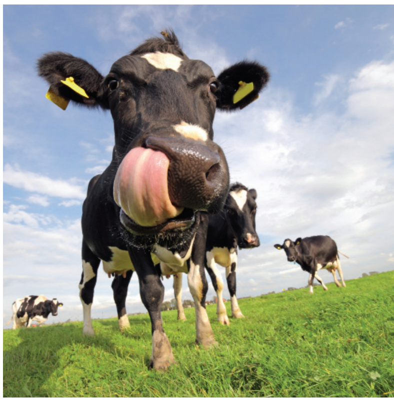

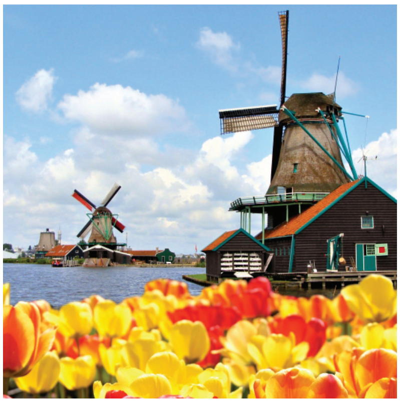

Towards a New Zealand-European Union FTA:

A Business Perspective

A DISCUSSION PAPER PREPARED BY THE
NEW ZEALAND INTERNATIONAL BUSINESS FORUM

JULY 2015

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EXECUTIVE SUMMARY

New Zealand and the European Union (EU) are currently reflecting on whether or not to proceed to the negotiating table to try to negotiate a new free trade agreement (FTA). A decision is expected later this year.

Europe is already a very significant trade and investment partner for New Zealand: it is a top export market, a very important source of imports, and it is our second-largest source of investment. New Zealand companies are beginning to engage in strategic partnerships with European manufacturers and service providers in addition to supplying consumers directly – but there is scope to do much more. We have a long history of shared culture, values and economic engagement, and Europe has 500 million consumers who are potentially interested in consuming the kinds of products and services that New Zealand produces best.

But although the relationship is in reasonable shape, many New Zealand exports still face barriers, at the border or behind it, which add costs, generate uncertainty or in some cases even make trade uneconomic. Our access arrangements are thirty years old, and leave New Zealand at a disadvantage compared to competitors with their own preferential arrangements. And there are missed opportunities: New Zealand has a lot to offer but may not even be on the radar for European companies who could provide essential capital inflows, or European manufacturers engaged in high value-added production. The opportunities are in Europe but also linking in to value chains and networks potentially spanning from Europe into the Asia-Pacific.

An FTA would offer significant new opportunities to both sides to expand business in agriculture and food as well as technology, services (including tourism, education and environmental services), niche and high-value manufacturing, research and investment. New Zealand and Europe could negotiate a modern, cutting-edge FTA that helps to build new global trade architecture and enhances the prosperity of both sides, including by:

- **raising the profile** of each trading partner in the eyes of consumers, manufacturers, service providers and investors in the other economy;
- **reducing costs** in relative and absolute terms, and making it easier to do business, allowing New Zealand to supply its high-quality goods and services on an equal footing with its third-country competitors and domestic European producers;
- giving European business **better and more secure access** to competitively-priced intermediate goods and investment opportunities;
- **linking Europe** with an economy that is deeply embedded in the economic architecture of the Asia-Pacific, offering dynamic new opportunities to both sides, and
- ensuring that business on both sides can call on a **full range of trade options** to meet the economic challenges of the decades ahead

Trade agreements are good for business. A high-quality, ambitious and comprehensive FTA with the EU is strongly in the interests of the New Zealand business community, and would be good for Europe too. The New Zealand International Business Forum (NZIBF) urges the Government and its European counterparts to proceed as soon as possible to the negotiating table, with ambition and determination to succeed in delivering a modern, comprehensive and commercially-meaningful FTA.[1]

[1] The views in this document are those of the NZIBF as a body. Individual members may have different views on specific issues covered in this submission.

A New Zealand-European Union FTA?[2]

Building on a positive discussion about the bilateral relationship in 2014 between the Prime Minister and EU Presidents, and subsequent supportive comments by German Chancellor Angela Merkel, New Zealand and the European Union (EU) have agreed to reflect on ways to strengthen the trade and economic relationship, including the possibility of proceeding to work on a new trade agreement. Each side is reflecting separately and intends to report back later this year and decide on next steps.[3]

The New Zealand International Business Forum (NZIBF), a coalition of senior business leaders working together to promote New Zealand's engagement in the global economy, strongly supports the concept of an FTA between the EU and New Zealand, and believes that it would deliver real value to the business community.[4]

This paper sets out the good reasons why the broader business community on both sides should support the process: an FTA is a golden opportunity, offering new openings to expand two-way trade in agriculture and food as well as technology, services, niche manufacturing, research and investment. It would deepen partnerships, enhance value chains and bring the trade relationship firmly into the twenty-first century. And it would ensure that business is able to call on a full range of options to meet the challenges of the decades ahead.

