Trading in Traditions:
New Zealand's Exports to the Countries of the European Union, 1960 to 2000.

A thesis presented in partial fulfilment of the requirements for the degree of Master of Arts in History at Massey University

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CONTENTS

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TABLES

GRAPHS

ABBREVIATIONS

ACP	African, Caribbean and Pacific nations
AJHR	Appendices to the Journals of the House of Representatives
CEC	Commonwealth Economic Committee
CER	Closer Economic Relations
CET	Common External Tariff
EAR	External Affairs Review
EC	European Community
ECU	European Currency Unit
EDC	Export Development Conference
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
FAO	Food and Agriculture Organisation
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HRI	Hotel, Restaurant and Institute
IDA	International Dairy Arrangement
IDC	International Dairy Council
IPE	International Political Economy
IWS	International Wool Secretariat
IWTO	International Wool Textile Organisation
MAF	Ministry of Agriculture and Fisheries
MERT	Ministry of External Relations and Trade
MFA	Multi-Fibre Agreement
MFAT	Ministry of Foreign Affairs and Trade
NA	National Archives
NTB	Non-Tariff Barrier
NZEAR	New Zealand External Affairs Review
NZFAR	New Zealand Foreign Affairs Review
NZFATR	New Zealand Foreign Affairs and Trade Record
NZDB	New Zealand Dairy Board
NZDPMB	New Zealand Dairy Products and Marketing Board
NZMPB	New Zealand Meat Producers' Board
NZPD	New Zealand Parliamentary Debates
NZWB	New Zealand Wool Board
OECD	Organisation for Economic Cooperation and Development
SMA	Sensitive Market Arrangement
SMP	Supplementary Minimum Price
UK	United Kingdom
VRA	Voluntary Restraint Agreement
WRONZ	Wool Research Organisation of New Zealand
WTO	World Trade Organisation

INTRODUCTION

New Zealand has always been a nation strongly reliant on international trading. From the mid-nineteenth century wool was a major export commodity and with the advent of refrigeration in the 1880s sheepmeat and dairy products, especially butter, gained prominence. These three commodity types became the export staples of New Zealand, and remained so in 1960. Britain, in turn, was clearly the most prominent importer of these products. New Zealand exports of wool, sheepmeat and dairy products to Britain therefore became imbedded as the 'traditional' pattern of trade. An interest in how these traditions survived to the end of the twentieth century was the stimulus for this thesis, which is an historical investigation into New Zealand's recent export trade with the countries of today's European Union.

Agreements made between New Zealand and Britain in the first half of the twentieth century consolidated what had been established since 1890 as a regular pattern of trade. The 1932 Ottawa Agreement gave New Zealand free and preferred access over non-Commonwealth countries for its agricultural products into Britain.[1] The relationship was further tightened in the bulk purchase agreements of World War II. In the post-war period the trading relationship between New Zealand and Britain remained very close and interdependent.

General studies of New Zealand's economic history have been testament to this pattern. Gary Hawke's *The Making of New Zealand,* Benjamin Evans' *A History of Agricultural Production and Marketing in New Zealand* and John Gould's *The Rake's Progress: The New Zealand Economy Since 1945*[2] all emphasise the importance of the trade with Britain to New Zealand's economic health over that period.

From 1880 to 1950 over half (and up to 70%) of New Zealand's export revenue was made up from wool, butter and meat exports. In the same period, between 66%

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[1] A comprehensive outline of New Zealand's trading history over this period can be found in, Muriel F. Lloyd Prichard, *An Economic History of New Zealand to 1939*, Auckland: Collins, 1970.

[2] G.R. Hawke, *The Making of New Zealand: An Economic History*, Cambridge: Cambridge University Press, 1985; John Gould, *The Rake's Progress? The New Zealand Economy Since 1945*, Auckland: Hodder and Stoughton, 1982; B.L. Evans, *A History of Agricultural Production and Marketing in New Zealand*, Palmerston North: Keeling and Mundy Limited, 1969.

and 87% of exports were sent to Britain annually.[3] It is little wonder that New Zealand became known as Britain's 'farm in the South Pacific'.[4] Nor could it otherwise have been possible for John Ormond, (Chairman of the New Zealand Meat Producers' Board) to state without dispute in 1960 that the trading arrangements were the 'very ground on which New Zealand's economy is built'.[5]

However, changes were taking place in that part of the world that would soon begin to have a significant impact on, and even threaten, that relationship. After World War II France, Germany, Belgium, the Netherlands, Luxembourg and Italy (often called the Original Six) began working towards economic cooperation. This was stimulated by two main factors. One was the idea that economic interdependence would hinder political anarchy. The second was the need for some of these countries to find export markets for their domestic agricultural output, which had grown through technological innovation and political support.[6]

From the outset New Zealand officials were aware that the grouping, which became the European Economic Community (EEC) under the 1957 Rome Treaty, was working towards designing a common policy on agriculture.[7] As many of these countries already had highly protectionist individual agricultural policies, there was a great degree of concern that the new common policy would create even more restrictions for New Zealand's agricultural exports there.[8] This was of particular concern because up until that stage, the European countries were considered by New Zealand to present the most opportunities for trade expansion.

Frank Holmes' 1957 Chatham House address 'The Commonwealth and a Free Trade Area in Europe' gives some insight to the discussions that evolved during this time. He looked at Britain's viewpoint and options regarding the formation of the new Community. His conclusion displayed a similar vein of thought to the stance that New

[3] Tables detailing export destination and commodity type proportions through this period can be found in, *New Zealand Official Yearbook 1960*, Wellington: Department of Statistics, 1960, pp.289-290.
[4] Harold MacMillan cited in John Singleton and Paul L. Robertson, 'Britain, Butter and European Integration, 1957-1964, *Economic History Review*, Vol.L, No.2, 1997, p.327.
[5] Robert McLuskie, *The Great Debate. New Zealand Britain and the EEC: The Shaping of Attitudes*, Wellington: Decision Research Centre, 1986, p.24.
[6] For a survey of the historical background to the formation of the EEC see 'The European Economic Community', *Appendices to the House of Representatives (AJHR)*, A21, 1961.
[7] Which came to be called the Common Agricultural Policy (CAP).
[8] A.H. Nordmeyer, 'Economic Survey 1958', *AJHR*, B5, 1958, pp.16-17.

Zealand later adopted regarding the British applications to join the EEC. He concluded at that time that,

> Britain's ability to contribute to Commonwealth development and the ability of other Commonwealth countries to develop themselves will certainly not be improved if we turn our backs on developments on the Continent.[9]

He rightly foresaw that the EEC would become a powerful force in the international trading arena. Interestingly, thirty-five years later he was still recognising this body's centrality and power to affect New Zealand's economic interests.[10]

Indeed, Britain could not ignore the development of the EEC and although it resisted joining it at first, it became clear that it would seek ways to accommodate its interests alongside the new grouping.[11] This was achieved partly through the implementation of the European Free Trade Association (EFTA - of which Britain was a founding member) a grouping which did not include agriculture in its trade agreements. However, Britain's decision in 1961 to apply for EEC membership was evidence that it saw its best prospects lying within the Community rather than outside of it.

This first application by Britain was seen in New Zealand as a major threat to the traditional pattern of agricultural export trade and, indeed, the New Zealand economy. It quickly became an issue of wide interest and anxiety not only to New Zealand politicians, government officials, and agricultural sector leaders, but also the wider public. Robert McLuskie's *The Great Debate,* a study of domestic reaction at the time of that first application,[12] describes the fervent conjured up over fears for New Zealand's economic future well. This thesis attempts to establish how well grounded these fears were.

The topic has therefore been chosen on the basis of an interest in two interlocking issues – the recent history of New Zealand's export patterns, and the impact of

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[9] Frank Holmes, 'The Commonwealth and a Free Trade Area in Europe', *International Affairs*, Vol.34 No.1, 1957, p.48.

[10] Frank Holmes and Clive Pearson, *Meeting the European Challenge: Trends, Prospects and Policies*, Wellington: Victoria University Press, 1991.

[11] An outline of the British perspective on the establishment of the EEC can be found in Stephen George, *An Awkward Partner: Britain in the European Community*, 3rd edition, Oxford: Oxford University Press, 1998, Ch.1.

Britain's membership in the Community/Union[13] on them. Because the accession of Britain to the EEC in 1973 has been considered such a significant event in New Zealand's trading history, a consideration of the impact of it on actual trade is worthy of investigation.

The timeframe for this thesis commences in 1960. This allows a short glimpse into trade patterns before Britain formally attempted to join the Community. Using official New Zealand trade statistics[14] (which started to be comprehensive enough for detailed analysis at this time), it tracks trade patterns thereafter. The purpose is to see if and how patterns changed during the process of Britain's three applications (two unsuccessful and one successful). The analysis concludes four decades later, allowing enough time to see the effects of major events that have impinged on the relationship since 1960, but avoiding the analytical complications of the European Union's (EU) ongoing expansion eastwards.

The approach is first to describe the patterns of New Zealand's exports to the fifteen member countries of today's European Union from 1960 to 2000 through an intensive examination and graphical presentation of official trade statistics. These have mainly been sourced from Statistics New Zealand records, but where possible European and other international trade statistical publications (for example from the OECD) have also been consulted for verification and comparison. The focus is then narrowed to identify the main earning commodities sent in 1960 and to track their paths through to 2000. These are wool, sheepmeat, and butter, all of which are relevant because of their sustained dominance of exports over the previous half-century. Individual case studies are made of each of these categories, to detail their European export patterns and to attempt to explain them.

The study of these three commodity categories is also appropriate because each received quite different treatment in their access to Europe's markets, especially

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[12] McLuskie, *The Great Debate.*

[13] In this thesis, the terms European Economic Community (EEC), European Community (EC) and the European Union (EU) are used interchangeably – the name which is used is based on that appropriate to the time being referred to.

[14] *Statistical Report on the External Trade of New Zealand for the Year*, Wellington: Customs Department, 1956-1963; *New Zealand Exports*, Wellington: Department of Statistics, 1964-1981; *New Zealand Exports: Statistics on Microfilm*, Wellington: Department of Statistics, 1981-1988; INFOS Database, Statistics New Zealand, 1988-2000.

following Britain's accession to the EEC. Explanations of why this was so are included in their individual chapters. It can be summarised, though, that butter was the most tightly regulated export of the three, given 'transitional' provision for access to the British market only after accession to the Community. Sheepmeat was allowed into the wider Community, but subjected to a tariff and later a quota arrangement. Wool, not considered an agricultural but a raw product, was allowed access to all European markets. These restrictions alone, however, did not determine New Zealand's European export success. An interesting finding of this thesis is that the liberal access of wool did not result in a successful maintenance of the market. Nor did the European's jealous guarding of their butter market result in the demise of New Zealand's butter exports there. Even the increase in protectionism of the European sheepmeat industry did not snub out the development of New Zealand's sheepmeat exports there.

In effect, then, this thesis becomes chiefly an investigation of the main facets of New Zealand's agricultural trade with Europe. This is important because New Zealand is a small country dependent on external trade for its survival. Despite significant changes in the past decades, agriculture remains the major sector in providing that export income, as will be shown in the general export descriptions of Chapter One. Much of this still comes from those countries that are members of today's European Union. Tracking how this relationship has evolved from being facilitated by narrow bilateral arrangements to an expansive partnership with multilateral involvement tells much about New Zealand's evolution in the international trading environment.

The findings are presented by referring to sources from the early 1960s and comparing what was expected at that time to happen to New Zealand's traditional exports over the following years, with what subsequently did happen. The report of the 1963 Export Development Conference[15] in New Zealand is particularly useful in this regard. This conference was convened by the government and attended by New Zealand's export industry leaders with the aim of determining strategies for export

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[15] *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.

development. The background papers it produced provide some clear views on what was expected of all three commodities' export performance in the future. These are then compared with what actually did happen.

That an Export Development Conference would be so heavily supported and promoted by the New Zealand government shows how much New Zealand's external trade, especially the agricultural, has always been intrinsically linked to politics. The explanations for the trading patterns and their changes have therefore also largely been sought from political documents, records and archives. Predominantly this has involved reading the Ministry of Foreign Affairs and Trade archives which pertain to New Zealand's interactions with Europe, but also New Zealand's domestic political records, such as the *Parliamentary Debates (NZPD)* and reports contained in the *Appendices to the Journals of House of Representatives (AJHR)*. Articles, speech notes and reports from the *Foreign Affairs and Trade Record*[16] and newspapers have also been useful. A useful discussion was also had with Bryce Harland, who shared some interesting personal recollections of his time as High Commissioner to London through the busy years of the late 1980s.

Reports and publications from the wool, sheepmeat and dairy industries have also been researched for indications of the effects of policies on actual output and exports. Along with this, first hand information was sought from industry representatives. Interviews were consequently conducted with Brian Lynch of the Meat Industry Association, and Roger Buchanan, of the New Zealand Wool Board. Both of these men had held key positions within their respective industries through a large portion of the period. A questionnaire regarding butter trade was supplied to the New Zealand dairy industry, which Fonterra Trade Strategist Jonathan Hughes completed on the organisation's behalf.

Extensive secondary materials associated with this topic have also been referred to. These come not only from the many works that concentrate explicitly on New Zealand's export trade to Britain and Europe, but also the many others which have analysed New Zealand's economy, trading or agricultural policies, and politics. The

[16] Previously known as the *External Affairs Review*, *New Zealand External Affairs Review*, *New Zealand Foreign Affairs Review*, *New Zealand External Relations Review*.

volume of writing reflects the centrality of Britain and Europe to New Zealand's trading interests. Because Europe has been such an important destination for New Zealand agricultural exports, no change has been considered without commentators assessing the implications it would have on this vital area of trade.

Works that have dealt directly with New Zealand's trading relationship with Britain within the time-frame of this thesis can be broadly divided into two groups. There are those which have studied the state of the trading relationship at the time of the study and then considered the implications of a policy event for the future of the relationship. The Government or its agencies commissioned many of these. They were published at crucial times in negotiating processes, and generally pushed an argument for New Zealand's case for continued access to the European markets. These will be mentioned within discussions of general negotiating patterns in Chapter One.

The second group of works dealing directly with the New Zealand/European Community relationship have retrospectively analysed developments and changes in the relationship in a similar way to this research. They have been the most useful for comparative analysis and as sources of extra information. Those works of most importance to this research are discussed below.

Studies by John Singleton and Paul Robertson, which concentrate on the political trading relationship between New Zealand and Britain in the 1940s, 1950s and 1960s, have provided a valuable complement and background to the early part of this thesis. This is especially so because they have taken a similar approach to this thesis by centring much of their research on evidence from political archives. Their article 'Britain, Butter and European Integration: 1957-1964'[17] highlights the issues facing the British butter market during the time of the implementation of the Rome Treaty and Britain's first application to join the EEC. It emphasises that New Zealand was already facing dilemmas at the time in trying to hold onto its share of the British butter market while having to compete with 'dumping' from other countries and increased political competition for a legitimate market share from Denmark. Its conclusion - that New Zealand fared rather badly in the import policy adjustments made by Britain

[17] John Singleton and Paul Robertson, 'Britain, Butter and European Integration, 1957-1964', *Economic History Review*, Vol.L, No.2, 1997, pp.327-347.

during this period – refutes the common assumption that New Zealand's butter trade with Britain ran smoothly until after Britain's accession to the Community.

Singleton and Robertson's recent book *Economic Relations Between Britain and Australasia 1945-1970*,[18] is an extension of the above article. Amongst other themes it compares the fortunes of New Zealand and Australia in the negotiations for British accession. This is interesting because it adds evidence to the notion of success for New Zealand in the strategies it implemented to negotiate the continuation of its access. It notes that Australia had more scope to divert its trade away from Britain during the 1960s because its minerals found ready markets in other industrial markets, and there were good opportunities for trade development with Japan. New Zealand, meanwhile, was 'a supplicant with little leverage' which had been 'lucky to enjoy ten years of respite before Britain finally obtained entry to the Common Market in 1973'.[19] New Zealand had therefore been fortunate to receive safeguards for its dairy trade, which Australia had lost. They suggest that 'New Zealand's dependent economic relationship had been preserved at a much lower intensity.'[20]

This book is also interesting in that it concentrates on changes in the nature of Britain's relationship with Australia and New Zealand, within the scope of their commitment to each other as Commonwealth partners. Of interest to the time frame of this thesis is the identification of the fragmentation of those relationships during the 1960s, when Singleton and Robertson note that Britain became less committed to its leadership of the Commonwealth economic community and more focused on becoming a member of the EEC. It concludes that the former relationship was essentially severed with British accession. While the nature of the relationship certainly altered around this time, the notion of severance is in conflict with the findings of this thesis, which argues that there is a remarkable retention of those 'traditional' economic ties.

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[18] John Singleton and Paul Robertson, *Economic Relations Between Britain and Australasia 1945-1970*, Hampshire: Palgrave, 2002.

[19] Singleton and Robertson, *Economic Relations Between Britain and Australasia*, pp.212-213.

[20] Singleton and Robertson, *Economic Relations Between Britain and Australasia*, p.212.

British academic Juliet Lodge's book *The European Community and New Zealand*,[21] published in 1982, could be considered to be the most prominent study of New Zealand's trading relationship with Britain and Europe of that time. The study borrowed concepts from political economy and small state foreign policy analysis to suggest, in contrast to Singleton and Robertson, the continued link between New Zealand after Britain's accession to the Community from 1973 to 1981. It emphasised the power and primacy of politics in trading relations, something that this research has confirmed as a factor in helping New Zealand retain its interests in Europe. Alongside this, Lodge also investigated the interplay between the politics of the bilateral relationships and the intricacies of European agriculture.

Lodge concluded that in order for a small state to be successful in negotiating an issue with an economic basis (in which it had much less economic power) that political issues had also to be involved in order for it to have any power in the negotiating process. She concluded that this was so for New Zealand. The political operations of New Zealand representatives and diplomats had contributed greatly toward helping it achieve access success. She also suggested that New Zealand's alignment with Britain had given it significant negotiating power. Meanwhile, Britain also had used the issue of New Zealand access to help its own argument within the Community for the need for CAP modification.

Joseph A. McMahon's *New Zealand and the Common Agricultural Policy: Future Options for New Zealand*,[22] published in 1990, is another comprehensive study of the effects of the CAP on New Zealand's agricultural trade both with Europe and internationally. His is a detailed analysis focusing on the legal technicalities of the CAP, New Zealand's bilateral agreements with the Community, and the intricacies associated with the General Agreement on Tariffs and Trade (GATT). In considering the history of New Zealand's relationship with Europe he concentrates less on the diplomatic and political interactions and more on the details of agreements made. While the work is technically extremely useful, then, it ignores the interplay of power dynamics caused by more subjective factors, between New Zealand as a small state

[21] Juliet Lodge, *The European Community and New Zealand*, London: Francis Pinter Publishers, 1982.

compared with the Community, which have played such an important role in shaping the relationship.

New Zealand academic Richard Kennaway's analyses of New Zealand's relationship with Britain and Europe over the years have also been very useful. These have not been individual works so much as part of his studies of New Zealand's foreign policies over the 1970s, 1980s, and into the 1990s.[23] Each book has a chapter which deals explicitly with New Zealand's trading relationship with Britain. These are particularly useful for three reasons. Firstly, their consistent presence within general studies of foreign policy reinforces the centrality of the New Zealand/European relationship to New Zealand's trading interests. Secondly, they take a similar angle of analysis to this thesis, and are therefore useful for comparative purposes. Finally, because each chapter is written approximately one decade after the other, they are of considerable historiographical interest.

Kennaway's works from 1972 and 1980 were both fairly pessimistic about the future of New Zealand's primary product access. He saw the success thus far as more good fortune than management, due to factors mainly beyond New Zealand's control. In this he pointed to the delay in Britain's entry applications, the slim British domestic political margin in favour of entry, and the crucial support of Britain for New Zealand, as being factors which had been fortuitous for New Zealand.[24] He therefore largely denied any credit or power to New Zealand's negotiators for being able to influence the outcomes themselves. He concluded that New Zealand was an example of a small state affected by the establishment of the 'rules of the game' by a more powerful body.[25]

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[22] Joseph A. McMahon, *New Zealand and the Common Agricultural Policy: Future Options for New Zealand*, Wellington: Victoria University Press/Institute of Policy Studies, 1990.
[23] Richard Kennaway, *New Zealand Foreign Policy 1951-1971*, Wellington: Hicks Smith & Sons, 1972; John Henderson, Keith Jackson and Richard Kennaway (eds.), *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen, 1980; Richard Kennaway and John Henderson (eds.), *Beyond New Zealand II: Foreign Policy into the 1990s*, Auckland: Longman Paul, 1991.
[24] Kennaway, *New Zealand Foreign Policy 1951-1971*, pp.80-91; Richard Kennaway, 'New Zealand and the European Economic Community', in John Henderson, Keith Jackson and Richard Kennaway (eds.), *Beyond New Zealand: The Foreign Policy of a Small State*, Auckland: Methuen, 1980, pp.76-81.
[25] Kennaway, 'New Zealand and the European Economic Community', in Henderson, Jackson and Kennaway (eds.), *Beyond New Zealand*, p.81.

The 1991 study by Kennaway is somewhat more positive in its evaluation of New Zealand's capabilities. In this he identifies responsive strategies that New Zealand had taken which helped it survive Britain's membership of the Community. He noted that market diversification efforts by New Zealand had helped it to better prepare for loss of the British market during the 1960s delay. He acknowledged the success of New Zealand's negotiating efforts through two different types of tactics. A cooperative attitude to negotiations had helped New Zealand (without trying to influence wider political issues) meet many of its access objectives without ruffling European political feathers. Active strategies had complemented this, where through regular engagement by New Zealand politicians and diplomats with European officials, continued diplomatic relationships had been developed. The shift from emphasis on bilateral access negotiations to multilateral negotiations was also noted. Through all of this, Kennaway concluded that bipartisan support of these trends by successive New Zealand governments had allowed these efforts to be successfully managed and sustained.[26]

Of all of Kennaway's commentaries, this is the most in line with the views presented within this thesis. The benefit of a longer view of the changes has enabled a broader consideration of the general patterns that have emerged, rather a than more pessimistic analysis created within a time of rapid change, as it was in the 1970s and 1980s. This validates taking a somewhat long-term view of trading patterns in this thesis, because it has given scope for the identification of trends that might not otherwise have been apparent in a shorter-term study.

The most well-known recent work dealing explicitly with New Zealand's relationship with the European Union has been Sir Frank Holmes and Clive Pearson's *Meeting the European Challenge*,[27] published in 1992. This is a commentary on the recent history of New Zealand's relationship with the European Community, both political and economic. It also made suggestions for how the European's change to a Single Market could be optimised by New Zealand. They state that the close haggling

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[26] Richard Kennaway, 'The Politics of Agricultural Trade: The European Community Example', in Richard Kennaway and John Henderson (eds.), *Beyond New Zealand II: Foreign Policy into the 1990s*, Auckland: Longman Paul, 1991, pp.125-139.

[27] Holmes and Pearson, *Meeting the European Challenge.*

involved in negotiating New Zealand's primary product access had become an exercise in damage control[28] which had obscured the development and maintenance of more general political, cultural and social links,[29] and therefore argue for the development of the wider relationship.

Holmes and Pearson also acknowledged the extensive political and diplomatic efforts of New Zealand representatives that had helped it to succeed in retaining European market access. They also noted, however, that its future would largely be at the mercy of European Union policies. These, they said, would need to become less protectionist to enable market development, and New Zealand had little ability to influence this alone. They saw value in New Zealand's alignment with other like-minded countries such as in its membership of the Cairns Group as enhancing its power to pressure for change in the larger players' protectionist policies.[30]

This work also took a different approach to others because it also considered how domestic factors in New Zealand influenced its export abilities. This thesis confirms the importance of these factors. Holmes and Pearson take a neo-liberal stance by criticising successive governments (prior to 1984) for only 'tinkering' with primary support mechanisms. They then also complained that changes brought about by the Fourth Labour Government had not been extensive enough in liberalising investment and export opportunities on a macroeconomic level.[31] This was blamed for New Zealand's low achievement record in adding value to optimise returns from its exported commodities.

This thesis argues that across the changes in government in New Zealand that took place from 1960 to 2000, including the advent of MMP which presented a quite new style of governing politics to the country, there was a remarkable continuity in foreign policy attitudes toward exporting. Its promotion and growth remained of central interest to each government, but how this was confronted was at times radically different. Policy development always reflected the importance of export income to the New Zealand economy, and the balancing and enhancing of trading relationships has

[28] Holmes and Pearson, *Meeting the European Challenge*, p.104.
[29] Holmes and Pearson, *Meeting the European Challenge*, pp.16-17.
[30] Holmes and Pearson, *Meeting the European Challenge*, p.302.
[31] Holmes and Pearson, *Meeting the European Challenge*, p.27.

been enabled through the progressive admission of reciprocal imports. Holmes and Pearson are the most prominent of these writers to acknowledge how much domestic policies had an influence on New Zealand's trade relationship with Europe. Changes in domestic economic and agricultural policies within New Zealand, which for example have effected changes in farmer support, production regulation, and marketing policies, certainly forced both immediate and long-term impacts on traditional agricultural trade.

In the first two decades of the period under study the priority of income support for farmers showed consistently through the different governments. This changed dramatically with the policies of the Fourth Labour Government from 1984, which affected all farming sectors. However, the producer support cuts and deregulation of agricultural processing industries were most obvious in affecting exports to Europe in the sheepfarming sector. This thesis argues that deregulation in the meat processing sector and the lifting of subsidies for sheep farmers led eventually to distinctive advances in the nature of New Zealand's trade with Europe. Some may argue that technological innovation rather than deregulation were the real cause of the change in the nature of this. This has some merit, but the findings of this research indicate that deregulation was a catalyst in advancing the efficiencies, technologies and marketing initiatives of the meat export industry. Likewise, the prolonged support and regulation of the wool industry may well have hindered its advances in efficiency and marketing (see Chapter Four).

Ron Sandrey and Russell Reynolds' book *Farming Without Subsidies*,[32] written in the early 1990s, provided some important information for this part of the research. There is some useful analysis on the impact of deregulation on New Zealand's farming industry and its export trade. While the contributions to this book focus mainly on farmer responses to agricultural policy reforms, it notes that as an exporting industry these were bound to affect New Zealand's export capabilities.[33] To this end, it was observed that farm production was particularly affected in New Zealand's sheep

[32] Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience*, Wellington: MAF Policy Services, 1990.

farming sector by the 1985 abolition of producer supports, with a consequent drop in export volumes.[34]

Diversification of exports became a key aim for New Zealand policy makers from the 1950s. Originally these efforts focused on diversifying export markets to find more outlets for New Zealand's 'traditional' export products. Some of the recommendations that came out of the 1963 Export Development Conference can be seen as starting points for more assertive approaches that began to be made to market development. Despite much success in developing markets worldwide, the European Union as a single entity remained the third largest trading partner for New Zealand by the end of the millennium.

Other efforts were also based on nurturing 'non-traditional' product development so as to diversify export products. These met with some success, but by 2000 the importance of New Zealand agriculture to export achievement remained extremely high. A finding of this research has been that diversification, in fact, has been highly successful within the traditional commodities, leading to a wider, more specialised, and higher returning range of products exported. This has particularly shown through in the sheepmeat and wool case studies in the New Zealand/European Union trade relationship, especially through the 1990s.

The European Union is acknowledged as one of the biggest influences over international agricultural trade today, because of its domestic policies toward agriculture. The Common Agricultural Policy, in effect since 1967, has often been blamed for too heavily influencing the nature of prices and commodity flows in international agricultural trade. To be sure, CAP policies had a significant impact on levels of self-sufficiency and export capacity in the same products. This has especially been problematical in the butter sector, with Europe's[35] notorious 'butter mountains'

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[33] Ralph Lattimore and Allan Rae, 'Agricultural Trade', in Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience*, Wellington: MAF Policy Services, 1990, pp.25-40.

[34] Russell Reynolds and S. SriRamaratnam, 'How Farmers Responded', in Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience*, Wellington: MAF Policy Services, 1990, pp.157-182.

[35] While it is readily accepted that the name 'Europe' geographically correctly pertains to countries outside the European Union, when 'Europe' is referred to in this thesis it means the European Community or Union.

of the 1970s and 1980s causing crises in international butter trade. However, a substantial body of support for the policies within the Community, for example voiced strongly through farmer unions, has influenced the actions and policies of European politicians, and subsequently their views and actions with regard to New Zealand access into their markets.

Secondary material which discusses the impact of the CAP and Britain's membership in the European Community on its agriculture and traditional trade with New Zealand, has been useful for pursuing this issue further. E.A.Attwood wrote the *Future of the Common Agricultural Policy and its Implications for New Zealand*[36] as a discussion paper in 1984. This noted the decline in New Zealand's exports to Britain, but also observed that Britain's domestic production trends prior to accession to the Community meant that this may have occurred regardless of the implementation of the CAP; a point reinforced by findings made in this thesis. Attwood's paper, however, focused mainly on problems generated in European agricultural trade by CAP policies and how these would be addressed in future. It recognised that while there was a measure of political goodwill towards New Zealand, it was uncertain how much this would be worth for the future of access negotiations given the need of the EC Ministers to find solutions to European agricultural surpluses. The future from this viewpoint, therefore, appeared bleak for finding any long term arrangements for New Zealand's security of access.

The 'awkwardness' of Britain's membership in the European Community on issues such as its disagreement with the fundamental workings of the CAP was an issue in Stephen George's *An Awkward Partner*.[37] This book charts the history of the first twenty-five years of Britain's EEC membership, in which its reputation as an independent-thinking and difficult member had been consolidated. George highlighted (as did Lodge) that New Zealand was at times made a political pawn in British membership issues both with the Community and domestically. The unfinalised nature of New Zealand access arrangements meant that it would continue to be an

[36] E.A.Attwood, *The Future of the Common Agricultural Policy and its Implications for New Zealand*, Lincoln College: Agricultural Economics Research Unit, Discussion Paper No. 83, 1984.
[37] George, *An Awkward Partner: Britain in the European Community*, New York: Oxford University Press, 1998.

irritation linked to British membership for the Community. He asserted that at the 1975 Dublin Summit Wilson had deliberately included the New Zealand issue for his own domestic political gain at a time when popular sympathy for New Zealand ran high.[38] Even if this was so, history has shown that that inclusion still helped New Zealand's case as well.

Burkitt and Baimbridge were particularly scathing of the impact of the CAP on Britain in their article 'The Performance of British Agriculture and the Impact of the Common Agricultural Policy: An Historical Overview'.[39] They complain of two trends that have occurred in British agriculture since adoption of the CAP; a drop in self-sufficiency and an altered nature of British food imports, to sourcing from less efficient and more expensive suppliers. These points were used to argue for CAP reform. While there is no disputing the problems with the CAP, this article's argument is weak because it relies heavily on amalgamated agricultural statistics that do not differentiate between the fates of different modes of agriculture. Sugar and butter issues, for example, are lumped together to create generalised arguments, which leave themselves wide open to dispute because they ignore the complexities of different arrangements made for different commodities under the CAP. Many of its findings contradict those of this thesis, and the generality of the statistics used make it difficult to make valid comparisons to ascertain why. The argument would have been more credible had it concentrated on detailed aspects of specific British agricultural areas.

John Martin's *The Development of Modern Agriculture*,[40] a study of British agriculture since 1931, is a more balanced study of the impact of the CAP on British agriculture. Like Attwood, Martin found that the nature of British agricultural policy was not changed with membership of the EEC because it had been promoting production growth for decades previously. He also contradicts Burkitt and Baimbridges' claims of decreased self-sufficiency by concentrating on the growth of European agricultural production and food surpluses post-accession. As well, this

[38] George, *An Awkward Partner*, p.86.
[39] Brian Burkitt and Mark Baimbridge, 'The Performance of British Agriculture and the Impact of the Common Agricultural Policy: An Historical Review', *Rural History*, Vol.1, No.2, 1990, pp.265-280.

book provides some good background of the processes of CAP reform, including attempts to inject environmental considerations into farm policies in the 1990s.

It is clear that the European Union was, and remains, an alliance of different countries rather than a homogeneous body. This factor alone has complicated the dynamics of New Zealand's relationship with it, because of the varying depths of bilateral relationships it has had with different Union members. Official interactions and negotiations regarding access were usually dealt with between New Zealand officials and the European Commission officials as representatives of the Community as a whole. Within the scope of this thesis, then, the interaction between the European Commission is described in a bilateral context. Despite this, where individual members (such as Britain and France) have stood out as influencing those dynamics, the effect of their actions is taken into account.

This research has therefore sought to understand not only what happened to the trade between New Zealand and Britain, but also to consider the impact of New Zealand's trading relationship with other individual members. It attempts to simplify the complex set of relationships between New Zealand and those individual countries alongside its more general relationship with the Union as a composite but single trading body. As part of that, it seeks to understand whether membership of the Union impacted most on a country's trade relationship with New Zealand or whether the direct bilateral relationship prevailed. These aspects are especially important because, Britain aside, the rest of the member countries generally grew as purchasers of New Zealand's agricultural exports.

The wider international and multilateral environment is taken into account to see what effect other external forces had as well. A common theme is the expansion of New Zealand's international trade relationships over the period. This is not only obvious statistically but also in the widening and deepening of New Zealand's diplomatic efforts over the period. Where once New Zealand's agricultural trade was limited to bilateral agreements between itself and individual countries (especially Britain), by the end of the period regional and multilateral interactions had

[40] John Martin, *The Development of Modern Agriculture: British Farming Since 1931*, Hampshire: MacMillan Press, 2000.

increasingly come into play. New Zealand's early membership in GATT was seen to pay off for it over the period, especially as it developed into including agricultural agreements. Increased involvement with other international groups, for example the Cairns Group, was also important for developing New Zealand's trade interests with Europe.

New Zealand's trade with Europe did not operate in an international vacuum either. Wider international influences could not be ignored where the actions of other countries impinged on the trading environment. This was particularly noticeable in the early 1990s when the economic distress of the former Soviet Union led to a large degree of upheaval in international butter trading. The development of wool industries in China and third world countries also led to a dramatic change in the geography of wool trade. These factors had some direct effects on New Zealand's trading relationship with Europe, and will be incorporated into their relevant chapters.

New Zealand's lessened dependence on the British market has led to commentaries on the development of its trading 'independence'. Brian Talboys' 1980 speech 'Dependence and Security: Independence and Opportunity'[41] celebrated New Zealand's development of independence from the British market. He traced the beginnings of New Zealand's thoughts for diversification to the late 1940s, which had over the following three decades resulted in a remarkable lessening of New Zealand's reliance on the traditional security of its economic links with Britain. Talboys felt that New Zealand had come more to terms with its geography, recognising the opportunities available to it in the Asia/Pacific region. New Zealand, he said, was no longer so dependent on its traditional market but in charge of its own destiny in the international trading arena. However, he conceded that for butter and lamb, the traditional British market remained vital for New Zealand.

As Talboys also alluded to in that speech, the weakening of New Zealand's trading links with Britain have been seen as occurring simultaneously with the development of New Zealand's independence in other areas of foreign policy. This is the focus of Malcolm McKinnon's *Independence and Foreign Policy: New Zealand in the World*

[41] Brian Talboys, *Dependence and Security: Independence and Opportunity*, Palmerston North: Massey University, Occasional Publication No. 6, 1980.

Since 1935.[42] In considering New Zealand's position as a small state in the world economy, McKinnon noted that the concept of economic independence for New Zealand altered over time.[43] In the 1970s and 1980s this was presented in terms of diversification (as by Talboys) and the break from excessive reliance on one export market.[44] This had developed into the 1990s to mean opening the New Zealand economy to the multilateral sphere and foreign investment, ownership and presence.[45] Independence would therefore be measured less in terms of economic autonomy of the nation state, and more in international economic participation.

New Zealand's strategies for empowering its position in the international agricultural trading arena have been the subject of some studies that have highlighted pertinent issues in these changes to its international engagement over the period. Guy M. Robinson considers these on a general level in his article 'Trading Strategies for New Zealand: The GATT, CER and Trade Liberalisation'.[46] While he emphasises New Zealand's diversification into new markets in the 1990s rather than the traditional New Zealand-Britain tie, he supports Kennaway and McKinnons' ideas; that into the 1990s, New Zealand was taking a far more multilateral approach to developing trade relationships than ever before. This, he noted, was particularly possible within its membership of the Cairns Group, the GATT, Closer Economic Relations (CER), and by widening its foreign policy to develop political relations with a wider range of countries, for which greater trade can result. These tactics, Robinson said, resulted in a more confident New Zealand dealing in the international arena with the greater might of the European Union and United States.

The benefits to New Zealand of its membership in the Cairns Group to give it bargaining power within the new International Political Economy (IPE) were considered by Johnanna M. Radford in her article 'Agricultural Trade and Interdependence: New Zealand's Role and Prospects in the New International Political

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[42] Malcolm McKinnon, *Independence and Foreign Policy: New Zealand in the World Since 1935*, Auckland: Auckland University Press, 1993, Chapter 9.
[43] McKinnon, *Independence and Foreign Policy*, pp.209-229.
[44] McKinnon, *Independence and Foreign Policy*, p.219.
[45] McKinnon, *Independence and Foreign Policy*, p.229.
[46] Guy M. Robinson 'Trading Strategies for New Zealand: The GATT, CER and Trade Liberalisation', *New Zealand Geographer*, Vol.49, No.2, 1993, pp.13-22.

Economy.'[47] She described the IPE of the 1990s as being dominated by Japan, America and the EU, and therefore credited the creation of an alliance of similar small country interests in the Cairns Group, for taking agriculture into the GATT Uruguay Round. This is a view supported by this thesis, because as Radford says, the enhanced bargaining power of small countries such as New Zealand contributed to the focusing of the issue of agriculture in the Uruguay Round. The Group's narrowly defined mandate also made it possible for it to be a non-threatening mediator between the more dominant individual opponents in the negotiations. The relative success of the Uruguay Round could therefore be credited largely to the involvement of this alliance group because it 'facilitated cooperation and provided policy options occupying the "middle ground"'.[48]

All of these factors (and others) have been considered in the process of analysing the fate of New Zealand's 'traditional' exports to Europe. However, the level of their impact has differed from commodity to commodity. Therefore, while each case study chapter takes account of the factors described above, they will be incorporated differently into the analysis according to the importance that each had in influencing the particular trade.

For the purpose of simplifying the findings, the chapters have been constructed around a set of common themes. In trying to characterise those main areas of influence, three broad categories have emerged in classifying the findings. Within this thesis they have been labelled as 'production', 'politics' and 'marketing'. Because each commodity is quite different to the others and has often been influenced by complex relationship and concurrent issues, these categories are neither clear-cut nor entirely independent of each other. They do, however, serve to simplify the research findings into a somewhat orderly system of explanations. An explanation of each term follows.

Production deals with domestic industry organisation and decision making that has been seen to influence output for export. Although the issues involved can vary from

[47] Johnanna M. Radford, 'Agricultural Trade and Interdependence: New Zealand's Role and Prospects in the New International Political Economy', *British Review of New Zealand Studies*, Issue 9, December 1996, pp.15-24.
[48] Radford, 'Agricultural Trade and Interdependence', p.23.

environmental factors to domestic policy priorities and politics, the consequences of their influence on the level and qualities of product available for export unite them.

Politics addresses political action and interaction outside of New Zealand that has impacted on New Zealand's ability to export to the EU. This can extend from domestic policies enacted by governments within other countries which have had repercussions on New Zealand's trade with Europe, to the New Zealand government's external relationships with the EU Commission, Council of Ministers, or any of its individual member countries' governments, and/or other international inter-governmental organisations. Those political interactions and events that are identified have been seen to have in some way influenced the flow of New Zealand's butter, sheepmeat or wool exports to the markets of today's EU.

Marketing identifies explanations for New Zealand's export movements that relate to how New Zealand product was received in EU markets. These can range from promotional work to technological development, and examine what New Zealand tactics in these areas have influenced butter, sheepmeat, and/or wool export flows.

Each commodity in this study has been influenced by factors that fall into each of these categories. The degree of influence varies greatly, however. Each chapter will address how instrumental each has been, and be structured accordingly.

One primary conclusion from this research is that despite wide, varied and at times dramatic changes in New Zealand's trading relationship with Europe over the four decades following 1960, in general 'traditional' exports maintained surprisingly steady volume flows. Primary products were still of major importance as export categories from New Zealand to the European Union in 2000. Britain and the Union were still extremely important destinations for agricultural products. The export traditions had, in fact, survived far better in this relationship than in New Zealand's more general export trade.

Despite a general maintenance of primary exports to Europe, this thesis will show that the different treatment of the commodities meant that each fared differently over the period due to a variety of factors. The case study of butter will demonstrate how important diplomatic negotiations were to maintaining a level of political acceptance and formal access to the British, and more recently wider European, markets.

Sheepmeat exports, on the other hand, were also affected by changes in the domestic production scene in New Zealand, which itself was subjected to substantial policy changes. The fate of wool exports again faced an even more complex variety of factors in change.

One facet of this research asks, therefore, how and why was New Zealand, as a relatively insignificant country, so successful in retaining its trade with Europe over the period? New Zealand's relationship with the European Union has undoubtedly been something of a 'David and Goliath' scenario. New Zealand's actions have reflected its recognition of that in its efforts to retain access to the EU market. Diplomatic activity appears to have made quite a priority of finding and exploiting opportunities for promoting its farm export interests in Europe. These opportunities have been found to range from nurturing the British publics' emotional support and sympathy to engaging in multilateral organisations to pressure the EU to liberalise its agricultural policies.

Massive and consistent diplomatic efforts in many different areas over the period have ensued so New Zealand's voice could be heard by EU decision-makers. This has involved anyone from high-profile politicians to journalist 'exchange' groups. A theme of New Zealand's 'constant engagement' with European politicians, officials, and interested parties has emerged. Diplomatic reflections and political biographies covering the period have rarely ignored the impact of developments within the EEC on New Zealand or failed to comment on that the reasons perceived for retaining New Zealand access. This is further proof of the perceived centrality of the trade relationship to the activities of that sector.

The reflections of former New Zealand Foreign Affairs Secretaries and diplomats (perhaps expectedly) credited the efforts of New Zealand's political and diplomatic representatives with the success of retaining access to the European market.[49] Some of the key figures in these efforts are mentioned throughout the text. The one who could probably be credited with the most influence in positioning New Zealand with a strong negotiating base, though, is John Marshall.

The contribution of Marshall as leader of the diplomatic push for New Zealand's voice to be heard within Britain's application for Community entry is well acknowledged and documented. His *Memoirs*[50] and journalist Michael Robson's *Decision at Dawn: New Zealand and the EEC*,[51] document well the course of his many lobbying visits and his role in the final negotiations for New Zealand provision in the British accession agreement. Ross Doughty also noted that the continuity of the National Holyoake Government, in power from 1961 to 1972, was key to the success of these efforts.[52] This is a credible proposition, especially because it made possible Marshall's sustained role over the decade.

Despite New Zealand's small size, it has emerged as one of the international trading giants in agriculture alongside the EU, because of the volumes of its dairy and sheep farm products exports. The trading relationship has at times been made more complex because of this. However, it has also led to opportunities for dialogue, especially in cooperative efforts made through membership of groups such as the International Dairy Council. The ways in which this helped New Zealand's interests in achieving British butter access will be dealt with in the butter chapter.

One of the few published discussions about New Zealand's trading relationship with Europe since the conclusion of the GATT Uruguay Round makes similar observations. An address by Peter Kennedy of the Ministry of Foreign Affairs and Trade in 1999 reviewed New Zealand's relationship with Europe and considered the state of it at the end of the millennium.[53] He noted that the GATT Uruguay Round arrangements had changed the nature of New Zealand's relationship with Europe to a more secure one because the 'tedious and difficult access negotiations' had come to an end with the multilateral arrangements superseding the previous bilateral ones. He concluded that:

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[49] See Malcolm Templeton (ed.), *An Ear, An Eye, A Voice: New Zealand's External Relations 1943-1993*, Wellington: Ministry of Foreign Affairs and Trade, 1993; Ann Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993.
[50] John Marshall, *Memoirs, Volume Two: 1960 to 1988*, Auckland: Williams Collins, 1989.
[51] Michael Robson, *Decision at Dawn: New Zealand and the EEC*, London: Baynard Hillier, 1972.
[52] Ross Doughty, *The Holyoake Years*, Fielding: R. Doughty, 1977, p.181.
[53] Peter Kennedy, 'Europe and New Zealand: The New Millennium Beckons', *New Zealand Foreign Affairs and Trade Record*, November 1999.

> Today our relationship with Europe is one of maturity based on mutual respect and cooperation. Our challenge as we move into the new millennium is not only to keep ourselves on a broadened Europe's radar screen, but continue to seek to influence – even slightly – the mindsets of those who lead it. We cannot do it alone but we can do it with friends both within the Continent and outside.[54]

This evidenced a far more confident and independent New Zealand in its relations with Europe.

As a small country, geographically, demographically, and economically within the wider international economic community it is interesting to note the ways in which New Zealand has asserted itself in achieving its trading goals. This is particularly so when considering its trading relationship with not only an international economic giant such as the EU, but also in many respects an international agricultural rival. This thesis attempts to simplify the complexities, and anomalies, of this relationship.

An overview of political events and trading patterns that influenced New Zealand trading relationship with the EEC/EU in general follows in Chapter One. The chapters thereafter successively present the individual commodity case studies. The findings and overarching themes will be drawn together in the concluding chapter.

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[54] Kennedy, 'Europe and New Zealand: The New Millennium Beckons', *New Zealand Foreign Affairs and Trade Record*, November 1999, p.13.

Chapter One
GENERAL POLITICAL TRENDS AND EXPORT PATTERNS

An important argument of this thesis is that each of the three export commodities fared differently in retaining their markets in Britain and the rest of the European Union. More general political relationships and events, however, have also shaped New Zealand's trade with this region. This chapter will discuss such activities and incidents that were influential, while outlining general export patterns over the period.

A combination of serious issues regarding the future of its traditional export patterns faced New Zealand in the late 1950s. The basis of its trade policies, the Ottawa Agreement,[55] was no longer as effective in giving New Zealand agricultural exports an advantage in the British market, because the set tariff imposed on exporting countries other than Commonwealth members had become less prohibitive through inflation.[56] The British market was also being satisfied more and more by increased domestic production. Furthermore, Britains' close European neighbours had developed a trading bloc which proposed a highly protectionist agricultural policy. All of these factors combined to make many New Zealanders – producers, exporters, politicians and the general public alike – concerned about the future of this trade. The country was heavily reliant on export revenue from agriculturally based products for the health of the economy, and Britain was still the major importer of these.

Britain had not been an entirely freely absorbing sponge of New Zealand agricultural products until this time. As early as 1933, former New Zealand Prime Minister Gordon Coates acknowledged that it was dangerous for New Zealand to be solely reliant on the British market, as it could not be considered 'bottomless'.[57] The bulk purchase agreements of World War Two, however, put aside diversification efforts until well into the 1950s. The rebuilding efforts in Britain and Europe after World War Two included nurturing the development of domestic agriculture. New Zealand agricultural producers and exporters became concerned enough about declines

[55] Lloyd Pritchard, *An Economic History of New Zealand*, pp.359-363.
[56] John Singleton and Paul Robertson, 'Britain, Butter and European Integration', p.330.

in British market opportunities by 1957 to pressure the government to send a trade mission to Britain to discuss the state of the trading relationship. The government's agreement reflected the importance of British export revenue to the New Zealand economy.[58]

The objective of the mission was set out by its leader Minister of Agriculture Keith Holyoake, 'Our main purpose was to find out whether the spirit of the Ottawa Agreement was still the guiding principle, for trade as between the United Kingdom and New Zealand.'[59] As a consequence of it, a supplement to the Ottawa Agreement was drawn up which emphasised a spirit of dialogue between the New Zealand and British governments. Annual consultations would take place between the two governments to 'exchange statements of agricultural production trends' with a commitment that each would 'give full weight to the view of the other in the formulation of their production, marketing and import policies relating to agriculture.'[60] Article Three of this agreement also guaranteed, for the following ten years, unrestricted entry for New Zealand certain dairy and pork products into Britain.[61] The British Government also undertook to consider remedial measures to protect New Zealand's meat exports there if circumstances arose that threatened existing trade.[62] After consultations in 1958 a new trade agreement, which officially modified the Ottawa Agreement, was drawn up in 1959. This essentially verified the commitments made by the British in the 1957 agreement, giving duty free access to those New Zealand goods already enjoying it, and unrestricted entry of most dairy and pork products until 1967.[63] A further trade agreement was made in 1966 that essentially extended these agreements to 1972.[64]

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[57] Bruce Brown, 'Foreign Policy is Trade: Trade is Foreign Policy', in Ann Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, Dunedin: University of Otago Press, 1993, p.60.
[58] *External Affairs Review*, Jan 1957, p.5.
[59] Rt. Hon. Keith Holyoake, *NZPD*, 14 June 1957, p.87.
[60] Text of joint communiqué by leaders of New Zealand and United Kingdom delegations to discussions on 28 May 1957, reproduced in *External Affairs Review*, May 1957, pp.11-14.
[61] Specifically butter, cheese, skim and butter milk powders, casein, and chilled and frozen pork, *External Affairs Review*, May 1957, p.14.
[62] Article Two, *External Affairs Review*, May 1957, p.14.
[63] Report of the Department of Industries and Commerce, *AJHR*, H44, 1959, p.73.
[64] Report of the Department of Industries and Commerce, *AJHR*, H44, 1967, p.42.

