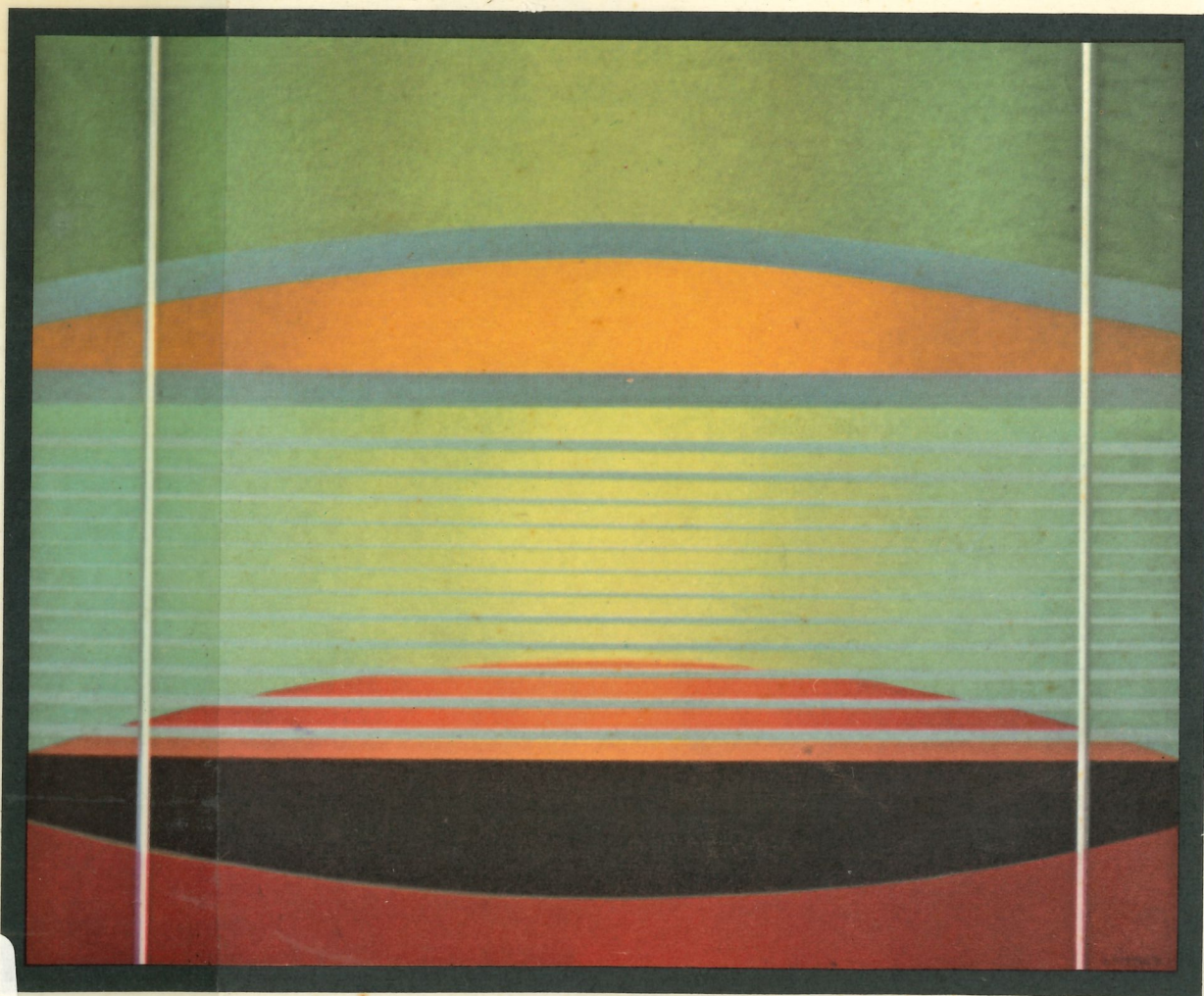


NEW ZEALAND
AND THE
EUROPEAN COMMUNITY



S
330.
993
NZP

NEW ZEALAND PLANNING COUNCIL
Kaunihera Whakakaupapa mo Aotearoa

NEW ZEALAND
AND THE
EUROPEAN COMMUNITY

A Report by the
New Zealand Planning Council

Published by the New Zealand Planning Council
P.O. Box 5066, Wellington. Telephone 724 250

Cover

The front cover is a reproduction of **Gerry Nigro's "Island series 1971"**. The abstract by the Auckland-born artist is an oil on canvas and is part of the National Art Gallery's collection of contemporary New Zealand paintings. The New Zealand Planning Council is grateful to the trustees of the National Art Gallery for their permission to reproduce the painting.

The back cover is a mosaic of pictures taken over a period of 4 years by the NASA earth resources satellites (**LANDSAT I** and **LANDSAT II**). The false colours result from "adding" three black and white pictures (two in the visible range of the spectrum and one in the infra-red range). The value of the colours lies in the fact that they can be used to identify resources and features of the environment, e.g., forests, crop types, water pollution, and soil moisture. The composite picture was made up by the **Physics and Engineering Laboratory of the DSIR**, to whom the council is grateful for permission to publish it as part of the cover.

The cover of this document was printed by **INL Print Limited, Wellington**.

Illustrations

The council acknowledges the assistance of the **New Zealand Meat Producers Board** and the **National Publicity Studios** in the provision of illustrations.

CONTENTS

	<i>Page</i>
Details of Illustrations on Cover	2
List of Contents Including Graphs and Tables	3
Foreword	5
 Chapter 1—Introduction and Overview	 7
 Chapter 2—The Impact of the EEC	 11
Introduction	11
The Common Agricultural Policy	12
Dairy Products	15
Developments in the British Dairy Market	19
Operation of Protocol 18	20
Cheese	22
Efforts to Diversify	22
Lamb and Mutton	28
Diversification of Lamb Exports	29
Mutton	34
Access to the EEC	35
Beef and Veal	37
International Trade in Beef	38
Market Perspectives	39
Apples and Pears	39
Other Products	40
The EEC Third Country Veterinary Directive	42
Conclusions	42
 Chapter 3—Adjustment in the New Zealand Economy	 44
Introduction	44
The Agricultural Base	45
Trade	48
Market Access	54
The Impact of International Instability	57
The Consequences	60
Past Efforts at Adjustment	61
Future Strategy	65
Manufacturing and Processing	67
Restructuring	71
 Chapter 4—Prospects for the New Zealand - EEC Relationship	 73
The Association with Europe	74
Trade in Dairy Products	75
Sheepmeats	77
Common Agricultural Policy	79
The Balance of Interests	80
 List of Documents Published or Issued by the NZPC	 82
The New Zealand Planning Council	82

List of Graphs

<i>Figure</i>	<i>Page</i>
1 World Milk Production and Trade 1974-78	13
2 Butter Exports 1970-77	23
3 Cheese Exports 1970-77	24
4 Butter Exports outside Europe	25
5 Natural Cheese Exports Outside Europe	26
6 New Zealand Exports of Frozen Lamb	30
7 Lamb Exports to Developing Markets	31
8 New Zealand Exports of Mutton	34
9 Beef and Veal Exports	36
10 EEC Beef Production and Consumption	37
11 EEC Beef Imports and Exports	38
12 New Zealand Exports of Apples and Pears	40
13 South Island Land Use Map	46
14 North Island Land Use Map	47
15 (a) Direction of Exports	50
15 (b) Source of Imports	51
16 (a) Composition of Trade (Imports)	52
16 (b) Composition of Trade (Exports)	53
17 World Industrial Production and New Zealand Exports	56
18 New Zealand and World Inflation 1949-78	57
19 Terms of Trade...	58
20 Index of Gross Agricultural Production	64
21 (a) EEC Market and Access Profile (Butter)	76
21 (b) EEC Market and Access Profile (Cheese)	77
21 (c) EEC Market and Access Profile (Sheepmeats)	78
21 (d) EEC Market and Access Profile (Beef/Veal)	79

List of Tables

<i>Table</i>	<i>Page</i>
1 EEC Intervention Stocks	13
2 Prices and Subsidies	15
3 Entitlements and Arrivals	19
4 Butter Imports, Production, and Consumption	20
5 Cheese Imports, Production, and Consumption	20
6 Estimated Size of the International Butter Market	27
7 Per Capita Consumption of Sheepmeat in Principal Markets	29
8 Market Prices of Sheepmeat	29
9 Direction of New Zealand Trade	49
10 Composition of New Zealand Exports	54
11 "Non Traditional" Exports	54
12 Change in Real Income Per Capita in Selected OECD Countries	59
13 Export and Import Volume Index	59
14 New Zealand's Current Account Balance	60
15 Changes in the Composition of Domestic Product	61
16 Comparative Growth in Export Volume During the 1960s and 1970s	64
17 Growth of Production Available for Export	67

FOREWORD

The New Zealand Planning Council was set up in 1977. It has wide functions, the main one being to act as a focal point for a process of consultative planning about New Zealand's medium-term development—social, economic, and cultural. In establishing the council, the Government sought independent judgment on critical issues likely to confront New Zealand in the medium term and strategies for dealing with them, combined with close links with Cabinet and the public service. To this end, it appointed to the council an independent chairman, 11 other men and women chosen as individuals with knowledge and experience in the diverse fields of New Zealand life which the council is expected to study, the Minister of National Development, and the Secretary to the Treasury.

The council has produced and commissioned several reports in its first year of office. The most wide-ranging, published in March 1978, was *Planning Perspectives 1978-83*. In this document, of about 100 pages, the council attempted to provide a broad overview of trends, issues, and policy options likely to confront New Zealand in the period mentioned. Trade strategy and the future of our farming industries occupied a prominent place.

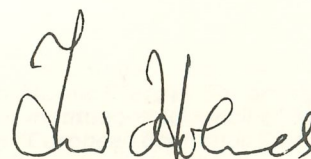
With this background, the council readily accepted the invitation of the New Zealand Government to prepare an independent assessment of the major issues bearing on New Zealand's future relations with the European Community. It is pertinent to note that the Planning Council has assumed some of the important functions of independent monitoring of economic development which were previously the responsibility of the Monetary and Economic Council (MEC). It was the MEC which, under my chairmanship, produced a background report in 1970 on the implications for New Zealand of British membership of the Community.

The Planning Council delegated responsibility for the preparation of the attached report to the following non-governmental members, who co-opted Mr Arthur Ward, a former general manager of the New Zealand Dairy Board, to assist them:

Sir Frank Holmes (*Chairman*).
Dr Don Brash—*merchant banker*.
Mr Ron Guthrie—*manufacturer*.
Dr Robin Irvine—*university vice-chancellor*.
Mr Rangi Mete-Kingi—*farmer*.
Mr Ted Thompson—*union secretary*.
Mrs Kerrin Vautier—*research economist*.
Mr Peter Wilding—*farmer*.

This group has consulted widely with people knowledgeable about the issues and is grateful for assistance generously offered. It is also indebted to Ken Piddington and Graeme Thompson, of the council's secretariat, and to Charlotte Williams, John Wood, and Philip Thomson for their substantial contributions. The group is, of course, responsible for this report.

The Planning Council trusts that the report will provide a useful basis for discussion of future relationships between New Zealand and the Community, and contribute towards mutually satisfactory solutions of the issues involved.



(Frank Holmes)

Chairman, New Zealand Planning Council.

Chapter 1

INTRODUCTION AND OVERVIEW

The EEC¹ has now existed for over 20 years. Its development has been of crucial concern to New Zealand, situated at the other end of the world. The reason is simple. New Zealand's **engine of growth** has been the development of a specialised farming sector, catering largely for the British market. This sector is unique in its competitive efficiency and technological sophistication. The unique feature of the Community, seen by many as the **engine of European intergration**, is the Common Agricultural Policy (CAP). This policy relies on high support prices bolstered by high levies, duties, and other restrictions on imports. The absorption of Britain into the Community for certain products without safeguards would have done major damage to New Zealand's development.

It is not surprising, then, that issues of European integration have frequently occupied first priority on the New Zealand political agenda. For the EEC, the "New Zealand dossier" has also appeared with some regularity. However, it is only one of many items demanding the attention of politicians and administrators in Brussels and the capitals of the Community. The problem is a big one for New Zealand, but a small one for the Community.

With goodwill, it should not be difficult to resolve. The two parties can now approach the core issues on the basis of some familiarity. The existence of a common philosophic and administrative tradition means that—even when speaking through interpreters—the two parties speak in the same idiom. At the emotional and political level, there is a common viewpoint.

Most New Zealanders recognised that they would have to make adjustments when the country which provided their main market became a partner in the Community. However, they considered (and still consider) it doctrinaire for the principle of Community preference to be carried to the point of completely ignoring comparative efficiency, unnecessarily disturbing historic ties, and destroying important components of New Zealand's "engine of growth". It might be understandable if such action offered long-term benefits to the Community. In fact, however, it would provide no durable solution to the agricultural problems with which Europe is grappling.

Mundane as questions of access for butter and lamb may appear to many European readers, they are items as important to New Zealand as automobiles and steel are to an industrial nation. New Zealand needs as much certainty as possible about long-term trade opportunities for these commodities in Europe; otherwise it will be very difficult to plan for further diversification of its economy and external trade. The maintenance of a strong economy, is, of course, basic to New Zealand's capacity to meet the bigger challenges which are arising in the region where it is located.

¹The European Economic Community is now merged with the two other European Communities (Coal and Steel and Atomic Energy). The amalgamated "European Community" has a single set of institutions (Council of Ministers, Commission, Court of Justice) but the term "European Economic Community" is still widely used and accurately describes the focus of New Zealand's interests. This report will therefore use either the initials "EEC", which has become current New Zealand usage, or the term "Community" as the standard abbreviation for the unified "European Community".

Looking forward to the formidable challenges which the eighties and nineties are likely to hold for both parties, it would be absurd not to find a solution to the "New Zealand problem". Too much time and energy, better spent on more significant issues for the future, have had to be devoted to the New Zealand relationship with the EEC. It would be mutually advantageous to place it in a less prominent position on the agenda, once a long-term solution has been found to the vexatious issues involved. Accordingly, the Planning Council hopes that this report will help the parties to deal with the "unfinished business" in an imaginative and constructive way.

Our analysis falls into three main parts. First, we consider the impact which the EEC has already had on important items in New Zealand's trade, not only directly, but also on efforts made to diversify exports and markets. Secondly, we look at the process of adjustment in the New Zealand economy, along with the role which exports must play in any sustained recovery. Thirdly, we discuss the shape of New Zealand's longer-term relationship with the Community. The Planning Council believes that this (political) dimension must be fully taken into account if current trade problems are to be dealt with in the proper perspective².

²To assist the busy reader, a brief overview of Chapters II and III is given in the rest of this Introduction, along with some general remarks on the CAP and New Zealand's own future options. Chapter IV is relatively short and stands alone as a statement of the way in which the Planning Council sees the future development of the relationship between New Zealand and the Community.

The purpose of chapter 2 is to give a New Zealand view of the way in which the CAP has worked. We concentrate on the products which are of principal concern to New Zealand. We also consider briefly the effects of the CAP on other products which New Zealand sells overseas. While the Community may have a relatively liberal record in respect of some agricultural products, the methods of farm support adopted for most of the livestock products in which New Zealand is interested have had the effect of depressing consumption and fostering Community production. High prices have also encouraged a shift to substitute products, e.g., from butter to margarine. The problems thus created have not arisen solely through restricted access to the markets of the Community. Opportunities in other markets which New Zealand might have penetrated have also been reduced through the surpluses which the Community has generated.

Fortunately, the difficulties have not been as bad as they might have been, because the domestic consumption of some of the products in question has continued to be subsidised in Britain, and the Community, in disposing of its surpluses, has had some regard to New Zealand's interests.

British entry to the Community accentuated the need for New Zealand to step up the diversification of its economy and its export trade—a process which was already in train in 1971. The international conditions confronting New Zealand and its subsequent attempts to cope with the effects of the enlargement of the Community were however more turbulent and difficult than expected. For one thing, the global situation made it impossible to register progress towards the international arrangements to govern trade in dairy products which were foreshadowed both in Protocol 18³ and in the Dublin Declaration. Developments in the world economy have had a particularly adverse effect on New Zealand's terms of trade. These have been fluctuating since 1974 around levels nearly 40 percent

³Protocol 18 to the treaty covering the accession of Britain to membership of the Community contains the specific provisions negotiated in 1971 to safeguard New Zealand's position.

below the peak reached in 1973 and about 25 percent below the average prevailing from 1960 to 1975. The spread of agricultural protection and the existence of surplus stocks have made it more difficult for New Zealand than for other OECD countries to counter the effects of rising oil prices and the consequential upsurge in prices of industrial materials and equipment.

New Zealand has made considerable progress in developing additional new markets but this has not been easy. Our analysis illustrates the unreliability of access into many of the new markets and suggests that there are real limitations to diversification in the medium term. The fact of the matter is that the opportunities to expand sales of butter and lamb outside the enlarged EEC are limited. The markets that have been developed are in no sense alternatives to the EEC market.

In chapter 3 we note the growing contribution made to the country's exchange earnings by non-traditional manufacturers and services within the overall process of diversification. This category increased from 12.5 percent of the total in 1965-68 to 28 percent in 1973-76. By market also, diversification is reflected in the decline of the importance of Britain as an export market; in 1970 it took 35 percent of New Zealand's exports and now takes only 20 percent. The past decade or so has seen the proportion of New Zealand's exports to all EEC members reduced from two-thirds of total exports in 1965 to one-third in 1977.

We then examine the problems which the New Zealand economy currently faces. The Planning Council does not believe that New Zealand will be rescued from its present serious difficulties by a fortuitous upturn in its terms of trade. It is evident that if moderate growth is to be resumed and sustained while the progress already made towards overseas balance is continued, even greater efforts must be made to give momentum to the export drive and to save foreign exchange. The council has formulated attainable growth "horizons" for New Zealand in the medium term, envisaging an average rate of growth in real GNP of about 3 percent per annum. This assumes a 2 percent annual increase in farm exports and a 10 percent annual increase in non-traditional items.

Achievement of the objectives outlined by the Planning Council will depend partly on appropriate changes in New Zealand's own policies and partly on the rates of growth and the policies of overseas trading partners, especially the major industrial countries. Although New Zealand's dependence on the EEC market, notably Britain, has been significantly reduced, the retention of a substantial export market there, particularly for butter and lamb, is for structural reasons of vital importance. To put it more simply, a 2 percent increase in farm exports simply will not happen if traditional outlets in that market are sealed off.

This may appear on the one hand to be an abstract calculation by planners, with no reference to the real world in which New Zealand must live. On the other hand, a careful review of the debates which continue in Europe (and elsewhere) about the future of the CAP suggests that some changes in methods of implementing the CAP are needed in the future, in the Community's interests as well as for international reasons. There is concern at the cost to consumers and taxpayers. There is also increasing doubt about the long-term benefit to farmers in the EEC. Moreover, those in the Community who are involved in the transport and distribution of primary products (or who trade with countries which export such products) can see the adverse effects of restrictive Community policies. A former Commissioner of the EEC, Lord Thomson, expressed the essence of this problem in a recent article when he wrote:

"The reform of the CAP remains one of the most difficult challenges facing the Commission. But, as the surpluses mount and the manipulation of the green pound becomes more and more complex, it ought to become clear even to that most powerful of producer lobbies, the Council of Agricultural Ministers, that the only way to save the CAP is to reform it."

Dealing specifically with the dairy issue, the EEC Commissioner for Agriculture, Mr Gundelach, said earlier this year:

"Let me underline that if we fail to make the milk policy work we risk a political back-lash that will not only damage the Community as an institution, but could easily bring harm to the dairy industry and to all those whose fortunes are associated with it. . . . But the rock on which all these adaptations must be built is a policy of price moderation."

The Planning Council does not consider therefore that it is out of order to call in question the rigid application of past principles. Having suggested that the solution of New Zealand's domestic problems might lie in the modification of previous doctrine, the council is tempted to see relations with the Community in a similar light.

In this report, we have concentrated primarily on **economic** relationships between New Zealand and the Community. However, in concluding this introduction, it is perhaps appropriate to recognise that broader considerations were significant in leading the members of the Community to accept Protocol 18 (and in backing New Zealand to endorse Sir John Marshall's effort in the negotiations). These considerations remain significant today.

The record shows that, contrary to all normal calculations of self-interest, successive New Zealand Governments were sympathetic to the political and strategic case for British membership. They also believed that British membership should strengthen the democratic and outward-looking forces in the Community. However, as the Monetary and Economic Council put it, when British accession was under consideration:

"It would be difficult to persuade New Zealanders that enlargement on terms which shattered a historic and mutually beneficial relationship between New Zealand and the United Kingdom, and did grievous damage to the pastoral industries upon which New Zealand remains so dependent, was necessary, fair, or consistent with the obligations which members of the EEC have assumed in international organisations and their own Rome Treaty to contribute to the harmonious development of world trade."

Although New Zealand is distant from Europe in physical terms, it is a working democracy in the European tradition, anxious not only to maintain but also to strengthen links of culture and kinship with the Community. This does not imply that New Zealand is complacent about the continuing adjustments it must make to developments in the outside world, whether in Europe or elsewhere. It wants to make a positive, not a defensive, response.

In particular, New Zealand instinctively feels that it has a constructive contribution to make to the maintenance of peace, prosperity, and security in the region to which it belongs. Australia and the new states of the South Pacific are natural partners in this venture. The extent of New Zealand's contribution will inevitably be governed by the strength of its economy. That, in turn, remains vitally dependent on the Community's agricultural policies generally, and on access for New Zealand in particular.

Inevitably, a body concerned with planning must assume that a longer-term vision will prevail when specific problems of dairy products or sheepmeats are being dealt with. Statistically, the contest may appear to be similar to that between David and Goliath. Since New Zealand has however already succeeded in establishing a case for special consideration, the Council offers an appropriate proverb to sum up what it now suggests to New Zealand's friends in the Community:

*"Ahakoa iti, he pounamu"
"Although it is small, it is of precious stone (jade)."*

In other words the considerations contained in this report may sometimes appear trivial, or inconsequential, but they are nevertheless of vital importance to New Zealand's community of three million people.

THE IMPACT OF THE EEC

INTRODUCTION

Few events since European colonisation have had such far reaching effects for New Zealand as has Britain's accession to the European Economic Community. For over a century New Zealand had assured access to the British market for the bulk of its primary products and Britain was its main source of supply for industrial goods. The preferential trade agreements between the countries were terminated in 1973 as these were incompatible with Britain's membership of the EEC. Tariff preferences were consequently phased out as Britain phased in the EEC tariff and the mechanisms of the Community's Common Agricultural Policy.

The British market, still of great importance to New Zealand, is now a constituent part of the wider Community market. New Zealand has accepted the responsibility and opportunity to establish closer relations with the EEC and all its member states. Relations with Britain have remained close, but New Zealand is now increasingly pursuing its trade objectives directly with the Community.

Trade lies at the heart of the relationship between New Zealand and the EEC. There is no contradiction between this statement and the emphasis which the Planning Council places elsewhere in this report on other aspects of the relationship. At the crucial times when the Community has made special provisions for New Zealand, broader considerations have always been taken into account. Nevertheless, most if not all the EEC decisions affecting New Zealand are about trade. More specifically they have to do with conditions of access for New Zealand's exports of primary products. Accordingly, in assessing the impact on New Zealand of the enlargement of the Community to include our principal market, we shall be concerned mainly with the effects on trade.

We shall not be concerned solely with direct trade flows. Underlying the assessment in 1970 of the special arrangements in the EEC market which were necessary to protect New Zealand's vital interests were certain assumptions about future growth and stability in world trade generally; world trading prospects for primary commodities of significance to New Zealand other than dairy products; and the prospects for balancing supply and demand for temperate-zone agricultural products in the Community itself. To what extent have these assumptions been borne out? For dairy products it is implicit in the provisions of Protocol 18 that, in granting an accommodation for New Zealand's trading interests, the EEC has certain expectations about New Zealand's ability to diversify its economy and exports; the Community's determination to pursue a commercial policy which would not frustrate this progress; and the prospects for negotiation of an effective world agreement on milk products. Together, success in these areas would substantially lessen New Zealand's dependence on the EEC market for these products. To what extent have these expectations been fulfilled? Questions such as these must be considered in assessing how things have developed since the special arrangements were made.

THE COMMON AGRICULTURAL POLICY

If trade is the heart of the EEC-New Zealand relationship, then the Community's Common Agricultural Policy (CAP) is the focus of New Zealand's attention in any consideration of that trade.

As a country in whose economy and exports agriculture occupies a far more central position than it does in the EEC, New Zealand could agree with the basic objectives laid down for the CAP in the Treaty of Rome: increased productivity in agriculture; a fair standard of living for the farm population; steady markets; guaranteed security of supplies to consumers at reasonable prices. It could agree in principle with some of the mechanisms of the CAP, particularly where these have been established with due regard not only to the CAP's specific objectives, but also to the need for structural reform in sectors within EEC agriculture, and to take account of world trading problems. The Treaty of Rome has other objectives for EEC members: to contribute to the steady development of world trade, the progressive elimination of international trade restrictions, and the lowering of tariff barriers. All of these are objectives which New Zealand shares.

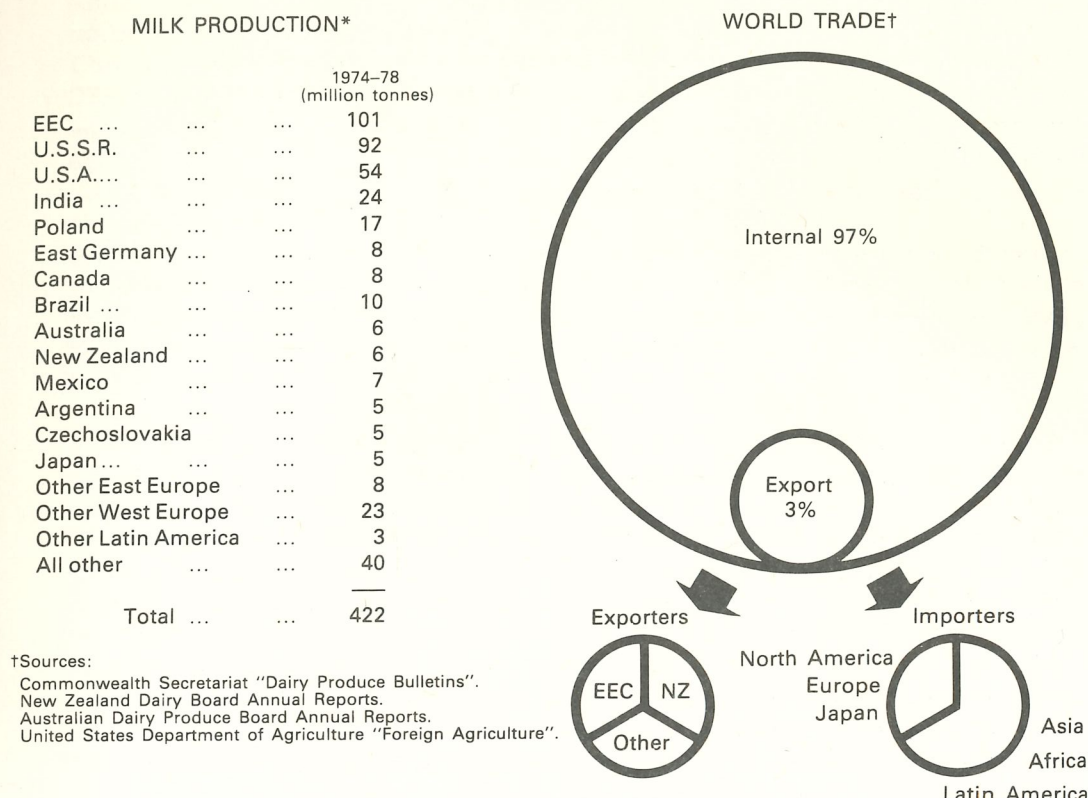
For products with which New Zealand is principally concerned, however, notably dairy products and beef, the objectives of the CAP seem to have been only partially achieved. New Zealanders readily accept the desirability of action to stabilise farm prices, and acknowledge the social and political reasons which lead Community governments to accord special support to their farmers. Nevertheless, they are disturbed by the methods chosen up till now to accord support. Opportunities for efficient potential suppliers from overseas are restricted in order to protect internal prices. This is bound to discourage consumption and encourage consumers to seek substitutes. It seems unlikely to serve the long-run interests of Community producers of those commodities concerned. Within the Community itself, there is increasing recognition that the social and political objectives might be better achieved by methods which took much greater account of consumption and international trade.

New Zealand is concerned not only about the effects which Community policies have had on production and consumption within the EEC of products of interest to it, but also about the effects of the surpluses which have been generated, on its prospects for trade in these products with the Community and with the rest of the world. Would-be exporters from third countries usually encounter a formidable range of mechanisms designed to ensure that their goods cannot compete with goods produced within the Community. On the other hand, agricultural exports from the Community receive very high subsidies.

The policies adopted made surpluses inevitable. In the period 1974-77 milk production in the EEC increased at an average annual rate of 1.5 percent. During the same period, butter production in the EEC increased at an average annual rate of 1.2 percent, whereas butter consumption declined on average by 2.4 percent each year. Consumption would probably have declined further had not the full impact of the EEC price been moderated in Britain by the application of consumer subsidies. Annual production of skimmed milk powder (SMP) exceeded consumption by around 25 percent.

Given the size of the EEC dairy industry, which accounts for a quarter of world milk production, surpluses do not need to be very large, in percentage terms, to represent very considerable volumes of product, large enough on occasions in the past decade to warrant the use of the term "mountain". In the period 1973-77 stocks of butter and skimmed milk powder in the EEC at 1 April (the end of the production year) have averaged 140 000 tonnes and 536 000 tonnes respectively. Leaving aside intra-community trade and New Zealand's butter exports to the EEC, the total international market for butter is around 230 000 tonnes and that for skimmed milk powder for human consumption around 600 000 tonnes.

Figure 1
WORLD MILK PRODUCTION AND TRADE 1974-78



* Source: USDA Foreign Agriculture Circular, New Zealand Dairy Board

Butter production in the EEC averaged 1 696 500 tonnes per annum between 1974 and 1977 and in the same period consumption averaged 146 000 tonnes per month. Therefore the 148 000 tonnes held in store at the end of the 1977 season was equivalent to little over 1 month's consumption. This is a marginal quantity to the EEC but a very large amount if entered into international trade. The position was much more serious for SMP. The 1977 end of season stocks represented over 6 months consumption in the EEC and well over the total amount normally traded internationally each year.

