



31/80

## THE EUROPEAN COMMUNITY AND NEW ZEALAND

---

### CONTENTS

NEW ZEALAND : THE HUMAN AND ECONOMIC BACKGROUND	1
EUROPEAN COMMUNITY - NEW ZEALAND RELATIONS	1
Political Relations	2
The Trade Pattern	2
The Community's Agricultural Imports from New Zealand	3
Wool, mutton and lamb	3
Sheepmeat	3
Dairy products	4
Community investment in New Zealand	5
Appendix A - Resolution of the European Parliament	7
Appendix B - Table of geographic distribution of New Zealand's trade	9
- Exports	
- Imports	
Appendix C - Table of New Zealand trade with the Community: principal products	10
Appendix D - Table of New Zealand's Overseas Exchange Transactions with the EC	11
Appendix E - Table of overseas private direct investment in New Zealand	12

APRIL 1980

Free reproduction authorized, with or without indication of source. Voucher copies would be appreciated.

## NEW ZEALAND : THE HUMAN AND ECONOMIC BACKGROUND

New Zealand is geographically isolated and located at the opposite end of the world from Europe. Its temperate climate, developed economy, social structure, parliamentary democracy and - to a large extent - people, its culture and fundamental values, nevertheless give New Zealand many affinities with the countries of the European Community.

Among the advanced economies of the West, New Zealand occupies a unique situation in that it is highly dependent on the export of a narrow range of agricultural products, notably wool, sheepmeat and butter.

With a population of 3.1 million, principally of European descent but with an important Maori (Polynesian) element, New Zealand has an area of 268,676 sq.km. (roughly comparable to that of the Federal Republic of Germany, Italy or the United Kingdom). Over half of this area is agricultural and pastoral land. Farming accounts for only 12 % of the work force, but a highly efficient agricultural sector contributes 70 % of the country's total export earnings, the dairy, meat and wool industries together contributing (in 1978) 62 % of total export earnings. There are a number of manufacturing industries, including steel and aluminium production, vehicle assembly, a wide range of light engineering goods, textiles, footwear and processed foodstuffs. However, owing to its small home market, high labour costs and the distance of potential overseas markets, a major shift from agriculture to industry is not at present feasible, even though the country possesses raw material resources which are not fully exploited.

The Gross National Product in 1977/78 was US.\$ 14,276 million, that is, US \$ 4,605 per capita (cf. the European Community's US.\$ 7,643 in 1978).

Since the Second World War, and more especially the accession of Britain to the European Community in 1973, New Zealand has sought to diversify the economic outlets for its agricultural products, while retaining access to the Community market. New Zealand's persistent overall external payments deficit (in 1979 : - 0.9 billion US dollars), an expected 16 % inflation rate (1979/1980), and the new phenomenon of net emigration, underline the fragility of a trading economy traditionally dependent on European markets for its exports and on relatively cheap supplies of imported energy. Current consultations with the European Community over future levels of the country's agricultural exports and the parallel search for alternative markets, together with the exploration of substantial domestic energy resources (including natural gas from the Maui and Kapuni fields; coal; hydro-, geothermal and other renewable fuels), with a view to achieving at least 50 % self sufficiency in energy in the 1980's, are keys to the continuing prosperity of this highly developed, small country in the Antipodes.

## EUROPEAN COMMUNITY - NEW ZEALAND RELATIONS

While New Zealand represents a small problem for the European Community, the Community is a major political issue in New Zealand, touching both on the economic future of the country and on its image of itself as a social democracy on the European model. In its relations with the Community, New Zealand has sought to find an accommodation, reflecting its wish to continue to orientate itself towards Europe, with which it has so many ties and points of similarity. The European Community has thus an

interest in, as well a responsibility for, the country's economic future. This has been recognised on a number of occasions, notably in the 1973 Treaty of Accession and at the Community's Heads of Government summit at Dublin in 1975. In 1980 two outstanding issues in the Community's trade with New Zealand are due to be resolved: continued access to the Community market for New Zealand butter, and an appropriate arrangement for mutton and lamb. In both cases the legitimate interests of Community consumers and producers must be taken into account. At the same time New Zealand and the Community wish to strengthen their relationship.

