Discussion: Lessons From New Zealand’s Agriculture Policy Reform

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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

<table>
<thead>
<tr>
<th>Country</th>
<th>Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>7.6 MM T</td>
</tr>
<tr>
<td>Mexico</td>
<td>10.3 MM T</td>
</tr>
<tr>
<td>U.S.</td>
<td>82.2 MM T</td>
</tr>
<tr>
<td>New Zealand</td>
<td>14.5 MM T</td>
</tr>
</tbody>
</table>

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

2003  170.4 Bil. Lbs.  +0.2%
2004  170.9 Bil. Lbs.  +0.3%
2005  177.0 Bil. Lbs.  +3.5%
Comparison of the Cheddar 40-lb. Block Cheese Price and the Support Price
NFDM Support Price

The chart illustrates the NFDM Support Price ($/lb.) from 1989 to 2004. The support price is shown on the left y-axis, with values ranging from 0.00 to 1.20. The NFDM Production is represented by the bar chart on the right, with values in millions of pounds (Mil. Lbs.). The production values range from 0 to 1800 Mil. Lbs. The data shows an increase in the support price from 1989 to 1996, followed by a decline in prices from 1997 to 2004.
# Dairy Demographics

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

Source: USDA and **Keough Ledman Associates Estimate
## Where’s the Milk 2005?

<table>
<thead>
<tr>
<th>Herd Size</th>
<th>% of U. S. Dairies</th>
<th>% of Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 99 cows</td>
<td>77.3%</td>
<td>21.6%</td>
</tr>
<tr>
<td>100 – 499 cows</td>
<td>18.8%</td>
<td>28.9%</td>
</tr>
<tr>
<td>500 – 999 cows</td>
<td>2.2%</td>
<td>13.5%</td>
</tr>
<tr>
<td>1000 – 1999</td>
<td>1.0%</td>
<td>14.3%</td>
</tr>
<tr>
<td>2000 +</td>
<td>0.6%</td>
<td>21.7%</td>
</tr>
</tbody>
</table>
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.
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.)

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?