AN OVERVIEW OF GOVERNMENT POLICIES FOR THE NEW ZEALAND LIVESTOCK INDUSTRIES, WITH EMPHASIS ON RECENT PRICE STABILISATION AND PRICE SUPPORT SCHEMES

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PREFACE

This Discussion Paper addresses the objectives and effectiveness of the New Zealand Meat Producers' Board price stabilistion scheme introduced in 1975/76, the Supplementary Minimum Prices (SMP) Scheme introduced by the Government in 1978/79, and the price stabilisation scheme operated by the New Zealand Pork Marketing Board during 1977/78. Particular attention is given to the interaction between the SMP and price stabilisation schemes, and the subsequent financial implications for the Meat Producers' Board Stabilisation Accounts. The authors attempt to integrate the discussion of the specific policy objective and impacts with the longer term and evolving activities of the statutory marketing authorities in the beef and sheepmeat, and pig industries.

This project forms part of the AERU research programme associated with pastoral industry production and policy. Other recent publications by the Unit in this area include those by R.L. Sheppard and J.M. Biggs (Discussion Paper No. 63), and M.T. Laing and A.C. Zwart (Discussion Paper No. 70) on the SMP Scheme; and those by M.T. Laing and A.C. Zwart (Research Report No. 137) and T.P. Grundy, R.G. Lattimore and A.C. Zwart (Research Report No. 192) concerning an econometric model for the New Zealand Pastoral Livestock Sector.

This Discussion Paper was prepared by Dr. G.R. Griffith, a Visiting Research Fellow with the AERU on leave from the New South Wales Department of Agriculture, where he is a Senior Research Scientist in the Division of Marketing and Economics Services, and Dr. S.K. Martin, a Senior Research Economist in the AERU.

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SUMMARY

During the 1970's the New Zealand Meat Producers' Board introduced a buffer fund price stabilisation scheme, and the Government implemented a pastoral sector Supplementary Minimum Prices scheme. The schemes were jointly expected to reduce the variability in pastoral sector farm prices and incomes, reduce the cyclical impact of farm sector income on the New Zealand economy, expand output and export revenue, and maintain an adequate income level for agricultural producers. Considerable debate ensued as to whether these schemes achieved their stated objectives during the period of operation, and whether this was done in a cost effective manner.

The SMP scheme was introduced to ensure adequate incomes to pastoral sector producers and to encourage greater output and export revenue. It is acknowledged that the scheme suffered severe problems. First, it was not clear that a strong link existed between farm income and agricultural investment, so the objectives may not have been compatible. Second, the operation of the scheme was altered many times as the Government's perception of a desired adequate income changed. Rather than introducing a more stable planning and investment environment in agriculture, these changes may have induced the opposite effect. Third, some substantial problems existed with the scheme, including an obvious inconsistency in New Zealand's trade policy stance and a pattern of prices distorted significantly from market levels which impeded desirable production adjustments.

For the price stabilisation scheme, many of the same problems existed. Also the overall objective of price stability may not have been appropriate, and there existed the problem of accurately forecasting the long run average price to set the price bands. A natural tendency to set wide bands made the stabilisation scheme less effective and perhaps encouraged the institution of the SMP scheme.

Perhaps the major criticism of this decade of price intervention though is the belief of Governments that income objectives may be achieved through the price system. The large financial losses of the New Zealand Meat Producers Board during 1981/82 - 1984/85 may not have occurred if there had not been the obsession with income adequacy through price supplementation.

In the New Zealand pig industry some pressure exists to look closely at alternative marketing structures including price stabilistion and/or support schemes. The experience of a decade or more in the pastoral industries, plus a brief and ill-fated encounter with price stabilisation in 1977/78, would suggest this should be very carefully done. With current Government attitudes the industry should examine in detail the sources of instability and whether the advantages of greater stability are worth fighting for.

SECTION 1

INTRODUCTION

1.1 Background

The past decade has seen the implementation and in many cases subsequent dismantling of a wide variety of government policies affecting the New Zealand meat and livestock industries. These policies include price stabilisation schemes introduced by the New Zealand Wool Board and the New Zealand Meat Producers' Board in 1975/76; the price stabilisation scheme operated by the NZ Pork Marketing Board from 1977-1978; the supplementary minimum price scheme implemented in the wool, meat and dairy industries over the period 1978/79 - 1983/84; and the Livestock Incentive Scheme and the Land Development Encouragement Loan Scheme. These incentives were introduced, particularly for sheepmeat, to take advantage of a relatively favourable world trade outlook and to increase foreign exchange earnings (Durbin 1985). The introduction and operation of these schemes has stimulated considerable debate among livestock producers, other market participants and government and academic personnel. Producers are concerned to know whether such policies actually stabilise and/or support net returns or stimulate output, and whether or not the production sector gains from such activities. More stable prices may also result in more stable output, which has important implications for the employment of resources in food and fibre processing, and in transport and other servicing industries, as well as for the development and maintenance of export markets. On a more macro level, policies which interfere with the determination of market prices have some important impacts on national economic welfare and on the distribution of economic gains and losses among the various sectors involved.

Although there have been some studies which have attempted to analyse the SMP scheme in particular (Sheppard and Biggs 1982; Laing and Zwart 1983), there does not appear to be an overview discussion of each of the various schemes and an assessment of their major advantages and disadvantages.

1.2 Aims of the Study

In this paper we have the following objectives:

(a) a short historical overview of the events leading up to the implementation of these schemes in the mid 1970's;

(b) a more detailed description and discussion of the elements and operation of the schemes in the beef, sheepmeats and pig industries, especially in relation to the institutional structures in these industries and their stated policy objectives; and

(c) an analysis of the achievements and limitations of the various schemes.

The focus in this paper is on the meat industries, thus any discussion of policies in the wool or dairy industries is omitted. Reference to their schemes can be found in Davidson (1976), Sheppard and Biggs (1982), Laing and Zwart (1983), and Martin (1986).

There is also an interesting comparison between the beef and sheepmeat industries, and the pig industry, in terms of the histories of their institutional structures and intervention policies. The beef and sheepmeat industries have been the subject of statutory marketing authority for many years and have had a long history of various types of intervention in their markets. On the other hand, the pig industry has been predominantly unregulated in market activity and only recently has statutory authority been sought.

SECTION 2

HISTORICAL OVERVIEW

With the exception of the dairy industry, there had been little price subsidising of New Zealand agriculture up until the mid 1970's. There were measures available and sometimes used to assist export returns in the livestock and wool markets, but little direct production assistance. This situation caused little comment however, as international markets were relatively stable and farm gate returns tended to mirror this stability.

However, during the early 1970's there were quite severe fluctuations in the market returns for New Zealand's livestock products. First, fuelled by the oil price shocks and the rapid worldwide inflation in all commodity prices, wool and meat prices rose sharply during 1972/73. Then in late 1974 sharp declines occurred in the wool and meat industries (see Tables 1 and 2). For beef the real price fell by two-thirds from 1972/73 to 1974/75, for wool the real price halved and for mutton the real price fall was over 75 per cent! Because of the large proportion of agricultural exports in total New Zealand exports and in national income, these farm price and income effects were quickly passed through into the rest of the economy, and prompted the then Labour Government to establish in late 1974 the Farm Incomes Advisory Committee (the Zanetti Committee). This Committee had the following terms of reference:

(i) "to examine ways of reducing the pronounced fluctuations in prices received by producers of the major agricultural products;

(ii) to examine ways of achieving a more consistent level of farm incomes and limiting the disruptive stop-go impact on the New Zealand economy as a whole, consistent with the need to maintain over time, the maximum level of returns possible to producers;

(iii) in light of the above examinations to recommend ways of reducing the pronounced fluctuations in product prices, consistent with the need to maintain market orientation of agricultural production in New Zealand, and the incentive and ability to respond to trends in overseas agricultural policies and prices".

Table 1: Nominal Price Trends for New Zealand Livestock Products, 1964/65 - 1986/87

Year	Prime Beef[a] (c/kg)	Manufacturing Beef[b] (c/kg)	Lamb[c] (c/kg)	Mutton[e] (c/kg)	Wool[f] (c/kg)	Milkfat[g] (c/kg MF)
1964/65	33.1	22.9	43.8	17.9	77.40	76.86
1965/66	34.6	30.9	40.8	17.6	76.46	81.23
1966/67	33.3	28.2	33.1	16.1	64.77	81.39
1967/68	39.1	36.2	40.2	16.3	53.84	74.75
1968/69	42.4	37.6	48.9	17.3	61.89	71.16
1969/70	52.0	49.6	44.3	23.3	56.53	71.90
1970/71	53.8	47.2	42.1	16.5	53.69	85.77
1971/72	52.2	42.6	39.1	14.1	66.70	120.87
1972/73	75.0	62.2	70.2	53.2	143.96	115.65
1973/74	59.7	41.4	71.3	41.4	139.19	127.58
1974/75	36.5	26.0	56.0	15.0	92.82	127.03
1975/76	57.9	45.9	75.0	30.9	159.52	140.81
1976/77	62.4	50.6	100.4	53.1	206.61	152.74
1977/78	65.5	55.6	93.9	43.7	190.43	167.35
1978/79	111.6	101.3	111.6	55.4	218.85	180.00
1979/80	120.2	103.3	120.3	57.7	265.09	208.00
1980/81	120.2	105.0	124.3	63.0	247.71	265.00
1981/82	143.0	125.0	166.2	54.7	312.08	333.48
1982/83	163.8	136.9	169.5	65.2	312.19	360.75
1983/84	181.2	143.0	178.5	71.0	318.06	350.00
1984/85	232.8	200.0	258.5[d]	146.6[d]	377.43	396.00
1985/86	173.0	139.8	183.4[d]	77.3[d]	343.82	400.00
1986/87	182.5	139.1	251.8[d]	126.3[d]	416.70	320.00

Sources: NZ Dairy Board _Annual Report_ (various issues)
NZ Wool Board _Annual Report_ (various issues)
NZ Meat Producers' Board _Annual Report_ (various issues)
NZ Meat and Wool Board Economic Service _Annual Review of the Sheep and Beef Industry_ (various issues)

a Average of mid-month farm gate schedule prices, North Island, January to June, plus or minus any supplements or levies

b Average of mid-month farm gate schedule prices, North Island, February to June, plus or minus any supplements or levies

c Average of mid-month farm gate schedule prices, North Island, December to May, plus or minus any supplements or levies, plus wool and pelt values

d now quoted on ex-scales basis and not comparable to previous years

e Average of mid-month farm gate schedule prices, North Island, January to June, plus or minus any supplements or levies, plus wool and pelt values

f Average auction price, new clip, greasy wool ex store, July-June, plus or minus any supplements or levies.

g Basic payment plus end of season distribution.

Table 2: Real Price Trends for New Zealand Livestock Products, 1964/65 - 1986/87

Year	Prime Beef[a] (c/kg)	Manufacturing Beef[a] (c/kg)	Lamb[a] (c/kg)	Mutton[a] (c/kg)	Wool[a] (c/kg)	Milkfat[b] (c/kg MF)
1964/65	77.7	53.8	102.8	42.0	181.7	184.8
1965/66	79.2	70.7	93.4	40.3	175.0	191.6
1966/67	74.0	62.7	73.6	35.8	143.9	185.8
1967/68	83.9	77.7	86.3	35.0	115.5	164.3
1968/69	88.1	78.2	101.7	36.0	128.7	152.4
1969/70	104.8	100.0	89.3	47.0	114.0	146.7
1970/71	103.5	90.8	81.0	31.7	103.3	164.0
1971/72	94.4	77.0	70.7	25.5	120.6	220.6
1972/73	129.1	107.1	120.8	91.6	247.8	195.0
1973/74	90.0	62.4	107.5	62.4	209.9	185.7
1974/75	48.5	34.6	74.5	19.9	123.4	164.3
1975/76	68.7	54.4	89.0	36.7	189.2	160.0
1976/77	62.4	50.6	100.4	53.1	206.6	152.7
1977/78	56.7	48.1	81.2	37.8	164.7	146.4
1978/79	88.5	80.3	88.5	43.9	173.6	140.0
1979/80	77.8	66.9	77.9	37.4	171.7	134.4
1980/81	63.3	55.3	65.5	33.2	130.4	133.6
1981/82	64.3	56.2	74.8	24.6	140.4	154.1
1982/83	66.9	55.9	69.2	26.6	127.5	151.3
1983/84	73.8	58.2	72.7	28.9	129.6	144.7
1984/85	86.1	74.0	95.6[c]	54.2[c]	139.6	149.2
1985/86	56.6	45.7	60.0[c]	25.3[c]	112.4	138.6
1986/87	55.4	42.3	76.5[c]	38.4[c]	126.6	111.5

Sources and definitions of raw data in Table 1

a Deflated by Prices Paid by Sheepfarmers Index (Base 1977=1.0), calendar year, from NZ Meat and Wool Board Economic Service, <u>Annual Review of the Sheep and Beef Industry</u> (various issues)

b Deflated by Prices Paid by Dairy Farmers Index (Base 1977=1.0), April-May, from NZ Dairy Board <u>Farm Production Report</u> (various issues)

c Now quoted on an ex-scale basis and not comparable to previous years

This Committee subsequently reported in March 1975 recommending:

(i) the setting of a basic price at the beginning of the season based on a moving average of recent net market returns. The difference between the basic price and market price is to be paid as a deficiency payment, or collected as a levy as a debit or credit to a buffer account. The scheme being in essence, self-funding.

