Ministry for Primary Industries
Manatū Ahu Matua

New Zealand Agriculture

A policy perspective

November 2017

New Zealand's agricultural policies – a brief history

In the 1950s and 1960s, farm subsidies were virtually non-existent in New Zealand. We traded more than half of our production with the United Kingdom (UK), especially in sheep meat and butter, but New Zealand suffered from a number of external shocks through the 1970s.

The oil shocks hit New Zealand hard given its dependence on imported oil, and when the UK joined the European Economic Community in 1973, New Zealand lost its guaranteed access to what had been its most important market.

Fifty years ago, New Zealand's exports, representing about 76 percent of the total export value at the time, went to countries that are now members of the European Union (EU). Greater diversification across world markets over the years has reduced this percentage to around 12 percent in the year ending March 2017 (see Figure 1).

New Zealand has learnt from experience that there is no one model for agriculture policies that suits all circumstances, and that adjustments to policies are required from time-to-time.

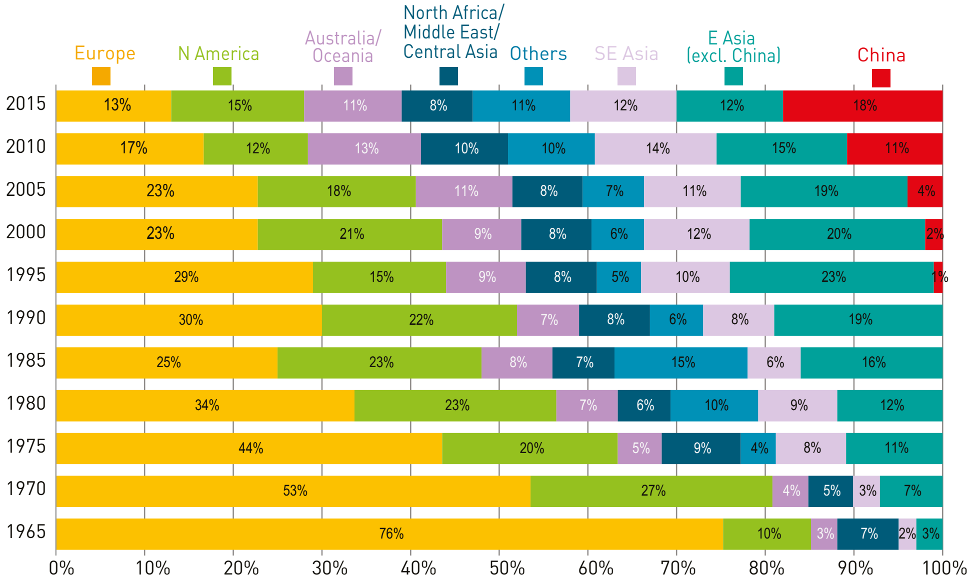
However, it has become clear that open, trade-focused policies deliver long-term economic, environmental and social benefits, and enables the development of a competitive, resilient and responsive primary sector.

Agriculture policy reform: what did New Zealand do?

In the 1970s and early 1980s, New Zealand's governments at the time introduced agricultural support to farmers to encourage them to boost production. The aim was to help make up the foreign exchange shortfall from increased oil costs, the collapse in commodity prices, and the loss of significant income from agricultural exports to Britain.

As part of this work, a wide range of support mechanisms were introduced, such as minimum prices for agricultural goods, input subsidies, low-interest loans, tax incentives and debt write-offs. As a result, farmers became less responsive to market signals, including demand for products, less innovative, and resources were

Figure 1: New Zealand's agricultural export markets over time from 1965–2015



Source: Ministry for Primary Industries 2016

not used efficiently. For example, in some places farmers developed land that would later prove to be unviable to farm without subsidies. As subsidies were capitalised into land prices, few young farmers could afford to buy land. Productivity also decreased, as the support payments provided a secure income without the need to innovate. The processing sector was also characterised by decreased efficiency.

