

Chapter 17

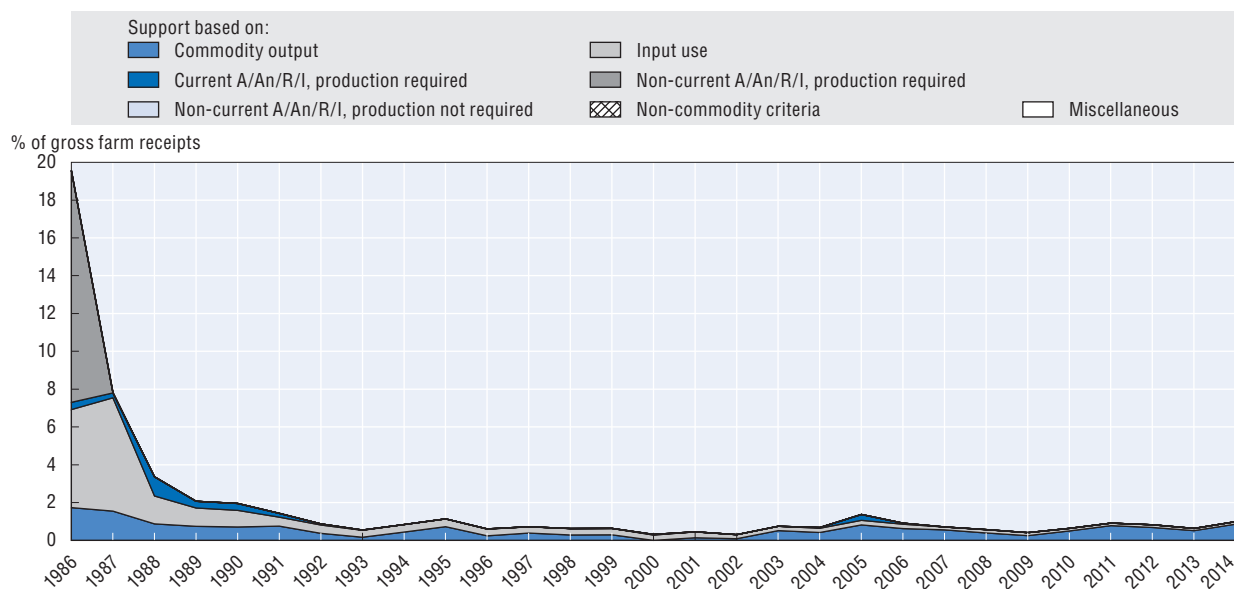
New Zealand

The New Zealand country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.


Evaluation of policy developments

- Following the reforms of agricultural policies in the mid-1980s, production and trade distorting policies supporting the sector have virtually disappeared. For more than two decades, the level of support in New Zealand has been the lowest across the OECD. Support is provided only in the context of animal disease control and relief in the event of natural disasters, and almost all domestic prices are aligned with world market prices.
- Since the elimination of statutory marketing boards during the 1980s and 1990s and the removal of remaining restrictions on rights to export dairy products into specific tariff quota markets by the end of 2010, practically all of New Zealand's agricultural production and trade is free from economic regulations. The kiwifruit sector is an exception as Zespri, a New Zealand company, is the only company that has automatic rights to export New Zealand produced kiwifruit to markets other than Australia. Other groups can export in collaboration with Zespri or independently to Australia.
- New Zealand policies have a strong focus on water and climate change. It has established national frameworks for land and water quality and allocation. Agriculture reports to the Emission Trading Scheme. Efforts to develop additional market-based approaches to environmental issues offer opportunities to enhance environmentally sustainable development.
- New Zealand's Import Health Standards effectively prevent fresh poultry, eggs and some bee products from being imported under current economic conditions, New Zealand should investigate alternatives to the current system for achieving its sanitary objectives.

Figure 17.1. **New Zealand: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", OECD Agriculture Statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

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Contextual information

New Zealand is a small open economy with a relatively high dependency on international trade. New Zealand is a consistent net exporter of agro-food products, with more than half of its total exports coming from the agro-food sector. In turn, agro-food imports represent some 11% of the country's total imports. New Zealand is the world's largest exporter of dairy products and sheep meat. The importance of agriculture in the total economy is high compared to most other OECD countries, with agriculture accounting for some 7% in both GDP and employment. New Zealand's farming system is primarily based on year-round grass-fed livestock.

