

CHAPTER 2: DEVELOPMENT AND MARKETING OF AGRICULTURAL INDUSTRIES

Industry restructuring and producer board reform

2.1 Until the mid 1980s New Zealand agriculture was characterised by high levels of government support and by extensive regulation of processing and marketing. The 1984 budget withdrew nearly all of the agricultural subsidies, which to that point had grown to represent 40 per cent of the gross income of sheep and beef farmers. New Zealand's agricultural industries had to make major adjustments to cope with the withdrawal of budget support. After a crisis period in 1986 and 1987, exacerbated by falling prices and rising costs, New Zealand agriculture recovered to become more efficient and competitive.¹

2.2 The changes to budget support were not initially reflected in changes to processing and marketing arrangements. The various statutory producer and marketing boards which controlled much of the processing and marketing of agricultural marketing were retained. More recently however, the role and function of some of the producer and marketing boards have been under review. A Producer Boards Act Reform Bill is currently before the New Zealand Parliament and both the Dairy Board and the Kiwifruit Marketing Board have already been changed by recent amendments to legislation and regulations. These reforms may induce further adjustments to New Zealand agriculture.

2.3 The various producer boards currently have a variety of functions. There are differences between the boards but the range of activities they are variously involved in broadly includes:

- regulation - export licensing, quality control;
- processing;
- marketing; and
- support services - advisory, research and development.

2.4 Most of New Zealand's agricultural and horticultural exports are influenced to some degree by producer or marketing boards.² In a submission on the Producer Boards Act Reform Bill the New Zealand Business Roundtable noted that the system of regulation that governs the export of major agricultural products, and which underpins the operation of producer boards, affects nearly half of all New Zealand's export trade.

2.5 The aim of producer board reform has been to make the boards more accountable to industry and more flexible in their commercial operations. The Dairy Board legislation for example, was amended in 1996 to provide a means to source funds from the industry. It was designed to allow the investment that was seen as necessary if the Board was to capture future market opportunities.³ Following the legislative amendments the Dairy Board issued shares to dairy cooperatives in proportion to the level of production supplied to the Board.

¹ Federated Farmers of New Zealand *Life After Subsidies* (pamphlet) 1995.

² Ministry of Agriculture *Situation and Outlook for New Zealand Agriculture* Wellington June 1997, p 28.

³ Ministry of Agriculture *Situation and Outlook for New Zealand Agriculture* Wellington June 1997, p 28.

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2.6 If the Producer Acts Reform Bill is enacted it will provide a new legislative backing for the Meat Producers Board, the Wool Board and the Pork Industry Board. The objectives will be changed to focus on promotion, market development and research rather than regulation and statutory roles. Accountability and representation from industry will be increased.

2.7 These reforms do not go far enough according to Mr Roger Kerr, the Executive Director of the New Zealand Business Roundtable. He told the Committee members that the pace of micro-economic reform in New Zealand had slowed and that the producer boards had largely been excluded from the broader reform process. This was seen as inimical to New Zealand's push for trade reform. Mr Kerr suggested that to give some impetus to micro-economic reform the producer boards should be corporatised, subject to competition and stripped of their statutory powers. He suggested that the producer boards were an impediment to foreign investment in New Zealand agriculture, because potential investors saw that they would lose control over the marketing of their produce.

2.8 The producer boards play a very significant role in New Zealand agriculture, and the reform process under consideration is a major issue. The visit to New Zealand by the Committee members featured several key meetings with representatives of several boards. These included the Apple and Pear Marketing Board, the New Zealand Dairy Board, New Zealand Meat Producers Board and Zespri International (a subsidiary of the New Zealand Kiwifruit Marketing Board). In addition the Committee members held discussions with government officials in the government departments responsible for agriculture, fisheries and forestry and met with representatives of the horticulture, meat and poultry processing industry associations.

2.9 The following notes outline the Committee's perception of the developments in the industries it looked at during the visit and observations on the effectiveness of the producer and marketing boards.