### Political Relations

The Community and New Zealand are partners within the multilateral setting of GATT, the OECD and other international bodies, and their bilateral links are close and effective. New Zealand established a diplomatic Mission to the Communities at Brussels in 1961 and its Ministers have regularly visited Brussels and other European capitals to press their case on agricultural exports and to inform themselves on the state of discussions in the Community. Two Prime Ministers have visited the Commission, Mr. Rowling in February 1975 and Mr. Muldoon in March 1977. The present Deputy Prime Minister, Mr. Talboys, who is also Minister of Foreign Affairs and of Overseas Trade last visited the Commission in November 1979 and in February 1980 as part of a tour of European capitals.

Members of the Commission have in turn visited the New Zealand capital. Lord Soames, the Vice-President responsible for external relations, visited Wellington in September 1974, when it was agreed to organise periodical consultations similar to those the Commission holds with the United States, Japan, Canada and Australia. Mr. Finn-Olav Gundelach, Vice-President for agriculture and fisheries visited New Zealand in May 1979 when he held in-depth discussions with the Government on a number of key issues. Mr. Wilhelm Haferkamp, Vice-President for external relations, will visit New Zealand at the end of April 1980 for similar discussions with New Zealand Ministers. Consultations will also be held at the level of senior officials on both sides.

For its part the European Parliament maintains regular contact with the New Zealand Parliament and has examined the Community's relations with that country, most recently on 11 May 1979, when it discussed the report of the late Lord Castle (1) on "Economic and trade relations between the EEC and New Zealand" and adopted a key Resolution on this theme in which, inter alia, the Community institutions were invited to consider "all practical ways in which the Community's relationship with New Zealand can be broadened and deepened". (See Appendix A).

### The Trade Pattern

Historically, the United Kingdom has been New Zealand's main trading partner. In the early 1960's the nine countries now Member States of the present European Community took 67 % of New Zealand's overall exports, with more than half being absorbed by the United Kingdom. Since then New Zealand has diversified its trading patterns appreciably (see Appendix B). The Community nonetheless remains New Zealand's principal customer, taking 31 % of New Zealand exports in 1978 (out of which 65 % went to the United Kingdom), other leading customers being the United States (14 %), Japan (14%)

---

(1) European Parliament document N° 107/79.

and Australia (12 %). The Community in 1978 accounted for 26 % of New Zealand's total imports (out of which the United Kingdom 19 %) compared with Australia (21 %), the United States (28 %) and Japan (11 %).

New Zealand's prime earnings from exports to the Community derive from wool, butter, sheepmeat, as well as hides, skins and leather (see Appendix C). New Zealand's major import items from the Nine comprise transport equipment, chemicals and pharmaceuticals, machinery, textiles, metal manufactures and alcoholic beverages.

The European Community has normally run a visible trade deficit with New Zealand (see Appendix D). Nevertheless the Community maintains a large surplus on invisible trade (investment income, transport, insurance, etc.) and thereby enjoys an overall surplus. The Community is also a major exporter of capital to New Zealand (see Appendix E).

#### The Community's Agricultural Imports from New Zealand

The Community's principal imports from New Zealand consist of wool, mutton and lamb and dairy products. New Zealand exports of meat, wool and milk products to the Nine constitute over 25 % of the country's total world export earnings. The Community has difficulties in the sheepmeat and dairy sectors, owing to excess production and to a slump in prices. It is in these sectors that the chief problems arise as regards New Zealand's exports to Europe.

