Discussion: Lessons From New Zealand’s Agriculture Policy Reform

Mary Keough Ledman
Keough Ledman Associates, Inc.
Libertyville, Illinois USA
mkledman@msn.com

NZ Ag Policy Reform – A Potential Example or an Aberration?

- What makes NZ situation unique?
- Dominance of Ag. Exports?
- Its size? Remoteness?
- Flexible transfer into and out of sheep vs. dairy vs. deer…

New Zealand Ag. Reform

- From 1985 – 89 around 5% of commercial farmers were declared bankrupted…or exited the farms.
- *In the U.S. the percentage of dairy farm exits is typically from 5% to 7% annually.*

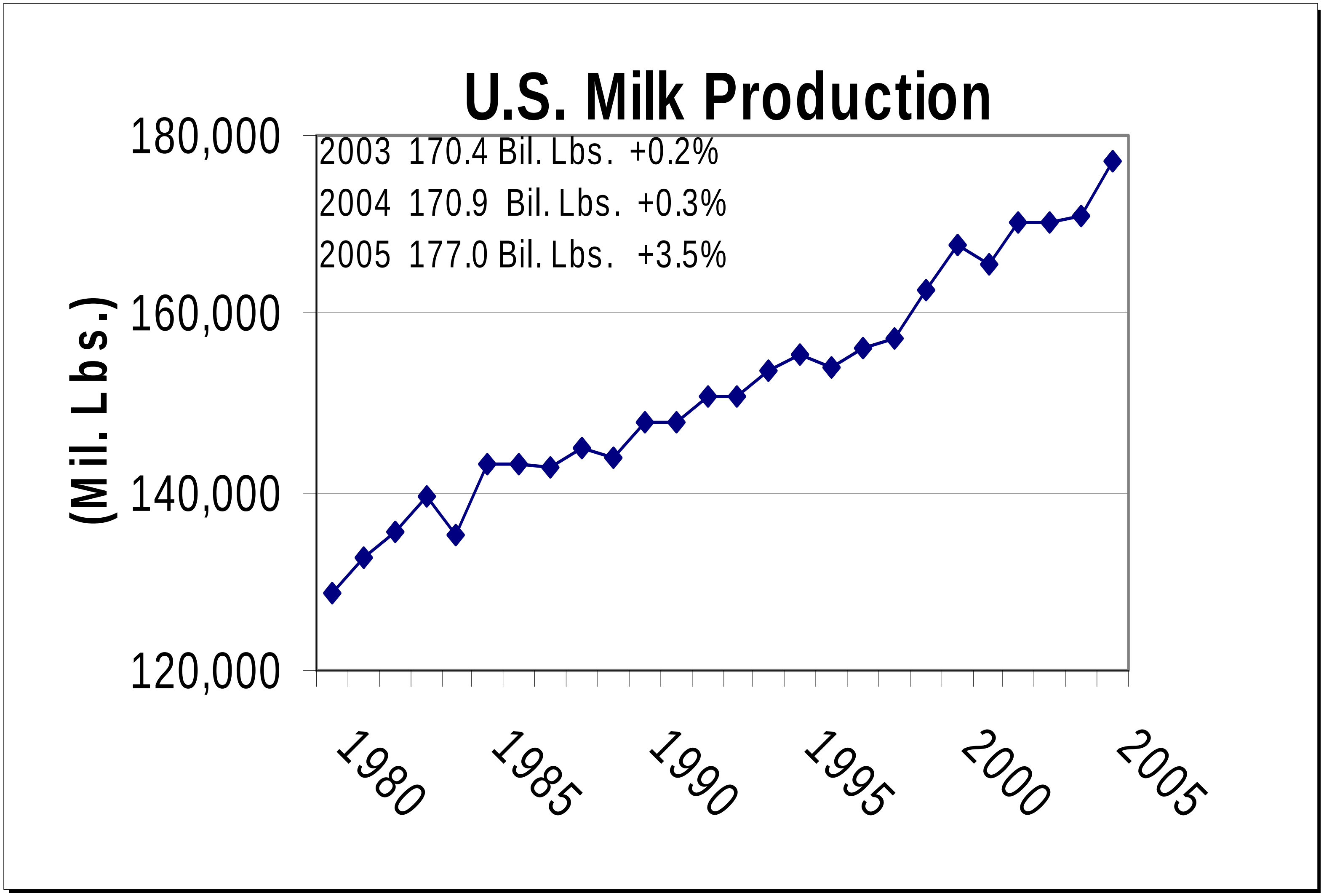
Relevance to the NAFTA Countries

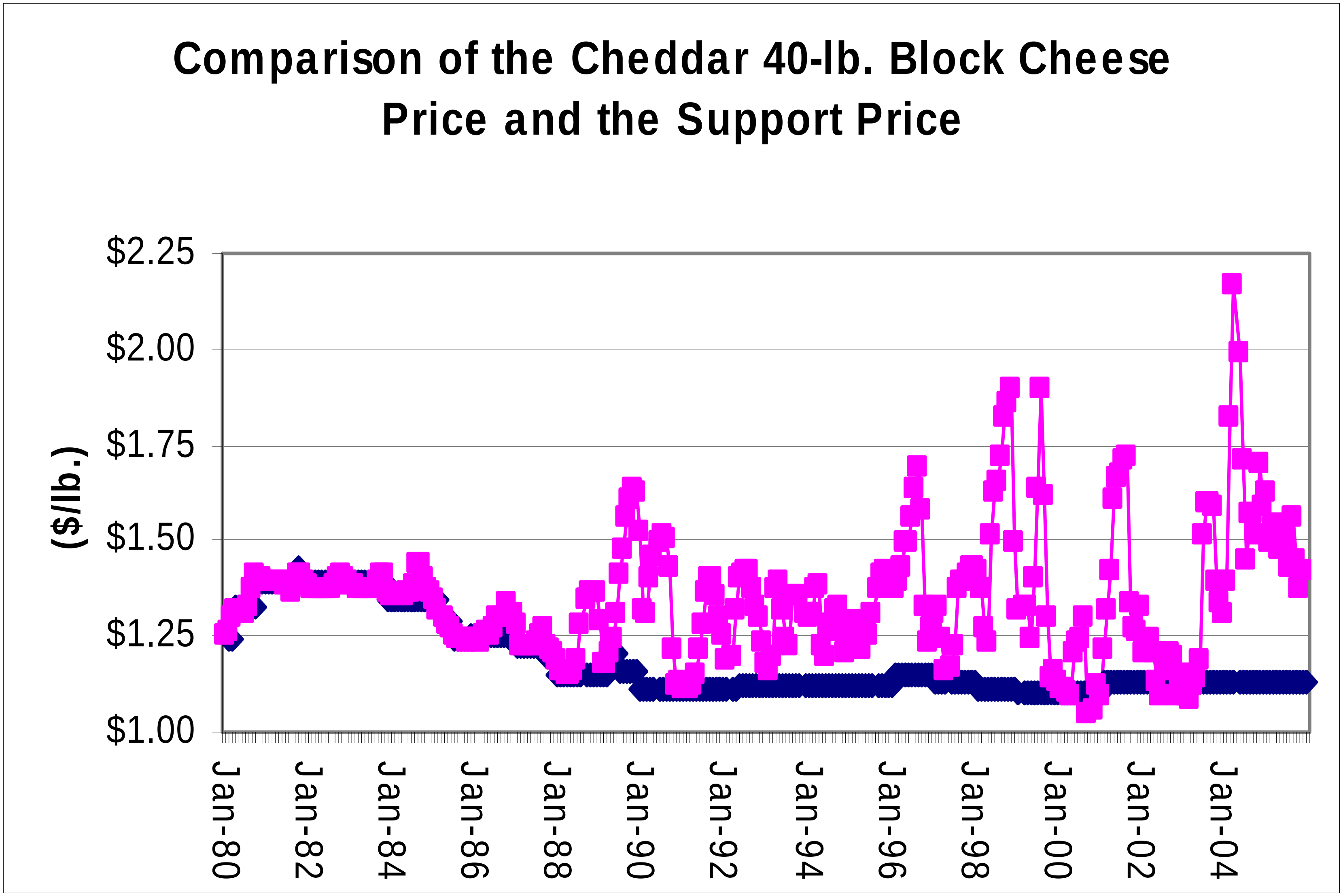
Canada	7.6 MM T
Mexico	10.3 MM T
U.S.	82.2 MM T
New Zealand	14.5 MM T

