

Proactive Release

Date: 1 July 2020

The following Cabinet paper and related Cabinet minute have been proactively released by the Minister for Trade and Export Growth:

Support for Trade Recovery

(CAB-19-MIN-0211 refers)

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction codes:

- 9(2)(g)(i): to protect the free and frank expression of opinions by departments; and
- 9(2)(j): to avoid prejudice to negotiations.



Cabinet

Minute of Decision

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Report of the Cabinet External Relations and Security Committee: Period Ended 8 May 2020

On 11 May 2020, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 8 May 2020:

ERS-20-MIN-0004 **Support for Trade Recovery**

Portfolios: Economic Development / Trade and Export
Growth

CONFIRMED

Michael Webster
Secretary of the Cabinet

Support for Trade Recovery

Proposal

1 This paper complements the Cabinet paper presented by the Minister of Foreign Affairs which proposes a Foreign Policy Strategy for Re-Engagement for the early recovery phase of our COVID-19 pandemic response. The current paper outlines proposals for the immediate term response (*Protect and Position*), and proposes the elaboration of a short-to-medium term plan (*Build and Recover*) for the recalibration of New Zealand trade policy in response to the impact of the pandemic internationally.

2 The emphasis of this paper is, by necessity, on the immediate actions NZTE and MFAT are taking to protect our international markets and support export recovery. It recommends Cabinet endorsement for an immediate upscaling of support to exporters as they navigate the new international environment for trade.

3 This paper also describes work under development to recalibrate our trade policy to meet the short-to-medium term challenge. Under the *Build and Recover* pillar of our trade work, we will need to revisit and update our approach as the impacts of, and responses to the COVID-19 pandemic manifest differently in international markets.

Relation to Government Priorities

4 This paper sets out the international trade dimension of our contribution to the Government's economic recovery planning recovery, including in the context of the Government's planning for a low emissions future, as we move toward the early recovery phase of our COVID-19 pandemic response, acknowledging that the export sector will be a critical enabler of a sustained economic recovery. The development of a work stream on Trade is recommended in the accompanying Cabinet paper on Foreign Policy Re-engagement.

Executive Summary

5 New Zealand's export sector and broader trade and economic agenda face new threats from COVID-19. The export sector has taken a severe hit from COVID-19 and its response. The spill-overs will be significant for unemployment, productivity levels, wages and a general tightening of the domestic fiscal environment. Most businesses will emerge from the crisis with weaker balance sheets (low cash, high debt), face weaker international demand, will have lost international market share, and be susceptible to foreign investors seeking distressed assets. And there will be ongoing challenges. The global environment in which we trade has profoundly changed. Aspects and characteristics of the global trading system that matter deeply to New Zealand – open markets, respect for trade rules and effective multilateral trade architecture – are at grave risk as nationalism and protectionism become more pervasive and more entrenched. These are areas that we will need

to lean into to protect liberal economic norms. These are also areas in which New Zealand will be held to greater account by our partners and it will be important that our own responses to the impact of COVID-19 on the economy do not run contrary to what we are advocating internationally.

6 The World Trade Organisation's Trade Forecast, released on 8 April 2020, predicts that world merchandise trade will reduce by between 13 and 32 percent in 2020. New OECD research predicts the initial direct effect of shutdowns could be a decline of between one fifth and one quarter in most economies as spending dropped by about a third. According to the OECD analysis, which does not take into account stimulus measures, New Zealand would see an initial drop of almost 30 percent in activity, compared to about 15 per cent in Ireland, 22 per cent in Australia and 25 per cent in the United States.

Export recovery will be a key enabler of New Zealand's economic recovery

7 The export sector will continue to require significant support to navigate the new international environment, many features of which are not yet predictable. New Zealand trade policy will need to be recalibrated to sustain and reinforce key global and regional trade architecture, and policy priorities such as the global transition to a low emissions future. This will ensure New Zealand is still internationally 'connected' and bolster our resilience to future shocks. The rules-based system provides certainty and confidence to our traders.

8 The trade recovery effort is conceptualised in this paper as two distinct pillars of work: *Protect and Position* for the immediate term; and *Build and Recover* for the short-to-medium term (though the timeframes for both phases are subject to the global recovery). Support we are providing to exporters in the immediate-term, is likely to need to be sustained.

9 The trade recovery plan and the work envisaged under the Foreign Policy Re-engagement Strategy will be interconnected and mutually reinforcing.

10 The **immediate term focus** of our response to the international impact of COVID-19 has been to support exporters by protecting and securing supply lines for vital COVID-19 medical supplies and protective equipment and to sustain as far as possible our share of overseas markets. This has seen, amongst other outcomes, the implementation of an air freight agreement with Singapore and a process to use repatriation flights for critical air freight needs.

