Control of new varieties should maintain prices

By Geraldine Warner

A new system for introducing new fruit varieties may prevent them from quickly turning into commodities of lower value.

Nurseries expect that in the future, release of new varieties will be strictly controlled and grown on a limited acreage, so that they don't become overproduced and high prices can be maintained.

Driving this new system are the originators and breeders of varieties who are interested in seeing a better return on their investment. As it works now, the owner receives a per-tree royalty, and the nurseries licensed to produce the trees, in effect, become the managers of the variety.

"That's the old way, and it will still be done for a lot of varieties," said Ken Adams, at Willow Drive Nursery, Ephrata, Washington.

But he believes the new way will benefit everyone involved, and provide plant breeders with the necessary incentive to invest time and money in developing new varieties.

In the future, the owner of a new and promising variety typically will license or contract with nurseries to produce trees and recruit a limited number of growers and packers around the world to produce the variety. Thus, the introduction can happen quickly, rather than being left to chance.

Fast track

"This way, you can fast track it, and everybody knows about it, and a good apple could become available within ten years," Adams said.

In contrast, Fuji did not become popular in Washington State until about 30 years after its introduction in Japan, and it might never have done had Grady Auvil not been so vocal about its virtues.

Under the new system, quality of the product will be strictly controlled, and the variety probably only will be grown in the most suitable areas. One of the key elements of such a program is that producers will pay a percentage of their receipts to the owner.

"If you limit the number of trees sold, the nurseries can't just grow a million, zillion trees and sell to everybody," Adams explained.

As an alternative to recouping all their investment through tree sales, the owner of the variety will have to look for other ways, such as production-based royalties.

"If there's not an incentive and reward, who's going to bring on the new varieties?" he asked.

Sun World, a vertically-integrated research, growing, packing, and marketing company based in Bakersfield, California, has pioneered the concept. The company is primarily a grower and marketer of fresh fruits and vegetables, but licenses the varieties it has developed to producers in the Southern Hemisphere in order to have production available in the opposite season.

Limit acreage

"We don't intend to sell our plant materials," said David Cain, vice president for research and development at Sun World. "We intend to hold them in house and lease them out to nurseries and growers, and limit the acreage. And the people who are involved in the system inside it will make money. That's the basic premise. Everybody in the system has to make a premium, otherwise there's no reason to do it."

David Margulis, senior vice president at Sun World, said the company collects both a royalty on the trees that it licenses people to grow, and on the fruit production. The amount of the production royalty varies depending on the variety and the country where it's grown. In some countries it's a fixed amount per carton, in others it's a percentage of the sales price, and in some places the charge is on a per-hectare basis.

Sun World could just sell trees to growers for a one-time fee, as has been done traditionally, Margulis said. "But looking at the economics of plant breeding and developing new fruit varieties, and protecting our own franchise here in the United States, we feel it makes more sense to develop varieties with characteristics that are coveted by supermarkets around the world and charge the growers a royalty."

Similarly, ENZA in New Zealand is looking for producers in the United States to produce its new varieties, such as Pacific Rose, in the counter season.

Commodity

Adams believes growers in Washington stand to benefit from this new type of arrangement. So far, every good variety grown in Washington has become a commodity.

"We're growing all commodity varieties, and everyone is suffering."

He said commodity varieties have to be grown cheaply, and that's difficult for Washington growers when producers in other parts of the world have lower costs, particularly for labor.

"We have to do something to control production," he said. "The government can't do it; self-discipline has not been able to do it. The only way you can do that is restrict the growing and marketing. You need to spread the risk of a variety among several people and share the rewards accordingly. It can't be just one. It needs to be a group effort."

When producers sign up to produce an exclusive variety, they in effect become members of a growing club for that variety. Instead of being competitors, they become partners who have to work together and sell the fruit through one desk.

Producers won't be the ones choosing who else will be in the club, and this may require a change of mind-set on the part of Washington's growers and shippers because they've had to compete for so long, Adams said. "We have a real competition mentality, where no one works together. I think this has to change."

Recent marketing alliances and mergers are evidence that this is starting to happen, but the competition is still there, he noted. "Everybody's choosing up sides for the team right now."

Lynnell Brandt, manager of Brandt's Fruit Trees, Inc., Yakima, believes the new system will give marketers more leverage with the large retail buyers. Consolidation has resulted in fewer buyers and enabled them to dictate their terms.

"That's a daunting situation for someone who's selling," Brandt commented. "This type of program, if it's done properly, can give additional leverage from the producer's standpoint on condition of sales."

License to retailers

It's possible for breeders to license an exclusive variety to retailers who would contract with growers to produce it specifically for that chain under the retailer's brand name, and this is already happening in Australia.

Adams said he fears this would give too much control to the buyer and doubts that most retailers would want to pay for the license up front or want the responsibility of managing production of the variety.

But Margulis said supermarkets place a great value in being able to offer their customers new varieties, and there are advantages for growers, too, since they know they have a home for their fruit.

Recoup investment

Brandt said the new system will provide growers with more security when planting new varieties, by potentially extending the marketable life of the cultivars. Particularly in stone fruits, the life expectancy of a variety is becoming shorter and shorter, he said. Growers are unable to recoup their investment in trees and training systems when a variety is out of date in four or five years, or even a decade.

"This is an attempt to try to lengthen that period of time a variety is viable, to get a return on the investment made," he said.

Brandt emphasized that for this system to work, the variety must be something out of the ordinary. "It can't be like everything else on the shelf," he said. "It has to be something that people recognize as different--sweeter, bigger, brighter. You're going to need a different pricing structure than anything else. People are not going to get into these kinds of systems--having to pay a production royalty--if it's like anything else out there. We have to be able to garner a higher per-box return to make this work."

He figures if growers are receiving a premium of, say, $5 a box, they probably won't mind paying $1 a box royalty, especially if some of that money is being used to promote the variety.

Brandt said the system needs to operate on a worldwide basis, because importation of the same variety could undermine the process unless production is coordinated.

Greed

Jim Ballard, manager of the Pacific Northwest Fruit Tester's Association, said one of the motivations appears to be "greed," and an attempt by breeders to get more money for their varieties than they can get just by charging royalties on the trees. Public funding for breeding programs has been difficult to come by, and breeders are looking for new sources of income.

Cain acknowledged there is resistance to the idea.

"But I think now the concept's caught on enough around the world that people see the advantages, and there clearly are advantages to it for everybody who's involved."

Dave Weil of Tree Connection, Dundee, Oregon, said everyone gets worried when something new is proposed, but he would support it.

"We would like to see a profitable situation for the growers," he said. "At the moment, in marketing, the buyers pretty much have the whole say. When you get into proprietary things, it changes it because you have limited product. It's a specialty product and the grower and the buyer have a better chance of negotiating. If they don't like it, where can they go? I see it as an opportunity, in a sense, for the grower.

"I think growers have to be open to these ideas," Weil added. "I get a lot of negativism. They feel threatened, and I can see why they feel that way. The growers have always been independent, and they don't like to be told what to do. But it's not all bad. I think the grower should have an open mind to the process."