, durability, and carbon footprint of products.²³

3.3.1 Investment in innovation

Zespri invests a significant amount of money each year into innovation. Figure 3.11 shows that since 2017/18, Zespri has invested an average of \$29.8 million annually into R&D for orchard and distribution innovation. Up until 2022/23, this equalled a total of \$178.8 million in total over the five-year period. From 2020/21 Zespri has also spent around \$88 million on developing and implementing a new cloud computing system. Note that before Zespri's definition of core business was changed to include R&D in 2017, Zespri still undertook a significant level of R&D spending. This innovation benefits not just the kiwifruit industry, but also New Zealand's wider horticultural sector, as efficient technologies, practices, and supply chain improvements are shared across orchards.

Figure 3.11 - Zespri innovation expenditure, 2017/18 to 2022/2023



Source: Zespri annual reports

3.3.2 Targeted charter shipping programme

Zespri, due to its scale as the SPE, uses a charter shipping programme to ensure shipments of kiwifruit are reliable and coordinated. Scale, time and quality reliability, and certainty of supply result in international distributors and retailers providing preferential prices for New Zealand kiwifruit, particularly as fresh fruit is often a risky product to sell due to its perishable time window. The ability to deliver quality fruit on time, and coordinated with promotion strategies, means the relationship between retailers and Zespri is mutually beneficial, and the benefits flow through to growers via OGR.

²³ European Union, 2023. Sustainable consumption and production policy.
<https://www.europarl.europa.eu/factsheets/en/sheet/77/sustainable-consumption-and-production>

The charter shipping programme proved critically useful during global shipping delays that were aggravated by the emergence of the COVID-19 pandemic in 2020. In the 2021/22 season, 66 chartered vessels delivered 17,000 refrigerated containers of kiwifruit to global customers.²⁴ In the 2022/23 season, 57 chartered vessels were used to deliver kiwifruit to market, and a further 200 container liner services, or containers on chartered vessels, were also used. The strong relationship with shipping partners means that Zespri has certainty as to when fruit will arrive to market, and that its quality will be maintained via on-board kiwifruit ripening technology and quality monitoring. This means that Zespri can handle global supply chain disruptions better than other primary industry exporters, and can pass this certainty onto overseas retailers and New Zealand growers to secure OGR.

3.3.3 Effective sanitary and phytosanitary (SPS) rules

The World Trade Organisation (WTO) requires that world trade in kiwifruit meets Sanitary and Phytosanitary (SPS) standards before entering markets. SPS requirements ensure that consumers and growers are protected from exotic bacteria, fungi, and viruses.²⁵ Zespri places stringent standards on growers and post-harvest suppliers for safety, quality, and monitoring. Beyond the port, Zespri implements extensive checking procedures and monitoring along the distribution chain, including on board their chartered vessels.

Zespri's on-orchard assurance programmes include:

- Good Agricultural Practice (Zespri G.A.P.)
- Crop Protection Standard
- KiwiGreen integrated pest management
- Residue Assurance Programme
- Organic certification by BioGro New Zealand, which is internationally accredited
- Fruit maturity testing

Zespri's post-harvest programmes include:

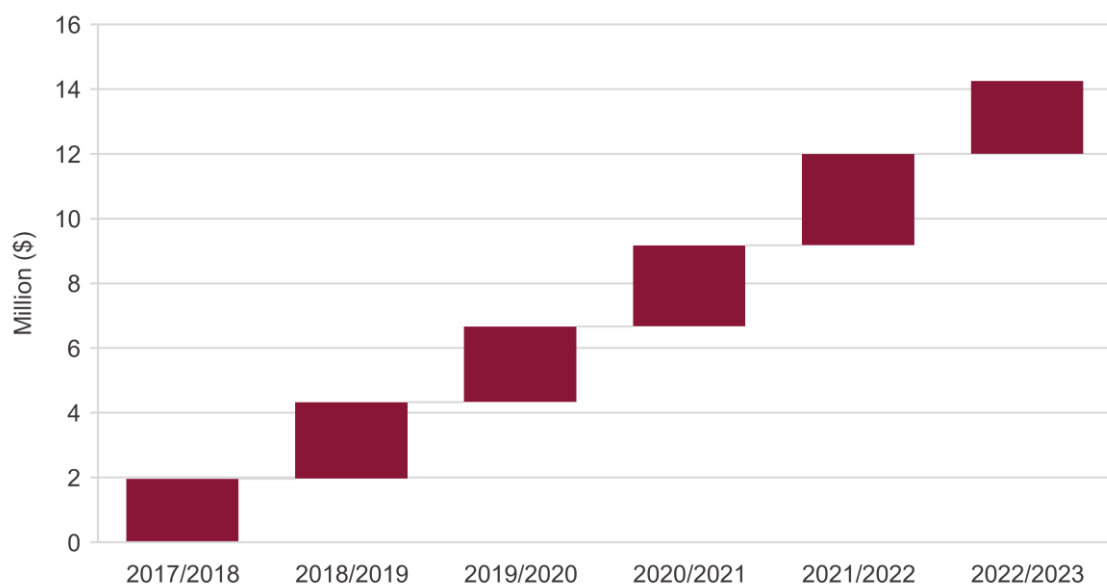
- Traceability: Every box can be tracked back to an area on the orchard where it was grown. If an issue is identified, Zespri can find out exactly where it could have emerged
- Food safety standards, including certification to an approved Global Food Safety Initiative programme
- Grade assurance
- NZ Customs Department partnership
- Phytosanitary compliance programme.

²⁴ Zespri, 2022. <https://www.zespri.com/content/dam/zespri/nz/annual-reports/Zespri-Annual-Report-2021-22.pdf>

²⁵ Bano, 2011. New Zealand kiwifruit export performance: Market analysis and revealed comparative advantage. <https://repec.its.waikato.ac.nz/wai/econwp/1108.pdf>

A significant amount of capital is provided to KVH through levies paid by growers; a Psa levy of \$0.002 per tray of Class I kiwifruit exported to non-Australia countries, and a biosecurity levy of \$0.014 per tray of all varieties exported to non-Australia countries. Figure 3.12 shows that on average \$2.4 million per year is invested in KVH, totalling \$14.3 million for the 2017/18 to 2022/23 period.²⁶ This figure represents both levies combined.

Figure 3.12 – Grower expenditure on Kiwifruit Vine Health, 2017/2018 to 2022/2023



Source: Zespri annual reports

3.4 Upholding brand power and product quality

New Zealand kiwifruit is a unique product in the international market. Firstly, New Zealand kiwifruit meets the definition of a Fast-Moving Consumer Good (FMCG); the product sells quickly at a relatively low cost. Most products sold at supermarkets are FMCGs. At a micro-scale in each supermarket FMCGs compete for shelf space ‘real estate’. Secondly, New Zealand kiwifruit is also a premium product. This is extraordinary for fruit which is usually classified as a commodity under the FMCG umbrella. Proportionally kiwifruit claims very little shelf space (usually around one percent of total fruit sales), but offers a highly productive use of that shelf space to retailers. Fruit has a very limited shelf life. If it is bought too soon (i.e., under-ripe), a consumer will purchase and hold on to the fruit for several days before eating which suppresses sales. If fruit is bought too late (over-ripe), the consumer risks a poor taste experience which harms brand and retailer reputation. Where multiple fruit companies offer competing bundles of supply agreements retailers and distributors face the risk of fruit wastage, where supply exceeds demand, and uncertainty on fruit quality.

