

**New Zealand Meat Industry Association  
Annual Conference**

**The Meat Industry and the Economy: Progress or  
Paralysis Under MMP?**

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23 SEPTEMBER 1996**

## **THE MEAT INDUSTRY AND THE ECONOMY: PROGRESS OR PARALYSIS UNDER MMP?**

In considering what I should say to you today, I began by re-reading two earlier addresses to MIA conferences. The first was given to your 1991 conference by Denis Hussey of ACIL and the second, in 1992, was by my fellow Business Roundtable member, Alan Gibbs.

Both were fairly forthright offerings, and so I presume that the decision to invite yet another Business Roundtable representative to address you is either an indication of some level of approval of the product or a sign of masochism.

Denis Hussey, you might remember, had just woken from a dream in which Archimedes emerged dripping wet and quite naked to announce his discovery of the theory of displacement to a disbelieving group of meat processors, farmers and Meat Board representatives, comfortably arranged around a plush, wood-panelled boardroom. They raised all the usual objections to the theory - what might work in a bathtub wouldn't work in the real world, the fact that water circulated down a southern hemisphere plughole in the opposite direction to the northern hemisphere, and so on.

Denis Hussey then outlined a series of principles that guided commercial behaviour everywhere, before gloomily predicting that the Meat Planning Council - then being proposed as the latest attempt by the meat industry to defy gravity - would be as unsuccessful as its predecessors had been at trying to rig markets. I am pleased to note that the Meat Planning Council is in its last throes and will soon be given a decent burial. Let's hope such ideas do not return from the grave.

Twelve months later, Alan Gibbs was pleasantly surprised that MIA support for competitive meat marketing and minimal regulation was emerging from the industry's history of collectivism, pervasive regulation and statutory marketing. But he also asked where industry representatives - and the producer boards - had been during the crucial economic policy debates of the 1980s, when proponents of reform were often fighting a fairly lonely battle. Sadly, they were usually either silent or, in the case of the boards, on the wrong side of most of the arguments. He suggested it was time for the industry to take a clearer stand, including on the issue of the Meat Producers Board. The board was then three score years and ten old and, as in the Soviet Union, collectivism in the meat industry seemed to be reaching the end of its natural life. Alan Gibbs felt the board should not necessarily be sent straight off to the knacker's yard but that the compassionate thing to do would be to put it on light duties.

Since that time a good deal of water has flowed under the bridge and the agricultural marketing debate has changed considerably - and forever. The meat and wool boards were then totally dismissive of the research which the Business Roundtable was putting forward and vented their fury at our temerity in questioning their icon status. Now they have largely accepted the arguments and plead with us to be exempted from our criticism of producer boards.

The producer board debate, of course, is far from over and it will not be long before issues affecting all the relevant industries - meat and wool, dairy, apples and pears

and kiwifruit - surface in the new MMP parliament. How that parliament handles them and other economic issues will in considerable part determine whether the meat industry and the economy at large will make progress or suffer paralysis in the next few years.

It is no exaggeration to say that the eyes of the world will be on New Zealand in the coming weeks. We have ditched a voting system which, while not perfect in every respect, stood the test of time and is unarguably superior to the new MMP system. Whether judged against the capacity to deliver representative and effective government, greater accountability for announced manifestos, the ability to decisively vote out a failed government, or just simplicity, the MMP system does not measure up well.

As one who regularly travels across the Tasman, I have lost count of the number of Australians who have begged me for a rational explanation of why New Zealanders chose to embrace some of the worst features of the Australian senate system which have paralysed reform in that country. I admit I have struggled to give them one. Nevertheless, we are, for the moment anyway, stuck with MMP. The real question now is the nature and quality of the decisions which will emanate from the new government, whatever its make-up. Recent statements by major investment funds, widening risk premiums in interest rates, and even New Zealand's fall of two places down the World Competitiveness Report rankings all attest to a degree of nervousness among investors.

Ironically perhaps, we may end up being protected to some extent by the very openness of global capital markets that some of New Zealand's current and aspiring politicians so despise. Taking a line from the economic judgments meted out to the early Mitterand government in France as it attempted the re-nationalisation of several former state-owned enterprises, or the flight of capital from Mexico in 1994 following a loss of fiscal discipline, one can say that the verdicts of capital markets are as swift as they are accurate about the consequences of bad policies. Acting as a daily weather report, they would soon drive home to ordinary New Zealanders the folly of attempting to undo all the painful progress we have achieved in recent years.

In this context, we need to nail once and for all one of the hoarier old chestnuts that accompanies this debate: namely, that New Zealand's fate is now determined by the gnomes of Zurich or New York, and that we have surrendered our economic sovereignty to such interests. Nothing could be further from the truth.

First, capital markets merely observe and respond to - and to some extent, endeavour to anticipate - the decisions made by governments. Second, New Zealand investors, or New Zealand-based advisers of overseas investors - like their counterparts during the Mexican crisis in 1994 - are the first to act. They, after all, are closer to the action and are the best placed to form judgments on what is occurring and the likely consequences.