Table 1
EEC INTERVENTION STOCKS AT 1 APRIL

			(Tonnes)	
			Butter	Skimmed Milk Powder
1973 ... ..	...	...	294 700	55 900
1974 ... ..	...	...	97 200	122 800
1975 ... ..	...	...	46 100	436 600
1976 ... ..	...	...	117 800	1 181 800
1977* ... ..	...	...	148 400	884 800

*Estimated.

The Community's policies have also led to surpluses of beef and veal, and high stocks to be held as a result of intervention. In this connection, it should be noted that 80 percent of the beef produced in the EEC is derived from dairy animals. Thus developments in one sector have a direct impact on the other. For example, slaughter premiums for dairy cows can result in higher beef production and stocks.

The persistence of overproduction and surplus stocks has serious implications for New Zealand's trade. First, it lends strength to those within the Community who argue that the EEC simply does not need New Zealand agricultural products, whatever the counterbalancing considerations might be. Second, since international trade in dairy products and beef accounts for a very small proportion of world production of these products (an average of 3 to 4 percent for dairy and 7 to 8 percent for beef in the 1970s), surplus stocks of the magnitude held by the EEC produce an "overhang" effect in the international markets. The situation is made more difficult when others also hold sizeable stocks. The possibility of large disposals of dairy products or beef, at nominal prices, is a destabilising influence.

Over the 4 years 1974-77 the EEC exported on average per year 242 000 tonnes of beef, 141 000 tonnes of butter, and 256 200 tonnes of skimmed milk powder (SMP) to third-country markets at subsidised prices. An idea of the scale of subsidisation of exports and the resultant cost to the Community can be obtained from table 2.

The gap between the EEC intervention price and the international market price for SMP was bridged in 1971 when EEC/SMP stocks reached abnormally low levels, and export restitutions were suspended; and an export tax was applied to EEC/SMP exports during 1972. Between mid-1973 and early 1976, however, EEC/SMP stocks rose to around a million tonnes and EEC export restitutions were increased from zero to over US\$780 per tonne. Prices in international trade dropped to the minimum fixed under the GATT arrangement—a mere US\$350 per tonne. Between 1970 and 1977 international prices for butter, anhydrous milkfat, wholemilk powder, and other manufactured dairy products also fluctuated widely, again reflecting the levels of surplus stocks, especially in Western Europe, and the levels of export subsidies. Producers in Europe were insulated from these forces through the Community policies of high support prices.

Given the size of the international market, and the fact that in a typical year EEC exports account for around one-third of dairy products entering international trade, export subsidisation on this scale, and with these price effects, has materially undercut New Zealand's commercial interests. It has reduced the scope for establishing new profitable and stable outlets for butter and cheese outside the Community while also creating instability in markets which New Zealand has pioneered for skimmed milk powder.

Thus, the introduction of the CAP in 1973 in New Zealand's major market has meant that New Zealand has faced a major extension of protectionism in agriculture, during a period in which all countries agreed in the OECD and elsewhere that protectionist measures in world trade were to be resisted. Moreover, the transitional arrangements for Britain have now ended. With the exception of butter (because of special arrangements) and frozen lamb (which is not subject to a common regulation but does attract a 20 percent Common Customs Tariff) the full effects of the EEC agricultural policies are being brought to bear on New Zealand's trade with the enlarged Community.

The years since 1970 have shown increasingly the difficulties of operating a common policy that promises the free movement of goods and aims at a single community price for individual products, in advance of economic and monetary union and in a period of currency fluctuation. There seems to be a growing awareness, throughout the Community, and by the EEC Commission, that reforms are needed, and there have been a number of attempts to deal with the problems. The commission has made a series of proposals directed at structural and market change. These have included the Mansholt Plan, the suggestions for overhauling the CAP in the 1973 report on a "stocktaking" of the CAP⁴, and the 1976

⁴ *Improvement of the Common Agricultural Policy—Bulletin of the European Communities Supplement 17/73.*

Table 2

PRICES AND SUBSIDIES

US\$ Tonne 1977-78

	EEC Intervention Price	Restitution (Subsidy)	International Indicative Market Price (Estimated)
Butter (82% fat) ...	\$3,116 to \$3,450	\$2,155 to \$2,386	\$1,050 to \$1,150
SMP ...	\$1,269 to \$1,406	\$875 to \$969	\$386 to \$500

NOTE: The above price equivalents were calculated using the exchange rate between the EEC unit of account and the United States dollar applicable at the beginning and end of the EEC farm price year.

Commission proposals to bring about a balance in the dairy sector. At the same time the Community has established a European Regional Development Fund which provides scope for structural change in agriculture.

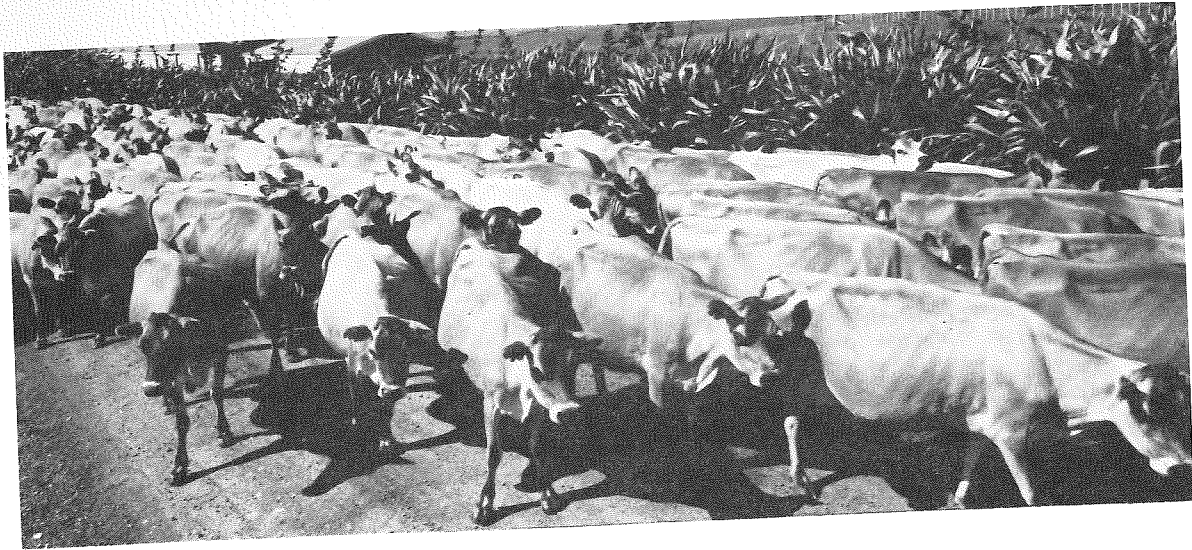
These have been encouraging developments from the point of view of a country like New Zealand. So too has been the policy of farm price restraint proposed by the EEC Commission in the last few years for Community beef and dairy products. But these have not gone far enough, and the fact remains that the operation of the CAP has had serious consequences for the New Zealand economy, in the 1970s, notwithstanding the efforts by the Community, and member governments, to make special provision for the unique New Zealand situation with respect to agricultural trade with the EEC.

DAIRY PRODUCTS

The special arrangement negotiated at Luxembourg in 1971 and embodied in Protocol 18 of the Treaty of Accession made provision for Britain to continue importing specified annual quantities of butter and cheese from New Zealand. The arrangement took the form of derogations from the rules of the Common Market organisation. In agreeing to it, the Member States acknowledged that the application to New Zealand of the rules applicable to imports of these products from third countries would have had serious consequences for the New Zealand dairy industry and the New Zealand economy, which had relied for many years on unrestricted access to the British market for dairy products and lacked alternative outlets for these exports.

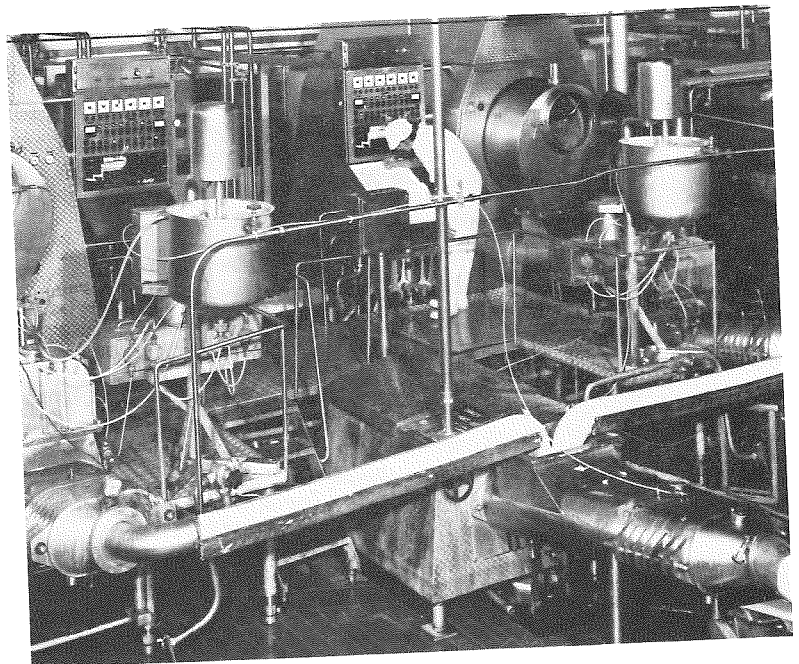
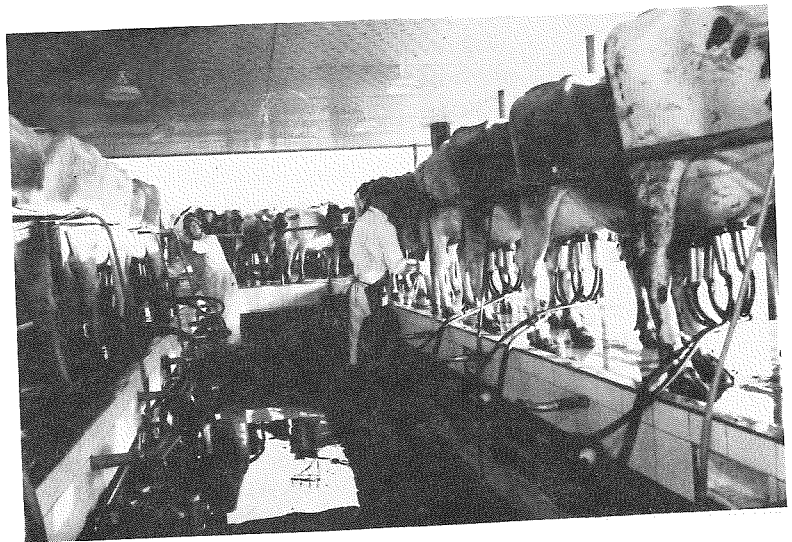
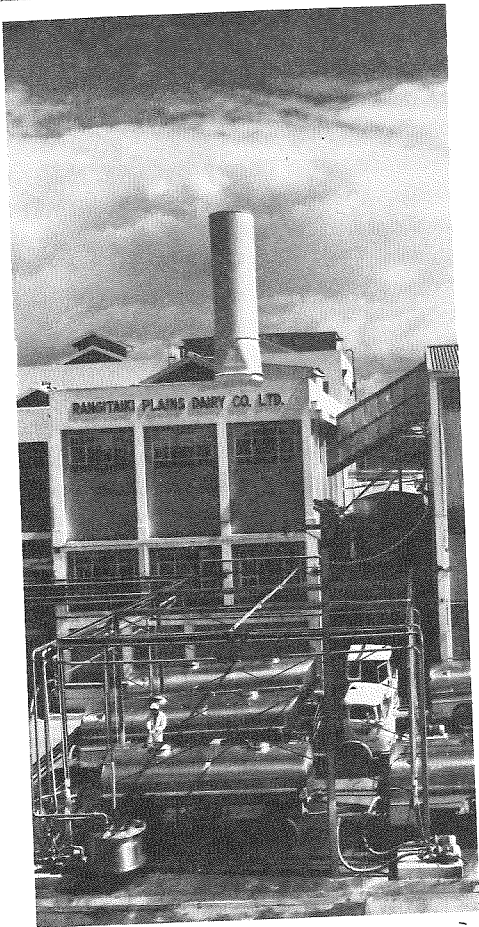
The salient points of the Protocol 18 were:

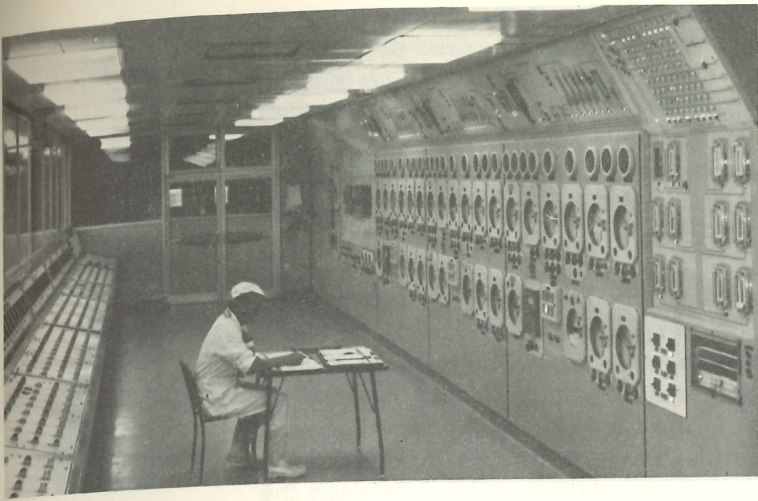
- Britain was authorised to import specified annual quantities of New Zealand butter and cheese for the 5 years 1973 to 1977 inclusive;
- New Zealand had to guarantee to respect minimum c.i.f. prices for these products;
- Produce imported under the arrangement could not be re-exported, or enter into intra-Community trade;
- The special levies to be applied to imports under the protocol were to be fixed at levels which would allow the annual quantities of butter and cheese to be effectively marketed without prejudicing the marketing of Community butter and cheese;
- The Community undertook to continue to work towards the conclusion of an international agreement on milk products;
- During 1975 the Council was to undertake a review of the situation regarding butter, taking account in particular of progress towards diversification of the New Zealand economy and its exports, "it being understood that the Community will strive to pursue a commercial policy which does not run counter to this progress";
- Acting on the 1975 review the Council would decide on the maintenance of a special arrangement for butter;
- After 31 December 1977, the exceptional arrangements in Protocol 18 for cheese would be terminated.



A highly efficient dairy industry

New Zealand dairy herds are mostly economic units (the average herd size is 150 head) while farmers and factories generally use the most modern and efficient systems available.

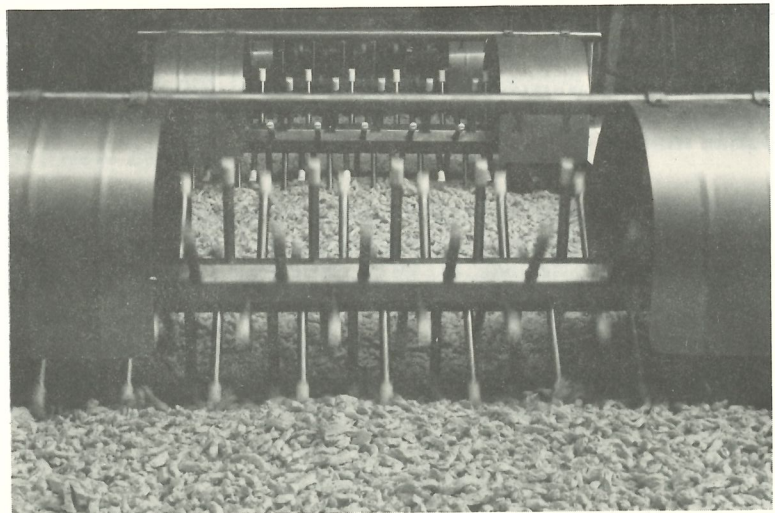
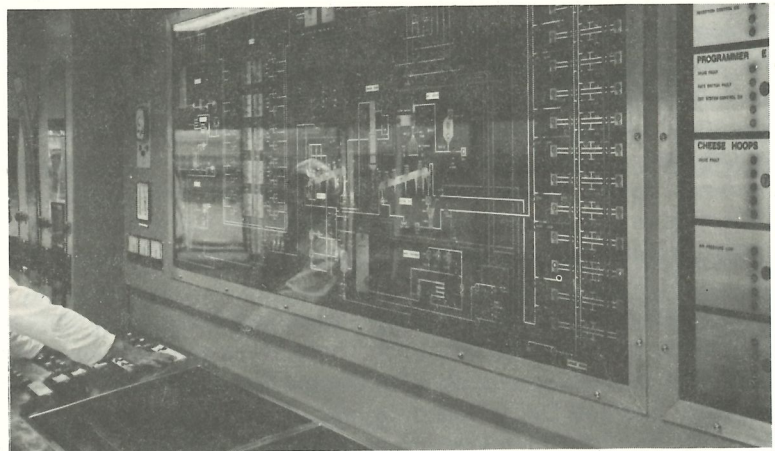
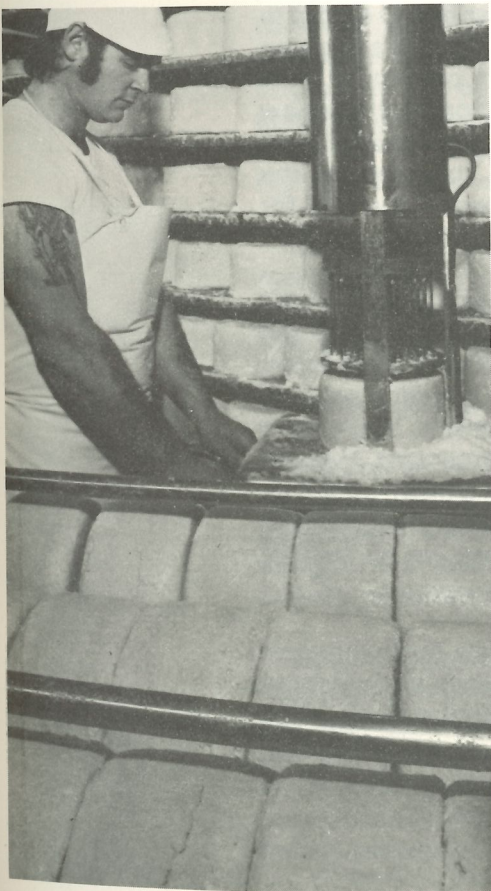
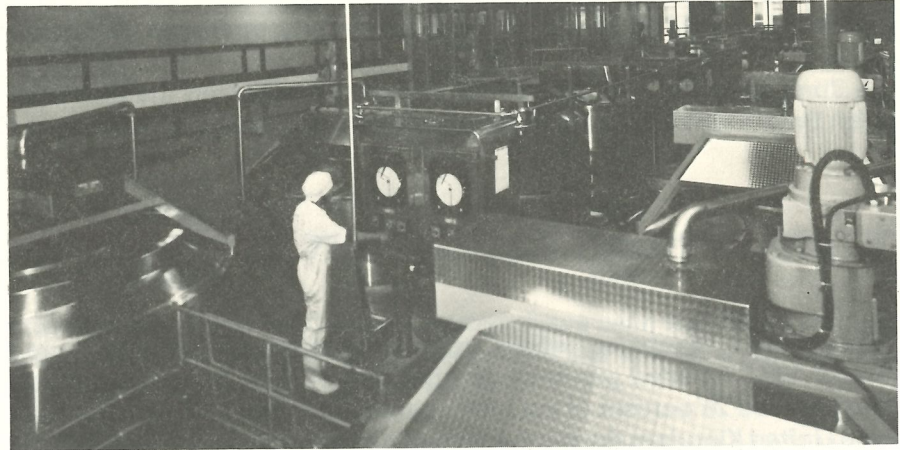




A Space Station??????

No, an example of the sophisticated technology which is increasingly evident throughout the New Zealand dairy industry. A left, factory control panels at **Te Rapa**.

Technology improves efficiency in cheese manufacture. **Gouda plant** (right), cheese factory control panel (centre right), and an **automatic cheesemaker** in a Waikato factory (bottom right). But some operations, like the manufacture of blue vein cheese, still require operators.



The question of the future conditions of access for New Zealand dairy products was taken up by Britain when it sought to improve the conditions of its membership of the EEC. As a result the Community Heads of Government, meeting at Dublin in March 1975, agreed that New Zealand should not be deprived of essential export outlets. They endorsed in principle continued access for New Zealand butter after 1977. They agreed that the problems that might arise from the exclusion of New Zealand cheese exports to the EEC would "be given attention with appropriate urgency ...".

The Dublin Declaration also recorded agreement by the Heads of Governments to the periodic review of New Zealand's prices under Protocol 18 and the adjustment of prices as necessary. The factors to be taken into account include supply and demand developments in the major producing and consuming countries, the level and evolution of prices in the Community and New Zealand, cost developments in New Zealand, and trends in freight charges. Included in the declaration was the expressed wish for "ever closer co-operation" between the institutions of the Community and the New Zealand authorities, with the objective of promoting in their mutual interest an orderly operation of world markets.

In June 1976 the EEC Council of Ministers decided on the quantities of butter which Britain would be permitted to import from New Zealand in the next period:

				tonnes
1978	...	...	...	125 000
1979	...	...	...	120 000
1980	...	...	...	115 000

The council regulation which extended the access arrangements for butter beyond 1977 included provision for that part of New Zealand's annual quantities which exceed 25 percent of the total quantity of butter sold for direct consumption in the United Kingdom during the preceding year, to be diverted to uses other than direct consumption. There is some doubt about the possibility of efficient implementation of this provision, but fortunately it has not so far had to be put to the test. The minutes of the EEC Council meeting recorded the Council's decision that, notwithstanding the period specified in the regulation permitting New Zealand butter exports to Britain in (1978-80), further application of the review article was not excluded. This in effect left open the question of access for New Zealand butter beyond 1980. The Council also noted the intention of the Commission to submit a further report on Community and world markets for butter, including New Zealand imports; before 31 December 1978.

As table 3 shows, New Zealand sent less butter and cheese to Britain than the entitlements under the protocol. There were several reasons for this. In 1973 and 1974, the quantities available for export were reduced due to drought. In addition, the New Zealand Dairy Board, in line with its longstanding diversification policies, pursued opportunities that arose to expand exports to other markets. There were exceptional opportunities for increased exports to the United States and Japan at that time. In 1976, butter imports under the protocol were limited under an understanding between New Zealand and the EEC Commission. The reduced arrivals from New Zealand helped at the time to relieve the pressures on the EEC butter market.

The tables show the progressive reductions in the entitlements for both butter and cheese. They also show that actual arrivals have become closer and closer to the entitlement figures. In 1977 permitted quantities and actual arrivals were virtually in balance.

Table 3

ENTITLEMENTS AND ARRIVALS**Butter**

				<i>Entitlement (tonnes)</i>	<i>Arrivals¹ (tonnes)</i>
1973	...	...	...	165 811	131 310
1974	...	...	...	158 902	117 358
1975	...	...	...	151 994	119 816
1976	...	...	...	145 085	121 947
1977	...	...	...	138 170	137 756

CHEESE

				<i>Entitlement (tonnes)</i>	<i>Arrivals¹ (tonnes)</i>
1973	...	...	...	68 580	46 145
1974	...	...	...	60 960	17 509
1975	...	...	...	45 720	30 052
1976	...	...	...	30 480	30 452
1977	...	...	...	15 240	15 138

¹Protocol 18 basis; this differs from official import statistics.

DEVELOPMENTS IN THE BRITISH DAIRY MARKET

Since Britain's accession to the Community there have been significant changes both in the character of the British dairy market and the way in which the New Zealand Dairy Board is permitted to operate in it.

The application of the CAP mechanisms resulted in the rapid exclusion of butter and cheese imports from Canada and Australia, but there has been intensified competition from producers in the other Community Member States. British producers have expanded their production and sales with the full benefit of CAP prices. All are competing for a place in a market in which consumption is threatened by the impact of higher prices. The application of consumer subsidies in Britain has been recognised as essential in order to moderate the effects of higher prices on consumption.

For the New Zealand Dairy Board, Britain's membership of the Community has meant that it is now operating under a system in which its level of sales, and the prices at which it can sell, are determined by the Commission after consulting the EEC Dairy Management Committee.

Tables 4 and 5 show the trends in the market.

Community exports to Britain increased at a rapid rate until 1976. These increases coincided with the very substantial reductions in Britain's butter production, which was from lower milk production caused by a prolonged drought. For reasons explained earlier in this report there were also reduced arrivals of butter from New Zealand.

Butter production in Britain showed a marked recovery in 1976 and further increased to a record level in 1977. This, together with the decline in consumption, has reduced the scope for producers elsewhere in the Community to export their produce to Britain. However, it is significant that imports from the Community, which accounted for 31 percent of Britain's imports in 1969, made up about 60 percent of the total in 1977. Similarly, for cheese, other EEC suppliers accounted for 32 percent of imports into Britain in 1969 and 87 percent in 1977.

Table 4

BUTTER

(Tonnes)

	1969	1973	1975	1977 ²
Britain's imports from—				
EEC	133 000	180 000	360 000	189 000
New Zealand	192 000	132 000	124 000	129 000
Other ¹	91 000	20 000	155	116
All sources (total)	416 000	332 000	484 000	318 000
British production	57 000	97 000	48 000	133 000
Total available	473 000	429 000	532 000	451 000
Consumption	485 000	424 000	512 000	412 000

¹Mainly Australia.²Provisional.

NOTE—Totals have been rounded. The difference between availability and consumption is accounted for by changes in stocks.

Sources: Commonwealth Secretariat, U.K. Trade Statistics, U.K. MAFF Statistics.

Table 5

CHEESE

(Tonnes)

	1969	1973	1975	1977 ²
Britain's imports from—				
EEC	51 000	83 000	114 000	105 000
New Zealand	70 000	47 000	30 000	13 000
Other ¹	36 000	7 000	8 000	3 000
All sources (total)	157 000	137 000	152 000	121 000
British production	120 000	182 000	235 000	206 000
Total available	277 000	319 000	387 000	327 000
Consumption	286 000	324 000	350 000	312 000

¹Mainly Australia.²Provisional.

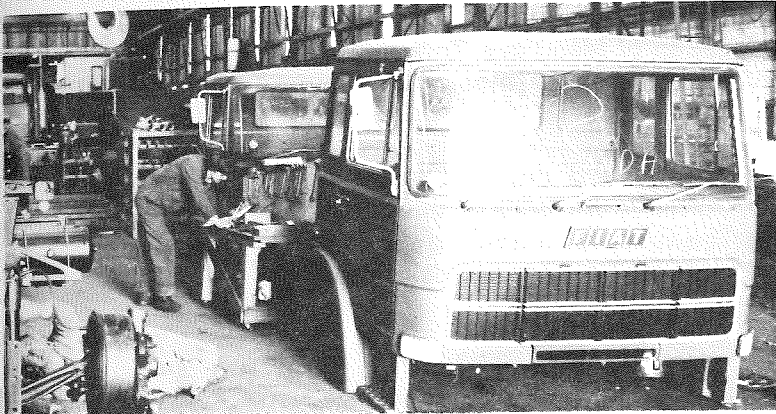
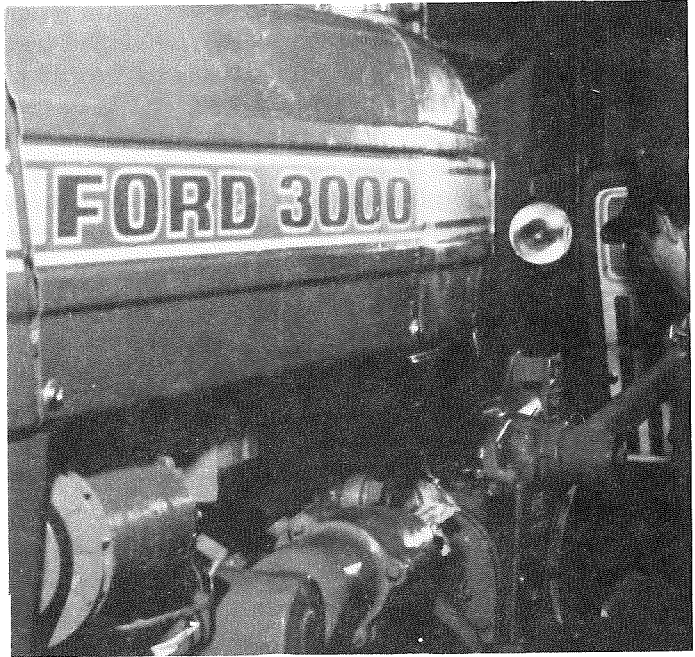
NOTE—Totals have been rounded. The difference between availability and consumption is accounted for by changes in stocks.

Sources: Commonwealth Secretariat, U.K. Trade Statistics, U.K. MAFF Statistics.

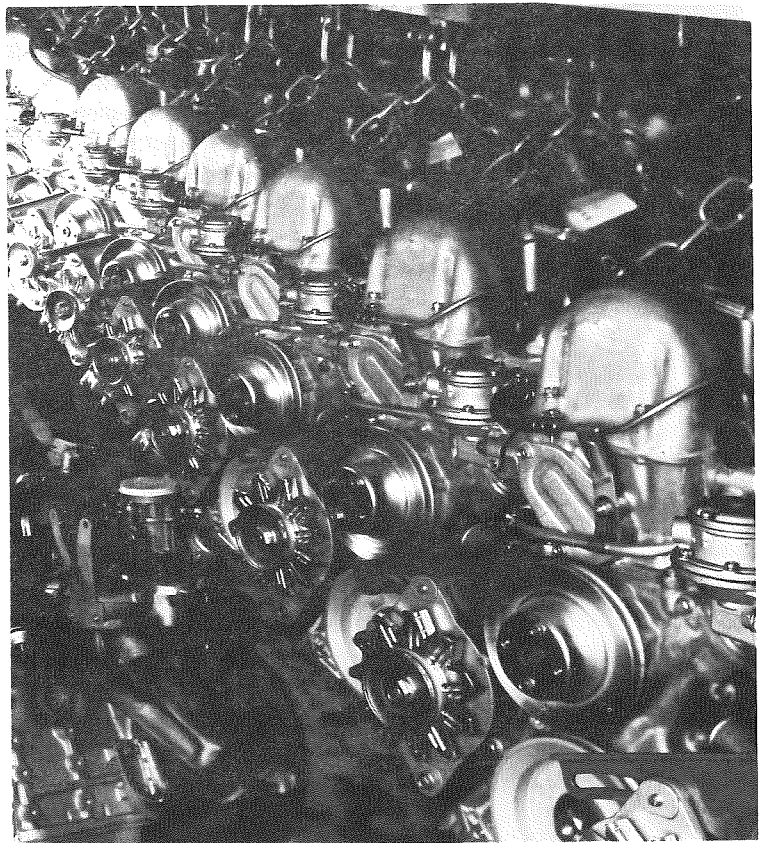
OPERATION OF PROTOCOL 18

Following the implementation of Protocol 18 in 1973, close working relationships were established between the New Zealand and Community parties involved in the operation of the special arrangement. This co-operation has applied both to the importation and sale of New Zealand butter and cheese into Britain, and to the Community's undertakings not to frustrate New Zealand's efforts to develop sales in other markets, to co-operate in the development of the international dairy markets, and to work towards an international agreement on trade in dairy products. Generally the working arrangements seem to have satisfied the parties, but problems have arisen from time to time.

