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The New Zealand Kiwifruit Industry - Challenges and Successes
1960 to 1999

A thesis presented in partial fulfilment of the requirements for the degree of Master of Arts in History at Massey University

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Abbreviations

AKEG - Australian Kiwifruit Exporters Group
EDC - Economic Development Commission
IGC - Industry Change Group
IKS - Independent Kiwifruit Service
KEA - Kiwifruit Exporters Association
KEPC - Kiwifruit Export Promotion Committee
KMB - Kiwifruit Marketing Board
KMG - Kiwifruit Marketing Group
KMLA - Kiwifruit Marketing Licensing Authority
MAF - Ministry of Agriculture and Fisheries
NZKA - New Zealand Kiwifruit Authority
NZKC - New Zealand Kiwifruit Corporation
NZKGI - New Zealand Kiwifruit Growers Incorporated
NZPBRT - Producer Board Review Team
PBPT - Producer Board Project Team
T&I - Trade and Industry
SOE - State Owned Enterprise
Introduction

Throughout the 20th century, successive New Zealand governments have, to a greater or lesser degree, been involved in primary sector trading arrangements, while from time to time, the producers and growers of specific products have actively sought legislation to improve their returns in international markets.¹ From the establishment of producer board structures for the meat, wool and dairy industries in the 1930s, to the Apple and Pear Industry in 1948 and then to the creation, forty years later, of the Kiwifruit Marketing Board, government policies for such statutory intervention have ranged from active encouragement to disapproval on the basis of free-market economics.

In the 1960s, kiwifruit growers began to seek statutory intervention to support the development of their growing export business. Over the next 30 years, the industry’s leaders had to become directly involved in the development of legislative changes, as they sought to protect the interests of their growers. From the introduction of the Kiwifruit Licensing Authority in 1977, to the establishment of the Kiwifruit Marketing Board in 1988 and then to the creation of the grower owned Zespri Group in 1999, each piece of legislation was designed to help the industry to overcome successive threats and crises.

This thesis investigates how the industry influenced these legislative changes and why it was so successful in acquiring and retaining the single-desk selling status despite the efforts of some politicians, officials, exporters and even growers and packhouses, to deregulate the business. Perspectives on the changing economic and political conditions prevailing during some of the period have been provided as secondary material by writers including Michael Bassett² and Colin James³ who have focussed on the intent of the Fourth Labour Government to introduce major deregulation of the economy. Jack Vowles refers to that Government’s decision after the ‘economic summit’ of 1984, to remove ‘organised interests from close prior

consultation with policy makers’. Tony Zwart and Walter Moore commented on the ‘decision to create the Kiwifruit Marketing Board appears to be contrary to the general movement towards liberalisation of the economy’. Erik Olssen has documented the activities of the Fruitgrowers’ Federation as it responded to the changing circumstances faced by its growers, while Rowland Woods has challenged the rationale for producer boards in general. Jane Kelsey has noted how the powers of the producer boards were under attack from Treasury, the Business Roundtable and ‘renegade producers’ and Greg Blunden wrote in 1996, that political support for the Kiwifruit Marketing Board’s ‘retention of their monopoly marketing powers’ was becoming ‘increasingly untenable for the current [National] government’.

Archives New Zealand and the Alexander Turnbull Library provided much of the relevant primary material in the form of newspaper clippings, magazine articles and publications by growers’ organisations. Primary source material was also found in Archives New Zealand relating to activities of the Ministry of Agriculture, the Ministry of Economic Development, Treasury and the Clerk of the House of Representatives. Both the New Zealand Fruitgrowers Federation and Zespri Group Limited provided access to primary material from their files. Oral interviews were conducted with or personal communications received from persons who had been growers, industry association representatives, Ministers, MPs or officials and who were directly involved with the kiwifruit industry during the period under review.

Chapter One describes the efforts of kiwifruit growers to bring some discipline into the burgeoning export trade, as plantings rapidly increased and fruit production escalated. The work of the growers’ Steering Group, together with the active involvement of Minister Duncan MacIntyre, led to the establishment of the Kiwifruit

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Licensing Authority. Chapter Two looks at the initial harmony which developed between growers and exporters following the introduction of the new legislation and the formation of the Kiwifruit Exporters’ Association, but ends with indications of grower discontent about exporter performance.

Chapter Three examines the tension created between exporters and growers as returns to growers fell rapidly in the late 1980s. The Authority commissioned the Coopers and Lybrand Report, which presented seven options, one of which was the single-desk model, which then incurred strong exporter resistance. The Fourth Labour Government was narrowly persuaded to enact legislation forming the Kiwifruit Marketing Board legislation thus creating a new producer board with monopoly exporting rights except to Australia.

Chapter Four reviews the activities of the KMB its first few years and the lead up to the 1992 crisis and considers the Douglas Burgess report. Chapter Five examines the possible implications of a government initiated producer reform process and how the various governments and academics posed a threat to deregulate the kiwifruit industry. It describes how the industry leaders were able to rescue the KMB following the crisis of 1992.

In Chapter Six, the Three Stage Review programme is outlined as the NZKGI was formed and the Marketing Review provided the stimulus to restructure the industry, despite a further report, this time from Acil, which was strongly critical of the KMB. This period ended with the successful creation of the separation of statutory from commercial activity in 1997. The Chapter goes on to describe the operations of the Kiwifruit Industry Change Group and how the KMB and the NZKGI were able to secure the legislation creating the Kiwifruit Restructuring Act 1999, despite strong opposition within the National Government and its Producer Board Reform Team.

In essence, this study investigates the 40 year contest between those in favour of securing legislative underpinning for their industry and those vehemently opposed to any restrictions to the operations of a free market. Eventually, with the establishment of Zespri Group Limited, which formally came into being on 1 April 2000, the kiwifruit industry was able to secure grower ownership of its industry assets and marketing programmes and the stage was set for a prosperous start to the 21st
century, without any further significant government intervention and most importantly, the retention of its single-desk status.
Chapter 1

Early Days

When the humble Chinese gooseberry first arrived in New Zealand in 1910, little did anyone in the fruit and produce industry realise that the fruit, later to be named as kiwifruit, would become a multimillion export dollar earner by the end of the century. This chapter follows the early progress made by the growers and exporters of kiwifruit from the first export shipments ‘in 1952 to the United Kingdom by the New Zealand Fruitgrowers’ Association’, to the establishment of the Kiwifruit Marketing Licensing Authority in 1977. It examines the attitudes and actions of the various industry leaders regarding statutory intervention in a period marked by an enthusiastic commitment to growth both in production and export marketing.

During this period, the kiwifruit business environment in the early 1970s was characterised by rapid change and increasing tension. From its small beginnings in the 1950s, the kiwifruit industry grew exponentially, with ever-increasing plantings and burgeoning exports. In March 1972, The Orchardist was predicting that ‘skyrocketing plantings and anticipated production in the next few years could create grave problems for the industry’. As early as June of that year, kiwifruit growers were considering ‘supporting in principle the formation of a Kiwi Fruit Board’. As the business grew, tensions developed between on the one hand the exporters, who were concerned about the possibility of a grower-led move to create a single-desk marketing board and, on the other hand, many of the growers, who felt that exporters were not doing enough to develop new export markets in response to the rapid increase in supply. These concerns led to demands by growers for the introduction of greater regulation of the marketing of their fruit and this in turn resulted in the formation of the Kiwifruit Marketing Licensing Authority, which was supported by the National Government at that time.

3 The Orchardist, March 1972, p.57.
4 The Orchardist, June 1972, p.141.
However, exporters did contribute their expertise to industry growth. Stan Conway, the Auckland Manager of the New Zealand Fruitgrowers’ Federation, was keen to promote the New Zealand Chinese gooseberry and he travelled to America and to Europe distributing samples of the ripe fruit to potential importers, ‘to anyone, anywhere, who would listen and taste. He lived Chinese gooseberries.’ He then organised the first commercial exports to the UK and Australia in 1952.

In 1959, Turners and Growers Ltd was the first New Zealand Exporter to put 100 cases of kiwifruit into the U.S.A. and a little later into Japan. In both instances the company exported only ‘Hayward’ and so ‘was restricted by the very limited supplies of that cultivar which were available’. The shipments went to the Safeways chain of supermarkets and to Harry and David’s for the ‘Fruit of the Month’ in the USA. It was Turners and Growers who coined the name ‘kiwifruit’ to avoid import tariffs which applied to ‘berries’ being imported into the USA, and to remove the name Chinese at a time during the Cold War when anything with the name Chinese had negative connotations. The name change was not well received in New Zealand and ‘English and Australian importers seemed to be particularly critical and steadfastly refused to change it for a long time’. Meanwhile, Turners and Growers decided to build their exports on the ‘Hayward’ variety of kiwifruit and within a short time ‘Hayward was starting to be produced in reasonable exportable quantities by the mid1960s’. In these early days ‘it was only the personal blind faith of Stan Conway …and Turner’s decision to expand their base and become proficient in export marketing, that started kiwifruit on its journey abroad’.

Another exporter, Graeme Rutherford from Auckland Export without a background in the fruit business, began exporting in 1967. He ‘brought an entrepreneurial [and marketing] approach … [and] played a leading role in setting up the Kiwifruit Export Promotion Committee’ (KEPC). He set firm prices to growers and was seen by

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6 Warrington, p.486.
7 Ibid. p.488.
8 Yerex, p.29.
9 Warrington, p.488.
10 Ibid. p.488.
11 Yerex, p.32.
them as an example of ‘free enterprise competition [operating] as the growers’ safeguard’.  

The three kiwifruit exporters operating at that time, Turners and Growers, Fruit Fed and Auckland Export, established the KEPC in April 1970 and, along with three grower representatives, began ‘making some attempts to advise on such matters as grades, overseas promotion and overseas market coordination’. The KEPC introduced a voluntary levy of ten cents per tray (six cents from the grower and four cents from the exporter) to fund overseas promotion and raised $20,645 in 1971, rising to $344,922 in 1977. The KEPC agreed that only the Hayward variety should be accepted for export and ‘drafted recommendations on grading, packaging methods, minimum fruit size and weight and storage standards’.  

The question of some form of producer control of the kiwifruit industry was being considered by many growers, especially those who had converted from dairying to kiwifruit growing and who were familiar with the single-desk operations of the Dairy Board in the Bay of Plenty. There were also kiwifruit growers who were aware of the single-desk model of the Apple and Pear Marketing Board. However, in the late 1960s, there was a variety of views amongst growers, ranging ‘from those that consider that the unrestricted laissez-faire system is best to those that advocate statutory control at all levels of the exchange pathway’. After much discussion on intervention, most growers at that time agreed ‘that this should be kept to a minimum’. However, the issue continued to be debated amongst growers. In 1967, Roly Earp was instrumental in calling a meeting of growers at which it was suggested that an authority should be established ‘to serve primarily the interests of growers … but also [to] protect exporters against the activities of new traders who knew nothing of the fruit or the market and could jeopardise the whole industry with the need to expand new markets’. This was to become a recurring theme for the next ten years.

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13 Yerex, p.34.
14 Milne, p.40.
15 Warrington, p.489.
16 Yerex, p.62.
17 Milne, p.143.
18 Ibid, p.152.
19 Earp, p.80.
Plantings of the new fruit increased dramatically in the period between 1967 to 1972, mainly in the Bay of Plenty, where climate conditions were conducive to higher yields. Expectations of greater rewards from this new fruit encouraged new growers to become involved and Milne maintained that ‘a survey showed that a large proportion of new growers were middle-aged former non-horticultural farmers who may present a barrier to economic rationalisation within the industry’, in that they were resistant to change from the business environment which had encouraged them to invest in the first place.\textsuperscript{20} The export tax incentives which enabled investor growers to offset export revenue against their personal income tax had encouraged a large number of ‘Queen Street farmers’ and successful businessmen to invest in, and often to take up kiwifruit growing. This led to a rise in property values and accelerated the rate of new plantings.

In March 1972, 80 growers at a meeting in Tauranga resolved, with four dissenting votes, to form a kiwifruit board. In the same year a Steering Committee was formed by experienced growers, including the pioneers, Grahame Bayliss, Peter MacLoughlin and Roly Earp, with the objective of establishing a kiwifruit export licensing authority. The Steering Committee arose from the initiative of Earp to create a Kiwifruit Board which would bring discipline to export marketing, where a number of new exporters were ‘putting lower quality fruit on the market …and undercutting one another’.\textsuperscript{21} The proposed board was to have three grower representatives, two exporters and one from the Fruitgrowers Federation, and ‘was to have the sole authority to accredit exporters but was to have no power to acquire fruit’.\textsuperscript{22} There was no intention of putting the exporters out of business. Rather it was an initiative to restrict exporting activity to competent professional exporters and to keep out the ‘fly-by-nighters’.

However, the Steering Committee proposals were vehemently opposed by exporters Turners and Growers and Auckland Exports, who created the impression that the Steering Committee ‘was working towards a bureaucratic set-up which would eliminate them and wreck the system which they had operated and which had, to

\textsuperscript{20} Milne, p.39.
\textsuperscript{21} Yerex, p.63.
\textsuperscript{22} Ibid. p.65.
date brought good results for growers’. The exporters decided in 1974 to protect their own interests by setting up the Kiwifruit Exporters Association (KEA), ‘which was registered in December of that year as an incorporated society, with eleven members. The primary objectives of the Association were to protect and promote the interests of New Zealand exporters of kiwifruit.’ According to Earp, KEA was initially formed to fight the proposed legislation driven by growers. This was despite the fact ‘that neither the Steering Committee nor growers would entertain a marketing board and that both [growers and exporters] were set on retaining private enterprise marketing’.

Opposition to the Steering Committee proposals also came from the independent kiwifruit packhouse operators, who had decided in 1976 to form the New Zealand Kiwifruit Packers’ Association to ‘give them a stronger voice in the development of the rapidly-growing kiwifruit industry’ and ‘to foster and improve communication and understanding between cooperative organisations involved in the packing for export of kiwifruit and private individuals so involved’. However, according to Earp, their ‘primary objective was to build up antagonism towards the work of the Steering Committee’, despite a number of grower suppliers to these packhouses supporting the Steering Committee initiative.

During the early phase in the industry’s development, there was little support from the 1972-1975 Labour Government, ‘who as yet appear unconvinced of the viability of this promising [kiwifruit] industry’. The Government’s focus was on the economic importance of the sheep, dairy and beef industries, and government lending sources, including the State Advances Corporation and the Development Finance Corporation, ‘lack [ed] confidence and interest in this industry (and Horticulture in general)’. The Labour Party’s policy of the day was ‘tending to favour development of manufacturing industries’.

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23 Yerex, p.68.
24 Warrington, p.501.
25 Earp, p.143.
26 Ibid, p.147.
27 The Orchardist, June 1976, p.130.
28 Earp, p.149.
29 Milne, p.41.
Nevertheless, given the Third Labour Government’s tendency to extend state intervention and to encourage co-operation, it took a surprisingly hands-off approach to the Steering Committee’s initiative. Bruce Barclay, the Parliamentary Under-Secretary for Lands and Agriculture, writing in a letter to a Te Puna grower, A. E. Ballard on 29 November 1974, stated that he ‘cannot at this stage make any specific comment on export control in time of surplus as no firm proposals on industry organisation, functions or powers have yet been made to me. The Government will not introduce measures which are undemocratic’.31 This reluctance to accommodate the Steering Committee’s proposals led Earp to describe the three years of the Third Labour Government as the most difficult his Steering Group had experienced in trying to introduce some legislative support for kiwifruit growers and for exporters. ‘By mid-1975, Roly Earp had few victories to show for three years of effort’.32 He had made little or no progress with the Government, was in open conflict with the exporters and with some of his own growers and ‘in August he resigned from the Chairmanship of the Steering Committee’.33

The negative stance of the Labour Government was in sharp contrast to the position adopted by the National Government, which came into power in late 1975 and proceeded to work with the growers’ Steering Group towards the eventual formation of the Kiwifruit Marketing Licensing Authority (KMLA) in 1977. Duncan MacIntyre, as the new Minister of Agriculture, met regularly with the Steering Group at his home in Whakatane and expressed support for the growers’ desire for the licensing of exporters. He stated in November 1976 ‘that the Government would not stand by and watch the kiwifruit industry destroy its opportunities and future’.34 Earlier, in July 1976, in an address to the growers at the Citrus and Sub-Tropical Council’s conference, Jim Bolger, the Parliamentary Under-Secretary to the Minister of Agriculture, stated that in his opinion ‘there is a need for improved organisation of New Zealand’s marketing effort on kiwifruit’35 and ‘that regulations had been prepared to enable growers to exercise control over the export of kiwifruit’,36 which

31 Letter from Barclay to Ballard, 29 November 1974, R95319 AAFZ 515 W4143 Box468 12/14/12/2 1975-1977, NZNA.
32 Yerex, p.70.
33 Ibid, p.70.
34 Earp, p.152.
35 The Orchardist, August 1976, p.198.
was welcome news that the new National Government was listening to them. However, the exporters were strongly opposed to any form of statutory intervention and began ‘working on growers and creating factions to oppose its [licensing] formation’.37

Meanwhile growers were enjoying excellent prices for their rapidly expanding export sales. From 1973 to 1977 prices increased from $2.82 per tray to $5.51 per tray and at one stage in 1973, the growers actually asked the exporters to reduce prices to no more ‘than $2.50 a tray for preferred sizes, as they felt that at that price per tray, market demand would be reduced’.38 As it happened, ‘prices reached more than $5.00 by 1977’. Despite these high returns, the clamour for some market discipline such as export licensing grew louder. Concerns about exporter activities in the overseas markets were beginning to emerge. Westbrook Haines, who at that time was the General Manager of Bay of Plenty Fruitpackers, wrote to Bruce Barclay in November 1975 expressing his concern about ‘a limitless number of exporters, many of whom concentrate on quick returns instead of pursuing the full trading potential of kiwifruit’.39 Mac Nicol, the Export Manager of Fruitgrowers Federation, stated in his letter of 20 March 1976, to Ken Geard, the New Zealand Trade Commissioner in Japan that ‘there is a tremendous price war between exporters …outbidding each other to get growers’ fruit’.40 In October 1976, the Chairman of Saphir and Sons, a kiwifruit importer in London, wrote to Minister MacIntyre, stating that ‘the present disorganised grower-exporter-agent -buyer circus will in the long run, turn the growers’ investment into a high risk nightmare’.41 In an article in Eurofruit reprinted in The Orchardist in December 1976, importers were expressing concern about the New Zealand exporters raising prices by 50 to 50 per cent and asking New Zealanders ‘whether it is right to make the most of a monopoly situation with such rigorous price-increases, especially when they are not doing a great deal on the publicity side’.42 These criticisms from Europe served to give the Steering Group the evidence that change had to come and gave credibility to the Steering Group’s long-

37 Ibid, p. 152.
38 Ibid, p.74.
39 Haines’ letter to Barclay, 11 November 1975, R95319 AAFZ 515 W4143 Box 468 12/14/12/2 1975-1977, NZNA.
40 Nicol’s letter to Geard, R95319 AAFZ 515 W4243 Box 468 12/14/12/2 1975-1977, NZNA.
41 Saphir’s letter to Minister MacIntyre, 28 October 1976, R95319 AAFZ 515W4243 Box 468 12/14/12/2 1975-1977, NZNA
42 The Orchardist, December 1976, p.367.
held belief that some form of licensing was urgently required to bring discipline into the export marketing of kiwifruit.