The New Zealand dairy industry

2.10 New Zealand is a major exporter of dairy products. It provides 25 per cent of all international dairy trade and is second only to the European Union (47 per cent) as a source of traded dairy products. Australia is the third largest source of exports and provides 10 per cent of the trade. The export trade is more important to New Zealand because of its small domestic market and 90 per cent of production is exported and all industries visited demonstrated a focus on exports. By comparison, only 40 per cent of Australian domestic production is exported.

2.11 The trade in dairy products has diversified considerably in recent years with 90 per cent of New Zealand's exports in the form of products such as cheese, milk powders and butter. Only ten per cent is exported as milk. The range of exports continues to expand as the New Zealand Dairy Board develops new products.

2.12 Australia and New Zealand compete in several markets but the pattern of trade is different. New Zealand has quota access to the European Union and the United States and, with Japan, these are its largest markets. Australia has minimal quotas in the European Union and the United States, and is more reliant on the Asian market which takes 80 per cent of its exports. About half of New Zealand's exports go to the Asia - Pacific region.

2.13 The New Zealand Dairy Board plays a central role in the marketing of dairy products. It is a single desk seller with sole authority to export dairy products. Production for export is derived entirely from cooperative processors and the Board effectively acts as an extension of the cooperative system.

2.14 Since its establishment by the government in the mid 1930s (to stabilise milk prices) the Board has grown to an international organisation with a strong commercial orientation. It employs over 3 000 people but only 400 are based in New Zealand. Research sponsored by the Board extends to product development and market based studies.

2.15 Dairy production in New Zealand has been rising and reached record levels in 1996/97. Production is expected to continue to grow and several processing companies are expanding their capacity. Dairying is seen as comparatively profitable and there is a trend in New Zealand for farmers to move from wool and beef in to dairying.

2.16 World prices have fallen and returns to producers have not matched the increases in production. The New Zealand Dairy Board expects short term prices to ease further but that in the medium term prices will rise. This will follow the reduction of export subsidies in line with the implementation of the Uruguay Round of trade reform negotiations. The potential price rise is however likely to be dampened by increasing production in both New Zealand and Australia.

2.17 The New Zealand Dairy Board believe that the best prospects for growth are in the cheese and cultured milk products markets. It was suggested to the Committee members that in order to realise the growth potential there was a need to move away from the traditional English cheddar style cheese and to develop other varieties including new speciality cheeses. It was also preferable to avoid market competition from established European cheese makers.

2.18 The New Zealand Dairy Board also suggested that there was scope for Australia - New Zealand cooperation in marketing to take market share from entrenched producers and the major multi-nationals who currently dominate many markets. Committee members agree that joint Australia - New Zealand efforts could produce the strong market presence that is necessary to challenge the major producers.

The meat industry

2.19 Meat is New Zealand's largest export income earner and, like the dairy industry, the bulk of domestic production is exported. However, unlike the dairy industry, most of the produce is marketed by individual companies. The New Zealand Meat Producers Board spends a major part (44 per cent) of its budget on market development and market access activities but it is not involved in selling meat. The Board is responsible for export licensing, standards, market research, promotion and negotiation of market access. It is a much smaller organisation than the Dairy Board with 70 employees of whom only 15 are employed overseas. Funding is derived from a levy on producers.

2.20 The performance of the New Zealand export meat industry in recent years has been somewhat mixed. Lamb and beef make up the majority of exports with lamb going mostly to the European Union, particularly the United Kingdom, North America is the biggest beef market.

2.21 The sheep meat trade has provided good returns with increasing prices but domestic production has not increased. New Zealand remains the major supplier of the world market

and accounts for 40 per cent of the world trade. The collapse in beef prices which has affected Australian producers have also had an impact in New Zealand. Growers have responded to these adverse trends by diversifying into mixed sheep and beef production and raising stock for the dairy industry.

2.22 While Australia does not generally compete with New Zealand in the sheep meat trade to any significant extent, except perhaps in the export of live sheep to the Middle East, it is facing increasing competition in the beef markets in Japan and the Republic of Korea. The Meat Producers Board told the Committee members that New Zealand is much less able than Australia to place chilled beef into Asian markets because there is limited suitable shipping available out of New Zealand ports.