(ii) The establishment of criteria for deciding when Government-funded supplementary payments are necessary to maintain an adequate income level.

However, the Minister of Agriculture and Fisheries considered that a price stabilisation scheme operated by the Meat and Wool Boards would meet both objectives by stabilising farm prices at a market related level sufficient to provide for an adequate level of income. The Government had already granted $50 M to the meat and wool industries in 1974/75 to support prices. Following negotiations between Government and the Producer Boards, agreement was reached on the implementation of price stabilisation schemes to be administered by the Producer Boards. Consequently, legislation was introduced which brought into existence, late in the 1975/76 season, price stabilisation schemes in the meat and wool sectors (See Section 3.2).

Following the operation of these schemes over the 1975/76 to 1977/78 seasons, the Government considered that the Government objective of income adequacy had not been achieved by the schemes. As a result, the Supplementary Minimum Prices (SMP) Scheme was introduced at the beginning of the 1978/79 season (see Section 3.3). At least part of the rationalisation for SMP's was that they were made to pastoral farmers to compensate for Government policies which resulted in "...the overvalued exchange rate and high internal costs facing the farmer" (Taylor and Davidson 1986, p.3.). The SMP Scheme got into serious difficulties in the early 1980's, however when SMP's were set at high levels in a depressed international market environment that was caused to some extent by substantial increases in New Zealand output via the production incentive schemes. Government payments expanded rapidly until the Scheme was dissolved in 1983/84, although transitional payments were still made throughout 1984/85. Over the past two years other government assistance to the livestock industries has also been reduced or removed, and these are also detailed in following sections.

SECTION 3

THE MUTTON, LAMB AND BEEF INDUSTRIES

This quite lengthy Section commences with a chronological account of the changes in the market environment and statutory institutional activities in the beef and sheepmeat industries over the period 1900 to the present. Attention is focussed on the changing role of the New Zealand Meat Producers' Board. Then follows a description of the justification for and elements of the Board's Price Stabilisation Scheme and the Government's Supplementary Minimum Price Scheme, and an account of the implementation of the various Schemes over the period 1975/76 to 1984/85. The impact of the various Schemes on pastoral sector prices received and output, and on the financial committments of the Meat Producers' Board, are clearly obvious.

3.1 The Market Environment and Statutory Institutional Activities [1]

3.1.1. Prior to 1921

Statutory involvement in the export sector of the New Zealand meat industry (mutton, lamb and beef) began with the Slaughtering and Inspection Act 1900, which provided for the establishment of abattoirs and the licensing of meat export slaughterhouses having sanitary conditions of slaughter.

Until 1915, a free enterprise system of marketing operated in the meat industry. However, price falls in the dominant United Kingdom market in 1909 led to industry attempts in New Zealand to form a regulatory marketing institution, but the proposals were defeated.

For a five year period from 1915 to 1920, all meat available for export from New Zealand was purchased by the United Kingdom Government under the Imperial Commandeer. This meant a secure protected market for producers, where all export meat was sold at fixed prices.

3.1.2. 1921 to 1939

The return to free enterprise marketing in 1921 coincided with two season's production arriving on the United Kingdom market. This led to low prices, which, along with rising production and shipping costs, led to falling net returns and to renewed calls for statutory intervention in the market.

As a result of these pressures, the Meat Export Control Act 1921-1922 was passed. This led to the establishment of the New Zealand Meat Producers' Board, which appeared to have the power to control exports, to approve export slaughtering facilities, to act as sole agent in negotiating shipping contracts, and to organise grading, pooling, storage, disposal, insurance and advertising of New Zealand export meat. Its primary objective was to increase returns to

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1 This section is summarised from Martin (1986)

producers, and its operations were to be financed by a levy charged on all exported meat. This Act, subject to Amendments subsequent to 1922, remains in force at present.

The Board did not exercise its apparent authority to export meat initially, and major marketing functions continued to be carried out by private firms with the Board adopting only a surveillance or "watch dog" attitude toward the slaughter and export of meat. It did, however, undertake the other activities for which it was authorised.

During the Depression, market prices for meat were low, and, in the latter half of the 1930's, quotas on meat imports into the United Kingdom were in force in an attempt to influence price in that market. This economic climate led to suggestions of greater intervention in the meat industry, first with the 1934 Agricultural (Emergency Powers) Act, and then with the 1936 Primary Products Marketing Act (not activated with respect to meat products initially).

In 1939, the Meat Act was passed, which superseded the 1900 Act, and in addition to hygiene, introduced economic criteria for approving applications for the extension of export works. The successors to this 1939 Act, along with the 1922 Meat Export Control Act and the successors to the 1955 Meat Export Prices Act, provide the current statutory authority to intervene in the meat industry.

3.1.3. <u>1939 to 1954</u>

With the outbreak of war, the 1936 Primary Products Marketing Act was invoked and the marketing of export meat, under the bulk purchase agreement with the United Kingdom, became the responsibility of the Primary Products Marketing Department. This reduced the Board's activities to the supervision of grading and maintaining a surveillance role on slaughtering costs on behalf of producers, in an effort to maintain producer returns. At the conclusion of the war, the bulk service contract was extended until 1954, and in 1948, the Board took over the administration of the agreement.

In the early years of the contract, price increases were negotiated with the United Kingdom Government. The Primary Products Marketing Department then paid a fixed f.o.b. contract price to exporters, who in turn paid producers the corresponding schedule price. However, in the early years, these were not fully returned to producers. Instead, as part of the Government's economic stabilisation policy measures, increases in price were credited to the Meat Industry Stabilisation Account (later renamed the Meat Industry Reserve Account). This account continued to accumulate reserves, thereby resulting in producer dissatisfaction, and from the early 1950's no further price increases were paid into it. It was then used to make loans to fertiliser, meat processing and topdressing companies.

3.1.4. <u>1954 to 1971</u>

From the conclusion of the bulk purchase contract until the 1970's, export meat marketing remained in the hands of private enterprise, with the Board maintaining its overseeing role of schedule monitoring and advising producers to sell on own account or through the pools if it felt the meat exporters' schedule was unrealistic. This monitoring and advisory role was designed to influence export prices, by precluding monopolistic exploitation of producers by meat exporters.

Towards the end of the bulk purchase agreement, the Board began to press for minimum prices for export meat which would utilise the meat industry reserve funds. This led to the Meat Export Prices Act 1955, which resulted in prices being set pre-seasonally by a Meat Export Prices Committee. Criteria used when setting prices were previous prices, market prospects, other farm costs, and the cost of living index. The scheme was envisaged as a deficiency payments scheme, rather than as a price stabilisation scheme, but prices were thought to be increased by its operation.

During this period the Meat Export Development Company (NZ) Ltd, or Devco, was set up under the 1922 Act and was given the sole rights to market frozen sheepmeat to the North American market. During the 1960's, the financial losses of Devco generated considerable controversy. However, it appears that the diversion of supply from the United Kingdom to the North American market resulted in a strengthening of UK prices (Edwards, 1970).

A further attempt to accelerate the diversification of exports and boost overall returns to producers was made with the 1966 Amendment to the Meat Export Control Act, which constituted a Market Development Committee to set diversification targets for lamb exports. Diversification penalties and bonuses were introduced to encourage individual companies to attain targets. This scheme was eventually discontinued in 1980.

Under the Meat Act 1964, export slaughter-houses were granted licences only on the condition that they adopt an open-door policy, whereby licencees were obliged to process all stock offered to them and, if necessary, to arrange for the marketing of the meat on the offerer's behalf.

The Board also supported research activities during this period, and in conjunction with the Freezing Companies Association, financed the establishment of the Meat Research Institute.

3.1.5. <u>1971 to 1982</u>

The 1970's marked a period of selective intervention by the Board in the market to force up prices. The first occasion was in 1971, when the Board responded to a low opening lamb schedule by entering the market to trade in lamb. It did so with the authority of a 1971 Amendment to the 1922 Act, which overrode previous amendments, and explicitly allowed the Board to sell sheepmeats in any market. This authority was extended in 1974 to cover beef and veal.

Since then, the Board has intervened in the market on a number of occasions during market downturns. In 1974, it offered its own schedules for beef, ewe and lamb, which it was then able to increase and to guarantee for another season with the assistance of Government who established a Meat Income Stabilisation Account with an initial grant. This account was to be administered by the Board. Late in 1975, the Board again intervened, this time in the mutton market. The next occasion was in 1977 in the London market, where the Board purchased carcasses for resale later in the season under the auspices of Meatmark Ltd. It also intervened in the mutton market in the next season.

During this period, the Board also consolidated its powers to control the conditions of exports to specific destinations. A 1975 Amendment to the 1964 Meat Act give the Board power to impose conditions on meat exporters' licences, such as limitations on meat type and destination, with the aim of assisting orderly marketing, increasing prices and reducing costs. This amendment was then used to restrict the number of exporters in the West German lamb market. In 1980, it signed a contract with Iran, and then appointed one exporter to manage this contract.

Changes in the minimum prices scheme also occurred in the 1970's. In 1976, through an updated Meat Export Prices Act, this scheme was transformed from a pure deficiency payment scheme to one with deficiency payment and stabilisation aspects (see Section 3.2). The criteria under which minimum prices were set were widened, and, in addition a trigger price was set, above which levies were imposed. These were to be used to offset supplements payable when the market price was below the minimum price, as the industry reserves were no longer available for supplementation. A further dimension to the Board's stabilisation activities was added in 1978, when it found itself required to administer the Government's supplementary minimum prices scheme (see Section 3.3).

Further developments in the freezing sector of the industry occurred in 1981, with the passage of another Meat Act, which delicensed the industry. This allowed slaughtering facilities to be freely established, subject to open-door arrangements.

3.1.6. 1982 to 1986

The sheepmeats industry faced a difficult year in 1982 (see Durbin [1985] for a concise review of sheepmeat issues over this period). As a result, the Board intervened in the mutton market and eventually bought up 90 per cent of the season's kill in order to arrest the fall in prices to producers. Later in the season, the lamb schedule fell, and various intervention measures were taken including the Board taking responsibility for high-risk product, and reactivating Meatmark Ltd.

As the crisis in the industry deepened, a Meat Industry Task Force was set up to enquire into the system of meat marketing. The Task Force stressed a greater emphasis on a marketing approach, and recommended that the Board act as the primary exporter of carcasses and primal cuts, and the setting-up of a Meat Industry Council to formulate an industry strategic plan and to formulate and monitor annual marketing plans with the Board. In the meantime, the Board had purchased all sheepmeats that season at a schedule based on Supplementary Minimum prices. This essentially reduced the exporters' role to that of commission agents for the Board. Market realisations in 1983 were so low that support levels for meat prices were a record.

The Board then implemented the proposals of the Meat Industry Task Force and refined earlier proposals to establish an export pool system of payment for sheepmeats under Board control. It initially assumed responsibility for the carcass and primal cut segment of the market, although after a short period, it then decided that lamb carcasses and primal cuts to be sold to specific regions would be handled by a group marketing structure (NZ Meat Producers' Board 1985a).

Also in line with the Task Force recommendations, the Board placed increasing emphasis on product development and promotion as components in its more market-led strategy. It continued its cost-reducing activities, with reviews of shipping costs and grading.

Despite this experiment in Board control, it became obvious at the beginning of the 1985/86 season that the international sheepmeats market was very depressed and the Board announced correspondingly low prices to producers. However, at this time, the Board's trading operations were subject to criticism by the meat exporting companies, and to pressure by the Government to return to private enterprise marketing. Therefore, in late 1985, the Board announced its intention to hand the marketing of sheepmeats back to the private meat exporters. This has resulted in a substantial scaling down of Board activity in the sheepmeat market. The evolution of statutory behaviour in the meat industry is summarised in Table 3.

3.2 The NZ Meat Producers' Board Price Stabilisation Scheme [2]

The sharp decline in the income of the meat and wool industry during the 1974/75 season (see Tables 1 and 2) prompted the Government to grant the sectors $50m to support prices. The sum was transferred to Stabilisation Accounts for the meat and wool sectors and these accounts were to form the basis of longer term Industry Price Stabilisation schemes. The NZ Meat Producers' Board received $35m of the grant and paid $25m on lamb supplements and $32.8m on beef supplements. The deficiency in the Government grant was met by the Board. The Board was also required to continue its supplementation of beef prices during the 1975/76 season paying over $11m to beef producers from reserve funds.

During the 1975/76 season, new price stabilisation schemes were introduced by the Meat and Wool Boards which formalised the previous arrangements.