While New Zealand officials worked hard at retaining the important trading relationship with Britain, they kept a close eye on other developments between Britain's close neighbours. The establishment of the European Economic Community (EEC) in 1958 was viewed with great interest. In summarising the main issues behind this event, the *New Zealand External Affairs Review* observed,

> Perhaps the most important clause (in the Rome Treaty) as far as New Zealand is concerned is that involving a common agricultural policy. Over the past four years the markets in the Community have absorbed about 15.7% of New Zealand's total exports, while about 6.0% of New Zealand imports have come from the Six. This country's trading pattern is therefore likely to be affected by the common agricultural policy pursued by the Six, which is designed among other things to raise agricultural productivity and stabilise markets in Europe.[65]

The CAP, discussed since 1957, but formulated by the six original members of the EEC in 1962,[66] and implemented in 1967, was designed to protect and promote production within the European agricultural sector. This sector, which in the 1960s employed about one quarter of the Community's workforce and contributed approximately 7.5% to the EEC Gross Domestic Product (GDP),[67] exerted a disproportionate measure of political influence and received a substantial portion of their earnings from state subsidies.[68] The protection of the European cereal and dairy industries formed the core of this intricate piece of legislation.[69]

The CAP's objectives were usually more socially or politically based than economic, and measures taken to make agricultural policies uniform across the Community usually meant that the most protectionist policies were adopted for all. Even before the CAP's implementation, the New Zealand Foreign Ministry had noted that it would place the EEC in direct competition with New Zealand's agricultural

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[65] *External Affairs Review*, Jan 1958, p.12.

[66] Michael Robson, *Decision at Dawn*, p.13.

[67] These figures included the agricultural, forestry and fishing sector, *New Zealand and an Enlarged EEC*, Wellington: New Zealand Monetary and Economic Council, Report no. 19, June 1970, p.80. By 1998 only 5% of the European workforce were employed in agriculture and it contributed a mere 1.5% to the total EU GDP, *The Agricultural Situation in the European Union*, 1999, T/23-T/25.

[68] By 1984 the CAP accounted for over 70% of EC expenditure. Desmond Dinan, *Ever Closer Union: An Introduction to European Integration*, London: Macmillan Press, 1999, p.340; and in 1988 the CAP was estimated to cost each European household £63 per year. National Consumers Council cited in Martin, *The Development of Modern Agriculture*, p.144.

[69] Joseph A. McMahon, *European Trade Policy in Agricultural Products*, Dordrecht: Martinus Nijhoff Publishers, 1988, p.25.

base.[70] It could potentially limit New Zealand's export opportunities both within the Community and outside of it.

In 1961 a New Zealand Government white paper was published which studied the implications for New Zealand of the EEC's formation, its agricultural policy, and the possibility of Britain entering it.[71] It noted that of the agricultural products that were likely to be affected by the EEC's agricultural policy, New Zealand's interests were mainly in dairy produce (which would expect high intervention under the new policy), meat (principally beef and veal), fruit, vegetables and wine.[72] At that stage, of the approximately 16% of New Zealand's exports that the Six were taking, the majority were agriculturally based products. These markets had originally been considered potentially lucrative by New Zealand and other Commonwealth exporters because demand within them was expected to rise as their economies developed.[73] The introduction of the CAP would curb this. At this stage, though, restrictionist policies were in already place in these countries against imports of these commodities, so this would create no new barriers for New Zealand.[74]

Approximately 80% of New Zealand's exports to Europe in 1960 were wool. It had already been recognised that trade in wool would be unlikely to be affected by the proposed agricultural policy because of its nature as a raw material product.[75] As Chapter Four will show, however, this did not guarantee security of the trade in future decades.

As one of New Zealand's main competitors in world agricultural markets (especially dairy), the EEC could also limit New Zealand's ability to expand its agricultural markets elsewhere. The Europeans held a political advantage in trading because of their strong industrial base compared to New Zealand. They could therefore afford to cushion farmers from recessions in agricultural export prices. New Zealand farmers, on the other hand, were essentially at the mercy of the market prices, themselves ironically often influenced by the Europeans' actions.

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[70] As noted in the above quote from *New Zealand External Affairs Review*, Jan 1958, p.12.
[71] New Zealand Government white paper 'The European Economic Community', *AJHR*, A21, 1961.
[72] 'The European Economic Community', *AJHR*, A21, 1961, p.27.
[73] Holmes, 'The Commonwealth and a Free Trade Area in Europe', p.39.
[74] 'The European Economic Community', *AJHR*, A21, 1961, p.67.

New Zealand's greatest concern, though, was the potential impact the EEC's actions might have on New Zealand's trade with Britain. The prospect of growing exportable surpluses in European agricultural products, of which at the time butter was the most obvious, would lead to direct competition for New Zealand in international markets. Because Britain was New Zealand's most important importer of these products, as well as the sole major importer of agricultural foodstuffs internationally, this led to threats for New Zealand of that market being diminished all the more.

The implications of the Community's formation for New Zealand were therefore from the outset considered to be significant. This did not mean New Zealand took an official stand against the group, however. There were advantages to be seen in the Community's formation, and to isolate New Zealand or Britain from it altogether would be economically dangerous. Frank Holmes summed up the feelings of many Commonwealth members when he stated,

> Britain's ability to contribute to Commonwealth development and the ability of other Commonwealth countries to develop themselves will certainly not be improved if we turn our backs on developments on the Continent. On the contrary...it is in the long-term interest of the trading nations of the Commonwealth to make reasonable concessions which will facilitate the task of reaching agreement on a free-trade area, provided that Continental countries will reciprocate by permitting freer entry of Commonwealth produce and that, together, we shall be ready to continue negotiations to reduce obstacles to trade over a wider area.[76]

While British association with the EEC was considered desirable by New Zealand, actual membership was an entirely different prospect. Explicit discussions about whether Britain should join the Community commenced in 1960.[77] Apprehension about its impact gripped New Zealand. Producers, exporters, politicians and the general public were deeply fearful of the future prospects for New Zealand exports, and therefore the economy, should this occur.[78]

New Zealanders' approaches to the issue varied. John Ormond, chairman of the Meat Producers' Board was one who was particularly vocal about the potential

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[75] 'The European Economic Community', *AJHR*, A21, 1961, p.67; *New Zealand Official Yearbook*, 1960, p.318.
[76] Holmes, 'The Commonwealth and a Free Trade Area in Europe', p.48.
[77] 'The European Economic Community', *AJHR*, A21, 1961, pp.71-72.
[78] See McLuskie, *The Great Debate*.

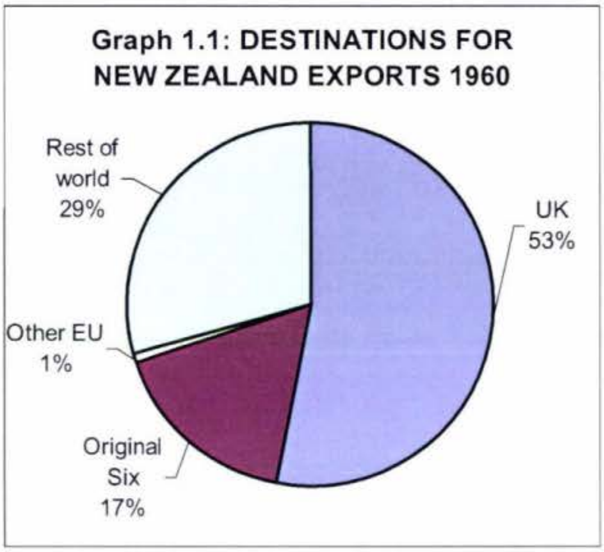
negative impact of British entry. His statements included warnings that 'if Britain joins then the terms on which she joins will determine whether New Zealand can continue to enjoy a fair standard of living,'[79] and '...if Britain signed the Rome Treaty and accepted the present policies of the EEC it would mean disaster for New Zealand'.[80] He, too, identified the proposed agricultural policy as the crux of the issue. It was comments such as these that fuelled debate in New Zealand newspaper editorials and generated wider public discussion and concern.[81]

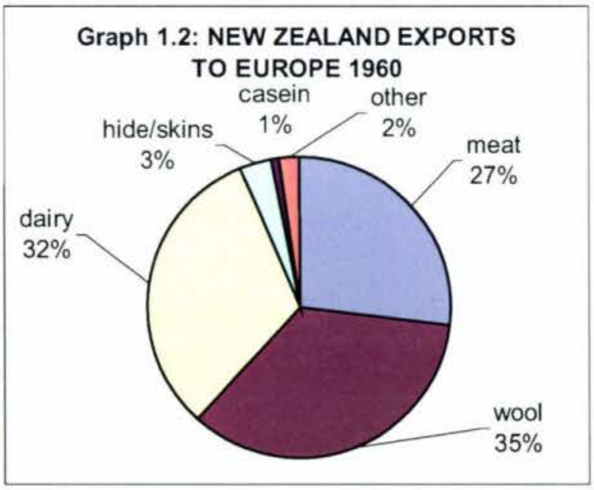
Government viewpoints were more muted. John Marshall, Minister of Overseas Trade in the National Government from 1961, took a leading role in negotiations for New Zealand access to the British market with its applications for entry into the EEC. In his memoirs, he reflected that the Labour Government in power from 1958 to 1961 was unsupportive of Britain entering the EEC, and that the change of government from 1961 to National meant a change of approach towards the issue.[82] The National Government's official response was tied up with an established acceptance that European economic integration was 'in principle welcomed ... as a means of increasing the political strength and economic stability of the free world.'[83] Along with this, it was observed that Britain was no longer as advantageous an economic ally as it once had been for New Zealand.[84] Britain was seen as no longer enjoying the economic power it once had, so therefore could not afford to isolate itself from such an economically and politically significant trading bloc.[85] New Zealand political leaders therefore faced the predicament of needing to support Britain's economic development while protecting their own 'vital (export) interests'.[86]

The visit of the British Member of Parliament Duncan Sandys to New Zealand in July 1961 was important in shaping New Zealand's official attitude toward the impending application. He was sent on tour to New Zealand, Australia and Canada as

[79] 'E.E.C.', *New Zealand Manufacturer*, Vol.13, No.9, July 1961, p.92.
[80] 'E.E.C.', *New Zealand Manufacturer*, Vol.13, No.9, July 1961, p.91.
[81] McLuskie, *The Great Debate*, pp.24-25.
[82] Marshall, *Memoirs*, pp.61-62.
[83] *External Affairs Review*, July 1961, p.9.
[84] 'Britain's Falling Share of Sterling Area Imports', *National Institute Economic Review*, No. 14, March 1961, pp.18-47.
[85] *External Affairs Review*, July 1961, p.4; 'The European Economic Community', *AJHR*, 1961, A.21, pp.69-70.
[86] *External Affairs Review*, July 1961, p.12.

a representative of the British Government for a 'full exchange of views on the question before the British Government reached its decision on whether or not it should open negotiations with the Six.'[87] During meetings with Mr Sandys, government officials expressed their concerns that New Zealand would lose its vital agricultural trade with Britain should it join the EEC.[88] At this stage this was substantial, as the graphs below illustrate.[89]





[87] This was part of a planned series of consultations by British Government representatives to all Commonwealth countries; 'The European Economic Community', *AJHR*, A.21, 1961, p.74.
[88] 'Britain and the European Economic Community: Implications for New Zealand', *External Affairs Review*, July 1961, pp.11-12.
[89] Graphs in this thesis which have no source specified have been compiled from Statistics New Zealand external trade statistics. If the source is other than this, it will be so noted on the graph.

In 1960, 70% of New Zealand's total exports of £302,602,532 were directed to Britain and the other countries that comprise today's European Union. Of that, Britain took 53%, worth £160 million. France and Germany, followed closely by Italy and Belgium, were notable as export markets, but only in relatively small portions.[90]

The goods exported to Britain and Europe were overwhelmingly agricultural primary products, with only 2% falling into any other category. Most of New Zealand's dairy, wool and sheepmeat went there. Wool exports were spread throughout the entire European market, but 89% of export earnings in butter and approximately 90% in cheese and sheepmeat came from Britain alone.[91] In turn, New Zealand supplied over 80% of Britain's sheepmeat imports and 44% of its dairy imports. This proved the assertion that New Zealand was regarded as Britain's farm in the South Pacific.[92] Michael Robson accurately observed that at that time 'New Zealand's prosperity – indeed, whole way of life – depended on selling primary produce on the British market.'[93] It was no overstatement that the prospect of British EEC membership brought up issues which were, in the words of New Zealand's Prime Minister Keith Holyoake, 'probably the most serious which have ever faced New Zealand in times of peace'.[94]

The result of the Sandys visit was a communiqué that included written assurances that,

> ...the New Zealand Government would be closely consulted before and during any negotiations, that in any such negotiations the British Government would seek to secure special arrangements to protect the vital interests of New Zealand, that Britain would not feel able to join the European Economic Community unless such arrangements were secured, and that the results of any negotiations would be thoroughly discussed with the New Zealand Government before the British Government took a decision to join the European Economic Community.[95]

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[90] France: 9.5% of European total, 6.7% of world total; Germany: 5% of European total, 3.6% of world total.

[91] *Statistical Report on External Trade*, 1957-62, pp.5-6; *New Zealand Official Yearbook*, 1968, p.569.

[92] *Britain, New Zealand and the EEC*, New Zealand Government Statement, April 1971, p.6.

[93] Robson, *Decision at Dawn*, p. 5.

[94] *External Affairs Review*, July 1961, p.3.

[95] Copy of text of Communiqué issued 6 July 1961, *External Affairs Review*, July 1961, p.13.

In light of these assurances, the New Zealand ministers informed Mr Sandys that they would be agreeable to Britain commencing negotiations for entry, and also be prepared to participate in the subsequent consultations.[96]

Although the British application for entry was thrown out the following year through a French veto, the Sandys assurances served as benchmarks for future applications. New Zealand officials, especially John Marshall, had from the first negotiations established a consultative system with British and European politicians which enabled them to be involved in Britain's second and third applications for Community entry.[97]

New Zealand's official approach was moderate in that the government did not openly oppose British membership, but rather gave support for European integration and Britain's role in that, while concentrating more on how New Zealand's interests could be accommodated. This approach Marshall credited with the eventual relative success of New Zealand over such other countries as Australia in retaining agricultural access to Britain after accession to the Community.[98]

At the stage of that first application, New Zealand commentators rightly acknowledged that the country's fate in the negotiations was explicitly reliant on its bonds with Britain of goodwill and tradition.[99] Thereafter, the focus of New Zealand foreign policy turned more to the consequent issues of New Zealand's economic security.[100] Over the following decade politicians and officials used the delays in British acceptance into the Community to adapt its own resources and develop its case more independently. This entailed a number of strategies that eased New Zealand away from continued economic and political reliance on Britain, but also stressed the importance of protecting existing market access.

Firstly, a close and constant dialogue was developed between New Zealand and British officials. This allowed the government to be constantly aware of what was

[96] Copy of text of Communiqué issued 6 July 1961, *External Affairs Review*, July 1961, p.13.
[97] Robson, *Decision at Dawn*, pp.13-16.
[98] Bruce Brown, 'New Zealand in the World Economy', in Bruce Brown (ed.), *New Zealand in World Affairs III: 1972-1990*, Wellington: Victoria University Press, 1999, p.23.
[99] S.H. Franklin, 'Small Farms Big Surpluses', *Comment*, April 1962, p.28.
[100] George Laking, 'George Laking', in Malcolm Templeton (ed.), *An Eye, An Ear and a Voice: Fifty Years in New Zealand's External Relations, 1943-1993,* Wellington: Ministry of Foreign Affairs and Trade, 1993, p.51.

happening in the region, but also facilitated cooperation between New Zealand and British representatives for facing future negotiations with the Europeans.

Secondly, direct relationships were developed with Community member countries by opening embassies in their capitals over the following decade. A New Zealand embassy had been open in Paris since 1957,[101] and throughout the 1960s new embassies were established in Brussels, the Hague, Bonn and Rome. The purpose of these was explicitly linked to enhancing New Zealand's profile and case for special consideration in Europe. For example, a prime responsibility of the Bonn embassy was to 'follow developments in the community in relation to the British application and to ensure that the Federal Government understood the importance of these developments for New Zealand.'[102]

Merwyn Norrish (ambassador to the European Economic Community and Belgium from 1967 to 1972)[103] observed that Community members had often inflicted damage to individual industries in countries through their integration policies, but New Zealand's case was unique because the proposed membership of Britain might damage the entire New Zealand economy. He credited New Zealand Minister of Overseas Trade John Marshall with driving this point home to the Europeans through his regular exchanges with Community leaders.[104]

This was part of a third New Zealand strategy for promotion of its case. A pattern of regular visits to the Community capitals led by John Marshall was established so that personal dialogue was developed with British and Community leaders. Eight visits were made by him from 1961 to 1971 'to state New Zealand's case'.[105] The Prime Minister and members of government and opposition also took opportunities to back up this case whenever they could in Europe. This was complemented by invitations for visits from influential European representatives. All in all, a concerted unified effort was made by a number of representatives of the New Zealand electorate.

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[101] *New Zealand Foreign Affairs Review,* December 1972, p.4, 7.
[102] *New Zealand Foreign Affairs Review,* January 1972, pp.4-5.
[103] Thereafter Deputy High Commissioner to London in 1972 to 1973, when appointed Deputy Secretary of Foreign Affairs; Merwyn Norrish, 'Merwyn Norrish', in Malcolm Templeton (ed.), *An Eye, An Ear and a Voice: Fifty Years in New Zealand's External Relations, 1943-1993,* Wellington: Ministry of Foreign Affairs and Trade, 1993, p.129.
[104] Norrish, 'Merwyn Norrish', in Templeton (ed.), *An Eye, An Ear and a Voice*, pp.135-136.
[105] *NZPD*, 1 July 1971, p.1453.

Another strategy within New Zealand was to make the economy as well prepared for letting go of the British market as was possible. The concern arising from this, that New Zealand should develop greater strategies to diversify its export products and markets, was the focus of the 1963 Export Development Conference in New Zealand. Minister of Overseas Trade John Marshall summed up this up by opening the conference with the statement '(T)he simple purpose of this conference is to get more people exporting more products to more markets'.[106] Prime Minister Holyoake boldly stated that the conference would come to be regarded as a turning point in New Zealand's economic growth.[107]

In some ways, Holyoake's assertion is valid. Never before had such a concentrated or cooperative effort gone into looking at how New Zealand exporters, both agricultural and industrial, could develop their markets worldwide. In the months preceding the conference, several working parties, comprising representatives from a wide range of New Zealand commerce, had assembled to prepare reports for the conference to discuss. This process had involved discussion meetings and hearings of submissions from interested groups. In addition, background papers were prepared and presented prior to the conference by individuals considered experts prominent in their fields, reporting on their respective industries.[108] These are the background papers that this thesis draws upon for perspectives on how butter, sheepmeat and wool exports were faring at that time, and how their futures were perceived.

The Export Development Conference was presented with a great degree of aplomb. As noted by the editor of the *New Zealand Herald*,

> No expense had been spared to make the Export Development Conference in Wellington a suitably impressive occasion. It is a most elaborately organised affair. ... A busy staff under a civil servant with the title of secretary-general distributed in advance remarkable quantities of printed material to everyone remotely concerned.[109]

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[106] Hon. J.R. Marshall, 'Opening Address of Export Development Conference, 4 June 1963', *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.
[107] Rt. Hon. K.J. Holyoake, 'Official Opening Speech of Export Development Conference, 4 June 1963', *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.
[108] W.B. Sutch, 'Preface', *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.
[109] *New Zealand Herald*, 6 June 1963, p.6.

The result of the conference was that several recommendations were presented to parliament with the view to seeking government support for export development. These were grouped under the categories of 'Quality and Design in Exports', 'Export Promotion', and 'Market Development'.[110] The recommendations ranged from asking that the government publicise the importance of export product quality to manufacturers, exporters, workers and the general public to requesting that the government suggest to domestic airline TEAL that all goods leaving New Zealand under export licence be carried at relative commodity rates.[111]

Over the following years, some of these recommendations were instrumental in directing domestic policy development. Domestic economic policies were enacted which emphasised export diversification away from the British market so that reliance on it was not so high, and New Zealand therefore not so economically vulnerable regardless of future applications' outcomes. As graph 1.3 illustrates, in general trade terms, export diversification was quite successful.

From 1960 to 1970, New Zealand's reliance on Britain as an export destination dropped from 51% to 36%. This accelerated further over the following decade, so that by 1980 Britain took only 14%. When including exports to the countries of today's European Union, these totals changed from 70% to 26.8% by 1980. Slower but steady decreases continued from then on, with some minor fluctuations, especially in 1986-87 and the late 1990s, to 14.18% of New Zealand's total world exports in 2000.

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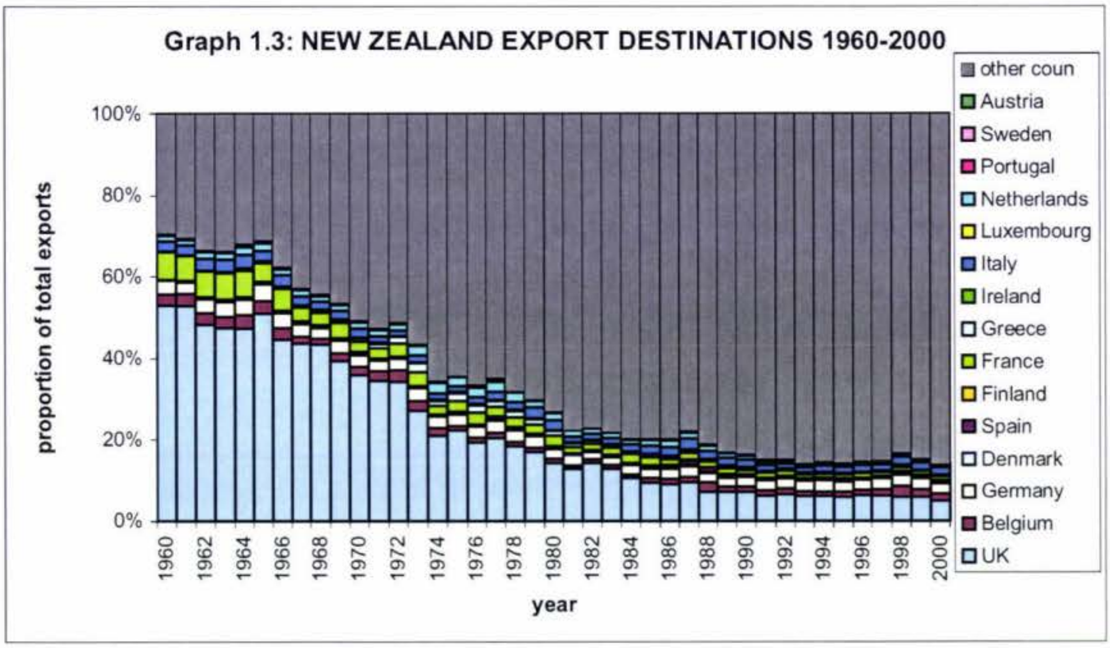
[110] 'Summary Agenda', *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.

[111] 'Recommendations from Panels', *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.



New Zealand's moderate approach of not trying to obstruct British entry but at the same time take all diplomatic opportunities to state its case for market protection paid off by not provoking antagonism amongst EEC member countries. By the mid-1960s bipartisan support was apparent within New Zealand for this approach; something which George Laking remembered as not being apparent in other areas of New Zealand foreign policy at the time.[112] John Marshall could therefore conduct his own campaigning with a virtually full mandate on New Zealand's behalf.[113] Marshall summed up the problems facing New Zealand in achieving special consideration for maintain export access to Britain: 'The real problem had been to devise a formula which eight governments holding diverse and conflicting views could finally come to accept. It was an exercise in the art of diplomacy, which in this case succeeded.'[114] But not without a lot of manoeuvring.

Marshall's argument for special consideration centred on highlighting the overwhelming reliance of New Zealand on pastoral products. Basically, he stated that the New Zealand economy made its living from grass, which fed the sheep, lambs and

[112] Laking, 'George Laking', in Templeton (ed.), *An Eye, An Ear and a Voice*, p. 55.
[113] Marshall, *Memoirs*, p.94.
[114] Marshall, *Memoirs*, p.96.

cattle from which the meat, dairy and wool exports were derived.[115] Following from that, he highlighted how trade agreements with Britain had fostered the close association between New Zealand economic development priorities and British market requirements. He emphasised that the most vulnerable exports were butter, cheese and lamb, and showed evidence of the difficulty in finding substitute markets of the same scale as the British in the short or long term. This was an argument he and his colleagues repeatedly expressed to political leaders, interested audiences and the media alike in Britain and Europe over the 1960s.[116] Merwyn Norrish reflected that because of Marshall's efforts, 'there was probably no-one in the negotiating chamber in Luxembourg (where the conditions of Britain's membership were finalised) who had not been exposed to the New Zealand message.'[117]

France was seen as by far the 'hardest nut to crack' in softening EEC attitudes towards New Zealand's cause. This was mainly because it was the most ardent supporter and user of the protectionist agricultural programme. Britain was seen as a valuable potential market for French agricultural exports and concessions to New Zealand would diminish that advantage. President de Gaulle was particularly instrumental in obstructing the first two British applications to join the EEC.[118] However, with de Gaulle's resignation in 1969 one of the main obstacles to British entry was removed. The new President Pompidou's attitude had been stated as supportive of British entry even before election, and the German Foreign Minister and Italian President had also indicated a similar attitude around the same time.[119] President Pompidou also facilitated improved intra-Community relationships, and the 1969 EEC Summit communiqué reaffirmed their agreement on enlargement of the Community,[120] leaving open the path for a renewed British application.

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[115] Marshall, *Memoirs*, pp.67-68; a view reaffirmed in *Britain, New Zealand and the EEC*, p.6.
[116] Marshall, *Memoirs*, pp.98-100.
[117] Norrish, 'Merwyn Norrish', in Templeton (ed.), *An Ear an Eye and a Voice*, p.136.
[118] A British journalist's perspective on the personalities and problems surrounding Britain's first application to the EEC is in Nora Beloff, *The General Says No: Britain's Exclusion From Europe*, Harmondsworth: Penguin, 1963.
[119] *NZPD*, 21 May 1969, p.112.
[120] Text of communiqué of Meeting of Heads of State or Government at The Hague 1-2 December 1969, *AJHR*, H44, 1969, pp.13-16.

With Britain's third application in 1970, New Zealand representatives were able to reap benefits from the diplomatic foundations laid over the preceding decade. By this time all Community leaders knew about New Zealand's case and were largely open to giving its exports special consideration for access with Britain joining the EEC.[121] The support was not unqualified, however, and the general response from EEC leaders was that the arrangements should be transitional.

Dr Sicco Mansholt, Vice-President of the European Commission, who visited New Zealand in 1969, also gave this impression. He had developed the 'Mansholt Plan' for agricultural reform in the Community through reducing the amount of farmland in use,[122] and it was hoped he would be something of an ally for New Zealand, and sympathetic to New Zealand's requests for permanent special arrangements. Certainly, he did publicly state that he wholeheartedly agreed New Zealand deserved special consideration. At the same time, though, he asserted that 'I can hardly imagine that it would be a position forever; there will always be an end, and that is why New Zealand must seek out other markets as Australia has done.'[123] The implication was noted that the special position would be phased out within a decade.

The New Zealand government also distributed published reports to help argue its case. One was an independent report, which supported its claims of reliance on the British market through a presentation of statistical evidence.[124] *New Zealand and an Enlarged EEC*[125] was written by the New Zealand Monetary and Economic Council in 1970, in the late stages of this third round of negotiations for British entry to the EEC. It investigated the implications for New Zealand of British entry, and concluded that the New Zealand economy would 'suffer severe damage if Britain joined the EEC without special safeguards for New Zealand'.[126] With such support for its argument, the New Zealand government printed this report in five languages and distributed it

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[121] Marshall, *Memoirs*, p.97.
[122] Although, essentially this meant fewer, larger farms; therefore theoretically more productivity. Sicco Mansholt, *Agriculture 1980: New Zealand and the EEC*, Wellington: New Zealand Institute of International Affairs, 1969, pp. 13-15.
[123] 'The Unlikely Figure Who Painted a Bleak Picture', *New Zealand Economist*, 1 May 1969, p.8.
[124] Marshall, *Memoirs*, p.99.
[125] *New Zealand and an Enlarged EEC*, Wellington: New Zealand Monetary and Economic Council, Report no. 19, June 1970.
[126] *New Zealand and an Enlarged EEC*, p.69.

widely throughout the Community. It became, in Marshall's words, the 'textbook for the New Zealand case'.[127]

A later published statement by the New Zealand government, *Britain, New Zealand and the EEC,*[128] was also circulated widely to a variety of interest groups and quoted extensively in the news media.[129] This simply re-affirmed New Zealand's official support for the principle of wider European integration, but also made clear that it saw special arrangements for continued access to Britain as essential for New Zealand's economic and social well-being.[130]

Although France had softened on its attitude to British membership, it continued to be unsympathetic towards New Zealand's needs. All of the EEC members had a veto option, which meant that New Zealand would not gain any concessions without all countries' acquiescence. France had used this to block the first two British applications to entry and looked set to exercise it again in negotiating the conditions with which it would enter the Community. Despite appearing at first to be unmoveable on its stance, however, the French actions showed more of a wish to have Britain join the Community than their rhetoric conveyed. At the eleventh hour they compromised with the fellow members and agreed to special terms for New Zealand butter and cheese access into Britain after accession.[131]

This agreement was eventually embodied in Protocol 18 of Britain's Treaty of Accession into the Community, and signalled the termination of the bilateral 1959 and 1966 New Zealand/United Kingdom Trade Agreements.[132] It allowed for a transitional period of access for New Zealand butter and cheese into the Community. The details of this arrangement will be dealt with more in the butter chapter, but it is important to note here the crucial nature of this agreement for the future of New Zealand's entire agricultural trade with Britain and Europe.

It firstly formally acknowledged New Zealand's reliance on the British market and displayed an acceptance that no immediate replacement markets were available to

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[127] Marshall, *Memoirs,* p.99.
[128] *Britain, New Zealand and the EEC*, New Zealand Government Statement, April 1971.
[129] Marshall, *Memoirs,* p.101.
[130] *Britain, New Zealand and the EEC*, p.4,12.
[131] A first-hand view of the circumstances of the final negotiations can be found in, Robson, *Decision at Dawn*, pp.101-113.

New Zealand – hence validating the argument so strongly presented by John Marshall and other New Zealand representatives over the previous decade. This therefore set a base for future negotiation that considered opportunities (or lack of) for New Zealand in the international arena. It also set the stage for the International Dairy Arrangement developed through GATT at the end of the decade, which will be shown in Chapter Two to have been an important instrument in helping New Zealand promote its working relationship with regards to butter trade with the EEC.

Protocol 18 also set a base for future commodity access negotiations, as was especially evident for sheepmeat. As will be shown in Chapter Three, it had been argued before accession that no arrangement was required for sheepmeat because no regime existed for that commodity under the CAP. However as one was implemented in the late 1970s, this reasoning was revoked and set the scene for negotiation for New Zealand access under the new policy. By this time New Zealand negotiators, with more experience and stronger negotiating relationships with the Europeans, were able to optimise the conditions of the arrangement especially relative to butter.

Opportunities for dialogue between New Zealand and Europe for continued access open were made possible by Protocol 18. Although the arrangement was couched in terms of being 'transitional', its lack of definition of the end point for that transitional period for butter left a door open for continuation of access. As this thesis argues, this was something New Zealand negotiators and representatives became particularly adept at exploiting.

Although Protocol 18 was certainly a milestone in New Zealand's trading relationship with Britain, it was not a real turning point. Nor was it the beginning of the end for New Zealand exports, as is often portrayed in writing on this relationship. It formalised the importance of holding on to the relationship rather than phasing it out, and would have been a much less important document in New Zealand's trading history had it not been for the 1975 Dublin Summit.

New Zealand capitalised on the political environment of the times surrounding the March 1975 European Heads of Governments' Meeting, otherwise known as the Dublin Summit. Public debate in Britain had ensued for some time about its

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[132] *New Zealand Foreign Affairs Review*, December 1972, p.39.

membership of the Community, spurred on by Labour's denunciation of the terms of entry negotiated by the then Conservative government.[133] In April 1974 the newly-elected Labour government embarked on a campaign to renegotiate the terms of Britain's entry into the EEC.[134] In the following January the government announced that there would be a public referendum to decide the future of Britain's membership.[135] The Dublin Summit, arranged for early March, therefore became a crucial event in the run-up to the referendum. That New Zealand's interests were actually included in the agenda of this important meeting was politically fortuitous.

The New Zealand Labour Government was also active during 1974 in trying to secure longer term access to the British market for its butter exports. Prime Minister Norman Kirk was aware that 'a great deal of farmer apprehension hinged on Protocol 18', and the Minister of Overseas Trade, Joe Walding, visited Britain twice that year to negotiate better terms on the agreement.[136] He did have some success, especially in improving the terms of the butter pricing structure set down for New Zealand imports. But agreement on continued access after 1977 had evaded him.

John Henderson credits Bill Rowling personally with persuading the British Prime Minister Harold Wilson to take the issue of New Zealand's access to the Dublin Summit.[137] Although Rowling's February visit to Britain and Europe had been arranged long before this turn of events, it created a timely opportunity for him to push for New Zealand's interests at the Summit. His was the first visit of a New Zealand Prime Minister for some time, given that his predecessor Norman Kirk had concentrated his travels more in the Pacific region. This gave Rowling a chance to rejuvenate the Prime Ministerial relationship between the two countries, while seeking to optimise the conditions of New Zealand's access arrangements.[138] After a cordial round of talks between the two Labour government leaders, Harold Wilson made a

[133] 'Britain's Terms of Membership of the EEC', *New Zealand Foreign Affairs Review*, August 1974, p.15; *The Press*, 24 February 1975, p.2.
[134] *New Zealand Foreign Affairs Review*, August 1974, p.15.
[135] *The Times*, 23 January 1975, p.10.
[136] Margaret Hayward, *Diary of the Kirk Years*, Queen Charlotte Sound: Cape Catley Ltd, 1981, p.265.
[137] John Henderson, *Rowling: The Man and the Myth*, Auckland, Australia & New Zealand Book Co., 1981, p.125.
[138] Henderson, *Rowling*, pp.124-125.

firm commitment to Rowling to include New Zealand's Protocol 18 arrangements in the Dublin Summit agenda.[139]

Meanwhile, although wide and varied opinion on British membership of the Community amongst the European and international community was apparent, there were many that felt that British withdrawal from the EEC would be disastrous. The West German government was particularly supportive of continued British membership, and was willing to play an 'honest broker' role to settle differences between Britain and France.[140] The African, Caribbean and Pacific (ACP) nations all stated their support for British membership of the EEC.[141] The Irish also asserted a readiness to maintain their Community membership regardless of whether the British remained in it or not,[142] while the Danes hoped the British would stay in so that their own membership would not be questioned by its electorate.[143]

Despite a wearying of other members' patience with the drawn out process of the British' renegotiation of their terms of membership over the previous year, by the time of the Summit there was still some flexibility amongst the Community leaders to allow appeasement of the British demands.[144] A softening of French and German attitudes towards the New Zealand cause had also been detected earlier that year.[145] The result of the Summit was that the two major issues the British had wanted considered – continued New Zealand access and a modification of British Community funds contributions - were largely settled to their satisfaction.[146]

Although New Zealand's hopes of more enduring commitments on access were not forthcoming, the outcome of the Summit pertaining to their interests, encased in the 1975 Dublin Declaration, was crucial for the future of New Zealand's butter exports to the Community. The Dublin Declaration[147] invited the European Commission to

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[139] *The Press*, 12 February 1975, p.2; *The Press*, 10 March 1975, p.2.
[140] *The Times*, 1 February 1975, p.4.
[141] *The Times*, 6 February 1975, p.4.
[142] *The Times*, 13 February 1975, p.2.
[143] *The Press*, 10 March 1975, p.2.
[144] *The Press*, 10 March 1975, p.2.
[145] *The Press*, 3 February 1975, p.1.
[146] *The Times*, 12 March 1975, p.1.
[147] European Council of Ministers, 'Statement on New Zealand Dairy Products (1975)', in Paul Harris, Stephen Levine et.al. (eds.), *The New Zealand Politics Sourcebook*, 2nd edition, Palmerston North: Dunmore Press, 1994, pp.440-441.

prepare a review of New Zealand's butter access arrangements in order to extend them after 1977. This was important because it reaffirmed the idea hinted at in Protocol 18, that the 'transitional period' of access would not be halted arbitrarily. As Bruce Brown states, it created 'an important political platform for the review of Protocol 18'.[148] It set the tone for later access negotiations, and as Henderson observed, the principles it espoused made it 'the basic document for protecting New Zealand's trade with the Community.'[149]

New Zealand's input into the Dublin Summit showed that access agreements for New Zealand agricultural products were often as much the result of fortunate opportunism and good luck as of calculated diplomatic programming. Had it not been for a strategy of constant engagement by New Zealand representatives with their European counterparts, however, they would not have had the ability to so easily take advantage of short notice opportunities. Making the most of political opportunities as they arose was a consistent tactic of New Zealand politicians and diplomats in securing its negotiation position with the European Community.[150] There was almost daily diplomatic work to keep the lines of communication alive between New Zealand and European politicians, diplomats and industry officials. The massive volume of archived documents of communication by Ministry of Foreign Affairs and Trade are testament to this.

The New Zealand Planning Council's (of which Frank Holmes was by now chairman) *New Zealand and the European Community*[151] was produced in 1978, at a time when negotiations for butter, cheese and sheepmeat access were at another crucial stage with the European Community. It emphasised again the importance of the British and European market for New Zealand product, and called for a balance of interests and long term arrangements that would provide security for New Zealand producers. One of New Zealand's strategies to ensure this included widening their

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[148] Bruce Brown, 'Foreign Policy is Trade: Trade is Foreign Policy', in Trotter, *Fifty Years of New Zealand Foreign Policy Making*, p.72.
[149] Henderson, *Rowling*, p.126.
[150] This point was particularly highlighted in my interview with Bryce Harland, New Zealand High Commissioner 1985-1991, 11 February 2003.
[151] *New Zealand and the European Community: A Report*, Wellington: New Zealand Planning Council, 1978.

diplomatic relationships. From the late 1970s, more opportunities were presented to do this as agriculture was included in GATT talks.

The GATT agreement was signed in 1947 by 105 countries, including New Zealand and the countries of the future European Union, with the basic aim of liberalising world trade.[152] Predominantly because of the lack of support from the United States, agricultural trade was not included in early liberalisation measures. The CAP also handicapped the influence of the GATT to free up international agricultural trade. Although members of the GATT (which the Original Six were) were obliged to have regional trade arrangements investigated to ensure they were compatible with the rules of GATT, this was ineffective in stopping the establishment of the CAP, despite its incongruence.[153] For some time, the legal complexities of interpreting CAP mechanisms in the context of the GATT led to stalemates on issues of agricultural trade.[154]

Although the 1970s Tokyo Round was largely uneventful in freeing any international agricultural trade, it did result in the establishment of the 1978 International Dairy Arrangement (IDA). As will be shown in Chapter Two, the Arrangement in itself was important in maintaining New Zealand's dialogue and export opportunities with Europe through the 1980s, because it played an important role in fostering goodwill and cooperation between New Zealand and Europe in butter trade (both bilaterally and internationally).[155]

New Zealand's membership of GATT helped to support its cause with the EEC at some crucial times. When the implementation of a regime under the CAP for sheepmeat in the late 1970s meant that arrangements were required for regulating the export of New Zealand sheepmeat, the New Zealanders were better placed to negotiate because of previous GATT commitments made by the EEC. This gave the New Zealanders more leverage from the outset in their negotiations with the European Commission than those for butter. For one thing, the 1961 GATT commitment created a fall-back position for trade access. For another, EEC decisions could be made with a

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152 Guy M. Robinson, 'Trading Strategies For New Zealand', p.15.
153 Joseph A. McMahon, *New Zealand and the Common Agricultural Policy*, pp.26-27.
154 Joseph A. McMahon, *New Zealand and the Common Agricultural Policy*, pp.27-31.
155 See GATT section, pp.83-89.

majority agreement rather than a unanimous one. Essentially, the sheepmeat Voluntary Restraint Agreement was made under a dialogue of goodwill in comparison to the European's unilateral imposition of butter access decisions.

The 1980s were years of hard and almost constant legwork for New Zealand negotiators to maintain access levels. Negotiations were made for New Zealand access with the European Commission, who would then make recommendations for agreements to the European Council of Agricultural Ministers. Access levels were made at three to five year intervals[156] and were originally separately arranged, but the issues of sheepmeat and butter became complexly intertwined over that period. This was something that New Zealand negotiators had tried to avoid because they did not want to be cornered into situations where one commodity's access was compromised for the other. It proved to be unavoidable in the mid-1980s, however. In 1988, for example, New Zealand agreed to cut back its sheepmeat exports as something of a goodwill gesture, with which the Europeans replied with less of a cut in the butter quota.

Access negotiations always had to be navigated around the obstacle of the CAP. As feared at its outset, its policies promoted agricultural production to the point where surplus product stockpiled in Community holding bays. To reduce these (especially, for example, with butter) the product was sold to third countries at low prices. These practises disturbed regular trading arrangements for other exporters such as New Zealand, and were therefore accused of distorting the international market. New Zealand export commentators noted in 1987 that 'the trade-distorting effect of the CAP on third markets has reinforced New Zealand's dependence on traditional markets such as Britain, and has made successive negotiations aimed at preserving this access all the more vital'.[157] Evidence to support this contention, especially in international butter trade, will be shown in Chapter Two.

At times some Europeans held up agreements with their own political agendas which were unrelated to New Zealand access issues. The European Council of

[156] Bruce Brown, 'New Zealand in the World Economy: Trade Negotiations and Diversification', in Bruce Brown (ed.), *New Zealand in World Affairs Volume Three: 1972-1990*, Wellington: Victoria University Press, p.25.

Agricultural Ministers through their own political intra-community disagreements could sometimes hold up the finalisation of agreements. Because butter access had to be agreed by a full majority in the European Council, this was sometimes used as a political tool for member states to have their voice heard on other topics. Greece, for example, vetoed the final agreement on New Zealand butter access in 1989 to have their dissatisfaction at changes to the internal sheepmeat regime attended to. By doing so, they drew attention to an issue they had contested for some time and were then successful in having it dealt with very quickly. When this was resolved, their veto on dairy access was lifted.[158]

Access arrangements were often uncertain with the drawing out of negotiations, which often led to blurred arrangements when previous ones expired with no definitive continuing arrangements finalised. The requirement for unanimous agreement by the European Council complicated finalising these agreements. This often led to a monthly rollover of import quotas for butter in particular, until a longer term agreement was made. Uncertainty and disruption for New Zealand exporters was a result. In spite of some negative attitudes within the EEC towards New Zealand retaining access for its agricultural products, however, it did retain quite substantial support from certain members, such as the Germans and Dutch.

New Zealand's domestic economic changes in the 1980s made maintaining access to its traditional markets all the more important. In 1984 the Fourth Labour Government was voted in at a time of fiscal desperation for New Zealand, and the measures they took to deal with this situation led to economic upheaval for New Zealand agricultural producers. A new era in political ideology, namely neo-liberalism, was implemented for New Zealand. Free trade and minimal government intervention were the economic ideals sought in policy making.

Support mechanisms for New Zealand farmers had been in place since the 1930s, but were accelerated from the 1960s in order to promote investment, and therefore

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[157] Stephen Jacobi, 'The European Community: Exciting Prospects for New Zealand', *Export News*, October 1987, p.21.

[158] 'EC Access Achieved', *New Zealand External Relations Review*, Vol.39, No.4, July/Sep. 1989, p.26.

output and export revenue increases, from pastoral farming.[159] But by 1983, even before the election of the Labour Government, it was acknowledged that the levels that agricultural support had risen to, especially in light of slumps in international commodity prices, were unsustainable for the New Zealand economy.[160] The main farm assistance subsidies were eliminated from 1984 to 1988, which left some producers floundering financially.

Although all farming sectors were affected by the changes, sheep farmers were influenced the most because they had been the most prominent recipients of the price supports.[161] Deregulation had also taken place in the meat processing industry in the early 1980s. The consequences of these policies affected New Zealand's sheepmeat exporting industry and its trade with the EEC over the following decades, as will be shown in Chapter Three.

This decade also signalled something of a change in the nature of negotiations for New Zealand's access. New Zealand began to take more of an independent approach in negotiations with the European Commission than the 'next-room' relationship (with the British negotiating on New Zealand's behalf) that had characterised the original access negotiations when Britain first joined the EEC.[162] A change in the nature of New Zealand's negotiating relationship with Britain was particularly noticeable from 1986. British Agriculture Minister, John MacGregor, avoided approaching the European Commission on New Zealand's behalf. Instead, he took more of a rearguard role, supporting New Zealand only once a deal was mooted.[163] The politics surrounding New Zealand's independent nuclear-free stance and its later differences with the French over the *Rainbow Warrior* affair,[164] as well as political opposition

[159] Laurence Tyler and Ralph Lattimore, 'Assistance to Agriculture', in Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience,* Wellington: MAF Policy Services, 1990, p.65.
[160] Tyler and Lattimore, 'Assistance to Agriculture', in Sandrey and Reynolds (eds.), *Farming Without Subsidies,* p.67.
[161] Ron Sandrey and Grant Scobie, 'Issues for Policy Makers', in Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience,* Wellington: MAF Policy Services, 1990, p.312.
[162] Marshall, *Memoirs,* pp.65-66.
[163] Bryce Harland, *On Our Own: New Zealand in the Emerging Tripolar World,* Wellington: Victoria University Institute of Policy Studies, 1992, pp.25-26.
[164] Carol Davenport, 'Trade Between New Zealand and France 1980-2000; Patterns, Trends and Fluctuations', Bachelor of Arts (Honours) Research Exercise, Massey University, 2001, pp.16-20.

against New Zealand butter access by British producer boards,[165] appeared to have made the British minister more wary of associating with New Zealand's access negotiations.

Despite changes in how New Zealand dealt with access negotiations, British political support for New Zealand, particularly in the House of Commons, was still actively sought and found.[166] Support was also given strongly by shipping interests. They argued that with £355 million invested in the (partly) British-owned refrigerated sea transport of New Zealand butter and sheepmeat to Europe,[167] they could not afford to lose this business and any loss of tonnage would result in job and revenue losses.[168]

The changed negotiating environment made the work of New Zealand representatives in European posts even more important. It also meant that the New Zealand negotiators gained a higher profile in the Community. Mike Moore, New Zealand Minister of Overseas Trade over the mid-1980s, was particularly active in negotiating New Zealand's access in Europe over this period. He included in his lobbying teams New Zealand farming representatives, who gave breadth to the argument to push New Zealand's cause. They were able to reinforce to the Europeans how much the New Zealand farmers needed the European market kept open by telling them of the hardship that was being endured under the economic reform environment.[169]

The political relationship between New Zealand and France had some explicit influences over the agricultural trade through the 1980s.[170] The dispute over New Zealand's handling of the *Rainbow Warrior* affair led to unofficial trade sanctions by

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British Prime Minister Margaret Thatcher was disappointed by New Zealand's anti-nuclear stance against visiting warships but was also adamant that this issue should not impose on trade relations. She also stood clear of the conflict between New Zealand and France over the *Rainbow Warrior* dispute. Bryce Harland, personal interview, 11 February 2003.

[165] *Agra Europe*, 27 June 1986, E/1.

[166] In 1987 the New Zealand High Commission conducted a campaign which involved writing to all Members of the House of Commons asking for support for New Zealand access negotiations. Of the 42 that responded, only three were overtly critical of New Zealand's position. Communication Bryce Harland to Secretary Foreign Affairs, 31 July 1987, MFAT file 123/2/2, vol.76.

[167] Letter from New Zealand Tonnage Committee to Minister of State Foreign and Commonwealth Office in Britain, 8 October 1987, MFAT file 123/2/2, vol. 77.

[168] Several articles were written in June 1986 regarding shipping lines support, for example *International Freighting Weekly*, 5 June 1986; *Freight News Express*, 16 June 1986; *Evening Post*, 3 June 1986; articles found in MFAT file 123/2/1, vol.14.

[169] Mike Moore, *A Labour of Love*, Wellington: MMSC Ltd, 1993, p.121.

the French of certain New Zealand products. French External Trade Minister, M. Noir, at one stage threatened to link the dispute to the question of continued access for New Zealand agricultural products to the EEC.[171] A result of international arbitration, however, led to the French agreeing not to block access consultations.[172] This implicit support in the 1986 butter and sheepmeat negotiations was possibly the most fortuitous factor for New Zealand's success in losing little of its quota at that time, and may well have saved New Zealand from export oblivion in negotiating access in the late 1980s. It may well have averted a greater decrease in the allowed weights of butter and sheepmeat sent for the following two years. Had it not been for this turnaround in the French attitude, the outcome of those negotiations may well have been starkly different, not just in that instance, but for the future of the trade.

In 1983 the Ministry of Foreign Affairs and Department of Trade and Industry produced *New Zealand and the European Community: The Current Issues*.[173] This had been written, like others of its type, with the view to providing a background document for negotiations for butter and sheepmeat into Europe after 1984. A subtle difference was clear in its message, however. It emphasised the importance of the European market for the future of New Zealand's exports, but also took account of the developing multilateral negotiation environment. The view was that the attitude the Community showed towards New Zealand access at that time would have an important bearing on its commitment to a more open and fairer international trading system in which all are allowed to compete on the basis of what they each do best.

