

Restructuring Ad Infinitum The New Zealand Pipfruit Industry

**Gary Jones
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Executive Summary

No industry in New Zealand has been through the major changes that the pipfruit industry has over the past few seasons. New production systems, quality requirements, and corporatisation of the cooperative industry have challenged growers. After so much restructuring there is more to come.

This paper looks at the evolution of the pipfruit industry, the associated bodies, and the current structures. How they came to their present structure, and what their structures may be in the future.

The New Zealand pipfruit industry is currently in a very positive mood. Experienced growers are warning that the industry should not be complacent. International market conditions have created a honeymoon for the deregulation of the industry but this will change.

Current industry structures are unsuitable and change is needed. Growers are uninterested in the proposals and are relaxed about the future.

The industry needs one main structure to govern generically beneficial initiatives. That structure should be the new Pipfruit Growers New Zealand Inc initiative Apple and Pear (NZ) Inc.

The New Zealand Fruit Growers Federation proposed structure will be complementary. With its considerable resources it will be able to provide support for generic roles especially education.

Introduction

The pipfruit industry was established early in the colonisation of New Zealand. Ever since the early settlers pioneered farms in the 1850's, fruit growing has occurred, usually as a sideline. In some areas it has flourished, with local over supply making it necessary for growers to find markets further a field. Fruit originally was sent from Nelson to Wellington in the 1880's.¹ As the local markets were saturated so exporting of fruit grew.

The pipfruit industry has seen many changes since those pioneers established those first orchards but it is, perhaps, in the last decade that the pipfruit industry has gone through its greatest changes. From those changes it now faces the huge challenges of selling pipfruit under the pressures of globalisation, retailer consolidation, competition for shelf space, tighter specifications all without the protection of the ENZA monopsony.²

On October 1st 2001 the regulations protecting the privileged single desk status of ENZA were removed. To meet the changing needs of fruit production in this new deregulated era the industry bodies that represent the pipfruit industry are simultaneously seeking to restructure. What form will they take? Where is the industry going now? To find this out it is necessary to look at the industry from both an historical and contemporary perspective.

This paper will look at the evolution of the pipfruit industry, the associated bodies, and the current structures. How they came to their present structure, and what their structures may be in the future.

Industry Evolution

Fruitgrowing has been carried out in New Zealand since the arrival of early settlers. However it was from 1910 through to 1916 that a planting boom occurred and large areas, especially in Nelson were developed.³ In 1916, and in response to this boom, The New Zealand Fruitgrowers Federation Ltd (NZFF) was formed. Funds for its operation were raised through the "historically unusual request for new taxation, fruitgrowers petitioned the government in 1915 to impose an annual tax on all orchardists of one shilling for every acre

¹ McKay, C. 1986, A Place in the Sun: Riwaka and Environs, A.G. Betts & Son Ltd

² A monopsony is when there is only one buyer in a market. ENZA is a monopsonistic buyer in the market for pipfruit to export but has no monopoly in the international markets in which it sells.

³ Monigatti, R. 1966. Fruitful Years. Ferguson and Osborn Ltd: Wellington, New Zealand.

of planted orchard."⁴ The Orchard Tax Act was passed in 1916 and fruitgrowers used the NZFF as their official representative body.

There were major differences of opinion over whether the Federation should represent all fruitgrowers or just the export apple industry. Some members also advocated a trading company whilst others considered that it should limit its activities to the organisation of growers, and promotion of the industry. At the end of the 1916 conference the Federation decided to represent all fruitgrowers as a non trading organisation.

The Hawkes Bay Fruitgrowers' Association set up its own trading operation in 1918.⁵ The New Zealand Fruitgrowers Federation began opening stores in 1920, took over the Hawkes Bay store and set up a nationwide network.

In the 1920's growers investigated the feasibility of exporting a portion of the rapidly expanding fruit volume. At the 1923 Fruitgrowers Federation conference the government requested an export advisory committee to be set up. This led to Parliament passing The Fruit Control Bill in 1924. Under this Act, the New Zealand Fruit Export Control board was set up with the power to control all fruit intended for export.⁶ Local industry groups were also empowered to control their local market.

Throughout the difficult economic years of the 1930's and 40's the industry strengthened. New varieties were developed, pest and disease control techniques improved. "Continued political pressure was exerted by growers and the Federation to continue the coordinated exporting of fruit to maintain maximum profit for New Zealanders."⁷ A key point here is that the Nelson region adopted a leadership role in the promotion of cooperative action. Nelson is the historical home of pipfruit production in New Zealand and it was not until 1978 that production volumes were surpassed by Hawkes Bay.

⁴ McKenna, M. 1999 Strategies for 'Greening' the New Zealand Pipfruit Export Industry. Studies in Rural Sustainability Research Report No 6. Department of Anthropology, University of Otago.

⁵ Mannering, R (1999). 100 Harvests: a history of fruitgrowing in Hawkes Bay. Wellington: PSL Press

⁶ Mannering, R (1999). 100 Harvests: a history of fruitgrowing in Hawkes Bay. Wellington: PSL Press pg 62.

⁷ McKenna, M. 1999 Strategies for 'Greening' the New Zealand Pipfruit Export Industry. Studies in Rural Sustainability Research Report No 6. Department of Anthropology, University of Otago. Pg 7

In January 1937 the government announced that it would guarantee a minimum export return of 10/6 per case. This had increased to 11/- by 1938 and a wages subsidy on local market fruit of 4.6d per case.⁸ In a precursor of what would happen 60 years later the government refused to repeat the subsidy in 1939 as the Minister of Marketing, Walter Nash stated that the growers had submitted poor quality fruit. However if the Federation or the Fruit Board requested him to take over marketing of all fruit he would be prepared to do so. i.e., no control, no subsidies.⁹

With the onset of war growers put their faith in the government:

Now that the Industry has decided that, under present circumstances, it wishes the Government to take over the marketing of all pipfruit, all growers are anxiously waiting for the Governments decision as to whether or not this can be done for next season...

Many orchardists will regret the passing of the control of their product out of the hands of the industry, but at the same time over a period of years the industry has failed to command an adequate return for its necessary and attractive product.

The Orchardist, May, 1939

The New Zealand Fruit Export Control Board was absorbed by the Internal Marketing Division of the government in 1940.

In 1946 both growers and the Federation decided that they did not want to go back to a deregulated market. They negotiated with the government to maintain both local and export market regulations. In 1948 the Apple and Pear Marketing Act was passed. This initiated the set up of the Apple and Pear Marketing Board. This board had the sole statutory right to acquire and market all apples and pears grown in New Zealand.

Agreement is finally reached on handling the apple and pear crop, with a marketing board with price guarantees. This will offer security and stability for the future. The new board will have the power to acquire and market all apples and pears grown in New Zealand or imported. The average price paid in any season will be determined by the Minister in consultation with the board, and is to be within limits of a sixpence a case above or below declared costs

⁸ The Orchardist, 1st April, 1938

⁹ Mannering, R (1999). 100 Harvests: a history of fruitgrowing in Hawkes Bay. Wellington: PSL Press pg 75.

of production. Two members will be nominated by the industry, two by the government and the Chairman to be nominated by the government.