However, progress with the development of the legislation was slow. On 11 June 1977, Roly Earp, who was then the Secretary of the Steering Committee, in a handwritten letter to Minister MacIntyre, stated that ‘the Steering Committee would appreciate anything you [the Minister] can do to speed up the process’. In his reply, the Minister stated that it was his ‘intention to have the regulations in operation prior to the commencement of next export season and I have instructed officers of my Ministry to ensure this timetable is adhered to’. Earp renewed his plea for urgency with Norris of MAF on 25 August, asking him to provide any assistance [he] can towards ‘speeding things up’, as Earp was worried that ‘still more exporters’ will become involved for the 1978 season.

In late October 1977 the Director General of MAF presented to Minister MacIntyre, ‘a draft paper in which Cabinet is recommended to approve the [Kiwifruit Marketing Licensing Regulations 1977] for submission to the Executive Council’. The regulations were presented to Cabinet on 31 October and approved by the Executive Council on the same day. The Order-in-Council was approved by the Governor-General Sir Keith Holyoake on 1 November 1977, and the Kiwifruit Marketing Licensing Authority Regulations under the Primary Products Marketing Act 1953 came into effect in time for the next export season. The Authority had five elected grower and two elected exporter representatives plus one government member. The Steering Committee’s unrelenting efforts over a five-year period had at last been rewarded.

At first there were 13 licensed exporters and the KEPC became an operating committee of the Authority under the title of the Kiwifruit Marketing Planning

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43 Letter from Earp, Secretary Steering Group to Minister Macintyre, 11 June 1977, R95326 AAFZ 515 W4143 Box 469 12/14/12/2 19761978, NZNA.
44 Minister MacIntyre’s reply to Earp, 30 June 1977, R95326 AAFZ 515 W4143 Box 469 12/14/12/2 19761978, NZNA.
45 Letter from Earp to Norris of MAF 25 August 1977, R95326 AAFZ 515 W4143 Box 469 12/14/12/2 19761978, NZNA.
46 Director General, MAF to Minister of Agriculture, 27 October 1977, R95326 AAFZ 515 W4143 Box 469 12/14/12/2 19761978, NZNA.
47 Norris, MAF telegram to Barnett, Chairman Steering Group advising the ‘kiwifruit Marketing licensing regs approved’. 31 October 1977, R95326 AAFZ 515 W4143 Box 469 12/14/12/2 19761978, NZNA.
Committee. This was to be the first in a succession of statutory regulations aimed primarily at protecting the interests of kiwifruit growers but also giving the licensed exporters preferred marketing positions under the auspices of the Authority. There were no references to single-desk selling at this stage. A level of harmony had been reached which had pleased most of the growers and to a lesser extent the exporters and at this stage, the move had the support of the National Government.

According to Yerex and Haines ‘the agreement to establish a licensing authority was to provide the kiwifruit industry with a strength that carried it to remarkable success’.

They claimed that ‘the exporters have unquestionably benefitted from the control over quality, distribution, promotion and export pricing exercised by the [Kiwifruit] Authority and licensing has stopped newcomers from under-cutting them on export markets’. As for the growers in 1977-78, ‘all but a handful … consider the Kiwifruit Authority a success and would bitterly oppose any departure from the present regime. The exporters, with a little reluctance agree.’ What began in the early years in a spirit of cooperation between growers and exporters, moved to a period of open conflict between them, then eventually returned to a state of mutual acceptance and harmony as the industry came to grips with the provisions of the Kiwifruit Marketing Licensing Authority. However, it was to be only a few years later that a further crisis would renew the tension between growers and exporters returned and result in even more statutory intervention.

48 Yerex, p.73.
49 Yerex, p.76.
Chapter 2
Living with the Licensing Authority

The kiwifruit industry entered the 1978 season with brand-new legislative backing in the form of the New Zealand Kiwifruit Marketing Licensing Authority (KMLA). Now that the battle for statutory intervention was over, the growers and the exporters settled into a reasonably harmonious relationship. In general there was willingness at first for all parties to make the legislation work. The growers had got what they wanted and those exporters with a licence were comfortable in the knowledge that no rogue exporter or grower exporter could upset the marketing arrangement. However, grower complaints about the legislation and about reduced returns began to appear. This chapter discusses the workings of the Authority and its committees, which were handling promotion, packaging and quality management. It looks at the performance of licensed exporters and considers the degree of opposition to the Authority. It examines a number of industry related issues in its early years in operation.

The Authority was renamed New Zealand Kiwifruit Authority (NZKA) by an amendment to the regulations in December 1980. The functions and responsibilities of the NZKA were

- to set quality, grading, and packaging standards, and maintaining the highest standards for every aspect of exported fresh kiwifruit;
- the licensing of carefully selected companies to handle the export of kiwifruit;
- the overseeing of the international kiwifruit marketing programme;
- the promotion of New Zealand kiwifruit in all markets;
- Co-ordinating and enhancing the development of the kiwifruit industry.  

In order to fulfil its mission, the Authority established four advisory committees whose members came from the various organisations engaged in the kiwifruit industry. The Marketing Planning Committee, which had its beginnings as the Kiwifruit Export Promotion Committee (KEPC), coordinated all overseas promotion, market planning and market research. The Quality Standards Committee, with Ministry of Agriculture and Fisheries (MAF), exporter and grower

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representation, was responsible for advising the Authority on quality assurance systems and standards. The Scientific and Research Committee encouraged, coordinated and advised on priorities for research, while the Packaging Advisory Committee included packaging manufacturers.\(^2\)

Funding for the Authority was covered by a compulsory levy which was set each year by regulation and its day-to-day operations were managed by a small staff based in Tauranga. It also had offices in the United States and in France. The Authority was not to be involved with the commercial acquisition and sale of kiwifruit and it decided to preclude growers from holding export licences, a move which created some spirited criticism from a number of grower groups.

The eight members of the Authority consisted of five grower-elected representatives, two elected exporter representatives and one government nominee. The Chairman, a grower, was elected by the grower representatives. Enthusiasm for the new regime prevailed, as evidenced by Roly Earp, the first appointed Chairman, who said ‘when the Kiwifruit Authority came into being at the end of 1977, the industry was even then in the midst of a period of tremendous growth. In 1976 1.3 million trays had been exported. In 1977 exports had risen to 1.67 million trays, to 2.1 million trays in 1978 and to 4 million in 1979’\(^3\).

In his first report and statement of accounts to Minister MacIntyre for the period 28 February to 31 March 1978, Chairman Earp confirmed the election of the five grower and two exporter representatives. \(^4\) He also confirmed the appointment of the Kiwifruit Export Promotion Committee as the ‘promotion arm’ of the Authority, with Mac Nicol ‘continuing as Chairman’ and he said that the Authority has formulated ‘a clear policy regarding grower-oriented applications for licences to export’. \(^5\) Stan Conway was appointed Secretary/Treasurer. A compulsory levy of fourteen cents from growers and nine cents from exporters was implemented and would be collected by the Kiwifruit Export Promotion Committee. ‘Legal counsel

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\(^2\) Ibid.
\(^3\) Earp, p.213.
\(^4\) Authority representatives: Producer Representatives R. W. Earp and E. K. Barnett from the Northern Ward and Walter F. Bayliss, Jack N. Hardie and Peter T. McLoughlin from the Southern Ward. Exporter Representatives Turners & Growers (Donald Turner) and Produce Markets (Edward A. Carroll)
\(^5\) First Report and Statement of Accounts for the Period 28 February to 31 March, July 1978, R95327 AAFZ 515 W4143 Box 469 12/14/12/3, 1978-1979, (New Zealand National Archives)
was sought to provide the necessary guidelines to protect the interests of the industry [and] for the 1978 season, eleven licences were approved. The Authority was in business with effective systems in place.

Despite earlier reservations about the statutory intervention adversely affecting their businesses, the licensed exporters were happy with assurances that only they could now export kiwifruit. Their position was underpinned, when on 8 May 1978 the Comptroller of Customs was advised by the Director-General of MAF to ensure that Customs ‘collectors may approve applications for permits to export kiwifruit only from exporters licensed by the Kiwifruit Marketing Licensing Authority’. The exporters were now able to develop markets without the need to worry about inexperienced exporters or even grower exporters creating havoc in the markets which they had carefully nurtured. There was a slight hitch in relationships between the exporters and the Authority when the KEA complained to the Authority that it appeared to be favouring the New Zealand Fruitgrowers’ Federation as its preferred exporter. However, the letter finished by expressing ‘its wholehearted intention to continue to cooperate closely with the Authority for the good of the industry’. Harmony was maintained.

However, not all growers were happy with the legislation. In May 1978, F.D. Glover from Napier questioned ‘whether there is any need for such stringent regulations’ and bemoaned the lack of appeal provisions. Later that year, Russell Baker, a grower from Te Puke, mounted a media campaign on behalf of the Horticultural Free Enterprise Association, strongly criticising the Authority for the lack of appeal provisions and for not agreeing to provide growers with export licences. Baker maintained that New Zealand was ‘on the verge of a horticultural revolution which will be strangled at birth if free enterprise and imagination is stifled by unnecessary

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6 Ibid.
7 Letter from DG, MAF, to Comptroller of Customs, 8 May 1978, R95327 AAFZ 515 W4143 Box 469 12/14/12/3, 1978-1979, NZNA.
8 KEA letter to KMLA September 1978, R95329 AAFZ 515 W4143 Box 469 12/14/12/4, 1977-1978, NZNA.
9 Letter from Harrison, the Speaker to the Ministers of Overseas Trade and Agriculture seeking information as to how to respond to Glover 16 October 1978, R95327 AAFZ 515 W4143 Box 469 12/14/12/3 NZNA.
regulations’.10 Both the Authority and the licensed exporters rejected the Baker challenge and were later supported by Rob Talbot, the Parliamentary Under-Secretary to the Minister of Agriculture, in his letter to Baker on 21 September 1979.11 Yet another grower, R. W. Henderson from Katikati, complained to the Ombudsman in May 1979 about the lack of consultation leading up to the formation of the Authority and the inappropriateness of the government appointee to the Authority, representing consumers. The Ombudsman provided a response to Henderson which the latter failed to follow up on, suggesting that he had given up his cause.12 Given that the majority of growers had responded positively to the establishment of the Authority, these complaints did not appear to achieve any traction or changes to the legislation at that time.

There were two major issues which were to occupy the new Authority’s attention in its early years of operation. They were chemical residues and the export sale of New Zealand produced kiwifruit plants. With the increased intensity of kiwifruit growing, especially in the Bay of Plenty, insect pests such as leaf roller began to emerge. Treatment of these pests required the application of pesticides for which no tolerance levels had yet been established. Residues of the chemical phosmet were found in consignments of kiwifruit sent to the United States in 1978 and threatened to destroy this important export market. On 13 July, the New Zealand Herald claimed that because of these chemical residues, ‘NZ Sales of Kiwifruit worth $4m [were] endangered’.13 Minister MacIntyre responded to A.R. Pickmere, the Herald’s Agriculture staff reporter on 16 October 1978 and explained in some detail the cause of the problem and what MAF intended to do to rectify it. MAF officials were then able to negotiate a tolerance level for phosmet with the U.S. Environmental Protection Agency, and the trade was able to continue.14

The export of kiwifruit plants was regarded by some in the kiwifruit industry as a major threat to the long-term success of the export of the fruit. In fact, John

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10 Letter from Baker to MacIntyre, 18 October 1978, R95327 AAFZ 515 W4143 Box 469 12/14/12/3 NZNA.
11 Letter from Talbot to Baker responding to Baker’s concerns 21 September 1979, R95326 AAFZ 515 W4143 Box 469, 12/14/12/3 1976-1978 NZNA.
12 Letter from Ombudsman to Henderson 15 May 1979, R95327 AAFZ 515 W4143 Box 469, 12/14/12/3 1978-1979 NZNA.
13 New Zealand Herald, 13 July 1978, R95322 AAFZ515 W4143 Box 469 12/14/12/2 1978 NZNA.
14 Letter from MacIntyre to Pickmere New Zealand Herald 16 October 1978 outlining the steps taken by MAF to resolve the issue. R9532323 AFFZ W4143 515 Box 469 12/14/12/2, 1977-1979, NZNA.
Belgrave, the New Zealand Trade Commissioner in Japan, reported in 1977 that 'Duncan and Davies had been selling kiwifruit to Japan since the early 1970s'. It was claimed that by providing potentially competing countries such as Japan and Chile with the Hayward variety, New Zealand would lose its competitive advantage and would have to face, as it in fact later did, strong competition from a Southern Hemisphere producer like Chile competing with New Zealand in the same markets. On 23 March 1978, the Kiwifruit Exporter Promotion Committee (KEPC) wrote to Minister MacIntyre expressing concerns about 'the increasing volume of Hayward kiwifruit cultivars being exported without any restrictions' and went on to say that 'there are many who would like to see some effective action taken right now to prohibit these sales'. However, at a meeting on 29 June attended by MAF and T&I officials, the KMLA and the Nurserymen’s Association, to discuss the export of kiwifruit plants, no agreement was reached and the export of plants from New Zealand continued. It is somewhat ironic to note that much later, Zespri was contracting growers in Italy to produce the Hayward variety for supply to markets in New Zealand’s off-season.

Effective cooperation between the agencies involved in the kiwifruit industry in the late 1970s was enhanced when they met to discuss these particular issues. For example, despite earlier industry concerns about the MAF handling of the pesticide residue issue, the representatives from MAF, T&I and the KMLA in a meeting on 10 August 1978 discussed the progress being made in setting residue tolerances in the various export markets. They reached agreement ‘to make a direct approach to a number of countries, to try to establish tolerances for pesticides on kiwifruit and also to produce a recommended spray programme for 1979’. They also agreed to the need for more effective communication between them on key issues in future and ‘it was agreed that MAF would deal with KMLA as the official body representing the kiwifruit industry (producers and exporters)’.

16 Letter from KEPC to Minister regarding ‘NZ Kiwifruit Cultivars (Hayward ) For Sale Overseas’, 23 March 1978 R95322 AAFZ 515 W4143 Box 469 12/14/12/2 1978 NZNA,
17 Minutes of a meeting to discuss the export of kiwifruit plants, 29 June 1978, R95321 AAFZ 515 W4135 Box 468 12/14/12/2 1977-1978 NZNA.
18 Minutes of a combined meeting of KMLA, DTI and MAF, 10 August 1978, R95326 AAFZ 515 W4143 Box 469 12/14//12/3 1976-1978, NZNA.
According to Yerex, ‘the agreement to establish a licensing authority [in 1977] was to provide the kiwifruit industry with a strength that carried it to remarkable success.’\textsuperscript{19} [and] ‘during the late 70s and early 80s the exporters lived in a seller’s market and did boom business. In 1976 the 10 companies in the trade… handled 1.4 million trays. In 1982, the six remaining [licensed] companies were handling an export trade of 6.2 million trays’.\textsuperscript{20} It would be fair to say that in its first few years, the Authority met almost everyone’s expectations, but by 1982, significant increases in production and a decline in returns were once again beginning to sow discontent among the growers about exporter performance and once again they began calling for more statutory intervention.