Pressure on Europe to adopt this view gained momentum with the start of the GATT Uruguay Round in 1986. The commencement of the Round heralded a turning point in international agricultural trade. Agriculture was put on the agenda for the multilateral trade negotiations, largely because of the consent of the United States (USA) and EC, who had come to recognise the weaknesses of their own agricultural

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[170] Davenport, 'Trade Between New Zealand and France', Chapter Two.
[171] M. Noir was reported by Reuters on 4 April 1986 as having said this the day before, 'Rainbow Warrior Decision', *New Zealand Foreign Affairs Review*, July-September 1986, p.39.
[172] *New Zealand Foreign Affairs Review*, July-September 1986, p.45.
[173] *New Zealand and the European Community: The Current Issues*, Wellington: Ministry of Foreign Affairs, 1983.

policies.[174] The Ministerial Declaration establishing the agreed objectives for this GATT Round called for 'more discipline and predictability' in international agricultural trade.[175] The fact that agreement was made for agriculture to be included at all was a major milestone, and the Round eventually proved to be a fortuitous one for New Zealand, especially in its trading relationship with the European Union. The establishment of the Cairns Group gave New Zealand added voice and influence to achieve some of its goals in that context.

McMahon describes the formation of the Cairns Group as marking the end of the duopoly of dominance by the United States and the EC that had previously characterised GATT discussions on agriculture. He thought that this group would be able to add an extra dimension to discussions in the GATT Uruguay Round so that they would no longer centre solely on the United States and the EC.[176] This, he said, made the Round 'truly multilateral', unlike previous rounds.[177]

The Cairns Group was a conglomeration of 14 small agricultural nations who agreed to work towards common goals in liberalising agricultural trade.[178] This group did exert some influence over the GATT talks, especially because of its alignment with the United States over many issues. It also exerted some pressure on the EC to reform the CAP, something that had been highlighted as necessary since its implementation, and highlighted primarily by the Mansholt Plan. Despite much discussion and plan-making for CAP reform by the EU, little real change was made by the end of the millennium. CAP policies still supported inefficiencies and over-productivity within the Union, and continued to exert a disproportionate influence over the nature of international agricultural trade. For New Zealand, the biggest problems with this continued to be in butter trade, just as they had been four decades earlier. But despite the continued spectre of the CAP, New Zealand reaped some important benefits for its access to the EU in the Uruguay Round.

The acceptance of the Cairns Group's proposed 'standstill principle' in the Uruguay Round negotiations had led New Zealand to feel more secure about the prospects for

[174] Robinson, 'Trading Strategies for New Zealand', p.16.
[175] McMahon, *New Zealand and the Common Agricultural Policy*, p.33.
[176] McMahon, *New Zealand and the Common Agricultural Policy*, pp.32-33.
[177] McMahon, *New Zealand and the Common Agricultural Policy*, p.34

gaining continued access to European markets for its butter and sheepmeat into the 1990s.[179] This principle deemed that during the course of the Uruguay Round participants would not decrease access arrangements. While it did not stop this happening, it may have stopped any possible cessation of access. Regardless, the final GATT arrangements made in 1993 honoured the standstill principle's associated rollback commitment[180] so that retrospective account of access levels at the time of the 1986 agreement was made, and subsequent loss was returned to New Zealand.

After the Fourth Labour Government reforms agricultural exports were not subsidised, so New Zealand was considered to be the most liberalised agricultural trading nation in the world. It was consequently one of the biggest winners at the conclusion of the Uruguay Round.[181] A report on the implications of the Round noted that New Zealand could expect increases in agricultural sector revenues of 10% to 15%, agricultural production of 4%, and GDP by 2% to 3%. Most of these gains would come from the USA, Asian and EU markets.[182] Certainly, gains in both butter and sheepmeat were reaped from the EU markets, as will be shown in their respective chapters. It served to grant some respite from decades of political and diplomatic efforts to maintain New Zealand's traditional exports to Europe.

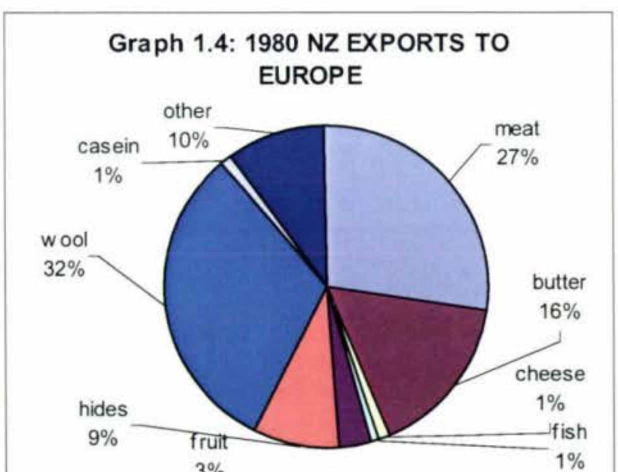
This signalled a change in the nature of New Zealand's bilateral interactions with the European Community. As the pressure of negotiating access agreements was lifted, a marked change in the diplomatic atmosphere was noticed in bilateral talks. Access negotiations became agricultural consultations. New Zealand officials observed that 'New Zealand no longer needs to approach the Commission in the same suppliant way we have in the past, and this is noted (by them)'.[183]

The World Trade Organisation (WTO) was formed in 1995 as a result of the GATT Uruguay Round. One important impact that it had on New Zealand's trade with

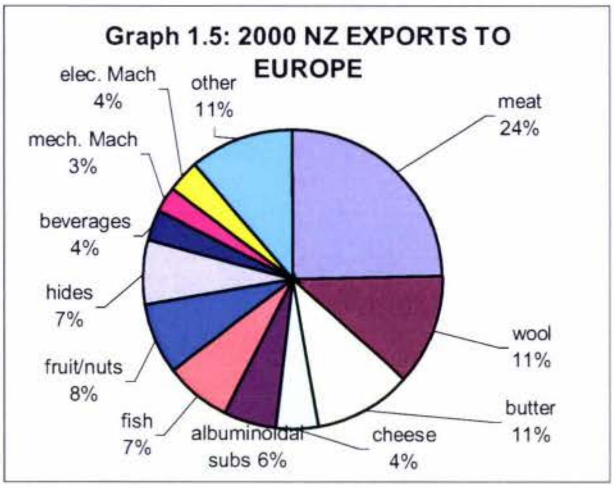
[178] 'Progress in GATT MTNs: Agriculture', *Export News*, November 1987, p.16.
[179] Ministry of External Relations and Trade (MERT), June 1988, MFAT file 123/2/1, vol.15.
[180] MERT report 'New Zealand and the Uruguay Round', October 1987, MFAT file 123/2/2, vol. 77.
[181] Ron Sandrey, 'The GATT Uruguay Round in Perspective: Implications for New Zealand', *New Zealand Journal of Business*, Vol.16, No.1, 1994, p.56.
[182] Sandrey, 'The GATT Uruguay Round in Perspective: Implications for New Zealand', *New Zealand Journal of Business*, Vol.16, No.1, 1994, p.59.
[183] 'Report on New Zealand/European Union Agricultural Consultations and Ancillary Meetings', 7 November 1994, MFAT file 123/2/13, vol.19.

Europe was the introduction of a new type of dispute settlement process. Under GATT there was no obligatory dispute settlement process, but rather a panel system for which the third party had to consent to its ruling for it to be binding. The imbalance of economic power meant that New Zealand had little power to call disputes against the Europeans. The WTO rules-based system corrected the imbalance somewhat when it increased the authority of the panels' decisions to make them legally binding.[184] New Zealand was successful in three hearings under this system, one of them involving the Spreadable Butter dispute with the European Commission, which will be discussed in Chapter Two. Had this system not been in place, it is unlikely that this product would have regained access so quickly, if at all, into the European market.

Regardless of the changes in the nature of New Zealand's trading relationship with the European Union, it was still described as a critical market for New Zealand's traditional commodity exports.[185] Altogether its members took 17% of New Zealand's exports, as illustrated in Graph 1.3. Wool, sheepmeat and butter still comprised a large proportion of the total, as shown in Graphs 1.4 and 1.5.



[184] Don MacKay, 'Trends in International Dispute Settlement', *New Zealand Foreign Affairs and Trade Record*, Dec 2000/Jan 2001, p.8.
[185] 'New Zealand's Trade Policy', *New Zealand Foreign Affairs and Trade Record*, March 1997, p.11.

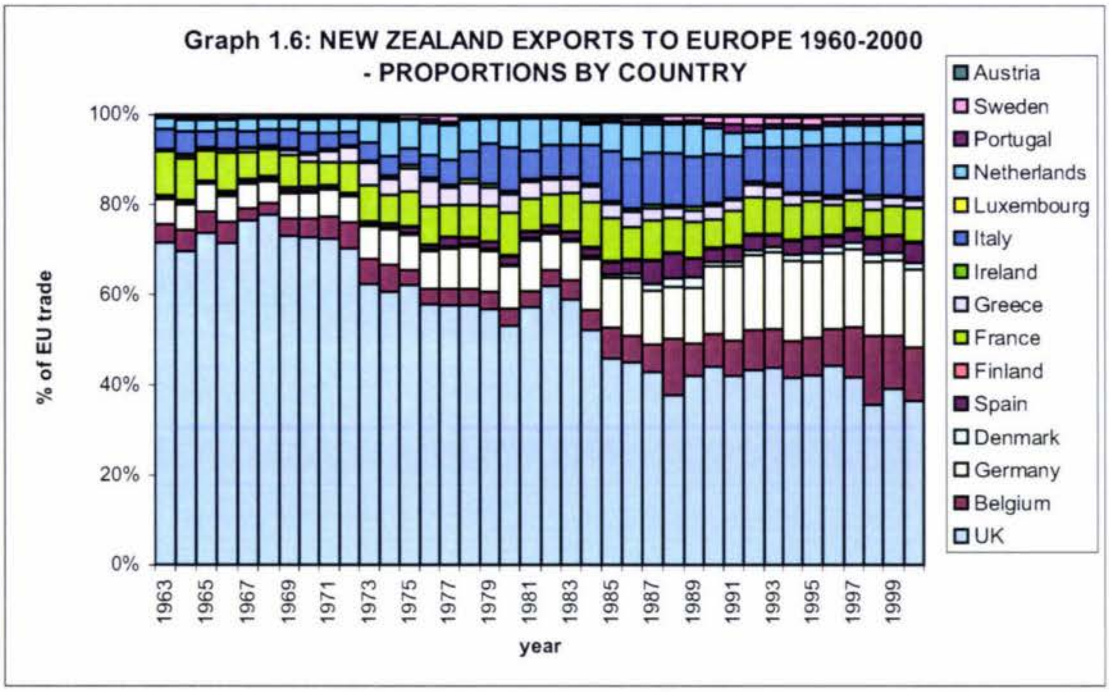


While the nature of New Zealand's exports to Europe had changed over the period, agricultural goods maintained their importance. From comprising over 90% of total export revenue in 1960, wool, butter and sheepmeats' importance reduced to 75% by 1980 and further to 46% by 2000. But the importance of those markets for New Zealand's butter and sheepmeat products was also even more pronounced. Approximately 40% of New Zealand's butter exports and over half of its sheepmeat exports (by volume) continued to be sent to the European Union markets.[186]

The diversification efforts of New Zealand policy makers and producers since the 1950s had met with some success. As Graphs 1.4 and 1.5 show, the new categories were at first mostly still small and also primary-based products. By 2000 some secondary industries, such as beverages, mechanical and electrical engineering were enjoying success in the European market on a minimal scale. New Zealand was showing some signs of breaking out of the role of only being a seen as 'farmer' to the European market, but the importance of agriculture in total exports still remained extremely high.

Likewise, despite much success in developing markets worldwide, the European Union collectively remained the third largest trading partner for New Zealand by the end of the millennium. Some diversification of markets for New Zealand within the Union was quite apparent as well.

[186] This will be further shown in the respective case study chapters.



As Graph 1.6 shows, Britain lost its place as the only dominant importer of New Zealand products over the period. Although it remained the single largest market, other EU members became increasingly important. While France's purchases fluctuated between 5% and 10% of the proportion of European trade throughout the period, Belgium, Germany and Italy became more prominent as New Zealand export destinations, especially throughout the 1980s and 1990s. Germany became New Zealand's second largest European export destination by the 1980s. By 2000 it was taking just under half of Britain's exports value, or 17.25% of total European exports.

Across the changes in government in New Zealand that took place from 1960 to 2000, including the advent of MMP, which presented a quite new style of governing politics to the country, there was a remarkable continuity in foreign policy attitudes toward trade. Its promotion and growth remained of central interest to each government. Robert Muldoon highlighted the centrality of trade considerations to foreign policy in 1980 by stating 'foreign policy is trade',[187] a point reiterated by

[187] Robert Muldoon interview with Derek Round, *New Zealand International Review*, Vol.5, No.1, Jan/Feb 1980, pp.2-3.

another National minister, Don McKinnon, in 1991.[188] Policy development always reflected the importance of export income to the New Zealand economy, and the balancing and enhancing of trading relationships was enabled through the progressive admission of reciprocal imports.

The European Union was central to these interests. Britain's entry into Europe made the region clearly the most vital trade partner in the world for New Zealand, but that country aside, the rest of the countries became increasingly important as well to New Zealand, especially as purchasers of New Zealand's agricultural exports.

A speech in 1999 by Peter Kennedy, Director of the Ministry of Foreign Affairs and Trade's European Division, summed up New Zealand's trading relationship with the European Union at the end of the millennium. He observed that 'today our relationship with Europe is one of maturity based on mutual respect and cooperation.' He also noted that 'the Common Agricultural Policy is a very significant instrument of industry support around which New Zealand exporters have had to navigate their trade access to markets within the EU', remaining hopeful that reforms in this would be forthcoming in the near future.[189]

New Zealand's trade with the countries of the European Union changed greatly over the four decades from 1960 to 2000, but it maintained high importance. As Britain lost its dominance as an importer of New Zealand goods, its place was often taken over by one or more of its fellow Union members. While some diversification of New Zealand exports to the EU occurred, the traditional export commodities, so prevalent in 1960, remained highly important in 2000. These trading patterns were not just continuations of the original patterns though. Nor were the trading relationship changes lineal. The following chapters will individually case study the paths of butter, sheepmeat and wool exports to explore the paths of, and influences on, these changes.

[188] '"Foreign Policy is Trade" – The McKinnon Doctrine', *The Examiner*, 27 March 1991, p.20.
[189] Kennedy, 'Europe and New Zealand: The New Millennium Beckons', *New Zealand Foreign Affairs and Trade Record*, November 1999, p.11, 13.

Chapter Two
NEW ZEALAND'S BUTTER TRADE WITH EUROPE

Butter was the most obviously political of the three 'traditional' export commodities in this study. It was subjected to access restrictions almost from the start of the period under investigation, and because of these, its trade was largely limited to Britain. It was also at times a highly charged political issue in relations between New Zealand and Britain, and the European Union in general.

This chapter will map the course of butter exports from New Zealand and the countries of today's European Union, taking the main influences into account. The most remarkable finding is that despite the political difficulties, New Zealand butter exports to Britain in particular maintained a significant and important level right throughout the period. This was a diplomatic coup for New Zealand politicians, diplomats, negotiators and dairy trade representatives. Without the almost constantly maintained and co-ordinated efforts by members of these groups throughout the period, it is likely that the New Zealand butter industry would have dwindled drastically in the face of aggressive competition, most obviously from the European Union itself.

Alongside this primary finding, this research has found that (as with all the commodities) less obvious issues of domestic policy, industry and marketing development on the one hand, and the influences of New Zealand's involvement in the wider multilateral political context on the other, have also influenced the course of this trade. This chapter will highlight where those issues have created impact, but the central role of politics will be most emphasised.

Dairy farming has been firmly imbedded in New Zealand's agricultural history since European settlement. It expanded from an industry that supplied domestic households and local towns to an exporting industry in the late nineteenth century. This was made possible by the introduction of refrigerated shipping from 1882.[190] From the start, butter was the major dairy export earner, followed by cheese. Despite

[190] Evans, *A History of Agricultural Production and Marketing in New Zealand*, p.146.

extensive changes in dairy production and marketing, it remained a predominant dairy export product over a century later, although the maintenance of its trade often entailed extensive political and diplomatic action.

New Zealand differs from most dairy farming countries because it exports most of its dairy products. Only about 5% of the world's butter production is traded internationally, because most dairy production is consumed within domestic markets.[191] While New Zealand produces only 4-5% of the world's butter, it is unusual because it exports between 75% and 90% of production. This has made it one of the major butter exporters over the past four decades, second often only to the European Community or Union as a single exporter. That the EEC/EU has been a major competitor in butter trade with New Zealand has complicated New Zealand's efforts to maintain its traditional butter exports to Britain, especially since it joined the group.

The 1932 Ottawa Agreement gave New Zealand and other Commonwealth members free entry to the vast British butter market while imposing a tariff of 15 shillings per hundredweight on 'foreign' product.[192] Britain made bulk purchase contracts during and after the Second World War with the Commonwealth countries and Denmark,[193] which protected New Zealand's interests even more until 1954. Even after this, New Zealand enjoyed unrestricted access to the British market, which was only about 10% satisfied by its own domestic farming industry.

In the 1950s, though, butter trading became an increasingly political issue. This was because many countries, through technological advances and more efficient farming practises, had developed greater milk production. In turn, this had led to production surpluses, especially in butter. Britain was the only substantial importer of this product internationally, and more and more countries began to export to this market. This caused consternation for its traditional suppliers, especially New Zealand, because their established market was being squeezed out. The problem was compounded by the simultaneous increases in British domestic production of butter.

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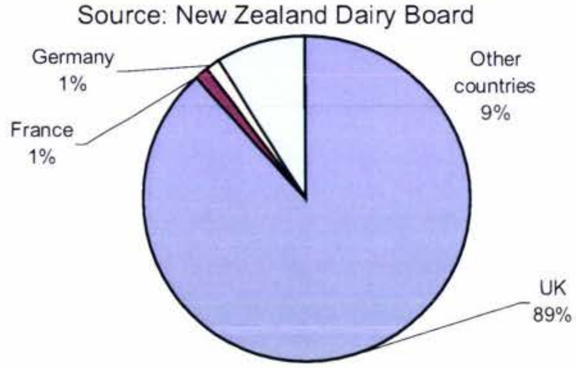
[191] Rowland Woods, Ken Graham and Peter Rankin, *Towards a Strategy for New Zealand Agriculture,* Wellington: New Zealand Planning Council, 1984, p.113.
[192] Singleton and Robertson, 'Britain, Butter and European Integration', p.328.

At the beginning of the 1960s, therefore, New Zealand's butter trade with Britain was already somewhat vulnerable.

Graph 2.1 illustrates the main destinations for New Zealand butter in 1960. At this time, revenue from butter exports constituted 21% of New Zealand's total exports. The traditional pattern of trade that had prevailed over the previous seven decades remained. Despite the problems that had started to loom, Britain was still by far the most important importer of New Zealand butter, taking 89% of its total butter exports. Of the EEC countries, France and Germany took a further 2%, and other countries in the world took 9%. This chapter will show that those traditional patterns remained more stable than might have been expected, for most of the remainder of the century.

Graph 2.1: DESTINATIONS FOR NEW ZEALAND BUTTER EXPORTS 1960

Source: New Zealand Dairy Board



At the 1963 Export Development Conference P.B. Marshall, General Manager (Marketing) of the New Zealand Dairy Production and Marketing Board, noted that the British butter market had shrunk over the previous decade, but still remained of utmost importance to New Zealand. He stated,

> Easily the most valuable market in the world today and in the foreseeable future is the United Kingdom and no effort must be spared to ensure that New Zealand continues to have access in as large a measure as possible to the British market.[194]

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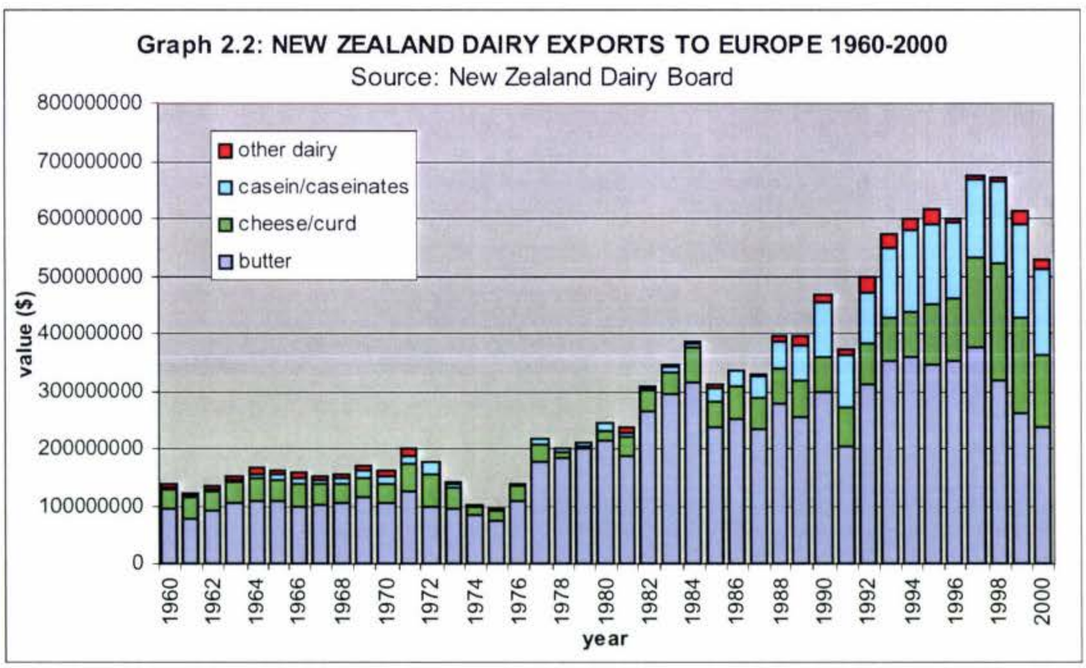
[193] For some history of Denmark's butter exports to Britain see Singleton and Robertson, 'Britain, Butter and European Integration', pp.340-345.

[194] P.B. Marshall, 'Exporting Dairy Produce', Background Paper Four, *Report of the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963, p.6.

These words were undoubtedly apt considering the political climate of the times. Britain's initial application to join the EEC had been rebuffed, but New Zealand politicians were well aware that another application would be made. Butter exports, considering their already contentious nature, would be the first to be threatened should Britain join the EEC.

While P.B.Marshall discussed the possibilities of developing markets elsewhere, opportunities were perceived as being more likely within developing countries than the wealthier European or North American markets. European countries were already noted as highly restrictive against butter imports, and were not expected to become less so in the near future.[195] This was a fair judgement. Butter would continue to ride a rocky road of market-finding over the following four decades.

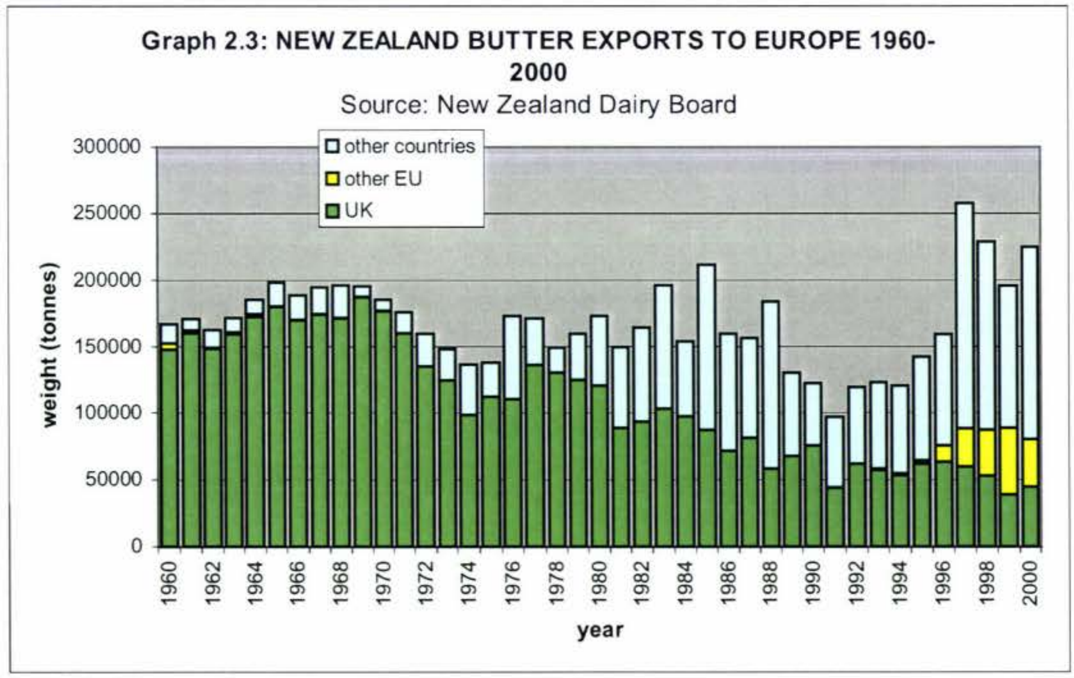


Graph 2.2 shows New Zealand's earnings from its dairy trade with Europe from 1960 to 2000, and highlights the continuing importance of butter. In 1960 two-thirds of the value of dairy exports to Europe came from butter, which also at that stage gave

[195] Marshall, 'Exporting Dairy Produce', *Report of the Export Development Conference*, p.5.

the best returns.[196] Despite growth in relative earnings from other products, particularly casein, butter remained top earner for the entire period, almost always bringing in at least 50% of total dairy receipts from Europe.

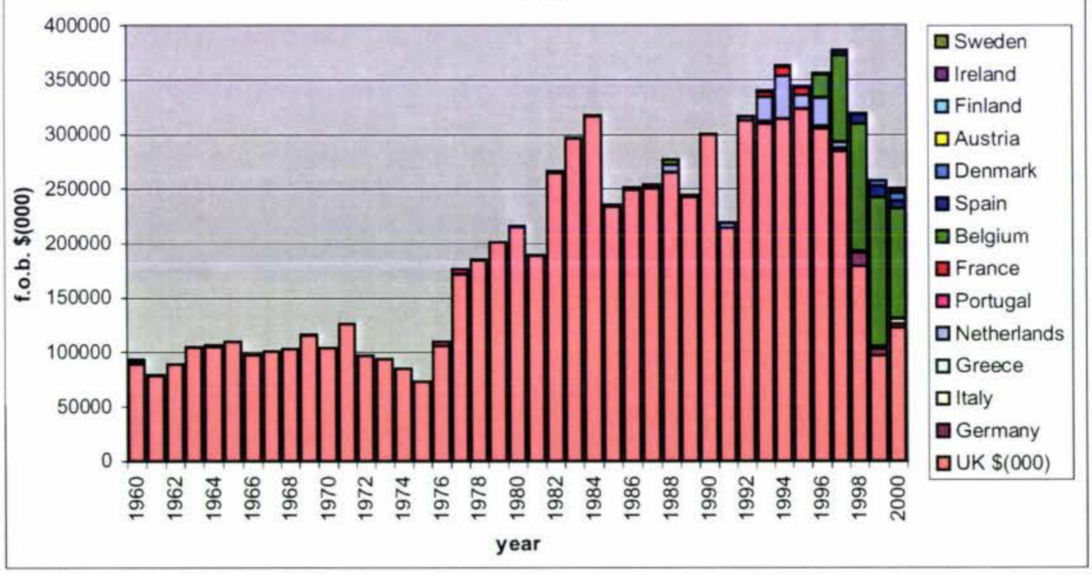
Graph 2.3 illustrates volumes of New Zealand's butter exports from 1960 to 2000. In 1960 about 90% of New Zealand's butter exports went to Britain and a similar pattern persisted over the following decade. Indeed, Britain remained an important and consistent recipient of New Zealand butter throughout the entire period. Exports to alternative markets were limited and spasmodic until the late 1990s, when large amounts of butter were directed to other countries, including to Europe. Despite this, Britain still took 20% of the total in 2000. In the early 1960s there was a small amount of trade with European countries such as Germany, but this was scant then, and virtually non-existent through the following three decades. Significant growth occurred only in the final half decade of the century, to a point where total exports of butter to other countries of the European Union in 1999 were actually greater than to Britain.



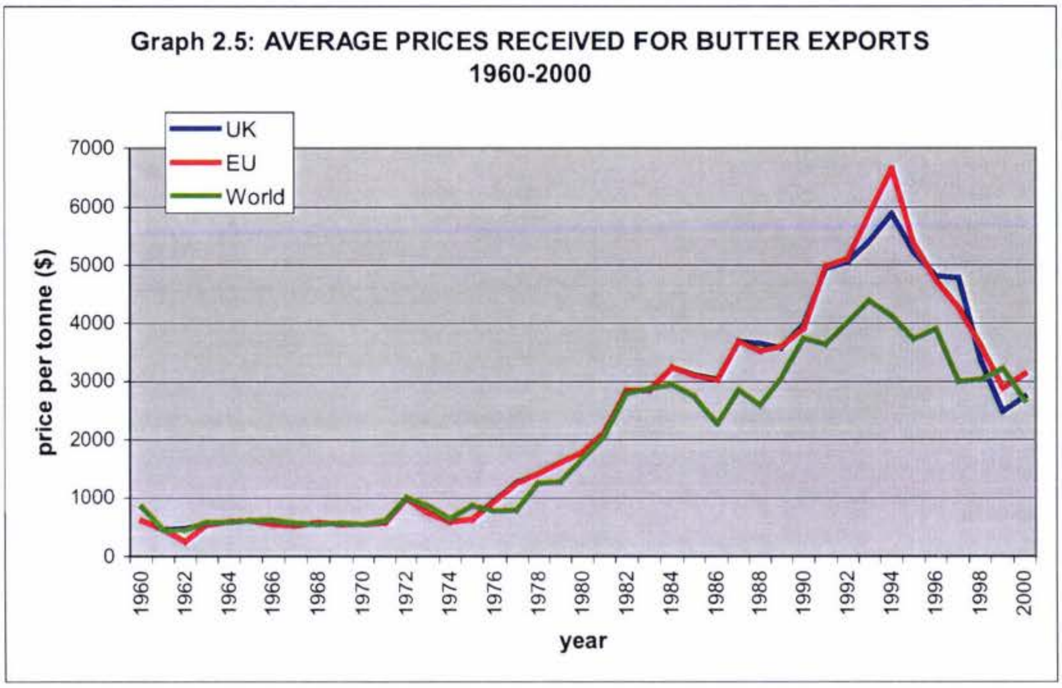
[196] C. Patrick, 'A Future in Dairy Products', *Economic Bulletin*, Canterbury Chamber of Commerce, No.521, November 1968, p.1.

Graph 2.4 shows the value of New Zealand's butter exports to the EEC/EU. Earnings, essentially from Britain, were fairly steady through the 1960s and early 1970s, but dropped, along with volumes, from 1973 to 1975. They started to rise quite dramatically from 1976, however, including a small amount of revenue from exports to Portugal in 1976 and 1977. Significant drops in earnings from Britain occurred from 1985 and did not recover properly until 1993, but returns were quite buoyant thereafter. Also from 1993, growth in trade with other European Union countries was evident. Exports to the Netherlands were particularly significant from 1992 to 1996. Belgium was thereafter, remaining as a significant buyer of New Zealand butter until the end of the century. Denmark, one of New Zealand's traditional competitors in the international butter trade, was also an importer in those latter years.

Graph 2.4: NEW ZEALAND BUTTER EXPORTS TO EUROPE 1960-2000



Average prices received for butter are illustrated by Graph 2.5, and show how trade with the Europeans has generally proved lucrative for New Zealand. Until the 1970s butter prices received by New Zealand were similar regardless of destination. In the period 1972 to 1975 prices from Britain and Europe were noticeably lower than general world prices. But thereafter British and European prices rose readily to become, usually, significantly higher than the world average. They were particularly inflated from 1991 to 1997, but then British prices actually dropped below the world average in 1998-1999. The drop affected European Union prices in general, but higher prices received from Belgium in the latter years meant that they remained (except for 1998) above the world average.



Fluctuations in New Zealand's returns from butter exports to Europe over the period were affected by a number of factors, including climatic variations, the prices of competing products, and the policies of the New Zealand government. However, decisions made by British and other European governments were by far the most important factor influencing New Zealand's sales of butter to Europe and the prices received. The sections that follow will discuss the impact of these different factors.

Influences on Production

As a manufactured product of milk, issues that affect the dairy industry in general have influenced butter production, while others have affected butter specifically. These have ranged from naturally-occurring causes, such as environmental impacts, to those resulting from political considerations. This section will discuss factors from both categories that have affected general dairy and specifically butter production to the point that they have had a bearing on export volumes and/or quality.

Butter Production in New Zealand

Despite butter being one of many products that can be manufactured from milk, it has historically been a predominant one, not least because it is one of the few users of milk fat (alongside cheese). A 1984 New Zealand Planning Council-sponsored study noted that 'the viability of the New Zealand dairy industry is heavily dependent on the remunerative export of around a quarter of a million tonnes of butter and butter oil annually.'[197] While technological advances made the manufacture of new products comprised from protein and skim milk contents increasingly possible, few alternatives were found for milk fat manufacture other than butter, butter oil and cheese. The authors noted that butter exports were still therefore vital to sustain the industry because '(A) market collapse for butter-fat products could not be adequately offset by the returns currently available for milk protein products.'[198]

This point is given weight Graph 2.6, which shows dairy production in New Zealand over the period. The most obvious feature is that the volumes of dairy manufactures have significantly risen since 1960. Also clear is that most of the added volume was contributed by 'other' types of dairy products than the traditional butter, cheese or casein products. Most relevant here, though, is the evidence that butter production volumes were reasonably steady over those four decades. Although there were some fluctuations, New Zealand dairy factories produced approximately 200,000 tonnes of butter annually.

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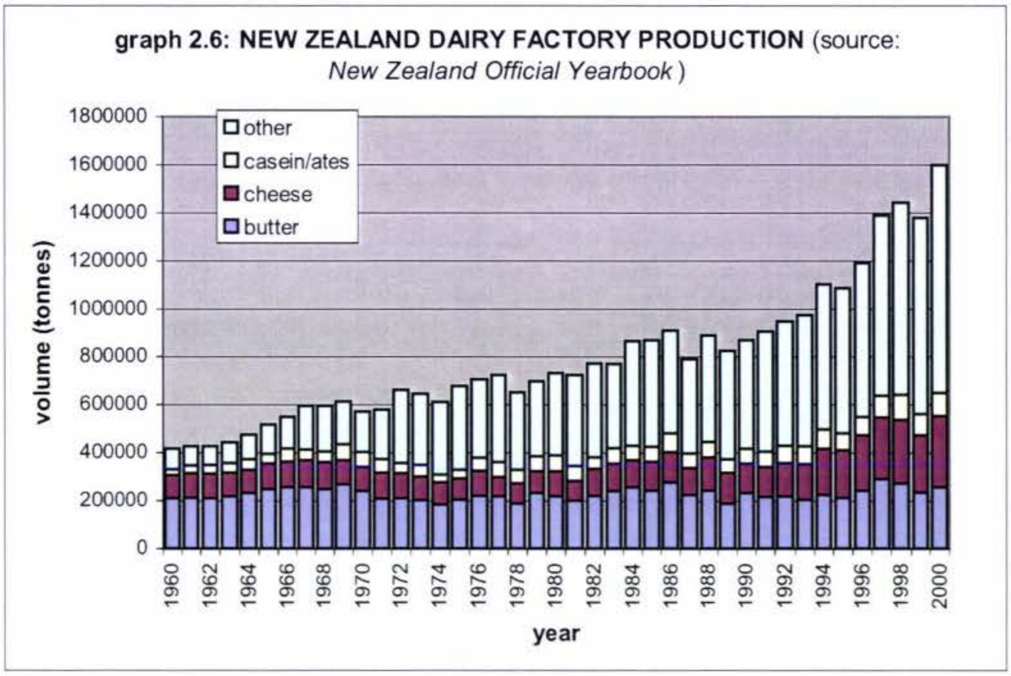
[197] Woods, Graham and Rankin, *Towards a Strategy For New Zealand Agriculture*, p.122.

[198] Woods, Graham and Rankin, *Towards a Strategy For New Zealand Agriculture,* p.122



Despite those fluctuations appearing to be relatively minor, any changes in butter production did impinge on the capacity of New Zealand to export butter to Europe. This was particularly apparent in the mid to late 1960s when butter export volumes to Britain were not much less than New Zealand's total production volume. From 1965 to 1970, New Zealand butter exports to Britain averaged 176,000 tonnes; an average of 70% of the total annual butter production. Some of the decline in exports over the following years can be attributed to production influences that ranged from the environmental to the political.

Because of the nature of dairy farming in New Zealand, environmental factors (especially climatic variations) have had a direct influence on general dairy production. New Zealand cows are pasture fed and exposed to the weather,[199] so extreme weather conditions have affected grass production and thus their milk output. During the period under investigation, there were periods of drought and also extended good weather, both of which had a bearing on how much milk was produced, and therefore export production. Two examples of such periods are outlined below.

Drought conditions heavily influenced New Zealand's dairy trade during the 1970s. Milk production was low after the 1969-70 drought and repeated dry spells thereafter. Consequently there was a reduced level of butter manufacture and exports over the following five years, as cattle that had suffered were slow to regain former production rates.[200] This was particularly evident in lower dairy production rates in New Zealand in 1970 and 1971 (Graph 2.6). At the same time, poor climatic conditions hampered butter production in Europe as well.[201] Paradoxically, the international shortage of butter led to higher market prices,[202] which New Zealand suppliers were not able to exploit because of their low stocks. This was one reason why New Zealand butter exports to Britain failed to meet quota limits during that period.

Conversely, favourable climatic conditions led to greater milk and butter production and a rise in New Zealand butter exports to Britain in 1983-84.[203] In those years butter exports were slightly higher than the deemed quota levels, indicating that New Zealand had ample stocks to export. New Zealand's production growth over that time was monitored closely and criticised by the Europeans, who were concerned with trimming back international production levels to lessen the prevailing market glut.[204]

Butter production was also affected by the manufacturing priorities. Production decisions were made on the basis of market conditions, so international demand and prices influenced whether other dairy products sometimes superseded butter's importance. The patterns of New Zealand's dairy production show a commitment to creating products which maximised dairy returns. Butter's importance waned relative to other products, but it endured as a staple product throughout.

In the early 1970s cheese manufacture took some of the milk fat production from butter.[205] Cheese consumption had grown worldwide through the 1960s and continued

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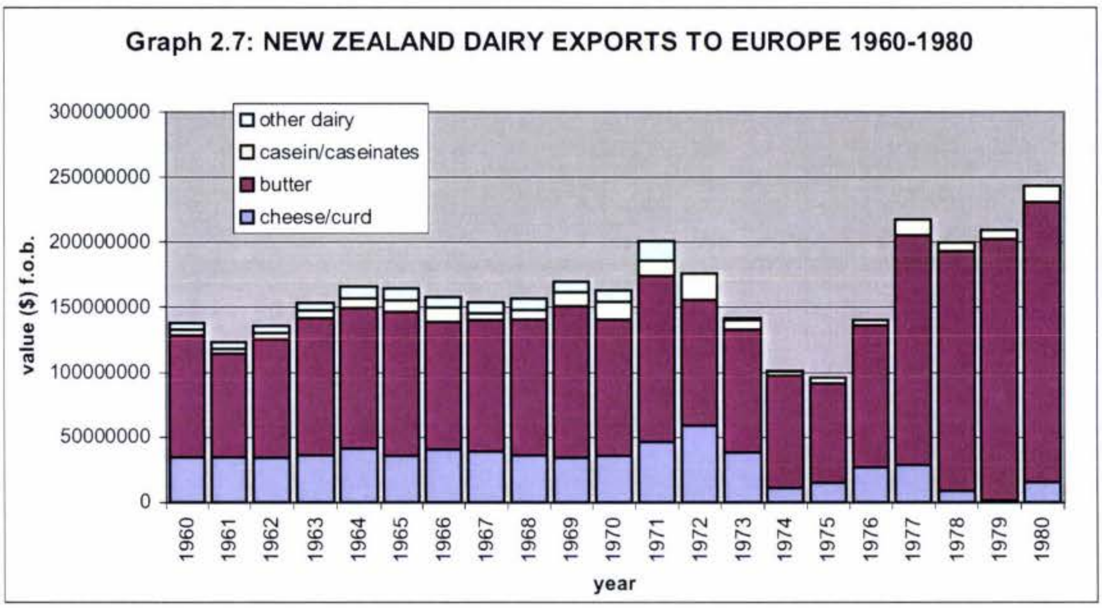
[199] In contrast to European dairy cattle which are housed inside for parts of the year and also supplement fed. Linda Meijer, *How the CAP Increases Input Costs for Dairy Farmers*, Wellington: Ministry of Agriculture and Fisheries, 1996, p.10.
[200] *Dairy Produce: A Review of Production, Trade, Consumption and Prices Relating to Butter, Cheese, Condensed Milk, Milk Powder, Casein, Eggs, Egg Products, and Margarine,* Commonwealth Economic Committee, 1972, p.12, 21.
[201] John Martin, *The Development of Modern Agriculture*, p.140.
[202] See Graph 2.5, page 63.
[203] Commonwealth Secretariat, *Meat and Dairy Products,* 1984, p.4.
[204] McMahon, *European Trade Policy in Agricultural Products*, p.185.
[205] *Dairy Produce,* 1972, pp.21-22,44.

to expand into the 1970s. Increased demand caused cheese prices to rise so much that their returns became greater than that for butter.[206] Consequently, there was some shift in New Zealand's butterfat manufacture in favour of cheese.

Cheese exports also became more important in dairy trade with Europe. Graph 2.7 highlights the growth in revenue from cheese exports from 1970 to 1972. However, a reversal in that trend (and associated reestablishment of butter's importance) is also evident from 1973 when the EEC restrictions took effect.[207]



Technological advances in dairy manufacturing over the 1980s and 1990s led to an attempt to follow the Dairy Board's strategy of maximising returns from butter. New Zealand manufacturers developed a 'spreadable' butter as a rival to its most prominent commodity competition, margarine. The spreadable butter was made from the cream just as standard butter was, but mechanical processes removed the harder fat content, leaving a softer product.[208] It was launched on the United Kingdom market in 1992,

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206 *Reserve Bank Bulletin*, October 1972, pp.270-272; *A Review of Cheese Production, Consumption, and Trade in Some Developed Countries*, Food and Agriculture Organisation (FAO) Commodity Bulletin Series 41, 1966, pp.3-7.
207 Under Protocol 18 cheese exports to Britain were restricted to 68,580 tonnes in 1973 reducing to 15,240 tonnes by 1977. New Zealand Dairy Board, *Annual Report*, 1972, p.9.
208 Denis Welch, 'Ready, Spready, Go', *New Zealand Listener*, 14 February, 1998, p.24; *Dairy Exporter*, December 1996, p.46.

and immediately enjoyed success in sales. Practically all of New Zealand's capacity in spreadable butter manufacture, 5000 tonnes, was soaked up by the British market over the following years, returning payments 40% above the prices of standard New Zealand butter.[209] The effect of this success is reflected in graph 2.5, with average prices received for butter on the British market rising considerably in the early to mid 1990s. Unfortunately for New Zealand, political considerations came to stonewall those efforts. Had this not occurred, the nature of New Zealand dairy and butter manufacture may well have changed quite significantly in response to the returns achieved.

Domestic Policies

Domestic political initiatives also had some effect on the New Zealand Dairy Industry's production and hence, capacity to export. The importance of the industry to New Zealand's export revenue was reflected in the government's continual monitoring of its operations. Through the first half of the period some interventionist policies were implemented which affected the industry's capacity to export butter to Britain and the rest of the world.

New Zealand dairy farmers enjoyed some elements of protection from the Government. The 1936 guaranteed price scheme worked to stabilise farm incomes and was rejuvenated under the 1961 Dairy Board Act by price fixing legislation. This had the objectives of stabilising prices and recognising the 'necessity in the public interest of maintaining the stability and efficiency of the dairy industry'.[210] Prices were reviewed and fixed annually, taking into consideration market prices and prospects.[211] Although the international market therefore influenced these, they did serve as something of a production incentive to the New Zealand farmer because of the cushioning effect on their incomes, and therefore helped to dairy production to stay at steadier levels than might otherwise have been the case.

The 1961 Dairy Board Act also established a system of marketing New Zealand's dairy produce that would survive the rest of the century. It empowered the New

[209] New Zealand Dairy Board, *Annual Report*, 1992, p.10.
[210] *New Zealand Official Yearbook,* 1968, p.575.

Zealand Dairy Board to be the sole exporter of the country's dairy produce.[212] Under this system, the Board acted as agent by acquiring all of the dairy produce intended for export, and selling it overseas through agents, or (more commonly later in the period) through its own subsidiary companies.[213] Until 1988, basic prices for butter and cheese were regulated through the Dairy Industry Reserve Account,[214] but from 1988 changes in government legislation reflected the withdrawl of government involvement in setting those prices.[215] It is perhaps this uniformity of the marketing system that makes the Board's activities in this area appear to have had little impact on trade. Where it is far more visible, is in its promotional and product development activities which will be discussed in the marketing section.

One of the few policies attempting to change the course of New Zealand dairy production over the period was the Dairy-Beef Conversion Scheme. The depressed world dairy markets of the mid-1960s led to policies that aimed to curb the expansion of the national dairy herd, for fear of unsaleable dairy surpluses being created.[216] The result was this scheme, which ran from 1969 to 1972. Within it, a diversification grant of $10 per head of calf that was kept as beef cattle for one year on a dairy farm was paid.[217] The scheme was successful in that it contributed to a rapid decrease of national dairy cattle numbers and milk production. In the first season 160,000 calves were registered to the scheme,[218] and by 1972 there were 400,000.[219] Dairy cattle numbers decreased from 3,793,000 in 1969 to 3,250,000 in 1972 and continued to drop to a low of 2,917,000 in 1977.[220] Although cattle numbers recovered somewhat over the following three decades, it was never to the level of 1969. The scheme's success, however, added weight to its opponents' arguments against it. In 1972

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[211] Marshall, 'Exporting Dairy Produce', *Report of the Export Development Conference*, p.1.
[212] *New Zealand Official Yearbook*, 1985, p.442.
[213] *New Zealand Official Yearbook*, 1985, p.580.
[214] *New Zealand Official Yearbook*, 1985, p.586.
[215] *New Zealand Official Yearbook*, 1990, p.457.
[216] R.D.Muldoon, 'Financial Statement', *AJHR*, 1969, B6, p.6.
[217] R.D.Muldoon, 'Financial Statement', *AJHR*, 1969, B6, p.23.
[218] R.D.Muldoon, 'Financial Statement', *AJHR*, 1970, B6, p.11.
[219] Mr Moyle, *NZPD*, 29 June 1972, p.619. This scheme cost almost $3.5 million from 1970-1973. *New Zealand Official Yearbook*, 1975, p.395.
[220] Russell Reynolds and S SriRamaratnam, 'How Farmers Responded', in Ron Sandrey and Russell Reynolds (eds.), *Farming Without Subsidies: New Zealand's Recent Experience*, Wellington: MAF Policy Services, 1990, p.160; New Zealand Dairy Board, *Dairy Facts and Figures*, 1999/2000, p.6.

opposition Member of Parliament Mr Blanchfield blamed the scheme for making New Zealand unable to take advantage of the resurgence in world dairy markets in the early 1970s, and particularly to meet the high prices, demand, or fill the supply quota, in the British butter market.[221]

The 1978 'Supplementary Minimum Prices' (SMP) scheme presented more support to dairy farmers by working with the Dairy Board's floor prices to protect producers from the effects of world price falls from 1979 to 1981. While dairy cattle numbers and milk product manufacture did grow during that time, SMP payouts were only actually made in 1979.[222] The scheme was seen to be more beneficial to meat than dairy producers.

With the advent of 'Rogernomics' in New Zealand from 1984, reductions of primary producer support were embarked on and SMPs were abandoned.[223] Later, the 1988 Dairy Act Amendment effectively released the government from any responsibility for dairy price support.[224] This made the New Zealand dairy industry possibly the freest trader in dairy products in the world, in stark contrast to their European counterparts.

Fluctuations in New Zealand's butter exports during the 1990s reflected in part their freedom from government price or production supports. Exports were highly susceptible to international price changes, but ironically, political forces in other countries usually influenced those prices. For example, the marked dip in butter exports for 1991 was a reflection of slump in the world market caused by the uncertainty of the former Soviet Union's economy. The Soviet Union was a major recipient of international butter exports, and the downturn in its economy associated with the political upheaval of Eastern Europe impacted greatly on world butter trade. New Zealand found itself in even greater competition with Europe (and the US) [225] to

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[221] Mr Blanchfield, *NZPD*, 16 August 1972, p.1820. However, the scheme was applauded for helping the beef export industry. Hon. D.J. Carter, *NZPD*, 17 August 1972, p.1923.
[222] P.W.J. Clough and F. Isermeyer, *A Study of the Dairy Industries and Policies of West Germany and New Zealand*, Palmerston North: Massey University Centre for Agricultural Policy Studies, Agricultural Policy Paper No.10, April 1985, p.34.
[223] Tyler and Lattimore, 'Assistance to Agriculture', in Sandrey and Reynolds (eds.), *Farming Without Subsidies*, pp.66-67.
[224] *New Zealand Official Yearbook,* 1992, p.282.
[225] New Zealand Dairy Board, *Annual Report,* 1990, pp.8-9.

sell its butter. Europe's reaction of further subsidising its exports and increasing their surplus stocks caused significant declines in the international prices.[226] These were so substantial that New Zealand farmgate prices obtained for milk in the season ended May 1991 were 33% lower than the previous season.[227] New Zealand's total butter exports dropped 41000 tonnes from the year before, with the drop in exports to the United Kingdom accounting for 31000 tonnes.

