

New Zealand's grasslands 1958–1998: retrospective foresight

JOHN LANCASHIRE¹

Formerly General Manager, Grasslands Division, AgResearch and DSIR, Private Bag 11008, Palmerston North

Abstract

The only reason a large part of the New Zealand pastoral sector has remained in business in the last 20 years is because of the high rate of capital gain on farmland. Much of this increase is owing to non-farming factors such as population increases, lifestyle blocks and more lucrative uses for land such as forestry. The lack of profitability is owing to the fact that the industry is still largely in the 'commodity' trap which comprises 80% of exports. A massive change of direction to added value niche products is required if the inevitable decline of the industry to third world status is to be arrested.

However, there are some very promising signs within the country that the wine industry model can be developed in the food industry. Regional characteristics and a New Zealand style "terroir" are emerging with a number of very successful small food businesses setting new standards and a new philosophy. International trends in the food industry suggest a superb window of opportunity for New Zealand in the area of high value clean green nutritional foods. This challenge must be accepted if the pastoral sector is to survive as a viable force in the New Zealand economy.

Keywords: commodities, food, regions, terroir, nutrition

Introduction

The usable land area of New Zealand, which comprises 73% of the total 26 million hectares, underpins the pastoral, horticultural, forestry and arable primary production sectors. The combined food, fibre and beverage sectors contribute 73% of merchandise exports (NZ\$14 billion), 18% of employment and 15% of GDP, and therefore have enormous significance for both New Zealand's economic wellbeing and its environmental health and sustainability.

Unfortunately much of our primary sector is still very exposed to fluctuations in the global economic environment, largely because of its continuing depen-

dence on commodities which comprise up to 80% of export products. Although there are occasional upward blips there is a long-term downward trend in most commodity prices (Table 1).

Table 1 Comparison of real prices for some New Zealand commodities (Barber, 1998).

	1950	1997
Wool	1000	200
Beef	1000	350
Milk solids	1000	410
Lamb	1000	765

This deteriorating situation means that New Zealand is still largely production driven rather than market driven, and remains at the mercy of global fluctuations by being a price taker rather than a price maker. The disastrous result for the national economy is that the relative price of our agricultural products sold to the world has fallen by a third relative to the price of imports since 1956 (Gawith 1998). Further, according to the Meat and Wool Board's Economic Service, sheep and beef farmers have generated only a 3% return on capital employed since 1980. Even in the dairy industry, there is only a 4% return on all capital employed (Gawith 1998). The new Chairman of the New Zealand Dairy Board, John Storey, is of the view that dairy payouts are "going down the gurgler". The Chairman of the Reserve Bank, Don Brash (1998) believes that the only reason a large part of the primary sector has remained in business is the high rate of capital gain on farmland in recent years. However, much of this increase is owing to non-farming factors such as population increases, lifestyle blocks and more lucrative uses for land such as forestry. Clearly this does not represent a sustainable economic future for the grassland industries in New Zealand, and if changes are not made, pastoral farmers are going to end up as peasants in the early years of the 21st century. Is there anything that can be done, and can we learn from the past and an examination of current and future trends?

Institutional knowledge and memory

In an era of continual restructuring it is clear that much institutional knowledge has been temporarily or

¹ Now a strategist at 77, The Esplanade, Raumati South, Kapiti.

permanently lost in New Zealand. For example, MAF has undergone 10 restructurings in 10 years and in addition (or because of this) there is a very high mobility/turnover of policy staff in many operational ministries. At a more political level the fact that 50% of the cabinet were farmers in the 1960s, while today it is only 10%, must have a significant effect on government understanding of the sector. For example, it is said that when rural MPs came to the Prime Minister Keith Holyoake (1960–72) begging for drought relief, they were told to go and “count the bees”. If they were plentiful no drought relief was necessary! Certainly in that environment it is hard to believe that Treasury would have so completely underestimated the effects of the recent drought in their economic forecasts for the first quarter of 1998. In fact, the misunderstanding was so profound that “growth” noted in some drought-affected regions because capital stock were being sold and other stock killed early was recorded without comment. Hopefully, similar trends already apparent on the East Coast currently (November 1998) will be better understood.

Although the pastoral sector is still a very significant part of the New Zealand economy, its inevitable and gradual decline in relative importance has been obvious for decades. The words of Bob Dylan “there’s a slow train coming, up around the bend” have taken too long to penetrate the psyche of the industry, and thus the major changes needed (and renewed promotion of public understanding of the sector) may now be too late to turn the industry around.

The challenge

The New Zealand Institute of Economic Research predicted in June 1998 that food production (and wood products, fabricated metals and tourism) would be the four key drivers of New Zealand’s export growth over the next 5 years. These possibilities offer an exciting opportunity for the pastoral sector to move from commodities to a diverse range of added value niche products. However, the global food industry is very competitive, strongly market driven and subject to very rapid change (Tables 2 and 3).

