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Agricultural Productivity in an Uncertain World

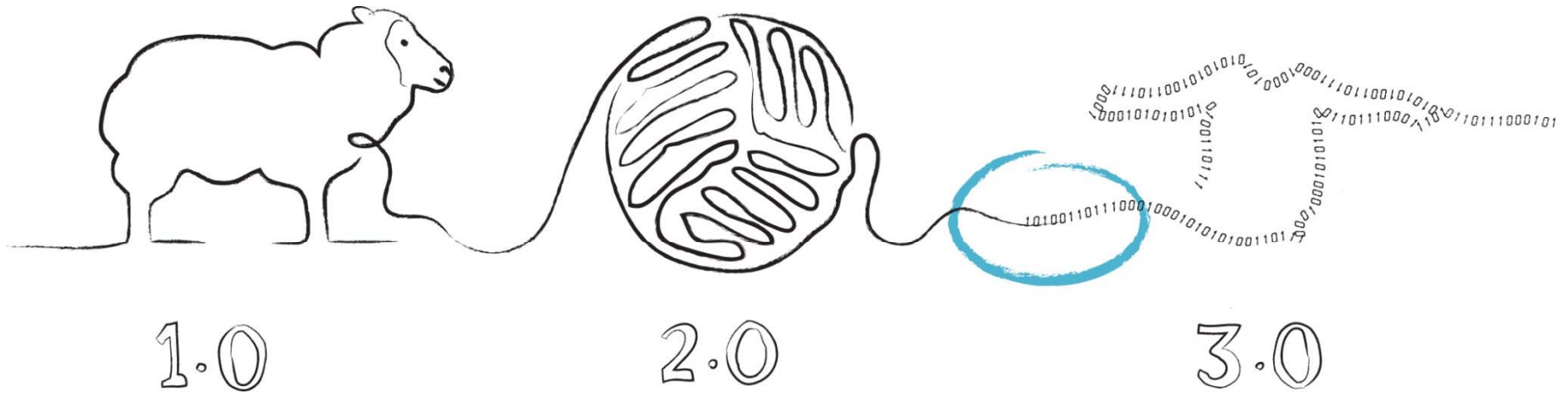
Murray Sherwin

Chair, New Zealand Productivity Commission

Paper presented at the 2011 NZARES Conference

Tahuna Conference Centre – Nelson, New Zealand. August 25-26, 2011

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Agricultural Productivity in an Uncertain World

Presentation to NZARES Conference

Robin Johnson Memorial Session

Murray Sherwin, Chair, NZPC 25 August 2011



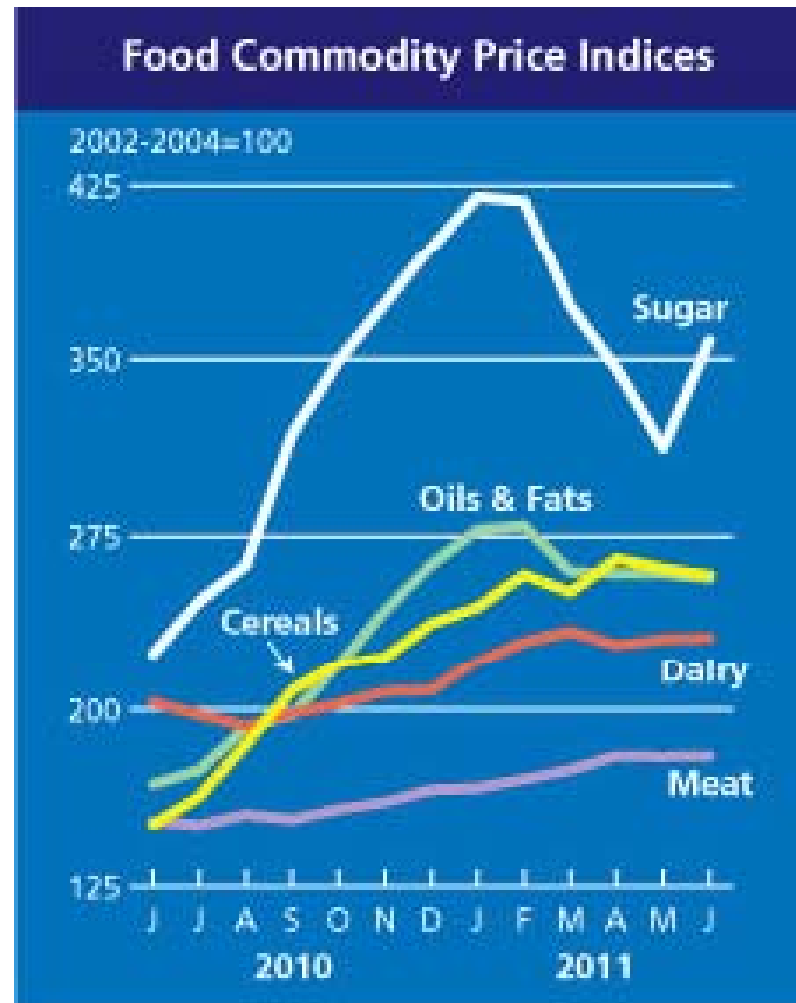
Outline

- Introduction
- Global Context for Agriculture
- New Zealand Context
- NZ Productivity Commission