Such examples show the sensitive nature of world dairy trade, especially in terms of butter,[228] and how they affected the direction of the New Zealand dairy industry. Because of the small amount of total dairy production actually marketed outside of domestic markets, international export volumes and prices have been disproportionately affected by fluctuations in volume and price. These in turn have been affected by domestic trading environments, which themselves are often more influenced by politics than by any other factor. It is to these issues this discussion now turns.

Politics

A 1968 Commonwealth Economic Committee (CEC) bulletin summed up the nature of international dairy trade,

> If international (dairy) trade were simply a matter of commerce, with free interchange of goods under liberal rules, New Zealand would have few difficulties other than those of growth. Milk production in New Zealand could be exploited for the benefit of the New Zealand economy and its trading partners. The fact is however that the trade is dominated by politics.[229]

The EEC's Common Agricultural Policy (CAP) was identified as a major cause of international butter trading difficulties. This impinged not only on the direction of the European dairy industry, but also the EEC's bilateral arrangements with New Zealand and its participation in multilateral activities. Its effects were not alone in putting

[226] New Zealand Dairy Board, *Annual Report,* 1991, pp.9-10.
[227] *New Zealand Official Yearbook,* 1992, p.268.
[228] New Zealand Dairy Board, *Annual Report,* 1990, p.8.

pressure on international butter trading, however. British policies, even outside of the Community, had led to a squeeze on demand for international butter imports. This section will highlight the policies and political activities that affected New Zealand's ability to export butter to Britain and Europe.

Effects of Britain's Domestic Policies and the Common Agricultural Policy

New Zealand politicians in the 1950s had already been aware of the expansion in British production and the implications for New Zealand's export interests.[230] The 1963 New Zealand Export Development Conference noted that,

> So long as the United Kingdom Government system of guarantees and subsidies continues in its present form, irrespective of any changes in Britain's trade relationship with other countries, New Zealand cannot expect to sell increasing quantities of dairy produce in the United Kingdom at remunerative prices.[231]

New Zealand knew that these policies for growth were fuelled by British concerns never to repeat the food deficits endured during the two world wars. Farmer assistance and the promotion of milk production were developed with the aid of a deficiency payment and guaranteed price system.[232] The existing objectives of British agricultural policy therefore did not much alter with its accession to the Community and the Common Agricultural Policy. Rather, its administration changed. The old system was replaced by the CAP's more complicated commodity price support regimes and import levies, which affected the market by raising consumer prices.[233]

British domestic policy directives continued to promote dairy self-sufficiency even after accession.[234] Production rates show the success of these policies. From 1960 to 1972 (the year before British adoption of any CAP policies) annual butter production

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[229] *A Future in Dairy Exports*, CEC Economic Bulletin, No.521, November 1968, p.2.
[230] *NZPD*, 14 June 1957, p.88.
[231] Marshall, 'Exporting Dairy Produce', *Report of the Export Development Conference*, p.3.
[232] Martin, *The Development of Modern Agriculture*, p.133.
[233] Martin, *The Development of Modern Agriculture*, p.133; Kennaway, *New Zealand Foreign Policy*, pp.82-83.
[234] White papers 'Food From Our Own Resources' (1975) and 'Farming and the Nation' (1979) referred to in Commonwealth Secretariat, *Dairy and Meat Products*, 1983, p.31.

rose from 40,235 tonnes to 94,900 tonnes,[235] an increase of 236%.[236] From that time to when production peaked in 1983 at 240,800 tonnes, the increase was 253%. These fairly similar growth rates suggest that regardless of Britain's status in relation to the CAP, domestic politics and production growth may well have limited its import market.

The EEC's dairy industry was also strongly supported within the CAP. In 1980, 42% of the Community's price supports were directed into this area.[237] This was because of two objectives; the protection of domestic markets from dairy imports, and the support of market prices through intervention buying.[238] Those policies impinged greatly on New Zealand's ability to sell butter to the Community, and also affected its ability to find markets elsewhere.

The success of the CAP in promoting dairy production was evident in the huge stocks that built up soon after its implementation. Butter was held in cold stores throughout Europe, the result of voluminous production unchecked by market needs or efficiencies. In 1986 Irish butter stores were claimed to be enough to supply the Irish population for three years, but 80% of Irish milk production continued to be directed into butter manufacture.[239] Surpluses were therefore exported outside the Community to alleviate the problem. Being subsidised, the exports were often priced well below what was perceived as a sustainable market value. The European Community's actions came to control the nature of international butter trade as its share of the international market, often involving these heavily subsidised sales, grew. In 1975 the European Community accounted for 15.8% of butter exported internationally. This burgeoned to 47% in 1978 and further to 63.4% by 1980.[240] The Community's share then decreased to 21% in 1998 while New Zealand's went up to 39%,[241] but the managed Union butter prices still influenced international prices.

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[235] From 40,235 tonnes in 1960 rising, albeit with fluctuations, to 94,900 tonnes in 1972. Statistics from Commonwealth Economic Committee, *Dairy Produce: A Review*, reports used from 1960 to 1974.
[236] This point is illustrated in more depth in graph 2.9, page 91.
[237] Clough and Isermeyer, *A Study of the Dairy Industries*, p.17.
[238] Clough and Isermeyer, *A Study of the Dairy Industries*, p18.
[239] *The Irish Times,* 7 May 1986, MFAT file 123/2/2, vol.73.
[240] *New Zealand and the European Community: The Current Issues*, p.17.
[241] National Dairy Council (Great Britain), *Dairy Facts and Figures*, 2000, pp.256-257.

New Zealand dairy industry analysts have always watched European butter stock levels as indicators of the state of the international market. When these have built up and then been released on world markets, they have directly affected New Zealand exports by driving butter market prices downwards. This was particularly evident in the late 1980s when the effects of the large European stock sales to New Zealand's other major market, the Soviet Union, were felt. International prices plummeted and New Zealand butter stocks increased as its own sales to that region were pushed aside.[242] This led to New Zealand also resorting to low-priced derogation sales to Brazil in the form of 50,000 tonnes of butter oil below the GATT minimum price.[243]

Some optimism was expressed in New Zealand in 1995 when European subsidies had been reduced and stockpiles virtually cleared. Commentators on the international dairy market looked forward to strong future trading.[244] Dairy prices reached unprecedented levels in 1996, but hopes were again dashed when they then fell, driven by the weakness of the US currency against many European currencies. In response to lessened returns, EU subsidies were increased, effecting a drop in the world butter price by US$350-400 per tonne.[245]

The European butter stockpiles indirectly influenced New Zealand's butter exports to Britain by creating a political obstacle to Protocol 18 access negotiations. Within the Community, the British market decline was sometimes blamed for the surpluses,[246] and it was noticed that New Zealand's exports retained a high proportion of the remaining business.[247] Links were therefore often made in the European press between the sizes of stockpiles and volumes of New Zealand butter imports.[248] British and

[242] See graph 2.5, p.63. Comparable sales to USSR referred to in report by Department of Trade and Industry to Colin Moyle and party (in Dublin), November 1987, MFAT file 123/2/2, vol.77.
[243] Letter Brussels to F. Andriesson, 17/10/86, MFAT file 123/2/13, vol.9.
[244] New Zealand Dairy Board, *Annual Report,* 1995, pp.5-6.
[245] *New Zealand Official Yearbook,* 1997, p.444. At the same time the New Zealand dollar's strength against the US currency created declined returns from Europe for New Zealand. New Zealand Dairy Board, *Annual Report,* 1996, p.9.
[246] Food & Drink Manufacturing EDC, *The Dairy Industry: Supply and Demand to 1990,* London: National Economic Development Office, September 1987, p.26.
[247] The Irish were particularly aware of their loss in the British market compared to New Zealand's. Letter Irish MP to New Zealand Embassy, Ireland, 30 January 1986, MFAT file 123/2/2, vol.72.
[248] For example in article by Robert Pelletier (Director of the French Employers Federation) in *Le Monde*, 28 January 1986, MFAT file 123/2/2, vol. 72.

European politicians were sensitive to these allegations, which made New Zealand's diplomatic efforts more difficult.

In an attempt to curb increasing output in the EEC, CAP milk production quotas were introduced in the Community in 1984.[249] This broke the trend of growing annual rates of production, but there were still 920,000 tonnes (nine times that of New Zealand's annual exports there) of butter stocks to be disposed of.[250] The measures were not effective enough, because by 1987 stock levels had reached over one million tonnes.[251] Further efforts at CAP reform were made, but did not change the problem of surpluses in the long term. By the end of the millennium, through the workings of the CAP the EU's production, stock levels, and disposal methods continued to strongly influence international dairy trade.

Access Arrangements

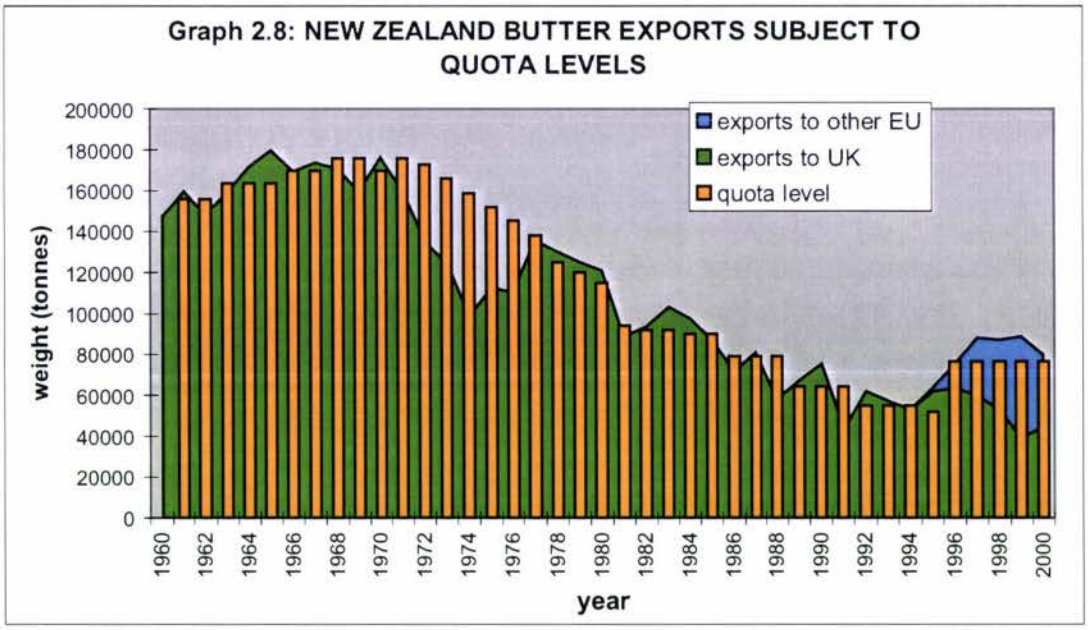
For almost the entire period under investigation, New Zealand's butter exports to Europe were subjected to access restrictions. These were primarily accepted by the New Zealand industry as a necessity for protecting their own traditional pattern of trade. It is feasible that this was indeed the primary outcome of the restrictions, because even four decades later New Zealand butter exports were still firmly rooted in the trade flows to that region.

In the uncertain trading climate of the late 1950s and into the 1960s, New Zealand pressed Britain for import quotas to be imposed so that its own access would be protected. These were imposed in 1961, and reviewed annually. The original quota level for New Zealand butter was 156,000 tons; 40% of the total quota.[252] New Zealand (along with other Commonwealth countries and eventually, Denmark) was for the time being guaranteed a proportionate share of the annual quota,[253] and they remained at similar levels until 1971, when the system was briefly suspended before Britain joined the EEC. Through this decade, New Zealand access to butter markets in

[249] Desmond Dinan, *Ever Closer Union: An Introduction to European Integration*, London: Macmillan Press, 1999, p.340.
[250] New Zealand Dairy Board, *Annual Report*, 1985, p.4.
[251] New Zealand Dairy Board, *Annual Report*, 1987, p.12.
[252] New Zealand Dairy Products and Marketing Board, *Annual Report*, year ending 31 May 1962, p.22.
[253] Commonwealth Economic Committee, *Dairy Produce: A Review*, 1966, p.117.

the wider EEC was minimal, and virtually non-existent following the implementation of the CAP.

Butter was the only New Zealand commodity to receive major concessions to retain a place in the British market. These were embodied in Protocol 18 of Britain's accession agreement. It allowed for 'transitional' quota arrangements for New Zealand butter into Britain alone, which decreased over the following four years. The original limit was 165,811 tonnes, and was set to decrease annually to 138,176 tonnes in 1977. Special levies were also imposed on the imports.[254] Through further extensive diplomatic action, often fraught with complications, the 'transitional' period managed to last, albeit with continuing reductions in the limits imposed, for the following twenty-two years.



Graph 2.8 illustrates actual exports in relation to restrictions imposed. These illustrate the principle of 'degressivity', or decreasing access limits, followed by the Europeans. For much of the period, they appear to have exerted quite a restraining influence on New Zealand's exports to Britain, because actual export volumes generally followed those limit changes. There was, however, a sustained shortfall in

[254] New Zealand Dairy Board, *Annual Report*, year ended 31 May 1972, p.9.

New Zealand's ability to meet the quota from 1971 to 1976. Some of the domestic factors affecting this have already been covered, but details of the access agreement also contributed to it.

British butter consumption actually increased quite considerably over the same period. In Britain a consumer subsidy was implemented immediately following its accession to the EEC and this led to a fall in butter prices. This coincided with a rise in margarine prices, which brought quite dramatic short-term increases in butter consumption (see Graph 2.9, page 91).[255] New Zealand failed to meet the expanded market, which was quickly taken up by a flood of imports from Britain's new Community co-members. They were able to do this because their prices had become competitive with New Zealand's in the wake of rapid inflation. New Zealand's butter prices had been fixed at the average for 1969-1972 and were too low for exporters to enable worthwhile returns to New Zealand farmers.[256] At the same time a special levy imposed on butter imports to the EEC made their prices high on the British retail market. This levy was to dominate New Zealand's diplomatic work in Europe for the rest of the decade. Some concessions were achieved in 1974 as a result of visits by Joe Walding, and the 1975 Dublin Summit,[257] after which there was quite an improvement in New Zealand's export volumes, but pricing remained a matter of contention.

The Dublin Declaration observed that price adjustments in the framework of Protocol 18 had been arranged and would be ongoing according to market fluctuations. The viability of New Zealand's butter export depended on this. The Declaration's final paragraph expressed a desire for closer cooperation between New Zealand and the Community to provide order in the international dairy market. This was the confirmation of Article Four of Protocol 18, and also led the way for the creation of the International Dairy Arrangement through GATT in 1978. Most importantly in terms of access, the Declaration promised to review New Zealand's position to allow for butter access after 1977. This led the way for a series of access negotiations that ensued over the following two decades. The result was that despite

[255] Commonwealth Secretariat, *Dairy and Meat Products*, February 1975, p.104.
[256] McMahon, *European Trade Policy*, p.183.

volume declines, New Zealand continued to retain an important place in the British market.

Writing in 1972, Richard Kennaway observed that the provision for European agreement for New Zealand access, which required unanimous decisions to be made in the European Council of Agricultural Ministers, might cause problems for agreement.[258] These fears were somewhat realised. Internal political agendas sometimes got in the way of full agreement, because member states used their power of veto as a political tool for member states to have their voice heard on other topics. As noted in the previous chapter, Greece was one that exercised this prerogative in 1989.[259] Finalisation of New Zealand access agreements were consequently often prolonged and dragged out. This sometimes led to interim monthly rollovers until more concrete commitments were made,[260] which created some export insecurity for the New Zealand dairy industry over the 1980s.

The European Community countries had differing views about New Zealand's access under Protocol 18. Denmark accepted New Zealand's right to access but did not see it as an unqualified one. It held that New Zealand's access should not disturb the marketing of Community butter and as that market declined in the late 1970s, New Zealand should accept their share of the demand decrease.[261] Any question of decreasing the special levy imposed on New Zealand butter was contested by the Danes who at that time were also experiencing reduced sales. While New Zealand representatives claimed that raising New Zealand's selling price would not solve Denmark's problems, the Danes claimed that the reduced levy gave New Zealand an unfair competitive advantage in the marketplace.[262]

The French and Irish backed the Danes in their moves to put pressure on New Zealand's access.[263] This led the European Council to renegotiate the terms of

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257 George, *An Awkward Partner*, pp.85-88.
258 Kennaway, *New Zealand Foreign Policy 1951-1971*, p.90.
259 See p.47.
260 Brown, 'New Zealand in the World Economy', in Brown (ed.), *New Zealand in World Affairs*, p.27.
261 NZ/EEC: Protocol 18: Special Levies, 11 July 1979, Communication from Brussels Ambassador to Secretary Foreign Affairs, Wellington, National Archives (NA) File 46/9/2, pt.47.
262 NZ/EEC: Protocol 18: Special Levy, 19 July 1979, Telex Brussels to Wellington, NA File 46/9/2, pt.47.
263 Report on Council Meeting, 25 July 1979, Telex Brussels-Wellington, NA File 46/9/2, pt.47.

existing arrangements. As a response to the market decline, it was finally agreed that from 1980 New Zealand's butter quota under Protocol 18 would reduce by 20,000 tonnes, but with a reduction in the special levy payable. This maintained the New Zealand returns on butter exports to the United Kingdom, but did not solve the problem of volume disposal. It would be another three years before New Zealand's butter exports found markets elsewhere to restore them to the same level prior to that reduction (Graph 2.3).

Specific restrictions were also imposed on the nature of New Zealand butter imports. In 1981 the European Commission passed a regulation stating that butter from New Zealand had to be at least six weeks old, of a fat content of no less than 80% but under 82%, and made directly from milk or cream. These were believed to be attempts to make European butter more attractive to European consumers because it was fresher and more flexible in production. The 80-82% requirement meant that (because of production limitations) New Zealand butter could only legally be of a salted variety. This effectively shut it out of the European continent market because of the preference there for unsalted butter.[264]

Some in Europe proposed that squeezing New Zealand out of the European market would in fact be doing it a 'good turn' in that it would force them to seek markets elsewhere. But the international market for butter outside the Community and Eastern Europe was minimal, at only about 200,000 tonnes, and already half-filled by European Community exports.[265]

With all the political pressure against New Zealand access within the European Union, it is remarkable that access was retained at such a significant level through the entire period. Political antagonism towards New Zealand butter was particularly strong in the latter 1980s. Selling off (at very low prices) the European butter stocks was a recurrent politically embarrassing exercise for Community officials, and agricultural pressure groups held nothing back in blaming New Zealand for the state of the Community's problems. British, Irish and French producer groups were

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264 Jonathan Hughes, Fonterra Trade Strategist, Email Communication, 20 December 2002.
265 Dr. Apel, 'Meeting with Minister', 2 April 1980, Telex Wellington to Bonn, NA File 46/9/2 pt.48. In fact, in the mid-1980s New Zealand claimed that almost all of the international market growth was

particularly vocal in their protest against New Zealand products. They claimed that New Zealand exploited the access granted to it to the detriment of European producers.[266] Calls were made for the transitional period to end, and for New Zealand butter quotas to be phased out.[267]

Although New Zealand officials had tried to avoid it, by the late 1980s the issue of sheepmeat access to Europe became intertwined with butter negotiations. The nature of sheepmeat's Voluntary Restraint Agreement (VRA) was quite different to the European's granting of butter access, but these were played off against each other to a certain extent by 1988. New Zealand's agreement to cut back its sheepmeat sendings by 40,000 tonnes was something of a goodwill gesture, which allowed its butter quota to be cut less severely than originally mooted by the Commission. New Zealand's quota under Protocol 18 was decreased to 64,500 tonnes in 1989, with staggered annual reductions to 55,000 tonnes in 1992. While these were quite significant drops, they were more palatable than the 40,000 tonne limit (reducing to zero) called for by some Europeans. A 10% drop in the import levy charged also countered the financial effect of this.[268]

The conclusion of the GATT Uruguay Round agreement was fortuitous for New Zealand's butter trade. In consideration to the rollback commitments made at the outset of the Round, New Zealand was granted a return to pre-Round quota levels of 76,667 tonnes. This would have no set expiry date or obligation to renegotiate. The European Commission also deemed that the quota would geographically expand to allow entry into any Union market, not just Britain's.[269]

Protocol 18 was essentially overridden by the GATT outcome. New Zealand's butter access rights to the European Union were fundamentally changed. These were no longer bound in the Union's permission to the United Kingdom to import New

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was enjoyed by increased European exports. NZ response to *Le Monde* and *Guardian* articles, March 1986, MFAT file 123/2/2, vol.72.

[266] Press release by General Committee for Agricultural Cooperation in the EEC, 'Enough is Enough', 28 March 1988, MFAT file 123/2/2, vol.77.

[267] 'Why New Zealand Butter Quota Should Be Abolished – UK Dairy Trade View', *Agra Europe*, 4 July 1986, E/1-E/3.

[268] *The Dominion*, 12 October 1988, p.1.

[269] 'New Rules on Dairy Trade with EU', *New Zealand Foreign Affairs and Trade Record*, July 1995, p.25.

Zealand butter. New Zealand's 'transitional' period had finally matured. It was now entitled to trade directly with all members. The implications for the development of trade within the quota were very promising. The addition of European markets together with British exports ensured that New Zealand continually met, and even exceeded, the quota limits from 1995 (Graph 2.8).

British/New Zealand relationship

Regardless of New Zealand's success in holding its place in the British butter market, this relationship did not always run altogether smoothly. Political support within Britain for New Zealand's market access in the early part of the period was often based more on tradition, war memories and family or friendship ties than economic imperatives. Such attitudes tended to wane as those with such memories and close ties were less politically prominent. By the end of the period, there was strong evidence that British attitudes to New Zealand butter access were much less accommodating than four decades earlier. The substantial political support in Britain for New Zealand access began to wear thin in the 1980s, and New Zealand diplomats became seekers of opportunities to maintain friendly political, and therefore trading, relations.[270]

The 1986-87 access negotiations took place in a politically fragile environment. New Zealand's anti-nuclear stance did not help relations with Britain or the other Europeans, especially when this expanded to the dramatic *Rainbow Warrior* affair, which led to political and economic tensions between New Zealand and France.[271] Perhaps helped by these political difficulties, within Britain a political campaign was developed by vocal domestic producer boards, demanding the rapid elimination of New Zealand butter from the British market.[272] Their Irish and French counterparts backed these, because they were also active in claiming (through the French and British media) that New Zealand butter was the cause of the EEC butter stocks.[273]

[270] Bryce Harland, Personal Interview, 11 February, 2003.
[271] Davenport, 'New Zealand's Trade With France', pp.16-20.
[272] *Agra Europe*, 27 June 1986, E/1.
[273] *The Guardian*, 16 February 1986; English translation of article in *Le Monde*, 28 January 1986. The article was written by Robert Pelletier, Director of the French Employers Federation. Correspondence, 30 January 1986, MFAT file 123/2/2, vol. 72.

Around the same time New Zealand access negotiators found that they had less support from the British in their approaches to the European Commission to negotiate butter access. British Agriculture Minister John MacGregor, unlike his predecessors, avoided approaching the Commission on New Zealand's behalf. It was now up to New Zealand to represent themselves independently in negotiations for access.[274] The changed nature of these negotiations meant that New Zealand's other European posts outside Britain held important roles for protecting butter interests, even though New Zealand butter did not have access to those markets.

The increased access for butter to Europe, which New Zealand received at the conclusion of the Uruguay Round, gave hope of a new era of butter trade with Europe. However it was not so straightforward, as noted by NZDB Chairman Sir Dryden Spring:

> We could be forgiven for thinking at the time that the old days of haggling over the details of how much product would be permitted to sell, and on what terms, were behind us....We were wrong.[275]

The potential for development of New Zealand's dairy trade had been dampened by the difficulties of selling spreadable butter to Britain and Europe. Its case illustrates New Zealand's continued challenges for butter sales to Europe.

In 1995 New Zealand's enthusiasm for development of its butter market share was dampened by the imposition of extra tariffs on spreadable butter imports. British Customs, backed by the European Commission had deemed that it was not standard butter, using details of the 1981 regulations requiring New Zealand butter to be 'made directly from milk or cream' as evidence. It was claimed that the process of making spreadable butter effectively made it recombined rather than standard butter, and so outside butter quota specifications. The tariff this product was therefore liable for was three times higher than standard butter. This increased its price on the British market from \$1614 per tonne to \$4847 per tonne,[276] and effectively shut it out of the market.

Protracted legal wrangles ensued as the New Zealand Dairy Board pleaded its case with the British Customs Duty and Value Added Tax Tribunal, whose initial decision

[274] Bryce Harland, *On Our Own*, pp.25-26.
[275] 'Global Forces Driving Changes to New Zealand's Dairy Industry', *Dairy Exporter*, March 1997, p.94.

in favour of New Zealand was appealed and later overturned by the European Court of Auditors.[277] In the meantime, the Dairy Board arranged for a Belgian manufacturer to make spreadable butter under licence using European cream. This was, however, a more expensive process, and concluded once a preferential quota rate could be used.[278] This was not possible until 1998, after New Zealand had taken its case to the British High Court and a WTO disputes settlement panel.[279] The Europeans then agreed to allow spreadable butter within the normal butter quota, but the product had lost a lot of its market momentum by the time spreadable butter exports were resumed. Danish and British producers had introduced alternative spreadable butter products.[280] New Zealand's development of its British market had been effectively impeded. The aggressive actions of Britain in this saga showed that its acquiescence with New Zealand access had dwindled.[281]

GATT

The multilateral international environment provided some real opportunities for New Zealand to engage more with the Europeans on butter trade issues. These were both in the area of international market moderation where the two could work as co-exporters, and in providing more scope for dialogue and negotiation as bilateral traders. Both of these areas were made possible by New Zealand and the European Community/Union's membership of GATT.

Because of New Zealand's heavy reliance on income from agricultural exports, it has often been at the forefront of international efforts to free trade in these products. Dairying has been no exception. From early GATT negotiations, New Zealand pressed for reducing governments' involvement in dairy production and trade so that milk products could be traded in a market equilibrium. Both New Zealand and the

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[276] *Dairy Exporter,* December 1996, p.46.

[277] 'European Court of Auditor's Report', Statement by Minister for International Trade, 23 August 1998, *New Zealand Foreign Affairs and Trade Record*, April 1998.

[278] The Belgian manufacturer Cormans had no financial link with the New Zealand Dairy Board. Jonathan Hughes, Email Communication, 20 December 2002.

[279] 'NZDB Wins Spreadable Butter Court Case', *Agra Europe*, 3 July 1998, EP/11-12; 'EU Concedes Defeat Over NZ Spreadable Butter', *Agra Europe*, 11 June 1999, EP/6-7.

[280] Danish co. MD Foods' product mentioned in Hughes communication; New Zealand Dairy Board, *Annual Report,* 1998, p.3; *The Dominion*, 25 April 1997, p.8.

[281] Denis Welch, 'Ready, Spready, Go', *New Zealand Listener,* 14 February 1994, p.24.

European Community's memberships in this agreement meant that their relationship was not confined to a bilateral level. From before 1960 they also interacted in this multilateral sphere. This did not impinge on the bilateral relationship with regard to dairy until the late 1970s, but grew to influence it greatly in the following decade and virtually took it over by the mid 1990s.

Certain features of the original GATT agreement, regardless of the fact that it did not include any significant provisions for agriculture, gave New Zealand some voice in the international dairy forum. It was under its rights from GATT that in 1961 New Zealand was able to call for action against butter dumping in Britain.[282] This led to Britain's first quota system for butter, which protected the quantities New Zealand could export there for the following decade.

There was also some market cooperation between the Community and New Zealand from the start of the period, through the recognition of each other as the world's major butter exporters. Efforts to act in harmony in the international dairy market had dated back to the 1960s.[283] Regular communication was maintained with the view to informing each other of the state of the market.

Despite high hopes placed on the 'Kennedy Round' negotiations in the 1960s, no agreement with regard to dairy products was reached.[284] The expressed aim in Protocol 18 of trying to establish an international dairy agreement,[285] however, evidenced the compliance of the Europeans to establishing market cooperation. Protocol 18 also furthered the idea of cooperation by stating that the Community would not pursue any policies that would hinder New Zealand's efforts to diversify its export markets (away from Britain).[286] This became known as the Non-frustration Clause and was used by New Zealand to hold the Europeans to cooperation on the international market. In the 1975 Dublin Declaration the Community heads of

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[282] 'Developments in the Butter Situation Since 1958', *External Affairs Review*, May 1961, p.9; 'Report of the Department of Agriculture, year ending 31 March 1961', *AJHR*, 1962, H29, p.20.
[283] MERT Dairy Cooperation paper for European Commission, 'Origins and Experience of the NZ/EC Dairy Cooperation', 15 March 1990, MFAT file 123/2/13, vol.14.
[284] Thomas W. Zeiler, 'Commanding the Middle: The American Agenda at the Kennedy Round', *Australian Economic History Review*, Vol. 41, No. 3, November 2001, pp.308-324; W.D. Rose, *New Zealand, Britain and the E.E.C.*, Discussion Paper No. 12, New Zealand Institute of Economic Research (Inc.), 1967, pp. 10-11.
[285] Article 4, Protocol 18, New Zealand Dairy Board, *Annual Report*, year ending 31 May 1972, p.9.
[286] Article 5(b), Protocol 18, New Zealand Dairy Board, *Annual Report*, year ending 31 May 1972, p.9.

government expressed the wish that 'an even closer cooperation develop between the institutions of the Community and the New Zealand authorities' on international dairy market questions.[287] The agreement of both New Zealand and the EEC to the GATT International Dairy Agreement (IDA) as a result of the GATT Tokyo Round in 1979 created an added, multilateral, forum for the maintenance of this collaboration.

The IDA formed the International Dairy Products Council (IDC). There were 14 signatories to the IDA, including New Zealand, the EEC, Australia, the US, and the Nordic countries.[288] The body was empowered to fix minimum international dairy product prices, which would be a core function.[289] New Zealand also saw its membership on the Council as providing a foundation for pursuing its dairy trading concerns by using meetings as a forum for market intelligence, multilateral information sharing and discussions as well as providing an opportunity to formally extend its cooperative relationship with Europe.[290] It had received some concessions for its cheese access to Europe from the GATT agreement, but for butter its main hope was to protect its own export revenue by keeping the minimum prices at a realistic level.[291]

The secondary functions of the IDC involved keeping other members informed of major aspects of each other's export trade. Under the IDA, parties were held to keeping butter prices above the agreed minimum price level, which was determined at quarterly protocol committee meetings. Permission to sell below the GATT minimum price had to be granted by the committee in the form of set derogation sales. These were notified to all IDA participants. During the 1980s, when production peaks in the European Community led to large butter surpluses, these were mainly defused by derogation sales of approximately 940,000 tonnes to the Soviet Union.[292] Despite the negative impact this had on the international butter market, it was at least seen to be keep the Community's actions in check by managing sales and removing the element

[287] 'Origins and Experience of the NZ/EC Dairy Cooperation', MFAT file 123/2/13, vol.14.
[288] Telex Geneva to Wellington, 12 June 1980, NA file T74/9/2, Vol.18
[289] *NZ Official Yearbook*, 1981, pp.529-530.
[290] Telex Geneva to Wellington, 12 June 1980, NA file T74/9/2, Vol.18.
[291] Telex Wellington to Geneva, 30 June 1980, NA file T74/9/2, Vol.18.
[292] In 1984-1988 the EEC sold an estimated 940,000 tonnes of butter to USSR under special disposal arrangements at prices below the GATT minimum. 'Origins and Experience of the NZ/EC Dairy Cooperation', MFAT file 123/2/13, vol.14.

of surprise for other exporters. New Zealand also used this forum to resolve its own stockpile problems by gaining permission for derogation sales of butter oil to Brazil in 1986.[293]

As New Zealand also suffered a buildup of butter stocks through the same difficult period, it sought to share suggestions for solutions to international surplus problems within the scope of the IDA. In 1986 a joint-venture disposal scheme initiative was put forward by New Zealand to the European Commission at visits for access talks.[294] The Dairy Board proposed that New Zealand, the European Community and Australia create a venture to dispose of butter stocks (as butter oil) through the international vegetable oil market.[295] Although it was eventually ruled out by the Europeans for practical reasons, they did express their appreciation of the spirit and ideas behind the proposal.[296]

Soon afterward, the New Zealand Liquid Fuels Management Group suggested transforming European butter stocks to diesel fuel by an esterfication process they had developed. The attraction of this was that the surplus butter would be taken out of the food market entirely, leaving none of the political implications of other disposal efforts.[297] New Zealand officials supported the Group in its initial advances to the Commission. The plan went to the experimentation phase, but was found to pay less for the butter than could be gained from derogation sales, so did not meet the success initially hoped for. Despite this, it did help the spirit of cooperation to solve the international butter problem.

The GATT Uruguay Round led to a new phase in the New Zealand/European butter trade relationship. New Zealand entered this as a member of the Cairns Group, a position that often saw it at odds with the Community in the multilateral negotiations. From the outset, however, the agreement in principle to the Cairns Group's proposed 'standstill principle' led New Zealand to feel more secure about its access negotiations

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[293] Letter Brussels to F.Andriesson, 17 October 1986, MFAT file 123/3/13, vol.19.

[294] 'New Zealand Seeks Joint Venture Approach to Butter Market', *Agra Europe,* 25 April 1986, p.N/6.

[295] This was not anticipated to disrupt the orderly operation of the fats and oils market. New Zealand Dairy Board, Joint Venture Proposal, 30 April 1986, MFAT file 123/2/2, vol.73.

[296] Letter on behalf of Mr Andriesson to J.T. Graham (NZDB), 2 July 1986, MFAT file 123/2/13, vol.9.

[297] Submission to Minister Foreign Affairs, 30 September 1986, MFAT file 123/2/2, vol. 75.

with Europe for butter in the late 1980s.[298] This principle stated that during the course of the Uruguay Round participants would not decrease access arrangements. While it did not stop this happening, with New Zealand's quotas being reduced during the course of the Round, it may have stopped any possible cessation of access. Regardless, the final GATT arrangements made in 1993 honoured the standstill principle's associated rollback commitment[299] so that a retrospective account of access levels at the time of the 1986 agreement was made, and subsequent lost access was returned to New Zealand.

Dairy Cooperation endured a fragile period during the GATT Uruguay Round negotiations. The Europeans were vague about the details of derogation sales made to the former Soviet Union in the early 1990s.[300] New Zealand observers chose to be more flexible about keeping the Europeans to their IDA obligations, so as not to hinder progress towards a Uruguay Round resolution.[301] They were also reluctant to be too forthright in pushing for minimum price rises in the IDA meetings, as it was feared this might lead to arguments and an undermining of confidence in that system.[302] Regardless, New Zealand gained a successful result in the outcome of the round, and the IDA remained somewhat intact.

As the most liberalised agricultural trading nation in the world, New Zealand was possibly the biggest winner at the conclusion of the Uruguay Round. Its butter access to Europe was fundamentally changed by the broadening of access to the entire Community, and increased to the level of 76,667 tonnes. [303] As Graphs 2.4 and 2.8 show, New Zealand took advantage this. It served to grant some respite from the decades of political and diplomatic efforts to maintain New Zealand's butter trade with Britain and Europe.

This signalled a change in the nature of New Zealand's bilateral interactions with the European Community. As the pressure of negotiating access agreements was

[298] MERT, June 1988, MFAT file 123/2/1, vol.15.
[299] MERT report 'New Zealand and the Uruguay Round', October 1987, MFAT file 123/2/2, vol. 77.
[300] Communication Wellington to Brussels, 9 August 1991, MFAT file 123/2/13, vol.16.
[301] Communication Wellington to London, 29 October 1992, MFAT file 123/2/13, vol.17.
[302] Communication Geneva to Wellington, 12 March 1993, MFAT file 123/2/3, vol.48.
[303] 'New Rules on Dairy Trade with the European Union', *New Zealand Foreign Affairs and Trade Record*, July 1995, p.25-26.

lifted, a marked change in the diplomatic atmosphere was noticed at bilateral talks. Access negotiations became agricultural consultations. New Zealand officials observed that 'New Zealand no longer needs to approach the Commission in the same suppliant way we have in the past, and this is noted (by them)'.[304]

Although Joseph A. McMahon could be right that the IDA was not successful in the total realisation of its objectives,[305] from New Zealand's point of view it was not an ineffective arrangement. The minimum price agreements protected New Zealand's dairy industry from sinking into an income abyss during the mid-1980s. The consultation processes established by those party to the arrangement also provided an important environment for cooperative attempts to solve dairy surpluses. New Zealand's relationship with the Europeans benefitted from this new angle of communication, and it showed in other areas of access discussions.

The agreement establishing the World Trade Organisation included a new International Dairy Agreement, which was to supersede its 1979 counterpart.[306] Not all the original members readily took this up, however. The Australians in particular were reluctant to sign, claiming dissatisfaction with the setting of minimum prices. New Zealand felt that if Australia withdrew, formal cooperation such as that under the IDA would be impossible and they would also have to withdraw. They were reluctant to see the demise of the arrangement, however, as it was seen as an important component of New Zealand/European dairy cooperation. One official noted that they would 'judge that, the IDA, warts and all, has been an important component in New Zealand/EU dairy cooperation.' Along with that, they also felt that until agricultural subsidies were wiped an element of dairy cooperation would be necessary for market monitoring and as a disciplinary influence.[307]

In the end, New Zealand and the European Union both signed the new International Dairy Agreement along with eight other countries, but not Australia.[308] This lack of

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[304] Report on New Zealand/European Union Agricultural Consultations and Ancilliary Meetings, 7 November 1994, MFAT file 123/2/13, vol.19.
[305] McMahon, *New Zealand and the Common Agricultural Policy*, p.20.
[306] Annex 4c to the World Trade Organisation Agreement, 15 April 1994, http://www.wto.org./english/docs_e/legal_e/legal_e.htm, accessed 28 February 2004.
[307] Communication Brussels-Wellington, 20 June 1994, MFAT file 123/2/13, vol.19.
[308] The other signatories were Argentina, Bulgaria, Chad, Japan, Norway, Romania, Switzerland and Uruguay. 'Signatories Terminate WTO Plurilateral Agreements on Meat and Dairy Products', WTO

full international involvement led to its demise as the New Zealanders had feared. By October 1997 the governing council agreed to terminate the agreement, citing the non-participation of some leading dairy exporting countries as the reason.[309] Price minima had already been suspended by mutual agreement of the governing council since October 1995,[310] and the members agreed that market information sharing would be able to continue outside the agreement between national and intergovernmental bodies.[311] Certainly, the New Zealand Dairy Board was by this stage taking a significant role in facilitating the trading relationship with the European Commission, which provided an environment for dialogue to continue outside of the formal agreement structure.

Despite the frequent difficulties in New Zealand's relationship with Europe in regard to butter between 1960 and 2000, there was a surprisingly large element of cooperation involved as well, especially in the multilateral environment. Cooperation did develop through the IDA forum, and the more direct regular engagement seems to have helped New Zealand's relationship with the European Commission by softening attitudes to its own access to the British market through the difficult mid -1980s period for international dairy trade.

Marketing

This section will consider how New Zealand was placed in the British and European butter markets. Although few overt marketing strategies are obvious in this, it is clear that New Zealand butter maintained a strong foothold in the British market, one which with the liberalisation of access from the 1990s allowed for quick expansion into the previously impenetrable markets of the EU.

Press Release, 30 September 1997, http://www.wto.org/english/news_e/pres97_e/pr78_e.htm, accessed 28 February 2004.

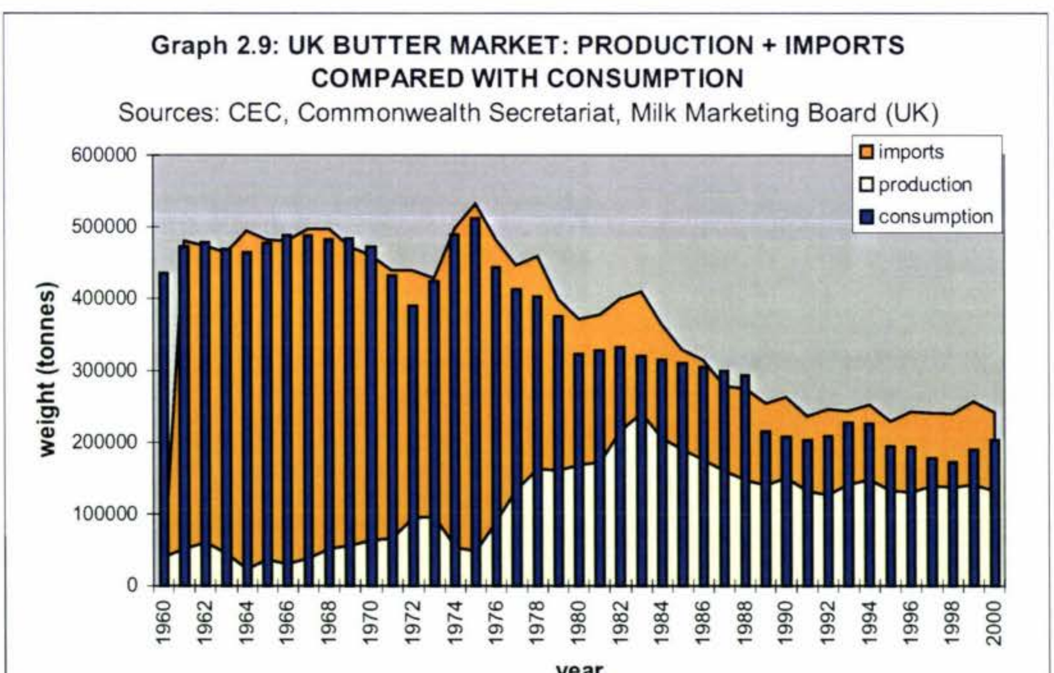
309 'Signatories Terminate WTO Plurilateral Agreements on Meat and Dairy Products'.

310 'WTO Dairy Council Suspends Minimum Export Prices for all Dairy Products', WTO Press Release 18 October 1995; http://www.wto.org/english/news_e/pres95_e/pr026_e.htm, accessed 28 February 2004.

New Zealand's place in the British market

The intricate political manoeuvrings, in the negotiations for Britain's accession and thereafter, shaped New Zealand's butter trade with Europe for a quarter of a century. Access did not guarantee sales, however. While the politics were played out, New Zealand butter continued to sell in Britain. This could not have been possible without the arrangements, but nor could the arrangements have been pursued had demand for the product not been apparent. This section will outline the trends in the British butter market and New Zealand's remarkable success in retaining a place in it.

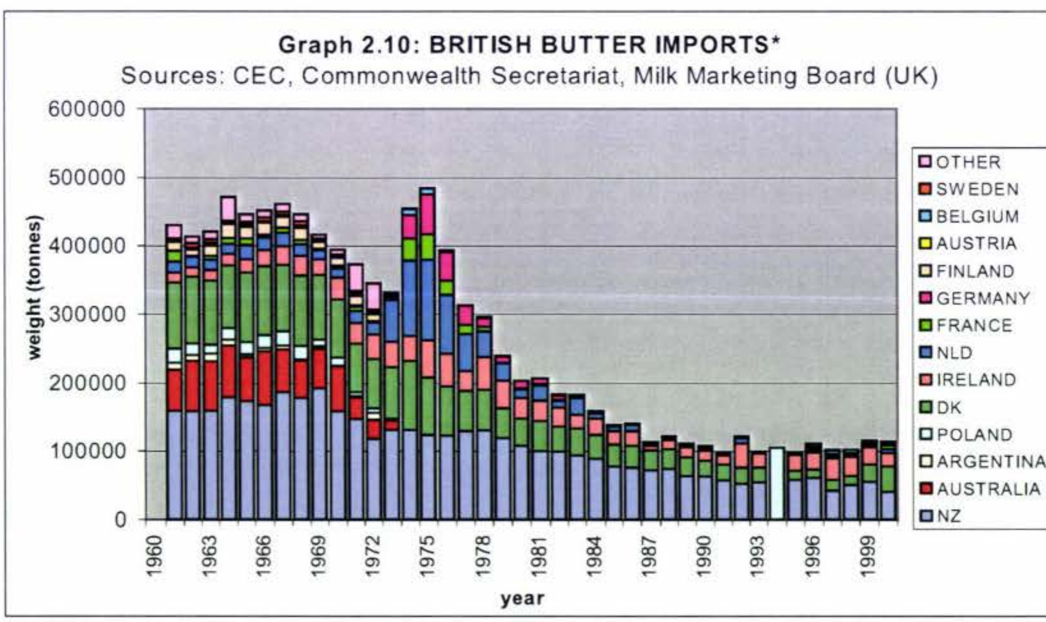
The British butter market shrank over the period. This was the result of a general trend of decline in consumption. Whereas British consumers annually bought almost 500,000 tonnes of butter during the 1960s, by the late 1990s the volume had reduced to approximately 200,000 tonnes per year, as illustrated in Graph 2.9. The most significant initial cause was the rapid increase in butter prices to consumers once the EEC price support system was adopted by the United Kingdom. A marked dip in



[311] 'Signatories Terminate WTO Plurilateral Agreements'.

consumption is apparent from 1971 to 1973, which may be related to this.[312] The longer term declining trend was a reflection of changing consumer attitudes along with lifestyle choices in eating habits, as well as intense competition from butter substitutes such as margarine, which offered increasingly sophisticated alternatives.[313]

While butter consumption decreased considerably, domestic production tripled in the same period. This is also illustrated in Graph 2.9. As can be seen, the market for imported butter was considerably squeezed, particularly as production rose as dramatically as consumption declined through the late 1970s and early 1980s. British butter production appears to have levelled off soon after the imposition of milk production in the EEC quotas in 1984, indicating that these internal attempts at regulation were somewhat successful. Regardless, the market for imported butter in Britain was a fraction of its former size through the 1980s and 1990s.



* figures for 1960 unavailable; for 1994 are full total only, not broken down by countries of origin

Graph 2.10 illustrates the decline of these import volumes. It also shows that New Zealand actually fared quite well, retaining a fairly stable proportion of the import market. Total butter imports to Britain dropped almost proportionately with the New

[312] 'EEC Dairy Trade Challenges New Zealand's Import Role', *Agra Europe,* 27 June 1986, E/1.

Zealand's decrease, contradicting the idea that trade has been lost to other European Union countries. In fact, as the graph shows, New Zealand imports began to take preference over European products by the late 1980s, and by 2000 were commanding a 60% share of the British market for imported butter, a far greater proportion than in the 1960s.

Ironically, by the 1990s Britain had shed its position as dominant importer of the world's butter. It also had become a significant exporter of butter within the European Union. By 1996 it was a net exporter to Belgium, France, Germany, Italy and the Netherlands. Of its fellow Union members, only Denmark and Ireland remained as net exporters of any significance to Britain.[314] Britain was still the net importer of European butter, but only by 8,565 tonnes.[315] Exporting almost 40,000 tonnes of butter to other Union countries annually,[316] it was now a competitor to New Zealand for other Union markets. This made New Zealand's retained position within Britain's domestic market all the more remarkable.

Some of this success in retaining New Zealand's share of the British butter market can be explained by its strong market position. New Zealand's right of access to the British butter market did not guarantee it sales, but these were nevertheless maintained. New Zealand butter was marketed under many different labels in Britain, but the most prominent of these was the *Anchor* brand. This was identified as the largest selling brand in 1962,[317] and was still considered so thirty years later.[318] Fluctuations in pricing, especially in the early years of Britain's Community membership, proved that there was a measure of elasticity of demand related to the price of New Zealand butter in the market. Sales dropped as prices rose.[319] Nevertheless, the *Anchor* brand did enjoy consumer loyalty and a strong position in

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313 Commonwealth Secretariat, *Meat and Dairy Products*, November 1988, p.4.

314 Although Finland in 1996 and Finland and Austria in 1999 were minor net exporters. *Dairy Facts and Figures*, 1997, p.131; *Dairy Facts and Figures*, 2000, p.147.

315 *Dairy Facts and Figures*, 1997, p.131, Table 85b.

316 1996 intra-EU exports 37,494 tonnes, *Dairy Facts and Figures*, 1997, p.126, Table 83b; 1999 intra-EU exports 38,805 tonnes; *Dairy Facts and Figures*, 2000, p.140, Table 91b.

317 New Zealand Dairy Production and Marketing Board, *Annual Report*, year ended 31 May 1962, p.22.

318 New Zealand Dairy Board, *Annual Report*, 1992, p.15.

Britain. The New Zealand Dairy Board was also the largest single contributor to the British Butter Information Council, which worked to promote butter consumption, and also saw its own extensive *Anchor* advertising campaigns as promoting general butter consumption.[320] This position appears to also have strongly contributed to New Zealand butter maintaining its prominence in the British market.

Taking advantage of technological innovation to add value to dairy products, and therefore maximise trade returns, became more and more of a priority for the New Zealand Dairy Board, especially into the 1990s. As summed up in a Dairy Board report in 1996;

> It is accepted that in the international dairy market there will be fluctuations in commodity prices over time. The added-value strategies that drive the Board's business plan have the dual objective of increasing the unit value of every litre of milk the industry produces and providing a measure of security against the negative effects of commodity price swings.[321]

This strategy was clear in New Zealand's attempts to sell 'spreadable' butter in the British market in the 1990s. This was briefly a marketing coup for New Zealand. Politics, however, got in the way of the early expansion of this.

Despite the problems endured over the period, Protocol 18 appears to have protected New Zealand's butter interests through to the 1990s surprisingly well. The strength of New Zealand's position within that marketplace enabled it to capitalise on the access it was allowed, and maintain its place, especially as access to the other countries in the Union was made possible.

