



Gulf Cooperation Council (GCC) / New Zealand Free Trade Agreement

Background Information Paper

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Overview

The six-nation Gulf Cooperation Council (GCC) countries – Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman – and New Zealand have agreed to pursue negotiations for a Free Trade Agreement (FTA). This paper provides general information on the negotiation of an FTA between New Zealand and the six GCC countries. Input from New Zealand stakeholders is sought through a public submissions process which, together with preliminary discussions being held with GCC Secretariat officials, will help shape New Zealand's negotiating mandate ahead of the start of formal negotiations, tentatively scheduled for late June 2007.

Key Dates in 2007

March-April:	Public consultation process
April:	New Zealand officials to undertake further exploratory discussions with GCC Secretariat to help clarify scope and content of agreement both sides are seeking
May:	Advice to Cabinet on New Zealand's negotiating mandate
June:	Proposed first round of negotiations

Background

Following the visit of the Minister of Trade to Saudi Arabia and the United Arab Emirates in March 2006, the government agreed that New Zealand should express its interest to the Gulf Cooperation Council (GCC) Secretariat in negotiating a high quality and comprehensive Free Trade Agreement (FTA). New Zealand's proposal was approved by the GCC Council in September 2006.

A small team of New Zealand officials visited Riyadh, Saudi Arabia, in December 2006 to undertake initial discussions with the GCC, covering the scope of the agreement, negotiating mechanisms, and timelines. These initial talks showed promise of New Zealand reaching a high quality FTA with the GCC, but further information is required to obtain a more complete picture of New Zealand and GCC negotiating interests.

Gulf Cooperation Council (GCC)

The Cooperation Council of the Arab States of the Gulf, commonly called the Gulf Cooperation Council (GCC), is a regional organisation, headquartered in Riyadh, involving six Gulf Arab states of the Arabian peninsula which share common economic and political objectives. Established in 1981, the GCC is comprised of Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman.

Among the GCC Secretariat's trade/economic objectives are:

- Harmonising regulations in various fields such as economy, finance, trade, customs, tourism, legislation and administration
- Fostering scientific and technical progress in industry, mining, agriculture, water and animal resources
- Establishing scientific research centres
- Encouraging business joint ventures

- Encouraging cooperation in the private sector
- Establishing a customs union (achieved on 1 Jan 2003), a common market (by end-2007), and a common currency (by 2010).

In summary, the GCC is a region where:

- Economies are growing quickly;
- Markets are maturing;
- Consumer demand for imported goods and services is high and on an upward growth trajectory.
- Economic indicators underline the importance of New Zealand securing a stable, strategic economic partnership on a par with other countries, and recognition as a supplier of choice.

Key Economic Indicators and Economic Profile

The GCC, as a regional bloc:

- Comprises an area of 2.2 million square kilometres and a population of approximately 35 million people (including approximately 15 million expatriates).
- Contains at least 44 percent of the world's proven oil reserves, which come from Saudi Arabia, Kuwait and the UAE. Saudi Arabia alone possesses the world's largest proven oil reserves (25 percent) and is the world's largest oil producer (12 million barrels per day). Qatar possesses the world's third largest proven gas reserves. Oil and gas exports comprise 49% of GDP and 78% of all GCC exports.
- Displays impressive economic indicators: in 2006, gross domestic product (GDP) of US\$592.8 billion; average GDP growth rates of 7.8 percent and average GDP per capita incomes of approx US\$23,000.¹
- On a per capita income basis, ranks on a par with the North American Free Trade Area (United States, Canada and Mexico) and the European Union in comparison with other regional trading blocs.

¹ International Monetary Fund, World Economic Outlook Database (September 2006)

According to analysis by the Institute of International Finance (IIF)² and drawing on World Bank data, in the last six years (2001-06), the GCC economy:

- Has more than doubled in size, making it currently the world's 17th largest economy, with its aggregate GDP approaching that of the Netherlands.
- Will surpass the Netherlands and rank as the world's 16th largest economy by the end of 2007, based on this year's projected GDP of almost US\$725 billion. Burgeoning state revenues fuelled by soaring oil and gas prices is a significant factor underpinning the economic boom in recent years.
- Averaged 6 percent in overall real economic growth during 2000-05, which in turn resulted in large gains in per capita GDP, which nearly doubled from US\$12,000 in 2002 to US\$23,000 in 2006.