11 This paper recommends **the immediate upscaling of support to exporters** to continue to address the urgent need to keep trade flowing and supply chains intact - ensuring that New Zealanders can access the essential goods – including medicines and protective equipment - that they need, and keeping New Zealand goods flowing to our trading partners.

12 In the **short-to-medium term**, planning is underway to recalibrate our trade agenda to preserve and refresh as much of the rules-based trading system as possible. This will be important in pushing back against protectionism and the likely negative spill-overs to a global recovery. In practical terms we are expecting, and are already seeing, a sharp increase in trade barriers. We will also need to protect New Zealand's trade and economic interests in a constrained environment both immediately, as we have done with the launch of the trade initiative with Singapore, and in the

medium term by intensifying our bilateral and regional diplomacy in support of our trade objectives, and as envisaged under the Foreign Policy Re-Engagement effort.

13 The proposed approach to increase support for exporters to position for recovery, and support longer term change to reset the economy has funding implications under the COVID-19 Response and Recovery Fund for Vote Business, Science and Innovation (NZTE's vote). Short-to-medium term efforts, if agreed, would be met by reprioritisation of MFAT's work, with the longer term consequences for Vote Foreign Affairs and Trade kept under review.

Background

14 The export sector has taken a severe hit from COVID-19. The consequences will be significant for the overall size of the New Zealand economy (much smaller gross domestic product), likely business failures, rising unemployment and structural changes in the labour market, declining productivity levels, lower wages, higher debt levels and a heavily burdened domestic fiscal environment.

15 New Zealand's export sector will be a critical enabler of a sustained domestic economic recovery. But there is not yet a robust assessment about the shape and timescale for any global economic recovery, and there will be ongoing challenges. Characteristics of the global trading system that especially matter to New Zealand – open markets, respect for enforceable trade rules and effective multilateral trade architecture – were already facing pressure before COVID-19. Our current assessment is that we will face even greater headwinds as nationalism and protectionism become more pervasive and more entrenched.

16 COVID-19 has already prompted many governments – including apparently 'like-minded' ones – to implement trade distorting measures and roll back sustainability measures. Flows of goods, services, investment and people will be further constrained by border restrictions. These will be in place in some shape or form for many months. Global supply chains will be revisited and shortened as businesses look to build in greater redundancy in their international processes and source critical components closer to home. Restricted borders in New Zealand over time will hinder the ability of New Zealand businesses to maintain or build international connectivity and leverage opportunities for accelerating the low emissions transition.

17 It is forecast that COVID-19 will push global CO2 emissions down this year – but this is likely only temporary. The longer-term impact of the crisis on climate and emissions rests, to a significant degree, on how policymakers respond to the economic dimension. We know from the 2008 financial crisis that economic recovery can be emissions-intensive. There are early indications that new support measures to the fossil fuel industry are being contemplated by some governments, while others are seeking to use the recovery to catalyse a broader transition to a sustainable, low emissions economy.

18 Our key services exports of tourism (\$17.2 billion in year to March 2019) and education (\$4.6 billion for year to Dec 2019) will be profoundly affected. We expect these to be some of the last sectors to experience recovery. The outlook for commercial and professional services delivered via digital trade is likely to be better. The existing momentum towards digital trade is likely to be

intensified by the response to COVID-19. Our high value niche goods may face competition from products with shorter supply chains. New Zealand's primary products, particularly food and beverage exports, are expected to fare better and demand should stabilise fairly quickly once regular freight channels recover.

19 In the immediate term, MFAT and NZTE working with other agencies are focused on keeping supply and trade lines open and functioning. This work is consuming significant resource and will do for the foreseeable future. Work is already under way, for instance, to try to restore air links for critical imports (medical) and certain high value exports. Officials are watching closely the prospects for sea freight. Current flows appear satisfactory though there is some risk going forward.

20 The re-calibration of our trade policy for a COVID-19 world that will facilitate the wider economic recovery is well under way around three specific clusters of work – “the three Rs”. The immediate term work, if agreed, will continue to be implemented though close collaboration between NZTE and MFAT.