Exports to the Wider European Union

Trade in butter with countries of the Union other than Britain was for most of the period very minor. Until the 1990s volumes of any significance were only sent in temporary spurts. This shows how effective both the European Economic Community

319 New Zealand High Commission London memo, 3 December 1990, MFAT file 123/2/2, vol.83.
320 MERT report 'New Zealand Butter in the United Kingdom market', September 1987, MFAT file 123/2/2, vol.76.
321 New Zealand Dairy Board, *Annual Report*, 1996, p.9.

and the European Free Trade Area were in shutting out New Zealand butter imports. The dramatic turnaround of this pattern from the mid 1990s shows how the opportunities opened up for the New Zealand dairy industry from the GATT Uruguay Round arrangements.

In the first few years of the 1960s New Zealand exported significant amounts of butter to Germany. This was facilitated by the 1959 New Zealand/German Trade Agreement. While it did not endow New Zealand with specific butter quotas into Germany, it did reserve its right to compete for them when the German government decided to import.[322] From the late 1950s to 1964, the quantities exported there were fairly large, peaking at almost 3000 tons in 1964. However, thereafter (and seemingly in line with the development of the CAP and reduction of import barriers within the Community) butter exports dropped off, totalling no more than 500 tonnes to the entire Community (other than Britain) in any given year for the following three decades.

Countries which joined the Union after Britain were equally inaccessible to New Zealand butter exports. The European Free Trade Area (EFTA), to which most had prior membership,[323] appeared to be equally as effective in shutting out New Zealand butter. This came into effect on 1 July 1960 as an arrangement made between Britain, Austria, Denmark, Norway, Portugal, Sweden and Switzerland, essentially as an alternative to the EEC formation. New Zealand was less concerned about its significance for primary-product exporters because of the specific exclusion of an agricultural arrangement within the group.[324] However, there were concerns that future trade development might be limited by special agricultural arrangements between members. Denmark, one of New Zealand's main rivals on the international dairy market, specifically made arrangements with Britain, Austria and Switzerland allowing it some dairy provisions.[325] EFTA, except for Britain, was even less open to New Zealand butter exports than the feared EEC. Portugal's markets opened to New

[322] 'Report of the Department of Industries and Commerce', *AJHR,* 1959, H44, p.39.
[323] Spain, Greece and Finland were the only ones that were never EFTA members, although Finland had an association agreement from 1961, Hans Swedberg, 'EFTA and Trade Policy in the 1980s', in European Free Trade Association, *EFTA at a Crossroads*, Geneva: EFTA, October 1980, p.60.
[324] Report of the Department of Industries and Commerce, *AJHR*, 1961, H44, p.53.

Zealand butter exports in 1976 and 1977, when about 5,000 tons of New Zealand butter was exported, but these shipments dropped away again thereafter. Other exports to these countries over the four decades were otherwise insignificant.

An agricultural market strategy study sponsored by the New Zealand Planning Council in 1984 noted that '(W)hereas the longer-term projections for beef and sheepmeats ... show a strong net demand situation emerging, the outlook for milk is one of continuing oversupply and pressure on international markets through the next 15 years to the end of the century'.[326] Much of this oversupply, as already shown, had since the 1960s originated from the EC.[327] New Zealand exporters were focused in maintaining access to Britain and finding markets to counter the Community's international dominance. Development efforts were therefore directed more outside the Community than within it. Into the next decade, however, some opportunities were found and acted upon.

It wasn't until the early 1990s, with the coming into effect of the Uruguay Round agreement, that butter exports to Europe other than Britain began to grow. From 1991 exports to the Netherlands began to expand, peaking in 1997 at 6,000 tonnes, but dropping away dramatically again after 1998. Exports to Belgium burgeoned over the same years, growing from almost 5,000 tonnes in 1997 to an average around 30,000 tonnes for each of the last three years of the decade. This growth appears to be related to the expansion of New Zealand Dairy Board operations over the decade, which was geared to take advantage of a changing dairy trade environment.

In 1992 the Dairy Board established Milk Product Holdings (Europe) Ltd (MPH) to rationalise the administrative and marketing activities of its holdings in Europe.[328] Through this company initiatives were implemented to take full advantage of the anticipated new opportunities from the GATT Uruguay Round settlement.[329] These

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[325] Report of the Department of Industries and Commerce, *AJHR*, 1960, H44, p.57. Switzerland in particular agreed that Denmark could provide 40% of its butter imports.
[326] Woods, Graham & Rankin, *Towards a Strategy for New Zealand Agriculture*, p.117.
[327] Woods, Graham & Rankin, *Towards a Strategy for New Zealand Agriculture*, p.114.
[328] New Zealand Dairy Board, *Annual Report*, 1995, p.24. These were seven subsidiary companies, of which one company in Malta and one in Egypt were, besides the large British Anchor Foods, geared to package, market and distribute New Zealand butter in that region. New Zealand Dairy Board, *Annual Report*, 1992, p.38.
[329] New Zealand Dairy Board, *Annual Report*, 1995, p.25.

appear to have been paying off by the end of the decade with the dramatic rise in butter exports as evidence. Belgium and the Netherlands were used as distribution points for New Zealand butter and in fact the quantities shown going to their ports were consumed throughout the Union rather than in those particular countries.

The technical restrictions on the definition of allowable New Zealand butter exports to the Union continue to hinder development of New Zealand's share of the consumer market. The consumer preference for butter in Europe is largely for unsalted butter,[330] but the formula for butter content established in 1981 determined that only salted butter could be exported from New Zealand to the Union. New Zealand did broach the subject of relaxing these rules with the European Commission, but to no avail.[331] The on-going wrangle over spreadable butter is evidence that this definition continues to be an important non-tariff import barrier tool for the Union.

New Zealand exporters have worked around these restrictions by directing imports to industrial customers, who will use salted butter, rather than to the consumer market. Most of the butter is therefore sent to pastry, ice cream and processed cheese manufacturers and companies turning butter into pure butterfat for sale to other industrial customers.[332] Regardless, the volumes sold have established a significant place in New Zealand's overall butter exports.

Conclusion

In 1984 a New Zealand Planning Council study noted that,

> the marketing strategy for milk products must take as its starting point the expectation of this much more difficult trading environment, pressure on our established markets and intense – and what may well appear to be unreasonable – competition for new markets.[333]

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[330] Jonathan Hughes, Fonterra Trade Strategist, Email Communication, 20 December 2002.
[331] For example, Sir Dryden Spring, New Zealand Dairy Board Chairman, raised the issue of the definition of butter in talks with European Union Officials in his 1994 visit, but did not receive enough support for change from throughout the Union. Report Brussels to Wellington, 'New Zealand/European Union: Dairy: Visit of NZDB Chairman', 6 May 1994, MFAT file 123/2/13, vol.19.
[332] Jonathan Hughes, Email Communication, 20 December 2002.
[333] Woods, Graham & Rankin, *Towards a Strategy for New Zealand Agriculture,* p.117.

They were acknowledging the highly political nature of international dairy trading, which indeed made developing market strategies highly complex. This was the area which influenced New Zealand's butter exports to Europe the most from 1960 to 2000. Although domestic policy, production, and marketing imperatives attempted to optimise the environment in which butter exports could operate, these were all ultimately at the mercy of how much market access available to them.

For most of the period, New Zealand's butter trade with Britain and that with the rest of the European Union have been quite different. Protocol 18 protected New Zealand's butter exports when Britain joined the EEC, and perhaps more so than might have occurred had Britain remained independent of the EEC. This produced a steady base income for the New Zealand dairy industry throughout the period. Meanwhile, New Zealand's relationship with the rest of the EU with regard to butter has been that of market rivals rather than traders. New Zealand did not for the majority of the period have any significant access to EU markets outside Britain.

Nonetheless, New Zealand and Europe's relationship in butter trading was not only confined by access arrangements to the British market. By the mid 1970s their respective memberships in the GATT International Dairy Arrangement meant that their entire butter trade became intertwined as they became part of an international 'watchdog' over each other's trade. This meant that each other's export flows were closely monitored, especially in terms of pricing. Constant engagement and attempts at cooperation also occurred, which gave New Zealand opportunities to soften the attitudes of the Europeans to its own access by offering suggestions for solutions to ease surplus problems.

Despite arrangements being made at two-yearly or more intervals for butter access, New Zealand diplomats took no reprieve from their constant engagement with European officials in maintaining New Zealand's profile and promote trading ties. The mountains of Foreign Affairs files from the period are testament to New Zealand's diplomatic efforts with all European Union countries in order to maintain New Zealand's trade relations. No sooner was one round of negotiations finalised when strategies were sought for the next. It is this constant diplomatic engagement above all else that ensured New Zealand's success in retaining, and indeed increasing, its proportion of the British butter imports three decades after its place was so severely threatened by Britain's accession to the European Community.

This share has been maintained apparently at the cost of other EU producers. Successive concessions to New Zealand through Protocol 18 ensured this. However, extended access to other European markets enabled by the GATT agreement from 1996 was quickly exploited. By the end of the period New Zealand was enjoying advantageous returns from its butter exports to the EU. It is quite remarkable, then that despite the fact that New Zealand butter exports diversified widely to other countries outside the European Union over the period, New Zealand butter was able to find something of a niche within the domestic markets of its main trading rival.

Regardless, no success was easy or without contention. The spreadable butter issue highlights some important characteristics of New Zealand's butter trade with Europe. New Zealand attempted to optimise its position in the British market through product innovation. Its success led to political resistance, causing yet another battle for market survival. This was not unlike any other of the political patterns of the entire period.

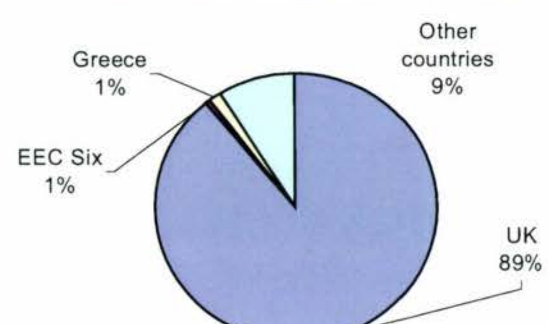
Butter's importance as a dairy trading item in terms of proportional revenue reduced since 1960, but it has sustained a place as an important staple product and export. The patterns of New Zealand dairy production verify butter's importance as a basic production commodity. It appears that the trading relationship with Britain and more latterly, the EU, has made this possible. Outside Europe, New Zealand's butter exports have fluctuated considerably. New Zealand's quota access to Europe has enabled New Zealand to sustain an income from its butter that is relatively high and stable.

Chapter Three
NEW ZEALAND'S SHEEPMEAT EXPORTS TO EUROPE

Sheepmeat is the commodity in this study that had its exports to Europe influenced by the greatest number of factors. Elements of politics, production and marketing all played significant roles in the patterns of its trade that emerged between 1960 and 2000. Despite, or perhaps because, of this sheepmeat exports have been the most successful in developing lucrative returns from the European markets. Some of this can be attributed to clever diplomatic work by New Zealand officials; some to the development of more efficient production and marketing of New Zealand sheepmeat products. Whatever the causes, no progress was lineal. This chapter will show how the forces of production, politics and marketing all worked simultaneously to develop a complex system of trade that despite frequent setbacks, brought sheepmeat export earnings to the fore in New Zealand's trade with Europe by the end of the period.

New Zealand commenced refrigerated shipping in 1882. From the start, the export of sheepmeat to Britain was a priority with a first load of 5000 mutton carcasses.[334] From those relatively small beginnings, New Zealand's sheepmeat exports grew considerably over the following decades. By 1960 New Zealand was annually exporting over 6000 times the original shipment's volume. As shown in Graph 3.1, Britain remained overwhelmingly the primary destination for those exports.

Graph 3.1: DESTINATIONS FOR NEW ZEALAND SHEEPMEAT EXPORTS 1960



[334] Lloyd Prichard, *An Economic History of New Zealand to 1939*, p.163.

Like butter, New Zealand's sheepmeat industry has been exceptional by world standards because it is largely export-driven. In 1970 New Zealand accounted for over 80% of lamb meat entering international trade, and 60% of the world's total sheepmeat exports.[335] This dominance continued to 2002, with the figures only decreasing slightly to 75% and 51% respectively.[336]

New Zealand meat exports were arranged through private companies, but the New Zealand Meat Producers' Board (NZMPB) played a pivotal role in administering them. Under the laws of its establishment in 1922, the Board played the role of regulator of shipments, quality controller, adviser and market promoter.[337] From the 1950s, the latter role was given more and more emphasis, which was reflected in discussions in the 1963 Export Development Conference.

Meat exports featured strongly at the conference. Three background papers were presented this topic, compared with one in most other export areas. Whether this reflected a view of the potential of the meat industry to grow in importance for New Zealand's export revenue, or the influence of its producer board on export development issues, is not clear. Regardless, a wide examination of the meat exporting industry was made, and the potential growth of its products and markets examined closely.

Britain's centrality to New Zealand lamb exports was frequently noted. For example, General Manager of the Gear Meat Company Ltd, Mr L.A. Cameron, observed,

> There is no worldwide demand for lamb at its present price, and our best customer is still the United Kingdom. Fortunately, despite a tremendous increase in New Zealand lamb production over the past eight years, the quantity produced is not in excess of what can be sold there.[338]

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[335] New Zealand Meat Producers' Board, *A Common Sense Approach to the EEC Sheepmeat Market*, London: New Zealand Meat Producers' Board European Headquarters, 1978, p.1.
[336] '$4.1 billion New Zealand Sheepmeat Industry Fills Market Niche', *New Zealand Meat Producer*, Vol.30, No.2, May-June 2002, p.19.
[337] Evans, *A History of Agricultural Production and Marketing in New Zealand*, pp.120-122; J.W. De Gruchy, 'The Role of the Meat Producers' Board', Background Paper One, *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963.
[338] L.A.Cameron, 'Export Problems of the Meat Industry', Background Paper Two, *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963. p.1.

New Zealand Meat Producers' Board General Manager J.W. De Gruchy concurred,

> Our most important export meat product – in value and volume – is lamb. It is bought freely in our most important market – the United Kingdom – on a grade and weight basis, sight unseen. Such is the confidence that has been built up with our very important customer, the British butcher, and the reliance he places on our product and in our standards of grading.[339]

The general manager of international meat export company Thomas Borthwick and Sons, P.T. Norman, however, sounded a word of caution regarding continuing a reliance on the British market alone. He was anxious that the diversification of markets for sheepmeat be pursued, obviously nervous about the implications of another possible British application to join the EEC. He stated; 'Common Market or not, New Zealand in the future must be less dependent on the United Kingdom market'.[340] The EEC markets, however, were not seen as able to be extensively developed in this way anytime in the near future. De Gruchy summed up the attitude of all three by saying the problems facing EEC market development were 'enormous', because, although the member countries were ones that could afford to buy New Zealand lamb, their restrictionist policies against imports of such a product were 'relentlessly applied'.[341] Nevertheless, the Board considered that it was feasible to continue to seek market opportunities within certain European countries. As this chapter will demonstrate, there were eventually some lucrative pay-offs for maintaining such an optimistic and persistent approach.

The other main point made at the conference was the perceived need for product development. While De Gruchy spoke of the need for uniformity of product to satisfy market needs,[342] Cameron identified the need for a more specialised approach to processing meat export products.[343] These aspirations came to be more fully realised

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[339] De Gruchy, 'The Role of the Meat Producers' Board, *Report on the Export Development Conference* p.1.

[340] P.T.Norman, 'The Meat Trade: An International View', Background Paper Three, *Report on the Export Development Conference 1963*, Wellington: Department of Industries and Commerce, 1963. p.4.

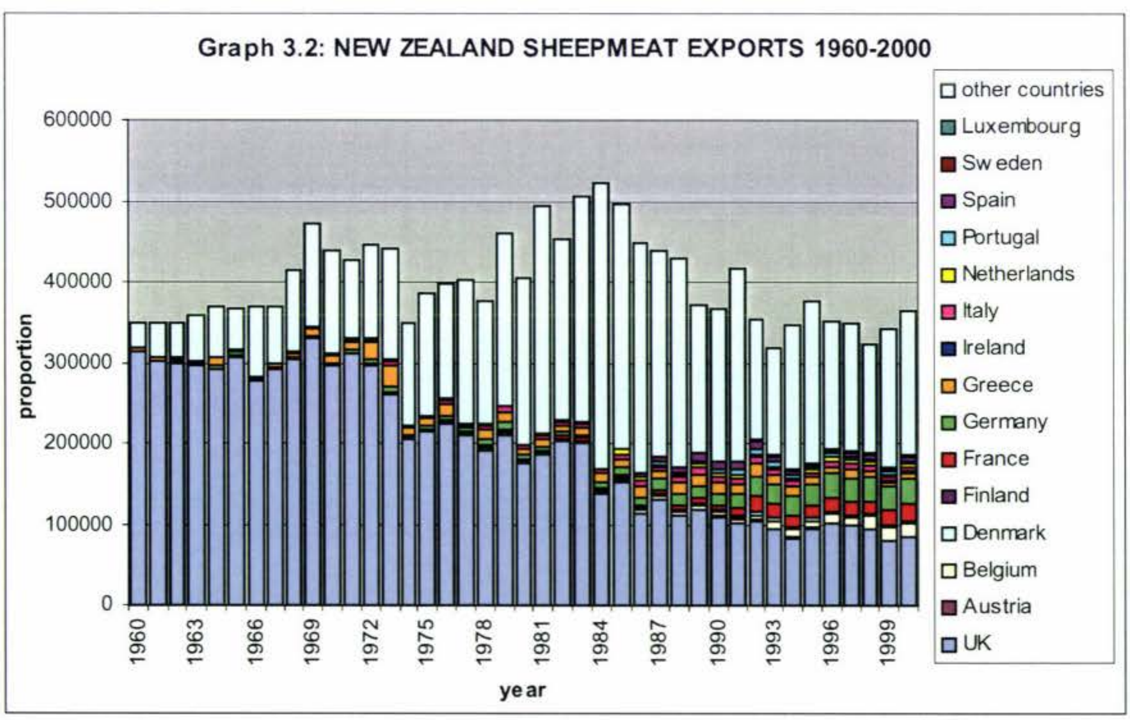
[341] De Gruchy, 'Role of the Meat Producers' Board', *Report on the Export Development Conference,* p.5.

[342] De Gruchy, 'Role of the Meat Producers' Board', *Report on the Export Development Conference,* p.1.

[343] Cameron, 'Export Problems of the Meat Industry', *Report on the Export Development Conference,* p.4.

in subsequent decades with efficiency building, developed marketing and technological innovation in the New Zealand meat export industry over the latter part of the period. Particular advancements appear to correlate with the deregulation of the industry from the early 1980s, which signalled an eventual turn to a more market-oriented approach.

Graph 3.2 illustrates the volumes of New Zealand sheepmeat exported from 1960 to 2000. In 1960 Britain remained clearly New Zealand's most important export market, taking 89% of total sheepmeat exports. Trade with the other European countries was relatively small, making up a meagre 2%. Meat was New Zealand's third largest export to Europe, with sheepmeat making up 80% and grossing NZ£45,894,000. Most was in frozen carcass form. Over the following forty years, the nature of this trade – the volumes, main destinations, and form of the commodity – all changed, but overall, sheepmeat's importance as an earner of European currency has remained remarkably important.



As has already been noted, issues of production and marketing in New Zealand have had as much involvement in shaping meat export patterns as have political issues. The following explanations will start with the consideration of political factors and thereafter consider the effects of domestic production issues. The marketing section will follow on from this, because as will become clear, changes in production policies have led to the developments in this area.

Politics

Although it took longer than butter to become so, sheepmeat also became a political trading pawn between New Zealand and Europe. This became obvious once its production came under the administration of the CAP. This section will show the influence of those internal policies as well as the political measures that were increasingly required to ensure the continuation of trade. Again, the GATT's input will be shown to have provided security and recourse for New Zealand's position in interacting with the Europeans and in preserving its right to trade.

Impact of the British Policies and the Common Agricultural Policy

British sheepmeat production grew after the Second World War, largely as a result of concerted government support policies. By 1960, it was noted by New Zealanders that an increased amount of domestic product available within the British marketplace was apparent, but at this stage there was no real concern that the competition might squeeze New Zealand product out. Chairman of the New Zealand Meat Producers' Board John Ormond, however, had real concerns about the impact that British accession to the EEC might have on New Zealand's ability to export sheepmeat to the British market, should it occur. This, in his opinion, was due wholly to the impact that the Community's developing common agricultural policy would have on agricultural trade. Ormond argued in 1961 that,

> naturally New Zealand is not enamoured of the British subsidy system which is stimulating production there, but we are less unhappy with that and with

> the system of free importation in Britain than we would be if Britain embraced the proposed tariff and quota systems of the EEC.[344]

Indeed, British sheepmeat production had increased, but so too had consumption. At that stage New Zealand exports there continued to rise. Ormond saw that this might change if Britain joined the EEC. For a start, while there was no quantitative Community restriction on New Zealand's sheepmeat exports to that region at the time, a uniform 20% tariff was in place,[345] and was likely to be adopted by the British. European farmers would also gain preferential access to the British market over the New Zealanders. French and Irish sheepmeat could particularly become stiff competition, especially when aided by government support measures, which were already well known within the former country.[346] Finally, established agricultural protectionism within the Community countries in other areas had already led to rises in production of competing protein products such as pork and poultry, which could well lead to less consumption of sheepmeat within the British market.

Despite these concerns, the CAP did not formally start to impinge on sheepmeat production in Europe until the late 1970s. Sheepmeat had no specific provisions within the original policy given that at the time of its development, production in that area was limited in the EEC.[347] Until a specific sheepmeats regime was adopted, the individual countries administered their own national policies on sheepmeat, which reflected the importance (or lack of) sheep farming in their economies. There were consequently large differences in how this was managed from member state to member state, which largely reflected the nature of sheepmeat consumption within those markets. In Britain, lamb was traded as an affordable everyday protein option. By contrast, in France it was a high-priced luxury food item. Consequently, the British maintained low prices for lamb by having a government-directed minimum price scheme (called deficiency payments[348]) for farmers, whereas their French counterparts received their support directly from the consumers, who paid high minimum prices for lamb and lamb products in the marketplace.

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[344] John Ormond, 'E.E.C.', *New Zealand Manufacturer*, Vol.13, No.9, July 1961, pp.92-3.
[345] *New Zealand Herald*, 7 April 1972, Section 1, p.2.
[346] McLuskie, *The Great Debate*, p.170.
[347] 'The European Economic Community', *AJHR*, A21, 1961, p.38.

Until Britain and Ireland (which were active producers, consumers and traders in sheepmeat) joined the EEC, it seems that these differences did not cause any real disruption to the status quo. Shortly after, however, this changed. After accession in 1973, British and Irish meat exporters exploited the opportunities that became available to them by the opening of the French market to them. British and Irish sheepmeat exports to France grew rapidly over the following years, taking advantage of the higher returns available to them in that market. In 1971 they jointly sent 14,245 tonnes there; by 1975 this had more than doubled to 29,505 tonnes.[349] France reacted to this by imposing import restrictions. This led to arguments between the member states, and calls for a uniform Community system. Linked to this were disagreements between France and Britain over levels of British contribution to the Community budget. After intervention by the European Commission, France agreed to lift these restrictions in September 1979, on condition that a common sheepmeat regime be brought in.[350] In the eyes of other members, this needed to be reconciled for the good of the Community's future stability. West Germany's agricultural minister Fr. Ertl, for example, aired his view to New Zealand's Deputy Prime Minister Brian Talboys that a sheepmeats regime was vital to settling disputes between these two countries, as they threatened the stability of the Community as it stood.[351]

The common sheepmeat regime was described by European agricultural publication *Agra Europe* as 'little more than a patchwork of national demands'[352] because of its complicated format, which attempted to meet many of the vying members' wishes. It sought to harmonise prices within the EEC, and establish a single internal sheepmeat market by 1984 under the principles of the CAP. Its main areas of operation were income supplements for farmers, through internal market supports and

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[348] *The World Meat Economy*, Rome: Food and Agriculture Organisation (FAO), 1965, p.49.
[349] *Newsletter on the Common Agricultural Policy: Sheepmeat,* Brussels, Directorate-General for Agriculture, June 1977, Table 3.
[350] P.G. Spackman, New Zealand Meat Producers' Board, 'EEC Sheepmeat Regulations', 17 May 1982, NA File 164/3/31, pt.31.
[351] 'Record of a Meeting Between Deputy Prime Minister B.E. Talboys and the FDR Germany Minister of Agriculture Ertl, Bonn 14 May 1980', 20 May 1980, NA File 46/9/2, pt.48.
[352] 'EEC Sheepmeat Regime to Start October 20', *Agra Europe*, 3 October 1980, P/2.

the regulation of imports into the Community.[353] For the former, a complex system of price fixing, intervention buying, variable premiums and compensatory payments was adopted.[354] The latter involved the negotiation and establishments of the Voluntary Restraint Agreements (VRAs) with third country exporters such as New Zealand. The circumstances surrounding this will be dealt with in the following section, describing access arrangements.

From before the introduction of the sheepmeats regime, New Zealand exporters and officials expressed concerns both publicly within New Zealand and also to the Europeans, that its implementation would upset their export trade. They said the supports would work to shut New Zealand lamb out of the Community markets by artificially stimulating domestic production, and therefore trade within member states. This would cause the European sheepmeat market to depress and further restrict New Zealand's place in it.[355] To some extent, these fears were well founded. Over the first seven years of the regime's operation, EC sheep flocks grew at a rate over four times faster than prior to its implementation.[356] Sheepmeat production increased from 515,000 tonnes in 1976[357] to 751,000 tonnes in 1985. As a result, Community self-sufficiency reached 80% by 1986.[358]

The increase in the availability of domestic product, unparalleled by growth in consumption, led to a depression of European sheepmeat market prices. New Zealand industry officials complained that it was the most disadvantaged by the changes in agricultural policies. This was probably inevitable considering New Zealand was the largest third country supplier of sheepmeat to Europe, and not receiving the same financial supports as their European competitors. In the 1970s it had supplied about one quarter of Europe's sheepmeat consumption. By 1987 that proportion had dropped

[353] 'Mechanisms of the EEC Sheepmeat Regime', in P.W.J. Clough (ed.), *EEC Sheep Industry Perspectives and Implications For New Zealand*, Palmerston North, Centre for Agricultural Policy Studies, March 1982, p.64.
[354] 'Mechanisms of the EEC Sheepmeat Regime', in Clough (ed.), *EEC Sheep Industry Perspectives and Implications*, pp.64-66.
[355] R.D. Muldoon, 'New Zealand and the EC: The Next Ten Years', *New Zealand Foreign Affairs Review*, April-June 1983, p.17.
[356] 'New Zealand Sheepmeat', MERT Briefing Paper, 10 October 1988, MFAT file 123/2/3, vol.42.
[357] *Newsletter on the Common Agricultural Policy: Sheepmeat*, 1977, p.2.
[358] New Zealand High Commission memo to Wellington, 9 October 1987, MFAT file 123/2/3, vol. 39.

to 15%.[359] New Zealand's sheepmeat export levels never threatened to reach anywhere near the VRA limit of 245,500 tonnes, as it struggled to retain its position in the European market.

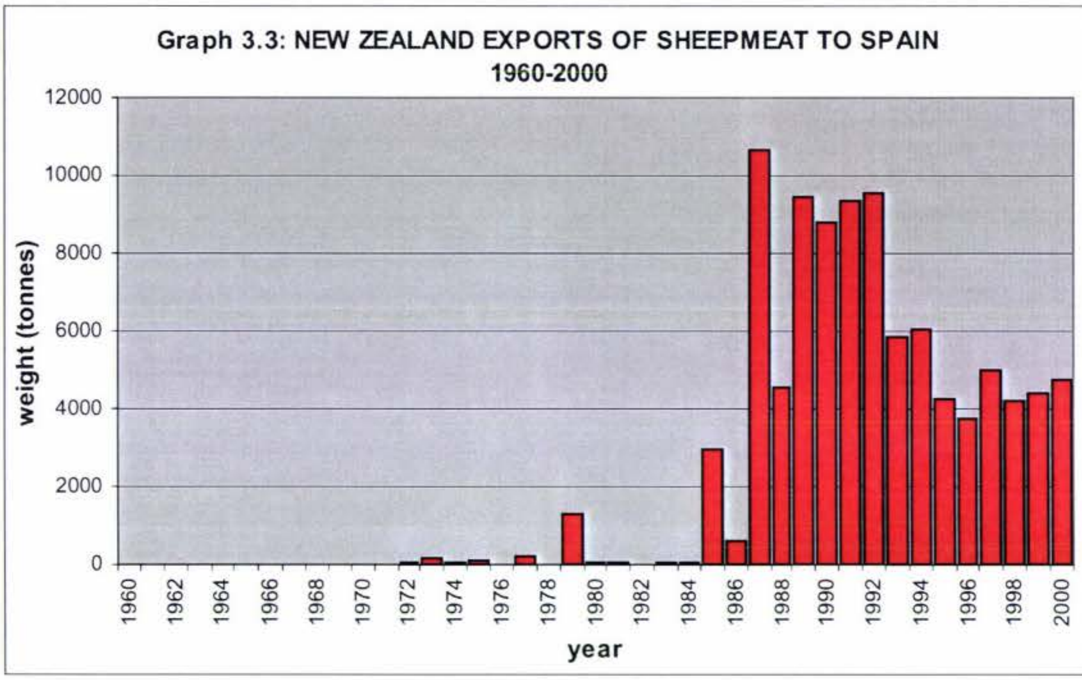
In the early 1990s New Zealand's frozen lamb exports came more directly under threat from the mechanisms of the sheepmeat regime. Frozen lamb, always considered an inferior product to fresh, and therefore sold under a different price structure in the European market, had been largely the domain of imports such as those from New Zealand. However, in the early 1990s an intervention scheme, the Private Storage Aid (PSA) for the cold storage of sheepmeat, was introduced into some regions of the European market. This allowed subsidised domestic meat to be frozen for sale later rather than sold directly in the market as fresh meat. The support prices paid meant that it could be marketed at very low prices, making it directly competitive with frozen New Zealand lamb. It was anticipated that this lamb would be sold in European markets for almost half the price of New Zealand lamb.[360]

Some producers admitted that it was more worthwhile for them to commit stocks to the PSA scheme than to sell them fresh on the market.[361] This competition against New Zealand product was welcomed by some Europeans, particularly the French and Irish. They saw the PSA system as a first real opportunity to compete against frozen New Zealand product and make more regular their own sales patterns, which were usually very seasonal.[362] They did not, however, have as much chance of this as they hoped, as the European Commission directed this support more to smaller producers such as the Spanish than to the British or Irish.[363]

This may be the cause of a significant drop in New Zealand exports to Spain after 1992. Until that time it had appeared as if Spain's accession into the Community (in 1986) had led to increased opportunities for New Zealand to market there. There was a dramatic rise in New Zealand sheepmeat exports there soon after its membership commenced, as is illustrated in Graph 3.3. In this case, membership of the

[359] 'New Zealand Sheepmeat', MERT Briefing Paper, 10 October, 1988, MFAT file 123/2/3, vol.42.
[360] Communication London to Wellington, 3 July 1991, MFAT file 123/2/3, vol.46.
[361] Letter B.E. Brooks to John McGregor esq. , Communication Wellington to Brussels, 3 July 1991, MFAT file 123/2/3, vol.46.
[362] 'Sheepmeat Trade Pressing For Storage Aids', *Agra Europe,* 29 May 1992, M/3.
[363] 'Management Committee Rejects Record Sheepmeat APS Bid', *Agra Europe*, 26 June 1992, M/4.

Community promoted New Zealand's export opportunities rather than hindered them. The growth was reversed after 1992, however. The decline that had occurred in New Zealand exports over the 1990s was similar to the reduction in total Spanish imports.[364] This may well have been caused by the PSA interventions, which helped to protect the Spanish producers' interests in their domestic market. By 1997 Spain, in fact, became a net exporter of sheepmeat.[365]

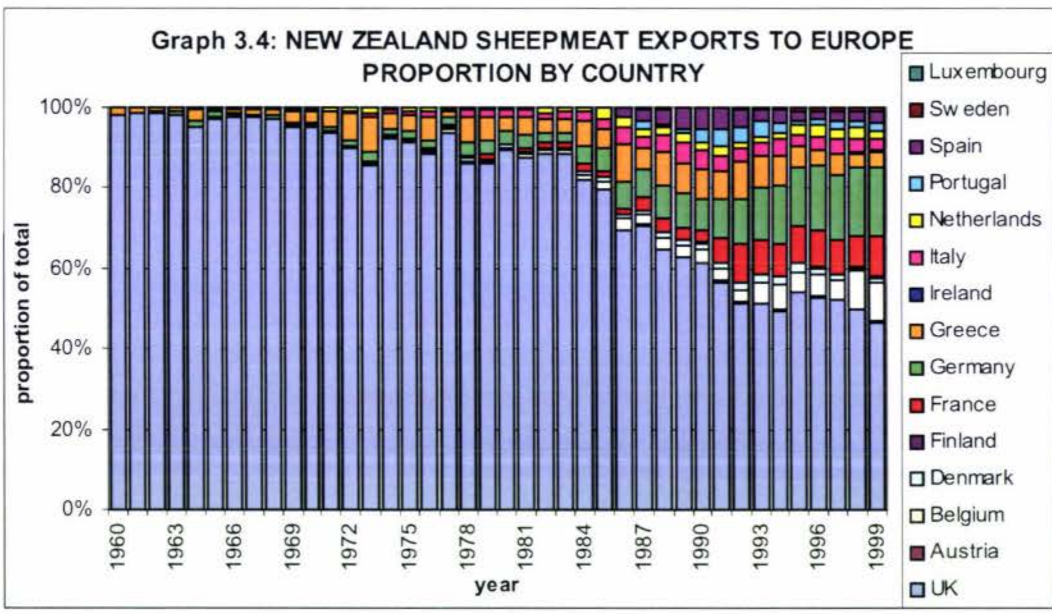


Revision of the sheepmeat regime in the late 1980s had little impact on Community production, in spite of New Zealand exporters' hopes that it would.[366] Expenditure on the regime in its first ten years of operation amounted to over 5.6 billion ECU (European Currency Units)[367], and pay outs continued to grow along with production into the 1990s.[368] By 1991 EC self-sufficiency in sheepmeats had reached 83%.[369]

[364] Compared with statistics from *FAO Trade Yearbook*, 1990, p.64, Table 14.
[365] In 1997 and 1998 Spain exported 40-50% more sheepmeat than it imported, *FAO Trade Yearbook*, Vol.52, 1998, p.26, Table 9.
[366] New Zealand Meat Producers' Board, *Annual Report*, 1987, p.15.
[367] ECU; European Currency Unit, the currency of common administered prices under the CAP. Its value was weighted against an average of member states' exchange rates.
[368] European Commission data quoted in New Zealand Meat Producers' Board report, July 1992, p.9, MFAT file 123/2/3, vol.47.

This rate remained the same for the rest of the decade, although it varied greatly amongst the individual countries.

Production increases were most pronounced in Britain, Ireland and Spain. In all of these countries self-sufficiency rates for sheep and goat meat reached over 100% by 1998.[370] As can be seen in Graph 3.4, this growth correlated with a concurrent decline in the importance of Britain as a destination for New Zealand sheepmeat exports. After a significant drop in the early 1980s, total export volumes to the Community were reasonably stable, but the proportion sent to Britain especially, steadily decreased.



Likewise, Germany, France and Belgium became more prominent recipients of New Zealand sheepmeat. These were all countries in which self-sufficiency remained at 50% or below.[371] With the exception of Britain, they had also become the greatest importers of sheepmeat in the European Union[372] and theirs were also amongst the

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[369] New Zealand Meat Producers' Board report, July 1992, p.6, MFAT file 123/2/3, vol.47.

[370] European Commission, *The Agricultural Situation in the European Union*, 2000, T/204-T205, Table 3.8.3.

[371] In 1997. European Commission, *The Agricultural Situation in the European Union*, 1999, T/214-215, Table 3.7.3

[372] *FAO Trade Yearbook,* Vol.52, 1998, p.26.

highest returning markets for sheepmeat imports.[373] Much of this can be attributed to those markets responding positively to developments in New Zealand production and marketing.

The success of the sheepmeat regime in promoting internal production and self-sufficiency inevitably led to a reining in of the support mechanisms by the early 1990s. This was not taken well by the politically active European farm lobbies, who directed some of their anger at their declining incomes towards New Zealand's sheepmeat exports there. Chilled product was particularly targeted because of its competitiveness with fresh European product. New Zealand exports were blamed for the depression in market prices on the French and British markets.[374] This led to an even more difficult negotiating environment for New Zealand access. However, continued coordinated efforts between government officials, diplomats, and industry representatives helped to counter the politics of retaining market access, as the next section will show.

Access Arrangements

This section turns from changes within the EU as a result of its domestic agricultural policies which impacted on its markets and therefore New Zealand's ability to sell its sheepmeat within them. It looks, rather, at the political interactions between New Zealand and European politicians and officials, but also at the international context, which formally determined the quantities of New Zealand sheepmeat that would be allowed to enter those markets and the conditions under which they could enter. The nature of negotiations changed over the period. For a large part of the period these were conducted mainly on a bilateral level, but from the late 1980s they became more intertwined in the multilateral context as GATT's influence over agricultural trade grew.

Prior to Britain's entry into the EEC, New Zealand enjoyed free and unrestricted access for its sheepmeat into that market. Britain was only 50% self-sufficient in sheepmeat on accession, so a large proportion of the annual consumption of

[373] 'Europe: A Market of Value', *New Zealand Meat Producer*, First Quarter 1993, pp.14-15.

approximately 468,000 tonnes[375] was supplied by New Zealand imports. There was also no New Zealand-specific quota imposed on entry into any of the other European countries, but some adopted their own import quotas as part of their individual sheepmeat policies. For example, Germany imposed a global quota throughout the 1960s,[376] whereas France blocked frozen sheepmeat imports during the 1960s,[377] and imposed a global import restriction of 1500 tonnes in 1976.[378]

In 1961 when the Community was in the throes of forming the CAP, it agreed under GATT provisions that a Common External Tariff (CET) of no greater than 20% would be set for sheepmeat imports across all of its members.[379] While the imposition of the tariff was not wholly welcomed by New Zealand, it at least retained the principle of access to the Community's markets. European sheepmeat consumption was fairly low and imports fairly small in the 1960s, and those of New Zealand origin were minimal. Greece, at that stage outside of the Community, was New Zealand's second largest European export market after Britain, and although there were no import restrictions imposed, trade volumes were spasmodic, seemingly due to domestic fluctuations in supply, and therefore demand for imports.

Although New Zealand attempted to include the protection of its sheepmeat trade with Britain in negotiations for special arrangements on accession, it was not included in the final access negotiations. New Zealand negotiators made the decision to drop this issue in 1971 towards the end of the negotiating process, based on the lack of a common EEC policy on sheepmeat,[380] a commitment given by the British Government to ensure the continuity of trade in lamb,[381] and a desire to concentrate more greatly in negotiations dairy product access.[382] On enlargement the only formal trade barrier

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374 'Smaller UK Sheep Flock May Be Required, Says NZ Board', *Agra Europe*, 3 April, 1992, M/5-M/6.

375 1973 figures, *Newsletter of the Common Agricultural Policy: Sheepmeats*, pp.2-3.

376 John Ormond, 'Address by the Chairman New Zealand Meat Producers' Board Sir John Ormond to the Mid-Year Meeting of the Electoral Committee', 25 March 1969, Wellington: New Zealand Meat Producers' Board, p.4.

377 Ormond, 'Address to the Meeting of the Electoral Committee', p.4.

378 'Report of the Department of Trade and Industry, year end 31 March 1986', *AJHR*, G14, 1976, p.48.

379 'The European Economic Community', *AJHR*, 1961, A21, p.38.

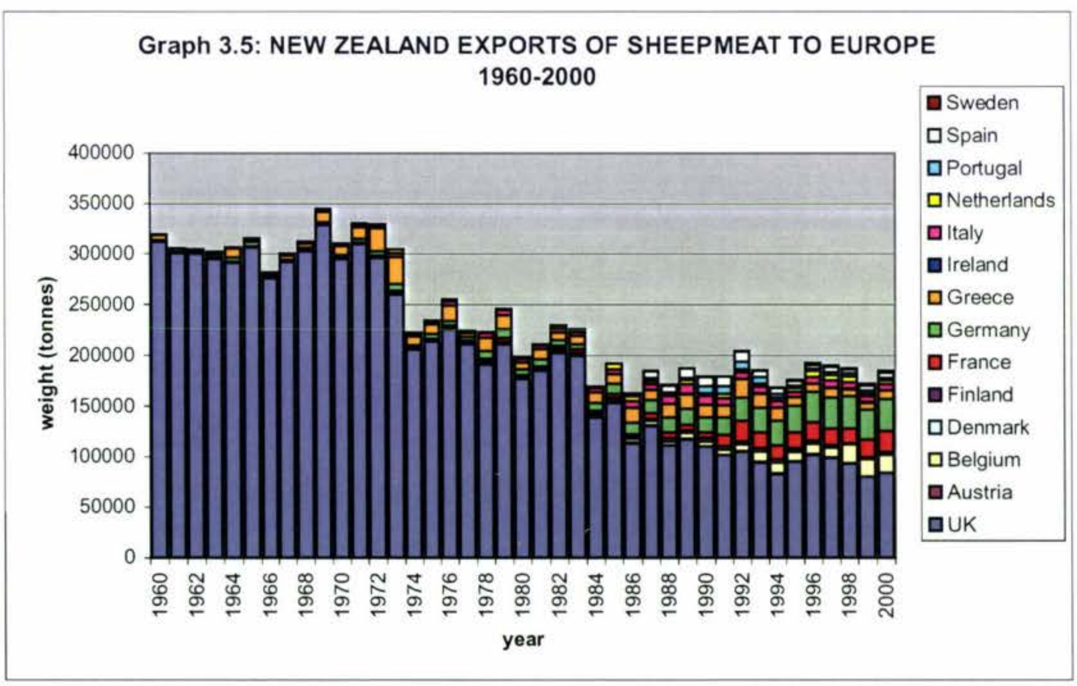
380 Sir Keith Holyoake, 'EEC Negotiations: Statement by the Prime Minister, 14 June 1971', *New Zealand Foreign Affairs Review*, June 1971, p.68.

381 Marshall, *Memoirs*, p.106.

382 Lodge, *The European Community and New Zealand*, p.203; Robson, *Decision at Dawn*, p.92.

imposed was the Community's GATT-bound CET of 20% on sheepmeat imports, which was adopted in graduations by the British over the first four years of membership.[383] During negotiations New Zealand officials had unsuccessfully attempted to stop this tariff being applied to its sheepmeat exports to Britain.[384] New Zealand and British officials pronounced an expectation that despite the imposition of this tariff and the lack of any official trade commitment, 'an acceptable volume of trade in New Zealand lamb (would) continue to flow over such a tariff'.[385]

The term 'acceptable' presumably meant that they expected that exports would continue relatively unchanged. In fact, a marked decline in the volume of New Zealand sheepmeat exports to Britain was evident directly after accession. As shown in Graph 3.5, a volume drop of 55,000 tonnes (from 260,340 to 205,305 tonnes) occurred in 1974, the year following Britain's entry, and the total never rose to the same level again. For the following decade, volumes sent fluctuated around the lower level of 200,000 tonnes.



[383] 'Report of the Department of Trade and Industry', *AJHR*, G14, 1976, p.48.
[384] Lodge, *The European Community and New Zealand*, p.203.
[385] Brian Talboys quoted in *New Zealand Herald*, 7 April 1972, Section 1, p.2.

The drop in volume was not, however, so evident in earnings. A rise in returns per tonne of sheepmeat occurred around the same time. This was due to better prices facilitated by favourable demand conditions within Britain at the same time. There had also been reduced imports into Britain from other sheepmeat suppliers, and market substitutes such as domestic beef and veal were also less readily available to the British consumer.[386]

New Zealand's nervousness that it could lose access to its European sheepmeat market was revived in the late 1970s when Community discussions commenced for the creation of a common sheepmeat regime.[387] The New Zealand Meat Producers' Board worked hard to highlight the importance of European access to New Zealand representatives in the negotiations, warning that if any major restrictions were imposed on the European sheepmeat market it would have catastrophic consequences for the New Zealand economy.[388] At that stage, exports to Europe were worth between 50% to 60% of total sheepmeat export receipts and valued at $235 million per year.

New Zealand retained a lot of sympathy and support for their access during negotiations from the British. Prime Minister Robert Muldoon felt particularly supported by his British counterpart Margaret Thatcher, who declared 'I am not going to see New Zealand lamb priced off the British housewife's table. She wants it and she is going to get it'.[389] This displayed recognition of New Zealand lambs' role as a low-cost meat option for British households, and British politicians' fears that the new regime could change its pricing and accessibility to the average British consumer. New Zealand lamb sold for a low wholesale price on the British market, from 1970 to 1975 receiving only 80% to 93% of the English lamb price.[390]

The provisions under the CET proved to be fortuitous for New Zealand in access negotiations. New Zealand was in a better position to negotiate access with the Community for sheepmeat than with butter because of the 1961 GATT commitment,

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[386] New Zealand Meat Producers' Board, *Annual Report*, 1973, p.62.
[387] Officially the regime and access arrangements included sheep and goat meat, but goat meat exports from NZ were so minimal that for the purpose of this thesis it is referred to as only sheepmeat.
[388] New Zealand Meat Producers' Board, *A Commonsense Approach to the EEC Sheepmeat Market*, p.17.
[389] Robert Muldoon, *My Way*, Christchurch: A.H & A.W. Reed Ltd, 1981, p.91.
[390] *Newsletter on the Common Agricultural Policy: Sheepmeat*, Table 4.

which could not be unilaterally revoked by the Europeans.[391] Under GATT regulations the Community could not impose greater trade barriers without agreement from exporting countries.[392] The common sheepmeat regime could not therefore include any trade regulations without arrangements being made with the countries they had hitherto imported sheepmeat from. The fact that the GATT binding had not been tampered with provided New Zealand with a negotiating platform with which to counter unilateral restrictions when the sheepmeat regime was introduced. It also gave New Zealand a fall-back position during later negotiations with the Europeans in the 1980s. It was understood that should the VRA commitments break down, arrangements would be retrospective to this agreement and New Zealand would legally be allowed unlimited access again, subject to the 20% tariff.[393]

Once the principles of the regime were agreed upon within Europe, the European Commission worked quickly to obtain the important access agreements with third country suppliers such as New Zealand. In February 1980 the European Commission officially sought New Zealand's agreement to open negotiations for a voluntary trade agreement.[394] New Zealand officials agreed, on the understanding that its concerns for the maintenance of traditional volumes of trade, non-frustration of other markets, continued recognition of GATT rights and a tariff concession would be provided for.[395] The resulting Voluntary Restraint Agreement (VRA) between New Zealand and the Community came into effect along with the implementation of the sheepmeat regime on 20 October 1980. Generally, the conditions that New Zealand had demanded were met. They agreed to limit sheepmeat exports to 234,000 tonnes, (to increase to 245,500 tonnes when Greece joined the Community in 1981), a figure similar to 1979 volumes. In return for this, New Zealand was awarded a reduction in the CET to 10%.[396]

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[391] Bruce Brown, 'Foreign Policy is Trade: Trade is Foreign Policy', in Trotter (ed.), *Fifty Years of New Zealand Foreign Policy Making*, p.75. The GATT arrangements will be further explained in the following section.
[392] McMahon, *New Zealand and the Common Agricultural Policy*, p.24.
[393] Briefing Notes, 'Visit to Europe of the Hon. Mike Moore, Minister External Relations and Trade', September 1988, MFAT file 123/2/1, vol.15.
[394] 'Report of the Department of Trade and Industry, year end 31 March 1980', *AJHR*, G14, 1980, p.37.
[395] R.D.Muldoon, 'Financial Statement', *AJHR*, B6, 3 July 1980, p.12.
[396] 'Exchange of Letters Comprising an Agreement Between New Zealand and the European Community on Trade in Mutton, Lamb and Goatmeat (1980)', in Paul Harris and Stephen Levine et.al.

Further import restrictions were also made within the VRA for France and Ireland. These were invoked under Article 115 of the Rome Treaty, which allowed member states to temporarily protect against third country imports.[397] The resulting Sensitive Market Arrangements (SMAs) completely excluded New Zealand sheepmeat from the Irish market, and limited exports to France to below 3000 tonnes.[398] Originally, these were supposed to conclude in 1984,[399] but were carried on with the quota to France increasing to 3500 tonnes in 1984 and by 10% per annum thereafter.[400]

The VRA was due for renewal in 1984 but the arrangement was continued without time limit. Provision for change was allowed, given one years notice by either party.[401] The European Commission took this up and initiated renegotiation of the agreement in 1988. At this stage internal reforms were taking place, which were designed to stabilise the Community's internal sheepmeat policies. These had created an increase in self-sufficiency through its first decade in operation.[402]

At this point sheepmeat and butter access negotiations became somewhat intertwined. This was something the New Zealanders had hitherto avoided, but increasing pressure from the Europeans and the timing of the renewals for both commodities meant that their linkage became unavoidable by the late 1980s. New Zealand officials again used their negotiating leverage with sheepmeat arrangements to try to protect their dairy access interests as well. As something of a trade-off, it was agreed in 1988 that the VRA would be reduced to 205,000 tonnes in return for a zero tariff but also a lesser drop in the butter quota than had originally been demanded by the many European lobbyists.[403]

(eds.), *New Zealand Politics Sourcebook*, 2nd ed., Palmerston North: Dunmore Press, 1994, pp.441-444.

[397] 'France Wants Four Year Protection Against Third Country Lamb', *Agra Europe*, 26 September 1980, P/6.

[398] 'EEC Sheepmeat Regime to Start October 20', *Agra Europe*, 3 October 1980, P/3.