Forecasts for 2007 and subsequent years are bullish:

- The International Monetary Fund (IMF) notes that growth in **the region continues to outpace global growth** and should average 6-7% in 2007 – similar to the rates of the last three years.
- On current trends, the GCC's aggregate GDP could reach the milestone US\$1 trillion mark by 2010, and analysts forecast the GCC could become the **world's 10th largest economic power in a decade** based on current growth trends.

Revenues derived from high oil and gas prices in recent years (with conservative estimates of US\$50 per barrel) have enabled the GCC member states to:

- Build an impressive infrastructure, which provides an ideal base for both energy and non-energy related economic activities.
- Seek to reduce their economic dependence on oil and gas, and to varying degrees, to implement economic policies that create a climate conducive to attracting a greater range of business activity. This is seen as an imperative.

For example, a breathtaking investment boom is changing the Gulf's landscape:

- The non-oil economy is benefiting from budget surpluses and sharp increases in capital spending.

² The Institute of International Finance (IIF) Inc "Summary Appraisal: Gulf Cooperation Council Countries" (15 August 2006). The IIF is a Washington based association of private banks.

- Skyscrapers of extraordinary height are being built in major cities. Flurries of mega projects worth over US\$1 trillion are either underway or at the advanced planning stage, aimed at modernising basic infrastructure and diversifying the Gulf's industrial base.
- Project implementation will boost the construction, real estate, public utilities (water/power), transport, information technology (ICT), tourism, finance, health care and petrochemicals sectors in the next five years.
- Rapid population growth is seeing higher demand for, and increased capital expenditure in, education/training and housing. Transport networks (railways, roads, ports and airports) are being expanded to facilitate growing volumes of trade within and outside the region.

Further information about the GCC can be obtained from the Secretariat's web site: <http://gcc-sg.org> and from the web site of a major think-tank in the region, the Gulf Research Centre: <http://www.grc.ae>

Relations with New Zealand

In recent years, New Zealand has made considerable efforts to step up its relations with the six GCC states, both to support efforts to improve security and stability in the Middle East, and to pursue our economic interests.

The GCC is a significant market for New Zealand:

- If treated as a single destination, the GCC was New Zealand's eighth-largest export market by value in the year to December 2006, with our merchandise exports to the region worth NZ\$791 million.
- Exports in 2006 represented a 20 percent increase in exports to the region from the previous year, or approx 2.3 percent of New Zealand's total goods exports in 2006.
- The GCC market, by value, ranked ahead of our exports in 2006 to, for example, Hong Kong, Malaysia and Thailand.
- New Zealand's exports to the Gulf region have experienced on average 10 percent growth per year over the last six years, compared with average growth in New Zealand's total exports of 3.7 percent per year over the same period.

Table 1:

The following table shows the breakdown of New Zealand's merchandise trade for the year to December 2006 with each GCC member country and as a percentage of our trade globally:

Country	Exports (NZ\$m)	% of NZ exports to GCC	Imports (NZ\$m)	% of NZ imports from GCC
Saudi Arabia	410.8	52	523.4	29
UAE	222.3	28	576.4	32
Kuwait	70.8	9	173.6	10
Oman	55.8	7	133.5	7
Bahrain	16.2	2	14.1	1
Qatar	14.8	2	389.2	21
GCC-6	790.7	100.0	1810.3	100.0
The World	34619.4	2.3	40774.2	4.4

For further information about New Zealand's bilateral relations with each of the six GCC member countries click here: <http://www.mfat.govt.nz/Foreign-Relations/Middle-East/index.php>

New Zealand's interests in pursuing an FTA with the GCC

The objective of an FTA with the GCC would be to move towards **deeper economic integration** between New Zealand and the GCC countries. The aim of the FTA, at this stage, would be to cover substantially all trade, including goods, services and investment, and other issues including trade and labour, trade and environment, government procurement and intellectual property.

