

Macroeconomic Situation and Outlook

In the 2001 calendar year, New Zealand's economy grew 2.4 percent, following a 3.8 percent increase in the previous year. Export growth made a significant contribution to the overall economic performance, with exports of agricultural produce in particular playing a key role. A combination of high world commodity prices, a low New Zealand dollar, and ideal climatic conditions saw the value of agricultural exports increase by 57 percent between 1999 and 2001. Comparison with the annual rate of consumer price inflation, which averaged just below 3 percent over the same period, indicates that agricultural exports have recently been a significant source of real income.

As a small outwardly focussed economy, New Zealand's economic fortunes rely heavily on the global trading environment. Weakness in the economies of New Zealand's trading partners during the latter half of 2001 and the beginning of 2002 triggered a decline in export returns, mainly as a consequence of lower prices. The impact of these lower export returns will continue to be felt through the beginning of 2003, via a deterioration in the terms of trade and a reduction in the size of the current account balance.

On the domestic front, consumer spending is expected to remain robust, partly due to households' spending of income accumulated over the past 2 years. Sustained high levels of consumer confidence suggest that households were undaunted by talk of a global economic slowdown. In the first half of 2002, business confidence was also relatively strong. New Zealand's economic growth is expected to rebound in 2003 as economic growth in the economies of our trading partners picks up. Annual GDP growth is forecast to be around 3 percent in the 2003 and 2004 calendar years.

Food Prices and Consumption

Food prices increased by 5.8 percent in the 2001 calendar year, during which time overall consumer inflation measured 1.8 percent. The meat, fish, and poultry component of food prices increased most rapidly, rising by 12.4 percent during 2001. This increase was in turn driven to a large extent by prices for beef and lamb, which increased by 12.9 percent and 20.9 percent, respectively, between December 2000 and December 2001. Increases in meat prices occurred despite high levels of agricultural output, and reflected strong demand in world markets rather than a domestic supply shortfall.

Demand in world markets for New Zealand's export commodities is forecast to be somewhat softer during 2002 and 2003 than in 2001, and New Zealand food prices are expected to ease as a result. However, there is a risk of dry weather conditions in New Zealand from mid-2002, which if realised, may reduce the supply of some agricultural products and hence lead to higher prices. Consumer inflation is forecast to be around 2 percent per annum for the next 2 years.

The past decade has seen a trend towards ready-made food and eating away from home. In 2001, meals away from home and ready-made food comprised 23.1 percent of average weekly expenditure on food, compared to 19.8 percent in 1991. This increase in share has occurred at the expense of nearly all other food types. Meat, in particular, has been affected, falling from 13.8 percent of the total food budget in 1991, to 10.8 percent in 2001.

New Zealand consumers appear to be ever mindful of food safety concerns. This is in part reflected by the demand for organic foods, which although small has undergone recent rapid growth. Sales of organic food currently make up less than 5 percent of food sales. However, by some estimates, they have doubled in the past 18 months. This is despite the prices of organic foods, which tend to be 20–30 percent higher than their conventional counterparts, reflecting the willingness of a small but growing group of shoppers to pay a substantial premium for food that is (at least perceived to be) healthier.

Food Processing and Marketing

New Zealand producer boards have traditionally played a major role in horticultural and agricultural production, in some cases controlling export sales and marketing. Three of the producer boards—the Dairy Board, the Kiwifruit Marketing Board, and the Apple and Pear Marketing Board—have had statutory monopoly control of exports.

At the end of 2001, the government passed legislation that cleared the way for the so-called mega-merger between the Dairy Board and New Zealand's two largest dairy farmer-cooperatives. Since its formation, Fonterra Cooperative Group has entered agreements with Nestle and Britannia Foods (an Indian baked goods producer), and it now ranks among the world's five biggest dairy companies. Fonterra's advent ends a period of dairy industry deregulation that began with the removal of the New Zealand Dairy Board's statutory monopoly on export sales in September 2000.

New Zealand's other producer boards have also undergone varying degrees of reform. In April 2000, two producer boards lost their statutory single seller status: the Kiwifruit Marketing Board's export business was taken over by the specially formed Zespri International and the Apple and Pear Marketing Board became Enza Ltd. In a continuation of producer board reform, at the beginning of 2002, Enza altered its constitution to allow share ownership by non-orchardists.

There still exist several producer boards in New Zealand, none of which has monopoly control over exports, but all have which have made steps towards restructuring. At the beginning of 2002, the Wool Board sought farmer approval for its dissolution, while Meat New Zealand outlined a proposal for a joint meat and wool research and development organisation.