The NZ Meat Producers' Board Price Stabilisation Scheme only applied to stock slaughtered for export. A Meat Export Prices Committee comprising an independent chairman, and two Meat Board and two Government representatives, was responsible for setting minimum and maximum (trigger) prices for the benchmark grades of meat, at the start of the season after consultation with the Minister of Agriculture and Fisheries.

Four grades of meat were defined as benchmark grades, as they were considered to be representative of the market. These were Lamb (PM, 13-16 kg), Mutton (ML 22 kg and under), Prime Beef (P1, 245.5-270 kg) and Manufacturing Beef (Cow M, 145.5-170 kg). A fifth benchmark grade, Bull Beef (220.5-245 kg), was added in the 1979/80 season. The minimum and trigger prices (as defined below) set for each of these grades were reflected in all other export grades of each category according to their "normal market" price relativities.

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2 This section and the next are drawn from Sheppard and Biggs (1982)

Table 3: Activities by Statutory Marketing Authorities in the Meat Industry

New Zealand Meat Producers' Board (NZMPB) 1923 - 1939	Primary Products Marketing Dept 1939 - 1948 NZMPB 1948 - 1954	NZMPB 1954 - 1971	NZMPB 1971 - 1982	NZMPB 1982 - 1985	NZMPB 1985 -
Negotiate marketing cost reductions	As for NZMPB 1923 - 1939	As for NZMPB 1923 - 1939	As for NZMPB 1923 - 1939	Control of all sheepmeat marketing	(Sheepmeat-marketing handed back to private enterprise)
Enforcing grading system	Bulk purchase negotiations	Supply diversion	Selective market intervention	Increased market segmentation	Promotion
Promotion	Setting export prices	Schedule monitoring	Market diversification	Increased promotion	Encouraging mutual co-operation by exporters
Regulating meat shipments		Enforcing open door policy	(Delicensing of the freezing industry occurred)	Continued attempts to reduce marketing costs	
Collecting levies		Price support through minimum prices	Schedule monitoring		
			Price support through minimum prices and selective intervention		

Source: Adapted from Martin (1986)

The Committee, in establishing the minimum prices for each benchmark grade, had certain rules to follow. The minimum price determined had to be within a 10 per cent deviation of an average price calculated from the weighted average of the actual market price of the preceding year and the estimated market prices for the current and forthcoming season. The Committee had also to consider the existing price levels and market prospects for various types of meat and other farm products; the desirability of expanding the production of meat in New Zealand; and the balance of the Meat Income Stabilisation Account.

In setting trigger prices, the Committee had to consider existing price levels and market prospects for meat and farm products; the desirability of maintaining a sufficient margin above the minimum price to allow for normal marketing; the balance of the Meat Income Stabilisation Account; and any other matters considered relevant by the Committee.

Individual commodity accounts for sheep and beef meats were established within the Meat Income Stabilisation Account held at the Reserve Bank. The Reserve Bank provided an overdraft facility if necessary, initially at a charge of one per cent per annum, and paid interest on deposits at the same rate. These accounts were supplemented by the collection of levies and drawn on if supplementary payments are made. It was intended that the accounts be self-balancing over time.

The Scheme only operated when the lowest regional schedule price, as announced for the week by the Meat Board, of a benchmark grade was below the minimum price set by the Committee for the season. If this occured the Meat Board was required to determine minimum prices for all grades of meat in the category. The Board then may have intervened directly in the market and purchased at the minimum price, or supplemented the schedule price to the extent necessary to increase it to the minimum price, or undertaken a combination of intervention and supplementation.

When the lowest regional schedule price of a benchmark grade exceeded its trigger price, a levy was imposed on grower returns for all grades represented by the benchmark grade at a rate equivalent to 50 per cent of the excess over the trigger price.

The Scheme was effectively terminated at the end of the 1984/85 season as the Board could not offer realistic minimum prices because of the huge deficits in the Stabilisation Accounts and the requirement that future overdrafts could only be obtained at market interest rates.

3.3 The Supplementary Minimum Price Scheme

The recommendations of the Zanetti Committee included the need for income adequacy as well as price stabilisation.

As already discussed, the Board assumed responsibility for the implementation and administration of the price stabilisation scheme, but declared that it was "a Government responsibility to ensure producers an adequate income after consultation with the Producer Boards". (N.Z. Meat Producers' Board 1975, p.28).

The operation of the stabilisation schemes over the 1975/76, 1976/77 and 1977/78 seasons had been viewed with concern by Government. It had been anticipated that the schemes would provide for both the stabilisation of farm product prices and the achievement of an adequate level of farm income based on market returns. In the opinion of the Government, neither of these objectives had been met over the three years of stabilisation scheme operation and it was therefore decided that a new scheme should be introduced with the objectives of improved stabilisation and farm income adequacy.

In the 1978 Budget, the Government expressed the opinion that there was a considerable need to induce a higher level of confidence in the agricultural sector. It was expected that such confidence would result in an expansion of output and so lead to continued growth in the export earnings from the agricultural sector. The Minister of Finance stated that the most appropriate remedy to the problem was to guarantee to farmers "prices for primary products which will give them a more adequate return for their efforts" (NZ Government 1978, p.16), and that this was to be achieved by establishing and underwriting new minimum prices to supplement those operated by the various Producer Boards. The Minister expressed the view that these Supplementary Minimum Prices (SMPs) would more adequately provide for farmers' reasonable requirements for living expenses, farm operating expenditure and new development than the Producer Boards' schemes. It was hoped that in setting the minimum prices for two years ahead, rather than the single season orientation of the Producer Board schemes, the farmer would have an assured and realistic base on which to plan.

It was announced that the Boards would administer the scheme using Government funds. These funds, drawn in the event of market prices falling below the SMP would be provided temporarily from Reserve Bank overdraft and ultimately from Government revenue. The scheme was not designed to be self-balancing and was to be "no more than an interim measure". The desirability of changing the present structure of the price smoothing arrangements was also stressed by the Minister.

A much briefer comment was made by the Minister in the 1979 Budget: "The guaranteed prices will be moved closer to next season's expected market levels, and the scheme will continue to operate in parallel with the minimum prices scheme and price smoothing arrangements operated by the Producer Boards." (NZ Government 1979, p.12). This suggests that the emphasis had moved from the original idea of providing income adequacy to farmers, and been replaced by a slightly more market orientation designed to protect the farmer from short term price recessions. The Government claimed that the successful introduction of the Supplementary Minimum Prices Scheme had meant that farmers could plan and invest to increase production knowing in advance the minimum prices they will receive for the next two seasons, and that this knowledge should allow the agricultural sector to "play its full part in generating export-led growth".

A reaffirmation of the Government's intention to merge the SMP scheme with the Board's price smoothing arrangements was also made in the 1979 Budget, but no indication was given as to the form of the final package. The Ministry of Agriculture and Fisheries expressed the view (MAF 1979, p.11) that a likely arrangement would involve the continuance of the Producer Boards' schemes, with minimum prices being set at "realistic" levels, and the Government assuming responsibility for support in the event of major price recessions of the magnitude of the beef price slump in 1974 or the drop in wool prices in 1974/75.

The cautious interpretation of the role of the SMP scheme continued in the 1980 Budget announcement with the Government indicating that the SMP scheme was more intended to provide a guaranteed price to farmers for a two year period rather than including any mention of income adequacy. However, this movement was reversed with the announcement of prices for the 1981/82 and 1982/83 seasons when, in the 1981 Budget, the Government moved well ahead of the market price levels in the setting of the Supplementary Minimum Prices. This shift in interpretation can perhaps be seen as a Government return towards the income adequacy orientation of the SMP scheme. Although income adequacy had been announced by the Government in 1978 to be one of the objectives of the SMP scheme, it was apparently ignored in subsequent budgets, in favour of price stability objectives, until the 1981 announcements.

No changes were made to SMPs for the 1983/84 season, and the scheme was terminated at the close of that season, although transitional arrangements for sheepmeats were negotiated.

3.4 Operation of the Two Schemes

3.4.1. Lamb

Over the period from 1975/76 to 1980/81 the Meat Producers' Board stabilistaion scheme for lamb was largely ineffective. With the exception of a short period early in the 1979/80 season and early in the 1980/81 season, the stabilisation scheme minimum price was below the market price (Figure 1). Also apart from December 1976, the trigger price had not been exceeded by the market price. During the period, reasonably large fluctuations occurred in the schedule price for lamb, especially in December 1976, October 1978 and February 1980 and the stabilisation scheme had minimal impact.

The introduction of the SMP scheme at the beginning of the 1978/79 season had very little impact on the prices received by farmers. Although the SMP was well above the previous season's minimum price, the Board minimum price (based on market criteria) exceeded the SMP. In the following season, the real level of SMP was maintained but this was matched by the Board minimum price. In the 1980/81 season, the Board minimum price again exceeded the SMP. The real increase in the minimum price was five per cent while the SMP rose by three per cent. Again, neither the minimum price nor the SMP had any impact of producer returns as schedule prices remained on or above their level (Table 4 and Figure 1).

For the 1981/82 season, however, the SMP was raised by nine per cent in real terms, and this was well above the current market returns and some 29 cents kg above the largely unaltered Board minimum price.

Figure 2.1: LAMB PRICES

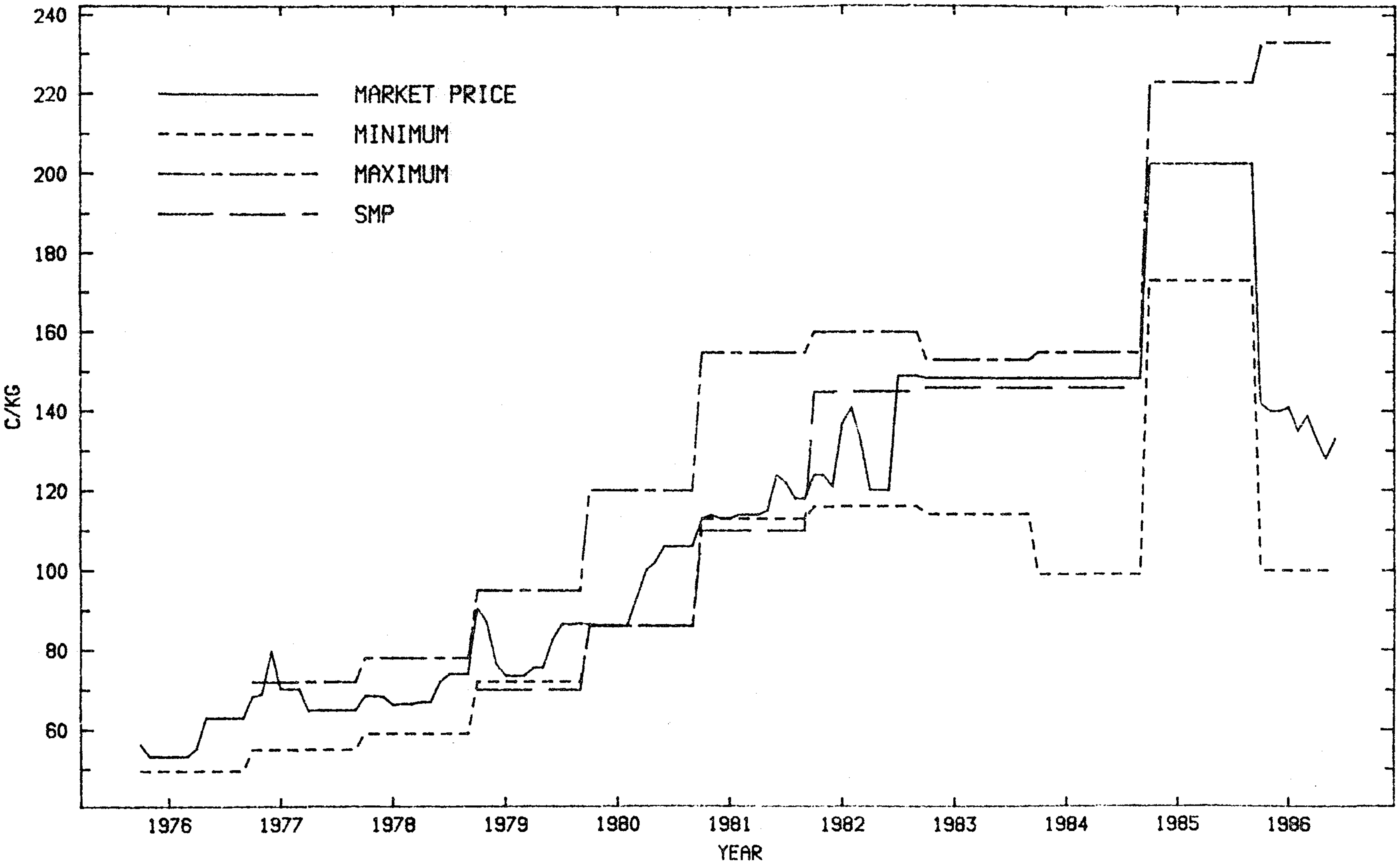


Table 4: Sheepmeats Schedule, Stabilisation and Supplementary Minimum Prices, 1975/76 - 1986/87 (c/kg)

Product Category	Year Ended September	Stabilisation Prices: Minimum Price	Stabilisation Prices: Trigger Price	Supplementary Minimum Price	Market Price#
Lamb	1976	49.5	-	-	57.7
	1977	55	72	-	68.1
	1978	59	78	-	69.4
	1979	72	95	70	80.6
	1980	86	120	86	95.8
	1981	113	155	110	116.0
	1982	116	160	145	132.2
	1983	114	153	146	148.5
	1984	99	155	146	148.5
	1985	173*	223*	-	202.5*
	1986	100*	223*	-	138.7*
	1987	1*	310*	-	159.2*##
Mutton	1976	22	-	-	22.8
	1977	21	30	-	39.5
	1978	30	40	-	34.3
	1979	30.5	42	30	39.6
	1980	35	50	40	44.0
	1981	40	60	43	54.6
	1982	43	65	50	45.8
	1983	42	63	51	50.0
	1984	12	52	51	50.5
	1985	64*	112*	-	105.5*
	1986	25*	112*	-	55.5*
	1987	1*	162*	-	77.8*##

Sources: Sheppard and Biggs (1982); NZ Meat Producers' Board (1985)

* now quoted on an ex freezer basis and not comparable with previous years

to June 1987

the monthly schedule prices are provided in Appendix Tables A1 and A2

After several unsuccessful attempts to stabilise the price of lamb the Board offered its own schedules in April 1982 to purchase the remainder of the seasons kill at the minimum price. Supplementary payments on lamb during this season exceeded $153.5M, including $93.9M in SMP payments and the remainder from the Meat Income Stabilisation Account as trading losses.