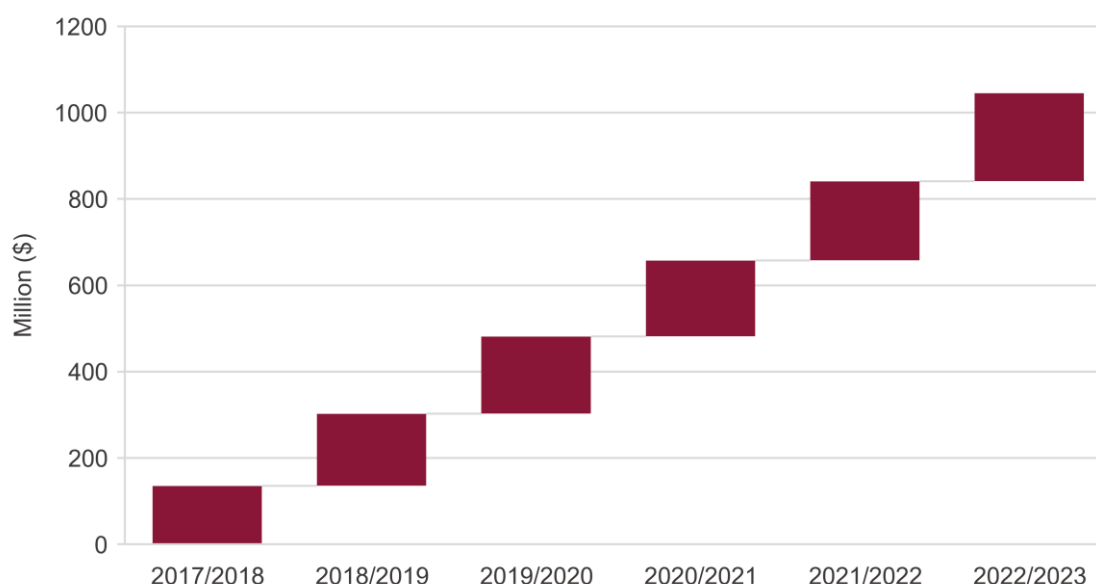
²⁶ Includes Psa and biosecurity levy.

Zespri's marketing strategy offers the value proposition of supply certainty coordinated with marketing campaigns and, in some markets, a 'ready to eat' promise. This proposition has been built on leveraging four key levels that are made possible by Zespri's SPE structure:

- **Brand:** The vast majority of New Zealand kiwifruit is marketed under the same brand to consumers. The distributor or retailer does not need to advertise the product themselves
- **Retail:** Zespri can promise commitment to supply quantities and quality. In some markets, the 'ready to eat' promise maintains the premium price of the fruit, maintaining the shelf space is used at its most efficient level
- **Distributor:** Zespri can choose preferred distributors. Even though kiwifruit has a small share of fruit sales, Zespri can work with distributors to build kiwifruit into a strong proportion of their fruit portfolio. Because Zespri maintains stability in their pricing and margins, distributors are assured there is no risk they are being under-cut
- **Market:** Zespri can coordinate supply across multiple markets. Zespri identifies core markets by launch, establish, and enhance segments. Zespri also identifies non-core markets that can be explored. If market demand shifts in some markets, such as Europe, Zespri can arrange oversupply in one country to be supplied to another country in that market. Zespri's main lever is to change further orders, which is enabled by the universal quality, brand, and packing.

Zespri utilises its scale to invest an enormous amount of capital into promotion. The cumulative expenditure on promotion is displayed in Figure 3.13. On average, Zespri spends around \$174.2 million annually on promotion, with total spending for the period equalling \$1.05 billion.

Figure 3.13 - Zespri expenditure on promotion, 2017/2018 to 2022/2023



Source: Zespri annual reports

In the 2021/22 season Zespri's brand power was scored at a historically high level, notably in mainland China, as the most recognisable fruit brand. This followed a brand refresh that occurred in

2020, with a new logo and consumer value proposition that focuses strongly on the health and taste benefits of kiwifruit.²⁷ Since the refresh, the number of consumers who recognised the Zespri brand without being prompted increased by 2.7 percent from the 2019/20 season. Faster recognition of a brand correlates to the likelihood that a consumer will purchase a good. This supports Zespri's efforts to build New Zealand kiwifruit as a brand to drive its premium value. Zespri was also recognised among the top three fruit brands in 10 out of 15 key international markets.²⁸ The Zespri marketing strategy has been particularly effective in Japan and other East Asian markets, such as South Korea, with the personification of New Zealand kiwifruit as the Kiwi Brothers mascots.²⁹

A driver of this marketing success, reflected by the upward trend of international kiwifruit sales, has been establishing New Zealand-grown kiwifruit as a quality leader. In 2022 Zespri worked with industry to implement the kiwifruit industry Quality Action Plan to improve overall fruit quality in response to a season characterised by inconsistent quality and fruit loss. As of May 2023, initial quality results have indicated a successful start to the plan.³⁰

Zespri became the first New Zealand company to be granted Key Trademark Protection status in Shanghai. This strengthens the legal and administrative tools to fight challenges to Zespri's intellectual property, namely its brand.³¹ For instance it was revealed in 2016 that a Chinese company tried to trademark 'Zsgpii' to mimic the Zespri brand, presumably to sell unauthorised golden kiwifruit.³² The Key Trademark Protection status gives Zespri the ability to pursue unauthorised use of its image. The protection status does not extend to the rights to cultivars themselves and does not prevent the growing of unauthorised Gold3 in China. Zespri is pursuing further protections to the brand in this area.

Rutherford, McGimpsey, and Narayan conducted an evaluation of New Zealand's horticultural commodity exports regulatory framework in 2013 to identify how reputation drives industry success. The authors stated that reputation is an important demand determinant for horticultural commodities. This is because horticulture products may appear like each other in appearance but vary in flavour and quality. This kind of product is defined as an experience good. When a consumer buys an experience good, they rely on the reputation of the supplier as an indicator of the good's quality.³³

In other aspects fruit is also a 'post-experience good' where the good has valuable characteristics that are hard to measure by consumers, such as ethical production methods and strong

²⁷ Koger, 2020. Zespri unveils kiwifruit rebrand. <https://www.thepacker.com/news/retail/zespri-unveils-kiwifruit-rebrand-focus-values>

²⁸ Zespri, 2022. The Kiwifruit Book 2022. <https://www.nzkgi.org.nz/the-kiwifruit-book-2022/>

²⁹ Taipua, 2022. Who are the swaying kiwi brothers? <https://thespinoff.co.nz/politics/22-04-2022/who-are-the-swaying-kiwi-brothers>

³⁰ Zespri, 2023. Kiwiflier May 2023.

<https://www.zespri.com/content/dam/zespri/nz/publications/Kiwiflier/kiwiflier-2023/KF-447-May-2023.pdf>

³¹ Zespri, 2020. Zespri granted key trademark protection status in China. <https://www.zespri.com/en-NZ/newsroomdetail/key-trademark-protection>

³² Clark, 2021. Cuttings of prized SunGold kiwifruits were smuggled to China and NZ growers are divided over what to do about it. <https://www.abc.net.au/news/2021-06-02/china-new-zealand-kiwifruit-trade-impacts-/100129232>

³³ Rutherford, McGimpsey, & Narayan, 2013. Evaluation of New Zealand's regulatory framework to support the reputation of horticultural commodity exports. <https://www.semanticscholar.org/paper/Evaluation-of-New-Zealand%E2%80%99s-regulatory-framework-to-Rutherford-McGimpsey/19dab87ff0449f7df3d57739c2ce7ce67db7787e>

environmental credentials. To communicate quality to consumers, and justify a price premium, branding is important. Rutherford et al note that collective reputation is a cost-effective option for small independent growers to enable them to attract a high market price for their goods, particularly in foreign markets.

Collective reputation is dynamic and relies on past quality. It can also be vulnerable to other exporters making use of the reputation. A risk to unregulated horticultural industries is that exporters may choose to exploit a collective reputation and export sub-standard goods. These goods ultimately drive down the reputation, and therefore the price, which harms other producers. It is for this reason that Zespri manages the volume of product to match demand, to ensure the high standard of New Zealand kiwifruit remains competitive.

3.4.1 Collaborative marketing provides alternative routes for increasing grower wealth

The Regulations allow for collaborative marketing with Zespri for the purposes of increasing the overall wealth of New Zealand kiwifruit producers. Since the introduction of collaborative marketing provisions, approvals have comprised around two percent of kiwifruit exports per year.

Each application, or multi-year annual review, is considered by a KNZ Collaborative Marketing committee which is comprised of members of the KNZ Board and an independent convenor or expert. The applications are considered successful if they meet the purpose of the “wealth test”, as per Regulation 24: the application must increase the wealth of New Zealand kiwifruit growers. Collaborative marketing arrangements provide a way for post-harvest suppliers and other marketing organisations in New Zealand to distribute their fruit in overseas markets. For example, Seeka markets Hayward kiwifruit in Malaysia, in collaboration with Zespri. Collaborative marketing also works as a means for New Zealand kiwifruit to reach smaller or niche markets overseas.