Source: FAS

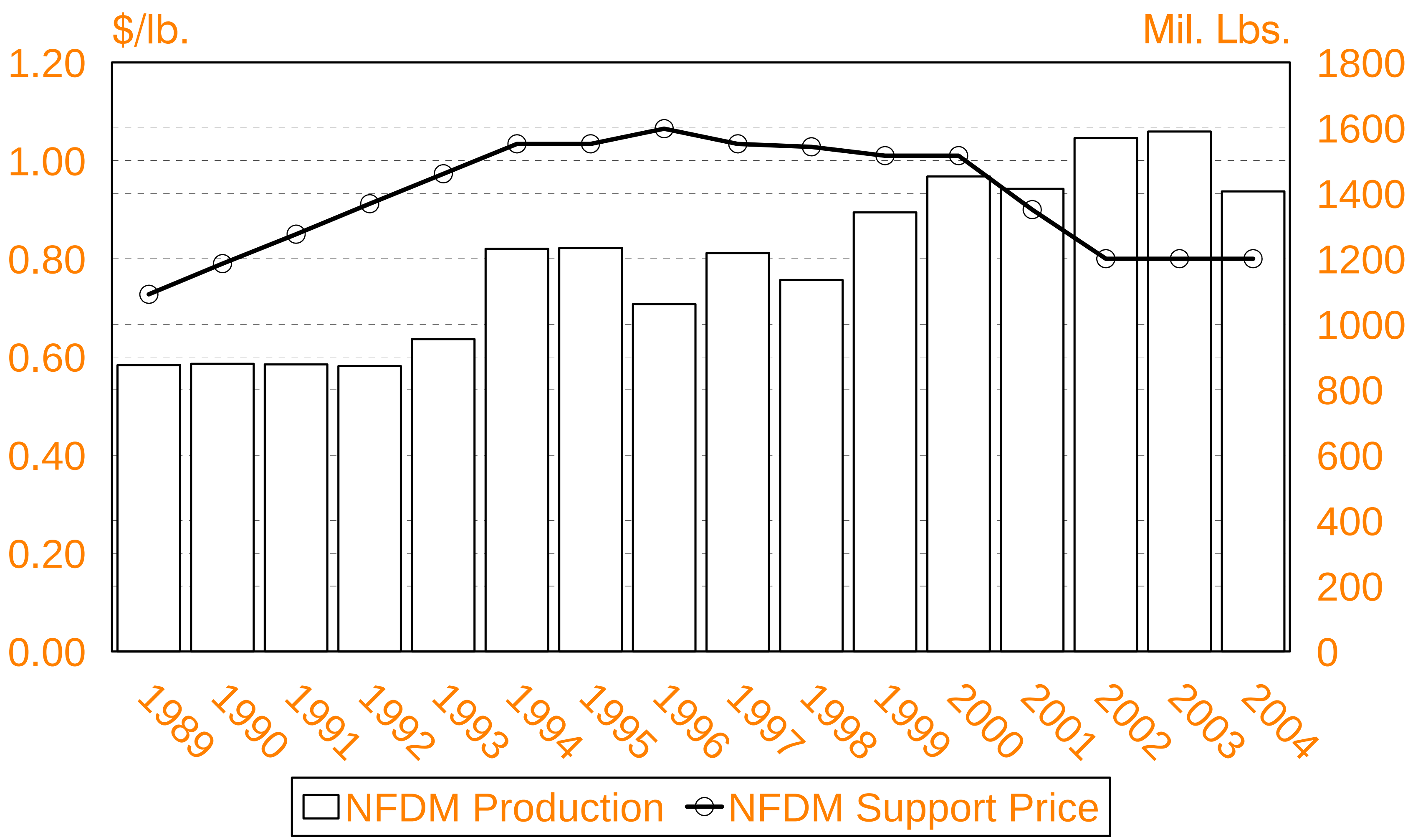
NZ Reforms: Relevance?