For 1982/83 both SMP and Board minimum prices were little changed from the previous year, with the SMP for lamb some 32 cents higher. Exporters could not match the Board's minimum price, so it was agreed with exporters and the Government that the Board would sell the sheepmeat using the traditional exporters as commission agents. The Board purchased all lamb at the SMP with the Government paying the 32 cents/kg difference between the SMP and the Board's minimum price or some $145M. The deficit of market returns under the minimum price came out of the Stabilisation Account. A similar situation held in 1983/84 with SMP's unchanged but the minimum price reduced, so that the SMP now exceeded the minimum by 47 cents/kg. Again all lamb was purchased by the Board and the 47 cent difference under the SMP, which totalled some $213M or $6.40 per head, was paid by the Government. Another large loss was added to the Stabilisation Account as well.

During 1983/84 agreement was reached on dismantling the SMP scheme for meats on September 30, 1984. It was to be replaced for one year by a grant equal to an estimate of the amount which would have been paid if SMP had been continued. An amount of $110M was set as the lump sum for 1984/85. Further, the interest rates payable or receivable on the Stabilisation Accounts during and following 1984/85 was raised from one per cent to ten per cent, and the overdraft on the Stabilisation Account was converted to a subordinated loan to be repaid over 30 years with a five year repayment holiday.

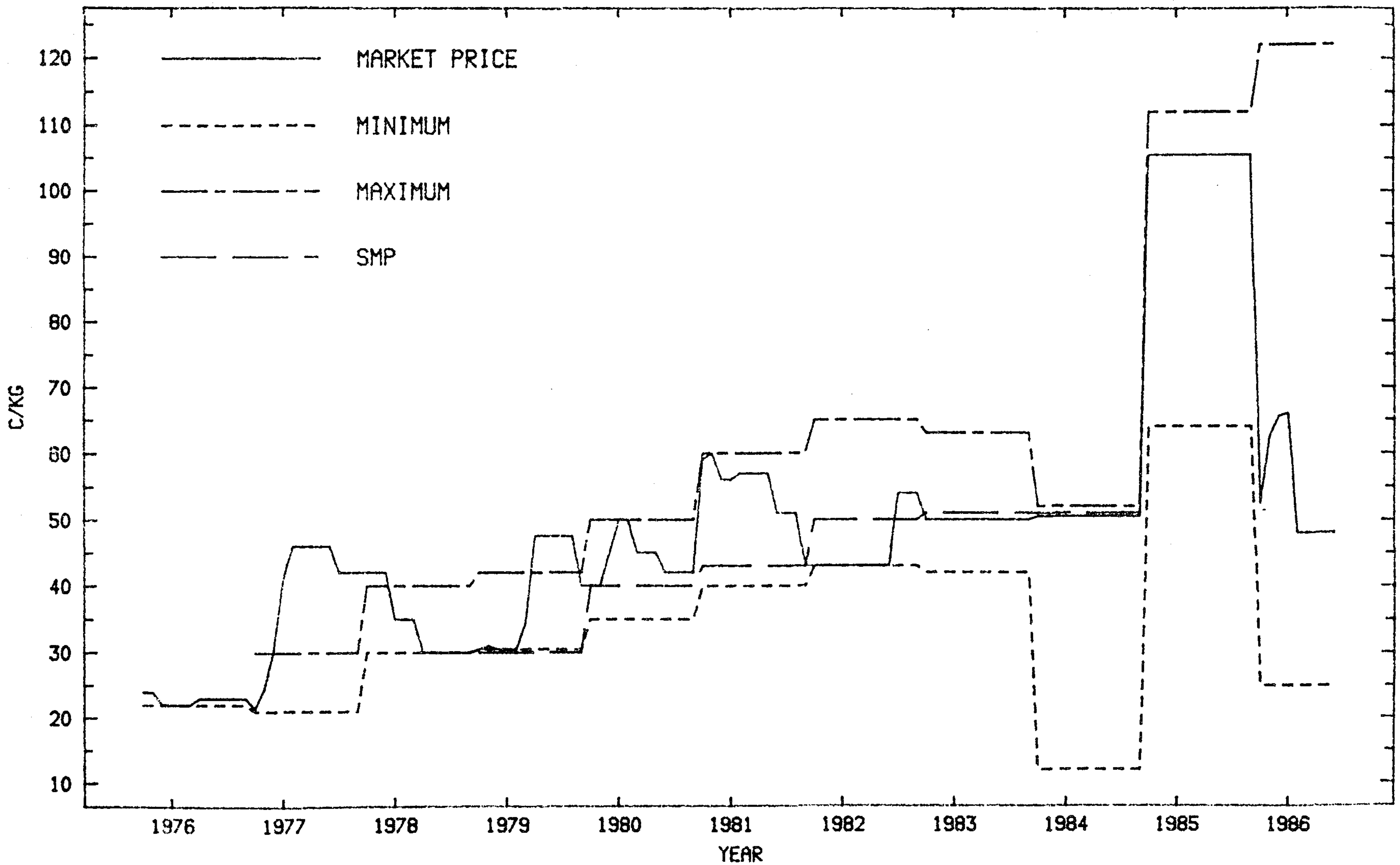
In 1984/85 the rapidly increasing deficits in the Stabilisation Account and the problem of having to pay market interest rates led the Board to set very low minimum prices. The Board operated a system of national pools for export sheepmeat. Farmers received an advance payment from the national grade pools and a supplement from the lump sum, which had been increased to $131.7M. Lamb prices required supplementation all year and some 19.5 c/kg or $2.50/head was paid out. This totalled $93.8M.

For 1985/86 meat companies operated their own sheepmeat schedules from December 21. Producers had the choice of accepting the schedule price as total payment, or marketing through company pools where they would receive an advance payment of about 90 per cent of the ruling schedule with the possibility of receiving an end of pool payment if a surplus was achieved.

3.4.2. Mutton

The Board stabilisation prices for mutton had more effect than those for lamb. The trigger price was effective during the 1976/77 season (and briefly in the 1977/78 season) and again during the 1978/79 season (Figure 2). Also, during the 1977/78 season, the minimum price reduced the fall in farm gate prices through the Board acquiring mutton at the minimum price. Until 1980/81, neither the trigger price nor the minimum price had been effective in reducing the price fluctuations that occurred.

Figure 2.2: MUTTON PRICES



The SMP announced for the 1978/79 season was matched by the Board minimum price and therefore the SMP did not have any impact on the prices received. The SMP for the 1979/80 season was increased by nine per cent in real terms. This was close to, but below, market prices throughout the season. A small increase was made for the 1980/81 season but market prices remained well above the SMP level. The SMP announced for 1981/82 was significantly raised and above both minimum prices and ruling market price levels (Table 4).

With the high likelihood of extensive supplementation, the Board would only agree to pay supplements at levels above the minimum price, and since exporters could not set schedules matching the minimum prices, the Board issued its own schedule early in the season. Eventually they assumed ownership of over 90 per cent of the season's mutton production. The Government paid about $8.7M on the 7c/kg difference between the SMP and the minimum price, and the Board had a loss of around $25M on mutton trading. In 1982/83 a similar situation occurred with SMP and Board minimum prices little changed; the Board purchasing all mutton at the SMP level; the Government paying the 9c/kg supplement or $12M; and the Board paying the deficit on mutton trading from the Stabilisation Account. The total loss on lamb and mutton trading for this season was almost $288M.

The procedure was repeated in 1983/84 with SMP unchanged but the minimum price reduced to only 12 c/kg. Thus the Government was required to supplement $48M (39c/kg or $7.60 per head), while the Board activities resulted in a trading loss on both lamb and mutton of over $150M. Further support was required in 1984/85 of $38M (31.5c/kg or $4.60 per head) from the lump sum payment by Government.

With both the SMP and Board stabilisation scheme being effectively terminated at the end of the 1984/85 season, significant falls in price paid to producers resulted. Durbin (1985) reports one estimate of a 50 per cent fall in works door return per lamb.

The market, stabilisation and supplementary minimum prices for sheepmeat are provided in Figures 1 and 2, and in Table 4. The results of the operation of the stabilisation scheme for sheepmeat are reported in Table 5, while payments to producers under the SMP scheme are given in Table 6.

Table 5: Meat Income Stabilisation Account, 1974/75 - 1984/85
Sheep Meats Sub Account ($/m)

Year Ended September	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Income											
Lamb Levy	-	-	1.137	-	-	-	-	-	-	-	-
Mutton Levy	-	-	6.004	0.047	0.491	-	-	-	-	-	-
Interest	-	-	0.051	0.072	0.087	0.073	0.073	-	-	-	-
Profit on Sheepmeat Trading	-	-	-	-	0.067	-	-	-	-	-	-
Government Grant	16.413	-	-	-	-	-	-	-	-	-	-
Board Supplement	8.607	-	-	-	-	-	-	-	-	-	-
	25.017	-	7.192	0.119	0.647	0.073	0.073	-	-	-	-
Less											
Lamb Supplement	24.992[1]	-	-	-	-	-	-	-	-	-	-
Mutton Supplement	-	-	-	-	-	-	-	-	-	-	-
Loss on Sheepmeat Trading		-	-	0.697	-	-	-	59.641	287.919	150.487	357.628
Interest	0.027	-	-	-	-	-	-	-	-	-	-
	25.017	-	-	0.697	-	-	-	59.641	287.919	150.487	357.628
Transferred to Meat Income Stabilisation Account	-	-	7.192	(0.577)	0.647	0.073	0.073	(59.641)	(287.919)	(150.487)	(357.628)
Plus Opening Balance	-	-	-	7.192	6.615	7.262	7.335	7.408	(52.233)	(340.152)	(490.638)
Closing Balance	-	-	6.615	7.192	7.262	7.335	7.408	(52.233)	(340.152)	(490.152)	(848.266)

Sources: Sheppard and Biggs (1982); NZ Meat Producers' Board (1985)

1 Includes $12.82 m retrospective payment

3.4.3. Beef

The manufacturing beef and prime beef market prices move in a similar manner as do the stabilisation prices and SMPs (Figures 3 and 4).

Prior to the 1978/79 season, the beef price stabilisation scheme had very little impact, except in 1975/76 when $11.1M was paid out. However, during the 1978/79 season, beef prices rose substantially and there were significant levy collections (approximately $40 million). For the following season, both the minimum and trigger prices were raised substantially and payments of supplements occurred ($9.7 million) in the latter half of the season following a fall in the market price. The minimum price was increased for the 1980/81 season and supplementary payments of $23.5 million were made. The same minimum price was maintained for the 1981/82 season and supplements continued at $4.4M.

The SMPs introduced for the 1978/79 season were substantially above the Board minimum prices, reflecting the Government's desire to ensure income adequacy, but they were exceeded by market prices. For the 1979/80 season, the manufacturing beef (cow) SMP was the same as the Board minimum price while the prime beef SMP was slightly below the Board minimum. In the 1980/81 season, the situation was reversed, and the Government was required to pay 2c/kg or about $1.9M. Therefore, over the period up to 1980/81, the SMPs were largely ineffective in ensuring an adequate return to farmers.

