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Free Trade's role in growing New Zealand

Speech by Anders Crofoot, Federated Farmers vice-President, to the Australian Farm Institute's Australian Agriculture Roundtable Conference - 13 November, 2014

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I would like to thank you for the opportunity to speak today on the role free trade has played in sustaining and growing the New Zealand farm system.

Setting the scene

In many ways my speaking to you, a New York Yankee from the Wairarapa, underscores a dimension of our farm system and human capital that is underrated. That being how international it is. I would argue the primary industries are the most international aspect of New Zealand **business**.

Our isolation means we have to be, and that has been ingrained since the first waves of organised European migrations in the 19th Century.

At first, the majority of the New Zealand farms were focused on producing wool and meat from sheep, and **milk** from cattle. Exports were limited to non-refrigerated or salted items.

Technology, in the form of refrigeration, towards the end of the 19th Century, had a disruptive influence and radically transformed farming from a domestic focus, to an export one. Of course this was within the British Imperial family.

Refrigeration saw meat and **dairy** products being exported, the first shipment leaving New Zealand on the 18th of February 1882, from Dunedin. The creation of these new markets changed farming by attracting skilled migrants to New Zealand, which lies in a pastoral "sweet spot." The right water, sunshine hours, temperature and soils.

Capital enabled mechanisation and technology to be imported, while inventiveness and the "no.8 wire" mentality here started to create new technology.

Refrigeration and a large guaranteed market in Britain saw a first golden period for farming here, which lasted until 1973, when Britain joined the European Union.

Farming then became less prosperous due to the country's reliance on one market and a narrow basket on primary exports. In the 1970's, on-farm costs rose with oil shocks, returns fell, but land prices remained high.

1984 Reforms

This resulted in a cornucopia of subsidies and tariffs in a vainglorious attempt to hold back the world. These crumbled in 1984 with the defeat of Rob Muldoon's National Government, and the election of a radically reforming Labour Government of David Lange and Roger Douglas.

Suddenly and expectantly subsidies and trade protection were removed, and New Zealand trade was gradually liberalised. Remarkably it was cheered on and championed by Federated Farmers, who foresaw the cancerous effect of subsidies and protection. Since 1986, productivity in New Zealand's agricultural sector has improved by an average

of 5.9% per year.

Until then, nearly 40 percent of the average New Zealand sheep and beef farmer's gross income came from government subsidies. Farmers were paid to rip out native vegetation, ironic given today's environmental climate.

They were encouraged to produce without regard to markets; but unfortunately we don't get rich by selling to ourselves.

By 1985 UK trade was dramatically decreased. However, Muldoon's parting gift of a free trade agreement with Australia in 1983 (CER) started to blossom.

The effect of reforms on outlook and trade

You may think that this major policy change, of removing farm subsidies, would have destroyed the make-up of our farm systems.

On the contrary, our farmers came through that experience stronger than ever.

For farming, there is life after subsidies, and while the late David Lange predicted that farming was a sunset industry in the 1980's, and that manufacturing and tourism would take its place, a compatriot of mine, Mark Twain, would answer in reply that the rumours of agriculture's death have been greatly exaggerated!

A lack of subsidies and tariff barriers forced New Zealand producers to grow up and talk to the markets they were selling into.

The removal of farm subsidies in New Zealand has given birth to a vibrant, diversified and growing rural economy. Early predictions were that 8,000 farms would fail, but in the end, only 800 did.

As of 2013, 73 percent of New Zealand's merchandise exports were from the primary sector. That is five percent higher than in 2008. Of the 2013 figure, about 45 percent is from the traditional pastoral side of meat, wool, **dairy**, seeds and crops.

The removal of subsidies has proven to be a catalyst for productivity gains. In the twenty years since 1986-87, the value of economic activity in New Zealand's farm sector had grown by 40% in constant dollar terms and continues to do so. Such improvements in productivity are readily apparent at the level of the individual family farm.

Lambing percentages, lamb export slaughter weight and **milk** fat processed per cow have massively increased. The diversification of land use prompted by the removal of subsidies has been beneficial for farmers and has increased the size and scope of the New Zealand agricultural sector as new innovative products have been developed.

Farmers are now farming better than ever, contributing \$14 **billion** (6%) to our country's GDP from behind the farm gate.

They are much more conscious that their activities must make good **business** sense. No longer are they chasing subsidies, pursuing maximum production at any cost. Farmers maintain cost structures that reflect the real earning capacity of their farms. They invest in protecting their environment and the value of their land is based on its earning capacity in the market.

Good management of the environment is an integral part of sustainable agricultural practice by farmers, where farmers are producing more from less.

With the removal of subsidies, agricultural practice is now driven by the demands of the market and by consumers. The removal of subsidies has also broadened the base of farming to encompass diversified activities, such as rural tourism, and blended forms of agriculture were **dairy** farms in the Bay of Plenty and Nelson also grow horticultural products.

New Zealand now boasts the lowest level of agricultural support for industrialised countries in the Organisation for Economic Co-operation and Development (OECD). The level of assistance to agriculture in New Zealand now represents only one percent of farming income.

In 2013, the worst drought in 70-years, covering the South Island's west coast and the entire North Island saw only 146 Rural Assistance Payments (RAP) granted. Given these are means and asset tested it underscores just how little support farming receives here in contrast with the EU, where farmers are getting payments due to Russian sanctions!

What support New Zealand farmers do receive is mainly in the form of government funding for agricultural research.

