NEW ZEALAND, THE TEN AND FUTURE MARKET STRATEGIES

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1. The Setting

Britain, along with Ireland, Denmark and Norway will become a full member of the European Economic Community (EC) in January 1973. Thus the original signatories of the Treaty of Rome of 1957 (France, West Germany, Italy, The Netherlands, Belgium and Luxembourg) which set up the EC will become what is popularly called the Ten. In fact this is a misnomer because a number of countries are associate members of long standing (Greece, Turkey) or entered as a type of associate under the Yaoundé Convention (former French colonies in Africa and African nations still members of the British Commonwealth) or are currently negotiating for associate membership (Austria, Sweden, Spain). In passing, it is suggested that it is this unwieldy expansion of the original inward looking Six which offers the best hope for freer world trade to the benefit of New Zealand, among others.

The main aims of the 1957 Rome Treaty were to eliminate customs duties and other trade barriers between member states; to establish a common external tariff (CT) and commercial policies towards outsiders; to inaugurate a common agricultural policy (CP) and to encourage the free movement of people among group members. These measures together were to achieve the grand design of improving living standards and encouraging closer political ties.

In practice, most progress to date has been made on the customs union or common market. At the end of a 12 year transition period (1957-1969) all trade barriers between the individual countries within the group had been eliminated. Political union is more contentious and little effort is being made in this area at present.

The implications of a group of Ten, plus minnows are profound. Already the Six alone are the largest trading bloc in the world in terms of both imports and exports. For example, of total world imports of food and agricultural raw materials, the Six account for 25 per cent. The Ten would be even more important traders with a population in Western Europe alone of 255 million compared with Russia 240 million and U.S.A. 201 million.

It might be thought that as 10-15 per cent of New Zealand exports go profitably to the Six already, the application of the CT and the CP to Britain should not affect New Zealand unduly. Unfortunately this is not true. Current exports to the Six are mostly wool which enters duty free as an industrial raw material.

Our other major products, meat and dairy, will be greatly affected by the existing and proposed CT and CP regulations (in spite of temporary concessions for our dairy produce). Briefly the crux of New Zealand's problem revolves around the degree to which Britain will become self sufficient after EC entry by increases in her internal production plus other EC country transfers and the changed patterns of demand. EC entry will force on the U.K. consumer. Higher prices to U.K. producers under CP will increase output. However, higher prices will also be paid by U.K. consumers under CP so that existing patterns of demand are likely to change. The question of where New Zealand could, or will be forced to fit into this entirely new set of circumstances, or how she could best adjust to it is discussed further below.

2. Present Composition and Direction of Trade

Any speculation on effects to New Zealand must start from the present situation. Briefly, what are our major exports and where do they go in any case? Tables 1 and 2 summarise the position.

TABLE 1
VALUE OF PRINCIPAL NEW ZEALAND EXPORTS 1961-1971

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1961</th>
<th>1966</th>
<th>1971</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>%</td>
<td>$m</td>
</tr>
<tr>
<td>Meat</td>
<td>157</td>
<td>28</td>
<td>197</td>
</tr>
<tr>
<td>Dairy</td>
<td>129</td>
<td>23</td>
<td>195</td>
</tr>
<tr>
<td>Wool</td>
<td>189</td>
<td>34</td>
<td>232</td>
</tr>
<tr>
<td>Skins, tallow etc.</td>
<td>37</td>
<td>7</td>
<td>57</td>
</tr>
<tr>
<td>Pulp, paper</td>
<td>12</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Fruit and vegs.</td>
<td>7</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>5</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>556</td>
<td>100</td>
<td>757</td>
</tr>
</tbody>
</table>
The problem of diversification has two aspects—products and destination. For New Zealand there is greater scope in the former. For the latter the plain facts are that there are only a limited number of countries (W. Europe, North America, Japan, Australia, plus some other special cases) which have the consumer incomes, tastes and ways of life to make them substantial and reliable market prospects.

### 3. The Nature of EC Trade Barriers

The original intention of CP was to improve agricultural productivity and farm incomes to stabilize markets and to provide regular supplies to consumers at stable prices. In practice the single goal has been to raise farm income mainly through pricing policies and to a lesser extent through promoting structural change (increased size and efficiency of farms).

Each year EC decides on the market price levels that it considers desirable for individual products. These are variously known as target prices (cereals, milk), guide prices (cattle), or sluice gate prices (a price index for pigmeat, poultry and eggs). Prices are maintained at around these levels by three basic methods:

(a) **Variable import levies.** These provide protection from lower priced supplies from non-member countries. Supplies cannot enter below prices which are set and which are known as threshold or minimum import prices. Consider dairy produce. Threshold prices are set for key milk products so that target prices will be achieved. The import levy is then the difference between the threshold prices and the lowest supply price that outside suppliers are quoting. The EC product is thus able to compete with commodities produced even at much lower prices outside.