Agricultural Production and Trade

The fortunes of New Zealand's agriculture sector are strongly dependent on world commodity markets. Between 1999 and 2001—a period when world prices for New Zealand's export commodities exhibited sustained increases—the value of New Zealand's agricultural exports increased by nearly 60 percent. Dairy farmers in particular fared well. A combination of high world prices, a low New Zealand dollar, and excellent climatic conditions led to a trebling in dairy farms' per hectare surplus between 1999 and 2001. As a consequence of these favourable returns, there has been steady conversion to dairy farming in recent years.

Short-term prospects for agricultural production and exports are more subdued. The last months of 2001 saw declines in world prices, and relatively low price levels are forecast to persist for much of the 2002 calendar year. The New Zealand dollar has shown recent signs of appreciation, and this is expected to continue through the end of 2002. In addition, there is a risk that the El Niño weather pattern, which was responsible for the droughts of 1998 and 1999, will return in mid-2002. The combination of these factors is expected to lead to a decline in the value of agricultural production of 4.5 percent in the year to March 2003.

Longer term export prospects will hinge largely on New Zealand's ability to forge new trading agreements. New Zealand continues to pursue multilateral trade liberalisation, particularly for agricultural goods, via the WTO and APEC. In addition, bilateral trade negotiations have recently been held with a number of trading partner countries. In 2000, a Closer Economic Partnership was formed with Singapore. In 2001, free trade agreement discussions took place with Hong Kong, Chile, South Korea, the United States, and the ASEAN Free Trade area. These discussions are ongoing.

New Zealand also imports processed food in relatively high quantities. This is due to a climatic limitation on the range of foods that can be grown in New Zealand, and to the problems of economies of scale associated with a small domestic market.

Food and Agricultural Policy

By the early 1980s, successive New Zealand governments had established a system of agricultural subsidies and export incentives that accounted for over 30 percent of farm income. In 1984, the newly elected Labour government announced that it intended to end all types of agricultural price support, and within 3 years all farming subsidies were virtually abolished. Since this time, New Zealand has had the least subsidised farm sector in the western world.

Given this background, and the relative importance of agriculture to New Zealand's economy (food and agricultural produce comprise 15 percent of output and nearly 50 percent of exports), it is unsurprising that New Zealand's trade negotiators actively seek the dismantling of farm support in the economies of our trading partners. During the Doha meeting of the WTO, New Zealand and the other Cairns Group members lobbied strongly for the phasing out of agricultural

export subsidies to be included in the agenda for the next round of negotiations.¹ The outcome of the Doha meeting, as far as agriculture is concerned, is that WTO members are committed to negotiations aimed at “substantial improvements in market access, reductions of, with a view to phasing out, all forms of export subsidies, and substantial reductions in trade-distorting domestic support” (para. 13, Doha WTO Ministerial 2001: Ministerial Declaration, World Trade Organisation). The prospect of having greater and more equal access to the huge U.S. and Eurozone markets holds much promise for New Zealand farmers.

Food Safety

Food safety is a concern in New Zealand for a number of reasons, including:

- Reduction of the risk of foodborne illness. The incidence of foodborne illness has reached record levels in recent years; as an attempted remedy, in November 2000, the government established the New Zealand Foodsafe Partnership.
- International obligations through arrangements such as the World Trade Organisation Sanitary and Phyto-Sanitary Agreement, the Australia New Zealand Food Authority, and the Codex Alimentarius Commission.
- Maintenance of New Zealand's reputation as an exporter of safe food products. Recent outbreaks of BSE and foot-and-mouth disease in Europe and Japan have reinforced the catastrophic impact that a similar outbreak would have on New Zealand's export returns.
- Consumer concerns about food safety. As an illustration of these concerns, the Report of the Royal Commission on Genetic Modification (published July 2001) found that “over 68 percent of the written submissions [the Commission] received from the public expressed the view that the use of genetic modification in food production was unacceptable.” (p. 188, *Report of the Royal Commission on Genetic Modification*, Royal Commission on Genetic Modification).

The incidence of foodborne illness in New Zealand has reached alarming levels. It is estimated that more than 200,000 cases of foodborne illness occur each year. Rates of *Campylobacter* and *Salmonella* infection reached record highs in 1998. The number of cases of *Campylobacter* infection notified to public health authorities in 1998 was 11,580. The New Zealand rate is three times that of Australia and twice that of the United Kingdom.

