HOW EFFECTIVELY DOES NEW ZEALAND EXPORT TO THE EUROPEAN UNION? A MULTIDISCIPLINARY APPROACH

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CONTENTS

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ABSTRACT

For a small state such as New Zealand, trade and economic partnerships are extremely important for economic survival. However, the tyranny of distance complicates this somewhat. Historically, New Zealand has always been dependent on exporting agricultural products. There are examples in New Zealand's history of innovative ideas being utilised to New Zealand's economic advantage, such as the advent of refrigerated shipping to the United Kingdom.

An important economic partner for New Zealand is the European Union. The European Union is the world's largest trade power, a formidable partner for a small state, such as New Zealand, to contend with in trade related matters. The agricultural protectionist policies of the European Union are an issue for New Zealand to work around. However, the European Union is also a welcoming market for high quality products that New Zealand should supply. New Zealand's small size means that the country has to focus on producing high quality products rather than mass production. This thesis proposes to make recommendations for the types of products New Zealand should export to the European Union, in what quantities, and by which methods. This is important for New Zealand producers and exporters to take into account if New Zealand is to expand its exports to the European Union.

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LIST OF ABBREVIATIONS

ASEAN	Association of South East Asian Nations
AERU	Agribusiness and Economic Research Unit, Lincoln University
CAP	Common Agricultural Policy
EC	European Commission
ECJ	European Court of Justice
EEC	European Economic Community
EU	European Union
EU-10	European Union 2004 accession states
EU-15	European Union member states prior to the 2004 enlargement
EU-25	European Union member states prior to the 2007 enlargement
FDI	Foreign Direct Investment
FRENZ	Facilitating Research cooperation between New Zealand and Europe
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
MAF	New Zealand Ministry of Agriculture and Forestry
MFAT	New Zealand Ministry of Foreign Affairs and Trade
MoRST	New Zealand Ministry of Research, Science and Technology
NZDB	New Zealand Dairy Board
NZTE	New Zealand Trade and Enterprise

OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SWNZ	Sustainable Winegrowing New Zealand
UK	United Kingdom
UNEP	United Nations Environment Programme
WTO	World Trade Organisation

CHAPTER ONE

Introduction

1.1 INTRODUCTION

The European Union (EU) is of great importance to the New Zealand economy. It is New Zealand's second largest trade partner, after Australia, accounting for around 15 per cent of total exports valued at approximately NZ$5 billion in June 2007. In 2006, 67 per cent of New Zealand's exports to the EU were agricultural products and the New Zealand Ministry of Foreign Affairs and Trade (MFAT) reports that the EU is New Zealand's largest, highest value and, in many cases, New Zealand's fastest growing market for products such as butter, sheep meat, apples and kiwifruit. Nevertheless this relationship requires further development in order to boost New Zealand exports beyond primary products. Beyond the primary industry the EU is a major source of foreign investment and is New Zealand's second largest source of foreign direct investment stocks worth approximately NZ$10.8 billion in 2006. The EU is also a source of tourist revenue for New Zealand, with an estimated 20 per cent of total visitor arrivals for the year ending March 2008 coming from EU member states.[1]

The economic relationship with the EU is not without problems and these are felt more keenly by New Zealand because the country has such a long and deep relationship with Europe, especially the United Kingdom. There have been in the past, and there are still, many obstacles for New Zealand exports to the EU. Some recent events have confirmed that the economic relationship between the EU and New Zealand is not entirely

[1] Ministry of Tourism, www.tourismresearch.govt.nz, website viewed on 27 April 2008

unproblematic. In 2006, for example, the European Commission (EC) issued a statement that it intended to adopt a regulation suspending New Zealand butter imports while the European Court of Justice was deciding on a case brought against the EC by a German trader. This challenged the regulations that govern New Zealand's butter quota to the EU. There was a strong response from New Zealand protesting this matter, with New Zealand's Trade Minister Phil Goff stating that by stopping New Zealand's trade in butter while the EC deliberated was in breach of its World Trade Organisation (WTO) obligations to New Zealand.[2]

As such, when New Zealand's Prime Minister Helen Clark raised the prospect of a Free Trade Agreement (FTA) between New Zealand and the EU in November 2007, it was met with surprise by officials and the media alike. Some are sceptical about the prospect of an FTA between New Zealand and Europe. One media reporter commented: "…Europe, free trade and New Zealand in one sentence? You've got to be joking".[3] Whilst the Prime Minister admitted that a trade deal would be some years away, it was inevitable that an agreement would one day be reached. Helen Clark made the comments in light of the fact that on 21 September 2007 a new *Joint Declaration on Relations and Cooperation between the European Union and New Zealand* was adopted in Lisbon. The new document, which replaces a previous joint declaration of 1999, confirms the intention of the EU and New Zealand to work closely together on many different issues, including trade and economic relations. November 2007 also witnessed the inauguration

[2] 'EU proposes to suspend NZ butter trade', 14 July 2006, Phil Goff, (http://www.beehive.govt.nz/release/eu+proposes+suspend+nz+butter+trade). This event will be discussed further in Chapter Three.
[3] Colin James, 'More power to a new look at energy globally', *The New Zealand Herald*, 16 October 2007

of annual bilateral trade talks between New Zealand and the EU. At the meeting representatives from both parties agreed to work together in order to strengthen the bilateral trade relationship and put emphasis on the role that these trade talks can play in building a constructive dialogue between New Zealand and the EU.[4]

These events underlie the importance that the New Zealand Government places on its trade relationship with the EU and highlights the need for further study, thus providing the basis for this research. Helen Clark's proposal concerning a potential FTA with the EU illustrates its position as an important partner for New Zealand, indicating that the relationship is one that New Zealand wants to maintain and strengthen with a formal agreement. However, the very fact that a FTA is felt to be necessary implies the presence of barriers to the full development of New Zealand's economic relations with the EU. The sceptical comment from a representative of the New Zealand media, as referred to above, is indicative of the past problems and suggests that some do not see a FTA between New Zealand and the EU as a viable option. The reasons why New Zealand wants a close economic relationship with Europe requires explanation before analysis can begin.

New Zealand's motives are not based purely on economic self-interest but also on more intangible factors that are rooted in New Zealand's history and identity. The deep social and historical connections and the traditional and cultural links with Europe serve as a valid starting point. In the 2006 Census over 60 per cent of New Zealanders identified

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[4] 'European Union and New Zealand meet for annual trade talks', *Delegation of the European Commission to New Zealand*, Wellington, 8 November 2007

themselves as of European ethnicity.[5] In the past, New Zealand has also shown its willingness to contribute to the defence of freedom in Europe. In October 2007, for example, Helen Clark incorporated high level talks with leaders of the EU to coincide with the ninetieth anniversary of the Battle of Passchendaele, where more than 1300 New Zealand men were killed during World War One.[6]

The EU and New Zealand additionally share commitments to the values of democracy, the rule of law and respect for human rights and this has led to a further commitment between the EU and New Zealand to work together bilaterally and internationally. In 2006, Helen Clark asserted that her government "…has embarked on a deliberate policy of even greater engagement with Europe to ensure that our ties, far from withering with the passage of time, extend into new areas of policy dialogue and cooperation."[7] Simon Murdoch, Chief Executive of the New Zealand Ministry of Foreign Affairs and Trade, stated in November 2007 that New Zealand's Prime Minister "…has made it pretty clear to my ministry…that she doesn't want New Zealand to lose either the intimacy or the cooperative intensity of our relations with Europe…"[8] These comments by members of New Zealand's government and diplomatic representation show how New Zealand considers the relationship with the EU to be important.

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[5] Statistics New Zealand, *2006 Census Data: Quickstats about Culture and Ethnicity*, www.stats.govt.nz
[6] Rt Hon Helen Clark, *PM to Europe for high level talks and Passchendaele commemorations*, 24 September 2007, www.beehive.govt.nz
[7] Rt Hon Helen Clark, *Speech notes for address to the Bertelsmann Foundation, Berlin* 14 November 2006, www.beehive.govt.nz
[8] Mr Simon Murdoch, *EU-NZ: Facing Global Challenges Together*, seminar hosted by the National Centre fro Research on Europe, 27 November 2007

1.2 DISSERTATION OUTLINE

The goal of this dissertation is to explore the trade relationship between New Zealand and the EU and, in particular, to evaluate the effectiveness of the export strategies of the New Zealand government and New Zealand businesses. The central research question is: How effectively does New Zealand export to the EU?

This prime focus is in turn complemented by the following sub-questions:

- What goods should New Zealand produce in order to boost its exports to the EU, in what quantities, and using what kind of production techniques?
- How effectively is New Zealand dealing with the legal, bureaucratic and cultural barriers to the entry of New Zealand goods into the European market?
- How effectively does New Zealand market its products to the EU and does New Zealand exploit all opportunities in Europe?

By addressing these sub-questions in turn throughout the dissertation, it will be possible to arrive at some broad conclusions concerning the effectiveness with which New Zealand exports to the EU. Whilst this research is looking at New Zealand exports to the EU in a general sense, it focuses in on two specific industries to help illustrate the main points that are raised. These two industries are the dairy and wine industries and the justification for choosing these fields of focus are outlined below.

The New Zealand dairy industry has been an integral part of the New Zealand economy since the 1800s and even more so following the advent of refrigerated shipping. It is important to include the dairy industry in a study concerning New Zealand's exports to the EU as dairy products have been New Zealand's main export product for over a hundred years. New Zealand is the eighth largest milk producer in the world, making up just over 2 per cent of world milk production.[9] Dairy exports were New Zealand's largest export earners in the year to June 2007 at $7.5 billion, accounting for 21 per cent of total merchandise exports.[10] Dairy products have been at the forefront of New Zealand's negotiations with the EU concerning access to its markets, particularly regarding product quotas. It makes sense to analyse the success of the New Zealand dairy industry to see if its model can be applied to other industries and products to be exported to the EU.

The New Zealand wine industry, on the other hand, is much smaller than the dairy industry. The export value of the New Zealand wine industry was NZ$ 698 million in 2007.[11] Compared with the dairy industry, this is a very small amount, especially when the total value of New Zealand's merchandise exports for the year ended June 2007 was NZ$ 33.4 billion.[12] It is important to study the New Zealand wine industry as it is a better representation of the small size of New Zealand export products. It has been a dynamic and successful industry and provides another model whose success can be mirrored by other industries in New Zealand. Wine is also a traditional European product and New Zealand is a New World wine producer, raising issues concerning prejudice and marketing, which can be studied. Analysis within this thesis shall also demonstrate how the New Zealand wine industry has worked around these issues.

[9] Situation and Outlook for New Zealand Agriculture and Forestry (August 2007) Ministry of Agriculture and Forestry (MAF), www.maf.govt.nz
[10] New Zealand External Trade Statistics: June 2007, Statistics New Zealand
[11] New Zealand Winegrowers Annual Report, June 2007
[12] New Zealand External Trade Statistics: June 2007, Statistics New Zealand

1.3 CHAPTER OUTLINE

Chapter two identifies the decisions that New Zealand producers have to make in order to increase exports to the EU, such as what to produce, how to produce, in what quantities and how to organise production. Analysis is made using the economic theory of comparative advantage and how it relates to New Zealand and its unique limitations imposed by its small size and geographical isolation. Investigation of both the dairy and wine industries of New Zealand shows how each has responded to the issue of small scale production and how this affects New Zealand exports to the EU market. Further, the chapter also outlines the importance of environmentally sustainable production methods and why this is important when producing commodities for the EU market.

Chapter three examines the cultural and bureaucratic barriers erected to New Zealand goods by the EU and the effectiveness with which the New Zealand government and business are overcoming theses barriers. The historical background of the EU is investigated in order to understand the current EU trade policy and how this affects New Zealand exports. The chapter also includes analysis of the recent *Declaration of Cooperation* signed between the two parties and what it means for the future economic relationship. Examples of cultural barriers to New Zealand products include the Old World prejudice towards New World wine, whilst the Common Agricultural Policy (CAP) is an example of bureaucratic barriers.

Chapter four addresses the issue of the effectiveness of New Zealand's marketing strategies for European consumers. The chapter investigates whether New Zealand is exploiting all available opportunities in Europe. New Zealand's focus on Asian markets rather than the EU and in particular whether New Zealand is reluctant to tap into the Eastern European market is examined. Analysis of New Zealand's marketing strategies, such as using the 'clean and green' image and generic country branding is also included.

1.4 METHODOLOGY

The origins of this reserch lie in an historical training background, which has given the research a historical perspective. Therefore, despite the fact the main subject of focuses on the field of international trade, the subject will not be looked at purely from an economic or quantitative perspective. The research undertaken for this thesis has been continually refined and reorganised where more questions have been stimulated which has turned it in different directions. Data analysis has been an on going process and has taken place throughout the data collection process. World events have also prompted further research and interviews. For example, the attempt by the EC to suspend New Zealand's butter imports prompted initial research into New Zealand's trade relationship with the EU and led to an interview with a representative from Fonterra.

No new empirical data has been presented, rather the research draws together existing data and literature on the topic of New Zealand's economic relations with the EU. New information in terms of industry representative views is incorporated. The dissertation examines this data qualitatively to find out whether New Zealand needs to, and whether it can, improve its relationship with the EU.

As part of the learning process for this research, economic theories have also been studied and incorporated. In particular, the theory of comparative advantage has been used in order to explain which New Zealand products should be exported to the European Union. Comparative advantage is used to explain what types of products New Zealand should produce for the EU market and further explanation of this theory will be given in Chapter Two.

1.5 LITERATURE REVIEW

Secondary Sources

Due to the contemporary nature of this subject, the focus of this research is primarily on the interpretation of primary sources. There are, however, a number of secondary sources that are relevant to this topic. In the area of New Zealand's relationship with the EU, the material is focused on the economic relationship, specifically on the topics of Britain's accession to the European Economic Community (EEC), the CAP and European enlargement.

This thesis has a strong New Zealand-centric approach, which incorporates historical background of the development of New Zealand's economy and its history of partnership with Europe. Thus, material on New Zealand's history is widely referenced. Belich's perspective on New Zealand's 'recolonisation' or tightening of its dependence on Britain, centred on the "protein bridge" of exports of meat and dairy products through the advent of refrigerated transport, has been an important source in identifying lessons for contemporary producers.[13] King's work gives background on the environmental consequences of New Zealand's early development phase as well as the impact that refrigerated transport had on the country.[14]

Due to the multidisiplinary approach to this thesis and the historical training background, it was imperative that an understanding of the New Zealand economy be gained. Through research conducted using contemporary media sources, economic textbooks and discussion with experts, it is hoped that justice is given to the area. Material by Birks and Chatterjee was particularly important in order to gain an understanding of New Zealand's agricultural economy and reliance on trade.[15]

The CAP, being one of the most contentious policies of the EU, has been widely written on. From the New Zealand perspective, McMahon provides a detailed investigation of the impact the CAP has had on New Zealand and suggests potential future options for New Zealand.[16] Later work conducted by Saunders looks at CAP reforms and the implications for New Zealand's dairy sector within a more contemporary setting of the Asia-Pacific context.[17] Similarly, enlargement of the EU has been widely written on,

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[13] James Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the year 2000* (Auckland, Penguin Press, 2001)
[14] Michael King, *The Penguin History of New Zealand* (Auckland, Penguin Books, 2003)
[15] Stuart Birks and Srikanta Chatterjee, *The New Zealand Economy: Issues and Policies Fourth Edition* (Palmerston North, Dunmore Press, 2001)
[16] Joseph McMahon, *New Zealand and the Common Agricultural Policy: Future Options for New Zealand* (Victoria University Press for the Institute of Policy Studies, Wellington, 1990)
[17] Caroline Saunders, 'Changes in EU Agricultural Policy and their potential impacts on Australia, New Zealand and Japanese Dairy Sectors', *Asia-Pacific Journal of EU Studies*, vol. 1, no. 2, 2003

with particular reference to the 2004 enlargement due to the new challenges it presented for New Zealand's agricultural exports to the EU. Petrovic and Barrer explain that the Eastern enlargement of the EU provides New Zealand with further opportunities to trade with the EU.[18]

Holmes and Pearson provided an invaluable resource relating to New Zealand's economic relationship with a changing EU.[19] This work has been drawn on extensively as part of the background research as there has not been a specific published work on the general topic of New Zealand's economic relations with the European Union since. *Meeting the European Challenge* focuses on the changes taking place in Europe at the time of publication. Major changes such as the aim to have a single market, the path towards economic and monetary union and whether there would be further enlargement are examined by Holmes and Pearson. Advice and recommendations are given on the impact these changes will have for New Zealand's exports.

Developments have obviously occurred in Europe since *Meeting the European Challenge* was published in 1991 and therefore a gap in the information available has been indentified. This research will attempt to fill that gap by providing analysis of the current situation, followed by further recommendations for New Zealand's future trade relationship with Europe. The recommendations given at the end of this thesis will be compared with those made by Holmes and Pearson to see if anything has changed.

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[18] Milenko Petrovic and Peter Barrer, 'New Zealand and European enlargement to the East', *New Zealand International Review*, vol. 29, 2004

[19] Sir Frank Holmes and Clive Pearson, *Meeting the European Challenge: Trends, Prospects and Policies* (Victoria University Press for Institute of Policy Studies with assistance from the Trade Development Board and the Ministry of External Relations and Trade, Wellington, 1991)

In addition to the work done by Holmes and Pearson, there has been research on New Zealand-EU relations in various journals. Research conducted by Maureen Benson-Rea and Mia Mikić, particularly *New Zealand-Europe Trade Relations: Reconciling Hypercompetition with the Tyranny of Distance,*[20] have been referenced. Benson-Rea and Mikić analyse New Zealand's relations with the EU from a business studies angle coupled with a qualitative perspective. Research conducted at Lincoln University by the Agribusiness and Economics Research Unit (AERU) on the comparative analysis of energy and greenhouse gas emissions between New Zealand's dairy industry and the United Kingdom's dairy industry will be looked at in Chapter Two.

Background knowledge of the EU and its importance as a trade power was needed in order to account for New Zealand's efforts in maintaining and strengthening its relationship with the EU. Research conducted by Meunier and Nicolaïdis and Bretherton and Vogler has been has been used in order to explain the challenges New Zealand may face when trying to negotiate trade issues with the EU.[21]

[20] Maureen Benson-Rea and Mia Mikić, 'New Zealand-Europe Trade Relations: Reconciling Hypercompetition with the Tyranny of Distance' in *European Studies No. 21: New Zealand and Europe: Connections and Comparisons* Luciano, Bernadette and Mayes, David G. (eds) (New York, 2005)
[21] Sophie Meunier and Kalypso Nicolaïdis, 'The European Union as a Trade Power' in *International Relations and the European Union*, Hill, Christopher and Smith, Michael (eds) (Oxford University Press, 2005); Charlotte Bretherton and John Vogler, *The European Union as a Global Actor* (Routledge, new York, 2006)

Primary sources

The primary sources that have been used in this research include interviews with various industry insiders, conference papers and workshop presentations, information provided by the European Commission as well as sources within New Zealand's media.

As the research progressed and additional questions were raised, potential interview participants were contacted and those willing to participate were interviewed. Participants were consulted prior to the recording of the interview, which all agreed to, and all were sent a copy of the full transcript which they could then make any amendments to if they so wished. In some cases, interviews were conducted over the phone. Where it was impossible to contact participants in person or by telephone, questionnaires were sent by email. The methods used to collect the data used complied fully with the ethical guidelines of the University of Canterbury.