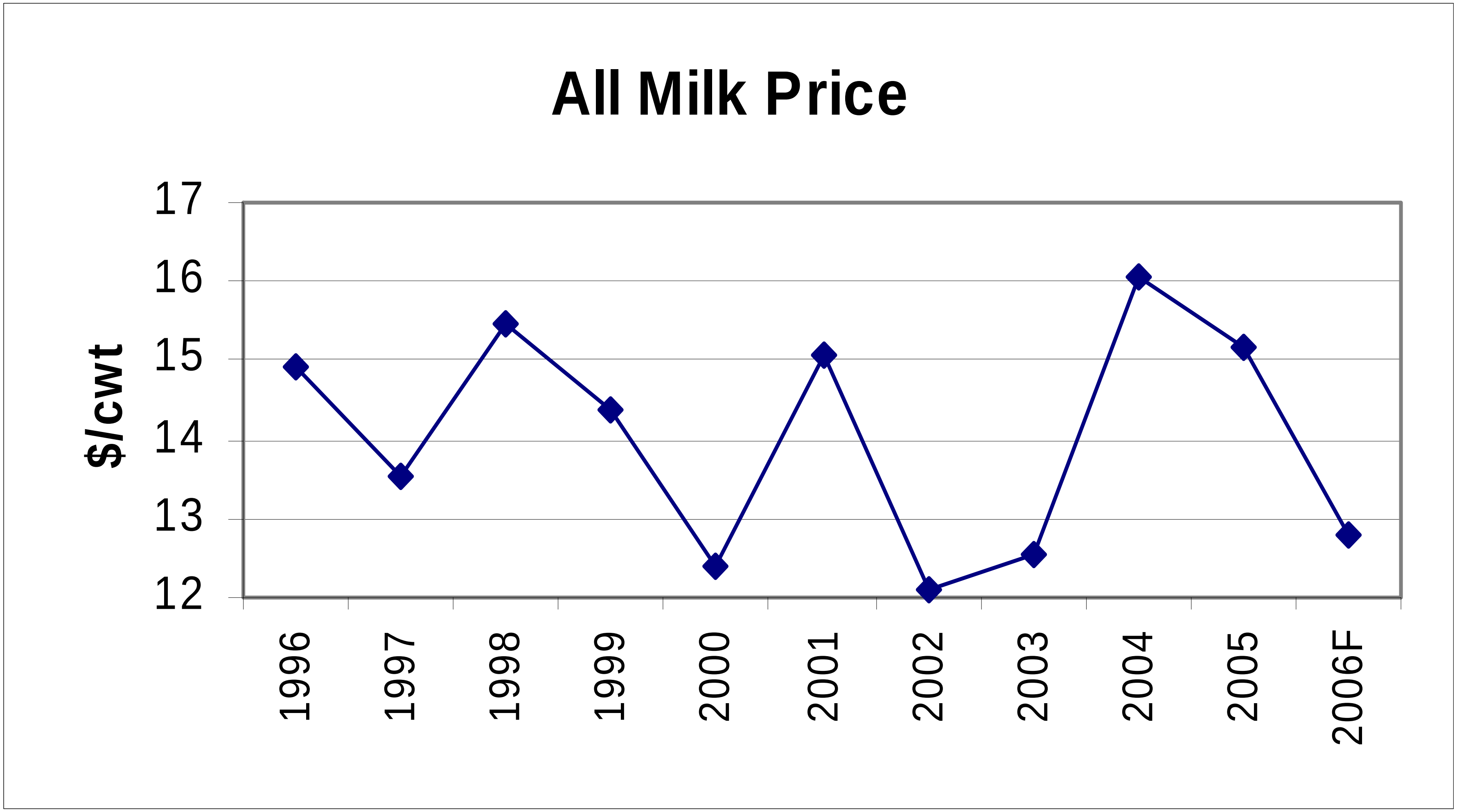
- NZ dairy industry dominated by exports vs. U.S. dairy industry dominated by domestic demand.
- Dr. Lattimore points out greater productivity growth post no subsidies.