Incidences of other foodborne illnesses occur in New Zealand, but tend to be infrequent and isolated occurrences. *E. Coli* 0157 was first contracted in October 1993, and since that time there have been 219 isolations. There have never been any outbreaks of *E. Coli*, although one death was recorded in 1998. Similarly, although there are infrequent, high-profile cases of listeria, the annual rate of incidence is typically less than 1 per 100,000.

Information on the sources of foodborne illness is scarce. The Ministry of Agriculture and Forestry estimates that between 20 and 40 percent of foodborne illness can be attributed to incorrect handling of food in the household. However, it acknowledges that the responsibility for food safety commences with the producer, extends through the manufacturing and distribution chain, and ends with the consumer.

At present, there are two separate food safety regimes in New Zealand. The Ministry of Health (MOH) administers the Food Act, which covers all food sold on the domestic market, including imported food. The Ministry of Agriculture and Forestry (MAF) administers other food-related legislation, which is mainly aimed at primary production, processing, and exports. However, in an attempt to eliminate duplication of effort, and to ensure that food safety legislation will be applied consistently to all those affected, the New Zealand government announced, at the beginning of 2002, its intentions to establish the New Zealand Food Safety Authority (NZFSA). This new authority, which was scheduled to have come into existence on July 1, 2002, has the responsibility of bringing together the food safety functions of the Ministry of Agriculture and Forestry and the Ministry of Health, allowing the management of food-related risks across the food chain.

New Zealand's food safety system is currently evolving from a traditional, prescriptive environment to a generic risk management framework. In effect, this approach allows businesses to operate in the manner that suits them best, provided that they achieve the required food safety outcomes. The risk-based approach reflects the practical needs of the food industry, and has at its core an "optimal regulatory model". This model in turn relies on:

- Government acting as the regulator, setting appropriate sanitary measures.
- Industry taking full responsibility for producing food products that conform to those measures, using risk-based management plans.
- Verification of conformity by approved, independent auditors.

Under the optimal regulatory model, on-site audits of standard implementation are currently carried out by either: (i) third party auditors approved by the Ministry of Health or (ii) a verification agency within the Ministry of Agriculture and Forestry, established in November 1998.

Industry risk-based management plans adopt Hazard Analysis Critical Control Point (HACCP) principles, which are underpinned by the pre-requisite of Good Hygienic Practices (GHP). The use of HACCP is widespread in New Zealand, and in many sectors, New Zealand is seen as a world leader in the implementation of quality management systems. The use of internationally recognised quality management systems is particularly prevalent in New Zealand's primary industries, such as kiwifruit and apple growing and sheep, beef, and dairy farming, and their related processing industries. Significant portions of this produce is exported, and as such the adoption of HACCP has been at least partly motivated by a desire to display a high quality product in an international marketplace.

In response to these overseas retailer demands, the dairy, seafood, and meat industries in New Zealand have developed industry HACCP standards. HACCP is mandatory for all seafood premises licensed with the Ministry of Agriculture and Forestry and for all dairy manufacturing facilities. The seafood HACCP standard has been mandated by the New Zealand Fishing Industry Inspection and Certification Council. The Meat Industry Council has mandated HACCP for all export premises. In the dairy sector, HACCP standards are being implemented on farms. The use of HACCP as a food safety system is often integrated into the broader quality assurance framework of ISO 9000.

The past decade has seen a general shift towards a cost-recovery basis for government services, and food safety monitoring is no different. However, across the food industry, charging regimes are inconsistent and often bear no relation to the actual costs. In effect, much of the implementation of the food safety system is cross-subsidised by local body rates and general taxation.

In general, industries support the existence of some sort of consistent, national, food safety system. As noted above, New Zealand's reputation as a producer of high-quality and safe food products is crucial to its success in marketing its exports in world markets. In recognition of this fact, many industry bodies have established their own voluntary codes of practice. The only major concern expressed by industry groups is that standards be set in a consistent manner to enable producers to operate in a predictable environment.

Food safety policy in New Zealand has developed with the international context in mind. New Zealand is a member of the WTO and a signatory to its provisions, including the Sanitary and Phytosanitary (SPS) Agreement and the Technical Barriers to Trade (TBT) Agreement. New Zealand was a founding member of the Codex Alimentarius Commission, and in 1978 the government directed that, where practical, New Zealand should adopt Codex food standards. Progress in reducing technical barriers to trade was made with the European Union (EU) through the signing of the NZ/EU Veterinary Agreement. New Zealand also has several arrangements with its largest trading partner, Australia. The Trans Tasman Mutual Recognition Agreement (TTMRA), which came into effect in 1998, provides for lessening of technical barriers to trade. Its practical implications are that food that can be lawfully sold in New Zealand may also be lawfully sold in Australia, and vice versa.