\textsuperscript{19} Yerex, p.73.
\textsuperscript{20} Ibid. p.87.
Chapter 3

The Crisis from Falling Returns

In the first few seasons following the establishment of the Kiwifruit Authority in 1977, there was a general consensus that the statutory intervention was working effectively to ensure acceptable returns to both growers and exporters. Earp believed ‘that the choice of the kiwifruit industry was correct’ and he extolled the benefits of having licensed exporters, operating in a spirit of competition, has created a ‘well-tuned marketing organisation’.1 He saw no need at that time for a single-desk board type operation, which he claimed would have had ‘the tendency towards bureaucracy and inefficiency’. However, with significant increases in production and rapidly falling prices, along with disruptive exporter behaviour, criticisms of the Kiwifruit Authority model began to emerge. This chapter looks at the economic and commercial environment which once again created tension between the growers and the exporters in the lead up to the creation of the single-desk Kiwifruit Marketing Board in September 1988. It also considers the possible implications of the Government’s move to consider changes to the whole producer board system in the direction of less regulation.

The Ministry of Agriculture and Fisheries (MAF), in its report on ‘Changes in the New Zealand Kiwifruit Industry 1980-1992’, stated that the government fiscal policy in the early 1980s had encouraged high inflation and that successive currency devaluations were required to maintain real returns. Throughout this period, these devaluations ‘masked falling returns in overseas markets and encouraged new plantings’.2 The consequent increased production was sent to overseas markets and led to an erosion of prices. At the same time ‘taxation policies shifted investment … to the kiwifruit industry and encouraged investment for capital gain and tax avoidance’. It was within this economic paradigm that both growers and exporters began to realise that the boom times of the previous ten years were not going to be sustained and concluded that change was inevitable. Once again the industry moved to restructure its marketing arrangements.

1 Earp, p.183.
In late 1987, in response to growers’ concerns about falling returns and exporter performance, the Authority commissioned a report from Coopers and Lybrand, which was published in May 1988. The broad terms of reference for the report ‘called for a zero based review of the industry’s overall marketing strategy, organisation structure and legislative framework’. The industry’s performance for the six years from 1981 to 1987, when the New Zealand production of kiwifruit increased from 22,000 tonnes to 203,000 tonnes, was examined year by year. The Report included a detailed review of the performance of the seven licensed exporters in terms of their crop shares and their pay-outs to growers over the six-year period. It saw little evidence ‘of a genuinely competitive system’ between the licensed exports 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’.

The Report went on to review the competitive world market situation and detailed New Zealand kiwifruit export sales levels to Japan, Germany, the USA and other smaller markets from 6.2 million trays in 1981 to 46.17 million in 1987. These sales levels were achieved by what the Report described as ‘a totally undifferentiated strategy’ and up until 1981 the increased volume of kiwifruit was being widely distributed throughout those emerging markets. The promotion campaigns organised by the KEPC, together with ‘the inherent quality and uniqueness of the product, the excellent quality control, grading and packing’, had given New Zealand kiwifruit an unchallenged position in these emerging markets at that time.

However, there was nothing to distinguish the New Zealand kiwifruit exported by one exporter from another exporter’s product and eventually importers began to complain about ‘a lack of discipline in the distribution of New Zealand kiwifruit’. Prices at the wholesale level in importing countries were ‘easily negotiated downwards within very wide limits’. At the October 1987 kiwifruit industry conference, it was reported that one importer had claimed that ‘dealing with New Zealand kiwifruit was like dealing with petrol’.

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4 Ibid, Figure 2.1.
5 Ibid, Table 2.1, Table 2.2.
6 Ibid, Section 2.38.
7 Ibid, Figure 3.4.
8 Ibid, Section 3.18.
9 Ibid, Section 3.24.
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’.¹⁰ Naturally the growers were very concerned and blamed the exporters for creating the situation which had resulted in reduced returns to them. Don Brash made the comment that ‘consumers in export markets recognise the name New Zealand Kiwifruit but don’t care who supplies the product while at the trade level the importers knew their New Zealand suppliers and as volumes increased they were able to play one off against the others’.¹¹

All in all, it became apparent that the Authority model and marketing structure was no longer effective in its ability to shift the massive increase in supplies. As a consequence, prices to growers in the 1987 season fell dramatically to a weighted average of $5.91 per tray, compared with a weighted average of $9.79 per tray in the previous season.¹² According to the Coopers and Lybrand Report, it became apparent that this method of getting New Zealand kiwifruit to the consumer, which involved ‘little or no market discipline, and little or no ability to match supply with sales’ was long overdue for change.¹³ The Report went on to suggest how kiwifruit could be marketed to advantage and so overcome the difficulties which had emerged. It gave seven options, but it favoured its Option 6 in particular, which was that New Zealand kiwifruit develop its own distinctive brand, and then ‘strongly market it through stable long term relationships with major importer/distributors [who were] dealing with the [Supermarket] chains’.¹⁴ The suggested distribution model was being successfully used by the New Zealand Apple and Pear Marketing Board in its export markets at that time. With this proposed strategy came the obvious question: what to do with licensed exporters? How would they be able to accept and adjust to new marketing demands, such as product differentiation and market segmentation policies, which major fruit exporting commercial companies such as the Dole fruit company were implementing in their marketing strategies? The report argued ‘strongly towards the need for a substantial reduction in the number of exporters’. It called ‘for a change in the relationship between exporters, from a competitive to a

¹¹ Interview with Don Brash, 8 September 2013.
¹² Coopers &Lybrand, Table 2.2.
¹³ Ibid, Section 3.27.
¹⁴ Ibid, Section 7.8.
disciplined approach along the lines that any major firm [such as Dole, for example] controls their distributors’. However, before formally presenting its recommendations, the Report discussed ‘The Case for Statutory Intervention’, firstly by considering the shortcomings of the Kiwifruit Licensing Authority Regulations of 1977. It concluded this section of the Report with the statement ‘it is clear that there is an urgent and vital need for the New Zealand kiwifruit industry to implement revised marketing and distribution strategies’ which would require, in its opinion, ‘a single point of marketing/exporting control’. The key argument was that the number of exporters must be reduced, with those left following a clearly defined strategy set down by an appropriate organisation such as the Authority. The Coopers and Lybrand Report did recommend a continuing, but reduced role for licensed exporters, which would require them to operate under strict rule set down by some form of statutory authority. It did not advocate a single-desk selling export marketing position.

In order to create discussion, debate and evaluation, the Report had presented seven possible industry structures which the industry might adopt to secure the future success of kiwifruit exporting. Options ranged from retention of the status quo, to the revoking of the regulations, to increased exporter control, to increased NZKA control, to converting NZKA into a company, to introduce contestability and finally to establish a statutory producer board. The Report recommended its Option Six, the ‘Introduction of Contestability’, which the authors believed would give kiwifruit growers ‘secure control over the distribution and marketing of their fruit…the possibility of a stronger, more effective marketing strategy [and] an important element of grower choice’. This recommendation included establishing a company pursuant to the Companies Act 1955, ‘with the exclusive right to affect the export of kiwifruit for a period of two years’. It stopped short of promoting the creation of a statutory producer board per se, but to all intents it was advocating greater powers to the Kiwifruit Authority to control exports in order to protect growers’ interests.

The Coopers and Lybrand Report had provided the majority of growers with sufficient ammunition to forge ahead with their preferred option, which was the

15 Ibid, Section 7.8
16 Ibid, Section 4.78.
17 Ibid, Section 7.80.
creation of a statutory marketing board, and they developed their own strategic plan for industry control in response to what Olssen has described as ‘the kiwifruit crisis’. Under the effective leadership of Paul Heywood, who was chairman of the Kiwifruit Sector Committee between 1986 and 1989 and subsequently became the President of the Fruitgrowers’ Federation between 1991 and 1993, growers were galvanised into seeking major changes to the way in which their kiwifruit was being exported. Using their undoubted lobbying skills, Heywood and his fellow Federation Director, Leo Mangos, were able to persuade the Fourth Labour Government to extend statutory intervention for kiwifruit exporting and create the Kiwifruit Marketing Board in 1988. Heywood and Mangos ‘succeeded in persuading 84% of kiwifruit growers to back their call for a Kiwifruit Marketing Board armed with statutory powers to buy all kiwifruit destined for export’. This overwhelming mandate was a reflection of ‘the widespread belief that competition between exporters had worsened the growers’ plight’.18

Not all growers favoured substantially greater regulation of marketing. Dr Don Brash, who was CEO and later a director of the Authority in the 1908s, maintains that the huge increase in the volume of the kiwifruit crop was the real cause of the fall in grower returns and not exporters competing amongst themselves, the argument put forward by growers. He thinks that grower criticism of exporters was ‘somewhat unfair’ and he did not favour single-desk selling. He had witnessed first-hand importers playing one New Zealand exporter off against the others and his suggested solution was to ‘auction off specific markets and give the successful exclusive rights to supplying that market … competition would then develop between exporters for the growers’ fruit’.19

Furthermore, persuading the Government that a single-desk selling producer board was required was not going to be easy. The enthusiasts of free-market economics in the Fourth Labour Government were strongly against such a move, as was Treasury. Roger Douglas maintains that his philosophy subscribed to the need for ‘a lot more freedom … and that the industry needed to be opened up to more competition … and

19 Interview with Don Brash, 8 September, 2013.
that this was an issue that needed to be addressed’. However, he says that he was not directly involved in discussions regarding the kiwifruit industry at that time ‘as he had other priorities’. He had delegated discussion and resolution of the issue to some of the ‘up and coming Labour MPs who didn’t get a Cabinet position after the 87 Election’ and that he had made ‘Geoff Dangerfield from Treasury available to provide relevant input’. Douglas recalls that ‘when the working group’s report was presented to caucus, the vote was tight, with a majority of one in favour’, which reflects the free-market thinking in Government at the time and it shows how close the kiwifruit industry came to losing its quest for single-desk selling. However, there was enough support to ‘carry the day’ as Mangos with his Labour Party connections and through his role of chairman of Labour’s Primary Producers Council, was able to persuade Colin Moyle and his Under-Secretary for Agriculture, Ralph Maxwell, to consider supporting the legislation if there was sufficient grower support. Moyle ‘well remember[s] discussing the possible establishment of a Kiwifruit Market Board with producer representatives and [he] made it clear that if they could show widespread support among growers for such a move,[he] would put forward the necessary legislation and the government would agree to it’. Maxwell, in his address to the Fruitgrowers Federation kiwifruit sector conference in October 1987, had stated that he ‘was strongly of the belief some form of single-desk structure will emerge as serving the long-term interests of your industry best’, but he cautioned the growers about the need for carefully detailed planning in order to achieve the change. The Chairman of the Kiwifruit Sector of the Fruitgrowers Federation at that time, Paul Heywood expressed his appreciation of the political support from Labour Members of Parliament, Ken Shirley and Ralph Maxwell in the lead up to the formation of the KMB and the work done by Minister Colin Moyle in securing the legislation through Parliament.  

On the other hand, the exporter representative, Michael Evans from KEA, at that same conference ‘said that the present marketing system was the best and promised a much better season in 1988’. He went on to say that the exporters ‘welcomed the

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20 Interview with Roger Douglas, 24 September 2013.
21 Personal communication from Colin Moyle, 28 October 2013.
22 The New Zealand Farmer, 11 November 1987, p. 11.
investigation being conducted by the Kiwifruit Authority and would be working with
them to ensure required modifications were made for 1988’.24

Despite these claims, the 1988 season did not start off well for exporters. Leo
Mangos was quoted under the banner headline ‘Early kiwifruit discounting shocks
Mangos’, as claiming that ‘New Zealand kiwifruit are being discounted in Japan’.25
This brought a spirited response from KEA Chairman John Malyon, who demanded
a retraction unless Mangos could ‘provide documented evidence to support his
comments’.26 But the damage to the exporters was done and the issue served to
illustrate how Mangos went about securing strong grower support for change.

The exporters, in reacting to the widely held grower dissatisfaction about their
performance and in response to the threat of possibly losing their licences, then
developed proposals for a Kiwifruit Marketing Group (KMG), which they presented
to a special conference of the kiwifruit sector of the Fruitgrowers Federation on 14
July 1998. Three licensed exporters, Kiwi Harvest; Challenge Horticulture, which
had bought Crown International; and King Kiwi New Zealand, which was a merger
of Wilson Neill, Elders Horticulture and Turners and Growers, planned to use their
combined marketing skills and cooperate in the sales of the total New Zealand crop
in what they called ‘The Commercial Solution’. The growers’ generally lukewarm
response was encapsulated by Hugh Moore, a kiwifruit sector committee member,
who stated that ‘most growers perceived the [KMG] proposal as a sham of grower
control’ and he went on to say that ‘growers are united on one thing - they are
against the free enterprise system’.27 This stance was in sharp contrast to the
growers’ support for exporter involvement when the Authority was established in
1977, but it demonstrated the discontent in 1988, when ‘a joint MAF tech/New
Zealand Kiwifruit Authority report suggested some 43% of growers are still unlikely
to make any money in their businesses next year [1989]’.28

Throughout 1988, the exporters had worked hard to retain their status as licensed
exporters, but their cause had not been helped by the actions of the most recently
licensed exporter, Kiwi Harvest, which Earp claims ‘blew apart the organisation that

24 Ibid.
28 Ibid.
had been nurtured in the formative years [of the Authority]. This company had been
granted a licence in 1986 in response to grower pressure for additional exporters.
However, according to Earp, ‘the integrated industry style marketing operation was
lost and replaced by fragmented exporter activity’ when the Authority granted the
additional licence to Kiwi Harvest. Brash, on the other hand, maintains that it was
grower pressure to have more exporters that convinced the Authority to grant the
additional licence to Kiwi Harvest, which had met the Authority’s criteria for a
licence. He thinks that the criticism levelled specifically at Kiwi Harvest was unfair
and that it was the increase in the volume of fruit coming from both New Zealand
and from other countries that had exacerbated the problem. However, the growers
chose to blame Kiwi Harvest and this fuelled their argument for single-desk selling.

Warren Young, who is currently Collaborative Marketing Manager for Zespri Group,
was employed by exporter Challenge Horticulture as an operations manager based in
Te Puke at that time. Working closely with growers, he became fully aware of the
financial hardships many of his growers had had to face and he reckoned that the
method of doing business at that time was ‘unsustainable’. He recalls ‘seeing the
writing on the wall’ for licensed exporters so was not surprised when what he calls
‘the silent majority’ of kiwifruit growers voted overwhelmingly to form the KMB.
Tony de Farias, who established the post-harvest packer and cool store operation
Seeka, believed that the exporters were ‘match racing against one another, had no
incentive to grow markets and were not providing growers with reliable market
information’.

During 1988, there were a large number of submissions to the Ministry of
Agriculture and Treasury, both for and against the formation of a single-desk selling
producer board. For example, Turners and Growers Exports Limited, in its lengthy
submission, supported the continuation of licensed exporters handling the sale of
kiwifruit and made the plea for the maintenance of ‘goodwill … at all levels within
our industry’, to ensure its long-term success.

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29 Earp, pp., 185-186.
30 Interview with Don Brash, 8 September, 2013.
31 Interview with Warren Young, 27 September 2013.
32 Interview with Tony de Farias, 26 September 2013.
33 Submission by Turners and Growers Exports Limited To The New Zealand Kiwifruit Authority on
the Coopers and Lybrand Report, 24 June 1988, R20435813AALR 873 W5427 Box 1939 82/78
1986-1988, NZNA.
believed ‘that it would be a costly mistake for the industry to implement a single desk or monopolistic marketing structure… and firmly believes that the industry needs the credibility, leadership and financial strength that major [exporting] companies can provide’.34 On the other hand, the prominent exporter Fruitfed Limited supported the establishment of a single desk and strongly recommended ‘that Fruitfed be charged with the full and sole responsibility for operating a single desk to the industry’.35 Submissions also came from the corporate growers and packers such as the Willow Park Group, which, in association with Ararimu Holdings, produced over 500,000 trays of kiwifruit in 1988 and planned to increase their production to 850,000 trays the following season. This company viewed ‘with grave concern the promotion of a producer board type operation’ and stated that ‘any decision [on future marketing arrangements] should be for commercial reasons and completely divorced from fruit grower politics’.36 Northern Horticulture Ltd, which provided orchard management services to kiwifruit growers who collectively produced 93,000 trays from the 1998 season, stated in their submission that ‘our experience with exporters has been a satisfactory one and we believe that it is within the industry’s longer term interest to retain existing strong and dedicated exporters’.37 Horner Greenlees Corporation Limited, another corporate involved with orchard management and packing operations, which in 1987 packed ‘just under 1 million trays … called for a referendum on the issue as the only way to judge producer attitudes’, as they believed that grower meetings called to discuss the issue ‘were not necessarily representative of the producers’ feelings, particularly as they were held under the auspices of the local fruit grower associations which had strong links with one of the exporters [Fruit Fed] promoting single-desk selling’.38 The more recent corporate investors in the industry, as distinct from the small owner-operator growers, were making a strong case for the retention of exporter involvement. On the other hand, there were a large number of individual growers

35 Fruitfed Limited Submission to New Zealand Kiwifruit Authority on Kiwifruit Marketing following the Coopers and Lybrand Report, 23 June 1988.
36 Letter from Willow Park to Minister of Agriculture, 23 June 1988. R19237752 AFFX 515 W2640 Box 13 4/54/10/2 1978-1979, NZNA.
37 Letter from Northern Horticulture Ltd to the Chief Executive Officer, Kiwifruit Marketing Authority, 2 August, 1988.R20435809 AALR 873W5427 Box 1938 82/78 1987-1989, NZNA.
38 Horner Greenlees, Further Submission On Re-structuring of Kiwifruit Industry to the Secretary, New Zealand Kiwifruit Authority, 3 August 1988. R20435809 AALR 873W5427 Box 1938 82/78 1987-1989, NZNA.
who had provided handwritten submissions calling for the establishment of a board structure. For example R.J. Parton from Te Puke personally canvassed his grower neighbours and found that 65% or 25 growers supported single desk, 21.5% or 8 growers did not support the proposal and 13% or 5 didn’t know. On the evidence presented to MAF and Treasury in mid-1988 and despite the exporters’ strong advocacy for the retention of their involvement in the kiwifruit exporting business, it would appear that grower pressure for change was increasing and with the intensive lobbying by the Fruitgrowers Federation for government support for their cause, there was now strong weight behind the drive for a single desk.

