

EU Enlargement and its Effects on New Zealand's Trade with the EU

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Abstract

The current 15 European Union (EU) countries have been New Zealand's second biggest trading partners in recent years, with New Zealand exports to these countries increasing in real terms since the early 1990s. In contrast, trade with the ten new EU members is very small. This paper charts New Zealand's trade with the EU-25 countries since the late 1950s. Trade figures have been converted to current day values. The statistics show how New Zealand has increased its exports to most established EU members (with the important exception of the United Kingdom) as they have become richer. This provides insights into how trade with the new EU members may develop in the future as income levels in these countries increase.

Introduction

Trade issues have dominated New Zealand's foreign policy interactions with the European Union (EU) since the early 1960s. However, apart from the weakening trading relationship with the United Kingdom, there has been little analysis of New Zealand's trade with EU countries. This is despite the EU currently being New Zealand's second largest trading partner. This paper examines how New Zealand's trade with the EU-15 has changed since the beginning of European integration in 1957. It then covers New Zealand's trading relationships with the ten countries that joined the EU in 2004. Insights are provided into how New Zealand's trade with the EU is likely to develop in the future.

New Zealand's Exports to the EU-15

Currently the EU is collectively both New Zealand's second largest export destination and its second largest source of imports, with only Australia being more important. In 2002 New Zealand's exports to the EU were \$4.8 billion or 16% of total exports, while imports were \$6.2 billion or 19.3% of total imports.¹ There is therefore a trade surplus in favour of the EU.

Figure 1 shows the value of New Zealand's combined exports to the EU-15 countries, and to the United Kingdom by itself, in 2002 values.² This is an exciting new statistical series, put together by collating primary source data. The effects of inflation on the trade figures have been eliminated by controlling for the effects of inflation, making it possible to follow long-term trends in trade figures.³ Figure 1 shows that New Zealand's exports to EU-15 countries more than halved in value from a high of 7.6 billion in 1957 to a low of 3.4 billion in 1991. Since then they have increased back to the current 4.8 billion.

The United Kingdom has been included in Figure 1 because it has consistently been New Zealand's biggest trading single partner in Europe.⁴ Indeed, it was only in 1984 that New Zealand's combined exports to all other EU-15 countries exceeded those to the United Kingdom. Figure 1 shows that most of the decline in the value of New Zealand's exports to EU-15 countries resulted from a sharp reduction in New Zealand's exports to the United Kingdom, which began well before the United Kingdom joined the European Economic Community in 1973. This reflected post-war

¹ Statistics New Zealand. New Zealand External Trade Statistics. December. 2003. Available: www.stats.govt.nz/externaltrade, 18 May 2004, pp. 4-5.

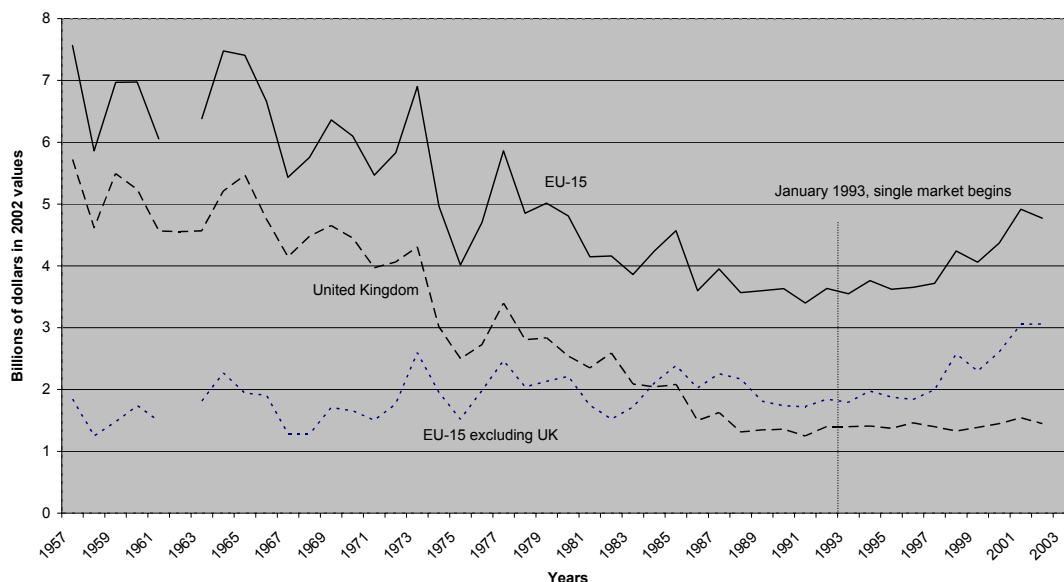
² 2002 is the last year final statistics are available for – some aggregate 2003 statistics are available but they are still subject to revision.

³ Failing to control for the effects of inflation can lead to faulty analysis. For instance, the *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1988), p. 611 claims that trade with the European Community "has grown steadily with ... in the last ten years ... a 76 percent growth in New Zealand exports to the EC". In fact, the value of New Zealand exports to the EC-12 had fallen sharply during that period.

⁴ Note that although the United Kingdom joined the European Economic Community in 1973, it was only in the 1977 *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1977), p. 551 that it was included for trade purposes in that group. In the *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1976) the United Kingdom was included in the Sterling Area Countries group. This suggests a certain level of denial about the United Kingdom's entry into the EU.

growth of the United Kingdom's subsidised agricultural sector and stable or declining demand for many agricultural products there.⁵ However, the United Kingdom's accession to the EU clearly accelerated the decline in New Zealand's exports there. Since the late 1980s New Zealand's exports to the United Kingdom have been relatively stable in value.

Figure 1: NZ's exports to the EU-15 in 2002 dollars



The other notable trend in this graph is that exports to the other EU-15 countries have considerably increased over time. Indeed, they have gone from 1.9 billion in 1957 to 3.0 billion in 2003. This is an increase in the real value of New Zealand's exports of over 1 billion, or more than a 50% increase.⁶ This partly reflects a widening of New Zealand's marketing efforts, a diversification of its exports, and the tendency of countries such as Germany and Italy to buy more New Zealand goods as they have become richer. However, the biggest increase occurred after the 1993 introduction of the EU single market. This suggests that the single market, which aimed to eliminate internal physical, fiscal and technical barriers to trade,⁷ has made it easier for New Zealand to sell goods across the EU. Some countries, such as Spain, have also had to lower tariff barriers on New Zealand goods after they have joined the EU, and this has also helped New Zealand.⁸ New Zealand's access for agricultural products has also been protected since the mid-1990s by the Uruguay trade round. The New

⁵ James Belich, *Paradise Reforged: A History of the New Zealanders From the 1880s to the Year 2000* (Auckland: Penguin, 2001), 444.