Table 17.1. New Zealand: Contextual indicators, 1995, 2013¹

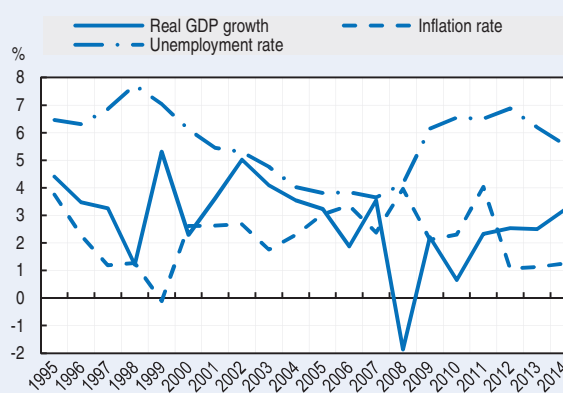
	1995	2013 ¹
Economic context		
GDP (billion USD)	62	186
Population (million)	3.7	4.5
Land area (thousand km ²)	263	263
Population density (inhabitants/km ²)	14	17
GDP per capita, PPP (USD)	17 639	34 424
Trade as % of GDP	22.3	21.3
Agriculture in the economy		
Agriculture in GDP (%)	7.1	7.2
Agriculture share in employment (%)	9.4	6.5
Agro-food exports (% of total exports)	49.1	59.4
Agro-food imports (% of total imports)	7.8	10.7
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	5 657	19 173
Crop in total agricultural production (%)	25	20
Livestock in total agricultural production (%)	75	80
Agricultural area (AA) (thousand ha)	14 975	11 280
Share of arable land in AA (%)	11	5
Share of irrigated land in AA (%)	..	6
Share of agriculture in water consumption (%)	24	..
Nitrogen balance, kg/ha	34	52

1. Or latest available year.

Sources: OECD Statistical Databases, UN Comtrade Database, World Development Indicators and national data.

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Figure 17.2. New Zealand: Main macroeconomic indicators, 1995-2014



Source: OECD Factbook Statistics.


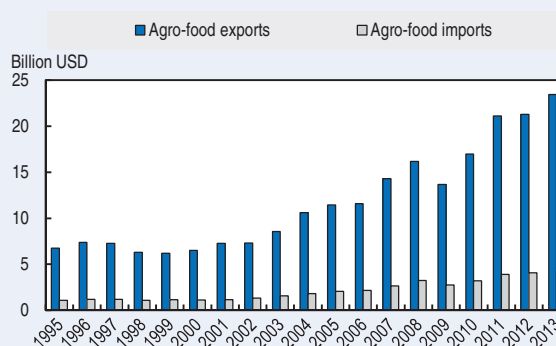
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Figure 17.3. New Zealand: Agro-food trade, 1995-2013



Source: UN Comtrade Database.

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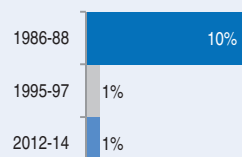
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

New Zealand has an export oriented agricultural sector, representing more than half of the country's total exports. With the exception of a few products subject to import restrictions related to sanitary measures, domestic prices have been aligned with world markets for the last two decades, and the level of support is consistently the lowest among OECD countries. Policy focuses on sector-wide general services, particularly research, animal disease control and water management.

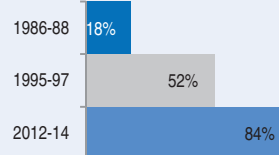
PSE as % of receipts (%PSE)

Producer support represented 0.8% of gross farm receipts in 2012-14, down from 10% in 1986-88. It has been the lowest in the OECD since the agricultural reforms of the mid-1980s.