The rules governing trade between New Zealand and the European Union largely hail from the (now nearly thirty-year-old) World Trade Organisation's Uruguay Round of trade negotiations. By contrast, most of Europe's trading partners have already negotiated or are currently working on various preferential trade agreements. New Zealand exporters still face some formidable tariff barriers into Europe and a range of so-called "non-tariff barriers", which exacerbate the growing competitive disadvantage caused by others' preferential agreements. European exporters and investors may also face challenges in the New Zealand market.

[2] The 28 EU Member States are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.

[3] The initial meeting took place in March 2014, between PM Key and then European Council President Herman van Rompuy and European Commission President Jose Manuel Barroso; subsequently Chancellor Merkel endorsed the idea of an FTA during her visit to New Zealand in November 2014. See http://eeas.europa.eu/delegations/new_zealand/press_corner/all_news/news/2014/20140326_01_en.htm and http://www.bundeskanzlerin.de/Content/EN/Reiseberichte/2014/2014-11-12-merkel-neuseeland-australien_en.html;jsessionid=E29854A2BC4F92B18CFEF854F2BB7CE7.s1t1.

[4] As noted in footnote 1, individual members of the NZIBF may have different views on specific issues covered in this submission.

Europe is already significant…

Europe is already a very significant trade and investment partner for New Zealand[5]:

- it is our **third-largest export market** for goods and **second for services**, and our **largest source of imports**, with nearly NZ$19 billion in two-way trade last year;
- it is our **second-largest source of and destination for investment**, with total EU investment in New Zealand of around NZ$63 billion and New Zealand investment in the EU of around NZ$26 billion;
- New Zealand and European businesses already participate in a number of **strategic partnerships**.

This is not surprising when you consider that:

- **Europe has 500 million consumers** who potentially have an interest in the goods and services that New Zealand is best at producing;
- The **EU's GDP is over NZ$20 trillion** and has a projected growth of 1.7 percent in 2015, while key export destinations such as the UK and Germany are forecast to grow by between 2 and 3 percent in the next two years;[6]
- the **EU has highly-developed infrastructure**, investment in R&D and economic policy frameworks that, in the main, are market-oriented and trade-friendly;
- and Europe is a **highly sophisticated manufacturer and exporter** in its own right, offering opportunities to firms at all stages of the value chain.

Appendix 1 has more detail on current trade and investment flows.

…but the relationship has yet to realise its full potential

Although the relationship is healthy, many New Zealand exports of goods and services still face barriers at the border and behind it; Appendix 2 sets out some of the detail. These barriers add costs and complexity or can even make trade uneconomic. Likewise there are likely to be challenges that European firms face in doing business or investing in New Zealand.

In short, the current framework does not allow the relationship to reach its full potential – for either side. New Zealand exports accounted for only 0.2 percent of aggregated EU trade in 2014, and our profile is modest, ranking 51st and sandwiched between Gibraltar and Iran in the list of EU merchandise trade partners.[7] New Zealand's GDP is in the top quartile of economies worldwide and is larger than a number of the EU's other negotiating partners, and New Zealand's current growth rate is one of the highest in the OECD – but the constraints on the trade and investment relationship may mean that opportunities for European companies in New Zealand cannot be fully realised.

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5 Except where otherwise stated, all trade figures in this paper come from Statistics New Zealand.

6 See http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf and http://www.economist.com/blogs/graphicdetail/2015/05/european-economy-guide

7 http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf

What could a new trade relationship look like?

A modern and up-to-date trade and economic relationship that provided enhanced market access under an FTA (whether through lowering tariffs, improved regulatory coherence, labour markets that have been freed up, or more liberal investment rules) would reduce costs and make it easier for both sides to do business. It would allow New Zealand and Europe to exchange high-quality products and services on an equal footing with third-country competitors and domestic producers in each other's markets – providing greater and more cost-effective choice to consumers in both countries, and meshing in with existing distribution and value networks.

- *New Zealand, as a counter-seasonal and market-oriented producer, can contribute to year-round supply within Europe and other markets, or offer supplementary supply in times of market volatility – for example:*
    - *New Zealand can offer year-round supermarket shelf supply of in-season apples or kiwifruit; "best in season" supply chain approach for European high-end retailers of lamb with New Zealand product available during the European off-season; New Zealand butter supplied to the European bakery sector at times of domestic shortage rather than incentivising substitution by the oils sector; or dairy ingredients supplied from Europe into New Zealand for milk standardisation purposes*

  …but this is hard to achieve effectively or reliably while tariffs are high

An FTA would also allow New Zealand companies to invest and grow brands and consumption in Europe, including employing more people in Europe to service the trade. This would be to the benefit of European companies as well.