⁶ Some caution is needed when interpreting the statistics because with the advent of the single market it has become more difficult to know exactly which country exports to the EU are consumed in. Indeed, in 2002 Destination Unknown EU was the fifth biggest EU-15 destination of New Zealand exports, while many New Zealand exports were shipped through the Benelux countries. Historically some New Zealand exports to continental Europe, particularly wool, were sent through the United Kingdom. However, these factors are not significant enough to affect the general findings.

⁷ Stephen George, and Ian Bache, *Politics in the European Union* (Oxford: Oxford University Press, 2001), 329.

⁸ Rome Tradecom, "Spain: A Bullish Market," *Export News* 32.3 (1988), 8-12.

Zealand/EU Veterinary Agreement, which came into force on 1 February 2003, should facilitate trade in the future.⁹

Currently the EU is the single biggest market for New Zealand's agricultural products, including meat, wool, fruit and vegetables, and hides, skins and leather.¹⁰ Indeed, Table 1 shows that despite some diversification New Zealand's exports to the EU-15 are still disproportionately agricultural goods, while non-agricultural exports remain much less important. Sheep meat is now by far New Zealand's highest value export to the EU-15, making up 30.6% of the value of New Zealand's exports there in 2002. Because the EU restricts sheep meat imports, allowing New Zealand to extract higher prices than it otherwise could,¹¹ these exports produce 64.7% of the total value of New Zealand's sheep meat exports. The most significant sheep meat markets in the EU are the United Kingdom, Germany, France, and Belgium. Dairy products are the second most important export to the EU-15, making up 15.7% of the value of New Zealand's exports there. New Zealand farmers also receive a significant premium on EU butter sales due to high European incomes and the minimum prices in force.

Table 1: New Zealand's main exports to the EU-15 countries in 2002

Product	EU-15 exports	Total exports	EU-15 as % total exports	% of NZ's exports to EU-15	Importance EU-15 market
Sheep meat	1.478bn	2.286bn	64.7	30.6	1st
Dairy products	757m	6.381bn	11.9	15.7	2nd
Fruit and vegetables	618m	1.709bn	36.2	12.8	1st
Wool	342m	958m	35.7	7.1	1st
Fish	262m	1.484bn	17.7	5.4	2nd
Hides and skins	240m	715m	33.6	5.0	1st
Machinery	225m	2.311bn	9.7	4.7	3rd
Meat other	171m			3.6	
Beverages and alcohol	146m	431m	33.9	3.0	
Metals	90m	175m	5.2	1.9	
Miscellaneous	74m	757m	9.7	1.5	
Photographic and optical	60m	268m	22.3	1.2	
Pharmaceutical goods	48m	168m	28.4	1.0	
Venison	143m			3.0	1st
Beef	16m	1.689bn	1.0	0.3	11th
Non-agricultural exports	960m	14.801bn	6.5	19.9	1st
Agricultural exports	3.870bn	16.232bn	23.8	80.1	4th
Total exports ¹²	4.830bn	29.821bn	16.2	100.0	2nd

⁹ Ministry of Foreign Affairs and Trade, *Country Papers: European Union - April 2004* (Wellington: Ministry of Foreign Affairs and Trade, 2004), Ministry of Foreign Affairs and Trade, *European Union Enlargement Strategy Paper* (Wellington: Ministry of Foreign Affairs and Trade, 2003), 11.

¹⁰ Statistics New Zealand, *New Zealand External Trade Statistics* (December 2003). Available: www.stats.govt.nz/externaltrade, 18 May 2004, pp. 23, 25, 29, 34-35.

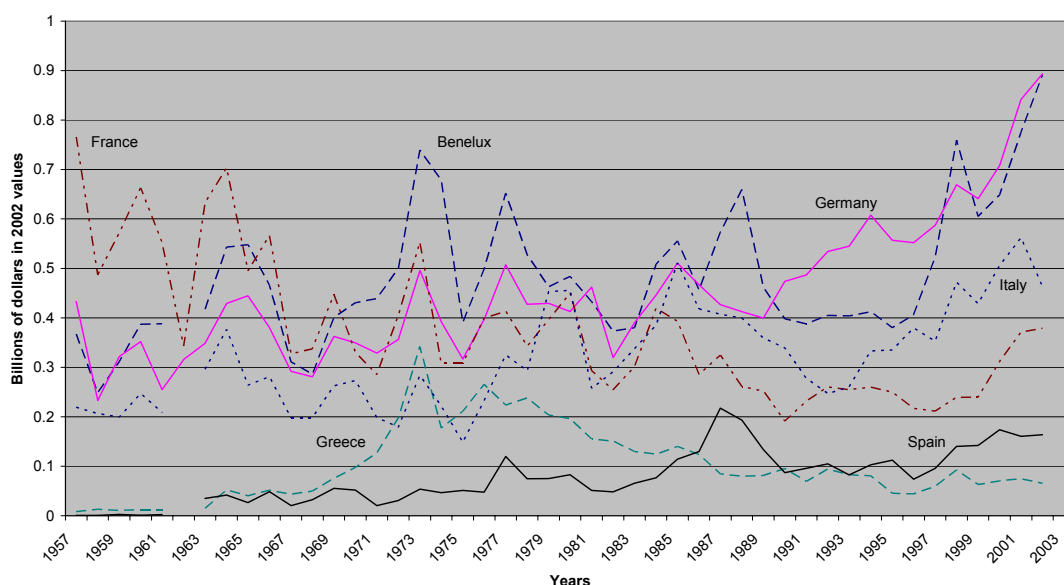
¹¹ Meat New Zealand, *Forging New Horizons: Annual Report 2002-2003* (Wellington: Meat New Zealand, 2003), p. 17.

¹² The total for all countries is taken from Statistics New Zealand, *New Zealand External Trade Statistics* (December 2003), p. 4. The agricultural/non-agricultural totals are taken from p. 22 and include re-exports.

Fruit and vegetables are now New Zealand's third most important export to the EU, and constitute 12.8% of New Zealand's exports there. In fourth place, wool now makes up only 7.1% of New Zealand's exports to the EU-15. New Zealand's fifth most important export to the EU-15 is fish and shellfish at 5.4% of New Zealand's exports to the EU. Leather, skins and hides, which are sixth in importance, make up another 5.0%. This is followed by machinery and electrical equipment at 4.7%.