Global context

- Agricultural markets in new phase
- Food product prices surged from late 2006
- Checked by GFC from mid-2008
- Recovery from late 2010, now above previous peak
- Meat & dairy firm, but sugar, cereals, oils and fats very strong

Food Commodity Price Indices



Global context

- Demand from emerging middle class; China, India, South America
- Europe, US, Japan sagging under debt load, dysfunctional governance, demographics
- FAO/OECD picking sustained high real prices
- Cereals, +20%
- Meats, +30% (decade over decade)

Global context

- Global agriculture output +1.7% pa (2010 – 20) vs 2.6% (2000 – 10)
- Lower productivity growth overall
- Prices high, volatile
- Output share from developing countries expanding
- Biofuels growing – by 2020, 13% of grains, 30% of sugar

Global context

- Weather variability = price variability
- Smaller stocks – public and private
- Agriculture markets more tightly linked to energy
- Non food use of agricultural output growing strongly
- Food demand becoming price inelastic as incomes rise
- Per capita incomes up 50% in key developing countries by 2020?

Global context

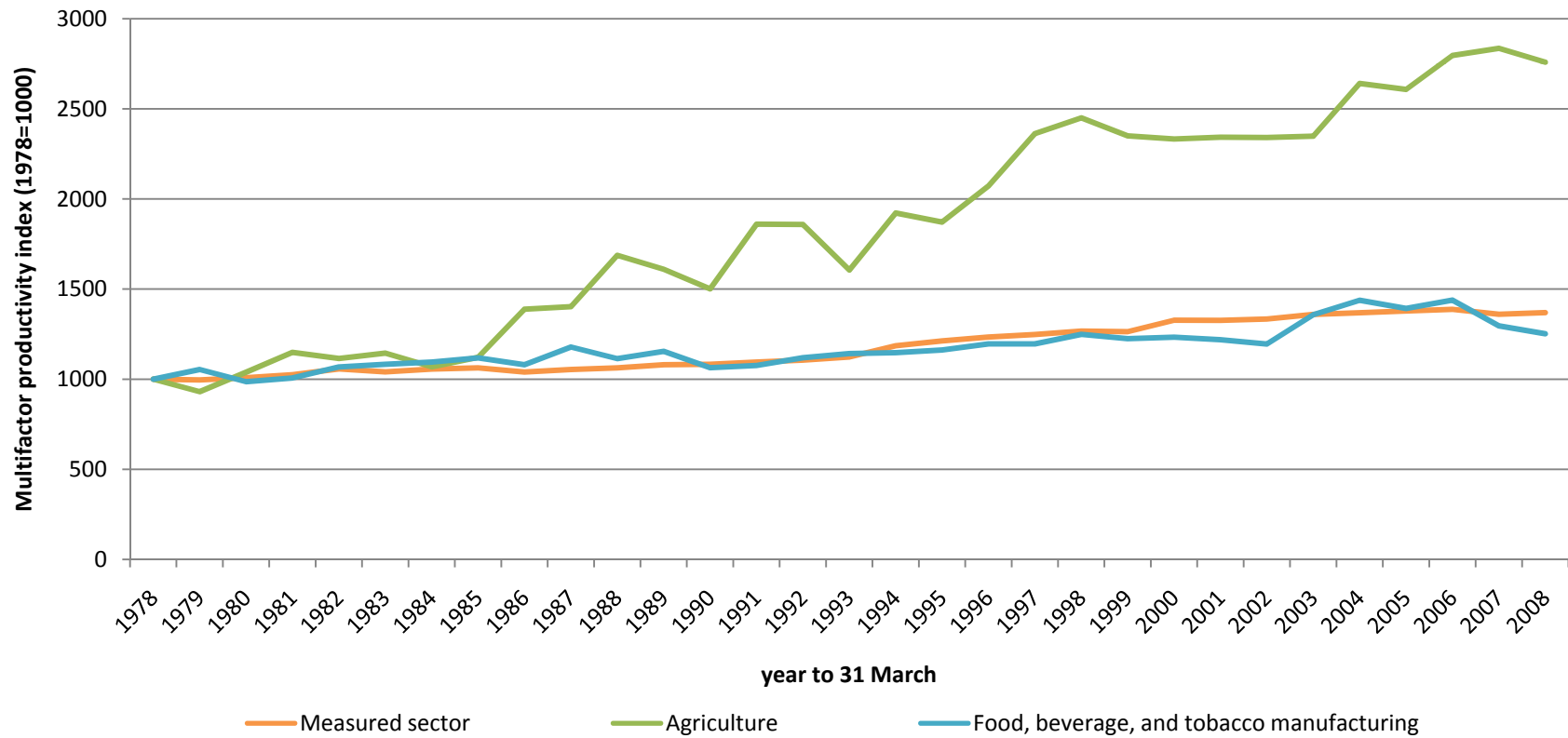
- Global shift from staple foods to processed and prepared, increased animal protein share
- Agricultural supply response muted?
- Resource pressures – land, water, energy