- *Many New Zealand exporters in the primary product and industrial goods/manufacturing sectors have established facilities in Europe which provide jobs to European staff; and some have established or are considering establishing manufacturing capacity in Europe in order to lower margins, reduce transport costs for bulky products and ensure a more timely production line. Improved rules around investment, services and goods market access would facilitate more of this;*
- *Innovative New Zealand and joint NZ-EU development and marketing of key products (meat, high-end dairy, kiwifruit, high-end wines) can help to grow consumption and higher prices for the benefit of European as well as New Zealand producers;*
- *Likewise a number of significant European firms have operations in New Zealand and are actively engaged in growing the New Zealand market, in so doing, importing intellectual property that helps to keep New Zealand at the global forefront of technological development and innovation.*

An FTA would raise New Zealand's profile in Europe, making us more attractive for European investors (and vice versa); such investors could provide the capital that will be crucial for our future prosperity (allowing us to absorb new technologies, generate new intellectual property and other innovations, enhance competitiveness, create scale and integrate more effectively into global value chains), and facilitating the sharing knowledge and related services in specialised areas.

- *There are major investments in the production and processing of fruit, dairy and wine in New Zealand by European companies, including from Germany, France, Sweden and the UK; in the other direction, there are joint ventures to grow New Zealand fruit varieties in Europe to ensure secure year-round global supply; and partnerships to produce high-quality dairy ingredients for incorporation into EU exports – more of this kind of collaboration could be developed for mutual benefit;*
- *There could be an expansion of the current innovative New Zealand product offering in the services sector e.g. there have been examples of collaboration around the use of new technologies in the tourism industry, and sharing of knowledge in New Zealand-specific areas of expertise such as seismic engineering, or geothermal energy use in horticulture;*
- *There is already world-leading collaboration between New Zealand agri-food producers and the EU on environmental issues such as sustainability and the environmental footprint of various modes of agricultural production – this could be strengthened and serve as a global model;*

- *In the area of R&D and science and technology, we already have a bilateral cooperation agreement and a high proportion of New Zealand international research collaboration already takes place with European entities; by deepening links at the business-to-business level, an FTA would generate greater impetus in those relationships and the potential for dynamic commercialisation of research in key areas, for mutual benefit.*

An FTA would allow European business to integrate New Zealand goods and services more effectively into intra-EU, regional and global value chains.

- *There is potential for collaboration on research and development, and further European investment in New Zealand, along with New Zealand integration into complex European value chains within the region and even spanning into Asia – recent examples of what could be possible include:*
  - *a New Zealand company which supplies a proprietary component which is integrated into a larger medical machine systems by two separate European manufacturers;*
  - *a major New Zealand company is involved in processing product for a successful European supermarket chain, while another New Zealand company airfreights high-value whole chilled products into Europe for distribution to high-end retailers, driven off an e-Commerce platform;*
  - *a New Zealand dairy company which takes European ingredients sourced in one Member State, processed in a second Member State and exports them to China;*
  - *a European company is ready to work with Australia and New Zealand to enhance GPS technology in our region – with potential major economic benefits;*
- *In the education sector, there is potential for further joint ventures with Europe into third markets such as the Middle East or Asia, building on existing arrangements.*

What benefits could an FTA offer to both sides?

In the short term, both sides would benefit from greater access to each other's markets, in the form of tariff savings and access to more varied and cheaper products. For New Zealand exporters to the EU, tariff savings would help the trade to remain profitable (or in some cases, even viable), and would allow New Zealand exporters greater scope to invest and develop their businesses in Europe. Looked at from the European perspective, if New Zealand products were able to enter the European market without having to surmount large tariff barriers, that would provide consumers with a wider variety of competitively-priced products and services, and manufacturers with access to high-quality, competitively-priced inputs.

Beyond those immediate outcomes, however, the longer-term impact could also be significant. New trade agreements usually generate dynamic gains for negotiating partners in the form of enhanced competitiveness, new jobs, productivity and innovation, and an ambitious FTA between New Zealand and the EU would almost certainly offer the same. Such an FTA could also have a useful demonstration effect into other trading relationships, given the forward-looking and cutting-edge approach that could be adopted with regard to regulatory coherence and services trade liberalisation.

An FTA would also present both sides with the opportunity to strengthen participation in value chains within and across regions. The growing fragmentation of production across borders around the world highlights the need for countries to have open, predictable and transparent trade and investment regimes.[8] This is particularly germane to the EU-New Zealand relationship, where New Zealand could contribute to European value chains a variety of value-added, innovative intermediate goods from both the agriculture and manufacturing sectors, and services including business services, transport, logistics and ICT, building on the economic partnerships and other forms of cooperation in which European and New Zealand firms have already begun to engage.[9]

Viewed as a vehicle to deepen our respective integration into regional economic architecture, an FTA could allow New Zealand to act as a beachhead into Asia for European business. New Zealand is a well-regarded trading partner with a stable and open economy and excellent access and connections, both economic and political, into the Asia-Pacific. New Zealand is also a thought-leader and key initiator of regional trade liberalisation. New Zealand has already negotiated a suite of cutting-edge FTAs in the region, and more are under negotiation.