Despite its high profile venison makes up just under 3% of New Zealand's exports to the EU-15, which is just a tenth of the value of sheep meat exports. Wine exports, subsumed in beverages and alcohol, are only fractionally higher. Table 1 shows that in contrast to sheep meat, New Zealand's beef exports to the EU-15 countries are insignificant. This results from New Zealand's exclusion from the British beef market following Britain's accession to the European Community in 1973. Before this beef exports to Britain were large and economically important, accounting for 6-8% of New Zealand's beef exports.¹³ Currently New Zealand is limited to exporting 300 tonnes of high-quality beef at a 20% quota, with a much higher tariff being levied on out-of quota exports.¹⁴ This gives New Zealand 0.5% of the EU high-quality beef quota.

Figure 2: New Zealand's exports to selected EU-15 destinations in 2002 dollars



New Zealand's Imports from the EU-15

New Zealand's total imports from the EU-15 countries are shown in Figure 3. They indicate that in contrast to exports, imports from EU-15 countries have shown a tendency to slightly increase over time, although they have fluctuated considerably. In 2002 they had reached their highest value ever at 6.4 billion, although obviously this

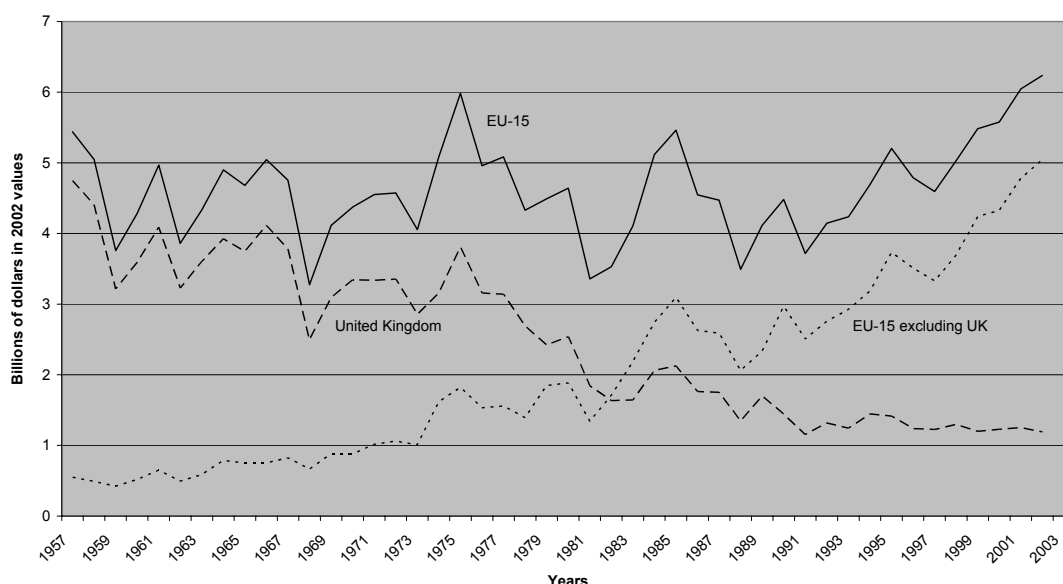
¹³ Compare *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1976), p. 612, and *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1977), p. 570. Frozen and chilled beef and veal exports to the United Kingdom in 1975 were 5760 tonnes, versus 16671 tonnes in pre-accession 1973.

¹⁴ http://www.meatnz.co.nz/wdbctx/corporate/exporting_wvv_main.main?p_language=us&p_cornerid=8000041&p_currcornerid=8000001&p_full=1

remained an absolutely insignificant proportion of the EU-15's exports of about 200 billion Euros.

Figure 3 shows a decline in the value of New Zealand's imports from Britain, from a peak of 4.7 billion in 1957 to a low of 1.2 billion in 2002, as imports from other countries progressively became more competitive in terms of price and quality.¹⁵ There was a particularly sharp decline in the value of New Zealand's imports from the United Kingdom between 1975 and 1982. This was partly due to the phasing out of the tariff preferences, which were up to 20% below those on goods from most other countries, on some United Kingdom exports.¹⁶ These preferences ended on 1 July 1977,¹⁷ creating a more economically rational tariff policy. New Zealand's imports from other EU-15 countries have consistently increased over time. As a result total imports from the EU-15 increased; even as imports from the United Kingdom continued to fall in value, before finally levelling out from 1991. From Figure 3 it can be seen that since 1982 New Zealand's imports from other EU-15 countries have always exceeded those from the United Kingdom.

Figure 3: New Zealand's imports from EU-15 countries in 2002 dollars



¹⁵ Gary Hawke, *The Making of New Zealand : An Economic History* (Cambridge: Cambridge University Press, 1985), p. 222.

¹⁶ *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1972), p. 633-634. Sometimes goods from Australia and Canada also qualified for lower tariff rates under other reciprocal trade agreements.

¹⁷ *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1977), p. 545.

Product	EU-15 imports	Total imports	EU-15 as % total imports	% of NZ's imports from EU-15
Machinery	1.680bn	7.202bn	23.3	26.8
Vehicles	1.246bn	4.821bn	25.8	19.9
Pharmaceutical goods	371m	762m	48.7	5.9
Wood, pulp, and paper	357m	1.059bn	33.7	5.7
Plastics	288m	1.303bn	22.1	4.6
Chemicals	245m	821m	29.8	3.9
Photographic and optical	235m	978m	24.1	3.8
Metals	212m	1.478m	14.4	3.4
Aircraft	173m	814m	21.2	2.8
Oils and cosmetics	121m	362m	33.4	1.9
Beverages and alcohol	108m	352m	30.8	1.7
Textiles, clothing and footwear	102m	1.427bn	7.1	1.6
Printed matter,	88m	382m	22.9	1.4
Furniture and buildings	78m	380m	20.5	1.2
Fibres	75m	292m	25.5	1.2
Dyes and inks	72m	311m	23.1	1.1
Rubber	66m	405m	16.4	1.1
Agricultural	356.933m	2.882bn	12.4	5.7
Non-agricultural	5.905bn	29.455bn	20.0	94.3
Total	6.262bn	32.337bn	19.4	100.0

New Zealand's imports from the EU-15 countries have been overwhelmingly high value manufactured goods. Table 2 shows that New Zealand's biggest imports from the EU have been machinery, including electrical equipment, followed by vehicles such as cars, trucks and tractors. Other imports include pharmaceuticals, wood and paper, plastics and chemicals. Wood, pulp and paper imports from the EU-15 are much higher than New Zealand's exports of these products to the EU, indicating gaps in New Zealand's production of high quality paper and related products.

