

## **Zespri Monopoly an Anachronism**

A recommendation of the 2025 Taskforce was that the monopoly of the kiwifruit exporter Zespri on exports to markets other than Australia should be removed.

This should be one of the easier Taskforce recommendations for the government to accept.

The export monopoly is a relic of old New Zealand. As far back as 1992, the Business Roundtable published the ACIL report, *Agricultural Marketing Regulation: Reality versus Doctrine*. It recommended the removal of the export monopolies for dairy products, apples and pears and kiwifruit. We published a follow-up ACIL report specifically on kiwifruit in 1994 (*Restoring Kiwifruit Profitability: Choice, Ideas, Innovation and Growth*).

In the 1998 budget, the National-led government stated that it saw “the removal of the statutory backing for all New Zealand’s producer boards as inevitable over time.” While the dairy and pipfruit monopolies were removed shortly afterwards, the government decided that the single desk export model for kiwifruit would be retained “for the time being”.

Deregulation of agricultural marketing has been a worldwide trend. According to the Treasury, Zespri and the Canadian Wheat Board (which is under review) are the only two single-desk sellers left in the developed world.

An Australian Productivity Commission research paper, *Single-Desk Marketing: Assessing the Economic Arguments*, published in 2000, concluded that arguments that single-desk exporters can exploit market power and prevent ‘weak selling’ by competitors are typically unfounded.

Prices in any market are essentially determined by supply and demand. It is an Econ 101 insight that a monopoly exporter selling 10 units into an overseas market will normally not get a better price than two suppliers selling 5 units of the same product.

The Productivity Commission found that economies of scale and scope in marketing and any economic rents can be captured without monopoly selling, while premiums could still be 'earned' for high quality and customised service.

A particularly important finding in the kiwifruit context was that the costs of single-desk arrangements can be large where product variety and value-adding are essential for success, because they inevitably discourage product and marketing innovations.

The days are long since gone when New Zealand dominated world markets for kiwifruit. New Zealand's share of world kiwifruit exports (by volume) has fallen from 54% in 1990 to 29% in 2006. There is also extensive competition from other fruits. The only 'market power' that Zespri can exercise is over its own growers.

Competitive fruit markets put a premium on innovation. As Harvard University academic Michael Porter has noted, "The fundamental benefit of competition is to drive productivity growth through innovation, where innovation is defined broadly to include not only products, but also processes and methods of management."

This is the main thrust of the case Turners and Growers has been making to the government for kiwifruit deregulation. The benefits of successful innovations can be very large: the development of the Gold kiwifruit variety by Zespri is estimated to be worth around \$200 million to date and a similar amount over the next 10 years.

But New Zealand's competitors are investing considerable R & D across new varieties of green, yellow and red kiwifruit. A monopolist cannot spot all opportunities or be good at everything. A lack of competition also breeds operating inefficiencies.

The experience of Fonterra with its internet auctions of milk powder should be the nail in the coffin for weak selling arguments. Initially, Fonterra was criticised for achieving lower prices through *globalDairyTrade*, but critics overlooked the fact that the prices of almost all agricultural commodities

were falling during the global recession. Subsequently, Fonterra has demonstrated that returns from gDT compare favourably with returns from other distribution channels.

Like other protected industries in old New Zealand, Zespri will not give up its monopoly without a fight. It reacted negatively to the 2025 Taskforce recommendation.

Among other things it sought to paint the deregulated apple industry in a poor light. Yet apple exports have grown since deregulation by both volume and value and grower returns per tray carton equivalent have increased from \$17.51 in 2001 to \$24.62 in 2008. Commenting on the development of new varieties, MAF Director-General Murray Sherwin has cited the apple industry as a good example of changes made to meet new market demands.

In any event, market and price trends tell us little about the efficiency of alternative marketing arrangements. Other factors such as changes in supply and demand, technology and customer tastes typically dominate.

If Zespri is doing as good a job as it says it is, it should have nothing to fear from competition, and growers will stay loyal to it. Equally, however, other commercial interests should not be prevented from 'having a go' in competition with Zespri.

It is not valid to argue that the monopoly should be removed only if a majority of growers support such a step. The National government would never have accepted that compulsory union membership should be abolished only if a majority of union members voted for abolition.

National has stated its commitment to individual freedom and competitive enterprise. There are no public policy grounds for treating the kiwifruit industry differently from others. It is a serious infringement on freedom and private property rights not to be able to sell the fruits of one's labour to a willing overseas buyer. Some Maori growers are among those who have sought freedom to export kiwifruit.

Last year in its *Government Statement on Regulation: Better Regulation, Less Regulation*, the government stated that there has to be “a particularly strong case” for regulations that “impair property rights, market competition, or the incentives on businesses to innovate and invest.”

This year the Zespri monopoly should be reviewed against that test. It is unlikely that the government’s official advisers will find a case for retaining the monopoly. Its reaction will be a test of its reform credentials.

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