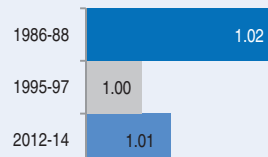
Potentially most distorting support as % of PSE

The bulk of the (very low) support to producers is provided as potentially most distorting support (based on output and variable input use – without input constraints): in 2012-14, these represented 84% of the PSE, up from 20% in 1986-88. It is exclusively a result of sanitary measures.



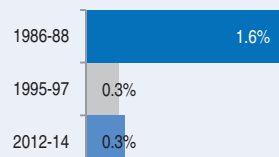
Ratio of producer price to border price (NPC)

With domestic prices virtually perfectly aligned with international markets, agricultural receipts were almost identical to what they would have been at world prices in 2012-14. The only exceptions were poultry and eggs, due to sanitary import restrictions.

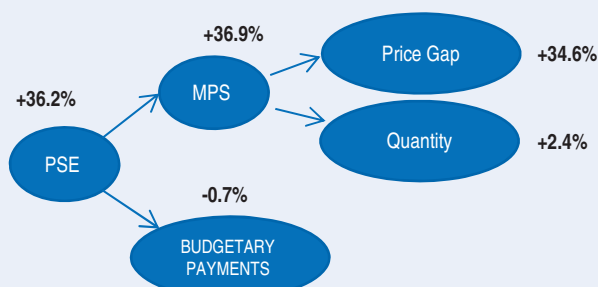


TSE as % of GDP

Total support to agriculture represented 0.3% of GDP in 2012-14, of which GSSE constituted approximately 73%.

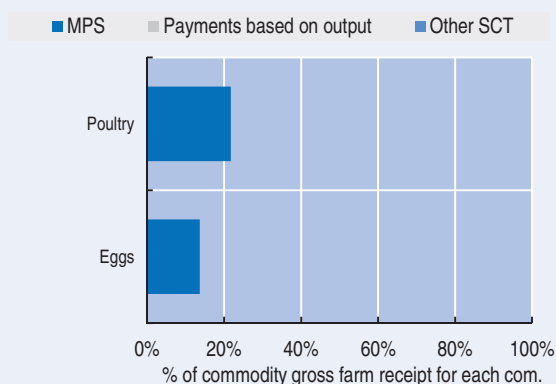


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to the widened market price gap for poultry, following higher domestic and lower international prices.

Transfer to specific commodities (SCT), 2012-14



Producer SCT by commodity was 22% for poultry, 14% for eggs and zero for all other commodities in 2012-14.

Table 17.2. New Zealand: Estimates of support to agriculture

Million NZD	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	6 860	9 669	23 717	21 676	26 430	23 046
<i>of which: share of MPS commodities (%)</i>	72.1	72.1	78.2	77.5	80.3	76.8
Total value of consumption (at farm gate)	1 667	2 319	3 913	3 748	4 075	3 916
Producer Support Estimate (PSE)	775	79	192	179	168	229
Support based on commodity output	104	43	161	148	136	198
Market Price Support ¹	101	43	161	148	136	198
Payments based on output	3	0	0	0	0	0
Payments based on input use	314	35	31	31	31	30
Based on variable input use	3	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	271	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Based on on-farm services	40	35	31	31	31	30
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	42	1	0	0	1	0
Based on Receipts / Income	42	1	0	0	1	0
Based on Area planted / Animal numbers	0	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	315	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0	0
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	10.2	0.8	0.8	0.8	0.6	1.0
Producer NPC (coeff.)	1.02	1.00	1.01	1.01	1.01	1.01
Producer NAC (coeff.)	1.12	1.01	1.01	1.01	1.01	1.01
General Services Support Estimate (GSSE)²	203	180	514	530	493	519
Agricultural knowledge and innovation system	102	116	250	252	244	255
Inspection and control	54	43	163	169	156	165
Development and maintenance of infrastructure	47	20	101	110	94	98
Marketing and promotion	0	0	0	0	0	0
Cost of public stockholding	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	26.9	69.7	72.9	74.8	74.6	69.4
Consumer Support Estimate (CSE)	-93	-36	-151	-143	-123	-186
Transfers to producers from consumers	-93	-36	-151	-143	-123	-186
Other transfers from consumers	0	0	0	0	0	0
Transfers to consumers from taxpayers	0	0	0	0	0	0
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	-5.7	-1.6	-3.9	-3.8	-3.0	-4.7
Consumer NPC (coeff.)	1.06	1.02	1.04	1.04	1.03	1.05
Consumer NAC (coeff.)	1.06	1.02	1.04	1.04	1.03	1.05
Total Support Estimate (TSE)	978	259	706	710	661	747
Transfers from consumers	93	36	151	143	123	186
Transfers from taxpayers	885	222	555	567	538	562
Budget revenues	0	0	0	0	0	0
Percentage TSE (% of GDP)	1.6	0.3	0.3	0.3	0.3	0.3
GDP deflator (1986-88=100)	100	128	184	179	184	187

