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## THE EUROPEAN COMMUNITY AND NEW ZEALAND

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This information note appears on the occasion of the official visit to New Zealand, 22 - 25 February, of Mr. Gaston Thorn, President of the Commission of the European Communities. This is the first official visit to New Zealand paid by a Commission President.

## THE EUROPEAN COMMUNITY AND 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, 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 269,063 sq km, roughly comparable to that of the Federal Republic of Germany, Italy or the United Kingdom. Over half of this land is agricultural and pastoral. Farming accounts for only 13 per cent of the work force, but a highly efficient agricultural sector contributes 68 per cent of the country's total export earnings, the dairy, meat and wool industries together contributing (in 1981) 62 per cent 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. The country's economic infrastructure has long been well-developed. 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 Domestic Product in 1978/79 was US \$ 13,96 million, that is US \$ 4469 per capita (cf. the Community's US \$ 5967 in 1979).

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. The country's economic situation in recent years has been particularly difficult. Between 1973 and 1977 New Zealand suffered the biggest drop in real income per capita of any OECD (1) country, minus 11,5 per cent when adjusted for terms of trade. GDP real growth since 1975 has averaged no more than 1 per cent a year; the inflation rate remains high (15 per cent in 1981), and to rising unemployment (6 per cent in 1980/81) has been added the new phenomenon of emigration. These problems underline the fragility of a trading economy traditionally dependent on European markets for its exports and on relatively cheap supplies of imported energy.

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(1) the Organisation for Economic Cooperation and Development which groups West European countries, the United States, Canada, Japan, Australia and New Zealand.

Periodic 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 field; coal; hydro-, geo-thermal and other renewable fuels), with a view to achieving at least 50 per cent self sufficiency in energy in the present decade, are keys to the continuing prosperity of this highly developed, small country in the Antipodes. New Zealand's economy indeed appears now to be entering a new phase, characterised by a reorientation of export markets for its traditional meat and dairy products, by energy and mineral exploitation, rapid expansion of the forest industry and, not least, vigorous growth in manufacturing exports to Australia and the South Pacific region.

#### EUROPEAN COMMUNITY - NEW ZEALAND RELATIONS

New Zealand's market in the European Community for primary agricultural products remains of crucial importance to the country, and while New Zealand represents a small problem for the Ten, the Community is a major political issue in New Zealand, touching both on the country's economic future 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 a long-term interest in, as well a responsibility for, the country's political, social and economic stability. 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.

#### 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. Indeed relations between the Community and New Zealand have been characterised by the will to resolve problems through consultations. Two Prime Ministers have visited the Commission, Mr. Bill Rowling in 1975 and Mr. Robert Muldoon in 1977. The then Deputy Prime Minister, Mr. Brian Talboys, who was also Minister of Foreign Affairs and of Overseas Trade, visited the Commission in 1979 and again in 1980 as part of a tour of European capitals.

Members of the Commission have in turn visited the New Zealand capital. Sir Christopher Soames, then Vice-President responsible for external relations, visited Wellington in 1974, when it was agreed to organise periodical consultations similar to those the Commission holds with the United States, Japan, Canada and Australia. The late Mr. Finn-Olav Gundelach, Vice-President for agriculture and fisheries, visited New Zealand in 1979 when he held in-depth discussions with the Government on a number of key issues. Mr. Wilhelm Haferkamp, Vice-President for external relations, visited New Zealand in 1980 for follow-up discussions with New Zealand Ministers. The official visit to New Zealand, in February 1982, by President Gaston Thorn marks the first by a Commission President to that country, and highlights the bilateral relationship which the Community is developing with New Zealand.

For its part the European Parliament has since 1977 maintained regular contact with the New Zealand House of Representatives in accordance with the European Parliament Resolution of 11 May 1979 which called for a "broadened and deepened" relationship with New Zealand. In 1979 a European Parliament delegation for relations with New Zealand was set up with a membership of 10. This delegation paid its first visit to New Zealand 23 February - 1 March 1981, coinciding with the dates of the official visit to New Zealand of then President Simone Veil. It was decided on that occasion that a triennial rhythm of meetings should be instituted between the European Parliament and the New Zealand and Australian Parliaments respectively.

### Trade relations

Historically, the United Kingdom has been New Zealand's main trading partner. In the early 1960's the ten countries now Member States of the European Community took 67 per cent 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 A). The Community nonetheless remains New Zealand's principal customer, taking 25 per cent of New Zealand exports in 1980, other leading customers being the United States with 14 per cent, and Japan and Australia 12 per cent each. There is no apparent way in which these countries can replace the Community as an outlet for New Zealand products but New Zealand exporters are endeavouring, with some success, to establish alternative markets in the ASEAN countries, the Soviet Union, Middle East and South Pacific. In 1980 the Community accounted for 21 per cent of New Zealand's total imports, compared with Australia's 19 per cent and the United States and Japan with 14 per cent each.

