

Proactive Release

Published on or before: 04/07/2025

The following Cabinet papers and related Cabinet minutes have been proactively released by the Minister for Trade and Investment

Title	Reference
<i>Report of the Cabinet Economic Policy Committee: Period Ended 23 May 2025</i>	CAB-25-MIN-0171
<i>Korea and New Zealand Free Trade Agreement Amended Annex 3-1 (Product Specific Rules): Approval for Signature</i>	ECO-25-MIN-0072
<i>Korea and New Zealand Free Trade Agreement Amended Annex 3-1 (Product Specific Rules): Approval for Signature</i>	
<i>Exchange of Notes Amending the Product Specific Rules Set out in Annex 3-A of the Free Trade Agreement Between the Republic of Korea and New Zealand</i>	



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Economic Policy Committee: Period Ended 23 May 2025

On 26 May 2025, Cabinet made the following decisions on the work of the Cabinet Economic Policy Committee for the period ended 23 May 2025:

ECO-25-MIN-0072

**Korea and New Zealand Free Trade Agreement
Amended Annex 3-A (Product Specific Rules):
Approval for Signature**
Portfolio: Trade and Investment

CONFIRMED

Diana Hawker
for Secretary of the Cabinet



Cabinet Economic Policy Committee

Minute of Decision

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Korea and New Zealand Free Trade Agreement Amended Annex 3-A (Product Specific Rules): Approval for Signature

Portfolio Trade and Investment

On 21 May 2025, the Cabinet Economic Policy Committee:

- 1 **noted** that:
 - 1.1 the Free Trade Agreement Between the Republic of Korea and New Zealand (KNZFTA) entered into force in December 2015;
 - 1.2 the Product Specific Rules of Origin (PSRs) in the KNZFTA are based on an old version (2007) of the Harmonized Commodity Description and Coding System (HS), creating potential inefficiencies in the flow of trade and collection of tariffs and data;
- 2 **noted** that New Zealand and Korea have reached agreement at officials level on amended PSRs involving the transposition of HS codes to reflect the most recent (2022) HS nomenclature;
- 3 **agreed** to amend the Customs and Excise Regulations 1996 to implement the agreed HS 2022 PSRs for the KNZFTA;
- 4 **noted** that formal treaty action is required by Korea to action this transposition under the KNZFTA;
- 5 **approved** the amended Annex 3-A (Product Specific Rules) of the KNZFTA based on HS 2022, as discussed in the paper under ECO-25-SUB-0072;
- 6 **approved** the Exchange of Notes between New Zealand and Korea, attached to the paper under ECO-25-SUB-0072, to formally effect the amended PSRs;
- 7 **agreed** that any necessary minor or technical amendments to the Exchange of Notes can be approved at officials' level, without the need for further Cabinet or Ministerial approval;
- 8 **noted** that the Minister of Foreign Affairs has determined that this is not a major bilateral treaty of particular significance and, therefore, is not subject to the parliamentary treaty examination process;

- 9 **noted** that the Exchange of Notes confirms entry into force of the amendments on a date mutually agreed by Korea and New Zealand.

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Simeon Brown
Hon Brooke van Velden
Hon Shane Jones
Hon Erica Stanford
Hon Paul Goldsmith
Hon Louise Upston
Hon Dr Shane Reti
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:

Office of the Prime Minister
Office of Hon Simon Watts
Officials Committee for ECO

Proactively Released by
the Minister for Trade and Investment

Office of Minister for Trade

Cabinet Economic Policy Committee

**Free Trade Agreement Between the Republic of Korea and New Zealand:
Amended Annex 3-A (Product Specific Rules) based on the Harmonized
Commodity Description and Coding System 2022: Approval for Signature**

Proposal

1. This paper seeks approval to agree with Korea to amend the Product Specific Rules of Origin (PSRs) in the *Free Trade Agreement Between the Republic of Korea and New Zealand* (KNZFTA).
2. The existing PSRs in the KNZFTA are based on the 2007 version of the Harmonized Commodity Description and Coding System (HS). The amendment would update these rules to HS 2022 to allow Korea to implement these transposed PSRs domestically.
3. Agreement to amend the PSRs would take place via an exchange of diplomatic notes (Exchange of Notes) and would constitute a binding treaty amendment, as required by Korea's domestic legislative process. It would have no impact on other aspects of the KNZFTA and would not constitute a change to the level of commitments made by the Parties at the signing of KNZFTA.
4. This is a neutral, technical process that involves no domestic policy change or changes in our international commitments. The Minister of Foreign Affairs has agreed the treaty amendment is not required to be presented to the House for parliamentary treaty examination. A National Interest Analysis (NIA) is therefore not required.
5. Amendments to the Customs and Excise Regulations 1996 will be needed to domestically implement the transposed PSRs as agreed by Korea and New Zealand.
6. It is envisaged that the treaty change will enter into force around July 2025 when Korea's treaty process is expected to be completed. The attached draft Exchange of Notes confirms entry into force of the amendments on a date mutually agreed by Korea and New Zealand.