The Orchardist, 5th October 1948

This single desk marketing monopoly continued up until 1993.

In 1983 The New Zealand Apple and Pear Marketing Board (NZAPMB) implemented collection of a two tier levy system. One levy was to be paid for current production and the second levy for any new production. Older orchardists wanted to safe guard the investment that they had built up over the years in NZAPMB. There was much division over the two tier levy system and it was seen as both anti corporate and anti new grower.

It is interesting that many growers were more worried about the divisions occurring in the industry over this issue than the issue itself. This was well founded as the levy precipitated court action by the new corporate grower Applefields Limited. With massive new Canterbury plantings they were very exposed to the new production levy. Applefields eventually took the NZAPMB all the way to the Privy Council in 1990 and won a ruling that the two tier levy system was anti competitive and thereby contravened The Commerce Act. The levy was dropped in 1991.

After Applefields had the levy overturned the government began to look very closely at the Apple and Pear Board Marketing Act. It was apparent that the Apple and Pear Board Marketing Act was inconsistent with the government's international economic policy.

Regulation of the New Zealand domestic market is contrary to the trends in both the international and national commercial trading environment. In many areas of our economy we have struggled to achieve the 'level playing field' as well as to eliminate the 'referee being a player'. This monopoly stands out as being an anomaly. The initiatives that New Zealand promotes in the various forums such as GATT, CER, and the Cairns Group, are contrary to our own domestic market pip fruit market monopoly.

A Submission in Support of Deregulation of the New Zealand Domestic Pipfruit Market, January 1990, Prepared by Applefields Limited, Circulated to all Members of Parliament.

In fact as early as December 1986 the Board was aware that deregulation of its local market activities was inevitable.

The Apple and Pear Board is facing the probability of deregulation of marketing of apples and pears on the New Zealand market, so losing its import and local supply monopolies.

*Confidential Deregulation Study December 1986 prepared by
Coopers & Lybrand for Apple and Pear Board*

The government realised the local market monopoly put it in an untenable position. Enza lobbied to get amendments to its governing acts which exempted it from specific sections of the Commerce Act. The growers followed the advice of the board grower members and voted 70% in favour of deregulation.

The result was the 1993 Apple and Pear Marketing Amendment Act. The local market was deregulated from the 1st January 1994. The big surprise, however, was a clause put in by the government called the "niche marketing clause" This clause allowed agents other than the Board to export with the Boards approval. The Board had until the 31st May 1994 to come up with the criteria for that approval. This legislation was seen as a huge potential threat to the single desk status the Board had enjoyed for 46 years.

In 1994 the brand ENZA was launched. This was integral in the positioning of the APMB as the international leader in pipfruit marketing. Enza Commercial Holdings Limited (ECHL) was set up. This company was set up as the vehicle to invest grower ownership of Enza through shares but this was not carried out.

In the May 1998 budget the National Coalition Government Treasurer Winston Peters announced that it required producer boards to present it with a blueprint of how they would progress through to deregulation. Dairy, Kiwifruit and Pipfruit Boards had until 15th November 1998 to formulate "future structures" and "transitional measures". The producer boards were being targeted by the "new right ideology, neo liberal economic principles"¹⁰

The Coalition Minister of Agriculture and Overseas Trade, Lockwood Smith, made the comment that deregulation was due to "trade liberalisation" and that "one reason for deregulation is that it allows us to focus on the big prize of freer trade." At the time the New Zealand rural economy was the least protected out of all the OECD members, the Producer Boards were grower/farmer owned co-operatives and received no assistance from the government.

This ideology flowed from the opening up of the New Zealand economy when the fourth Labour government came to office in

¹⁰ Kelsey, J. 1995: The New Zealand Experiment: A world Model for Structural Adjustment? , Auckland University Press.

1984 and carried on by the 1990 National Government. New Zealand was involved in the GATT (General Agreement on Tariffs and Trade) Uruguay round of talks which started in 1986 and eventually signed up in 1994. "Global trade agreements on agrifood production established through the WTO are being used to place ideological and political pressure on New Zealand's producer board system that regulates the pipfruit industry."¹¹

Rural lobby groups such as United Fruit, United Kiwi, and United Dairy (national networks of growers, farmers, industry workers and rural communities formed in mid 1998) tried desperately to mobilise public opinion against the governments deregulation plans. In November 1998, the government acknowledged producer concerns and public pressure and announced that it was 'reconsidering' the deregulation agenda.¹²

The opening up of markets, especially in the OECD following the completion of the 1995 Uruguay GATT round, saw also the evolution of 'green protectionism'. Barriers to food imports started to be controlled through non tariff means. More chemicals were banned and Maximum Residue Levels (MRL's) increased. These regulatory controls were especially strong in the EU but another form of control was becoming more influential there and in the US market. Supermarket chains set their own product specifications and protocols. This evolved into a type of one-upmanship where retailers increase the product specifications that they demand in an attempt to gain market share. This is achieved by appealing to the consumers concern for, not only food safety and quality, but whether the food has been grown in an environmentally and socially sustainable way.

ENZA introduced Integrated Fruit Production (IFP) in the 1996-97 season as a response to increased market demands. IFP was defined as:

"The production of market quality fruit, giving priority to methods that are the safest possible to the environment and human health. It is a programme based on continuous improvement".

HortResearch 1996

¹¹ McKenna, M. Murray, W. 2002: Jungle Law in the Orchard: Comparing Globalisation in the New Zealand and Chilean Apple Industries. Economic Geography Oct 2002; 78, 4; Wilson Social Sciences Abstracts Plus Text pg 495

¹² McKenna, M. Roche, M. Mansvelt, J. Berg, L 1999: Core Issues in New Zealand's Apple Industry: Global-Local Challenges. Geography Department Massey University. Pg 276

IFP is often mistaken for just an Integrated Pest Management programme (IPM) but has moved beyond just pests. The IFP programme has evolved each year to now include management of:

- Pests.
- Diseases.
- Site, rootstock, varieties, planting system and production.
- Soil.
- Water.
- Weed and Shelter.
- Spray Application Technology.

In 1997, the first year of IFP, there were 88 growers in three regions who participated in the pilot programme. The following year 370 out of 1600 growers took part.¹³ Today all export pipfruit growers produce fruit under organic or IFP protocols.

It is interesting to note that ENZA did not see the potential of the organic sector as the Kiwifruit industry had done. The Kiwifruit industry had an integrated two tier marketing approach which was more stable and cohesive when the pressures of deregulation mounted.