Agricultural labour productivity is consistently the leading sector for labour productivity.

A key difference between New Zealand and other countries is that New Zealand exports the vast majority of its agricultural production. Upwards of 95 percent is exported. We produce enough food to feed at least 24.4 **million** people, although some estimates are higher.

This makes New Zealand a significant player in world trade of foodstuffs, being the largest **dairy** exporter and the largest exporter of lamb, while by no means being the largest producers. We are also the largest global exporter of a number of herbage seeds.

This also goes to highlight the knife edge the world sits on between food surplus and food deficit; food security.

External perspectives on trade

Thanks to a structural realignment domestically, New Zealand farming turned from a myopic dependence upon "mother Britain" to having to hustle for markets and opportunity.

Before I address that opportunity I wish to highlight something Federated Farmers President, Dr William Rolleston, recently wrote about.

We have become accustomed to looking at trade barriers and threats "symmetrically" - things like quotas, subsidies and tariffs, "**Buy** Local" campaigns, or British farmers objecting to Tesco's promoting New Zealand lamb.

Earlier this year, The Economist magazine noted the United States' Farm Bill was

"A strange piece of legislation, which costs nearly a trillion dollars. It mixes benefits that mostly go to the poor (food stamps) with agricultural subsidies that mostly go to the rich (crop subsidies for large farms). Given a blank slate, nobody with an interest in either alleviating poverty or improving farming would construct such a law. Yet here it is again."

As an American New Zealander I must concur with the Economist's conclusion.

Yet there are also "Asymmetrical Trade Threats," highlighted recently by Fonterra Co-operative **Group** Chief Executive, Theo Spierings.

On TV3's The Nation, he put the impact of Ebola to New Zealand at \$150 **million**, yet not one New Zealander is infected.

What has been affected is about six percent of Fonterra sales.

Animal disease provides another threat.

A new assessment of Foot & Mouth Disease puts the estimated cost of a large-scale outbreak at \$16 **billion** over six years for New Zealand. This would also tip us into recession.

Markets live on fear and rumour and last year's non-Botulism scare gives a hint as to what effect a major animal disease outbreak could result in.

Ebola and potentially Foot and Mouth Disease join another example of an "Asymmetrical Trade Threat," the Eastern Ukraine.

Even what Russian separatists do in the Ukraine materially impacts the price of our **dairy** exports and our wealth as a country. So the knock-on effect Ebola has upon the economies we trade with and the dislocation of up to three **billion** litres of **milk** caused by Russian sanctions.

These largely unforeseen and unpredictable, Asymmetric Trade Threats are costing us hundreds of **millions** of dollars. The now discredited "food miles" concept could have fallen into this category as could future consumer movements.

I put that out there because we need to be attuned to "a tree falling in the forest." No matter how removed, technology disease and political events seemingly unrelated could impact us..

Trade today, trade tomorrow

Now for the good news.

The Helen Clark-led Labour Government and the John Key-led National Government have built on a platform laid down since 1984.

You cannot secure free trade if you do not live the dream, and Exhibit A is **China**. Our exports to **China** have jumped 160% since the FTA came into force in 2008.

In 2004-06 we exported some \$2 **billion** worth of goods to **China**.

In the year to September 2014, that stood at \$11.35 **billion** and 37 percent up on the same point in 2013.

Last December we signed a free trade agreement with Taiwan that has seen trade break the **billion** dollar barrier being 19.5 percent up on the same point in 2013. It is now our seventh largest trading partner.

Even Britain remains our sixth largest with exports up over ten percent in the year to September.

Free Trade has enabled and not hindered New Zealand. We are richer and better off for it.

Our trading partners rely heavily on the Asia Pacific, which underscores why we need the Trans Pacific Partnership (TPP). But it must be a partnership we can embrace.

When it comes to the TPP, Dr Rolleston recently wrote:

"I find it remarkable you can largely tell a persons position by the acronym they use. As we call it the TPP we fall into the supporter category, but those who add an 'A,' making it the TPPA, generally fall into the opposing camp. Supporters use partnership, opponents prefer agreement."

Whatever your view, no one under the age of 40 will realistically recall what New Zealand was like when we had a tariff for every occasion. Something a comprehensive TPP must aim to put on the path to extinction.

If TPP members play favourites with certain countries over others, we could easily end up being worse off than we were before a TPP.

A TPP that doesn't address trade barriers at and behind the border is no agreement.

If some countries cannot stand the trade heat then they need to get out of the negotiation kitchen, allowing others who can to cook up an agreement which New Zealand has deserved since the 1984 reforms.

There's also no reason why countries in the slow lane cannot join later when the scale and ambition of the TPP is known. The Three Musketeers' motto, "all for one, and one for all," defines whether the TPP will stand as a beacon or fall into the trade abyss, like Doha sadly seems to have done.

If we compromise just to get agreement over the line, agriculture will be trapped permanently in a too hard basket.

While there's much conjecture about TPP benefits, Tim Groser, our Trade Minister, has correctly noted that the **China** Free Trade Agreement underestimated economic benefits "by between 10 and 17 times."

The recent agreement with Taiwan has seen bilateral trade surge 19.5 percent in the year to September, bearing in mind it was signed only last December. It seems we do very well if agriculture and agri-food is enabled and not hindered by such agreements.

This is why the TPP must address trade barriers at and behind the border

If everyone plays ball the members of the TPP will account for a quarter of global trade. This is a huge prize and winning a two-year seat on the United Nations Security Council has to give us some diplomatic clout.

Thank you.

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