

## **Productivity Commission Should Examine Kiwifruit Monopoly**

Every Econ 101 student learns that monopolies are bad. They maximise profits by restricting output and raising prices. Consumers are exploited and national income is lower than it would otherwise be.

Note that it is not just a matter of a monopoly producer raising prices (above some competitive level) and reaping higher profits. The normal supply and demand factors that determine prices continue to operate. To be successful in raising and maintaining higher prices the monopolist has to be able to restrict supply as well.

In today's open and competitive economy, opportunities for monopoly behaviour are few and far between. In addition, we have laws – in particular the Commerce Act – aimed at curbing such behaviour.

How does this analysis carry over to the statutory monopoly enjoyed by New Zealand's kiwifruit exporter Zespri (to markets other than Australia)? Its regulatory privileges have been maintained because they are perceived to benefit growers by preventing 'weak selling' by competitors and exploiting market power in overseas markets.

These arguments do not stand up to scrutiny.

For a start, it is hardly conducive to good customer or government-to-government relations for a marketer to advertise the fact that it is structured in such a way as to rip consumers off.

Secondly, it is an illusion to think that New Zealand can manipulate world markets. New Zealand exports now account for less than a third of international trade in kiwifruit. More important, there is intense competition from other fruits.

If it were to influence world prices of kiwifruit, a monopoly marketer would have to restrict the supplies going on to the market. Zespri may attempt to do this by setting minimum quality standards or restricting grower numbers.

Such strategies, however, are not obviously in the national interest. There will always be profitable markets for different qualities of fruit if priced appropriately. Restricting grower numbers may mean that land resources are not put to best use. And because New Zealand supplies are a drop in the vast international fruit bucket, controlling supply is not likely to work anyway.

The former Dairy Board export monopoly was justified on similar arguments. Deregulation has shown them to have no validity. Fonterra's internet auctions have confirmed this point: returns from the auctions compare favourably with returns from other distribution channels. Fonterra's auction platform could be an attractive vehicle for certain kiwifruit exports.

In short, it is unlikely that Zespri has any exploitable market power as a monopoly seller. In reality it is a monopoly buyer (a monopsonist) and it is growers who are at risk of 'exploitation'.

This is because there are clear downsides with an export monopoly structure. Like any business that is shielded from competition, operating inefficiencies tend to grow over time. A monopolist cannot spot all opportunities or be good at everything. Finding the best marketing strategies should be left to competitive market processes. Allowing others to participate increases the industry's access to ideas, expertise, capital, brands and market connections.

For these reasons, single-desk exporters have become anachronisms. Besides Zespri, the only one remaining in the developed world is the Canadian Wheat Board and the new Canadian government appears pledged to do away with it – regardless of the outcome of a current grower referendum on the issue.

Kiwifruit growers have little to fear from deregulation. If most think Zespri is doing a good job they will stay with it. But those who wish to contract with other marketers should not be prevented from doing so. The PSA outbreak highlights the dangers of an industry having all its eggs in one basket.

Over a decade ago, the then National government foreshadowed the removal of the statutory monopoly as “inevitable”. Today the government’s weak position is that it will only remove the monopoly if growers ask it to do so. This is a dereliction of its duty as custodian of the national interest. It would never dream of saying it would remove the union monopoly on collective bargaining only if unions wanted it removed. The government should have regard not only to the interests of present growers and Zespri but also to those of other fruit marketers, future entrants and the wider community.

There is an easy way to test the arguments of Zespri and its critics. The new Productivity Commission is ideally placed to hold an inquiry on the case for the export monopoly. The government could ask it to examine whether there are grounds for regulation of kiwifruit marketing in general or in any specific circumstances. Transitional arrangements, such as leaving Zespri with the undifferentiated Hayward variety for a period but permitting the free export of differentiated and IP protected varieties, could be considered.

The OECD and the 2025 Taskforce are others that have recommended an end to the monopoly. Growers and Zespri should welcome having the competing ideas tested in an open forum.

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