In 1999 the Apple and Pear Industry Restructuring Act was introduced and converted the NZAPMB into a company (ENZA Limited). ENZA Limited became a company registered under the Companies Act 1993. It also provided powers to regulate pipfruit exporting. The Act gave Enza Limited a privileged exporting position, protected ENZA shareholders and allowed for independent exporting through an export permits system.

The regulations created a new New Zealand Apple and Pear Board who was responsible for compliance and enforcement of the exporting regime. They also made appointments to the Apple and Pear Export Permits Committee. The permits committee authorised the exporters to export fruit independent of ENZA providing the fruit was complementary to ENZA's existing programmes.

The constitution of Enza stated that shares must be owned only by shareholders who are engaged in the commercial sale of

¹³ McKenna, M. 1999 Strategies for 'Greening' the New Zealand Pipfruit Export Industry. Studies in Rural Sustainability Research Report No 6. Department of Anthropology, University of Otago. Pg16.

pipfruit and that shares are fully tradable among growers. It was the limited tradability of these shares that precipitated the next major change in the pipfruit environment.

With no external competition for shares, combined with financial pressure on growers and with the perceived poor performance of ENZA, shares values were heavily discounted. Two corporate investors, Guinness Peat Group Plc, through its subsidiary GPG Orchards Limited (GPG), and FR Partners Limited through its subsidiary FRP Orchards Limited (FRP) took advantage of these low share values in August 2000 and acquired a cornerstone shareholding in ENZA.¹⁴ This allowed the investors to get a dominant shareholding on ENZA's Board and subsequent control of the company. The grower controlled model of ENZA had gone and ownership of ENZA and pipfruit supply had diverged. Many suppliers of pipfruit had no shares while the corporate shareholders of ENZA had few apples.

Growers had lost control of their industry and with confusion and turmoil over historical Foreign Exchange losses, court action over export consents and growing support for deregulation the Government got its opportunity to remove statutory regulations. On the New Zealand Government released the following statement.

Changes To Apple And Pear Export Regime.

The Government has decided in principle to open up export opportunities for pipfruit growers, Agriculture Minister Jim Sutton said today.

The apple and pear export regulations would be revoked from October 1st this year, Mr Sutton said.

This will give growers a choice of exporters who will all compete on an equal footing.

Tuesday 8th May, 2001 3:03 pm Press Release: New Zealand Government

The prerequisite of being a grower to own shares in ENZA was part of the constitution of ENZA not the regulations of the Act. At the Annual General Meeting on 12th February 2002 this was changed. Anyone could own shares in ENZA.

On March 20th 2002, GPG announced that it had reached a conditional agreement with FRP to buy its stake in ENZA for \$1.20 per share and as required under the Takeovers Code announced its

¹⁴ MAF Public Discussion Paper No 23. 2000. Review of the Regulatory Framework for Pipfruit Exporting.

intention to make an offer to buy 100% of ENZA at the same price.¹⁵

On 7th May 2002 Guinness Peat Group advised the New Zealand stock exchange in accordance with Rule 51 of the Takeovers Code that GPG Orchards now holds over 90% of the voting securities of ENZA. This gave them compulsory acquisition of the final 10%.¹⁶

The Current Environment

The Horticultural Production Survey for the year ended June 2002 shows that there was 11,600 hectares of pipfruit planted in New Zealand, down from the 14,114 hectares recorded in 2000. In 1994 the area was 17,182 hectares.¹⁷

Increases in grower confidence following, two good years of returns, has created a significant demand in new trees. However many pipfruit nurseries have gone out of business due to the historical low demand for trees. Their production beds, which take several years to develop, have been destroyed. The time it takes to produce a new tree and the trend towards more intensive plantings are major constraints on any growth in production.

Total export of apples for the year ended September 2002 were 17.7 million cartons (18kgs) up 21% on the previous year. Of this total 23% went to the UK, 39% to the rest of the EU, 20% to North America, and 18% to the rest of the world.¹⁸

The apple export industry was worth \$418 million to New Zealand in the year ending June 2002, up from \$318 million in the year ending June 1997. About 64% of the apple crop is exported as fresh apples, and 20% as apple juice concentrate. Braeburn and Royal Gala are the main export varieties, making up nearly 70% exports.¹⁹

A total of 17.9 million cartons of apples have been exported this season up until 31st August 2003. Of this 62% went to the EU including the UK, 16% went to North America, and 18% to Asia, 4% went to other countries.²⁰ Considering spring frosts had caused widespread losses this is significantly higher than predicted.

¹⁵ Ferrier Hodgson, 2002. Enza Limited Independent Adviser's Report.

¹⁶ www.nzx.com, Market Reports GPG

¹⁷ 2002 Agricultural Production Census (Provisional Results) (June 2002) - Media Release

¹⁸ MAF. March 2003. Pipfruit Monitoring Report pg 1.

¹⁹ www.nzte.govt.nz New Zealand Trade and Enterprise

²⁰ PGNZI. Core Business, September 2003 pg 4.

The positives for the past season were a reduced crop in the US and EU. However the high US dollar and small fruit size indicate that returns will be lower than last year. It is widely acknowledged that 2002 had the best returns for 10 years.

ENZA handled 7 million cartons of fruit in the 2003 season representing 38% of exports. This is similar to 2002 where it exported 7.5 million cartons or 42% of the crop. The next 5 largest exporters all shipped more than 500,000 cartons, and combined, represent 21% (3.7 million cartons) of total exports. The next largest group contained 28 exporters who all exported over 100,000 cartons. They made up 32% (6.6 million cartons) of total exports. Nearly 40% of all exports were through companies who had direct, known ownership links with growers.²¹

The International Environment.

As an apple growing country, nestled in a far corner of the globe, New Zealand faces many challenges. Growers here rely heavily on overseas exports as their main source of income. Local market fresh fruit and processed fruit are only seen as recovering a small part of the costs of production.

The presence of the bacterial disease Fireblight in New Zealand has prevented New Zealand growers from exporting fruit to the very obvious market of Australia. Our traditional markets have always been in the Northern Hemisphere, predominantly North America, Europe, Asia and the UK. We were able to supply fruit to them in their off season window. Improvements in long term storage technology have allowed our Northern Hemisphere competitors to sell longer and longer in to our traditional window. Increases in production from our southern hemisphere competitors and improvements in their quality have squeezed this window further. New Zealand is so far from its markets fruit takes over four weeks to arrive. Growers have to speculate on what the market conditions on arrival will be like. The cost of freight is probably the highest cost that growers have to meet.

New Zealand produces about 1 % of the world's apples and captures 3 % of the global export trade.²² To make an economic return the New Zealand pipfruit industry must target the high paying premium markets. (Table 1)

²¹ PGNZI. Core Business, September 2003 pg 4

²² McKenna, M. 1999 Strategies for 'Greening' the New Zealand Pipfruit Export Industry. Studies in Rural Sustainability Research Report No 6. Department of Anthropology, University of Otago. Pg 3

Table 1 shows the huge volumes of low quality fruit grown in China and Europe.