Pressures have developed in the British market because of too much butter and cheese competing for sales. The New Zealand Dairy Board has at times experienced serious difficulty in selling the quantities of New Zealand butter and cheese allowed into Community markets. On occasions, it seems that the special levies have been fixed at high levels so as to discourage the New Zealand product from being entered into the Community. On other occasions the special levies have resulted in a minimum selling price which has been too high to allow sales at the rate necessary to clear the amounts imported during the year. The net result has been that the board's end of year stocks of butter in Britain have increased steadily from 28 982 tonnes at the beginning of 1974 to 67 531 tonnes at the end of 1977.



New Zealand's motor vehicle assembly industry is based on imported CKD vehicles. Butter and lamb sales provide a substantial proportion of the foreign exchange needed to sustain the industry.



The concerns held by New Zealand about the initial pricing provisions of the arrangement seem to have been overcome in part by the subsequent decision of the Community to allow periodic reviews of the c.i.f. prices, and to adjust them if necessary. To date the Community has agreed to three adjustments to the c.i.f. prices for New Zealand butter and cheese. The first two were each for 18 percent and took effect from 1 January 1975 and 1 January 1976. The third was for 10 percent with effect from 1 October 1977. Even with these increases, New Zealand's c.i.f. price is still only around half of the Community intervention price.

CHEESE

The New Zealand cheese industry was founded and developed specifically to export cheddar to Britain. Protocol 18 provided for a diminishing entitlement until 1977, and the Community Heads of Government promised "due attention" to the problems that might result from exclusion of the New Zealand product thereafter. The quantities exported by New Zealand in recent years, e.g., 46 000 tonnes in 1973 and 15 000 tonnes in 1977, have been insignificant by comparison with cheese consumption in the Community—about 3 million tonnes in 1977. Despite continuing efforts to diversify overseas and promote increased consumption of cheese in New Zealand, the reduced access entitlements into Britain forced a cut in production of cheese in New Zealand. A further reduction would create additional surplus capacity and under-utilisation of resources. This would have implications for the dairy industry as a whole because of the importance of cheese in an integrated production process.

The EEC Commission is expected to put forward detailed proposals for continued access for New Zealand cheese. Currently the focus on this question is in the present round of GATT negotiations. The ability to continue to sell cheese in its major traditional market remains important to the New Zealand dairy industry.

EFFORTS TO DIVERSIFY

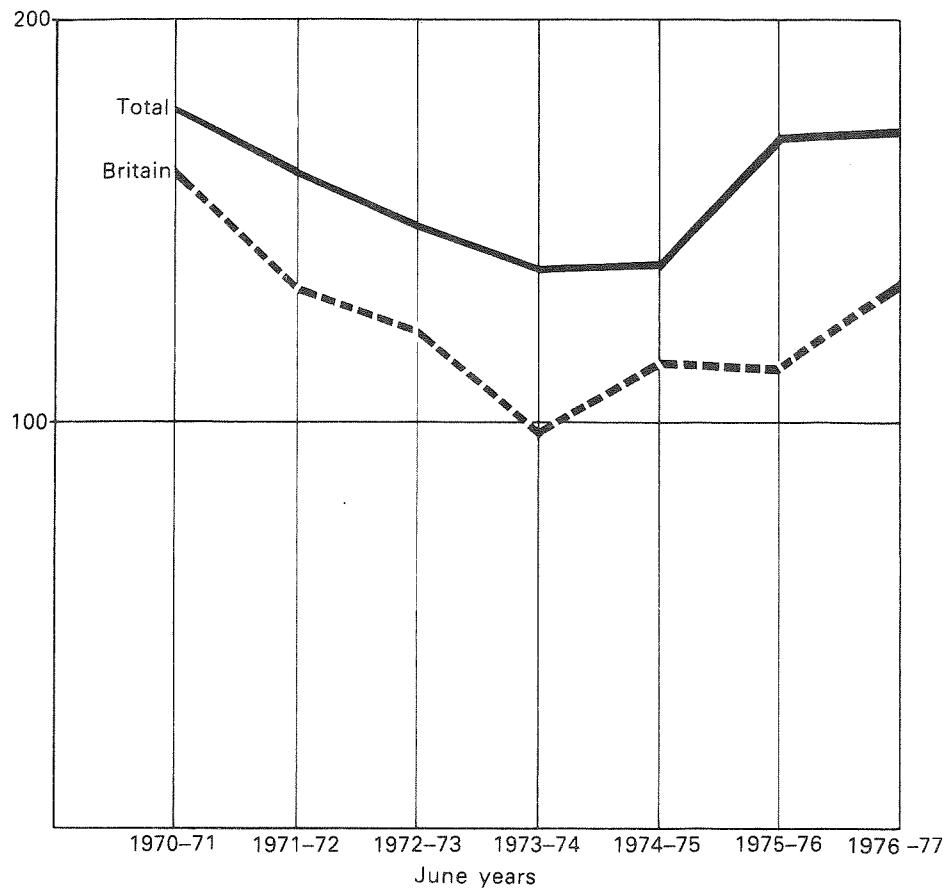
Since Britain's accession to the EEC the New Zealand dairy industry has intensified its efforts to develop trade in markets outside the Community. Considerable progress has been made, although for some products protection has remained high in other markets—the United States, Japan and Canada. For example, access to Japan for butter is difficult, even if the cheese market is growing. In 1970–71, 47 percent of the total volume of New Zealand's dairy exports went to Britain. By 1976–77 the percentage had been reduced to 27 percent.

Figures 2 and 3 show the pattern of New Zealand's exports of butter and natural cheese from 1970–71 to 1976–77.

Attempts at diversification have been beset with problems. Fluctuations in exports of butter and cheese to some of the markets outside the EEC reflect the periodic relaxation and tightening of access into these markets. For example, exceptional opportunities arose for substantial exports of butter and cheese to the United States in 1973–74 and New Zealand gained a substantial part of the emergency quotas opened at that time. The increased levels of exports of cheese to the United States since 1974–75 have resulted from the temporary reallocation of import licences. There have been occasional opportunities for sales of butter to the Socialist countries in Eastern Europe and the Soviet Union, but the prospects for continuity in this trade remain very doubtful. Exports to Poland amounted to 10 000 tonnes in 1975–76 but only 500 tonnes in 1976–77. Similar variations occurred in some developing country markets. In 1975–76 exports of butter to Egypt amounted to 7175 tonnes but declined to only 352 tonnes in 1976–77.

Figure 2
BUTTER EXPORTS 1970-77

Tonnes (000)



Source: New Zealand Department of Statistics

One example of successful diversification has been the steady growth in exports of cheese to Japan. However, the rate of increase has slowed in recent years and a plateau may have been reached. Growth in exports to the United States remains dependent on the reallocation of import licences. Exports to the Caribbean and Australia have remained steady but those to the Middle East have tended to fluctuate.

Nevertheless, during the last two decades the nature and destination of New Zealand's dairy exports have changed substantially. Currently only about one-third of the total volume is sent to Europe, North America, and Japan and two-thirds by volume goes to developing countries in Asia, Latin America, Africa, and the Middle East. In value terms, however, about 55 percent of New Zealand's returns from sales of dairy products are derived from the EEC, the United States and Japan. These markets remain the major outlets for New Zealand butter, cheese and casein.

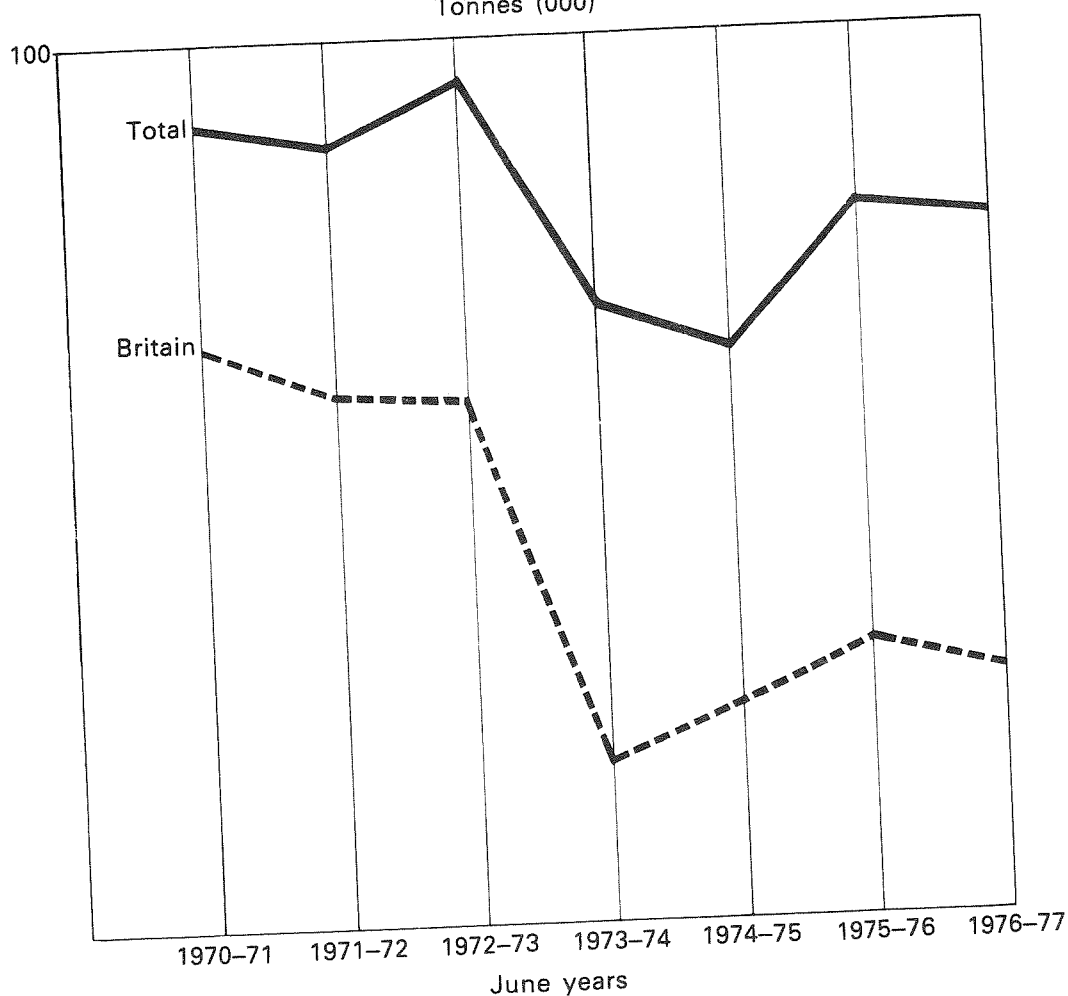
New Zealand remains vitally dependent on access to the British butter market continuing at around current levels, and the viability of the New Zealand dairy industry depends on this. In 1976-77 New Zealand exports of butter totalled 166 000 tonnes, of which 138 000 tonnes or 83 percent went to Britain, and 28 000 tonnes went to other markets. In addition, a further 30 000 tonnes of AMF (or 37 000 tonnes of butter equivalent) were exported, giving a total New Zealand export of 203 000 tonnes of butter and AMF in butter equivalent.

This export level compares with the international import market outside the Community for butter which totals around 230 000 tonnes and 120 000 tonnes for AMF. This limited market is shared between the Community, New Zealand, Australia, and other exporters. It is simply not large enough to absorb a further significant displacement of New Zealand butter exports from the Community, unless both the Community and Australia together totally withdrew their exports of both butter and AMF to third markets.

The profitable sale of butterfat underpins the diversification of New Zealand exports of other dairy products. Further reductions in access to the EEC would undermine further progress in this area.

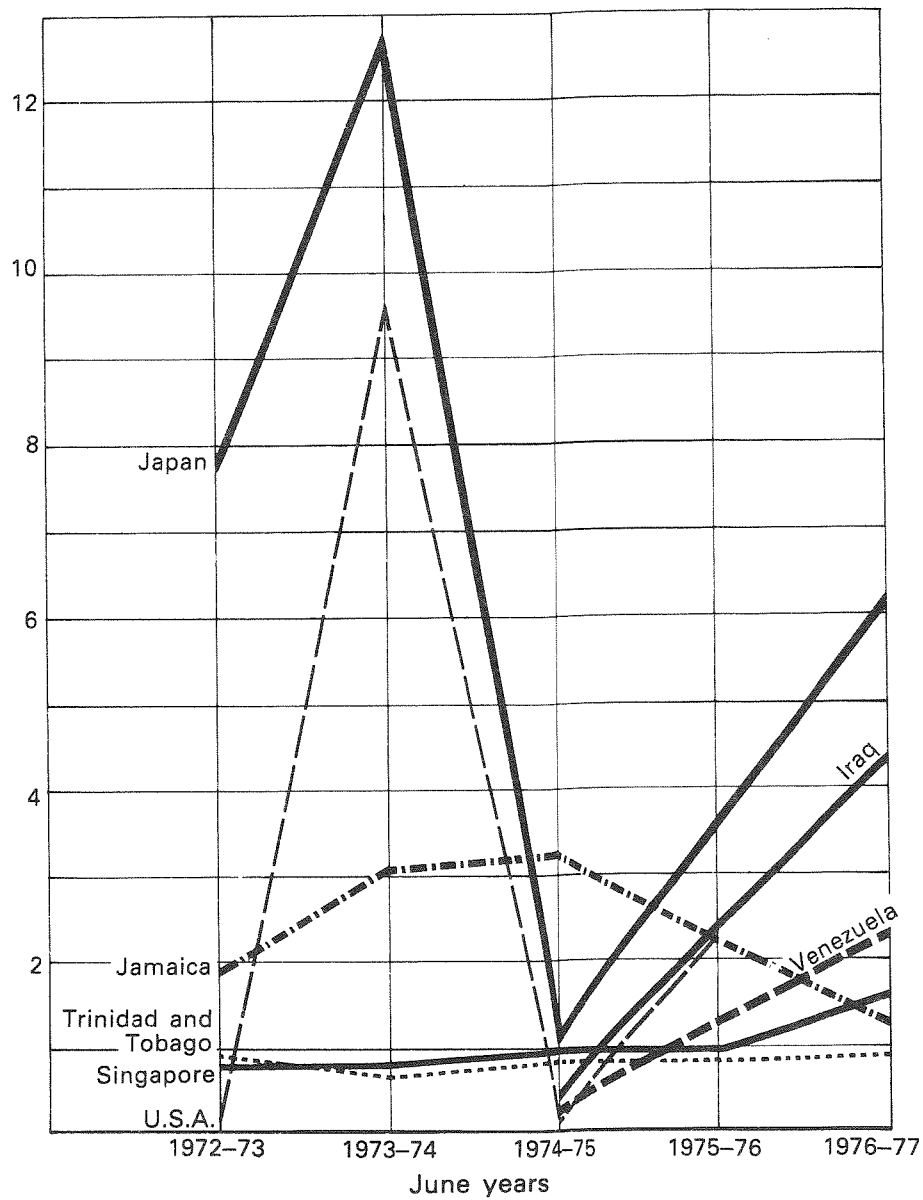
Figure 3
CHEESE EXPORTS 1970-77

Tonnes (000)



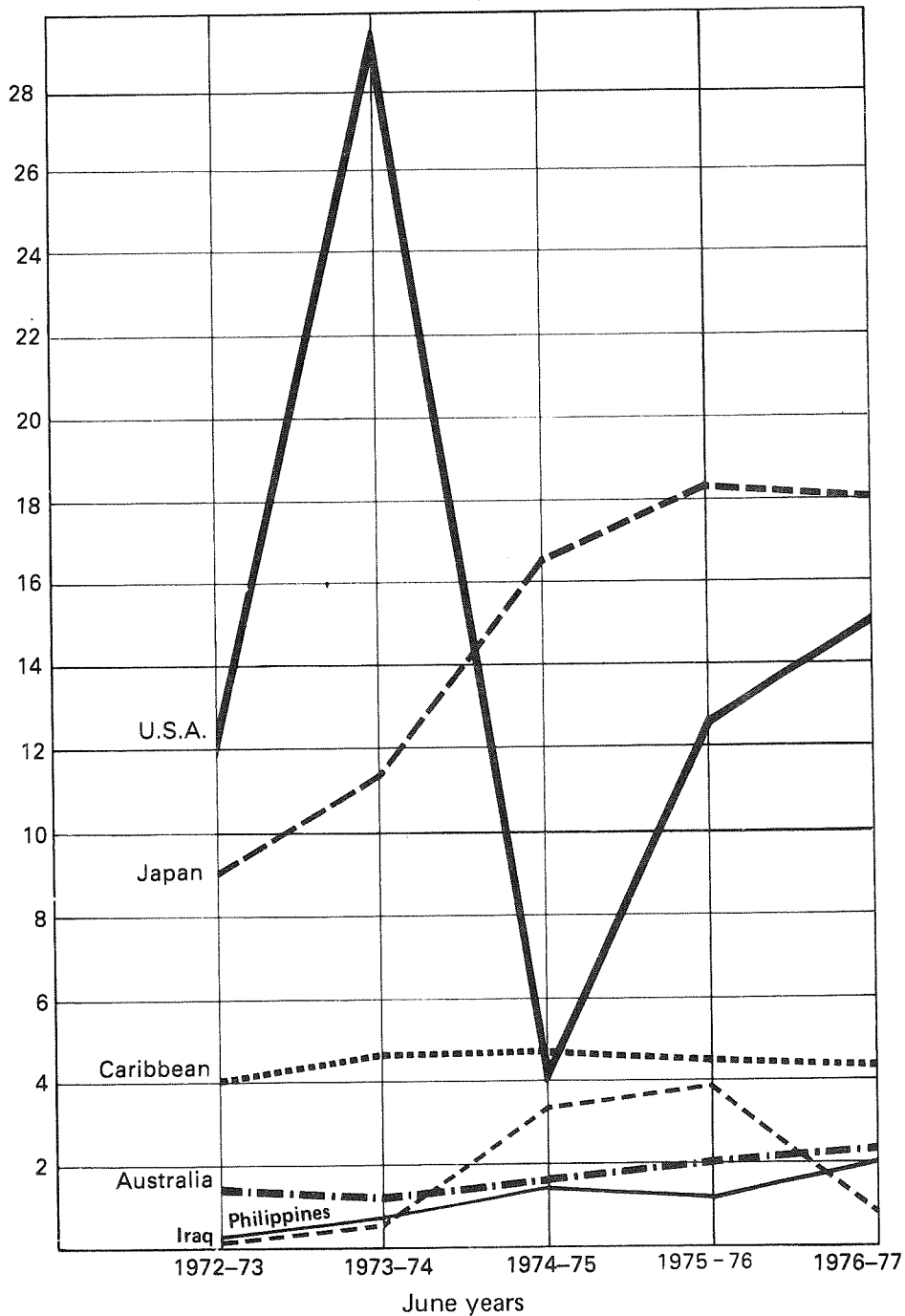
Source: New Zealand Department of Statistics
New Zealand Dairy Board

Figure 4
BUTTER EXPORTS (OUTSIDE EUROPE)
 Tonnes (000)



Source: New Zealand Department of Statistics

Figure 5
NATURAL CHEESE EXPORTS
(Outside Europe)
 Tonnes (000)



Source: New Zealand Dairy Board

Table 6

ESTIMATED SIZE OF THE INTERNATIONAL BUTTER MARKET

(000 tonnes)

(Calendar Years)

						IMPORTERS		
						1975	1976	1977 ¹
BUTTER—								
EEC ²	...	...	...	...	...	160	134	146
Other Europe	...	...	...	...	...	75	70	110
North America	...	...	...	...	...	7	1	1
Japan	...	...	...	...	...	2	19	4
West and South-east Asia	...	...	...	...	...	45	53	55
Latin America	...	...	...	...	...	9	9	11
Other ⁴	...	...	...	...	...	36	47	65
Total						334	333	392
Less United Kingdom butter imports from New Zealand						120	122	138
Remaining international butter market						214	211	254
						EXPORTERS		
						1975	1976	1977 ¹
BUTTER—								
New Zealand	...	...	...	...	...	152	172	166
EEC ²³	...	...	...	...	...	32	39	135
Australia	...	...	...	...	...	46	28	25
Other ⁴	...	...	...	...	...	75	85	75
						305	324	401
AMF—								
New Zealand	...	...	...	...	...	29	36	30
EEC	...	...	...	...	...	35	65	111
Australia	...	...	...	...	...	15	14	11
Other	...	...	...	...	...	3	3	3
						82	118	155
(AMF in butter equivalent)						(100)	(144)	(189)

¹Provisional.

²Excluding intra-EEC trade.

³Including food aid.

⁴Including Eastern Europe and U.S.S.R.

Source: National Statistics, MMB, FAO, and Commonwealth Secretariat.

LAMB AND MUTTON

At the time of the negotiations for the enlargement of the Community, New Zealand made known to all parties to the negotiations its concerns to ensure that its future trade with the enlarged sheep and sheepmeat sector in the EEC would be safeguarded in the event that a common policy were introduced for this sector. In the absence of a common sheepmeat regime, the member states have continued to operate on a national basis. Policy varies from the systems of unrestricted access operated by Britain and in effect by West Germany, to the limited quota systems operated by France and Denmark. The only common feature at the present time is the 20 percent tariff on sheepmeat which has been bound to New Zealand by the EEC in GATT.

There have been a number of moves to introduce a regulation, but member states have generally shown little interest in moving quickly. As it became apparent that the Commission was intent on producing a draft regulation, New Zealand Ministers sought and obtained assurances that the New Zealand Government would be consulted by the Commission as matters developed. A Commission proposal for a regulation was submitted to the Council of Agricultural Ministers on 5 April 1978, following its adoption by the commissioners in March. In all the discussions with the Community, the New Zealand side has elaborated the reasons why the sheepmeat trade with the Community is of fundamental importance to New Zealand and its concerns about the possibly damaging effects of a regulation on New Zealand's essential trade interests. The Commission's proposal is designed to permit free trade in sheep and sheepmeat within the Community. Its main features include the control of imports through variable levies, import and export licences, a safeguard clause, a basic price which would trigger private storage aids and would be used as a basis for fixing the import levy. The import levy would not exceed 20 percent in the case of the item covered by the GATT binding. While it is described as a "light" regulation, New Zealand's concerns are centred on the possibility that it could be implemented in a way which could damage its trade. The history of the beef regulation gives no reason for confidence that the Commission's proposal would stay "light".

Sheepmeats account for about 15 percent of New Zealand's total agricultural production and 45 percent of its meat production. Except in Britain, France, and Ireland, sheepmeat is a relatively insignificant product in the EEC. In the Community as a whole it accounted for only 1.3 percent of the value of gross agricultural production in 1976. In Britain the proportion was 4.1 percent and in Ireland it was 3.1 percent. Total EEC production of mutton and lamb in 1976, at 501 000 tonnes, amounted to only 2.4 percent of the Community's total meat production. France and Britain account for about 75 percent of the Community's sheepmeat output.

Compared with other meats, in which there is a high level of self-sufficiency, the Community produced only 64 percent of its total sheepmeat requirements in 1976 of about 800 000 tonnes. Imports from non-member states amounted to 278 000 tonnes, of which New Zealand supplied 80 percent.

There is a wide diversity of consumer attitudes towards sheepmeats within the Community and this is reflected in the consumption figures. The average per capita consumption is only 3 kilograms compared with about 25 kilograms per capita for beef. Only in Britain and Ireland is consumption relatively high. British production and consumption have tended to decline but Britain still accounts for over half of the Community's annual consumption. In France lamb is a high-priced luxury meat, and much more expensive than beef, whereas in Britain lamb sells at about the same price as beef. The price of fresh lamb in Britain is about half of that in France.

Table 7

**PER CAPITA CONSUMPTION OF SHEEPMEAT
IN PRINCIPAL MARKETS**

				(Kg Per Head)				
				1960	1970	1976	1977 ¹	1978 ²
France	...	...	...	2.6	3.0	3.7	3.8	3.9
Ireland	...	...	...	10.6	10.8	10.5	10.0	10.0
United Kingdom	...	...	...	11.5	9.9	7.8	7.3	7.3
Italy	...	...	...	0.8	1.2	1.1	1.2	1.2
Average EEC¹	...	...	...	3.5	3.3	3.0	2.9	3.0

¹Estimate.²Forecast.

Source: Statistical Office of the EEC

Table 8

MARKET PRICES OF SHEEPMEAT

				(EEC Units of Account/kg)	
				1976	1977
France	...	...	...	2.75	2.69
Britain	...	...	...	1.34	1.43
Ireland	...	...	...	1.58	1.56
Germany	...	...	...	1.97	2.24
Netherlands	...	...	...	2.75	2.68
Belguim	...	...	...	2.77	3.15
Denmark	...	...	...	2.00	2.09
Italy	...	...	...	2.41	2.54

Source: Commission of the European Communities.

New Zealand occupies a unique position in the Community sheepmeat market. In the 3 years 1974 to 1976 it supplied on average one-third of total EEC sheepmeat requirements and 83 percent of the Community's imports from third countries. In 1977 New Zealand supplied 53 percent of the lamb consumed in Britain.

Apart from carcase meat the enlarged Community is also New Zealand's major market for edible offals. The Community market accounts for well over 90 percent of New Zealand's total exports of these products.

DIVERSIFICATION OF LAMB EXPORTS

While in percentage terms New Zealand's dependence on the Community market has been reduced as a result of the active diversification policy pursued by the New Zealand Meat Producer's Board since 1967, assured access to the EEC for frozen lamb remains vital. In the year ended September 1977, 71 percent of New Zealand lamb exports went to the Community. In 1960 the proportion was 97 percent.

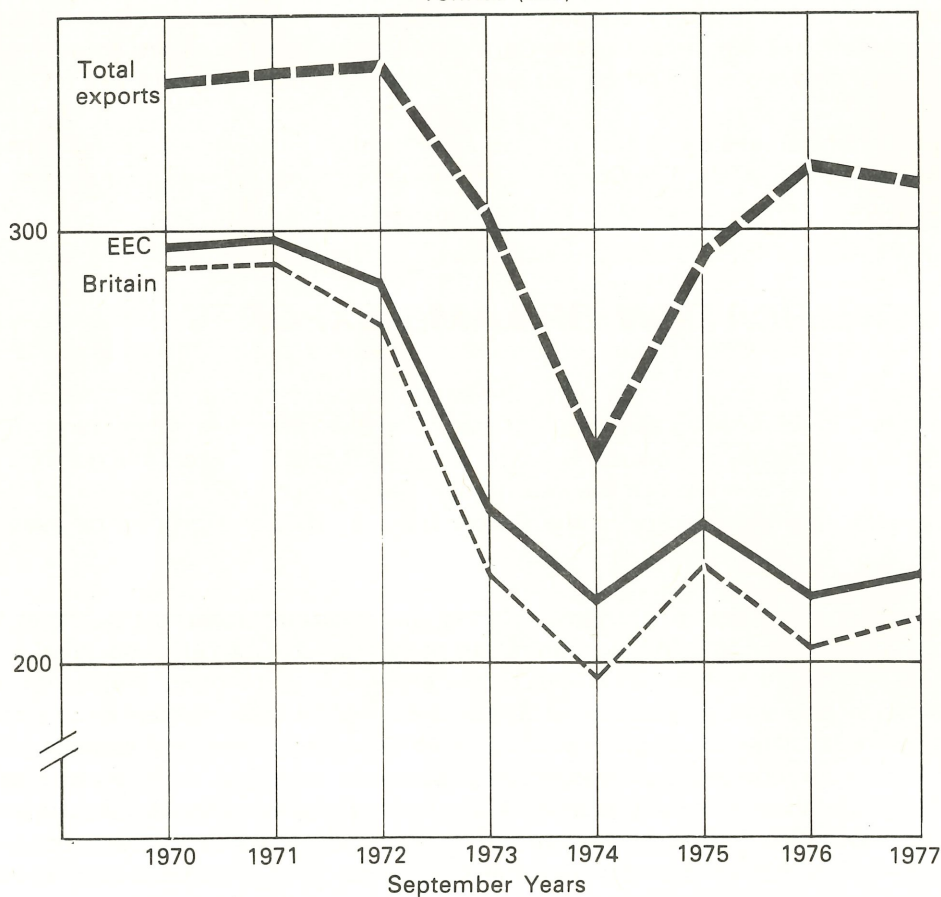
Since the inception of the lamb market development scheme the target for diversification from Britain has been raised progressively from an initial level of 10 percent to 32 percent for 1977-78. Exporters who fail to meet the target are required to pay a levy to the Meat Board. Each of the new markets has its own requirements in terms of grades and consumer preferences. For example, the Greek market requires lightweight lean carcasses whereas the United States market preference is for somewhat larger, better-finished carcasses, slaughtered during a specified period of the year. The development of consumer interest in lamb as an alternative to other meats has taken time. Even in markets such as Iran,

where sheepmeat has traditionally been consumed in quantity, there is some continuing prejudice against the imported frozen product. Many of the new markets, including those in the Middle East, have a preference for the leaner grades of carcasses. The grades traditionally exported to Britain are not acceptable.

Figures 6 and 7 show the pattern of New Zealand exports of frozen lamb.

Exports to Canada, the United States and Japan have fluctuated from year to year, but in general have shown a gradually rising trend. Shipments to Greece have also showed considerable variation as a result of the imposition and relaxation of import regulations by the Greek authorities. However, it is considered that the Greek market offers opportunities for sales of around 15–20 000 tonnes per year. The Middle East, particularly the Iranian and Iraqi markets, has grown in importance since 1975. It is probable that the recent rapid rate of growth in sales to Iran will tend to level off while cold storage and distribution facilities are developed, but the prospects for continued growing demand and sales look reasonably promising. There has been important success in developing markets other than Britain in the Community, particularly West Germany and Italy, but the attitudes to frozen lamb and lack of experience in handling and presentation of this product, plus the existence of quantitative restrictions maintained as part of the national regime in France, have limited the scope for trade development.