New Zealand context

- Sweet spot for NZ of late, good prospects
- China impact immense: +\$2 billion dairy market
- Opportunities, but which business model for NZ?
- Scale?
- Constraints on growth?
 - Capital
 - Skills
 - Ecosystems
 - Innovation/Tech Transfer
 - Moving from products to services/IP

New Zealand context

Multi factor productivity growth since 1978

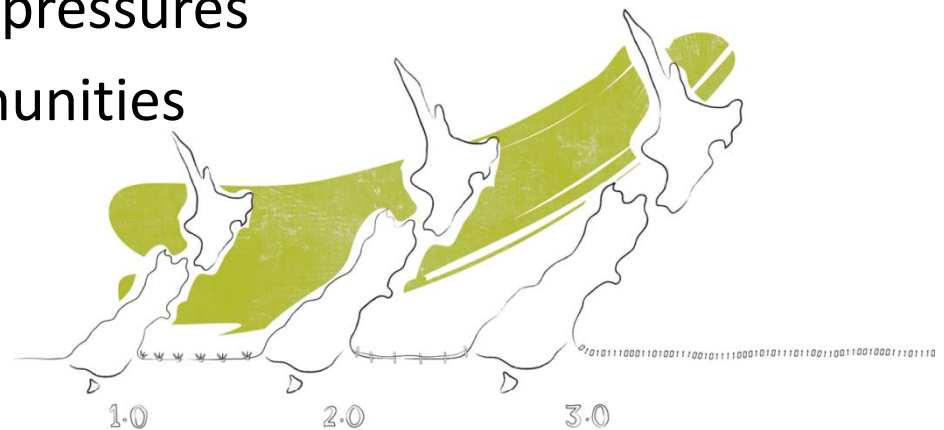


New Zealand context

- **Why didn't primary industries wither post 1984?**
 - Accumulated technology, skills, capability
 - Reduced protection = lower costs
 - Thrive or die
 - Flexibility
 - Scale – vs other sectors
 - Competition forcing efficiency
 - Uruguay Round

New Zealand context

- **What's needed for future success?**
 - Skills, including industry governance
 - Capital
 - Understanding new markets/customers
 - Understanding ecosystem pressures
 - Understanding local communities
 - Innovation
 - Resilience





The Commission

Purpose



NZPC Act (2010)

“The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand Society.”

Form

- Independent Crown Entity
- Chair plus 2 or 3 Commissioners (all part time)
- Up to 20 staff (plus use of consultants)
- \$5 million budget per year
 - Funded from existing budgets of other govt agencies
- Act passed December 2010
 - Supported by all parties except Greens
- Operational from 1 April 2011

Functions

- In-depth inquiries
 - Topics referred to us by Ministers
- Research into productivity-related issues
- Promoting public understanding of productivity

Our stand-out features



- Dedicated focus on productivity
- High-quality, evidence-based analysis
- Extensive engagement/submission process
- Independent
- Workable advice
- Focus on the overall wellbeing of New Zealanders

Inquiries



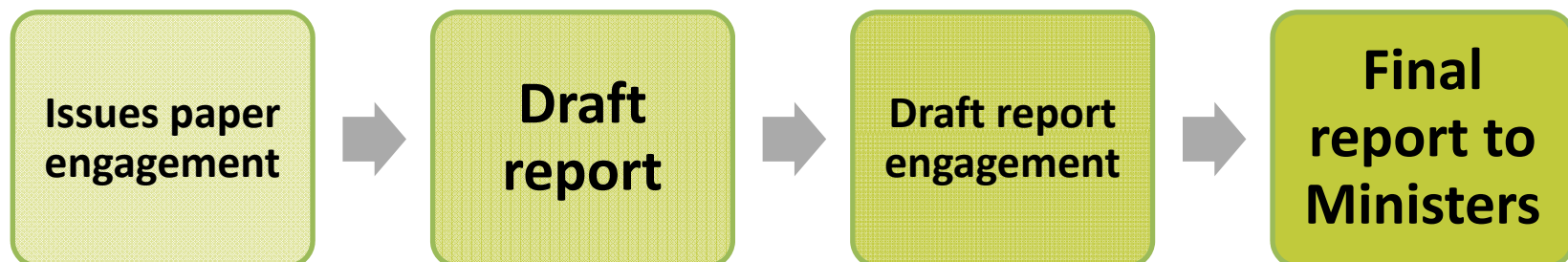
Housing Affordability Inquiry



International Freight Transport Services Inquiry

Inquiry process

- Minister(s) decide to initiate an inquiry
- Commission consulted on terms of reference
- Advertise inquiry, call for registrations of interest
- Issues paper ... submissions
- Draft report ... submissions and hearings
- Final report ... recommendations to the Minister(s)
- Report tabled in Parliament



Conclusion

“Productivity isn’t everything. But in the long run, it is almost everything.”

Paul Krugman