Table 1 ²³			
Opportunities for global change			
Region	2000-2001 production (1000 MT)	% by region	Average fruit quality
China	20.5	34.7	Low
Europe	14.6	24.7	Low-high
Other Asia	9	15.2	Low-high
North America	5.6	9.5	Med-high
Southern Hemisphere	5.6	9.5	Med-high
Former Soviet Union	3.8	6.4	low
World	59.1	100	

The Two Industry Organisations

Introduction

The pipfruit industry is essentially represented by two organisations. The New Zealand Fruit Growers Federation (NZFF) and Pipfruit Growers New Zealand Incorporated. Many growers see this as a doubling up of resources and a duplication of roles. Many growers are confused about the roles that this organisations play. This part of the report examines the recent history of these organisations.

New Zealand Fruit Growers Federation (NZFF)

The Commodity Levy Act was passed in 1990 and was designed to replace a whole raft of compulsory levies that existed in primary industries. It stated that these industry groups would no longer be able to impose a levy on their members under their existing legislation from the beginning of 1996. Under the Commodity Levy Act 60% of all growers in an industry had to support the levy.

²³ Barritt, B. 2003. The Apple World 2003-Present Situation and Developments for Producers and Consumers. The Compact Fruit Tree, Vol 36, Number 1, 2003

With the repeal of the Orchard Levies Act 1953 and its subsequent amendments the NZFF had to determine the best way for the industry to raise funds and for the funds to be equitably spent for the benefit of growers of different fruit.

After a review of the current system and grower consultation a sector system was put in place. Each sector was established as a legal entity and was responsible for raising and spending its own funds.

The NZFF continues to collect a levy under the Commodity Levies Act based on \$7 per \$10,000 gross at the first point of sale. The latest levy orders were granted in 2001 and will last another 6 years. They are reviewed annually and have a maximum of \$10 per \$10,000 at first point of sale.

NZFF Vision

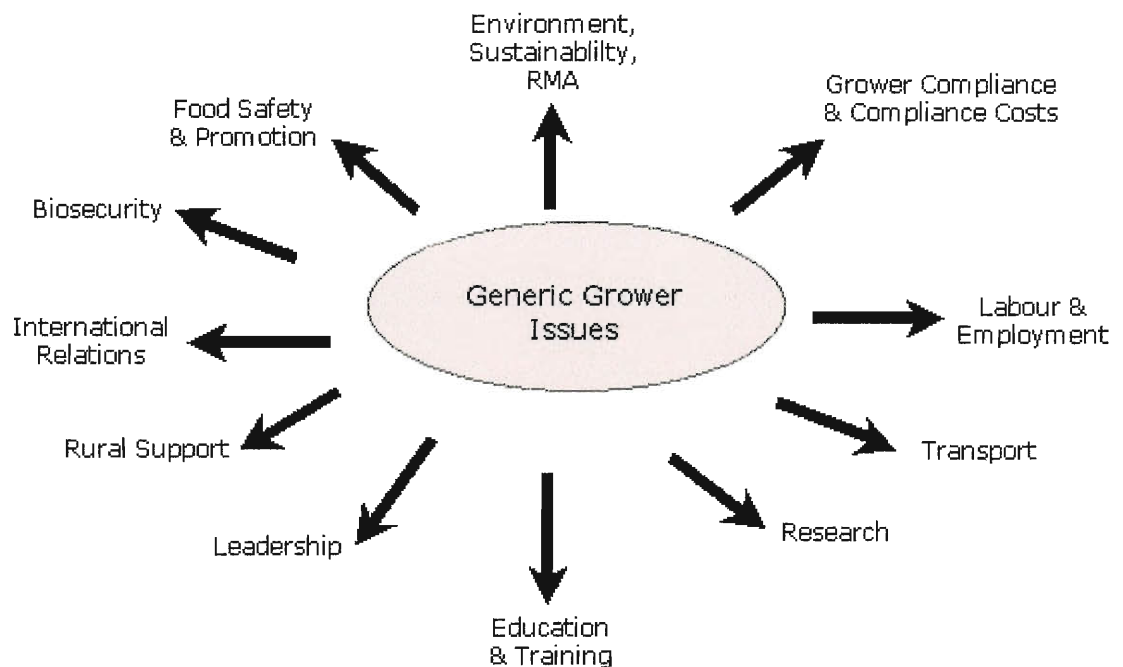
"A vibrant and profitable fruit industry for fruit growers, having influence over their own destiny."

NZFF Role

NZFF sees its roles are to tackle key generic issues for the benefit of fruitgrowers and their industry. NZFF state on their website that generic activities :

- affect all fruitgrowers and often the whole industry as opposed to a specific fruit sector
- show benefit from using the combined resources of all fruitgrowers or the whole fruit industry
- are activities it would be unrealistic to expect any individual Product Group to deal with.

They illustrated this by using the following diagram.



Some of NZFF Functions²⁴

- **to lobby on fruitgrower issues** - such as bio security - (protection of NZ from fruitgrowing threats eg FruitFly), resource management eg. making submissions on Regional Council Air, Water and Noise Quality Plans in key fruitgrowing areas and compliance costs
- **to promote New Zealand's access to international markets** - for example monitoring aspects of quarantine policies, procedures and responses
- **to tackle food safety issues** - such as ensuring practical food safety regulations and developing and communicating a fruit industry policy on genetically modified food
- **to act as an industry catalyst which promotes industry leadership and development** with initiatives such as the Fruit Industry Leadership Programme and the Young Leaders Initiative
- **to encourage education, training and horticulture careers within the fruit industry** - for example, working to ensure sustainable and effective training in orchards and at the higher education level, providing a comprehensive scholarship package and advocacy on educational issues

²⁴ www.fruitgrowers.org.nz

- **to promote research and development in the fruit industry** - such as monitoring the development of Government research policy and providing the information to the relevant bodies and responses where required
- **to ensure practical environmental national and regional policy that works to the benefit of growers** - in areas such as agrichemical trespass (off-target spray drift, agrichemical residues within food and the environment, water management and hazardous waste
- **to address labour shortages and employment issues** - (in association with the NZ Orchard & Vineyards Association of Employers) such as seasonal labour, ACC, Holidays Act and the employment Relations Act and their implications
- **to work in partnership and support Regional Fruitgrower Committees, affiliated Fruitgrower Associations and Product Groups** on a variety of issues that need a co-ordinated approach
- **to provide fruitgrower representation** on influential bodies such, the Agricultural Compounds and Veterinary Medicines Advisory Council, Horticulture Industry Training Organisation, United Fresh, Land User Forum and the Plants Market Access Consultative Committee
- **to work as a cornerstone for communication and information** between fruitgrowers and their key stakeholders with activities such as publishing a monthly magazine - The Orchardist - and providing Fruit Industry Briefing Papers to MPs
- **to provide a public profile** for generic fruitgrowing issues - for example, providing a fruit industry response to media
- **to co-ordinate events across sectors** including the Annual Joint Industry Conferences

NZFF Charitable Trust.

