

**Business Central submission
to the Ministry of Foreign Affairs and Trade
on a proposed Free Trade Agreement with the European Union
February 2016**

Introduction

Business Central and the Wellington Chamber of Commerce (Business Central) welcome the opportunity to submit on the Ministry of Foreign Affairs and Trade's consultation on a proposed Free Trade Agreement with the European Union (NZ-EU FTA).

Our organisation represents business interests throughout central New Zealand from Taranaki across to Gisborne and down to Nelson. Business Central is one of the four regional organisations comprising leading business advocacy group, BusinessNZ. In Wellington, our organisation operates the Wellington Chamber of Commerce, accredited to the New Zealand Chamber of Commerce network. Our organisation also delivers ExportNZ to Wellington and the Hawke's Bay.

Business Central, through the Wellington Chamber of Commerce is also the key New Zealand contact for the Confederation of Asia-Pacific Chambers of Commerce and Industry. In this capacity, Business Central supports and encourages trade incentives for the Asia-Pacific region.

Business Central's submission supplements the New Zealand International Business Forum's discussion paper from July 2015, and is wholly supportive of development towards an NZ-EU FTA.

Business Central Comments

Current trading relationship

New Zealand and the European Union have an existing trading relationship which in relatively good health. For the year to June 2015, two way trade in goods and services reached \$19.6 billion (\$8 billion in exports (\$4.9 billion goods, \$3.1 billion services), and \$11.5 billion in imports (\$8.5 billion goods, \$2.9 billion services), making the EU New Zealand's third largest trading partner behind Australia and China.¹

¹ www.mfat.govt.nz – call for public submissions on the proposed EU FTA

The EU is New Zealand's second largest source of foreign direct investment (NZ\$10.9billion), and a major partner for international research collaboration (40%).²

Despite this seemingly positive trading relationship, there is room for improvement. New Zealand is now only one of a few countries in the WTO which does not have a free trade agreement with the EU. Current trading is based on a 30 year old arrangement, the effects of which have now been surpassed by EU arrangements with other nations. Accordingly, New Zealanders trading into the EU are disadvantaged from the outset against competitors from countries with preferential trade access.

Both tariff and non-tariff trade barriers are limiting New Zealand's success with European markets. From New Zealand's perspective, high tariffs remain on products of significant trade interest, particularly on agriculture, processed food, wine and fisheries products.³ While not all tariffs are high, where they exist, they still place New Zealand exporters at a comparative disadvantage relative to those exporters with preferential trade access. These trade barriers are known to impact on cost to the extent that they weaken supply-chain efficiencies and can erode margins to the extent that trade is uneconomical.

Business Central would encourage negotiators to work towards full free trade across all areas of goods, including where existing quotas are in place. We would expect free trade to come into effect within reasonable time frames.

Beyond the border, there are non-tariff barriers to trade which could be improved with an FTA through improved compatible regulations. Non-tariff barriers are known impose "tariff equivalents" as high as 50%, costs which again deter trade.⁴

For service exporters, there are current restrictions around labour mobility, and regulations inhibiting trade across varying Member states.⁵

Business Central would expect negotiators to focus on the regulatory coherence needed for market integration, and accordingly seek an agreement which streamlines and minimises regulatory requirements behind the border that have an impact on the trade and investment. We echo BusinessNZ's view that in addressing regulatory concerns, we would welcome outcomes similar to TPP on intellectual property (subject to GI), customs facilitation, e-commerce, cross border data flows, SOEs, SMEs and regulatory coherence.

² As above.

³ New Zealand International Business Forum – Towards a New Zealand European Union FTA: A business perspective at 8.

⁴ As above

⁵ Above n 3 at 9.

Business Central would also welcome further cooperation in education, science and technology, and aviation services.

Opportunity

For New Zealand, the EU represents 500 million consumers potentially interested in what New Zealand has to offer. The EU is already a popular market for New Zealand's major primary products – sheepmeat, kiwifruit and apples, fish, wine, dairy, hides and skins, beef and niche manufactured products and services. It is evident there is demand for New Zealand products and services, however stagnating trade indicates some re-ignition of trade would benefit both economies. An FTA would likely re-introduce New Zealand on a more competitive level and re-incentivise two-way trade.⁶

Business Central sees the potential benefits available for New Zealand businesses. There may be opportunities to expand agriculture, food, technology, tourism, education and environmental services, niche and high-manufacturing, research and investment.⁷

Free trade raises the respective parties' profiles in each economy. With successfully negotiated regulations, New Zealand companies can better invest in brand presence and consumption in EU markets. A stronger brand presence, could attract investment in New Zealand (or New Zealand operated) markets.

There would likely be opportunities to maximise geographical location and increase counter-seasonal production and supplementary supply during market volatility. Additionally, there could be increased scope for collaboration, such as the existing collaboration in tourism, seismic engineering, agri-food and environmental issues.⁸

The EU has indicated clear interest in accessing the wider Asia-Pacific. This signals opportunities for collaboration for New Zealand businesses into these markets on a broader scale than currently available.

Business Central endorses the timing of this next step with Europe. As the EU-NZ Business Council puts it, the centre of gravity of world trade has moved significantly towards the Pacific. European trade is somewhat threatened by the competitive relationships being formed in the Pacific, and is seeking deeper relations in the Asia-Pacific to remain competitive itself.

⁶ Above n 3 at 8.

⁷ Above n 3 at 2.

⁸ Above n 3 at 5.

New Zealand has been identified as an ideal starting point to increase trade relations in the Asia-Pacific, and is recognised by the EU as a market with equivalent economic output to countries the EU is currently in negotiations with.⁹

Comparative to FTAs New Zealand has negotiated in the past, this FTA ought to face the least contention. The two economies share mutual cultural values, particularly when it comes to the rule of law and market transparency. The reliability and trustworthiness of both markets ought to enable the basics to be relatively simple to negotiate. With a relatively straight-forward negotiation ahead, there ought to be room to embrace the opportunity to be procedurally innovative and produce an agreement which could set benchmarks for trade policy.

There is potential for contention to arise if the method of engagement and consultation reflects that of the recently negotiated TPP. While our organisation felt well consulted on, there was enough opposition picked up by media for this agreement to be shed in unnecessarily poor light. It is clear that this opposition reflected a lack of understanding of the agreement, and therefore Business Central would encourage the future method of negotiations be considered in light of this.

Conclusion

Business Central supports the NZIBF discussion paper and encourages development towards an NZ-EU FTA. Although a relatively healthy trade relationship exists with Europe, New Zealand exporters face disadvantageous barriers to trade.

We recognise the EU has strategic interest in New Zealand, which raises the rare opportunity to cement an agreement now. We urge the government to take this opportunity and negotiate for more prosperous trading conditions than currently exist, provided a well-rounded agreement is sought.

Business Central welcomes the opportunity to comment on this consultation, and will assist government in obtaining business views in coming consultations.

⁹ European Centre for International Political Economy: New Zealand: The EU's Asia-Pacific Partnership and the Case for a Next Generation FTA, at 3.