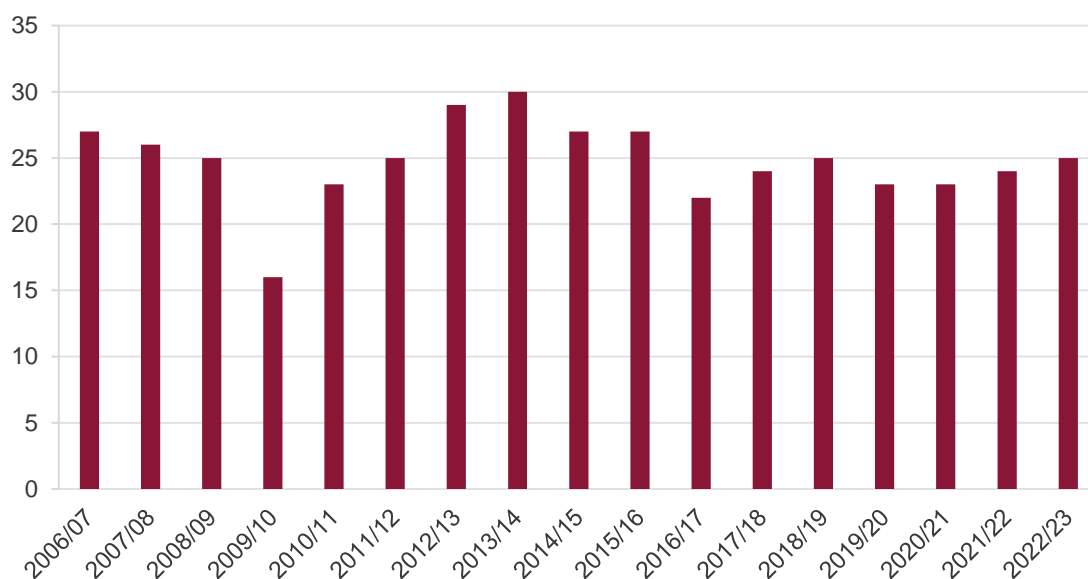
The number of approved collaborative marketing applications is displayed in Figure 3.14. On average from 2006/07 to 2022/23, Zespri opposed 16 percent of applications, but 91 percent of applications were approved by KNZ. From 2013/14 to 2022/23, 26.47 million trays of kiwifruit were exported via collaborative marketing agreements.³⁴ Over the last 10 years, from 2012/13 to 2022/23, collaborative marketing has brought in approximately \$254 million in FSPs to New Zealand. The returns from collaborative marketing agreements have exceeded Zespri FSPs by \$3.90 million for the same period.³⁵ This is the difference between collaborative marketing FSPs and Zespri’s FSP for that season. Collaborative marketing also distributes New Zealand kiwiberry (a smaller, niche variety of kiwifruit) to non-Australia countries, which generated a substantial per-tray return of \$29.25 in 2022/23.³⁶ The proceeds of collaborative marketing are captured by growers and the marketer.

³⁴ KNZ, 2023. Collaborative Marketing statistics. https://knz.ibcdn.nz/media/2023_06_29_cm-statistics-2023.pdf

³⁵ KNZ, 2023. Collaborative Marketing Results 2022-2023. https://knz.ibcdn.nz/media/2023_06_29_2022-reg-15-cm-results.pdf

³⁶ Kiwiberries are about the size of grapes. Therefore, trays of kiwiberry contain higher numbers of fruit than regular-sized kiwifruit.

Figure 3.14 - Number of approved collaborative marketing applications, 2006/07 to 2022/23



Source: KNZ

3.4.2 Maintaining yearly demand through storage and global supply

Kiwifruit, by nature, is seasonal. This poses the problem that during New Zealand kiwifruit's off-season, exporters from countries in the northern hemisphere could take advantage of the reduced supply from New Zealand to market their own fruit. Zespri uses three key mechanisms to ensure there is a managed supply during the off-season:

- Encouraging industry investment in cool storage that allows for kiwifruit to be held for longer. The growth of the kiwifruit industry has allowed post-harvest suppliers to invest in cool storage innovation on-shore, and Zespri arranges shipping and off-shore cool storage to aid in delivering high quality kiwifruit to retailers
- Establishing agreements with northern hemisphere growers to grow Zespri cultivars (ZGS). ZGS ensures that the brand presence of Zespri kiwifruit is maintained year-round in core markets
- Investment into breeding cultivars that have broader harvesting windows. Gold3 was developed due to its ability to be harvested earlier in the season.

4 Costs and barriers of the SPE to kiwifruit growers

The main costs and barriers of the SPE to kiwifruit growers are:

- High demand for Zespri-owned cultivars drives up the cost of the limited supply of licences, which is a barrier for some growers to enter Gold3 production
- Limited options to market directly to consumers, particularly for owners of non-Zespri cultivars
- Limited ability for minority growers to influence decisions made by Zespri
- The requirements of the SPE limit Zespri's ability to make fast decisions where activity falls out of the Regulation's definition of core business, which may become an issue in rapidly changing market dynamics.

The rest of this chapter explores these costs and barriers.

4.1 Limited licence supply restrains gold orchard growth

Because the value of the cultivars is driven by international supply and demand, Zespri limits the number of new hectares that grow Zespri cultivars through its licensing policy. Kiwifruit growers previously purchased licences through a closed tender bid process. In 2017, NZKGI conducted a survey that asked growers for feedback on the licensing mechanism. The survey indicated that growers supported the following principles of the licence release that ensure:

- The growth of Gold3 is controlled (not oversupplied) (87 percent)
- The spread of licences is managed, so that licences are not over-purchased by a small number of large growers (80 percent)
- There is equity of opportunity, so that all growers have an opportunity to grow Gold3 (70 percent).³⁷

Zespri typically licenses around 750 additional hectares of SunGold (and 50 hectares of Organic SunGold) in New Zealand each year. Because the kiwifruit boom was primarily driven by demand for gold kiwifruit, growers that own Gold3 licences remain in a better position to benefit from the success of Zespri. As the price of Gold3 increases, it becomes more costly for kiwifruit growers to begin growing Gold3 if they have not already acquired a licence.

Due to concerns of industry capacity constraints³⁸ the number of new Gold3 licensed hectares decreased significantly to 350 hectares for the 2022/23 season. This resulted in a sharp increase to prices, with the median price rising from \$550,000 per hectare in 2021 to \$801,000 (including GST) per hectare in 2022.³⁹ The 2023 season introduced an online ascending price auction mechanism to provide greater transparency in the licence bid process. The end price of the auctions resulted in

³⁷ NZKGI, 2017. Grower feedback on the Allocation Mechanism for Gold3 licence. <https://www.nzkgi.org.nz/wp-content/uploads/2017/09/Grower-feedback-on-G3-License-Mechanism-September-2017-Published.pdf>

³⁸ It was indicated that the New Zealand kiwifruit supply chain was under too much pressure. This was confirmed by the fruit quality issues that reduced export receipts for the 2021/22 and 2022/23 seasons.

³⁹ Radio New Zealand, 2022. Sought after kiwifruit licences selling for top prices. <https://www.rnz.co.nz/news/country/466488/sought-after-kiwifruit-licences-selling-for-top-prices>

the final price of 150 new hectares of Gold3 equalling \$700,000 per hectare, and 200 new hectares of cutover Gold3 (Hayward vines converted to Gold3) equalling \$678,000 per hectare. The auction for 150 hectares of Red19 settled on \$38,000 per hectare.

Hayward kiwifruit is able to be grown without a licence and is grown globally. Gold3 licences are by far the most sought-after cultivar due to their high OGR. It is relatively easy for growers to move from one cultivar to another by grafting a new cultivar onto an existing vine, however, it will take at least two seasons for the crop to return to full productivity.

The increasing cost of licences was an issue for Māori growers who grow kiwifruit on whenua Māori (Māori land), as there are complications when borrowing against whenua Māori which make banks less likely to approve loans. This has historically limited the ability of some Māori growers to purchase Gold3 licences on finance. Zespri is in discussion with the government regarding what support it can provide to help address this issue.

The performance of Zespri-marketed Hayward kiwifruit, however, has benefited from the success of Gold3 kiwifruit sales. Zespri marketing campaigns pair Hayward and Gold3 fruit together, and the cultivars share shelf space at international retailers. New Zealand grown Hayward kiwifruit is still required to meet Class I standards and is still valued by international consumers as a premium product. This is balanced by the fact Hayward kiwifruit has greater price elasticity due to competing international Hayward brands on the market.