#### Wool, mutton and lamb

New Zealand raises about 65 million sheep, 22 sheep per inhabitant. The country's exports go predominantly to the Community; 65 % of total New Zealand exports of lamb; 51 % of wool and 11 % of mutton depend on access to the Community market. The Community's degree of self-sufficiency in sheepmeat is relatively low (65 %) and imports are relatively substantial - approximately 280,000 tonnes per annum of which New Zealand supplies about 82 %. Wool is New Zealand's foremost single export to the Community. New Zealand is the world's third largest producer of wool, and the European Community remains its major customer, followed (1979) by Japan and the Soviet Union.

Where sheepmeat is concerned, no special arrangements were - in the absence of any Community market organisation in this sector - made at the time of British accession. EC imports of chilled and frozen sheepmeat are subject to a GATT bound duty of 20 % which was introduced gradually by the United Kingdom during the five-year transition period after 1973. The Council of Ministers is considering a Commission draft proposal submitted in March 1978, for the introduction of a common market organisation which would consist in a

'light' régime containing the following elements: free circulation of sheepmeat between Member States; the replacement of the custom duty by a variable import levy which would have an upper limit of 20 % (thus maintaining the GATT binding); a safeguard clause; and a system of premiums to support producer incomes in certain areas, but without intervention buying and export refunds.

There has been concern that the introduction of the new régime will lead to a disturbance of the existing market and prices. In particular there have been fears that New Zealand supplies to Britain might be increased, leading

in turn to British re-exports to continental Member States, especially France. For this reason, in December 1979 the Council authorised the Commission to negotiate self-limitation agreements with supplier countries including New Zealand, as regards traditional quantities, in return for an autonomous reducing of the present EEC duty of 20 %. Initial negotiations with the New Zealand authorities were begun in February 1980.

For its part, New Zealand would prefer there to be no market organisation for sheepmeat; but it acknowledges that this is a matter for the Community. The impact of a common policy on production, prices and consumption in Europe are matters of particular concern, in view of their consequences for imports. New Zealand has agreed however, as indicated, to enter into negotiations on a self-limitation arrangement. A further issue concerns the implication for New Zealand of the Community's future enlargement although New Zealand has lately enjoyed considerable success in opening up a market for its lamb and mutton exports to Greece.

### Dairy products

When Britain entered the European Community in 1973, it was required to phase out, in five stages up to 1977, New Zealand's preferential access for butter under the former Commonwealth preference system, to the British market.

The question of New Zealand access to the British market in the case of dairy products was a leading issue in the negotiations for British membership. In view of New Zealand's special situation the Community agreed, in Protocol 18 to the Act of Accession, to exceptional arrangements whereby the United Kingdom was entitled during the period 1973-77 to import duty-free quantities of butter and cheese from New Zealand, the quantities being reduced each year; New Zealand was required in return to respect minimum import prices and to pay a special levy in order to bring the price on the British market up to levels that would not perturb Community products. The Protocol stipulated that for butter "appropriate measures to ensure the maintenance after 31 December 1977 of exceptional arrangements would be determined by the Council". This situation was reexamined by the Community in 1975 with a view to deciding the butter régime as from 1977. Following the endorsement, by the Nine Heads of Government at the 1975 Dublin summit meeting, of the principle that New Zealand access to the Community butter market should continue, the Commission proposed to the Council of Ministers the extension of Protocol 18 arrangements for butter. The quantities finally adopted by the Council in 1976, were 125,000 (for 1978), 120,000 (1979) and 115,000 tonnes (1980), for the three remaining years of the decade, without prejudice to the prolongation of an arrangement beyond that date.

Looking to the future beyond 1980 the Commission has had to take into account both the Community's surpluses in this sector, resulting from the operation of the common agricultural policy, and also New Zealand's dependence on adequate outlets for its butter. Discussion therefore focuses (2) on the quantities of future butter imports and on the price mechanism to be adopted.

---

(2) see "Report on the dairy situation in the Community", COM (78) 430 final, 27.IX.78, and "Report on the dairy situation in the Community, world market and in New Zealand, in relation to the import of New Zealand butter into the United Kingdom", COM (79) 444 final 31.VII.79.

