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New Zealand

Fresh Deciduous Fruit

New Zealand Apple Industry Restructuring

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Report Highlights: The New Zealand Pipfruit (apple and pear) Industry's recent restructuring involving the formation of an independent Export Permits committee has created division from ENZA. The export of 1.5 million cartons of independent fruit has been approved by the committee. ENZA believes this will undermine it's position in the international market and result in lower prices. ENZA has responded by refusing to allocate the NZ$25 million (US$12.5 million) of capital to growers through shares, as was promised during restructuring.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

The 1998 Government call for New Zealand agricultural producer board deregulation has placed the New Zealand pipfruit (apple and pear) industry in a struggling position for industry structure. Prior to the call for deregulation the New Zealand pipfruit industry was a statutory monopoly, with Enza, the New Zealand Apple and Pear Marketing Board, having sole rights to trade apples and pears produced in New Zealand.

Developments in 1999 saw the implementation of the restructuring of the New Zealand pipfruit industry. The introduction of the Apple and Pear Industry Restructuring Act set the framework for the restructure, which basically retained the advantages of the single-desk seller, while introducing a commercial structure. Enza, will become a company as of 1 April, 2000, called ENZA Limited. The company will have the responsibility for acquiring and marketing New Zealand apples internationally. With the proposed commercial structure, growers will be able to take ownership of the industry as they are allocated shares in that new company. The share allocation is based on their supply from 1993 to 1999. This will be divided by total supply to ENZA over the same period, and that proportion will represent the shares that they will be allocated. This was the second attempt by Enza to allocate the shares. The first attempt was turned down by the new New Zealand Government, on the grounds that the allocation did not meet the legal requirement to fairly reflect the ownership rights of growers in the industry.

The second factor in the restructuring that has caused major dispute in the New Zealand pipfruit industry is the forming of the Apple and Pear Export Permits Committee, set up late 1999 to approve independent pipfruit exports outside the monopolist Enza. Previously to the commencement of this committee, independent exports applications had to go through Enza. A major division has been caused between Enza, and the Export Permits Committee, not because it approves permits to independents, but because of the number of cartons it has approved.

The Permits Committee have had an overwhelming response from growers wanting to market their fruit independently from Enza. Applications to the end of February have so far totaled eight million cartons, 1.51 million of which have been granted, and 1.34 million of which are being considered. Other applications have been declined, withdrawn or reduced in volume.

A regulation for the committee to approve independent export permits is that they must not undermine Enza's export operations or its reputation, but to complement the marketing company. This is where the division between the Committee and Enza has arisen, as Enza does not believe the export permits being granted by the Committee are complementing Enza's own export sales, but are entering into competition with them. Enza believes that this will undermine their position in the global market and result in the company receiving lower prices for their fruit. Due to Enza's ongoing concern over this issue, the Export Committee was questioned by a Parliamentary select committee on its export approvals. The purpose of the questioning was to ensure that permits for pipfruit exports outside Enza had been rigorously scrutinized by the permits group, and that there was no risk of Enza's export sales being undermined. They also wanted clarification on the requirement that the independent exports complemented Enza's work. Results of this select committee still have not been released to the public.

In response, Enza has retaliated against, what it thinks is the inequity of the Export Committee's actions. As mentioned above, the recent restructuring of the industry introduced a more commercial nature, in which shares were to be allocated to growers. This was done on the basis that the growers would receive their share of the NZ$25 million (US $12.5 million) return on capital, that was invested into the industry, by growers, over the 1993/94 season. Due to the increased competition from the independent exports, Enza will not return this $25 million worth of capital to growers, and instead has announced the capital would be used to meet historic foreign exchange costs. These foreign exchange costs would normally be deducted from market returns, but with a bad apple season in 1998/99, and with Enza facing the loss of 1.5 million cartons to independent exporters, the board had decided to use the capital. By retaining this capital, the board is also able to give its suppliers more money. However, to penalize the growers who want to market their fruit independently, Enza has announced that only growers marketing through Enza will receive the additional $1.20 per carton that the retained capital will allow.

The monetary loss to Enza from the cartons exported independently is estimated to be at least NZ$20 million (US $10 million).