4.1.1 A Hi-Cane ban puts Hayward kiwifruit at risk

The New Zealand Environmental Protection Authority (EPA) is currently re-assessing the use of Hydrogen cyanamide (commonly traded as Hi-Cane) in the use of kiwifruit horticulture. Spraying kiwifruit vines with Hi-cane leads to increased and uniform bud-break. However, the environmental effects of Hi-Cane are under review. Concerns have been raised regarding water contamination, off target effects on wildlife, dogs, and other animals, and negative effects on human health. The impacts of a Hi-Cane ban will adversely affect Hayward kiwifruit growers, which may put further strain on the demand for gold licences. Hi-Cane is also an important tool for Gold3 and Red19 orchards.

The use of Hi-Cane was stated by growers as the difference between an orchard being financially viable or not, particularly Hayward kiwifruit orchards.⁴⁰ If the EPA decides Hi-Cane needs to be phased out of kiwifruit farming, growers reliant on Hayward kiwifruit orchards would be further affected by the rising price of gold licenses. As established in the section above, Māori growers who grow kiwifruit on whenua Māori are less likely to own Gold3 licences which means these growers would be disproportionately affected by a ban on Hi-Cane use.⁴¹ On the other hand, Zespri has been directing a large amount of expenditure, thanks to its scale, towards R&D to understand the risks of Hi-Cane, and the development of new cultivars that do not require the use of Hi-Cane. Zespri has fast-tracked the trials of new green cultivars which are less reliant on Hi-Cane to try and ensure

⁴⁰ Environmental Protection Authority, 2022. Submissions analysis report – reassessment of hydrogen cyanamide. https://www.epa.govt.nz/assets/FileAPI/hsno-ar/APP203974/APP203974_20220921_Submissions-analysis-report.pdf

⁴¹ Ibid

alternatives for Hayward growers, both should Hi-Cane be banned and as part of its overall breeding programme objective to find a new green cultivar.

4.2 Reduced incentives for a kiwifruit breeding market

Zespri as an SPE maintains control over the supply of its cultivars overseas. Growers and suppliers who develop their own varieties face a barrier to export their varieties, grown in New Zealand, to countries other than Australia. In principle, they may apply to export these varieties via the collaborative marketing mechanism with Zespri, or they could grow their varieties outside of New Zealand. A key issue with introducing new cultivars to the international market is that more kinds of kiwifruit will limit the shelf space for the existing Zespri cultivars. The Turners & Growers 2011 case revealed that a non-Zespri cultivar must prove to be better, than what is already on the market, to meet the requirements of the KNZ wealth test.

Turners & Growers, in its 2011 Court case against Zespri, argued that Zespri contravened the Regulations by seeking to acquire and control the rights to new kiwifruit cultivars, and by restricting the ability of competitors, or potential competitors, to develop competing cultivars. Turners & Growers argued that Zespri used its degree of market power in the regulated grower/exporter (non-Australia) market for the purpose of preventing or deterring other exporters and cultivar rights holders from engaging in competitive conduct in the grower/exporter market, and the kiwifruit cultivar licensing market.

In a letter to Turners & Growers in 2009, the Chief Executive Officer of Zespri stated that Zespri's position was that each potential new cultivar should be considered separately, so that investment on plant variety rights is focused only on winning cultivars that are sufficiently different, or better, than existing exported cultivars from New Zealand to non-Australia countries. This was because kiwifruit have a small share of global fruit sales, which results in limited retail shelf space. Therefore, new cultivars could harm the market performance of existing New Zealand kiwifruit cultivars in the international market if the new cultivars were not adding value larger than the displacement they would be creating. Managing the introduction of new cultivars to international markets is also a costly undertaking.

Zespri also stated that an owner of a new cultivar could export the fruit through the collaborative marketing mechanism, which would follow the normal process of Kiwifruit New Zealand determining if the application would increase the overall wealth of the New Zealand kiwifruit industry.

Overall, the Commission concluded that Zespri had not contravened the Regulations in respect of the new kiwifruit cultivar policy because it did not do so for a discriminatory purpose. It should also be noted that Plant and Food Research, who partner with Zespri on the Kiwifruit Breeding Centre, are world leaders in horticultural breeding.

4.3 Non-discrimination rule

As of 2023, there are 14 KNZ decisions relating to investigations and complaints published on the KNZ website.⁴² Most of the decisions relate to the complaints made by growers under the discrimination rule in the Regulations; Zespri cannot discriminate between suppliers, except on commercial grounds. Because growers cannot choose another exporter if they want to export to non-Australia countries, growers have limited ability to dispute business decisions made by Zespri. KNZ therefore considers if decisions that impact growers were unjustifiably discriminatory.

The following sections outline some of the complaints raised to KNZ.

4.3.1 Minimum taste standards

There was a complaint that Zespri's minimum taste standard (MTS) for Class I, favours Gold3 growers over Hayward and organic growers, and is therefore discriminatory. Since introducing dry matter (a determinant of kiwifruit sweetness) requirements in 2006, Zespri has raised the dry matter thresholds for orchards over the years. In 2017, Zespri raised the MTS to require that 70 percent (from 50 percent previously) of fruit must have 15.5 percent of dry matter. This was due to market research which concluded that higher taste (sweetness) correlated with increased willingness to pay for kiwifruit.

KNZ was of the view that the MTS is, in a sense, discriminatory and it was inevitable that some kiwifruit growers would be more affected by MTS than others. KNZ recognised that these growers were more likely to be Hayward and organic growers, due to the characteristics of the fruit and growing methods. However, it could be justified that the MTS was supposed to, and should be, discriminatory on commercial grounds. KNZ agreed with Zespri's position that the discrimination under the MTS is commercially justified, as providing a consistently high taste builds a loyal base of consumers and maintains the fruit's premium price.⁴³

4.3.2 Performance of Zespri PVR varieties over Hayward kiwifruit

In 2016, KNZ concluded its investigation into a complaint that Zespri was breaching its non-discrimination rule by paying Hayward kiwifruit growers significantly less than growers of Zespri PVR varieties (for instance, Gold3, Red19, and Green14), and that holding proceeds of sale in grower pool funds, rather than in a separate trust, is contrary to the Regulations' definition of core business.

KNZ ruled that the amount paid to suppliers of each variety is determined by Zespri's pricing methodology, which does not discriminate by variety. KNZ noted that, even if it was discriminatory, it would be justified on commercial grounds as it would be passing differences in revenue and cost back to suppliers. KNZ also ruled that the holding of gross returns from sales was necessary for Zespri's core business under the regulations.

⁴² KNZ, 2023. KNZ decisions. Accessed July 2023. <https://www.knz.co.nz/resources/knz-decisions>

⁴³ KNZ, 2022. Summary of Minimum Taste Standard complaint decision – 1 November 2017. https://knz.ibcdn.nz/media/2022_09_29_2017-nov-summary.pdf

4.3.3 Absence of terms in Supply Agreements

In the 2020/21 season, Zespri decided to exclude organic Gold3 from the China market. The New Zealand Certified Organic Kiwifruit Growers Association (COKA) raised a complaint that Zespri acted in a discriminatory manner against organic Gold3 growers. COKA's view was that the decision itself was discriminatory, and that there should have been a process to consider a compensation payment to the organic Gold3 pool to offset the loss to that pool from the decision. COKA also stated that there was a lack of a structured and documented complaints resolution process within Zespri that could fairly and equitably address the concerns of minority groups in the kiwifruit industry.