In 1981/82 the SMPs were increased sharply away from both the market price and the Board minimum price. Supplementary payments on beef totalled $57.7M of which $53.3M was from SMP payments and $4.4M from the Stabilisation Account. For cows, the level of total supplements were up to 40 per cent of producer returns. During the following year the SMPs and Board minimum prices were largely unchanged, but market prices varied widely, averaging well above the SMPs. Supplements were required early in the season - some $17.3M in SMP payments and $0.3M in Stabilisation Account payments - then levies were applied in April totalling some $2.3M.

SMPs were unchanged for 1983/84 but minimum and trigger prices were raised. No SMPs were required and stabilisation levies were collected during July- September, totalling $5.7M. Both minimum and trigger prices were again raised in 1984/85, and levies of just under $1M were collected.

The market, stabilisation and supplementary minimum prices for beef are provided in Figures 3 and 4 and Table 7. The results of the operation of the stabilisation scheme for beef are reported in Table 8, while payments to farmers under the SMP scheme are given in Table 6. Results of the operation of the stabilisation scheme for both sheepmeat and beef are reported in Table 9.

Table 6: Payments to Farmers Under the SMP Scheme ($M)

COMMODITY	YEAR							TOTAL
	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85(a)	
Lamb	0	0	0	93.9	146.5	213.1	93.8	547.3
Mutton	0	0	0	8.7	11.5	48.4	37.8	106.4
Wool	0	0	0	184.2	176.7	78.8	0.0	439.7
Sheep Industry	0	0	0	286.8	334.7	340.3	131.6	1093.4
Beef	0	0	1.9	53.3	25.0	0.0	0.0	80.2
Dairy	18.8	0	0	0.0	0.0	0.0	0.0	18.8
TOTAL	18.8	0	1.9	340.1	359.7	340.3	131.6	1192.4

Sources: Laing and Zwart (1983b); Durbin (1985); Grundy (1987)

(a) payments from a transitional lump sum grant

Figure 2.3: PRIME BEEF PRICES

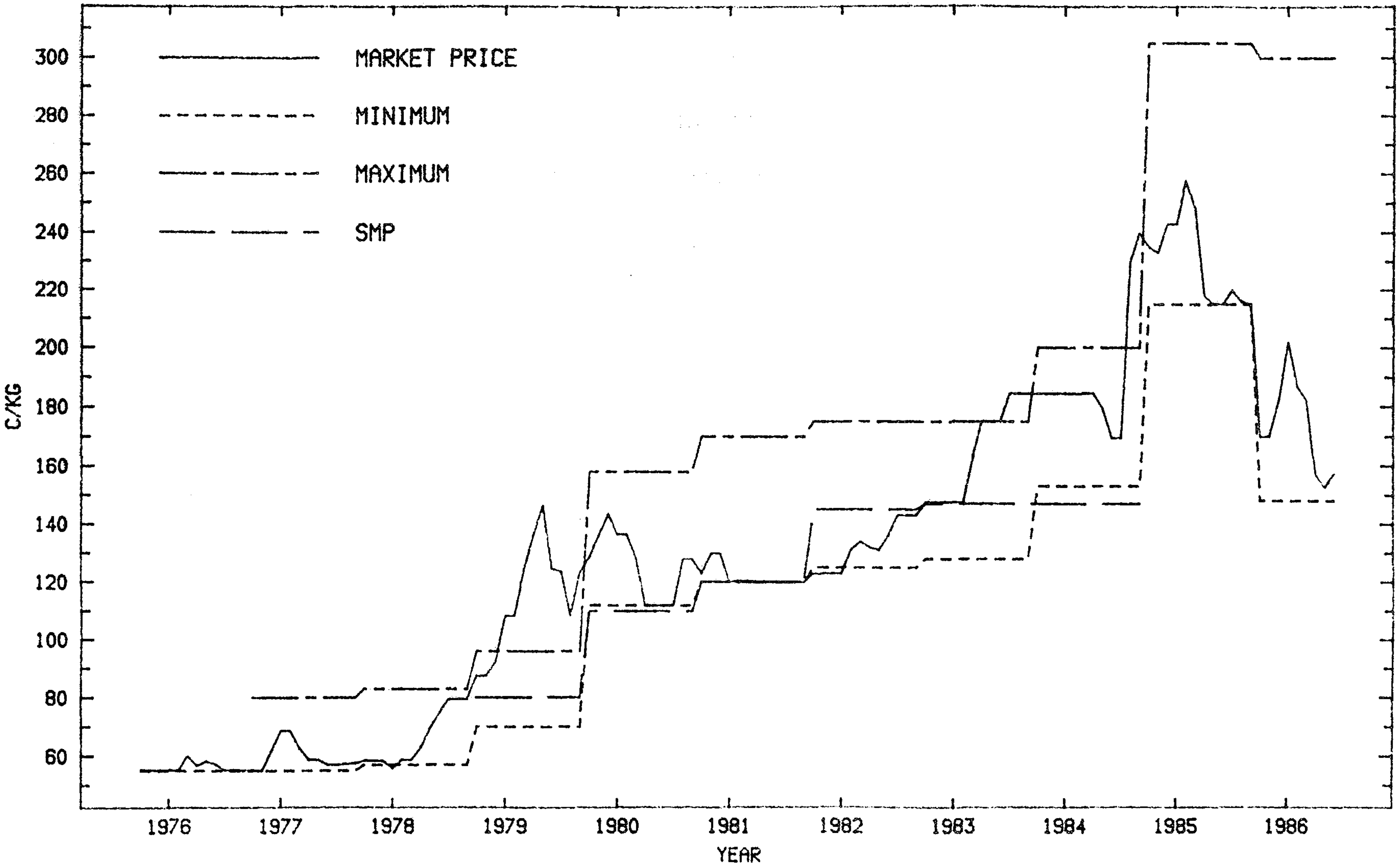
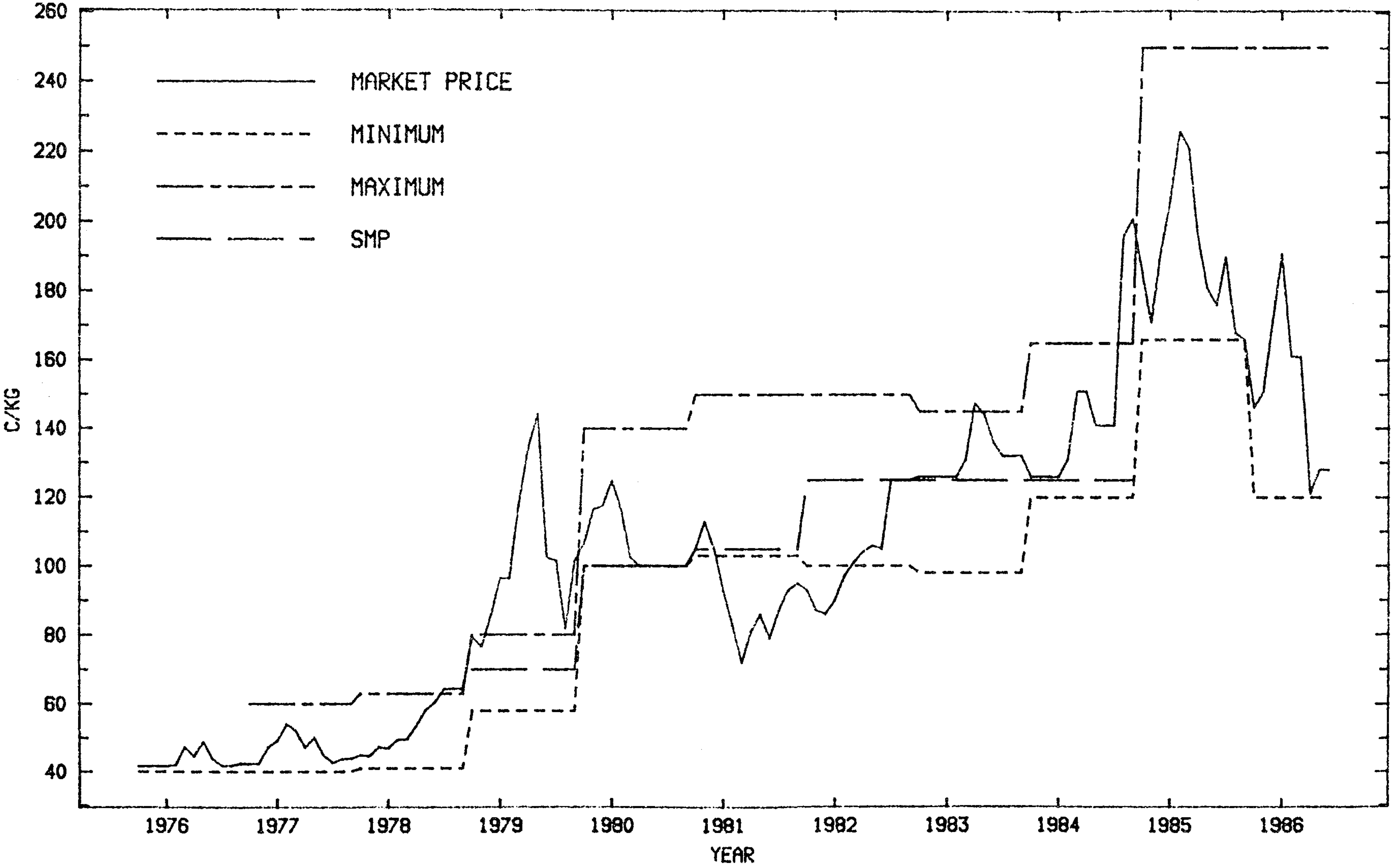


Figure 2.4: MANUFACTURING BEEF PRICES



3.5 The Livestock Incentive Scheme

In the 1976 Budget, the Government announced a new measure to increase farm output on the argument that the current economic climate would delay achievement of the targetted 25 per cent increase in farm production by 1985. Under the Livestock Incentive Scheme, farmers who personally owned stock could elect to obtain either a suspensory loan of $12, or a tax deduction from assessable income of $24, per qualifying stock unit as an incentive to increase production by utilising idle capacity or undertaking a development programme which permanently increased the total number of stock units carried (NZ Government 1976, pp. 10-11). Provided the target increase in stock units was greater than two per cent and was sustained for the following two years, and all of the other conditions of the scheme were met, the suspensory loan was to be written off. In the 1978 Budget, the Government retrospectively modified the Scheme to allow more producers to participate by reducing the minimum qualifying stock unit increase, and by lowering the qualifying cumulative percentage increase in stock units (NZ Government 1977, p.12.). The Scheme was terminated on March 31 1982.

In total, 11.44 million qualifying stock units were approved by the Rural Bank under the Scheme, which represents 11.1% of the stock units carried in 1976. Of these 10.75 million qualified under the loan option and 0.69 million under the tax option. The total value of payments to farmers approved was $145.6 million including $16.59 million approved under the tax option. Since over 93 per cent of the qualifying stock units approved were under the loan option, it seems reasonable to conclude that most properties required additional development to carry increased stock units.

Table 7: Beef Schedule, Stabilisation and Supplementary Minimum Prices, 1975/76 - 1986/87 (c/kg)

Product Category	Year Ended September	Stabilisation Prices		Supplementary Minimum Price	Market Price [a]
		Minimum Price	Trigger Price		
Prime Beef	1976	55	-	-	56.2
	1977	55	80	-	59.9
	1978	57	83	-	66.1
	1979	70	96	80	114.2
	1980	112	158	110	126.1
	1981	120	170	120	122.0
	1982	125	175	143	132.1
	1983	128	175	147	164.9
	1984	153	200	147	190.0
	1985	215	305	-	229.9
	1986	148	300	-	175.6 (p)
	1987	1	400	-	188.1 (p)
Manufacturing Cow Beef	1976	40	-	-	43.2
	1977	40	60	-	46.7
	1978	41	63	-	54.0
	1979	58	80	70	101.5
	1980	100	140	100	107.0
	1981	103	150	105	91.0
	1982	100	150	125	103.7
	1983	98	145	125	132.0
	1984	120	165	125	146.4
	1985	166	250	-	189.8
	1986	120	250	-	152.7 (p)
	1987	1	332	-	168.5 (p)
Bull Beef	1980	110	160	-	-
	1981	120	175	120	-
	1982	124	175	145	-
	1983	127	175	147	-
	1984	150	195	147	-
	1985	215	300	-	-
	1986	158	300	-	-
	1987	1	400	-	-

Sources: Sheppard and Biggs (1982); NZ Meat Producers' Board (1985)/ ~~Board (1985)~~

a The montnly schedule prices are reported in Appendix Tables A3 and A4

p to June 1986

Table 8: Meat Income Stabilisation Account, 1974/75 - 1984/85
Beef Sub Account ($m)