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

The balance of visible trade with the Community has shown frequent fluctuations over the last decade (see Appendix C) but a growing surplus in favour of New Zealand during the last three years (NZ \$ 439 million in 1980-81). The value of exports to the Community reached NZ \$ 1.5 billion in 80/81 while imports hardly exceeded NZ \$ 1 billion. (See Appendix D).

### 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 Ten constitute over 25 per cent of the country's total world export earnings and 78 per cent of its export receipts from the Ten. 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 have arisen 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 of both wool and sheepmeat go predominantly to the Community, wool being the country's foremost single export to the Ten. Indeed New Zealand is the world's third largest producer of wool.

Where sheepmeat is concerned, special difficulties for New Zealand were created by British accession to the Community in 1973. Although the Treaty of Rome made provision for a common market organisation for sheepmeat, this was considered unnecessary since the Community was only 65 per cent self-sufficient in sheepmeat production. Member States operated national controls on sheepmeat imports from third countries and the introduction of a Community regime became necessary only when intra-Community trade in sheepmeat was threatened by unilateral restrictions by a Member State.

In May 1980 the Council of Ministers agreed on a sheepmeat regime which would come into effect once voluntary restraint arrangements had been concluded with New Zealand and other third country suppliers. In October 1980 the Community and New Zealand entered into an Arrangement whereby the former agreed on guaranteed access for New Zealand of 234,000 tonnes of sheepmeat per annum. Subsequently the quantity for 1981 was set at 245,000 tonnes, comparing well with average sendings in the 1977-79 period of around 227,000 tonnes. The Arrangement, which the New Zealand Government considers satisfactory, will remain in force until 31 March 1984 and will continue valid thereafter subject to each party's right to denounce it with one-year notice. The provisions of the Agreement will be reexamined by the two parties before 1 April 1984. Thus the sheepmeat issue, which had been a major preoccupation for New Zealand, has been effectively settled.

### 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. Indeed 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 regime 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) without prejudice to the prolongation of an Arrangement beyond that date.

Looking ahead after 1980 the Commission 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 focussed on the quantities of future butter imports and on the price mechanism to be adopted. In April 1981 an Arrangement was concluded under which New Zealand might export to the United Kingdom 94,000 tonnes in 1981 and 92,000 tonnes in 1982. The amount to be exported during 1983 is to be agreed upon before 1 October 1982. Then before 1 August 1983, the Community's Council of Ministers will review the functioning of these Arrangements with a view to deciding a future regime.

In the belief that to close the Community's frontiers to New Zealand dairy imports would not solve the problem of the Ten's dairy surpluses, and aware of New Zealand's dependence on outlets for its butter on the Community market, the European Commission has regularly sought a more lasting and balanced solution, taking into account the preoccupations of Community producers and consumers alike. Until the Community's own review of its Common Agricultural Policy is concluded, the exact nature of future Arrangements cannot be forecast. 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.

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, declined annually from a level of 46,000 tonnes in 1973 to 15,000 tonnes in 1977. 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. Compared with the 70,000 tonnes of cheese which New Zealand exported to the Community prior to Britain's accession, the new quota is small, but nonetheless enables the resumption of marketing throughout the Community. While the level of apple exports to Europe dropped in the 1970's, certain non-traditional horticultural products, especially the kiwifruit, are expected to benefit substantially from present export drives.

#### Community investment in New Zealand

The three main sources of foreign investment in New Zealand have been the United Kingdom, the United States and Australia. Investment from Community countries as a whole tended to increase in the 1970's, despite strong annual fluctuations (see Appendix D). New Zealand's Overseas Investment Act of 1974 set as its main objectives the best development of the country's resources in order to maximise the benefits from the international transfer of capital and technology. In July 1979 the Government further liberalised its criteria; presenting the new policy, 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, especially where investment is allied to the introduction of new technology and increased foreign exchange earnings. Foreign capital, which till now has been directed primarily at the manufacturing sector, at the wholesale and retail trades, banking, insurance and property, is now sought for the energy-related infrastructure and development projects which are intended to transform New Zealand's economy in the present decade. Thus there are important opportunities in the country for European investors.

TABLE 1 : Geographic distribution of New Zealand Trade

NZ Exports :

(% total exports by value)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EEC (Nine)	67	43	37	32	32	30	31	31	29	25	
of which UK	(51)	(31)	(25)	(21)	(23)	(18)	(19)	(20)	(18)	(14)	
Commonwealth (other than UK)	8	17	17	20	23	20	21	23	21	n.a.	
(of which Australia)	(4)	(7)	(8)	(10)	(13)	(13)	(13)	(12)	(12)	(12)	
USA	15	15	16	14	13	12	12	14	15	14	
Japan	5	11	15	13	14	13	13	14	14	12	
Other	5	14	15	21	18	25	23	18	21	n.a.	