[399] B.C.Hickey, 'New Zealand's Voluntary Restraint Agreement With the EEC', in Clough, *EEC Sheep Industry Perspectives*, p.69.

[400] McMahon, *New Zealand and the Common Agricultural Policy*, p.23.

[401] 'New Zealand Sheepmeat', MERT Briefing Paper, 10 October 1988, MFAT file 123/2/3, vol.42.

[402] 'Report of the Department of Trade and Industry 1 April 1988-30 November 1988 and Residual Management Unit of the Department of Trade and Industry 1 December 1988-30 June 1989', *AJHR*, 1987-1990, G.14, p.35.

[403] Communication Brussels to Wellington 1169, 9 September 1988, MFAT file 123/2/2, vol.77.

The concession of 40,000 tonnes of access for New Zealand exporters was insignificant in real terms considering that they had failed to send more than that for a number of years (Graph 3.5). The more significant change with the potential to affect New Zealand's export development was the imposition of a ceiling on chilled sheepmeat sendings to 13,500 tonnes.[404] It was in this area that New Zealand exporters had been gaining the best returns, and there was some complaint that these restraints could create serious obstacles to the success of future trade.[405] However, the limit was not too restrictive given the volumes sent at the time, and it was one that they would seek to liberalise in future access rounds.

In 1985 the Single Market Act was signed in the EC, agreeing to create a single market without national borders within the Community from 1992. This made the SMA's a redundant concept. These were accordingly abolished along with the revision of the sheepmeat regime in 1989. The lifting of the SMAs appears to have had a profound effect on New Zealand sheepmeat exports to France. As Graph 3.6 shows, these burgeoned from 1990 to 1992, increasing almost four-fold. The volume sent to France settled again in 1993 to fluctuate between 13000 and 18000 tonnes for most of the rest of the period. New Zealand and France shared a contradictory relationship with regards to this trade over the time. While politically strong farm groups protested against New Zealand access to their markets,[406] some importers were developing strong import business, with an appreciation for the efficiency and quality that had developed in New Zealand exports.[407] Despite the problems, France was recognised by New Zealand meat officials to have a strong influence over New Zealand's European market, especially in the prices paid through the 1990s.[408]

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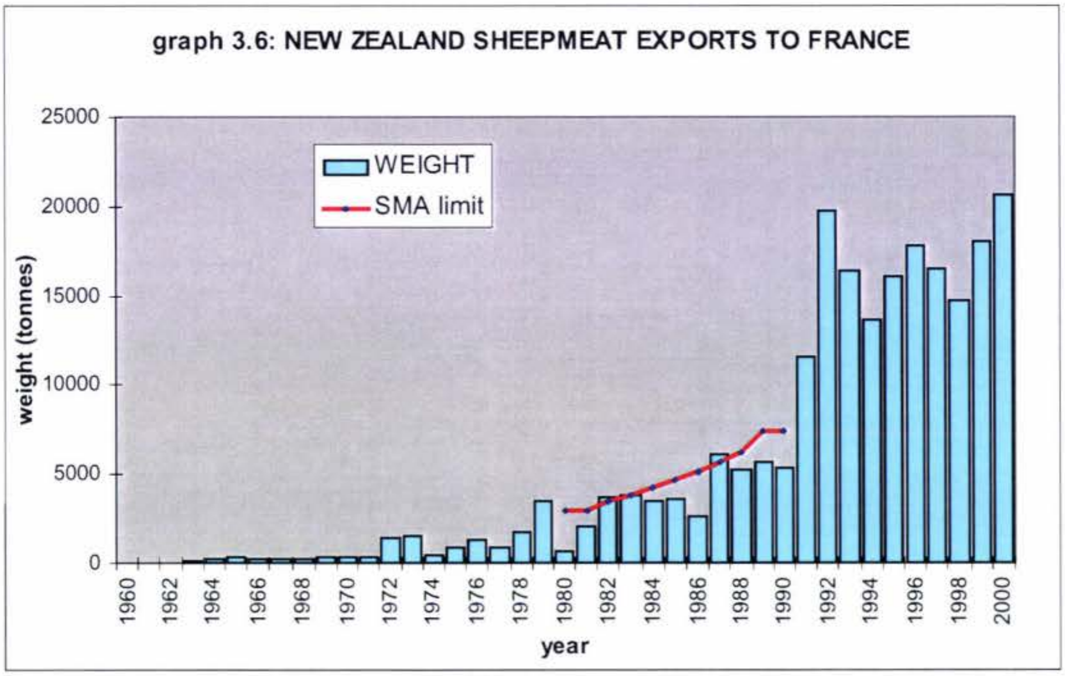
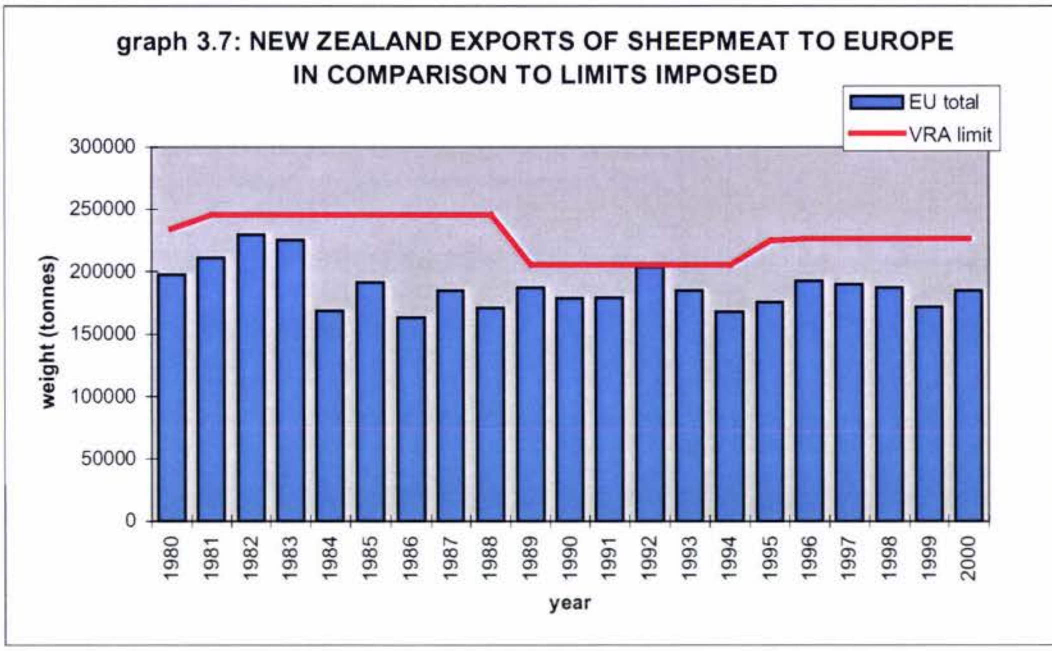
[404] Holmes and Pearson, *Meeting the European Challenge*, p.91.
[405] See for example, comment by Jim Thomson, Meat Producers' Board Chief Executive, *The Dominion*, 18 January 1990, p.2.
[406] *New Zealand Herald*, 20 October 1993, Section 2, p.1.
[407] French lamb buyer Claude Thieblemont quoted in Jeremy Hunt, 'North-West Prospect', *Farmers Weekly*, 29 May 1992, p.27.
[408] 'Continental Earnings up 56%-57%', *Sheep and Wool Review*, 1993, p.14.



The Uruguay Round of GATT negotiations and their outcomes superseded all other arrangements. This Round proved to be most advantageous to New Zealand sheepmeat exporters. Having conceded a drop in the VRA in 1989 to 205,000 tonnes, New Zealand regained 20,000 tonnes export allowance in the final GATT outcome. The early commitment made by the Round participants to the Cairns Group's standstill principle made this largely possible. These negotiations concluded in 1994 and New Zealand was recognised as one of the biggest 'winners' from the resulting access agreements. Within that, the European Union and New Zealand agreed on a new quota of 225,000 tonnes, with a continued zero tariff.[409] More importantly for market development, the chilled meat restrictions were lifted. As will be shown in the marketing section later, this was the most lucrative change for New Zealand exporters.

[409] 'Gatt Positive For New Zealand Meat', *Meat Board News*, 13 January 1994, p.1.



A significant aspect of the Uruguay Round settlement was that the access arrangements became fixed. New Zealand now had an agreement with the EU that would endure and not be subjected to regular re-negotiations as in the past.[410] This gave the New Zealand sheepmeat industry stability and a positive outlook for the future that had been lacking over the previous decade.[411]

In looking at actual volumes sent over the years that the VRA was in force, the formal access limits imposed on New Zealand sheepmeat exports to Europe generally did not appear to have any major restrictive effect on sheepmeat export volumes throughout the period. As Graph 3.7 shows, there were few years when exports threatened to put any pressure on the access ceilings, regardless of when it was lowered or lifted, or whether under the umbrella of the VRA or GATT outcome. Official explanations for the shortfall in supply were stated as 'commercial reasons' or 'tight supplies of animals for slaughter',[412] indicating that domestic issues of supply were the cause rather than lack of demand.

[410] 'Opportunities on the Table', *Meat Board News*, 22 September 1994, p.1.
[411] Brian Lynch, Personal Interview, 24 June 2003.
[412] *The Dominion*, 18 January 1990, p.2.

These arrangements could perhaps be seen, therefore, more as export opportunities than deterrents. Despite the restrictive nature of these agreements, they were also at least seen as protective mechanisms for New Zealand exports in that they assured continued European market access. New Zealand sheepmeat was guaranteed far greater access to Europe than any other third country exporter in the world.

The VRAs did not appear to have a significant impact on the total volumes of sheepmeat sent to Europe. The chilled lamb restrictions of 1989-1995 caused some restraint towards the end of its tenure. The most obvious restraint was the provision of France's Sensitive Market Arrangement.

Access issues were not always confined to official trade barriers. Some European countries were adept at creating less visible, non-tariff barriers (NTBs) to trade. These were also sometimes called the mechanisms of 'procedural protectionism'.[413] Internal legislation or customs regulations in individual countries were sometimes used create barriers for New Zealand sheepmeat exports to the Community over the period. In the 1960s Italy enforced legislation which deemed that meat retailers could not sell frozen and fresh meat in the same locale. This effectively shut New Zealand lamb out of 99% of Italian butcheries.[414] The French were known to create customs clearance problems for meat imports when political issues were hanging over trading relations. The most obvious of these was the blocking of lamb offal shipments in 1986 during New Zealand's dispute with France over the *Rainbow Warrior* bombing.

Membership in GATT also sometimes helped New Zealand to protect continuation of its trade when these types of external politics affected it. In 1986 amidst the dispute between New Zealand and France over the *Rainbow Warrior* affair, France undertook discriminatory action to restrict New Zealand imports, including that of sheepmeat products.[415] New Zealand at first appealed to GATT under Article XXII:I of the agreement to pressure France to retract its actions. Although this was later retracted due to the issue being taken up under a United Nations hearing,[416] it nevertheless

[413] 'What Can We Get From GATT?', *New Zealand Meat Producer*, First Quarter, 1991, p.26.
[414] Ormond, 'Address to the Meeting of the Electoral Committee', p.4.
[415] Davenport, 'New Zealand's Trade With France', pp.16-20.
[416] 'Report of the Department of Trade and Industry, year end 31 March 1986', *AJHR*, 1986, G14, p.46; 'United Nations Ruling Pertaining to the Differences Between France and New Zealand Arising from the Rainbow Warrior Affair (1986)', Harris & Levine (eds.), *New Zealand Politics Sourcebook*, p.409.

again showed New Zealand's awareness of the power of its GATT membership to help safeguard the continuity of its agricultural trade.

European veterinary requirements were always stringent and considered to fall under the umbrella of non-tariff barriers. The NZMPB noted that these had cost the New Zealand meat industry nearly a billion dollars over a period of ten years because of the regular upgrading required of their processing plants to meet European import requirements.[417] Having met all the requirements, New Zealand in the 1990s began to negotiate for an agreement with the Union, which would acknowledge its compliance so that bureaucratic intervention could be reduced. Seven years in the making, a final agreement was made in 1997. It was heralded as a breakthrough for New Zealand in cutting through European red tape. However, its impact was later described as largely ineffective in reality, when a further agreement was made in 2003.[418]

Politics therefore played a major role in determining access to the European markets for New Zealand sheepmeat. Their sales within those markets, however, were determined more by factors that originated from New Zealand. How New Zealand sheepmeat production and strategies for selling the product in Europe developed will be discussed in the following sections.

Influences on Production

Domestic production of sheepmeat for export in New Zealand was subjected to some policies that influenced its production capacity. For a large part of the period, there was some regulation of the industry. The New Zealand Meat Producers' Board played a major role in this administering this, and therefore had some influence over the direction of production and processing. As well as this, the organisation played an important advocacy role in maintaining and developing markets. The changes that took place in the 1980s as a result of changes in economic policy approaches had a major impact on how the industry was run. These ultimately contributed to a significant change in how the industry was administered, its production and marketing

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417 New Zealand Meat Producers' Board, *Annual Report,* 1991, p.25.

focuses, and the overall nature of ownership in the industry. In turn, these impacted on New Zealand sheepmeat exports' performance in the European markets.

The New Zealand Sheepmeat Industry

The 1922 Act which created the New Zealand Meat Producers' Board (NZMPB) established a system of producer control over meat exports.[419] This principle remained until well into the 1980s, and gave the Board extensive involvement in all aspects of the meat export industry. New Zealand meat exports were arranged through private companies, but the Board played a pivotal role in administering them. It played the role of regulator of shipments, quality controller, adviser and market promoter.[420]

In 1960 the New Zealand sheepmeat industry was in a developing phase. Since the bulk purchasing system had ceased in 1954, the NZMPB had worked to diversify New Zealand's sheepmeat markets worldwide. In 1960, the New Zealand sheep flock had been growing steadily, the Japanese market had been broken into, the traditional market in Britain was still plentiful, and the main focus of producers was to produce as much as possible to meet supply for these and any new markets. The income from the sheep's carcasses at that stage was secondary to the returns from wool, and the main focus of optimising returns from these was in volume of supply rather than on delivering specialised meat cuts for export.

The development of meat marketing had been aided since the 1955 Meat Export Prices Act by a system of annually-fixed minimum prices for meat to the farmer. The Meat Producers' Board administered this. This system helped to smooth farmers' incomes, by countering market price fluctuations, and continued for the next three decades. New Zealand sheep farmers were therefore somewhat insulated from short-term market fluctuations. In hindsight, it was also seen to promote the focus on export production quantities rather than quality.

The main policies which affected production directions at this time were more directed towards expanding markets than developing product. The main focus was to

[418] *Dominion Post*, 30 January 2003, p.1.
[419] *New Zealand Official Yearbook*, 1982, p.373.
[420] Evans, *A History of Agricultural Production and Marketing in New Zealand*, pp.120-122; J.W. De Gruchy, 'The Role of the Meat Producers' Board', *Report on the Export Development Conference*.

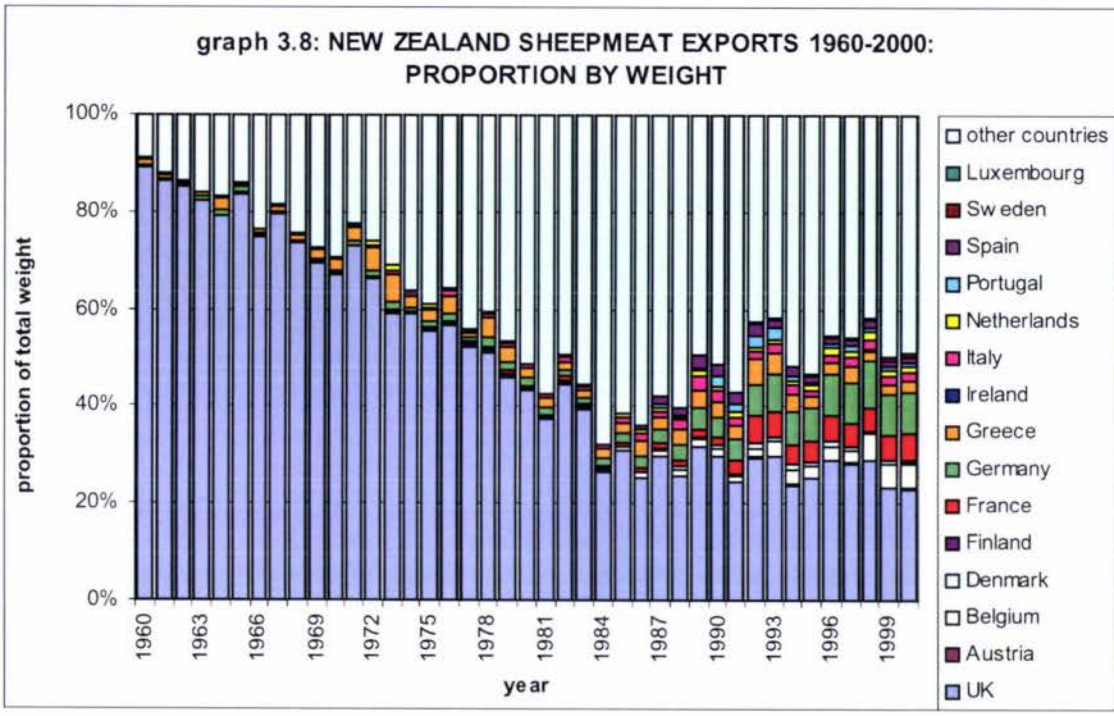
develop export reliance away from Britain. In 1960 the NZMPB established the *Meat Export Development Company,* aimed at developing the North American market for New Zealand lamb.[421] An even more overt attempt at moving away from the British market was made in 1966 when the Board formed the Lamb Market Development Committee to administer the *Lamb Market Development Scheme.* This scheme had the express purpose of accelerating 'the diversion of Lamb to markets other than the United Kingdom'.[422]

This scheme penalised meat exporters who failed to send a portion of meat to other markets in any given year.[423] Annual diversion targets were set as a percentage of exports expected to be sent elsewhere than Britain, and exporters paid levies on shortfalls to this requirement.[424] In some years a bonus was also paid out to those who exceeded the targets, which were usually set to increase yearly from an initial level of 10% in 1966 to 32% by 1977/78. Overall performance in this scheme was generally high, with annual targets being exceeded in nine of the fifteen years it ran. From 1975/6 over 35% of lamb exports were annually sent elsewhere than Britain, so that by 1980 the success of these results and the implications of the newly agreed Voluntary Restraint Agreement led the committee to agree to suspend the scheme indefinitely.[425]

As is evident in Graph 3.8, reliance on Britain as the primary destination for sheepmeat exports decreased at a fairly steady rate throughout the scheme's existence. While total New Zealand sheepmeat exports rose from 369,566 tonnes to 493,363 tonnes, those destined for Britain decreased from 276,271 to 184,520 tonnes, or by 38%. Some of that difference was directed to European countries like Greece, Germany and Italy, but most went elsewhere, especially to new markets in the Japan, the Middle East and North America.[426] The largest proportional change at that stage involving European countries other than the United Kingdom was in the early 1970s,

[421] 'A Century of Meat Exports', *New Zealand Official Yearbook,* 1984, p.968.
[422] New Zealand Meat Producers' Board, *Annual Report,* 1966, p.26.
[423] New Zealand Meat Producers' Board, *Annual Report,* 1966, p.15.
[424] *New Zealand Official Yearbook*, 1970, pp.565-6.
[425] New Zealand Meat Producers' Board, *Annual Report,* 1980, p.21. Performance results given here are as produced by the Annual Report ,whose annual statistics are taken for the years ending September 30 and for lamb only. Graphs include mutton, hogget and lamb meat exports for years ending June 30.
[426] *New Zealand Official Yearbook*, 1978, p.573.

peaking in 1973 with 44,442 tonnes or 10% of total exports, but decreasing to fluctuate between 3% and 8.5% later in the decade. There was some reversal of the trend away from Britain in 1981/2 and 1983/4, showing that the relaxation of the scheme combined with the new Voluntary Restraint Agreement may indeed have reverted exporters' attention back to the British market temporarily.



The Meat Producers' Board also had some influence in the nature of meat processing in New Zealand. The 1964 Meat Act made licensing of export slaughterhouses a requirement. New facilities could only be issued a licence on the advice of the Board, so that in effect it could control who entered the industry. Because the Board followed the view that the large existing companies were best for serving the New Zealand industry, very few licenses were awarded over the following 16 years.[427] Most of the existing companies were overseas (especially British) owned, and long established. A common criticism was that they were also inefficiently structured.

[427] Savage, 'Export Meat Processing', in Savage and Bollard (eds.), *Turning it Around,* p.62.

Changes of legislation in the 1980s led to fundamental changes in the nature of the processing industry. The 1980 Meat Act delicensed the meat processing industry, allowing free entry for new firms to build processing plants. The only barriers for entry into the meat processing industry were then health and hygiene requirements.[428] This set the scene for major changes in plant operations in New Zealand. Over the following nine years, 16 new processing plants opened, 10 were upgraded, and 12 closed.[429] This at first contributed to production expansion that was not necessarily met by market demand. The other factor was production incentives created by the Supplementary Minimum Price (SMP) system, which operated from 1978 to 1985.

The SMP system added to the existing price smoothing schemes by giving direct price support to the farmers.[430] It was funded not by the producer board's reserves, but from public funding.[431] The sheepmeat industry was the greatest benefactor of this system, receiving $766 million in support between 1982 and 1986. Sheep farmers also received $441 million in SMPs for wool. Compared to this, the beef industry received only $102 million and the dairy industry $17 million.[432] The growth in the New Zealand sheep flock and in production can be seen as a consequence of this scheme. From 1967 to 1977 total sheep numbers averaged approximately 60 million, but from 1978 numbers increased steadily, so that by 1983 they were 70 million.[433]

Over the same period, the Meat Producers' Board took total control of marketing New Zealand meat for export. Pricing and supply had become disorderly in overseas markets, and the Board's control from 1982 to 1985 was in the interests of making marketing more regular. From 1985 the marketing of New Zealand meat was returned into the hands of the private companies. This almost coincided with the removal of price support systems for producers, and in a short time a crisis situation was apparent

[428] Savage, 'Export Meat Processing', in Savage and Bollard (eds.), *Turning it Around,* p.64.
[429] MAF figures cited in Savage, 'Export Meat Processing', in Savage and Bollard (eds.), *Turning it Around,* p.66.
[430] *New Zealand Official Yearbook*, 1986/87, p.452.
[431] Daniel-M Gouin, Noella Jean, John R. Fairweather, *New Zealand Agricultural Policy Reform and the Impacts on the Farm Sector*, Canterbury: Lincoln University Agribusiness and Economics Unit, 1994, p.24.
[432] Figures from Tyler and Lattimore, 'Assistance to Agriculture', in Sandrey and Reynolds (eds.), *Farming Without Subsidies*, pp. 74-75.
[433] Statistics from Department of Statistics and MAF quoted in Reynolds and SriRamaratnam, 'How Farmers Responded' in Sandrey and Reynolds (eds.), *Farming Without Subsidies*, p.160.

within the industry. Most of this was related to overcapacity in supply. Over those seasons, some carcasses were even rendered down because of over supply. The changes were accompanied by some disruption to export capacity for New Zealand's markets in Europe, especially in 1986 when industrial action was named by the New Zealand Meat Producers' Board as having a 'disastrous impact' on all European markets, limiting and delaying shipments for the first quarter of the year.[434]

The rapid deregulation and removal of income support of the sheepmeat industry led to extremely hard times for farmers in particular. Within a year, their incomes halved and many were forced into dire financial circumstances. The consequences were that many farms were abandoned and the national sheep flock quickly decreased again. By 1989, sheep numbers had decreased back to 61 million.[435]

These major upheavals in production, processing and marketing did, however, lead to changes in the industry which enabled it to optimise its export returns, especially in the European market, over the following decade. The period when marketing was taken out of the hands of the processors was credited with creating opportunities for technological development within the industry, because energies were diverted from individual marketing efforts by companies.[436] The new entrants into the industry may also have contributed to this. With smaller, newer plants, they were more able to invest in more efficient plant for processing.[437] Most of this new investment came from inside New Zealand, and by the end of the 1990s almost all of the plants were New Zealand owned.[438]

Technological development in meat processing was a main feature of the development of returns for the meat processing industry from the late 1980s. The smaller, newer processing plants especially were credited with being able to adapt more smoothly to changes in market demands and achieve some economies of

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434 New Zealand Meat Producers' Board, *Annual Report,* 1986, pp.11-12.
435 Statistics from Department of Statistics and MAF, Reynolds and SriRamaratnam, 'How Farmers Responded' in Sandrey and Reynolds (eds.), *Farming Without Subsidies,* p.160.
436 A.C. Zwart and S.K. Martin, *The New Zealand Sheepmeat Industry and the Role of the New Zealand Meat Producers' Board*, Canterbury: Lincoln College Agribusiness and Economics Research Unit, 1988, p.4.
437 Savage, 'Export Meat Processing', in Savage and Bollard (eds.), *Turning it Around,* p.67.
438 Brian Lynch, Personal Interview, 24 June 2003.

specialisation.[439] A change in focus to value-added processing and more effective marketing[440] for New Zealand's meat exporters also took place. Technological developments were exploited to make these possible. Examples of these developments in technology and marketing and how they dramatically improved New Zealand sheepmeats exports' prospects in the European marketplace will be shown in the following section.

Meat Industry Association Chief Executive Brian Lynch credited the outcome of the GATT Uruguay Round with providing stability and confidence for the New Zealand sheepmeat industry. The permanent nature of the access agreements led to greater investment in the industry because production projections could be made on a longer term basis. What had been annual, short-term contracts for supply and export could be changed into three-yearly agreements. Farmers and processors could plan in the longer term as they had not been able to for decades. More specialised breeding programmes were embarked upon, so that despite a drop in the national sheep flock to 39 million sheep, supply quantities were largely maintained. The average sheep size had enlarged, and with the increase in variety of cuts from such sheep, more meat for export could be obtained from the lesser number of animals.[441] Generally, because of the relative security of the European market for New Zealand, the sheepmeat industry finished the century in a state of optimism for its future.

Marketing

Those changes that affected how New Zealand's sheepmeat was produced and processed acted as catalysts to the development of specialisation in sheepmeat exporting. In response to the difficult times of the 1980s, exporters sought solutions to market decline by adapting and targeting their product to areas of greatest potential. This transformed the nature of marketing of sheepmeat by New Zealanders. The focus

[439] Savage, 'Export Meat Processing', in Savage and Bollard, *Turning it Around,* p.71.
[440] Jon Lamb, 'Challenge Meats Lives Up to its Name', *Export News*, Issue 8, 1988, pp. 9-12.
[441] Brian Lynch, Personal Interview, 24 June 2003.

went from concentrating on widening and deepening the markets for sale of a uniform product, to developing products that were targeted at areas of most profit potential.

New Zealand's Market Diversification Into Europe

The NZMPB, led by John Ormond, was active in its attempts to expand New Zealand's sheepmeat markets from 1954, when the bulk purchase agreements initiated during World War Two were concluded. This was felt to be particularly necessary because of the expansion of British domestic production that had occurred, stimulated by subsidies paid on lamb and mutton to British farmers.[442] By the 1960s the Board congratulated itself on some success in finding new markets, although these were more obvious for beef than for sheepmeat.[443] During that decade more concerted efforts were made through formal policies implemented by the NZMPB, but these were generally not directed toward the EEC.

A New Zealand government report on the EEC in 1961 noted that the market for New Zealand's sheepmeat in the Original Six was then minimal:

> In the case of mutton and lamb restrictions continue to be maintained by France and Germany and only a small flow of imports is permitted. However, the lack of consumer taste in Europe for this type of meat has been an important barrier to the expansion of trade even where, as in the case of the Netherlands and Italy, restrictions on imports other than a tariff are not maintained.[444]

Indeed, consumption of sheepmeat in the early EEC was not great; sheepmeat consumption was usually from domestic supplies and imports were relatively meagre. In 1960, Greece was the second largest European importer, taking 10,600 tons. France imported 5,600 tons, and Italy, Belgium and Luxembourg together took 3,700 tons, with no other significant imports of sheepmeat to that region.[445] New Zealand-originated product comprised insignificant proportions of those volumes, if any.

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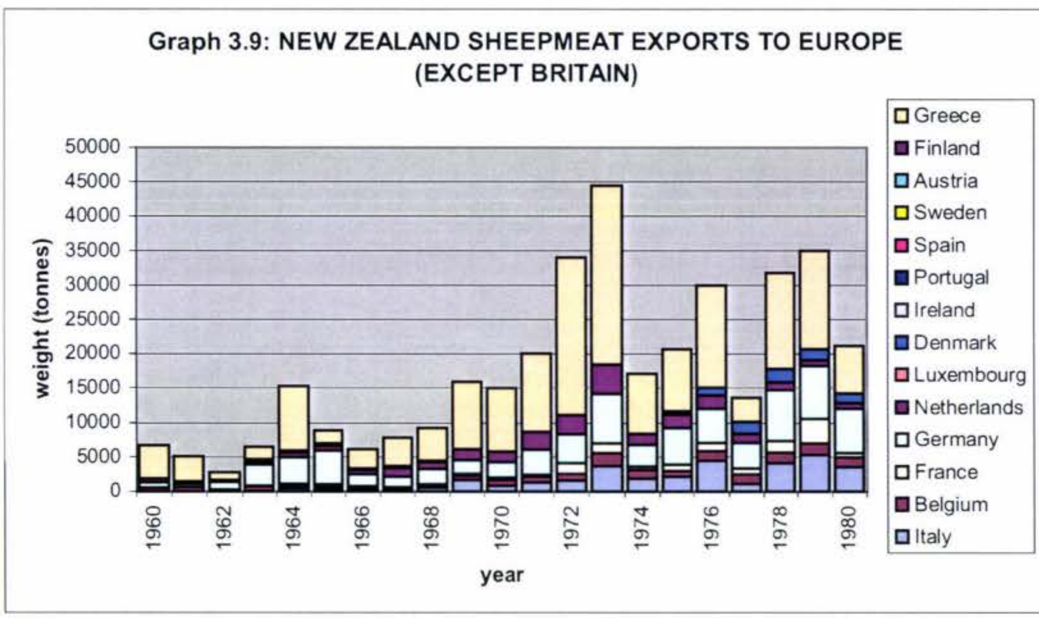
[442] Norman, 'The Meat Trade', *Report of the Export Development Conference,* pp.2-3.
[443] De Gruchy, 'The Role of the Meat Producers' Board', *Report on the Export Development Conference,* p.2.
[444] 'The European Economic Community', *AJHR*, 1961, A21, p.67.
[445] *The World Meat Economy*, p.119, Appendix Table 3.

Despite that pessimistic outlook, meat industry officials monitored the European markets and over time their observations showed that there were opportunities for greater consumption and exports of New Zealand sheepmeat in the European market. They recognised that the European sheepmeat markets were high-returning ones, and were determined to establish a market niche for New Zealand exports. The New Zealand Meat Producers' Board, with support from the New Zealand government, pursued extensive marketing campaigns to promote New Zealand lambs' profile within that region from the late 1960s.[446]



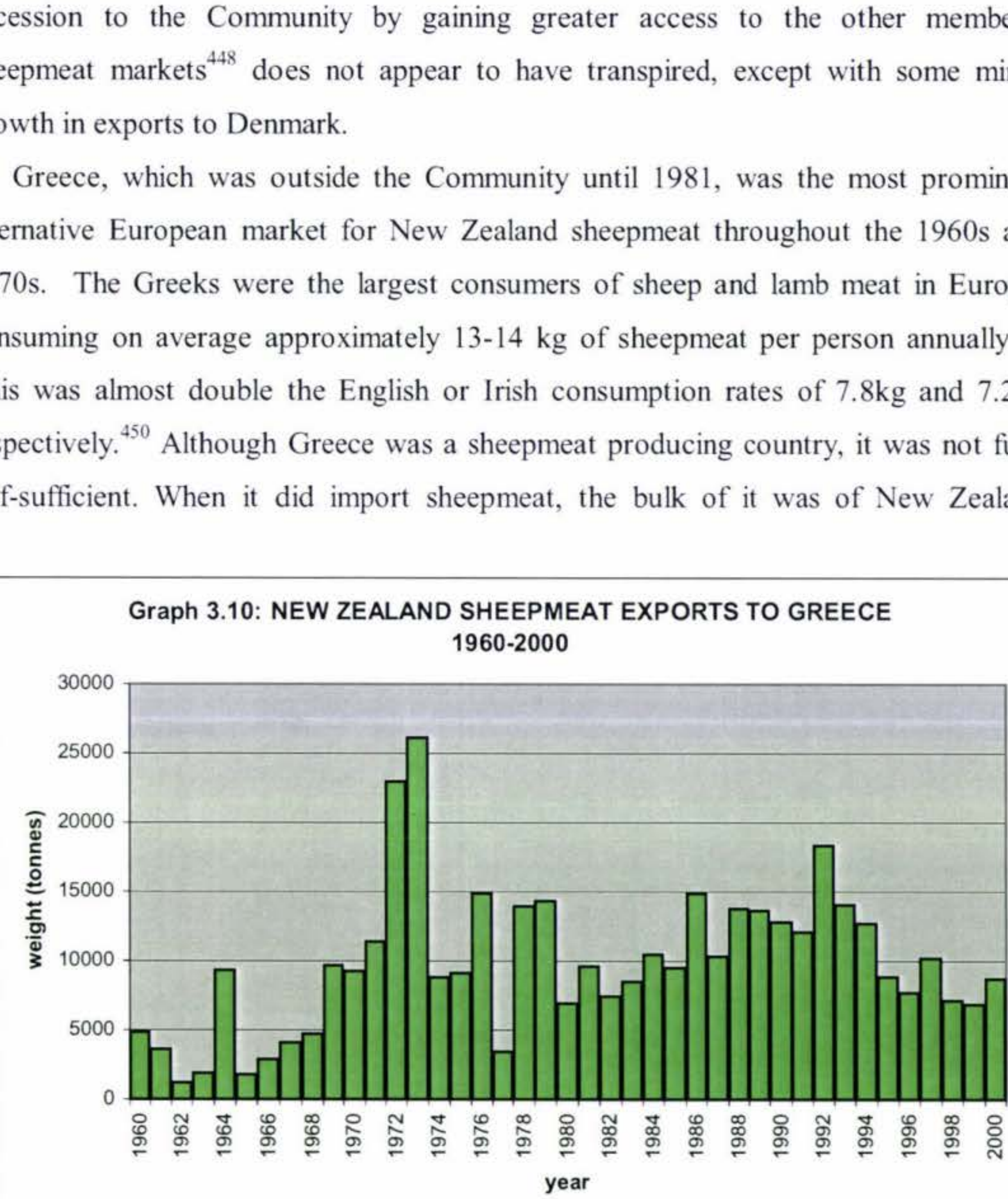
Greece, Belgium, Austria, the Netherlands, Italy and Germany were particularly targeted for promotional campaigning in 1969-70.[447] These efforts involved advertising, trade fairs and broader diplomatic work by industry officials and government representatives. Some growth in exports to most of those countries over the immediately following years indicates some success in those operations, as Graph 3.9 shows.

[446] Ormond, 'Address to the Meeting of the Electoral Committee', pp.5-8.
[447] A total of £60,000 was planned to be spent on promotional operations to these countries through 1969-70. £16000 was also directed for Switzerland, but this country has not been included in this study. Ormond, 'Address to the Meeting of the Electoral Committee', p.7.

From 1969 to 1973, exports to Germany, the Netherlands and Greece in particular grew by significant proportions. However, a dramatic drop and fluctuating success from 1974 and thereafter suggests that the politics surrounding the development of a common sheepmeat regime around that time may have stunted that success. The expectation of some Europeans that New Zealand might benefit from Britain's accession to the Community by gaining greater access to the other members' sheepmeat markets[448] does not appear to have transpired, except with some minor growth in exports to Denmark.

Greece, which was outside the Community until 1981, was the most prominent alternative European market for New Zealand sheepmeat throughout the 1960s and 1970s. The Greeks were the largest consumers of sheep and lamb meat in Europe, consuming on average approximately 13-14 kg of sheepmeat per person annually.[449] This was almost double the English or Irish consumption rates of 7.8kg and 7.2kg respectively.[450] Although Greece was a sheepmeat producing country, it was not fully self-sufficient. When it did import sheepmeat, the bulk of it was of New Zealand

Graph 3.10: NEW ZEALAND SHEEPMEAT EXPORTS TO GREECE 1960-2000



[448] 'Minister at European Parliament', *New Zealand Foreign Affairs Review*, October-December 1983, p.7.

[449] Annual average consumption per person in 1980 was 13.0 kg; in 1991 over 14kg. *New Zealand Meat Producer*, First Quarter 1993, p.13,15.

origin.

Despite this, as Graph 3.10 shows, New Zealand's success in supplying the Greek market waxed and waned over the period, often due to wider political, environmental and economic causes. In the mid-1970s the Greek government implemented policies to promote beef consumption within their country. Price restraints were lifted on sheep but not beef meat in 1975 resulting in a drop in overall consumption. The dramatic drop in exports to Greece from 1973 to 1974-75 suggests that this may have been caused by such intervention.

The Greek market was one affected by the Chernobyl nuclear accident in 1985. Greek consumers became nervous about eating locally-grown produce due to concerns about nuclear contamination, and turned away from buying their own sheepmeat. This impacted on that market so much that Greek authorities placed a ban on frozen sheepmeat imports in an effort to save local producers.[451] These events are reflected somewhat in New Zealand's exports at that time. In the year ending June 1986, there was a surge in exports to Greece reiterating the notion that more sheepmeat was sourced from outside that country. The marked dip the following year indicates the impact that the temporary ban on imports checked that growth.

The importance of the Greek market to New Zealand exporters in both volume and revenue terms declined through the 1990s because of its weak economy. Greek consumers became more likely to buy lower-priced lamb cuts to tighten their spending.[452] Returns for New Zealand exporters were therefore less lucrative than from other EU members and marketing efforts were concentrated elsewhere. Although this market remained important, the general trend for the rest of the decade was for New Zealand sheepmeat exports to decline.

Most early market development work centred on selling frozen carcass meat or basic lamb chops. The deregulation of the New Zealand meat industry in the 1980s, however, led to more advanced marketing strategies which were rewarded with success in some European markets. New Zealand processors and exporters adopted more competitive marketing strategies, which led to more emphasis on the linkage

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[450] Spackman, 'EEC Sheepmeat Regulations', 17 May 1982, NA file 164/3/3/1, pt.31.
[451] New Zealand Meat Producers' Board, *Annual Report,* 1986, p.12.

between consumer preferences and production priorities. Intense surveys, both government and private industry-sponsored, of market patterns and consumer behaviour took place. These identified the need for a diversification in production so that sheepmeat products would be available for a greater variety of eating situations. Substitute meats such as pork were studied to understand their advantages in processing and marketing over sheepmeat, and research was developed to see how sheepmeat could follow similar lines.[453]

As a result, New Zealand exporters placed greater emphasis on the careful promotion and marketing of their products. Specific targeting of clients took place so that returns could be optimised and the political sensitivities of the Europeans were not rankled.[454] At times, this meant that New Zealand lamb was marketed 'anonymously' so that attention was not drawn to its country of origin.[455] At other times when political issues were not so apparent, its origin was clearly stated as a point of promotional interest, as during the Rugby World Cup in Europe in 1999.[456]

New Zealand marketers also appealed to the health-conscious European consumer to promote their sheepmeat. Food safety became a prominent concern for European consumers during the 1990s in particular as scares such the BSE virus were prominent. New Zealand deliberately promoted its clean, green image to demonstrate the safety of consuming its sheepmeat products.[457] This coincided with the industry efforts to raise a political agreement for the relaxing of health inspection restrictions on imports, which further facilitated New Zealand's ease of access to the markets.

Careful targeting of clients also led the focus of New Zealand exporters away from the individual European consumer shopping for their family meal to the Hotel, Restaurant and Institute (HRI) sector. This sector was high-paying but also very discerning, demanding a high level of quality, uniformity and efficiency from its suppliers. Through advances in processing and packaging techniques, New Zealand exporters were able to meet those standards and gain success in obtaining a lucrative

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[452] *Sheep and Wool Review*, 1991, p.38.
[453] Lamb, 'Challenge Meats Lives Up to its Name', *Export News*, Issue 8, 1988, pp.9-12.
[454] 'Political Issues Backdrop to Trade Relations', *Export News*, 28 November 1994, p.5.
[455] 'Shift From Frozen Lamb Key to Meat Sales', *Export News*, 22 July 1996, p.7.
[456] 'Lamb Helped in France By Rugby', *Export News*, 15 November 1999, p.3.
[457] New Zealand Meat Producers' Board, *Annual Report*, 1991, p.22; *The Dominion*, 9 May 2001, p.14.

market share. This was also an opportune medium for New Zealand marketers to test responses to new products.[458] Such was New Zealand's success in this area that it received accolades through the granting of awards from the European food industries.[459]

New Zealand exporters found that with more efficient and targeted marketing along with more advanced presentation techniques, their sheepmeat products by the early 1990s were fetching similar, if not higher prices to local produce. A more sophisticated and desirable New Zealand product had replaced an inferior alternative meat product. While the British sheep industry was accused of complacency and the promotion of its meat 'lamentable',[460] New Zealand exporters appeared to be enjoying the relative success of their extensive marketing operations.

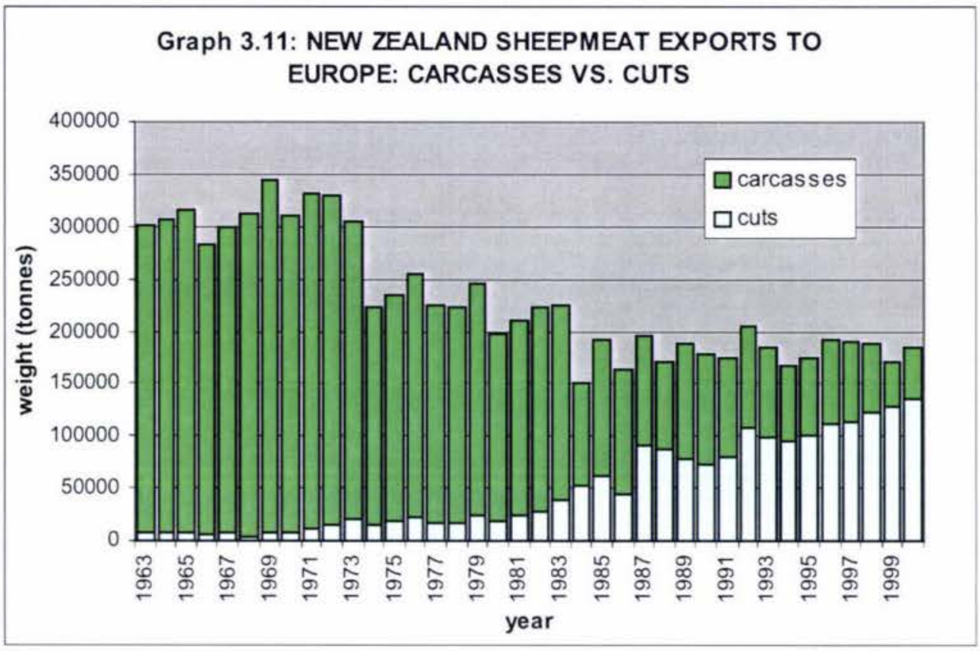
Technological Innovation

In 1960, almost all of New Zealand sheepmeat exports were in frozen carcass form. British butchers performed any further processing. New Zealand sheepmeat was perceived as it always had been, as low-cost protein options for British consumers. The volumes of carcasses that could be sent optimised New Zealand's returns, rather than any further processing. This remained the tradition for most of the following two decades, but rapid change occurred as technological advancements in processing, packaging and shipping occurred in the latter half of the period.

In the 1960s New Zealand meat exporters were more focused on diversifying their markets than their export products, but gradually the idea of adding value before shipment caught on. By 1980 18% of New Zealand lamb exports were processed.[461] At first this meat was lightly processed to forms such as leg roasts or offal.[462] Something of a technological revolution took place over the following decade, however, which led to 55% of lamb for export being processed to varying degrees by 1990.[463] This growth continued, so that by the end of the century less than 10% of

[458] 'Beyond the Gigot', *New Zealand Meat Producer*, Fourth Quarter 1994, p.12.
[459] 'New Zealand Meat Exporter Wins Major Award', *New Zealand Meat Exporter*, July 1999, p.4.
[460] Arnold Pennant, 'Talking Point', *Farmers Weekly*, 29 May 1992, p.11.
[461] New Zealand Meat Producers' Board, *Annual Report*, 1991, p.19.
[462] Rod Cumming, 'The French Market', *Export News*, May 1983, p.16.
[463] New Zealand Meat Producers' Board, *Annual Report*, 1991, p.19.

exports were in frozen carcass form. European exports followed this trend, as Graph 3.11 shows. Sheepmeat cuts comprised more and more of exports, to the point of 74% of the total in 2000.



This allowed New Zealand exports to become more attractive to the high-value European market outside Britain. New Zealand lamb in particular could be promoted as a luxury food when processed according to the consumers' needs. Countries such as Belgium, France and Germany had particularly sought-after markets. Compared to an average of $3910 per tonne (f.o.b.)[464] earned from exports of lamb to Britain in 1991-2, New Zealand exporters received an average of over $6596 per tonne from those countries. These were usually sold to the lucrative Hotel, Restaurant and Institute (HRI) sector or to 'hypermarkets' for direct consumer retail.[465]

The benefits of the greater processing and diversion of exports to these markets is evident in Graph 3.12. While total quantities of sheep and lamb exported to Europe

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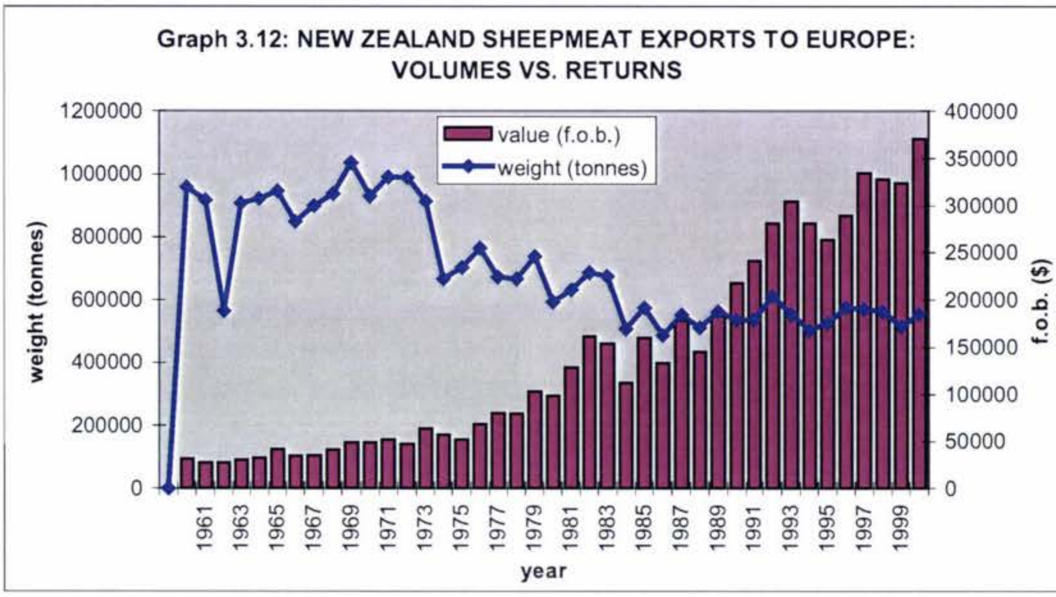
464 F.O.B.; Free on Board, the value of the exports, including costs of getting them on board for shipping.
465 *New Zealand Meat Producer*, First Quarter 1993, pp. 14-15.

levelled out in the 1990s, earnings from them did not. Receipts in fact rose over 50% from 1989 to 2000.[466]

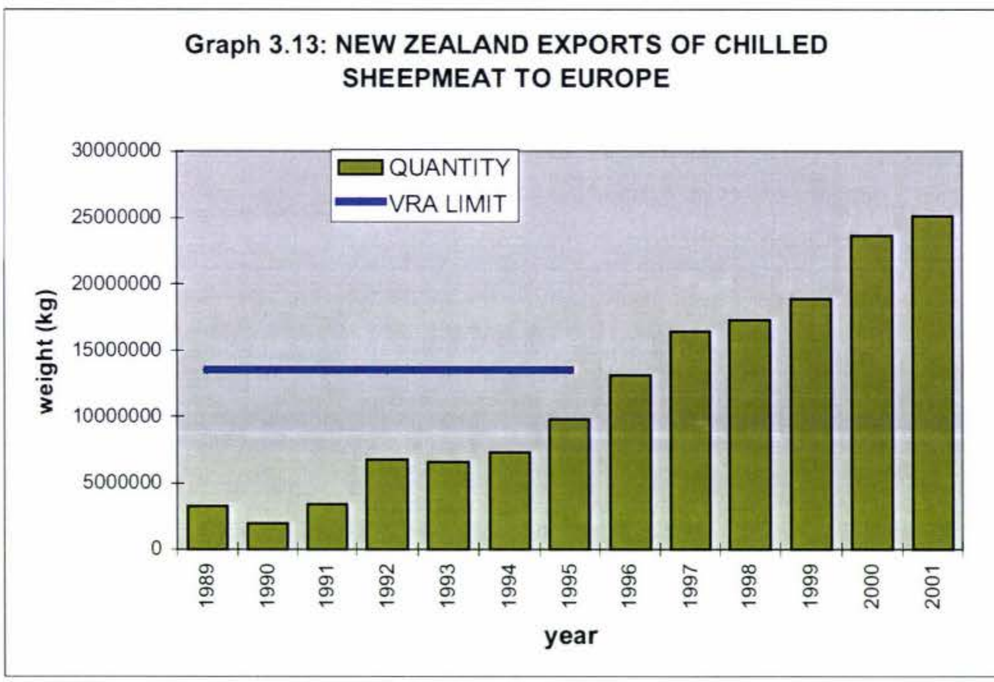


Processing advancements were not confined to frozen exports. During the 1980s the development of specialised packaging techniques liberalised the marketing and shipping of chilled sheepmeat exports. Advances in meat processing such as 'inverted dressing',[467] and specialised packaging techniques,[468] both of which made ship transport possible for chilled meats rather than airfreight, reduced costs and made it possible for New Zealand sheepmeat to compete alongside fresh European product for higher returns. Chilled sheepmeat on average earned about 1.5 times that of its frozen counterpart in the European market.[469] New Zealand's success with this quickly led to it being perceived as a threat to local producers' interests, and to European calls for

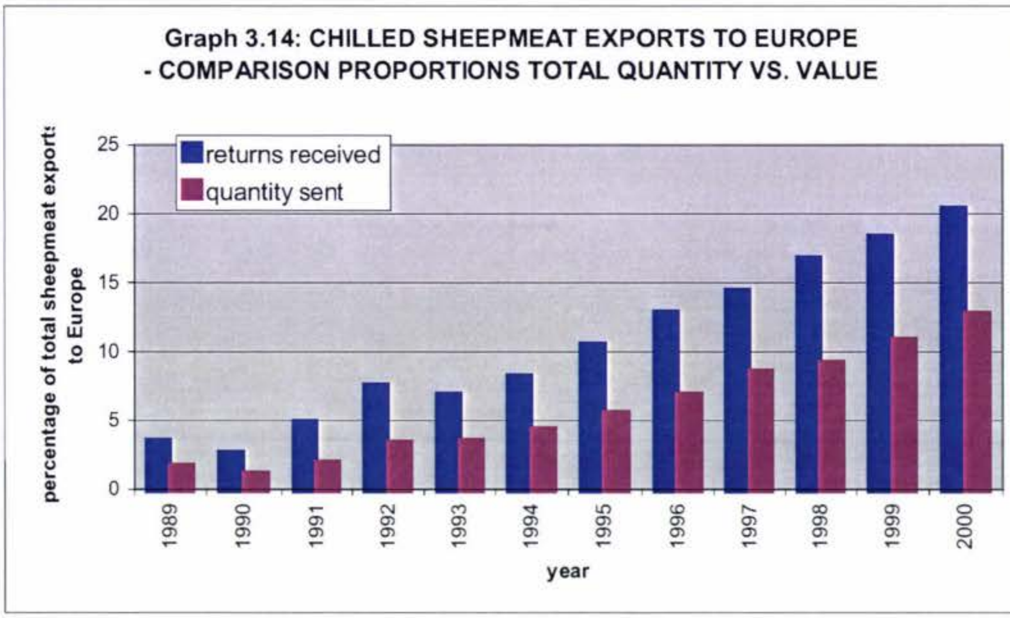
[466] Inflation rate was approximately 2% per year; Consumer Price Index (CPI) rises therefore only account for only about 1/5 of that increase. Earnings from 1989 equalled $725 million in 2000 prices, but actual earnings were $1,111 million. Calculated from Reserve Bank of New Zealand CPI Inflation Calculator, http://www.rbnz.govt.nz/statistics/0135595.html, accessed 25 February 2004.
[467] Savage, 'Export Meat Processing', in Savage and Bollard (eds.), *Turning It Around,* p.67.
[468] 'Chilled Meat Exports Aided by UEB Pouch', *Food Technology in New Zealand*, May 1988, pp.6-7.
[469] Average prices calculated per tonne - 1989 figures: frozen $3.3, chilled $5.83 (by 2000 prices frozen $4.37, chilled $7.72); 2000 figures: frozen $6.62, chilled $9.57. Conversions of prices to 2000 made through Reserve Bank CPI Calculator, http://www.rbnz.govt.nz/statistics/0135995.html, accessed 25 February 2004.

restrictions on chilled imports, which commenced as part of the VRA revision in 1989.

