NEW ZEALAND

Removal of agricultural and fisheries subsidies

The economy of New Zealand has historically been highly dependent on agriculture and food exports. Prior to 1984, agriculture was heavily protected via subsidies and price and income support. Protection led to market distortions, over- production and degradation of marginal lands. Subsidies encouraged large areas of marginal land to be brought into production and by 1984 over two million hectares of marginal land were being farmed only because subsidies made it profitable. Production no longer matched demand as subsidy-based production soared; the government paid for the slaughter of sheep that could not be sold and in 1983, 6,000 tons of surplus sheep meat was turned into fertilizer. By 1984, agricultural output was worth less than the costs of producing and processing it.

In 1984, the government faced a severe fiscal crisis and implemented an ambitious deregulation programme, which also included devaluation and subsequent floating of the New Zealand dollar and the liberalization of capital markets.

As part of this economy-wide reform, the government removed all agricultural subsidies (price support for wool, beef, sheep meat and dairy products, income support, fertilizer, irrigation, transport and land development subsidies). Tax concessions and free government services for farmers were eliminated. Producer Boards lost access to concessionary Reserve Bank funding. Land development loans, fertilizer and irrigation subsidies, and subsidized credit were reduced and eventually phased out after 1987, as was assistance for flood control, soil conservation, and drainage schemes.

In 1986, New Zealand removed all subsidies to the fishing industry. The financial and social distress that would have been caused by the virtually overnight subsidy removal was dampened by a major change in fishery management regime. Rights based management was introduced along with a system of individual transferable quotas (ITQs) and a buy-out of existing rights. The improved management of the fishery sector provided those who wished to remain in the newly unsubsidised, efficiency-focused fishery sector with the opportunity to do so while those who wished to leave were compensated through buy-out payments.

Sectoral adjustment in the agriculture sector took seven years, but the government supported the farming sector through the transition with loan restructuring and social welfare payments. Farm land prices fell by 60 percent and fertiliser used declined by 50 percent. Approximately 1 percent of farmers left farming. The number of sheep fell sharply from 70 million in 1983 to 40 million in 2004; by 2007 there were 31 percent fewer sheep and beef farms.

By 1995, farm land prices had recovered to 86 percent of their pre-reform levels. Today, the agriculture sector is larger than when it was heavily supported; it is more profitable, efficient and innovative. The meat industry has developed from the least efficient to the second most efficient in the world. Employment in the sector has actually increased. The rural economy has diversified to include tourism and other services which have made rural communities less vulnerable to cyclical downturns in agriculture. The support of farmers' organizations and consumer groups contributed greatly to reform success.

Impact on biodiversity

Reform had a positive impact on biodiversity by reducing the use of fertilizers and pesticides, decreasing pollution levels in rivers and reducing the farming of marginal land. There was a halt to land clearance and overstocking, which had been major causes of high levels of soil erosion. Livestock production has now been intensified on better land rather than hills prone to erosion, and hills have been reforested leading to a 50 percent increase in area under plantations.

It should be noted however, that agriculture in New Zealand has in recent years intensified significantly, especially in the dairy sector, which has caused renewed concerns about pollution and loss of biodiversity.

In the fisheries sector, as a result of both subsidy removal and the introduction of the new management regime, fish stocks were managed more effectively and in some cases recovered from overexploitation.

Replicability

The success of New Zealand's reform provides encouraging evidence that it is possible to reform policies in economic sectors of critical importance in terms of contribution to GDP, employment and foreign exchange. However, New Zealand is a small, isolated, relatively homogeneous, well-educated, and affluent society, which may have helped win political support with arguments based on the fiscal crisis and the need for sustainability.

Lessons learned

The existence of a fiscal crisis required cuts in government expenditure and provided justification for reductions in financial support to the agriculture and fisheries sectors.

Involvement of stakeholders, farmers and fishers, at early stage of the reform process and in decision-making greatly improves the likelihood of acceptance and success.

Removal of subsidies must be implemented within an agreed and transparent timetable. Certainty of reform, its scope and pace is essential for success. Farmers and fishers were given sufficient information about the pace, breadth and depth of reform.

Farmers and fishers can adapt to lower support and increase profitability, particularly if they and others believe that government will not make a U-turn on policy reform.

Adjustment takes time. Although farmers and fishers acted quickly to improve profitability in New Zealand, it took considerably longer for economic growth to return and for unemployment to subside.

During the adjustment period, there is an important role for government assistance measures, decoupled from production decisions, to support household consumption.

Agricultural reforms can have a positive environmental impact. In New Zealand, subsidies encouraged the use of marginal land, higher stocking rates and the overuse of fertilizers. With the removal of support, production has become more extensive, chemical use has declined, and marginal land has been taken out of production.

Sources: Myers and Kent (1998); OECD (2006) and (2007); Ray and Blandford (2004); TEEB (2009); Vitalis (2007).