Following the release of the Coopers and Lybrand Report in May 1988, the interested parties had responded in various ways to enhance their arguments, which on the one hand called for the establishment of a single-desk marketing board and on the other hand stressed the need for the continuation of a free-market system which would continue to involve commercial exporters. The New Zealand Kiwifruit Authority in its August 1988 paper, *Recommendations to the New Zealand Government for a New Kiwifruit Industry Marketing Structure*, stated that ‘the marketing of New Zealand export kiwifruit should be conducted through a single marketing body controlled by growers’. In the series of recommendations to Government contained in this proposal it was clear that the Authority had recognised weaknesses in its own operations and that it had accepted the need for change. It maintained that in future ‘the growers’ power to choose the most appropriate marketing structure should be backed up by statutory imperative’ and in order to achieve this goal, it asked the Government for legislation to be implemented for the 1989 season.

The stance taken by government officials on the issues varied. In a joint report, prepared by officials from Treasury and Trade and Industry, dated 5 September 1988 and presented to the Ministers of Finance and Trade and Overseas Trade and Marketing, there was a recognition and acceptance that problems existed in the

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kiwifruit industry in 1987 and 1988. A number of options to improve the current situation were considered but it was stressed that ‘in establishing control mechanisms there is a need to ensure that regulatory and commercial activities remain separated’. Reference was made to the fact that ‘NZKA has no experience in marketing product, arranging shipping, foreign exchange management etc.’, and it appeared that these officials were less than enthusiastic about the creation of a single-desk board. The official recommendation to their ministers was to ‘decline the NZKA proposal for a statutory producer board with export monopoly powers to handle all New Zealand kiwifruit’. Instead they asked the Ministers to agree to support ‘the Challenge Horticulture two tier grower-exporter company but with a redefined and reduced role for the NZKA marketing’.

The Economic Development Commission (EDC), which had been studying the role of producer boards in relation to current public policy considerations, wrote on 7 September 1988, to Rt Hon G.W.R Palmer, the Minister of Justice, maintaining that ‘any public policy should follow the specific principles applied to other industries (such as SOEs) which involve the government in some way’. The Chairman of the EDC, B.V. Galvin, argued that ‘it is important to the economy as a whole as well as to the kiwifruit industry that structures be allowed to develop that will reflect and respond to diverse and rapidly changing market conditions, rather than doctrines and desires of current incumbents and vested interests’. Galvin suggested that a more effective way of tackling the kiwifruit industry problem was to ‘involve producers or exporters [in] demonstrating to an independent, arms-length authority that in certain specific circumstances intervention is required’. The development of this approach would take some time and Galvin proposed in the meantime extending the existing licensing arrangement for another year ‘on the understanding that the four licensees agree to cooperate on the basis proposed by the Kiwifruit Marketing Group’. There appeared to be little or no support for the single-desk proposal from the EDC, Treasury or Trade and Industry.

However, the Ministry of Agriculture was apparently more sympathetic to statutory intervention and on 16 August, the Director General of Agriculture wrote to Simon Caughey the Chief Executive Officer of the Kiwifruit Authority, asking a number of questions designed to assist the MAF in preparing a case for presentation to the Government. Meanwhile the Market Development Board issued a report on primary product marketing structures with comments such as ‘New Zealand needs strong marketing organisations… [and] it supports the principle of “single entry” points for marketing’.44

Furthermore, the National Opposition was assuring growers that it would not oppose any legislation to create a producer board. At a meeting with growers in Te Puke, Opposition agriculture spokesperson John Falloon told the kiwifruit industry ‘that it will get National Party backing for its restructuring moves’.45 Michael Gaffaney, who was the Executive Director of the Fruitgrowers Federation at the time, confirms that it was his understanding that National would support the single-desk proposal.46 From the kiwifruit growers perspective, Gaffaney was able to state in a letter to Peter Dunne, Parliamentary Under-Secretary, Ministry of Trade and Industry, on 2 August that growers had been involved in extensive consultations since the Coopers and Lybrand report was published and ‘the unanimity of kiwifruit growers at the [kiwifruit sector] conference is a first for the industry. Never before have growers been so united on an issue. There can be no question of mistaking kiwifruit grower opinion on this issue.’47

As stated earlier, the licensed exporters were divided in their responses to the single-desk proposal. Fruitfed Export, the commercial arm of the Fruitgrowers Federation, proposed at a ‘round of discussions with growers at public meetings in the Bay of Plenty’ that it ‘is now well positioned to operate the single desk system’ which would generate ‘cost savings of up to $77million, or $1.28 a tray’.48 In September, Kiwi Harvest commissioned a telephone survey of growers by AGB McNair and

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43 M.D.Cameron, Director General Agriculture to Simon Caughey, CEO, NZ Kiwifruit Authority, 16 August, 1988. R1731681AATJ7495W5519454BP/3/5, 1988. NZNA.
44 Dominion, 12 August 1988.
45 ‘MPs hear kiwifruit plans’, R17316860AATJ7495W5519453BP/3/51986-1988.NZNA.
46 Interview with Michael Gaffaney, 14 June, 2013.
47 Letter from M. Gaffaney letter to Peter Dunne, Parliamentary under Secretary, Minister of Trade and Industry, 2 August 1988. R1716861AATJ7495W5519454BP/3/5,1988.NZNA.
found that ‘68.8% of the 2311 growers contacted saw a role for exporters to be
involved in a contracted or tender system overseas’. Under the banner of the
Kiwifruit Marketing Group (KMG), Challenge Horticulture, King Kiwi and Kiwi
Harvest wrote an open letter to the kiwifruit industry encouraging growers to ‘vote
no’ to the single-desk monopoly marketing board. This letter had been prompted by
a letter which Colin Moyle, the Minister of Agriculture had sent to all kiwifruit
growers on 14 September 1988, ‘seeking their assurance or rejection’ of the single-
desk proposal.50

However, in his report to the Cabinet Development and Marketing Committee,
Minister Moyle recommended that the Committee ‘approve the establishment of a
statutory marketing board to control all export kiwifruit marketing’. This board
would acquire and market New Zealand kiwifruit intended for export, it would
determine the prices to growers and assist in the general development of the kiwifruit
industry, and have control over packaging and grading of kiwifruit.51 It was
becoming clear that the formation of the single-desk marketing board was to become
a reality and that the licensed exporters, despite their valiant efforts to prevent this
from happening, were to be excluded from the handling of the export of New
Zealand kiwifruit. Despite the deregulation policies of the Fourth Labour
Government, statutory intervention in the case of the kiwifruit industry had been
achieved.

The New Zealand Kiwifruit Marketing Board (KMB) was established in September
1988 with the Board having powers ‘for the acquisition of kiwifruit … and as a
single desk seller of kiwifruit to all markets, except for the domestic market and
Australia’.52 The licencing provisions in the regulations were repealed. Four current
licences lapsed on 31 March 1989 and the licence of Kiwi Harvest was cancelled.
The issue of the appropriate level of compensation to exporters for the loss of the
licences had yet to be determined and the report from Regulations Review

51 Colin Moyle’s recommendations to the Cabinet Development and marketing Committee, circa
52 The Kiwifruit Marketing Regulations 1977, Amendment No. 4. By Order in Council, 28 September
Committee on the legislation was awaited, but the majority of growers had achieved their objective of a single-desk selling producer board for the 1989 season. It must be emphasised that the decision was a near-run thing with most (but not all) of the Government’s advisors opposing it as did some powerful individuals in the Government itself, notably Roger Douglas. However, it took the demonstration of a high level of support from growers assisted by sympathetic politicians within the Labour Government and party, including Maxwell, Moyle and Mangos, to get the creation of a single-desk authority across the line.
Chapter 4

Single-desk Status Underway

When the legislation formalising the establishment of the New Zealand Kiwifruit Marketing Board (NZKMB) was passed on 28 September 1988, the dynamics of kiwifruit exporting changed dramatically.¹ Exporter involvement (except for those supplying Australia) was eliminated and the challenge for the new marketing organisation was to ensure that sales to established markets were maintained and that growers were satisfied with their returns. In the first two years, progress towards the achievement of these two goals was satisfactory, but as returns to growers began to again decline, criticism of the Board mounted. This Chapter reviews the activities of NZKMB in its early years of operation and considers reports commissioned by it and other groups. Some were complimentary of the single desk but others were strongly critical of single-desk selling and urged a return to competitive exporting. Despite the attacks on its performance and the potential threats from the Producer Board Reform process, the NZKMB was able to withstand the challenges and continue to operate as a single-desk marketing organisation for the remainder of the term of the Fourth Labour Government and the first term of the subsequent National Government. However, a substantial fall in price for kiwifruit in 1992 meant that this period ended in an atmosphere of crisis that gave additional weight to another challenge by a major exporter, partly embodied in a report by former Minister of Finance Sir Roger Douglas and by Bevan Burgess.

One of the first challenges to the new organisation came from the Parliamentary Regulations Review Committee. The Chairman, Doug Graham, called a meeting of his committee for 15 November 1988 to ‘discuss the appropriateness of establishing the Kiwifruit Marketing Board through regulation rather than through legislation’.² Ministry of Agriculture (MAF) legal services provided a detailed report to justify its opinion that the powers given to the Kiwifruit Marketing Board by regulation under the Primary Products Marketing Act 1953 were appropriate. However, the Clerk of the House of Representatives told the Regulations Review Committee that the

¹ The Kiwifruit Marketing Regulations 1977, Amendment No.4, 28 September, 1988.
² Doug Graham, Chairman, Regulations Review Committee to David McGee, Clerk of the House of Representatives, 19 October 1988, R18373328ABGX19127W4731Box 347 RR/41998, NZNA.
powers given to the Board ‘smacked of feudalism and not 20th century legislation’, when referring to the possibility that criminal prosecution could be brought against growers who failed to harvest their crop by the date demanded by the Board. The MAF legal adviser, Larry Ferguson, ‘accepted that the board’s regulations trespassed on personal rights and liberties’, but he stressed that the decision to use regulations ‘had been taken because the industry was in crisis and needed to act quickly to market crops and dispel uncertainty’. However, the Committee recommended that the reference to criminal prosecution be removed from the regulations. It also ‘recommended that the Kiwifruit Marketing Regulations 1977 Amendment No. 4, [which created the Kiwifruit Authority] be revoked and the Kiwifruit Marketing Board be established through primary legislation [by way of an Act of Parliament], under urgency if necessary’. Despite the wish of the Regulations Review Committee to seek a parliamentary enactment, the Board continued to operate as intended in the Regulations, but with the criminal prosecution provision removed. It was not until 1999 that the kiwifruit industry had its own act of parliament.

The licensed exporters provided a further challenge to the newly established Kiwifruit Marketing Board when they decided collectively to take court action to challenge the ‘Government’s decision to transform the Kiwifruit Authority into a marketing board’. The licences of exporters Challenge Horticulture, King Kiwi and FruitFed were due to expire in March 1989, while Kiwi Harvest’s licence was to expire in 1991 and all exporters were advised by the Chairman and CEO of new Board that there would not be ‘any export involvement in the restructured industry’. Claims for compensation for the loss of business by these exporters began to mount. Turners and Growers, on behalf of King Kiwi, claimed $17 million and Kiwi Harvest claimed $31 million. These exporters believed that despite their efforts in developing export markets, they were now being effectively excluded from any further involvement in an industry they had worked hard to create. Their reactions were best summed up by Graeme Wickham of Kiwi Harvest, who said ‘Not only has

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4 Larry Ferguson, to Chairman Regulations Review Committee, 17 November 1988, R18373328ABGX19127W4731Box 347 RR/41998, NZNA.
5 Ibid, Report of Regulations Review Committee 1988, tabled 24 November 1988,
the infrastructure been totally disregarded but the industry loses all the expertise, innovation, goodwill and marketing experience built up over the years’.7

The issue of compensation for exporters who were to lose their licences with the establishment of the Board was the subject of heated debate in Parliament, when the House was considering the Primary Products Marketing (Regulations Confirmation) Bill on 8 December 1988.8 The Minister of Agriculture, Colin Moyle, supported an amendment in the Bill ‘to place upon the board the clear obligation to compensate Kiwi Harvest, as a result of the cancellation of its licence’ and the Bill was amended ‘to provide certainty that there will be compensation in respect at least of two-fifths of the sum that Kiwi Harvest paid for its 5-year licence in the first instance’. The Minister advised that he was going to institute an inquiry to determine whether or not there was some government liability to other exporters but the select committee considering the Bill ‘did not suggest compensation for the other three licensed exporters’. However, on 12 June 1989, Sir Wallace Rowling was appointed by Minister Moyle to undertake an investigation into whether compensation should be paid and the outcome was that a total of $5,611,946 was approved by the Cabinet Policy Committee for payment to the four exporters whose licences were due to expire in March 1989.9 Kiwi Harvest, whose licence was not due to expire until 1991, was awarded $4.1 million10 and ‘growers were quite shocked at how generous the arbitrator was with their money in paying compensation’.11 In any event, the Board had gone ahead with its plans to develop its marketing strategy for the 1989 season without the involvement of exporters.

The make-up of new Kiwifruit Marketing Board included four elected grower representatives and three industry appointments with ‘substantial business acumen and commercial experience’.12 The Directors first met on 1 November 1988, under the Chairmanship of Bruce Honeybone, who had been the Chairman of the erstwhile

7 Ibid.
9 Cabinet Policy Committee paper, Ministerial Inquiry into compensation for Kiwifruit exporters, 13 August 1990, R 17316 862, AATJ 7495 W5519 Box 454BP/3/5 1988-1982, NZNA.
Kiwifruit Licensing Authority.\textsuperscript{13} Honeybone was quoted as being ‘delighted by the professional attitude and commercial skills of [Board] members’.\textsuperscript{14} The Board’s first decision was to exclude exporters from any further involvement in the export marketing of kiwifruit to all overseas markets except Australia. It then advertised its key executive positions ‘seeking to put in place a new administrative arm as quickly as possible to ensure that promised increases in grower returns are realised as early as next season’.\textsuperscript{15} Other issues, such as the provision of frost and hail insurance, the funding of the 1989 crop and general cost saving, were to occupy the Directors in the months leading up to the start of the new season. A renewed spirit of optimism seemed to prevail amongst the majority of growers.

In his address, ‘The Kiwifruit Industry- Situation and Outlook’, to the Society of Accountants on\textsuperscript{16} June 1990, Honeybone spoke positively about the Board’s achievements in its first year of operation.\textsuperscript{16} In particular, he reported that the net grower pay-out after levy for the 1989 season was $6.46 per tray. This compared with $4.40 - $4.90 per tray in 1988 and $5.52 in 1987. The Board had to charter 67 vessels to transport the crop to the marketplace and it had to borrow $220 million to meet the funding of the 1989 crop, all within five months from the Board’s formation. Honeybone believed that was ‘a tribute to all involved and provides a strong base on which to build the future of our industry’. Then he added, ‘realistically, however, it will take two or three years to develop and perfect the philosophy, structure, marketing strategy and operation which will strengthen our industry and deliver the full benefits to growers’. He referred to the fact that the Kiwifruit Marketing Board was the first producer board to be formed in over 40 years, despite the call ‘of treasury and other parties for a review of the operations of producer boards’. This was indeed a successful challenge to the prevailing free-market economic philosophy and a tribute to the lobbying powers of leading growers. The prospects for the new organisation appeared to be encouraging.

\textsuperscript{13} Board members at 1 November 1998; representing growers, Bruce Honeybone, Ian Torlesse, Doug Voss, Avon Carpenter- commercial representatives, John Paynter, Murray Gough, Pat Goodman- Government appointee, Ray Chappell.  
\textsuperscript{14} \textit{The New Zealand Kiwifruit Report}, No.72, 18 November 1988. 
It was a requirement of the enabling legislation that a Statutory Review of the New Zealand Kiwifruit Marketing Board be undertaken after 31 March 1991. This review was undertaken by Deloitte Ross Tohmatsu and published in November 1991. Major findings from the Executive Summary point to the ‘definite and clear sense of progress by the NZKMB over the period 1989-1991’. The establishment of an international marketing structure, the development of computerised inventory control systems and a reduction in onshore direct costs of 15% and freight costs of 23%, were some of the Board’s early successes. The Review highlighted seventeen Critical Issues which it advised the Board to address. These included Market Planning and Competitor Analysis, Pricing, Product Differentiation, Packaging, Grade Standards and Market Segmentation, issues which had earlier been highlighted in the Coopers and Lybrand Report. The Review concluded with a set of recommendations relating to Cost Efficiency of Major Expenditures and a number of Onshore Operations and Domestic and Economic Issues. This comprehensive Review was to provide the Board with a blueprint of strategic and operational recommendations which were designed to enhance performance in the markets and to improve growers’ returns and so far it would appear that the Deloitte Report that the Board was on the right track.