NZ's Exports to the New EU members

The acceding countries have been a much less important export destination for New Zealand than the EU-15 countries have. New Zealand's total exports to the countries which joined the EU in 2004, and to the biggest market in these countries over most of this period: Poland, are shown in Figure 4.¹⁸ This graph shows that New Zealand's exports to the new EU countries peaked in 1976 at \$290 million in 2002 values, which was 5% of the value of New Zealand's exports to the EU-15. This followed the first Economic Mission from New Zealand to Hungary, Romania, Poland and Yugoslavia in September-October 1975.¹⁹ Exports to Eastern Europe during this period were mainly wool, which, along with skins and hides, was used for manufacturing; and frozen meat and dairy products to meet domestic shortfalls in food supplies.²⁰ Exports then fell, mainly because of shortages of hard currency in Eastern Europe. In 2002

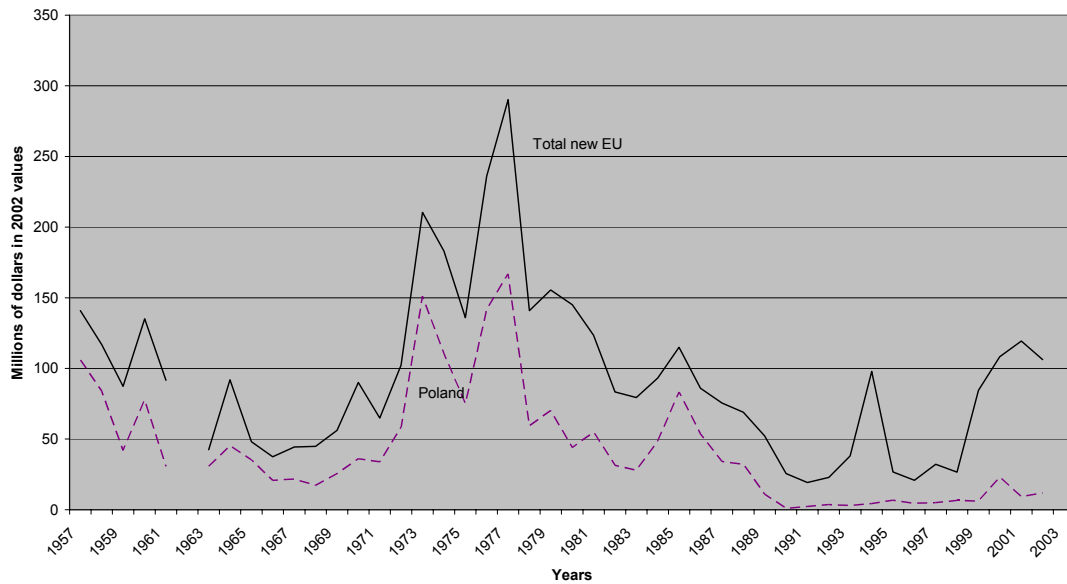
¹⁸ The Slovenian proportion of trade with Yugoslavia has unfortunately had to be excluded.

¹⁹ *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1976), p. 583.

²⁰ *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1978), p. 570.

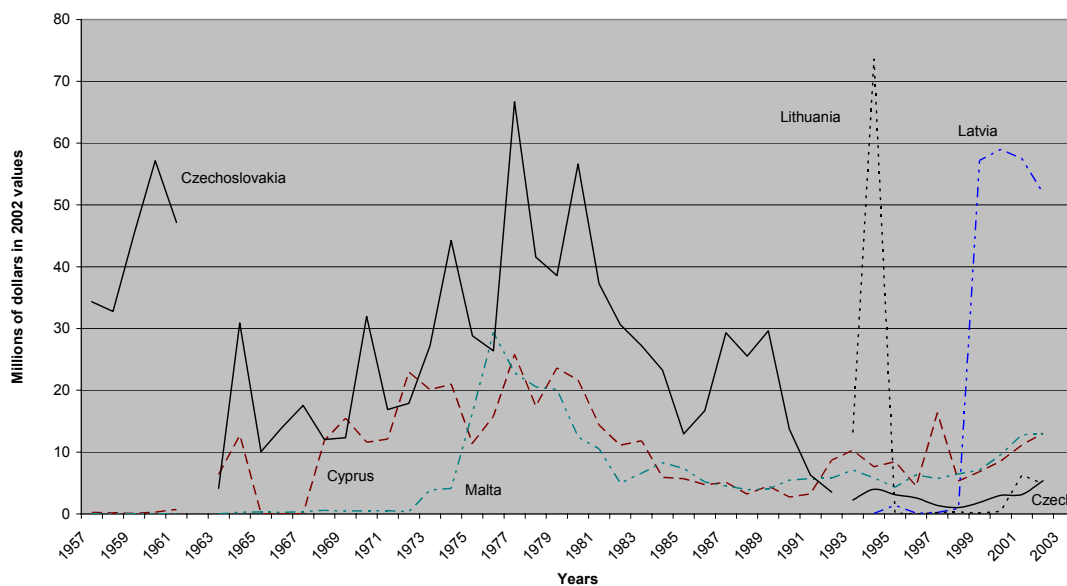
New Zealand's exports to the new EU members were \$106.3 million, which was only 2% of the value of New Zealand's exports to the EU-15.

Figure 4: New Zealand's exports to the new EU members in 2002 dollars



Of course the statistics in Figure 4 are distorted, because before the downfall of communism many New Zealand exports to Eastern Europe went through the Soviet Union, while Estonia, Latvia, and Lithuania were part of the Soviet Union. Figure 5, which excludes Poland, shows that Czechoslovakia, Cyprus and Malta were the next most important destinations. This is despite Cyprus having a population of only 760,000, while Malta's population is a mere 390,000. The value of exports to the latter two countries, which are the only non-communist new EU members, declined in the late 1970s before gradually trending upwards from the early 1980s.

Figure 5: New Zealand's exports to selected new EU members in 2002 dollars



Since the downfall of communism Lithuania (only in 1993 and 1994) and Latvia (since 1999) have been New Zealand's largest export destinations in the acceding countries. Almost all of the exports to these two countries have been dairy products (butter mostly), which have almost certainly been re-exported to Russia.²¹ Of New Zealand's exports to the acceding countries in 2002 \$51.9 million worth went to Lithuania, while \$13m went to Cyprus, \$12.9m to Malta, and \$11.8m to Poland.