In its preliminary assessment, KNZ highlighted that it had no jurisdiction as a regulator to govern how Zespri markets and distributes kiwifruit once purchased from New Zealand suppliers, and under that season's Supply Agreement Zespri had the absolute discretion to determine the destination of any kiwifruit acquired under that agreement.⁴⁴

KNZ also noted that the matter of compensation was raised at a NZKGI forum, but it did not receive the endorsement to proceed further. Ultimately, KNZ could not proceed to investigate beyond the preliminary assessment into COKA's complaints, citing that KNZ cannot assert its powers in respect of the administration and control of kiwifruit payment pools. KNZ did, however, highlight that there was an absence in Zespri purchase terms to document a process for complaint resolution, or consideration of payment of compensation to a grower or a group of growers. Therefore, there is a risk of inconsistent treatment of such issues that might disadvantage minority groups. KNZ recommended that Zespri take reasonable steps to include suitable terms in its Supply Agreement that provide for a transparent resolution process.⁴⁵

4.4 Might not adapt quickly enough to changing market dynamics

How do we protect our export market? The New Zealand kiwifruit industry has proved to be resilient against challenges to the industry over the last 20 years of SPE exporting. Despite proving to be a successful model in many respects, the SPE structure of the kiwifruit industry limits its ability to make decisions that fall outside of core business activities without grower approval. The voting process, while crucially necessary, takes time and has a high success threshold of 75 percent which is also weighted by grower production. As the dynamics of international markets change, the current definition of core business may prove to be restrictive when decisive action is needed.

China receives the largest share of New Zealand kiwifruit exports by individual country (25 percent). While this has provided many returns to New Zealand growers, the reliance on China also poses a significant risk. China has only recently lifted a two-year long ban on Australian products, including fruit, that was triggered by political tensions between the two countries.⁴⁶ Such events may be outside the control of Zespri should a similar event happen with New Zealand. The unauthorised growing of Gold3 in China also poses a significant threat should these producers develop high quality

⁴⁴ KNZ, 2022. COKA response letter. https://knz.ibcdn.nz/media/2022_09_29_coka-2022.pdf

⁴⁵ Ibid.

⁴⁶ Fresh Fruit Portal, 2023. China lifts ban on Australian Fruit.

<https://www.freshfruitportal.com/news/2023/06/20/china-lifts-ban-on-australian-fruit/>

standards and market legitimacy. Zespri's market development framework is aimed at diversifying its market base to mitigate the risk of over-exposure in one market.

4.4.1 Chinese SunGold threat still remains

It was estimated in 2020 that around 4,000 ha of unauthorised Gold3 was being produced in China, and that this number was growing. The SPE arrangement allows Zespri to address these growers from a single strategic approach, however, it would need the approval of New Zealand kiwifruit growers to do so.

NZKGI stated in 2020 that the risk of trying to prevent the spread of Gold3 was their preferred option to doing nothing, so it encouraged New Zealand kiwifruit growers to support Zespri working with China on a small scale to conduct commercial trials of Zespri Gold3. Against the expectations of Zespri and NZKGI, the vote did not reach the 75 percent threshold. In its 2021/22 annual report, Zespri stated that unlicensed Gold3 cultivars in China remains a concern for the stability of New Zealand kiwifruit cultivar supply. Presently, industry stakeholders estimate that there are now more Gold3 producing hectares in China than there are in New Zealand.

4.4.2 Climate change threatens business as usual

Climate change poses a significant threat to the production of kiwifruit in New Zealand. Kiwifruit vines require winter frosts to develop adequate bud-break in spring, which produces kiwifruit. Hi-Cane is integral to aiding bud break for many kiwifruit growers, particularly in Northland. If Hi-Cane is banned, many orchards may become uneconomical. Climate change increases the chances that adverse weather events will become the new normal in many communities throughout New Zealand. Crops can be severely damaged by floods and hailstorms that impact fruit yield and quality. Other countries will also face the consequences of climate change and population growth, which will heighten food insecurity throughout the world. As food insecurity and catastrophic events displace millions of people, the likelihood of conflict threatens to disrupt supply chains and entire markets. The New Zealand kiwifruit industry can prepare for these impacts, however, increasing costs and reduced OGR is likely to be on the cards should international markets become unstable. Events that have not been anticipated by the Regulations may require Zespri to undertake activities that fall outside core business and will require a producer vote, which will take time to ensure growers are well-informed to vote in their interests.

4.4.3 Kiwifruit must not become a commodity

Because Zespri markets directly to consumers, the benefits of collective reputation also come with risks. A food safety scare, such as the Danone baby formula product recall, severely impacted the reputation of New Zealand's primary dairy supplier Fonterra.⁴⁷ The retailer, Danone, bore most of the brunt of the scare as their brand was on the line. Fonterra was the wholesaler and did not face consumers directly. Zespri does not have a similar barrier between the product and the brand

⁴⁷ World Finance, 2014. Danone to sue Fonterra over baby milk formula scare. <https://www.worldfinance.com/strategy/legal-management/danone-to-sue-fonterra-over-baby-milk-formula-scare#:~:text=The%20recall%2C%20affecting%20nine%20Asian%20countries%2C%20was%20sparked,the%20recall%20was%20based%20on%20a%20false%20alarm.>

reputation. A kiwifruit food safety scare could impact kiwifruit sales across multiple markets. Should the perception of the quality of New Zealand kiwifruit fall, the product risks falling out of premium FMCG standing and becoming a commodity. Kiwifruit as a commodity would flatline tray value and severely reduce returns to New Zealand growers. As the SPE, Zespri can only influence best practice at certain points in the supply chain, namely fruit quality and certification in line with the discrimination rule of the Regulations.

4.5 Government assessment of risks to the industry

The Ministry for Primary Industries (MPI) identified in 2016 that while the SPE arrangement enabled the industry to achieve a premium for kiwifruit overseas, the arrangement presented the following risks:

- Growers are reliant on the price that Zespri pays for their produce. If Zespri's strategies are not successful, the industry does not perform well
- Growers are essentially a "captured supply", where they must supply produce to Zespri with no possible alternative if they wish to export to non-Australia countries. There are reduced incentives for Zespri to operate in a cost-effective way and to offer suppliers a competitive price for kiwifruit
- Unless properly monitored, Zespri could leverage its privileged export right to compete against other firms in the New Zealand kiwifruit industry.

The rules under the Regulations aim to mitigate these risks. MPI undertook a Regulatory Impact Statement (RIS) to assess how amendments to the Regulations would impact the New Zealand kiwifruit industry. The RIS was triggered by the amendments proposed and supported by the KISP referendum. At the same time, MPI commissioned an independent review of KNZ.

Key recommendations from the RIS included changes to:

- Enable all Zespri shareholders, regardless of level of supply, to vote and set rules in the same way shareholders of other companies can under the Companies Act 1993
- Provide greater certainty and clarity with respect to Zespri's core business and improve the process for making decisions about non-core business activities by amending the Act
- Provide for additional independent directors and an independent chair to the KNZ board
- Require KNZ to provide three-yearly statements of intent and annual engagement with MPI on performance
- Provide more clarity, flexibility, and certainty to KNZ's funding, and align it with cost recovery principles
- Encourage and facilitate a greater focus on collaborative marketing by Zespri and KNZ.⁴⁸

⁴⁸ Ministry for Primary Industries, 2016. Proposed amendments to the Kiwifruit export regulations 1999. <https://www.mpi.govt.nz/dmsdocument/18734-Regulatory-Impact-Statement-Proposed-Amendments-to-the-Kiwifruit-Export-Regulations-1999>

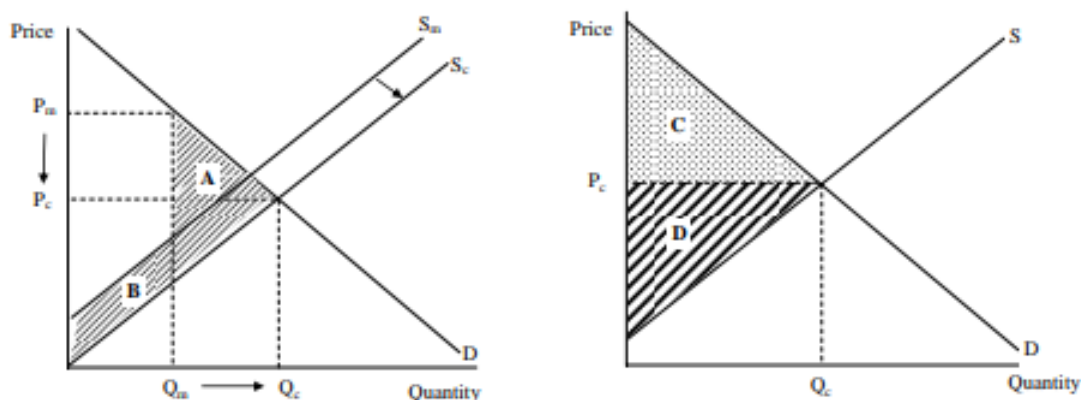
5 Impact of deregulation of an SPE

Deregulating the kiwifruit SPE arrangement has been brought up from time to time as the industry has faced its ups and downs. Other fruit exporters, such as Turners & Growers, are most often the parties arguing for removing the SPE arrangement. There is some evidence from New Zealand and Australia that provides insight on what might happen if deregulation were to occur. This section looks at the possible impacts of deregulation. When looking at SPEs, it should be kept in mind that SPEs are usually used for commodity goods. For example, Australia and Canada used an SPE mechanism for exporting wheat. The New Zealand kiwifruit SPE is unique in that it includes the dimension of the Zespri brand and the wider market positioning of kiwifruit. This positioning was somewhat shared by the New Zealand apple industry, which had an SPE status before 2001.