U.S. Milk Production
180,000
160,000
140,000
120,000
(Mil. Lbs.)
2003 170.4 Bil. Lbs. +0.2%
2004 170.9 Bil. Lbs. +0.3%
2005 177.0 Bil. Lbs. +3.5%
1980
1985
1990
1995
2000
2005


Comparison of the Cheddar 40-lb. Block Cheese Price and the Support Price
($/lb.)
$2.25
$2.00
$1.75
$1.50
$1.25
$1.00
Jan-80
Jan-82
Jan-84
Jan-86
Jan-88
Jan-90
Jan-92
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04

NFDM Support Price




All Milk Price
$/cwt
17
16
15
14
13
12
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006F

Dairy Demographics

Herd Size	# Farms 1997	# Farms 2003	# Farms 2005	# Farms 2010**
1 – 99	102,205	67,650	60,510	40,000
100 – 499	19,239	15,745	14,715	13,000
500 – 999	2,336*	1,700	1,700	2,000
1000 – 1999		815	850	1,200
2000+		450	520	800
Total	123,780	86,360	78,295	57,000

Source: USDA and **Keough Ledman Associates Estimate

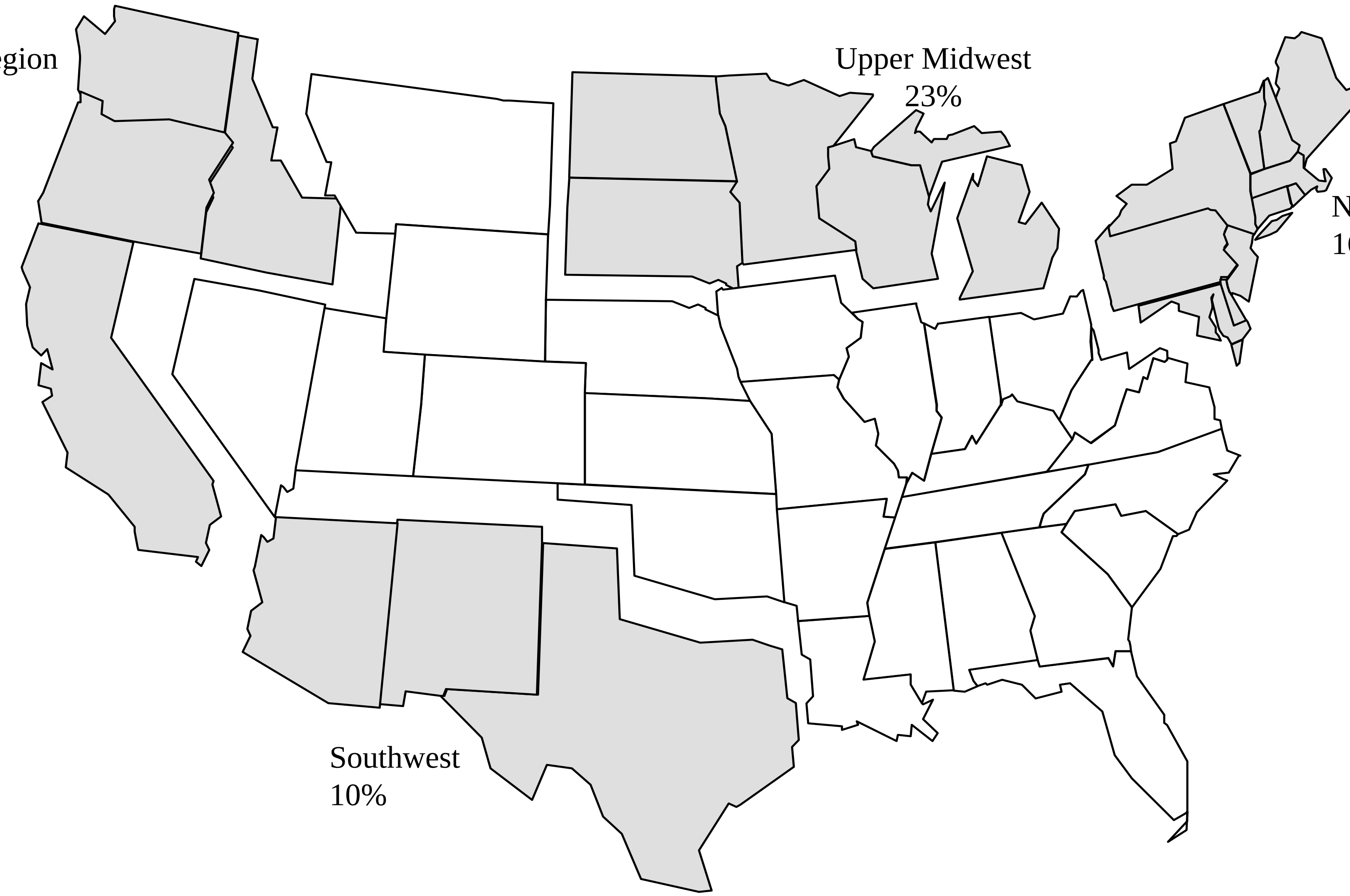
Where’s the Milk 2005?