However, by 1992 serious concerns about the Board’s activities had emerged. For example, Integrated Kiwifruit Services (IKS), a group of growers collectively producing five million trays per year, which represented 7.5% of the national crop, together with several post-harvest operators handling fifteen million trays per year or 22% of the crop, had major reservations. IKS, led by Paul Adams, commissioned Sir Roger Douglas and Bevan Burgess to investigate the kiwifruit industry. They produced a Report entitled *Options for Kiwi Fruit: An Industry in Crisis*, which was published in December 1992 and distributed to all kiwifruit growers. It claimed that ‘the New Zealand Kiwifruit Marketing Board, as a monopoly single-desk seller, is not able to deliver sufficient benefit to keep the industry viable in the future’, and called for a change to multiple exporter selling. The authors undertook a thorough

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investigation into every aspect of the Board’s business. They tracked the development of the industry from 1983 to 1988, the year the Board received statutory approval, and showed that in that time world production of kiwifruit had doubled from 51.6 million trays in 1985 to 106.2 million trays in 1987 and this had resulted in the decline of New Zealand’s world market share from 50% to 42%. Net returns to growers fell by 40%. New Zealand could no longer exploit its market domination and the industry needed to change its strategy. The earlier creation of the Kiwifruit Marketing Licensing Authority had been designed to improve the export marketing capability, but the Douglas Burgess Report maintained that ‘the arrangement produced the worst of both worlds’. When grower returns were unsatisfactory or marketing mistakes occurred, ‘no one’s head was on the block’. In other words, no one was accountable for the unsatisfactory performance. The Kiwifruit Authority had earlier produced an ‘Indicative Business Plan’ designed to give growers some idea as to how a Marketing Board would operate. This Plan promised cost savings of 146% in the first year of operations and projected returns to growers from $3.02 a tray in 1987 to an estimated $7.42 in 1989. These price expectations were never realised and, according to Douglas and Burgess, net returns were ‘averaging somewhere in the range of $2.77 -$2.84 per tray in the 1989-92 period’. They maintained that ‘if the NZKA Indicative Business Plan had been presented to growers and Parliament on a basis of promises accurately in line with subsequent performance, the NZKMB concept would have died on the drawing board in 1988’.

The Report provided arguments strongly criticising the concept of single-desk producer board structures, thus reflecting the stance taken on the concept by Treasury on the issue. Despite the Fourth Labour Government, to which he had belonged, having approved the establishment of the Kiwifruit Marketing Board in 1988, it was obvious in the Report that Douglas had maintained an anti-producer board stance and saw no evidence supporting any positive recommendations in favour of the Board. The Report identified and analysed a number of actual kiwifruit-related business Case Studies, which looked at Packaging of Kiwifruit, Fruit Loss Policy, Payment of Cool Stores, NZKMB International Trade Relations, Optimising Marketing Performance in Europe, Quality of Commercial Information

20 Ibid, p.4.
21 Ibid, p.10.
to Growers and the Roles of Quality, Price and Profitability in Marketing, and Opportunities for Product Differentiation. The authors had obviously undertaken detailed investigations for each of the Case Studies and their findings would have created much debate in the industry amongst growers and especially around the Kiwifruit Marketing Board’s table. The Douglas Burgess Report concluded by proposing a ‘commercial marketing system’ and recommended a ‘transition process from single-desk to competitive commercial operations’. Their proposed process would involve restructuring the Kiwifruit Marketing Board as a commercial company operating alongside other licensed exporters, ‘with no special advantage or disadvantage over them’. Growers would then be allocated tradable shares in the new Kiwifruit Marketing Board. A separate regulatory authority would be established to keep records and handle complaints and the Government would set criteria for licences. The Report ended by asking the growers and the packers to ask themselves whether they ‘really think the KMB, fully extended and tottering on the edge of receivership can deliver improvements on the scale required?’ The 1992 kiwifruit season had ‘proved to be the most difficult in the Board’s short history and was a financial disaster’ and growers were going out of business. The Board reported a trading loss of $74.46 million when projected revenues of $740 million fell to an actual $531 million and trade creditors were owed $18 million. It was indeed a dire situation, which the detractors of single-desk selling used to their advantage to promote change.

The Douglas Burgess Report created much discussion and debate within the kiwifruit industry in early 1993. The Report was roundly criticised by the NZKMB, and also by Ralph Maxwell, who, as a Minister in the Fourth Labour Government, had helped establish the KMB. Maxwell regarded the Report as ‘simply propaganda’ which, ‘when analysed… is reduced to an accountant’s exercise based on an erroneous set of figures, with old hat marketing tit-bits contributed by identifiable vested interests as fresh marketing initiatives’. Criticism of the Report also came from Doug Voss, the Tauranga Fruitgrowers Association president and Kiwifruit Marketing Board member at that time. He stated that ‘the proposed marketing

23 Ibid, p.56.
system in the Douglas report is one of multiple exporters competing with one another in the market-place…this is pure economic theory which we know does not work in practice”’.

However, the Report was used by Integrated Kiwifruit Services (IKS) to support its plan to end the single-desk monopoly of the Board. Membership of IKS included major growers, and cool-store operators and packers and was supported by Turners and Growers. They moved to sign up growers to supply them with product from the 1993 harvest with a promise of $7.54 per tray, which was $2.73 per tray better than the Board had paid in 1992. The consortium had ‘set out to sign up exactly half of the crop, or 25 million highly exportable trays in 1993, produced by the most efficient and best growers’ and with this level of grower support they hoped to convince John Falloon, the Minister of Agriculture, to have the Government put an end the monopoly powers of the NZKMB. Throughout the three months leading up to the beginning of the 1993 harvest in April, growers were subjected to a deluge of propaganda from either side of the procurement argument as they tried to come to grips with the dire economic situation.

By the beginning of 1993, Chairman Bruce Honeybone and the Chief Executive Murray Higgs ‘had left the board along with a number of key staff both at head office and in the markets’. John Palmer, a Nelson grower, assumed the role as Chairman of the Board, which by then had incurred an $80 million trading deficit. He wrote a detailed explanation of problems of the 1992 season, which he described as ‘a disaster’ and he set about bringing the growers ‘up to date with industry developments , to counter some rumours and to make clear the choices you [ the growers ] have to make’. It appeared that at a very difficult time in the Board’s short history, the key to the retention of the KMB’s single-desk position rested with its ability to finance the 1993 crop and the deficit from the previous season. After protracted negotiations between Chairman Palmer and the banks and backed by an assurance from Minister Falloon that the Government would agree to the retention of the KMB’s single seller status for 1993, ‘the Board triumphantly announced a $70 million banking package … that would deliver $4 per tray’. It appeared that the

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26 _The Orchardist_, February 1993.
27 Selwyn Parker, ‘Kiwifruit Crash’, _North and South_, May 1993, pp.94-101.
28 Herald, 22 March ,1993
30 _The Orchardist_, February 1993.
crisis for the Board had been averted at the last moment. However, it did not guarantee that the single-desk status would remain in place beyond the 1993 season. As Palmer maintained, ‘the success of the board in 1993 will determine what happens in 1994’, 31 and the threat from the producer board reform process still remained.

31 Selwyn Parker, ‘Kiwifruit Crash’, *North and South*, May 1993, pp.94-101.
Chapter 5

The Separation of Industry Policy and Governance from Marketing

During the early to mid-1990s the recently-established Kiwifruit Marketing Board faced a major challenge. This crisis coincided with the development of a wider push for ‘producer board reform’ by advocates of free-market policies. That push began in the late 1980s, at the very time the Kiwifruit Marketing Board was established, but it was to become particularly challenging during the second term of the Bolger National Government between 1993 and 1996. It had strong support from officials in the Ministry of Agriculture and Fisheries (MAF), Treasury and the Economic Development Commission. Most threateningly, the very poor returns from the 1992 season led many in the kiwifruit industry itself to question the effectiveness of the Marketing Board and its single-desk status. In early 1993, these criticisms and concerns arising from the drive for producer board reform and the drop in returns were addressed by the Board under the Chairmanship of John Palmer and by Eric Henry, the newly appointed Executive Director. Growers, led by the Fruitgrowers Federation, established the New Zealand Kiwifruit Growers Association Incorporated (NZKGI), which then became a major supporter of the Kiwifruit Industry Review. This review was a three-stage process, commissioned by the Minister of Agriculture, John Falloon, who was a supporter of the producer board model. The outcome of this process was a blueprint for the future development of the industry, involving the separation of the regulatory and commercial functions of the KMB. It met much of the criticism levelled at the Kiwifruit Marketing Board by the advocates of deregulation, but crucially maintained the principle of the single desk, ultimately under the control of the growers. This chapter analyses the crisis that the Board faced and traces how it worked through it, with the support of a sympathetic minister, to leave its core approach intact.

On 7 July 1988, at a Symposium organised by the Institute of Policy Studies, Rowland Woods presented his paper entitled ‘The Statutory Power of Producer Marketing Organisations’, in which he reviewed the current ‘statutory powers’ of the producer boards and called ‘for change in the way statutory powers are exercised in
the agricultural sector’. 1 Woods maintained that ‘the relevant statutes, and the powers they confer, are not sharply targeted’ and ‘even in the case of the Kiwifruit Authority, which came into existence only in 1977, the definition and extent of the Authority’s powers have been a source of contention and dispute’. He then questioned the abilities of the producer boards to respond effectively to competition in the export markets and he called for changes, believing that ‘statutory monopolies do not face the same incentives as competing private firms’. Woods considered that New Zealand-based exporting organisations, including producer boards, must become ‘more diversified, more vertically integrated and more multinational in their corporate and marketing strategies’. To do this successfully, Woods concluded that ‘it is in the national interest as well as in the interests of producers, processors, exporters and other parties directly involved, that the exercise of statutory power should be separated from trading and commercial activities’.

MAF officials had been working on a proposed Producer Boards Amendment Bill throughout 1988 and 1989 as a ‘first step in implementing a policy direction intended to provide producer and marketing boards with structures, opportunities and incentives to perform in an increasingly competitive international environment’. 2 The review had initially concentrated on issues that were common across all boards, including the Kiwifruit Authority. However, following the landslide victory of the National Party at the end of 1990, MAF advised the National Caucus Agricultural Committee on 1 March 1991 that ‘it was not going to be possible to treat all boards in an identical manner’ and it had decided to concentrate on amendments to the Dairy Board legislation in the meantime. This appeared to be a short-term reprieve for the status of the Kiwifruit Marketing Board.

However, the producer board debate continued at pace especially between 1991 and 1995. In its study, Upgrading New Zealand’s Competitive Advantage, the Porter Project Team, commissioned by the Market Development Board, came out with the recommendation that all producer boards should be dismantled. In March 1991, the

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Team’s leader, Graham Crocombe, was reported in NBR as saying ‘that producer boards and other monopolistic practices had to be done away with’.3

Surprisingly, in that same NBR article Treasury Secretary, Dr Graham Scott, was reported as telling a parliamentary select committee that he would ‘be reluctant to conclude that the traditional commodity industries [viz. producer boards] had to be done away with’. It would appear that although Treasury had called for the opening up of producer boards to competition, it was not prepared to agree to their demise.

It appears that opposition from the Minister of Agriculture and Fisheries in the new National Government, John Falloon, played a role in the Treasury decision to back off from advocating wholesale producer board reform. In a briefing to Graham Scott from Treasury Official Tom Hall in May 1991, on the subject of ‘Porter Conference: Producer Boards’, it was stated that ‘there is no single strategy we [at Treasury] are using at the moment with producer boards because … the Treasury is to some extent persona non grata in this policy area with the Boards and in government, at least to the Minister of Agriculture. Thus a low profile seems desirable.’ The proposed ongoing strategy was to ‘use the opportunities which arise to raise questions about boards and stimulate debate generally’.4 Indeed Falloon had recently came out in favour of producer boards, especially the Apple and Pear Board and Dairy Board, which he said had ‘moved from commodity trading to niche marketing, joint venture investment overseas’ and he stated that regular independent reviews of the functions of producer boards, will ensure more accountability’.5 The Kiwifruit Marketing Board was independently reviewed in 1991 (Deloitte report) and the outcomes reported satisfactory performance. There was also backing from one of the short-lived parties that supported the 1993-96 National Government in Parliament. Right of Centre (ROC) leader, Ross Meurant, stated that his party ‘will not support any measure which seeks to undermine the position of the producer boards’.6 On the other hand, Falloon’s support was not unconditional. In 1994 he was reported as firing ‘a broadside at producer boards, saying they all fall short of their best

3 NBR, 8 May 1991
5 NZ Farmer, 3 April 1991,
6 Dominion, 5 July 1995,
performance’. The Minister stated that ‘he spent more time in the kiwifruit and apple industries “trying to patch up politics than concentrating on marketing issues”’.  

By that time the Board had gone through another severe crisis that threatened to undermine its support amongst growers themselves. In 1992 there was a significant decrease in the prices received by New Zealand kiwifruit growers, as a consequence of world production increasing by 90%. According to Tony de Farias, of Seeka, ‘growers were being put to the sword’ and ‘they had no say in the direction their industry was taking them’.

However the industry was to benefit from a turnaround in Board governance and the introduction of some innovative thinking and action as to how to address the problems facing the industry. John Palmer was one of the prominent kiwifruit industry leaders at the time of the crisis in 1992-93. He is a Nelson based kiwifruit grower who was elected as a grower representative to the Board of the Kiwifruit Marketing Board 1991. During the following six years, firstly as a Board member, then as Chairman from 1992, he played a major role in managing the KMB out of the crisis in 1992-93 and then to the initiation of the Three Stage Review process which resulted in the successful restructuring of the industry. Palmer recalls the dire circumstances which the industry found itself by October 1992, having racked up a $94million debt. He found that ‘when [he] came on board…the market was a shambles’ and that the KMB was ‘arrogant towards other international producers and uncommunicative with growers’.

With a supportive Board, Palmer set about convincing his growers that the KMB structure was the most appropriate to carry the industry into the future. He was then engaged in crucial discussions with the banking syndicates, one based in New Zealand and the other in Europe, to try to convince them that the kiwifruit industry had a future and that there was no need to bankrupt the KMB. Palmer gives credit to the leader of the New Zealand banking consortium, John Anderson, who ‘bullied and persuaded the New Zealand bankers to come up with the money’ and was able to convince the banks and the Government to continue to fund the industry. During that very difficult period the packaging companies and the Port of Tauranga were

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7 Herald, 29 June 1994.
8 Interview with Tony de Farias, 26 September 2013.
9 Interview with John Palmer, 11 December 2013.
prepared to extend credit to the KMB and this support along with the banks, enabled the Board to trade through the 1993 season and to fully repay the $94m debt within two years. During this period, Palmer was working full time, both as Chairman and effectively the Chief Executive and he recalls operating on a shoestring budget when he had to secure clearance for his credit card expenses from the bank. However, the Board had been rescued and Palmer then appointed Eric Henry as Chief Executive while he returned to his Chairman’s role.

Another kiwifruit industry leader who was intimately involved in the kiwifruit crisis at that time was Paul Heywood, a Nelson based kiwifruit grower, who was chairman of the kiwifruit sector committee of the Fruitgrowers Federation and who later became Chairman of the Federation. Following the change of Government in 1990, Heywood’s relationship with Minister Falloon developed into one of ‘mutual respect’ which helped secure Government support at the time of the ‘disaster’ and these political relationships underscore the ability of the kiwifruit industry leaders to work with the politicians to successfully secure effective legislation. 10 Heywood vividly recalls the ‘appalling situation’ the industry found itself after the 1992 season, when the KMB was ‘faced with a debt of $80 million and the consortium of banks had walked away’. He had been instrumental in setting up the growers’ organisation, NZKGI and he and his committee worked with John Palmer and the KMB board members in a strenuous attempt to save the KMB from financial collapse. On 20 March 1993, the two groups met in Auckland over a whole weekend to thresh out a solution. This was in the face of strong opposition from IKS and Turners and Growers who had tried to persuade the banks to withdraw their support for the KMB. Heywood and his committee met with Minister Falloon on the Monday following the Auckland meeting and persuaded Falloon to contact the banks through the lead banker from the National Bank, John Anderson, to provide ongoing financial support with Government backing. The crisis had been averted thanks in part to the Minister’s confidence in the industry leaders and the fact that Heywood and his committee were able to assure the Minister that they had support from a large majority of the growers. Looking back on that difficult time, Heywood paid tribute to the team he worked with as they established ‘a mandate’ to pursue their plans for industry restructuring and he emphasised the role that the

Fruitgrowers Federation played in providing the financial and secretarial support to
the kiwifruit industry as it worked through its many challenges.