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for New Zealand are: wheat, maize, oats, barley, milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

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Description of policy developments

Main policy instruments

Agricultural support in New Zealand is largely limited to expenditures on general services, such as agricultural research and bio-security controls for pests and diseases. To a significant share, the costs of regulatory and operational functions, including those for border control, are charged to beneficiaries.

In the event of **natural disasters** that are beyond the response capacity of private insurance, local farmer organisations or territorial local authorities, farmers may receive restricted assistance to help replace production capacity. In the event of a medium or large scale natural disaster farmers whose income falls below a threshold level may, for a limited period and if the farmers cannot support themselves with cash assets or with other sources of income, be eligible for the equivalent of the unemployment benefit.

New Zealand requires **Import Health Standards (IHS)** for all risk goods before they can be imported into New Zealand. Some products (representing a small share of New Zealand's agricultural output: eggs, uncooked poultry and some bee products) fail to meet the relevant IHS and therefore cannot be imported. These measures lead to some market price support for the mentioned products.

Since the elimination of statutory marketing boards during the 1980s and 1990s and the removal of remaining restrictions on rights to export dairy products into specific tariff quota markets by the end of 2010, practically all of New Zealand's agricultural production and trade is free from economic regulations. Such regulations continue to be maintained on **exports of kiwifruit**: the New Zealand company Zespri has the default but not sole right to export kiwifruit to all markets other than Australia. Other groups willing to export can do so independently to Australia or in collaboration with Zespri to other countries. In case of objection by Zespri to collaborative marketing applications, Kiwifruit New Zealand (the regulator) can still approve collaborative marketing applications if it expects overall wealth of New Zealand kiwifruit suppliers to increase.

The **Dairy Industry Restructuring Act of 2001 (DIRA)** aims to promote the efficient operation of the New Zealand dairy industry. In particular it aims at ensuring that farmers can freely enter and exit the Fonterra Co-operative, and that other processors can obtain raw milk necessary for them to compete in dairy markets. Since the DIRA regime was put in place the share of milk collected by the Fonterra Cooperative has declined from about 96% of the New Zealand total in 2002-03 to approximately 87% in the 2013-14 season.

“Industry good” activities¹ (such as research and development, forming and developing marketing strategies, and providing technical advice) previously undertaken by statutory marketing boards are now managed through producer levy-funded industry organisations under the **Commodity Levies Act 1990**. Under this legislation, levies can only be imposed if they are supported by producers, and producers themselves decide how levies are spent. With a very limited number of exceptions, levy funds may not be spent on commercial or trading activities. The levying organisations must seek a new mandate to collect levies every six years through a referendum of levy payers.

Two key policy measures that address agri-environmental issues are the **Resource Management Act 1991 (RMA)** and the **Sustainable Farming Fund (SFF)**. The objective of the RMA is to promote the sustainable management of natural and physical resources, including soil, water,

air, biodiversity and the coastal environment. RMA responsibilities are generally assigned to regional and district councils. They include environmental regulation, soil conservation, flood control and drainage works, and plant and animal pest control. In early 2013, the Government initiated proposals to reform the RMA. The proposals include increased national direction on planning matters, to provide greater consistency and improve certainty.

The SFF, which was set up in 2000, supports community and industry driven projects aimed at improving the productive and environmental performance of the primary sectors. In 2011, the SFF was expanded to include aquaculture reflecting the Ministry for Primary Industries' new responsibility for fisheries as well as agriculture, forestry and food safety. In late 2012, a smaller and additional funding round was held, which focused specifically on Maori agribusiness projects. Overall, the Fund has backed around 900 projects over 13 years, supporting sustainability and resilience in the primary sector.