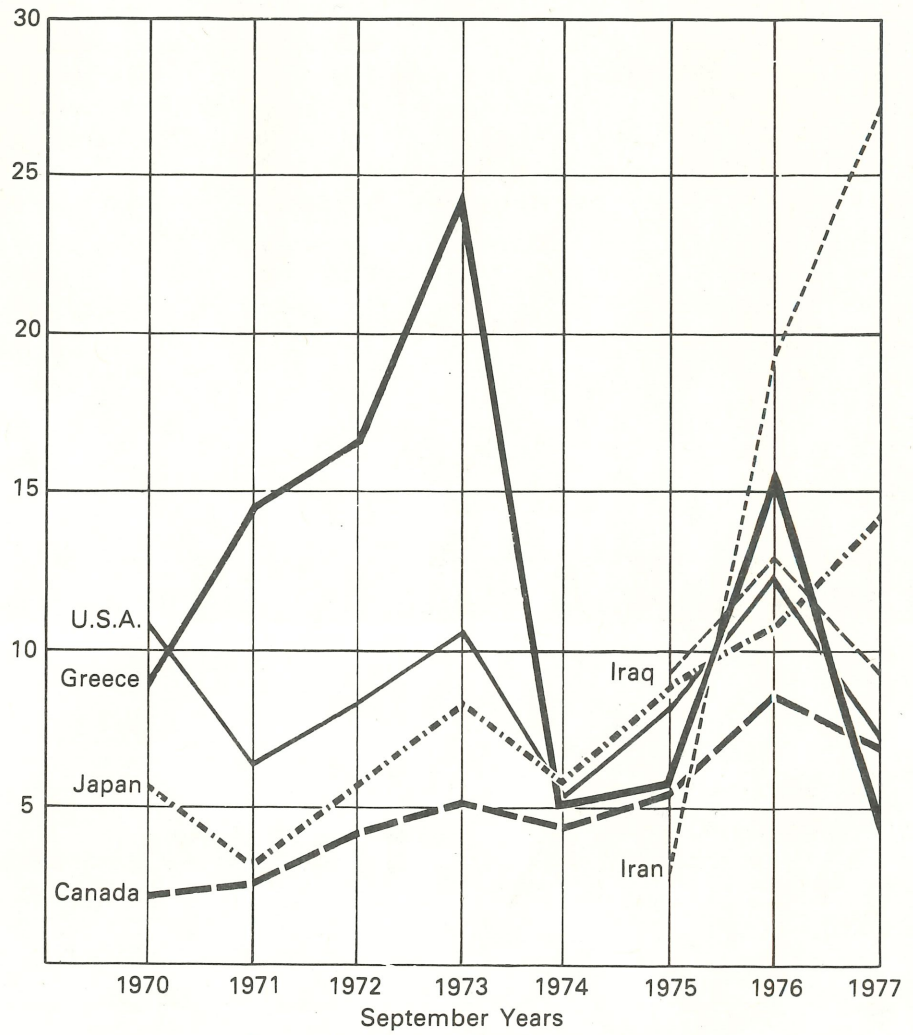
Figure 6
LAMB EXPORTS
Tonnes (000)



Source: New Zealand Meat Producers Board

Figure 7
LAMB EXPORTS TO DEVELOPING MARKETS

Tonnes (000)

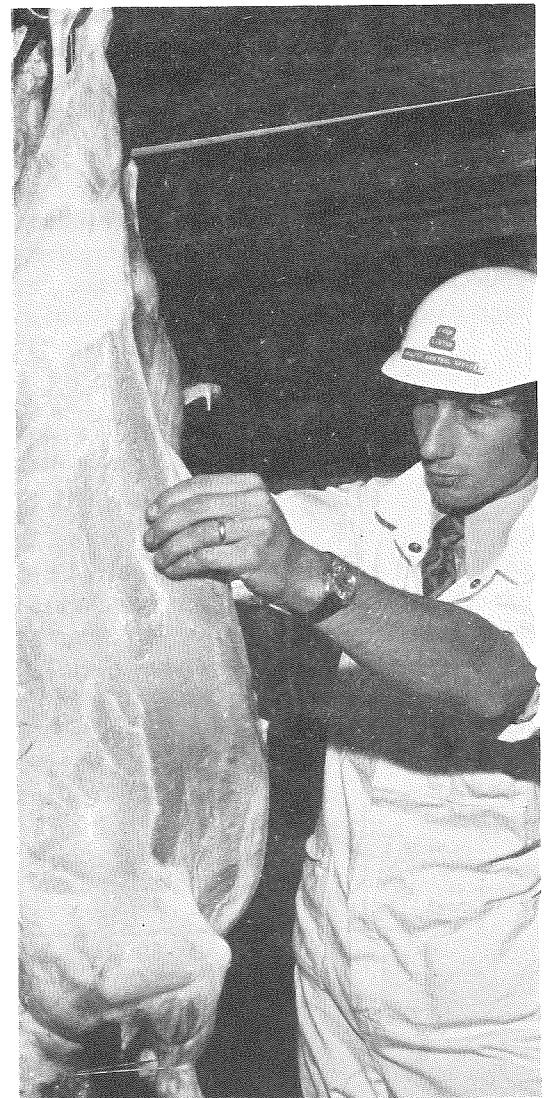
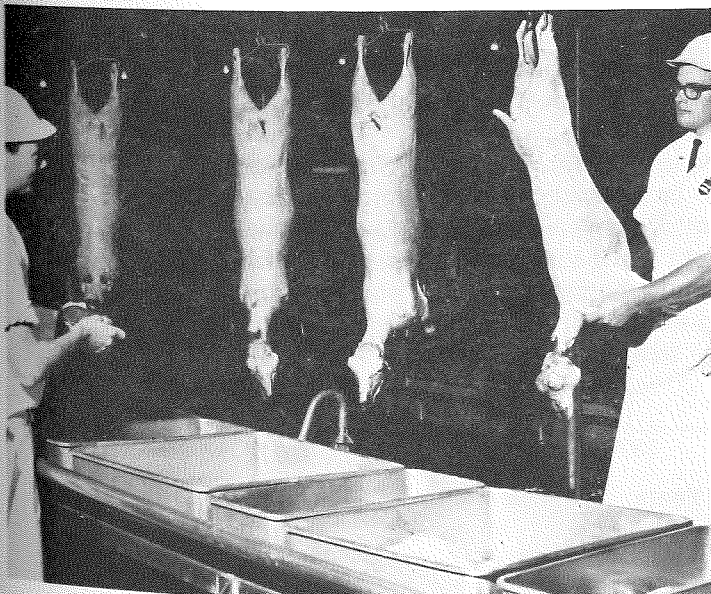


Source: New Zealand Meat Producers Board





New Zealand's pastured-based agriculture sector is highly integrated and export orientated. Though many pastures are lush (left, op), others (left, lower) require considerable development. All require vast quantities of superphosphate to sustain production. Each year some 25 million lambs are produced for export and these are processed in specially licensed export slaughter houses. The industry is geared to the production of consistently high-quality meat. To ensure that this is so a large inspectorate is employed by the New Zealand Department of Agriculture and Fisheries to ensure that every carcass produced complies with international hygiene requirements.



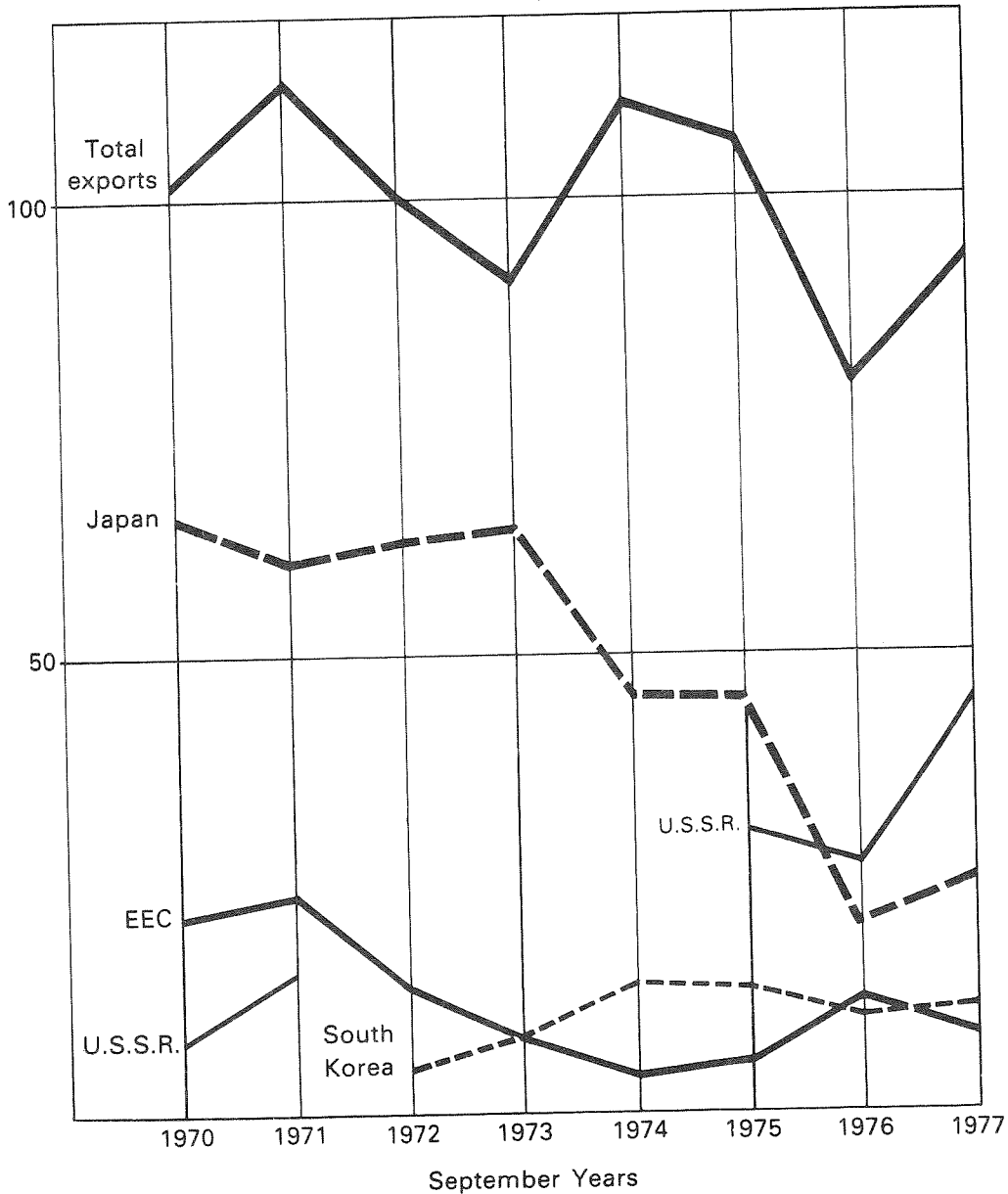
MUTTON

Unlike lamb, New Zealand mutton is exported mainly to food industries overseas and has its own distinct marketing pattern. The enlarged EEC remains a significant market for New Zealand mutton but whereas Britain accounted for 63 percent of New Zealand's exports in 1960, it accounted for only 8 percent in 1977.

The major markets at present are Japan, South Korea, and the Soviet Union. Exports to Japan, where it is used for manufacturing purposes, grew rapidly during the late 60s and early 70s. From 1973 the tonnage has declined steadily but this has coincided with the growth in exports to South Korea. In addition, the Soviet Union has been a substantial, but somewhat erratic, purchaser of New Zealand mutton over the years.

Figure 8
MUTTON EXPORTS

Tonnes (000)



Source: New Zealand Meat Producers Board

ACCESS TO THE EEC

The active pursuit of new markets by New Zealand has reduced dependence on the Community market, but it is still the major outlet for frozen lamb and is likely to remain so in the foreseeable future. The new markets cannot absorb the bulk of New Zealand lamb produced for export. The viability of the sheep farming industry in New Zealand (including wool production and many by-products) could not be maintained if the trade with the Community in lamb were disrupted.

New Zealand's concerns about a possible Community regulation for the sheepmeat sector centre on the need for security of access to the market and the ability to sell in quantity at remunerative prices. It is concerned that a common regulation might lead to the harmonisation of prices at a higher average level than at present exists, with consequent adverse effects on consumption. As has already happened in the case of other products, notably beef and dairy products, pressures could arise for imports from third countries to be restricted. New Zealand is keen to obtain from the market place the best possible returns, but any rapid movement from the prices prevailing in Britain towards the much higher prices in France might well cause a substantial drop in the consumption of lamb in Britain. Unless off-set by increases in consumption in other member states, this would seriously affect New Zealand's interests. It would also affect the substantial Community interests involved in the meat industry in New Zealand, in the shipping of produce to Europe, and in processing, marketing, financing, and insuring the product in the Community.

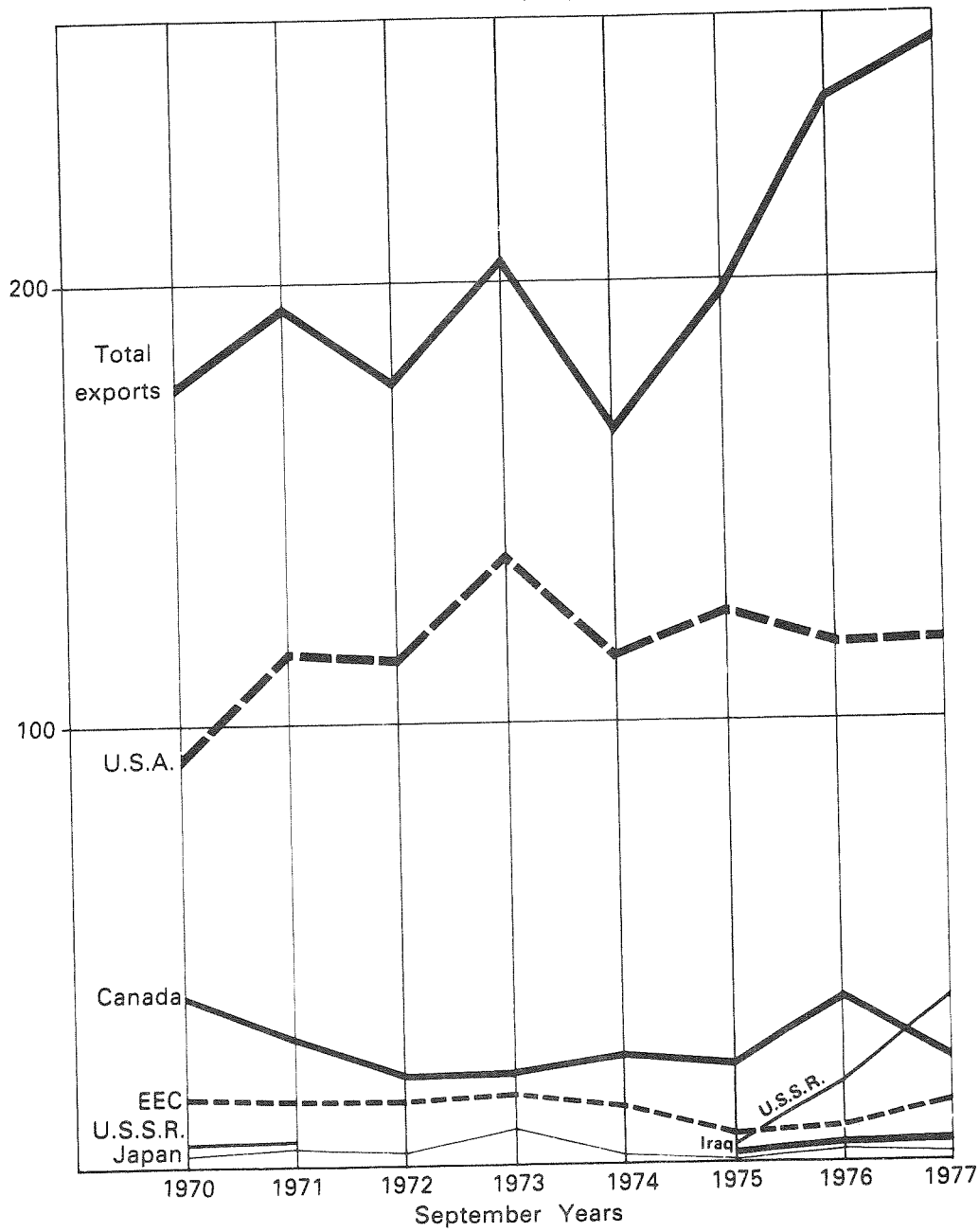
If the objective of a common regulation is to ensure free trade within the Community, it would seem that this could be achieved without a complicated or potentially restrictive common policy. The circumstances for lamb and mutton in the Community are very different from those in other farm sectors. A regime in the classical mould would certainly not be justified.

It appears that the EEC Commission has taken this into account, as well as the role of imports from third countries, in preparing its proposal. It does not include provision for a guaranteed price or intervention purchasing or subsidies for exports from the Community. Nonetheless, even as it stands there are elements which could be damaging to the country's interests, if not now, then in the longer term.

The New Zealand meat industry has always shown willingness to work with the producer interests in developing markets and in assuring consumers of continuous supplies at reasonably stable prices.

The New Zealand Meat Producers Board has statutory authority to control the export of meat from New Zealand, particularly through its responsibility for the regulation of shipping. It has a vested interest in ensuring that New Zealand lamb is marketed in a responsible manner. This arrangement has worked to the satisfaction of both producers and consumers in Britain and the newer markets such as the United States, West Germany, Greece, Denmark, and others. Why then is it considered necessary for a regulation to include such elements as import licences and security payments, and a safeguard clause? These questions and others, such as provision for a period of transition, will doubtless be discussed with New Zealand if the proposal is pursued further.

Figure 9
BEEF AND VEAL EXPORTS
 Tonnes (000)



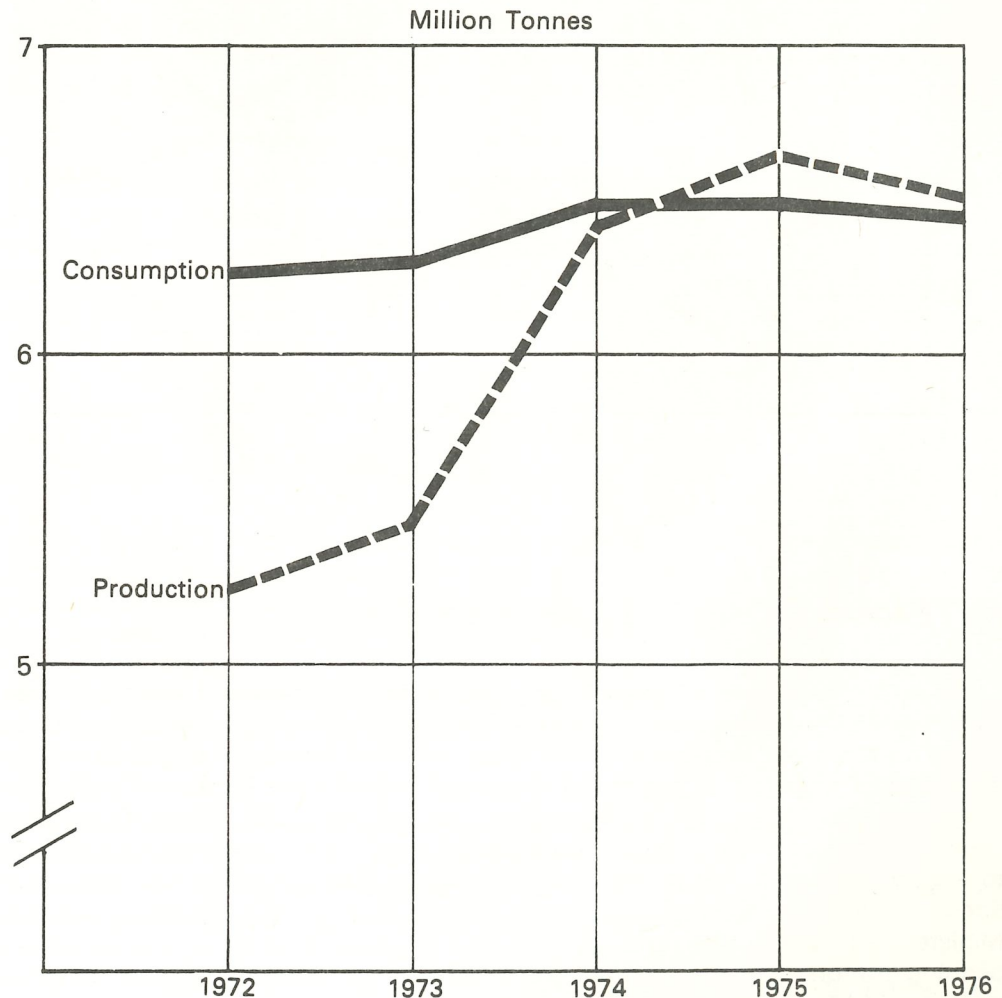
Source: New Zealand Meat Producers Board

BEEF AND VEAL

New Zealand's major markets for beef are in North America. The EEC is nonetheless an important subsidiary market and one to which the New Zealand meat industry is keen to expand exports, if possible.

Figure 9 shows that New Zealand's total exports of beef and veal have increased from just under 100 000 tonnes in 1960 to around 255 000 tonnes in 1977 (shipping weight). This reflects the encouragement given to increasing beef production. There are, however, very few specialist beef farms in New Zealand. Beef cattle are usually raised in conjunction with sheep, but the culls from the dairy herd are the major source of beef for manufacturing. The changed composition of the dairy herd to multi-purpose dairy/beef animals has been a significant factor in the overall increase in beef production for export. The volume of exports to the EEC has declined from approximately 24 percent of total beef and veal exports in 1960 to approximately 6 percent of the total in 1977.

Figure 10
EEC BEEF PRODUCTION AND CONSUMPTION



Source: EEC Commission.

Figure 11
EEC BEEF IMPORTS AND EXPORTS

Tonnes (000)



Source: EEC Commission.

INTERNATIONAL TRADE IN BEEF

The optimistic assessment of the prospects for increased export of beef contained in the 1970 report of the New Zealand Monetary and Economic Council ("New Zealand and an Enlarged EEC") has not been borne out by developments since then. Production in the major developed markets has increased and access has generally been tightly controlled, except in 1973 when exceptional circumstances of world-wide shortage of red meat led to increased opportunities to export beef and veal to the United States (where voluntary restraints were lifted), Japan, and the EEC, principally Britain. In July 1974 the EEC Council of Ministers activated safeguards against beef imports, thus for a time effectively banning imports into the Community, except for quantities imported under the limited GATT quota (38 500 tonnes) and arrangements under the Lome Convention for developing countries.

The Community removed the safeguards in April 1977, but introduced a revised variable levy system. The levy has been held at high levels since that date. Opportunities for increased trade have therefore remained extremely limited.

The graph illustrates the substantial increase in EEC production between 1973 and 1974. The level of EEC exports has mirrored this development. During the period EEC consumption per capita increased only slightly, mainly as a result of special disposals at reduced prices.

MARKET PERSPECTIVES

The United States of America has remained New Zealand's principal market for beef and veal, but the percentage of New Zealand's total beef exports which has gone to the United States has declined from 69 percent in 1974 to around 46 percent in 1977 (117 255 tonnes). Nonetheless exports to the United States have remained relatively stable, although an additional entitlement has been announced for this year. The level of beef exports to Canada, New Zealand's other major market, has remained steady. In both the United States and Canada, access for beef has been subject to voluntary restraint agreements.

The efforts to obtain improved access into the Japanese market have produced disappointing results. In 1977 Japan took 2 263 tonnes, only 0.8 percent of New Zealand's total exports of beef. Since 1975 the Soviet Union has purchased progressively larger quantities of beef from New Zealand. During the same period, internal shortages made it necessary for a number of countries in Eastern Europe to resort to importing beef. The prospects for further sales to these markets can, however, only be rated as uncertain. New markets are being developed in the Middle East countries but the levels of their purchases from New Zealand are as yet comparatively small.

New Zealand is not a major supplier of beef to the EEC, though there is a demand for some frozen cuts, and small quantities are exported mainly under the GATT quota or balance sheet arrangements. Access to this market has been severely restricted since the application of safeguard action in 1974 and improved access conditions would be the goal that New Zealand seeks to achieve.

APPLES AND PEARS

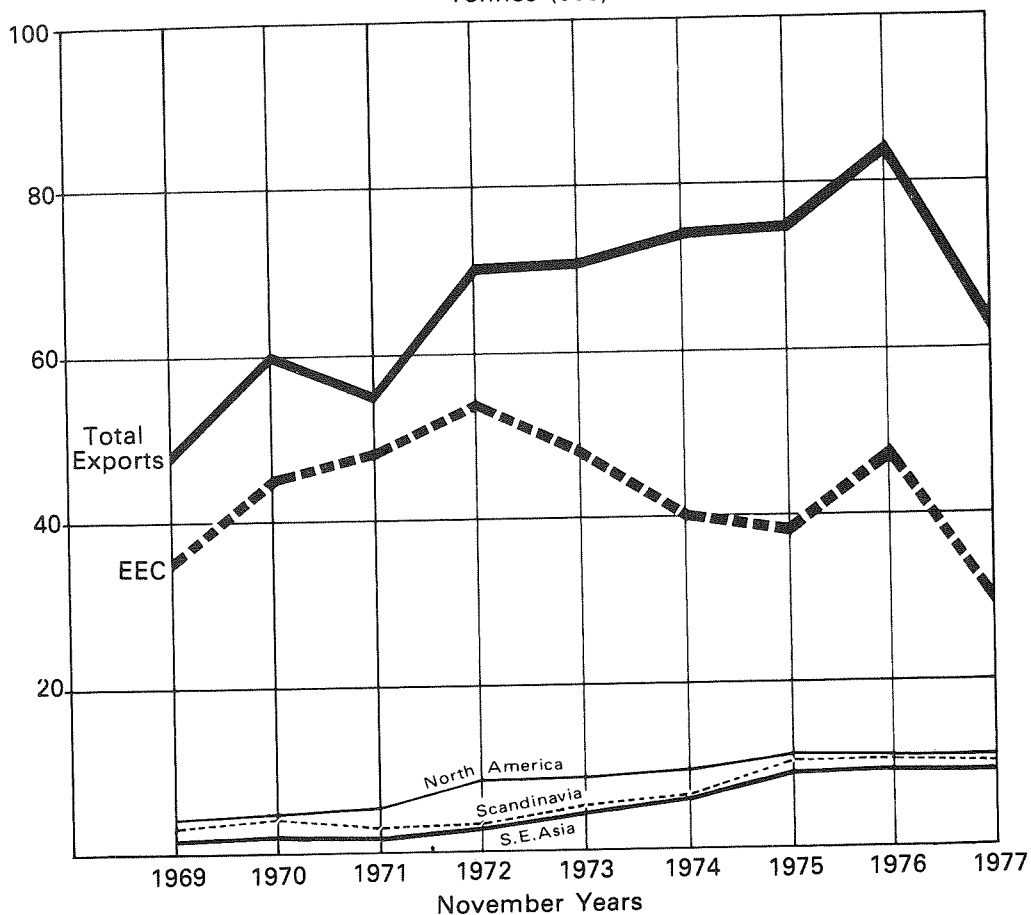
New Zealand's exports of apples and pears to the EEC have encountered comparatively fewer problems than exports of other products covered by CAP regulations. New Zealand has traditionally supplied fresh fruit to the EEC during the Community off-season and has therefore complemented Community production. Although the earnings from exports of these products are small compared with those from dairy products and meat, it is nonetheless a trade of significance especially to the regions of New Zealand in which much of the fruit is grown.

For the 5 years 1973-1977 on average, the EEC accounted for 56 percent of New Zealand's total exports of apples and pears, Britain being the main market. However, the New Zealand Apple and Pear Board has actively developed new markets as production has increased in New Zealand.

Figure 12 shows that there has been a steady growth in the level of exports to markets in North America, Scandinavia, and South-east Asia. As a result, in percentage terms, the dependence on the traditional European outlets has been reduced.

The fluctuations in the volume of exports reflects variable seasonal weather conditions. The marked decline in the level of exports in 1977 reflected the impact of drought.

Figure 12
APPLE AND PEAR EXPORTS
 Tonnes (000)



Source: New Zealand Apple and Pear Marketing Board.

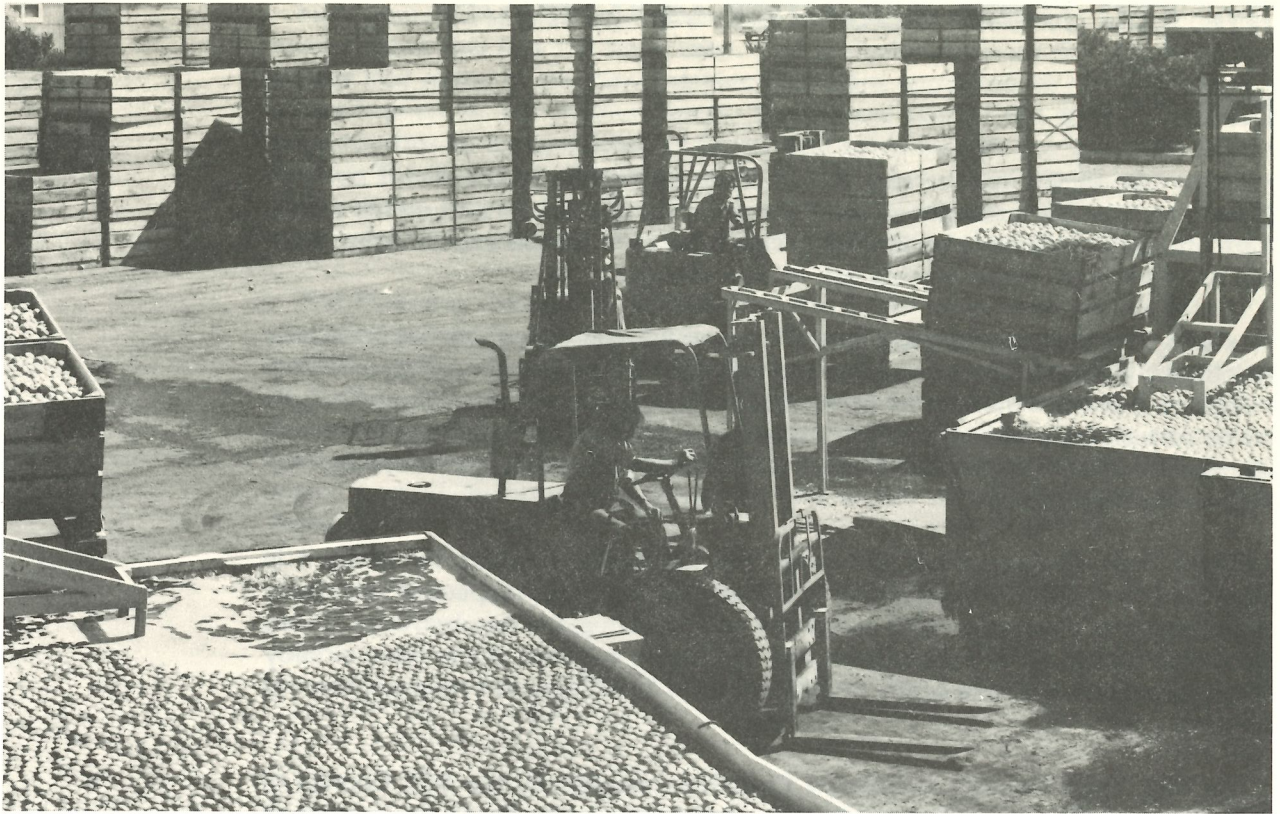
Considerable progress has been made in developing new markets but continued and secure access to the EEC is nonetheless still very important. This applies not only for the interests of the New Zealand producers and the traders but for consumers in the Community as well.

