

International Study Tour to New Zealand

Analytical Report

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Introduction

One of the major challenges facing agriculture in New Brunswick is the reduction of government support services and subsidies at a time of general trade liberalization and increasing competition. Producers and agribusiness acknowledge this challenge, and recognize the need to develop strategies to manage and prosper within such an environment of continual change. At an international level, New Zealand experienced similar challenges in the 1980s, and aggressive measures were imposed. More than a decade later, New Zealand serves as an effective model for analysis of such dramatic shifts in policy. For this reason, participants in New Brunswick's first Advanced Agricultural Leadership Program (AALP) selected New Zealand as their international study tour destination. Our objectives for the tour were:

- to assess on a firsthand basis the impact of New Zealand's reforms
- to evaluate the results that have occurred
- to learn how agriculture in Canada and New Brunswick might benefit from New Zealand's experience and situation

Background

Prior to 1984, New Zealand was one of the world's most sheltered economies. Policies of protectionism, subsidization and wealth distribution brought the country to a fiscal crisis. The response of the government of the day was to dramatically restructure its involvement in the economy. Virtually overnight, subsidies were removed and supports were reduced. All industries were forced to change and compete under open market conditions. Agriculture, the backbone of the New Zealand economy, was heavily affected.

Significant Insights and Observations

New Zealand offered AALP participants many interesting insights, the most striking of which are summarized below:

1. Export Orientation

New Zealand has only 3.5 million people but is very export dependent. The country's total exports for 1995 were about NZ\$20 Billion (CDN\$18.7 Billion), of which NZ\$9.4 Billion (CDN\$8.8 Billion) were agricultural. (In comparison, Canada's total agricultural exports for 1995 amounted to CDN\$17.0 Billion.) Major components of this were dairy products, wool, lamb, beef and fruit. Over 95% of dairy production is exported in a value-added form. The bulk of the annual apple and kiwifruit crop is exported to markets worldwide.

Industries such as dairy and kiwifruit are structured with a specific focus toward increasing exports. The dairy industry has worked hard to reduce the cost of milk production through improved genetics and maximum use of pasture. The average farm size has nearly doubled in the past 20 years and now stands at 190 cows. An immense processing industry has evolved, and is entirely owned by producers. Production of cheese, skim milk powder and butter has risen in response to international demand. The industry collectively dedicates significant resources to analysis of market needs and new product development. Finally, legislated single desk selling (the channeling of all sales through a single entity) prevents price cutting and ensures a maximum return to the New Zealand producer.

The kiwifruit is New Zealand's best known horticultural crop, and has become synonymous with the country. It was introduced from China in the early 1900s as the Chinese gooseberry, and was perfected, packaged and renamed kiwifruit. From the first commercial exports around 1960, the industry has grown to annual sales of NZ\$600 Million (CDN\$561 Million) exported to over 50 countries. Key components of this success have been improved production techniques, extensive market research and single desk selling.

2. Proactive and Market-Oriented Attitudes

The fiscal crisis and the removal of government financial support necessitated financial re-evaluation of all levels of all agricultural sectors. Rationalization occurred, and some sectors suffered greatly while others experienced growth. Yet, such apparently harsh measures have come to be genuinely supported by farmers and industry. Most observers now conclude that the previous system was unworkable because it sheltered producers from global competitive forces. The legacy of these changes has been to foster new attitudes in all aspects of New Zealand agriculture. Examples of this include:

- a new confidence in the ability to compete globally. Exports continue to grow in virtually every commodity, and New Zealanders are strengthening market positions through strategic alliances and joint ventures. Producers have recognized the importance of value-added exports in improving industry returns.
- a determination to regard all aspects of agriculture with a critical business eye. Most producers met were very conscious of their return on investment, and were well aware of potential options for their operations, both within and outside their commodities. At an industry level, most commodity boards consisted of farm representatives and commercial directors (appointed by farmers) from non-farming industries.
- an acceptance by sectors of their responsibilities in quality assurance. Industries such as wool, dairy and kiwifruit are actively involved in programs of accreditation, self-regulation, quality control and traceback. Some dairy processing facilities have achieved ISO 9000 registration.
- a recognition of the importance of investing in timely research, balanced over the priorities of pure science, production, product development and marketing. Funding responsibility is shared by government, producers and processors.
- a focus to meeting customer needs. For example, the kiwifruit industry has developed its “Kiwigreen Program” in response to European market requirements. The program is an integrated approach to crop management and pest control. As well, the kiwifruit industry has modified its packaging to be in compliance with European environmental standards.

3. Native Land Claim Disputes

Ongoing and volatile land claim disputes are a potential threat to New Zealand's political and economic stability. The Treaty of Waitangi, signed in 1840 by Europeans and the native Maori, first established land rights for Europeans in New Zealand. However, recent governments have acknowledged shortcomings of the earlier accord, and have recognized the need to re-address chronic land right issues of the Maori. There appears to have been considerable public support, at least initially, for more just settlements.

In furtherance of their demands, the Maori have become increasingly militant in recent years. They have launched well-financed public relations campaigns to focus attention on the issues, and continue to stage prominent cultural events for public education. They have also resorted to tactics such as demonstrations, occupations and civil disobedience. Periodically, these have led to violence. During our visit, the mayor of a community was nearly run over in one such incident.

Conversely, these tactics are beginning to erode public goodwill and polarize the issues. Many farmers in particular are very frustrated by the procedure. Some land in question has been purchased by the government, while other farmers have had their land frozen pending an outcome. The fact that total area of all claims exceeds the land area of New Zealand does not lend credibility to the situation. The government has committed several billion dollars to resolving the land settlements, but continued Maori demands for more are further weakening public support.

Application to Canada & New Brunswick

Several positive aspects of New Zealand agriculture are potentially applicable to Canada and New Brunswick:

- sharemilking is very common in the dairy industry, and appears to be an effective method of introducing young new entrants. The capital cost of dairy farming in New Zealand is very high, due mainly to exorbitant land prices. Through the sharemilking arrangement, prospective farmers partner with landowners to mutual benefit. The farmers, or sharemilkers,

contribute cows and their labor, while landowners provide the land base and milking equipment. Profits are shared equally, allowing sharemilkers to build equity toward the eventuality of farm ownership. With little modification, the concepts of sharemilking could be used to help young New Brunswick farmers get started in any commodity.

- the single desk selling arrangement of the dairy and kiwifruit industries is an admirable collective effort. It is supported by legislation, and has paid healthy proceeds to producers over the years. Through it, farm gate returns have been maximized and internal price cutting has been eliminated. Conversely, the wool industry is characterized by a large number of exporters competing in the same marketplace, and prices are affected accordingly. Implementation of single desk selling might be worth considering for several commodities in New Brunswick and Canada. However, the present discussion surrounding the Canadian Wheat Board confirms the need for thorough consideration and education in advance of any such move.
- industry ownership of transportation, processing and distribution facilities has paid tremendous dividends. Producer-owned vertical integration is especially evident in the dairy industry. Ongoing re-investment of profits is providing the capital necessary to foster continued growth. None of NB's agricultural commodities have to now fully explored such integration options.
- the New Zealand talent for adaptability, efficiency and innovation is commendable. New Zealanders appear willing to try new enterprises, and are generating respectable export earnings from industries as diverse as ostrich, elk and deer. It would seem that with New Zealand-style confidence, Canadians might be more successful at developing and promoting their ideas.
- in spite of drastic austerity measures, New Zealand's agricultural research program retains a sensible balance of priorities. The current system is more market driven, focusing on production, marketing and new product development research. Yet, the need for pure research as a foundation for these priorities has been recognized. As Canada's system of publicly funded research continues to erode, we need to ensure that "market driven" does not completely overrun this need for pure research.