The leading harmonisation agreement to which New Zealand is a party is the Australia New Zealand Food Authority (ANZFA). ANZFA was established under Australian law in 1991, and New Zealand gained representation on the ANZFA board in 1995. ANZFA's key responsibility is developing food standards for the Australia New Zealand Food Standards Code, which became the sole food code for both countries in December 2001. In developing such standards, one of the objectives of ANZFA is to protect public health and safety.

In the wake of the rapid increase in the incidence of *Salmonella* and *Campylobacter* in recent years, food safety authorities and

industry participants have jointly taken a more prominent role in ensuring that the principles of safe food are promoted. At the end of 2000, the New Zealand Foodsafe Partnership was formed from members of the food industry, public health units, nutritionists, consumer groups, and government ministries. The aim is to reduce foodborne illness among New Zealanders by running a food safety campaign for the home, with a particular focus on the summer months during which foodborne illness rates peak. The campaign has a simple message with four key safety actions: cleanliness of hands and utensils; thorough cooking of meat, particularly chicken; adequate covering of food both before and after cooking; and storage of perishable food at low temperatures.

One issue that is likely to affect future food policy is the use of genetically modified organisms (GMOs) in the production of food products. In 2000, the New Zealand government established a Royal Commission (the highest independent investigative body) on Genetic Modification. Its report and recommendations were published in July 2001. As noted earlier, the Commission found that the use of GMOs in food production, and its implications for food safety, was of great concern to the New Zealand public. In summarising public attitudes, the Commission stated that "there is widespread public unease about the use of genetic modification in relation to food, which should be taken into account by central government and the relevant regulatory authorities when making any decisions relating to genetically modified food in New Zealand" (p. 192, Report of the Royal Commission on Genetic Modification, Royal Commission on Genetic Modification).

In June 2000, the New Zealand government placed a ban on all field trials of GMOs. This ban has subsequently been extended until October 2003 to allow time for full consideration of the Royal Commission's report.