The Trust was set up in December 1985 following a review of the Federation by Touche Ross. At that time the Federation was a large trading organisation, had an export business and represented grower's at a political level as well. One of the recommendations to come out of the report was to separate out the commercial activities from the commercial work. To carry out the commercial work NZFF established the limited liability company Fruitfed. At the same time

NZFF sold a half share in Fruitfed Limited to Apple and Pear Board for \$7million. This money provided the initial capital for the trust.

It sold a further 4.034 million shares at \$1.19 to Williams and Kettle in July 1999. This realised the trust a further \$4.8 million.

The Trust at 31st March 2003 had a total equity value of \$12,598,934 down from \$13,513,274 in 2002. This has been put down to a difficult year in investment funds. Current investment mix of the Trusts portfolio is shown in the following table.

Investment portfolio NZFF Charitable Trust ²⁵		
Investment	2003	2002
Real Estate	32%	7%
Fixed Interest	45%	58%
Equities	23%	35%

The use of the trust funds is governed by a deed which permits spending in certain areas. See Appendix 1.

Pipfruit Growers New Zealand Incorporated (PGNZI)

With the coming of the Commodity Levy Act the various sectors separated out of NZFF. In 1993 the NZFF pipfruit sector put out an industry plan for grower comment. A proposed structure for PGNZI was provided and rules were developed. By October 1994 PGNZI was a legal entity and was charged with "speaking in a united way to politicians, the Apple and Pear Marketing Board and others".²⁶ It was initially funded through NZFF until the end of 1995 when it would be funded by its own levy under the Commodity Levies Act.

PGNZI held its first meeting on the 31st January 1995. The executive wanted to put together a strategic plan and mission statement. Key words in that process were independence, scrutiny, autonomy, leadership, vision, encouragement, representation, communication and analysis.²⁷

PGNZI were granted a commodity levy for 1996, 75.61% of growers who responded to the ballot agreed to a compulsory levy. That levy is currently set at 1.0 cents per kilo of fresh whole apples or pears.

²⁵ New Zealand Fruitgrowers Charitable Trust Annual Report 2003

²⁶ New Zealand Orchardist. October 1994. pg 12

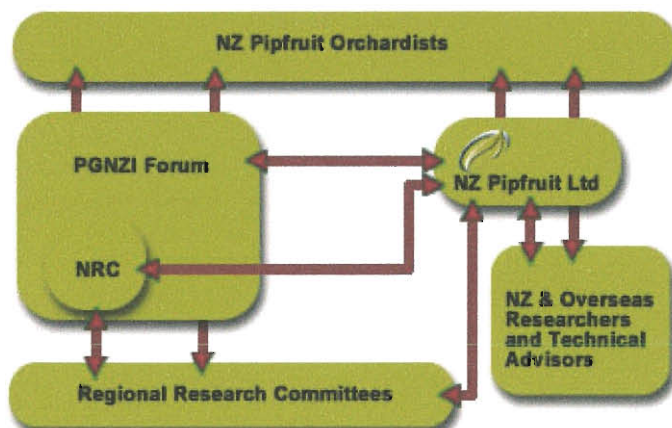
²⁷ New Zealand Orchardist. November 1995 pg 6

Right from its foundation there was confusion about the new organisation and how it fitted in with NZFF, and the other regional structures.²⁸

New Zealand Pipfruit

With the introduction of the 1999 Apple and Pear Board restructuring Act, a number of "Industry Good" functions were transferred from the New Zealand Apple and Pear Marketing Board to PGNZI. These functions included much of the Research and Development, and Technology Transfer components of the industry.²⁹ In January 2000 PGNZI established a limited liability company New Zealand Pipfruit Limited to manage these functions. This left PGNZI to concentrate on the policy and representative issues of the industry. NZ Pipfruit Ltd is 100% owned by PGNZI which in turn is 100% owned by New Zealand pipfruit growers. Funding comes from the industry levy.

New Zealand Pipfruit and PGNZI illustrate their structure in the following diagram.



The National Research Committee (NRC) links to, and feeds off, information from regional research committees. Its role is to guide research initiatives.

Objectives of PGNZI³⁰

PGNZI states its objectives as:

- To provide New Zealand pipfruit growers with technical, economic and marketing information resources to enable them to be the world's best possible pipfruit producers

²⁸ New Zealand Orchardist. November 1995 pg 6

²⁹ www.pgnzi.co.nz

³⁰ www.pgnzi.co.nz

- To represent New Zealand growers nationally and internationally in a manner which ensures New Zealand growers have a competitive advantage in the market.

The marketing, economic and policy parts of the objectives are the direct responsibility of PGNZI and the provision of technical information services is provided through PGNZI's subsidiary company New Zealand Pipfruit Ltd. Some activities, such as Market Access, straddle both organisations.

The objectives of PGNZI are expected to be provided through:

- Encouraging and providing opportunities for New Zealand growers to discuss matters of commercial importance to their businesses.
- Providing New Zealand growers with the opportunity to have their commercial opinions presented in a united manner, at both a regional and national level.
- Providing growers with an economic, marketing and policy information services that will ensure they are able to make sound commercial decisions.
- Providing an industry information and policy advisory service to regional and national politicians, marketing and logistical companies, and international organisations to ensure New Zealand grower opinions are understood

NZFF and PGNZI Proposed Structures

Introduction

Both NZFF and PGNZI have put together preliminary restructuring proposals. Both state the changing industry environment as the catalyst for these proposals. This next section of the report looks at what the two proposals are.

NZFF

When the current president of NZFF, Martin Clements was elected in 1997, he stated that his first challenge will be to look closely at the federation's structure. "We have spent time helping the product sectors to restructure, and now it is time to look at the federation's structure to see if it is what growers want it to be".

Throughout 2002 the federation directors discussed the future directions of the federation. They were particularly concerned with the significant structural changes that were occurring in the industry. A remit was passed at the 2002 conference that asked the federation to "commence meaningful discussion with its members

and product groups to investigate the NZFF becoming a Federation of Product Groups”.³¹

The key questions it asked were:

1. Where is the fruit industry going to be over the next five years i.e how will the industry evolve?
2. Where should the federation be in five years time? What should it be doing? What should it look like? Should it exist at all? (within the context of question1)

The review was initiated in September 2002 and after consultation with product groups and growers the Federation Directors’ concluded that:

1. In the future there will be fewer and larger vertically integrated grower businesses, growers will be more professional and their businesses more complex.
2. Small growers will continue to exist supplying niche or alternative markets.
3. There will be increased pressure and restrictions on the activities of growers from the international market and from national and local government.
4. Many of the big issues facing growers both now and in the future are common across all horticulture.
 - Bio security
 - Market Access and Trade
 - Education and Training
 - Resource Management
 - Environment
 - Compliance Costs
 - Food Safety
 - Protecting Brand New Zealand
 - Labour Availability Issues
 - Industry Profile

³¹ New Zealand Orchardist. December 2002.

