New Zealand Agriculture: 20 years after reform

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New Zealand: Setting the scene

- Total land mass: 270,000 km²
  - Roughly that of Japan or Great Britain
- Population
  - 4.2 million people; highly urbanised
- Trade oriented market economy
- Land use
  - 74% of farm land in permanent pasture
  - 70,000 farms
- Climate
  - Temperate, abundant rain and sunshine
  - Mountainous terrain, variable soils
  - Grass grows all year, livestock grazed outdoors
New Zealand agriculture today

- **Pastoral** farming dominates
  - Sheep: 39.7 million - Beef cattle: 4.6 million
  - Dairy cattle: 5.2 million - Deer: 1.7 million

- **Horticulture** is increasingly important
  - Apples: 500 000 t - Wine grapes: 166 000 t
  - Kiwifruit: 248 000 t - Wine: 119.2 mil L

- **Arable** farming
  - Barley: 65 000 ha - Wheat: 46 000 ha

- **Forestry**
  - 1.9 mil ha of plantation forests
  - Total roundwood: 23.1 mil m$^3$
Agriculture and Forestry: vital to New Zealand’s economy

- Agriculture, horticulture and forestry
  - Highly productive
  - 17% of GDP
  - 12% of employment

- Land Use
  - Agriculture and horticulture: 44% of total land area
  - Forestry: 7% of total land area
Our agriculture sector depends on trade

• New Zealand: a trading nation
• 90% of NZ agriculture production is exported
• Agricultural exports totaled $15.7 billion in 2003-4 *by value*
• Primary produce represented around 62% of total merchandise exports *by value*
• New Zealand is the world’s
  – #1 sheep meat exporter
  – #1 dairy product exporter
  – #2 wool exporter
In the year ended June 2004:

<table>
<thead>
<tr>
<th>D</th>
<th>Production</th>
<th>Exports (share exported)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Butter</td>
<td>466 000 t</td>
<td>(93%) $5.9 billion</td>
</tr>
<tr>
<td>- Cheese</td>
<td>326 000 t</td>
<td>(91%)</td>
</tr>
<tr>
<td>- Milk powders</td>
<td>947 000 t</td>
<td>(96%)</td>
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<tr>
<td>Meat and meat products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sheepmeat</td>
<td>518 000 t</td>
<td>(86%) $4.5 billion</td>
</tr>
<tr>
<td>Wool</td>
<td>165 000 t</td>
<td>(85%) $0.8 billion</td>
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<tr>
<td>Wine</td>
<td>119.2 mil lit</td>
<td>(26%) $0.3 billion</td>
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</tbody>
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Changing export destinations

NZ agricultural exports, by value, year ending 30 June

- **UK**
- **Rest of Europe**
- **Australia**
- **USA, Canada, Mexico**
- **China**
- **Rest of Asia**
- **Africa**
- **Rest of world**
New Zealand’s economy – pre-1984

1950-1984

• NZ flourished under guaranteed access to UK and full employment
• Gov’t borrowing to maintain standard of living
• Manufacturing protected:
  – Grew behind quotas and tariffs, increasingly inefficient
  – Increased costs to agriculture
• Unsustainable fiscal and monetary policies
• ‘Shocks’

1984 “Watershed year”

• Sustained economic underperformance
• No coherent economic strategy; acute problems
  – Fiscal deficit, public debt, current external deficit, inflation, monetary growth
• Tight financial sector controls
• Fixed exchange rate
• Rising unemployment
• Government control pervasive
• Low GDP growth
State sector reforms: 1984 →

- 1984: new Labour government brought change
- Series of macroeconomic and microeconomic reforms
- Removal of gov’t controls/regulation
  - Removal of wage/price controls, deregulation of financial markets, devaluation/floating of dollar, removal of export assistance, lowering of import protection, widening of the tax base, efficiency in gov’t expenditure
- New state sector reform principles:
  - Do not involve state in activities more efficiently performed by community/private business.
  - State trading enterprises → private sector model
  - Introduce market forces to state activities
- Gov’t policy: intervention → elimination of assistance
Impact of reforms