2.23 The Meat Producers Board has undergone significant restructuring and redirection of its efforts. The membership of the Board was changed in 1996 with the appointment of three meat company chief executives. This was followed by changes to the administrative structure of the Board to give greater emphasis to its communication role and to establish a new division to be responsible for relationships with farmer groups, exporting companies and the government. The Board will also be affected by the Producer Boards Act Reform Bill.

2.24 The changes and proposed reforms of the Meat Producers Board appear to be acceptable to the industry. The Meat Industry Association believes that the appointment of meat industry executives to the Board was a major step forward and the legislative reforms will see the Board adopting the role of a facilitator rather than being an interventionist body.⁴

2.25 The Board itself is also happy with the proposed legislative reforms and believes that its role is to act on behalf of the whole meat industry not just the producers. The reforms have however raised concerns about the future management of export licensing, particularly in relation to the continuation of the Board's role in managing European Union lamb export quota allocations to New Zealand. The Board is also concerned about the future of its continuing role in establishing quality standards for meat exports.

2.26 The Board puts a significant part of its resources into research and development. In 1995-96 30 percent of the Board's expenditure was allocated to research and development - amounting to \$8.5 million. This funding was directed to the Meat Research and Development Council (MRDC) which was established as a separate authority in 1990. The MRDC identifies areas where research and development will produce maximum benefits. It also manages research programs and seeks funding.

2.27 The Board conveys the results of research and development to producers through a range of mechanisms, including a 'Monitor Farms Program'. There are 25 Monitor Farms which act as a focal point for field days and demonstrations of new technologies and techniques.

2.28 The Board's interest in communications was demonstrated to the Committee members by a video information program it produces and circulates to all growers every six months. The video is circulated to 28 000 producers and represents a major effort to disseminate the results of research and development. It also provides a vehicle for informing growers of innovations in the industry and the work of the Board.

⁴ New Zealand Meat Industry Association *Annual Report 1996*,

Industrial relations reform and restructuring in the meat industry

2.29 Productivity in the meat processing industry has been significantly improved by workplace reforms. The Meat Industry Association told the Committee that industrial relations reform was undertaken as part of the restructuring forced on the industry by the removal of subsidies in 1984. The removal of subsidies initially led to a drop in stock numbers and many processing plants became uneconomic. At the same time the influence of unions declined during the economic downturn of the late 80s and there has been a 40 per cent reduction in employment in the processing industry.

2.30 Reform saw a series of complex national awards replaced by collective employment contracts, most of which are company wide. Processing plants can now operate seven days a week with shifts employed on the slaughter floor. The cost of processing lambs has reduced by 25 per cent.

2.31 These reforms have coincided with a decrease in foreign ownership of the processing industry which has been replaced by the establishment of domestic cooperatives. There are now fewer processing plants and the number of growers has also declined but incomes have returned to pre 1984 subsidised levels in real terms.

The horticulture industry

2.32 The land area used for horticulture in New Zealand has been increasing and fruit, mainly apples, pears and kiwifruit, are important export crops. The Committee members held discussions with representatives of the Apple and Pear Marketing Board, the Kiwifruit Marketing Board and the New Zealand Fruit Growers Association.

2.33 The Apple and Pear Marketing Board has a similar role to the Dairy Board as single desk sellers of export produce. Representatives of the Board suggested that, as a small player on world markets, it is very useful to have one selling and marketing agency. The Board also funds research with most of the \$4 million it provides directed to product development with the emphasis on new fruit varieties. The main research objective is to develop marketing advantages through product differentiation. Markets premiums are required by the industry to offset the disadvantages of small volumes of produce and distance from market places. Much of the Committee's discussion with the Apple and Pear Marketing Board dealt with the fireblight issues. This is discussed further in chapter 4.