5.1 Economic perspective of deregulating the SPE

Nera Economic consulting produced a report in 2009 for Turners & Growers that outlined the impact of Zespri and the SPE on innovation incentives in the New Zealand kiwifruit industry. The authors argued that the industry should be deregulated, due to the modelled efficiency gains of introducing dynamic competition to the New Zealand kiwifruit export market.⁴⁹ The basis of the model is displayed in Figure 5.1. The key assumption of the model is that competition increases (positively shifts) supply efficiency.

Figure 5.1 - Monopoly movement diagram



Source: Nera Consulting

The left graph shows a monopolist producing Q_m goods at price P_m . When competition is introduced, total production moves to Q_c at price P_c . Supply S_m moves to S_c to reflect industry efficiency gains. Area A shows the 'deadweight loss'⁵⁰ that exists before the change in price and output that results from the increase in supply, and area B is the productive efficiency gains in production. In the new market, displayed in the right graph, efficiency gains are given by area C (consumer surplus) and D

⁴⁹ NERA Consulting, 2009. The impact of the Zespri kiwifruit export monopoly on innovation incentives. https://www.nera.com/content/dam/nera/publications/archive1/PUB_Zespri_Kiwifruit_Jun2009.pdf

⁵⁰ The cost to society created by market inefficiency.

(producer surplus). Overall, a market in perfect competition creates a more efficient market. Note that in this model, after competition is introduced the price of kiwifruit decreases as total industry supply increases. Presumably, this increase in supply would be from competing gold cultivars not owned by Zespri.

The authors also argue that because growers each have a low stake in the company (at the time, the largest share was 1.3 percent), there is little incentive for shareholders to ensure Zespri is investing enough in R&D and keeping costs reasonable. NERA Consulting estimated that productive efficiency gains of introducing competition to New Zealand kiwifruit exports would yield an annual gain of \$5.3 million to growers.

To test the impact of this number against recent performance of the industry, the total OGR from the 2015/16 season to the 2021/22 season reveals a total payment up to \$9.3 billion to growers.⁵¹ For the same period, bringing \$5.3 million to the equivalent inflation level (\$5.82 million in 2015/16 and \$6.70 million in 2021/22), brings a total innovation benefit of \$43 million to growers. The efficiency benefits of deregulation are therefore minimal (equivalent to around four percent) compared to the total payments received by growers under the current settings. This is before considering any initial disruption to the industry when multiple exporters enter the market.

Turners & Growers argued, in their 2011 Commerce Commission case against Zespri, that the use of grower loyalty contracts was anti-competitive because new exporters would be at a disadvantage to attract growers if the industry were to be deregulated.⁵² The Court concluded, however, that there was not enough evidence to say the government was likely to make a decision to deregulate the market then or any time in the future. Further, that there was not an established probability of a deregulated grower/exporter (non-Australia) market. Therefore, Turners & Growers were not able to establish an anti-competitive purpose in relation to a theoretical deregulated market.

5.2 Apple and Pear Board

From around 1920 New Zealand pipfruit growers wanted to reduce the problem of low prices during gluts and high prices during shortages in the local market, and to bring stability to the export market. The Apple and Pear Marketing Board was set up in 1948, and marketed both exported and locally sold pipfruit (primarily apples).

From the mid-1990s there was increasing pressure to deregulate the industry, and the board's selling monopoly was removed in 2001.⁵³ The industry experienced two years of favourable trading with firm prices and grower returns. In 2004, however, the industry experienced a particularly damaging season. While there was excess apple supply in the European market, and the US apple supply was booming, the New Zealand apple crop was at record production at the time. The 2004 harvest experienced quality issues and the New Zealand dollar had gained strength against major trading currencies. These conditions saw returns to growers decline, and the number of growers was 40

⁵¹ This was estimated by multiplying the total number of hectares by the average per-hectare OGR of that season.

⁵² Turners & Growers Ltd V Zespri Group Ltd, 2011.

⁵³ Te Ara, 2008. Apples and pears. <https://teara.govt.nz/en/apples-and-pears/page-7>

percent smaller in 2005 than it was five years earlier.⁵⁴ By 2007, there were over 90 exporters purchasing New Zealand apples and pears, with 30 percent of these exporters responsible for 90 percent of export receipts. It was clear that New Zealand would struggle to compete with overseas producers at the commodity level. Industry programmes such as the Apple Futures project, introduced in 2007, aimed to realign the industry to become a leading international niche player by focusing on high quality new cultivars.⁵⁵ The most recent World Apple review showed that the New Zealand apple sector is now among the most productive in the world, namely due to new cultivars restoring premium branding to New Zealand apples.⁵⁶

Apple and Pear Marketing Board – David Mardon (extract of his speech given at the Michael Fowler centre)⁵⁷

“At the September ’98 Pipfruit Conference, John Luxton, Minister of Food, Fibre and Biosecurity, had a hostile reception when his provocative address called for changes to Producer Boards. The proposed changes for the pipfruit industry involved retention of single desk by regulation. The NZAPB would become a new company under the Companies Act 1993. Shares in the new company, to be called ENZA Ltd, would be issued to growers on the basis of the current allocation model, but subject to approval of the formulae by grower referendum; shares in ENZA Ltd fully tradeable, but only amongst growers authorising ENZA New Zealand as the main exporter. By October 2000 GPG, Guinness Peat Group, had acquired 36% of ENZA shares, and growers were in a nervous state as to where their industry was heading. The new chairman was Tony Gibbs of GPG. Phil Alison of PGNZI (Pipfruit New Zealand), grower spokesman; his impression of Tony after [a] meeting between the new ENZA Board and PGNZI, was that he had a very strong focus on performance and a strong focus on getting things done. One local grower summed up concerns when he commented, “We have given away the family silver without them, the corporates, passing any test. They control the company; they have not talked to us about what they intend to do.” GPG, to become a majority shareholder, needed to acquire growers’ shares, and on 5th April they sent out an offer to growers, and by 18th April they’d achieved their target. And of course growers at that stage were on the bones of their bottom – we had no money, so hence GPG’s ability to achieve the shares that they needed.

In a span of a little over two years ENZA had moved away from a grower cooperative with statutory support for a single desk, marketing to a corporate-owned company in a deregulated market. So what have we lost? Well, for years we had been the envy of fruit growers from other countries. It was summed up by a visiting Spanish scientist who spent four months at Hort Research, Havelock North, in 2001 comparing the major differences between the respective pipfruit industries, he said, “We’re the outstanding feature, and envied by the entire world, was ENZA. There was one strong

⁵⁴ Rabobank, 2006. New Zealand Apple Industry. Rabobank Global Focus January 2006. Accessed from https://img.scoop.co.nz/media/pdfs/0602/GF_Apples_NZ_Dec05.pdf.

⁵⁵ Park, N., Williams, T., Walker, J., Butcher, M., Turner, J., Botha, N., Vereijssen, J., & Taylor, N. (2015) Enhancing innovation and technology transfer in the New Zealand apple industry – learnings from Apple Futures. *New Zealand Plant Protection* 68: 291-298. Accessed from <https://nzpps.org/journal/index.php/nzpp/article/download/5825/5653/8027>

⁵⁶ Belrose Inc (2019) World Apple Review – 2018 edition. Accessed from <https://www.e-belrose.com/apple-world-review/>

⁵⁷ Full speech can be accessed at <https://knowledgebank.org.nz/audio/mardon-david-apple-and-pear-marketing-board/>

seller representing New Zealand apples in the marketplace and quality was guaranteed. Other countries that have deregulated have quickly found a downward spiral, and the supermarkets play one exporter off against another. New Zealand”, he said, “had lost the jewel in its pipfruit crown.” Looking back over the last ten years, difficult years, I must agree with him.