Product	Exports to new EU	Total exports	New EU as % total exports	% of NZ's exports to new EU
Dairy	63.2m	6.382bn	0.99	59.5
Beef	11.3m	1.689bn	0.67	10.7
Wool	10.1m	958m	1.05	9.5
Sheep meat	7.0m	2.286bn	0.30	6.5
Fish & shellfish	4.6m	1.484bn	0.31	4.3
Machinery	1.7m	3.1bn	0.05	1.6
Photographic and optical	1.1m	268m	0.40	1.0
Fruit and vegetables	.3m	1.709bn	0.02	0.3
Wine	.1m			0.1
Agricultural	94.4m	16.232bn	0.58	88.9
Non-agricultural	10.8m	14.801bn	0.07	10.2
Total	106.3m	29.821bn	0.36	100

²¹ Stuart McMillan, *Enlargement of the European Union: Opportunities for New Zealand* (Christchurch: National Centre for Research on Europe, University of Canterbury, 2003), 19. Statistics New Zealand, *New Zealand External Trade Statistics* (December 2003). Available: www.stats.govt.nz/externaltrade. 18 May 2004, p. 31 shows that almost all New Zealand's exports to Latvia in 2000 and 2001 consisted of butter.

Figure 6: New Zealand's exports to the new EU members in 2002

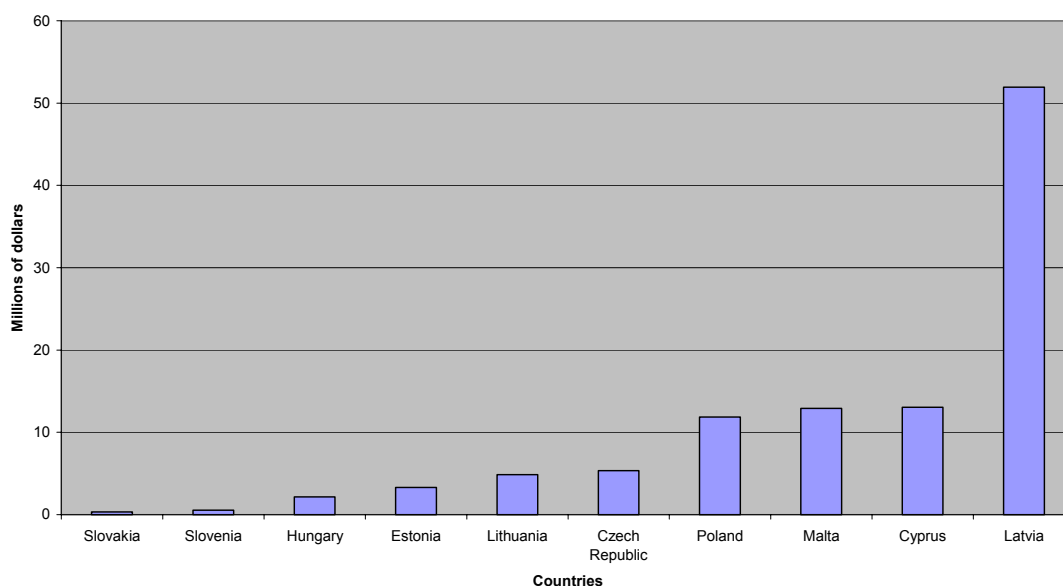


Table 3 shows that in 2002 New Zealand's dairy exports to the new EU members were worth \$63.2 million, with \$51 million of these going to Latvia. Other countries taking dairy exports were Poland, which took \$5 million, Estonia, \$2.9 million, Lithuania, \$1.8 million, Cyprus, \$1.4 million, and Malta, \$1 million. Total beef exports were \$11.3 million; \$7.5 million of which went to Malta, while the remaining \$3.8 million worth went to Cyprus. Sheep and goat meat exports were worth \$7 million; \$3.7 million worth of these went to Cyprus, \$2.9 million to Malta, and \$0.4 million to Hungary. Of New Zealand's fish exports of \$4.2 million, \$2.5 million went to Cyprus, \$0.7 million went to Lithuania, while \$0.6 million went to Poland. Of the wool exports of \$10 million, \$4.6 million went to the Czech Republic, \$2.3 million to Poland, \$1.9 million to Lithuania, \$0.5 million to Latvia, and \$0.4 million to Hungary.

New Zealand's Imports from the New EU Members

Figure 7 shows New Zealand's imports from the new EU-10 members since 1957. A clear upwards trend is evident over time, although imports from 1983 to the early 1990s were quite low.²² However, imports have trended upwards since a low in 1991. A feature of Figure 7 is the two spikes in imports from the new EU members in 1982 and 1999. The 1982 spike was caused by the importing of the 44 Hungarian rail units, comprising 88 carriages, which still form the mainstay of Wellington's suburban train system. The 1999 spike was caused by a one-off surge in imports from Poland. Figure 8, which shows imports from individual new EU members, shows that traditionally Czechoslovakia has provided the most imports to New Zealand. Currently the Czech Republic is most important, although Hungary, Slovenia, and Slovakia are also important.

²² *New Zealand Official Yearbook* (Wellington: Department of Statistics, 1979), p. 542.