Given all of the above, an EU-New Zealand FTA could serve as a conduit into a number of diverse but valuable Asian markets, building on New Zealand experience and networks, allowing Europe a smoother path into the region. In fact, this has already begun to happen to a small extent, with European investment in the agriculture and manufacturing sectors in New Zealand to take advantage of our FTAs with China and ASEAN.[10] This is not only the case for China and ASEAN but also for other markets with which the EU has not yet negotiated any preferential arrangements but where New Zealand has, including Australia, Chinese Taipei and Hong Kong.

Looking even further into the future, a successful bilateral FTA, which facilitates greater de facto engagement in value chains from Europe to New Zealand to Asia, could – in an ambitious scenario – eventually serve as a building block for a larger plurilateral agreement, one which not only addresses the at-the-border trade agenda but also leads the way on market integration through tackling behind-the-border and other 'next generation' issues.

In other words, the value proposition for both sides, both short term and in the longer strategic view, is clear – but only if we are able to strip out costs and other barriers by negotiating a cutting-edge FTA that recognises the changing nature of business and trade.

[8] OECD, 'Trade Policy Implications of Global Value Chains', May 2013; and Marcel Timmer, Bart Los, Robert Stehrer, Gaaitzen de Vries, 'Rethinking competitiveness: The global value chain revolution', June 2013, www.voxeu.org; and Timmer et al, 'Fragmentation, Incomes and Jobs: An Analysis of European Competitiveness', Economic Policy, vol.11(4), 2013

[9] OECD analysis suggests these are areas of NZ strength in global value chains, particularly services and agriculture. www.oecd.org/sti/ind/GVCs%20-%20NEW%20ZEALAND.pdf

[10] CER with Australia; NZ-Singapore; NZ-Brunei-Chile-Singapore; NZ-Thailand; ASEAN-Australia-NZ; NZ-Malaysia; NZ-Hong Kong; NZ-Chinese Taipei; and under negotiation or consideration: TPP; RCEP; (FTAAP).

Negotiating an FTA: what should it include?

Tariffs are still a challenge…

The EU is still among the top handful of markets for some of our major primary products, including sheepmeat, kiwifruit and apples, fish, wine, dairy, hides and skins, beef and certain niche manufactured products and services, although bilateral trade has stagnated somewhat over the last decade. Appendix 1 has further details.

Although the average applied EU tariff is now quite low, high tariffs remain on a number of products of significant trade interest to New Zealand. This adds costs, distorts trading patterns and may even prevent exports from taking place in some cases. The situation is particularly acute for agriculture and processed food, wine and fisheries products: Europe has made significant and very welcome efforts to reform its domestic policies in these areas, but some high levels of protection nevertheless remain, even where the EU may now be a competitive exporter such as for dairy.

Even where tariffs are low, the existing rates may set New Zealand exporters at a comparative disadvantage relative to other exporters who already enjoy preferential access. This weakens supply-chain efficiencies and the competitiveness of firms, and in some cases may erode margins to such an extent that the New Zealand trade becomes uneconomic. Appendix 2 sets out some more detail on tariff barriers for key New Zealand exports into the EU.

In terms of European export interests (and hence, products of interest to New Zealand consumers and manufacturers), although most New Zealand tariffs are low and could be described as 'nuisance tariffs', the weighted average that the EU pays on its exports to New Zealand is still relatively high and potentially disrupts trade especially for high value-added goods.[11] Further, as New Zealand's suite of trade agreements grows with the Asia-Pacific, European exporters to the New Zealand market will find themselves at a disadvantage relative to third-country suppliers including some major European competitors such as ASEAN, China and the United States, and for items of key European export interest such as autos, parts, machinery, pharmaceuticals and scientific and medical equipment.

…and non-tariff barriers also have a chilling effect

For both goods and services, studies show that non-tariff barriers can significantly impede trade (imposing "tariff equivalents" as high as 10, 20 or even 50%), and that moving towards more efficient, cost-effective and compatible regulations can deliver significant gains, for both profitability and innovation.[12] This may be so even where regulations do not directly target cross-border activities.