Having dealt with the immediate crisis, the New Zealand Fruitgrowers Federation
promoted change in the management and operations of the grower involvement in
the industry in order to meet the wider criticisms the Board was facing. Chairman
Heywood, in a letter to kiwifruit growers dated 1 June 1993, stated that ‘the current
crisis in the industry [has] accelerated a process of consultation and reform started by
the Federation two years ago’ and maintained that it was vital that ‘an organisation to
represent the interests of kiwifruit growers who believe in grower control of the
organisation that market their crop’ be established. Heywood advised the growers
that Falloon, with whom he had developed an effective working relationship, ‘is as
committed as the Fruitgrowers Federation to ensuring that the process of forming the
new organisation is done democratically and with maximum consultation’.11

Heywood recalls the intense debates at numerous grower meetings, but maintains
that the commitment by the team of dedicated grower leaders, supported financially
by the Fruitgrowers Federation, was able to secure over 80% grower support for the
new kiwifruit grower organisation.12 This initiative led to the establishment of New
Zealand Kiwifruit Growers Incorporated (NZKGI), whose objectives were to provide
a link between growers and the KMB and to monitor, measure and report to growers
on the performance of all facets of the New Zealand kiwifruit industry. NZKGI was
registered as an incorporated society with rules setting out how it was to operate and
the organisation was to take a major role in the Three Stage Review instigated by the
Government. One of the grower leaders involved with the formation of NZKGI was
Hendrik Peters, who is currently a director of KNZ, the arm of the industry which
looks after the statutory requirements of the Kiwifruit Restructuring Act 1999.

Hendrik Pieters had been involved in industry politics since the 1970s, having first
been a member of the Te Puke Fruitgrowers Association, a branch of the New
Zealand Fruitgrowers Federation. He was very closely involved with the formation
of the kiwifruit growers organisation NZKGI in the early 1990s, and he spent ‘an
incredible amount of his time’ explaining to growers what the plans were to secure

11 Heywood’s letter to kiwifruit growers – Proposal for a New Kiwifruit Grower Organisation, 1 June
1993, New Zealand Fruitgrowers Federation files.
their best interests. This was especially after the 1992 disaster, which he described ‘as a maelstrom operating in the industry’. He, along with Paul Heywood, was successful in developing a mutually supportive relationship with Minister Falloon. As Chairman of NZKGI, he worked with John Palmer, the Chairman of KMB to develop the three stage proposals for the restructuring of the kiwifruit industry.

Pieters recalls that the older established citrus fruitgrowers in No 3 Road, Te Puke, had preferred the free market option for the sale of their fruits, which were mainly citrus initially, and were not very supportive of any industry regulations. They had settled on ‘10 acre rehab blocks’ after the Second World War and were the first kiwifruit growers who made a lot of money, spending it on expensive houses, cars and overseas trips. ‘They were fiercely free market … [and] wouldn’t have a bar of any control’. However, as the downturn developed, the smaller and newer growers, who were exposed to greater risk because of their financial situation and their reduced incomes, began to develop ‘a slow build-up of dissatisfaction’. This progressed into a split view between those growers favouring the free market and those calling for some regulation. That in turn progressed into the perception of ‘need to have a more consolidated business owned by growers’, and an intensification of the debate about single desk. Pieters was by then in a position to gauge overall grower opinion and was able to go to Wellington to give to Minister Falloon and officials a detailed report on the state of the kiwifruit industry and ‘how the growers were feeling’. This in turn provided Falloon with the assurance that the majority of growers supported the proposed changes. Pieters’ guiding principle is ‘getting growers on side to get their trust and building up credibility in Wellington’.13

From the KMB’s perspective, Chairman Palmer maintained that for the kiwifruit industry to have a successful future the KMB had to address grower concerns both commercial and social and to do this successfully, he had to ‘front up to growers’ at numerous meetings, where he was often the subject of ‘personal attacks’. The KMB also had to develop credibility and build trust with the Government and the key to this was to develop ‘an understanding how the political process worked’. He and Catherine Petrey, from the Minister of Agriculture’s office developed the Three

13 Interview with Hendrik Pieters, 26 September 2013.
Stage Review which was designed to firstly (Stage I) address the grower concerns. Stage 2 then investigated marketing issues while Stage 3 developed the blueprint for the restructuring of the industry. The whole process was purposely designed this way to enable the industry to withstand the strident calls for the Board’s demise by firstly ‘getting the growers on board’ and building grower confidence in what the Board was doing. In Palmer’s view it would not have been appropriate to engage in discussions about marketing as a first step to restructuring, given, that in 1993, 35% of the growers were supportive of the IKS proposal which was calling for the Boards’ demise. Palmer had decided that he would have to ‘deal with the market place issues later’, once he had the support of the majority of the growers.  

Consequently, the Terms of Reference were laid down for Stage I of the Kiwifruit Industry Review which was to begin in August 1993. It required the Government-appointed facilitators, Sir Peter Elworthy and Brian Chamberlin, ‘to help bring together a grower representative forum which in turn will represent growers’ views to government, [and] the KMB, [on issues such as] any future marketing organisation or firms and research organisations’. The grower forum was to have a role in ‘imposing on the Kiwifruit Marketing Board, reporting and accountability procedures to growers, while the board retains the monopoly powers to export’. The facilitators consulted widely with national kiwifruit industry groups, with 400 growers at regional meetings and with 300 growers by telephone, and reported their findings to Falloon on 22 October 1993. They stated that ‘having canvassed views within the industry … we believe that there is, after such recent turmoil, now a general mood to cooperate with goodwill to establish a forum which truly represents the industry’. As an interim measure, the facilitators recommended that the Minister ‘announce that the KMB is assured of its present legislation for next [1994] season’ and this was confirmed when the ‘National, Labour and Alliance parties agreed that the Kiwifruit Marketing Board’s single-seller powers should be reconfirmed for the 1994 season’. In his letter to Hendrik Pieters, Chairman of the Kiwifruit Working Party, dated 22 December 1993, Minister Falloon stated that he

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14 Interview with John Palmer, 11 December 2013.
16 Media release from Minister Falloon’s office, 09/148 Kiwifruit Facilitators, 1 September 1993.
17 Facilitators report to The Minister of Agriculture, 19 October 1993.
18 Letter from facilitator Brian Chamberlin to Hon John Falloon, 30 November 1993.
agreed with the facilitators’ recommendations regarding the establishment of the Growers’ Forum and he urged Pieters’ group ‘to set in train a process whereby the grower forum can be established as a legal entity and become fully functional’.\textsuperscript{19} Stage I of the Kiwifruit Industry Review had been successfully completed with government and grower support and the stage was set for Stage II.

In early 1994, representatives of the Kiwifruit Industry Review Stage II Steering Committee, duly appointed by Falloon, together with the New Zealand Fruitgrowers Federation Limited, formally signed an agreement with Auckland Uniservices Limited to prepare an industry marketing review\textsuperscript{20} and in October 1994, \textit{The Kiwifruit Industry Marketing Review}, prepared by marketing specialists, Richard Brookes, Wayne Cartwright and Mark Domney from the University of Auckland, was published.\textsuperscript{21} The principal objective of this review was ‘to analyse the market environment (both established and potential) for kiwifruit exported from New Zealand and, given that environment, seek to evaluate marketing options for the kiwifruit industry in order to maximise the profitability of those in the industry and the net benefits to New Zealand’. By the time this report was commissioned, global production had increased significantly and New Zealand’s world market share had declined to 27%, as major competition emerged from Chile and Italy, and the ‘trend analysis of wholesale and CIF prices in the major market for New Zealand kiwifruit demonstrate[d] steady downward pressures on prices over time’.\textsuperscript{22} This two-fold impact of increased competition and downward pricing pressure called for some radical change in strategic thinking if the New Zealand kiwifruit industry was to continue to prosper under market conditions that were much more demanding than the halcyon days of the early 1980s, when New Zealand virtually had the world market to itself.

The authors of the Review studied ‘strategic issues in specific markets’, such as Germany, the United Kingdom, Japan, the United States, South Korea and Italy, and

\textsuperscript{19} Letter from Hon John Falloon to Hendrik Pieters, 22 December 1993.
\textsuperscript{20} Formal Agreement between the parties, February 1994.
\textsuperscript{21} \textit{Kiwifruit Industry Marketing Review}, published under contract to the Kiwifruit Industry Marketing Review Steering Committee and New Zealand Fruitgrowers Federation Inc., funded by The Agricultural Marketing Research and Development Trust and prepared by Richard Brookes, Wayne Cartwright and Mark Domney of The University of Auckland (through Auckland UniServices Ltd). October, 1994.
\textsuperscript{22} Ibid, pp, 8-9
used their findings to develop ‘strategies and capabilities for survival and success’. They considered a number of marketing options for the Board to consider and recommended a ‘turnaround strategy’ based on what they described as the ‘Retail Marketing Path’. 23 This strategy would ‘seek to maximise the profit to the industry … by differentiating New Zealand kiwifruit in retail markets … moving top retail market prices upwards … [and] achieving cost efficiencies in distribution in markets that link retail buyers more closely with New Zealand suppliers’. 24 The Review recommended that the ‘business scope of the industry be broadened through global sourcing of kiwifruit’, which would result in year-long supplies of New Zealand-branded kiwifruit to all world markets. This strategy was in contrast to the ‘Commodity Trading Path’, which was based on supplying the world markets with undifferentiated kiwifruit to be sold at prevailing prices and which would result in reduced grower returns. However, to be successful, the Retail Marketing Path strategy would require some industry restructuring. It was recommended that the Board establish a Working Party ‘to study and plan the formation of a new corporate organisation, the New Zealand Kiwifruit Corporation (NZKC), owned directly by growers and to which the commercial assets of KMB would be transferred before the end of 1995’. 25 Consideration should also be given to developing a strategic alliance with other fresh-fruit marketing organisations, such as the New Zealand Apple and Pear Marketing Board. All in all, for the strategy to be effective, the Review maintained that the Board would have to retain its single-desk selling status.

Such arguments were bolstered by the situation which had developed in the Australian market during the heavy fall in the price for kiwifruit in 1992. This clearly demonstrated the difficulties which the free market or ‘open slather’ selling was doing to create disruptive market. When the single-desk seller status was provided for by statute in The Kiwifruit Marketing Regulations 1977 Amendment No.7 in October 1988, the newly created Kiwifruit Marketing Board did not have a monopoly on the exports of kiwifruit to Australia. The Labour Government maintained that providing one organisation with sole rights to export kiwifruit to Australia was contrary to the Closer Economic Regulations (CER) agreement between New Zealand and Australia, concluded in 1983. This enabled New Zealand

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23 Ibid, p. 65.
24 Ibid, p. 41.
exporters to continue to export kiwifruit, albeit to a much smaller market than to the wider international markets which had previously been available to them. By 1991 ‘there were around 25 exporters who shipped 14,000 tonnes of kiwifruit worth about NZ20 million fob’.26 Included in these 25 exporters, were some packhouses which were exporting Class 11 (second class) kiwifruit, which they sold on consignment. This resulted in an oversupply of kiwifruit into Australia, which drove the prices down. Furthermore, Australian importers were re-exporting New Zealand kiwifruit to the same markets being supplied directly from New Zealand by the KMB, causing further pricing pressure. In response to these difficult trading conditions, the New Zealand Fruitgrowers Federation ‘asked the Government to give the [Kiwifruit Marketing] board a monopoly on sales in Australia. It said that competition amongst exporters had led to needless price cutting’.27 Furthermore, the resultant ‘disorganised marketing of kiwifruit’ by New Zealand exporters, prompted the Australian Minister for Primary Industries to seek from MAF New Zealand, ‘an equitable solution’ in response to Australian kiwifruit growers’ concerns.

In response to the Australian request, MAF proposed three options for the New Zealand Government to consider. The options were one, take no action, two, extend the KMB monopoly to include Australia or three, use the provisions of the New Zealand Horticulture Export Authority (HEA) to license exporters specifically to Australia. Option 3 was supported by MAF and the Ministry of Commerce, provided the Authority was not empowered ‘to impose quantitative restrictions on that [Australian] market by limiting either the tonnage of fruit or the number of exporters’.28 Eventually 12 or 14 exporters were licensed by HEA and they formed themselves into the Australian Kiwifruit Exporters Group (AKEG) to bring about more orderly marketing to what had earlier been ‘open slather’ in Australia. According to Warren Young ‘this was the perfect model for us [the KMB]’ and by 2002, all export markets for kiwifruit were covered by statutory intervention.29

26 S.P. Cottrell for Director General MAF letter to Associate Minister of Agriculture, 5 February 1992 R17316861AATJ7495W5519 Box 454 BP/3/5, 1988-1992, NZNA.
28 Geoff Sanderson for Secretary Ministry of Commerce to the Minister of Agriculture, 7 February 1992, R17316861AATJ7495W5519 Box 454 BP/3/5, 1988-1992, NZNA.
29 Interview with Warren Young, 27 September 2013.
However, the attacks on the Board’s single-desk marketing position continued, this time from the New Zealand Business Roundtable, an organisation of prominent business leaders, dedicated to free-market economics. This organisation commissioned ACIL Economics and Policy Pty Ltd. to review the state of the kiwifruit industry and to develop recommendations which would secure a more effective marketing strategy for kiwifruit exports. The ACIL report, *Restoring Kiwifruit Profitability, Choice, Ideas, Innovation and Growth*, was published in September 1994, one month before the Auckland University Review was released. The nub of the ACIL argument on kiwifruit marketing was that there should be ‘freedom of entry for anyone wanting to export kiwifruit and unrestricted choice over how and to whom growers sell their fruit…[and that] these are the circumstances most likely to maximise the profitability of market participants and best serve the national interest’. ACIL maintained that the operations of the current single-desk arrangement must be compared with what they described as a ‘benchmark [of] an unregulated competitive market’ and they set about creating a ‘systematic and analytical approach for assessing alternatives’, including the Kiwifruit Marketing Board’s position according to that benchmark.

The authors of the ACIL Report first reviewed the market characteristics of the international fruit trade and in particular the place of kiwifruit in it. They cited a Dutch Rabobank report of 1993, which stated that ‘increasing world supplies will continue to exert downward pressure on real kiwifruit prices’. The various approaches to the marketing of horticultural products through the fresh-fruit marketing channel were considered, with specific emphasis on the importance of the wholesale functions, which included ‘collecting/gathering product, international trade and transport and distribution’ and the Report provided details of the different stages in the marketing chain. ACIL concluded this section of the Report by stressing that securing ‘efficiency at all levels of the marketing chain is crucial to delivering marketing opportunities to growers’.

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31 Ibid, p.97.
32 Ibid, p.90.
33 Ibid, p.15.
34 Ibid, p.20.
35 Ibid, p.27.
Having discussed how the international fruit markets operated, ACIL then set about reviewing and assessing marketing options which would maximise the returns for the New Zealand kiwifruit industry. Reference was made to New Zealand’s regulatory reform process over the previous decade, which had created competitive markets and allegedly contributed to favourable ‘national economic performance’. This implied that a free-market stance was preferable over single-desk selling.36 The Report stressed that competitive markets should be the preferred choice as ‘command and control systems (regulation) fail because they cannot handle the detail and complexity as well as competitive markets’ and it questioned if it was ‘possible for one organisation, particularly one as small as the KMB, to find and commercially exploit every opportunity’.37

The Report discussed, amongst a range of marketing related issues, how it saw and refuted the Board’s position with respect to weak selling, which had been one of the main justifications for the Board’s establishment. Kiwifruit growers were asked ‘to reconsider the wisdom of arrangements which restrict the market’s ability to deliver its benefits’. On the issue of branding, the Report discounted the value of country-of-origin branding, as was then used by the Board to position kiwifruit as ‘New Zealand kiwifruit the world’s finest’, and it suggested that there needed to be an evaluation of alternatives. The Report described the current situation as ‘bundling’, a process in which ‘the return the Board pays the grower combines returns obtained in the market for the fruit with profits made by the marketing business’. This was in contrast to a more conventional structure where ‘performance would… be judged on the basis of the organisation’s profitability (dividends paid) and growth in shareholder wealth (share price)’.38 On the issues of the financing of the crop, ACIL pointed out that under the current situation, the KMB could incur debt without grower shareholder approval, whilst in a competitive situation shareholders could choose which commercial organisation would be best placed to manage debt financing and where ‘risks and rewards are shared more equitably’.39

The Report then undertook an investigation into how other industries responded to the move from regulation to a competitive situation. It claimed these examples

37 Ibid, p.31.
38 Ibid, p.31.
39 Ibid, p. 60.
provided an insight as to how the kiwifruit industry might be able to handle a similar transition from single-desk to a competitive position. For example, the Report cited the change in the New Zealand forestry industry from government ownership to private enterprise, which led to competition for forest ownership, including from foreign buyers, and the introduction of new technologies.40 The floriculture industry was cited as an example of an industry which had achieved competitiveness through innovation without ‘regulators or monopoly boards granting export licenses or undertaking R&D’.41 By providing these examples, the ACIL report was trying to convince kiwifruit growers that a competitive situation would deliver greater benefits to them than were currently available from the single-desk selling Board.

In its proposal for a more competitive business structure, ACIL stated that ‘establishing a dynamic environment for kiwifruit exporting will require considerable change to the existing highly regulated arrangements’. The Report called for ‘quick and decisive’ reforms with transition arrangements, ‘having as their end point, the complete removal of any regulations restricting either export activity or grower choice when selling fruit’. This should be achieved within two or three years. The KMB should be corporatised ‘at the beginning of the transition period’ and be attractive to new entrants.42 Thus towards the end of 1994, the Board was once again presented with a challenge to its modus operandi, this time by the Business Roundtable, who were the champions of a deregulated economic environment and who could see absolutely no advantages in single-desk selling.