Figure 7: New Zealand's imports from the new EU members in 2002 values

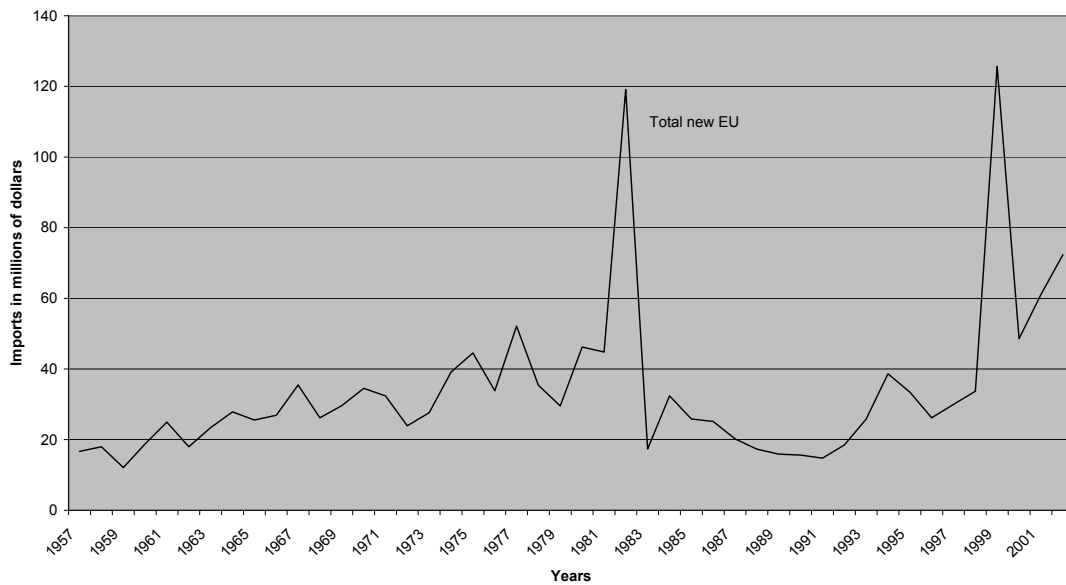
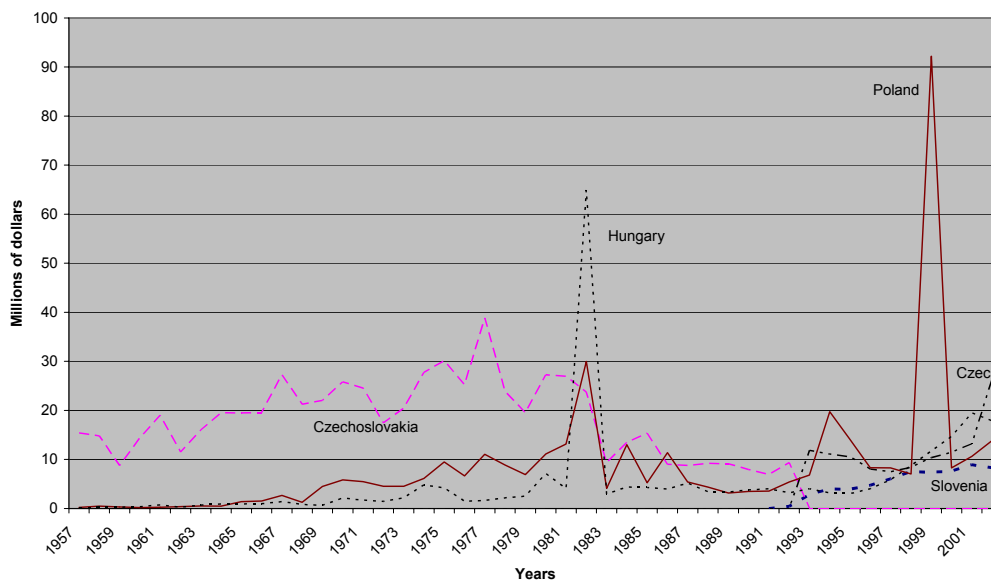


Figure 8: New Zealand's imports from selected new EU members in 2002 values



Imports during the 1970s from the new EU members included machinery, fertilizers, foodstuffs and vehicles. In 2002 imports from these countries were still dominated by machinery imports, with them making up almost half of New Zealand's imports from the new EU members. Electrical equipment such as transmission equipment (Czech Republic and Poland), turbines (Czech Republic), computers (Hungary), vacuum cleaners (Hungary), and water heaters (Slovenia), were particularly important. Other

important imports from the new EU members included rubber tyres from Slovenia and the Czech Republic, and motor vehicles from the Czech Republic and Hungary

Table 4: New Zealand's main imports in 2002 from the 10 countries that joined the EU on May 1 2004.

Product	EU-10 imports	Total imports	EU-10 as % total imports	Percentage of imports from new EU
Machinery	35.0m	7.203bn	0.5	48.3
Rubber including tyres	5.7m	405m	1.4	7.9
Vehicles	4.7m	4.821bn	0.1	6.5
Textiles, clothing and footwear	3.3m	1.427bn	0.2	4.6
Photographic and optical	3.0m	978m	0.3	4.2
Glass	2.3m	230m	1.0	3.2
Wood and paper	2.0m	1.060bn	0.2	2.7
Metals	1.7m	1.478bn	0.1	2.4
Vegetable preparations	1.7m	361m	0.5	2.3
Ceramics	1.3m	160m	0.8	1.8
Furniture	1.1m	380m	0.3	1.5
Other fibres	1.0m	292m	0.3	1.4
Plastics	.9m	1.304bn	0.1	1.3
Aircraft	.8m	815m	0.1	1.2
Toys	.8m	412m	0.2	1.1
Pharmaceuticals	.8m	782m	0.1	1.1
Fruit and vegetables	.7m	2.008bn	0.0	1.0
Agricultural				
Non-agricultural				
Total	72.5m	32.337bn	100	0.2

The Economic Importance of the New EU Members

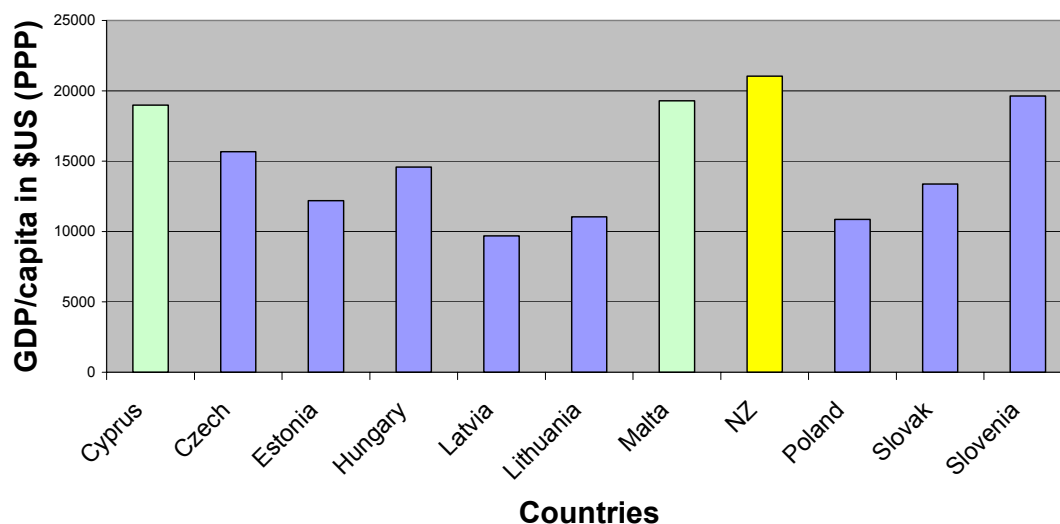
There are considerable variations in living standards between the 10 new EU members. For instance, Slovenia will be a net contributor to the EU's finances as its GDP/capita is about 70% of the EU average,²³ while Cyprus and Malta have similar living standards. Indeed, Slovenia, Cyprus and Malta are only slightly poorer than New Zealand. This means that consumers in these countries are likely to be operating in a similar price range to New Zealand consumers. Looked at in this way New Zealand's exports to Slovenia are considerably lower than could be expected considering income levels there and its population of two million. In contrast, GDP/capita is only 33% of the EU average in Latvia, and is not much higher in Poland. Both these countries, however, are receiving considerable investment from the EU to modernise their economies.