Trade Recovery Plan

21 In the immediate term, MFAT and NZTE propose to

1) Re-tool exporter support:

- Maintain and resource the Supply Chain work stream that was established by MFAT to support exporters during Level 4 of the lockdown;
- Increase the scale and intensity of support to a greater number of export businesses;
- Intensify our Economic Diplomacy efforts and including practical support to exporters who face trade barriers;
- Increase in-market support; Embassy and NZTE support to exporters will be increased and refocused (and a structured approach implemented across NZ Inc);
- Strengthen New Zealand's Brand in priority markets;
- Increase and re-focus resource to the trade barriers portal;
- Expand exporter services;
- Expand the NZTE International Growth Fund (IGF);
- Evolve and deliver capability building for digital business models, freight and logistics;
- Extend delivery of services to both domestic and exporting SMEs through the NZTE Regional Business Partner network;
- Increase the emphasis in New Zealand's trade policy on digital trade issues;
- Shift the emphasis in our trade policy and outreach work more towards supporting cross border delivery of commercial and professional services, in light of new constraints on

delivery either through overseas travel by New Zealand business people or inwards travel by services consumers (e.g. foreign fee-paying students, tourists); and

- Develop a NZInc plan for communications and engagement with exporters.

Investment:

- Build up the investment capacity in the New Zealand market; and
- Stand-up large Greenfield investment opportunities.

22 In the short-to-medium term, MFAT is recalibrating New Zealand trade policy to Re-invigorate the international trade architecture; and Re-energise and re-focus our trade relationships, both of which are underpinned by the evolving Government response to Trade for All and will need to reflect the evolution of thinking (including of businesses themselves) and the fluid post-COVID-19 environment.

2) Re-invigorating the international trade architecture

- *WTO*: consistent with our six part strategy prior to COVID-19, the WTO remains the premier institution through which New Zealand can influence international trade rules, and we will continue to defend it. But it is damaged. New Zealand has recently become a member of a new multi-party interim arbitration arrangement for dispute settlement, which sustains the existing enforceability of international trade rules but is only between a sub-set of WTO members (China, EU, Australia, Brazil, Canada are members as well);

Officials are considering the scope for improvements in the WTO's treatment of digital trade, for example through a longer roll-over of the moratorium on applying customs duties to E-commerce;

- *Concerted open plurilaterals*: we have initiated new plurilateral negotiations specific to the COVID-19 context and these operate alongside other initiatives like the Agreement on Climate Change, Trade and Sustainability (ACCTS) and the Digital Economic Partnership Agreement (DEPA) to try and rescue as much as we can of the rules "furniture" and create building blocks that can reinforce, support and eventually reinvigorate the system;
- *Signature-ready FTAs*: continued progress on FTAs sends an important signal that New Zealand is still open for business, [s9\(2\)\(j\)](#)

Other negotiations are continuing virtually despite global lockdowns, including the EU FTA. We are also ready to negotiate with the UK when it is in a position to do so;

- *APEC*: an important component in the short-to-medium term work will be to revitalise the Asia Pacific regional trade architecture. APEC can be used to build consensus around the types of economic policies that will support recovery, including policies that push back the types of mutual economic aggression policies that risk worsening the crisis; and
- *Trade for All*: Re-evaluating Cabinet's response to the recommendations of the Trade for All Advisory Board (TFAAB) in the trade recovery context. Much of the work under way or

planned in the Re-tooling workstream was envisaged by the TFAAB in its report, but in the post-COVID-19 context, this work has assumed a greater urgency. Officials should re-examine the remainder of the 53 Board recommendations to determine which speak most directly to COVID-19 recovery work and should therefore be prioritised.

3) Re-energising and re-focusing our key trading relationships

- Continue the existing trade diversification strategy (e.g. EU FTA, UK FTA, CPTPP expansion, Pacific Alliance, Mercosur) and alignment of concluded FTAs with greater MFAT/NZTE actions to provide in-market and to-market support to exporters with a particular focus on mature premium markets;
- Seek to exploit CPTPP as an influential vehicle to respond to COVID-19 with relevant measures that support open trade in our region, for example by championing the New Zealand-led Covid-19 tariff-cutting Plurilateral and seeking accelerated tariff elimination on a wider range of products, exploring what further use we can make of its Annexes on medical equipment, and accelerating acceptance among CPTPP Parties of Sanitary and Phyto-Sanitary E-certificates;
- Actively pursue economic diplomacy in-market with key trade partners, including by Ministers. The timing and location for this engagement will be based on the Bilateral Re-engagement work stream envisaged in the Foreign Policy Re-engagement plan. Targeted strategies will be led by MFAT posts and regional divisions and informed by inter-agency perspectives.

Retooling Exporter Support

23 The export sector faces a prolonged period of uncertainty, severely disrupted supply chains, restricted travel, weaker international demand for both goods and services, and a likely increase in protectionism. It may be several years before economic activity returns to pre-COVID-19 levels.