2.34 The Kiwifruit Marketing Board is also a single desk selling and marketing organisation which concentrates on product differentiation to establish market premiums. The industry has been restructured in response to decreasing market share and the Board recently established a wholly owned marketing company, Zespri International Ltd, to market kiwifruit under the distinctive brand of 'Zespri'. This will separate the Board's statutory industry management and regulatory functions from its marketing role. The Board will concentrate on industry production issues while Zespri International will act as the export single desk seller.

2.35 The establishment of Zespri International as a separate marketing arm has allowed it to operate at arms length from the growers and to be more flexible. Representatives of Zespri told the Committee members that it is hoped that they will be able to establish as a year round market by purchasing stock off shore outside the New Zealand growing season. The maintenance of single desk selling is seen as essential at this stage while brand identification and premium quality standards are being established.

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2.36 The product development and differentiation work of the marketing authorities in the New Zealand fruit industry is complimented by the activities of the New Zealand Fruit Growers Federation. The Federation represents and acts as an advocate for all fruit growers. It is aiming to develop and promote fruit products that will be taken up by markets as fast food and fashion food. They have noted that while growers are generally happy with New Zealand's marketing arrangements some processors are not fully supportive. The Federation is trying to informally involve corporate processors in its development and planning programs.

2.37 The Federation also sees possibilities for joint Australia - New Zealand promotion and marketing programs, particularly in relation to stone fruit, which they market as 'Summer Fruit'. Opportunities may also arise through the increasing market orientation of the apple and the kiwifruit marketing authorities. New Zealand fruit growers are however more focussed on exports than Australian growers, largely because they are more dependent on export markets to maintain viability.

Forestry

2.38 The Committee members met with senior officers of the Ministry of Forestry to discuss the development of the government's role in forest management and support for agro-forestry. New Zealand has a negligible native forest industry but the area of softwood timber plantations is similar to Australia's softwood plantation estate and its industry is dependent on these plantations and farm sources.

2.39 The export of timber from New Zealand's plantations is significant (compared to the mostly domestic consumption of Australian production). New Zealand exports sawn timber to Australia, which is a major market, but it is expected that over the next 10-15 years Australia and New Zealand will be competing for foreign markets as surplus production is exported from maturing Australian softwood plantations.

2.40 The New Zealand plantation estate was established mostly by the government but the management of the forests has been largely privatised in recent years. Management rights have been sold or leased on a continuing green sale basis to private enterprise. This allows the buyers to harvest and replant tree crops but does not give them ownership of the land. So far the Government has realised over \$3 billion from the disposal of management rights in plantation forests.

2.41 Planting rates in New Zealand exceed those in Australia at 70 - 100 000 ha/yr compared to 20 000 ha/yr in Australia. The major part (45 per cent) of New Zealand's commercial forest estate is owned by just two companies but the major growth area in recent years has involved small private growers. Since 1991 it is estimated that 80 per cent of new planting has been undertaken by smaller companies, investment groups and, more significantly, by small growers, notably farm foresters. The small growers have been responding to market opportunities where prices are spiralling upwards. There have been government incentives, including tax measures but apparently not including outright tax rebates in a form which could violate WTO requirements. The high planting rates and re-establishment in the privatised forests is achieved mainly through government promotion of the economic benefits rather than by the provision of direct assistance

2.42 A similar approach is taken to agro-forestry. It is calculated that the forest estate could be doubled if ten per cent of New Zealand farm land were converted to plantations. This

could be achieved with minimal loss of stock carrying capacity. Timber returns to growers from on farm agro-forestry can be in the order of \$1 - 2 000 per annum per hectare with timber grown for export sawmilling. The government provides information and legislative regulation of joint ventures between small growers and large processors.

Industry Training

2.43 New Zealand has established a range of Industry Training Organisations (ITOs) to increase workforce skills through on and off-job training. The ITOs develop training opportunities and course standards based on a national standards framework established by the New Zealand Qualification Authority. One of the first to establish new qualifications and standards was the Agriculture ITO. It is recognised by the New Zealand Qualifications Authority as the national standards setting body for the agricultural industry and is the largest of the 52 ITOs.