²³ Heather Grabbe, "The Newcomers," *The Future of Europe: Integration and Enlargement*, ed. Fraser Cameron (London: Routledge, 2004), 66.

The new EU members and New Zealand compared		
Formerly Communist	Population (2001) (million)	GDP/capita (2003, US \$, purchasing parity) ²⁴
Czech Republic	10.3	\$15,700
Estonia	1.4	\$12,200
Hungary	10.2	\$14,600
Latvia	2.4	\$9,700
Lithuania	3.5	\$11,000
Poland	36.7	\$10,900
Slovak Republic	5.4	\$13,400
Slovenia	2.0	\$19,600
Commonwealth		
Cyprus	0.7	\$19,000
Malta	0.4	\$19,300
New Zealand		
	4.0	\$21,000

In total, the acceding countries add about 8% to the economic output of the EU, and increase its population by about 17%. Economic growth in the new members is expected to increase by another 1 to 2 percentage points annually after accession. So it will take decades for some of the new states to catch up in terms of living with the EU average.²⁵ The new EU members can expect to grow faster than previously

Figure 9: GDP per capita of the new EU members and of New Zealand



because of their increased access to the EU market, greater foreign investment, and high levels of EU funding for economic modernisation.²⁶ The population of the new EU countries is currently declining fractionally, reducing their economic significance. This is partly due to low birth rates, with the fertility rate being only 1.3 children per

²⁴ <http://www.imf.org/external/pubs/ft/weo/2004/01/data/>

²⁵ Andrew Scott, "The Political Economy of Expansion," *The Future of Europe: Integration and Enlargement*, ed. Fraser Cameron (London: Routledge, 2004) 95-96.

²⁶ Support for economic development and infrastructure will be worth on average 3 billion Euros per year between 2000 and 2006.

woman in the ten new members compared to 1.5 children per woman for the EU-15. The ten new EU members are also currently losing young workers to other countries in the EU and to countries outside the EU. However, higher economic growth can be expected to stem these losses.

The Effect of the Current Enlargement on New Zealand's Exports to the EU

Currently New Zealand's access to the EU for agricultural products is protected by agreements reached at the Uruguay Trade Round. Nevertheless, the current enlargement will still affect New Zealand's trade with the EU.

The new EU members tend to be net food importers, with most imports coming from the established EU members.²⁷ The new EU members have increased the amount of farmed agricultural land in the EU by 30%, although production has only increased by 10-20% for most products.²⁸ However, the new members have 13.3% of their population employed in agriculture, compared to only 4.3% for the existing members. This will increase the size of the constituency supporting the Common Agricultural Policy.²⁹ Both production and consumption of agricultural products in the new members is expected to increase over time.

The entrance of the ten new countries into the EU has prompted reform of the EU's Common Agricultural Policy. This will have important effects for New Zealand. The most important change has been that the link between farmers' output and the subsidies they receive will be broken.³⁰ In future, payments will instead be linked to the achievement of environmental, food safety, and animal welfare standards. Payments to farmers in new member states are to be phased in over 10 years until they reach the same level as in existing EU countries. This should see the existing budget for agricultural support spread across more member nations.³¹

The new EU members are unlikely, in the short-term, to be able to compete very directly with New Zealand's agricultural exports. This is partly because Eastern European countries produce different agricultural products than New Zealand does. Eastern European countries mainly produce cereals such as rye and wheat, which New Zealand produces in only small quantities.³² New Zealand products are also of a higher standard than those produced in Eastern Europe. In particular, Eastern European sheep and dairy products often do not meet EU hygiene standards.³³ Other

²⁷ NZ Institute of Economic Research, Agriculture in Poland and Hungary and the Potential Effects on the EU's Agricultural Policies (Wellington: Ministry of Foreign Affairs and Trade, 2001), 4.

²⁸ European Commission Directorate-General for Agriculture, Reform of the Common Agricultural Policy: Medium-Term Prospects for Agricultural Markets and Income in the European Union, 2003-2010 (European Commission Directorate-General for Agriculture, 2003).

²⁹ Ministry of Foreign Affairs and Trade, European Union Enlargement Strategy Paper.

³⁰ Matthew Newman, "Farmers Criticize EU Subsidy Moves," Wall Street Journal September 9 2003 2003.

³¹ Newman, "Farmers Criticize EU Subsidy Moves."

³² NZ Institute of Economic Research, Agriculture in Poland and Hungary and the Potential Effects on the EU's Agricultural Policies.

³³ Milenko Petrovic and Peter Barrer, "EU Enlargement to the East as an Opportunity for New Zealand," New Zealand European Studies Conference (Auckland: 2003), 3-4.

problems for the agricultural sector include “an ageing population, poor infrastructure, generally fragmented land ownership patterns and low productivity”.³⁴

Enlargement of the European Union: Opportunities for New Zealand

Many of the new EU countries are self-sufficient in dairy products. For instance, in Poland 75% of milk is produced by farmers with fewer than ten cows, with many farmers only having one or two cows.³⁵ Large increases in dairy production are not expected in Eastern Europe because of the EU’s plans to reduce the value of farm support. However, consumption of dairy products in the new EU members can be expected to increase as income levels grow. Reductions in dairy exports from the EU may open up opportunities elsewhere.