Year Ended September	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Income											
Levy	-	-	-	0.392	39.726	-	-	-	2.303	5.661	0.987
Interest	-	-	-	-	0.005	0.228	0.064	-	-	-	-
Government Grant	18.587	-	-	-	-	-	-	-	-	-	-
Board Supplement	14.282	-	-	-	-	-	-	-	-	-	-
	32.869	-	-	0.392	39.731	0.228	0.064	-	2.303	5.661	0.987
Less											
Beef Supplement	32.833	11.064	0.125	-	-	9.722	23.453	4.422	0.270	-	-
Interest	0.036	0.352	0.393	0.149	-	-	-	0.110	0.138	0.101	0.049
Other	-	3.000[1]	-	-	-	-	-	-	-	-	-
	32.869	14.416	0.518	0.149	-	9.722	23.453	4.532	0.407	0.101	0.049
Transferred to Meat Income Stabilisation Account	-	(14.416)	(0.518)	0.243	39.731	(9.494)	(23.389)	(4.532)	1.895	5.560	0.938
Plus Opening Balance	-	-	(14.416)	(14.934)	(14.691)	25.040	15.546	(7.843)	(12.376)	(10.490)	(4.920)
Closing Balance	-	(14.416)	(14.934)	(14.691)	25.040	15.546	(7.843)	(12.376)	(10.490)	(4.920)	(3.982)

Sources: Sheppard and Biggs (1982); NZ Meat Producers' Board (1985)

1 Reversal of credit from Meat Industry Reserve Account

Table 9: Meat Income Stabilisation Account, 1974/75 - 1984/85 ($m)

Year Ended September	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Opening Balance	-	-	(14.416)	(7.741)	(8.075)	32.303	22.882	(0.434)	(64.607)	(350.631)	(495.558)
Beef	-	(14.416)	(0.518)	0.243	39.731	(9.494)	(23.389)	(4.532)	1.895	5.560	0.938
Sheepmeat	-	-	7.192	(0.577)	0.647	0.073	0.073	(59.641)	(287.919)	(150.487)	(357.628)
Closing Balance at Reserve Bank [1]	-	(14.416)	(7.741)	(8.075)	32.303	22.882	(0.434)	(64.607)	(350.631)	(495.558)	(852.248)

Source: NZ Meat Producers Board Annual Reports

1 errors due to rounding

1977 was the first year in which the account was divided into the sheepmeat and beef sub account

3.6 The Land Development Encouragement Loans Scheme

In the 1978 Budget, the Land Development Encouragement Loans Scheme was instituted to assist with the development of unimproved reverted land or low producing hill country with the potential to carry more livestock. Concessional loans for 15 year terms to a maximum of $250 per ha were available to cover the initial costs incurred in developing permanent sown pasture, and provided the improvements were maintained to the satisfaction of the Rural Bank, the accumulated interest was written off periodically and only half the principal sum was repayable. A development plan must have been for a minimum of 10 ha or a large enough area for carrying capacity to be increased by at least 100 stock units (MAF, 1982). The closing date for applications under the Scheme was March 31 1981. By this closing date, 942,000 hectares were programmed for development. This represents approximately 5 per cent of New Zealand's occupied farmland.

By May 1980, 3683 loan applications totalling $67.87 m had been granted for a total authorised development area of 457,056 ha and a planned increase of 2.54 million stock units or 5.6 stock units per ha. In the year to March 1980, the average total authorised expenditure paid by the Rural bank was $158 per ha, or $29 per stock unit, which contributed some 41 per cent of the total development expenditure (Askwith 1980).

The effect of the LDELS and LIS (and SMP) was a substantial increase in pastoral sector production, particularly of sheepmeats (Table 10). Between 1978 and 1982 breeding ewe numbers increased by more than six million (14 per cent) while cow numbers fell. Mutton and lamb production rose by 127 kt or 25 per cent during this five year period.

Table 10: Pastoral Sector Production 1970/71 - 1986/87

Year	Breeding Ewes (M)	Lamb (Kt c.w.)	Mutton (Kt c.w.)	Breeding Beef Cows (M)	Beef (Kt c.w.)	Wool (Kt g.e.)	Milkfat Processed by Dairy Factories (Kt MF)
1970/71	42.9	359	205	1.5	372	334	244
1971/72	43.0	378	196	1.7	390	322	258
1972/73	44.1	342	215	1.9	424	309	247
1973/74	41.0	304	193	2.0	378	285	228
1974/75	40.4	331	164	2.0	477	294	244
1975/76	41.1	356	155	2.3	599	312	268
1976/77	41.2	340	156	2.2	530	302	275
1977/78	42.8	336	160	2.2	534	311	251
1978/79	44.5	350	163	2.1	491	321	274
1979/80	46.1	383	169	1.9	479	357	291
1980/81	48.2	426	201	1.8	481	381	282
1981/82	49.3	428	196	1.9	495	363	282
1982/83	50.8	480	200	1.8	493	371	290
1983/84	51.0	474	194	1.6	419	364	324
1984/85	51.2	498	228	1.4	472	373	332
1985/86	50.2	426	147	1.5	450	358	350
1986/87	47.5	n.a.	n.a.	1.5	n.a.	349	301

Sources: NZ Meat Producers' Board
NZ Wool Board
NZ Dairy Board
NZ Meat and Wool Board's Economic Service

n.a. not available

SECTION 4

THE PIG INDUSTRY [3]

4.1 Prior to 1975

Steps to improve the stability and net earnings of New Zealand pig producers through the operation of some form of government sponsored body go back over 60 years. The New Zealand Meat Producers Board, set up in 1922 under the Meat Export Control Act of a year earlier, included pigmeat within its original area of responsibility. The Board was primarily concerned with improving the returns to producers from the exports of meat; as far as pigs were concerned, the aim of the Board was to overcome the continuing problem of oversupply on the domestic market.

During the following decade, when pig production and pork exports grew rapidly, the Dominion Advisory Pig Industry Committee introduced provisions for a uniform grading scheme established on a national basis. In 1937 a compulsory levy on all pigs slaughtered was approved by the Government to provide funds for the establishment and administration of local pig clubs concerned with improvements in breeding, and for a system of grading of bacon pigs. These schemes were administered by a National Pig Industry Council.

After the 1939-45 war, the dependence of pig production on by-products of the dairy industry as the main source of feed led to the pig industry coming within the responsibilities of the Dairy Board. However, the gradual emergence of alternative and more profitable markets for these dairy by-products resulted in a decline in their use for pig feeding and the growth of production based on cereals and non-dairy protein feed.

By the early 1970's, the need to provide more specific support and encouragement to the pig industry led to the establishment in 1973 of the Pork Marketing Board (under the Primary Products Marketing Act of 1953) and to the setting up of the Pork Industry Council (under the Pork Industry Act) in 1974.

4.2 1975 to 1982

A major theme, which has recurred over a number of decades in discussions on the policies for the pigmeat industry, has been the need to give producers confidence in the prices which they will receive for their pigs. This is a problem which is particularly acute in an enterprise which operates on narrow margins, where a relatively small decline in prices could wipe out the entire net earnings from pig production of a considerable number of producers. There has therefore been a considerable measure of support for a policy which would limit the effects of market forces on the prices paid for finished pigs, particularly as the market for pigmeat is one with many sellers but only few buyers.

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3 Most of the material in this Chapter is summarised from Attwood (1985)

Such widespread support resulted in the setting up of the Committee of Investigation into Pig Trading and Marketing (Nordmeyer 1975). The first recommendation of the Report of this Committee was "that pig prices should be determined by an independent body whose task should be devoted towards ensuring that producers' costs of production are fully covered. As a general rule basic price levels should be such that efficient producers rather than inefficient producers are encouraged in the long run. The Report proposed that the "price to be paid for pigs should be calculated on the basis of the cost of grain meal" and that "decisions on the price of pigs at various grades could be made by a three-man committee, one appointed by the (Pork Industry) Council, one by the processors and one by Government (who should be the Chairman). Such a price fixing body would take into account differences in costs in different areas and the different grades and weights at which pigs were being traded".

The framework proposed in the Nordmeyer Report for determining the prices paid for pigs was not adopted. However, the need to implement some form of mechanism to limit the consequences of a free market situation was widely accepted; a scheme to support prices was therefore introduced in 1977. This "Basic Minimum Price Stabilisation Scheme" was operated by the Pork Marketing Board in order to provide a floor price for pigs. Under this scheme, the Board set a basic minimum price and was prepared to purchase pigs at that price when the prevailing market price fell below this minimum level. The minimum price was set at a level "which would enable efficient farmers to remain in an economically viable situation" (Pork Marketing Board 1979). The scheme was financed by a levy on each pig slaughtered, and these funds were used to finance the disposal of the pigs acquired by the Board. It was envisaged that the majority of these pigs which were purchased to support market prices would be sold abroad; in practice the disposal of surplus pigs on export markets proved to be particularly difficult and, with the exception of a very small quantity, all the pigmeat purchased by the Board was traded back on to the local market, at a considerable loss. Furthermore this additional supply had an inevitable impact on the market prices prevailing at the time of disposal.

4.3 1982 to Present

The problems of operating two separate organisations for the benefit of the pig industry, and in particular the difficulties which had arisen from the introduction of the Basic Minimum Price scheme, led to the merging of the two bodies into one organisation. Thus unlike producer boards in other areas of farming, that for the pig industry has gone through a series of major alterations relatively quickly, reflecting the changing circumstances of the industry and the difficulty of finding an institutional arrangement that would meet the needs of producers.

4.3.1. Establishment and Powers of the Pork Industry Board

In 1982 an Act "to consolidate and amend certain enactments relating to pig farming and pork production and marketing" was passed. The Act set up a new organisation - the Pork Industry Board - which streamlined the administrative structure relating to the pig industry.

The Board is essentially representative of pig producers; five of the nine members are directly elected by producers and the Chairman and Deputy Chairman are elected from those members; a further two members are appointed by the Minister of Agriculture after consultation with the producers' elected representatives. The other two members are appointed by the Minister, one as representative of the Government and of the interests of consumers of pork and pork products and the other as representative of the Association of Bacon Curers and Meat Processors.

Both in its composition and in its functions, the Board is concerned particularly with the position of pig producers. Its role is basically to improve the efficiency of pig production, to stabilise the market for pigs and incomes of producers and to develop more efficient marketing arrangements. The improvement of efficiency in production is relatively straightforward; the factors determining production efficiency are well known and the evidence clearly indicates the very large improvements that have been made in reducing the costs of production per unit of output in real terms (Attwood 1985). The Board has the power "to devise, promote and carry out" steps to improve pig production through breeding programmes, research and experimental work and advisory work.

The development of more efficient marketing arrangements is, however, much more complex; structural changes in the marketing of pigmeat, particularly at retail level, have taken place over the past two decades and there were no immediate contributions that the Board could have made to such structural developments. Furthermore, there are no readily identifiable set of factors determining marketing efficiency that can be the subject of a programme of improvement in the way in which the factors affecting production efficiency have been identified and promoted.

The Board has the power to promote the sale and consumption of pork and pork products including the export of pigs or of pigmeat. It can also acquire and dispose of pigs or pork other than by intervention in the market place. The power to intervene in the market place by purchasing or selling pigs, pork or pork products is subject to the proviso that such a scheme must be "pursuant to a scheme of intervention approved either generally in respect of all interventions or specifically in respect of any particular intervention by the Minister of Finance." (Attwood 1985, p.83)

All of the 15 separate powers of the Board which are specified in the Act are summarised in the one concerned with ensuring, as far as practicable, a sufficiency of supply of all classes of pork and pork products to meet the full requirements of the New Zealand market and to satisfy available economic export markets. This clearly identifies the Board as having the primary authority in the management of the New Zealand pork industry, with the responsibility for meeting the needs of pig producers, pigmeat consumers and those involved in the distribution and marketing of pork and pork products.

4.3.2. <u>The Board's Funds and Their Sources</u>

The funds for the various activities of the Pork Industry Board are raised by a levy on each pig slaughtered on licensed premises (or more strictly by two separate levies). The person primarily liable for the payment of this levy is the owner of the pig at the time of its slaughter, in practice the levy is charged against the pig producer who finished the animal and is deducted from the payments made to producers for the pigs.

The present levy on pigs slaughtered consists of two elements, one to cover the Head Office and Consultancy costs, and the other to cover the marketing programme. The Head Office and Consultancy Service accounts also include income from the grant by the Ministry of Agriculture and Fisheries towards the costs of research, which is carried out at Palmerston North. The Head Office and Consultancy Service meets the basic administrative requirements of the Board and also provides the consultancy service concerned with the improvement in efficiency in production, which involves both the direct advisory services of the Board's technical and field services, and the more general circulation of information on the further development of efficiency to producers in the industry.

The marketing expenditure involves advertising, promotion, demonstrations, research, and the back up work required in the development of a marketing programme.

4.3.3. Financial Situation of the Pork Industry Board

The relatively healthy financial position of the Pork Industry Board is the result of policies aimed at operating all the activities of the Board at a cost somewhat less than the income arising from levies on pigs, and from the interest from the funds that have been built up.

In view of the uncertainties in the market for pigmeat, and particularly the possibility that the growth in supply will lead to a decline in producer prices, the availability of financial reserves is essential to fund measures that could be taken to bring greater stability to the market and price situation. Measures to this end can involve large expenditures and in the past the lack of adequate financial reserves had militated against steps aimed at restoring a better balance in the market for pigmeat.