Interview participants included:

Richard Laverty	Regional Director Europe, the Middle East and Africa New Zealand Trade and Enterprise (NZTE)
Michael Campbell	General Manager Waipara Valley Winegrowers Inc – an association of the vineyards and wineries in the Waipara Valley wine region which is located north of Christchurch.
Frances Durcan Chris Yorke	Marketing Executive, United Kingdom and Europe New Zealand Winegrowers – representation of the New Zealand wine industry which in charge of promotion for both the domestic and international market

Fiona Cooper Clarke	former Trade Strategy Manager Fonterra Cooperative Ltd.
Dave Hislop	Shareholder and Manager of Medbury Dairy Farm, Hurunui District

To complement the data and information collected from the primary and secondary sources, print media sources were also used. Data collected from media reports was not systematic, as this is not a media perceptions project. Print and television media reports helped to identify possible interview participants and bring to attention key issues that face New Zealand exporters.

A further source of qualitative information was acquired from the researcher's attendance of selected conferences, seminars and workshops. The European Union Roundtable Seminar Series Programme, which is held regularly at the National Centre for Research on Europe at the University of Canterbury, provided for presentations given by various Ambassadors, Delegates and Academic visitors varied aspects of New Zealand's relationship with the European Union. In March 2007, as part of the New Zealand commemoration of the Fiftieth Anniversary of the signing of the Treaty of Rome, a workshop was held entitled "The Europe Series: New Governance, New Opportunities and New Partnerships" in which there was a Trade and Investment Section which posed the question "Trading with Europe: Could we do better?" Industry participants, such as representatives from trade and business associations, Members of Parliament, and Delegates from the German Embassy and European Commission, gave talks and voiced their concerns for New Zealand's trade relationship with the European Union. The information will be elaborated upon further within the course of this research. The qualitative data that was gathered from this workshop prompted further information gathering, such as interviews and questionnaires, and further strengthened the analytical process.

1.6 CONCLUSION

This dissertation will provide an important contribution to the contemporary literature on New Zealand's relationship with the EU. It will also attempt to show that the subject matter of economic relations between New Zealand and the EU can be understood from perspectives other than economics, which ties in with the multidisciplinary nature of European Studies. Whilst background training preceding the completion of thesis was commenced in the subject area of history, the skills and knowledge that were obtained provide valuable tools with which to explain why it is important that New Zealand continues to have a close relationship with the EU. Researching an economic subject matter, such as international trade relations, from a qualitative perspective will demonstrate that trade need not be all about numbers and figures, but also about people.

CHAPTER TWO

New Zealand's production for the EU market

What goods should New Zealand produce in order to boost its exports to the EU, in what quantities, and using what kind of production techniques?

2.1 INTRODUCTION

The aim of this chapter is to investigate the types of products that New Zealand should produce for the EU. If New Zealand is to increase its exports to the EU, it has to make effective decisions about what to produce, in what quantities, how to produce, and how to organise production. These decisions must take into account the principles of comparative advantage as well as the underlying structural limitations imposed on New Zealand by its small size and geographical isolation. Consideration must also be given to the environmental impacts of the production process, especially when exporting to the European market.

2.2 HISTORICAL BACKGROUND

A knowledge of New Zealand economic history is necessary to understand the structural issues facing New Zealand exporters today, and to also 'learn the lessons' from past experiences of exporters.

A fundamental economic fact for New Zealand is its particular dependence on export markets, but that it is also isolated from these markets. The temperate climate of New

Zealand along with the absence of mineral wealth determined that New Zealand's primary exports should be the produce of the land.[22] In the early history of New Zealand, before organised European settlement of the country, this meant exporting products such as timber, sealskins and whale products. Tools, guns and basic consumer goods had to be imported.[23] Michael King writes that the commercial activity between 1792 and 1840, such as sealing and whaling, highlighted the fact that commercial industries could only gain momentum in New Zealand with investment from overseas and that "opportunities for prosperity in a country of New Zealand's size would always depend to some extent on the state of markets with larger populations in other parts of the world."[24]

During the 1800s it was clear that New Zealand had to develop in order to prosper from international trade. Julius Vogel, who was Premier twice and Colonial Treasurer in six ministries between 1869 and 1887, started New Zealand on its most impressive development phase. Vogel's "bold expansionist policy" was responsible for the assisted immigration to New Zealand of around 100,000 people between 1871 and 1880, the majority of which came from England and Ireland and the rest made of continental Europeans, mainly German and Scandinavian.[25] There were also extensions of roads and rail which made it easier to transport grains from farms to markets both within the country as well as to ports for export.[26] King reports that by 1884 more than 100,000 hectares of the Canterbury Plains had been cultivated to grow wheat and almost 20 per

[22] C.W. Maughan, *New Zealand Development: The Problem of Imports and Exports*, Department of Agricultural Economics and Farm Management, Massey University, 1978, p. 7
[23] Maughan, p. 11
[24] Michael King, *The Penguin History of New Zealand* (Auckland, Penguin Books, 2003), p. 128
[25] King, pp. 228-230
[26] King, p. 231

cent of New Zealand's exports at this time were mainly oats and wheat.[27] Steamship introduction also helped to speed up the time it took to travel between the main two islands and helped all the scattered settlements to better communicate with each other and with other countries. The aforementioned developments in technologies helped New Zealand to build up communication and transport infrastructures. Further technological development resulted in refrigerated transport which gave New Zealand new hope for future prosperity.

Refrigeration opened the doors to New Zealand's overseas trade in February 1882 when the *Dunedin* sailed from Port Chalmers, with a cargo of 4460 frozen mutton and 449 frozen lamb carcasses. The *Dunedin* reached London three months later with the meat in perfect condition. B.L. Evans proclaimed that this event is New Zealand's equivalent of the Battle of Hastings and, whether or not one agrees with this analogy, there can be no denying that the successful voyage of the *Dunedin* fundamentally transformed New Zealand. Michael King argues that "New Zealand would not have survived as a viable country had it had to continue to rely solely on wool and grain and extractive commodities for its national income."[28] Refrigerated shipping exports became more important to New Zealand than to other neo-European economies; protein products were the most important. To illustrate this point, Belich points out that in 1881, New Zealand shipped no frozen meat, cheese or butter products to Britain but by 1901 New Zealand exported over 100,000 tons of meat and dairy products to Britain.[29]

[27] King, p. 232
[28] King, p. 238
[29] James Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the year 2000*, (Auckland, Penguin Press, 2001), p. 53

Refrigerated shipping helped New Zealand producers make the most of their product in the past. To help contemporary New Zealand producers make the most of current opportunities, it is also important to know how New Zealand's unique trade issues were addressed in the past. Refrigerated shipping certainly opened doors for New Zealand exporters but there were barriers that had to be overcome and these barriers mirror those that producers face today. Belich points out that the refrigerated transport of produce to the United Kingdom was not an instant success and not guaranteed to be long lasting. The arrival of a frozen cargo of meat and dairy products in London did not immediately attract British consumer's attention. British consumers had a preference for fresh meat as well as, it seemed, a prejudice of foreign meat. Frozen meat had generally been frozen for months and was also sold at different types of retailers to fresh meat, which people did not like to be seen shopping at. Consumers did not like the taste and texture of New Zealand's merino and British consumers wanted their lamb in the springtime and not during New Zealand's spring. New Zealand's butter was also complained about because of its supposed 'fishy flavour'.[30]

New Zealand exporters also had logistical issues to deal with. The need for frozen storage and transport for the produce once it reached Britain had to be addressed otherwise it meant that the meat was sold for a fraction of its value. The length of time it took to sail to Britain also had to be dealt with as the *Dunedin* took 98 days to reach London as it was a sailing vessel. This also shows that the tyranny of distance was felt just as acutely as it is now.

[30] Belich, p. 58

New Zealand producers solved these problems by transforming production to effectively adapt to the needs of British consumers.[31] New Zealand's agricultural production was effectively transformed for the British market. Dairy factories were set up around the country to manufacture cheese and butter to please the British consumers, which did not want farm such products. Alternative breeds of sheep were farmed in order to supply more tender meat. New Zealand producers also adjusted production to fit in with the British winter season, so that they were able to consume spring lamb in their spring. The ability of those exporters to overcome the issues provides a positive model for exporters; if exporters could do it then, they can do it again today.

The history of New Zealand exports also shows how and why the European market is important to the New Zealand economy. The majority of immigrants that came to New Zealand during Vogel's development programme were from Europe. The input of these immigrants to the early development of New Zealand cannot be underestimated and extends beyond the cultural affinity that New Zealand shares with Europe. New Zealand was also able to prosper and grow economically because of its ready supply of products for the British market. New Zealand was essentially Britain's colonial farm.

Up until the late 1960s, more than 70 per cent of New Zealand's export earnings from dairy came from Britain.[32] Britain imported approximately 70 per cent of the world's

[31] Belich, p. 58
[32] New Zealand Dairy Board, *One Hundred Years of Butter from New Zealand, 1882-1982: The Origins, Development and Future of the Trade* (London, New Zealand Dairy Board, 1980)

butter exports and New Zealand was its main supplier.[33] This changed significantly once Britain joined the European Economic Community. While this issue will be elaborated further in the next chapter, the subsequent trade negotiations that take place between New Zealand and the EU are further proof that Europe is important to the New Zealand economy.

2.3 COMPARATIVE ADVANTAGE

In order to make optimal decisions about what to produce, in what quantities, and how, it is essential that NZ producers take account of the principles of Ricardo's theory of comparative advantage.[34] This section will also look at research conducted by John Ballingall and Phil Briggs, from the New Zealand Institute of Economic Research to see whether there has been a shift in New Zealand's comparative advantage. [35]

Ricardo's concept of comparative advantage explains that each country exports those goods and services which it produces at a relatively low opportunity cost and imports those goods which it produces at a relatively high opportunity cost.[36] The basic reason why countries trade with one another is because resources are not evenly distributed. For example, one country may have large supplies of oil and limited supplies of arable land, while another may have large areas of pasture land but limited reserves of oil. These two countries can trade agricultural products for oil and thus supply their consumers with

[33] John Singleton and Paul L. Robertson, 'Britain, butter, and European Integration, 1957-1964', in *Economic History Review*, vol. 50, no. 2 (1997), pp. 327-347

[34] David Ricardo, *On the Principles of Political Economy and Taxation* (1817)

[35] John Ballingall and Phil Briggs *Economic transformation and agriculture: has New Zealand's comparative advantage shifted?* Paper for 2002 annual conference of the New Zealand Agricultural and Resource Economics Society, Blenheim July 5-6 2002 (New Zealand Institute of Economic Research)

[36] Opportunity cost is the sacrifice sustained by choosing one option over an alternative one that may be equally desired. Thus, opportunity cost is the cost of pursuing one choice instead of another.

what they need. It could be possible for the country that has a ready supply of agricultural products to produce substitutes for oil but the cost of domestic production may be greater than the cost of trade, so consequently countries specialise in the production of certain goods that they can efficiently produce. In New Zealand's case, having fertile soil and a favourable climate has led to a comparative advantage in primary products such as meat, dairy, forestry and horticulture. New Zealand's comparative advantage in these sectors has also been improved by the development of management practices and technological advances.

Comparative advantage can be distorted by trade barriers such as tariffs, quotas and by situations of imperfect competition which means that a country's comparative advantage can change over time. In New Zealand the reforms of the 1980s, such as unilateral and multilateral trade liberalisation, have exposed New Zealand producers to international competition and highlighted New Zealand's areas of comparative advantage and disadvantage. It is widely accepted that the theory of comparative advantage is used as the concept to explain patterns of trade. However, as Ballingall and Briggs point out, directly measuring a country's true comparative advantage in a particular commodity is near to impossible.

Ballingall and Briggs researched New Zealand's export structure by looking at the period between 1985 and 1999 to get 'snapshots' of New Zealand's export structure and to see how it changed over the fifteen year period. They were particularly aware that previous research may have overlooked sub-sectors whose effects on export growth went unnoticed. In this instance, sub-sectors refer to commodities within the main sectors of products. Sub-sectors may be in more technologically advanced, higher value, areas and could boost export growth substantially in the future. The aims of their study were to: show that in which areas New Zealand's share of world trade is high in order to identify areas of revealed comparative advantage; to look at how New Zealand's comparative advantage has changed over time and whether there has been any noticeable signs of economic transformation; and to identify fast growing sub-sectors that may contribute to New Zealand's export and GDP growth in the future. Ballingall and Briggs used the Revealed Comparative Advantage (RCA) method to calculate which New Zealand export products had a comparative advantage.[37] Their analysis aims to identify how New Zealand's export structure has changed and whether there has been a shift away from primary products towards high value, 'knowledge economy' type goods.[38]

The main results that Ballingall and Briggs found were industries with comparative advantage had not changed dramatically between 1985 and 1999. The sectors in which New Zealand has the largest comparative advantage are based on sheep, dairy, wood products, horticulture and basic metals, which, unsurprisingly has not changed since the introduction of refrigerated shipping outlined above. Ballingall and Briggs also found that New Zealand has lost and gained comparative advantage in some sectors-since 1985. Sectors which had lost their comparative advantage included a number of agricultural goods, forestry and wood products, manufactured glass, and basic manufactured metal products. But New Zealand had also gained a comparative advantage in a wide range of

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[37] Balassa, B. (1965) 'Trade Liberalization and 'Revealed' Comparative Advantage', The Manchester School of Economic and Social Studies, 33, 99-123, cited in Ballingall and Briggs.

[38] Ballingall and Briggs

sub-sectors since 1985. These included food products such as tea, coffee, sauces, seasonings, yeast and vinegar. Ballingall and Briggs point out that it is important to consider the level of New Zealand's exports in each of these sub-sectors, in order to determine how likely that sector will boost New Zealand's export growth in the future. Their research showed that there has been a move away from the reliance on primary production towards an economy based on high value, technologically advanced goods. Products have had to diversify in order to meet the changing demands of customer needs over time and also because the traditional United Kingdom market for butter is no longer available. The sub-sectors in which New Zealand gained a comparative advantage and are of a significant size include wine of fresh grapes with $US 77.3 million of New Zealand exports in 1999.[39]

As Ballingall and Briggs' research only analysed the sectors with a comparative advantage up until 1999, some further investigation was needed to determine whether New Zealand still has a comparative advantage in the wine sector. Quantitative information was collected from the online Organisation for Economic Cooperation and Development (OECD) International Trade Data, for the years 1995 and 2005[40] to gain an understanding of any changes in the comparative advantage.

For this thesis, a Balassa index is calculated as the ratio of the share of a given commodity in a country's exports to another country or area, to the share of that commodity in total world exports. The same RCA method as Ballingall and Briggs used

[39] Ballingall and Briggs
[40] Data is only available up until 2005

is implemented for consistency of analysis. The RCA index has been calculated for wine in 1995 and 2005 below.

To measure the RCA, the specification takes the following general form which can be applied to any commodity. In this case, the commodity is wine.

$$RCA_{nzk} = 100 * \left(\frac{X_{nz}^{k}}{X_{w}^{k}} / \frac{X_{nz}}{X_{w}} \right)$$

Equation 1

Where X_{nz}^{k} = is an export of commodity *k* from New Zealand to the world;

X_{W}^{k} = is world exports of commodity *k;*

X_{nz} = is aggregate New Zealand export.

X_{w} = is world exports.

A value of 100 or over indicates average export specialisation – a country has a comparative advantage in that commodity. For the year 2005 it was calculated that New Zealand's wine exports had a RCA of 702. This demonstrates that New Zealand has a major comparative advantage in the production of wine and should therefore continue to produce wine specifically for export. However, there is a weakness in this assumption especially when considering New Zealand trading with the EU.

New Zealand has the unique issues of small scale production and its geographical isolation to overcome in order to export to the EU. Comparative advantage alone does not adequately explain what New Zealand should produce, by which methods and in what quantities. Therefore, these issues need to be investigated along with the environmental and sustainable production practises and innovation.

2.4 INNOVATION

In order for companies to survive there is the constant need for change which means that there needs to be constant development of new products and services that are to be exported to the EU market. As Beer and Nohria explained, "organisations have accepted, in theory at least, that they must either change or die."[41] Peter Townsend, CEO of Canterbury Employers' Chamber of Commerce, alluded to this in a presentation. He explained that New Zealand's export economy would not survive using the methods from the past thirty years. The world is changing fast and the needs of consumers are rapidly changing and New Zealand needs to change and develop with this.[42]

Companies and businesses need to focus towards the role of innovation as the main source of competitive advantage because doing well in the past is not a guarantee that there will be future success.[43] Organisations need to be prepared to change continuously and in the face of ever present uncertainties and this is especially the case for New Zealand.

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[41] Michael Beer and Nitin Nohria, 'Cracking the Code of Change', in *Harvard Business Review* (May-June 2000), pp. 133-141

[42] Peter Townsend, speech to the Europe Series Conference, Christchurch 22 March 2007

[43] Tom Peters, *The Circle of Innovation: You can't shrink your way to greatness* (London, Hodder & Stoughton, 1997)

The idea of innovation is the process of creating new ideas and putting them into practice. This involves both the invention of the new product or service as well as converting the ideas into practical purposes.[44] As well as innovation in the creation of new products there also needs to be innovation of the process to finding new and improved ways of manufacturing products. Products require development so that they give increased profit through higher sales and reduced costs. Further, it is important that the innovation process relates to the needs of the marketplace and is then implemented effectively. In this case, the process of finding innovative products to sell to the EU market, needs to take into account the needs and wants of the European consumers.[45]

New Zealand has a good environment for entrepreneurship and innovation with a flexible labour market, an open economy and high quality public research organisations in the agriculture and health sectors. But the OECD reports that there are still challenges and barriers in the way of New Zealand's ability to foster innovation.[46] The OECD suggests that New Zealand focus on four key areas to strengthen innovation: the promotion of innovation in the business sector through better funded programmes and coordination; improving the business environment with further investment, particularly in communication areas; improvement of innovation funding and lastly, creating an innovation advisory council in order to create a national policy.[47] These recommendations, along with further recommendations made in this thesis, are important

[44] John Campling, David Poole, Retha Wiesner and John R. Schermerhorn Jr. *Management: Third Asia-Pacific Edition* (Queensland, John Wiley and Sons, 2008), pp. 504-542
[45] Campling, Poole *et al.*
[46] OECD Reviews of Innovation Policy: New Zealand, September 2007
[47] Ibid

to take into account if New Zealand is to keep up with the rest of the world in terms of change.

2.5 NEW ZEALAND DAIRY INDUSTRY

The issue of small scale production is important for New Zealand producers to take into account. New Zealand will always be a small country and geographically isolated from its main export markets. New Zealand's businesses will always be small both in real and comparative forms, with Fonterra being the only exception. Richard Laverty explained that outside of the dairy industry, New Zealand is not a country of mass manufacturers and that New Zealand's business landscape is generally made up of small enterprises that are developing "innovative business solutions and consumer products." He argues that because of the wealth and scale of European markets, the small niche sectors exporting from New Zealand can hope for significant opportunity. This is evidence that small scale production should not be seen as a deterrent to establishing a trade relationship with the EU.