Declining dairy prices within the EU are expected to lower internal prices and the profitability of the EU market for New Zealand. Europe is therefore expected to continue to decline in importance as a dairying export market for New Zealand. The European Commission is expecting a decrease in butter production, but an increase in cheese production.³⁶ Fonterra sees the opportunities in Eastern Europe as being limited in the immediate future. Similarly, “Poland may one day become a huge source of dairy products”, but this is at least 10 years off.³⁷

New Zealand’s low beef quota for the EU is unfortunate, because there is strong demand for beef in central Europe. There are also opportunities in Cyprus and Malta, and meat producers would like to get credit for the 1000 tonnes of exports sold there each year. Unless the high-quality beef quota to the EU is increased, New Zealand will lose its current exports to Cyprus and Malta.³⁸

Currently little sheep meat is produced in central and eastern Europe, and relatively little is consumed. New Zealand’s biggest sheep meat markets in the new EU states are Cyprus and Malta. Romania is the biggest sheep meat producer in Eastern Europe, but Romanian exports are currently restricted by hygiene regulations. This problem can be expected to ease as agricultural modernisation takes place. There is likely to be a small increase in sheep meat exports to the new EU members in the future. However, there are limits in the quantity New Zealand can supply, while transport costs are high.³⁹

New Zealand continues to enjoy a seasonal advantage in fruit and vegetables. There will be opportunities as the middle class in the new EU members continues to grow, and switches to a healthier diet. Quality problems in Eastern Europe are likely to “discount potential competition in the short to medium terms” from countries such as

³⁴ NZ Institute of Economic Research, Agriculture in Poland and Hungary, 4.

³⁵ NZ Institute of Economic Research, Agriculture in Poland and Hungary, 8.

³⁶ European Commission Directorate-General for Agriculture, Reform of the Common Agricultural Policy: Medium-Term Prospects for Agricultural Markets and Income in the European Union, 2003-2010, 9.

³⁷ Stuart McMillan, Enlargement of the European Union: Implications for New Zealand (Christchurch: National Centre for Research on Europe, 2003), 13.

³⁸ Interview with Gerry Thompson, General Manager Europe for Meat New Zealand, Brussels, 28 June 2004.

³⁹ Interview with Gerry Thompson, General Manager Europe for Meat New Zealand, Brussels, 28 June 2004.

Poland.⁴⁰ In the long-term they could expand production, but New Zealand has survived past competition from European fruit producers. Similarly, fish and venison exports can be expected to grow, although fish exports remain a finite resource.

There are opportunities in agri-tech for selling manufactured products such as milking machines and electric fences.⁴¹ Gallaghers, which sells electric fences, has been involved in Eastern Europe since the early 1980s. However, European exporters are already established in key markets. As Table 3 shows, New Zealand's exports in this area to the new members are very minor.

Effect of the Current Enlargement on New Zealand's Imports from the EU

The volume of New Zealand imports from the new EU members is likely to increase in the future, particularly since some manufacturers from the EU-15 are relocating there. As economic development occurs in the new EU members their exports will come to more closely resemble that of the EU-15. As a result, imports of goods such as pharmaceuticals, cosmetics, motor vehicles and chemicals will become more important. In contrast, imports of textiles, clothing and footwear from the new members will probably decline in the longer-term as production moves to lower cost countries. However, New Zealand's imports of these goods from the EU-15 remain significant. Imports of textiles, clothing and footwear from the new EU members may therefore remain important if they can improve productivity and the quality of their exports.

New Zealand is currently upgrading its infrastructure. There are opportunities for importing more electrical equipment and railway equipment from the new EU members. For instance, new railway carriages are needed for the Auckland and Wellington suburban railway systems. Eastern European producers certainly should be considered when seeking tenders.

Future Accessions

The addition of Turkey would have significant positive effects for New Zealand. This is because its Muslim population are heavy consumers of sheep meat. However, New Zealand sheep meat exports to Turkey are currently blocked by prohibitive tariffs. If Turkey joined the EU it would have to reduce these tariffs to the same levels as those applying elsewhere in the Union. However, Turkish accession remains unlikely in the foreseeable future. The accession of Romania and Bulgaria would have relatively minor effects.

Conclusion

The development of the EU since 1957 has had mixed effects on New Zealand exports there. Exports of some agricultural goods to the United Kingdom were sharply reduced after it joined the EEC in 1973. However, this simply accelerated a downwards trend in New Zealand's agricultural exports to the United Kingdom,

⁴⁰ NZ Institute of Economic Research, Agriculture in Poland and Hungary, 3.

⁴¹ Petrovic, "EU Enlargement to the East as an Opportunity for New Zealand," p. 8.

which had begun well before this. The growth of the EU has also had some positive effects on New Zealand's exports there. In particular, EU enlargement and integration has made EU consumers richer, and this has contributed to them buying more New Zealand goods. EU enlargement has also resulted in some countries having to reduce tariff levels on New Zealand goods, while the single market has made exporting there easier. This has resulted in New Zealand's exports to the EU increasing since 1993, in the process recovering some of the losses made in earlier years.

The effects of the current EU enlargement are likely to be fairly benign on New Zealand. Indeed, by prompting reform of the EU's agricultural support policies the effects may be quite positive for New Zealand. The main exception is probably beef exports, where New Zealand will have to fight to get its exports to Malta and Cyprus added to its quota. There remain ongoing opportunities to sell agricultural and agri-tech goods to the new EU countries that New Zealand needs to take advantage of. This is because some of the new EU members are quite economically developed, while their economies are growing more quickly than the economies of the EU-15 countries. There are also opportunities for New Zealand to import competitively priced goods, such as railway equipment, from the new EU members.

Statistical Appendix

Aggregate imports data

Up to 1962 the source for the imports data was the *Yearbooks* and *Statistical Report on the External Trade of New Zealand*. Current domestic values (CDV) in countries the exports were from were used, as these were the only data available. Because the 1962 data are only from January to June, figures for these six months were doubled. This created no apparent problems, and could be justified on the grounds that there is no reason to expect strong seasonal variations in imports from Europe.

From 1963 to 1982 *Imports Part A: Commodity by Country* were used. From 1963 cost insurance and freight (CIF) values were used so that the cost of shipping was included. *New Zealand Merchandise Trade Statistics* were used from 1983 to 1989, and *New Zealand's External Trade Statistics* were used from 1993 to 1999. The remaining statistics were downloaded off the Statistics New Zealand website.

Aggregate exports data

Between 1957 and 1973 *Yearbook* data was used. For 1974 to 1976 *External Trade Exports: Commodity by Country and Country by Commodity* were used. Data from the 1978 to 1982 *Yearbooks* was used for the period between 1977 and 1981.

New Zealand Merchandise Trade Statistics were used from 1982 to 1989, and *New Zealand's External Trade Statistics* were used from 1993 to 1999. The remaining statistics were downloaded off the Statistics New Zealand website.

http://www.stats.govt.nz/domino/external/web/prod_serv.nsf/htmldocs/New+Zealand+External+Trade+Statistics+December+2003 was used to download the recent trade statistics from. Free on board (FOB) statistics were consistently available

Exports and imports data for different categories for 2002

This has been reworked from a file supplied by the Ministry of Foreign Affairs and Trade.

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