Background

7. The KNZFTA entered into force in December 2015 and has contributed to a significant expansion of trade between the Parties. Two-way trade has undergone a 127 percent increase from approximately NZ\$4.06 billion in the year ended December 2015 to NZ\$9.22 billion in the year ended December 2024.

8. Transposition is a technical process to update the Product Specific Rules of Origin¹ (PSRs) in Free Trade Agreements (FTAs) based on the updates that are made by the World Customs Organisation to the Harmonized Commodity Description and Coding System² (HS). HS updates are made every five years and reflect changes in industry practice and the most recent technological practice (for instance adding codes and descriptors for smartphones and drones) as well as changes in international trade patterns. HS codes are important, as they are the basis for which tariff rates and rules of origin are negotiated between free trade agreement parties; as well as how trade data is analysed. Currently 211 economies use HS codes, encompassing 98 percent of world goods trade. All economies using the HS, including Korea and New Zealand, must use the most up to date version – currently HS 2022 – at the border. PSRs in FTAs need to be manually transposed and implemented into domestic legislation.
9. For most of our FTAs, transposed PSRs agreed by FTA Parties are able to be implemented without the need for any formal treaty action by New Zealand. However, Korea's legislation means that changes to PSRs in Korea's FTAs require a treaty amendment to the FTA. Therefore, until the KNZFTA is formally amended, Korea will continue using HS 2007 codes when New Zealand exporters claim tariff preferences under the KNZFTA.
10. We are not aware of any specific issues faced by traders due to Korea using HS 2007 PSRs for goods being traded under the KNZFTA. However, not having alignment can cause unnecessary burden and confusion due to a lack of consistency. This can slow trade and cause verification issues.
11. This is particularly problematic in those instances where goods being traded have HS 2022 classifications but are not in HS 2007 – for instance goods now reflecting more recent technological advances. Ensuring such goods can benefit from the correct tariff preferences means a more time consuming and less efficient process and creates the potential for different interpretations. It could place some New Zealand exporters at a disadvantage compared to Korean exporters or other importers trading into the Korean market with updated PSRs.
12. Updated PSRs for the KNZFTA will help in reducing trade barriers and simplifying customs procedures. This makes it easier for businesses to comply with international trade regulations, facilitating more efficient trade. Accurate and up-to-date classifications are also essential for collecting and analysing trade data. This data is crucial for economic planning, policy making, and monitoring trade flows.

¹ Product Specific Rules of Origin (PSRs) are criteria that determine the country of origin of a particular product. These rules apply to goods as defined by their HS code. The WCO defines rules of origin as "the specific provisions, developed from principles established by national legislation or international agreements applied by a country to determine the origin of goods." The origin of a good may determine whether trade policy measures (such as tariffs) should apply.

² HS codes comprise more than 5,000 commodity groups, each identified by a six-digit code (e.g., 080810 is apples, while 040900 is natural honey). These codes are used by countries as a basis for tariffs and the collection of trade data. HS codes enable harmonisation of customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures, reducing the costs related to trade.

13. This treaty amendment will therefore enable New Zealand goods exports to Korea to benefit from the automatic application of tariff preferences under the updated PSR, further enhancing the efficiency of trade between our two countries. It minimises the risk of conflicting interpretations relating to the flow of goods.

Financial implications

14. There are no financial implications.

Impact Analysis

15. The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds. This exemption is granted on the grounds that the government has limited statutory decision-making discretion or responsibility for the content of proposed delegated legislation (because it is the minimum necessary to comply with international obligations that are binding on New Zealand).
16. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met.

Publicity

17. The MFAT website will be updated after completion of the treaty action. No media releases are envisaged.

Proactive Release

18. It is intended to proactively release this paper.

Consultation

19. The following departments have been consulted in the preparation of this paper: Customs, Treasury, Regulation, and Environment. The Department of the Prime Minister and Cabinet has been informed. As this treaty action relates to a neutral transposition only, officials have not consulted with Treaty partners.

Recommendations

The Minister for Trade and Investment recommends that the Committee:

1. note that the Korea – New Zealand Free Trade Agreement (KNZFTA) Product Specific Rules of Origin (PSRs) are based on an old version (2007) of the Harmonized Commodity Description and Coding System (HS), creating potential inefficiencies in the flow of trade and collection of tariffs and data.
2. note that New Zealand and Korea have reached agreement at officials-level on amended PSRs involving the transposition of HS codes to reflect the most recent (2022) HS nomenclature.
3. authorise amendments to the Customs and Excise Regulations 1996 to implement the agreed HS 2022 PSRs for the *Free Trade Agreement Between the Republic of Korea and New Zealand* (KNZFTA), to be undertaken by New Zealand Customs.
4. note that formal treaty action is required by Korea to action this transposition under the KNZFTA.
5. approve the amended Annex 3-A (Product Specific Rules) of the Agreement based on HS 2022 which is attached to the paper.
6. approve the Exchange of Notes between New Zealand and Korea to formally effect the amended PSR which is attached to the paper.
7. agree that any necessary minor or technical amendments to the Exchange of Notes can be approved at officials-level without the need for further Cabinet or Ministerial approval.
8. note that the Minister of Foreign Affairs has determined that this is not a major bilateral treaty of particular significance and, therefore, is not subject to the parliamentary treaty examination process.
9. note that this Exchange of Notes confirms entry into force of the amendments on a date mutually agreed by Korea and New Zealand.