5. Growers want a powerful, influential, visible, results focused, effective and proactive industry representative body.

6. Critical mass is important if industry group are to be heard above the noise of numerous other competing lobby groups.

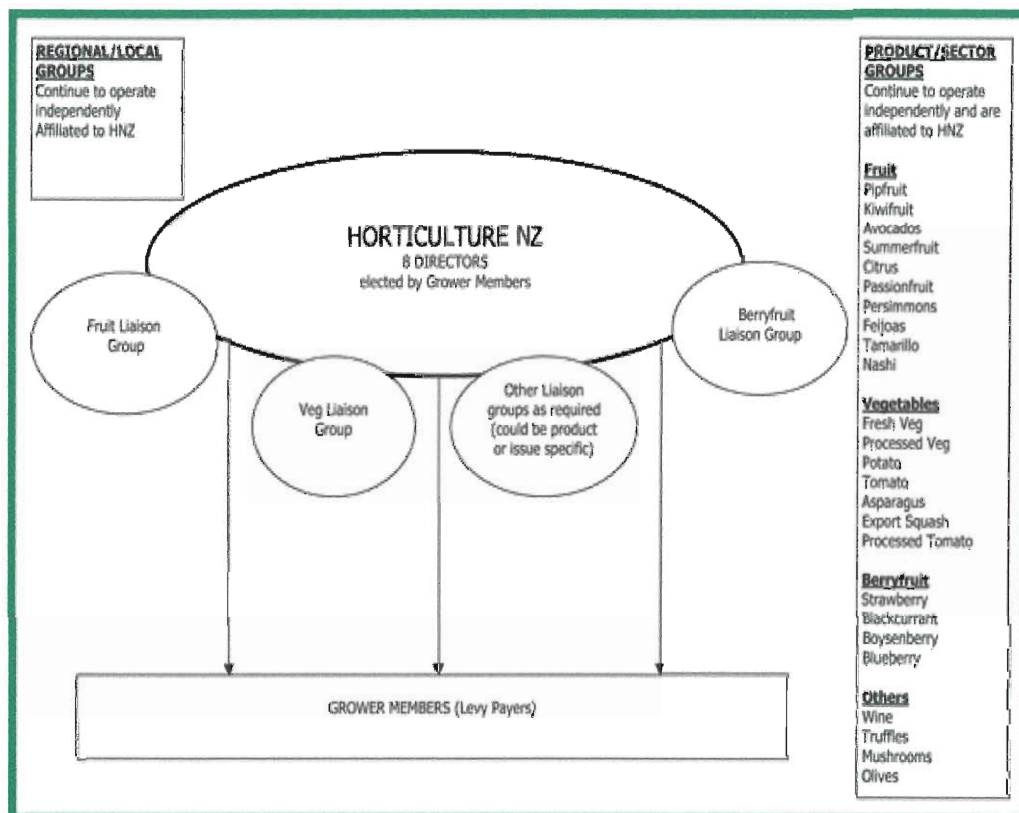
7. The closer working relationship between NZFF and VegFed (New Zealand Vegetable and Potato Growers Federation) has already proven that the different parts of horticulture can benefit from working together.

8. The place and function of the Product / Sector Groups varies from product to product. Local grower associations are seen as becoming less relevant. Grower groupings around commercial supply entities, pack houses or marketing groups are becoming more important. All of these groups play an important role and focus on their own specific issues.

NZFF and Vegfed met mid 2003 and agreed to investigate the possible formation of a pan industry organisation referred to as "Horticulture New Zealand." (NZH)

Grower delegates at the NZFF AGM held on the 28th July agreed unanimously in principle to investigate the feasibility of establishing "NZ Horticulture".

NZFF's initial discussion structure is shown below.



The combined New Zealand Horticulture Industries have a total value of over 4 billion in sales and generate \$2.1 million in exports. (Appendix 2) The combined cropped areas equate to 130,000 hectares.

PGNZI

PGNZI at their forum meeting in July 2002 highlighted the need to have an "inclusive industry approach to addressing issues within the radically changed environment within which we operate". It was proposed at the same meeting that "as a matter of urgency, a blueprint that addresses the issue with particular emphasis to be placed on eliminating unnecessary functional duplication, fragmentation and confusion".

PGNZI say that the different sectors that the pipfruit industry is divided into are connected but not integrated.

Current Industry Sectors

Sector	Organisation	Role
Growers	PGNZI	market access, bio security, food safety, government policy submissions and government representation for issues affecting the pipfruit industry.
Growers	NZ Pipfruit	Managing technology, R&D, Technical support for submissions on govt policy, including environmental and bio security issues.
Packers	No national body	
Coolstore companies	NZ Cold storage Assoc Inc	Not specifically linked to the pipfruit industry.
Exporter groups	Pipfruit Export Committee	Coordinating group for exporters. Associated with Horticulture Export Council.
Whole Industry	Produce Industry IT Standards Assoc (PIITSA)	Develop and maintain standards for electronic data exchange.

PGNZI points to better interaction within industry sectors as having real positive outcomes for the industry as a whole. Other reasons they gave for change were:³²

- Growers are confused by the number and roles of various representative bodies.
- The attempted earlier joint body with exporters was not successful There has been no linkage with postharvest (packers, coolstores) etc.
- Many of the key issues we face flow through exporters to post-harvest and onto growers i.e. they are not limited to just one group.
- Communication and decision making would be streamlined thus saving time, resources, and doing it more efficiently.
- Less division means less opportunity for various organisations (normally Wellington based) to exploit differences in opinion.

³² PGNZI Core Business July 2003.

- Closure of the Wellington office and merging with NZ Pipfruit Ltd would bring about efficiencies, less travel, better use of resources, and long-term benefits for staff.

- The Forum believes that a model which links all the sectors within the apple and pear sector will be the most appropriate, least cost, and potentially has the opportunity to deliver better returns for levy monies.

Chairman of PGNZI, Phil Alison sees the other key area as promotion of the sector.

- Since the huge debate and process of deregulation I think the common view in Wellington of the pipfruit industry is not very complimentary.

- We have a great story to tell. Be it production of safe food, IFP, size of our industry, export dollars, employment in regions, the number of countries we export to, investment in R&D and so on.

- We must politically promote the industry we have invested in, selling the good news. Benefits include government investment in market access, R&D, sustainability projects, policy changes and the list goes on.

- We must take brand "Pipfruit Industry" and ensure they know who we are, what we do, how we matter.

- We can link with other like groups when necessary however, we don't want pipfruit's promotion diluted through confusion with other horticultural sectors. We are very effective at mixing with other sectors as, and when required.

PGNZI initially looked to form a body with representatives from each of the existing industry sectors. This was seen as not giving enough representation to the post harvest sector. There was still duplication and in efficiencies.

