

SUBMISSION

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To: Ministry of Foreign Affairs and Trade

Submission on: Proposed New Zealand – European Union Free Trade Agreement

Date: 29 February 2016

From: Federated Farmers of New Zealand

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**SUBMISSION TO THE MINISTRY OF FOREIGN AFFAIRS AND TRADE
ON
PROPOSED NEW ZEALAND – EUROPEAN UNION FREE TRADE AGREEMENT**

1. INTRODUCTION

- 1.1 Federated Farmers of New Zealand welcomes the opportunity to comment on the proposed New Zealand – European Union (EU) Free Trade Agreement (FTA).
- 1.2 Federated Farmers has had a long history of supporting efforts to liberalise trade and reduce trade barriers. The Federation has also urged producers in other countries to embrace trade liberalisation, drawing on New Zealand farmers' experiences since the 1980s reforms.
- 1.3 Not only is free trade beneficial from the perspectives of economic efficiency and welfare, but it provides greater consumer choice, liquidity in markets, greater opportunities for partnerships and the further development of domestic, regional and global value chains, providing a boost to the global economy.
- 1.4 Federated Farmers supports the proposed FTA with the EU. We believe a comprehensive, high quality agreement that includes the elimination of all tariff and non-tariff barriers for agricultural products will be positive for both farmers and the agriculture industry in NZ and the EU.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Federated Farmers recommends that
 - (a) Negotiations for a free trade agreement with the European Union should proceed as soon as possible; and
 - (b) Negotiations should provide for a free trade agreement that is high quality, comprehensive and commercially meaningful and eliminates tariff and non-tariff barriers for agricultural products.

3. EUROPEAN UNION

- 3.1 Federated Farmers supports the negotiation of a free trade agreement with the EU.
- 3.2 The EU is a long standing and significant trading partner for New Zealand. It is our third largest single trading partner (behind Australia and China), the third largest export market for goods, our largest source of imports and second largest source of investment.

- 3.3 Three quarters of New Zealand merchandise trade exports to EU are from the primary sector of which sheepmeat is the largest. There is huge scope to expand trade, deepen partnerships and enhance value chains if the current barriers to trade were removed.
- 3.4 The EU is a significant export market for red meat with a total value of trade in 2014 of NZ\$1.9 billion for products including sheepmeat, beef, wool, hides and skins and offals. Sheepmeat makes up the largest component of this with the EU accounting for 43 percent of New Zealand's sheepmeat exports.
- 3.5 New Zealand meat trade to the EU in 2014 attracted around NZ\$70 million in duties. New Zealand beef has a country-specific tariff quota for 1,300 tonnes with tariffs of 20% while high out of quota tariffs inhibit trade, while competitors such as Canada have sizeable quota under which product enters duty free.
- 3.6 The EU is also an important dairy market although it has become less accessible in recent times due to effective tariff levels after price movement. The EU maintains very high tariffs on most dairy products and even for products such as butter and cheese where New Zealand has country specific quota, the in quota tariffs are so high (butter 74,693 metric tonnes with in-quota tariff of €70/100kg and cheese 11,000 metric tonnes at €17.06/100kg) these quotas are often not filled.
- 3.7 Many of the main imports to New Zealand from the EU are also important to the agriculture industry including motor vehicles, tractors, harvesting and other machinery and electric generators. The EU enjoys a trade surplus with New Zealand of around 25% so there is plenty to be gained for both parties from pursuing an FTA.
- 3.8 New Zealand and the EU also share strong ties in the area of research & development and science and technology with nearly 40% of all New Zealand's international research collaboration being with EU based entities. This is another area where ties can be strengthened benefiting both parties if an FTA were to proceed.
- 3.9 Federated Farmers therefore supports the proposed FTA with the EU and urges the government that any agreement should be high quality and comprehensive and should cover all sectors, including agriculture. Addressing trade barriers would help provide a much-needed boost to the competitiveness of our agricultural products in this long established and important market.

Share of world production

- 3.10 New Zealand accounts for 6% of world sheepmeat production and less than 1% of world beef production. The level of production in New Zealand is limited by the pastoral production system and associated climatic, environmental and economic factors. New Zealand is a counter-seasonal producer to the EU and therefore can assist in delivering year round supply to keep product on the shelf for consumers and offering alternative supply in times of market volatility. Europe is not self-sufficient in

either sheepmeat or beef so imports will remain important and as demonstrated throughout our long shared history New Zealand is not a threat to domestic meat production

- 3.11 New Zealand produces less than 3% of the world milk and less than 14% of EU milk production. NZ exports of cheese to all global markets was equal to only 3.3% of domestic cheese consumption in the EU, while New Zealand butter exports are less than 1% of all butter consumed in the EU so there is no threat of New Zealand product flooding the market. With global demand for dairy products forecast to continue rising this market will remain competitive and the EU is a major, globally-competitive exporter and there is nothing to fear and plenty to gain from an FTA.