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NEW ZEALAND

	Units	1998	1999	2000	2001	2002	2003
FOOD CONSUMPTION PATTERNS							
Per-capita caloric intake <i>a</i>	Cal/day	3,219	3,242	3,252	3,250	3,250	3,250
From animal products	Cal/day	1,149	1,095	1,086	1,090	1,090	1,090
From vegetable products	Cal/day	2,070	2,146	2,166	2,160	2,160	2,160
Protein (% of calories)	%	12.8	12.8	12.8	12.8	12.8	12.8
Fat (% of calories)	%	33.6	33.6	33.3	33.5	33.5	33.5
Carbohydrates (% of calories)	%	53.5	53.6	54.0	53.7	53.7	53.7
INCOME AND FOOD PRICES							
Per-capita income <i>b</i>	US\$/capita	14,268	14,680	13,331	12,978	14,579	16,110
% of disposable income spent on food <i>c</i>	%	16.6	16.6	16.6	16.7	16.7	16.7
% spent eating out <i>c</i>	%	3.7	3.8	3.8	3.9	3.9	3.9
Food price index <i>d</i>	1990=100	110.2	111.3	112.7	119.5	122.5	124.7
General price index (CPI) <i>d</i>	1990=100	116.2	116.0	119.1	122.2	125.2	127.5
POPULATION							
Total population <i>e</i>	Million	3.8	3.8	3.8	3.9	3.9	3.9
Urban	Million	2.9	2.9	3.0	3.0	3.0	3.0
Non-urban	Million	0.9	0.9	0.8	0.9	0.9	0.9
Share of population in the following age groups <i>e</i>							
0-4 years	%	7.7	7.5	7.4	7.3	7.3	7.2
5-14 years	%	15.4	15.4	15.4	15.4	15.4	15.3
15-19 years	%	7.1	7.1	7.1	7.2	7.2	7.1
20-44 years	%	37.6	37.1	36.6	36.2	35.8	35.6
45-64 years	%	20.7	21.1	21.6	22.1	22.5	23
65-79 years	%	8.9	9.0	9.0	9.0	9.0	9.0
80-over years	%	2.7	2.7	2.8	2.9	2.8	2.8
Median age of population <i>e</i>	Years	33.6	33.9	34.3	34.6	35.0	35.3
Female labour force participation <i>f</i>	%	57.4	57.6	58.0	58.9	59.5	60.0
LIFE EXPECTANCY							
Males <i>g</i>	Years	74.3	75.7	75.7	75.7	75.7	75.7
Females <i>g</i>	Years	79.6	80.8	80.8	80.8	80.8	80.8
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports <i>b</i>	1,000 tons	27	3	22	3	20	20
Grain imports <i>b</i>	1,000 tons	191	339	242	388	300	300
Total food and agricultural exports <i>i</i>	Million US\$	6,083	6,204	6,792	6,954	6,859	7,631
Fishery exports <i>j</i>	Million US\$	1,233	1,284	1,455	1,460	1,365	1,399
Total food and agricultural imports <i>k</i>	Million US\$	938	1,010	1,000	1,008	1,088	1,242
Road access <i>l</i>	1,000 kms	92	92	92	92	92	92
Rail access <i>m</i>	1,000 kms	4	4	4	4	4	4
Telecommunications <i>n</i>	1,000 lines	na	1,763	1,759	1,749	na	na
Power generation <i>o</i>	Million Kwh	34,281	33,994	34,445	34,961	35,400	36,000
Percent of population with refrigerators	%	100	100	100	100	100	100
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP <i>p</i>	%	5.2	5.4	5.8	7.1	7.2	6.6
Self-sufficiency in grains <i>q</i>	%	90.0	81.0	83.0	90.0	90.0	90.0
POLICY TRANSFERS							
Consumer subsidy equivalents <i>r</i>	%	-2.0	-5.0	-4.0	-2.0	-2.0	-2.0
Total transfers (subsidy/tax) <i>s</i>	Million US\$	-49	-57	-49	-31	-30	-30
Total transfers per-capita <i>s</i>	US\$/capita	-13	-15	-13	-8	-8	-8
MACROECONOMIC INDICATORS							
GDP growth <i>t</i>	%	-0.2	3.9	3.8	2.4	2.7	2.9
Interest rate <i>u</i>	%	4.6	5.4	6.7	5	6.5	6.7
Exchange rate <i>v</i>	NZ\$/US\$	0.54	0.53	0.46	0.42	0.46	0.49

na = not available

Sources:

- a.* FAOSTAT; author's estimates/forecasts for 2001-2003.
- b.* Nominal expenditure GDP, December years at current average exchange rates for the year; Statistics New Zealand, NZIER.
- c.* Percentage of Total Net Expenditure (including net capital outlay), Household Expenditure Survey, Statistics New Zealand, 1999, 2000, 2002, 2003 are author's estimates/forecasts.
- d.* Food Price Index, Consumers' Price Index, Statistics New Zealand, 2002, 2003 are author's estimate/forecast.
- e.* December years, Statistics New Zealand, NZIER.
- f.* Average for December quarter, Household Labour Force Survey, Statistics New Zealand, 2002, 2003 are author's estimate/forecast.
- g.* December years, Statistics New Zealand, NZIER.
- h.* HS category 10. Cereals, December years, Statistics New Zealand, 2002, 2003 are author's estimate/forecast.
- i.* SNA exports of: meat, dairy products, seafood, other food and beverages; December years, Statistics New Zealand, NZIER.
- j.* SNA exports of seafood; December years, Statistics New Zealand, NZIER.
- k.* SNA imports of food and beverages; December years, Statistics New Zealand, NZIER.
- l.* 'Reading Statistics 2000/01', Transfund New Zealand.
- m.* Trans Rail website: <http://www.transrail.co.nz/overview/factsfigures.html>.
- n.* As at June 30; Telecom New Zealand, Annual Report 2000 and 2001.
- o.* December years; Energy Production Statistics, Statistics New Zealand, 2002, 2003 are author's estimate/forecast.
- p.* Nominal agriculture value added as a percentage of nominal production GDP; Statistics New Zealand, NZIER.
- q.* Ministry of Agriculture and Forestry, NZIER.
- r.* 'Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002', OECD.
- s.* Consumer support estimates, 'Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002', OECD.
- t.* December years, Statistics New Zealand, NZIER.
- u.* 90 day bank bill, average for December quarter; Reserve Bank of New Zealand, NZIER.
- v.* Annual average exchange rate, December years; Reserve Bank of New Zealand, NZIER.