The second proposal was to change PGNZI to a "whole industry body" through membership by sectors other than growers. This would also give governance roles to all major commercial sectors of the apple and pear industry. The advantages PGNZI expects from this structure are:

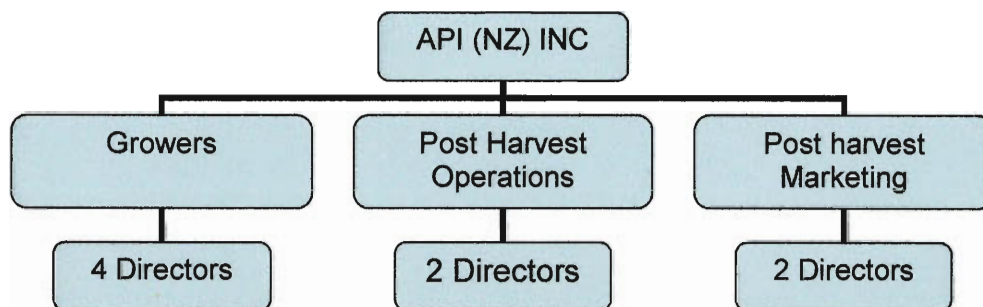
- Integration.
- Coordination
- Commercially focused governance.

- Recognition of all stake holders in industry.
- Recognition that grower returns are largely influenced post harvest.
- Recognition of the increasing vertical integration in the industry.

The suggested name for the new industry body is Apple and Pear industry (NZ) Inc or API. Membership and Governance would be made up of :

- **Production (Growers)** with an estimated membership of 1000. Growers would still decide the levy exclusively. Giving them control over the funding of the body. They would appoint 4 directors to the board.
- **Post Harvest Operations** with an estimated membership of 100 they would appoint 2 directors to the board.
- **Post Harvest Marketing** estimated membership 40 would appoint 2 directors to the board.

The following diagram shows the structure.



The Future

Introduction

The pipfruit industry votes on its new structure (API) at the PGNZI Pipfruit Conference and AGM on the 28th and 29th of January 2004. The Fruit growing industry votes on their new structure at its conference in 2004 as well. NZFF is setting up an establishment group to report back at that conference. So what do growers think about these changes?

Survey

On the 12th Of September 2003 I sent out a questionnaire to 29 non corporate members of the Mr Apple (NZ) Ltd supply group. (See Appendix 3)

Results

Out of the 29 questionnaires I got 8 back which perhaps indicates the apathy in the industry when returns are good. Half of the respondents knew that PGNZI was creating a whole industry structure. The other half commented with question marks, no idea, and oops I haven't been paying any attention!

On the changes to NZFF two knew that they were amalgamating with Vegfed. The others did not answer this question.

On the question are you happy with the current system of representation I used the following format.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

The results were.

PGNZI	3.8
NZFF	3.6

For the question for the pipfruit industry how involved do you perceive the two bodies to be in the following areas?

Education and Training.

PGNZI	3
NZFF	3.3

Environment and Sustainability.

PGNZI	2.8
NZFF	2.8

Biosecurity.

PGNZI	2.3
NZFF	3

Compliance costs.

PGNZI	2.8
NZFF	4

Labour

PGNZI	3.5
NZFF	3.3

Communications (getting information out to growers)

PGNZI	1.8
NZFF	2

Food Safety

PGNZI	3.5
NZFF	3.5

Research and Development.

PGNZI	2
NZFF	4

Market Access.

PGNZI	2.3
NZFF	3

The last question was: Any other comments. What do you see your future representation to be?

Only two growers responded to this question but they both wanted voluntary bodies representing them.

Discussion

The sample size was very small and the returns even smaller so there is no statistical robustness to the results. Themes would be that growers are apathetic, do not understand the proposed structures and perhaps do not see the relevance of those structures.

New Zealand Horticulture Limited (NZH) and Apple and Pear (NZ) Inc (API) - will they fly?

New Zealand Horticulture

When I attended the NZFF consultation talks in Hawkes Bay there were only around 30-40 people there. Many of them were not growers but consultants and HortResearch representatives. With well less than 10% of Hawkes Bay growers attending, the results from my survey and conversations with growers I would conclude that the average Hawkes Bay grower is quite indifferent about NZH at this stage.

It was only 2 years ago when venues in Hawkes Bay were too small for any meeting. Tony Gibbs Chairman of GPG could really pack then in. Those days had the desperation and panic of poor returns, deregulation, foreign exchange liabilities and loss of control of the industry.

The concept of NZH will work as long as it sticks to the generic issues. There are areas where there may still be overlap such as Market Access, Food Safety, Bio security, and Political Advocacy. PGNZI states that "the best people to have in these roles are representatives of our Industry because we have the most knowledge, experience, and information – along with the most to lose if we get it wrong!"

In its key elements to consider in terms of formation of API PGZNI suggest "less division means less opportunity for various organisations (normally Wellington based) to exploit differences in opinion". This is obviously pointed at NZFF and part of the political manoeuvring as each organisation seeks support for its proposals.

Another strong point PGNZI makes is that they can link with other product groups when necessary however they "don't want pipfruit's promotion diluted through confusion with other horticultural sectors. We are very effective at mixing with other sectors as and when required".

Some Hawkes Bay growers feel that the new NZH structure should work from the product groups up to NZH not the other way around. This structure would mean one levy collected by product groups with a portion going to NZH to fund their activities.

There is concern that the Charitable trust funds need to be secured for the benefit of fruitgrowers.

Apple and Pear (NZ) Inc

The new structure proposed by PGNZI has some real resistance from some growers who feel that they will lose control of the industry. By still having control of the levy they are in control of the funding. Many packhouses and marketing groups are both growers and post harvest operators so growers will dominate the board. With exporting 38% of the crop Enza will most likely get a seat as one of the two marketing positions. The corporate Mr Apple (NZ) Ltd has only 8-9% of the crop, packs around 13% and markets around 4%. If each of the governance areas have separate voting then Mr Apple (NZ) Ltd does not have dominance either.

Many growers would like to see more funding come from the post harvest sector. This may happen but the important objective for growers should be to lower costs to the whole industry. If in a competitive market operational costs can be lowered that saving should come back to growers. Increases will be passed on to them.

Smaller growing districts also say that they will fail to get adequate representation. Representation should be firstly based on commercial competence not where you grow. A communication channel to the closest director will allow representation. It should also be remembered that in a deregulated industry there are pros and cons will all decisions including where the grower chooses to grow.

Some growers feel that the industry is moving too fast. Perhaps those growers are moving too slow? Within ten years growers lost the two tier levy, a regulated local market, ownership of ENZA and the regulated export market. Things are changing and the speed of change is out of their hands now. The challenges are global and the industry must respond fast or face extinction.