The restriction of chilled imports to 13,500 tonnes did not affect New Zealand's exports too badly at first because until the early 1990s chilled exports of sheepmeat were a relatively small proportion of total exports, and were also directed to other markets. This aspect of trade with Europe was developed through the early 1990s, though, and from 1992 onward around 70% of New Zealand's total chilled lamb exports were directed to that market. Advantage was taken of access to that market after the lifting of chilled meat restraints in the Uruguay Round access agreements from 1995, as is evident in Graph 3.13.



Meat industry officials predicted that the high-returning chilled sheepmeat exports were the way of the future for New Zealand's European export earnings,[470] and the trend towards this is evident towards the end of the period. As Graph 3.14 shows, chilled exports grew increasingly in importance through the 1990s in terms of quantities sent. These were significant contributors to the more lucrative earnings received from this region at this time.



Both the quantities of chilled sheepmeat sent, and earnings received, increased about seven-fold over the period. Because of the higher returns achieved from chilled sheepmeat, its relative importance as an export became more prominent. By 2000, even though only 12.5% of the total volume of sheepmeat exports to Europe was chilled, this returned over 20% of the associated earnings.

Regardless of the success of chilled sheepmeat in the European market, frozen cuts remained extremely important for New Zealand's trade with Europe. The advent of the microwave oven was recognised as an important tool in enhancing the image of frozen meat cuts for average consumers. This appliance became a regular feature of European households in the mid-1980s. Its presence enabled frozen, pre-prepared cuts to become a convenience food alternative for household consumers.[471]

Advanced packaging and presentation techniques also allowed frozen cuts to become highly marketable items to the European HRI sector. After consultation with professional chefs, New Zealand exporters developed specialised techniques for presenting frozen cuts so that on thawing their quality was perceived as equal to fresh cuts. These efforts were well received by the high-paying European HRI industry.

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[470] Peter Owens, 'Industry's "Cutting Edge" Response', *Food Technology*, November 2001, pp.26-27.
[471] Lamb, 'Challenge Meats Lives Up To Its Name', *Export News*, Issue 8, 1988, p.12.

The technological advances that were developed in the New Zealand meat processing industry over the 1980s and 1990s enabled New Zealand exporters to carry sheepmeat from tradition to modern trading. They ensured that New Zealand sheepmeat secured a niche for itself within the high-paying European market in spite of the protectionist environment that they were working with.

Conclusion

Whether or not the heavy concentration on meat exporting at New Zealand's 1963 Export Development Conference was foresight or simply a show of political influence, it is interesting that four decades later this commodity had endured to become the most substantial single earning commodity for New Zealand exports to the European Union. The explanation for this has come from a number of factors.

Production has dramatically changed as a result of changes in political approaches to the industry over the period. At times the short-term consequences of deregulation within the meat processing industry and removal of producer supports appeared to threaten New Zealand's entire meat export industry. Over the final decade, however, the rewards from efficiency-building and technological innovation measures of those that survived the industry were beginning to be reaped.

The influence of external politics also had a role to play, though. While the VRA arrangements made in 1980 had the potential to restrict New Zealand sheepmeat exports to the EU, they did not do this in practise. It is feasible that those arrangements actually served as some protection for New Zealand from competing suppliers to the EU market. In the final outcome of the GATT Uruguay Round, the access arrangements made could be considered as a windfall for New Zealand exporters. They created ultimately a secure trading basis from which New Zealand could invest in and develop its own domestic sheepmeat industry. This shows the interconnectedness of the different factors – because without success in one, the other would not have been able to flourish.

Nor could New Zealand's sheepmeat marketing develop to the extent it did without the investment in capital and confidence that the producers, processors and exporters had. This helped New Zealand endure the political pressure that was often put on European governments by their own producers, to ban New Zealand sheepmeat imports. As was seen in France in the early 1990s, although there were vigorous protests against New Zealand lamb, there were at the same time many consumers who had become attracted to the presentation and marketing strategies that New Zealand exporters had developed there. This had some bearing on creating a more sympathetic disposition toward New Zealand imports by the Europeans.

Some of the things said by those at the 1963 Export Development Conference can therefore be seen as having foresight. It was certainly important that New Zealand developed its sheepmeat products so that they could be more extensively marketed. That further processing within New Zealand, rather than in Europe, would be advantageous to the New Zealand industries was certainly true. It also turned out to be well worth monitoring and looking for opportunities within the European Community/Union outside Britain. By 2000, they were certainly the most lucrative markets for New Zealand, and clearly the most important in sustaining the growth of the industry.

Chapter Four
NEW ZEALAND WOOL EXPORTS TO EUROPE

Wool was the commodity in this study that was least affected by international politics. New Zealand's wool exports to Europe were not subjected to the political arrangements or manoeuvrings that butter and sheepmeat were. As an almost freely traded commodity, the pattern of its exports were largely determined by the whims of the market. Wool's inclusion therefore provides a counterpoint to this study. Despite what one might expect, the lack of politics directly involved in its trade did not ensure its continued success in exporting to Europe.

This chapter will show that wool, in 1960 the highest earning commodity for New Zealand in its exports to Europe, dramatically lost its importance over the period. This was not caused by any political blockages, but rather the influence of changes in the market over the period. Much of this was to do with changes in European industries and markets for wool, but also because of wider international changes, especially in Asia, that altered the course of wool's world trade. Besides this, the developments in the New Zealand wool industry, which have also influenced the profile of this commodity in Europe in the latter decades, will also be examined. While there are, therefore, issues of production and politics that have affected New Zealand's wool trade with Europe, by far the most influential have been those that pertain to marketing, and the markets for, New Zealand wool.

Wool was New Zealand's greatest earning export category to Europe in 1960. It had held this position for most of the previous century, almost since sheep farming had commenced in New Zealand after introduction of the first permanent flock of sheep in 1832.[472] The first exports of wool left Wellington in 1846, and from the 1850s and for the following century, wool was one of, if not the, most important export items for New Zealand.[473] In 1960, wool earned New Zealand £72 million

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[472] Evans, *A History of Agricultural Production and Marketing in New Zealand*, p.81.
[473] 'Golden Fleece: The Evolution of the New Zealand Wool Industry', *New Zealand Official Yearbook* 1981, pp.967-974; Lloyd Pritchard, *An Economic History of New Zealand to 1939*, pp. 56, 79-80.

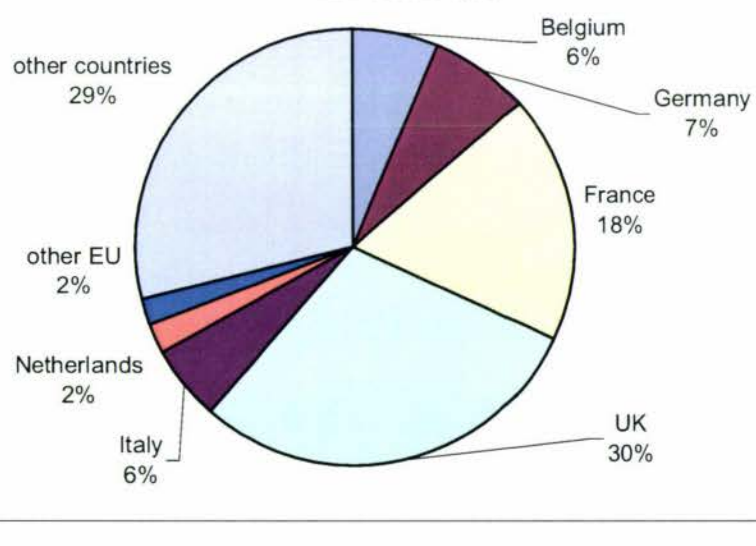
from Europe, approximately one third of its total export income from that region. This led historian B.L. Evans, writing in 1969, to name wool as New Zealand's 'king' export commodity, something he considered was likely to remain so in the future.[474]

Wool was noted early in the 1960s as being 'different' in its trade than its agricultural counterparts[475] and indeed, to butter and sheepmeat, it was. At the 1963 Export Development Conference, New Zealand Wool Board General Manager J.D. Fraser identified this difference. He suggested the New Zealand wool industry was;

> well-known – the world's largest suppliers of crossbred wools – and the buyers of 40 nations will take every pound we grow. We are not fighting for new markets but for sound prices in existing ones. We promote our product not alone but through an international agency.[476]

The most noticeable of these differences for wool from butter and sheepmeat at that stage was the range of markets New Zealand wool was being sold to within Europe. While Britain was still New Zealand's largest wool market, it was by no means an exclusive destination, as it virtually was for butter and sheepmeat. Whereas Britain was the only large-scale importer of butter and sheepmeat internationally, wool was imported by many countries, especially to supply their woollen textile industries.

Graph 4.1: DESTINATIONS FOR NEW ZEALAND WOOL EXPORTS 1960



[474] Evans, *A History of Agricultural Production and Marketing in New Zealand*, p.89.
[475] J.D. Fraser, 'Wool: The Response to Competition', Background Paper Six, *Report of the Export Development Conference*, Wellington: Department of Industries and Commerce, 1963, p.1.
[476] Fraser, 'Wool: The Response to Competition', *Report of the Export Development Conference*, p.1.

Many of these were European. Of all the New Zealand wool that went to the countries of today's European Union, then, Britain took less than half. As Graph 4.1 shows, New Zealand at that stage traded freely and prolifically with the already established EEC. France, Germany, Belgium, Italy and the Netherlands were all important wool destinations.

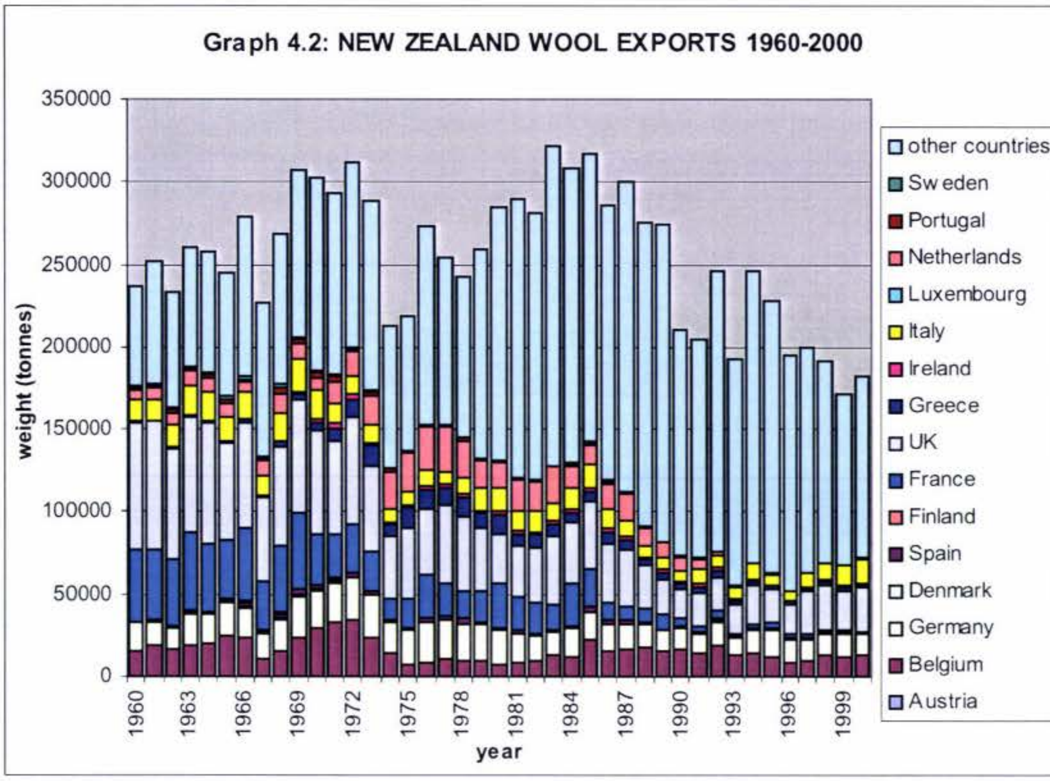
J.D. Fraser had such confidence in wool's future as a primary export commodity that he boldly asserted;

> Because world textile demand is rising at something more than three times the rate of wool production, it is our one major commodity for which there appears a limitless market.[477]

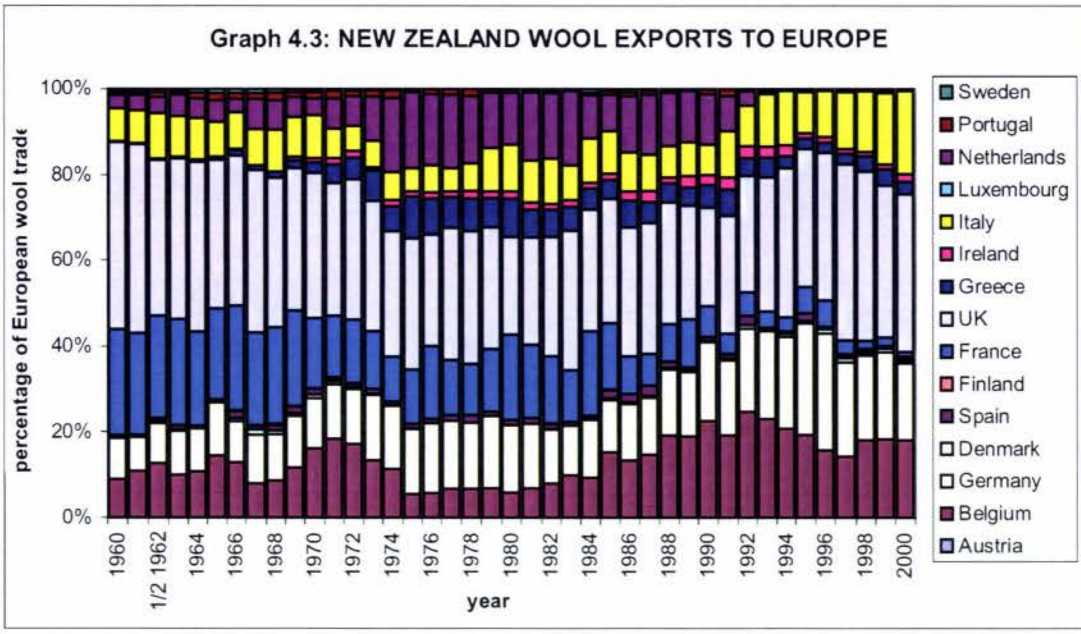
It was clearly assumed that the European countries would continue to be important wool destinations. It is ironic, then, that this commodity took such a nose-dive in importance as an export for New Zealand over the following decades. Wool lost its earning power relative to New Zealand's other exports, including butter and sheepmeat to Europe. Neither Fraser nor Evans had foreseen the substantial changes that would take place for the international wool trade over the following decades. The following graphs will illustrate these changes.

_Graph 4.2 shows the international direction of New Zealand wool exports (by weight) from 1960 to 2000. After 1960, other countries (outside Europe) increasingly took more wool over the following thirteen years, while those destined for Europe were fairly stable (except for 1968), at around 170, 000 tonnes. A significant decrease in volume in 1974 signalled the commencement of a general decline in wool exports to Europe, despite some increases over the mid-1970s and in 1985 in particular. While the decrease in 1974 followed a slump for totals worldwide, recovery and growth over the following fifteen years actually appeared far greater outside of Europe than within, as China and the Soviet Union became increasingly prominent customers for New Zealand wool.

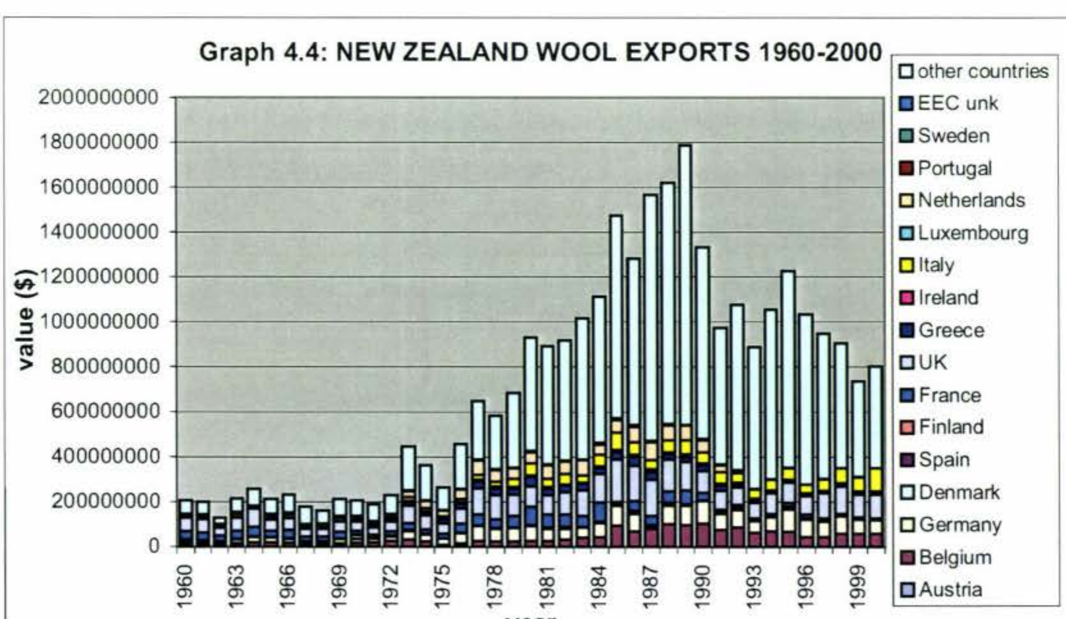
[477] Fraser, 'Wool: The Response to Competition', *Report of the Export Development Conference,* p.1.



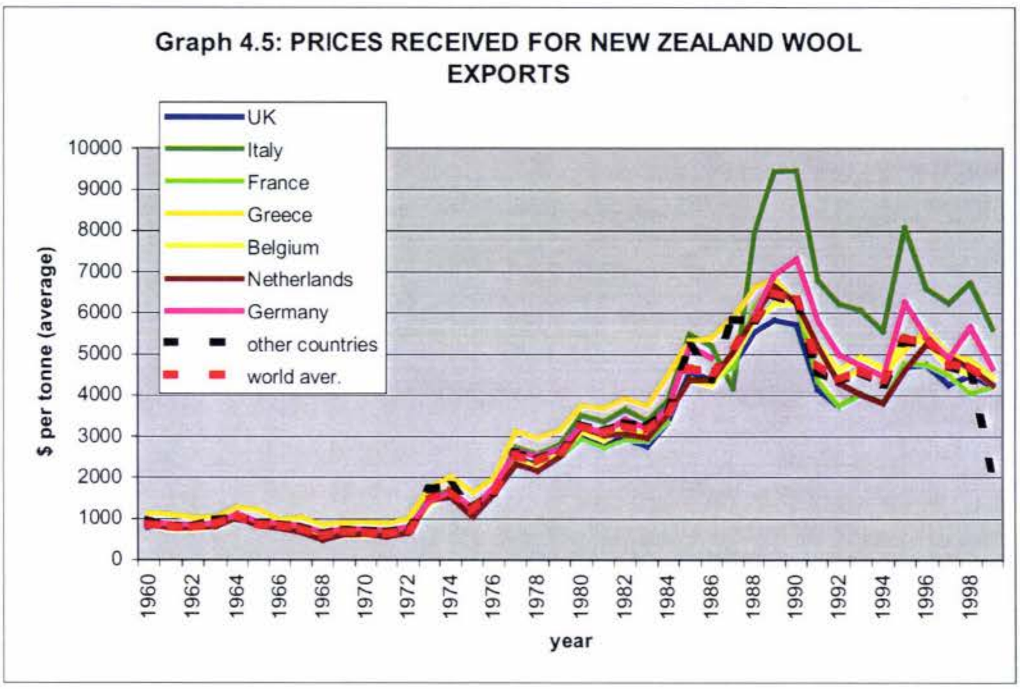
As already noted, the pattern of wool exports to Europe was more evenly distributed throughout the Community than for butter or sheepmeat. This pattern of broad distribution continued throughout the period, as Graph 4.3 shows. In 1960, exports to European countries other than Britain comprised 51% of the total volume of wool destined for that region. Britain, at 49%, remained the single largest importer throughout the period, but its share fluctuated. This reduced to 34% by 1970, declined further to just under 25% in 1980 and 1990, and increased again to 37% by 2000. While France, the Netherlands and Greece were all also important European customers until the early 1990s, by the end of the period only Britain, Germany, Belgium and Italy dominated wool imports, together taking 92% of Europe's share. Higher valued wool imports to Italy meant that in terms of export revenue, they grew even more in importance to New Zealand. In 2000 these earned $102 million, only $2.7 million behind the higher volume of British imports.



In terms of export earnings, until the late 1990s wool exports to Europe took similar proportions of the total by volume and returns. By 2000, however, only 39% of New Zealand wool exports by weight were sent there but generated 43.5% of revenue return. This reflected better prices received from that region than others. A look at average prices received for New Zealand wool exports over the period verifies the impact of increased high value Italian imports in creating this change (Graph 4.4).



Wool prices were a contentious issue throughout the period in New Zealand's exports worldwide, including those to Europe. Price fluctuations were a feature of international wool trade, and much effort went into different studies of the industry and trade in attempts to understand the reasons behind them.[478] The prices obtained from most European countries were similarly volatile.



Graph 4.5 illustrates the movements in average annual prices received for New Zealand wool exports. They have followed a very general slow upward trend, but with increasing volatility from the 1980s. Influences on them also appear to have been wide-ranging, and not always intrinsically connected to the state of the industry. Significant price increases in the 1970s, for example, were noted as having had more

[478] Two studies which include this analysis of this issue are; *Final Report of the Wool Marketing Study Group*, November 1967; Asdie Oedin, 'Wool Marketing in New Zealand.' Post-Graduate Diploma of Agricultural Science Research Exercise, Massey University, 1971.

to do with inflation than the individual rise of the product. Synthetic fibres' prices rose at similar, if not greater, rates.[479]

Until the mid-1980s average prices received for wool from any destination appear to have been similar – so that in contrast to sheepmeat for example, Europe was not seen as a higher priced market compared to the rest of the world. A different trend only began for Italy from the late 1980s, when prices received for exports there became significantly higher than the average for Europe or the world. Meanwhile, prices received from Britain were below the world average, showing that while it took the major share by volume, Italy (and Germany) had become far more valuable in terms of average return per tonne. This can be attributed to a taking advantage of opportunities for fine wool exports there, but these remained low in volume compared to the total clip exported.

Graph 4.5 goes some way to explaining why New Zealand wool exports have diminished in importance both worldwide and to Europe. Wool has not held its value in real terms. Although an increase in average price received is evident, when inflation is taken into account an actual decrease in return per tonne occurs. The New Zealand Consumer Price Index increased approximately fourteen times from 1960 to 1996.[480] Average prices per tonne worldwide increased only six times, and even Italian prices rose by only 7.8 times. Reductions in volumes sent over the period were therefore accompanied by reductions in true average return. Understanding why this happened is key to explaining its relative demise as an export commodity. This will be discussed over the remainder of this chapter.

Just as wool was different in the course of its trade over the years 1960 to 2000 to the other commodities in this study, so too were the influences upon it. Bilateral, or indeed, unilateral politics did not feature as a direct influence on New Zealand's wool exports to Europe. Rather, the more classical features of supply and demand in the international wool market came into play. This study, therefore, has had to expand its outlook to consider some of the wider international influences on wool trading and

[479] Owen McCarthy, 'An Academic's View of Wool Marketing in the 1980s', in Owen McCarthy & John Pryde (eds.), *Proceedings of a Seminar on Wool Marketing in the 1980s*, Christchurch: Lincoln College Agricultural Economics Research Unit, Discussion Paper no. 36, 1976, p.63.
[480] *New Zealand Official Yearbook*, 1997, p.584.

how they came to bear within the narrower relationship between New Zealand and the countries of today's European Union. As will be demonstrated in the sections that follow, the effects upon the bilateral trading relationship were often instigated outside the realms of the direct participants.

Influences on Production

As a material that has little scope for adding value in its raw form, wool's production has been relatively straightforward. The greatest influences on supply came from the volumes and types of sheep available to produce wool. The New Zealand Wool Board played an important role in guiding and supporting that production over the period. The changes that took place in policies had some effect on New Zealand's ability to export wool to all of its markets, including Europe. This section will give a broad outline of the industry and its major changes over the period.

New Zealand Wool Industry

New Zealand's domestic politics had some influence over the direction of the national wool industry and its exports. The Wool Board featured strongly throughout most of the period as a regulator, protector and promoter of the industry. From the 1950s to the early 1990s wool returns were regulated by New Zealand wool organisations - which could, ironically, have led to the comparative decline of the commodity's trade.

The New Zealand Wool Board was established in 1944 with the principal concern of promoting and aiding development of the New Zealand wool industry. The Wool Commission became a regulatory body for wool producers' incomes from its inception in 1951. It was established with the purpose of assuring minimum prices for wool to farmers.[481] Funding for the Commission originally came from a producer contribution fund and the surplus funds of the Joint Wool Marketing Organisation and the Wool Disposal Commission that had operated after the Second World War to

[481] *New Zealand Official Yearbook*, 1968, p.408, 571.

dispose of wool stockpiles.[482] The original Commission fund stood at £26.6 million, a sum which grew to £36.85 million by 1966. However, a dramatic slump in the international wool market in 1966-67 led to £31.42 million of that fund being used in one year to cushion the slump's effect on producer incomes. Consequently the Wool Commission was no longer financially liquid enough to continue to support wool prices at the same level they had previously enjoyed. Price floors were reduced the following year.[483]

The Commission's impact on trade was particularly evident at this time (see drop in European exports in 1967, graph 4.2), when it purchased 39% of the wool offered at auction that year and put it into stocks with the objective of selling it off as prices climbed later on. Wool exports to Europe were the most affected by this action, and the volume sent there was 50,000 tonnes less than the year before. It was later observed that European wool manufacturers also had less demand for wool at that time because a drop in consumer demand for their products, but at the time the New Zealand Wool Board was widely blamed locally for stifling the New Zealand economy and its customers.[484] The intervention was also later decribed as 'the killer' in causing economic difficulty for New Zealand because of the outlay committed by the Commission alongside the loss of export revenue.[485] These stocks were, however, sold off over the following four years.[486] The heightened volume of wool exports to Europe and beyond during that interval could well an associated outcome. A rather dramatic drop followed that period in 1974. It is noteworthy also that a rise in overall revenue was minor during that period (Graph 4.4), leading to the assumption that the stocks were sold off at low prices.

New Zealand Prime Minister Robert Muldoon introduced Supplementary Minimum Prices (SMPs) in 1975.[487] These were a stipulated return rate to farmers for

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[482] Evans, *A History of Agricultural Production and Marketing*, pp. 93-98.
[483] Evans, *A History of Agricultural Production and Marketing*, p.100.
[484] Bill Carter and John MacGibbon, *Wool: A History of New Zealand's Wool Industry*, Wellington: Ngaio Press, 2003, pp.137-138.
[485] R.D. Muldoon, *The New Zealand Economy: A Personal View*, Auckland: Endeavour Press Ltd., 1985, p.57.
[486] B.P. Philpott, *The Contribution to Stabilisation by the New Zealand Wool Commission and Lessons for the Present*, New Zealand Economic Papers Vol. 9, 1975, pp. 33-57.
[487] Carter and MacGibbon, *Wool,* p.245.

their wool, as determined from season to season. Along with other farmer supports for meat from their sheep, SMPs had the effect of maintaining and even promoting farmer confidence in their flocks. As a consequence, the national flock expanded by 12 million sheep over the decade 1975 to 1985.[488] More wool was therefore produced and available for export. This appears to have had little effect, however, on New Zealand's wool trade with Europe. Most of the 'extra' wool went to countries outside that region; particularly to China. As can be seen in Graph 4.2, from 1975 to 1985 exports to Europe were relatively stable in quantity, while those directed to other countries more than doubled.

Stockpiling by the Wool Commission, Marketing Corporation or Board were more direct effects on New Zealand's actual exports. Slumps/lows in prices often accompanied drops in wool export volumes to Europe, indicating that stocks were withheld from export until prices rose again. The Wool Board took over the Wool Marketing Corporation's (1972-1977)[489] functions when it was reconstituted in 1977, being given extensive powers to assist it to 'obtain, in the interests of growers, the best possible long-term returns for New Zealand wool'.[490] This objective continued throughout the 1980s and into the 1990s.

The 1980s have been described as the 'boom and bust' period of the New Zealand wool industry.[491] Wool production peaked early in that decade, largely promoted by the stable returns that the support mechanisms allowed them. These at first appeared somewhat justified by the heightened demand for wool brought about by new markets such as China. As early as 1983, though, it was acknowledged that New Zealand's wool markets were depressed, and options for helping the future of wool were sought.[492]

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[488] From 55 million to 67 million. Department of Statistics and MAF statistics given in Reynolds and SriRamaratnam, 'How Farmers Responded', in Sandrey and Reynolds (eds.), *Farming Without Subsidies*, Table 9.1, p.160.
[489] Carter and MacGibbon, *Wool,* pp.242-250.
[490] *New Zealand Official Yearbook*, 1981, p.376.
[491] McKinsey and Co., *Report to New Zealand Woolgrowers on Improving Profitability*, Wellington: McKinsey and Co., 2000, p.16.
[492] W.R.Schroder, *The Long Term Future For New Zealand Wool*, Palmerston North: Centre for Agricultural Policy Studies, Massey University, August 1983, p.1.

Changes in New Zealand's domestic economic policies in the mid-1980s then triggered a decline in the national sheep flock. The Fourth Labour Government from 1984 to 1986 abolished SMPs and most other farmer support mechanisms. A consequence of this was a marked decline in sheep farming. Within three years, the national flock size fell from 70 million to below 67 million.[493] Less wool was therefore produced. By 1989, Wool Board Chairman Pat Morrison complained that the policy changes had directly resulted in a shortfall of 10% in wool production, threatening the Board's ability to meet international demand.[494]

In 1991 wool price and income support mechanisms were indefinitely suspended and subsequently removed.[495] This correlates with a further declining trend in overall volume of wool production and exports thereafter. In 1992, 150,000 bales of Wool Board stocks were released as part of their cessation of stockpile practises.[496] This led to the anomaly that year of increased exports and revenue in wool. Exports to Europe increased, but did so more particularly to countries outside of Europe. Average prices also dropped quite dramatically in the ensuing period (see graph 4.5), with some recovery but never to the highs of over $6 per kilogram of 1989-90.

New Zealand sheep flocks reduced by seven million in the following five years, causing wool production to decrease by 22,000 tonnes.[497] This decline in production and overall exports was less obviously evident in trade with Europe. Aside from the low points of 1993 and 1996, trade with that region was relatively stable and, as already mentioned, with some recovery.

After the implementation of the Wool Board Act in 1997, [498] the Board's support was defined more in terms of research development and marketing activities rather than market intervention. As will be shown in the Marketing section, a concentration on developing specifically New Zealand markets had developed since the 1980s and by this time was well underway, with some success.

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[493] *New Zealand Yearbook,* 1988/89, p.530.
[494] 'Shortfall Puts Pressure on Wool Exports', *New Zealand Farmer*, 4 October 1989, p.5.
[495] *New Zealand Official Yearbook*, 1991, p.279.
[496] 'Primary Products Continue to Dominate', *Export News*, 27 February 1992, p.5.
[497] *New Zealand Official Yearbook*, 1997, p.440.
[498] New Zealand Wool Board, *Annual Report*, 1997/8, p.20.

The report by McKinsey and Co, commissioned by the New Zealand Wool Board after agreement at their 1999 AGM, identified a number of perceived areas of weakness in the New Zealand wool industry. It was noted that over the previous twenty years, demand and prices (in real terms) for wool had fallen each year.[499] Even though prices for agricultural commodities were inclined to decrease over time, the rate for wool had been greater than for other products, such as those of meat or dairy origin.[500] This was attributed largely to the growth of substitutes for wool in carpet and textile manufacturing processes.[501] The report also disputed the perception of many growers that the marketing system for New Zealand wool was contributing to price declines. Instead they attributed this to declines in demand for wool, based mainly on manufacturers' decisions to substitute synthetics for wool after weighing up their respective cost versus quality benefits.[502]

The thrust of the report was to find strategies to steer the New Zealand wool industry into optimizing its market returns, considering the changes that had taken place in international wool trading. Those changes were sometimes the result of indirect political forces, which will be highlighted in the following section. How the European market transformed over the period will then be shown. The New Zealand wool industry's responses and initiatives within that environment will be explained in the final sections.

Politics

There were no drawn out bilateral negotiations for wool exports to Europe as there had been for butter and sheepmeat. Some political changes, however, had indirect impacts on trade patterns. These illustrate the inevitable interrelationship that exists between political developments and international commodity markets.

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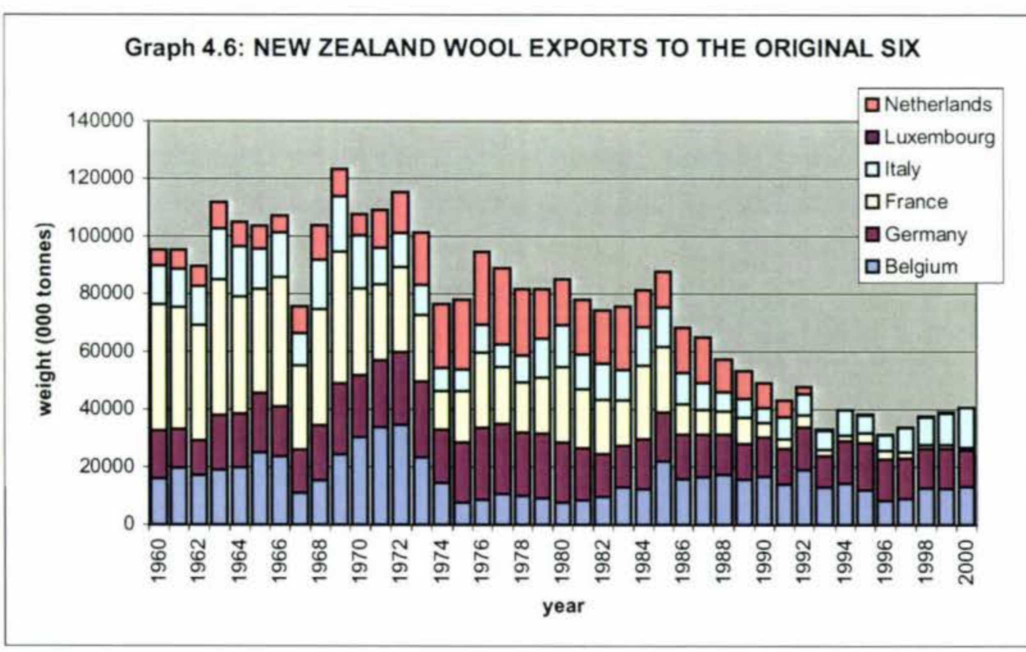
[499] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.21.
[500] McKinsey and Co, *Report to New Zealand Woolgrowers*, pp.22-23.
[501] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.23.
[502] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.24.

Political Issues

Despite New Zealand's established trade in wool with many of the countries of the EEC before its establishment, the Treaty of Rome did not cause the same nervousness for future exports there in the wool industry as it did for sheepmeat and butter. It was actually discussed in 1961 that the formation of the EEC and the CAP could instigate an increase in New Zealand's wool exports there. As stated in the report on the EEC in 1961,

> These industrial raw materials (wool, hides and skins – which comprised 90% of NZ exports there) will continue as at present to enter the EEC duty free and without other restrictions of substance. Indeed with industrial expansion and the growth of incomes it can reasonably be expected in the long run that the formation of the Community will have a favourable influence on demand and prices for these commodities.[503]

Graph 4.6 shows that there was indeed some growth in export volumes to the Six in the mid-1960s, but this was followed by a crash in 1967 and (excluding 1970) fairly steady volumes rather than concerted growth. Significant falls also ensued from the early 1970s. Prices, as were shown in graph 4.5, rose only slightly in the mid-1960s and dropped toward the end of the decade. By and large, though, going into the 1970s New Zealand exporters still felt reasonably secure about their EEC markets.



British accession into the EEC also did not really perturb New Zealand wool exporters in the following decade. It was considered that the flow of its trade would be unaltered by the change, essentially because of the benign political nature of the wool trade. The established pattern of trade with the Original Six and absence of any suggestion of formal trade restrictions on wool on British entry or thereafter gave the New Zealand wool industry little to worry about. It was expected that the enlarged Community would remain New Zealand's principal market for wool.[504]

The Common Agricultural Policy did not have specific policies in place for wool production. It did, however, influence sheep production through its sheepmeats regime (see Chapter Three). One spin-off from this was that as the Community sheep flock increased, so too did its wool clip. This especially occurred in Britain, whose wool had similar properties to New Zealand in that it was most suitable for carpet manufacture.[505] In this respect, the CAP presented competition for New Zealand wool on the European market, especially when wool was marketed in generic rather than specifically national forms by the International Wool Secretariat (IWS). The growth in European production increased competition more because along with it, was a trend of decline in overall consumption of wool in that region.

Despite this, direct bilateral politics and interactions between New Zealand and the Europeans rarely featured in wool trade. It has been noted, however, that external politics between other countries, and policies implemented within other countries, did have the capacity to affect the course of the trade in less obvious ways.[506]

One indirect issue relating to wool trade was the commodity's (as a raw material of the textile industry) relationship to the Multi-Fibre Agreement (MFA) under GATT. Established in 1974, this agreement essentially allowed industrialised countries to restrict textile and clothing imports from developing countries.[507] For the two decades of its duration, this sanctioned the Community protectionism of its domestic textile and clothing industries. While there was some decline in this sector in Europe over the period, as will be shown later, those industries may have declined much more quickly

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503 'The European Economic Community', *AJHR*, A21, 1961, p.67.
504 *New Zealand and an Enlarged EEC*, pp.24-5.
505 Roger Buchanan, CEO Wools of New Zealand, Personal interview, 19 November 2003.
506 Roger Buchanan, Personal Interview, 19 November 2003.

without the MFA. The MFA was acknowledged as having helped some industries to survive longer than they might have under open market conditions.[508] This, in turn, would have helped keep European demand alive for its raw material inputs, of which one was New Zealand wool, therefore helping its trade rather than hindering it.

International politics have also had indirect effects on New Zealand's wool trade with Europe. Because of the relatively open market conditions of international wool trading, one country's politics had the potential to affect other markets. Roger Buchanan remembered when the US made the political decision not to import rugs from Iran after the collapse of the Shah. Iran consequently lost a significant amount of demand for its rugs, which reverberated into less production and demand for New Zealand wool in that market.[509]

Chinese influence on international wool trading, which has been noted as being particularly predominant since the 1980s,[510] was also due to political developments. Within China, economic liberalisation measures resulting from political change[511] caused massive growth in industrialisation, particularly in the yarn and textile industries.[512] From the early 1970s New Zealand wool industry and political representatives saw opportunities for exports to China within this growth and pursued them.[513] By the mid-1980s, the Chinese market had overtaken the European in importance for New Zealand wool exporters. The Chinese were able to pay higher prices for New Zealand's wool (largely to make into handknitting yarn) than the Belgians or Dutch could pay for use in their carpets, so priorities for wool supply were diverted there.[514]

In the mid-1990s it was noted that trade in wool, as an industrial raw material that was sold to processors who 'increasingly (were) in low-income countries', held an

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507 Michael Kirby, 'World Trade and the Multi Fibre Arrangement', *Textiles 1993*, No.1, p.8.
508 Robin Anson, 'Prospects for World Textiles and Clothing Trade', *Textiles Magazine*, Spring 1994, p.14.
509 Roger Buchanan, Personal Interview, 19 November 2003.
510 Roger Buchanan, Personal Interview, 19 November 2003.
511 Harry Harding, 'Political Reforms', in Mark Borthwick, *Pacific Century: The Emergence of Modern Pacific Asia*, 2nd ed., Boulder, Westview Press, 1998, pp. 417-426.
512 John Millington, 'China: World Textile Superpower in the Making', *Textiles Magazine*, Issue 2, 1995, pp.17-19.
513 Roger Buchanan, Personal Interview, 19 November 2003; Carter and MacGibbon, *Wool*, pp.305-306; *The Press*, 18 February 1975, p.18.

uncertain future.[515] This trend had included some European textile manufacturing industries, and may well account for the diminishing of wool exports to the Netherlands and France at the beginning of the 1990s.

Many lesser-developed countries had opened their borders to foreign manufacturers as part of overall economic and trade liberalisation measures largely promoted through GATT. Many transnational companies developed from this, usually with companies from developed countries transferring their labour-intensive operations to less-developed regions. German and Italian textile manufacturers, for example, opened factories in Eastern Europe and Asia.[516] This may account for some of New Zealand's wool exports decreasing to their countries and increasing to alternative regions.

Another consequence of international economic liberalisation over the period was that markets became far more interdependent. Changes in one affected others. The Asian economic crisis from July 1997 affected worldwide fibre markets two-fold. Asia is major importer of fibres as well as an important consumer market for textile imports. The reduction in fibre demand, which accompanied the economic crisis, caused a surplus of fibre exports internationally. Textile manufacturers, for example in Europe were also left in oversupply situations when demand also dropped for their wares.[517] This therefore impacted on suppliers of wool such as New Zealand, and is a likely cause of the overall decline in world wool exports over the 1997-2000 period.

The McKinsey Report on the New Zealand wool industry interpreted real price declines over the previous decades as a sign of the susceptibility and fragility of international markets. The report noted that prices rose suddenly in the early 1970s due to the effect of the oil shock on synthetic fibres. It also noted that this reoccurred in the late 1980s due to political buying decisions in China.[518] Wool prices had also

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[514] Roger Buchanan, Personal Interview, 19 November 2003.
[515] Neil Taylor, 'Outlook is Dim for Wool, but Better for Sheepmeat', *New Zealand Rural Business*, Vol.1, No.4, Winter/Spring 1996, p.33.
[516] Sanjaya Lall and Ganeshan Wignaraja, 'Building Export Capabilities in Textiles and Clothing: Case Studies of German and Italian Companies' Exports', in G.B.Navarette, R. Faini and A.Silbertson (eds.), *Beyond the Multifibre Arrangement: Third World Competition and Restructuring Europe's Textile Industry*, Paris: OECD, 1995, pp.221-236.
[517] Paul Morrison, 'Fibre Market Slump Hurts Wool', *Export News*, 8 February 1999, p.2.
[518] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.24.

increased in early 2000, due partly to increased demand, and partly to exchange rate changes.[519]

While the European Union markets had actually remained relatively stable, the Soviet Union market, so important during the 1970s and early 1980s, virtually disappeared for New Zealand by 1990.[520] The Chinese market had also experienced very fragile periods over the 1990s. The Europeans' stability, despite its decline, can therefore be seen as making it something of a bedrock market for the New Zealand wool industry. This will be discussed further in the following section.

Marketing

For wool, apects of marketing and the market itself proved to be the most important influences over how New Zealand's trade with Europe fared. Demand for wool was intrinsically linked to the health of the European wool textile industry, as the major importer of New Zealand wool. The growth of technology, which produced formidable competition for wool in the textile industry, was also highly influential in shaping demand. From the New Zealand side, however, there were also some significant achievements in developing and marketing the product to counter these challenges.

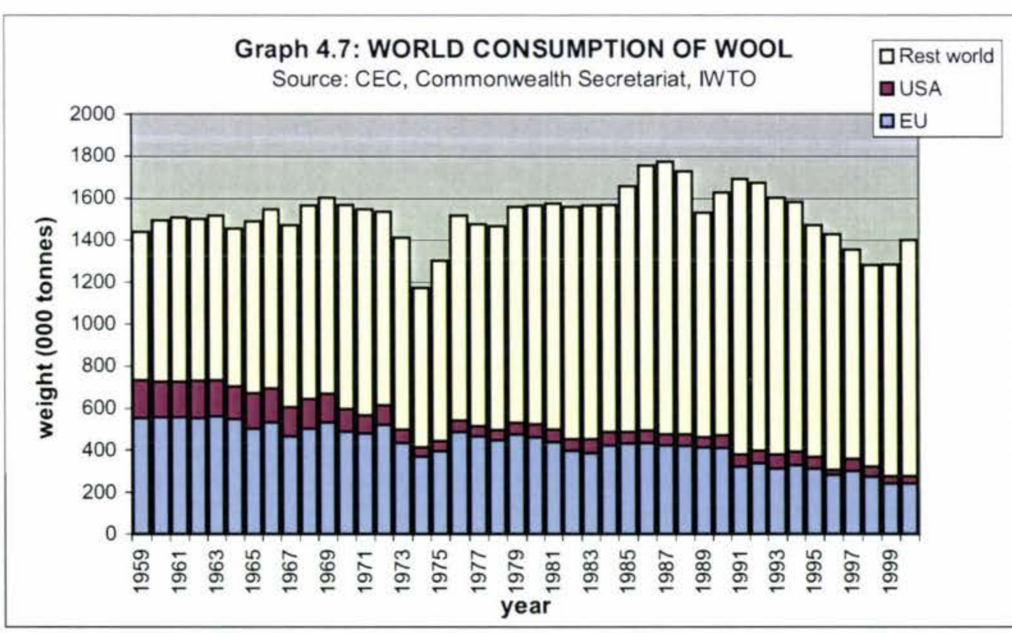
The European Wool Market

From the 1950s New Zealand wool became more and more specialised as coarse, cross-bred wool, most suitable for carpet making. Consequently, its fate became more and more intrinsically linked to the health and progress of the international carpet making industry. A study in 1971 noted that '...the market demand for woollen carpets is the most important single determinant of the demand for New Zealand wool.'[521] The carpet industry itself went through many changes in production, fibre consumption, demand for its products and geographical location over the following

[519] McKinsey and Co., *Report to New Zealand Woolgrowers,* p.25.
[520] McKinsey and Co., *Report to New Zealand Woolgrowers,* p.23.

decades. Many of these impacted on its own demand for New Zealand's wool as a raw material for production, and the destinations it was exported to.