New Zealand exporters have identified a range of non-tariff barriers that affect goods trade, even though exporters warmly acknowledge that the bilateral Veterinary Agreement and the Mutual Recognition Arrangement streamline compliance with regulatory requirements for some sectors or products.[13] Examples of non-tariff barriers encountered by New Zealand exporters are set out in greater detail in Appendix 2, but include, for example, heavy or complex requirements on goods exports and regulatory processes that are not a good fit with New Zealand's distance from market and counter-seasonal production, or intellectual property rules that do not take account of the reality of the evolution of trade in certain products.

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[11] European Centre for International Political Economy (ECIPE), 'New Zealand: the EU's Asia-Pacific Partnership and the Case for a Next Generation FTA', July 2015

[12] WTO, World Trade Report 2012, Trade and public policies: A closer look at non-tariff measures in the 21st century, 2012. See also Centre for Economic Policy Research, 'Reducing Transatlantic Barriers to Trade and Investment – an Economic Assessment', March 2013, page 97ff (hereafter "CEPR"). The study concludes that as much at 80 percent of total potential gains from an EU-US FTA come from NTBs, liberalizing trade in services and public procurement.

[13] The Veterinary Agreement, which has been officially in force since 2003, facilitates trade in animal products and live animals while safeguarding public and animal health. The Mutual Recognition Arrangement governs pre-export inspection and certification for some manufactured goods.

Barriers to services trade are difficult to identify and quantify, but concerns include labour mobility and complex regulatory requirements, which can vary significantly among Member States, inhibiting trade and investment across the full EU market. Although New Zealand's services market is among the most liberal in the OECD, in some limited areas (including those of export interest), European services exporters and investors may well face some regulatory challenges too.[14]

Exporters also face other behind-the-border impediments in the form of private standards (for example, those required by supermarkets). While by their very nature private standards would be outside the scope of an FTA, the trade agreement framework could facilitate a deeper business dialogue on how best to develop private standards to deliver on consumer demands while still facilitating trade. This could benefit not only exporters, but also the retail sector and consumers in each market.

New Zealand business recognises that both governments have legitimate regulatory objectives. But it should be possible to streamline processes and outcomes to allow those objectives to be met while also fostering more cost-effective, timely trade in the high-quality and innovative products and services that customers demand.

[14] ECIPE, July 2015

The scope of possible negotiating outcomes

The realities of global economic integration for business mean that a modern FTA should focus both on traditional areas of trade and on behind-the-border issues and 'new economy' areas such as regulatory coherence, investment and electronic commerce.

Key objectives from the New Zealand business perspective are for an agreement which:

- is comprehensive, ambitious and commercially meaningful, and which includes not only goods and services, but also investment, competition, robust intellectual property rules, labour mobility and government procurement, for example;
- builds on, but does not undermine in any way, current access volumes, and administrative arrangements for New Zealand exporters;
- delivers tangible new market access opportunities in all sectors, and does not exclude any products or sectors: exclusions would limit the realisation of the full benefits of the agreement in generating economic growth, jobs and new opportunities for both economies
  - this can be achieved through the reduction and eventual elimination of tariffs, expansion of tariff quotas and elimination of in-quota tariffs where they exist, and removal of other market access barriers for goods at the border, with transparent and simple rules including Rules of Origin and Customs procedures to minimise compliance costs and confusion;
  - for services, market access could build on the plurilateral Trade in Services Agreement negotiations currently underway but could go even further[15]; in the short term, negotiators could establish a dialogue to address in a practical way the issues raised by exporters around labour mobility and commercial presence;
- recognising the importance of regulatory coherence for market integration, New Zealand business seeks an agreement which streamlines and minimises regulatory requirements behind the border that have an impact on the trade and investment relationship
  - this could include new consultative frameworks to deliver greater transparency and engagement in the development of regulations, taking particular account of the timeliness of regulatory consultation, the counter-seasonal nature of New Zealand's trade, our distance from the market and our small but skilled labour force;
  - an emphasis on regulatory coherence through a specific chapter in the FTA, whether delivered via regulatory convergence or mutual recognition/ equivalence, and building on standards based as far as possible on international standards or models, building on the commonality of views and approach that New Zealand and the EU share and reducing the cost of business for the private sector;
- and finally, New Zealand business seeks an agreement which enhances cooperation in a range of 'new economy' areas, including for example electronic commerce and cross-border data flows and data privacy, research and development, science and technology, the environment and environmental goods and services, and how to address the tensions between public and private standards.

[15] For example, by adopting a 'negative list' approach, in which trade in all services sectors is liberalised in accordance with the agreed approach/rules, unless otherwise specified in a list of reservations.

Conclusion

New Zealand businesses should fully and actively support the concept of a free trade agreement between New Zealand and the European Union. An ambitious and comprehensive trade and investment agreement will provide economic benefits to both sides and foster new and deeper economic partnerships across all sectors. It will build on existing links between the two economies and offers the chance to show the world how to negotiate a modern, comprehensive and forward-looking trade agreement that supports further liberalisation in the multilateral trading system as well.