Opportunities

- 3.12 New Zealand and the EU have a long history of shared culture, values and economic engagement. We have a history of co-operation and shared objectives with a number of partnerships in place. Our product mix is complementary and assists with overcoming seasonality and keeping product on the shelf year round. Joint development and marketing of key products helps to grow consumption and result in higher prices for both European and New Zealand producers.
- 3.13 An FTA will provide both New Zealand and the EU new opportunities to expand business in agriculture and food as well as other areas such as technology, services, niche and high-value manufacturing, research and investment to the benefit of both sides.
- 3.14 A comprehensive FTA allows the exchange of sought after high quality products and services on an equal footing with third-country competitors and domestic producers in each other's markets. This benefits producers and consumers in both markets allowing for greater choice, the expansion of networks and deepening of partnerships.
- 3.15 New Zealand lost access to a large part of the UK market through EU border barriers so if an FTA were to proceed and these barriers are removed there is huge scope to restore New Zealand exports in these areas on a level playing field.
- 3.16 Fonterra already has significant investments in the EU as do European companies in New Zealand as part of the growing value chains trend. An FTA will support this trend allowing for further strengthening of partnerships and providing greater scope for investments both ways and increased participation in the value chains within and between regions.
- 3.17 European imports are important to New Zealand and further opportunities are also created for European ingredients to be manufactured into products in New Zealand and provide links into other markets around the Asia-Pacific region such as China, through New Zealand's existing FTAs.

3.18 A NZ–EU FTA provides a great opportunity to bring our trade relationship into the twenty first century. With many of the current rules governing trade between the parties from the WTO Uruguay Round nearly 30 years ago it leaves New Zealand as one of only six WTO countries without preferential market access to Europe. Many of New Zealand’s competitors already have FTA’s with the EU while New Zealand continues to face tariff and non-tariff barriers, exacerbating New Zealand’s comparative disadvantage. Given our long shared history and common values and objectives and the many opportunities available for both parties, proceeding as soon as possible to the negotiating table would be warmly welcomed.

Other areas

3.19 Geographic Indications are an area of interest where we have concerns about the typical position the EU may try to take. A restrictive agreement relating to Geographic Indications would have a negative impact in New Zealand, particularly for the dairy sector. Any outcome would have to be carefully considered in the context of the other outcomes.

3.20 While outside the scope of negotiations we remain wary of the domestic policies in the EU and the impact this has on creating an uneven playing field, production levels and setting unrealistic consumer expectations which have a flow on effect to farmers in New Zealand. We would also have concerns if some of the EU environmental regulations were to be imposed on New Zealand through harmonization.

3.21 Private standards and the conditions they are imposing on New Zealand farmers is another area that is outside the scope of negotiations but of concern as they can become an impediment to trade. Any discussions that can help reduce the restrictions imposed by these and other domestic policies would be welcomed.

3.22 Federated Farmers is suspicious of the French concept of cultural exceptions. French Cultural Exceptions have been pursued in the past and we would be concerned that they may use the opportunity of this FTA to apply similarly protectionist measures against New Zealand agricultural products creating a range of additional non-tariff barriers.

Risks of not proceeding

3.23 If the NZ-EU FTA was not to proceed to negotiation New Zealand’s comparative disadvantage relative to our competitors with FTA would continue to increase. New Zealand would continue to face tariffs and barriers at the border or behind it which add cost, distort trading patterns, generate uncertainty and in some instances make trade uneconomic.

3.24 Not proceeding would be a lost opportunity to deepen this long trading relationship for the benefit of both parties and their producers and consumers. It may also further

restrict trade with the EU and stifle the development of mutually beneficial partnerships.

4. CONCLUSION

- 4.1 Trade agreements are good for business and a high quality, comprehensive FTA with the EU is in the interests of New Zealand farmers and agriculture industry and would also be beneficial to the EU.
- 4.2 The FTA at a minimum provides the opportunity to level the playing field for New Zealand exporters in the EU market. Federated Farmers would like to see a comprehensive agreement which includes all agricultural products, that protects and builds on our current WTO access and administrative arrangements and delivers tangible new market access opportunities for all sectors and eliminates tariffs. Co-operation in education, science and technology would be welcome along with transparent and simple rules including Rules of Origin and Customs procedures to minimise compliance costs.
- 4.3 We appreciate the opportunity to provide input into this process and look forward to further engagement as the negotiation progresses.

5. FEDERATED FARMERS OF NEW ZEALAND

- 5.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses throughout New Zealand. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers
- 5.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
 - Our members may operate their business in a fair and flexible commercial environment;
 - Our members' families and their staff have access to services essential to the needs of the rural community; and
 - Our members adopt responsible management and environmental practices.

Submission Ends