(b) **Intervention purchases.** If the market for a commodity is over-supplied, causing prices to fall or if the target or guide price is not being achieved, national intervention Authorities then commence buying and by removing supplies raise the market price to the guide price. These supplies are stockpiled and may be sold later at subsidised prices as has happened in the past with butter.

(c) **Export subsidies.** These enable higher priced EC supplies, including stocks, to be sold on world markets at competitive prices.

Of these three measures the most intractable for New Zealand is the variable import levy. Political pressure can reduce the level of subsidised exports; in fact in respect to New Zealand dairy produce, EC has indicated she will not export any dairy produce surplus to her own requirements at subsidised prices if this is likely to disrupt markets New Zealand is trying to establish or build up.

### 4. Impact of U.K. Entry on the U.K. Market

Present CP food prices are substantially higher than those which U.K. consumers now pay for food. This reflects differing philosophies in the past in domestic economic policy. EC countries have tended to set high farm support prices which are then passed on to the consumer. However, U.K. Government has traditionally held consumer prices at relatively low levels and subsidised farmers directly. For example, in 1970 the farm price for milk for manufacture was 4.62 cents per kilo in U.K. but 10.9 cents in EC. Corresponding figures for fat cattle (liveweight per kilo) were 48 cents and 83 cents respectively. Of critical interest to New Zealand is the effect that CP prices will have on supply and demand of agricultural products in U.K. What will
be the response of U.K. farmers to CP prices? What will happen to consumption patterns in U.K. under these higher prices? Will other EC countries wholly or partly fill any supply gaps and how will this affect New Zealand exports to U.K.? Various attempts have been made to answer such questions. Depending on the assumptions, the answers differ and are usually hotly debated. Here, all that is presented is an attempt at consensus.

IMPACT ON PRICES TO FARMERS
The major impact on farm prices will be for milk for processing, cattle and cereals. As an indication of the magnitude of the change assume an instantaneous translation of EC rules and prices to British agriculture. On average, producer prices are expected to rise by around 15-20 per cent.

FARMER RESPONSE
Factors likely to influence production shifts are complex. Livestock farmers will be faced with substantially higher feed costs. This may encourage transfer into cereals which will be attractively priced in any case. Expansion into cereals fits well with traditional farmer thinking and capitalisation in cropping machinery is heavy. But disease problems are becoming more serious as production intensifies. Also, additional suitable land is limited unless this is withdrawn from dairying.

The overall result may be that cereal production will increase most rapidly and that livestock production will be based more on grassland farming. Expansion in beef is, necessarily slow because of the low natural rate of increase of cattle herds and is partly dependent on dairy herd numbers (most beef cattle slaughtered at present are of dairy origin).

IMPACT ON U.K. CONSUMPTION PATTERNS
Various estimates have been made about the likely increase in retail prices of food. Most are of the order of 30 per cent (for all foods as a group) over the transition period. Certainly over the last year or two there have been substantial increases as U.K. Government shifts its emphasis towards EC pricing procedures in preparation for entry. The price increases will affect consumption patterns. However, the continuing effects of changes in consumer income and in the composition of the population must also be taken into account.

It is generally agreed that beef and butter will be the commodities most adversely affected but there will be compensating shifts towards meat other than beef (pigsmeat, mutton and lamb, poultry) and also cheese.

THE OVERALL EC SUPPLY POSITION
Assume future production in U.K. more or less follows the course outlined. New Zealand and other outsiders can compete for any deficit only after other EC countries have disposed of any surpluses they may have. Thus New Zealand trade prospects depend on the degree of self-sufficiency for EC as a whole. Table 3 indicates the likely future position for commodities of interest to us.

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<thead>
<tr>
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<tbody>
<tr>
<td>Beef and veal</td>
<td>95%</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Mutton and lamb</td>
<td>74%</td>
<td>86%</td>
<td>90%</td>
</tr>
<tr>
<td>Pigsmeat</td>
<td>40%</td>
<td>75%</td>
<td>61%</td>
</tr>
<tr>
<td>Milk and milk products</td>
<td>55%</td>
<td>104%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Opportunities will exist for New Zealand lamb and beef but the overall dairy supply situation is not encouraging. Pressure for further agreements must continue.

5. EFFECTS ON MAIN EXPORTS
Wool—Trade will not be affected as Wool is classed as an industrial raw material by EC with a rate of duty from zero to 3 per cent. In 1970 U.K. took 20 per cent of New Zealand wool exports and EC another 35 per cent.

Beef and veal—U.K. and EC are minor markets. In 1971 they took 7 per cent and 1 per cent respectively compared with 58 per cent going to the U.S. From July 1971 U.K. imposed a variable levy to operate when beef prices fell too steeply on the domestic market. Under CP regulations EC allows entry of a quota of 22,000 tons of fresh and frozen beef per year. This however attracts a CT duty of 20 per cent. When the quota has been filled the variable levy system applies. But, because EC is normally short of beef, these regulations are waived periodically or special concessions are given to individual countries. For example, in the past Argentina and Uruguay have successfully negotiated reduced duty rates. At present beef is in such short supply that the 20 per cent duty has been suspended temporarily.