24 Of New Zealand's 12,000 exporters:

- 1) Approximately 30% (by number, not value) are Food and Beverage. While these companies have been granted Essential Industry status under Level 4 of the lockdown, most are running at less than full capacity (the meat industry, for example, is running at 60%) and most have compromised market positions.
- 2) Approximately 40% are Specialised Manufacturers, and of these 70% are severely compromised in some way (slowed down, closed or working from home). This has severely weakened the sector and has dramatically weakened their market participation. Initial NZTE analysis has indicated that even after only four weeks of lock down, 28% of these companies will struggle to recover.
- 3) Approximately 30% of New Zealand exporters are technology and service providers whose customer acquisition and capital runways are being severely weakened. Their ability to source new capital has reduced due to investors having a significantly reduced appetite for risk.

25 From these experiences, most businesses will emerge from the crisis with weaker balance sheets (low cash, high debt), face weaker international demand, will have lost international market share, and be highly susceptible to foreign investors seeking distressed assets. Re-tooling Exporter Support means significantly increasing the BAU support that MFAT and NZTE deliver to the export sector to position New Zealand companies to recover markets quickly and seize new opportunities where they arise. Specifically, we propose to:

- **Increase the scale and intensity of support to a greater number of export businesses.** This would include doubling NZTE's high intensity "Focus" customer group from 700 to 1400 exporters, providing hands-on support for more companies at the time they will most need it. Having 1,400 Focus customers also provides sufficient scale (number of companies) for NZTE to deliver more potent sector and sub-sector strategies s9(2)(g)(i)

In addition to a larger group of "focus" companies, NZTE would also extend digital delivery of tailored tools and content to a larger number of exporters outside of the Focus group s9(2)(g)(i)

The extension of the "Focus" group of customers is an efficient scaling of the existing NZTE model and able to be achieved by only adding in new customer frontline employees.

- **Strengthen our support to firms to weather heightened risks associated with trading in a less certain trading environment.** The disruption to supply chains and associated uncertainty creates new risk for New Zealand's internationalised companies. The New Zealand Export Credits Office supports New Zealand exports and the internationalisation of New Zealand companies by providing trade credit insurance and financial guarantees that cover a range of political and commercial risks associated with doing international business. Its role is to complement the private sector to support smaller and growing firms, as well as offer market capacity to larger firms, and security through economic cycles and market disruptions. We will review existing support and products and identify whether it needs strengthening.
- **Enhancing our Economic Diplomacy efforts including our support to exporters who face trade barriers.** Our Economic Diplomacy efforts will take on added importance in a post COVID-19 world. A significant part of this will involve a ramping up of the support MFAT, NZTE and other agencies provide in resolving trade barriers that affect our exports. This will need to be done both in New Zealand and offshore. Practically, this is likely to require an upskilling of more staff on how to address trade barriers that affect New Zealand exporters; greater engagement with exporters to identify and resolve the trade barriers they face; and adapting the way we deliver our services to make them even more accessible. Some of this work is already in development (e.g. making the trade barriers website more accessible). A crucial part of our work will be ensuring coherence with agencies which are joint partners in our trade barriers work programme (MPI, MBIE, Customs).

- **Increase in-market support.** To support companies to re-capture market share, navigate disrupted supply chains and establish new markets, NZTE proposes to step up its in-market export support to: build new relationships and shore up established relationships during a period of heavy international travel restriction; and increase the flow of market intelligence to exporters, including identification of local talent and suppliers. This work would leverage New Zealand's international network to scale up on-the-ground support for exporters.

s9(2)(g)(i)

We may also need to consider reshaping or redistributing NZTE's offshore resource over the short-to-medium term to increase economic diplomacy and in-market efforts to help exporters recover markets and seize new opportunities and to promote investment.

This will be particularly important during the period ahead when markets open but international borders remain protected. Embassies will prioritise collaboration with NZTE to provide in-market support to New Zealand exporters and to the collection and reporting of market intelligence. MFAT will push forward the roll-out of its unclassified reporting system that will provide greater intelligence and market insights more quickly and regularly to exporters who are grappling with a more uncertain global trading environment. NZTE proposes placing additional Business Development Managers in select markets to deliver the scaled up support.