The Planning Council believes that the New Zealand Apple and Pear Marketing Board has made good progress in its efforts to establish good co-operative relationships with Community producer organisations. On occasions when problems have arisen as a result of the build-up in the Community apple stocks, the board has co-operated by phasing the arrival of supplies from New Zealand.

OTHER PRODUCTS

Wool, hides, and skins and casein have one thing in common; they are treated by the EEC as industrial raw materials. As such they are outside the Common Agricultural Policy. The conditions of access for these goods are much more liberal than those applied to other agricultural products. New Zealand's earnings from them tend to reflect ups and downs in the economies of the major industrial user countries, i.e., EEC, the United States, Japan, USSR, and Eastern European countries. Competition from synthetic fibres and changes in fashions are also significant factors.

The enlarged EEC has remained New Zealand's major export market for wool, hides, and skins, and is an important market for casein.



New Zealand's apple and pear production is export-orientated and highly efficient. Apples are prepared (above) for packing (right) at the Apple and Pear Marketing Board's Nelson plant.



Exports of fruits such as cherries (above left), kiwifruit, strawberries, and raspberries are becoming increasingly important. Orchids (left) grown in New Zealand are exported to North America and Europe.

THE EEC THIRD COUNTRY VETERINARY

DIRECTIVE

Beside the tariffs, levies, and quantitative restrictions encountered by New Zealand agricultural products at the frontiers of many markets around the world, there are other measures which can create problems for the export trade. Plant and animal health requirements are in this category.

As an agricultural country, and one of the few that has remained free of serious infectious animal diseases, New Zealand fully subscribes to the need for effective measures to prevent their transmission from one country to another. New Zealand is also concerned to ensure that its products reach the consumers in a wholesome condition. Indeed New Zealand has played a leading role in the work done by FAO in this important field.

Before New Zealand meat can enter the numerous markets to which it is exported it is necessary to establish to the satisfaction of the respective veterinary authorities that it complies with veterinary and meat hygiene requirements. These requirements can differ widely from one country to another. Some have already necessitated considerable costly modifications in New Zealand's meat processing industry.

The EEC Third Country Veterinary Directive, adopted by the EEC Council of Ministers in 1972, sets out the veterinary and hygiene standards for imports of animals and meat into the Community from non-members of the Community. The competent New Zealand view is that a number of the requirements laid down in the Community directive are of doubtful practicability and effectiveness. Some, while perhaps appropriate in the European situation, are not considered necessary for New Zealand conditions. The New Zealand authorities have made written submissions to the EEC Commission on these matters. Full compliance with the letter of the EEC veterinary requirements would involve very high costs—hundreds of millions of dollars—for the New Zealand meat industry. In a number of instances it seems clear that the cost would be disproportionately greater than any additional benefit to the consumer. The Planning Council considers that changes should be made where they are essential for improving the wholesomeness of the product and for ensuring that it reaches consumers in a safe condition. But some of the present practices in New Zealand, though different from those laid down in the Community directive, are believed to produce an equivalent, if not better, end result. In these cases, the Planning Council believes that there should be room for some flexibility on the Community side.

CONCLUSIONS

As the above analysis shows, the EEC has had a major and manifold impact on New Zealand.

The effects of Community policies have increasingly been felt on New Zealand's trade with the enlarged Community. The changes brought about by Britain's accession to the Community have necessitated the establishment of ever-closer relations between New Zealand and the institutions of the Community and the member states. A good measure of progress has been made in this direction. The enlargement of the Community has also required close co-operation between the Community and New Zealand, with the aim of trying to ensure that the EEC does not frustrate New Zealand's efforts to diversify its economy and its trade.

New Zealand has made considerable progress in developing additional new markets, but this has not been easy. The analysis illustrates the unreliability of access into many of the new markets and there appear to be real limitations to diversification in the medium term. The simple fact of the matter is that the opportunities to expand sales of butter and lamb outside the enlarged EEC are limited. The markets that have been developed are in no sense alternatives to the EEC market. Indeed New Zealand is working to achieve improved and secure access into its traditional markets in the current round of GATT negotiations.

The Planning Council is hopeful that the major developed countries will be prepared to contribute to the freeing of trade in agricultural products. The future progress in New Zealand's development of new markets will depend on a number of factors—access to markets, the ability to sell the product for remunerative prices in those markets, and the extent to which New Zealand produce encounters competition from others, including the EEC. Secure access to the EEC for the major part of its butter and lamb exports is still of vital importance to New Zealand.

ADJUSTMENT IN THE NEW ZEALAND ECONOMY

INTRODUCTION

Britain's accession to the European Community coincided with a period of great turbulence in the system of international trade and payments. This turbulence, accentuated by a sharp increase in energy costs, confronted all market economies with serious challenges. New Zealand is not unique in having had to cope in the mid-'70s with higher inflation, slower growth, and more serious unemployment than in the earlier post-war years—and with the effects of these primarily economic problems on social and industrial relations and on political decision-making. Nevertheless, it has been more seriously affected than most, if not all, other OECD countries.

New Zealand's special problems have derived in part from the nature of its export trade. Although it has greatly diversified its exports and its markets in recent years, it still derives a high proportion of its earnings from a limited range of commodity exports. In this way, New Zealand resembles many of the developing countries more than it does other members of the OECD with which it is associated as an established Western democracy and a comparatively affluent country. The unusual instability of the industrial economies in the 1970s has caused for New Zealand, as for many developing countries, wide fluctuations in key export prices and the terms of trade.

Moreover, the recession of activity and employment in the developed countries which followed the boom of 1971–73 accentuated protectionist tendencies around the world. In respect of industrial products, these were reasonably well contained by most OECD members, in accordance with pledges made in the organisation. However, most chose to treat agriculture under different, and less liberal, principles. Despite the special arrangements for butter and cheese made by the EEC on Britain's accession, New Zealand was bound to face problems as its main market for temperate foodstuffs of all types made the transition from a system of farm support which permitted relatively free access towards the generally higher prices and to the much more restricted import arrangements applying in the Community's agricultural policies. The fact that the transition had to be made during a period of international recession and widespread agricultural protectionism greatly accentuated the problems of adjustment for New Zealand and obstructed its efforts to find and develop new markets.

The levies and restrictions on access imposed by the European Community and by other major industrial countries have made it more difficult for New Zealand than for most other advanced countries to counter the adverse effects of higher oil prices by increasing its export prices. The capacity of other countries to do so, however, sharply raised New Zealand's import prices and contributed markedly to the very serious and prolonged deterioration of the terms of trade which is at the root of its present problems.

The problems do not stem from a lack of demand for the goods New Zealand is best fitted to produce and sell overseas, at prices which would be most acceptable to the producers. They have arisen mainly because access to markets has been restricted and tariffs and other levies have been imposed. Restrictions on trade by industrial countries have lowered the returns to exporting and worsened the terms of trade. Moreover, subsidised exports from some of these countries have reduced New Zealand export opportunities and earnings in markets which would otherwise have been profitable outlets. These developments, more than any others, threaten the viability of New Zealand agriculture and the economy as a whole.

THE AGRICULTURAL BASE

Of New Zealand's total land area of about 27 million hectares, approximately 14 million hectares is used for agriculture. Nearly all of this (97 percent) is improved grassland or native grassland used for grazing livestock. Production is heavily dependent on imported fertiliser. There are about 60 000 separate land holdings, nearly 80 percent of them above 30 hectares in size. Farm size varies but the average is nearly 300 hectares, perhaps 10 times the average for Europe. Yet farming is basically a family enterprise. Participation arrangements on dairy farms ("share-milking") means that they often support two family units. Moreover, Maori land, frequently in multiple ownership, accounts for nearly 10 per cent of the total farm area; and there are a number of private companies and Government enterprises in farming. But the typical farm is an individual family unit, often a married couple working together, or with a single farm labourer. It is also typically an export business, with the bulk of the farm produce going to distant foreign markets.








The special characteristics of New Zealand farming are its export orientation, its efficient use of grasslands for livestock production, and its family base. The system is geared very largely to grass-fed livestock products for export. Because of the importance of agriculture as an export-earner, the economy can still be said to be dependent on grass production to a large extent. This is evident from the accompanying land-use maps (Figs 13 and 14). Cash cropping is of increasing though still minor importance, and there is wide diversification into new products, many of them for export. But it is basic to an understanding of the New Zealand economy to realise that the favourable climatic conditions and the specialised way in which they have been exploited to produce meat, dairy products, and wool have given New Zealand a competitive advantage over most other exporters of these commodities.

New Zealand is especially sensitive to external market changes because of its importance in the world trade in these products: it is one of the 3 largest exporters of meat and the largest of sheepmeat; it has the fourth largest number of sheep, is the third in wool production and second only to Australia as an exporter; and it is a major international supplier of all dairy products. Moreover, the integrated nature of most pastoral production means that changes in the market conditions for one product may affect the supply or the production costs of others. This is obvious in dairy production where, for example, a marketing problem with cheese may have to be offset by increased output of butter or other dairy products. It applies to the quite separate markets for wool and sheepmeats, each of which is complementary to the other, and to beef production which is generally associated with sheep farming but which also provides an important part of the total returns to dairy farming. Industrial by-products, including leather, are also part of an integrated production process, as is the production of a number of crops and seeds. Thus there is a balancing problem at all times in which a relatively fixed supply of livestock, variable only in the longer term, must cater for a complex and often volatile set of international market situations.

Fig.13
South Island

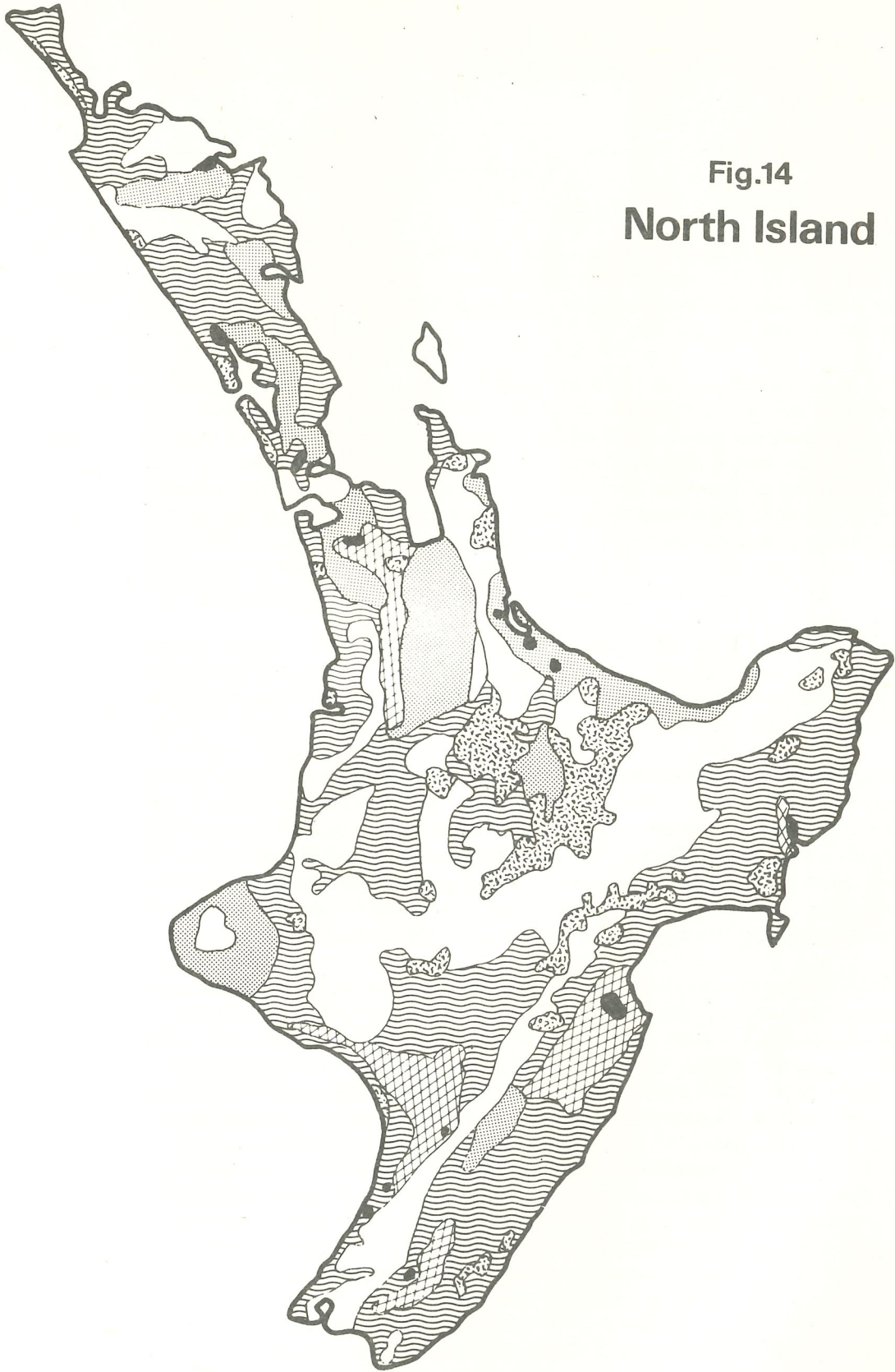


KEY

-  Extensive sheep and beef
-  Semi-extensive / semi-intensive sheep and beef
-  Intensive sheep / beef / crops
-  Intensive dairying with sheep & beef for finishing
-  Orchards and market gardens
-  Exotic forests
-  Not used for agriculture

Land Use in New Zealand

Fig.14
North Island



Production on the farm is only one part of agriculture, for a network of industries is involved in the processing, transport, distribution, and marketing of agricultural output and in providing the inputs of goods and services essential to agriculture—including research, advisory services, education, and finance. The manufacturing sector is based partly on agricultural supplies and the assembly of farm plant and machinery. Because all these activities are linked to an efficient farm sector, highly competitive in world markets, there exists a potential still to be fully realised for major export growth from agriculture-related industries and technical services. This has been increasingly recognised in New Zealand's external aid programmes, which have a strongly agricultural bias, and in the diversification of its exports.

TRADE

The combination of domestic economic growth and change, international development, and Government trade and economic policies (here and in other countries) has resulted in a substantial change in New Zealand trade patterns, especially during the last decade.

Changes in the directions of trade are summarised in table 9 and figure 15. These show the very large reduction from 1965 to 1977 in export reliance on the United Kingdom which has had the effect of reducing the proportion of exports going to countries now within the European Community from over two-thirds to less than one-third of the New Zealand total. It also illustrates the proportional increase in exports to Japan and other Asian countries, Australia and the Pacific, and new markets outside the Pacific Basin. The pattern of imports has also changed considerably with Australia now the main source and Japan, the Middle East, and the EEC (other than the United Kingdom) making the biggest gains.

The composition of New Zealand exports has also changed in recent years. What are called "non-traditional" exports increased from 12½ percent of the total in 1965-68 to 28 percent in 1973-76 (table 10). The nature of these exports is displayed in table 11.

Pastoral products have thus declined in relative importance and a wide variety of other agricultural, forestry, fishing, mineral, and manufactured products is now exported in quantity. The patterns are diverse: manufactured exports go mainly to Australia and other Pacific Basin countries; forest products to Australia (pulp and paper) and Japan and Korea (logs and wood chips); fisheries exports to the United States and Japan; horticultural products and processed foods world wide. Figure 16 shows the changes from 1966-1976 in both imports and exports.

Among pastoral products the pattern has been determined, as is discussed in more detail in the previous chapter, partly by the traditional markets and partly by the need to diversify from those markets. While frozen lamb still goes predominantly to the British market, a third has now been diverted to Greece, North America, and Japan and more recently the Middle East. Japan is a major buyer of mutton, as is increasingly South Korea, with the USSR a large but erratic purchaser, as it has been for beef. Most beef goes to North America. Some products have fully international markets. This is especially true for wool (although the major buying countries have tended to be Britain, the United States, Belgium, France, West Germany, the USSR, Japan, and China) and animal by-products (although about half of the cattle hides and skins go to Italy, half of the sheepskins to France). Dairy products are also marketed world-wide, with casein, for example, exported mainly to industrial countries in Europe and North America and milk powders mainly to developing countries. Although the British dairy market is still critically important for milk fat, there has been every effort to explore and develop alternative outlets.

Table 9

DIRECTION OF NEW ZEALAND TRADE

		A. Direction of Exports (Percentage by f.o.b. ¹ Value)			
		1965 ³	1970	1975	1977
United Kingdom	...	50.9	35.9	22.2	20.4
Other EEC ⁴	...	16.9	11.5	10.6	11.9
Other Europe	...	1.9	2.3	3.3	3.4
Japan	...	4.4	9.8	11.8	12.8
Other Asia	...	1.8	4.2	8.9	9.6
Australia	...	4.7	8.2	11.9	12.2
Other Oceania	...	1.0	2.3	3.4	2.9
United States	...	12.4	16.1	12.1	11.2
Other North America	...	1.9	4.2	2.8	2.1
U.S.S.R.	...	0.4	1.5	2.9	4.5
Other Eastern Europe	...	0.7	1.1	1.3	2.1
Middle East	...	0.1	0.2	2.7	3.0
Latin America/Caribbean	...	1.7	2.0	4.5	2.8
Africa	...	1.0	0.7	1.7	1.0
Total⁵	...	100.0	100.0	100.0	100.0

		B. Source of Imports (Percentage by c.d.v. ² Value)			
		1965	1970	1975	1977
United Kingdom	...	36.5	29.7	19.2	16.8
Other EEC ⁴	...	6.7	7.9	9.7	9.4
Other Europe	...	3.1	2.0	2.9	2.5
Japan	...	5.5	8.4	13.5	14.9
Other Asia	...	5.8	5.7	6.5	6.8
Australia	...	19.3	21.0	20.3	20.6
Other Oceania	...	0.9	1.3	1.4	1.5
United States	...	11.3	13.0	13.4	13.5
Other North America	...	3.9	4.1	2.1	2.5
U.S.S.R.	...	0.1	0.1	0.1	0.2
Other Eastern Europe	...	0.2	0.3	0.4	0.4
Middle East	...	4.5	4.2	8.3	9.2
Latin America/Caribbean	...	1.1	0.9	1.2	0.8
Africa	...	1.0	1.2	1.1	0.9
Total⁵	...	100.0	100.0	100.0	100.0

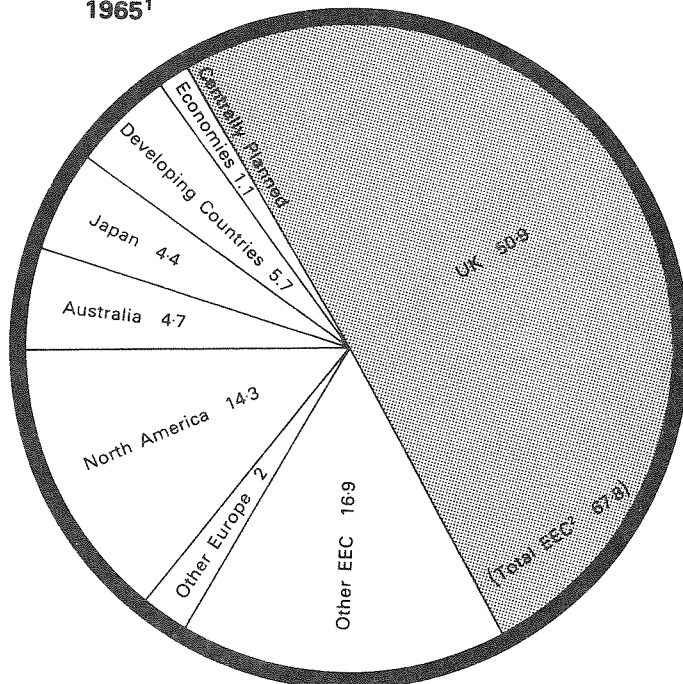
¹Free on board.²Current domestic value.³June years.⁴EEC by 1978 membership.⁵Totals may not add exactly due to rounding.

Source: New Zealand Department of Statistics.

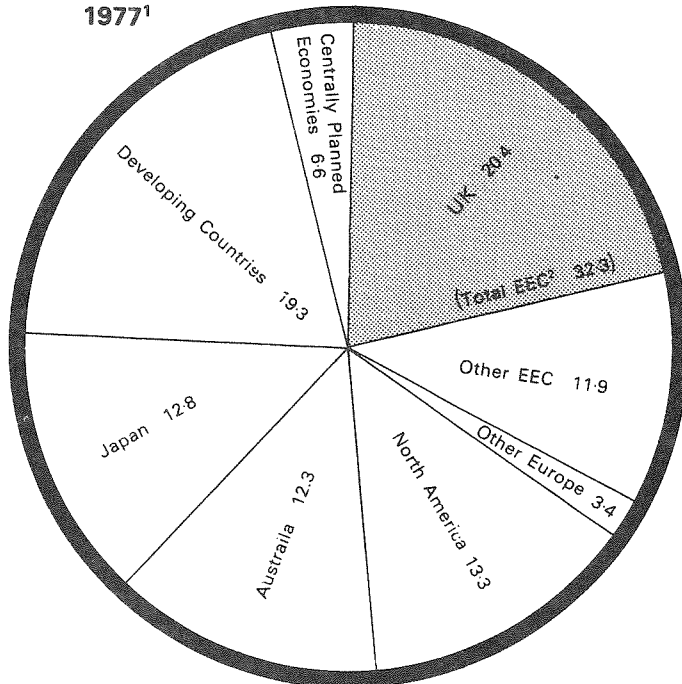
The progress towards diversification from a narrow product and market base has therefore been very substantial. It might well have proceeded even further had it not been for the very serious deterioration in the international trading situation during the 1970s. Since 1973 there has also been the problem of absorbing much higher external transport costs to the very distant markets supplied by New Zealand pastoral exports. Between 1972-73 and 1975-76 the ratio of transport costs to total New Zealand trade rose from 11.5 percent to 16.7 percent, or by nearly one half. This increase fell largely on agricultural exports because of their bulk and the distances involved. Mainly because of higher transport costs the returns to beef producers declined from 68 percent of the c.i.f. New York price in 1973-74 to 51 percent in 1976-77. The freight cost index for butter (to the British market) rose by 110 percent over the same period while the return to dairy farmers increased only 25 percent. There have been other new charges on exports: in 1970 there was no duty on New Zealand lamb supplied to Britain; in 1977-78 the Common Customs Tariff added 20 percent to the cost of moving lamb from farm to market, an imposition equivalent to 40 percent of the return to producers.

Figure 15 (a)
DIRECTION OF EXPORTS
(percent)

1965¹



1977¹

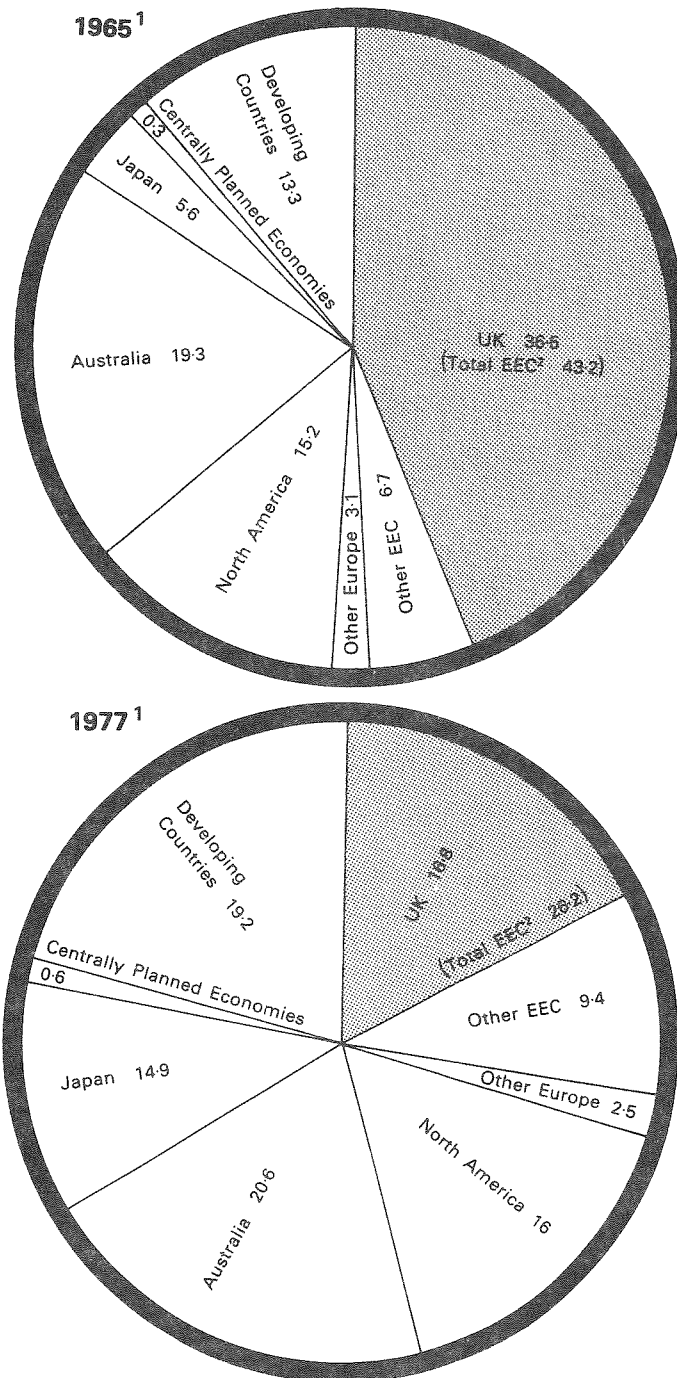


¹ June years.

² Present membership.

Source: New Zealand Department of Statistics.

Figure 15 (b)
SOURCE OF IMPORTS
(percent)

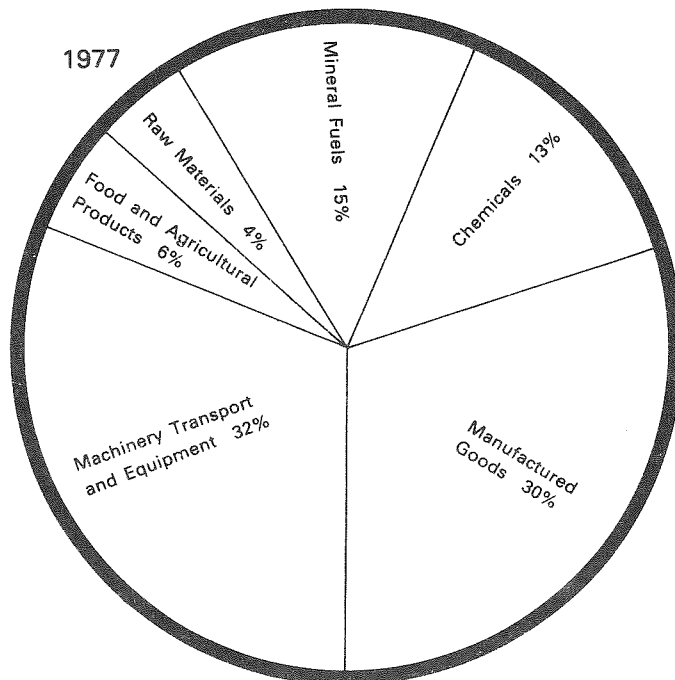
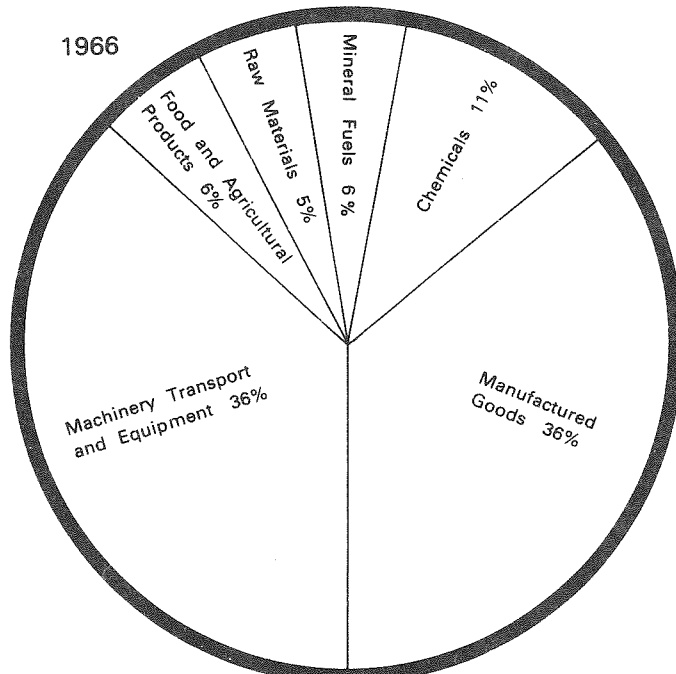


1 June years.

2 Present membership.

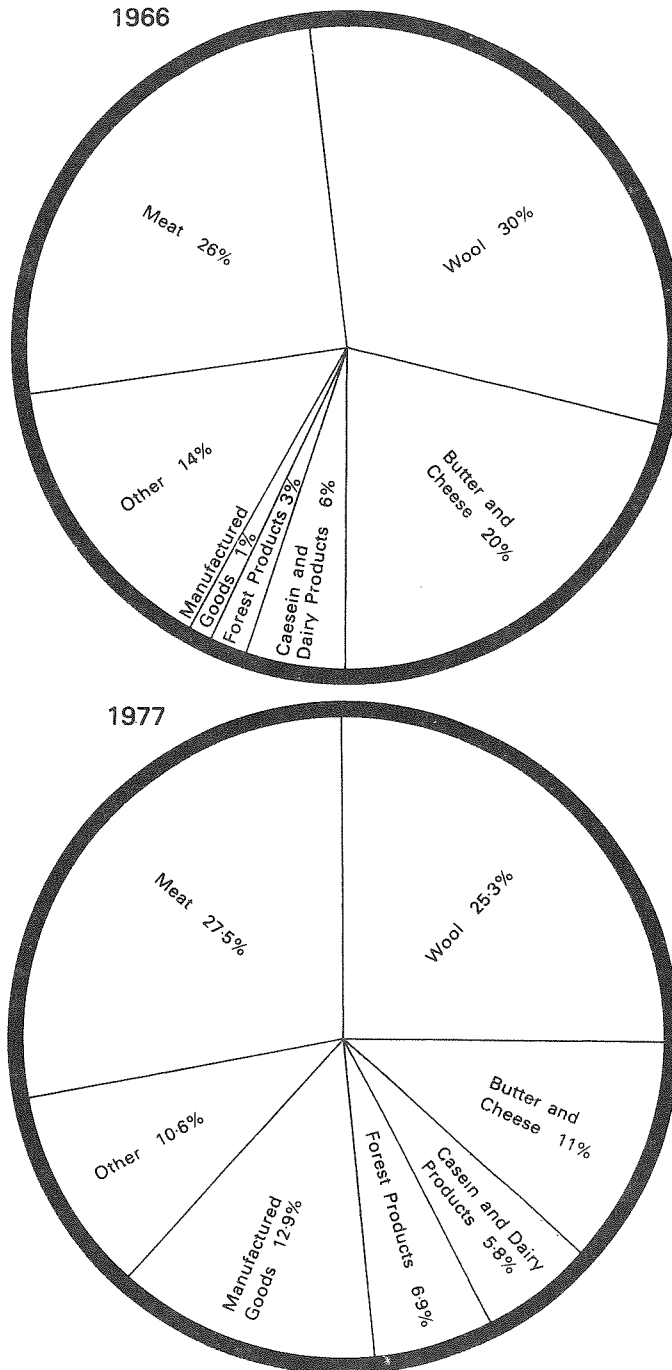
Source: New Zealand Department of Statistics.

