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**

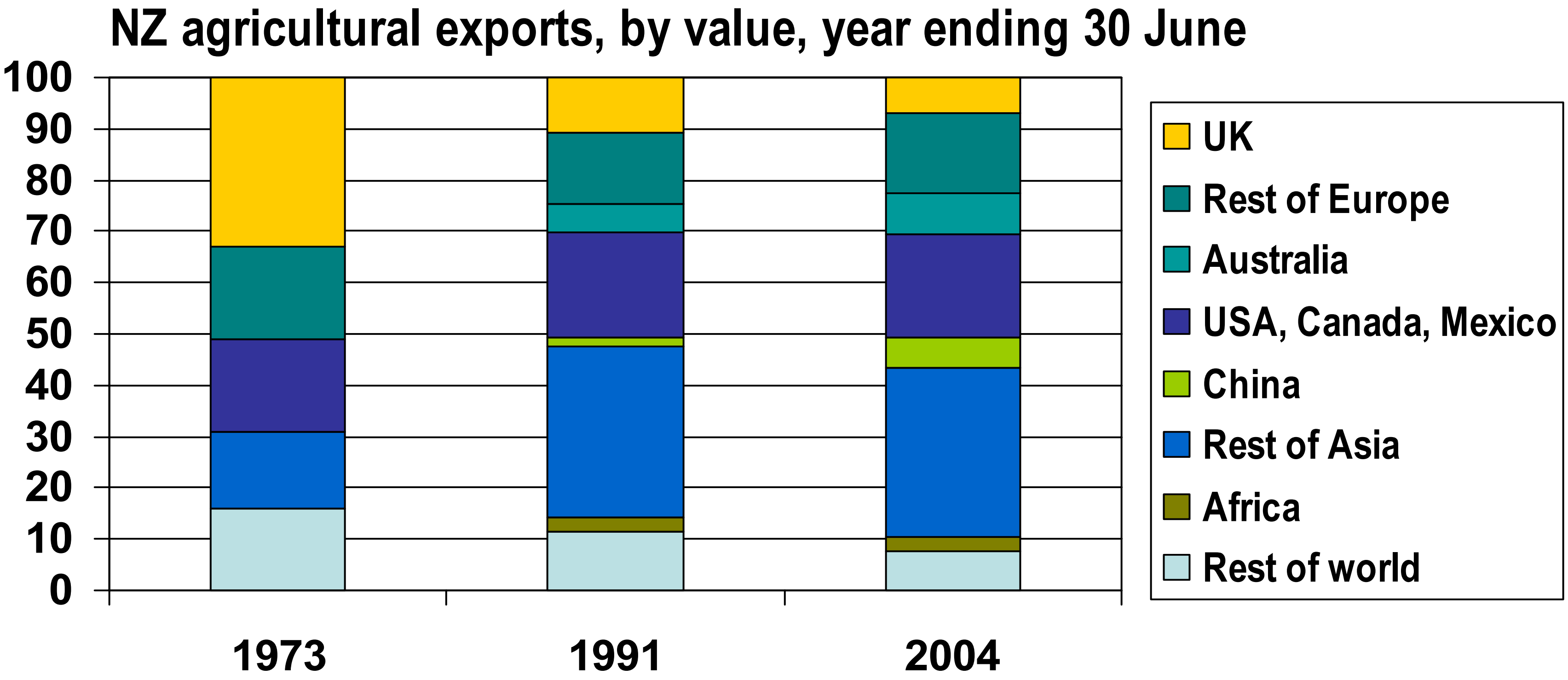

Our agriculture sector depends on trade

- 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:

	Production	Exports (share exported)
Dairy products		$5.9 billion
- Butter	466 000 t	(93%)
- Cheese	326 000 t	(91%)
- Milk powders	947 000 t	(96%)
Meat and meat products		$4.5 billion
- Sheepmeat	518 000 t	(86%)
Wool	165 000 t	$0.8 billion (85%)
Wine	119.2 mil lit	$0.3 billion (26%)