The Commission does not consider that closing the Community's frontiers to New Zealand dairy imports would provide a solution to the serious problem of the Nine's current overproduction of dairy products. A more lasting solution will have to be found in a balanced framework. The Community is likely to seek an arrangement providing on the one hand for reduced import quantities, but on the other hand offering an assurance of access and more satisfactory price arrangements for New Zealand. The Commission will present the Council with its proposals on this question shortly, which will also take into consideration the preoccupations of Community producers and consumers.

In the meantime, despite considerable efforts, New Zealand has not succeeded in diversifying its foreign dairy markets owing to the general trend to maintain high levels of domestic production. Sales to non-EEC markets in 1976 reached 59.000 tonnes but in 1977 fell back to 26.000 tonnes, and in 1978 to 27.000 tonnes.

With regard to cheese, Protocol 18 made no specific provision beyond 31 December 1977, with the result that the Community's cheese imports from New Zealand, which had declined annually from a level of 46.000 tonnes in 1973 to 15.000 tonnes in 1977, have been phased out. However a Community quota for New Zealand cheese was subsequently renegotiated in the GATT multilateral trade negotiations ("Tokyo Round"), comprising 6.500 tonnes of Cheddar cheese and 3.000 tonnes of processing cheese.

The United States, Japan and - increasingly - ASEAN countries are important secondary markets for New Zealand's dairy exports.

#### Community investment in New Zealand

The three main sources of foreign investment in New Zealand have been Britain, the United States and Australia (see Appendix E). Community Member States other than Britain have also made investments. New Zealand's policy towards foreign investment, and the mutual benefit to be derived from it, was summarised as follows by Mr. R.L. Knight, Assistant Governor of the New Zealand Reserve Bank, in 1978: "In the battle to keep existing export markets open and to find new ones, foreign companies investing in New Zealand can often help us in a way that we cannot help ourselves. Many foreign owned enterprises have not only brought us the means to produce something in New Zealand, they have often brought also an export market in which to sell it".

New Zealand's Overseas Investment Act of 1974 set as its main objectives the best development of the country's resources, so as to maximise the benefits from the international transfer of capital and technology. In July 1979 the Government further liberalised its criteria in order to give active encouragement to foreign investment. Presenting the new policy in 1979, the Prime Minister, Mr. Muldoon, stressed that the degree of equity participation was only a relatively minor factor in the Government's assessment of an investment proposal.

The cumulative total of overseas direct investment in New Zealand was estimated in 1977 at NZ \$ 17.000 million, equivalent to about 10 % of private domestic capital formation. Foreign investment, which is primarily directed at the manufacturing sector, at the wholesale and retail trades, banking, insurance and property, has thus made an important contribution to

total investment. The rate of foreign investment, especially of Australian and United States capital, accelerated sharply in the 1970's. New Zealand has made special efforts since 1979 to attract foreign capital, diversify its economy and find suitable partners for joint ventures and scientific-technical cooperation.

\*

\*

\*

APPENDIX A

Extract from EUROPEAN PARLIAMENT document PE 58.441  
" Minutes of proceedings of the sitting of 11 May 1979"

RESOLUTION

on economic and trade relations between the EEC and New Zealand

The European Parliament,

- having regard to the traditional, political, economic and cultural ties between New Zealand and Europe, in particular the United Kingdom,
  - having regard to the dependence of the New Zealand economy on the export of temperate agricultural products,
  - having regard to the report of the Committee on External Economic Relations (Doc. 107/79),
1. Considers that, given traditional ties with New Zealand, the Community has a special responsibility to help New Zealand maintain an adequate level of economic well-being;
  2. Notes that the New Zealand economy has experienced serious difficulties in recent years, caused in part by a decline in its agricultural exports to the traditional market in the United Kingdom, and that a further decline could imperil the New Zealand economy;
  3. While aware of New Zealand's difficulties, trusts that she will continue to achieve greater diversification in her economy, both by industrial expansion and the development of alternative markets;
  4. Considers, therefore, that the Community and its Member States, while maintaining the principles and mechanisms of the common agricultural policy, must pursue policies that do not run counter either to New Zealand's efforts towards diversification or to the Community's efforts to promote its agriculture;