Other groups also weighed in on the side of greater producer board reform. In December 1994, the OECD was suggesting ‘separating the commercial and regulatory functions of New Zealand’s producer boards and floating some of their off-farm activities on the sharemarket’, a proposal which had earlier been suggested by Rowland Woods.43 Veronica Jacobsen and Grant Scobie from Waikato University were critical of the role of producer boards, claiming that ‘statutory monopolies … stifle the emergence of new organisations that could offer the same or similar

40 Ibid, p.70.
41 Ibid, p.74.
42 Ibid, p.98.
43 Herald, 6 December 1994.
services at lower prices’ while boards with statutory monopoly powers ‘have few incentives to be efficient’. 44

The Labour party’s Agriculture spokesperson, Jim Sutton, believed that it was important for the ‘different agricultural sectors to have the best possible marketing structures available’ but the challenge to the primary sector was ‘how can we evolve to a structure that makes us less of a commodity trader and more of a marketer of diversified high quality consumer products’ and by implication this does not mean that single-desk selling is necessarily the most effective way to market primary products. 45 Sutton maintained that ‘the boards will and should survive … but they have a number of roles, some of those roles will remain important and some will be emphasised less as we grow into more of a marketing nation and less of a commodity nation’. Meanwhile, Federated Farmers was suggesting that the return of the now ACT member, Roger Douglas, as Minister of Agriculture in a new MMP coalition government in 1996 could spell the end of producer boards and that the Commodity Levies Act 46 might be a way for farmers and growers to ensure that they retained an industry group to manage their affairs just as the producer boards had done, but with a group that would be more accountable to its levy-paying producer members. 47 In April 1995, Finance Minister Bill Birch ‘signalled strongly his belief that it was time to examine whether the single-seller structure would be sufficient to take New Zealand into the next century’. The prospects for the kiwifruit industry to retain its single-desk status at that time did not look promising.

Nevertheless, the Kiwifruit Industry Marketing Review Steering Committee was favourably considering the recommendations in support of single-desk selling, contained in the Auckland University Marketing Review and was ready to consider the requirements for Stage III of the Kiwifruit Industry Review. The supporters of the single desk now had backing from academic specialists, whereas in the past, the anti-single-desk advocates such as the Business Roundtable, had drawn support from academics and economists sympathetic to the free market to give their arguments the imprimatur of academic respectability.

46 Commodity Levies Act 1990 – purpose of which is to enable an industry organisation that represents a group of distinctive levy payers to impose a compulsory levy on a commodity by means of an Order in Council.
47 Straight Furrow, 5 December 1994.
The fact that the kiwifruit growers had made so much progress towards the reconstruction of their industry was a tribute to the tenacity and farsightedness of KMB Chairman, John Palmer and Fruitgrowers Federation Chairman, Paul Heywood. Sue Pickering, the Kiwifruit Executive Officer from the Fruitgrowers Federation, whose role was to provide secretarial services to the grower groups developing the new industry reorganisation, recalls that a feature of most of the meetings involved, what she called ‘robust discussion … with often extreme views’ about the best way forward. However, once everyone had had their say, Chairman Palmer, whom Pickering described ‘as brilliant leader in a crisis’ was eventually able to achieve consensus and the participants moved to the next stage.48

Stage III of the Industry Review was conducted between April to October 1995 and the Report was presented in November 1995. After wide consultation and receiving 95 written submissions, the Review team concentrated its recommendations on three areas. These were corporatisation, export marketing consents and industry operating structure, each with its own working party. In all 38 experienced business persons from a wide range of interests made up the membership of these working parties.

The Corporatisation Group recommended the establishment of a Statutory Board with its assets owned by growers and ‘with ownership, voting and other accountabilities laid down in a Kiwifruit Industry Act rather than by regulation’.49

The Board would have responsibility for compulsory acquisition of the crop and its sale. A wholly owned marketing subsidiary would appoint a chief executive to manage the international business, enabling the subsidiary to ‘place focus on commercial marketing without political interference from the industry’.51 The Statutory Board should have eight members, six elected by the NZKGI Forum and ‘two independent members appointed by the Board for their commercial expertise’.52

It was stressed that ‘grower control over the governing of the industry is most important and [was] a vital principle … to separate industry policy and governance (Statutory Board) from marketing (subsidiary with an independent Board of

48 Interview with Sue Pickering, 3 July 2013.
50 Regulations can be changed by Orders in Council relatively quickly whereas changes to an Act of Parliament require a much longer process involving three readings and select committee scrutiny. Note also footnote 2 in Chapter 5.
51 Ibid, p. 3.
52 Ibid, p.2.
Directors) … the Statutory Board’s capital for the core business would be provided by retention from growers’ returns through a combination of shares and subordinated promissory notes’. On the subject of export marketing consents, to be known as Collaborative Marketing, the Stage III Review proposed that a committee of the Statutory Board should be responsible for receiving and processing applications and making recommendations to the Statutory Board. All applicants for collaborative marketing would have to provide detailed plans which could demonstrate that total net income from exports of kiwifruit would be maximised. They would also have to show that the plans fitted in with the industry’s agreed marketing plans and that they were different in quantifiable ways from other marketing plans. Applicants had to be financially secure and have competence in business. This collaborative marketing proposal would provide the opportunity for other exporters to become involved but under very strict conditions which were unlikely to threaten the single-desk status of the Board. In terms of operational structure, it was proposed that ‘the point of supply between growers and marketer will be more flexible’, enabling growers ‘to supply at any point along the supply chain’. ‘All growers will be given a supply contract, guaranteeing the acquisition of all fruit that meets export specification’ and all ‘suppliers {including packhouses] would be responsible for product quality through to the market place’. 53

The Three Stage process had convinced most growers and the National Government that the kiwifruit industry was developing a robust strategy for a successful future and in ‘1997, as a result of the Stage III Industry Review; the New Zealand Kiwifruit Marketing Board separated its regulatory and commercial functions. NZKMB became Kiwifruit New Zealand, responsible for statutory functions, with ZESPRI International operating as its 100% grower-owned commercial marketing company’. 54 The reform of this particular producer board had been achieved to the satisfaction of the Government and it had the support of the great majority of growers. The basis for maintaining single-desk status and grower ownership of the product had been negotiated through the development of a set of mechanisms designed to separate marketing decisions from the direct control of producers. However, the conversion by this arrangement into legislation was not to be achieved

53 ibid, p.4.
54 Ministry of Justice, Kiwifruit Board, Kiwifruit Marketing Board,
http://justice.govt.nz/publications/global-publications/d/directory-of-official-inf...
without further challenges and a lot of hard work on the part of the industry’s leaders.
Chapter 6

Moving towards the Grower Owned Company - 1996 to 2000

Despite their earlier successes in restructuring their industry with the implementation of the Three Stage Review recommendations, the leaders were next having to face strong opposition from Government and officials in their drive for their own Act of Parliament which would clearly separate statutory control from commercial business activity, retain the single-desk status and create a company solely owned by kiwifruit growers. This chapter discusses kiwifruit industry activities between 1996 and April 2000 and looks at the work of the Kiwifruit Industry Change Group (ICG), the Kiwifruit Marketing Board (KMB) and the contribution made by the New Zealand Kiwifruit Growers Incorporated (NZGI). It examines how the various industry organisations operated over the four years up to the creation and launch of the grower-owned ZESPRI Group on 1 April 2000. The actions of grower and government representatives are discussed as the leaders of the industry worked to retain its single-desk status and as the Government tried to advance its producer board reform process, which had a much broader focus than just on the kiwifruit industry. Strong resistance by some ministers and officials to enshrining the single desk in legislation was overcome by the determination of industry representatives and the fact that they could demonstrate overwhelming grower support. While they were not able to get a cooperative established by legislation, they did succeed in getting statutory status for the single desk.

The Kiwifruit Industry Change Group (ICG) was established in February 1996 by the NZKGI and the KMB. Its role was to implement the recommendations contained in the Three Stage Industry Review and included issues such as collaborative marketing, and the formation of a Statutory Board and its marketing focussed subsidiary.\(^1\) The five-member team included independent persons Dr David Cullwick and Brian Allison,\(^2\) NZKGI representatives Hendrik Pieters and Craig Greenlees, and from the KMB board, Chairman John Palmer. This group contained both a combination of expertise and objectivity and had the full backing and


\(^2\)Dr David Cullwick, Partner, Ernst & Young, Wellington, Chairman of the Industry Planning Group which was one of the Stage III Working Parties and Brian Allison, a grower who had been on the KMB Board 1991 to 1993.
support of growers’. ‘The formation of the ICG represents important progress and we will continue to proceed with full consultation with NZKGI Forum and growers for the good of the industry’, stated Hendrik Pieters, the NZKGI President.³ The ICG presented a Progress Report to the NZKGI Forum on 3 April 1996, which included a list of the functions of the proposed statutory board and the marketing company.⁴

The proposed statutory board’s functions were to-

- be accountable to growers, direct and through the NZKGI Forum
- hold compulsory acquisition and seller mandate
- Own brands and other intellectual property, which may be delegated to a subsidiary marketer
- Develop an industry strategic plan
- Coordinate industry research and development
- Provide grower communications
- Arrange other activities for functions as agreed by the shareholders
- Develop market access and international protocols

The marketing subsidiary’s functions were to concentrate on

- Generating sales and income
- Developing the marketing strategy
- Innovation
- Brand development under licence
- Supply contracts and specifications
- Providing logistical functions including service contracts
- Interfacing with collaborative marketers on behalf of the statutory board

The decision of the kiwifruit industry, later in 1996, to implement the recommendations from the Working Party, resulted in changing the name of the Kiwifruit Marketing Board to Kiwifruit New Zealand (KNZ). KNZ would continue to look after all of the legislative and political activities relating to the kiwifruit industry, while its subsidiary Zespri International Limited, would focus its efforts on

the marketing of kiwifruit world-wide. Kiwifruit New Zealand appointed eight directors, with John Palmer as Chairman, while Zespri International Ltd had six directors, with John Paynter as Chairman. John Palmer and Doug Voss served on both boards.\(^5\) Sally Gardiner was appointed General Manager of KNZ and Robin Mills appointed CEO of Zespri International Ltd.

During the three years between the establishment of the ICG and the enactment of the Kiwifruit Industry Restructuring Act 1999, the NZKGI continued ‘to represent kiwifruit growers and give growers their own voice in industry and decision making … NZKGI is committed to retaining the SPE (single point of entry) to the benefit of all growers’.\(^6\) NZKGI had a Grower Forum consisting of 24 Regional and District representatives and 12 Industry Group representatives. With a wide geographical coverage, it was ideally placed to measure the level of grower support for legislative proposals. The group’s involvement with the restructuring process and its position on single-desk selling enabled growers to make decisions about the future of their industry from an extensive information base provided by NZKGI.

While Zespri International got on with the business of promoting the Zespri brand, KNZ and NZKGI focussed their combined attention on the development of the legislation which would eventually become the Kiwifruit Restructuring Act 1999. Grower representatives made numerous trips to Wellington for meetings with officials and politicians to ensure that the legislative proposals met growers’ expectations. Doug Voss, who was Chairman of KNZ at that time, maintains that these visits to Wellington were an essential element in the grower strategy to achieve grower ownership of their industry. Voss had become increasingly concerned about the National Government’s intentions to deregulate producer boards, which he firmly believed had the potential to derail the ICG plan and he made sure that he knew exactly what the Government and the officials were planning.\(^7\)

Voss became actively involved in kiwifruit industry politics when he was elected to the Kiwifruit Authority as a grower representative in 1987. As a director, he witnessed the transition from the Kiwifruit Authority to the Kiwifruit Marketing Board, but was, in his words ‘chucked [voted] off’ the KMB in 1991. He returned to

\(^5\) *Celebrating 100 Years*, p 255.
\(^7\) Interview with Doug Voss, 27 September 2013.
the KMB in 1993 to become Deputy Chairman and continued as a major industry leader throughout the reconstruction period in the mid to late 1990s. He then became the first Chairman of the ZESPRI Group Limited, when the new company was launched on 1 April 2000.

During his term as a director in the various kiwifruit industry organisations, he observed at first hand the varied contributions that a number of personalities made either to support or reject initiatives for change. He remembers when Don Brash, as a grower representative on the Kiwifruit Authority Board, voted against the creation of the KMB, and later when ‘the wheels fell off’ the KMB in 1991-92, he recalled that ‘the lack of experience at Board and executive level’ was a major contributor to the ‘disaster’ in 1992. He maintains that the National Party ‘has never been our friend’ and as for the officials in Wellington, he recalls that ‘they could never understand why single-desk worked in practice but not in theory’.

Voss maintains that the Coopers and Lybrand report ‘was educational’ and provided the initial impetus for radical change in the organisation of the industry. The ensuing Three Stage process enabled the KMB to focus, on the one hand, on the need to address the need to change the legislation and on the other hand, to develop a much needed marketing strategy which resulted in the creation of the Zespri brand in 1997. At that same time, the National Government was threatening ‘to do away with producer boards’ and Voss led his growers’ team into many intense debates with the government and its officials, backed by the Minister of Food, Fibre, Biosecurity and Border Control, John Luxton, whom Voss described as definitely not ‘the growers’ friend’. Tony Baldwin, the leader of the Producer Board Reform Team of officials was, according to Voss, ‘gunning for us’, and stated at one of the meetings that ‘I’ve got the wiring document’, implying that he knew what was best for the industry.

Sally Gardiner, along with Todd Muller from the KNZ Executive, provided the administrative support to the grower leaders who were striving to create the more appropriate legislative model, which had been foreshadowed by the ICG. She became totally involved with the restructuring project, which she described as ‘very exciting’. While KNZ focussed on political liaison and onshore activities such as quality control, the newly created subsidiary Zespri International was given the task of developing the international markets. Its first CEO, Robin Mills, who ‘was
passionate about marketing’, introduced the Zespri brand, but was not involved in any on-shore political activity. John Palmer continued as Chairman of KNZ and Zespri International operated under a KNZ-appointed board with John Paynter as Chairman. Mills was followed by Tony Marks as CEO and, according to Gardiner, ‘took the Zespri Brand and made it something’ by decentralising the organisation and making some crucial appointments in overseas markets, which in turn produced increased sales and returns to growers.\(^8\)

According to Gardiner, the grower leaders had begun to question in 1998 the need for two organisations with two boards and began to see the merits of having them merge into one. Doug Voss and Hendrik Pieters began to promote the concept of a grower owned cooperative, operating with its own act of parliament ‘rather than an organisation operating under government regulations’. By this time, the National Government was actively threatening to deregulate the primary sector with its producer board reform process and KNZ was ‘in the firing line’. Gardiner tells of the numerous meetings and arguments with government officials, but she credits the eventual success with the legislation in 1999, to the grower political group which included Doug Voss, Craig Greenlees, and Tony de Farias and to Hendrik Pieters from NZKGI. They were ‘very much aligned, would not deviate and knew what needed to be done’. She maintains that it ‘helped to have a bulldozer [viz Doug Voss] at the top’. The grower team enlisted the support of law firm, Buddle Finlay, which worked with the growers to draft most of the legislation that became included in the 1999 Act. When she had some doubts about whether or not to back down to government pressure, Gardiner was encouraged by Voss, who kept stressing that ‘we must take [our demands] a step further’ and she ‘recalls a very special moment’ as she listened to the radio in the evening of 2 September 1999, when the new Kiwifruit Restructuring Act was passed by a ‘pan-party vote’.\(^9\)

In late 1997, both the industry and the Government were considering changes to the Board’s on-shore activities, which had been foreshadowed in the ICG recommendations, following the Stage III report. Minister Luxton, in his letter of 22 December to the NZKGI Forum Secretary Peter Berry, outlined his understanding of the particular changes that KNZ was seeking. These were changes to the ‘point at

\(^8\) Interview with Sally Gardiner, 26 September 2013.
\(^9\) Ibid.
which the Board takes title to export fruit … providing for the Board to purchase fruit from suppliers other than producers … providing for the Board to reverse payments … for the Board to set prices …[and] allowing the Board to set standards for fruit’. Luxton advised that he had ‘instructed Ministry [of Agriculture] officials to work only on those changes relating to operational activities’, with the prospect of having them included in amending legislation in time for the 1998 season. Luxton did, however, say in his letter that the issue of corporatisation would have to wait until the operational changes were in place and he ‘agreed with the Board to delay this process … [expecting] to proceed with it during 1998’.

In December 1997, KNZ and NZKGI growers, and packhouses and cool stores were provided with details of the proposed operational changes 11 and MAF prepared ‘Notes on Proposed Changes to the Kiwifruit Marketing Regulations 1977’. Then followed a period of intensive communication and consultation involving MAF, KNZ, and NZKGI, packhouses and cool stores and growers during late January. On 4 February 1998, KNZ Chairman Voss was able to advise Luxton that ‘the formal road show presentations to growers’ had been completed and that ‘there was a willingness of most growers to address the issues and get on with the changes’. Amending legislation was included in the Kiwifruit Marketing Amendment Regulations 1998 which came into force on 1 April 1998, in time for the new season. The success of this step towards restructuring within such a short time span was a tribute to the commitment and perseverance of the KNZ Board members and staff, and provided a real incentive to progress towards corporatisation as quickly as possible. They were encouraged by the strong support from a considerable majority of kiwifruit growers.