- Economy slow to respond: significant disruptions felt
- Sound macroeconomic policy framework
  - Reduced inflation and fiscal surpluses
- 1990s→export-led improvement in economic growth
  - One of faster growing economies in OECD during past decade.
  - 3.6% average annual GDP growth rate from 1992-2002.
- Growth in service sector
- Clearer price signals for producers and consumers across all sectors
- More flexible labour market and improvements in labour utilisation
- Efficient and responsive public sector
- Increased openness of producers to international competition
Agriculture: Government support 1960→1984

- **1960s:** almost non-existent
- **1970s:**
  - increased to ‘protect’ NZ from overseas shocks
  - Agricultural policy aimed at increasing production for export
- **1980-4:**
  - Increased to compensate for high costs and low commodity prices
  - Support mechanisms introduced:
    - **Price supports:** sheep meat, beef, wool and dairy, SMPs
    - **Input subsidies:** taxation incentives, fertiliser, transport, pesticides, low interest loans, debt write-off, irrigation, research, extension and advisory services, etc. ...
Effects of Support on Agriculture

• Farmers isolated from market signals
  – loss of international competitiveness

• Dependence on support
  – stifled entrepreneurship and innovation

• Misallocation of resources
  – Farm inputs increased → negative environmental impacts
  – subsidies capitalised into land prices
  – few young farmers could afford to buy land
  – intensive farming, low productivity
Agriculture reform: 1984 onwards

- All support withdrawn in 1980s under general economic reforms:
  - Abolished price support
  - Removed capital and input subsidies ‘overnight’
  - Recovered costs of government inspections and moved advisory services to a ‘user pays’ basis
  - Withdrew tax concessions
  - Phased out interest rates and lending concessions
  - Reform of producer board monopolies
  - Reform of administration of agriculture
- Transitional assistance to farmers was ‘minimal’
  - Debt rescheduling, (later) exit packages, living expenses grant
Impact of reforms

- Initial impact:
  - significant, stressful for rural communities
- Farm inputs decreased; activities consolidated
- Predicted “demise of agriculture” overstated
- Farm incomes and land prices:
  - Land prices decreased by 50% in 4 years, recovered in mid-90s
  - Farm profits returned after 2-3 years
- Farm sizes increased
- Farm use patterns changed: diversification, marginal land retired
- Increase in off-farm income
Impact of reforms (cont)

- Farmers:
  - Reacted positively
  - Changed on-farm decisions

- Responsiveness to market signals

- Comparative advantage

- Innovation key to increasing income:
  - new products, new markets, new ways of doing, search for efficiencies, adding value to exports

- Productivity increase and economic growth
Higher growth in total factor productivity

1972-1984:
- Agriculture TFP growth rate: 2.1%
- Forestry TFP growth rate: 1.4%

1985-2002:
- Agriculture TFP growth rate: 3.0%
- Forestry TFP growth rate: 2.5%
Benefits of agricultural policy reform

• The OECD’s 2002 publication, ‘A Positive Reform Agenda’, supports the view that agricultural policy reform:
  – is in the interest of farmers
  – helps governments meet their ‘non-trade concerns’
  – is beneficial domestically
  – reduces trade distortions

• Other benefits for economy/society
  – Positive spin offs for economy, and rural communities
  – Farmers leading other wider reforms
  – Reduced prices for consumers
  – Environmental benefits
Lessons from New Zealand’s reforms

- Intervention easier to start than finish.
- Reform needs strong, ongoing political support
- Innovation/flexibility drives increased productivity/profitability
- Reform needs to be simultaneous across all sectors
- Sequencing is important
- Unilateral reform → substantial benefits on the economy, the environment and society.
- Reform has given farmers a renewed sense of self-respect
- There is limited rationale for government involvement in (agri)business
Modern farming in New Zealand

- Farms privately owned and operated “businesses”
- Farmers’ production decisions and market returns dictated by market and farmer preferences, not government
- Agricultural production is efficient, profitable and sustainable
- No financial support from Government
- Government’s role is to establish an appropriate framework
  - Regulation: main policy tool
  - Gov’t spending only for basic research and pest/disease control
  - Direct support only for large-scale emergencies, climatic events
Looking forward

• Strong competitive agriculture sector – and exports - necessary for continued economic growth
• Supported by innovation, agri-research, biotechnology, RS&T
• Seeking new markets through liberalisation
  – Multilateral
  – Bilateral
• Seeking a fairer agriculture trading system
  – WTO agriculture negotiations
  – Cairns Group