5. Expresses the wish that New Zealand should not lose any markets fundamentally important to its economy and recalls in this connection the relevant passage of the declaration made by the European Council on 10 and 11 March 1975 in Dublin;
6. Recalls the undertaking given in the Dublin declaration that urgent attention would be given to the situation arising from the fact that the special provisions for cheese imports would not be retained after 31 December 1977, with special reference to the resultant problems for New Zealand, and notes that a solution is to be found in the multilateral GATT framework;
7. Hopes that the international agreement on dairy products, reached within the multilateral GATT framework, will help to find appropriate solutions for New Zealand dairy exports;
8. Emphasizes, in view of the Community's international obligations in GATT concerning imports of sheepmeat and of the particular importance of that sector for the New Zealand economy, that the introduction of a common organization of the market in sheepmeat should not seriously disrupt exports of that product from New Zealand to the Community;
9. In view of the importance for New Zealand that the level of European Community consumption be sustained, and taking into account the price elasticity of demand, considers that the European Community pricing policies and mechanisms must be established with a view to avoiding any disruption;
10. Attaches great importance to an optimum understanding between the Community and the countries of the South Pacific Basin, and to this it believes that New Zealand can make a contribution of fundamental importance;
11. Invites the Community institutions to consider all practical ways in which the Community's relationship with New Zealand can be broadened and deepened;
12. Welcomes the interparliamentary contacts established so far and hopes that a system of regular parliamentary contacts will be set up in the near future;
13. Instructs its President to forward this resolution and the report of its committee to the Council and Commission and to the Government and Parliament of New Zealand.

Geographic distribution of New Zealand's tradeExports

(% total exports by value)

New Zealand exports	1961	1972	1973	1974	1975	1976	1977	1978
EEC (Nine) (of which UK)	67 (51)	43 (31)	37 (24.5)	32 (21)	32 (23)	30 (18)	31 (19)	31 (20)
Commonwealth (other than UK) (of which Australia)	8 (4)	17 (7)	17 (8)	20 (10)	23 (13)	20 (13)	21 (13)	12 14
USA	15	15	16	14	13	12	12	14
Japan	5	11	15	13	14	13	13	14
Other	5	14	15	21	18	24	23	

Imports

(% total imports by value)

New Zealand imports	1961	1972	1973	1974	1975	1976	1977	1978
EEC (Nine) (of which UK)	53 (45)	34 (26)	31 (21)	27 (18)	37 (31)	31 (24)	27 (20)	26 (19)
Commonwealth (other than UK) (of which Australia)	27 (16)	32 (23)	35 (26)	32 (21)	26 (20)	27 (20)	26 (21)	21 28
USA	9	11	12	13	23	26	29	28
Japan	3	11	13	15	10	12	12	11
Other	8	12	4	5	4	4	6	

Source: NZ Dept. of Trade and Industry, Annual Reports for the years ending 31/3/78 and 31/3/79

TABLE II: New Zealand trade with the Community:

principal products

APPENDIX C

**1. N.Z. Exports: Mio NZ \$ F.O.B.**

Year ending June	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79
<b>TOTAL</b>	558.0	504.0	698.3	1010.7	1075.0	1102.8
<b>Wool</b>	177.9	120.8	218.2	338.5	320.5	311.4
<b>Sheepmeat</b>	161.5	145.0	185.5	231.8	209.5	276.1
<b>Butter</b>	59.2	76.2	108.2	171.8	211.8	286.9
<b>Hides, skins &amp; leather</b>	45.1	40.8	49.3	90.4	97.7	102.8
<b>Other meat and offal</b>	45.7	42.5	53.0	57.5	46.2	74.8
<b>Cheese</b>	14.1	15.3	26.3	28.8	14.4	0.1