There are, at this stage, **three broad benefits accruing to New Zealand** in pursuing FTA negotiations with the GCC:

- i) Removal of tariff barriers to maintain our competitive edge

Table 2:

The following table shows the average value of the top 25 New Zealand export products to the six Gulf countries from 2004-06, and comparison of their percentage share of exports to the GCC with their percentage share of New Zealand's global exports over that period:

	average value of exports to GCC, 2004-06 (NZ\$000)	% share of total exports to GCC, 2004-06	% share of New Zealand's global exports 2004-06
New Zealand's global exports, average 2004-06	32,049,537		
Total exports to GCC, average 2004-06	686,175		
Exports to GCC as % of global exports	2.1%		
Subtotal of top twenty five exports to GCC	676,043		
Top twenty five as a % of total exports to GCC	98.5%		
1 Dairy produce	460,095	67.1%	8.4%
2 Meat and edible meat offal	93,982	13.7%	2.0%
3 Wood and articles of wood	39,668	5.8%	1.9%
4 Machinery and mechanical appliances	14,262	2.1%	0.8%
5 Fruit and nuts	9,523	1.4%	0.8%
6 Electrical machinery and equipment	9,475	1.4%	0.9%
7 Iron or steel articles	4,491	0.7%	1.6%
8 Vegetables and certain roots	4,399	0.6%	1.2%
9 Paper and paperboard	3,849	0.6%	0.9%
10 Apparel and clothing accessories; not knitted or crocheted	3,175	0.5%	2.3%
11 Vehicles	3,075	0.4%	1.0%
12 Optical, photographic, medical or surgical instruments	3,074	0.4%	0.8%
13 Albuminoidal substances; starches; glues; enzymes	2,892	0.4%	0.3%
14 Food residues and wastes	2,824	0.4%	1.5%
15 Fish	2,673	0.4%	0.2%
16 Furniture	2,419	0.4%	1.5%
17 Rubber and articles thereof	2,322	0.3%	1.8%
18 Apparel and clothing accessories; knitted or crocheted	2,217	0.3%	2.2%
19 Carpets and other textile floor coverings	2,105	0.3%	1.8%
20 Preparations of cereals, flour, starch or milk	1,804	0.3%	0.4%
21 Beverages, spirits and vinegar	1,786	0.3%	0.3%
22 Plastics and articles thereof	1,716	0.3%	0.4%
23 Pharmaceutical products	1,621	0.2%	0.8%
24 Furskins and artificial fur	1,576	0.2%	2.2%
25 Cocoa and cocoa preparations	1,018	0.1%	1.0%

- New Zealand's top two exports items to the GCC over this period were **dairy and sheep meat products**, which have together accounted for an average 80 percent (or NZ\$554 million) of exports to the region over the last three years.
- Putting these figures into context, in 2006 the GCC was New Zealand's fourth largest market for sheep meat by volume, and fifth by value. For beef, the GCC was New Zealand's 11th largest market by volume and 12th by value.

- **Exports of non-agricultural and industrial products have also grown rapidly.** New Zealand exports of wood, paper, furniture, machinery, iron and steel products, apparel, carpets and seafood to the GCC averaged \$132 million from 2004-06.
- Since 2003 members of the GCC have applied a common external tariff (CET) at an applied rate of (generally) 0% or 5%. The vast majority of New Zealand's exports fall within the CET of 5 percent. For agricultural products the applied tariff is generally 0% for fresh product and 5% for frozen product.

Table 3, below, captures the average tariff level at the HS chapter heading against the average value for New Zealand's key exports to the GCC from 2004-06.

HS2	HS2 Description	Average ad valorem duty rate	NZ exports (2004-06) \$NZ 000
04	Dairy produce; birds' eggs; natural honey, edible products of animal origin	4.89	460, 095
02	Meat and edible meat offal	4.27	93, 982
44	Wood and articles of wood; wood charcoal	5.00	39, 668
84	Boilers, machinery and mechanical appliances, parts thereof	4.99	14, 262
85	Electrical machinery and equipment and parts thereof	5.00	9, 475
08	Fruit and nuts, edible; peel of citrus fruit or melons	2.27	9, 523
40	Rubber and articles thereof	5.00	2, 322
48	Paper and paperboard; articles of paper pulp, of paper or paperboard	5.46	3, 849
73	Iron or steel articles	5.00	4, 491
07	Vegetables and certain roots and tubers; edible	2.30	4, 399