Figure 16 (a)
COMPOSITION OF TRADE
 (June years)
IMPORTS



Source: New Zealand Department of Statistics.

Figure 16 (b)
COMPOSITION OF TRADE
(June years)
EXPORTS



Source: New Zealand Department of Statistics.

Table 10

COMPOSITION OF NEW ZEALAND EXPORTS

(Percent of total exports)

Period ¹	Dairy Products	Wool	Meat	Total Traditional	Non- traditional
1956-1959	26.7	38.2	27.3	92.2	7.8
1960-1964	24.0	40.1	27.4	91.6	8.5
1965-1968	26.5	31.0	39.0	87.5	12.5
1969-1973	21.8	25.0	33.9	80.7	19.3
1974-1978	17.7	23.7	29.2	70.6	29.4

¹June years from 1962 onwards.

Source: New Zealand Department of Statistics.

Table 11

"NON-TRADITIONAL" EXPORTS

(June years) (\$ million f.o.b.)

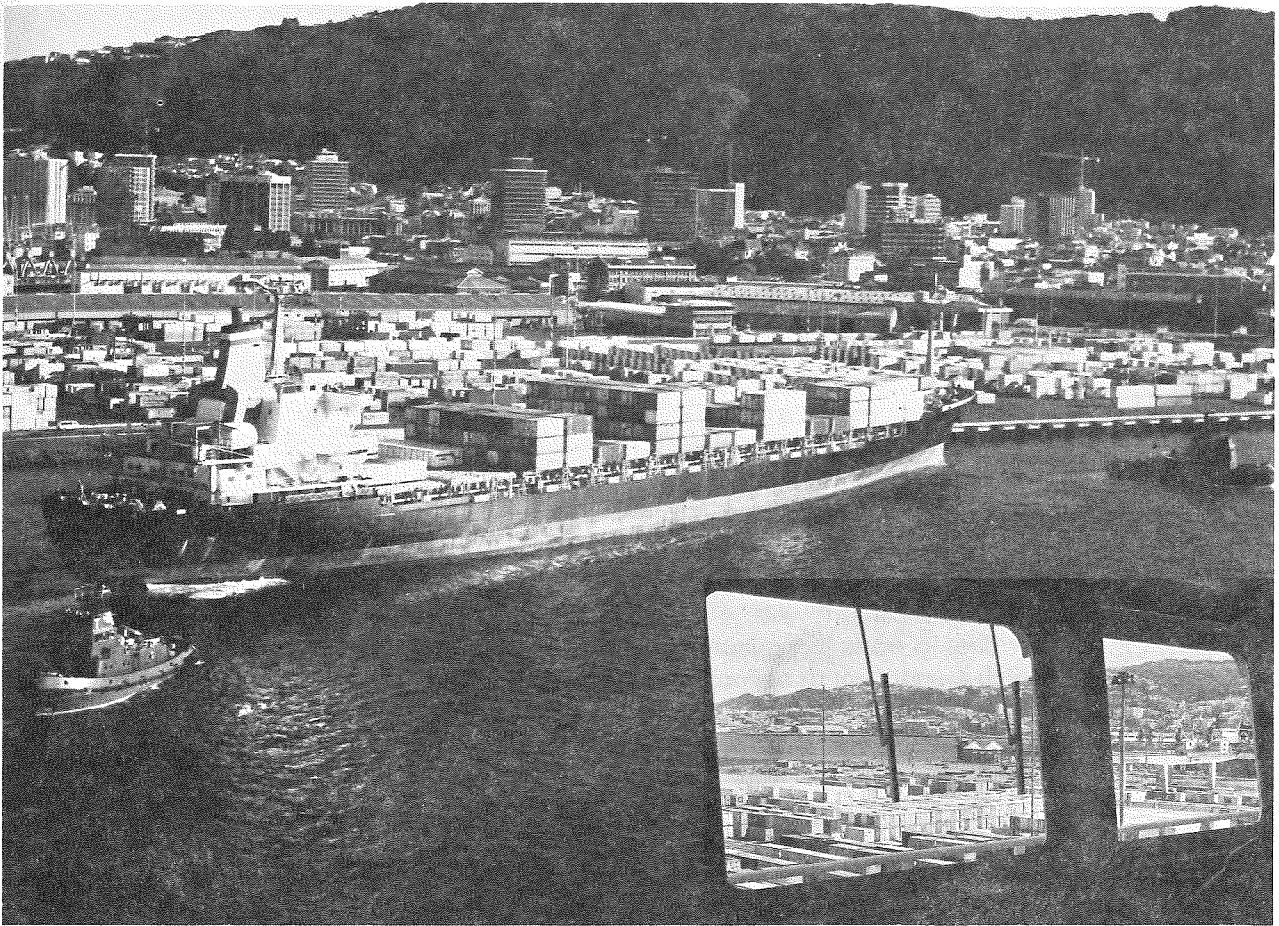
	1964-1965	1976-1977
Processed primary products (other than pas- toral)—		
Wood, pulp, newsprint, paper and paperboard ...	12.2	160.2
Other forest products ...	10.8	49.9
Processed food and vegetables and other non- pastoral ...	11.9	130.8
Other non-traditional items—		
Non-ferrous metals ...	0.8	116.2
Machinery ...	1.4	53.3
Textiles ...	0.8	59.3
Fuel products ...	2.8	38.3
Metal products ...	0.4	27.0
Foods ...	2.1	74.0
Chemicals ...	18.3	25.1
Transport equipment ...	0.1	14.4
Leather ...	0.3	27.6
Electrical machinery ...	0.5	19.8
Clothing ...	0.3	25.8
Basic metals ...	...	29.6
Other ...	3.3	76.6
Total non-traditional exports ...	66.0	927.9
<i>Memorandum item:</i>		
Share of total exports (percent) ...	9.5	30.4

Source: New Zealand Department of Statistics.

MARKET ACCESS

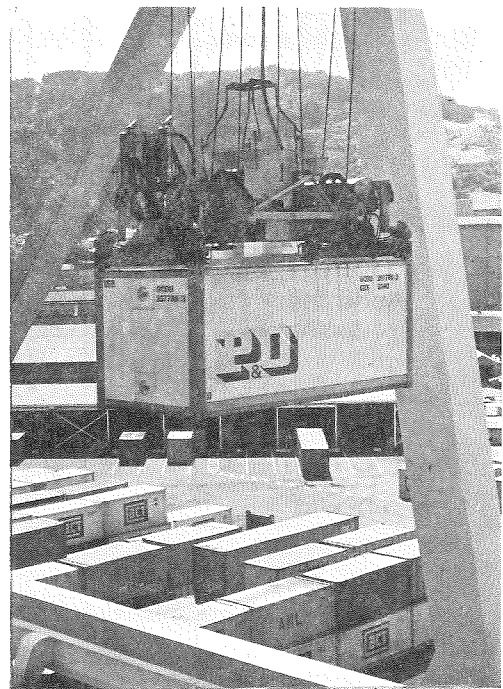
During the 1970s, as is evident, marketing and in particular access problems for New Zealand exports have considerably increased. Buoyant trading conditions early in the decade obscured this trend—it was during this period that the most rapid diversification occurred in both export production and markets—but the problems returned with the onset of the world recession after 1973, in intensified form. New Zealand is now struggling to retain its position in world trade, not because it is less competitive but because the difficulties of access to established markets are multiplying.

The most important trade issues for New Zealand are those involving access to European Community markets, but these are only part of a larger problem. New Zealand faces highly restrictive tariffs and/or quotas on its exports of cheese, butter, and milk powder to Japan and a formidable array of quotas on its dairy product exports to North America. Access to the United States beef market is subject to voluntary restraint agreements, while Japanese imports of beef are controlled by global quotas combined with a system of government tenders called at irregular intervals.



Transport

The New Zealand containerised trade is *important* to European shipping lines. The 31 000 tonne Melbourne Express (above, with view from the bridge inset) arriving at Wellington's container terminal. The Melbourne Express is owned by Hapag Lloyd AG and is one of 14 container ships providing the ANZECS service which links Tilbury, Rotterdam, Hamburg, Fos, Genoa, Zeebrugge, and Bremerhaven with New Zealand.

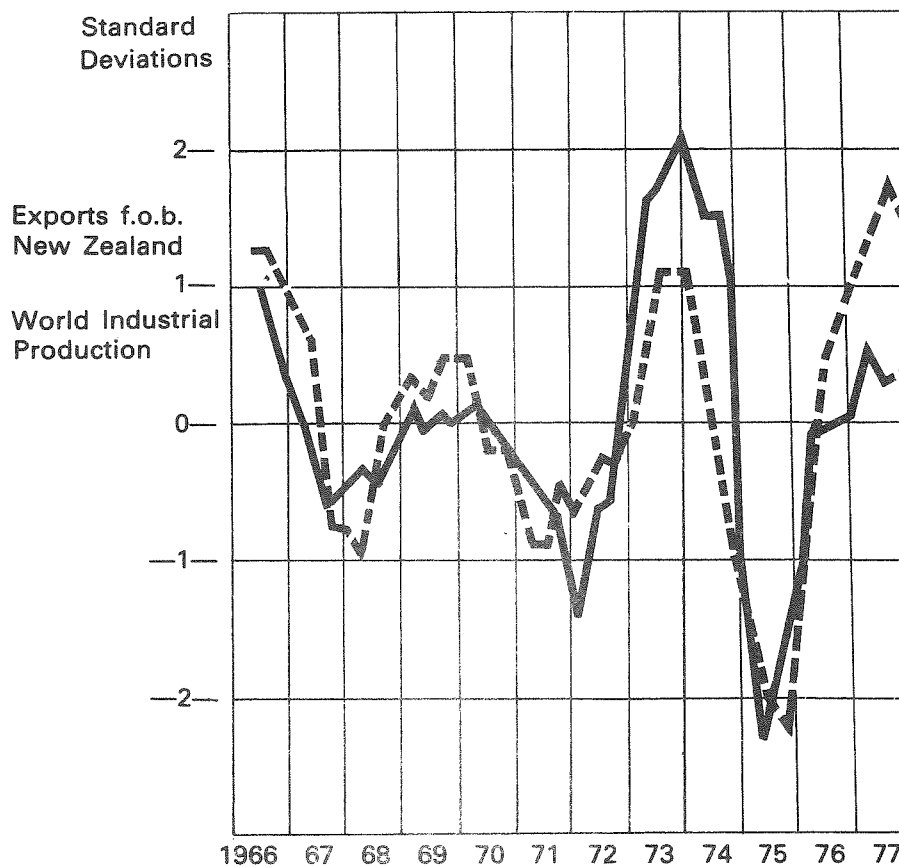


European equipment is used in most New Zealand container terminals. Stothert and Pitt Ltd. supplied this container crane at the Wellington terminal (above).

The uncertainty of market access has both damaged New Zealand trade with the industrial economies and hindered the process of diversification into newer markets. Food exports to Eastern Europe, for example, have usually been conditional on temporary though frequent shortfalls in production there. Other promising markets, notably in the Middle East, have yet to be consolidated. The need for relatively free trade in agricultural products is most readily accepted by the developing countries, which have themselves a strong interest in commodity-led export growth. They are important as additional markets although, because their purchasing power is limited, not as substitutes for the major Northern Hemisphere markets on which New Zealand continues to rely. There are frequent proposals for the supply of New Zealand agricultural products to new markets. Few offer the reasonable and reliable returns on which genuine diversification must be based.

It is not only exporters of agricultural products who have been confronted with more quantitative restrictions. Manufacturers, too, have had more restrictions placed on access to their main market, Australia. Nevertheless, the main problems for New Zealand stem from the growth of protectionism in world agricultural trade. It is in this context that New Zealand is pressing in the GATT Multilateral Trade Negotiations, in association with a number of agricultural exporting countries, for a better deal in trade in agriculture, specifically for those products, including its own, which are subject to serious and increasing tariff and non-tariff barriers to trade.

Figure 17
WORLD INDUSTRIAL PRODUCTION
AND NEW ZEALAND EXPORTS



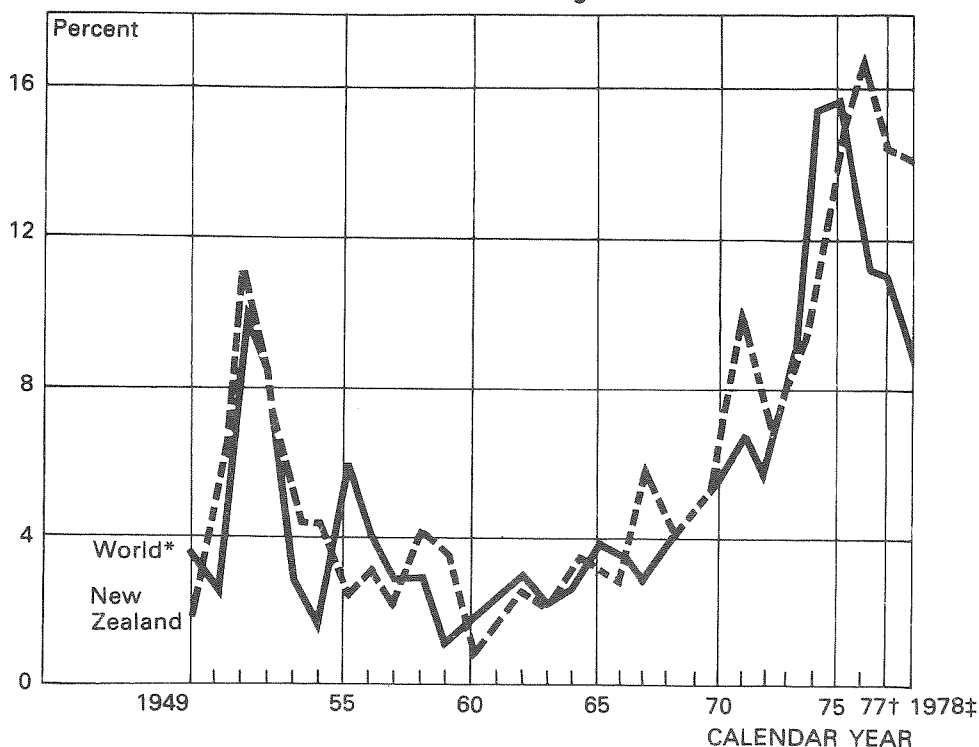
Source: Derived from I.M.F. International Financial Statistics and New Zealand Department of Statistics data. NZIER Estimate.

An unavoidable fact about the New Zealand situation is that it still relies heavily, for certain of its export commodities, on access to particular markets. Despite diversification, lamb and butter are still dependent on the United Kingdom market; beef depends on access to the United States market; and many of the new non-farm exports depend, for the present, on the Australian market. Now, and in the medium term, solutions to New Zealand's present economic (and social) problems have to be worked out within this framework.

THE IMPACT OF INTERNATIONAL INSTABILITY

While New Zealand's international trade sector is not especially large by European standards (especially with the progress there towards closer economic integration), the special nature of its export trade links the economy closely with developments in overseas markets. Its vulnerability is indicated in figures 17 and 18, which show respectively the relationships between changes in world industrial production and New Zealand exports in the last 12 years and the equally close relationship, over a much longer period, between New Zealand inflation rates and a trade-weighted average of inflation among its main trading partners.

Figure 18
NEW ZEALAND AND WORLD INFLATION 1949-78
Annual Price Changes



*Trade weighted average of inflation rates in Australia, United Kingdom, Japan, United States, West Germany, France, and Canada.

†September year.

‡1978: Estimate for year to June.

Sources: Derived from I.M.F. International Financial Statistics and New Zealand Department of Statistics data. Published in *Inflation*, New Zealand Monetary and Economic Council Report No. 33, December 1977.

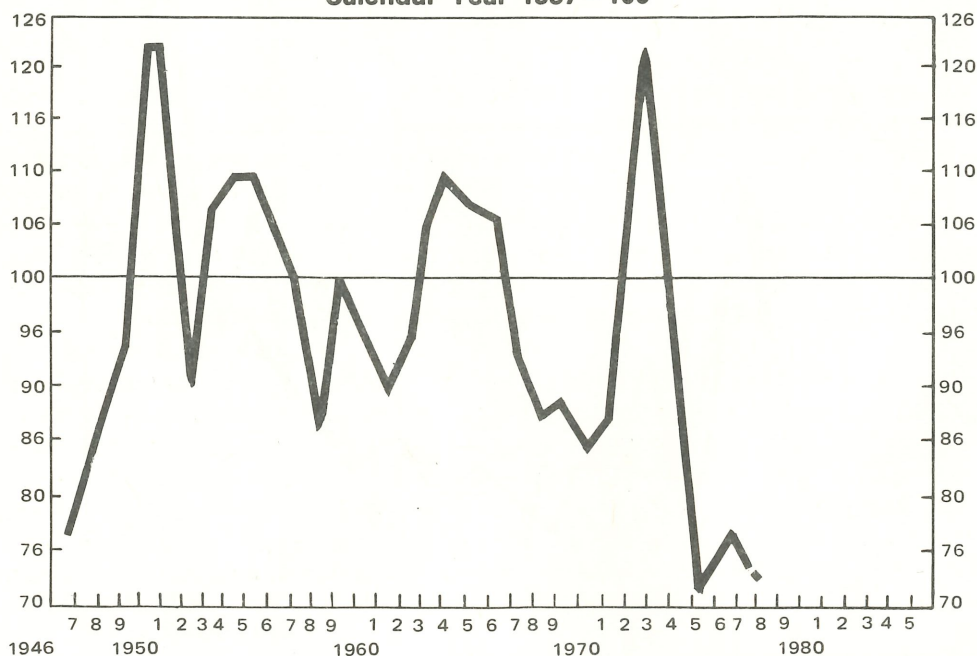
This dependence on external trends became more critical in the 1970s as world inflation and instability increased. International developments in 1972 had very strong effects on the New Zealand economy, mainly because the acceleration in demand for industrial materials and stocks (and poor grain harvests) caused commodity prices to escalate beyond the levels to be expected in a cyclical upswing. The effects were later compounded for New Zealand and most other countries by the quadrupling of previously stable oil prices and further increases in most other commodity prices.

Within New Zealand, as in a number of countries, the demand pressures exerted by the commodity boom were intense. Expansionary domestic policies in 1972 and 1973, after a period of restraint, resulted in rapid growth in production and imports. There was a surge of immigration which contributed to this expansion.

Consequently, the international downturn hit New Zealand with great severity. External inflation and higher transport costs caused import prices to rise by 32 percent in the year to June 1975 while in the same year reduced external demand led to a fall of 9 percent in the export price index. New Zealand's terms of trade fell drastically and have since remained at recession levels.

Figure 19 illustrates the changes in terms of trade which are at the core of New Zealand's present economic problems. The changes between 1971 and 1978, in both directions, are of the same magnitude as New Zealand experienced from 1926 to 1933, the years which include the Great Depression.

Figure 19
TERMS OF TRADE
Calendar Year 1957 = 100



Source: *Monthly Abstract of Statistics*, March 1977, and *New Zealand External Trade 1970-71—Report and Analysis*, Department of Statistics.

These developments imposed serious strains on the New Zealand economy. The OECD described the recession, in its 1977 report on New Zealand, as "the longest in New Zealand's post-war economic history and, in some ways, the most severe in the OECD area". The reduction in New Zealand incomes, after the high point reached in 1973, is shown in table 12. No other OECD country seems to have been as severely affected by the decline in the terms of trade.

Table 12

CHANGE IN REAL INCOME PER CAPITA IN SELECTED OECD COUNTRIES

(Percentage Change from 1973 to 1976)

	Real GDP	Population	Real GDP Per Capita	Terms of Trade Effect	Real Income Per Capita
New Zealand	2.5	5.0	-2.4	-12.0	-14.4
Australia	7.1	3.8	3.2	-1.2	2.0
Austria	7.4	0.1	7.3	-0.8	6.5
Belgium	4.4	0.9	3.5	-2.3	1.2
Canada	8.6	4.7	3.7	1.6	5.4
Denmark	4.3	1.1	3.2	-3.4	-0.2
Finland	4.9	1.4	3.5	-0.7	2.8
France	7.7	1.5	6.1	-1.4	4.7
Germany	2.7	-0.8	3.5	0.5	4.0
Greece	10.9	2.2	8.5	-8.5	0.0
Iceland	-0.9	4.2	-4.9	-6.5	-11.4
Ireland	4.9	3.6	1.3	-11.5	-9.1
Italy	5.9	2.2	3.6	-5.2	-1.6
Japan	7.4	3.7	3.6	-3.2	0.3
Netherlands	7.2	2.5	4.6	-1.2	3.4
Norway	15.5	1.8	13.7	-4.5	9.2
Spain	7.8	2.4	5.3	-4.7	0.6
Sweden	6.4	1.0	5.4	0.0	5.4
Switzerland	-5.9	-1.0	-4.9	-0.3	-5.1
United Kingdom	-0.7	0.3	1.0	-4.5	-5.5
United States	2.5	3.9	-1.3	-1.2	-2.5

NOTE—This table has been constructed from the national accounts and population statistics of member countries as supplied to the OECD. There are statistical problems of comparability between the deflators of current external transactions for different countries and the use of GNP or GDP concepts may, in certain cases, influence the final figures. These comparisons should therefore be treated with caution. For some countries OECD estimates have been used for 1976.

Sources: OECD, National Accounts of OECD Countries and Secretariat estimates.

Government economic policies were at first designed to dampen the worst effects of the downturn in the terms of trade. The emphasis then turned to demand and import restraint and to efforts to switch production into exports to reduce a very large balance of payments deficit. There was an acceleration of an already high inflation rate; minimal growth, on average, and in 1977 a decline in real GDP; the emergence of the first major post-war unemployment problem; a reversal of migration from a net inflow of over 30 000 in 1974 to a net outflow of about 25 000 in 1977; and increased industrial and social tension.

Unemployment, generally defined in New Zealand as the total of registered unemployed and those on special Government work, now exceeds 4 percent of the estimated total work force—a relatively small proportion by some European standards but far in excess of the New Zealand post-war average. On the same basis, unemployment averaged only 0.2 percent in the 20 years to April 1975 and did not exceed 0.6 percent on an annual basis during that period. Thus changes in employment, migration, production and prices have led to a fundamental change in the economic and social balance obtaining throughout the post-war period.

Table 13

EXPORT AND IMPORT VOLUME INDEX

(1965-66 = 1000)

June Years	Exports	Imports
1973-74	953	1431
1974-75	929	1468
1975-76	1094	1193
1976-77 ¹	1223	1195
1977-78 ²	1211	1052

¹Provisional.

²Estimate by N.Z.I.E.R.

Domestic restraints have significantly improved the balance of trade through their effects on the volume of exports and imports. However, as indicated, the terms of trade have continued depressed and there has been a large and persistent increase in the deficit on "invisibles" through rising net payments, particularly for transport, travel, and servicing of increased external debt.

Table 14

NEW ZEALAND'S CURRENT ACCOUNT BALANCE

	GNP \$(m)	Current Account Balance \$(m)		Current Account Balance as percentage of GNP		Debt Service Ratio
		Balance of Payments Terms	Overseas Exchange Transactions Basis	B.O.P.	O.E.T.	
1973-74	8,682	- 99.2	- 30.0	- 1.1	- 0.3	4.1
1974-75	9,452	- 1362.7	- 992.6	- 14.4	- 10.5	6.1
1975-76	10,914	- 1011.0	- 814.5	- 9.3	- 7.5	7.9
1976-77	12,786	- 877.0	- 590.5	- 6.9	- 4.6	8.0
1977-78	14,255 ¹	- 810.0 ¹	- 509.5	- 5.7	- 3.6	9.3
1978-79	15,700 ²	- 730.0 ²	- 400.0 ³	- 4.7	- 2.5	9.0 ³

¹ NZIER estimate.

² NZIER forecast.

³ Reserve Bank of New Zealand forecast.

Although the balance of payments has improved significantly, the deficit on current account remains high by past standards. Policy-makers are confronted with a difficult conflict of objectives. They are now seeking a mixture of policies which will halt the decline in the economy while continuing progress towards reducing reliance on borrowing abroad.

THE CONSEQUENCES

The dramatic changes in the economy and in its external circumstances, especially since 1973, have put at risk what has for many years been regarded as a successful experiment in social democracy. The problems now being faced by New Zealand are structural as well as cyclical in character, challenging an economic strategy developed over a period of relative price stability, cheap energy, and comparatively rapid growth in world trade.

New Zealand's development as a welfare state was essentially based on efficient agricultural development, firmly oriented towards export markets, especially Britain. This narrow economic base supported a high standard of living for a growing population and a fiscal system which produced greater equality of incomes than in most agricultural, or industrial, economies. It proved to be consistent with the development of a successful multi-racial society, with an accommodation between Polynesians and Europeans by no means ideal or incapable of improvement, but nevertheless something of a model internationally.

Most of New Zealand's social measures (universal suffrage, comprehensive social security arrangements, and free education at all levels) were international innovations in their time; however, increasing prosperity has produced welfare provisions in many European countries which have matched and in some respects surpassed those of New Zealand. The desire for innovation still exists—as shown for instance in the recent provisions for state compensation for all accident victims, and for earlier universal superannuation for the aged. However, the capacity to finance such social development has been undermined by the more recent problems of the economy.

So, too, has the country's capacity to participate constructively with neighbours like Australia, in helping to create and maintain conditions for peaceful development in its own region, the Pacific. In addition to participating in strategic arrangements such as the ANZUS Treaty, between Australia, New Zealand, and the United States, and promoting the Antarctic Treaty for international co-operation in the far South, New Zealand has greatly strengthened its political, economic, and cultural relationships with Japan, South-east Asia, and other Pacific Basin countries. It has seen itself as having special responsibilities for assisting development in the smaller societies of the South Pacific, several of them peopled by close relatives of the New Zealand Maori. Thus aid, migration, and trade links with these societies have broadened appreciably.

A resumption of economic growth is needed now to reverse declining real incomes, and to provide a more satisfactory base for social improvement and constructive participation in international affairs. The task of determining appropriate directions for future development in the new circumstances is made more difficult by uncertainties about the future of trading relationships with Europe.

PAST EFFORTS AT ADJUSTMENT

The desire to promote growth and diversification of the New Zealand economy, and to reduce its vulnerability to external fluctuations and its dependence on the British market is not new. Many policy initiatives have been taken, and important changes have occurred in the structure of the economy and its trading relationships. Nevertheless, the need for reappraisal of past strategies persists.

Even before the marked downturn in the terms of trade occurred, the rates of economic growth achieved had not been high. The average growth of real GDP between 1955 and 1973 was 4.1 percent per annum. With higher population growth than in most OECD countries, this permitted an annual average increase in GDP per capita of only 2.2 percent.

In the interests of growth in opportunities for employment and reduced dependence on external factors, domestic industrial development was promoted throughout the post-war period. As in many developing countries, the emphasis was at first on import substitution, with the result that generally, though not exclusively, the industrial sector grew in a protected environment, with many industries depending on high levels of effective protection. The share of secondary industry in the GDP increased, as shown in table 15, while employment in manufacturing also increased rapidly.

Table 15

CHANGES IN THE COMPOSITION OF DOMESTIC PRODUCT

(Percent of GDP)

Sector	1965-66	1970-71	1975-76*
Primary agriculture	15.0	14.4	12.0
Other	1.5	1.6	1.4
Secondary	31.6	33.3	36.9
Services	51.9	50.7	49.7

*A change in the agricultural series calculation in 1971-72 means that subsequent data are not strictly comparable.

Source: Monetary and Economic Council Report No. 32, May 1977. Derived from Department of Statistics data.

New Zealandsk lam



Hører De til dem der synes, at lam er noget der smager identisk, så skulle De prøve new zealandsk lam. Det er noget af verdens fineste lamme kød. Det er ungdom med en pragtfuld kryddret smag, som kommer fra de sødte urter og græsser, der vokser på de new zealandiske græslande.

Prøv engang - De vil bestemt ikke blive skuffet.

Bov med skank
Kan steges hel, som rullesteg eller anvendes til lammebrøds.

Pr. 1/2 kg. De sparer 2.05 . NU **945**

Schnitzel af kolle
Steges på panden 3-4 min. på hver side.