The surpluses on the current operations of the Board have enabled it to increase its reserves to over $2.7m (of which $0.9m was in fixed assets) at the end of the financial year 1983-84.

4.3.4. Policy Objectives of the Pork Industry Board

A producer oriented board, such as that for the pig industry, is primarily concerned with the net returns that are earned by the primary producers. Improved profit can be achieved through:

(a) reducing the costs of production per unit of output;

(b) enlarging the total market for pigmeat; and

(c) increasing the average prices received by producers.

The Board's policy towards reducing production costs is concerned with increasing efficiency; it has powers to intervene in the pig feed market but it does not use these powers and it is difficult to see how, in the present competitive situation in the feed market, such intervention would be beneficial. The policy of increasing efficiency at the producer level has been effective, and the improvements in standards of performance in recent years have been evident.

The policy towards enlarging the total market for pigmeat has also been successful. A comprehensive market development programme has increased per capita consumption of pigmeat, with the prospects of additional increases from the further expansion of the current programme.

It is the third route to increased profits, through steps to increase directly the prices received for pigmeat, which has given rise to the biggest controversy. There is a view, strongly held by some producers, that the Board should act in a price negotiating role, with the objective of achieving price levels for pigs higher than those which prevail under the present direct producer/purchaser pricing arrangements. However, both of the usual mechanisms used to raise farm prices - direct production controls and market differentiation policies - face considerable difficulties. It is very difficult to raise prices paid to producers above those which can be sustained by market forces on a long term basis.

SECTION 5

EFFECTS AND LIMITATIONS OF THE PRICE STABILISATION AND SUPPORT SCHEMES

5.1 Anticipated Effects

Price stabilisation schemes operate by withholding payments from producers in years of high market prices and using these proceeds to augment producer returns when prices are low. Returns may be skimmed off in various ways. For example, all returns above a trigger price may be siphoned into the stabilisation fund. Alternatively, a percentage of such returns may be withheld or an absolute sum may be creamed off into the fund.

The objective of price stabilisation schemes is to reduce the fluctuation in prices received by producers. This is seen to be desirable, since it has often been argued that price uncertainty can lead to capital rationing, and that stable prices provide producers with a sounder climate for planning (Tomek and Robinson 1981). However, an opposing view is that more savings and investment may occur when prices, and ultimately it is hoped, incomes, fluctuate, since producers may direct windfall income gains into investment (Campbell 1982).

Unstable prices have also been linked to inefficiencies in resource use. That is, fluctuating prices may engender production cycles which in turn means that excess resources may be devoted to certain commodities during some periods, while remaining underutilised during others (Tomek and Robinson 1981).

Consumers are generally assumed to prefer and to be better off under stable prices. Indeed, it is thought that unstable prices may adversely affect the demand for agricultural inputs, and this reason is often cited for the gains which synthetics have made at the expense of wool.

In summary, price stabilisation schemes, are often seen as a desirable method of maintaining product demand, of improving the investment climate for producers, and of increasing the efficiency of resource use.

On the other hand, minimum price schemes are a form of price support. They can be viewed as a deficiency payment, whereby market prices are allowed to fall to equilibrating levels with an agency (usually Government) making up the difference between market clearing prices and those guaranteed to farmers.

Given that government has decided that producer support is appropriate, minimum prices tend to be viewed as a desirable method of doing this. Market prices are unfettered, and producers can make investment decisions in the knowledge that prices cannot fall below a certain level. Consumers will also benefit, since price support will lead to greater output, and hence lower consumer prices, than would be expected if no intervention had occurred. However, the taxpayers must ultimately foot the bill for the decision to support prices, regardless of the rationale for such support.

5.2 Previous Studies of these Schemes

Laing and Zwart (1983) utilised an econometric model of the pastoral sector in an attempt to evaluate the short- and long-run impacts of the removal of the SMP policy. Using 1982 price levels as a base, they simulated their model ahead for five years for both the 'with SMP' and 'without SMP' alternatives.

In the first year, removing SMPs would have resulted in immediate declines in gross farm income of nine per cent and in net farm income of 20 per cent. There would have been little change in output or exports, the most important change being a four per cent decline in lamb exports.

The permanent removal of SMPs would have resulted in impacts after five years of a 14 per cent decline in gross farm income, a 19 per cent decline in investment and development expenditure in the pastoral sector, and a five per cent decline in foreign exchange earnings. Additionally there would have been a decline in total stock numbers of some 4.4 million stock units and a change in the composition toward beef and dairy cattle, with a corresponding alteration in the product mix of output and exports from this sector.

Laing and Zwart concluded that "... SMP payments cannot be justified solely on the grounds that without them export receipts would fall dramatically ... (and) that the productive capacity of the pastoral sector would not have been seriously run-down in the absence of SMP payments, and would have been able to respond to any upturn in market returns". (p.1.)

5.3 Limitations of These Schemes

The Supplementary Minimum Price Scheme

As described in Section 3.4, the SMP scheme had little impact on the beef and sheep meat industries from its inception in 1978/79 to 1980/81. SMP's were set at conservative levels and were exceeded by market prices, except for a small payout on beef in 1980/81.

However in 1981/82 the SMPs were raised substantially, well above the current market returns, and this reflected a major change in objectives for the scheme toward income adequacy. Although income adequacy had been announced by the Government in 1978 to be one of the objectives of the SMP scheme, it was apparently ignored in subsequent budgets in favour of price stability objectives. Also as pointed out by Sheppard and Biggs (1982, p.13) "It may not be inappropriate to suggest that the relatively high price levels announced for the 1981/82 season (and the subsequent season) ... may have been related to the political situation at that time, in that 1981 was an election year". In 1981/82 market returns for sheepmeat and beef had to be supplemented by between 13-23 per cent. Thus farmgate prices were not only distorted significantly from the market determined levels (assistance was opposite to market trends), but there were major changes in profit relativities between the various pastoral sector enterprises which were not reflected in world prices. Desirable adjustments in production were thereby slowed down or prevented (Rostamizadeh and Bushnell 1984). The huge payouts made in 1981/82 meant that SMPs were not increased for 1982/83. This meant an erosion of SMPs in real terms, an impact contrary to the philosophy of "maintaining" adequate farm incomes which was used as a justification for the introduction of the Scheme. Further, the Government stated in the 1982 Budget "It is therefore important for the prices set under this Scheme not to diverge significantly from the prices determined in international trade over the medium term" (NZ Government 1982, p.13.). Again then there was a change in the objectives of the Scheme, with the SMPs applied inconsistently over time.

Other problems arose from the application of the basic deficiency payments principle: (a) only some commodities had a feasible payment system, thus exacerbating the change in relative profitabilities of enterprises within the agricultural sector; (b) there were problems with pricing over grades and over seasons (for example, payment for low priced grades was the same as for the top grades, thus more assistance was delivered to less demanded products, and assistance varied widely between years); and (c) for some commodities all production was eligible (sheepmeats), resulting in transfers from domestic consumers to producers as domestic prices rose.

A further problem was that, contrary to similar schemes in other countries, there was no policy rule set down for determining the level of the SMP, especially when SMPs were set for two years. Therefore the process was inflexible and there was an inability and/or an unwillingness to allow farm prices to reflect world market conditions.

Another issue is that there was no evidence that the bulk of the variance of farm returns came from price, and therefore that price stabilisation was an appropriate policy objective. Research carried out (Chudleigh and Filan 1976; Chudleigh, Blackie and Dent 1976) on the impact of farm price stabilisation, indicated that while stability in farm output prices has the potential to assist with macro-economic stabilisation objectives, the degree of individual farm income stabilisation was minimal.

Sheppard and Biggs (1982) argued that it is unlikely that the SMP scheme resulted in increased output because of the unclear link between "income adequacy" (the stated objective of the SMP scheme at certain stages of its implementation) and productive investment. This supposition was confirmed by the empirical research of Laing and Zwart (1983).

Finally, implementation of the SMP Scheme provided some difficulties for trade policy, for it became increasingly illogical to argue for dismantling protection in the major import markets while domestic production was being heavily subsidised. The imposition of countervailing duties by the US on NZ lamb imports was one manifestation of this difficulty. Thus the visibility of SMP assistance was very high, and in the circumstances, too obvious in the end to both domestic taxpayers and foreign Governments. Even NZ producers were opposed to SMP in the last year of its operation.

The NZ Meat Producers' Board Price Stabilisation Scheme

The implementation of this scheme was legislated in the 1976 update of the Meat Export Prices Act, with the criteria for setting minimum and trigger prices clearly set out. The objectives of the scheme were also well defined and seemingly remained consistent over time (Section 3.2). Since it was a stated intention for the Meat Income Stabilistion accounts to be self-balancing over time, the minimum and maximum prices had to be responsive to conditions in the world markets for beef and sheepmeats. There still remained the issue of accurately estimating the long run average price and of being able to set reasonably narrow and hence effective price bands around this average. This uncertainty, and the corresponding desire to avoid financial embarrassment or unnecessary skimming off, resulted in relatively wide stabilisation bands which were perhaps a contributing factor to Government becoming involved in price support programmes (Dent and Beck 1983).

Many of the problems listed above for the SMP scheme also applied to the price stabilisation scheme - prices were distorted from market determined levels; prices were distorted between enterprises; administrative problems in setting prices over grades and seasons; and the proportion of total output eligible for supplementation or levying. It does appear through that these problems were less troublesome than those for SMPs. The difficulties posed for trade policy remained however, as did the critical lack of any well-defined link between price stabilisation and either farm income stabilisation or long term expansion in farm investment and output.

Finally, where a statutory marketing authority has to operate a stabilisation scheme with access to subsidised Government finance, there is the important issue of the financial security of the authority and the collateral that can be offered. For a buffer fund scheme, where product is not owned by the authority, there is good reason to suggest that the authority may not be "bankable" in a commercial sense, and this may be an important limitation on the effectiveness of such schemes.

The Pork Marketing Board Basic Minimum Price Stabilisation Scheme

The operation of the Basic Minimum Price Stabilisation Scheme for Pigmeat ran into a number of serious difficulties.

(a) it proved to be impossible to sell the pigmeat acquired under this scheme, either on the external or internal markets, in a way which did not jeopardise the market balance;

(b) severe financial problems arose in the financing of the scheme, as producer levies proved insufficient to meet the costs of supporting prices when these fell significantly below the minimums that were set. The Pork Marketing Board had set these prices in the firm expectation that they would receive financial support from the Government; in practice the support from the Government was for the principle of a price stabilisation scheme, with the financing to come from the producers and not from general taxation;

(c) it has been held that the scheme acted to set maximum, as well as minimum prices for pigs and that "when the 18 month period over which the scheme operated is taken as a whole, the scheme had no significant influence on most farm prices for pigs and acted to depress some farm prices below what they otherwise would have been" (Horn 1981). This conclusion must on its own give rise to serious misgivings about the justification for the scheme, even if the other difficulties had not arisen. There are resource costs involved in administering such a scheme and these generate no return at all if the scheme fails in its basic objective; and

(d) the decisions on the appropriate rate of levy to fund the scheme contributed to the problems faced by producers; the levy was set at a relatively low level before prices fell in 1977 and then had to be increased when pig prices were depressed. The increase in the levy was required to meet the cash flow situation which had arisen during periods of high expenditure from the fund, but this added to the cash flow problems being experienced by producers.

The problems which arose during the period of operation of the Basic Minimum Price Stabilisation Scheme were partly due to the decisions which were made on its day to day operation, and thus would not necessarily arise if any similar scheme were introduced. However, as minimum price arrangements of this type have generally experienced serious operational difficulties, it is unlikely that these could have been avoided in the case of the Basic Minimum Price Stabilisation Scheme for Pigs through alternative decisions on its detailed operation. In the light of this experience, it would seem unlikely that measures to bring greater price stabiliity through this type of scheme would be re-introduced. The specific lessons which have been learned from its operation have been emphasised recently by the more general tide of current economic policy towards allowing market forces to have a greater impact on production decisions and resource allocation. While those responsible for decisions on minimum price arrangements often have the objective of enabling more rational decisions on production to be made in the medium term, it is doubtful if many schemes of this type actually achieve this objective.

A further objection to the basic minimum price scheme, as conceived for the pig industry in the late seventies, is that policies which seek to support farm prices by disposing of excess production on external markets, while maintaining internal prices above their market level, have proved to be inimical to New Zealand's general trading interests when adopted by other states. These policies have been the subject of strong criticism by various New Zealand interests. In these circumstances it is unlikely that there would be agreement, either in principle or in practice, for any price support schemes based on this procedure.