Herd Size	% of U. S. Dairies	% of Production
1 – 99 cows	77.3%	21.6%
100 – 499 cows	18.8%	28.9%
500 – 999 cows	2.2%	13.5%
1000 – 1999	1.0%	14.3%
2000 +	0.6%	21.7%

Origins of the 2005 Milk Supply

- The largest 3,070 dairy herds with more than 500 cows account for 49.5% of the U.S. milk production.
- These farms are highly competitive and some have invested in dairies in Brazil, Argentina and Chile.

2005 U.S. Milk Production By Region and Percent of Total



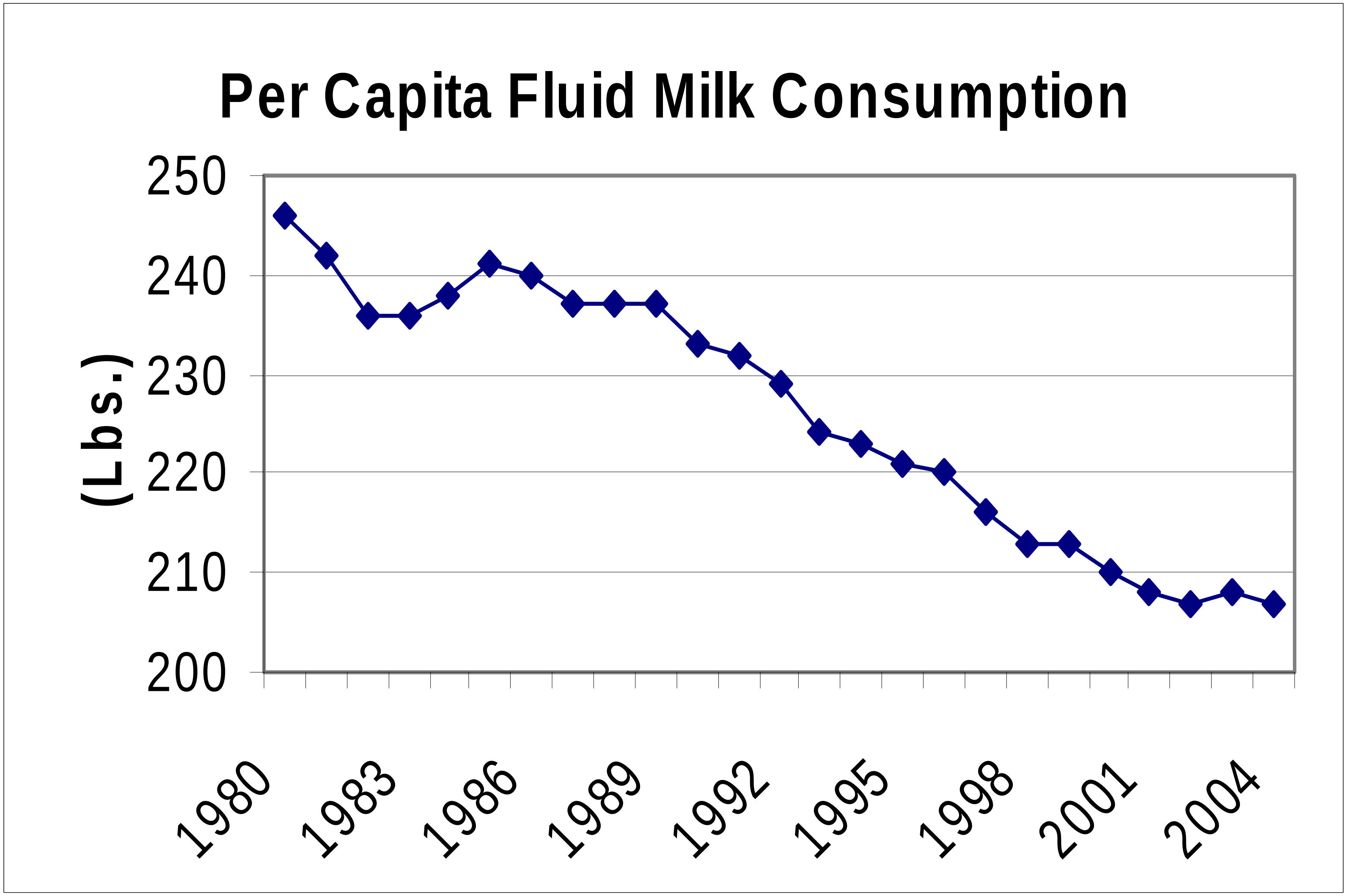
Consumer Aspect

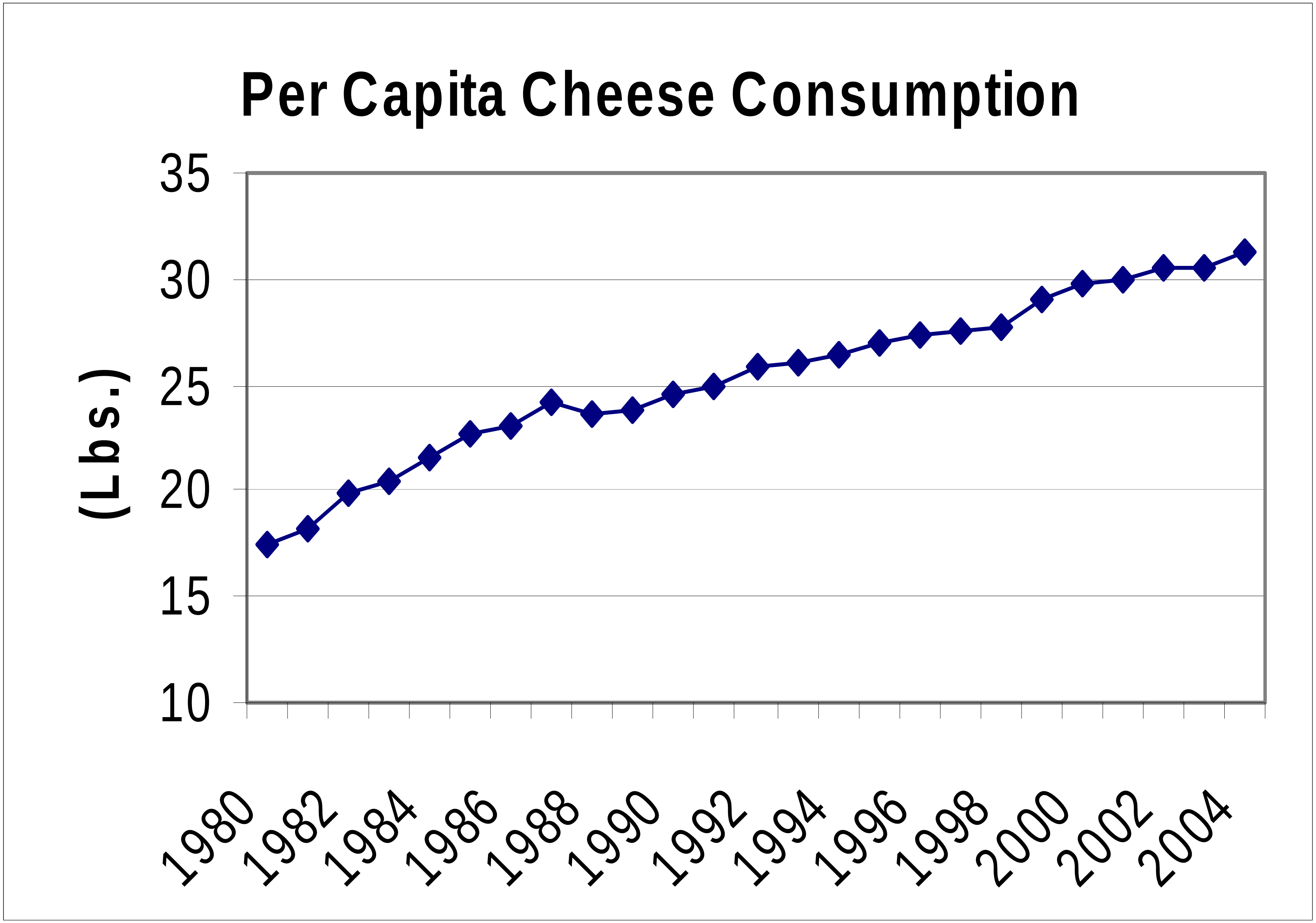
- Tax dollars pay for direct payments and support price program
- However, consumer prices are arguably impacted more by the Federal Order pricing
- CFR standard of identity and make procedures do not allow for lowest cost ingredient use in cheese manufacturing.