The **Primary Growth Partnership (PGP)** programme was introduced in 2009 and is administered by the Ministry for Primary Industries. The PGP is a Public-Private-Partnership initiative (industry contributions must be at least equal to Crown funding) that invests in significant programmes of research and innovation to boost agricultural productivity, economic growth and the sustainability of New Zealand's primary, forestry and food sectors. The total PGP funding commitment from government and industry in these programmes as at the end of 2014 was around NZD 680 million (USD 567 million),² of which NZD 131.7 million (USD 110 million) have already been paid by the government by that date.

The **Irrigation Acceleration Fund (IAF)** was announced in the 2011-12 budget. The IAF superseded the Community Irrigation Fund established in 2007 and additionally builds on the grant funding support previously provided to irrigation-related projects through the Sustainable Farming Fund. The IAF has a budget of NZD 35 million (USD 29 million), spread over five years, and will support development of proposals to an investment-ready stage as well as strategic water management studies. To be eligible for funding, the projects need to promote efficient use of water, environmental management, and demonstrate a commitment to good industry practice. IAF grants up to the end of September 2014 amounted to NZD 27.5 million (USD 23 million) spread over 18 projects.

Domestic policy developments in 2014-15

The main policy developments that may impact on the agricultural sector include: encouraging innovation and sustainable growth; managing water and land resources; greenhouse gas initiatives; food safety policy and bio security. The detailed policy changes are as follows.

The **Crown Irrigation Investments Limited (CWI)** was announced as part of the 2013-14 budget and then established on 1 July 2013. The company has been established to act as a minority investor for regional off-farm water infrastructure projects, including potentially projects that were supported to the investment-ready phase by the IAF. The company will only provide bridging investment through the critical uptake risk period. Projects must be demonstrably viable in the medium term with clear exit strategies required before any investment proceeds. Until the end of 2014 only one project had met the necessary criteria, accounting for NZD 6.5 million (USD 5.4 million). The Government has indicated a total investment of up to NZD 400 million (USD 334 million); to date, NZD 120 million (USD 100 million) has been provided to the company.

Agriculture began mandatory reporting at processor level in the New Zealand **Emissions Trading Scheme (NZ ETS)** from 1 January 2012. This affects meat processors, dairy processors, nitrogen fertiliser manufacturers and importers, and live animal exporters, although some

exemptions apply. The NZ ETS also imposes an emissions cost on the transport fuels, electricity production, synthetic gases, waste and industrial processes sectors. This provides incentives to reduce emissions from farm inputs including petrol, diesel and electricity, as well as the transport and processing of farm products. The New Zealand Government continues to look at ways to develop mitigation technologies to reduce agricultural greenhouse gas emissions. This includes through funding the New Zealand Agricultural Greenhouse Gas Research Centre and by committing NZD 45 million (USD 38 million) until June 2016 to fund New Zealand's participation in the Global Research Alliance, of which New Zealand currently holds the Secretariat. The Alliance brings countries together to focus on research, development and extension of technologies and practices that will help deliver ways to grow more food (and more climate-resilient food systems) without increasing greenhouse gas emissions.

The Ministry for Primary Industries is supporting the industry-led programme for **managing the kiwifruit disease Psa** (*Pseudomonas syringae* *pv.* *actinidiae*). Since its first identification in New Zealand in 2010, Psa has spread to the majority of kiwifruit growing areas. In December 2012, the Government declared Psa to be a biosecurity event under New Zealand's Primary Sector Recovery Policy (which covers adverse climatic and biosecurity events). As a consequence, kiwifruit growers who have been severely impacted by Psa may be eligible for Rural Assistance Payments. Farm households must apply to receive the Rural Assistance Payment and are only eligible when they have no other significant income from the farm business as a result of the biosecurity event, or other sources of income and realisable cash assets. The level of the payment provides for essential living expenses only and at the same rate as unemployment benefits. Payments are for a maximum of 12 months and do not cover losses of income, livestock, land or other production factors. In the event that a climatic or biosecurity event occurs on a scale that will seriously impact the regional or national economy, central government may provide additional support to local community and regional organisations under the Primary Sector Recovery Policy.