The grower requirement for single-desk selling continued throughout this period and although, by agreement with the Minister,14 there were to be no specific proposals for its inclusion in the April 1998 amending legislation, it was accepted by the

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10 Letter from Minister Luxton to P. Berry, NZKGI. 22 December 1997, Zespri Group files.
11 Letters from Doug Voss to growers and from Sally Gardiner to Packhouses and Cool stores, Zespri Group files.
grower leaders that its continuation was non-negotiable. One of the strong advocates for single-desk was Craig Greenlees. He had initially supported the IKS challenge to the KMB in the early 1992-93 because, as a cool-store operator he had not been paid by the KMB which had run up an $80m debt. He was also critical of the governance of the Board and its selling activities at that time. Philosophically a free market thinker, he saw merits in having the single-desk removed because it was not working for the growers and the cool stores, but he was persuaded by promise of the John Palmer programme to revitalise the KMB and from then on, became an avid supporter of the single desk. He has been described as being ‘the poacher turned gamekeeper’. Greenlees was actively involved in industry politics leading up to the 1999 Act and he was a participant in the numerous discussions with Government and officials. He attributes the successful outcome in 1999 to the fact that the grower lobby had ‘moved quickly and got a deal’ and that the collaborative marketing provision which was ‘a brilliant move politically’, had convinced officials that other exporters could be involved. He later became Chairman of Zespri group in 2003.

Progress towards the legislative changes necessary to implement the remaining ICG recommendations continued over the next year and on 20 July 1999, Luxton and Sir William Birch, Minister of Finance, announced jointly the introduction to Parliament of the Kiwifruit Industry Restructuring Bill. The Government and the industry had agreed on a set of proposals which included the corporatisation of the KMB into a company directly owned by kiwifruit growers, who would be able to trade shares amongst themselves only. The new company would retain ‘regulatory controls on the exporting of kiwifruit’, a reference to single-desk status, and ‘establish a separate regulatory body to monitor the company’s compliance with special rules … relating to non-discrimination, non-diversification, information disclosure and other shareholder protections and separate decisions about collaborative marketing from the new company’. The Government stated that development of this legislation was the ‘result of intensive discussions between Government and industry leaders over recent months’ and had the support of ‘the overwhelming majority of producers’.

15 Interview with Craig Greenlees, 27 September 2013.
16 Media Release from the offices of Hon John Luxton and Rt Hon Sir William Birch, 2 July 1999, R20066926ABGX1617W5188Box141SC2/KI/11999, NZNA.
17 Ibid.
Meanwhile, Kiwifruit New Zealand had sent to its growers the Corporatisation Proposal, which spelled out in some detail the provisions of the new legislation. Prominent in the commentary was the statement that ‘the single-desk is retained with no sunset clause’, which meant that there would be no more threats to the industry’s single-desk seller status once the legislation was passed. There were, however, provisions for collaborative marketing initiatives, but these could only be implemented with the approval of the statutory body. The Corporatisation Package provided for the assets of Kiwifruit New Zealand to be ‘transferred to ZESPRI which will operate all commercial activities [while] Kiwifruit New Zealand will be reconstituted as an authority under legislation’.

Specifically Kiwifruit New Zealand, in its industry governance role,

- [will be the] holder of single desk power, the commercial operation of which is contracted to ZESPRI
- Monitors ZESPRI to ensure compliance with non-diversification, information disclosure and non-discrimination obligations
- Authorises and monitors collaborative marketing (see footnote)
- [provides] grower communications through funding and administering NZKGI

ZESPRI, in its commercial role, was to operate the single desk, own all industry assets, including ZESPRI brands, liabilities and contracts, and issue shares to producers as well as managing the trading of these shares among growers. Functions would include export marketing, acquisition, grading, quality, pricing, commercial research funding, contract payments and pool management. ZESPRI would also have regulatory obligations to disclose appropriate financial and performance information and to separate risk ventures from core business in any diversification strategy such as Kiwifruit International Limited. It would have to justify commercially any grower payment decisions which could be challenged as discriminatory and it would have to

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18 Corporatisation Proposal to Growers from Doug Voss, Chairman, Kiwifruit New Zealand, July 1999, R20066926 ABGX1617W5188Box1415C2/KI/11999, NZNA.
19 Ibid.
20 Collaborative marketing enabled other exporters to access to specific markets with approval from KNZ under strict conditions. It was a useful condition to demonstrate to officials that other companies could export kiwifruit.
allocate a portion of the kiwifruit crop for collaborative marketing. The NZGI industry forum would continue as the grower representative body with its 41 member grower-elected Forum. It would appoint a director to Kiwifruit New Zealand, the statutory authority, which would administer NZKGI and it would be provided with information and market updates from both Kiwifruit New Zealand and ZESPRI.

Between July and November of 1999, the Parliamentary debate on the Kiwifruit Restructuring Bill provided an insight into the positions of the various political parties on the restructuring of the kiwifruit industry. The Labour Opposition made several references to the National Government’s statements regarding producer board reform, in particular the statement in the 1998 budget ‘in which the then Treasurer announced that [producer] boards must each prepare plans for their futures in which they would not have any specific statutory powers’ and another statement by Prime Minister Jenny Shipley, who had written to growers saying that ‘in [her] view a careful assessment of the arguments leads to a very clear conclusion that the kiwifruit industry would benefit from the removal of the board’s statutory backing’. In the same statement she had said it was her intent to deregulate ‘after the next election’. Jim Sutton, the Opposition spokesperson, continued his criticism of the Government’s actions by accusing it of holding up the legislation in response to ‘its vicious assault on producer boards in the 1998 Budget’. He went on to say that ‘the kiwifruit industry was able to outflank and outwit the government and essentially get the sort of reform it was planning, which in fact the Government had been holding up’. ACT spokesperson, Owen Jennings, in reflecting his party’s free market philosophy, stated that ‘the simple fact remains that single-desk regulations, State trading enterprises and legislative monopolies are an infringement on the freedom of New Zealanders to go about their business in their own way … without the clammy hand of granny State interfering in their lives’. This ironically, was exactly what the kiwifruit industry had wanted. Doug Woolerton stated that ‘we in New Zealand First do support this Bill ‘and he ‘commends the kiwifruit industry for

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21 Corporatisation Proposal to Growers from Doug Voss, Chairman, Kiwifruit New Zealand, July 1999, R20066926 ABGX1617W5188Box141SC2/KI/11999, NZNA.
22 NZPD, 2 September 1999, p. 19061.
24 NZPD, 2 September 1999, p.19026.
taking … a balanced, reasonable and sensible approach’.\textsuperscript{26} The debate also covered questions of collaborative marketing, the issue and tradability of shares, the interests of Maori producers, intellectual property and plant varietal rights, but the general impression was one of support for the legislation and agreement was reached to progress to its Third Reading.

While the Parliamentary debate was going on, KNZ developed a set of ‘Terms of Reference and Governing’ to prepare for the restructured industry organisation. A Constitution and Share Issue Working Group was set up ‘to assist the [KNZ and Zespri International] Boards to implement an agreed Establishment Plan for ZESPRI Group Limited.’\textsuperscript{27} This Working Group developed plans for the Capital Structure, the Constitution and the Share Issue and Export Authorisation, with inputs from current KNZ Directors and staff and legal advice from Buddle Finlay. Another working group, entitled Project Incorporated Organisation and Administration Working Group was set up to consider changes to the KNZ and Zespri International organisational structures and modifications to business systems, ‘ensuring that all commercial functions currently performed by KNZ are accounted for, performed or superseded post implementation of ZGL [ZESPRI Group Limited]’. Other Working Groups were set up to consider Research and Development and Supply. The detailed planning by these Working Groups ensured that when the expected legislation was passed, the newly constituted ZESPRI Group Limited would ‘hit the deck running’.

Earlier, in October 1998, the Government had created the Producer Board Project Team (PBPT). This was ‘an interdepartmental unit tasked with working with the Boards and industries and advising Ministers on the public policy issues relating to the Producer Boards’ It was established in response to the Government’s announcement in the 1998 Budget regarding the removal of statutory powers for producer boards.\textsuperscript{28} However, by this time the kiwifruit industry was close to reaching agreement on the separation of statutory requirements from commercial activities, which were to be enshrined in the Kiwifruit Industry Restructuring Act 1999. The PBPT noted that the restructuring of the kiwifruit industry had been instigated in

\textsuperscript{26} NZPD, 2 September, 1999, p.19066.
\textsuperscript{27} KNZ Terms of Reference and Governing in letter from Doug Voss and Brian Armstrong, Steering Committee, 15 September 1999. Zespri Group files.
\textsuperscript{28} Producer Board Project Team Briefing for the Incoming Minister, MAF Information Bureau 024146, December 1999.
1992 with encouragement from Government and the Fruitgrowers Federation and began with the Three Stage process discussed in Chapter 4 and culminating with the Act in 1999. The PBPT commented on the fact that ‘kiwifruit growers … have fared well in the last few [1996-1999] years and are currently enjoying high prices and favourable international market conditions … nonetheless, a significant section of the industry continues to press for the freedom to export’. This implied that reform away from the single desk had to continue. Industry leader, Tony de Farias maintains that Minister Luxton’s intent with the PBPT ‘was to abolish the KMB but could not do so given the overwhelming support from growers for the new legislation’.29

Progress with the Bill in Parliament during 1999 had been slow but encouraging. On 2 September, the Third Reading of the Kiwifruit Restructuring Bill began with a statement from Minister Luxton, claiming that Parliament was ‘allowing the commercial operations of Zespri Group to be formed into a proper corporate owned by growers, and the regulatory functions … separated out and dealt with by regulation’.30 He went on to say that the legislation ‘is a very exciting transition to a new era based on a more commercial discipline, creating wealth for growers, and allowing innovation to occur in an important part of the agricultural economy’.

While supporting the Bill, Labour maintained that it was the ‘high degree of support from industry stake holders, in the face of the National Government’s threats to deregulate the industry’, that ensured that the Bill had reached its Third Reading. There was further discussion about the merits of a company versus a cooperative structure, about the move to having an act of parliament to govern the industry rather than using regulations by order in council for each change in legislation and the requirement that more than 75% of growers must vote in favour of the new legislation. In the final analysis there were 112 Ayes and 1 No of the Third Reading of the Bill party vote31 and subsequently, the Kiwifruit Industry Restructuring Act

29 Interview with Tony de Farias, 27 September 2013.
30 NZPD, Kiwifruit Industry Restructuring Bill, Third Reading, 2 September 1999, p.19060, 2 September 1999.
31 Voting as follows – Ayes 112- New Zealand National 44; Labour 34; Alliance 7; New Zealand First 9; ACT New Zealand 7; Christian Heritage 1; Mana Wahine Te Ira Tangata 1; United New Zealand 1; Independents; Batten, Delamere, Elder, Henare, Kirton, McCardle, Morgan, Waitai Noes 1 Other; Awatere Huata, NZPD. 2 September 1999, p. 19070.
1999 was passed, with date of assent 8 September 1999 and a commencement date on 1 April 2000.32

If the drive for producer board reform by the National Government had posed a threat to the single-desk status when it was being actively promoted following the 1998 Budget, that threat had been removed by its enshrinement in the Kiwifruit Export Regulations Act 1999 33 and the Kiwifruit Export Regulations 1999.34 It would appear that the kiwifruit industry had concurred, ironically, with Denis Hussey, who, in his ACIL Report Twelve Months On in 1993, recommended that producer boards should respond to inevitable policy changes by adopting a clever strategy and ‘to stop being defensive and support the reform process so that it proceeds smoothly and at minimum cost’.35 By working constructively with Government and officials during numerous visits to Wellington, the kiwifruit industry leaders had met the challenge to restructure as had been suggested in the ACIL report. However, the tenacity of industry leaders and strong grower support meant that threat to its single-desk status was removed. The Producer Board Reform process, as far as kiwifruit industry was concerned, was not continued under the new Labour Government, which had supported the kiwifruit industry’s single-desk status while in Opposition.

The majority of growers had secured most of their demands, except their wish to form a cooperative, but in the weeks leading up to the passing of the legislation, their leaders became increasingly concerned about the intentions of the producer board reform team and Sally Gardiner tells of the anxious moments listening to the final debate in Parliament and hoping that there would be no last-minute hitches.36 Doug Voss made a direct appeal to Helen Clark, who assured him of Labour’s support. The growers, as required by the new Act, subsequently voted in a December ballot, with 89% of them in favour.37 With the election of Labour in the 1999 General Election,

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32 Kiwifruit Restructuring Act 1999,
33 Kiwifruit Industry Restructuring Act 1999,
34 Kiwifruit Export Regulations 1999,
36 Interview with Sally Gardiner, 26 September 2013.
deregulation threats from the Government vanished and the establishment of ZESPRI Group was celebrated on 1 April 2000.

Throughout this difficult and challenging period, Voss and his team were always encouraged by the strong majority support from growers, whose message to their leaders was ‘talk to us and come up with the right plans and we will support you’. In the end, the growers were able to secure their own act of parliament, complete with a corporatised, grower-owned organisation, which had been their original intention in 1996. Single desk, now referred to as SPE (single point of market entry) was secured. The only down side was the Baldwin insistence that a company rather than a cooperative structure, which had been the growers’ preference, be implemented. The Voss philosophy of always pushing for what he believed ‘was good for the industry, must be good for you’, had paid dividends and had thwarted the National led Government’s drive for a much greater opening up of the industry to outside players with the removal of the single-desk status.38

38 Interview with Doug Voss, 27 September 2013.
Conclusion

This study has traced the change in marketing in the kiwifruit industry from free-market trading, to the licensing of exporters, to single-desk selling and on to the establishment of a grower-owned company with a multi-million export business, whose Zespri brand has international recognition. During this 50 year period, the industry succeeded in establishing an international market for an unknown fruit and then coped with a phenomenal increase in local and international production which at times severely reduced prices and created periods of tension between growers and exporters. The industry also had to cope with the changing attitudes and level of support for regulation by various governments.

During this time, the large majority of kiwifruit growers actively supported moves towards greater discipline in the international marketing of their crop. They advocated licensing in the face of burgeoning production and the prospect of falling prices in the 1970s, pressed strongly for single-desk selling when facing similar threats in the late 1980s and rallied in defence of that system in the 1990s. They elected leaders who were able to develop good relationships with sympathetic politicians. Sympathy in government was very limited during much of the 1990s, with deregulation strongly favoured, and the leaders gave ground on less essential issues in order to defend the elements, like grower control and the single desk, which they considered vital. They succeeded in getting those elements enshrined in legislation with massive cross-party support in 1999.

At a number of points political support was vital. While the Third Labour Government in the early 1970s was surprisingly slow to support regulation of kiwifruit exporting, the Muldoon Government and specifically Minister of Agriculture and Fisheries, Duncan MacIntyre, MP for the Bay of Plenty, moved rapidly to introduce licensing. The narrow success in establishing the Kiwifruit Marketing Board in 1988 would have been impossible without the support of the Minister Colin Moyle, Ralph Maxwell as Under-Secretary and Leo Mangos in the wider Labour Party, given the strong opposition from officials, exporters and other government politicians. Again, the support of John Falloon as Minister of Agriculture and Fisheries helped the single desk survive the challenge of a strongly
free-market National Government, a catastrophic drop in prices and an attack sponsored by the powerful Business Roundtable during the early 1990s.

The fact that the dispensation arrived at in 1999 has survived since then is only partly due to the election of a more sympathetic Labour Government in that year. It has also been due to the success of a leadership style in the industry that a Lincoln University study in 2008 called ‘proactive, visionary and with a long term focus’. That study praised the ‘culture of innovation’ which had produced new cultivars, improved production and post-harvest systems and it recognised the SPE (single point of entry) as the key to enabling ‘economies of scale, specialist skills, market power and the ability to undertake industry wide initiatives’. Eight years earlier the World Kiwifruit Review had declared that in the international market place, ‘New Zealand still sets the pace’. It attributed this success to ‘moving from a single marketer under statutory authority to a corporate structure for its entire industry … to pursuing tighter quality control and sourcing [kiwifruit] from other countries to secure twelve-month supplies’ and ‘develop[ing] branded products that could capture a premium price’.

This success has served to maintain strong grower support for the present arrangement. In a 2010 Grower Poll, commissioned by NZKGI, ‘the performance of Zespri for the international marketing of Kiwifruit under Zespri was rated as either quite good (33%) or very good (62%)’.

However, the kiwifruit industry, like any other, is faced with ongoing challenges, such as the outbreak of the disease PSA. There might also be future WTO agricultural negotiations on monopoly marketing boards which could adversely affect the Zespri Group. Recent revelations regarding the use of double invoicing of exports to China not only created serious problems for the industry, but inevitably led to calls from some quarters for the legislation underpinning its current marketing structure to be revisited. Such criticism is not going to disappear. Therefore, as the

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3 New Zealand Kiwifruit Growers Incorporated, 2010 Grower Poll, J:\2010\Strategic Planning\Summary Colmar Brunton Poll Results Mar10.Docx
4 Ibid.
5 ‘In a letter to the Minister for Primary Industries and Economic Development, 41 growers say that they no longer unquestionably support the Single Point of Entry Model for kiwifruit’ Sunlive, 29
inevitable crises occur, the industry leaders must be ready to respond as quickly as they have done in the past, and continued strong grower support will be essential if the single desk and grower control over the destiny of their own industry is to be maintained.

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