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Market developments for NZ agricultural produce

New Zealand is unique as a developing country relying on agricultural production and trade for most of its foreign exchange earnings. This, of course has had its problems, not least, difficulties of access into the main high value markets around the world. However, given the latest agreement at the WTO, this may begin to change with the gradual removal of trade distorting support from the main markets. This won't happen overnight but nonetheless bodes well for a reduction in trade restrictions and duties against NZ products. A word of caution is that while direct trade barriers will be removed, other restrictions on trade may start to be applied more stringently such as the method by which the food is produced.

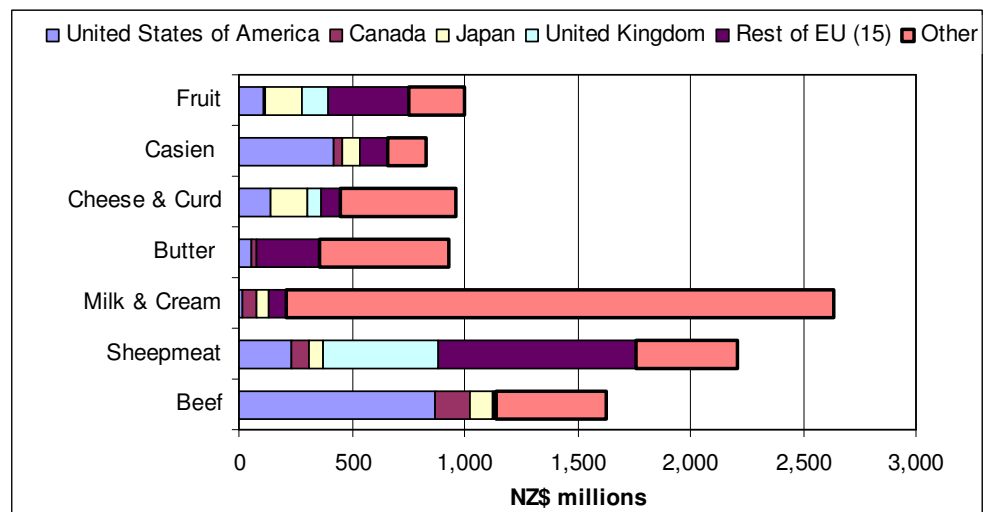
The other challenge to NZ agricultural trade in high value markets is the change in consumer demand, away from price being important, to more focus on food safety and concern over the environment and the way food is produced. Whilst NZ has some real advantages in this, it also has to be able to meet these new market demands and consider its' production methods as well as marketing. This is seen clearly with the rise in European schemes which require farmers to comply with various standards of food production.

ARGOS aims to help farmers in two ways: (1) by keeping a watching brief on overseas market/policy requirements and developments, and how these may affect farmers, and (2) to provide evidence to offset demands from overseas markets for production systems and

environmental compliance which is not appropriate in NZ.

Market Changes

The market for NZ agricultural produce has changed over the last few decades. The switch in markets has been inhibited by trade restrictions on agricultural imports in many markets, especially those in developed countries. Despite this, developed country markets are still the most important markets for NZ, with the exception of milk. This is illustrated in Figure 1, which shows for the main agricultural exports from NZ in 2003 the amount exported to the main developed country markets. The challenge to NZ is to be able to maintain and expand these markets. Much of this trade however, is in bulk commodities, and potential future market changes could mean that this trade could be under threat from changing



consumer behaviour and international policy change.

Figure 1: Main agricultural exports from NZ (Source: MFAT, NZ External Trade Statistics June 2003).

Consumer Behaviour

There have been important changes in consumer behaviour that underlie some of the changes outlined above. Fundamentally the

proportion of consumer expenditure spent on food in EU has fallen over the last two decades, and from 1995 to 1999 it went from 14.2% to 12.9%, with UK down to 9.1% in 2003¹ (Statistics UK; Household final consumption expenditure in the European Union, 2002). This is a natural evolution in a developed country with increasing incomes, and as a consequence, the actual price of a food product plays a lesser role in consumers buying behaviour. As consumers starts to pay less attentions to the price of food, attributes such as quality and country of origin becomes more important.

Moreover, the proportion of this expenditure that goes to the farmer has fallen with the rise in expenditure on meals away from home and ready to eat foods. In NZ, 23 per cent of food expenditure is on such foods (Statistics NZ, 2000/2001) and this trend is even more prominent in the EU. Thus the proportion of income spent on basic commodities has fallen, and is likely to continue to fall, as incomes rise and consumer behaviour continues to alter.

WTO, Policy Developments and New Zealand Food Production

The current round of WTO negotiations has just reached agreement on removal of export subsidies and other trade distorting policies, a huge boost for NZ. However, this may well increase the growth in other factors restricting trade, notably environmental factors. This is nowhere more apparent than in the development of EU agricultural policy.

The change in basis for agricultural support in EU is emphasised by the change in objectives of the policy and its broadening from being an agricultural policy to being a rural policy. The new objectives are radically different and include:

- increased competitiveness internally and externally
- food safety and food quality are a fundamental obligation towards consumers
- integration of environmental goals into the CAP
- creation of alternative job and income opportunities for farmers and families
- simplification of EU legislation
- ensuring fair standard of living for the agricultural community and contributing to the stability of farm incomes

The EU initiated reform to its agricultural policy, alongside the WTO round, has a profound impact on agricultural production in NZ and elsewhere.

The WTO General Council decision on 31 July 2004, states that direct payments (Blue Box support) is to be limited to 5% of members average total value of agricultural production. This puts pressure on many member countries, particularly the EU, to move from trade distorting Blue Box payments to Green Box payments and measures. How these will be designed to meet Green Box requirements will be a matter of considerable interest.

Outlook for ARGOS Farmers and Growers

There have been considerable changes in NZ export markets and their requirements over the last decade or so. The attributes of food have risen in importance in markets, and these attributes include how the food was produced as well as quality and safety issues.

The current round of agricultural policy reforms in the EU and the WTO negotiations will further reduce market distortions. This will have the impact on NZ of freeing up both EU and international markets. The threat, or opportunity, to NZ is that the change in policy towards payments for environmental enhancement will be used as basis for restricting trade in products not produced under similar conditions. Thus for NZ to obtain continued access to these markets she may have to alter its production methods as well. These changes do present great opportunities for NZ with its "clean green" image. However, this image has to be carefully assessed given certain farming practices in NZ with respect to market demands.

Finally, to maintain or grow farm incomes in NZ, it is vital that the attributes of food are considered. This is the main way that NZ can overcome the basic problem that as the world gets richer, the proportion that it spends on food at the farm gate falls.

The ARGOS Programme aims to help farmers meet these new demands in a proactive manner so access to markets can be maintained in a manner that suits NZ.

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¹ The corresponding figures for NZ shows an almost stable evolution; from 16.6% in 1989, with a slight increase in the beginning of the 90's, back to 16.5% in 2002 (Source: ...)