It was clear by the mid-1980s that the policy of subsidising agriculture was not working: the fiscal costs were too high; the sector was becoming increasingly uncompetitive on international markets; and resources were misallocated within the sector. It was generally agreed that it was economically unsustainable to continue subsidising agriculture and protecting the manufacturing industry.

Major reforms began in 1984 with a transition towards a market-driven, competitive economy for all sectors. The reforms were extensive and economy-wide. The objectives for reform were to create a level playing field, effectively treating farming like any other business. The reforms included the removal of all price support payments for farmers and the exchange rate was adjusted from its overvalued state.

Reforms had immediate and widespread effects on agriculture and the rural economy. Farm incomes fell, as did farm profitability and land values, and farm input costs and debt increased. Some farmers were forced to abandon farming. The rural hardship was compounded by low international prices for agricultural products during the middle and late 1980s and by the cost burden of increasing interest rates.

The reforms were difficult. A number of rural businesses stopped operating, unemployment temporarily rose and some small rural towns experienced reductions in population.

Some of the negative impacts were mitigated through assistance available in the form of an exit package and some debt restructuring by the Government.

Despite the hardships, very few farmers left the sector, with only about one percent of farmers taking exit packages and about five percent of farmers leaving the land between 1985 and 1989. These numbers are not significantly greater than the normal rate of farm bankruptcies. It was predicted that up to 8,000 farmers, or 16 percent, would leave the land – in fact the number was closer to 800.

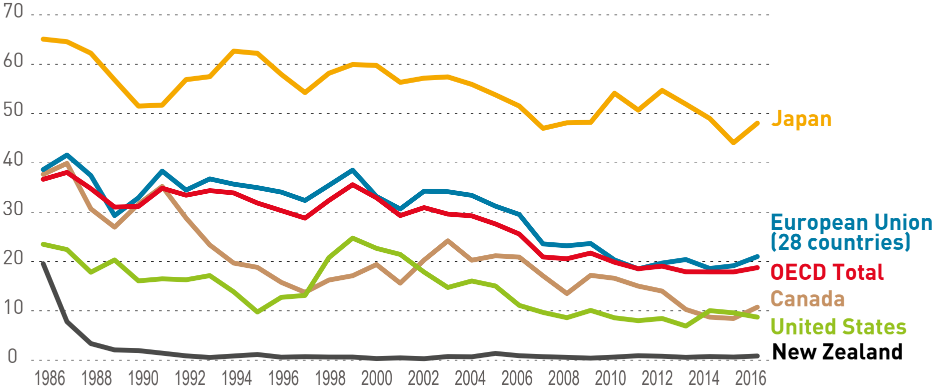
About 20 percent of total rural debt was written off and about six percent of farms were sold (considerably fewer than expected, and mostly to other farmers). Some rural communities also established Rural Support Trusts to support farming families through these changes.

New Zealand's agriculture policies post-reform

New Zealand has about the same number of people employed in agriculture today as it did in the pre-reform era. Agriculture productivity has quadrupled and the sector's share of Gross Domestic Product (GDP) has grown. Farm values initially fell but have recovered most of their value in real terms. There was also an indirect positive impact on the environment from the removal of subsidies in terms of the application of fertilisers and the reduction in sheep flock numbers.

New Zealand's experience shows that change can lead to industry being better placed to respond to market demand, in addition to being more competitive, more responsive, and significantly less burdensome on taxpayers.

Figure 2: OECD estimate of Government support for producers (% of gross farm receipts), 1986–2016



Source: OECD – July 2017

New Zealand's agriculture sector: support from Government

New Zealand has the lowest level of agricultural subsidies in the OECD – less than one percent of producers' income (the average for the OECD was 16 percent for 2016 (*OECD Agriculture Policy Monitoring and Evaluation* 2017)).

New Zealand's only direct government funding to farmers is for erosion control, as well as provision of welfare benefits for income hardship due to natural adverse events, such as flooding or drought. This is comparable to the unemployment benefit, but has stricter parameters and is not universal. General funding is available for organisations and groups working to provide mental health support.

New Zealand does not use export subsidies or trade distorting domestic support for any agricultural product, and has not done so since the 1980s.