The only time New Zealand has been close to surrendering its economic sovereignty was, of course, in the early 1980s when Muldoonist policies brought us within an ace of being placed in the hands of the International Monetary Fund - a fact which too many people seem now to have forgotten.

At all times, but especially as we approach this crucial election, it behoves leaders of the business community to stress the main elements of what has been achieved over the past decade or so, what the benefits have been, and the consequences of tampering with sound policies. A detached observer would marvel at the difference between many predictions of what was to befall the country and what the results have actually been.

The reformers had to battle constantly against doomsayers from the trade unions, the welfare lobbies, the media, the churches and academia, almost all of whose predictions failed utterly to materialise. Some of them are still purveying nonsense - arguments that the reforms have not improved productivity growth, or have worsened poverty and inequality, for instance. And while there may now be some grudging acknowledgement from these quarters that the sky did not fall in, explicit *mea culpas* have been few and far between.

Essentially, New Zealand has re-thought and scaled down the role of government towards its more essential elements, and replaced excessive state intervention with greater economic freedom. It has put in place a more stable and consistent monetary, fiscal, tax and labour market framework. We have pursued economy-wide interests over the narrower sectional interests of vociferous lobby groups. These policy changes have not, of course, been pursued for their own sake. They have been pursued for the benefits they would bring in terms of more jobs, rising living standards, greater exports, new investment and so on.

Thus the first task of the new government will be to lock in these reforms and to reassure investors, capital markets and the public more generally that there will be no backsliding. Having recently leap-frogged Australia in terms of our international credit rating, we hardly want to give up that advantage, which ultimately represents an interest cost saving on every house mortgage and business loan in the country. Against that background, let me now turn to the agricultural sector and the meat industry more specifically. A starting point is to recognise that, unfortunately, the agricultural sector has not matched the rate of growth of most other industries in recent years. On-farm production now accounts for less than 5 percent of GDP. This suggests that farming has had great difficulty in competing with other uses for scarce resources of land and capital. It has been squeezed by a combination of a rising exchange rate, higher wages and higher prices for land and other assets. These are all signs of economic success, but they make life difficult for lagging industries.

The reasons for this trend vary but unquestionably the stifling effect of producer board regulation has made life much more difficult for all industries than it needed to have been. The key to agricultural profitability and growth is sustained productivity enhancement and innovation, as it is in other industries. For this to occur, all barriers to productivity and innovation need to be removed, including those producer board roles and functions which get in the way of market-driven private sector endeavour. No industry in New Zealand has suffered more than the meat industry down the years from government and producer board meddling. The idea that it has been some kind of free market model, as is suggested from time to time by some politicians, is breathtakingly ignorant. The distortions are still being unwound and restructuring is not over yet. Mercifully, however, and despite a few diversions, the arguments of the business community, your association and Federated Farmers that the time has come

to let the industry operate in a normal commercial environment have at last largely won out.

There is perhaps a lesson here about how progress might be made in an MMP environment. The change in opinion owes little to government leadership. The former minister of agriculture, John Falloon, left office lamenting that the Muldoon government, of which he was a member, failed to stand up to industry lobbies and dismantle industry protection. Yet in nearly six years as agriculture minister he failed to stand up to producer board lobbies and dismantle their privileges. Only the change in the climate of opinion in the farming and commercial community at large has finally forced the government to act. Building such constituencies may well be the key to achieving other necessary reforms under MMP.

The interminable delays in getting the amending legislation into the House was another lesson in governmental incompetence. We must hope that the new parliament enacts it speedily. The new minister of agriculture seemed to get off on the wrong foot by questioning the significance of industry structures and regulations and delivering unsolicited lectures about marketing. By now the experience of the Soviet Union, state-owned enterprises and hyper-regulated industries should have taught most people that structures and incentives are crucial. The job of politicians is to attend to the statutory environment, not to tell the private sector how to suck eggs. It is pleasing, however, that Lockwood Smith has concluded that his own legislation does not go far enough and that grading provisions should also be scrapped.

I would go further and question whether the meat and wool boards are now required at all. R&D or generic promotion could be funded on a contestable basis, if necessary via the *Commodity Levies Act 1990*. Trade policy initiatives could be undertaken by the relevant industry associations, as is the case, for example, in the forestry and mining industries. Property rights in the US beef market could be clearly established and then sold, so that the benefits remained in New Zealand. It is not obvious to me, particularly when I consider our wine, deer, cut flowers and other agricultural growth industries, that there are any issues specific to the meat and wool industries which don't arise elsewhere in the commercial sector and which cannot be solved without the need for statutory boards.

The problem with maintaining statutory boards is that they will inevitably divert a great deal of the time and energy of industry participants which would be better directed to businesses activities, whether on or off the farm. I can see an inordinate amount of time being spent on empty discussions of things like "shared meat industry strategies". Companies can work together where necessary without such statutory structures. Boards on light duties are destined to have a perpetual itch to find work for idle hands. All parties will have to remain vigilant to protect their business interests from harmful decisions by outside parties with coercive powers. This is no way to run a major industry which has to cope with the complexities and sophistication of today's fast-changing and highly competitive markets. Given the intention to scale down the role and functions of the boards to the level proposed in the draft legislation, I suggest the residual game - the administrative apparatus, the levies, the elections and so forth - is just not worth the candle. Government and industry politics should be done away with once and for all.