- **Expanding our exporter services and partnering with industry stakeholders to tailor them to Covid recovery.** MFAT's 0800 Exporter Helpdesk and online tools such as the Tariff Finder are services that help exporters navigate offshore markets. As we move into the recovery phase of the pandemic, we will need to expand such services, including by rolling out new tools. This includes the services sector equivalent of the Tariff Finder, which will help services exporters navigate regulatory settings in other countries.
- **Expanded growth funding.** NZTE's International Growth Funding (IGF) is one of the key partnership tools to support export recovery for a greater range of export companies and a broader range of initiatives. The current fund is \$30m. An extension of this fund would be required to support the expansion of focused support to a larger number of exporting companies. The NZTE IGF fund will be important to re-connect companies with their international markets and supply chain partners, as well as explore new opportunities, at a time when their investment in such activities would otherwise be constrained due to balance sheet pressure.
- **Strengthen NZ's Brand in priority markets (NZTE).** To assist exporters re-gain lost market share, secure new customers, and win new business a full assault is required on a small number of priority markets s9(2)(g)(i)

to promote the benefits of New Zealand's brand. In particular we need to re-emphasise New Zealand's reputation for safety, trust, resilience, innovation, sustainability and high-value goods and services. This could be achieved by scaling up the New Zealand story for greater noise and reach into international markets. Engaging in and

leveraging business and export opportunities off the back of the Dubai World Expo 2020 (likely to be postponed until October 2021), will also provide a useful opportunity to signal that from a trade, economic and tourism perspective New Zealand has re-opened for business. The cost implications of delaying Expo are still being calculated and will be the subject of a future paper.

- **Evolve and deliver capability building for digital business models, freight and logistics.** Current supply chain disruption has highlighted the need to assist companies to accelerate their digital transformation and adopt new business models. NZTE proposes to ramp-up its e-commerce Centre of Excellence to provide digital commerce content, tools and advice to exporters. There is also a need to help companies build up capability in freight and logistics, for the medium term. MFAT will shift its trade policy and engagement emphasis to increase the focus on digital.
- **Extend delivery of services to both domestic and export-oriented SMEs through the Regional Business Partner (RBP) network.** The NZTE RBP network is a critical platform for delivering broad-based capability assistance to a wide range of SMEs, and an important channel for the distribution of additional resources. The RBP network is proving an important part of the current crisis response, and has been extended further through a \$25m investment approved by Cabinet on 14 April 2020. This funding will facilitate increased access to business consultancy services for small to medium sized businesses, including export and innovation-oriented SMEs.

26 Foreign investment provides essential capital to drive the creation of productive enterprises and supports economic recovery. In addition to expanding and intensifying the support it provides to exporters, NZTE proposes to strengthen its work to facilitate high-value investment in New Zealand.

- **Build up the investment capacity in the New Zealand market.** In the aftermath of COVID-19 many New Zealand companies will be seriously cash starved but the availability of funds domestically for commercial purposes may be crowded out to some extent due to the need to fund vastly increased government borrowing and to increased pressure on bank lending. Productive foreign investment, therefore, is likely to need to be a critical element in fuelling New Zealand's economic recovery. At the same time, however, there will be a need to balance the need for increased foreign investment against the significant risk that NZ businesses will be vulnerable to international investors targeting distressed assets. s9(2)(g)(i)

NZTE also proposes to increase the provision of investment capability building to more companies, to ensure they are well prepared to succeed in investment-raising discussions with investors.

s9(2)(g)(i)

s9(2)(g)(i)

This concept needs to be further discussed before the additional spend can be estimated.

Communications and Engagement

27 There is a strong appetite by stakeholders for information during the COVID-19 response to understand the implications for business and to assist with planning for post-COVID-19 recovery. Positive feedback from both the agriculture and non-agriculture sectors to the approach agencies, including MFAT and NZTE, have taken to sharing information demonstrates that so far, we are getting this right. Ongoing and expanded engagement with exporters will be crucial to maintain buy-in and ensure that what is being developed under the “Three Rs” is fit for purpose and meets exporter needs. This will be the overriding interest among our stakeholders in any engagement with government agencies in the coming period.

28 It will also be important to maintain tight coordination on formal engagement with stakeholders (as distinct from the high tempo of informal one-on-one communications that form BAU), communicating on the basis of an agreed narrative and co-ordinated approach. MFAT has established a useful model, chairing weekly briefings of the manufacturing sector with the participation of NZTE, MBIE, MPI and Transport at Deputy Secretary and CE level. MPI is chairing the agriculture sector equivalent which MFAT and NZTE are also active in. MFAT also meets weekly with Te Taumata, to ensure the Māori business perspective is integrated into all phases of our trade and economic response.

Objectives of the Communications Plan

- To communicate clearly to stakeholders that the Government is focused on the interests and needs of the export sector, and is taking action in response to the crisis;
- To share our analysis of impacts on the NZ economy and hear from the export sector about how COVID-19 is affecting their businesses as we move through alert levels;
- To communicate and seek views on the recalibration of New Zealand trade policy to support export recovery;
- To reassure stakeholders that critical BAU trade work continues to advance and protect New Zealand’s interests; and
- To work with stakeholders on what a post-COVID-19 world may look like and what we can do to help as they position themselves in that world.