Support for agriculture is limited to "Green Box"[1] subsidies, which only have a minimal effect on trade. These cover items such as government expenditure on biosecurity, research and development, and relief after natural disasters.

New Zealand farmers receive the world price for their products with no subsidies or other payments.

New Zealand farmers must also compete on international markets, often against heavily subsidised competitors.

A number of international bodies have commented on New Zealand's agricultural policies.

1 Green Box subsidies are defined in Annex 2 of the WTO Agriculture Agreement and must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

International commentary on New Zealand's agricultural policy

"The primary sector plays a key role in New Zealand's economy. Benefitting from high commodity prices, agricultural products contributed to 70 percent of total merchandise exports in 2014. Agriculture is a highly-productive sector, with minimal Government intervention. Tariffs on agricultural products continued to decline and there are no import quotas or licensing. Domestic support is limited to biosecurity border control for pest and disease and relief against climate disasters. (Executive Summary, para. 18, page 8).

New Zealand's agriculture is a highly-productive, market-oriented sector, with minimal government intervention. Tariffs on agricultural products are among the lowest worldwide and no imports are subject to quotas or licensing. (Para. 4.2, page 72)."

New Zealand's WTO Trade Policy Review (2015) WT/TPR/s/316/rev.1

Rural communities

Healthy and vibrant rural communities have long been a part of New Zealand's social identity. They are central to the continued success of New Zealand's primary industries, and contribute to the success of New Zealand's society as a whole.

New Zealand's rural population is approximately 14 percent of the total population. In the 1960s, the proportion was almost 25 percent. In line with much of the developed world this has gradually shifted downwards as the boundaries of urban areas grow and as people relocate. At the height of the reform era (the 1980s and 1990s) the proportion of rural population to total population was approximately 15-16 percent.

The agricultural reforms of the 1980s coincided with a period of significant social and political change as New Zealand grappled with issues that went to the heart of a changing national identity. As New Zealand became more focused on urbanisation, the uptake of new technology, shifting gender participation in the workforce, and its international image, rural communities became just one of many voices within a richer, more diversified society and economy.

During the agricultural reforms, some farmers chose to leave farming to pursue opportunities in the burgeoning non-traditional sectors. While forced sales of farms and the exit of farmers out of the primary sector were smaller in number than anticipated, the social fabric of these rural communities changed as a result of the decrease in population, the shift in demographic profile and the subsequent downsizing of services in the rural areas. Government assistance in the form of debt restructuring, credit mediation, business planning, and transition funding, helped mitigate the impact. However, social pressures were immense with mental health issues coming to the fore for some, while many others drew on social assistance.

Nevertheless, the anticipated "rural collapse" did not occur, testifying to the resilient and rallying spirit of New Zealand's rural communities. In many areas Rural Support Trusts were formed to provide support services such as farming or business advice, financial information, health, mental health and counselling services. Today, 14 Rural Support Trusts exist around the country, and they are invaluable on a day to day basis for rural communities, but also in the aftermath of a natural disaster or climatic event.

Diversification

The reforms changed the landscape of rural communities as efforts were directed towards new activities. Diversification of the rural economy was a key outcome of the reforms with growth in industries such as horticulture and wine, and combining wine and food to promote tourism in the regions. In 1984, New Zealand had six thousand hectares of wine grapes; there's now more than 35 thousand hectares dedicated to wine grapes. Horticulture export revenue in 2016 has grown more than ten-fold since 1985 and horticulture is now 10.3 percent of New Zealand's total merchandise exports.

New Zealand's outcomes-based system

The rural economy has transformed since the removal of production-based subsidies. Agricultural production is run as any other business; production decisions and market returns are dictated by the domestic and overseas markets. Sales depend on meeting customers' expectations of price, quality, integrity of the supply chain and sustainability.

Further, the New Zealand regulatory model, which is a preventative risk and science-based system, places responsibility on producers to demonstrate compliance with standards. This encourages businesses to understand the risks associated with their products and production processes and account for them within their business.

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