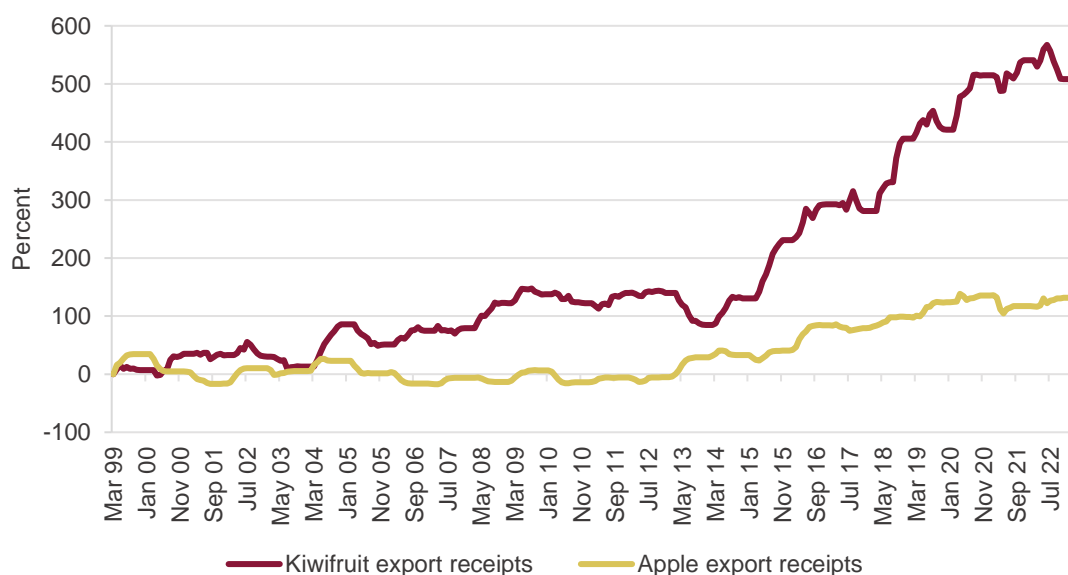
So what has the deregulated industry given to New Zealand? A very considerable reduction of grower numbers and family orchards; reduced production of potential exports; reduced income for growers. What we had was a marketing system where growers, through their choice of directors and with remits, could influence the direction of their exporter. The same cannot be said of what we have today. Although all was not well in the late nineties, I’ve always felt the basic structure was right for growers here at the bottom of the world. Other primary producers are proving that”.

However, the sector has moved forward since the 2000s and the New Zealand apple and pear sector has recovered. New Zealand is the fourth largest exporter of apples, and was rated number one as the most competitive apple producing country in the last World Apple Review.^{58 59}

5.2.1 Performance of New Zealand apples

The comparison in the growth of kiwifruit and apple export receipts is shown in Figure 5.2, with the March 1999 year as the base. Since mid-2019, apple export receipts have hovered around the \$800 to \$900 million mark.

Figure 5.2 - Growth rate of kiwifruit and apple export receipts, annual 12-month rolling total, 1999 to 2023

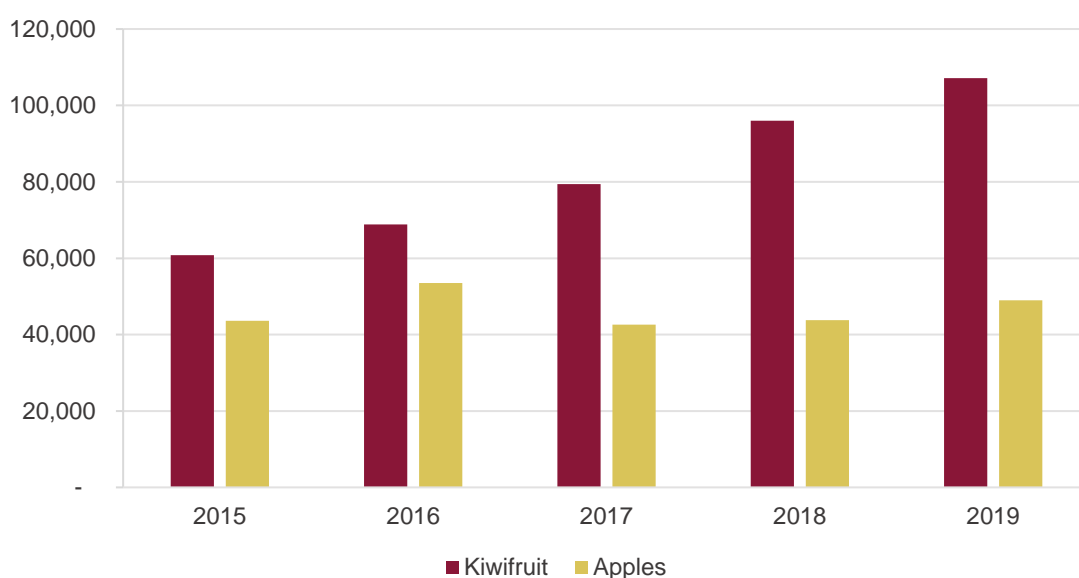


Source: Stats NZ

⁵⁸ Workman, 2021. Apple exports by country. <https://www.worldstopexports.com/apples-exports-by-country/>
⁵⁹ Belrose Inc, 2018. World Apple Review 2018. <https://www.e-belrose.com/wp-content/uploads/2022/10/2022-World-Apple-Review-2018.pdf>

A horticultural industry’s success, however, should also be measured by returns to growers. MPI modelled the OGR for a typical apple orchard in Hawke’s Bay, from averaged industry data, to 2019.⁶⁰ This data allows a comparison to be drawn between the average per hectare kiwifruit and apple OGR in this period. Both averages account for the mixture of PVR cultivars and non-PVR cultivars, which draw respective differences in per hectare return (for example, JAZZ and Braeburn apples). Post-harvest supply fees were deducted from apple revenue to calculate OGR in the MPI model. The 2015 to 2019 period was selected for analysis, noting that the kiwifruit industry was only just recovering from the impacts of Psa in 2015.⁶¹ Figure 5.3 shows the widening gap between orchard returns. At the beginning of the period, apple orchard OGR was not too far below kiwifruit, at \$43,600 per hectare compared to kiwifruit’s \$60,800 per hectare. By 2019 the gap was much wider with apple OGR only slightly higher at \$49,000 per hectare, and kiwifruit OGR substantially higher at \$107,100 per hectare. Noting that export receipts for both industries are around the same levels in 2023 as they were in 2019, it can be concluded that the difference between per hectare kiwifruit and apple OGR in 2023 is similar to 2019.⁶²

Figure 5.3 - Kiwifruit and apple (pipfruit) per hectare OGR, 2015 to 2019



Source: MPI, Zespri

5.2.2 Kiwifruit orchards significantly more valuable than apple orchards

Another way to examine the difference between the returns to growers is through the value of orchards, per planted hectare. To achieve this, a sample of orchard property sales were selected for kiwifruit and apple orchards in their respective high-performing regions (Bay of Plenty and

⁶⁰ MPI, 2023. Farm monitoring reports. <https://www.mpi.govt.nz/resources-and-forms/economic-intelligence/farm-monitoring/>

⁶¹ Apple orchard OGR was calculated in December years by MPI, while kiwifruit OGR is in June years. For this analysis, 2015/16 is counted as 2015, and so on.

⁶² This is supported by kiwifruit per hectare OGR equalling around \$100,000 for the 2022/23 season. Since 2019 there has been no publicly available data on average apple orchard OGR.

Nelson/Tasman, respectively) in 2020. The capital value of these orchards was then drawn from publicly available property data.⁶³ ⁶⁴ Three apple orchards were selected in the Nelson and Tasman region and one apple orchard in Hawke's Bay, and four kiwifruit orchards were selected in the Bay of Plenty region. Apple orchard capital values ranged from \$1.8 million to \$8.9 million, and kiwifruit capital values ranged from \$2.6 million to \$6.7 million, noting that apple orchards were around six times larger in terms of planted hectares.