29 This work stream will establish a coordinated NZinc post-COVID-19 trade engagement and outreach plan, with a high-level interagency coordination mechanism.

Māori Business

30 Māori businesses are expecting to take a significant hit as a result of COVID-19. This is playing out across the spectrum of the Māori economy, particularly in the fishing, forestry, agriculture and tourism sectors. The difficulties Māori businesses face also depend on where they are located and which sector they are in. Forestry, fishing and tourism have been hardest hit, and in some regions drought is exacerbating the impacts on the agriculture sector where processing is operating at half

capacity. Kiwifruit producers on the other hand are reporting an increased demand for their product and have been able to resolve what has in the past been a chronic undersupply of seasonal labour through the redeployment of redundant workers from other sectors of the economy. Sealord is also offering temporary jobs to redundant workers in preparation for the hoki season. Māori exporters' expectation of the Government is to protect and improve on existing market access and keep supply chains functioning smoothly. They have advised that they expect non-tariff barriers to be more of an issue going forward.

31 Māori businesses are working together in an unprecedented manner at the national and regional levels to protect and support vulnerable groups and promote business continuity and recovery, including looking at new ways of utilising multiple owned resources. This provides a new opportunity for tailored and cohesive Crown-Māori engagement in the recovery of regional economies.

32 Māori leaders have welcomed the move by Government to provide \$56 million of targeted funding to help Māori communities and businesses respond to the pandemic. Of this funding \$1m has been earmarked to develop resources to assess Māori businesses and produce a Māori business response plan. Te Arawhiti will also receive \$470,000 to work with iwi on local response plans. The initiative acknowledges the inequities in Māori health and calls from Māori communities, iwi leaders and health experts for a targeted approach.

33 Under the "Three Rs" trade recovery plan, a communications work stream specific to Māori exporters will be established through an intensification of the existing mechanisms. MFAT will continue to Chair regular meetings with Te Taumata and is participating in regular Te Taumata plus meetings, bringing together a wider range of Māori business leaders. Those briefings could be expanded as we move forward to ensure all Māori business interests are being heard and have an opportunity to feed into the Government's recovery planning.

Re-invigorating the international trade architecture

34 The effective functioning of the international trade architecture is key to protecting New Zealand's export interests and is a critical part of our short-to-medium term plan under the Build and Recover pillar. The rules-based system has served New Zealand well, and provides certainty and confidence to traders. While our Foreign Policy Re-Engagement Strategy will by necessity prioritise bilateral engagement and regional diplomacy, few countries, least of all small economies like New Zealand can prosper in an international system characterised by a rejection of multilateralism.

35 It will be in our interests therefore to help lead efforts internationally to defend the multilateral rules-based system, to push back protectionism in favour of a trade architecture founded on non-discriminatory trade rules and progressive norms. In practical terms, we will look for opportunities for Ministers to shape global opinion accordingly, with our trade diplomats carrying a clear narrative that speaks to New Zealand's brand, which can be expected to be further reinforced by a successful response to the COVID-19 pandemic.

36 A priority for our trade policy agenda will be to ensure that the World Trade Organisation continues to function effectively. The WTO's legally enforceable rules matter to a small trading economy like New Zealand's, particularly in a world of rising protectionism. To this end, New Zealand has recently become a member of a new Multiparty interim agreement - this sustains the existing enforceability of international trade rules, albeit among a sub-set of WTO members (including China, EU, Australia, Brazil, Canada and others). Officials are also exploring mechanisms to advance New Zealand's economic interests in a constrained environment. One such mechanism continues to be our concept of 'concerted open plurilateralism'; identifying 'pathfinder' opportunities to develop new ideas, norms and rules in areas that are important to New Zealand. We will need to work with like-minded partners in the first instance to develop building blocks to reinvigorate the multilateral system, which others can then join as their recovery permits. In the absence of leadership from major economies, this is where we will need to devote our discretionary trade policy resource.

37 Work on levelling the playing field internationally for New Zealand traders has become more important than ever. We need to intensify our work on the FTA agenda and maintain the pace of our ongoing negotiations by finding new ways of working. The most recent round of the EU-FTA has been held virtually, officials are exploring how the recently concluded FTA upgrade with China can be signed electronically, and RCEP Chief Negotiators met virtually last week (this process seems in fact to have gained some momentum as our region focuses on the centrality of trade to our economic recovery).