The industry is also totally committed to research and innovation. According to Faith Popcorn (The Popcorn Report 1994) new products such as fatless fat, cholesterol-free eggs and cheese, “neutraceuticals” (food as preventive medicine) and bio-engineered vegetables with the same protein level as meat are all near market.

In addition to these profound sociological and food industry changes, the projected increase in free trade through recent international agreements has introduced the threat of more non-tariff barriers as a protection against our exports.

Table 2 Product trends in the global food industry.

- 55 000 new food products launched in Europe in 1995, 18% more than in 1994. But only 39% were in stores a year later
- 62% of Australian adults have recently changed their diet for health reasons (cholesterol and weight)
- The US\$86 billion US health food and drink market is growing at 5%/year (traditional food and drink only 2%/year)
- Neutraceuticals are a US\$4 billion market in Japan in 1995

Table 3 Some food industry statistics – *The Consumer*.

- Only 50% of households in New Zealand are the traditional family unit of two parents with children
- In Australia two-thirds of adult women work and 40% of the men arrive home first
- In the US 50% of evening meal decisions are made after 4.00 p.m.
- In the US 55% of the food dollar is spent outside the home
- In 1997 two million New Zealanders were over 40
- In UK one-third of all meals are eaten alone

Table 4 Some actual and potential candidates for non-tariff barriers.

• Food safety	<i>E. coli</i>
• Environmental safety	Sustainability
• Animal diseases	BSE
• Animal welfare	Intensive stocking
• Genetic engineering	Transgenic animals and pastures
• Nutritional value	Animal fats
• Human health	Herbicide and pesticide residues

Obviously, if the pastoral sector is to move towards a much greater emphasis on added value food products it will have to deal with a wide range of issues which are increasingly different to those important in the traditional industry (Table 5).

Table 5 Some food industry issues for the pastoral sector in New Zealand.

- Farmers are now food producers
- Food safety
- Environmental safety
- Human health and nutrition
- New ethnic markets
- Designer “added value” foods for diverse markets
- Animal welfare
- Bio-security

Meeting the challenge

There is no simple solution or “magic bullet” for the problems of the pastoral sector. However, there are an increasing number of real business success stories in niche food products which show that change can work. These include Kapiti cheeses; Sun elite foods in Auckland; Organic yoghurts in the Manawatu; Taraire River Natural Beef at Kerikeri and Mangapiri Downs

Organic Meats in Southland. Although like all successful businesses these enterprises will be well aware of the importance of keeping costs down, they have had to move away from the low cost obsession of the standard New Zealand commodity producer. Added value cannot be obtained without increased cost but the secret is to improve the margin. An extreme example is a wool project in Australia where very costly “pampering” (including daily combing) of a special line of Merino sheep produced wool at a market price of 114 000 cents/kg compared with the standard indicator price of 621 cents/kg.

If there is any doubt about our ability to successfully develop niche products we need look no further than international sport. New Zealand does have occasional success in the huge global “commodity” sports such as athletics, tennis, golf and soccer, but our consistent top billing is in areas such as rugby, showjumping and yachting, which involve only a few countries and limited competition, although success is still based on achieving very high standards.

In terms of roadblocks to change it is still hard to go past the point made by Brian Richards a number of years ago, that “pastoral industries are dominated by male management structures in a world where virtually all consumer decisions on food are taken by women”. It is interesting that a major role was played by women in three of the five niche food product examples quoted above.

Conclusions

The international food business is an enormous and very profitable industry with, for example, 12 of the 30 top performing companies on the London stock exchange being in this area. New Zealand is already in this business, but too often as a supplier of commodities to other food manufacturers who obtain the added value. Potentially we are extremely well placed to link our traditional strengths with a move to added value niche products, which are produced in an environmentally friendly way. Within New Zealand there are some very promising developments. In the last 10 years we have become a nation of “foodies” with an enormous number of food (and wine) festivals and new restaurants and

cafés around the country. We have seen a real demonstration of our different regional strengths and characteristics and are well down the track of having our own “terroir” philosophy. The wine industry is a magnificent model for our food industry. The New Zealand cheese awards, the beef and lamb scheme in restaurants and even the national competitions for pies and fish and chips are very important in raising standards and awareness. We still need to do a lot more to encourage high quality and excellence in our food industry.

Also, we will need increased research capacity at the consumer end of the production chain, but this cannot be at the expense of production and sustainability research as there will be a continuing need to develop new production systems. In particular, in future all food products will be subject to accreditation procedures covering the whole value chain. A high standard of management for these added value biological systems will be essential combined with a global perspective developed through a public/private partnership in New Zealand.

Finally, there are increasing international concerns about the fact that many modern foods are very unhealthy. It is even being suggested that the food industry could face massive litigation on the same scale as the tobacco industry has recently undergone, because of the damage it has caused to human health. Surely these trends represent a superb window of opportunity for New Zealand with our worldwide reputation for clean, green, healthy? and nutritional products.

Can the pastoral sector bite the bullet on this issue? If it can there is a very bright and profitable future. If not, it will descend very quickly into third world status.

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