As shown above, New Zealand has a comparative advantage in wine exports. The next step is to address the issue of New Zealand's small scale production. One possible response to this issue is consolidation and organisation. This permits economies of scale, greater efficiency of production, and a more powerful presence in the marketplace. An example of a sector using the method of consolidation and organisation is the New Zealand dairy industry. New Zealand's seasonal milk production system relies heavily on highly productive, rotationally grazed pasture and top quality herds. This system means that farmers can produce milk below average world costs and gives New Zealand a comparative advantage over competitors internationally. New Zealand's warm climate and productive pastures allow herds to graze all year round and avoid the need for indoor housing and expensive grain supplements.[48]

Today New Zealand's share of world dairy trade is significant. Excluding trade within the EU approximately five per cent of world dairy production is traded. Exports from New Zealand accounts for 33 per cent dairy products traded worldwide. Together, exports from New Zealand, the EU (34 per cent) and Australia (13 per cent) provide over 80 per cent of trading.[49] New Zealand has achieved this position without reliance on production or export subsidies, and without protecting its domestic market from overseas competition.[50]

Investigating the history of the New Zealand dairy industry shows the path it took to consolidation which provides a potential template for other industries. In the beginnings of New Zealand's dairy industry, there was not a single controlling organisation to take care of the marketing of dairy produce for the international export market. Whilst refrigerated shipping was a catalyst for change in New Zealand it was only one step in the right direction for the growth of New Zealand's economy, as there were some adjustments that had to be made. To complement the large number of dairy farms that were established across the country, many privately owned dairy factories were established. This meant that dairy farmers could pick and choose which factory, within

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[48] Ministry of Agriculture and Forestry, *Agriculture in New Zealand: Past, Present, Future* (2006), p. 81
[49] Ibid.
[50] Ibid.

close proximity, they used to process their produce. The first cooperative dairy company was established in 1871, and the arrangement became the preferred form of ownership because the cooperatives were owned and organised by farmers. The farmers could elect directors and have a say in business decisions as well as share the profits.[51] In the early 1890s, when two Dairy Associations were formed in the North and South Island of New Zealand, and when efforts to persuade the dairy companies to cooperate in exporting produce failed, the need for a system of organised marketing became more apparent.[52]

By the start of the twentieth century the majority of dairy factories were owned by cooperatives. There were around 400 cooperatives in the 1930s.[53] These dairy cooperatives began selling their products overseas, but it became difficult for hundreds of small companies to service the foreign market. While the production of the dairy products was becoming unified, the marketing of New Zealand dairy products in the United Kingdom did not follow suit. This meant that farmers did not receive equal prices for their dairy products because the dairy industry was stuck in the monopoly of the business houses on Tooley Street in London.[54] The trade merchants on Tooley Street had too strong a hold over the directors of the factories for these attempts to curb their control to work. It became apparent that local processing companies were too small to export efficiently. As a result, in 1923, the New Zealand Government established the Dairy Export Produce Control Board, later known as the New Zealand Dairy Board (NZDB).

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[51] Lewis Evans and Neil Quigley, 'Down on the Farm is going Global' in *Watershed for New Zealand Dairy Industry*, Monograph Series, Number 1 (New Zealand Institute for the Study of Competition and Regulation Inc, Wellington, July 2001), p. 3

[52] Ibid.

[53] Fonterra Website, http://www.fonterra.com viewed March 2008

[54] B.L. Evans, *A History of Agricultural Production and Marketing in New Zealand* (Keeling and Mundy, Palmerston North, 1969), pp. 174-198

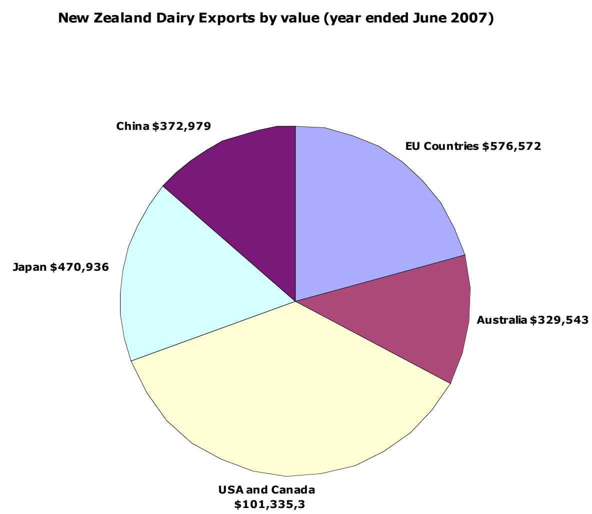
The idea was that the NZDB would control all dairy exports and take advantage of economies of scale.[55]

Benson-Rea and Hadley summarise the NZDB's two main functions: administering and coordinating the dairy sector and marketing and distributing the industry's produce.[56] New Zealand farmers owned the manufacturing companies that were shareholders in the NZDB. Dairy produce was purchased from the companies by the NZDB and sold through the international marketing infrastructure. The NZDB had the export monopoly in the New Zealand dairy industry but it was operating within a highly competitive and protected international market. Around five per cent of global milk production was traded internationally in the form of dairy products. Of this five per cent, New Zealand accounted for approximately 25 per cent of world trade and was second only to the European Union which exported 47 per cent.[57] The NZDB was able to exert substantial influence in the international dairy trade arena and continued to do so to the end of the twentieth century. In July 2001 after the merger of the NZDB, New Zealand Dairy Group, and Kiwi Cooperative Dairies, a new company, Fonterra Cooperative Group Limited was created. Fonterra is co-operatively owned by New Zealand dairy farmers, representing about 96 per cent of all dairy farmers in the country.[58] Further, it is one of the top six dairy companies in the world by turnover and the world's leading exporter of

[55] Evans and Quigley, p. 3
[56] Maureen Benson-Rea and Richard Hadley, 'European Butter Battles The New Zealand Dairy Board and Spreadable Butter' in Phil Harris and Frank McDonald (eds), *European Business and Marketing Second Edition* (Sage Publications, London, 2004), p. 241
[57] Ibid.
[58] Fonterra Website, http://www.fonterra.com viewed March 2008

dairy products. Fonterra has over 11,000 shareholders and exports ninety five per cent of New Zealand's dairy products.[59]

Figure 2.01



Source: Statistics New Zealand

The success of the New Zealand dairy industry unfortunately does not provide a perfect model for other industries. In fact, dairy is probably the exception to the rule as our other products and producers are small in both relative and real terms. However, some of the lessons learnt by the dairy industry can be applied to other sectors.

2.6 NEW ZEALAND WINE INDUSTRY

An alternative to the Fonterra model is the New Zealand wine industry. By investigating the wine industry model it will show how the issue of small scale production can be a way to produce high quality goods that would appeal to the EU market.

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[59] Fonterra Website, http://www.fonterra.com viewed March 2008

The New Zealand wine industry is an example of small scale production that has worked well. When compared with the wine industry in Europe, New Zealand's is very new and young. The first vines in New Zealand were only planted in the late 1800s.[60]
In its early stages in the 1960s, the wine industry focused on sweet white wine for the domestic and British markets. Within the domestic market it took a while for a wine drinking culture to emerge in New Zealand because of the British influence that revolved around the consumption of beer and the 'six o'clock' swill at the end of the working day. Also, New Zealand had strict liquor licensing laws which restricted the sale of alcohol.[61]
It was apparent from the outset that meant that if New Zealand was to have a wine industry it was going to be export oriented. After recommendations from various wine experts, the grape variety, Müller-Thurgau was widely planted across the vineyards of New Zealand during the 1960s which produced medium sweet wine.[62] Such a style of wine was appealing to the naïve wine drinking consumers of New Zealand.

But the planting of this grape variety was a mistake because it did not capitalise on New Zealand's comparative advantage. This grape variety actually produced a poorer quality wine that would not have been appealing to consumers in Europe. However, during this time the United Kingdom was also relatively new to wine drinking. It was therefore assumed that the United Kingdom would be a welcoming market for New Zealand's medium sweet wines, particularly because it was already New Zealand's main export

[60] Keith Stewart, 'On The Grapevine', *Heritage New Zealand* Spring 2007 Issue 106 (New Zealand Historic Places Trust, Wellington), p. 4
[61] Mia Mikić, 'New Zealand' in Anderson, Kym (ed), *The World's Wine Markets: Globalization at Work* (Cheltenham, Massachusetts, 2004), p. 297
[62] Rechelle List, 'Nobilo Wine Group: Governance and Internationalisation' in Pavlovich, Kathryn and Akoorie, Michèle (eds), *Strategic Alliances and Collaborative Partnerships: A Case Book* (Palmerston North, 2003), p. 135

market for dairy and meat. This assumption led to the rapid expansion of the wine industry. However, the United Kingdom was already being with the same wine varieties by Germany.[63]

New Zealand's comparative advantage is in the area of high quality wines. The export success of New Zealand wine was due to higher quality wines produced on a smaller scale and the 'glass in hand' marketing strategy throughout the 1980s. This involved getting the right people to try the wines and stimulating interest in New Zealand wine by spreading the word.[64] This new found international success for the wine industry during the 1980s highlighted an over capacity situation in New Zealand. There was too much of the grape variety that produced the poor quality medium sweet wine. To overcome this issue the New Zealand government began the Grapevine Extraction Scheme in 1986, a programme where the government offered winegrowers $6175 for every hectare of older, poorer quality vines that were removed. In turn these vines were replaced with higher quality French vine varieties to produce higher quality wine. By 1990, over 25 per cent of New Zealand's vineyards had been cleared and replanted.[65] It was this change in direction by the wine industry that forms the basis for the progress that has been made.

Today, the New Zealand wine industry today focuses on the export market where around 80 per cent of New Zealand wine production is controlled by international interests.[66] It

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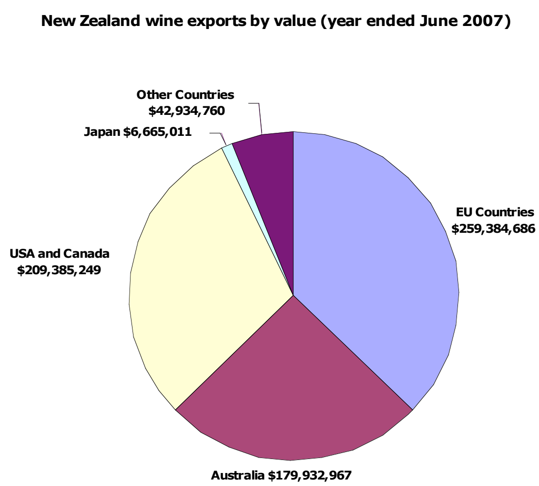
[63] Ibid
[64] Interview with Chris Yorke and Frances Durcan, New Zealand Winegrowers, November 7 2007
[65] Mikić, p. 289
[66] Maureen Benson-Rea, Roderick J. Brodie, Nick Lewis and James Whittome *Branding of New Zealand Wine: The Challenge of Sustaining a High Value Niche Strategy*, Working Paper in progress (Wine Industry Research Institute, Auckland, 2005), p. 8

is mainly the higher quality premium New Zealand wine that is being exported; meanwhile the lower priced wines are being imported into the domestic market. The imported wines make up just over half of New Zealand's domestic wine sales.[67] The New Zealand wine industry forecasts that wine exports will reach NZ$1 billion by the year 2010. There is a strong belief that this target will be met as exports in 2007 reached NZ $700 million as New Zealand's wine exports have been steadily increasing since 1995.[68]



Source: New Zealand Winegrowers

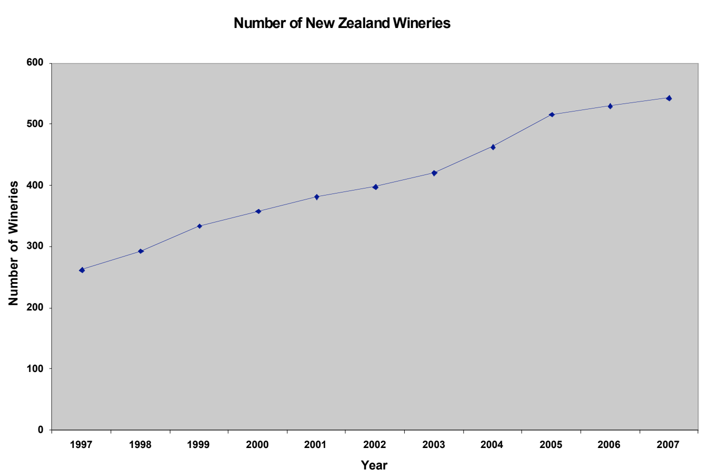
However, the New Zealand wine industry still faces questions in terms of whether it should be organised on a large scale, like the Fonterra model, or as small-scale independent producers. As suggested, the New Zealand wine industry is very small when compared with other countries. Despite the expansion of the wine growing area, size remains an issue. New Zealand will not make an impact on the global vineyard area. Further, there are contradictory trends in the organisation of the wine industry.

[67] Benson-Rea, Brodie, Lewis and Whittome, p. 8
[68] New Zealand Winegrowers Chair's Report: Exports on Target, http://www.nzwine.com/report/

On the one hand, there have been a number of mergers and the formation of large companies. New Zealand's largest wine company, Montana, is responsible for producing more than two-thirds of the country's wine, but its volume and concentration is lower than in other New World countries such as Australia and South Africa. There is also the increasing influence of large foreign companies, such as the acquisition of Montana Wine by the French company, Pernod Ricard, one of the world's three largest wine and spirits companies.[69]

On the other hand, little wineries are rapidly being established throughout New Zealand. The table below shows the expansion of wineries throughout New Zealand over the past ten years

Figure 2.03



Source: New Zealand Winegrowers

The rise in the number of wineries is positive for the New Zealand wine industry as it shows that there must be a demand for New Zealand wine and this growth is an attempt

[69] Roderick J. Brodie, Linda Hollebeek and Maureen Benson-Rea, *Developing a Research Agenda for Export Lead Growth for the New Zealand Wine Industry*, Paper for the Third International Wine Business and Marketing Research Conference, Montpellier, France (July 2006), p. 5

to meet this demand. The small wine makers are generally small boutique wineries that make one particular wine variety and have specific niche markets for export. One example of this method is Muddy Water, a small family owned and operated vineyard in Waipara which exports its wine to Ireland through a selective boutique wine distributor.[70]

Of course there are advantages and disadvantages to both approaches. Small independent producers are free to innovate and develop specialist and distinctive wines without being stifled by larger companies. Holmes and Pearson in *Meeting the European Challenge* reported that an enterprise or company does not have to large in order to succeed in Europe. They highlight that some larger companies have not been able to adapt or customise their products to fit with the customer demand that is characteristic of Europe.[71]

However, small producers may not have the capital to develop innovative wines, or the ability to market their goods effectively. One media report stated that the wine producers in New Zealand that produce less than 200,000 litres of wine per year are unprofitable. This makes up 89 per cent of New Zealand's 543 operating wineries.[72] Yet, the report failed to mention how many of these wineries were still in the production set up stage. There are also those who argue that because New Zealand's wine industry is so small and

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[70] 'Muddy Water, Best Wine in Ireland', 13 October 2006, Waipara Valley Winegrowers, http://www.waiparawine.co.nz/index.cfm/News (viewed 20 May 2008)
[71] Holmes, Sir Frank and Pearson, Clive *Meeting the European Challenge: Trends, Prospects and Policies* (Victoria University Press for Institute of Policy Studies with assistance from the Trade Development Board and the Ministry of External Relations and Trade, Wellington, 1991), p. 150
[72] Keith Stewart, 'Wine boom not so savvy', *The New Zealand Herald*, 17 September 2007

geographically isolated from its main markets, there may not be any point in having a wine industry at all. In response to this argument the General Manager for Waipara Valley Winegrowers Inc., Michael Campbell asks "…what else would New Zealand do?"[73] He considers the only thing left for New Zealand is its innovation. He agrees that people are right when they say that wine can be produced more cheaply in other countries because labour is cheaper, there are cost advantages and are in proximity to other markets. In response, New Zealand can sell its innovation: its "bright ideas".[74] In an interview with Richard Laverty, from New Zealand Trade and Enterprise (NZTE), was asked whether New Zealand businesses are too small to compete on the world market. His response that small companies are acceptable in New Zealand provided they have the right service, product or intellectual property to promote and export. Laverty added that it may be a good idea for businesses to band together, following the precedent set by Fonterra.[75] The New Zealand wine industry is not cooperatively grouped together to tackle the international market. Because of the nature of wine and the geographic varietals of wine, it would be difficult to band New Zealand wine together. However, some winegrowers and vineyards are joining together regionally within New Zealand. One example is the Waipara Valley Winegrowers Inc. which is an association of the various winegrowers in the region that are working together to promote their wine. The generic branding and wine cooperatives will be discussed later.

Exporting premium quality wines is an advantage when exporting to the EU due to the nature of the European market. In a presentation given by Laverty, a point was made

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[73] Put in a bit here about subsidies for French winemakers
[74] Interview with Michael Campbell, 1 April 2008
[75] Interview with Richard Laverty, 6 July 2007

regarding New Zealand's trade with the EU: that New Zealand's business strategies in Europe should be about extracting value over volume. This is because Europe is a significant developed market that offers rewards for high value products.[76] Laverty elaborated by saying that in developed markets such as in Europe, companies will gain success if they focus on innovation and quality, rather than cost, as a point of differentiation.[77] For the wine industry this means that New Zealand needs to focus on producing top quality wines. Even in 1969 it was argued that "…in a business where quality and quantity conflict, increase in gallonage means nothing if quality does not increase proportionately."[78] Today the small size of New Zealand is an advantage as it tempers its ability to mass produce lower quality goods.

Specifically in the contemporary trading environment, New Zealand wine producers should not compromise the quality of their wine in an attempt to cover production costs. New Zealand General Manager for Moet Hennessy, the world's largest fine wine producer, David Ridley, recently explained in an article in *The New Zealand Herald* that he is wary of the ramifications of the perceived success by expanding the volume of wine produced at the cost of the value of the wine. He added that "the more your volume increases, the more you compromise your prices…"[79] He stressed that producers have to concentrate on getting the quality right as the international market will not be deceived where the wine quality has been ruined at the production level. This point was also

[76] Richard Laverty, speech for the Europe Series Conference, available at www.delaus.ec.europa.eu/europa_50/speeches/Laverty.pdf
[77] Richard Laverty highlighted the 2007 CEO Report written by the Economic Intelligence Unit, part of The Economist Magazine, which surveyed 1000 senior executives from around the world to gain this information. www.delaus.ec.europa.eu/europa_50/speeches/Laverty.pdf
[78] John Buck, *Take a Little Wine* (Whitcombe and Tombs, Christchurch, 1969), p, 111
[79] Keith Stewart, 'Wine boom not so savvy', *The New Zealand Herald*, 17 September 2007

brought up at the International Wine and Spirit Competition in Britain in October 2007. It was reported in *The New Zealand Herald* that some of the judges from the competition wondered whether the larger volumes of wine coming from New Zealand's rapid vineyard expansion were starting to affect the interest levels of its wines.[80]

New Zealand made its mark on the international wine market with sauvignon blanc, but there is the argument that we should produce and export other types. Arend Heijbroek, Rabobank International's Global Industry Specialist in Wines and Spirits, on a recent visit to New Zealand commented that the New Zealand wine industry is "standing on one – albeit strong – leg" with its reliance on Sauvignon Blanc and needs to look into creating a "second leg" to ensure continual growth for the industry.[81] Heijbroek commented that New Zealand should be looking at producing more Pinot Noir as there is the belief that New Zealand can consistently make high quality Pinot Noir. Whereas in the French region of Burgundy which has a strong Pinot Noir base, a high quality wine can only be produced once every three or four years.[82] New Zealand should capitalise on this situation and fill in the gaps in the international wine market.