38 Looking ahead, officials are recalibrating the trade agenda to put New Zealand in the best possible position for sustained economic recovery consistent with Government priorities. We know for instance, that around half of New Zealand's comparatively weak productivity performance in recent decades stems from relatively weak international connections. It is well understood therefore that a more restricted border can be expected to exacerbate New Zealand's poor productivity performance and hinder wellbeing improvements. This compounds the challenge for exporters, not least the manufacturing sector. We will need to support our exporters to take advantage of the surge in digital trade through implementation and expansion of the Digital Economy Partnership Agreement (with Singapore and Chile). We will also need to rely more heavily on our offshore network to provide exporters with market data and business connectivity.

39 As Governments and businesses around the world take actions in response to the crisis, with potentially wide-reaching trade and climate implications, New Zealand's trade and climate agenda and particularly the ACCTS initiative takes on added significance. At a critical point of inflection, New Zealand will be amongst a small group of countries championing the alignment of trade and climate policy and leading the direction of that policy development. The impetus to get these global policy settings right is heightened post-COVID-19. ACCTS will help protect and progress New Zealand's enduring interests in effective rules-based markets and high global ambition on climate and environmental goals.

40 APEC too has an important role. We need to consider the implications of COVID-19 for our host year. We will need to look again at our policy priorities for APEC. While the issues we had

been focused on – economic integration; sustainable and inclusive growth; and digital technologies – will remain important, we can now expect a much stronger focus on the economic policies that can help APEC members resume their growth paths, including by preventing the types of mutual economic aggression we are seeing currently. These will worsen the crisis. The World Customs Organization (WCO) also has an important role. We need to focus on how border administrations around the world can positively respond to the recovery effort. The WCO promotes rule-based policies and border environment through conventions, tools and guidelines. One of the main conventions - the Revised Kyoto Convention - is currently being reviewed. New Zealand should play an active role in that review to ensure that its conventions are tools are able to support trade recovery.

41 The Government's response to the Trade for All Advisory Board Report (CAB-20-MIN-0120) operates as a 'backdrop' to the "Three Rs" and New Zealand's recovery from COVID-19. The Trade for All agenda stemmed from the complex environment of trade policy both internationally but also in New Zealand. At home, public concern about trade policy has grown, particularly around sharing the benefits of trade with all New Zealanders. The social and economic well-being impacts of COVID-19 will only exacerbate these challenges.

42 The Trade for All Advisory Board (TFAAB) did not specifically examine the trade policy implications of COVID-19 (it reported to Minister for Trade and Export Growth at the end of November 2019), but the Board's recommendations should guide New Zealand in implementation of our COVID-19 response. It is an existing tool that can be used to shore up social license for New Zealand's response for the pandemic. A logical next step in the evolution of the Trade for All agenda is for officials to re-evaluate Cabinet's response to the TFAAB in the new context and determine which elements have not been picked up or overtaken in the "Three Rs" workstreams. The following recommendations are examples; a fuller re-examination of CAB-20-MIN-0120 and report-back by officials could identify others which remain pertinent and useful to the COVID-19 recovery and which can be folded into or otherwise made to intersect with this work.

- **Trade policy and health** – ensuring health is a pillar of NZ's trade policy negotiating approach, including strong defence of Pharmac;
- **Resilience** of the NZ economy – ensuring resilience of the New Zealand economy to future shocks, (including the major economic transformation needed to respond to climate change) and engaging with New Zealanders about what we are doing internationally in COVID-19 response and recovery;
- **NZ Inc Enterprise support** –sharing information, supporting and communicating with New Zealand business;
- **MFAT's preparation for enterprise support:** ensuring that MFAT posts, divisions and staff are appropriately directed and resourced to effectively support the tradable sector and grow support for New Zealand trade policy initiatives;
- **Value proposition** – ensuring New Zealand is best placed to secure value from our tradeable sectors, and what is the shape of the education and tourism sectors.

New Zealand’s potential to market itself as a provider of COVID-19-safe food and services to an international audience is an important opportunity; and

- **Māori engagement** – engaging with Te Taumata and ensuring the Māori economy critical component of COVID-19 response.

Re-energising and re-focusing our key trading relationships

43 New Zealand has developed a reputation over decades as a creative and constructive international player and trusted partner. That puts New Zealand in a relatively positive position to pursue the objectives described in this paper. Our reputation and relationships will need to be nurtured and leveraged in the coming months as a critical part of our trade and economic recovery strategy. In the absence of face-to-face contact, on which much of our international diplomacy depends, telephone diplomacy by Leaders, Ministers and officials will be important in maintaining international connections, formulating arrangements to enhance trade flows, and in securing political buy-in from our partners to new initiatives. The programmes foreshadowed in the Foreign Policy Re-Engagement Strategy paper, including on bilateral engagement, and also regional work streams, will be a way to frame this work in consultation with Ministers.