For further information:

Stephen Jacobi
Executive Director
New Zealand International Business Forum
Mobile: 0294 725 502
Email: stephen@jacobi.co.nz

APPENDIX 1: THE CURRENT TRADE PICTURE[16]

Two-way trade in goods and services totalled nearly NZ$19 billion in the year ending December 2014. The EU is our third-largest single trading partner, our third-ranked export market and first-ranked source of imports. By comparison, New Zealand ranked only 56th as a trading partner for the EU.[17] Key Member State trading partners are the UK, Germany, France, the Netherlands, Denmark, Belgium and Italy.

Two-way New Zealand-EU trade, 2014

	Exports to the EU (NZ$ billion)			Imports from the EU (NZ$ billion)			Two-way trade (NZ$ billion)
	Value	Rank	% of total	Value	Rank	% of total	
Goods	$5.019	3	10.0%	$8.500	1	17.4%	$13.519
Services	$2.762	2	15.6%	$2.637	2	16.7%	$5.399
Total	$7.781	3	11.5%	$11.137	1	17.3%	$18.918

Source: Statistics New Zealand, for the Year Ending December 2014

Goods trade

Around three-quarters of New Zealand merchandise trade exports to the EU are from the primary sector. Sheepmeat, valued at over NZ$1.3 billion, was the top export commodity in 2014. Fruit was the second-largest export, worth $505 million (with kiwifruit accounting for $306 million), and wine was third ($453 million). Other top 20 exports are: butter, wool, apples, casein, hides and skins, medical appliances, aluminimum, beef, seeds, fish, molluscs, cheese, whey, honey and retail medicines.

Around 90 percent of imports from the EU are manufactured goods. The top import was motor vehicles ($1.9 billion); others include aircraft, medicines, tractors, trucks and vans, motor vehicle and aircraft parts, harvesting and other machinery, medical instruments, cranes, pipe valves and electric generators.

Services trade

The EU is New Zealand's second-most important destination for services exports, accounting for around 16 percent of the total ($2.8 billion), and our most important source of services imports, worth around $2.6 billion. Nearly two-thirds of services trade comes from travel ($1.575 billion). Also important are transportation ($272 million), education travel ($171 million) and "Commercial Services" ($555 million) e.g. merchanting, commission agent services, legal and other professional services, computer and IT services, royalites and licensing fees, financial and communications services). Top imports include transport, commercial services and travel.

Investment and people flows

The EU is New Zealand's second-largest investor ($10.806b in foreign direct investment and $63.431b in total, around 11 percent of all investment). It is the third-largest destination for New Zealand overseas direct investment ($2.764 million) and second overall investment destination ($25.886 million, nearly 14 percent of all New Zealand overseas investment). There were over 410,000 EU visitors to New Zealand (and over 25,000 permanent migrants), and nearly 188,000 New Zealand visitors to the EU in 2014 (over 12,000 permanent migrants).

16 Unless otherwise specified, figures come from Statistics New Zealand and are in NZ dollars.

17 Europa website, http://eeas.europa.eu/delegations/new_zealand/eu_new_zealand/political_economics_relations/index_en.htm

APPENDIX 2: TRADE BARRIERS

Barriers for New Zealand exports and investment into Europe

- Europe is still a key **dairy** market although has become less accessible in recent years due to effective tariff levels after price movement. The EU maintains very high tariffs on most dairy products (e.g. the MFN[18] duty on butter is €189.6/100kg, or on yoghurt can be up to €135.7/100kg depending on composition). New Zealand has only limited volumes of tariff quota access for butter and cheese, and in-quota tariffs and administration can add costs and inhibit imports. Even low tariffs (such as the tariff on casein) can deter partnerships incorporating New Zealand ingredients into European foodservice and value chains. This sets even specialised niche manufacturers at a significant disadvantage. By contrast, dairy producers in the US and Canada are likely to enjoy preferential access under FTAs currently under negotiation or concluded.
  - New Zealand produces less than 14% of EU milk production, and less than 3% of the world's milk; looking ahead, world dairy demand is forecast by the OECD/FAO to expand by almost 20% by 2023. New Zealand exported around 280,000 tonnes of cheese to all markets in 2014, while EU domestic consumption of cheese that year was approximately 8.4 million tonnes. Imports of New Zealand cheese are less than 0.2% of total EU cheese consumption, and of New Zealand butter less than 1% of all butter consumed in the EU. With the reform of the CAP, the EU is a major, globally-competitive exporter.
- The EU market is worth around NZ$250 million in direct **fish and seafood** exports (with further significant value coming from product processed in China and on-shipped to Europe). Applied tariffs on fish and seafood are high, averaging 12.5%.[19] Frozen tuna faces tariffs of 22%, while other important New Zealand exports of fish (e.g. hake, ling), shellfish, squid and crustacea can face tariffs of between 6 and 12.5%. Higher tariffs also apply to more highly-processed/value-added products. Competitors from Chile, Canada, Morocco and elsewhere enjoy preferential access, and the US will likely have a significant margin of preference for white fish if the bilateral US-EU agreement goes ahead.
- New Zealand **honey** faces a tariff of 17.3%; our competitors enter duty free.
- Europe is our top market for **horticultural** products overall, accounting for around 23 percent of all horticultural exports and earning $547 million in 2014. New Zealand kiwifruit (worth $305 million in 2014) faces a tariff of up to 8.8% (a total tariff bill of nearly $25 million) – by comparison, competitors enter duty-free. Apples ($187 million in 2014) enjoy a tariff-free entry period, but at other times face a 10.4% tariff – this forces New Zealand exporters to compress sendings and pay to store cleared product within the EU for later distribution.
  - New Zealand production of apples is dwarfed by Europe's (0.6% of global production compared to 14% of global production); for kiwifruit, the iconic "New Zealand" export, Italy remains the world's largest producer and the EU produces close to half of world output.
- Tariffs on **manufactured goods** such as machinery are generally low (mostly less than 5%), but in some cases even these low tariffs are enough to erode margins against efficient EU or third-country competitors – even where New Zealand is sending highly sophisticated, niche machinery and other products to service European customers and value chains.

