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Intriguing tale of two kiwi industries

By Rod Oram

Between the lines

What do you make of a Government which breaks the electricity industry into pieces, but pulls almost all the dairy industry into one? The question is even more intriguing because the bureaucrat-architect of the electricity reforms, Tony Baldwin, is leading the Producer Board Project Team to push through deregulation of agriculture.

In fairness to the team, there are differences between the two industries in terms of ownership structure and practicality of creating domestic competition. Moreover, only 7 per cent of milk is consumed here, so there is, perhaps, a case for keeping the industry intact so it has the scale to compete abroad. Nonetheless, dairy executives who negotiated with the project team over the draft legislation announced this week say the team was determined to try to break-up their industry.

The team had four main goals: first, above all was to end the single seller status of the Dairy Board. Second, it wanted to set up a number of vertically integrated businesses to process milk and sell the products abroad. Third, it wanted a mechanism whereby farmers could take the full value of their investment out of their co-op and the Dairy Board should they wish to exit. In addition, that investment would be tradable on the open market, not just among farmers. And fourth, it wanted New Zealand quotas in foreign markets to be fully contestable among players rather than vested in the new organisation.

In countering these demands, the dairy industry had some factors going for it. Above all was politics. The Government, mindful of its tenuous hold on the rural vote, baulked late last year at pushing its pre-conceived solutions on the industry. It signalled it would be receptive to the industry's own solutions if they met most of its deregulation aims.

The industry prepared its case very extensively. It also showed strength at the table, thanks to heavy lobbying by the reform-minded within the industry to achieve a high degree of unity among farmers.

The result is draft legislation which will end the single-seller status and open export markets to any player, give fair value to exiting farmers, open the industry to new (possibly foreign) capital, open the domestic dairy food market to competition and, in due course, make foreign quotas contestable.

The project team failed to get immediate quota contestability or fully tradable investment. But assuming the Commerce Commission approves this structure as one which will give relatively unencumbered entry and exit to the industry, the project team will have achieved almost all its aims.

Perhaps the moral of the story is there are many ways to skin a cat. But that's no comfort to a politically weak electricity industry which felt it was flayed alive without being given a chance to choose its own instrument.

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