Conclusion - The Industry Challenge

In the last two years the international supply of apples has dwindled due to climatic factors. The next few years we will see supply back to normal again and then selling New Zealands crop at the returns necessary will be a lot harder.

Our Southern Hemisphere competitors have improved the quality of their fruit particularly the key variety Royal Gala. Their costs of production are less than us and they are a lot closer to the market.

The new product Smart Fresh allows fruit to last much longer than coolstoring and so we will compete with more and more product.

The high exchange rate with the US dollar shows no sign of lowering and there will be some pressure soon on lifting interest rates.

There are 97 exporters, only ENZA has its own distribution, significant promotional budget and in market presence. There is almost no brand promotion or promotion of brand NZ. Retailers have consolidated and do not wish to deal with many suppliers.

The New Zealand pipfruit industry has been through more change than most in the past few years. It has been lulled into a false sense of comfort and complacency by two years of good returns post deregulation. There is no doubt that soon the industry will face some very tough times. Will it take a very tough year for growers to learn the lessons?

Growers were shielded from the commercial realities of trading fruit in international commodity markets by the single desk system. The past two seasons of deregulation have been a honeymoon. Ross Johnson Executive Officer NZ Pipfruit Exporters Committee commented in the November 2003 Orchardist Magazine. "The overall problem, however, is that there remains a mix of philosophies and knowledge within the New Zealand pipfruit industry – the informed, the ill informed and the un informed." My survey would concur with this.

Prices for orchards are at record highs and growers are developing more. My suggestion is that growers think very carefully about their future and whether they are ready for the challenges that future will bring. There has never been a better time to get out of pipfruit growing

The long history of the New Zealand pipfruit industry is set to continue to change. Growers are too complacent and need to actively participate in the structural debate occurring within their industry. The industry faces real threats from huge challenges of selling pipfruit under the pressures of globalisation, retailer consolidation, competition for shelf space, tighter specifications all without the historical protection of the ENZA single desk.

Growers have failed to understand the new environment in which they now produce their fruit. They desperately need to structure their industry to best provide assurance for their commodity. They need good management of market access and especially food safety.

The restructuring of New Zealand Fruit Growers and Vegfed in to Horticulture New Zealand is desirable at the generic level. The restructuring of Pipfruit Growers New Zealand Inc to API and the

associated but in of marketer and packers, is absolutely essential to industry survival.

The New Zealand Pipfruit Industry will live and die by its own hand and competent commercial governance for the industry by its representatives will be essential.

Appendices

Appendix 1 Deed of The New Zealand Fruitgrowers Charitable Trust.

The New Zealand Fruitgrowers Charitable Trust is incorporated under the Charitable Trusts Act of 1957.

The application of Trust funds is governed by a Trust Deed which permits spending in the following areas:

- to promote, encourage and foster research in the fields of and relating to fruit growing and to disseminate and make available the results thereof for public use and for the improvement of human knowledge and to generally concern itself in fruit growing research within New Zealand

- to promote and improve standards of training and education in the New Zealand fruitgrowing

- to assist in the education of persons associated with the fruit growing industry in New Zealand

- to promote education in the subject of fruit growing

- to establish and support professorships, fellowships, lectureships, scholarships and prizes

- to relieve poverty among persons who are or were engaged in activities and employment

associated with the New Zealand fruit growing industry

- to promote, encourage and foster education in all matters in, or relating to, the New Zealand fruit

- to promote, encourage and foster any aspect of the fruit growing industry likely to be of benefit to

New Zealand and whether as a result of increased efficiency, improved productivity, improved

product, or better marketing

- to assist in the establishment of such organisations or structures as are necessary or desirable to

achieve any of the foregoing objectives including, and without limitation, grants

- to meet establishment costs

- for research and development
 - to facilitate dissemination of results from such research and development
 - for education and training of officers and employees of such organisations
 - to meet the operating costs of industry organisations involved in any of the foregoing
- charitable purposes

Appendix 2 Horticultural Export Totals

Horticultural exports (\$ million, fob)

Year ended June	1965 ^a	1975 ^a	1985 ^a	1995 ^a	2000 ^b	2002 ^b
Fresh fruit						
- Apples	5.0	19.3	108.2	482.1	404.5	420.9
- Kiwifruit		2.9	171.9	320.8	462.0	618.4
- Other fresh fruit	0.6	0.8	28.4	66.0	96.1	108.9
Total fresh fruit	5.6	23.0	308.5	868.9	962.6	1148.2
Processed fruit						
- Jams		0.4	1.7	20.3	17.7	20.9
- Juices - fruit		0.1	9.6	34.6	24.7	29.7
- Other processed fruit	0.1	1.3	38.6	34.2	29.9	33.2
Total processed fruit	0.1	1.8	49.9	89.1	72.3	83.8
Fresh vegetables						
- Onion	0.2	1.2	17.7	92.6	78.6	100.9
- Squash			14.6	57.7	60.3	81.7
- Other fresh vegetables	0.7	1.9	11.6	43.9	74.4	77.4
Total fresh vegetables	0.9	3.1	43.9	194.2	213.3	260.0
Processed vegetables						
- Peas (frozen)	0.5	1.5	22.0	34.0	40.6	50.6
- Potatoes (frozen)					17.9	53.2
- Sweetcorn (frozen/dried)	0.2	0.8	9.5	25.1	39.3	55.6
- Vegetables (frozen mixed)			4.6	25.6	29.1	38.3
- Other vegetables	0.8	2.4	20.9	66.4	47.5	62.2
Total processed vegetables	1.5	4.7	57.0	151.1	174.4	259.9
Wine		0.1	3.0	42.0	169.8	248.9
Flowers		0.2	7.6	49.7	46.2	47.9
Seeds, plants and foliage	0.1	0.6	11.3	17.6	37.3	52.9
Other products				24.1	22.8	24.0
Total exports \$	8.2	33.5	481.2	1,436.7	1,698.8	2,125.6
Horticultural exports as % of NZ merchandise exports.		2.0	4.4	7.0	6.5	6.5

NZ Horticulture Facts & Figures HortResearch 2002

Appendix 3 Survey Sheet

Pipfruit Industry Restructuring

Please comment or circle the number which best represents your feelings. PGNZI includes NZ Pipfruit Ltd.

1. What new industry structure is PGNZI currently proposing?

2. What new industry structure is NZ Fruit Growers Federation currently proposing?

3. Are you happy with the current system of representation?

	Very happy		Don't mind		Very unhappy
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

4. For the pipfruit industry how involved do you perceive the two bodies to be in the following areas?

a. Education and Training.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

b. Environment and Sustainability.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

c. Biosecurity.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

d. Compliance costs.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

e. Labour

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

f. Communications (getting information out to growers)

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

g. Food Safety

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

h. Research and Development.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

i. Market Access.

	Heavily involved				Not involved
PGNZI	1	2	3	4	5
NZFF	1	2	3	4	5

5. Any other comments. What do you see your future representation to be?