Erica Crawford, co-founder and marketing manager for Kim Crawford wines, is another advocate for diversification. She comments that New Zealand needs to start preparing now for a change in international drinking trends and that around 75 per cent of New Zealand's exports are Marlborough Sauvignon Blanc and that is too high a reliance on

[80] Jo Burzynska 'Up where we belong', *The New Zealand Herald*, 13 October 2007
[81] 'New Zealand wine exports-beyond Marlborough', www.scoop.co.nz/stories, 28 September 2007
[82] Ibid

one type of wine, particularly from one region.[83] Since it takes around five years from planting to full production, Crawford thinks that it is important that New Zealand wine growers start preparing now for a shift away from Sauvignon Blanc to more aromatic varietals such as pinot gris, viognier and gewürztraminer which New Zealand can produce well.[84]

New Zealand wine producers also need to remember that it cannot spread itself across all wine types and all markets. Instead exporting has to follow a very targeted niche strategy so that it can be effective.[85] Rather than spreading themselves too thinly across Europe, New Zealand exporters therefore need to focus on specific markets. Chris Yorke and Frances Durcan, Marketing Executive at New Zealand Winegrowers, argue that a significant obstacle to the expansion of New Zealand's share of the European wine trade is the inability of New Zealand wine producers to supply enough wine to satisfy demand.

However, Campbell thinks differently on this matter.

> …So we're a small player, we've got less than one per cent of the world's total production. So the only place we can go is value not volume. So that is kinda the biggie for us, and to prove it I guess, if you look at the UK market, the average bottle of Australian wine sells for…the average price is less than £3. New Zealand's is £6 and a penny. So that's where we have always sat and we've got no where to go, I mean we just don't have enough produce to be able to compete with the Australians on the volume side of things…[86]

[83] Malcolm Burgess, 'NZ 'needs more than sauvignon blanc'', *The New Zealand Herald*, 3 September 2007
[84] Ibid.
[85] Mikić (2004), p. 297
[86] Interview with Michael Campbell, 1 April 2008

Campbell also talked about how he hears from wine producers in New Zealand that they have to turn down orders from overseas buyers constantly because they can not supply the amount ordered. New Zealand will always have the issue where it cannot supply enough to the world market. However, Campbell sees this issue as being good for the wine industry as there will always be a demand for New Zealand wine. If there is demand for New Zealand wine then the prices will stay within the premium bracket. Campbell elaborated further by using the Australian wine market as an example. According to Campbell, Australia has enough wine to supply the demand and is an unenviable 'glut position' where the excess production reduces the value of the product. He pointed out that New Zealand can not try and cover all bases with lots of different types of wine. In his opinion, Sauvignon Blanc gives New Zealand a competitive advantage because New Zealand seems to produce it in a way that international consumers enjoy. If New Zealand "tried to take on Chardonnay, Syrah and Cabernet's out of Australia, if we tried to go with that style, we'd get hammered…". New Zealand should not attempt to sell numerous types of wine to Europe, the home of wine making. This lesson can be applied to other markets – make a small amount of products but produce them so they are of premium quality. European wine consumers will not be fooled by cheap wine.

2.7 ENVIRONMENTAL PRODUCTION

For any venture to be successful, producers need to be aware of their environmental impact. For producers this awareness is aimed at both reducing production costs and meeting the demands of environmentally conscious consumers. Historical research on the development of industries in New Zealand shows that this has not always been the case.

When New Zealand was settled by the Europeans, the idea was to turn as much of the country as possible into land that was suitable for agriculture. As Michael King points out, a consequence of this mindset was that

> "for more than a century, mature native forest was regarded both positively as a source of timber or firewood and negatively as an impediment to agriculture; coal and gold as mineral resources to be exploited as rapidly as possible…and land as a surface to be covered as far as possible with grass, which was in turn to be converted into food for human consumption in the form of meat, butter or cheese…"[87]

Within New Zealand there was a so-called 'grasslands revolution', a process that combined bush clearance, the introduction of strong exotic grasses and the use of various herbicides and fertilisers. The result was that 51 per cent of New Zealand's surface area was converted into grasslands.[88] It was these measures along with the mild climate that were the main reasons for the high levels of meat, wool, butter and cheese production which resulted in New Zealand having a high standard of living from the 1920s to the 1970s.[89] As mentioned above, export value is not simply a case of producing as much as possible. This is at odds with the development of New Zealand agriculture, the grasslands revolution, to which so much of New Zealand's current capability and profit is owed. However, such a model is no longer sustainable, due to the aforementioned value versus volume issue and secondly because of the growing emphasis on environmental impacts of production and trade

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[87] King, p. 436
[88] King, p. 438
[89] Ibid.

If New Zealand is to maximise its exports to the EU it is important that production take account of the increasing concern of consumers, and of the EU, with environmental factors. Trade advisors stressed the point at the 'Europe Series' Workshop that if New Zealand wants to export products to the European market, it needs to be aware that European consumers are increasingly environmentally conscious. It was further mentioned that Europe is an early adopter of market trends and has been a key driver behind debates on climate change, protecting biodiversity, reducing the impact of pollution and the better use of natural resources.

Development of EU environmental policy began during the 1970s progress has been made and there has been a general consensus that European integration has been good for the environment through the collective effort.[90] In relation to New Zealand's exports to the EU, Holmes and Pearson reported in 1991 that European consumers were more aware of environmental issues, reporting that there was a demand for 'green' products forcing these into mainstream retail outlets.[91] Holmes and Pearson further reported that New Zealand must work closely with the European Community as part of an international environmental effort and that there is scope for further cooperation as the Community's own work was increasing. Today, the EU is aware that implementing environmental policies should not stifle competitiveness within the business sector. According to EU reports high environmental standards are motivation for innovation and business

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[90] John McCormick, 'Environmental Policy' in Laura Cram, Desmond Dinan, and Neill Nugent (eds) *Developments in the European Union* (Macmillan Press, London, 1999), pp. 193-211
[91] Holmes and Pearson, p. 174

opportunities and economic wellbeing does not have to be sacrificed for environmental protection policies.[92]

In December 2002, the EU created an emission trading scheme, reportedly the first in the world to be implemented. The EU is currently working to promote similar schemes in other countries. The emission scheme was established in order for the EU to reduce emissions of carbon dioxide in keeping with its ratification of the Kyoto Protocol. The EU has plans to provide incentives for eco-innovation and funding for research and development. EU member states work with transport, agriculture, energy and tourism industries in order to develop them further without endangering the environment. New Zealand producers also need to be aware of European and United Kingdom perceptions of New Zealand and its products. Sometimes the perceptions do not match the facts and reality, but it is still important to keep them in mind.

There has been much media attention concerning the 'food miles' debate, 'carbon footprints' and sustainability. Products from New Zealand have been included in this debate. Earlier in 2007 there was a report in *The Times* in the United Kingdom suggesting its readers boycott New Zealand wines and buy French instead in order to improve their 'carbon footprint'. This issue ties in with the 'food miles' debate, a simple definition of which is "the number of miles (kilometres) a product has to be transported from the farmer/grower to various stages of production until it reaches the supermarket and finally

[92] Europa: Website of the European Union, *Overviews of the European Union Activities: Environment,* http://europa.eu/pol/env

the consumer."[93] The basic argument of the food miles debate is that if exports have to travel long distances before it reaches the consumer, then more energy is consumed and more fossil fuels are burned and as a consequence more greenhouse gases are released into the air, which causes global warming.

Food miles campaigners were calling for consumers to only purchase products that have been produced locally and this issue has been raised in relation to New Zealand's wine exports. In response to *The Times* article, Philip Gregan, CEO of New Zealand Winegrowers stated that New Zealand wines are imported by sea, which is a mode of transport that uses less carbon emissions per kilometre than air or road transport. He further stated that New Zealand does not subsidise the production and distillation of wine for which there is no market, which is practiced in Europe at significant carbon cost.[94] "In any event, the amount of energy used in exporting is only one aspect in sustainability and protecting the environment. To continually focus on 'food miles' is erroneous."[95] Gregan is correct in a sense. There is more to 'green wine' the just the transport of wine encompassing the food miles debate. This was further strengthened by researchers at Lincoln University's Agribusiness and Economics Research Unit (AERU), which showed that New Zealand's production for many products is energy efficient.[96] However, the attitude and understanding of the average consumer is superficial. If wine comes from further away then the consumer will make another choice for a product they think to be

[93] Caroline Saunders, Andrew Barber and Greg Taylor, *Food Miles – Comparative Energy/Emissions Performance of New Zealand's Agriculture Industry*, Research Report No. 285, July 2006 (Lincoln University, AERU), p. 1
[94] Philip Gregan, Statement from New Zealand Winegrowers in Response to Britain newspaper report to boycott New Zealand wine, http://www.nzwine.com/news/, 31 May 2007
[95] Ibid.
[96] Saunders, Barber and Taylor, (2006)

more environmentally friendly, when they could be mistaken. There is a need for greater education and marketing of the total energy cost of production as it extends beyond transport and New Zealand wines may be 'greener' in this sense than their EU counterparts. Research conducted on the 'carbon footprint' of intra-EU trade would be an interesting comparison.

There is the potential for New Zealand to have a comparative advantage in the area of environmental production. An OECD report states that New Zealand's geographical isolation is a source of comparative advantage in innovative industries such as bio-security and management of natural resources.[97] New Zealand would be able to command higher prices, particularly in the EU, if it can be genuinely sustainable in its production practices.[98] Holmes and Pearson commented that within the future opportunities for New Zealand exporters to the European market there was the capacity for the development and production of green technology, particularly technology to combat emissions.[99] Holmes and Pearson also stated that the EU was in the process of introducing green product labelling, which was hoped to become an EU-wide scheme. If New Zealand wanted to export products into the EU it would need to have similar labelling recognised and accepted in the EU. Further suggestions made in *Meeting the European Challenge* were that New Zealand was in a position to be able to supply organic products, as demanded by European consumers. Holmes and Pearson warned that EU standards in the areas of pesticides, herbicides and heavy metals were becoming

[97] OECD Reviews of Innovation Policy: New Zealand, September 2007
[98] Jim Anderton, *Innovation, knowledge and skill the way into Europe*, Speech given at Europe Series Conference, Christchurch, 22 March 2007, http://www.progressive.org.nz
[99] Holmes and Pearson, p. 172

stricter and that consumers were demanding to know the extent to which chemicals were being used in production methods, particularly in food.[100] New Zealand's future as an exporter of quality agricultural goods depends on its ability to project a green image

BusinessNZ, a business advocacy body representing different regional business organisations in New Zealand, recently published a brochure entitled "Export Perspectives: Why do exports matter?"[101] The publication gives a plan of action in order to improve New Zealand's export performance which labels the food miles debate as 'new protectionism'. According to BusinessNZ this 'new protectionism' is simply a façade of environmentalism and "…is little more than an attempt by local industries to undermine the market position of foreign competitors."[102] Whilst the 'food miles' debate has been refuted by the AERU study, it would be careless to ignore the fact that environmental concerns will play an impact on sending exports to the EU.

However, the environmental image has to be matched by reality. Holmes and Pearson note that the European market could be used as a type of testing ground to launch new green products as European consumers are generally more affluent and discerning purchasers. Today, it seems that there is still the need for more Research and Development (R&D) to be conducted in the area of environmental development.

There has been progress by New Zealand producers towards 'greening' production. In the case of New Zealand's wine and dairy industries, both Fonterra and New Zealand

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[100] Holmes and Pearson, pp. 170-172
[101] BusinessNZ, *Export Perspectives: Why do exports matter?* (April 2007, Auckland)
[102] Ibid.

Winegrowers have introduced sustainable programmes. New Zealand Winegrowers has introduced the SWNZ management programme that aims to guide vineyard operators towards sustainable management practises.[103] The reasons given by New Zealand Winegrowers for the adoption of the programme were because the New Zealand wine industry relies on exports for its growth there are no reasons to not adopt a sustainable programme because not only does it make economic sense, it also reassures the customers, illustrates innovation and is environmentally friendly.

This issue was raised at the 'Europe Series' workshop in 2007 where speakers urged New Zealand businesses to take advantage of the opportunities that arise from environmental needs. New Zealand producers could look at turning their production toward products that can fill the sustainable market and meet the needs of European consumers. New Zealand skills and products can help Europe to increase its own sustainability. Laverty comments that New Zealand businesses that deal in the area of environmental technologies will be in a strong position to capitalise on the need for efficiency and sustainability.[104] Areas such as food production, renewable energy, product design and distribution methods are areas that New Zealand can capitalise on. One example of an innovative New Zealand company that will be looking at an increase in export production due to its innovative approach is ScreenSign Arts Ltd. The company uses LED-based photometric technology to create lighting components for the beverage industry. The company has the potential to expand their technology for use in other industries to improve energy efficiency and to help companies to meet new targets for greenhouse gas

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[103] Tony Hoksbergen, 'Sustainable Winegrowing – Benefits both Home and Abroad', Speech given at Romeo Bragato conference in Nelson, 2000, www.nzwine.com
[104] Richard Laverty, Speech given at Europe Series Conference, Christchurch, 22 March 2007

emissions.[105] Another example Aquaflow, a company which recently announced that it expects to be able to manufacture commercial quantities of a crude oil substitute made from algae from oxidation ponds.[106] The challenge for companies that have the 'bright ideas' is to commercialise the innovation in order to increase profits and meet the market needs.

At the time of the introduction of the SWNZ programme, the catchphrase or positioning statement of New Zealand wine was "the riches of a clean green land". New Zealand Winegrowers stated that it wanted to make sure that the industry lent credibility to the catchphrase to make it a valid statement. New Zealand Winegrowers aims to have 'all New Zealand grapes and wine produced under independently audited sustainability schemes by the year 2012.'[107] Also, if New Zealand wines are to participate in New Zealand Winegrowers global marketing programme from vintage 2010, there is now a requirement of audited participation in a sustainability scheme.[108]

There have also been efforts by researchers in the Canterbury and Waipara region to create a sustainable wine industry. There was a general awareness that the wines from these regions did not have the same high profile as those in the Marlborough and Central Otago areas and after discussions between Lincoln University and the Hurunui District Council, it was decided to develop a 'point of difference' for the area through the

[105] 'Bright future for innovative LED edge lighting', *Canterbury's Digest* (Autumn 2008, Christchurch)
[106] Joanne Black, 'Fuel's Gold', *The Listener* (24 May 2008, APN Publishing, Auckland); http://www.aquaflowgroup.com/pressroom.html
[107] Philip Gregan, 'New Zealand Wine Industry Committed to World Class Sustainability Programme', New Zealand Winegrowers, (March 2007), www.nzwine.com/swnz/publications.html
[108] Ibid.

Greening Waipara project. The project is run by the National Centre for Advanced Bio-Protection Technologies at Lincoln University with cooperation from local wine growers, the Hurunui District Council and Landcare Research. The aim is to find ways to use the "services provided for free by nature in the arable, pastoral and horticultural sectors", which include biological control of pests, pollination and keeping soils fertile.[109] One result from the research conducted during the Greening Waipara project is that, unsurprisingly, there was considerable immediate economic benefit from biodiversity in the wine making process. Organic wine growers do not have to spend high amounts on fungicides, herbicides and fertiliser and while there is a slight increase in the costs of labour to manage the vineyards, there is still a significant reduction in the short term costs which can increase with each season. The main draw card is the profits to be made on the international market with a responsible green image.

Steve Wratten, leader of the Greening Waipara project, commented that he does not "see biodiversity as an optional extra for farmers with a green conscience any longer. It is a commercial imperative."[110] Philip Gregan restated the issue in a recent press release that New Zealand Winegrowers believes that "sustainability will be the passport to trade" particularly in the EU given the noted environmental conscience of European consumers. It is indeed the case now that if New Zealand wine producers want to export overseas, especially to the European market, the wine has to be environmentally friendly. Further, if New Zealand winegrowers and wineries are not able produce and market their wine as

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[109] Professor Steve Wratten, *Greening Waipara* Issue 1 September 2006 (National Centre for Advanced Bio-Protection Technologies)
[110] Keith Stewart, 'Green Wine lifts Bottom Line', *The New Zealand Herald*, 20 August 2007

sustainable then there will “be no place for them in the international market.”[111] However, this is not a simple procedure and there are still problems that need to be overcome not in the wine industry.

The Soil and Health Association reports that SWNZ needs to ‘lift its game’ as around 70 per cent of Marlborough’s grape growing area is herbicide sprayed and that wine industry figures are ‘fudging the reality’ of the use of herbicides. [112] The Soil and Health Association maintain that the SWNZ programme is not enough. Steffan Browning comments that there is a practise of complete herbicide burning strips underneath the vines in vineyards for frost protection. Browning calls Marlborough’s Wairau Valley ‘Herbicide Valley’ due to the estimated 70 per cent of vineyards that spray with herbicide.[113] The Soil and Health Association acknowledged that SWNZ is evolving and that has made inroads to encourage change in some vineyard management practises, but “…fails to actually meet true environmental sustainability or compliance.”[114] The reasons for this are not immediately clear. However, further research is required regarding the benefits for producers in becoming ‘greener’ that extend beyond the immediate benefit of sales. Specifically in relation to the concern amongst primary producers of compliance costs. When the issue of environmentalism was brought up in an interview with a New Zealand dairy farmer it was met with much cynicism and frustration.

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[111] Philip Gregan, ‘New Zealand Wine Industry Committed to World Class Sustainability Programme’, New Zealand Winegrowers, (March 2007), www.nzwine.com/swnz/publications.html

[112] Steffan Browning, ‘Marlborough vineyard herbicide use now touching 70% soil coverage’, September 2007, http://www.organicnz.org/article/marlborough-vineyard-herbicide

[113] Ibid.

[114] Ibid.

Dave Hislop has a large dairy farm of 230 hectares with a herd of 720 cows in the Hurunui District.[115] He considers the issue of environmentalism to be "…all hyped up." He argues that if New Zealand didn't have its primary production sector, such as the dairy industry, then New Zealand wouldn't have anything to sell. However, Achim Steiner, Executive Director of the United Nations Environment Programme (UNEP) recently stated that New Zealand was disadvantaged in the 'carbon economy' because of its distance from its major markets, its small population and because its exports have to compete with other countries.[116] He urged that there be a redirection of New Zealand's economy towards the development of new environmentally friendly technologies as "it would cost less than 0.1 per cent of global GDP over the next thirty years to make the transformation to a lower carbon society."

Ultimately, the importance of environmentally friendly production applies to all industries and there are inherent difficulties. Aligning the reality of production to the marketing ideal has a multitude of benefits and needs to be adopted to increase the profitability of New Zealand exports across the board as both distinct from, and related to, sales to the EU.

2.8 CONCLUSION

New Zealand is dependent on export markets for economic growth, but is also isolated from its main markets. Historically New Zealand has always been dependent on

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[115] MAF reports that the average New Zealand dairy farm in 2004-2005 was 115 hectares in size and milked around 315 cows.

[116] Angela Gregory, 'New green economy bad news for exports', *The New Zealand Herald* 5 June 2008

exporting its primary produce to other countries, particularly the United Kingdom. The innovative use of refrigeration to transport meat and dairy products to the United Kingdom opened up many opportunities for the New Zealand economy and highlighted areas that needed to be developed further. New Zealand producers had to take into account the needs and wants of the consumers within the British market in order to expand exports. The lessons that New Zealand producers learnt from this episode provides inspiration for producers today.

This chapter shows that New Zealand exporters must take into account the rule of comparative advantage when producing commodities for the EU market. Comparative advantage explains that each country should only export goods and services which it produces at a relatively low opportunity cost and imports those goods which it produces at a relatively high opportunity cost. Previous research conducted by Ballingall and Briggs has shown that there has been within New Zealand a move away from the historical reliance on primary production towards a higher value, more technologically advanced goods. Products have had to diversify in order to meet the changing demands of customer needs over time. Their research also showed that New Zealand has gained some sub-sectors which have a comparative advantage, including wine exports. Further analysis conducted for this thesis, using the RCA method, shows that New Zealand still has this comparative advantage. By taking into account the rule of comparative advantage, New Zealand producers can ensure that they produce goods which will be profitable.

However, New Zealand has to overcome the issue of its small scale of production in order to export products to the EU. This issue means that New Zealand has to concentrate on producing high quality niche products for the European market, which is a wealthy market that demands high quality products. The New Zealand dairy industry is an example of how small scale production can be overcome through consolidation and organisation. The background of the New Zealand dairy industry shows that there were trade issues when the industry was not organised into large cooperatives as it is today. Under Fonterra, New Zealand's dairy industry is a significant contributor to world dairy trade.

The New Zealand wine sector provides an example of comparative advantage in producing high quality niche products. Whilst this rule was not applied to New Zealand wine exports to Europe from the beginning, today the wine industry is focused on exporting high quality wines with forecasts predicting that wine exports will reach NZ$1 billion by 2010. This is however an incredibly small amount on the world scale and there is no hope that the New Zealand wine industry will make any larger impact on the world market. Therefore, New Zealand needs to continue to export premium quality wines to the EU market which offers rewards to value added products rather than the volume of imports.

In regards to the production methods for exports to the EU, New Zealand producers need to be aware of their environmental impact, both in reducing costs and meeting the demands of environmentally conscious consumers. The EU is an early adopter of market trends and has been a key driver behind debates on climate change, protecting biodiversity, reducing the impact of pollution and the better use of natural resources. New Zealand's potential to capitalise on its existing comparative advantages through environmentally sound production methods needs to be realised.

CHAPTER THREE

European Resistance to New Zealand Products

How effectively is New Zealand dealing with the legal, bureaucratic and cultural barriers to the entry of New Zealand goods into the European market?

3.1 EU HISTORICAL BACKGROUND

In order to gain an understanding of the current EU trade policy, an investigation into the Union's historical background is required. Today the EU is the world's largest trade power, accounting for 20 per cent of global imports and exports. It is the world's largest economy with a GDP of NZ$ 22 trillion in 2006. However, although the EU is a powerful trade power, its activities in this field are largely internal. Three-quarters of EU exports go to other European countries. In the case of export products, around two thirds of EU-25 exports are to other EU-25 member states but more than 90 per cent of this is actually among the EU-15 members, since the ten new member states are fairly small in economic terms. When looking at imports, the same can be said again; three quarters of EU imports are from European countries. [117] Nevertheless, even with intra-EU trade excluded, the EU is still the largest trading power in the world. Its share or world imports and exports have remained relatively stable at approximately 20 per cent.

The EU became the world's largest trade power through the pursuit of economic integration. Out of the destruction of the Second World War, the six Western European

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[117] Richard Baldwin and Charles Wyplosz, *The Economics of European Integration Second Edition* (Berkshire, 2004), pp. 276-292

countries of France, Germany, Belgium, Italy, Luxembourg and the Netherlands committed themselves to rebuilding the economies of Europe, by integrating the coal and steel industries to avoid another European War. In 1957 the six countries further developed the plan to harmonise their economies by establishing the European Economic Community (EEC) through the Treaty of Rome. The primary aspect of the Treaty of Rome was the creation of a customs union which abolished barriers to trade between the members and created a common external tariff for products coming from outside the Community.[118] The Treaty of Rome also granted the Community the ability to not only achieve free trade among its members but also the authority to negotiate and enforce all aspects of trade with the rest of the world.[119] With the signing of the Treaty of Maastricht, the EEC became the European Union and with the successive enlargements, the EU has morphed from a customs union of six member states to a single market of 27 with a significant presence in the world economy.

One facet of the EU's economic integration that has had a major impact on New Zealand's exports is the Common Agricultural Policy (CAP). Part of the Treaty of Rome was specifically devoted to the development of a common policy for agriculture but this was not developed and implemented until July 1962. The CAP was a significant aspect of Community cooperation in that it provided for joint control over food production. Previously, from the 1800s, the European market had been supplied by cheap grain imports from the United States and later cheap meat imports from New Zealand and

[118] Bretherton and Vogler, *The European Union as a Global Actor: Second Edition*, pp. 62-89
[119] Meunier and Nicolaïdis, p. 249

Australia after the introduction of refrigerated shipping.[120] Caroline Saunders explains that in continental Europe the farming system in place could not compete with these imports and, as a result, imposed strict trade restrictions, mirrored in the CAP today. The United Kingdom, on the other hand, welcomed cheap products from its commonwealth countries, thus explaining New Zealand's contemporary focus on the UK market.[121]

The CAP became an issue for New Zealand in particular when it became clear that the United Kingdom would join the EEC. From the British perspective, there was no choice but to join the EEC, both for economic and security reasons. There was the threat of Soviet expansion and the United States was rapidly becoming a strong economic and political power, both of which meant that Britain's influence in world affairs was fading.[122] Despite Britain's traditional attachment to the Commonwealth countries, the European markets were large and consumers were steadily growing wealthier. In order to achieve growth in its economy, Britain needed to be a part of the EEC.

New Zealand, on the other hand, saw this situation very differently as a result of its long standing economic dependence on the British market and the fact that it did not have any other significant export markets at this time. Referring to New Zealand dairy exports, during the 1960s Britain imported around 70 per cent of the world's butter exports, with New Zealand as its most important supplier.[123] The EEC and its member states operated

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[120] Caroline Saunders, 'Changes in EU Agricultural Policy and their Potential Impacts on Australia, New Zealand and Japanese Dairy Sectors', in *Asia-Pacific Journal of EU Studies Vol. 1 No.2* 2003
[121] Ibid
[122] Chris Nixon and John Yeabsley, *New Zealand's Trade Policy Odyssey: Ottawa, via Marrakech, and On*, 2002, Wellington, p. 106
[123] Singleton and Robertson, pp. 327-347

highly protectionist agricultural policies. When Britain did eventually join the EEC in 1973, it consequently adopted the CAP and the principle of 'community preference'. New Zealand lost its unrestricted guaranteed access to the British market for agricultural products. New Zealand put a lot of effort into negotiations concerning access for lamb and dairy products to Britain and the EEC. These efforts were met with a little sympathy from Europe, with the exception of the introduction of Protocol 18. This Protocol signified the agreement of the current EC member states to allow the United Kingdom to import certain quantities of butter and cheese from New Zealand.[124] Despite the provisions of Protocol 18, however, there was still the need for New Zealand to seek other export markets.[125]

From its beginnings in 1962, the objectives of the CAP, as set out in Article 39 of the Treaty of Rome, are: to increase agricultural productivity; to ensure a fair standard of living for the agricultural community; to stabilise markets; to assure the availability of supplies and that supplies reach consumers at reasonable prices.[126] The CAP has so far reached its goals and in doing so has had a wide-ranging impact on New Zealand exports. The principle of preference for domestic products over products from external suppliers is particularly significant. Countries outside the EU are not given the opportunity to

[124] Joseph A. McMahon, *New Zealand and the Common Agricultural Policy: Future Options for New Zealand* (Victoria University Press for the Institute of Policy Studies, Wellington, 1990), p. 12
[125] Gary Hawke, 'Economic trends and economic policy, 1938-1992' in Rice, Geoffrey (ed) *The Oxford History of New Zealand Second Edition* (Oxford University Press, Auckland, 1992), pp. 412-450
[126] EUR-Lex. Consolidated Version of the Treaty Establishing the European Community, Europa Web Portal (retrieved 11 May 2008)

expand their trade with the EU and are instead confined to the role of ‘residual supplier’ of the EU.[127]

Holmes and Pearson point out that the CAP is one of the most elaborate systems of central planning and control over economic activity and that it operates through a very confusing and complex system of regulations aimed at manipulating prices. There is almost total intervention in the market through production supports, setting of prices and the purchasing and disposal of surplus production through subsidies.[128] Problems with the CAP began when EU farmers responded to the overly high domestic prices by producing more than the domestic market could consume, making the EU a major exporter of products that New Zealand also produced. The problem of overproduction caused by the subsidies also led to stockpiles in the EU such as the infamous ‘butter mountains’ and ‘wine lakes’.[129] The products that could not be used or sold within the European market were also sold cheaply to the third world and, in the process, undercut third world farmers.[130] The CAP has also been blamed for encouraging environmentally damaging farming practises, such as the use of chemicals and the overuse of land to grow more and more crops to meet consumer demand.

New Zealand’s Minister for Agriculture, Jim Anderton, pointed out that there are also non-economic reasons for European protection of agriculture. Memories of the food shortages and starvation that Europe experienced in the years after the Second World

[127] McMahon, p. 12
[128] Holmes and Pearson, p. 76
[129] Wyn Grant, *The Common Agricultural Policy* (Macmillan Press, London, 1997), pp. 102-145
[130] Simon Jeffery, ‘The EU common agricultural policy’, *The Guardian*, 26 June 2003

War mean that these countries, particularly France, want to ensure self sufficiency in food to avoid such hardships again.[131] New Zealand needs to realise that the EU will not give up its protectionist agricultural policies easily because of its history and this could mean that New Zealand has to look at other options. These other options will be investigated further throughout the thesis.

3.2 EU TRADE POLICY

The objectives of the EU trade policy are to protect the interests of EU firms whenever they act as exporters, or importers of products, services or intellectual property. As a consequence, the EU's trade policy has two objectives: the defence of the internal EU market from damaging trading practises and assistance to EU exporters to fight unfair restrictions on their operations.[132] The European Commission negotiates trade related matters on behalf of the member states of the EU. The Commission has the right to propose trade negotiations but the decision on whether or not to pursue these negotiations is made by the Council of Ministers. The Commission is in charge of ensuring that third countries comply with deals that have been made with the EU. However, member states are responsible for the actual implementation of EU trade policy.[133]

The make-up of the commodities that the EU exports are the same for all of its main markets: around 85-95 percent of commodities that the EU exports are manufactured products and the rest is made up of a small percentage of raw materials and food. On the

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[131] Jim Anderton speech, March 2007
[132] Olga Kuznetsova, 'External Trade Policy' in McDonald, Frank and Dearden, Stephen (eds) *European Economic Integration Fourth Edition* (Pearson Education, Essex, 2005), pp. 327-337
[133] Baldwin and Wyplosz, pp. 276-292; Kuznetsova, pp. 327-337

other hand, the EU's imports are made up of various amounts of manufactured products, raw materials and food from the main trade partner areas. The EU's highest shares of food imports come from the Oceanic region, thus including countries such as Australia, New Zealand and Pacific Island nations.[134] The EU has almost no tariff protection on imported manufactured goods and agricultural goods play only a minor role in the EU's trade, despite the dominance of agriculture in political conflicts within the EU and also with the rest of the world.

The EU works to achieve its trade policy through a combination of multilateral, regional, and bilateral approaches. The EU works within the World Trade Organisation (WTO) framework but also uses a number of preferential trade agreements. As Olga Kuznetsova states, the EU market for non-agricultural products is open, whereas agricultural imports have to work against restrictions. The EU portrays itself as a champion of free trade and liberalisation. Official publications state that the EU plays a "leading role in international trade negotiations working towards fair trade". There are further claims that the EU has a 'strong interest in creating conditions in which trade can prosper'.[135] But the reality is quite different: one study conducted on outsider's perceptions of the EU in international trade negotiations found that this portrayal of the EU is offset by its reputation as a protectionist force in agricultural policy and this has important ramifications for New Zealand trade.[136]

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[134] Baldwin and Wyplosz, pp. 276-292

[135] *Making globalisation work for everyone: The European Union and world trade*, European Commission, Directorate General Press and Communication (Brussels, 2002)

[136] Ole Elgström, 'Outsiders' Perceptions of the European Union in International Trade Negotiations' in *JCMS* 2007, Volume 45, Number 4, pp. 949-967

Business NZ reported in *Export Perspectives* that New Zealand tends to dismiss Europe, and particularly the EU, as slow, protectionist and bureaucratic. Basis for this opinion is in the recent attempted reduction of New Zealand's dairy export quota to the EU. In July 2006 the European Court of Justice (ECJ) issued a ruling relating to New Zealand's 'country specific' butter quota to the EU. This ruling was in response to a case that had been brought forward by a German exporter, Egenberger, which challenged the EU that governed the New Zealand butter quota. The ECJ ruled that parts of the regulations that control the New Zealand quota were invalid. In reaction to the ruling, the European Commission immediately suspended all trade in New Zealand butter pending any changes to the regulations. An early appeal by New Zealand Trade Minister Phil Goff to the European Commission meant that butter that had already left New Zealand before the Commission's decision was granted the relevant export certificates and gained entry into the EU.[137] During the negotiation proceedings New Zealand butter was on supermarket shelves. In December 2006, New Zealand reached an agreement with the European Commission on the long term arrangements for New Zealand's butter exports to the EU. Senior officials from MFAT and MAF had held daily discussions with representatives from the Commission in Brussels and Phil Goff had also made personal appeals to Agriculture Commissioner Mariann Fischer-Boel in order to push New Zealand's position on upholding its trade rights that had been in place for more than thirty years.[138] Phil Goff brokered a deal which meant that forty-five per cent of New Zealand's quota would be opened up to new distributors as well as a nineteen per cent cut in tariffs.

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[137] Hon Phil Goff, 'Goff welcomes European decision on butter', 19 July 2006, www.beehive.govt.nz
[138] Ibid

3.3 NEW ZEALAND'S RESPONSE TO EU TRADE POLICY

In order to determine whether New Zealand is effectively exporting to the EU, it is important to look at New Zealand's response to EU trade policy. Holmes and Pearson reported that New Zealand can blame the EU to some extent for the difficulties subjected in earning the highest amount for agricultural production. But while New Zealand can fight against agricultural protectionism it should also realise that restrictions will always be imposed on agricultural products.[139] According to Holmes and Pearson, the EU has had strong discriminatory elements in its trade policy since its foundation.[140]

It is important that New Zealand stays on the EU radar in order to sustain its influence in the EU and pursue trade interests. This has to be achieved through dialogue and other forms of diplomacy both centrally through the Commission and bilaterally through member states. New Zealand representatives have had regular consultations with the EU Presidency at the Foreign Minister level, which provides one way to maintain and develop high level contact with the EU. Recently the EU Troika met with New Zealand Foreign Affairs Minister, Winston Peters, in Slovenia. At this meeting the bilateral relationship between New Zealand and the EU was discussed, followed by a review of certain agreements that are to be signed in the future, such as the Agreement on Technological Cooperation as well as agreements on air traffic services and trade in wine.[141] There have been regular discussions on agricultural trade matters between New Zealand and the EU. A significant development in strengthening the relationship between

[139] Holmes and Pearson, p. 139
[140] Holmes and Pearson, p. 146
[141] 'Minister Rupel heads EU Troika-New Zealand Meeting', Press Release, 2 April 2008, Slovenian Presidency of the EU, www.eu2008.si

the two parties concerns the introduction of annual trade policy talks, as inaugurated in November 2007.[142] At the first meeting discussion covered policy and market issues of interest to both parties, such as the CAP, proposed reforms of the EU wine sector and dairy issues regarding new import arrangements for New Zealand butter quota for 2008.

New Zealand has responded considerably well to the EU's trade policy. Given the difference in economic and geographical size between the two parties, this is an important achievement for New Zealand. The EU is a formidable power to work and negotiate deals with, especially concerning agricultural trade. In research conducted by Bretherton and Vogler, involving interviews with members of missions to the EU in Brussels, this was a recurring opinion regarding the EU. One such opinion, which Bretherton and Vogler say was repeated often, was that the "Commission would constantly not be open to negotiation at all, but would simply 'agree a position and push it down our throats.'"[143] Bretherton and Vogler argue that despite its commitment to WTO multilateralism and other forms of cooperation, the EU relies heavily on bilateral dealings signalling strength in the current New Zealand approach. Further, Bretherton and Vogler report that negotiating trade and market access was the main objectives of, and main reasons for, the existence of more than 140 external missions accredited to the EU in Brussels in 2002. The composition of these missions largely reflects their main goals. For example, the New Zealand mission was staffed in 2002 by five foreign ministry officials, four of whom were mainly concerned with agricultural trade issues.

[142] *Businesslink*, Ministry of Foreign Affairs and Trade, December 2007/January 2008
[143] Bretherton and Vogler, pp. 62-88

The fifth post was a new role that covered issues other than trade, in line with the expansion of the EU's external activities.[144]

New Zealand's relations with the EU have been dominated in the past by difficult annual negotiations over sheep meat and dairy access. MFAT states that the GATT Uruguay Round agreements were intended to put market access on a more permanent foundation. New Zealand's main priority when dealing with the EU is to encourage reform of the CAP and to try and "encourage innovative approaches to agricultural reform through regular consultations and by inviting leading European politicians to visit New Zealand…"[145] Despite the history of tough negotiations over agricultural access, MFAT reports that New Zealand's relationship with the EU has been redefined. New Zealand has negotiated two sectoral agreements with the EU that are designed to facilitate access to the EU market and reduce exporters' costs.[146] Two examples are the 1997 Agreement on Sanitary Measures and Veterinary Standards and the 1998 Agreement on Conformity Assessment. Both agreements were the first recognition agreements that the EU signed with a third country.[147] The implementation of the agreements must surely be attributed to the persistence of New Zealand representatives in agricultural trade talks with the EU and interpreted as encouraging. This promising start has continued and provides further evidence for the effectiveness of our current bilateral approach.

