

CLOSER TIES THROUGH TRADE: FTAs, CEPs and SEPs

What are they?

Free Trade Agreements (FTAs) are also known as Closer Economic Partnerships (CEPs) or Strategic Economic Partnership (SEPs). They are negotiated directly with countries, or groups of countries to improve access for New Zealand exporters to overseas markets and reduce barriers impeding trade. They also establish rules to create a more secure trading partnership. These negotiations, because they are conducted between two or a few countries, can make greater gains and in less time than World Trade Organisation negotiations which involve 150 countries. Free Trade Agreements complement the multilateral and regional approaches New Zealand pursues.

Why are we hearing more about them now?

Since 2000 there has been a proliferation in free trade agreements world-wide, in part due to the slow progress seen in the World Trade Organisation (WTO) negotiations. The WTO reports there are currently 300 FTAs or regional free trade agreements globally, either signed or under negotiation.

But these agreements are not new. New Zealand's first and most successful free trade agreement was signed in 1983 with Australia. The Australia New Zealand Closer Economic Relations Agreement (CER) has been described by the WTO as "the world's most comprehensive, effective and mutually compatible free trade agreement". Over a 20 year period it has evolved to the point where politicians and business leaders on both sides of the Tasman now discuss the development of a 'single economic market'.

The significance of FTAs in today's trading environment is that they are important to ensure the ongoing competitiveness for exporters in key markets. As competitors gain preferential advantage through an FTA, New Zealand exporters can be disadvantaged. In many instances an FTA works to retain a level playing field rather than creating unique or durable preferences with partner countries.

How do FTA partners get together?

Free trade agreements must be mutually beneficial to the countries involved. Countries considering an FTA first use economic studies and other methods to determine what benefits an FTA may produce. An FTA does not always have exclusively economic motives – often they are underpinned by political and

strategic considerations.

In New Zealand's experience, FTA negotiations have been initiated at a political level following significant behind-the-scenes diplomatic work. Because of New Zealand's relatively small economy, it is not a high-priority FTA partner for many countries, based on a market-size criterion. However, New Zealand can be an attractive FTA partner for other reasons. These include its experience in negotiating high quality FTAs and its reputation as a credible FTA partner.

How does the FTA process work?

Concluding an FTA can be a long process, spanning a number of years. Typically potential FTA partners initiate a joint or separate economic study to determine the potential economic benefit.

If demonstrable benefit to the potential participants exists, negotiations may be launched and proceed through a series of rounds. These can take several years.

In the earlier rounds, participants will look to build confidence in each other. In later rounds, the process evolves to discussion on specific text, and on respective requests and offers for market access commitments in the areas under negotiation.

After negotiations are concluded, and the text is legally verified, the agreement will be signed, a National Interest Analysis prepared, and the associated treaty will begin the parliamentary process to bring any necessary changes into law.

When the agreement enters into force, the benefits of the agreement begin to flow.

FTA components

New Zealand seeks comprehensive free trade agreements that are consistent with WTO rules, open to others to join, and cover trade in goods, services and investment, as well as a number of supporting rules areas. Provisions for further consultation and cooperation are typically included to ensure the agreement strengthens and deepens the existing economic relationship.

- For goods, New Zealand aims to bring trade as close as possible to duty-free. Elimination of tariffs may be phased in over a period of time. An FTA should also tackle any existing quotas or import licence requirements.

- For services, the objective is to ensure New Zealand service exporters have greater access to the markets of other partner countries, and greater certainty around the conditions that exist for doing business in that market.
- For investment, an FTA aims to remove or limit restrictions to investments in foreign markets to ensure an improved environment for New Zealand investors.
- An FTA will also address rules of origin, trade remedies, consultation and dispute settlement cooperation and legal and institutional issues.

How does an FTA work?

This depends on the area. For example, in goods, some tariff lines may be reduced to zero immediately. On other products, the tariff will phase out over a period of time, not necessarily in a straight line. For instance, New Zealand's negotiators consult closely with local industry to ensure that if a tariff is going to be removed in an area of sensitivity, industry has time to adjust to this.

In services and investment, some benefits will flow immediately with up-front commitments to remove or limit various restrictions. Other benefits may come in time, either through unilateral reform in the partner country or as it negotiates with other countries.

Institutions are typically established to oversee implementation of the FTA. In areas where there is a Joint Committee, this ensures that experts from both countries are meeting to discuss concerns or issues for potential cooperation on a regular basis.

New Zealand's FTA agenda

• Negotiated FTAs

- 1983 Australia New Zealand Closer Economic Relations Agreement (CER).
- 2001 New Zealand and Singapore Closer Economic Partnership.
- 2005 New Zealand and Thailand Closer Economic Partnership.
- 2005 Trans-Pacific Strategic Economic Partnership (Trans-Pacific SEP) Brunei Darussalam/Chile/New Zealand/Singapore. This agreement is expected to enter into force in 2006.

• FTAs under negotiation

- New Zealand and China Free Trade Agreement.
- New Zealand and Malaysia Free Trade Agreement.
- New Zealand-Australia and ASEAN Free Trade Agreement.
- New Zealand and Hong Kong Closer Economic Partnership. Negotiations on this agreement are currently suspended pending further developments on outstanding issues and progress in the New Zealand and China FTA negotiation

For a glossary of trade associated words please go to:
http://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm