

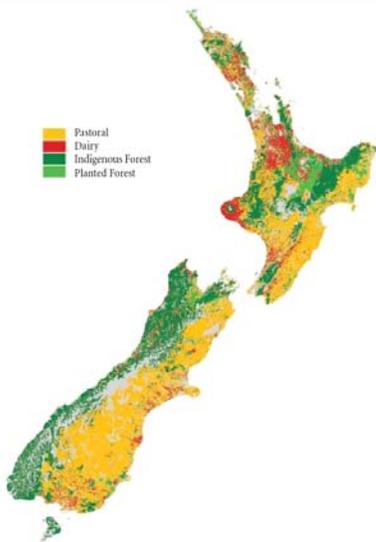


New Zealand Agriculture Policy Review

One in a series of policy notes on countries of interest to Canada. This note draws on analysis from several sources, listed on page 4.

Context for Policy Reform

In 1984, New Zealand introduced important policy reforms in order to address major macroeconomic and fiscal imbalances. New Zealand's support to agricultural producers rapidly decreased from 30 percent of the value of production to about 2 percent, and has remained the lowest among OECD economies since that time.

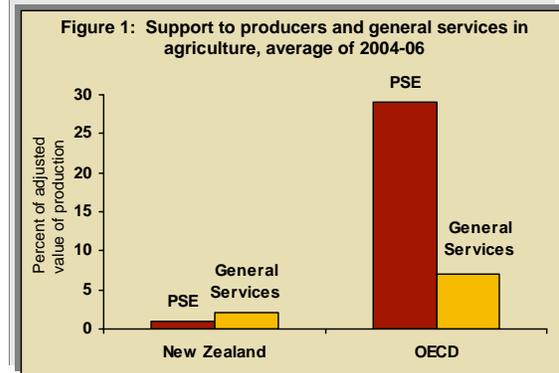


Source: NZMAF (2006)

After a difficult transition, the removal of subsidies resulted in a more diversified and competitive rural economy in New Zealand; total factor productivity growth has been roughly 2.5 percent annually since 1984, compared to roughly 1.5 percent in the pre-reform period.

This Policy Review focuses on agricultural policy today and how New Zealand is supporting the agricultural sector now without resorting to subsidies. It describes the policy New Zealand uses to support farmers dealing with adverse events such as

climatic disasters. It also describes New Zealand's strategy for promoting competitiveness in world markets.



Managing Adverse Events

The New Zealand government's current policy for responding to adverse events is detailed in the "Readiness & Recovery Plan for Natural & Climatic Disasters in Rural Areas" but this will soon be replaced by the "On-farm Adverse Events Recovery Framework". The aim of these programs is to promote a shared understanding of the roles of central and local governments and the primary sector in preparing for, and recovering from, adverse events. Adverse events can include floods, storms, droughts, volcanoes and earthquakes. On-farm means commercial agriculture, horticulture, viticulture and forestry properties.

Currently there are four criteria that must be met before the Government provides on-farm recovery assistance. These are that the event:

- 1) is rare and extreme;
- 2) is economically significant regionally;
- 3) is beyond the community's coping ability; and

- 4) requires government assistance for recovery.

Adverse events are categorized into three levels, depending on their severity: minor (localized) events; regionally significant events; nationally significant events: *Minor, Localized Events:* Rural citizens are encouraged to consider risks they face from extreme, localized climatic and natural events. They are to develop strategies to protect their families, businesses and communities from those risks. Authorities suggest setting aside reserves of money, food and livestock feed, keeping insurance up to date, locating buildings away from high risk areas, and keeping stock in good health.

Individuals can also get taxation relief if the farm business is forced to sell livestock. The Adverse Event Income Equalization Scheme is a voluntary scheme which enables farmers to reduce their current tax burden by carrying forward income.

Regionally Significant Events: Occasionally there are natural disasters which impact on rural communities (region-wide basis). Communities and regional organizations are expected to organize a response. The central government may provide limited assistance including labour assistance, living expenses for families and financial support to regional organization efforts.

Nationally Significant Events: When natural disasters occur on a scale that will seriously impact the national economy, the central government may support local community and regional organization efforts. This support may be provided during and after the emergency.

Communities are encouraged to establish links with key agencies, identify leaders to represent their interests in an emergency, and be prepared to manage events before, during and following an emergency. This involves: having local response plans; training people who can put the plan into action; knowing how to apply for government support; and being aware of the conditions that have to be satisfied to qualify for support.

New Zealand is currently considering new criteria for government intervention. The new approach has 4 components:

- 1) A framework which allows for an overall assessment of the adverse event. This involves assessing the event in 3 areas, using 5 criteria. These criteria would grade the adverse event on a 3 point scale. This scale would help provide an assessment of whether the event was small-scale, medium-scale or large-scale.
- 2) An approach that allows the government to respond in accordance with the magnitude of the event. It is proposed that in a small-scale event, the Government would provide no additional on-farm assistance (other than general recovery measures currently available).

In a medium-scale event, the Government would draw from the “emergency recovery measures” as deemed appropriate for the event (i.e. one measure or a combination of measures might be appropriate). The general recovery measures would continue to be available.

In large-scale events, the Government would draw from both the “emergency recovery measures” and, after review, one of the “special recovery measures”. The general recovery measures would continue to be available.
- 3) A means to balance the role of government and the primary producer. The criteria should reflect the importance of risk mitigation prior to an event. This is important in order to maintain the balance of responsibilities between the government and communities. Although the criteria would be a guide for the Government in intervention, it would be equally important that they reflected the role of primary producers in managing adverse events.
- 4) Flexibility with respect to the nature of government intervention. The criteria should continue to act as a guide in decision-making because the Government’s decision to intervene depends on a complex range of circumstances.

New Zealand's Forward Agenda

In August 2006, a Government-Industry Task Force recommended an agenda designed to mitigate pressures on the environment and natural resources, while developing new products and processes and expanding into new markets. Three priorities were established to achieve economic growth: economic transformation and improved productivity, new high margin products, and new markets. Based on past experience and a survey of future prospects, defensive “business as usual” approaches were considered high risk, as they amount to supporting under-performers and complacency.

A number of world class enterprises have already emerged under New Zealand's sustained reforms over the past two decades. There are success stories such as Fonterra, Zespri, the wine industry, Greenshell Mussels and Whitestone Cheese. However, farm leaders continue to focus on developing new world class enterprises and ask themselves what the key ingredients are for another global leader to emerge from within the sector and how to put in place the conditions necessary for such an event.

Strengths	Weaknesses
<ul style="list-style-type: none"> Natural environment conducive to pastoral and marine production Disease free status Effective bio-security systems Potential for year round production Positive reputation internationally (but awareness limited) Well-developed science capability Innovative culture and tradition Small scale conducive to close networking and information sharing Sustainable management of primary resources 	<ul style="list-style-type: none"> Distance from markets Poor in-market presence Limited understanding of consumer preferences and trading conditions in emerging markets Low levels of private sector R&D Low levels of capital intensity Few NZ owned mid-sized firms hungry for export led growth Skills supply gaps Poor application of intellectual property protections Tendency for “soft-selling” and undercutting in new markets.
Opportunities	Threats
<ul style="list-style-type: none"> Continued income growth in Asia Ongoing global growth in food service Potential to link gourmet cuisine to growing NZ tourism industry to extend global awareness Income rich health conscious baby boomers Closer economic integration with Australia Growing Asian population in New Zealand Ongoing trade liberalization Science based solutions creating “superior” foods Capacity to lift productivity by improved uptake of available knowledge and technique 	<ul style="list-style-type: none"> Declining availability of land, water and wild fish stocks Consolidation of global retail chains leading to uneven bargaining and lower margins in export markets Consolidation of global food producing companies making NZ a branch office Increasing production and rising quality from China and South America Increased flow of goods and people raises risk of pest and disease incursion Rising standards on residues and demands for traceability raise costs of supply Changing global weather patterns

Source: New Zealand Food and Beverage Taskforce (2006).

The groundwork for developing the new agenda provided an overview of the world's

fastest growing markets – from both a geographic and a product oriented basis. Much attention was paid to markets with the biggest potential for growth and profitability (in both the product and geographic sense) as the primary focus for efforts. This allowed markets on the demand side to be prioritized. With this foundation, more targeted SWOT-type assessments were made, focusing on benchmark firms for each target market. In this way, leading prospective clients, areas of demand, and leading competitors were identified.

On the supply-side, analysis was also done based on the world's leading enterprises in different markets. This allowed attention to be focused on turnkey activities that might help position New Zealand's agri-food industries and firms for the future. Government's role is seen primarily as an enabler, with little attention paid to financial transfers. Short shrift was given to small farms, lifestyle farms and commuter farms as underlying analysis suggested that they contribute little to rural employment, rural communities or the economy.

The focus was on how to allow winners to emerge and flourish rather than supporting sectors and firms that had difficulties competing and coping. In New Zealand's SWOT-type analysis, leading firms were used as benchmarks rather than countries. Those involved in the analysis recognized that it is at the firm level where the health of an industry is determined.

Responding to Challenges

For each market, difficult choices must be made as to whether to pursue a “low cost” producer approach or a “branding” approach, with associated value-added and support services. The challenges are to expand into the emerging markets, to capture a larger share of the growing functional food market, and to align resources with emerging market opportunities and the needs of food and beverage firms. Integrated efforts among government and all levels in the value chain are critical.

A “NZ Inc: Smart Food, Cool Beverage” approach has been embraced as the best hope for a resilient and profitable sector. Sector leaders recognize that there is no

single model for success – those that have done well have used a variety of approaches and adopted different strategic pathways. Work is ongoing in developing the tools, marketing strategies, technologies and management structures that will position New Zealand's agri-food sector to tackle challenges, and to share costs and risks.

New Zealand's Experience – The Takeaway

New Zealand's agri-food sector is thriving with levels that are the lowest in the OECD. There is no desire to return to the days of extensive government support.

New Zealand does provide support to help the agricultural sector cope with adverse events beyond the ability of the individual producer. But the New Zealand approach to such events is closely circumscribed according to the scale of the event.

When evaluating competitors, New Zealand found it more useful to benchmark with leading firms rather than countries; it is at the firm level where competition actually takes place. The sector examines successful firms with a view to establishing best practices and performance benchmarks, and views them as potential competitors, clients, investors and partners when planning for the future.

New Zealand farming and the rural economy are now more diversified, responsive and better positioned to deal with changing consumer and societal demands both at home and abroad.

Sources

Lattimore, R. 2006. Farm subsidy reform dividends, paper presented at the North American Agri-Food Market Integration Consortium, Calgary, Alberta, June.

New Zealand Food and Beverage Taskforce (2006) Smart Food, Cool Beverage: New Zealand's Future in the Food and Beverage Sector, Wellington, August.

New Zealand Ministry of Agriculture and Forestry (NZMAF) (2006) Agriculture in New Zealand: Past, Present, Future, ABARE publishing, Canberra.

_(2006) MAF Statement of Intent 2006/09, Wellington.

_(2006) Situation and Outlook for New Zealand Agriculture and Forestry, Wellington.

_(2005) Contribution of the Land-based Primary Industries to New Zealand's Economic Growth.

_(2005) Briefing for Incoming Ministers, Wellington.

OECD (2007) Agricultural Policies in OECD Countries, Paris, June.

For further information regarding this paper, contact:

Brad Gilmour (gilmourb@agr.gc.ca, 613-759-7404)

Rajendra Gurung (gurungr@agr.gc.ca, 613-694-2451)

For further information regarding this series, contact:

Cameron Short, Director, Policy Analysis Division (shortc@agr.gc.ca, 613-759-7426)

October 2007

Project No. 07-050-b