Instead, I suggest that at the political level the energies of the meat and wool industries would be better directed at other external influences which are affecting their performance. In particular, an interest in the wider agricultural marketing regulation debate, including the structures in the dairy industry, is long overdue. In some places in New Zealand, the dairy industry is not just causing damage to the natural environment, it is also polluting the commercial environment in which your industry operates. There are spillover effects from the distorted pricing in the dairy industry which are severely affecting the profitability of meat and wool farmers and causing a misallocation of resources that affects the economy at large.

If conversions of farms to dairying were solely occurring in response to genuine underlying trends in the economy and the international marketplace, they would not be a cause for concern. But the massive distortions which exist in the dairy industry as a result of the bundling of on-farm and off-farm returns mean that the changes in land use are being driven to a significant extent by artificial factors rather than the realities of international market demand. It is a version of the SMP saga all over again.

Research conducted for the Business Roundtable has quantified the size and impact of the bundling distortions. The latest research, released just last month, calculated that the gains to the economy from unbundling dairy returns would be at least \$145 million per annum. There would be additional and possibly even larger gains in terms of competitive pressures for efficiency, innovation and the benefits that new entrants could bring to marketing if the Dairy Board's export monopoly were removed.

Has this and other research succeeded in getting through to the Dairy Board the seriousness of the industry's problems? It seems this is still not the case, despite the fact that the Board has long called for empirical evidence to back up criticisms it dismisses as "theory". True to past form, the Board argued the estimated gains were "trivial" when "measured against this board's \$4 billion export sales". This is appalling economics: the relevant comparison is not with the gross value of export sales but with the annual on-farm contribution of dairy production to GDP, which is about \$1.1 billion. The \$145 million figure, which is a conservative estimate, thus represents a potential gain equivalent to 13 percent of the industry's value. How such a gain could be dismissed as trivial is quite beyond me.

The particular relevance of these issues to the meat industry, of course, is that some of the artificial expansion of dairy production is at the expense of livestock, especially sheep, production. In other words, your capacity to expand, reap economies of scale and service profitable markets is being squeezed by distorted dairy marketing arrangements. In the past, the primary industries have tended to stand shoulder to shoulder in defence of statutory marketing arrangements on the basis of the old collectivist attitude that "unity is strength". Now that the meat and wool industries have abandoned their support for statutory controls, I suggest it is high time they cast a more critical eye over the fence to their neighbour's arrangements.

I mentioned earlier that I spend a good deal of time in Australia. For completeness, I should therefore add a few comments about current developments in the Australian meat and livestock industry. At the institutional level, a review is currently underway into the Australian Meat and Livestock Corporation, the Meat Research Corporation

and the Meat Industry Council. The latter body has only been in existence for a short period and, with a large and polyglot membership of industry representatives, it has predictably proved to be ineffective. The direction of change has been signalled by the minister as being towards less statutory intervention and more responsibilities being handled by the private sector.

It remains to be seen how far the taskforce conducting the review will go in recommending an unwinding of the existing structures. Meat processors are keen to see major change, whereas some of the producer leaders are clinging to the need for a security blanket. Judging by the statements he has made so far, the minister will take an appropriately sceptical view towards continuing statutory intervention.

More generally, Australia has made more progress than New Zealand in the last decade in dismantling statutory marketing arrangements. The benefits are now very apparent, no more so than in the dairy industry. In five years' time it seems likely that much of the remaining apparatus will have been dismantled - even the most sacred cow of all, the Australian Wheat Board's export monopoly, is being called into question. Other countries such as South Africa are freeing up their marketing arrangements. And on a more general level, Australia and other countries are picking up speed in implementing New Zealand-style economic reforms.

This brings me back to the issue of the wider economy and to a final point I wish to make. Other countries are not standing still in the process of economic reform. Almost without exception they are striving to make their economies more open and more efficient, and thereby to raise living standards. Plenty of these countries have proportional representation systems of government. MMP should not be allowed to become an excuse for inaction. The move to MMP will not alter one iota the need for political leadership and the imperative of improving policies if New Zealanders want more investment, more jobs and higher incomes.

At present the perception of many in the international investment community is that New Zealand is just coasting. If we become complacent about our success instead of building on it, their interests and those of the managers of investment funds and corporates in New Zealand - who are responsible for achieving the best possible returns on the savings of ordinary New Zealanders - will shift elsewhere. If New Zealand starts to backtrack, they will shift at high speed. We should have learned by now that a programme of excessive spending, taxing and regulation, which is again on offer from some political parties, deters investment and is a recipe for economic mediocrity. It is no way to create jobs, raise living standards and build a fair society.

I trust few people will have any difficulty accepting the democratic verdict in the forthcoming election, whatever it may be. But all of us in business, I suggest, also have a responsibility to point out to the community at large the consequences of the choices that are on offer. And after the election we will all have a responsibility to work with the government and other political parties to achieve further progress and avoid paralysis or worse. I hope you in the meat industry will play a full role in that process, in your own interests and those of other New Zealanders.