[144] Ibid
[145] Ministry of Foreign Affairs and Trade, (17 March 2008) *Overview of the European Union*, www.mfat.govt.nz
[146] Ibid; Europa Website
[147] Ibid

The September 2007 *Joint Declaration on Relations and Cooperation* sets out a framework for the next five years for the EU and New Zealand to work with in order to further strengthen the partnership. The new Declaration shows that the relationship between the EU and New Zealand is not based entirely on trade and economic relations but now includes areas such as global and regional security, counter-terrorism and human rights; movement of people; development cooperation; science, technology and innovation; education and professional exchanges and environment and climate change. In regards to trade and economic cooperation, the Declaration states that it shall be a fundamental aspect of the relationship between the EU and New Zealand. The Declaration sets out the following:

- ❖ Both participants will continue to look for areas of economic policy in which both will benefit from exchanging views and identifying further areas of cooperation, such as investment and competition policy

- ❖ Further exploration of opportunities to facilitate trade through the conclusion of new agreements, in particular re-examining the possibility for a bilateral wine agreement

- ❖ Continue investigation of the potential benefits of extending the reach of the cooperation on technical regulations, standards and conformity and, in addition, both parties should aim to explore ways to enhance regulatory coordination between them with the aim of reducing transaction costs for businesses and assisting with further trade

- ❖ The importance of maintaining the integrity of the trade relationship and to resolve any bilateral concerns constructively and various issues will be addressed at various trade talks

- ❖ The participants agree to work together in the World Trade Organisation (WTO) to further strengthen the multilateral trading system through a constructive approach[148]

Nowhere in the Declaration does it say that the EU will guarantee that New Zealand will always have access to its markets. There is also no mention in the Declaration of the possibility of a further Agreement between the EU and New Zealand which could facilitate further trade. Simon Murdoch, Chief Executive of the Ministry of Foreign Affairs and Trade, was asked about the possibility of a further Agreement with the EU in regards to trade. His response was that if the Doha Round of the WTO failed completely then sooner or later New Zealand would have to look at addressing issues regarding its trade relationship with the EU and whether or not such an agreement will be in an FTA structure, it could not be said. George Cunningham, Chargé d'Affaires at the European Commission's Delegation to New Zealand, elaborated by saying that an FTA is a medium to long term goal that New Zealand thinks to be important and the New Zealand Prime

[148] *The European Union and New Zealand: Joint Declaration on Relations and Cooperation* (21 September 2007), Delegation of the European Commission to New Zealand, Wellington

Minister's vision toward the end of the five year term of the current Declaration of Cooperation. Bruno Julien, Ambassador and Head of Delegation of the European Commission to Australia and New Zealand, further commented by saying that the EU has started FTA negotiations with only a few countries and an FTA with New Zealand is not the EU's first priority but that the position could be reviewed depending on the outcome of the Doha Round.[149]

There are various options for New Zealand to expand its exports to the EU. One option is to continue negotiating with the EU regarding its agricultural protectionist policies and to try and gain further market access. However, this is unrealistic. Any major changes to the CAP and quota arrangements are not likely to happen in the near future. If there were to be an FTA between New Zealand and the EU, negotiations would not begin until at least 2012.

In order for New Zealand to improve the situation for its exports to the EU, it is important that representatives continue with discussions and cooperation as outlined in the new Declaration. Within this framework, New Zealand could continue with the lobbying to change the EU's agricultural policies and reforms of the CAP. Simon Murdoch stated that the Declaration "commits both sides to keeping under review the possibility of negotiating a broader framework for our trade and economic relations…" He further pointed out that because Europe is still an important market for New Zealand's exports, there are possible future prospects "of being able to include in our discussions [a] notion

[149] "EU-NZ: Facing Global Challenges Together", Seminar hosted by the National Centre for Research on Europe, 27 November 2007

of a future trade and economic relations agreement [which] is a very important objective for us…"[150] The Declaration further sets out future negotiations on a bilateral wine agreement with the EU, which would deal with New Zealand wine exports to the EU and European wine exports to New Zealand. There are also negotiations underway for an air services agreement between New Zealand and the EU.[151]

Working within the framework of the current Declaration on Cooperation, there could be hope for a FTA between NZ and the EU. However, in recognising that the EU does not consider a FTA with New Zealand as a top priority, New Zealand must look at other ways to export products to the EU. One way in which it can do this is to compete innovatively and with this comes the need for the development of new technologies or, as Michael Campbell put it, the "bright ideas stuff". For this to happen, there is the need for an increase in Research and Development (R&D) capabilities and, as such, New Zealand has already taken a step in the right direction here. In 2007, for example, the New Zealand government initiated a four year investment package to increase funding for research, science and technology. The package includes investment for research into the development of foods and beverages, enhancing technologies, sustainability and climate change research and promoting science collaboration.[152]

In addition, New Zealand already possesses a working relationship with the EU in the field of science, research and development. In recognition of this diversification of the

[150] Simon Murdoch "EU-NZ: Facing Global Challenges Together", Seminar hosted by the National Centre for Research on Europe, 27 November 2007
[151] European Commission Delegation to New Zealand, *Joint Declaration on Relations and Cooperation* (21 September 2007, Wellington)
[152] Steve Maharey, 'Big research investment to transform economy', 17 May 2007, www.beehive.govt.nz

relationship between New Zealand and the EU, a science counsellor was appointed to the New Zealand mission to the EU in 2004. In 2007, the European Commission and the New Zealand Ministry for Research, Science and Technology (Most) created a joint initiative called Facilitating Research cooperation between Europe and New Zealand (FRENZ). The aim of FRENZ is to facilitate the engagement of NZ research organisations and their researchers with Europe.[153]

3.4 OLD WORLD PREJUDICE

An example of a cultural barrier for New Zealand's exports to the EU is prejudice against New World wine, a group within which New Zealand is thus included. By examining the situation for the NZ wine trade, further understanding of how NZ can overcome EU barriers can be gained.

Much attention is devoted to trade restrictions, protectionist policies, bureaucratic and environmental obstacles to trade. However, consumer prejudice is an important, and often overlooked, barrier. The most enduring obstacle facing New Zealand wine exporters is the prejudice of Old World wine producers towards wine produced in New World countries. This prejudice is deep-seated because wine is without doubt a European product. The New World wine countries include Australia, Argentina, Chile, New Zealand, the United States and South Africa; all countries that were settled by Europeans and where wine was introduced by European settlers. These countries today are challenging the Old World European dominance of the international wine market by producing more wine and increasing the proportion of internationally traded wine to more

[153] FRENZ website, www.frenz.org.nz

than 25 per cent of global production in 1999.[154] Unsurprisingly, Old World producers are unhappy with this situation. One example of this is expressed by Maurice Large, a winemaker and President of the *Union Interprofessionelle des Vins du Beaujolais* in France, who likened Australian wine to Coca-Cola and called purchasers of Australian wine "philistines".[155] Another example comes from a report commissioned by the French Ministry for Agriculture in 2001, which stated that until recently French wine producers had been at the centre of the international wine market and that "…today the barbarians are at our gates: Australia, New Zealand, the USA, Chile, Argentina, South Africa."[156]

The Old World wine producers' prejudice has manifested itself in the various attempts to protect their domestic markets and their exports by implementing various regulatory obstacles to New World wine producers. Such attempts have included legislation on geographical indications and production standards along with subsidies to wine producers and efforts to exclude New World producers from using wine terms.[157] For example, in France, the *Institut national des appellations d'origine* (INAO) was established in order to administer, regulate and grant *appellations d'origine controlées* for wines, a model for the current EU wine legislation.[158] In 1990 the INAO introduced measures to preserve the reputation of French wines by incessantly working to prevent the use of French place-names for non-French products. These regulations, some will argue, were not brought in

[154] Brodie, Hollebeek and Benson-Rea (2006), p. 2
[155] Anderson, Kym (ed), *The World's Wine Markets: Globalization at Work* (Massachusetts, 2004), p. 3
[156] Ibid.
[157] Benson-Rea, Brodie, Lewis and Whittome, (2005), p. 12
[158] Kolleen M. Guy, *When Champagne Became French: Wine and the Making of a National Identity* (The Johns Hopkins University Press, Baltimore and London, 2003), pp. 192-193

to completely restrict New World wine producers but rather to protect the Old World producers from losing their identity. In the case of the battle for the restriction of the term 'champagne' to sparkling wine that is only produced in the region of Champagne in France, the offenders were not just New World producers – a village in Switzerland, which also had the name Champagne, tried to uphold its reasons for using the term to label wine produced there.[159]

To further illustrate this prejudice, it is important to look at the situation today for the EU wine market. The EU is the leader in the world wine market, accounting for 45 per cent of wine-growing areas, 65 per cent of production, 57 per cent of global consumption and 70 per cent of exports in global terms.[160] There are more than 4.4 million wine growing properties within the EU that cover over 3.6 million hectares. While this only makes up only around 2 per cent of the total EU agricultural area, it is still a vast amount when compared to New Zealand. When looking at wine production, in 2006 this made up only 5 per cent of the total EU agricultural output, which again is small for the EU but easily surpasses New Zealand.[161]

Within the EU, France is the biggest producer with an average of 53 million hectolitres of wine a year which makes up 28.6 per cent of the EU total and worth around €7.4 billion. Italy is the second largest producer within the EU with around 50 million hectolitres which is 27.2 per cent of the EU total, worth around €4.0 billion. Spain comes in third

[159] Guy, p. 193
[160] Directorate General for Agriculture and Development, *What is the current situation of the European Union's Wine Sector?* http://ec.europa.eu/agriculture, site visited on December 2007
[161] Ibid.

with 45 million hectolitres of wine produced but only €1.2 billion in terms of monetary value. [162] These three dominant producers had a combined production in 1997 of 13.6 billion litres which made up around 54 per cent of global wine production.[163]

With the combination of a decline in wine consumption, a rapid increase of imports and a slow growth of exports the situation for the EU wine market is not positive. Many European Commission publications lament the fact that European wine is losing ground "to the dynamic producers in the New World, who are tapping into changing consumer tastes."[164] Even in those EU countries that are drinking more wine than before, consumers are choosing New World wines.[165] In the ten years leading up to 2007, according to reports by the European Commission, imports have grown by 10 per cent per annum, while exports are only increasing slowly. If current trends continue, by the year 2010 the EU will be producing 15 per cent more wine than it is able to sell. The EU already spends around half a billion euros a year to dispose, store and distil wine surpluses into spirits. The Directorate General for Agriculture and Rural Development wants to spend this money on improving the market balance and promoting European wines abroad.[166] These issues have led to the proposal for reforms of the Common Market Organisation for Wine (Wine CMO). The main objectives of this reform are to increase the competiveness of the EU's wine producers, strengthen the reputation of EU

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[162] European Commission Directorate-General for Agriculture and Rural Development, *Fact Sheet: Towards a Sustainable European Wine Sector* (Office for Official Publications of the European Communities, 2007), p. 15

[163] Brodie, Hollebeek and Benson-Rea (2006), p. 2

[164] Mariann Fischer Boel, in *Towards a Sustainable European Wine Sector*

[165] Citizens' Summary on Wine Reform, European Commission, http://ec.europa.eu/agriculture/capreform, December 2007

[166] European Commission Directorate General of Agriculture and Rural Development, *The Reform of the EU's Wine Sector – Unleashing its Potential*, http://ec.europa.eu/agriculture, December 2007

quality wine as the best in the world, recover old markets and win over new ones; to create a wine regime that operates clearly with simple and effective rules; to preserve traditions of EU wine production whilst reinforcing social and environmental needs.[167]

The EU is working towards improving the situation of its wine on the international market and this could potentially be another barrier that New Zealand exporters have to face. The Directorate General for Agriculture and Rural Development have come to the realisation that many European consumers are not familiar with the different types and varieties of European wines and are not getting the basic information needed from wine labels, such as where the wine comes from. The information that European consumers are looking for are found on the labels of New World wines so, as part of the reform proposals, the EU wishes to make all European wine labels clear and consistent with an EU-wide framework that clearly explains geographical indications to wine consumers.[168] European wine producers are also trying to adapt to consumer tastes and to modernise their wine making procedures. Wine producers outside the EU can try new ways of wine making, once the methods have been recognised at the International Organisation for Vine and Wine. However, wine producers within the EU have to wait for the Council of Ministers to accept them at the EU level which can sometimes take a few years longer. This means that competitors in the New World could potentially gain market share because they can adapt to consumer demand faster, while EU winemakers could be left behind. The European Commission is proposing, within the Wine CMO reform, to grant

[167] Directorate General of Agriculture and Rural Development *Towards a Sustainable European Wine Sector*

[168] Directorate General of Agriculture and Rural Development, *The Reform of the EU's Wine Sector – Unleashing its Potential*

EU wine makers the authorisation to use internationally recognised wine making practices for wines that will be exported as well as introducing a simplified EU approval procedure for wines that will be sold within the EU. [169]

There have been recent events which have highlighted barriers to New Zealand wine exports to the EU. New Zealand media have reported on a New Zealand winery's shipment of wine that had been rejected by a German company. The reason given for the refusal of entry was that the copper level in the wine was over the European recommended limit.[170] There were proclamations that the incident would have "worrying implications" for the future of New Zealand's wine exports to the European Union. The details of this particular incident, according to media articles, are that the European Union standard for copper residues is 1 part per million (ppm) and the wine in question that was turned away by the German company was allegedly 2.4 ppm[171] (although these figures were different in other media articles). Copper is used in wine as a means to eliminate hydrogen sulphide, the chemical compound that produces a smell similar to rotten eggs. It reacts with the hydrogen sulphide to form copper sulphide, a "black insoluble precipitate that falls out of the wine almost immediately".[172] Traditionally copper is used in bulk wine at very low levels and is filtered out before bottling and winemakers should ideally be checking their copper levels regularly. New Zealand does not have routine inspections in place for wine export certification. There are

[169] Directorate General of Agriculture and Rural Development, *The Reform of the EU's Wine Sector – Unleashing its Potential*

[170] Nathan Crombie, 'Te Kairanga wine shipment rejected by German firm', *Wairarapa Times-Age*, 27 November 2007

[171] Martha McKenzie-Minifie, 'NZ wine rejected over copper', *The New Zealand Herald*, 26 November 2007

[172] Paul Sharp, Wine Consultant, *Copper in Wine* (www.globalwineconsultants.co.nz), Site visited on 27 February 2008

also no inspections for wine sold within the domestic market. In response to the first article, *The New Zealand Herald* arranged for the New Zealand Food Safety Authority to conduct tests of the copper levels in ten New Zealand wines where it was found that at levels of around 2 ppm, copper had no health risk for humans. New Zealand Food Safety Authority principal toxicology adviser, John Reeve, reported that people would have to consume at least 200-300 parts per million of copper before it became a risk to humans and that the "…wine would be blue and it would probably have a metallic taste too, which wouldn't go down too well."[173] The way this issue was dealt with by New Zealand industry expert's points to the need for further work to be done. In response to questions on whether this issue would affect New Zealand wine exports to the EU, New Zealand wine industry insiders displayed out-dated and stereotypical attitudes towards the German market. It was reported that "Germany was known as a 'stickler for technical points'" and Phil Gregan, New Zealand Winegrowers CEO, was quoted as saying that "if there's an issue that comes out of a customer in Germany, it never surprises me" as they are "pedantic about rules and regulations".[174]

3.5 CONCLUSION

The EU is the world's largest trade power and a formidable power for New Zealand to contend with. Not only does the EU mainly trade internally, it has also imposed protectionist barriers to agricultural imports from external countries, which particularly affects New Zealand. One facet of the EU's economic integration that has had a major impact on New Zealand's exports is the Common Agricultural Policy (CAP). It restricts

[173] Patrick Gower, 'Most wines pass EU's copper test', *The New Zealand Herald*, 1 December 2007
[174] Nathan Crombie, 'Te Kairanga wine shipment rejected by German firm', *Wairarapa Times-Age*, 27 November 2007

the amount of agricultural products that New Zealand can export to the EU through both a quota system and high tariffs. Because the EU has non-economic reasons for its protection of agriculture, the CAP will remain a significant challenge for New Zealand especially as the reform process is slow. New Zealand has to look at other ways to further its exports to the EU by diversifying its export products away from purely agricultural products. Despite this, New Zealand has responded well to the EU's trade policy but there is of course room for further improvement.

Not only are there trade restrictions on New Zealand products to the EU but consumer prejudice and cultural barriers as well. The introduction of New World wine within the international market is perceived as a threat to the Old World wine producers. Some examples of New Zealand reactions to EU barriers to its wine exports, such as the copper level incident, shows that there could be some readjusting of attitudes.

The new *Declaration of Cooperation* shows that the relationship between the EU and New Zealand is not based entirely on trade and economic relations but now includes areas such as global and regional security, counter-terrorism and human rights; movement of people; development cooperation; science, technology and innovation; education and professional exchanges and environment and climate change.

If New Zealand wished to expand its exports to the EU, then it cannot rely on continuing with the program of lobbying to try and persuade the EU to change its protectionist policies. Any hope for a FTA between New Zealand and the EU will not come to fruition until at least 2012 and even then, this is not a priority for the EU. While it is still important that New Zealand keeps engaging with the EU within the various multilateral and bilateral platforms in order to stay upon the EU radar, a different approach is needed. Instead of focusing on what the EU has to change, New Zealand needs to focus more on how to diversify its products to meet the market needs and maximise the opportunities that already exist within the current relationship.

In order to do this, New Zealand must focus on R&D in order to enhance its innovation and products to export to the EU. New Zealand has already started working with the EU on science, research and technology but the current relationship is in no way fully satisfactory for New Zealand and there is room for further work to be done on this aspect of the relationship, by both parties.

CHAPTER FOUR

Marketing and Sales Strategies

How effectively does New Zealand market its products to the EU and does New Zealand exploit all opportunities in Europe?

4.1 INTRODUCTION

The previous chapters of this dissertation outlined what types of products New Zealand should produce for the EU market as well as the production methods. Further, New Zealand should also refocus its export products to work around the EU's protectionist trade policies. This chapter investigates New Zealand's marketing strategies and whether they are aligned with the European market. It is also investigated whether New Zealand could do more to exploit the opportunities within Europe.

4.2 NEW ZEALAND'S APPROACH TO THE EU

There is evidence within the literature relating to New Zealand's economic relationship with the EU that not enough is done to utilise the opportunities within Europe. For example, Holmes and Pearson pointed out that:

> the major problems for New Zealand in…Europe lie not in a lack of market opportunities but in New Zealand's own failure to gear its economy and its enterprises to take advantage of them.[175]

Benson-Rea and Mikić also use the above comment to illustrate their argument that while New Zealand has to focus on exporting premium products to the EU it is questionable

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[175] Holmes and Pearson, p. 304

whether New Zealand had the market skills to tap into the EU market.[176] Whilst New Zealand has no problem in creating innovative products, there does seem to be a problem when it comes to selling the innovative products. The marketing of New Zealand's products needs to be of a very high quality, which is something that can only be gained through specific market research. There are questions as to whether there are sufficient resources being devoted to the pursuit of the EU market and that not enough resources are being used to research the EU market and what it wants. This thesis has already highlighted that the European market calls for high end products that have been produced in environmentally sustainable methods. Further, it has also established that the European market needs products and services that are innovative and fit in with new environmental needs. Further market research specifically relating to the European market and its unique consumer wants and needs would be beneficial.

At the Europe Series Conference, within the section looking at what New Zealand could do better regarding its trade with the EU, many speakers made the point that New Zealand needs to work on how it sells is products to the EU. John Waugh from UK Trade and Investment mentioned that the New Zealand expression of the 'number eight wire' approach – the lateral idea that anything can be fixed with a piece of number eight fencing wire – can be perceived as arrogance within Europe. He explained that the European market is one that is highly specialised with highly specialised personnel and the 'kiwi ingenuity' attitude can be seen as undermining this. Monique Surges from the New Zealand German Business Association Inc. pointed out that New Zealand's professionalism at international trade fairs "leaves much to be desired". Don Rae from

[176] Benson-Rea and Mikic, Hypercompetition article

NZTE, stated that New Zealand businesses need to apply more resources into sales in order to create further value. He also said that New Zealand businesses are not the best at negotiations and that they tend to give away their exclusivity, an attitude that would not hold in Europe. Benson-Rea and Mikić say that it may be that despite the increasing sophistication of New Zealand's product and service offerings and of its business organisations, many approach European market entry and servicing in an unplanned, unsystematic and *ad hoc* manner.