**2. N.Z. Imports: Mio NZ \$ C.D.V.**

<b>TOTAL</b>	537.0	706.5	674.9	834.6	819.4	937.7
<b>Road vehicles and other transport equipment</b>	87.4	95.9	92.0	171.0	139.6	212.8
<b>Chemical materials with plastics &amp; pharm.</b>	73.2	884.4	82.8	114.3	108.5	144.0
<b>Machinery (non electrical)</b>	97.9	141.5	133.8	174.1	128.3	134.9
<b>Textile fabrics</b>	37.8	45.0	35.4	47.3	37.1	44.2
<b>Electrical machinery</b>	43.1	58.6	65.2	77.9	69.1	42.8
<b>Metal manufactures</b>	18.5	29.4	24.0	25.6	18.1	31.5
<b>Alcoholic beverages</b>	6.4	6.8	7.8	8.5	8.2	11.6

3. <b>Balance of Trade</b> <b>Mio NZ \$</b>	+21.0	-202.5	+23.4	+176.1	+255.6	+165.1
--	-------	--------	-------	--------	--------	--------

Source: New Zealand, Department of Statistics.

New Zealand's Overseas Exchange Transactions with the EC

(NZ \$ Millions, year ending June)

	1973	1974	1975	1976	1977	1978
Exports	732.1	612.9	532.9	797.8	1068.3	1074.9
Imports	496.9	667.5	832.7	926.7	867.5	827.2
NZ Balance of trade	+ 235.2	- 54.6	- 299.8	- 128.9	+ 200.8	+ 247.8
Current Invisible Receipts	169.8	212.0	223.5	238.9	244.5	285.5
Current Invisible Payments	270.5	281.0	349.7	448.3	539.2	651.5
NZ Invisible Balance	- 100.7	- 69.0	- 126.2	- 209.4	+ 294.7	- 366.0
NZ Current Account Balance (Trade and invisibles)	+ 134.5	- 123.6	- 426.0	- 338.3	- 93.9	- 118.2

Source: NZ Reserve Bank Bulletin (March 1979)

APPENDIX E

Overseas private direct investment in  
New Zealand

---

in NZ \$ (millions)

Year	United Kingdom	Other EEC countries	Australia	USA and Canada	Other countries	Total all countries
1973-74	61.9	3.5	36.1	48.8	2.4	152.7
1974-75	54.7	0.7	57.3	45.4	21.6	179.7
1975-76	29.2	6.7	38.7	27.5	12.6	114.7
1976-77	100.6	4.5	92.1	63.6	18.2	278.9

Source: NZ Official Yearbook, 1978

**"EXTERNAL RELATIONS" EUROPE INFORMATION**

The following copies of "Europe Information" are still available, and may be obtained from:

Spokesman's Group and Directorate-General for Information  
Publications Distribution Service, Room 2/84  
Commission of the European Communities  
Rue de la Loi 200  
B - 1049 Brussels (Belgium)

- 1/78 The European Community and Canada
- 5/78 Spain and the European Community
- 6/78 List of main EEC agreements with other countries
- 8/78 Australia and the European Community
- 9/78 Turkey and the European Community
- 14/78 Greece and the European Community
- 15/79 The European Community and the countries of the EFTA
- 17/79 The People's Republic of China and the European Community
  
- 21/79 Latin America and the European Community
- 22/79 Brazil and the European Community
- 23/79 Portugal and the European Community
- 24/79 Mexico and the European Community
- 25/79 The GATT Multilateral Trade Negotiations
- 26/79 The European Community and the Countries of Eastern Europe
- 27/79 ASEAN and the European Community
- 28/79 The European Communities Scheme of Generalized Preferences
  
- 30/80 The European Community and Yugoslavia