SECTION 6

SUMMARY AND CONCLUSIONS

During the early 1970's there were severe fluctuations in the market returns for New Zelanad's pastoral livestock products. Fuelled by the oil price shocks and the rapid worldwide inflation in all commodity prices, wool and meat prices rose sharply during 1972/73. Then in late 1974 substantial falls occurred in these industries: from 1972/73 to 1974/75, the real price of beef fell by two-thirds, the real price of wool halved, and the real price of mutton dropped some 75 percent. Due to the important contribution of the agricultural sector in the New Zealand economy, these farm price and income effects were quickly passed into the domestic economy. A Farm Incomes Advisory Committee was established, and recommended introduction of buffer fund stabilisation schemes for the meat and wool industries. These schemes were introduced in 1975/76, operated by the Producer Boards.

The Committee also recommended investigation of a deficiency payments scheme to "maintain an adequate income level". Such a scheme, the Supplementary Minimum Price Scheme, was introduced in 1978/79 following dissatisfaction with the price stabilisation schemes' impacts on producer prices and returns.

The implementation of these schemes in the NZ meat industry at that time could be viewed as being part of a trend toward increased statutory intervention in the meat industry (as described in Section 3.1), and as part of a move to subsidisation of farm output based on "compensation" arguments in one form or another (Taylor and Davidson 1986, p.3).

Producers and others in the meat industry are interested to know whether such policies accomplished their stated objectives (stabilisating or supporting prices, increasing output and export revenue, maintaining an adequate income level), and whether this has been done in a cost effective manner.

It is extremely difficult to determine if the objectives of the schemes were achieved, because the operation of the schemes was altered many times as the Government's expectation of the desired pattern of prices changed. The stabilisation schemes during 1975/76 - 1977/78 were expected to provide both stable prices and an adequate level of farm income, even though the minimum and maximum prices had to be closely related to market prices; while the objective of the SMP Scheme moved from income adequacy in 1978/79, to a more market orientation in 1979/80, then back to income adequacy from 1981/82 onwards. These major shifts in Government policy toward the pastoral livestock sector must have made it very difficult for producers to make long term investment decisions in these industries, let alone the Boards who were charged with implementing the schemes and handling the product. Rather than introducing a more stable planning and investment environment in agriculture, these changes in the policy rules may have induced the opposite.

Even if it could be suggested that the overall objectives of the SMP scheme in particular were achieved, the actual implementation of the scheme resulted in some substantial limitations which would have to be offset against any benefits of "an adequate income" or "a more stable planning and investment environment for agriculture". Farmgate prices were distorted significantly from market determined levels, and desirable adjustments in production were slowed down or prevented; some commodities were excluded because they lacked a feasible payment system; there were problems in pricing between grades and between seasons; there were inconsistencies between the proportion of output subject to Assistance; and there was the problem for trade policy negotiations. Finally there was the argument of Sheppard and Biggs (1982) that there existed only a weak link between "income adequacy" and productive investment, so it is likely that the SMP scheme did not result in substantially increased output and export revenue, which was confirmed by the empirical research by Laing and Zwart (1983).

For the price stabilisation schemes, many of the same problems applied, although they appear to have been less troublesome than those for SMPs. Two other issues are relevant however. First, there was no evidence that the bulk of variance of farm returns came from price and therefore that price stabilisation was an appropriate policy objective (Chudleigh and Filan 1976). Second, even though the objectives of the scheme were well defined and seemingly consistent over time, and the criteria for setting minimum and maximum prices were clearly set out, there still remained the problem of accurately forecasting the long run average price. The relatively wide price bands that were set made the stabilisation scheme less effective and perhaps encouraged the development of the price support program (Dent and Beck 1983).

Perhaps the major criticism of this decade of price intervention though is the perchant of Governments to expect that tampering with the price system will satisfy income adequacy objectives. Although the hypothesis cannot be tested easily, it is possible to argue that the NZ Meat Producers' Board would not have suffered the large financial losses of 1981/82 - 1984/85, especially in sheepmeat (Table 5), if there had not been the obsession with income adequacy to be achieved through price support.

Certainly the LIS and LDEL had some impact as well, but the output of lamb and mutton jumped some 40 per cent between the mid 1970s, when only the price stabilisation scheme was in effect, and 1984/85, when the large supplementation of sheepmeat prices via SMPs were operative. For example, surely the 40-50 c/kg supplements paid in 1983/84 had some positive influence on sheepmeat supply. Thus the Meat Board had to accept for disposal during this time, extra output of lamb and mutton, stimulated by the SMP supplements, and attempt to sell it on an already very depressed world market. It is little wonder that trading losses occurred (Table 5).

On the other hand, market conditions in the beef industry were not as depressed as in the sheep industry, the gap between SMPs and market prices was relatively small and only for two seasons, and the beef stabilistion account showed only moderate negative balances and some positive ones (Table 8), i.e. almost self-balancing as required. Maybe the sheepmeats account would have shown a similar pattern without the overlay of the SMP scheme.

In the NZ pig industry, the calls for price support built up during the mid 1970s although little was done about it. However since the profitability of pig enterprises is very sensitive to minor price falls - fixed costs are high and most inputs are purchased off-farm - it would seem considerable pressure exists to look closely at stabilisation and/or support schemes for this industry.

The experience of a decade or more in the pastoral industries, plus a brief flirtation with pig price stabilisation, would suggest this should be carefully done. The objectives of such schemes are not always well defined or achievable in practice. In addition, there are difficult decisions to be made regarding implementation and administration, and there are other undesirable effects. For example, it is important that price support and price stability objectives do not become entwined.

Since current government policy would not be seen as sympathetic to any form of price support or subsidisation it may be appropriate for both the pig industry and the pastoral livestock industry to examine again the sources of instability in those industries, whether the advantages of greater stability are worth pressing for, and what simple, alternative mechanisms exist for generating greater industry stability.

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APPENDIX 1

TABLE A1

Lamb Mid Month Market Prices

(PM 13-16 kg)

c/kg

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85[a]	1985/86[a]	1986/87[a]
October	56.2	68.4	68.5	90.7	86.5	113.0	124.0	148.5	148.5	202.5	142.0	153.0
November	53.2	69.0	68.5	87.0	86.0	114.0	124.0	148.5	148.5	202.5	140.0	170.0
December	53.2	80.0	68.3	76.5	86.0	113.0	121.0	148.5	148.5	202.5	140.0	160.0
January	53.2	70.3	66.2	73.5	86.0	113.0	137.0	148.5	148.5	202.5	141.0	162.0
February	53.2	70.3	66.5	73.5	86.0	114.0	141.0	148.5	148.5	202.5	135.0	164.0
March	53.2	70.3	66.5	73.5	93.0	114.0	132.3	148.5	148.5	202.5	139.0	162.0
April	55.2	64.9	67.0	75.5	100.0	114.0	120.0	148.5	148.5	202.5	133.0	156.0
May	63.0	64.9	67.0	75.5	102.0	115.0	120.0	148.5	148.5	202.5	128.0	153.0
June	63.0	64.9	72.0	82.5	106.0	124.0	120.0	148.5	148.5	202.5	133.0	153.0
July	63.0	64.9	74.0	86.5	106.0	122.0	149.0	148.5	148.5	202.5	140.0	n.a.
August	63.0	64.9	74.0	86.5	106.0	118.0	149.0	148.5	148.5	202.5	140.0	n.a.
September	63.0	64.9	74.0	86.5	106.0	118.0	149.0	148.5	148.5	202.5	153.0	n.a.

Source: NZ Meat Producers' Board

a quoted on an ex freezer basis and not comparable with earlier years

n.a. not available

TABLE A2

Mutton Mid-Month Market Prices

(ML 1 22 kg and under)

c/kg

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85 [a]	1985/86 [a]	1986/87 [a]
)ctober	24.0	21.5	42.0	30.5	40.0	59.0	43.0	50.0	50.5	105.5	52.5	74.0
lovember	24.0	24.5	42.0	31.0	40.0	60.0	43.0	50.0	50.5	105.5	62.5	84.0
)ecember	22.1	30.5	42.0	30.5	45.0	56.0	43.0	50.0	50.5	105.5	65.5	82.0
anuary	22.0	41.0	35.0	30.5	50.0	56.0	43.0	50.0	50.5	105.5	66.0	77.0
'ebruary	22.0	46.0	35.0	30.5	50.0	57.0	43.0	50.0	50.5	105.5	48.0	77.0
larch	22.0	46.0	35.0	34.5	45.0	57.0	43.0	50.0	50.5	105.5	48.0	77.0
,pril	23.0	46.0	30.0	47.5	45.0	57.0	43.0	50.0	50.5	105.5	48.0	79.0
lay	23.0	46.0	30.0	47.5	45.0	57.0	43.0	50.0	50.5	105.5	48.0	79.0
une	23.0	46.0	30.0	47.5	42.0	51.0	43.0	50.0	50.5	105.5	48.0	71.0
uly	23.0	42.0	30.0	47.5	42.0	51.0	54.0	50.0	50.5	105.5	60.0	n.a.
,ugust	23.0	42.0	30.0	47.5	42.0	51.0	54.0	50.0	50.5	105.5	60.0	n.a.
;eptember	23.0	42.0	30.0	40.0	42.0	43.0	54.0	50.0	50.5	105.5	60.0	n.a.

ource: NZ Meat Producers' Board

a quoted on an ex freezer basis and not comparable with earlier years

n.a. not available

TABLE A3

Prime Beef Mid-Month Market Prices

(P1 240.5-270kg)

c/kg

	1975/76 [1]	1976/77 [1]	1977/78 [1]	1978/79 [1]	1979/80 [1]	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
October	55.27	55.04	58.46	87.47	128.46	123.00	123.0	147.5	184.5	235.0	170.0	197.5
November	55.27	55.04	58.37	87.47	136.12	130.00	123.0	147.5	184.5	233.0	170.0	197.5
December	55.24	61.75	58.26	92.44	143.43	130.00	123.00	147.5	184.5	243.0	182.0	202.5
January	55.30	68.72	55.82	108.42	136.42	120.00	123.00	147.5	184.5	243.0	202.0	187.5
February	55.12	68.72	58.77	108.41	136.39	120.50	131.00	147.5	184.5	258.0	187.0	177.5
March	60.15	62.70	58.73	123.86	127.86	120.50	134.00	162.5	184.5	248.0	182.0	182.5
April	56.69	58.70	62.76	136.37	112.00	120.00	132.00	175.1	184.5	218.0	157.0	187.5
May	58.19	58.66	69.50	146.37	112.00	120.00	131.00	175.1	179.5	215.0	152.5	182.5
June	57.19	57.10	74.50	124.37	112.00	120.00	136.00	175.1	169.5	215.0	157.5	177.5
July	55.14	56.99	79.36	123.47	112.00	120.00	143.00	184.5	169.5	220.0	167.5	n.a.
August	55.17	57.40	79.48	108.48	128.00	120.00	143.00	184.5	230.0	216.0	177.5	n.a.
September	55.02	57.47	79.49	123.50	128.00	120.00	143.00	184.5	240.0	215.0	202.5	n.a.

Source: NZ Meat Producers' Board

1 The North Island and South Island mid-month schedules published by the New Zealand Meat Board were weighted for the total beef slaughter per month per island to derive a weighted average schedule for New Zealand.

n.a. not available

TABLE A4

Manufacturing Cow Mid-Month Market Prices

(M 140 kg+)

c/kg

	1975/76[1]	1976/77[1]	1977/78[1]	1978/79[1]	1979/80[1]	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
October	41.64	42.30	44.88	79.47	106.46	105.00	93.00	126.0	126.0	186.0	146.0	173.0
November	41.64	42.30	44.64	76.47	116.46	113.00	87.00	126.0	126.0	171.0	151.0	173.0
December	41.68	47.32	47.36	85.44	117.45	105.00	86.00	126.0	126.0	191.0	171.0	173.0
January	41.60	49.24	46.92	96.42	124.93	93.00	90.00	126.0	126.0	206.0	191.0	163.0
February	41.90	54.24	49.51	96.41	116.42	83.00	97.00	126.0	131.0	226.0	161.0	158.0
March	47.43	52.20	49.59	118.36	102.38	72.00	101.00	131.0	151.0	221.0	161.0	168.0
April	44.48	47.20	53.53	134.37	100.00	81.00	104.00	147.5	151.0	196.0	121.0	173.5
May	48.86	50.08	58.24	144.37	100.00	86.00	106.00	144.0	141.0	181.0	128.0	168.5
June	43.66	44.92	60.50	102.37	100.00	79.00	105.00	136.0	141.0	176.0	128.0	166.5
July	41.83	42.64	64.36	101.47	100.00	87.00	125.00	132.0	141.0	190.0	143.0	n.a.
August	41.68	43.72	64.48	81.48	100.00	93.00	125.00	132.0	196.0	168.0	153.0	n.a.
September	42.43	43.92	64.49	101.50	100.00	95.00	125.00	132.0	201.0	166.0	178.0	n.a.

1 The North Island and South Island mid-month schedules published by the New Zealand Meat Board were weighted for the total beef slaughter per month per island to derive a weighted average schedule for New Zealand.

n.a. not available

Source: NZ Meat Producer's Board

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