Rural Economic Note

Mycoplasma Bovis Update

28 May 2018

Mycoplasma Bovis eradication – initial thoughts

The NZ Government's big decision around Mycoplasma Bovis was either to continue attempting to eradicate or move to managing the presence of the bacterium. The Government has chosen to continue to attempt to eradicate, noting that the current estimates of eradication costs are smaller than the estimated costs of managing the bacterium. No country has yet successfully eradicated the disease, but the Government doesn't want to regret not trying. There is still the risk that a greater spread of the bacterium than assumed will switch the sums more in favour of managing the bacterium's presence. Spring testing (results in December) will give further information on which to assess the probability of success of eradication.

The revenue impact on the dairy industry as a whole is not clear cut. The potential loss in dairy production could be partly or completely offset by higher dairy prices. For beef prices, the size of the cull needs to be put in context with the usual (high) cattle slaughter figure.

The Government's approach

The Government will:

- Cull 152,000 animals over 1-2 years (an extra 126,000 on top of the planned cull to date);
- Compensate farmers for stock losses, with the Government covering 68% of costs and the dairy and beef industry bodies the remainder;
- Speed up the payment of compensation to farmers, who will be paid the value of the stock (less what they get from the sale of meat) and loss of income.

The estimated costs of attempting to eradicate Mycoplasma Bovis are $886 million over 10 years, against an estimated cost of $1.2 billion to manage the disease over the long term ($698 million lost production, $520 million response costs) and an estimated $1.3 billion in lost production from doing nothing. At this point the Government believes that 37 farms have infected livestock and 192 farms in total will face stock culling (142 in the first year). But high-risk animal movements have been traced to 3000 farms and 858 are under surveillance. Accordingly, there is the risk that the potential costs of eradication grow if more livestock are added to the cull. Note there are around 20,000 dairy and beef farms in total. Much of the estimated cost comes in the cost of the response and in compensation.

Revenue impacts

At this stage it is unclear to us how the cull will be split between dairy and beef cattle. We have done some back of the envelope calculations on how dairy revenue might be affected – under the assumption that all of the losses were confined to that sector. Please note this is purely an illustration with rough assumptions – and the impact will be spread across the dairy and beef industries.

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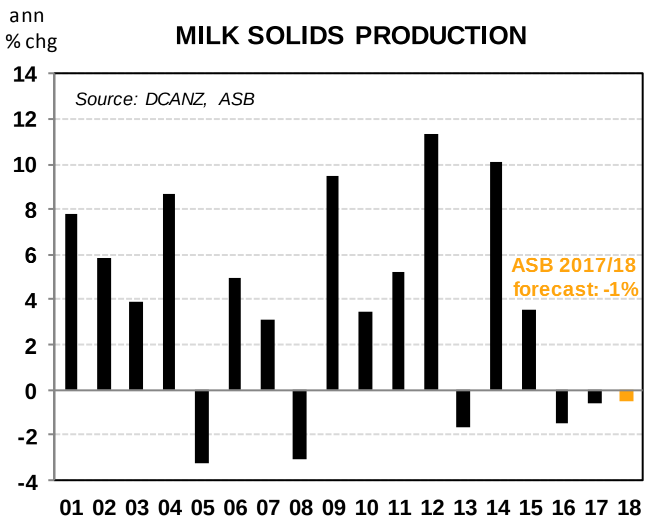
The impacts on dairy revenue are not straightforward. The cull is equivalent to 2-3% of the national dairy herd, after conservatively assuming 10% of those culled would have been culled anyway. An assumed 3% loss of dairy production (in at least the first year or two) at a milk price of $6.50/kg (our current 2018/19 milk price forecast) implies $356 million of foregone revenue, with the value of slaughtered cows around $250 million.



But NZ is a significant dairy producer, and a production impact of that magnitude is likely to push up global dairy prices in the near term at least. After allowing for a baseline of likely growth in dairy production next season, the overall production impact could be similar to that of NZ's drought experiences.

We estimate that every 10 cent increase in the farm-gate milk price would bring in revenues of approximately $180 million. In other words, a 20 cent lift in the milk price could very well offset the culling production losses – until such time as the global dairy industry responds by boosting output.

The beef industry will also bear impacts. But the impact of added livestock slaughter on meat prices needs to be put in context of 4.2 million cattle being slaughtered every year.

As in a drought, the costs of eradication will be borne unevenly. The disruption will be huge to individual farms facing culling and the long haul back to rebuilding their operations. However, those not directly affected are likely to be conservative about their immediate expansion plans. The disease will add another layer of costs to farms. In addition, it will restrict the movement of livestock. There is no guarantee of success and the costs of the disease could end up higher if it proves to be more widespread. However, the Government will use its strong balance sheet to safeguard vital parts of our export industry.

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