Rateable Capital Value (CV) was selected as an indicator because this value accounts for the land plus capital additions to the property, and considers sale prices of similar orchards in that area which reflect the profitability of those properties. The CV for apple orchards was selected from 2020, and the CV for kiwifruit orchards was selected from 2019. These years were selected because kiwifruit orchard valuations from 2022 are likely to incorporate the value of cultivar licences, which sharply increase the rateable value of properties with gold hectares. NZKGI has argued that orchard licence values are already reflected in the properties' market value, and should not be added again to capital value.⁶⁵ In order to avoid this potential distortion, the rateable CV for apple orchards in 2020 and kiwifruit orchards in 2019 are more comparable than recent valuations.

Apple orchard sales information did not specify the cultivars grown at the orchards, so it was assumed that the apple orchards grew a range of cultivars across their planted hectares. To reflect this, the kiwifruit orchard sample included two mixed orchards, and one predominantly Hayward and one predominantly Gold3 orchard. CV per planted hectare was selected for analysis because apple orchards had a smaller average proportion of planted hectares (48 percent) compared to kiwifruit orchards (66 percent). In the sample kiwifruit orchards were also much smaller than apple orchards, with average planted kiwifruit hectares of 4.8, while average planted apple hectares equalled 26.9. The per hectare value of apple orchards was inflated by 36 percent (66 divided by 48), to reflect that kiwifruit orchards have a larger proportion of planted land.

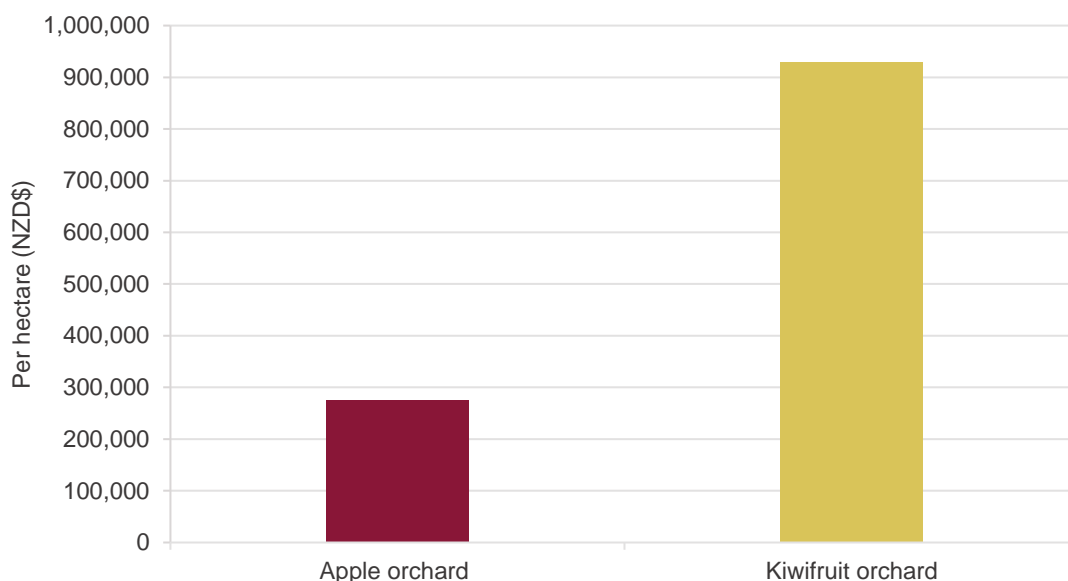
Figure 5.4 compares the planted per-hectare CV value for apple and kiwifruit orchards. The difference indicates that by hectare, the sampled kiwifruit orchards were substantially more valuable (and hence, profitable) per hectare (\$928,700 per ha) than the sampled apple orchards (\$275,300 per ha). It should be noted that orchard productivity, capital improvements, soil quality, and other characteristics that impact profitability can vary widely across both apple and kiwifruit orchards.

⁶³ OneRoof Limited, 2023. Property estimates. Accessed July 2023. https://www.oneroof.co.nz/estimate/map/region_bay-of-plenty-37_latlng_-37.77951374720748,176.29785414884384_zoom_14

⁶⁴ Colliers, 2020. Kiwifruit property market review Bay of Plenty 2020. <https://www.colliers.co.nz/en-nz/real-estate-research/bop-kiwifruit-property-market-review-february-2020>

⁶⁵ <https://www.nzkgi.org.nz/what-we-do/environmental-and-policy/orchard-rates-and-valuations/>

Figure 5.4 - Apple and kiwifruit per planted hectare orchard land (CV) value, 2020



Source: Colliers, OneRoof, BERL analysis

5.3 Australian Wheat Board

The Australian Wheat Board (AWB) was an SPE that exported Australian-grown wheat to international markets. Wheat cropping is among Australia's largest industries, leading in agricultural value of production and producing land area.⁶⁶ Following an international corruption scandal, in the mid-2000s, AWB was stripped of its SPE status.

Of course, kiwifruit and wheat are very different products which are affected by different market forces. However, the effect on Australian growers after the SPE was dissolved provides an interesting discussion point. The significance being that the dissolution of the SPE was not driven by the requests of wheat growers, but by the corruption scandal.⁶⁷

Anecdotes from Australian wheat farmers claim that the SPE system allowed for the AWB to get the most out of overseas markets by timing the sales of pre-harvest, post-harvest, and what grain to sell and hold. Post-SPE, this decision is now up to individual farmers.

Following the deregulation of the SPE Australia was opened to foreign wheat exporting companies, of which there were 32 competing companies by 2022.

In recent times, Australian wheat has reached record prices and quantities overseas.⁶⁸ However, there have been claims that grain growers have not been receiving their fair share of sales

⁶⁶ Department of Agriculture, Fisheries, and Forestry, 2020. Australia's Agricultural Industries 2020. https://daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1030642/0

⁶⁷ Davis, 2018. <https://www.abc.net.au/news/rural/2018-07-03/awb-deregulation-10-years-after-oil-for-food-scandal/9935308>

⁶⁸ DAFF, 2023

proceeds.⁶⁹ The deputy chair of the Australian Competition and Consumer Commission (ACCC) acknowledged there was a gap between prices available in overseas markets and returns received by growers in Australia.⁷⁰

Furthermore, the rising cost of inputs and getting grain to port is influencing the profitability of Australian grain farmers.⁷¹ In the case of Western Australia, delays in getting grain to market in 2022 exposed the industry to the risk of losing \$3 billion in revenue.⁷²

⁶⁹ Cloughton & Condon, 2022 <https://www.abc.net.au/news/rural/2022-12-20/grain-export-complaints-graincorp-glencore-cargill/101755328>

⁷⁰ Ibid.

⁷¹ Johnson, 2022. <https://www.abc.net.au/news/rural/2022-10-07/wa-grain-harvest-yield-costs-growers-profit-margins/101500998>

⁷² Ibid

6 Balancing the benefits, costs, and barriers

New Zealand kiwifruit has been an export success during the last three decades. This success has been accompanied by fluctuations and challenges characteristic of many markets. There are some real opportunities and threats to kiwifruit growers at present. These include:

- Maintaining kiwifruit as a premium export, and not a commodity. Zespri's goal is to maximise pooled grower returns by keeping global kiwifruit demand ahead of supply, in line with its values. The SPE structure has allowed Zespri to position itself strategically as a supplier of a premium FMCG product, while maintaining that its business activities are in the best interests of New Zealand kiwifruit growers
- The Zespri SPE has scale unlike any other fruit exporter in New Zealand. This scale allows for considerable investment in innovation in kiwifruit orchards, new cultivars, the on-shore and off-shore supply chain, and marketing campaigns. Innovation will be key to the future success of the industry
- Despite having a monopsony on the purchase of kiwifruit in New Zealand for exporting to non-Australia countries, the Zespri SPE operates extremely competitively in the international fruit market. The certainty provided by the SPE arrangement allows Zespri to make commitments to international retailers and distributors that other fruit companies cannot deliver
- Despite starting out at 100 percent grower-owned, less than 50 percent of current shareholders are New Zealand kiwifruit growers. This means that not all growers benefit from Zespri's profits. The increasing cost of new licences is a large barrier to kiwifruit growers who have limited access to gold kiwifruit
- Minority growers may struggle to have influence on Zespri's business decisions once kiwifruit exits the country
- Rapidly changing market dynamics may require Zespri to undertake business activities that do not constitute core business as defined in the Regulations. In these cases, Zespri cannot act as quickly as a conventional business.