2.44 The Agriculture ITO is an incorporated association which is contracted by the Government and the industry to manage vocational education and training for the agriculture industry. It bids for funds provided from government managed funding pools and each successful bid involves a contract with specific outcomes. The government is the source of about 68 per cent of the Agriculture ITO's funding and industry provides only about 18 per cent. It appears however that industry exercises considerable influence over the types of courses that are provided. Two thirds of the ITO's expenditure is directed to formal courses but the mix of on the job and off the job training means that training is provided at less than the cost of full institutional training.

2.45 The ITOs off set the tendency in New Zealand for school leavers to go straight into employment rather than pursuing post secondary vocational training. In agriculture the ITO is addressing the lack of skilled workers but it has been found that many of the trainees do not stay in the agriculture industry when they upgrade their skills and education levels. The Agriculture ITO also provides an alternative to the few opportunities for tertiary training in agriculture.

2.46 Training is provided for people already in employment on a flexible basis that reflects industry needs. It can be provided by any training provider accredited with the Agriculture ITO. Nationally administered procedures for assessment ensure that training standards are achieved and the qualifications meet recognisable criteria. Work place assessment can be provided by accredited and registered farmer trainers. The farmer trainers also provide on the job elements of the training programs, with the assistance of ITO field officers.

2.47 The Agriculture ITO believes that the overriding education and training issue for New Zealand agriculture is the lack of access to tertiary education.⁵ This is seen as a hindrance to the industry both in terms of its international competitiveness and its domestic position in relation to other industries. There is also a general failure of the industry to utilise the education and training systems that are available. The Agriculture ITO aims to rectify these problems by providing appropriate industry based training alternatives. It is succeeding in this role to the extent of over 8 000 trainees per year.

2.48 Representative of the Meat Producers Board expressed similar concerns about ITO programs. They told the Committee members that the polytechs were finding it hard to

⁵ Agriculture ITO *Annual Report 1996* p 12.

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accommodate all the courses being developed through the ITO process because the class sizes were often too small. There was also a lack of institutions focussed on sub-degree teaching for rural industries. This exacerbated problems caused by the lack of high calibre of young people entering rural industries.

Conclusion

2.49 New Zealand agriculture has a strong export focus and is dependent on exports for its survival. It is interesting to note that New Zealand agriculture has prospered notwithstanding the crises of the late 80s induced by the withdrawal of subsidies and the continuing reform of its producer boards. The small domestic market means that New Zealand has little option but to continue to develop and be innovative in its efforts to maintain export markets. In this regard its reliance on marketing boards and product innovation, especially in niche marketing, is not surprising. New Zealand appears to have adopted a proactive approach to identifying deficiencies and developing programs to overcome its problems. Its approach to training is indicative of this.

2.50 The need to vigorously pursue exports is less accepted in Australia. It was put to the Committee members that exports are a bonus to Australia but are a matter of survival for New Zealand. Australia continues to focus largely on its own domestic market but this approach will not provide agriculture with the opportunities it needs to grow beyond its current level.

2.51 Trade liberalisation is expected to produce significant changes in world markets over the next five to fifteen years. Australia may have to adopt the same approach to international marketing as taken by New Zealand if it is to have a role in international markets or even compete against imports. The New Zealand experience with marketing boards and the reforms they propose should therefore be of interest to Australian policy makers and industry managers.

2.52 Australia and New Zealand have had a common interest in trade reform and have often worked together in this area. It appears though that New Zealand is better prepared to take advantage of the benefits that will flow from the progressive implementation of the Uruguay Round. The Committee noted some interest in joint efforts in market development. Neither Australia nor New Zealand alone have sufficient influence in world markets to ignore any chances to work together. The Commonwealth Government should work through bodies such as the Agriculture and Resources Management Council of Australia and New Zealand to identify opportunities for cooperation and joint efforts in marketing. The realisation of these opportunities will depend on the marketing authorities and the industries but the government could play a useful role in identifying opportunities and initiating action.