Changing export destinations



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

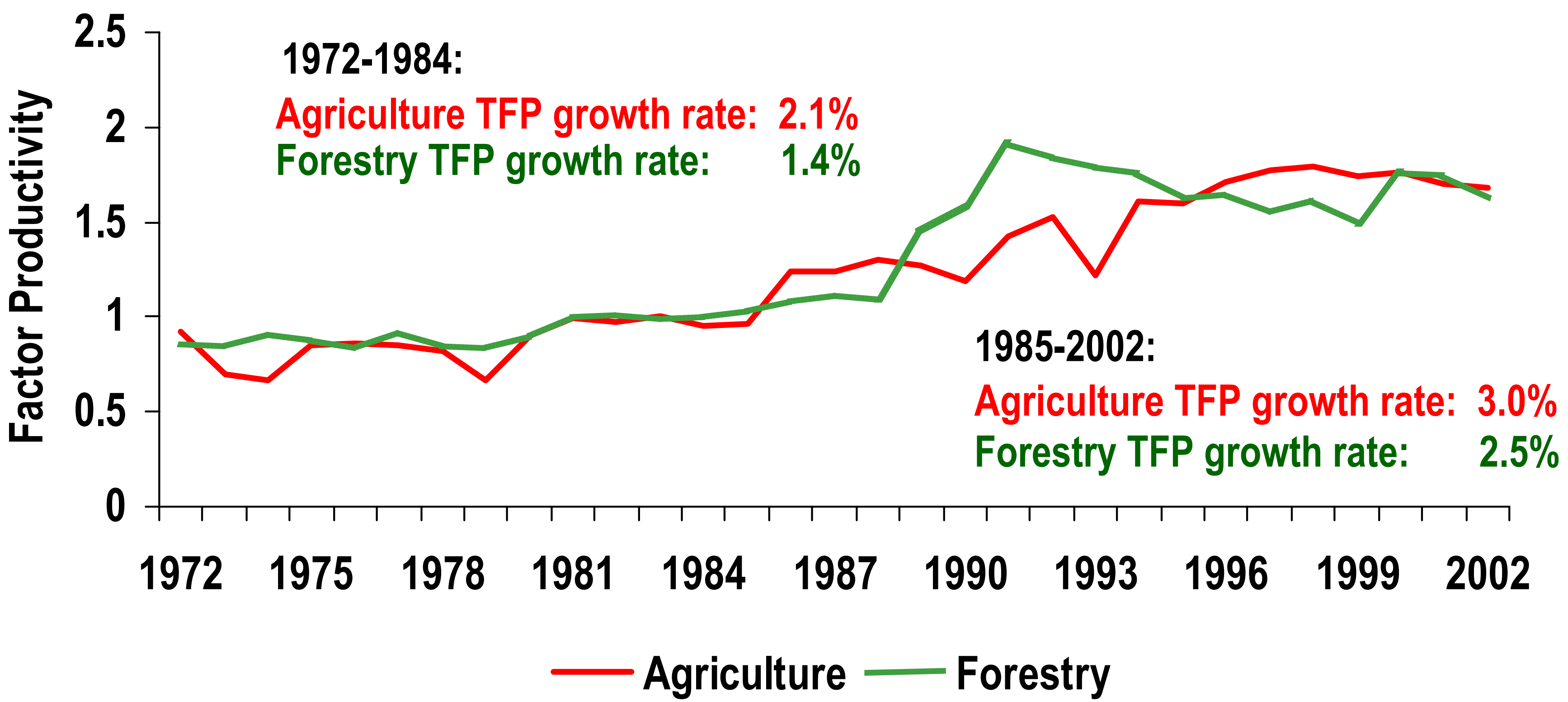

Impact of reforms

- 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



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
- Suported 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