- the importance of New Zealand agriculture is promoted well domestically. Numerous commodity organizations have developed programs for school use and public education. Agriculture is New Brunswick's third largest industry, and its economic importance needs to be more effectively promoted.

New Zealand: opportunity or threat?

New Zealand's strength in several agricultural commodities makes it an obvious competitor to Canada. New Zealand's lean, pasture-fed beef has become recognized in several markets, and limited exports are presently made to North America.

New Zealand's dairy industry is extremely competitive in the world market, and is undoubtedly a large foreign threat to Canada's industrial milk processing sector. The cost of milk production is extremely low by Canadian standards, and numerous export-oriented products have been developed. Market access remains an issue, but New Zealanders believe that the GATT will ultimately lead to open borders.

The forest industry is presently relatively small. However, a comprehensive program of research and reforestation is likely to propel New Zealand into the world market in the future. The Canadian industry may thus encounter added competition in some of its traditional markets.

New Zealand presents opportunities to Canada as well. Our strength in dairy genetics should allow us to exploit a significant share of the market for semen. Live animal sales of elk and ostrich should continue to provide a moderate but steady return. The absence of grain production in New Zealand makes it a continuing market for Canadian exports. Canadian pork is currently sold to New Zealand, and other grain-fed meat such as poultry might be competitive. The development of the New Zealand forest industry may mean an opportunity for sales of Canadian forestry technology. Finally, well-planned international strategic alliances will help protect Canadian interests as competition builds.

New Zealand's Future

In view of its present export orientation and significant market position, New Zealand will continue to be an aggressive and successful international trader. Local expectations are that the Uruguay round of the GATT will facilitate entry into the North American market, and will ease European trade restrictions. As well, determined efforts in current Asian markets such as India, Sri Lanka and China are expected to foster continuing growth.

Other emerging factors likely to influence New Zealand's future include:

- foreign ownership: New Zealand's location has made it a leading target for migration of capital and people from southeastern Asia. This has led to soaring real estate values, primarily on the North Island and particularly in the Auckland area. Farmers are feeling increased pressure to sell their land for development, and some have relocated from North to South. In the absence of a land use policy, it is conceivable that this trend will accelerate and put even more pressure on New Zealand's agricultural land base.
- New Zealand's sheep and beef industries, past mainstays of the agricultural economy, will continue to decline. Both industries experienced solid growth under the umbrella of the subsidy era, but are now only marginally profitable in a deregulated environment. Pressure from more profitable commodities has driven up land costs. In particular, the expansion of the dairy industry has occurred largely at the expense of the beef and sheep industries. Low world prices for wool, lamb and beef are causing steady reductions in national sheep and beef numbers.
- forestry: New Zealand has devoted considerable resources to the improvement and expansion of its forestry industry. Thorough evaluation of imported tree species has led to the introduction of Pinus radiata on a large scale. Extensive breeding efforts have produced strains capable of vastly improved performance, and research into wood product development is a priority.
- environmental concerns: public pressure for increased environmental responsibility is growing

Conclusion

New Zealand proved to be an excellent study tour destination for the AALP. Participants were exposed to commodities both familiar and unfamiliar, and observed numerous methods and practices applicable to home operations. The cross-commodity composition of the group fostered active situation analysis and idea exchange.

The New Zealand experience demonstrates that agricultural success is attainable when producers, commodities and countries identify and capitalize on their strengths. This approach has enabled New Zealand to build agricultural exports to current levels, and has positioned the country for future growth. Producer attitudes of resilience and innovation, advanced through economic necessity, will be key to attaining this growth.

Canada's fiscal situation and the GATT will see reduced government involvement in agriculture and increasing international competition. Our producers and agricultural organizations must be prepared to assume increased responsibilities in industry direction and regulation. Along the way, we must further cultivate positive and proactive attitudes. The challenges will be significant, but not beyond our capacity to meet.