44 Continuing New Zealand’s existing trade diversification strategy, along with looking for opportunities to accelerate the low emissions transformation, will be an important element of our recovery plan. With Asian markets potentially coming back online earlier than others, ^{s9(2)(g)(i)}

In addition to current negotiations with the EU, the Pacific Alliance, Mercosur, and potentially the UK this year, we will need to align concluded Agreements with greater MFAT and NZTE support to exporters in-market, as described in the Re-Tooling section of this paper. This will help sustain our continued diversification strategy.

45 MFAT’s short-to-medium term trade recovery plan will include a focused and targeted programme to re-energise and refocus New Zealand’s trading relationships. This work will be developed as part of the Foreign Policy Re-Engagement Strategy, positioning our trade relationships as critical elements of our wider foreign policy approach. Work streams will be established on the priority pieces of our trade agenda, including the WTO, APEC, the OECD and New Zealand’s FTA agenda, looking specifically at recalibration of our strategies for trade recovery.

Financial Implications

46 Financial implications are limited to Vote Business, Science and Innovation (NZTE), and will be submitted under the COVID-19 Response and Recovery Fund process.

47 The total new investment required for these initiatives is \$24m per annum of operational funding, and \$30m per annum of new grant funding – ie. \$54m each year, for the next four years.

Vote Business, Science and Innovation Minister for Economic Development	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Increase the scale and intensity	0.0	8.000	8.000	8.000	8.000

of support to a greater number of export businesses					
Increase in-market support	0.0	10.000	10.000	10.000	10.000
Expanded growth funding	0.0	30.000	30.000	30.000	30.000
Evolve and deliver capability building for digital business models, freight and logistics	0.0	2.000	2.000	2.000	2.000
Strengthen NZ's Brand in priority markets	0.0	4.000	4.000	4.000	4.000
Total Operating	-	54.000	54.000	54.000	54.000

Legislative Implications

48 None.

Population Implications

Population Group	How the proposal may affect this group
Māori	The Māori economy is disproportionately affected by the trade effects of COVID-19 given the strong representation of Māori business in the primary sector. Forestry, fishing and tourism have been severely impacted. Ensuring that Māori business has input into trade recovery planning is a priority.

Human Rights

49 There are no inconsistencies in this proposal with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

50 This is a joint MFAT/NZTE paper. Work on the immediate term response is being done in close collaboration with Ministry for Primary Industries, Ministry of Business, Innovation and Employment, New Zealand Customs, Ministry of Transport and The Treasury. The short-to-medium term work plan will be fully consulted with relevant partner agencies and reported back to Ministers.

Proactive Release

51 This paper is not proposed for proactive release.

Recommendations

52 The Ministers for Trade and Export Growth and for Economic Development recommend that the Committee:

1 **Agree** that MFAT and NZTE will continue to work closely together in New Zealand and offshore to assist exporters to navigate the new international environment for trade, including emerging trade barriers and disrupted supply lines, and to provide increased in-market support.

2 **Approve** immediate upscaling of the BAU support that MFAT and NZTE deliver to the export sector to position New Zealand companies to recover markets quickly and seize new opportunities where they arise, noting financial implications for Vote Business, Science and Innovation (NZTE);

3 **Note** that NZTE will submit a budget bid under the COVID-19 Recovery and Response Fund to fund scaled up activities.

4 **Note** that an enquiry should be made via the Associate Minister of Finance to review existing Export Credit support products to consider whether they need to be strengthened.

Taking account of the government's response to Trade for All:

4 **Note** that MFAT is elaborating its short-to-medium term trade recovery plan to recalibrate New Zealand's trade policy agenda in key focus areas including the WTO, APEC, and New Zealand's FTA agenda.

5 **Agree** that an NZInc communications and engagement strategy be developed by MFAT and NZTE in collaboration with partner agencies to ensure coordinated engagement with stakeholders. Consistent messaging would be agreed across agencies, along with a coordinated programme of engagement with peak bodies, civil society and Māori.

6 **Agree** that in all of the above, planning takes full account of the interests of Māori business and that agencies continue to consult closely with Māori, including among others with the independent Te Taumata.

Authorised for lodgement

Hon Phil Twyford
Minister for Economic Development

Hon David Parker
Minister for Trade and Export
Growth