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[18] "Most favoured nation" – the standard tariff that applies to imports from other WTO members unless that country is part of a preferential trade agreement (or the product enters under a tariff quota, in which case it will pay the "in-quota rate").

[19] European Commission and the Government of Canada, 'Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership', 2008, pg 34

APPENDIX 2: TRADE BARRIERS

- The EU is a significant export market for New Zealand red **meat**, particularly sheepmeat (accounting for 43 percent of New Zealand's sheepmeat exports) and also for beef, wool, hides and skins, offals and other products. The total value in 2014 of this trade was NZ$1.9 billion, attracting around NZ$70 million in duties. New Zealand beef enjoys a country-specific tariff quota and can also enter under various other tariff quotas, but while New Zealand product faces a tariff of 20%, competitors such as Canada will enter duty free under the sizeable quota negotiated in its recent bilateral FTA, and others such as the US and Mercosur are also in negotiation with the EU. The out-of-quota tariffs for beef are high and currently inhibit trade.
  - The FAO projects global growth in demand for sheepmeat and beef. New Zealand accounts for only 6% of world sheepmeat production and less than 1% of global beef supply, and is a counter-cyclical producer of lamb. Europe is not self-sufficient in either sheepmeat or beef. In 2014, New Zealand beef exports to the EU made up only 0.14% of total EU consumption and only 4% of imports. As a pastoral producer, there are significant geographical (climate, environment) and economic factors (land-use competition) that would limit any future New Zealand supply. Europe needed 300,000 tonnes of imported beef to meet demand in 2014 and this is forecast to rise to 400,000 tonnes by 2023 as European beef production is expected to decline.
- The EU maintains relatively high tariffs on **processed foods**, with an average rate of 14.6%.[20] Complicated calculations for determining tariffs based on proportions of ingredients make access less transparent and predictable. These rules increase uncertainty and can discourage innovation.
- The EU is a key New Zealand export market for **wine**. New Zealand sparkling wine can face tariffs of €32/100L, while our competitors enter duty free; other wines can pay tariffs of around €10/100L.
  - The EU produces more than 55% of global wine production; New Zealand accounts for 0.46% of world wine production and around 2% of global wine trade. New Zealand's small-volume, high-end "New World wines" complement top European brands in the EU and globally.

Non-tariff barriers

Non-tariff barriers in the EU are generally the most onerous for food and beverages, and are relatively high in some other sectors too – one study suggests that EU "tariff equivalents" represented by such barriers are around 57% for business services and 20% in the information technology sector, while another study estimates that the barriers to services trade generally in the EU represent a tariff equivalent of between 24 and 52%.[21] The EU is a key New Zealand export market for "commercial services" (including business services and information technology), accounting for $555 million in exports in 2014.

Exporters have identified a range of problems 'behind the border' for goods trade. Issues include the inconsistent application of Customs rules (even after a definitive Customs ruling in one jurisdiction), complexities of import licensing regimes, issues around certification/compliance (including for onwards shipping of value-added products in European or New Zealand value chains), traceability, labelling, product specifications and compositional standards or processing requirements. In some cases similar requirements are not imposed on third-country competitors (for example, the EU requires each batch of New Zealand wine to undergo laboratory testing but not wine from those with an FTA or wine agreement with the EU; this costs New Zealand wineries $1 million a year).