Federal Milk Orders

Federal Milk Marketing Orders

- Classified Pricing – Fluid Milk price about 20% higher than milk used in manufacturing


Per Capita Fluid Milk Consumption
(Lbs.)
250
240
230
220
210
200
1980
1983
1986
1989
1992
1995
1998
2001
2004



Per Capita Cheese Consumption
(Lbs.)
35
30
25
20
15
10
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004

U.S. “Almost Reform”

- In 1990 Budget constraints forced dairy farmers to offset the cost of the price support program.
- Initially the assessment was set at $0.05 per cwt within five years, the assessment grew to $0.25 per cwt
- The 1996 Farm Bill included language submitted by dairy farmers to eliminate the support price program.
- Subsequent budget reconciliation…and election year politics lead to the reinstatement of the support price program.

U.S. “Almost” Reform

- Some how the agricultural sector went from “Freedom to Farm” to one of “Entitlements”
- It will likely take an “economic” crisis to bring the industry back to the reform table.

U.S. “Self-Help” Program

- In response to the MILC – direct payment program in 2002
  - Payments directed to dairies with less than 140-cows
- Large producers united to establish the “Cooperatives Working Together”
- Nickel assessment – growing now to dime
  - Used to reduce dairy herd
  - Used for export assistance

What about Canada?

- Capitalization of Quotas is a real challenge to reform and perhaps a buy-out approach is more applicable.
- The same is probably true in the EU?