Therefore, New Zealand marketers need to be more aware of professional standards and take greater care in their trade dealings. The lauded 'she'll be right' attitude is causing problems. This can be remedied through better education and specific research regarding target audiences for marketing campaigns both in terms of consumers and industry insiders.

However, New Zealand has come a long way since the 1990's when Holmes and Pearson made their recommendations. Richard Laverty draws attention to examples of New Zealand companies who have succeeded internationally by doing all the right things. An example of a New Zealand company that Laverty mentioned is Icebreaker, manufactures of top quality merino outdoor clothing. This company uses New Zealand merino wool, a staple primary product and using innovative production methods, has turned the wool into an innovative wool product with added value.[177] When it came to attempting to tap into the European market, the system that Icebreaker took incorporated all the right steps by approaching high end retailers to sell the high quality product.

[177] Jeremy Moon, Icebreaker, www.icebreaker.com

Laverty stated that the challenge for NZTE is to continually identify "companies with the potential and passion to succeed globally and then help them track a course to achieve that."[178] This chapter will begin by highlighting the key obstacles New Zealand marketing faces and from this establish areas which New Zealand marketing should be focused to improve its effectiveness.

4.3 SELLING THE CLEAN GREEN IMAGE AND GENERIC BRANDING

One way that New Zealand exporters have attempted to overcome barriers to trade, such as the small scale of production and barriers put in place by the EU, has been through the use of generic branding. Two examples of industries that have used the generic marketing approach are the New Zealand Tourism industry and New Zealand's wine industry.

The marketing approach that has been implemented by the New Zealand tourism industry has been the '100% Pure New Zealand' campaign. Tourism New Zealand needs to ensure that New Zealand remains an attractive destination for international consumers through tailoring its marketing towards specific areas. The main aspect of the marketing campaign is to advertise New Zealand as a clean and green 'adventure playground' that emphasises the natural environment of New Zealand.

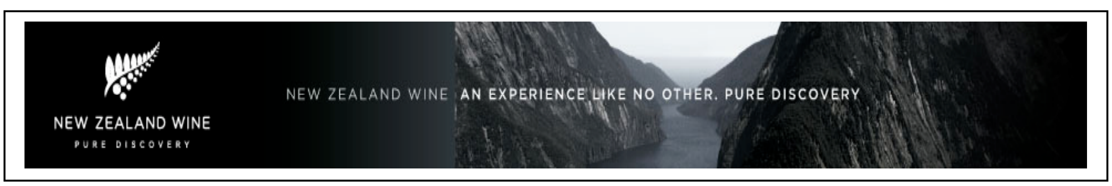
[178] Interview with Richard Laverty

Figure 4.01

Source: Tourism New Zealand

In relation to the wine industry, because New Zealand producers are individually too small to make inroads in the EU markets New Zealand winegrowers recently unveiled the new generic marketing logo: 'New Zealand Wine – Pure Discovery'. This marketing approach attempts to illustrate that the point of difference for New Zealand wine is in its innovation and diversity.

Figure 4.02



Source: New Zealand Winegrowers

The idea behind this generic branding of New Zealand wine is to help the industry to achieve mass awareness of its product internationally. According to Mia Mikić, in her study on the New Zealand wine market, this is not possible without a generic branding to collectively promote New Zealand wine. Mikić further argues that the generic branding will help open the doors for individual New Zealand wine brands but relying on a generic brand is not without risk however as the lack of institutionalised quality control and 'free-riding' could easily damage the whole brand.[179] Ultimately, there are distinct positives to generic branding, especially if this can be linked to positive assumptions consumers may hold regarding New Zealand in general. However, strict quality control of the product is needed to insure that the marketing is truly representative of the products.

Another limitation of the generic branding approach is the need for the expression of regional differences to avoid New Zealand being seen as a single entity and in doing so losing some of the finer nuances of various regions. More simply, the whole may not always be greater than the sum of the parts. This is particularly evident in the wine industry as generic branding is compromised somewhat by Geographical Indication (GI) adopted and adapted by European countries to provide a basis for their marketing efforts. Furthermore, GI is the accepted standard of the WTO for protection of the commercial identity of agricultural products.[180]

A wines character is shaped by where its grapes are grown and the concept of provenance has been important in the Old World vineyards of Europe.[181] Particularly in France there is the term *terroir*, which does not have a direct translation into English but which roughly describes the combination of the vineyard environment of soil, climate, topography and "the soul" of the wine producer and is seen as the source of distinctive

[179] Mia Mikić (2004), p. 302
[180] Keith Stewart, 'Think locally, sell globally', *The New Zealand Herald*, 15 October 2007
[181] Jo Burzynska, 'Accept no imitation', *The New Zealand Herald*, 22 October 2007

wine characteristics.[182] In an article in *The New Zealand Herald*, it is argued that the GI system is vital to the success of New Zealand's wine makers, especially when they are aiming for the top of the fine wine trade.[183] In New Zealand, different regions are more clearly reflected in the countries wines, most of the country's wines carry some kind of regional classification.[184] As a result of the GI Act, New Zealand vineyards will need to work out the boundaries that define their regions and individualise the identity of each region to market the wine. It is hoped that there will be a consensus on the decision on where there regional borders will be. In New Zealand some regions such as Martinborough and Central Otago have agreed on their limits, but some critics say that it is too early for New Zealand to be dividing up into regions, especially when the European example has been evolving over centuries.

There is the issue as to whether New Zealand should continue with the generic branding of New Zealand wine when legislation is to be implemented that will define the different regions within New Zealand. More detailed research on this issue has been undertaken by Benson-Rea, Brodie *et al*, which investigates the usefulness of the generic branding approach for New Zealand's wine industry from a business studies and marketing approach.[185]

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[182] Kolleen M. Guy, *When Champagne Became French: Wine and the Making of a National Identity* (The Johns Hopkins University Press, Baltimore and London, 2003), p. 2
[183] Keith Stewart, 'Think locally, sell globally', *The New Zealand Herald*, 15 October 2007
[184] Jo Burzynska, 'Accept no imitation', *The New Zealand Herald*, 22 October 2007
[185] Maureen Benson-Rea, Roderick J. Brodie, Nick Lewis and James Whittome, *Branding of New Zealand Wine: The Challenge of Sustaining a High Value Niche Strategy* (July 2005)

Benson-Rea and Mikić report that giving priority to generic branding of New Zealand and only secondary importance to the company brand has been particularly successful in the dairy, meat and wine sectors. Some products have moved to brand ownership with less emphasis on the country effect, such as ‘Cervena’ venison and ‘Zespri’ kiwifruit. However, Benson-Rea and Mikić warn that there are risks linked to riding on the single generic brand and exporters need to find out the cost and benefits of following to this strategy when it comes to the EU market.[186]

As previously mentioned the marketing must be reflective of the product. Therefore, the question of whether New Zealand can justifiably use the clean green image requires attention. Benson-Rea and Mikić say that the ‘clean green’ generic image of New Zealand’s agricultural products is still criticised in areas such as organics.[187] Chapter one highlighted the need for environmentally viable means of production and that there were issues with the validity of some aspects of New Zealand’s production methods.

As already pointed out, New Zealand Winegrowers recently branded itself with the catchphrase Pure Discovery’ – it previously had the statement ‘Riches of a Clean Green Land’ as the tagline. The spokesperson for the Soil and Health Association, Steffan Browning commented that it would have been a better move to keep the old tagline and make a better attempt to aspire to it rather than risk not only New Zealand’s ‘clean and green’ reputation but also the health of the community.[188]

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[186] Benson-Rea and Mikić, pp. 19-34
[187] Ibid.
[188] Steffan Browning, ‘Marlborough vineyard herbicide use now touching 70% soil coverage’, September 2007, http://www.organicnz.org/article/marlborough-vineyard-herbicide

In an interview specifically for this thesis with representatives from the Marketing Executive from New Zealand Winegrowers, a question regarding the change in tagline was raised and the response was that the idea of New Zealand wine being 'clean and green' was already taken for granted. New Zealand Winegrowers conducted a Research Brand Audit with top media, trade and retailer representatives in the United Kingdom, United States and Australia where the participants were shown the old tagline and a range of new options. The 'Pure Discovery' was the most popular choice because, according to the Marketing Executive representatives, it covers many aspects of New Zealand wine styles and appeals to the premium market who pay the premium price to make them think they have 'discovered' a unique New Zealand wine. Chris Yorke further commented that the 'clean and green' image only covered one aspect of New Zealand wine, an aspect that New Zealand Winegrowers believe 'goes without saying' in regards to New Zealand wine, therefore does not need to be blatantly advertised.[189]

On almost all publication material for New Zealand wine there are catchphrases for New Zealand being a 'clean green land'. On the website for New Zealand winegrowers there is the statement that:

> New Zealand's small population, distant location and agricultural economy have earned the country a 'clean, green' image. Visitors often describe it as 'an unspoiled paradise'. New Zealand's winemakers and grape growers are determined to keep it this way. Innovative practices in the vineyard and winery, which deliver quality in a sustainable and environmental manner, ensure that New Zealand meets a growing world demand for wines that have been produced in a 'clean and green' fashion.[190]

[189] Interview with Frances Durcan and Chris Yorke, Marketing Executive UK and Europe, New Zealand Winegrowers, 7 November 2007

[190] http://www.nzwine.com/intro/

Is this image valid? Can it stand up to scrutiny if one were to look closely at New Zealand's wine production? According to Philip Gregan it can because of the Sustainable Winegrowing New Zealand (SWNZ) programme. In 1995 a three year trial project called Integrated Winegrape Production (IWP) began as a result of interest from the New Zealand fruit industries in the European Integrated Fruit Production (IFP) standards. The year before Winegrowers of New Zealand had commissioned a review of international sustainable viticulture schemes and concluded that New Zealand needed to build a programme that was similar to the Wadenswill (Swiss) scheme, the most advanced scheme in the world at the time.[191] As a result the IWP scheme was developed and implemented in 1995 and morphed into the Sustainable Winegrowing New Zealand (SWNZ) programme that is in place today which has grown to the point where, according to Philip Gregan, more than 60 per cent of the total vineyard area in New Zealand is managed under SWNZ rules and wineries in the programme account for around 70 per cent of wine production.[192] Further research into the legitimacy of the environmentally sustainable programmes within New Zealand is important. However, whatever the outcome of this research, it is important that the marketing campaign matches the product. As Achim Steiner mentioned to the New Zealand Business Council for Sustainable Development, "the consumer activist will be a factor at the supermarket shelf" and this assumption would apply to European consumers.[193]

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[191] David Manktelow, Tessa Renton and Sarah Gurnsey 'Technical Developments in Sustainable Winegrowing New Zealand', Presentation given at the Romeo Bragato conference, Christchurch, 2002, http://www.nzwine.com/swnz/articles.html

[192] Philip Gregan, 'New Zealand Wine Industry Committed to World Class Sustainability Programme', New Zealand Winegrowers, (March 2007), www.nzwine.com/swnz/publications.html

[193] Angela Gregory, 'New green economy bad news for exports', *The New Zealand Herald*, 5 June 2008

4.4 TYRANNY OF DISTANCE

The biggest single issue for New Zealand is its distance from its main markets, particularly the EU, as demonstrated in the table below.

Table 4.01

Distance of New Zealand from main trading partners:

Australia	2,152 km
Southeast Asia (Thailand)	9,573 km
United States (Los Angeles)	10,474 km
Europe (London)	18,331 km

Source: Business NZ

The challenge from a marketing perspective is to make the tyranny of distance less of an issue for European consumers. Whilst New Zealand exporters are resigned to the fact that New Zealand is far away from its markets, consumers in Europe would have a problem with this. Whether this is in relation to environmental issues, such as the misleading attention toward food miles and carbon footprints, or from a purely economic viewpoint in regards to costs, the challenge for New Zealand exporters is to show that this should not be a deterrent to purchasing New Zealand exports, especially if the commodities take into account recommendations from chapter one.

One way to do this is by drawing attention to the advantages of New Zealand's isolation. Benson-Rea and Mikić argue that New Zealand's advantage in terms of security and its clean environment means that New Zealand is recognised as a base for the development of biotechnology innovations which could make it possible to gain a comparative advantage in this area.[194] This recommendation was made by various representatives at the ‘Europe Series’ conference. A particular suggestion was made by Peter Townsend, CEO of Canterbury Employers’ Chamber of Commerce, when he suggested that New Zealand can turn the tyranny of distance to its advantage as there are environmental factors, such as no acid rain on New Zealand’s products. This is just one suggestion, but further marketing research is suggested in order to find further ways to turn the tyranny of distance to New Zealand’s advantage.

A further option to overcome the tyranny of distance is simply by having a presence in the European market. Benson-Rea and Mikić investigate how New Zealand exporters can gain more presence and get closer to the European market and thus ‘reduce’ the present distance. They suggest that sustained presence and commitment with local partners is essential. This means that New Zealanders need to be in Europe either through travel or funding an office and staff in Europe. Despite advances in technology and the use of electronic communication, there is no substitute for physically being in Europe and building face to face relationships. Whilst the above recommendation is seen as a necessity for New Zealand businesses dealing with Europe, the same cannot be said for the New Zealand tourism industry, which is one of the largest earners for the New Zealand economy.

New Zealand’s tourism industry is especially affected by the tyranny of distance. As mentioned earlier in this chapter, New Zealand Tourism uses New Zealand’s image that it is a nation invested in conservation and one which has natural beauty. However there is

[194] Benson-Rea and Mikic, pp. 19-34

concern that the environmental impacts of air travel is feared to possibly limit tourism growth in New Zealand, as almost all tourists fly long distances to reach New Zealand. Achim Steiner commented that New Zealand had one of the most disadvantaged tourism industries as consumers are going to start to question whether or not to come to New Zealand because of the inevitable carbon taxes that will be implied.[195] Whether New Zealand can overcome this issue cannot be answered within this research project. But if all efforts are put in place to re-invest in New Zealand's economy to make the country less wasteful, as Steiner suggested, then this will be seen in a positive light.

For companies that are too small to be able to have a presence in the European market, then the tyranny of distance can be overcome through the traceability and integrity of the product or service. Peter Townsend explained that European customers take into account the process through which a product goes through before it arrives in retail outlets.[196] Using the New Zealand wool industry as an example, consumers in Europe care whether the sheep are treated humanely, whether sheep dogs are treated fairly and that chemicals are not used in the products. Townsend used the business Icebreaker as an example of a company that sells its products on the integrity of the environment that the sheep are raised in and the transparent supply chain is an integral part of the Icebreaker philosophy.[197] New Zealand has high reputation in many sectors and European customers always interested in clever and innovative products and services. For products that are made in New Zealand, the country's labour standards and treatment of workers is an important aspect of New Zealand's integrity that can be used to market its products with

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[195] Angela Gregory, 'New green economy bad news for exports', *The New Zealand Herald*, 5 June 2008
[196] Peter Townsend, speech to Europe Series conference
[197] Icebreaker, *Animal Welfare*, www.icebreaker.com

differentiation. This provides an opportunity for New Zealand to increase the profitability of exports. New Zealand companies and products compete with the Chinese economy that "is built on long hours, child labour, forced labour and poverty wages."[198] Conscientious consumers in the EU have no such concerns with New Zealand products and this integrity can be an invaluable marketing tool. Conversely, many New Zealand businesses along with both the Green Party and the Maori Party opposed the China FTA before it was signed, citing human rights issues in press releases as the main reason for opposition.[199] New Zealand has less reason to reject trade deals made with the EU on humanitarian grounds.

New Zealand's attention has been focused on the Asian market recently and there is concern that Europe is being ignored as an export market. It is important that New Zealand does not solely rely on one market for its exports; this lesson was learnt when the UK joined the EEC and this dissertation does not suggest that New Zealand only trade with the EU. However, there is also the risk of focusing entirely on the emerging markets, such as China and India, and forgetting that Europe is home to more sophisticated markets and wealthy consumers. In order to reduce reliance and focus on Asian markets New Zealand companies need to meet the challenge of the sophistication of products and services consumed in the European market.[200] This is in stark contrast to the current reliance on Asian markets for exports of raw or relatively unprocessed goods. Europe is a

[198] John Minto, 'China trade deal a blunder', *The Press* April 7 2008
[199] Russel Norman, 'Trading away our integrity – for what?', Press release, Green Party, 7 April 2008; Hone Harawira, 'Maori Party opposes FTA with China', Press release, Maori Party, 1 April 2008.
[200] Benson-Rea & Mikić, pp. 19-34

higher margin market, and lower risk than the emerging markets and as a result should not be overlooked as an important part of any global business.

4.5 SINGLE MARKET 'MYTH'

The most prominent goal of the EU is the development and maintenance of a single market which applies to all member states guaranteeing the free movement of people, goods, services and capital. The idea of a single market within the EU was always a goal since the Treaty of Rome created the EEC and a customs union between the members. The free movement of goods means that products can be moved anywhere within the EU market without the barriers of customs duties or taxes. The intention with the free movement of capital is to allow investments, property purchases and the buying of shares between countries. The Schengen agreement, which applies to 22 EU member states, allows passport-free travel within the EU. The single market gives many options for New Zealand exporters as once products have entered the EU then they can easily move to other EU countries. However, it does present a challenge to marketers.

The EU is a single market but that does not mean that a single marketing strategy is effective. The point was raised at the 'Europe Series' Workshop that there is no such thing as a European market, they are 27 individual countries. In an interview with the New Zealand Winegrowers it was revealed that they do not look at the European Union as a single market. Instead, they have to look at each country individually because they all have their own individual needs and challenges that must be overcome in order to gain market access. As the United Kingdom is a long established market for New Zealand the challenges facing New Zealand exports to this area are different from those in the potential new markets. Further, the challenges presented in traditional wine producing nations such as France and Germany are different than those faced when trying to sell wine in Eastern European countries. The United Kingdom market is appealing for the New Zealand wine industry because although gross consumption has been lower than in southern European countries, per capita consumption is continuously rising. This gives the opportunity for further growth of New Zealand's largest market and provides specific, sound rationale for a focused, and hopefully lucrative, marketing drive.[201]

According to Chris Yorke and Frances Durcan, Marketing Executive of New Zealand Winegrowers, the main challenge for exporters of New Zealand wine to the United Kingdom market is to ensure that British supermarkets do not drop the prices of New Zealand wine. This is important because around 60 per cent of New Zealand's wine sales in the United Kingdom are through supermarkets. Smaller New Zealand producers who are attempting to target specific niche markets find that it is difficult to compete for shelf space against larger wine producers and as a result may not reach optimal distribution channels. Secondly, the price of wine is a crucial indicator of quality in both real terms and those perceived by consumers. In the view of New Zealand Winegrowers, consumers in the United Kingdom will be likely to purchase more New Zealand wine if it is sold at a higher price, for they will regard it as being of higher quality. Brodie, Hollebeek and Benson-Rea report that 94 per cent of these wine sales are below the critical price point

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[201] Sally Stening, Klaus Kilov, Larry Lockshin and Tony Spawton, 'The United Kingdom' in Anderson, Kym (ed) *The World's Wine Markets: Globalization at Work* (Cheltenham, 2004), p. 124

of £5.00 as British supermarket chains demand high-volume, high-quality competitively priced wines.[202] Therefore, price becomes a major marketing tool in the UK market.

Despite the importance and size of the UK market, the continental European market is also important. As previously mentioned each region, indeed each country, requires a unique approach. Therefore the other key markets for New Zealand wine shall be reviewed.

For exports to Germany, like the United Kingdom, the challenge is to identify the right retail channels that are prepared to sell New Zealand wine at the premium price. Within Germany, the market is dominated by discount stores that in 2004 sold over 75 per cent of foreign wine and there is also the issue that the percentage of higher-priced wines sold is very low.[203] More than half of German domestic wine consumption comes from imports of which New World wine is increasing. Between 1999 and 2000 New Zealand's share of the German market rose 51 per cent in terms of volume making New Zealand imports in 2000 worth some DM 4 million.[204] However, despite these figures, New Zealand wine only accounts for around 0.1 per cent of the total value share giving incentive for expansion. Traditionally the German market was well aligned with the focus of New Zealand exports as the German palate preferred white wine and New Zealand's main wine type that is exported is Sauvignon Blanc, a white varietal. However, it has been noted that German wine consumers are starting to prefer red wine over white. For

[202] Brodie, Hollebeek and Benson-Rea (2006),p. 10
[203] Karl Storchmann and Günter Schamel, 'Germany', in Anderson, Kym (ed) *The World's Wine Markets: Globalization at Work* (Cheltenham, 2004), p. 110
[204] Storchmann and Schamel, p. 110

example, in 2000 for the first time Germans drank more red wine than white wine.[205] There could be an opportunity for the New Zealand wine market to diversify its exports to Germany by focusing more on red wine rather than the traditional Sauvignon Blanc.

The Scandinavian countries of the EU, Denmark, Sweden and Finland, do not produce their own wine and have traditionally consumed beer and spirits rather than wine. Consumers from the Scandinavian countries increased their wine consumption from the 1960s onwards after travelling to the wine making areas in southern Europe and acquiring a taste for wine. In all the Scandinavian countries, except Denmark, there are state monopolies on retail sales of alcohol that were established at the beginning of the twentieth century in order to curb traditional heavy spirits drinking. In Sweden, for example, the 'Bratt System' was in place from the 1920s-1950s where individuals had a ration book to regulate the amounts of alcohol bought.[206] Today, these state monopolies no longer restrict the consumption of alcohol to the same degree, but the retail sale of wine, spirits and beer is still controlled. The number of outlets that can sell alcohol is restricted, and taxes on alcohol products are high. But, wine is the governments preferred choice over spirits and beer and there has been some effort to persuade customers to purchase wine before spirits.[207] On the other hand, the governments of the Scandinavian countries regard the consumption of wine as having fewer negative social consequences than the consumption of beer and spirits, and they have made some efforts to persuade consumers to purchase wine rather than other types of alcohol. As wine consumption is

[205] Storchmann and Schamel, p. 122
[206] Jan Bentzen and Valdemar Smith, 'The Nordic Countries', in Anderson, Kym (ed) *The World's Wine Markets: Globalization at Work* (Cheltenham, 2004), p. 144
[207] Bentzen and Smith, p. 145

new to the Scandinavian countries, New World wines are relatively unknown to consumers. This presents an opportunity for further growth of New Zealand wine exports. An individual marketing strategy directly aimed at the Scandinavian market would be needed.

Chris Yorke and Frances Durcan also acknowledged that the challenge in the traditional wine making countries of France, Italy and Spain is to overcome the domestic prejudices against New World wines which have been explained earlier in this thesis. For the newer markets within Eastern Europe, such as Poland and Bulgaria, there is the challenge of targeting the small amount of people who are willing to pay the premium price as Chris Yorke sees the Eastern European countries as not being high end wine consumers.[208]

Despite the different aspects of the EU market outlined above there are also a multitude of issues that are common to all regions of the EU. New Zealand wine producers expect to continue to increase their market in key importing countries. This is due to the belief that top quality wines such as Pinot Noir and Sauvignon Blanc are not going to suffer from a price fall that is expected with medium quality wines. The volume of wine consumption in Old World countries is declining as there is a general trend away from the bulk purchase of cheap wine to the less frequent purchase of higher value wine.[209] Therefore, underpinning all marketing is the selection of which markets New Zealand should focus on. So far, and not without success, New Zealand has focused on the EU-15 but is currently not branching into other markets.

[208] Interview with Chris Yorke and Frances Durcan, New Zealand Winegrowers, November 7 2007
[209] List, p. 138

4.6 RELUCTANCE TO EXPLOIT EASTERN EUROPEAN MARKET

Despite the EU enlargement, there seems to be reluctance on New Zealand's part when it comes to diversifying into markets in Eastern Europe. New Zealand has traditionally relied on the UK market as a type of gateway into Western Europe whilst either ignoring Eastern Europe or because the area had been under the control of the Soviet Union.

With the enlargements of 2004 and 2007, ten former Soviet states became part of the EU and consequently opened up to the rest of the world. The accession of the eastern European countries of Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia, Slovakia, Romania, Bulgaria, as well as the Mediterranean islands of Cyprus and Malta, prompted a shift in focus. Now that these countries were no longer hidden behind the Iron Curtain, Europe as a whole could no longer be perceived as solely a western power. In the views of New Zealand diplomatic and trade representatives, Eastern Europe has been an unknown territory, especially compared with the connections New Zealand has with the Western European countries.[210]

Leading up to the enlargement of 2004, there were concerns in New Zealand that the enlargement would have negative impacts on New Zealand's agricultural exports to the EU, due to the predominantly agricultural economies of Eastern Europe. On the other hand, there is the opinion that any negative impacts of the eastern enlargement would be

[210] Milenko Petrovic and Peter Barrer, 'New Zealand and European enlargement to the east', *New Zealand International Review Vol. 29 No. 2* (March-April 2004), pp. 8-14

outweighed by the benefits presented to New Zealand.[211] Petrovic and Brenner argued that because of the high quality of New Zealand's exported commodities there would not be competition from agricultural production in the new EU countries. Further, the major economic benefits from the enlargement for New Zealand would achieved through the improvement of trade, business and tourist relations with the new members.[212]

In further study conducted by Petrovic on the eastern enlargement of the EU, it was stated that the eastern enlargement is "more than anything else an opportunity for New Zealand to establish closer relations with countries that were out of its 'radar screen' for most of its history."[213] Petrovic also declares that the perceived initial threat of the eastern enlargement for New Zealand's agricultural exports to the EU has not yet materialised and evidence of this is that New Zealand's exports to the EU was higher than to the rest of the world during the period 2000 and 2005/06.[214]

Petrovic is of the opinion that New Zealand's response to the 2004 eastern enlargement of the EU was not adequate as there wasn't any "pro-active diplomatic action". New Zealand's engagement with Eastern Europe, when reported by MFAT in 2006, was minimal. Efforts begun in the 1970s to build relations in agriculture and trade fell away in the 1990s. In response to the EU eastern enlargement, New Zealand opened a diplomatic post in Warsaw, Poland which, as mentioned, is a positive step as this provides presence for New Zealand products and marketing opportunities.

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[211] Petrovic and Barrer, pp. 8-14
[212] Petrovic and Barrer, pp. 8-14
[213] Milenko Petrovic, 'EU Enlargement: the Balkan question' in *New Zealand International Review Vol. 33, No. 3 June 2008* (New Zealand Institute of International Affairs etc)
[214] Ibid

In an interview with the Marketing team at New Zealand Winegrowers, they expressed the attitude that Eastern European countries were not seen as high end wine consumers. This can be interpreted as ignorance of New Zealand Winegrowers regarding the Eastern European wine market.

Laverty commented that the Eastern European markets are open for new technologies and products and because it is relatively small therefore it is easy to gain access for New Zealand exporters. But he also expressed the view that Eastern Europe is still unstable, both politically and economically, and that NZTE is taking a selective approach to the market where it is focusing only around a few sectors. This adheres to the recommendations in previous chapters that New Zealand should focus on high end niche products when exporting to the EU and this applies to the new Eastern European member states. Laverty further pointed out that the key businesses in Eastern Europe are already controlled by EU or US subsidiaries which means that New Zealand has to focus on the niches where it has points of differentiation.[215]

4.7 CONCLUSION

This chapter has shown that New Zealand needs to produce high quality products and these need to be matched with high quality marketing. The current casual, nonchalant approach to New Zealand's marketing in the EU is cause for concern. Many businesses approach the EU in an *ad hoc* manner with little future planning. New Zealand businesses and exporters need strengthen strategic planning initiatives. Furthermore, when

[215] Interview with Richard Laverty

exporting products to the EU a decision making process that takes into account which EU country the products will be sold in is essential. Despite the EU having the single market, an EU-wide marketing approach will not work for certain products such as and this needs to be realised by New Zealand exporters.

New Zealand's generic branding of its products and services is based on its clean green image. Market research is required to empirically establish whether this is an appropriate, and indeed the most effective, strategy. Furthermore, marketing efforts must be suitable to the product. Marketing must match the reality of the goods and production methods; advertising that declares a product to be 'clean and green' should not be misleading. It is the responsibility of New Zealand producers to insure the integrity of marketing.

The tyranny of distance is an issue presenting both advantages and disadvantages for New Zealand. The advantages, such as New Zealand's security and environment, need to be utilised in marketing campaigns so that European consumers do not regard New Zealand products negatively. Businesses need to decide whether it is feasible to have representatives in Europe to help promote products and services and to build face to face relationships. For companies where this is not an option, products or services need to be sold on integrity and honesty. New Zealand's record of labour regulations along with traceability of products should be used as a point of differentiation in Europe.

Lastly, further work needs to be done by New Zealand to exploit the opportunities presented by Eastern Europe. The market in the new EU member states is rapidly growing and there are excellent opportunities for New Zealand products. There is room for further research to be conducted in order to investigate the market needs of Eastern Europe, and this should not be an onerous task. The recent announcement of a Working Holiday Scheme between New Zealand and Poland is an opportunity for people from both countries to travel and learn as well as setting up research partnerships.

CHAPTER FIVE

Conclusion

5.1 THE MULTIDISCIPLINARY APPROACH

This dissertation seeks to provide an insight into international trade by using a multidisciplinary approach. In a multifaceted area such as trade some topics could not be adequately explained through any one discipline, theoretical framework or method. Historical training helped in the research on the background to the current trade situation between New Zealand and the EU. However, applying the historical approach to the contemporary relationship was at times difficult. Therefore, economic theory was used along with qualitative analysis to arrive at recommendations for New Zealand's exports to the EU.

This dissertation is successful as it demonstrates an understanding the importance of trade to the New Zealand economy and further, why the EU is an important trade partner for New Zealand. Moreover, areas for further research have been identified in order to improve the relationship between the EU and New Zealand, another goal of this dissertation, meaning that ultimately this undertaking has been successful. However, this is not an unqualified success.

5.2 LIMITATIONS TO THE RESEARCH

At the beginning of the research for this dissertation the intention was that this study would investigate New Zealand's trade relations with the European Union with particular emphasis on economic links between the Canterbury region and Germany. This was to involve an examination of Canterbury's economic links with Germany within the industries of agriculture, manufacturing, tourism, education, science and technology. Culmination in an analysis of the current Canterbury trade situation and identify areas of improvement. This was to provide a clearer understanding of New Zealand’s trade relations with the EU through case study of the economic links between the Canterbury region and Germany from 1990 to the present day. The proposed study was to investigate the nature and the extent of Canterbury's economic links with Germany through contact with local businesses in the hope of conducting a broad survey. The purpose of this initial survey was to (i) to gain an overview of the importance of German trade to Canterbury businesses, (ii) to generate a body of quantitative data that can be analysed, and (iii) to identify specific businesses that can serve as detailed case studies. The intention was to produce a document that not only brought together - for the first time - systematic data on economic links between Germany and the Canterbury region, but also to identify best practice and make policy recommendations about how trade with Germany can best be facilitated. However, due to a near total lack of interest from the Canterbury business community meant that the approach had to be abandoned and the focus of the research changed. This proved an onerous task.

Similarly, the process of trying to secure interviews is not a simple task, one which makes studying a contemporary subject more difficult. The insights provided by those who were interviewed have proved very valuable. However, further interview participants were difficult to find. In particular inclusion of participants from the diplomatic community and tourism sector would have greatly enhanced this research. Having a broader range of interviewees would provide greater external validity to the conclusions and recommendations of this research allowing these to be applied to other areas. Further, this would have allowed some form of empirical analysis to be conducted.

Studying this topic from New Zealand lent its own limitations. As the research developed and progressed, being able to investigate this topic from the European perspective became a sought-after goal. To gain first hand insight into the European perspective towards New Zealand in trade negotiations and other areas of the relationship would have added further dimension to this study. As such, this opens up other areas of study that could be undertaken in the future.

5.3 FURTHER AREAS OF STUDY

This thesis has highlighted that there is a need for further expansion of New Zealand's R&D capabilities. This is not only related to expanding exports to the EU but also in response to globalisation. According to OECD reports, New Zealand is not currently making the most of opportunities from globalisation. Its geographical isolation and small size make it difficult to compete in the fast growing areas of the global economy. Both the OECD and New Zealand Treasury state that New Zealand's current levels of research and development are below those of other OECD nations and investment in business research and development is less than a third of the OECD average.[216]

The OECD's recommendations for improving New Zealand's innovation calls for the introduction of a few larger, well co-ordinated innovation support programmes along with an innovation advisory board. This proposal requires research to establish whether this would produce better results than the multitude of independent programmes that New Zealand currently has.

More detailed investigation into what is being done to expand New Zealand's R&D is also required. This should involve a systematic investigation into specific businesses and enterprises that are manufacturing products that are innovative and environmentally sustainable and would be an invaluable resource for NZ business.

Further pathways to deal with the EU require investigation. Upgrading of multi-lateral and bi-lateral diplomatic relationships between the EU, its member states, and New Zealand is essential. In conjunction, a specific understanding of the wants and needs of European markets and consumers requires study. This is important as New Zealand cannot expect trade to flourish with the EU in the face of bureaucratic challenges and restrictions. Nor can it expect to flourish if these restrictions are minimalised or removed if what New Zealand produces is not wanted or required at its end destination. Therefore,

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[216] OECD Reviews of Innovation Policy: New Zealand (August 2007); New Zealand Treasury, *The Risks and Opportunities from Globalisation*, Treasury Working Paper (July 2007, Wellington)

specific, targeted marketing strategies that will effectively reach European consumers require attention.

5.4 CONCLUSIONS

This thesis has shown that New Zealand is dependent on exporting its products for its economic growth; this has been shown through both historical background and contemporary examples. The EU is an important trade partner for New Zealand as it is a market that demands high quality products which great rewards. This fits in with New Zealand’s capabilities as its small size determines that New Zealand should focus on the production of high quality niche products in which it has comparative advantage.

Analytical analysis within this study has shown that New Zealand wine is an example of a product with comparative advantage. Further research to determine other products and services that New Zealand produces with comparative advantage would be a great asset. New Zealand, despite its small size, can still be competitive on the world stage if producers take into account the rule of comparative advantage.

The EU’s protectionist trade policy will always be an issue for New Zealand exporters to work around. If New Zealand wishes to expand its exports to the EU, it cannot rely on the hope that the EU will relax its policies. New Zealand has to do all that it can to work around these restrictions but diversifying its current products through innovation and R&D to create products of added value that will appeal to European consumers.

New Zealand's high quality products need to be matched with high quality marketing. Comments made by trade representatives indicate that this is not happening at the moment and must be rectified if New Zealand is to expand its exports to the EU. Marketing initiatives that turn the tyranny of distance to New Zealand's advantage are important to show European consumers that this should not be a problem. By backing up the product with integrity and traceability will also help to sell New Zealand products and services in Europe. Any generic branding that is used, particularly branding that uses New Zealand's clean green image, must match up with the product and not be misleading.

Within the introduction to this dissertation a gap in the literature on New Zealand's economic relationship with the EU was identified. Since the publication of *Meeting the European Challenge* there has not been a substantial body of research dedicated to investigating what New Zealand can do to further its exports to the EU. This dissertation is an attempt to fill that gap by assessing progress since the work of Holmes and Pearson and providing recommendations for New Zealand's economic relationship with the EU.

Holmes and Pearson acknowledged that it would be hard for New Zealand to engage the attention of the EU because of New Zealand's small size. This was exasperated as at the time of publication, during the 1990s, the EU was going through a dramatic phase in its development. The EU's competence into areas other than trade, such as science and technology, the environment, energy, aviation and security was being realised at that time and the authors urged the New Zealand government to engage with the EU in these areas.

Holmes and Pearson reported that if New Zealand did not want to become insignificant in the views of the EU, it would need to put resources into adequate representation within Europe and work with the EU in the aforementioned areas.

The signing of the *Joint Declaration on Relations and Cooperation* is indicative of a change in the focus in the relationship between New Zealand and the EU from a purely economic relationship since the publication of Holmes and Pearson's work. Working with the EU in other forums will be beneficial by keeping New Zealand on the European radar. A continuation of this relationship may result in trade liberalisation and agricultural access. There has been progress made towards this end which this dissertation has documented but any curbing of the CAP or indeed a FTA is still distant.

Another comment made by Holmes and Pearson highlighted "a pressing need for New Zealand to lift its game in Europe, in seeking constructive collaboration with the European Community…in pursuit of the broad range of interests which are shared."[217] A recent announcement of NZ$ 621 million into New Zealand's global diplomatic efforts is a positive addition. The new package will provide a new diplomatic post in the EU, in Stockholm, as well as an increase in the number of diplomats and support staff over the next five years.[218] The increase was explained by Minister of Foreign Affairs Winston Peters who commented that New Zealand was struggling to maintain an adequate presence on the international stage and the new package seeks to remedy this. Further expansion of New Zealand's diplomatic representation, helped by the $621 million

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[217] Holmes and Pearson, p. 301
[218] Hank Schouten, 'Stretched' diplomats receive a $621m boost', *The Dominion Post*, 17 April 2008

injection, is essential to raise New Zealand's profile and will be beneficial for New Zealand to continue to work with the EU in all areas, not just trade.

Holmes and Pearson were seeking to establish if New Zealand has met the European challenge? This dissertation has reframed this question to ask whether New Zealand is *meeting* the European challenge. In this respect, there is no doubt that New Zealand wishes to maintain its relationship with the EU and not just in the area of trade and economics. The recent signing of the *Joint Declaration on Relations and Cooperation* is evidence that New Zealand wants to continue working with the EU in areas that are important to both parties, such as global and regional security, movement of people, development cooperation, trade and economic cooperation, science and technology, environment and climate change, whilst working within the various multilateral systems. For a small country, New Zealand engages with the EU considerably well. This thesis showed that the EU is a formidable power to deal with, especially in the area of agricultural access. New Zealand engagement with the EU in this area has been successful; the dairy quota scenario of 2006 is an example of New Zealand negotiating with the EU to regain its foothold in the market.

In answer to the research question: How effectively does New Zealand export to the EU? New Zealand is not exporting to the EU as effectively as it could. There is room for development in many areas of the economic relationship between, which suggests that *meeting* the European challenge is an ongoing process. New Zealand needs to continue to engage with the EU at the diplomatic and business level to ensure that it stays on the EU radar. However, New Zealand needs to develop its R&D capabilities further to ensure that innovative products and services are continually created to supply the European market. The lessons from New Zealand's past need to be understood by the contemporary producers to provide ideas. If New Zealand could change its production methods to suit the needs of the European consumers, then it can be done again. If New Zealand uses its innovation well, applies the right technology to the natural capital possesses, and then brands the product well, New Zealand will meet the European challenge.

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