The new **Food Act 2014**, which succeeds the old act dating from 1981, aims to make it easier and less costly to run food businesses, while ensuring the food produced is safe and suitable for sale. The Act also aims to give food businesses the tools to manage food safety themselves based on the level of risk associated with the kinds of food produced and in a way that suits their business. A central feature of the new Act is a sliding scale, where businesses posing a higher food safety risk will operate under more stringent requirements and checks than lower risk businesses.

In 2012, the Government amended the **Biosecurity Act 1993** to include a framework that enables government and industry to work together in partnership through a **Government Industry Agreement (GIA)**. In particular, this framework provides for joint decisions on such activities as well as for their joint funding, taking into account the public and industry benefits that the activities deliver. The objective of the GIA is to prepare for and effectively respond to biosecurity risks. To take part in GIA, an industry organisation – that fulfils all the requirements – must sign an agreement (“Deed of Agreement”) with the government. The key elements of the GIA include: partnerships to deliver a better biosecurity system; shared decision-making and cost-sharing between government and industry to support an efficient and effective biosecurity system; and identifying and addressing priority risks to minimise harm. While signing a GIA is entirely voluntary, it allows the primary industry to have a direct say in managing biosecurity risks. At the end of January 2015, four primary industry bodies covering kiwifruit, pome, equine, forestry and pork have signed GIAs with the Ministry for Primary Industries (MPI). MPI provides advice and support to those industries considering signing up to a GIA.

During the year continued progress has been made on developing a **Maori agribusiness programme**. The focus of the programme is to provide Maori landowners with access to information, skills and networks to assist them with improving productivity on their collectively owned lands. A stocktake of initiatives that deliver skills, training and capacity development opportunities relevant to Maori was undertaken in 2012-13. Prototype projects, such as supporting the development of a Memorandum of Understanding (MoU) between iwi (tribal groups) for the joint management of a property, have also been launched. Projects are funded out of existing budgetary resources, such as the Sustainable Farming Fund (see above).

A new approach to management of New Zealand's fresh water resources was signalled in 2014, with the government issuing a revised **national policy statement on fresh water management** (NPS-FM) under the RMA. The statement requires regional councils to put in place systems to maintain or improve overall water quality in their region, and it will establish minimum water quality standards. Regional councils will have until 2025 to set these objectives and to have a plan for achieving them. The Government has indicated it will provide some funds to assist regional councils in meeting these requirements.

Trade policy developments in 2014-15

New Zealand currently has nine **Free Trade Agreements** (FTAs) in force, which account for some 50% of its primary industry exports. In the past seven years, New Zealand has entered into three new FTAs with individual countries: **China** (2008); **Malaysia** (2009); and **Hong Kong (China)** (2011). New Zealand has also entered into a regional trade agreement with the **Association of South East Asian Nations (ASEAN)** and **Australia**. The **ASEAN Australia and New Zealand Free Trade Agreement (AANZFTA)** entered into force for all signatories on 10 January 2012. In 2013, an Economic Co-operation Agreement between New Zealand and the **Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu (Chinese Taipei)** was also concluded, which entered into force in December 2013.

During the 2013-14 period, New Zealand was heavily involved in FTA negotiations with: countries under the **Trans-Pacific Partnership Agreement (TPP)**; the Regional Comprehensive Economic Partnership (RCEP); **Korea**, and **India**. FTA negotiations were also held with the **customs union of the Russian Federation, Belarus and Kazakhstan**, but these were suspended in March 2014. Negotiations with Korea were successfully concluded in November 2014 with agreement in principle on an FTA due to come into force in 2015.

Notes

1. Activities "beneficial to the industry, but whose benefits cannot be captured by those who fund or provide the activity", or "long-term investments in the industry made with the expectation of accelerating delivery of better technology and products for the industry" (NZIER, 2007).
2. All values in this policy description use the 2014 exchange rate for monetary conversion.

References

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