- Although the GCC's tariffs are generally low by international standards, New Zealand's competitive edge, most obviously in agricultural products but also in New Zealand's rising manufactured exports, could be eroded by agreements the GCC is reaching with a number of economies, including the EU, Mercosur³, India, China, Japan, Australia, Korea and Singapore. Many of these countries are New Zealand's major competitors in the Gulf region.
- **The immediate case for entering into an FTA with the GCC therefore rests on retaining New Zealand's competitive position in the six GCC-member countries' markets for our export of goods.** We would do this by seeking removal of the GCC's 5 percent common tariff across the board and of the remaining tariffs in individual GCC-members.
- GCC members also have WTO bound rates which are higher than the CET rates. Saudi Arabia, for instance has a WTO bound tariff of between 5-7 percent for beef and sheep meat, while Kuwait has a 100 percent WTO bound tariff for all agricultural products. While unlikely

³ Mercosur is a trading zone between Brazil, Argentina, Uruguay and Paraguay. Bolivia, Chile, Colombia, Ecuador and Peru have associate member status.

given the trade policy settings of the region, GCC members could have recourse to higher WTO bound tariff rates.

- In the medium- to long-term, an FTA with the GCC could have **wider advantages beyond tariff concessions**. An FTA would provide a platform for New Zealand businesses to deepen their commercial links with the region, helping to diversify New Zealand's range of exports, for example in forest products, apparel and carpets, manufactured machinery, food and beverage products, and in niche high-end products such as environmental goods.

ii) A platform to develop trade in services and investment

- While goods currently dominate our exports, New Zealand has **growing interests in services areas** such as information and communications technology, education services, architecture and engineering services, consultancies, legal services, environmental services, and construction. Saudi Arabia and Oman are a growing and important source of international fee-paying students.
- New Zealand had at least NZ\$185 million invested in the GCC as of March 2005, and the GCC members had investments in NZ totalling NZ\$44 million. Commitments made on investment provisions under an FTA with the GCC could encourage these stocks to grow.
- Current estimates indicate GCC investment in New Zealand is a tiny fraction of the total outward GCC foreign investment during 2003-05, estimated at US\$273 billion. This was in other Arab countries – primarily into projects, private equity, real estate and capital markets.

iii) Reducing non-tariff barriers to trade

Longer-term, an FTA would also provide **a basis for consultation** to deal with a range of non-tariff issues affecting trade, such as in Sanitary and Phyto-sanitary (SPS) measures (ie animal and plant quarantine, including food safety); and Technical Barriers to Trade (TBT) (eg standards, technical regulations and conformity assessment procedures). Examples of such measures include:

- Current end-product testing regimes;
- High compliance costs associated with export certificate authentication; and
- Lack of harmonised standards and import procedures.

How to make your views known

The government is interested in your views on the proposed FTA between New Zealand and the GCC member countries. You may wish to highlight:

- Specific issues you would like to see addressed;
- Potential benefits and risks to New Zealand; and
- Outcomes that you would like to see from the FTA.

In particular, the government is interested in information from New Zealand businesses and/or individuals on:

- **Tariff, non-tariff and regulatory barriers** that affect your ability to export to, and do business in, the GCC countries.

Where relevant, it would be helpful to learn the products or services your business is already exporting to the six GCC member countries and, in the case of goods, their tariff classification and the duties you are paying. Where relevant, any information supplied should be country-specific, including details of products or services you would consider exporting to GCC member countries if tariff or non-tariff barriers were addressed.

- **Investment** issues, particularly information from businesses and/or individuals currently investing, or planning to invest, in the Gulf region, as well as views on what measures could be adopted to help encourage further investment flows between New Zealand and the GCC.
- **Developing closer commercial links** between New Zealand and the GCC member countries, which is an important objective of an FTA. The government is interested in any views of New Zealand businesses on any measures that could be pursued to achieve this objective. Feedback is requested from the business community on temporary entry issues, eg any difficulties, delays or other frustrations that New Zealand business travellers may be experiencing in entering or staying in the GCC states.
- How New Zealand could pursue the objectives contained in the 2001 frameworks for Integrating **Labour Standards** and **Environment Standards** in the context of FTA negotiations with the GCC. We would wish to learn of businesses/organisations' interests in environment and labour issues within the GCC.

As in negotiations for other closer economic partnerships, free trade agreements and regional trade agreements, New Zealand will seek a provision which gives New Zealand governments scope to implement policies related to

Maori, including fulfilment of obligations under the Treaty of Waitangi, without being constrained by other provisions in the FTA.

Negotiating team contact details

It would be desirable to receive your feedback by **Monday 30 April 2007** to allow sufficient time for analysis before the first negotiating round in late June 2007.

Any questions or comments about the submissions or consultation process should be forwarded to:

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