Pr. 1/2 kg. De sparer 1.90 NU **1265**

Lam burgers
Hakket kød, formos til karbonader og steges 3-4 min. på hver side.

Pr. 1/2 kg. De sparer 2.55 . NU **995**

Dobbelt ribben
Kødtulde. Til oven- eller grillstegning.

Pr. 1/2 kg. De sparer 2.45 . NU **725**

Kolle
Høstet i oven (smager pragtfuldt med hvidsauce).

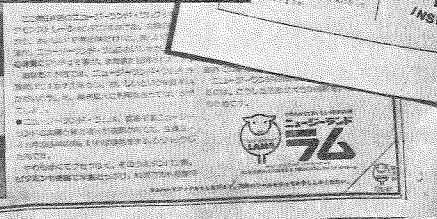
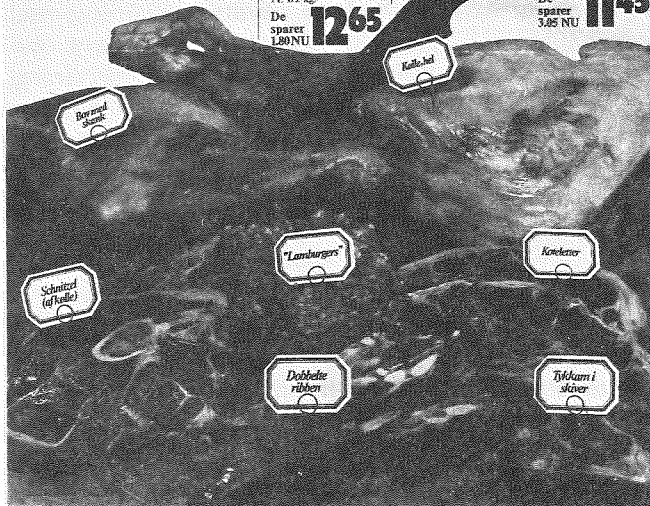
Pr. 1/2 kg. De sparer 2.05 . NU **1045**

Tykkam i skiver
Valget til gryderetter.

Pr. 1/2 kg. De sparer 2.45 . NU **725**

Koteletter
Kan steges på grill eller pande.

Pr. 1/2 kg. De sparer 3.85 NU **1145**



Diversification

The New Zealand meat industry, with the assistance of foreign trade officials, is continuing efforts to develop new markets around the world. Sales promotions have helped to develop markets in **North America, Asia, the Middle East, and Europe**. Retail and trade advertising in Europe and Japan (above), trainee chefs a New York City Community College (below, left), and Japanese supermarket display (below, right).





Try it

New Zealand lamb promotions have become a regular feature in **North America, the Pacific Islands and Japan.** Japanese shoppers taste New Zealand lamb (above); former Meat Producers Board member, Gordon Dryden, talks to Honolulu supermarket meat managers (above, right); cookery expert Alison Holst, talks to Honolulu shoppers (below); Japanese trade (right); and European retail advertising (below, right).



lamsfeest

Wij hebben wat met u te vertellen. Al meer dan 10 jaar importeert Schoonderwoerd het meest geselecteerde lamsvlees ter wereld: lamsvlees uit Nieuw-Zeeland.
 Pas als lammeren aan alle zware keuringseisen voldoen, krijgen ze hun paspoort voor export: acht (!) keurmerken 'New Zealand Lamb'. Ze zijn altijd 3 tot 6 maanden jong, en hun gewicht en vleesdikte-verhouding bepalen de classificatie: een kwaliteitsgarantie. Ook aan veel gedetailleerde tafels in het vaak facet tegenwoordig.
 Want Nederland heeft het lamsvlees omleek. Met een beetje peper en zout maakt u er al iets heel lekkers van. Tenminste, als je werkelijk goed lamsvlees koopt. Uit Nieuw-Zeeland. En hoe staat 't met het feest bij u? Ook al aan het lamsvlees? Proficiat! Nog niet met 't.
 Dan wordt het brood tijd. Want ter ere van het lamsvlees geldt voor Nieuwzeelands lamsvlees, voor concurrentie en publieksovername, met extra aantrekkelijke marges.
 Uw adres voor bestellingen, gratis reclame-materiaal en receptenfolken: Schoonderwoerd's Keurdiepvleesproducten.
 Keurdiepvleesproducten
 Amelslootweg 1145
 De Bilt, Tel. 030-762641
 Telex 47751

NEUW ZEELAND LAMB

SCHOONDERWOERD'S Keurdiepvleesproducten

- Nieuw-zeelandse zuiglammeren f4.50 per kg
- Lamsbouten f6.50 per kg
- Lamszadels f6.50 per kg
- Lamsschouders f6.00 per kg
- Lamsvoorstukken f3.50 per kg
- Originele lamsvlees met middenrij f3.50 per kg
- Vierkante lamsschouder f4.00 per kg

This strategy was tenable as long as agricultural output and export volumes were steadily increasing, as was the case until the late 1960s. But as indicated in figure 20, the growth of agricultural production then faltered. In 1976–77 output was less than 5 percent above the level reached in 1968–69. Lower investment in agriculture after the mid 1960s is clearly reflected in the slower growth in livestock numbers since then and the subsequent decline in output and export growth. The change in agricultural export volumes is shown in table 16.

Table 16

**COMPARATIVE GROWTH IN EXPORT VOLUME DURING
THE 1960s AND 1970s**

(Average Annual Change Percent)

Period*	Dairy Produce	Meat	Wool	Total Agriculture	Total Exports
1962–1971 ...	3.7	3.9	3.4	n.a.	4.8
1972–1977 ...	1.9	3.2	-0.7	1.9	3.9
1972–1979† ...	1.9	1.5	-1.3	1.2	3.3

*June years.

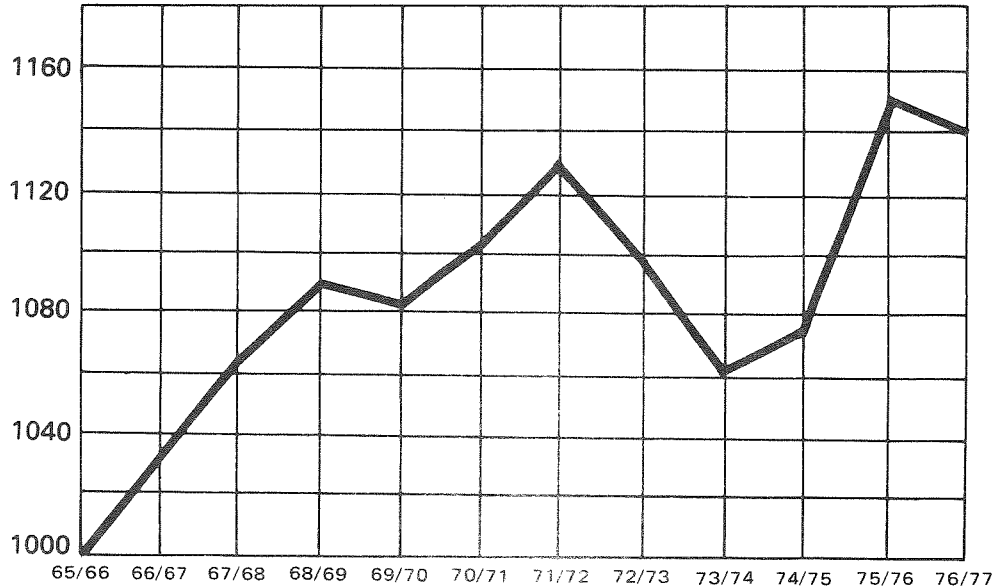
†Includes 1978 and 1979 estimates by the New Zealand Institute of Economic Research.

Sources: Derived from Department of Statistics data and NZIER Quarterly Predictions.

Increased volatility and instability in international markets acted as a deterrent to investment and production growth. Problems of marketing and especially of market access became more serious in the 1960s and 1970s. The uncertainties multiplied. For the New Zealand agriculture sector, after the mid 1960s, it was seldom clear that an increased volume of output could be sold internationally at prices which guaranteed an adequate return to producers.

Figure 20

INDEX OF GROSS AGRICULTURAL PRODUCTION



Base: 1965 = 1000.

Source: New Zealand Department of Statistics.

On the industrial side, it was increasingly apparent in the 1960s that a strategy of import substitution was inadequate. Export growth was essential for a small economy, in which domestic development relied on adequate supplies of overseas exchange for materials, equipment, and fuels. Despite the restrictions and instabilities in agricultural trade, there were opportunities to increase earnings of overseas exchange from a changing mix of primary products, but the capacity of primary producers to take advantage of them was being prejudiced by the pressure of high costs of domestic supplies and services. So, too, was the development of alternative sources of overseas earnings. Thus, from the late 1960s, there was a major shift in domestic policy towards the encouragement of all exports—agricultural, forestry, manufacturing, and services. This promoted a rapid expansion of non-traditional exports and the increase shown earlier in their share of total export earnings. However, despite the external changes, New Zealand continues to enjoy strong comparative advantages in production from the land. The agricultural sector remains the dominant source of overseas exchange.

FUTURE STRATEGY

It is evident that New Zealand has been passing through a period of significant adjustment to its economy. The balance of payments deficit has been considerably reduced, and there will be substantial net savings of overseas exchange accruing from recent heavy investments in a large natural gas field off the North Island coast. Nevertheless, borrowing is still substantial and the improvement has been achieved at considerable domestic cost in reduced activity, employment, and real incomes. It must now be a major aim of policy to reverse these domestic trends. In the external circumstances which seem likely to prevail, it will be a real challenge to achieve a moderate rate of growth while continuing to reduce the deficit in the balance of payments to a sustainable level.

In its first major report, published in March 1978, the New Zealand Planning Council looked at the possibilities. The council does not believe that New Zealand will be rescued from its present difficulties by a fortuitous upturn in the terms of trade. It also said that planning for the next 5 years should be based on the assumption that there will be some improvement from present crisis levels, but that the terms of trade will fluctuate around an average where each unit of exports buys about 80 percent of the imports which it could buy in the 15 years before 1973. Even this assumes growth among the OECD countries as a whole at about 4.5 percent annually on average, and no serious intensification of the restrictions which they now impose on New Zealand's exports.

On the basis of these assumptions, the Council considers that the country should be capable of achieving an average rate of growth of real GNP of about 3 percent per annum in the next 5 years, while reducing the overseas deficit from the equivalent of over 6½ percent of GNP recently to about 2½ percent of GNP by the end of the planning period. The achievement of these goals will depend on the continuation of a programme to restructure the economy, with emphasis on developing its capacity to earn and save overseas exchange, and generally improving the efficiency with which resources are used.

The Council has given considerable attention to the directions which budgetary, monetary, and incomes policies must take if inflation is to be brought to and kept at levels comparable to, or better than, those prevailing among New Zealand's major trading partners. It has also considered what needs to be done to stimulate efficiency through such means as changes in taxation, pay structures, and Government regulations, through reforms in the public sector of the economy, and through more deliberate efforts to promote a more competitive market. In this connection, the council advocates a systematic review of areas of the economy which at present require unusually high protection or subsidy, with a view to action which will either improve their competitive strength or assist those engaged in them to transfer their efforts into areas of greater long-run national benefit.

It is, of course, easier for a government to gain support for and to implement a policy of moderating protection if the world economy is growing and other countries are pursuing liberal policies towards access. Larger countries have a particular obligation to recognise that their policies create the climate in which smaller countries' policies must be formed and that it is in their long-run interest to be liberal in agricultural as well as industrial trade. In any case, what any country can spend on imports must be governed by the means which it has available to pay for them. Accordingly, the council sees the policy of moderating protection being put into effect against a background of more general policies which must continue to include measures designed to save overseas exchange. There is now widespread agreement in New Zealand that the country's dependence on imported energy, especially liquid fuels, must be reduced. Government policy is now positively directed towards encouraging economy in the use of energy and towards the discovery and development of domestic alternatives to imported sources of energy with which New Zealand seems reasonably well endowed.

So far as encouraging economy in the use of overseas exchange generally is concerned, it would be damaging to the country's long-term interest to carry the deflation of activity and employment further. Domestic discussion centres on the nature and extent of the stimulus needed to restore growth, and what means should be used to give effect to what an OECD mission described as "expenditure-switching" as opposed to "expenditure-reducing" policies. So far as exchange-saving is concerned, the main choices are among variations of the exchange rate, higher duties or taxes on imports and/or other uses of overseas exchange, and intensification of import licensing. The Planning Council has expressed its preference for greater use in future strategy of techniques which operate generally through the price mechanism. Successive governments have used a variety of techniques to try to curb excessive importing. These include quantitative restrictions on some imports. While governments have felt obliged to continue to keep a firm rein on imports of goods subject to licence, it is noteworthy that, although the balance of payments deficit has been more serious than any in the past, there has been no increase in import licensing. This reflects in part Government's wish to honour the pledge made by OECD members to avoid intensifying the difficulties of others by unnecessary restrictive action. It also indicates recognition of the limits which face a small country in solving its problems satisfactorily by restricting imports. As indicated, the easy path to import substitution has, in New Zealand's case, already been traversed. Most imports are materials, equipment, and fuels needed by domestic industries and services, and restriction soon affects activity and employment. Thus the emphasis in strategy must be on trading the country out of its difficulties through expansion and diversification of exchange earnings.

New Zealand has fewer opportunities than the smaller countries of Europe to find a partial solution through regional arrangements to free trade which will provide a desirable combination of wider access to markets for the country's efficient enterprises and a desirable competitive stimulus for the less efficient. The Planning Council believes that New Zealand should try to negotiate arrangements for closer co-operation with Australia, including the removal of most barriers to trade between the two countries over the next 10-15 years. The acceptability of this recommendation to the two governments at present is open to question, especially as unemployment has become a serious problem in Australian manufacturing industry. In any case, while freer trade with Australia would be helpful in strengthening the capacity of New Zealand's industries and services to be internationally competitive, Australia can continue to provide only a relatively small part of the total exchange earnings which New Zealand requires to sustain a reasonable rate of growth.

The Planning Council believes that, to sustain the basic growth and balance-of-payments objectives which it has suggested, exports will have to increase annually by 5 percent in volume.

It expects "non-traditional" exports to continue to grow more rapidly than the "traditional"—not at the spectacular rates achieved in 1976–77, but rising at about 10 percent per annum in volume. But some continued expansion of "traditional" exports will also be necessary if exports in total are to rise by 5 percent. The Council suggests a 2 percent annual increase in volume for such pastoral exports—less than the 3 percent annual growth achieved in the 1960s, but a revival from the virtually static state of such exports so far in the 1970s.

Growth in livestock numbers, to support the required increase in pastoral products available for export, seems likely to occur provided that confidence among farmers can be sustained, reasonable profitability ensured and farm investment encouraged. Table 16 shows projected growth rates by commodity under these conditions.

Table 17

GROWTH OF PRODUCTION AVAILABLE FOR EXPORT

Projected Production Growth to 1985 from Estimated Production in 1976–1977 (Average Annual Rate).

Beef	...	...	...	...	2.4
Mutton	...	...	...	...	1.9
Lamb	...	...	...	...	0.5
Wool	...	...	...	...	3.9
Dairy	...	...	...	...	1.4
Total	...	...	...	...	2.0

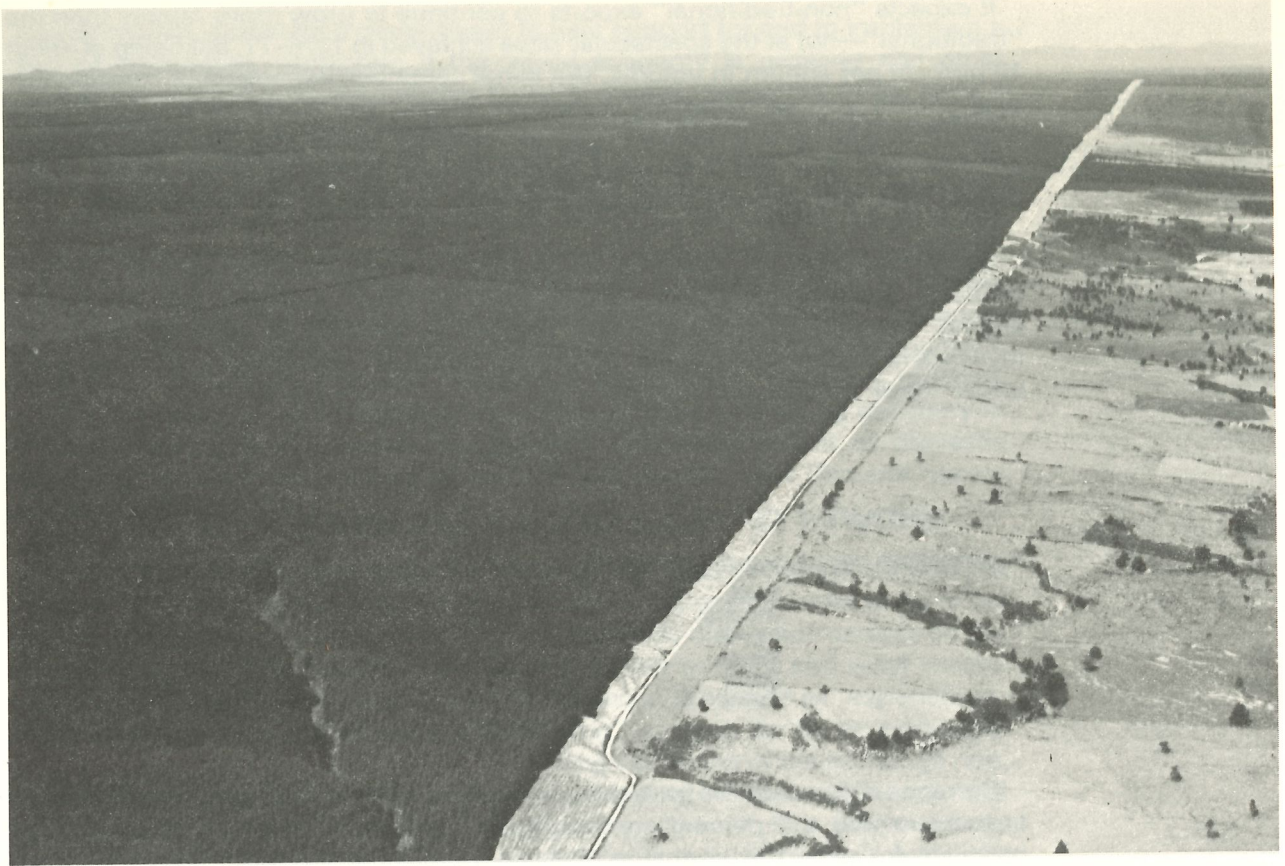
Source: New Zealand Ministry of Agriculture and Fisheries.

Opinions differ as to the probable composition of growth in output but there is a consensus that a 2 percent annual growth rate in the total supply of pastoral products for export is all that is likely—a modest expansion unlikely to create additional absorption problems in overseas markets, either in aggregate or in relation to any single commodity. OECD analysis of the consumption and import elasticities for New Zealand export commodities (in OECD countries) suggests that the demand for them could also increase by about 2 percent annually, in aggregate—provided that market access is not further restricted. The calculations are important because the products involved—meat, wool, and dairy—still account for over 60 percent of New Zealand's total export earnings. On the demand side, the realisation of the national export and economic growth objectives depends largely on the policies pursued with respect to agricultural production, pricing, and imports in countries which provide New Zealand's main export markets.

MANUFACTURING AND PROCESSING

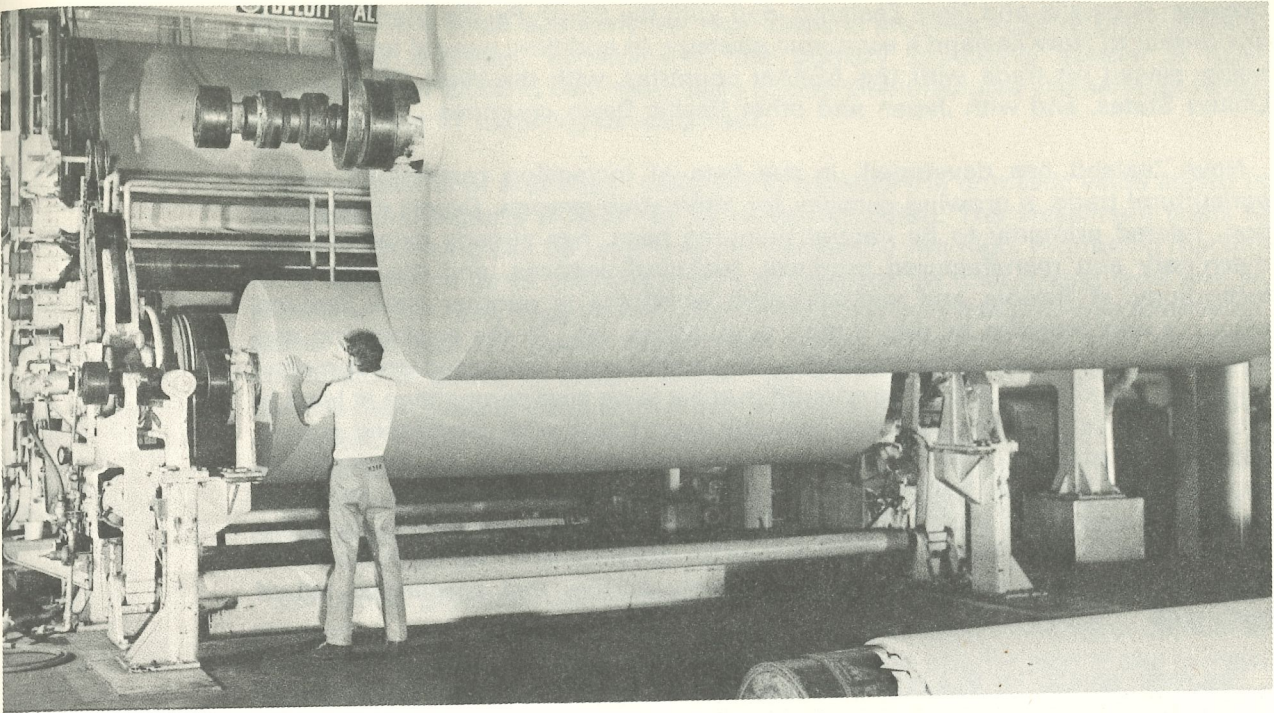
Non-traditional exports must also increase, if a 2 percent growth in agricultural production for export, and a requirement for close to 5 percent growth in total exports, are to be reconciled. Export growth in these categories has been rapid in recent years, but from a small base. Moreover, it has been assisted both by generous export incentives and by a depressed internal market which has made exporting unusually and perhaps temporarily attractive. As the volume of manufactured exports has increased, especially to the Australian market, access problems have begun to emerge. Currently, exports of manufactured goods are not increasing as rapidly as will be necessary in the medium term to achieve the overall export objectives.

The most promising markets for New Zealand manufacturers are those in the Pacific Basin, the area in which New Zealand's trade, aid, and other economic relationships have grown most rapidly in recent years. Transport and travel links have also strengthened in this region. The efforts to consolidate and expand market relationships with Australia (through NAFTA, the free trade agreement

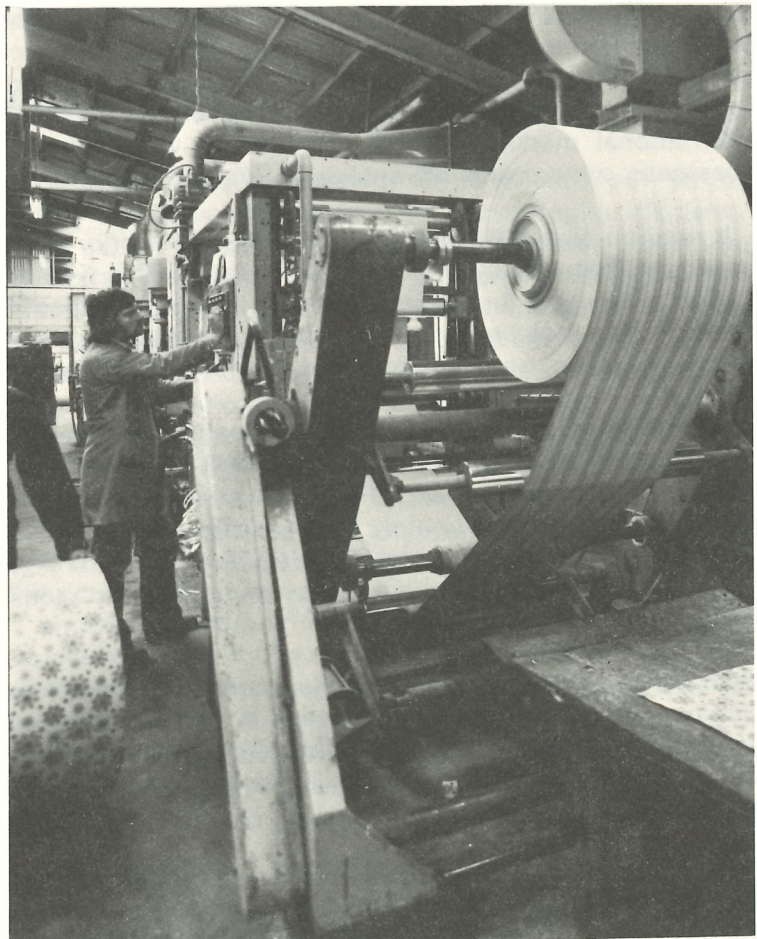


Kaingaroa, the largest man-made forest in the world, adjoins fertile dairying country. New Zealand's exotic forests are now a major source of foreign exchange. The logs cut near Taupo (left) are bound for Fletcher's Plyco factory at Taupo (right).





Wood pulp, chips, newsprint, paper and paperboard are the forest industry's main foreign exchange earners. **New Zealand Forest Product's No 5 paper and paperboard machine at the Kinleith plant is pictured above.**



The forests are also exported as pre-cut houses, dressed timber, and printed wallpapers. Laminated timber beams (left) are produced at the **Waipa mill near Rotorua**. Vinyl-coated wallpapers are produced by **Ashley Wallpapers Ltd. (above) at Porirua, near Wellington.**

between Australia and New Zealand), and with the South Pacific Island nations, are central to New Zealand's economic strategy. In addition, special emphasis is being placed on trade with the ASEAN countries, with the West Coast of the United States, and with Japan and other Pacific Basin countries.

New Zealand has developed, in the face of increasing restrictions on its agricultural trade, a growing capacity for alternative exports. Export diversification, related primarily to its natural resource base, has already extended into machinery and manufactured products, technical services, and the export of technology. A flexible and well-educated workforce is another New Zealand resource and provides its own export possibilities, e.g., in the engineering and electronics industries. Some manufacturing enterprises not based on domestic materials are efficient and large enough in scale to be cost-competitive at least in the Pacific region. These provide a separate export base with established growth potential. Expanding travel and tourism industries and an increasingly sophisticated financial sector will contribute to the reduction of the deficit on invisible transactions which is one of the areas of greatest concern about the balance of payments. But the main avenues for development may be those which build on what has seemed to be a relatively narrow and specialised set of resources.

The main reason for this is that New Zealand is a small economy in relation to nearly all of the industrial countries, and to the EEC. On average its domestic markets and its manufacturing enterprises are also small. It has to be remembered that the population numbers only 3 million. Except in special circumstances New Zealand cannot compete with large-scale, low-cost production. These special circumstances are provided by its primary resource base. The potential for manufactured exports based in primary production is very large. It is already evident in the processing industries that the combination of efficiently produced inputs and economics of scale results in products which are fully competitive in international markets. This is the area in which New Zealand most clearly possesses comparative advantage in international and regional trade.

It may be essential, therefore, to give higher priority to export development based on these distinct resource advantages. This would involve, in effect, the further processing for export of more of the commodities New Zealand produces so efficiently—pastoral products, other agricultural commodities, forest products, certain minerals, and fish from the exclusive economic zone.

Increased processing of agricultural products already has an important place in New Zealand development strategy. In 1976-77 12 percent of lamb and 8 percent of mutton exports were being processed well beyond the carcass stage and the figure for beef exports (mainly because of boning) was 94 percent; 43 percent of wool was being scoured compared to 15 percent in 1963-64, and carpets and other wool manufactures had become major exports; while dairy products were being exported in a great number of manufactured forms. There is an established trend towards a much higher degree of processing of pastoral exports. This, rather than any movement away from agriculture, is what needs further encouragement. Similar developments have occurred in processing or manufacture based on forestry, mining, and fishing resources. If non-traditional exports are to increase at a high and sustainable rate it is this type of development which must be further promoted.

In addition to these manufactures based on the country's natural advantages, there is scope for expansion of exports of unique, patented products stemming from New Zealand ingenuity and of products from enterprises, usually embodying some sophisticated technology where considerations of scale are not very important and where New Zealand can fill niches for which it is not worth while for larger producers to cater. New Zealand manufacturers have also found that adaptations of foreign machinery and equipment which have been made to suit

conditions in a small economy like New Zealand are frequently of great value in developing societies. Especially in the primary producing sectors of such societies, New Zealand can make sales of both manufactures and services which are important in fostering development.

The problems of a strategy designed to increase the domestic value added to New Zealand exports should not be under-estimated. The investment costs of further processing can be large and the element of risk high. Promoting markets for a diverse range of manufactured products can be both a long term and an expensive business. Regular and efficient transport services take time to develop. Some manufactured goods attract high tariffs. They may also face restricted conditions of access to some markets—non-tariff barriers which other countries besides New Zealand employ to protect industrial employment. For products such as leather, it may make market sense to continue to export most of the product in non-manufactured form, at least in the medium term, rather than compete on a crowded market for finished goods. Further processing is sensible only where it offers a net long-term benefit to the economy in foreign exchange.

For some products, particularly meat, the practical possibilities for further processing are at present limited. Fresh food preparation for distant consumer markets may be practicable only in limited volume and for specialised outlets. New Zealand investment in overseas distribution systems is one way to capture more of the value added between farm and final retail sale. A natural long-term development is towards fully-prepared foods but this is at present in its early stages. For the bulk of New Zealand meat, and much of its dairy production, there is no ready medium-term alternative to exporting in the present form.

RESTRUCTURING

The Planning Council directed particular attention in its recent report to the problems of reshaping the New Zealand economy and increasing its efficiency and flexibility. Changes in export technology would promote these objectives. New Zealand faces special transport and processing problems in its reliance on high-volume products destined for direct and often urgent shipment to overseas markets. It is still heavily dependent on seasonal trade; this seasonality has its advantages in supplying Northern Hemisphere markets in their off-season but it increases the vulnerability of the economy. Most industrial disputes involve the export trade. The meat industry, which is structured for mass production over a short but variable season, is especially sensitive to disruption. The necessary concentration on bulky, low-cost exports—wool, logs, newsprint, manufacturing beef, etc,—compounds the problems of adaptation to a world of high energy costs and increasing scarcity. It is in New Zealand's interests, as well as those of key trading partners, to reduce over time the reliance on traditional products and traditional markets.

New Zealand's diversification on its established resource base would be consistent with further reciprocal trade development in its own region and also with Europe and other industrial countries. Using its comparative advantages, it could work towards export growth, better terms of trade, and more capacity to import the capital and consumer goods it needs from developed as well as developing countries.

Reshaping the economy will take more resources, however, than New Zealand can generate on its own in the medium term. Even to keep going at reduced levels of investment and income it has had to borrow extensively since 1974. Any major restructuring, for a country too small to have its own capital goods industry except in specialised fields, will increase the requirements for foreign exchange. Investment in New Zealand has a relatively high foreign exchange component.

The maintenance of adequate export earnings, supplemented by foreign borrowing within the capacity of the economy, and for investment purposes, is an essential element in any forward strategy.

Thus, New Zealand must have assured access to its established markets and reasonable returns on its traditional exports if it is to finance the restructuring and diversification which will, in time, reduce overall its dependence on that traditional trade. New Zealand is no longer as dependent, relatively, on Britain and Europe for its economic viability as it was a few years ago. Given the inter-related nature of production in its basic pastoral industries, and the difficulties of securing profitable alternative markets, the continuation of access to Europe for commodities such as butter and lamb remains of critical importance to the success of the strategy which the Council has outlined.

The key question, therefore, is how far the European Community can provide for New Zealand's vital interest in such continued access consistently with the achievement of its own basic objectives.

PROSPECTS FOR THE NEW ZEALAND – EEC RELATIONSHIP

The Planning Council accepted the New Zealand Government's invitation to undertake a report on New Zealand's relations with the EEC because it considers that New Zealand is now moving into a significantly different phase of its development—a phase in which prescriptions for national progress (in the broadest sense) which were valid enough in the past cannot be assumed to be adequate, in the face of new challenges to world agricultural, and industrial, trade. The council recognised that New Zealand's relations with the EEC are now also entering a new phase, the future course of which could be determined by decisions which will be taken by the Community in the next year or two. The time seemed ripe for reassessment of the traditional view of the New Zealand - EEC relationship as the single most important economic aspect of New Zealand's contact with the rest of the world, and as such a key determinant of the prospects for stability and growth in New Zealand.

The previous chapter has shown that the expansion of exports remains a vital aspect of any strategy for New Zealand's development in the next few years, if a moderate rate of growth is to be resumed while the recent excessive reliance on overseas borrowing is reduced. The required rate of growth in the volume of exports as a whole is approximately 5 percent per annum. The Planning Council expects that recent tendencies towards a more diverse pattern of exports and export markets will continue. Markets in the Pacific Basin (and probably in the Middle East and Eastern Europe) will assume greater significance. The Planning Council is suggesting a target of 10 percent growth per annum in exports of manufactures and services. Thus the proportion of non-agricultural exports to total exports is likely to continue to increase. However, agricultural exports will still be critically important for New Zealand. A moderate growth of about 2 percent per annum in the volume of agricultural exports is a key element in the strategy for growth which the Council has recommended.

The markets which have the capacity to absorb the quantities involved, and to pay reasonable prices, are concentrated in the major OECD industrial countries. Evidently, if a climate in world agricultural trade is to be established which will be favourable to New Zealand's long-term export interests, a great deal of effort will have to go into instruments of co-operation and co-ordinated adjustment with all of New Zealand's major trading partners, and not just one of them.

Nonetheless, the Council has concluded that a soundly-based trading and economic relationship between New Zealand and the EEC is (to use the language of the 1970 Monetary and Economic Council report), no less "vital to New Zealand's economic well-being" than at the time of the EEC's enlargement negotiations in 1970-71. Indeed in certain senses it may be more so, because of the adverse developments in the world economy in the 1970s and their impact on New Zealand. The Council is convinced that for the two key items—butter and lamb—the reduction in New Zealand's exports to the EEC since 1970, both in volume and as a percentage of total New Zealand exports, has not diminished the importance of access to that market.

THE ASSOCIATION WITH EUROPE

The broader aspects of the EEC relationship have become much more important to New Zealand in the 1970s. Building on mutual concerns in trade, contacts with Europe have been closer, more varied, and more frequent. There are many illustrations of this. In the period New Zealand was admitted to membership of the OECD. This in itself was recognition of the economic, social, cultural, and institutional links between New Zealand and the industrialised democracies of the Northern hemisphere. Beyond this, in troubled times on the international scene, New Zealand has worked with the EEC and its OECD partners in many contexts in a co-operative effort to restore stability and growth. While the links with Britain remain strong, and still firmly based on the recognition of the mutual benefits of trade between Northern and Southern Hemispheres, the focus of New Zealand's diplomacy has broadened to include developments in Brussels and the other capitals of the Nine. Cultural and people-to-people contacts have strengthened. European leaders have visited New Zealand in increasing numbers. Bilateral relations between New Zealand and the individual EEC countries have become well established, and in several cases have found practical expression in co-operation in other areas, notably the South Pacific.

Commentators often describe New Zealand as belonging to "the wider European tradition". Although this tends to conceal the unique circumstances of geography and New Zealand's pattern of human settlement, it does indicate a natural partnership between New Zealand and the EEC. It grows out of the shared elements in our heritage. It is reflected in a common attitude towards the preservation of democratic institutions, towards the legitimate needs of the developing countries, and towards issues of global peace and security. For these reasons, it is a partnership which has political meaning for both sides.

For Europe, perhaps the main interest lies in the fact that New Zealand is one of the more successful experiences of European settlement, and of balanced economic and social development from those origins. European statesmen have recognised that New Zealand has a place to occupy. Recent developments reflect this background. Europe has in a sense rediscovered the South Pacific, a region in which it has been and is still substantially involved, and New Zealand within it. The EEC has established formal aid and trade links with some of New Zealand's partners in the South Pacific Forum of neighbouring independent and self governing countries under the Lome agreement with African, Caribbean, and Pacific nations. The EEC countries now show a greater understanding of the role which New Zealand is playing and must continue to play, with Australia, in preserving stability in the Pacific and fostering economic and social development in the new nations of the South Pacific and South-east Asia.

There is perhaps a growing appreciation in the EEC that New Zealand's ability to achieve common goals in the South Pacific will be impeded not by a lack of will on New Zealand's part, but by the sheer impact of the economic difficulties which confront it. This is an area in which the partnership approach can bring benefits all round, because the EEC is capable of changing the international trading environment in which New Zealand must operate. It would be inconsistent for the Community to support development in the South Pacific through Lome and at the same time weaken New Zealand's contribution to development in the one part of the world where it is equipped to play a major role.

What does this have to do with New Zealand agriculture, the concerns about dairy products and meat? The question is often asked and the view of partnership set out above provides only that part of the answer which relates to political will. There are also sound economic reasons, in an interdependent world, for the retention of agricultural industries with an outstanding record of productivity and technical efficiency behind them, and a continuing role in the provision of scarce

protein foods lying ahead. It would surely be irrational to undermine the long-term viability of such efficient industries, in a world in which food security is far from assured, if there are alternative ways of achieving the social and political goals at which the CAP is aimed. Within the Community itself, there seems to be more acceptance of the need for food policies which take more account of the needs of consumers as well as producers, and of the international implications of domestic programmes. This, in turn, points to more emphasis on supporting farmers directly through structural measures, deficiency payments and regional and social policies, and less on barriers at the frontier which raise prices and depress consumption.

Within this broad perspective, the Planning Council considers that the continued accommodation of New Zealand's trading interests need not damage the EEC. As shown earlier in this report, New Zealand's agricultural exports to the EEC are marginal in terms of total Community production. Making provision for New Zealand's butter exports obviously poses problems for the Community, but they need be no real threat to its agriculture. Nor would their termination solve the structural problems of agriculture in the Community.

These considerations—political and economic—suggest that the quantum of produce sent by New Zealand to the EEC should be stabilised. The alternative is to see New Zealand's stake in the EEC market gradually eroded. But if the "gradual" approach is maintained it will inevitably lead—over a period of time—to the exclusion of New Zealand products. The Planning Council advocates a more far-sighted view of the trading relationship. It would like now to discuss how particular products might be treated to avoid a "closed door" outcome and preserve the mutual interests referred to above.

TRADE IN DAIRY PRODUCTS

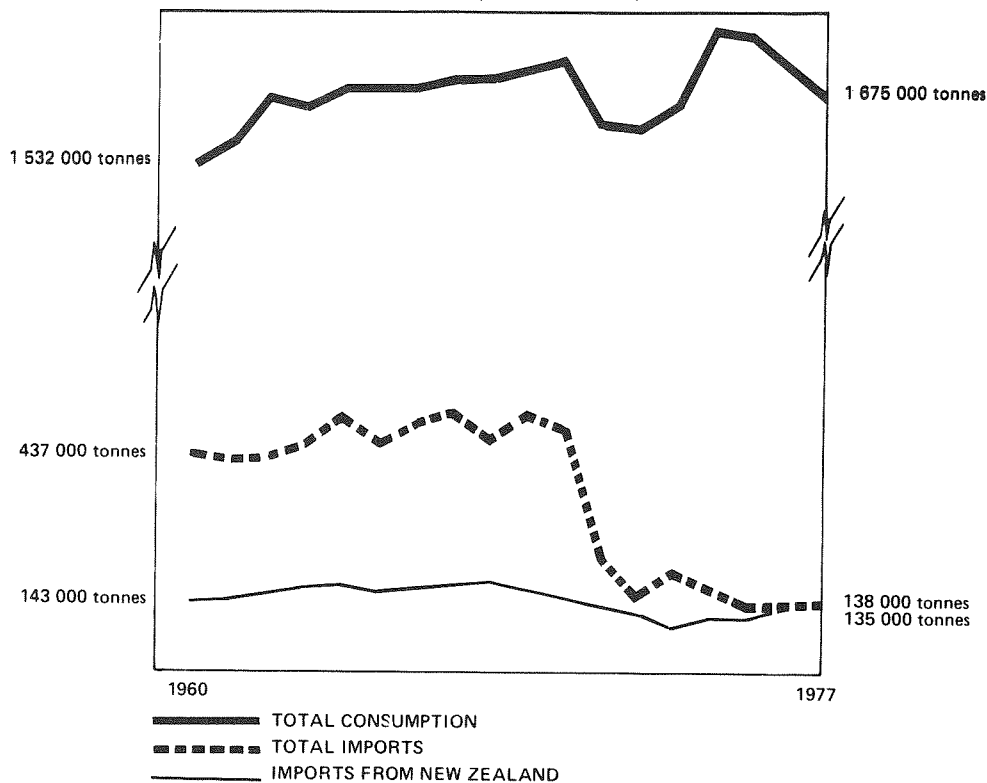
With respect to butter, the Planning Council's view is that we have approached the limits of "degressivity" (or progressive reduction in exports) in relation to the United Kingdom market.

The quantities of butter which Britain is permitted to import from New Zealand, viz., 125 000 tonnes in 1978 and 115 000 tonnes in 1980, could not be diverted to the international market. As has been shown, markets do not exist that are capable of absorbing milk fat on this scale on commercial terms. Leaving aside New Zealand's exports to the EEC, the total international market for butter and AMF is only of the order of 350 000 tonnes in butter equivalent, which is currently shared by the Community, New Zealand, Australia, and other suppliers. A further phasing down of the 1980 New Zealand butter entitlement would be of little significance in volume terms when compared to EEC production of 1 780 000 tonnes in 1976. Because butter sales to the Community underpin the New Zealand dairy industry and its export programme, however, it would actively hinder the progress of diversification. This would not be in the interests of New Zealand or the EEC.

The council is convinced that the best practicable solution, for both New Zealand and the EEC, is a firm entitlement for the sale of New Zealand butter fat to the United Kingdom market, at about the level of the 1980 entitlement, to be agreed as soon as possible and for as far ahead as possible. This would provide a firmer basis for planning in New Zealand and a platform for intensifying diversification efforts internationally, as world trading conditions improve.

In relation to cheese the Dublin Declaration of the Community, noting that New Zealand was a traditional supplier of dairy products to a substantial part of the enlarged Community, undertook to give "due attention with appropriate urgency" to the situation and problems which would arise on the termination in 1977 of the Protocol 18 arrangements for cheese. The council considers that resolution of this outstanding issue is overdue, and that the present uncertainty about the future of

Figure 21 (a)
EEC MARKET AND ACCESS PROFILE
BUTTER ('000 tonnes)



Sources: Derived from statistics produced by the N.Z. Dairy and Meat Boards, E.E.C. Commission and the F.A.O. Secretariat.

New Zealand's trade in cheese with the EEC also creates an unnecessary planning problem. Further access to that market for minimum quantities of cheese is of considerable importance to New Zealand, not simply because of its implications for the viability of the cheese industry, or because this represents an additional useful outlet for the fat component in milk, but because a healthy trade in exports of traditional cheddar cheese is essential as a base from which New Zealand can increase the export production of non-cheddar cheese.

For dairy products generally, the council believes that access to the EEC market for specific quantities of specific products must be balanced by increased co-operative efforts between New Zealand and the EEC in working towards greater stability in world markets, and more orderly marketing arrangements within the current Multilateral Trade Negotiations in the GATT. It is clear that a substantial degree of co-operation between New Zealand and the EEC Commission has already been achieved. The management of the Protocol 18 arrangements themselves, the so-called "non-frustration" clause of Protocol 18, and the enjoinder in the Dublin Declaration of the EEC and New Zealand to co-operate on international dairy questions, have all assisted this.

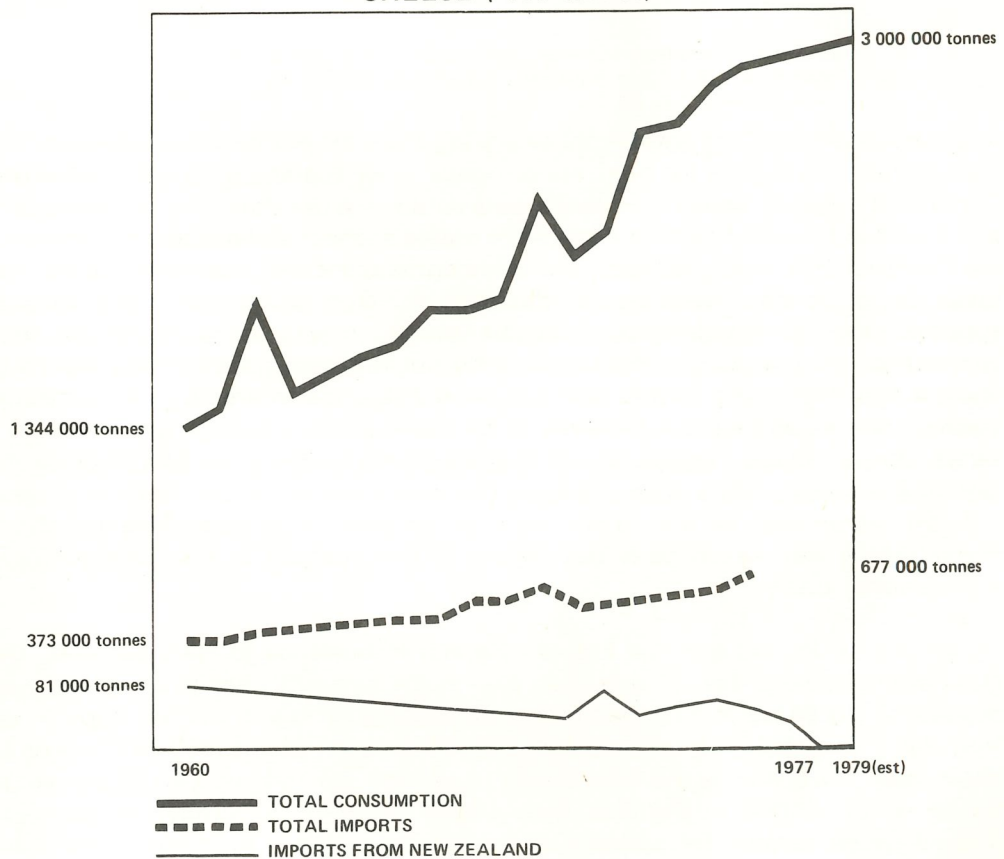
Both parties need more clear-cut objectives, particularly in regard to outside markets. At present both participate, but the subsidised exports of the Community can damage fragile commercial outlets. No-one gains—the EEC, New Zealand, or consumers—from the uncertainties inherent in the present arrangements. All would benefit over the long-term if firmer limits were placed on subsidised exports. New Zealand and the Community can and must continue to work

together to achieve more orderly marketing conditions and to encourage the development of demand for dairy products world wide.

It is a matter of the utmost importance for New Zealand to obtain reasonable returns on its agricultural exports. Within the EEC and other industrial markets there is no shortage of demand for dairy products at prices substantially higher than New Zealand now receives. Its desperate terms of trade situation—the result of a very sharp decline in export prices relative to the cost of imports—is a reflection not so much of declining demand for agricultural products as of limitations on the prices its farmers receive.

The viability of the New Zealand dairy industry depends on the prices paid by the Community as well as the quantities admitted, although the prices received by New Zealand producers are far below those received by farmers within the Community. Paradoxically, this situation exists because of the artificially low prices applying in other markets, largely as a result of subsidised exports from the EEC and the nature of its participation, on the basis of surplus production, in those markets. Price and marketing as well as access problems must be alleviated if the New Zealand economy is to recover and resume growth.

Figure 21 (b)
EEC MARKET AND ACCESS PROFILE
CHEESE ('000 tonnes)



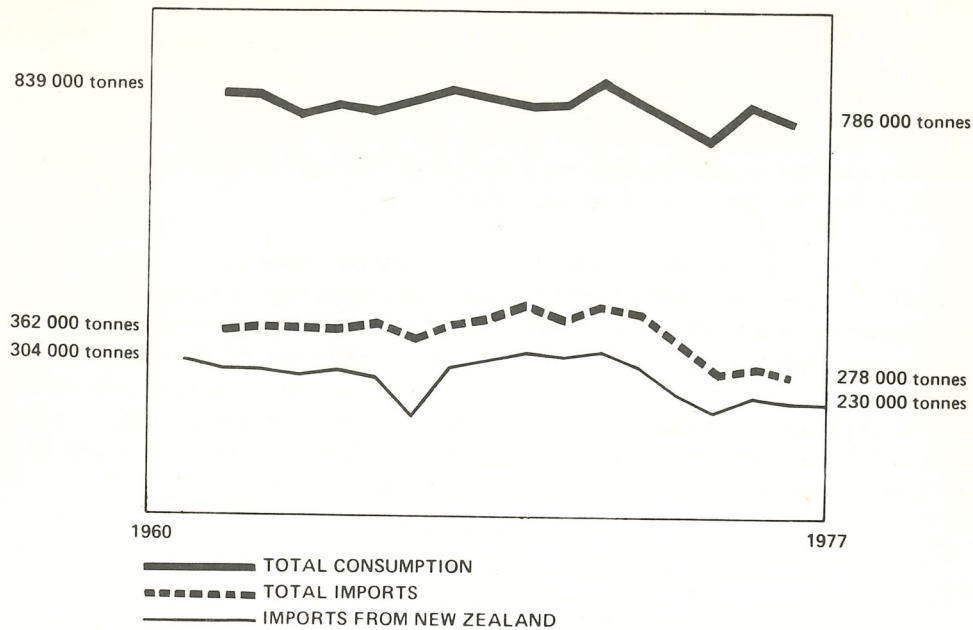
NOTE: 1978 import opportunity for New Zealand—nil.

Sources: Derived from statistics produced by the N.Z. Dairy and Meat Boards, E.E.C. Commission and the F.A.O. Secretariat.

SHEEPMEATS

As noted earlier, the EEC is currently considering the introduction of a comprehensive common market regime for sheepmeats. Although this might contribute to some liberalisation of trade in sheepmeats within the Community, from the outside it must be seen as a step towards increased protectionism at a time when all the major trading countries are working strongly within the GATT to achieve precisely the opposite result.

Figure 21 (c)
EEC MARKET AND ACCESS PROFILE
SHEEPMEATS ('000 tonnes)

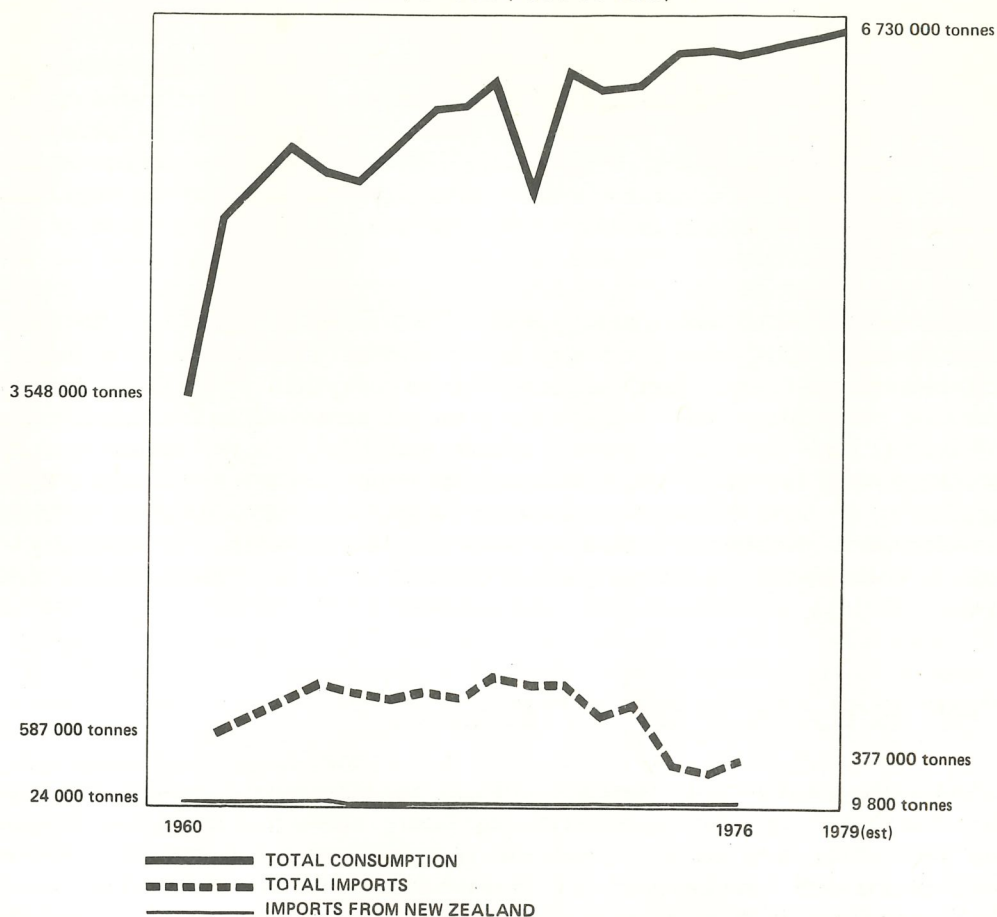


Sources: Derived from statistics produced by the N.Z. Dairy and Meat Boards, E.E.C. Commission and the F.A.O. Secretariat.

The precedents, most notably those arising from the earlier introduction by the Community of a regime for beef, are ominous. New Zealand's concern is that any Community pricing policy for sheepmeats could provoke declining consumption, and a switch by consumers to alternative meats or meat substitutes. It recognises the Community's own problems in the sheepmeat sectors, but still believes that these could be dealt with more effectively through social policy and income support than by interference with the market mechanism. Its efforts thus concentrate on persuading the Community not to adopt policies with regard to sheepmeats that could further damage New Zealand's interests as a traditional trading partner and what it believes to be those of Community consumers. In a sense, the proposed introduction of a sheepmeats' regime is a test case for the CAP of the Community's ability to apply the principles of the CAP flexibly to meet different circumstances, and to provide assured access and reasonable and stable markets in a way which pays due regard to the position of the Community in international trade.

The market for lamb in the EEC is of major importance to New Zealand. The facts are clear: the EEC is less than two-thirds self-sufficient in its sheepmeat requirements; 84 percent of the EEC's third country lamb and mutton imports are from New Zealand; the UK accounts for 55 percent of the 800 000 tonnes of sheepmeat consumed in the Community; and New Zealand supplies 53 percent of the lamb consumed in the U.K. New Zealand has for a number of years set diversification targets for sheepmeat sales outside the U.K. market, and these have been met, but the conclusion is inevitable that markets for the quantities and qualities of lamb currently being sent to the U.K. do not exist elsewhere. Britain's membership of the Community has already had a significant impact on New Zealand's trade in lamb with the Community. The 20 percent tariff now applied in full to Britain's imports adds 25 percent to the cost of getting the lambs to the market place and reduces by around 40 percent the return to the producer. This alone is a significant element in the decline in New Zealand terms of trade.

Figure 21 (d)
 EEC MARKET AND ACCESS PROFILE
 BEEF/VEAL ('000 tonnes)



Sources: Derived from statistics produced by the N.Z. Dairy and Meat Boards. E.E.C. Commission and the F.A.O. Secretariat.

COMMON AGRICULTURAL POLICY

Considerable emphasis was placed in an earlier chapter on the impact of the CAP on New Zealand in the past decade. The point was made that New Zealand watches, with close concern, moves within the Community to adjust the operations of the CAP at the margin, to better achieve its own objectives and to take account of the interests of the EEC's trading partners. It has been encouraged by those moves. The CAP is not static and the Planning Council is confident that in time changes will be made. The process of further enlargement will require adjustments. All this will take time, but, meanwhile, New Zealand must continue to earn a living. A viable dairy industry, able to continue selling the major part of its milk fat in the EEC, remains vital.

Continued access to the EEC will enable the New Zealand dairy industry to look forward confidently to playing its part in international trade. As already noted, the handling by the Community of the sheepmeats issue provides the opportunity to test the Planning Council's assumption, implicit in its views on domestic as well as international issues, that the lessons from past experience will be applied to the future. For beef the council considers that renewed efforts are required on the EEC's part to improve access to its market for imports, and to place these imports on a more secure basis. For other agricultural commodities, including those like

apples which are seasonal in character and complement Community production patterns, the object is also to retain or secure assured access and the opportunity to participate in market expansion as it occurs. Uncertainties in agricultural trade have been a powerful deterrent to New Zealand development.

In this context the council draws particular attention to the difficulties created for the New Zealand meat industry by regulations such as the Community's Third Country Veterinary Directive—problems which it believes could be solved by a more flexible and collaborative approach which would avoid unnecessarily large and unrewarding investments in meat processing for export, with their inevitable effects on both returns to producers and the prices paid by consumers of New Zealand meat.

The importance of secure and long term assurances of future trade cannot be over-stressed. All the evidence shows them to be a critical factor in forward planning for the New Zealand economy. The Planning Council is only too aware of the time and effort the New Zealand Government (senior ministers and officials at all levels) now spend on specific access and related trade issues—and the corresponding time and effort involved for counterparts in Brussels and the capitals of the Nine. More resources could be applied to other pressing trade and development problems, including New Zealand's efforts to diversify, if accommodations could be reached on the central issues of New Zealand - EEC trade.

THE BALANCE OF INTERESTS

The relationship between New Zealand and the EEC is not a one-sided one, even in the trading context. New Zealand is a significant market for certain exports from the EEC, which also benefits from the very favourable balance on invisibles transactions with New Zealand. EEC investments in the New Zealand economy, and in servicing the trade between New Zealand and the Community markets, is a very important factor in the relationship. This investment stems mostly from Britain but that of other EEC member countries is already significant in a number of sectors, and can become more so. The EEC, too, has become a major source of overseas borrowing by the New Zealand Government and by industrial and other companies. These factors suggest that there are those in the Community who have a very real interest in the sustained expansion of the New Zealand economy.

Of significance for the future of the relationship is the fact that as New Zealand pursues its efforts to reform the structure of its economy there will be a greater need than ever for investment goods, skills, and technology from overseas. The EEC will obviously be an important supplier of these critical economic inputs. Part of the prescription for New Zealand's future growth is to create a more welcoming and attractive climate for overseas investment. In this context, there is clear mutual advantage to be gained from a developing New Zealand - EEC relationship.

In absolute and comparative terms the relationship is, and will remain, more important to New Zealand than to the Community. But certain groups in the Community have a large stake in the retention of a sizeable two-way flow. Some are exporters and some are importers or shipping and insurance concerns; there are other groups who are politically significant, including consumers particularly in the British market. Total investment in "the New Zealand trade" is large even by EEC standards.

Decisions on items of marginal importance in EEC terms will continue to assume quite major proportions for New Zealand and for these particular groups. Through factors largely beyond the control of either the EEC in New Zealand,

many of the assumptions and expectations underlying their earlier approaches to the relationship between them have not been borne out, primarily because of changes in the world economy and reduced opportunities for diversification in trade. Yet, in the council's opinion, despite occasional difficulties in trade relations, the broad political ties between New Zealand and the EEC, as an entity, are closer and stronger now than at any time in the past.

The council recognises that special attention will need to be paid to New Zealand's direct relations with the EEC, particularly through its contacts with the EEC Commission. The continuation and strengthening of the present informal relations might eventually lead to some more formal arrangement. The council believes, however, that informality and flexibility should be promoted in New Zealand's conduct of its international relations, as well as in economic and social interaction at home. The essential point is to ensure the existence of arrangements which permit New Zealand every opportunity to have its interests taken into account by the EEC, and which lead to a widening of the areas of co-operation between the two.

There are sound economic reasons and important political factors which suggest that, with a reasonable accommodation on the EEC's part, the trading relationship can be made to work as a catalyst to achieve objectives which are in the broader interests of both. The Planning Council is in no doubt that the satisfactory development of the New Zealand - EEC relationship, along the lines suggested above—which the EEC alone can ensure—is central to the attainment of New Zealand's economic, social, and political objectives. Its purpose has been to place in a "planning perspective" the often narrow and technical terms in which New Zealand's case for the protection of vital trade concerns must be expressed. In that wider perspective the council is convinced that the relationship is one which holds valuable potential for the future, and which can serve the political and economic interests of the Community as well as New Zealand's.



LANDSAT IMAGERY COURTESY of
N.A.S.A.

Colour composites and mosaic made at:
Physics & Engineering Laboratory D.S.I.R.



A038529B