In 1960 European countries dominated wool textile industries and, consequently, world consumption of wool. British industries were the most prominent, leading the French, Germany, Italian and Flemish as the five of the top seven world wool textile producing countries. The industries in these countries took 40% of total international wool consumption.[522] This high consumption relied on international imports, as all of these countries were relatively minor producers of wool; Britain, being the largest, produced only 2% of total worldwide production.[523] By the same token, New Zealand industries were relatively minor consumers, and wool exports were readily directed to supply the European industry demands. Within a decade, however, non-European countries such as Japan and the Soviet Bloc had become more important in international wool trading. Britain and Europe became less prominent importers.[524] This was reflected in less wool consumption in all European textile industries, including carpet manufacturing. By the end of the period, as shown in Graph 4.7, the EU was not nearly so prominent a consumer of wool.



[521] Oedin, 'Wool Marketing in New Zealand', p.82.
[522] CEC figures quoted in 'Report of International Wool Study Group, Eighth Session, London, 7 December 1964', p.5, NA file 104/6/31/6 pt. 2.
[523] Wool Intelligence figures quoted in same report, p.2.
[524] 'Considerable Change in Pattern of International Wool Trade', *Wool Record*, 8 May 1970, p.29.

The European carpet industry had developed with the Industrial Revolution. British trade in carpets enjoyed the protection of the 1932 Ottawa Agreement, which opened up the Commonwealth markets, including New Zealand, to British carpet exporters. After the Second World War, however, domestic and European carpet consumption grew as house building flourished, and hence became even more important markets.[525]

Up until the early 1950s these carpets were almost all of woven type of manufacture, and the pile comprised of all-wool yarn. Because Britain was at that stage a relatively small producer of wool for this purpose, New Zealand wool was an important supplier of the raw material for carpet manufacture.

Even as New Zealand wool exporters confidently considered the strong future of their business in the early 1960s, changes were already taking place in the European carpet industry that would have significant implications for wool suppliers. Advances in technology were instigating the demise of wool's importance in the industry. These were taking place two-fold; both within the yarn industry and in the methods of carpet manufacture.

New Zealand wool exporters in that 1963 report had related their optimism to the view that European carpet consumption was increasing. This was certainly true, because as house building in Britain had flourished after World War Two, so too had the domestic demand for carpets.[526] These had, over the previous half century, gone from being confined to the homes of the wealthy become a 'conventional necessity' for all classes of home, as well as more widely used in buildings such as libraries, hospitals, schools, offices and shops.[527] This trend appears to have extended to Europe. In West Germany, for example, from 1970 to 1980 the proportion of residential floor areas carpeted grew from 10% to 50% and commercial from 20% to

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[525] Bertram Jacobs, *The Story of British Carpets*, 2nd ed., London: Haymarket Publishing, 1972, p.197; J.Neville Bartlett, *Carpeting the Millions: The Growth of Britain's Carpet Industry*, Edinburgh: John Donald Publishers, 1978, p.191.
[526] Bartlett, *Carpeting the Millions*, p.191.
[527] Bartlett, *Carpeting the Millions*, p.189.

65%.[528] The formation of the EEC and EFTA had also opened up these European markets to British carpet exporters over the 1960s and 1970s.[529]

But alongside the growth in consumption, changes were taking place in the nature of carpet manufacture in Europe. For centuries carpets had been made from natural fibre yarns, most importantly wool. The first introduction of synthetic nylon fibres in 1938,[530] however, signalled impending competition for wool as the main ingredient. The use of synthetics in carpet manufacture did not really pick up until the 1950s, but accelerated thereafter. Improvements in synthetic fibre quality led to their 'complete acceptance by producers of woven carpets during the 1960s,' usually at first in blend with wool fibres,[531] but later often on their own. In the nine years from use 1954 to 1963, synthetic fibre use in British-made carpets grew from 2.5% to 25.4%. By 1968 this had burgeoned to 47.6%.[532] Synthetics rightly had come to be seen as a 'real threat to wool'.[533]

New methods of carpet manufacture also developed which favoured the complete use of synthetic fibres and exclusion of wool. Tufted carpets, which could be manufactured by a faster and cheaper process than the traditional woven variety, became popular for manufacture in Britain from the early 1950s.[534] This process completely favoured using synthetic yarns, and wool was used in this type of manufacture only sparingly.[535] Tufted carpets also became increasingly popular to consumers in Britain and Europe, largely because of their low cost compared with the woven variety.[536] In 1960 they comprised 17% of carpets produced in Britain, but by 1970 this had grown to over 50%.[537] Research activities by New Zealand scientists later developed technology so that wool could be used more readily in the tufted

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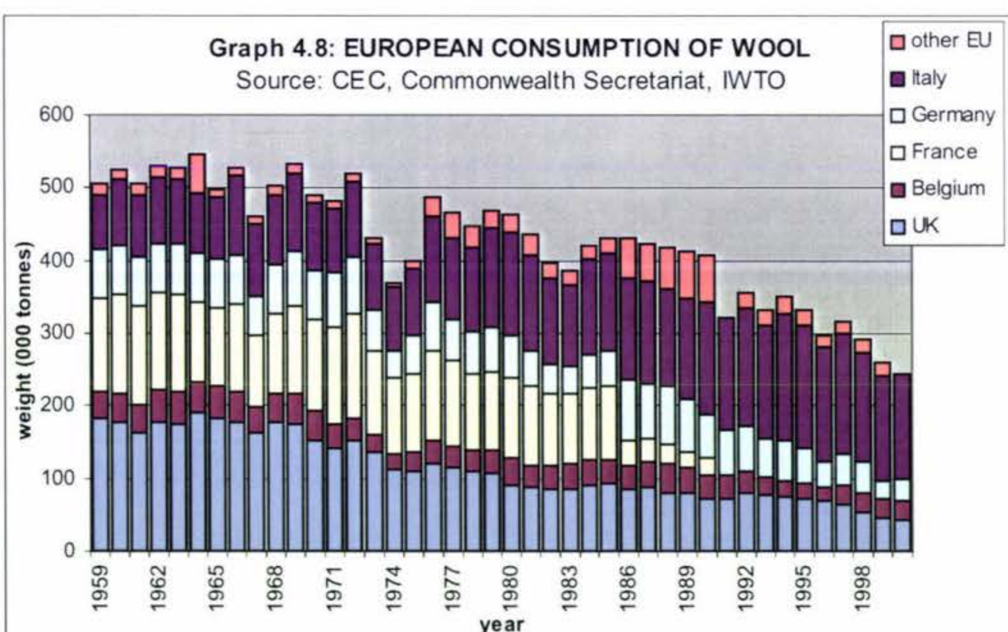
[528] Schroder, *The Long Term Future*, p.22.
[529] Jacobs, *The Story of British Carpets*, p.197.
[530] Carter and MacGibbon, *Wool*, p.63.
[531] Bartlett, *Carpeting the Millions*, p.193.
[532] Bartlett, *Carpeting the Millions*, p.194.
[533] Evans, *A History of Agricultural Production and Marketing*, p. 99.
[534] Bartlett, *Carpeting the Millions*, p.192.
[535] figures show that only 13 % of tufted carpets manufactured in Britain in 1969 were made from wool yarn, Bartlett, *Carpeting the Millions*, pp.198-199.
[536] Bartlett, *Carpeting the Millions*, p.195; IWS figures gave wool as being used in 70% of all textiles manufactured in Britain in 1959, dropping to 58% in 1970, 'Considerable Change in Pattern of International Wool Trade', *Wool Record*, 8 May 1970, p.29.
[537] Bartlett, *Carpeting the Millions*, p.199.

carpet process, but they were not able to recover completely from that early rapid decline in wool's popularity and importance as a material for European carpet manufacture.

Demand in Britain and the rest of Europe for wool therefore in the first decade of this study in particular had a significant influence over total wool exports for New Zealand. As has already been discussed, the 1966-67 international wool market slump had a significant impact on New Zealand wool prices and trade policy for the next few years. The phenomenon was largely attributed to those changes that were taking place in European production that decreased wool's importance to the carpet industry. Along with this, economic restraints in Britain, France and Germany had reduced retail demand and contributed to less overall manufacturing and more stockpiling. The prices importers were prepared to pay for New Zealand wool consequently also dropped.



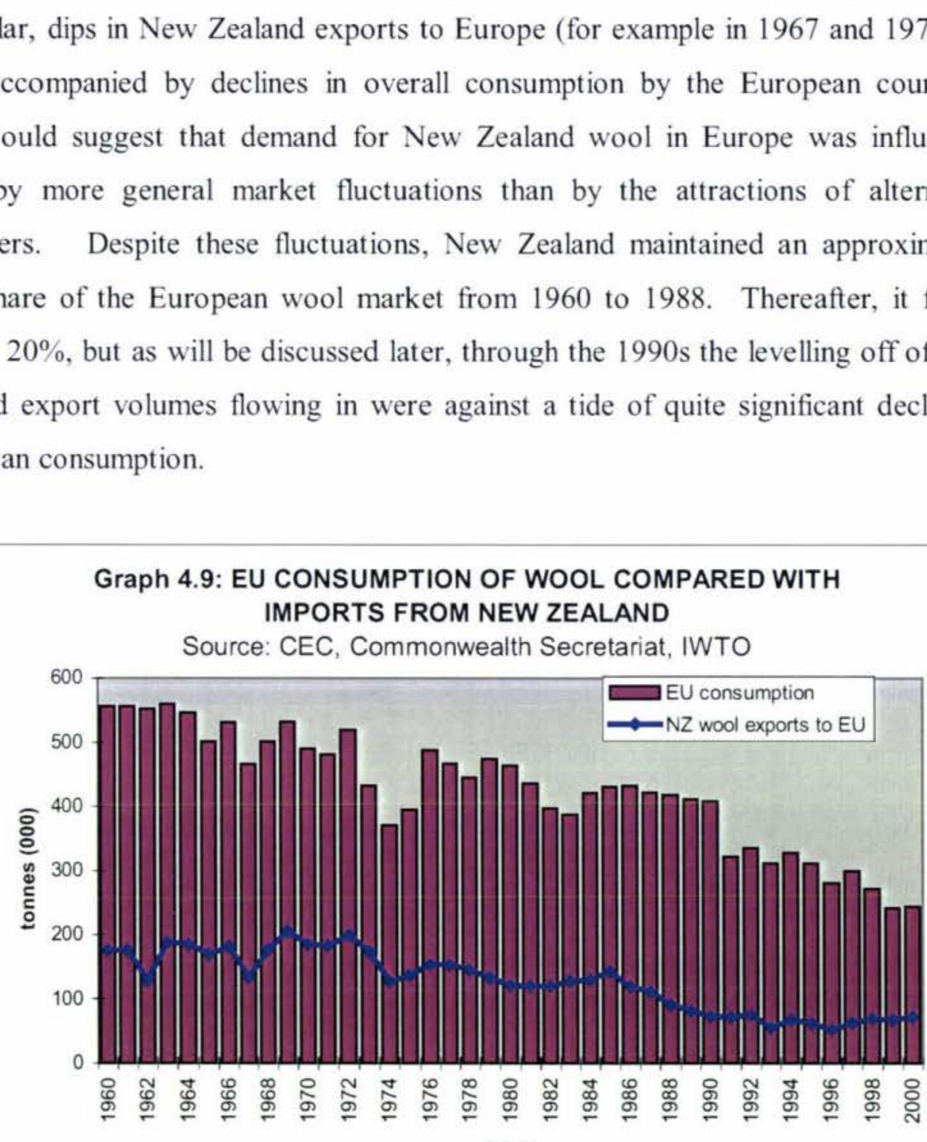
Graph 4.8 shows general European consumption figures for wool over the period. The first notable dip in consumption was in 1967, but there were others to follow, particularly in 1973-1975, and again in 1982-83. A general decline trend in wool consumption over the period is apparent. This is particularly obvious in Britain and

France. Whereas Britain still remained a major consumer of wool in the 1990s, however, France dropped away almost completely. Italy is the only one in which consumption grew, especially in the 1990s. Some of these patterns can be explained by those changes that took place in European carpet manufacturing.

A comparison of total European wool consumption with New Zealand exports there is shown in Graph 4.9. Generally, export patterns followed consumption patterns. In particular, dips in New Zealand exports to Europe (for example in 1967 and 1973-75) were accompanied by declines in overall consumption by the European countries. This would suggest that demand for New Zealand wool in Europe was influenced more by more general market fluctuations than by the attractions of alternative producers. Despite these fluctuations, New Zealand maintained an approximately 30% share of the European wool market from 1960 to 1988. Thereafter, it fell to around 20%, but as will be discussed later, through the 1990s the levelling off of New Zealand export volumes flowing in were against a tide of quite significant decline in European consumption.

Graph 4.9: EU CONSUMPTION OF WOOL COMPARED WITH IMPORTS FROM NEW ZEALAND

Source: CEC, Commonwealth Secretariat, IWTO



Some of this decline in European wool consumption is clearly linked to the changes that took place in the European carpet industry. As noted above, fundamental changes in manufacturing took place from the 1960s that caused the substantial decline over the following decades. European manufacturers struggled to maintain their businesses as competition in manufacture grew from other regions in the world. This was especially because wool product manufacture is largely determined by labour costs, which were much lower in less developed countries.[538] The Indian carpet industry, for example, became an important destination for New Zealand wool. The rise of China as a wool consumer both for textiles and handknitting yarn through the 1970s also squeezed European producers out of the market.

China was asserting itself in the 1980s and 1990s as a 'world textile superpower in the making.'[539] The Chinese wool industry had developed steadily, through political and economic liberalisation and industry development policies, which particularly led to a boom in garment and handknitting yarn production. By 1992 there were 3.3 million spindles at work in China spinning woollen yarns. Consequently this country, whose domestic sheep industry was too small to supply all the wool required for these industries,[540] became one of the largest international importers of wool. It became an important market for New Zealand wool, sometimes to the detriment of the European market.[541]

In 1994 a European carpet industry official identified that 'the carpet industry is going through the most turbulent times in its existence.'[542] One contributing factor was the marked drop in demand for carpeting across Europe.[543] This issue was usually linked to the level of housing construction and building refurbishment activity in an economy.[544] It had led to the structural overcapacity of the European carpeting market.[545] European rug making had also become less viable around this time, due mainly to intense industry competition from Middle Eastern and Asian countries.[546]

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[538] Roger Buchanan, Personal Interview, 19 November 2003.
[539] Millington, 'China: World Textile Superpower in the Making', p.19.
[540] Millington, 'China: World Textile Superpower in the Making', p.19.
[541] Roger Buchanan, Personal Interview, 19 November 2003.
[542] Rob Goosens, 'Carpet Fibres: The Way Ahead for Europe', *Textile Month*, June 1994, p.41.
[543] Goosens, 'Carpet Fibres: The Way Ahead for Europe', p.41; Morrison, 'Fibre Market Slump Hurts Wool', p.2.
[544] *1999 Mid-Season Update*, Wellington: Meat and Wool Economic Service of New Zealand, 1999, p.17.
[545] Goosens, 'Carpet Fibres: The Way Ahead for Europe', p.41.
[546] 'European Rugmakers Under Pressure', *Wool Markets*, 17 March 1992, p.2.

Another feature of changes in European textile making was a shift in manufacturing to other regions. A general decline in labour-intensive manufacturing such as carpet making occurred in Europe as through economic liberalisation it became possible to direct it to countries whose labour was cheaper. This occurred in some cases through those countries investing in their own economies, but also through some European transfer of their own manufacturing to those countries. In the early 1990s, for example, Italian and German textile manufacturers took up joint ventures with Hungarian Woolmark licensees, transferring the labour-intensive activities to the East.[547] German and Italian investment in textile companies in developing countries such as Sri Lanka was also evident.[548]

As the decline of the European carpet industry was being lamented by industry commentators, it was also acknowledged that the strongest remaining industry was the Belgians'. It continued to hold a strong position in the lower and middle market segments.[549] It was possibly this hold that pushed it to becoming one of the most important markets for New Zealand strong wools over that decade.

It does not appear that any other supplier superseded New Zealand wool in the European market. More significant was the European drop in demand for raw wool in general. Synthetic fibres, which were largely produced within Europe, pushed the natural fibre out of carpet manufacturing. Even where wool remained an important ingredient for carpet production, it was often blended with synthetic fibres to enhance the durability properties of the product.[550] Along with this, the Chinese market for wool took much of the impetus away from Europe as a pivotal market for wool. Some transfer of European manufacturing away from that region may also have contributed to a decline in wool exports there. Regardless, Europe maintained significant importance as an importer of New Zealand wool, especially with the survival of some traditional carpet manufacturing such as that in Belgium.

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[547] 'Western Textile Investment in East Growing', *Wool Markets*, 9 June 1992, p.1.
[548] Navarette, Faini and Silbertson (eds.), *Beyond the Multifibre Arrangement*, pp.221-236.
[549] Derek Ward, 'Carpet Show Sets New Record, But Lights No Fires', *Textile Month*, July 1995, p.4.
[550] Ward, 'Carpet Show Sets New Record, But Lights No Fires', pp.4-6.

Wool's development and its competition

From the 1950s there was a deliberate drive within the New Zealand sheep industry towards breeding sheep that grew coarse 'stronger' shorter wool. This was mainly because such sheep were also fast growing and suitable for meat production. Farmers could therefore optimise their returns from their flock by earning revenue from both the wool and meat of the sheep. Between 1958 and 1970, the coarsest wool category grew from comprising 71.5% of the total clip to 85%.[551] This essentially limited New Zealand wool to use in the manufacture of heavy woollen textiles, often used for outer garments, but mainly for carpet manufacture.[552] This made the carpet manufacturing centres of Europe one of its most important destinations.

At that time the international carpet manufacturing industry was strong and growing, so such breeding developments were rewarded. Demand for carpets in developing countries was seen to be expanding and the major carpet producing countries, including Britain, Germany, Belgium and France, all were enjoying increased production and sales of carpets.[553] But the nature of carpet manufacturing was beginning to change, and although New Zealand wool was still important for European carpet manufacture, it steadily encountered competition from synthetic fibres, which were becoming more readily blended into carpet yarns.[554]

While competition for wool from synthetics had been acknowledged as a rising issue in the confident days of the early 1960s, it had not been anticipated to be a major threat.[555] That rapidly changed. By the end of the decade synthetics were seen as the greatest threat to the New Zealand wool industry, in contrast to the political concerns that its trading counterparts butter and sheepmeat were experiencing.

The shift to a greater level of tufted carpet manufacture that favoured synthetic fibre usage had taken the impetus off New Zealand wool use. New Zealand scientists, along with some of their European counterparts, attempted to develop wool and wool technology to make it a more competitive raw material in this process. The Wool

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551 Oedin, 'Wool Marketing in New Zealand', p.81.
552 Oedin, 'Wool Marketing in New Zealand', p.82.
553 Oedin, 'Wool Marketing in New Zealand', p.83.
554 Oedin, 'Wool Marketing in New Zealand', pp.83-84.
555 Fraser, 'Wool: The Response to Competition', *Report on the Export Development Conference*, pp.1-4.

Research Organisation of New Zealand (WRONZ) was established in 1960 and it became largely responsible for New Zealand wool research and development throughout the period. Two WRONZ scientists addressed some of the disadvantages of using wool in the tufted carpet process by developing their own solutions. John Dunlop produced a woollen yarn more suitable for use in tufting. Garth Carnaby designed the 'WRONZ-eye needle', which made the manufacture of tufted carpet more conducive to wool yarns.[556] Another development was the Chemset process of setting wool yarn more efficiently in readiness for use in the tufting process.[557] Later research also attempted to understand and develop an increase in wool bulk, another property very important for tufted carpet yarn.[558]

Wool also suffered alongside its synthetic counterparts because of its lack of fibre uniformity compared to manufactured fibres. This was also an issue that was addressed throughout the period. Quality control for wool was at the beginning of the period largely reliant on value typing by manual inspectors. The 1967 report by the New Zealand Wool Marketing Study Group recommended that a more reliable and objective system of measurement and standards in wool marketing be developed.[559]

Work on creating a more standardised system commenced. By the 1980s technology had been developed so that objective measurement of wool clips could be obtained. This meant that specific qualities of wool, such as fibre length and colour, were measured and identified for customers before purchase. It was applauded as putting wool on a more even footing with synthetics as a uniform product for textile manufacturers.[560]

While these advances could not elbow synthetics out of the carpet manufacturing industry, they did nevertheless provide some solutions to the disadvantages wool faced in competing with them. Along with the marketing activities that promoted the superior 'naturalness' and quality of wool, these technological developments may well

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[556] Carter and MacGibbon, *Wool,* p.197.
[557] Carter and MacGibbon, *Wool,* p.198.
[558] Roland Sumner, 'Added Bulk Future Opportunity', *Sheep and Wool Review 1993*, pp.44-45.
[559] *Final Report of the Wool Marketing Study Group,* Prepared for the Chairman and Members of the New Zealand Wool Board and the New Zealand Wool Commission, November 1967, pp.53-54.
[560] Bernie Knowles quoted in Penny Galloway, 'Rural Perspective in Big-City Business', *Export News*, November 1989, pp.18-19.

explain why wool managed to maintain a significant market share in Europe and elsewhere through to, and past, 2000.

As a industrial material which followed several processes to be turned into a product for retail, wool's sale in raw form returned a minor cost in comparison to the value of the end product. New Zealand processors sought to retain some of that value for themselves from early in the period, and technology developed by WRONZ made that more possible from the 1970s. The first step in adding value to wool was achieved in scouring the wool within New Zealand before sale, rather than selling it in 'greasy' form. Scouring, the process of cleaning wool, was in practise from the nineteenth century but became increasingly efficient and popular from the 1950s and accelerated through the 1970s.[561] This was largely on the back of the WRONZ comprehensive scouring system which was introduced in 1972, and soon reputed as the most cost-effective system in the world.[562] On average scoured wool earned 25% to 30% more per kg than greasy wool in the mid-1980s, thereby adding over $50 million to export earnings from wool.[563] The cost of scouring in New Zealand at that time was believed to be up to 50% cheaper than in the United Kingdom and Western Europe, which would explain the increased (on average) demand for pre-scoured wool over the period, as shown in Table 4.1.[564]

In 1963, scoured wool comprised only 13.6% of total wool exports. Scoured wool exports to Europe averaged 12%, but differed from country to country within the Continent. For example, Britain took 13.7% scoured wool that year while Germany took 16% and Belgium and France only took 4%. Although the general trend has been for increasingly larger proportions of exported wool to be scoured, this has not applied for all the European countries. After following the general trend to import more scoured wool until 1980, Italy and Germany both then imported lower proportions in the following two decades.

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[561] Julie Bremner, *Wool Scours of New Zealand: Tales of the Early Industry*, Christchurch: Caxton Press, 1985, pp.13-28, 123-130.
[562] G.A.Carnaby, *The Role of Technology in One Hundred Years of New Zealand Wool*, Lincoln: WRONZ, 1994, cited in Carter and MacGibbon, *Wool*, p.199.
[563] Calculated from export statistics, *Wool Report New Zealand*, Issue 2, 1985, p.20; *Wool Report New Zealand*, Issue 3, 1986, p.20.
[564] 'Scouring – An Added Value Success Story', *Wool Report New Zealand Quarterly*, Issue 1, 1985, p.10.

Table 4.1: Percentage of Wool Scoured in New Zealand Wool Exports

	1963	1970	1980	1990	2000
U.K.	13.7	20.3	40.4	65.6	94.6
Belgium	4.1	9.0	31.0	45.3	87.3
France	4.5	6.4	21.9	33.1	87.3
Germany	23.0	56.7	62.5	53.6	55.3
Netherlands	1.8	10.0	47.3	45.5	100.0
Italy	15.9	30.4	69.1	65.8	53.0
EU average	12.0	25.4	49.5	54.4	78.3
World av.	13.6	28.3	48.9	63.3	73.2

Processing beyond scouring wool, especially for export, was slow to develop up until the 1980s. But as wool yarn and textile production lessened in Europe and grew more in third world countries, New Zealand wool developers felt at an advantage because their strong research and development sector created opportunities for advancement in value-added processing.[565] Some success was found in spinning techniques, which allowed coarse wool to be adapted from purely carpet use to making fine quality worsted yarn for fine suiting fabrics.[566] This was mainly directed at the Asian market, though.

Wool products from New Zealand tended to be exported to regions other than Europe. This was mainly because New Zealand labour costs were similar to the Europeans, and few New Zealand labels were able to command prices that would make exporting there feasible.[567] A few wool manufacturers, however, did manage this toward the end of the period.

Auckland textile manufacturer Designer Textiles found some success in exporting merino fabric to Europe in the mid to late 1990s. It developed supply contracts with Nike Europe and in 2000 supplied 60,000 metres of merino wool fabric to British store Marks and Spencers.[568] New Zealand Merino wool garment manufacturer

[565] 'The Bright Promise of Wool', *Export News*, 9 April 1992, p.6.
[566] 'Breakthrough at Alliance', *Export News*, 9 April 1992, p.6.
[567] Roger Buchanan, Personal Interview, 19 November 2003.
[568] *Sunday Star Times*, 7 July 2002, p.5

Icebreaker also established a niche for itself in the international outdoor clothing market from 1995.[569] As high value garments these were the first that New Zealand exporters could claim a premium price for in the European markets. By 2003, *Icebreaker*'s lucrative markets included Britain, the Netherlands, Denmark, Sweden and Italy.[570] These garments were touted as fetching twenty times the price per kilo of Merino wool that their raw material counterparts could fetch.[571] These advances were not only examples of technological innovation in using New Zealand wool, but in advances in marketing strategies by New Zealand exporters.

Marketing New Zealand Wool

Many studies were made in cooperation with the New Zealand Wool Board over the period to monitor the changes in the trade, to project future trade, and to try to establish means of combatting declines in international wool trading. In 1983 a study to determine the long term prospects for New Zealand wool acknowledged the depressed situation of the international wool market and some of the causal factors in that. It also identified some issues that would turn out to be important for sustaining New Zealand's wool exports over the following two decades, especially in terms of marketing techniques.[572]

From before World War II, the marketing of New Zealand wool was pooled together with other key international producers as part of its membership of the International Wool Secretariat (IWS). This body was formed in 1937 as a cooperative publicity and research association between Australian, South African and New Zealand wool organisations.[573] Its role was to encompass 'the promotion of wool consumption and allocation of funds to scientific research and economic investigations into the state of the wool market.'[574] Basing itself in London, the members hoped that other members,

[569] *Sunday Star Times*, 22 June 1997, p.5.
[570] *Sunday Star Times*, 7 July 2002, p.5; *Sunday Star Times*, 31 August 2003, p.9.
[571] *Sunday Star Times*, 31 August 2003, p.9.
[572] Schroder, *The Long Term Future for New Zealand Wool.*
[573] Malcolm J. Abbott, 'Promoting Wool Internationally: The Formation of the International Wool Secretariat', *Australian Economic History Review*, Vol.38, No.3, November 1998, pp.258-279.
[574] Abbott, 'Promoting Wool Internationally', p.269.

especially the British, would soon join and contribute to the cost of the promoting wool.[575]

The IWS launched the Woolmark symbol as a generic sign for identifying and marketing pure wool products in 1964.[576] This was intended to continue the IWS's strategy of promoting the virtues of wool as a natural, quality product and to differentiate it from the growing presence of synthetic fibres. The overwhelming weight of IWS promotional work went into pushing the Woolmark brand. Those efforts were successful, with it being registered and used as an international identification and quality control symbol for wool throughout the world for the following fifty years.[577] On the other hand, Woolmark gave no scope for national identifications of different types of wools. Fine (predominantly Australian) wools and coarse (New Zealand) wools were lumped under the same banner. Furthermore, such broad promotional strategies benefitted wool internationally, regardless of its country of origin.

Although New Zealand readily subscribed to the IWS and substantially increased its contributions to it throughout the 1960s, some seeds of doubt about its effectiveness for specifically New Zealand interests started to grow from an early stage. Some saw that British wool in particular was benefiting from IWS activity without having to contribute toward its work. The centrality of IWS activity to Britain and Europe gave its promotional campaigns the first point of impact. British wool was also of a predominantly coarse type, so therefore targeted similar markets to New Zealand wool. British yarn and carpet producers also benefitted from the spin-offs of these campaigns.[578] The Woolmark was useful in enhancing end-consumer awareness of wool, but not in pushing New Zealand-specific interests with wool processors and manufacturers. In 1983 it was noted that 'the trends (in marketing) suggest that New Zealand, as a specialised producer of coarse wools, will increasingly find it desirable to initiate marketing activity on its own account.'[579]

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[575] Abbott, 'Promoting Wool Internationally', pp. 269-270.
[576] Carter and MacGibbon, *Wool,* p.233.
[577] In 1966 the Woolmark brand took up 90% of the IWS' promotional effort. Carter and MacGibbon, *Wool,* p. 234.
[578] Carter and MacGibbon, *Wool,* p.304.
[579] Schroder, *The Long Term Future,* p.xvii.

The New Zealand Wool Board's first individual initiative had been to implement its own technical marketing programmes with processing countries. Technical publications and campaigns were introduced which were instructive in the technical use of New Zealand wool in processing and manufacturing.[580] These activities could be staged in collaboration with the IWS because they covered the processing area and were seen as quite separate to the area covered by Woolmark branding. Until the early 1980s, though, this work largely took place in 'new' markets outside Europe, for example Japan, Iran and China. It was not until a New Zealander, Noel Thomas, was appointed as IWS Regional Director for Europe in 1982, that New Zealand's technical marketing programme was extended to that region.[581] By this stage it had also been noted that planned and targeted marketing programmes beyond the scope of technical advice should also be developed.[582]

John Grainger was one who was able to do this, extending New Zealand's individual promotions within IWS activities. Appointed Head of Interior Textiles in 1985, he was able to take advantage of new IWS systems that allowed him licence in promoting specifically New Zealand interests. The *Wooltweed* carpet promotion programme was one which allowed scope for pushing New Zealand wool. By 1987/88 the programme was believed to have achieved a modest increase in wool consumption in European carpets.[583] Promotional tours of New Zealand by several British spinning companies, sponsored by the NZWB and the IWS, were also seen to directly enhance their preferences (and orders) of New Zealand wool, even at times at the expense of British wool.[584] While these changes are not so obvious in European consumption figures, New Zealand wool exports to Belgium over those years show modest increases which may correlate with such visits (see Graph 4.2).

In 1989/90 Grainger was able to take promotion of New Zealand wool a step further within IWS promotions in Europe. He developed and launched a set of Woolmark 'sub-brands', which were registered and owned by the New Zealand Wool Board. In order for companies to use these (including the technical and design support

[580] Carter and MacGibbon, *Wool,* p.305.
[581] Carter and MacGibbon, *Wool,* pp.306-307.
[582] Schroder, *The Long Term Future,* p.xiv.
[583] Carter and MacGibbon, *Wool,* p.309.

that were included in the package), a minimum of 60% New Zealand wool content was required. These were respectively launched as *Decorwool*, *Easywool* and *Contractwool* over the following three years.[585] *Decorwool* carpets were by 1993 being manufactured by 36 different European manufacturers, and the promotional campaigns were seen as successful in gathering marketing exposure and with provisional reports of consumer preference for those over other carpet ranges.[586]

The *Decorwool* and its counterparts' programmes paved the way for a transition from IWS-based marketing to that under complete control by the New Zealand Wool Board from 1994. The Board announced its decision to pull out of the IWS interior textiles promotions in 1993, finally ready to stand alone in marketing New Zealand wool.[587] The Board changed its name to Wools of New Zealand, and from this a brand initially dubbed 'Fernline' was launched, which would serve as the New Zealand substitute for Woolmark. *Decorwool* and its counterparts were duly adapted to this.[588] From 1996, New Zealand became completely independent from the IWS. Part of the confidence to make this decision came from the perceived success of the Fernline interior textiles programme in Europe and North America.[589] The Wools of New Zealand campaigns pushed New Zealand wool's profile out into the international marketplace more agressively than had ever been done before.

New Zealand wool export volumes did reflect some success throughout and after these changes. They became more stable through the 1990s than they had been in any of the previous three decades. Although there were still some declines, the general pattern of exports reversed the declining trend and even showed slight increases at times (Graph 4.2). This may well be a reflection of the more independent marketing campaigns that took place. Graph 4.9 adds weight to this proposition. Through most of the period, fluctuations in New Zealand exports to Europe followed similar fluctuations in European consumption. In the 1990s, however, while consumption continued its trend in volume decline, New Zealand export volumes stabilised and

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[584] 'UK Spinners Buy More Wool', *Wool Report*, Issue 2, 1986, p.8.
[585] Carter and MacGibbon, *Wool,* p.310.
[586] 'Update on the IWS/NZWB Decorwool Programme', *Wool Markets*, 5 October 1993, pp.1-2.
[587] For background see, 'IWS and its Aftermath: 1976-2003' in Carter and MacGibbon, *Wool,* pp.319.
[588] Carter and MacGibbon, *Wool,* pp.316-317, 313.
[589] Grant Sinclair, former Chief Executive of NZWB, quoted in Carter and MacGibbon, *Wool,* p.317.

even slightly increased. This may well be a reflection of the rejuvenation of New Zealand wool's identity in that market.

The McKinsey Report on the New Zealand wool industry in 2000 noted that Wools of New Zealand had become a well-recognised and respected trade brand in the international carpet industry. Its surveys found that 73% of British and European retailers recognised it as a mark of quality, compared with only 53% for the Woolmark brand.[590] It also noted that 55000 tonnes of New Zealand strong wool (nearly one third of total exports) was at that time being used by manufacturing brand partners.[591]

From 1996/97 Wools of New Zealand began to divide its promotional activities away from standard campaigns to differentiate between New Zealand wool types. This led to the formation of the Merino New Zealand Inc., an organisation for the promotion of fine wools.[592] More concentrated efforts were placed on the marketing of this somewhat minor sector of New Zealand wool production, which had however substantially increased through the mid-1980s and 1990s. After some acrimony between Wools of New Zealand and Merino New Zealand, the two organisations split from each other in 1996, marking the first separation in the marketing of New Zealand wool.[593]

Merino sheep, which produce fine wool of less than 24 microns, were traditionally largely produced by the vast Australian industry. From the late 1980s, however, high merino wool prices led to increased concentration on producing the speciality wool breed, particularly in the South Island, and development of a specialist New Zealand Merino industry. Over the following decade merino flock numbers increased to 2.5 million, and by the end of the millennium production of merino wool doubled to comprise 5% of New Zealand's total, worth 15% by value. New Zealand Merino boasted its place as producing the 'champagne' of the wool industry.[594]

Graph 4.10 shows how fine wool exports, those in the range of merino wool, resurged to Italy and Germany in particular from the late 1980s. By 2000, 69% of wool exports finer than 24.5 microns went to Italy. Greasy wool exports there

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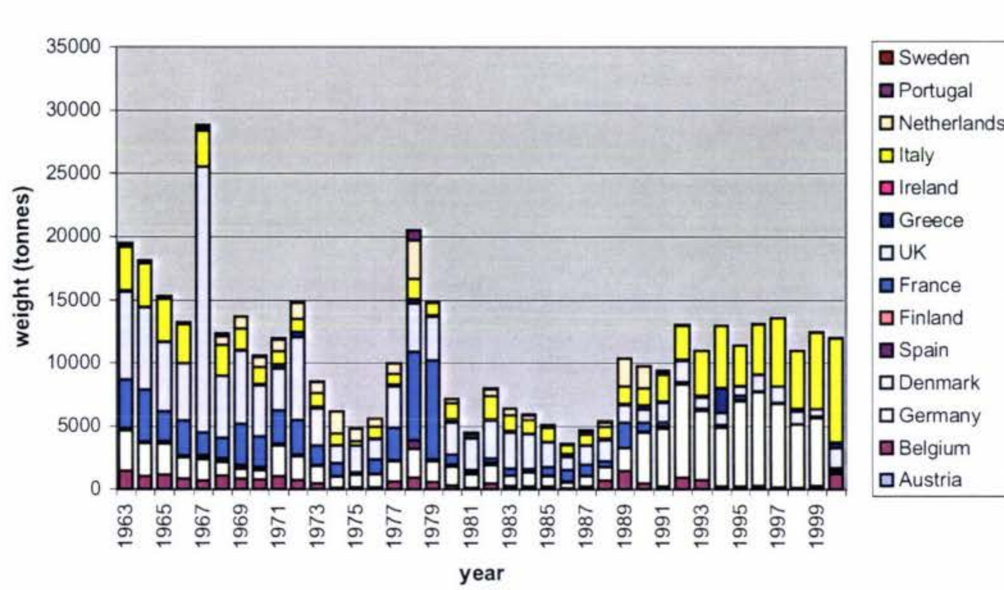
[590] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.44.
[591] McKinsey and Co., *Report to New Zealand Woolgrowers*, p.46.
[592] Carter and MacGibbon, *Wool*, p.318.
[593] Carter and MacGibbon, *Wool*, p.331.

averaged $10,354 per tonne, over double the world average price. This appears to explain much of the paradoxical shift to less scoured wool with greater export return from countries such as Italy and Germany. The Italians in particular preferred to scour their own raw wool as it made for more efficient mixing of wools that came from different sources.[595]

Graph 4.10: NZ WOOL EXPORTS: 28 MICRONS AND FINER



Outstanding returns for Merino wool came from supplying such specialist Italian textile manufacturers such as Loro Piana, supplier to the high profile Amarni fashion house.[596] Some of these were through direct supply contracts, foregoing the traditional auctioning system, a move preferred by exporters for ensuring price stability as well as putting pressuring wool at auction to higher prices.[597]

As was generally agreed in many reports over the period, it is always difficult to correlate promotional successes with increases in actual exports. Nevertheless, there appears to be a correlation between the short part of the period where New Zealand

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[594] *Sunday Star Times*, 7 July 2002, p.5.

[595] Roger Buchanan, Personal Interview, 19 November 2003.

[596] *Sunday Star Times*, 7 July 2002, p.5.

[597] Wools of New Zealand, *Annual Report,* 1999/2000, pp.12-13.

marketing campaigns for wool were run independently in Europe, and the amelioration of the trend of general decline in New Zealand wool exports there.

Conclusion

Wool has fared very differently to butter and sheepmeat its exports from New Zealand to Europe. As a relatively 'non-political' commodity, it was expected that it would flourish after the formation of the EEC and Britain's accession to it. After all, the trading relationships had already been formed and New Zealand wool was well placed within them. It is therefore ironic that the opposite occurred.

The influences on wool's decline as an export commodity from New Zealand to Europe were largely due to fundamental supply and demand factors rather than any political interference. Wool was ousted as top fibre for carpet manufacturing by increasingly advanced competition from synthetic fibres over the period. This was obvious in the case of the European carpet industry.

Likewise, geographical changes in carpet, textile and yarn manufacturing to lower cost areas also took the impetus away from Europe as textile centre of the world. The growth of manufacturing in China, in particular, was instrumental in changing New Zealand's wool export directions, including impacting on its exports to Europe.

The relative decline of New Zealand wool exports to Europe has generally followed a pattern of the decline of the New Zealand wool industry in contributing to the country's export income. Perhaps most remarkable, then, is the relative stability of the European market for New Zealand wool compared with the rest of the world. Belgium, Britain, Germany and Italy still remained significant (if diminished) markets for New Zealand wool in 2000. Returns from Italy in particular had become relatively lucrative.

The maintenance of this trade could well be attributed to developments in technology and marketing by New Zealand exporters. The New Zealand Wool Board played a significant role in this by supporting research and marketing developments for New Zealand both within and outside the realms of the IWS. These initiatives, in fact, appear to have paid off most toward the end of the period, once they had become more New Zealand-specific.

It is in the marketing and technological development areas that wool export patterns hold the most similarity to sheepmeat and butter. For wool, also, higher returns were starting to come forward in those areas where the traditional commodity had been developed to satisfy identified market needs. It appears, however, to have occurred later for wool than its trading counterparts. This leads to the question whether the continued price support measures in place for wool, almost a decade past those for butter and sheepmeat in New Zealand, had some influence over delays in efficiency and market-targetting measures.

All in all, while wool lost its dominant position as a New Zealand export to Europe over the period, there were signs toward the end of the century that it would continue to maintain and even develop its earnings for New Zealand in this area into the millennium. It is worth considering whether wool trade would have shown a different pattern had it, like butter and sheepmeat, had its markets politically protected and access arrangements made.

CONCLUSION

This thesis highlights the complexity of New Zealand's trade relationship with Europe. From examining how three key commodities were traded, it is obvious that different forces influenced the trajectory and nature of each export relationship. In this respect, Johanna Radford's description of a 'cobweb' approach in New Zealand's economic and trade relations is appropriate.[598] Aspects of politics, production and marketing have worked both separately and interdependently to send all three of the traditional commodities on different trading paths throughout the four decades under investigation.

There is, however, one core theme which can be applied to the findings of this research. That is one of endurance. Contrary to many of the beliefs of the 1960s, New Zealand's traditional trade relationships with Europe have endured (except, perhaps, for wool) far more than anyone appeared to foresee during the time of Britain's applications to the EEC. This has brought rewards to New Zealand, both economic and political.

The European Union remains an important market for New Zealand's exports of butter and sheepmeat in particular. Despite both appearing seriously threatened in the 1960s, New Zealand's export trade in these two commodities is still secured by its markets in that region. They have in fact achieved far more than endurance, in that those New Zealand products by 2000 comprised a large proportion of the European market. The place they held was often at the expense of local European product.

The retention of that trade has brought great economic rewards because the European market has become one of the highest returning customers for these New Zealand products. This is something that was not necessarily apparent to New Zealand's export industry at the beginning of the period. In all three categories, higher returns achieved from Europe had been the result of New Zealand successes in marketing and developing technology to cater to the higher-paying European consumers. As such, innovation by the New Zealanders had transformed the trade

[598] Radford, 'Agricultural Trade and Interdependence', p.23.

from being in low-priced plentiful goods, largely for the British market, to high-priced catered goods for the discerning European customers.

The actions of government representatives in working to maintain New Zealand's agricultural access had contributed to success in the quantities of these goods allowed to be traded, but also had important spin-offs politically as well. With the opening of posts throughout Europe and the higher level of political engagement for trade-related issues, New Zealand politicians and diplomats developed strong working relationships with their European counterparts. While these had visible economic effects, they also worked in enhancing New Zealand's political profile. As the European Union has become a political force to be reckoned with internationally, the ties that were laid down in the process of ironing out economic issues have also helped New Zealand to keep 'in the loop' with other political issues. This was particularly obvious in engagements between New Zealand Prime Minister Helen Clark and European leaders in 2003.[599]

Why and how, then, has this success been achieved? Politically, New Zealand has taken a multi-faceted approach to dealing with the European Community/Union to press its trading interests. As Richard Kennaway observed in 1991, New Zealand's strategies for maintaining its European agricultural markets were developed and diversified over the period.[600] By 2000, something of a trading partnership had emerged in which New Zealanders could deal on a level footing with their European counterparts in administering the more permanent arrangements that were in place.

This is hardly what was expected in the early 1960s. At that time, New Zealand was still very much a supplicant to Europe, usually working from 'behind the apron strings' of Britain. British entry into the EEC was seen by many, especially in terms of butter and sheepmeat, as signalling the end of export trade there, whether it was to be immediate or eventual. The Europeans were a group to whom the New Zealanders had to go (in the words of former New Zealand Prime Minister Jim Bolger) 'cap in

599 'Patten Has Nothing But Praise for Clark', *NZ Herald*, 23 April 2003; 'Coalition of the Unwilling as Clark Meets Chirac', *NZ Herald*, 29 April 2003.
600 Kennaway, 'The Politics of Agricultural Trade', pp.136-138.

hand' to argue for the right to send produce to their markets.[601] The result of the change was that by 2000 the trade had endured, and even revived, to include several ongoing, developing enterprises.

These findings were particularly so for sheepmeat, but also butter. Wool certainly lost much of its impetus in terms of overall trade, but a core finding in its study was the important place that New Zealand wool exports to Europe held throughout the period, and even built on towards the end. New Zealand's wool exports' success, then, was in the solid base it retained in that market. As was shown, it too began to reap the rewards of opportunities exploited in the late 1990s.

In hindsight, one might even go so far as to say that British entry into the EEC led to opportunity for New Zealand. By the late 1990s, returns were paying off for persistent engagement with all of the EU markets. This situation would have been unlikely had the original arrangements made on British accession not occurred. They provided a basis for New Zealand's efforts to maintain trade with Europe, and a foundation that led to success in gaining access on more permanent levels through GATT two decades later. Indeed, though multilateralism and liberalisation had made trade more prolific, crediting New Zealand's increased access to this sphere would be to discount the weight of political activity that came before, none of which was insignificant nor ineffectual. Had the original bilateral arrangements never been in place or nurtured as they were, it would have been unlikely that New Zealand would have been able to gain the level of access to the European market that it did from the Uruguay Round.

Regardless, multilateral activity did give New Zealand some important tools in engaging with the Europeans over trade access. This was largely made possible through GATT. That New Zealand had joined as a founding member alongside Britain and the European countries proved to be fortutious in later decades. Despite not appearing very successful in achieving its objectives of liberalising trade in agriculture over the first four decades of its existence, two seemingly minor agreements helped New Zealand significantly in operating with Europe. The first was

[601] Jim Bolger, 'New Rules on Dairy Trade with EU', *New Zealand Foreign Affairs and Trade Record*, July 1995, p.25.

the 1961 commitment by the EEC to the 20% tariff on sheepmeat. The other was the International Dairy Agreement. Both provided, in their own ways, bases from which New Zealand could draw to push its own interests in its dealings with the Europeans.

The main focus of New Zealand's export concerns at the beginning of the period concerned political issues of blockage for trade access. These indeed turned out to be significant, but not insurmountable. As has already been mentioned, the political/diplomatic efforts to retaining this trade were vital contributors to overcoming those difficulties. New Zealand's traditional trade could easily have been lost without the political support and representation that took place by the New Zealand government and its representatives on behalf of the commodity producers and exporters. New Zealand's diplomatic efforts were highly effective in curbing either a total blockage or steep decline in the terms of access for its agricultural products to the British and European markets.

These findings call into question the idea that New Zealand agriculture was entirely unsupported by government. In fact, over the period, government representatives in Europe and New Zealand gave costly support in the form of the huge diplomatic efforts that took place. Many of these had the direct effect of maintaining or increasing income from the traditional exports. This was no less important in the 'deregulated' days of the late 1980s and 1990s than in the earlier part of the period. If those efforts had not taken place, the findings of this research would surely have been quite different.

Considering the amount of political support required to maintain European access for New Zealand's butter and sheepmeat, then, the fate of wool is interesting. As the least 'political' commodity of the three, it fared the worst in maintaining its trade with Europe. Perhaps some of this might be attributed to the lack of international political interest in its trade. It appears some basic market principles of the demand and competition were what led to its decline rather than any direct political intervention.

External politics did, however, have major implications for how New Zealand's butter and sheepmeat exports to Europe endured. But no access arrangements guaranteed New Zealand's produce sales in the European marketplace. Sales relied on consistent supplying and marketing of product, and the choices of the European consumers. These factors were influenced by the actions of the New Zealand producers and exporters and how they interacted with the respective markets.

Changes in domestic politics and policies within New Zealand certainly affected directions in production. Alterations in the nature of trade particularly accelerated from the 1980s, which correlates with the fundamental transformations that occurred in policies toward agricultural production at the time. The effects of those changes were particularly visible in sheepmeat produced for export. While the nature of production was profoundly altered, and much pain felt in the early years of change, this also instigated a period of strong growth and development in the industry. By the 1990s the efficiency measures and technological advances made post-deregulation were paying off in more lucrative returns, especially from the Europeans.

Growth in these measures was far more pronounced from the mid 1980s than before, highlighting the relationship between liberalisation policies directed from the government and the effects on the nature of the industry. Wool's fate again adds weight to this proposition. Its production and trade did not begin to change significantly until after the price support mechanisms were lifted in 1991. One conclusion can be made, therefore, that removal of such measures acted as a catalyst to changes in the way export trade was approached by producers and their agents. Domestic politics, therefore, had a strong influence over the direction production took and how it was oriented toward the sale of the products to Europe.

Orientating the product towards the market clearly became a central focus alongside the sophistication of production techniques. This thesis has illuminated clear examples where the marketing of butter, sheepmeat and wool became more aggressive, specialised and targeted in the post-deregulation period. The traditional marketing activities, centring on supplying as much raw product as possible to British processors and packers, were replaced by supplying retail-ready product, custom-made to the specific requirements of European clientele. In all three commodities, there is evidence that such operations reaped rewards in terms of better returns for the exports directed in this way.

These advances in production and marketing made it possible for New Zealand to capitalise on the European market access that the politicians and diplomats had secured for the exporters. They also made it possible for the tradition of New Zealand agricultural exports to stay alive far longer than any in the 1960s may have imagined. The survival of the trade did not mean the continuation of traditional patterns – but it did mean that it helped the tradition of New Zealand as an agricultural exporting country remain.

It could be argued that New Zealand's traditional export trade has been kept more alive by its trading relationship with Europe than in any other. New Zealand, as John Marshall had stated in the 1960s, still predominantly 'makes its living from grass' because of the retention of this trade. If this trade with the Europeans did not exist in 2000, then New Zealand's butter and sheepmeat industries in particular would not have nearly the basis for existence that they had. It is the keeping alive of this relationship that has largely supported New Zealand's retention of agriculture as its core export earnings contributor.

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