Mutton and lamb—In 1971 U.K. took 90 per cent of lamb and 17 per cent of mutton exports (Japan took 70 per cent of mutton exports). There is no CP for sheepmeats so that meantime all that would apply is a 20 per cent CT. However, the U.K. imposed the first step of a three step levy on lamb and mutton imports in July 1971 which, when fully effective in February 1973, will be equivalent to a tariff of about 10 per cent on lamb and 3 per cent on mutton. In the absence of a sheepmeats CP this levy will eventually be replaced by the 20 per cent CT. Although sheepmeats were not formally discussed in negotiations between U.K. and EC, the former has assured the New Zealand Government that there will continue to be adequate access for New Zealand lamb after entry.

Dairy produce—In 1970 U.K. took 92 per cent of New Zealand butter exports and 72 per cent of our cheese exports. She was therefore subjected to an intense and skilful campaign to pressure her to obtain concessions for New Zealand dairy produce, at least through the transition period. Briefly, some success was achieved. There will be guaranteed entry to the U.K. market up until the end of 1977 for somewhat reduced quantities of butter and cheese. Butter will be scaled down in five annual steps to 80 per cent of the present quality (170,000 tons to 136,000 tons) and cheese more severely to 20 per cent (75,000 tons to 15,000 tons). However, these are guaranteed quantities. The market may require more—probably cheese rather than butter. Prices are guaranteed at 1969/72 average. Beyond 1977 there are no guarantees except that the concession for butter will be reviewed in 1975. Also EC has agreed to work towards an international dairy agreement and not to disrupt New Zealand efforts to establish in third markets by dumping surplus EC dairy produce.

6. A MARKET STRATEGY FOR THE FUTURE
EC itself, and U.K. entry to it, are merely new factors in the constantly changing and complex pattern of world trade that New Zealand participates in. True, U.K. entry has created problems of a magnitude not previously experienced. But New Zealand must condition itself to accept that trade has always been a game
of crisis, change and uncertainty. Previously, because of Commonwealth ties we have been sheltered from the hurly burly to some extent. This no longer applies and recognition of the fact will prevent discouragement and ensure perspective.

Again, trade is economics plus politics. New Zealand has tended to rely too much on economic arguments in pressing for trade advantage such as our low cost of production, efficient farmers, and so on. In any case these are mostly an accident of location and circumstance. In the future we must be prepared to apply more political pressure (as with U.K. in its EC negotiations) and bargain in a wider context to achieve our trade objectives. Politics is essentially a *quid pro quo* exercise so we must be prepared to offer concessions or incentives in return. Strong bargaining weapons are, for example, our present U.K. trade preferences and the possibility of overseas capital investment in New Zealand with our comparatively stable political and social environment.

Our major trade and diplomatic offensive must continue to be in EC. There is just no possibility whatever of diversifying our dairy produce and lamb away from U.K. in the short run, or even in the medium term. The dairy concessions over the transition period and the assurances about lamb are helpful but the pressure must be maintained. What have we offered or could we offer in return? With U.S.A. and Japan exerting heavy pressure on EC to protect their own trading interests, New Zealand could possibly attempt to trade concessions to the former two for better access to the latter. That is, a limited type of multilateral agreement.

EC has agreed to participate in a new series of Kennedy Round trade negotiations commencing in 1973. Again this was a U.S. initiative to attempt to liberalise international trade, and New Zealand should prepare carefully for the bargaining that will ensue. However, whether this is the most appropriate approach to use with EC is questionable. EC appears to be genuine in its belief that a series of international commodity agreements for individual commodities offer the best hope for solving surplus and trade problems. New Zealand should initiate discussions in areas of her interest. The milk agreement is a start.

Another area for decision is whether New Zealand moves more towards bilateral agreements—for example with Japan—or whether she espouses the trading bloc cause, for example a Pacific Basin Free Trade area. Meantime the latter is probably best treated as an academic's backyard. Bilateral agreements are the preferred option. NAFTA is slowly evolving and it is not inconceivable that an eventual exchange of butter or lamb for manufacturers may occur. At the present time Japan is searching anxiously for reliable long term sources of supply of industrial and agricultural raw materials to maintain her growth momentum. In food for example the proportion that they will need to import will rise from 15 per cent in 1975 to 40 per cent in 1985. Joint ventures in New Zealand agriculture and industry using Japanese capital would provide an entrée for New Zealand products.

Overall, future market prospects are as good as we want to make them. There are no poor markets, only poor marketers.

**SOURCES**

Tables 1 and 2: Adapted from Annual Report Department of Industries and Commerce 1971.