NZ Imports :

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EEC (Nine)	53	34	31	27	37	31	27	26	26	21	
of which UK	(45)	(26)	(21)	(18)	(31)	(24)	(20)	(19)	(20)	(12)	
Commonwealth (other than UK)	27	32	35	32	26	27	26	29	29	n.a.	
(of which Australia)	(16)	(23)	(26)	(21)	(20)	(20)	(21)	(21)	(20)	(19)	
USA	9	11	12	13	23	26	29	28	28	14	
Japan	3	11	13	15	10	12	12	12	12	14	
Other	8	12	4	5	4	4	6	5	5	n.a.	

Source : NZ Dept. of Trade and Industry, Annual Reports for the years ending 31 March 1978, 1979, 1980.



TABLE II New Zealand trade with the Community: principal products

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

Year to June	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
TOTAL	558.0	504.0	698.3	1010.7	1075.0	1102.8	1400.7	1490.5
Wool	177.9	120.8	218.2	338.5	320.5	311.4	407.3	375.8
Sheepmeat	161.5	145.0	185.5	231.8	209.5	276.1	420.8 (all meats)	485.8 (all meats)
Butter	59.2	76.2	108.2	171.8	185	201	224.3	315.5
Hides, skins and Leather	45.1	40.8	49.3	90.4	97.7	102.8	70.3	36.9
Other meat and offal	45.7	42.5	53.0	57.5	46.2	74.8	n.a.	n.a.
Cheese	14.1	15.3	26.3	28.8	14.4	0.1	4.0	34.3

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

TOTAL	537.0	706.5	674.9	834.6	819.4	937.7	1051.1	1051.3
Road vehicles and other trans. equipment	87.4	95.9	92.0	171.0	139.6	212.8	n.a.	n.a.
Machinery(non electrical)	97.9	141.5	133.8	174.1	128.3	134.9	"	"
Chemical mater. with plastic & pharm.	73.2	884.4	82.8	114.3	108.5	144.0	"	"
Electrical mach.	43.1	58.6	65.2	77.9	69.1	42.8	"	"
Textile fabrics	37.8	45.0	35.4	47.3	37.1	44.2	"	"
Manufactures of metal	18.5	29.4	24.0	25.6	18.1	31.5	"	"
Alcoholic bever.	6.4	6.8	7.8	8.5	8.2	11.6	"	"

3.

Balance of trade Mio NZ \$	+ 21.0	- 202.5	+ 23.4	+ 176.1	+ 255.6	+ 165.1	+ 349.6	+ 439.2
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Source : New Zealand Department of Statistics

TABLE III: New Zealand's overseas exchange transactions with the Community  
(NZ \$ Millions, year ending June 1981)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports	732.1	612.9	532.9	797.8	1,068.3	1,074.9	1,102.8	1,400.7	1,491
Imports	496.9	667.5	832.7	926.7	867.5	827.2	937.7	1,051.1	1,052
NZ Balance of trade	+235.2	-54.6	-299.8	-128.9	+200.8	+247.8	+165.1	+349.6	+439
Current Invisible Receipts	169.8	212.0	223.5	238.9	244.5	285.5		399.6	506.7
Current Invisible Payments	270.5	281.0	349.7	448.3	539.2	651.5		577.1	934.5
NZ Invisible Balance	-100.7	-69.0	-126.2	-209.4	-294.7	-366.0		-177.5	-427.8
NZ Current Account Balance (Trade and Invisibles)	+134.5	-123.6	-426.0	-338.3	- 93.9	-118.2		+172.1	+11.2

Source: NZ Reserve Bank Bulletin (March 1979, September 1980 and 1981).

TABLE IV : Overseas private direct investment in New Zealand

in NZ \$(million)

Year ending 31 March 1981

	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1970/80
UK	- 7.2	38.3	61.9	54.7	29.2	100.6	97.8	302.4	136.1
Australia	36.0	35.7	36.1	57.3	38.7	92.1	75.4	27.1	99.5
USA	67.6	25.1	46.9	45.4	23.7	58.8	- 14.5	37.4	89.5
Other EC	- 8.0	3.0	3/5	0/7	6/7	4/5	- 5/5	2/0	10/7
EC 9	-15.2	41.3	65.4	55.4	35.9	105.1	92.3	304.4	146.8

Source : Foreign Investment in New Zealand, Suppl. to Reserve Bank Bulletin, November 1981

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