Authorised for lodgement

Hon Todd McClay
Minister for Trade and Investment

**EXCHANGE OF NOTES AMENDING THE PRODUCT SPECIFIC RULES SET OUT IN
ANNEX 3-A OF THE FREE TRADE AGREEMENT BETWEEN THE REPUBLIC OF
KOREA AND NEW ZEALAND**

(Korea's Proposing Note)

XX May 2025

Excellency,

In relation to the Free Trade Agreement between the Republic of Korea and New Zealand (hereinafter referred to as the "Agreement") done at Seoul on March 23, 2015, I have the honour to confirm the following understanding reached between the Government of the Republic of Korea and the Government of New Zealand (hereinafter referred to as "the Parties").

The Parties understand that in accordance with Article 21.4 of the Agreement, the existing Annex 3-A (Product Specific Rules) of the Agreement based on the Harmonized System (HS) of 2007 shall be replaced by an amended Annex 3-A (Product Specific Rules) which is based on the Harmonized System (HS) of 2022 as set out in the attachment to this Note.

If the above proposal is acceptable to the Government of New Zealand, I have the honour to propose that the understanding set out in this Note and its attachment, together with Your Excellency's Note in reply indicating acceptance of the understanding, shall constitute an agreement between the Parties, which shall form an integral part of the Agreement and shall enter into force on the first day of the third month following the date of the later written notification certifying the completion of the necessary domestic legal procedures, in accordance with Article 21.1 of the Agreement.

This Note is done in the English language. The attachment to this Note is done in the Korean and English languages, each of these texts being equally authentic. In case of any divergence of interpretation, the English text shall prevail.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

Dukgeun Ahn
Minister of Trade, Industry and Energy
of the Republic of Korea

Hon Todd McClay
Minister for Trade and Investment
of New Zealand

Attachment:

Amended Annex 3-A of the Agreement (Korean)

Amended Annex 3-A of the Agreement (English)

Proactively Released by
the Minister for Trade and Investment

(New Zealand's in Reply)

XX May 2025

Excellency,

I have the honour to acknowledge receipt of Your Excellency's Note dated 00 August 2024, which reads as follows:

“Excellency,

In relation to the Free Trade Agreement between the Republic of Korea and New Zealand (hereinafter referred to as the “Agreement”) done at Seoul on March 23, 2015, I have the honour to confirm the following understanding reached between the Government of the Republic of Korea and the Government of New Zealand (hereinafter referred to as “the Parties”).

The Parties understand that in accordance with Article 21.4 of the Agreement, the existing Annex 3-A (Product Specific Rules) of the Agreement based on the Harmonized System (HS) of 2007 shall be replaced by an amended Annex 3-A (Product Specific Rules) which is based on the Harmonized System (HS) of 2022 as set out in the attachment to this Note.

If the above proposal is acceptable to the Government of New Zealand, I have the honour to propose that the understanding set out in this Note and its attachment, together with Your Excellency's Note in reply indicating acceptance of the understanding, shall constitute an agreement between the Parties, which shall form an integral part of the Agreement and shall enter into force on the first day of the third month following the date of the later written notification certifying the completion of the necessary domestic legal procedures, in accordance with Article 21.1 of the Agreement.

This Note is done in the English language. The attachment to this Note is done in the Korean and English languages, each of these texts being equally authentic. In case of any divergence of interpretation, the English text shall prevail.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.”

I have the honour to confirm, on behalf of the Government of New Zealand, that the proposal contained in Your Excellency's Note is acceptable to the Government of New Zealand and that Your Excellency's Note, together with its attachment, and this Note in reply, together with its attachment,

shall constitute an agreement between the Parties, which shall form an integral part of the Agreement and shall enter into force on the first day of the third month following the date of the later written notification certifying the completion of the necessary domestic legal procedures, in accordance with Article 21.1 of the Agreement.

This Note is done in the English language. The attachment to this Note is done in the Korean and English languages, each of these texts being equally authentic. In case of any divergence of interpretation, the English text shall prevail.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

Hon Todd McClay
Minister for Trade and Investment
of New Zealand

Dukgeun Ahn
Minister of Trade, Industry and Energy
of the Republic of Korea

Attachment:

Amended Annex 3-A of the Agreement (English)

Amended Annex 3-A of the Agreement (Korean)