Areas of so-called "consumer concern" that have already or may prompt regulatory action from the EU on goods trade include animal welfare and environment-related standards, although arguably New Zealand's approach in these areas should be accepted as "equivalent". In some cases these consumer demands can prompt supermarkets and others in the retail sector to impose 'private standards'. Private standards can act as trade barriers because they are proprietary, lack transparency (and sometimes even a scientific basis) and can require onerous compliance. However, if developed in a robust process which also takes account of supplier and consumer input, they can also be an opportunity for business to gain preferential shelf access.

[20] Huan-Niemi E, 'Sensitive Agricultural Products in the EU under the Doha Round, 12th Congress of the European Association of Agricultural Economists, 2008.

[21] The CEPR study suggests that US exports to the EU face a tariff equivalent of nearly 57 percent for food and beverage products, while for ICT and other business services, the estimated tariff equivalent is around 20 percent. CEPR page18. The 2008 Canada-EU Joint Study suggests services barriers to be equivalent to 24-52% - page vi.

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In the area of intellectual property, in other FTAs the EU has sought the extension of legal protection to food-related "geographical indications".[22] New Zealand's legislation relating to geographical indications for wine will come into force in 2016, and will contribute to New Zealand's obligations relating to wine GIs under the relevant international agreement.[23] This new legislation is strongly supported by the wine industry. GIs have a role in international trade law as an intellectual property tool used to protect the rights of truly specialised products – like wine and spirits – that possess a strong tie to a single region. However, New Zealand exporters would be concerned about requests to limit the use of generic food names, or so-called "traditional terms", in New Zealand or other markets.

Barriers to **services and investment** are difficult to identify and quantify, but exporters have identified problems relating to labour mobility (e.g. visas for temporary entry for skilled workers), the inconsistent application of tax laws across the Member States and other onerous requirements around setting up an office or a manufacturing plant in different Member States and employing European workers.[24]

Barriers for European exports and investment into New Zealand

New Zealand tariffs are generally low, although products of key export interest for European exporters (and hence for New Zealand consumers and manufacturers) still face tariffs that may inhibit imports and make doing business with New Zealand less attractive; further, despite the EU-New Zealand Mutual Recognition Arrangement which reduces the requirements for some products, as discussed above, others still face non-tariff barriers such as compliance with differing regulatory requirements. European investors must also seek approval under the New Zealand foreign investment screening regime. A very recent paper by an EU thinktank sets out European market access challenges in further detail.[25]

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[22] Geographical indications (GIs) are a kind of intellectual property protection – a certified "GI" has exclusive rights to use the geographical name from which it originates, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.

[23] The Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") is an international agreement administered by the World Trade Organisation that sets down minimum standards for many forms of intellectual property regulation as applied to nationals of other WTO Members.

[24] A recent study reported that other barriers to services exporters into the EU include restricted access to distribution channels, quotas for numbers of providers in a market, territorial restrictions, lengthy and complicated authorisation and registration procedures, restrictions on real estate purchases, and the recognition of equivalent professional qualifications. ICTSD, 'Cross-border trade in services: Barriers and opportunities in EU services markets for ACP exporters', November 2010; Ingo Borchert et al, World Bank Policy Research Working Paper 6109, 'Policy Barriers to International Trade in Services', June 2012

[25] ECIPE, July 2015, www.ecipe.org

APPENDIX 3: STAKEHOLDER ATTITUDES

The views in this paper are those of the New Zealand International Business Forum as a whole. Individual members may have different views on specific issues covered in this document. NZIBF is a coalition of senior business leaders working together to promote New Zealand's engagement in the global economy.

In preparing this paper, interviews were conducted with around 25 stakeholders into how they saw the current situation and what they perceived to be the potential benefits and risks of an FTA between New Zealand and the EU. Stakeholders were located in Auckland, Wellington, Christchurch and Queenstown, and drawn from the agri-food sector (including dairy, meat, horticulture, fisheries, wine, processed foods, honey), manufacturing, services and information technology, and umbrella organisations. Interviews took place in April, May and June 2015, either face-to-face or by phone. No specific view expressed in this paper should be taken as necessarily representative of the views of any of the individual stakeholders who were interviewed.

Overall there was strong support among participants for an FTA. This was particularly the case for the agri-food sector. In terms of priorities:

- in the agri-food sector, tariffs were a major concern, not just in absolute terms but also in positioning New Zealand exports relative to competitors who already enjoyed or are currently negotiating preferential access
- harmonising behind-the-border standards and regulatory requirements as well as reduction and streamlining of regulation more broadly were also identified as important
- labour mobility was a significant concern for niche manufacturing and services, particularly the ability for skilled workers to operate in Europe (for example, in setting up offices or manufacturing capacity and servicing the trade there)
- the exchange rate, and in particular exchange rate volatility, was identified as a major curb on exports.

Interviews and other forms of support for the development of this paper

Beef + Lamb
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