

## **Pacific Alliance Free Trade Agreement: Update**

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### **Proposal**

- 1 This paper updates Ministers on next steps in the Pacific Alliance Free Trade Agreement (FTA) process and seeks confirmation of New Zealand's market access objectives for negotiations. It also proposes that delegated authority be established to take any urgent decisions required before January 2018.

### **Executive Summary**

- 2 On 30 June the Presidents of Chile, Colombia, Mexico, and Peru (the Pacific Alliance) announced the launch of FTA negotiations with New Zealand, stating they wanted a high quality, comprehensive agreement concluded within 12 months. At the same time, negotiations were launched with Australia, Canada, and Singapore.
- 3 While the Pacific Alliance's intention is to conclude separate FTAs with each country, it is proposing that at least some outcomes would be negotiated jointly by all eight Parties (the agreement text or 'rules'). s6(a), s9(2)(j)
- 4 A key focus of negotiators will be to seek market access gains for New Zealand exporters, s9(2)(j)
- 5 The first meeting of Chief Negotiators will be held in Peru on 5 September to agree s6(a) confirm forward process. A first round is expected to be held before the end of the year. The mandate approved by Cabinet in June is expected to be sufficient to guide New Zealand's approach for these meetings.
- 6 In light of the ambitious goal to conclude negotiations in 2018, however, it is possible that urgent decisions may be required in the coming months on New Zealand's approach in negotiations. The most likely issues that would require consideration are the parameters of initial New Zealand market access offers on tariffs, services, investment, and government procurement. As such, this paper proposes that delegated Ministers be authorised to take any such decisions that are required by January 2018.
- 7 It is expected Cabinet will be asked to consider a further mandate paper in early 2018 once the parameters of the negotiation, s6(a), s9(2)(j)

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s9(2)(j)

become clearer.

Proactive Release  
Ministry of Foreign Affairs and Trade

## Background

- 8 The Pacific Alliance is a regional integration initiative established in 2011 by Chile, Colombia, Mexico, and Peru. The grouping has already established its own high-quality trade agreement and is looking to engage with other countries in the Asia-Pacific region. New Zealand has been an active voice in looking to shape and encourage this approach, and has been exploring options for deepening economic ties with the Pacific Alliance since 2014.
- 9 In March this year, the Pacific Alliance created a category of "Associate Membership". Following that announcement, the Minister of Trade wrote to the Alliance membership formally expressing New Zealand's interest in launching FTA negotiations and becoming an Associate Member - an advancement on the 'observer' status New Zealand had held since 2012. In early June, the Pacific Alliance agreed a set of guidelines for countries interested in becoming Associate Members, which included successfully concluding an FTA as a necessary first step. This paved the way for a decision to be taken to launch trade negotiations at the Pacific Alliance Leaders' Summit in Cali, Colombia on 29-30 June, where New Zealand was represented by the Minister of Foreign Affairs and the Minister of Trade.
- 10 In anticipation of this, on 26 June Cabinet approved the formal launch of negotiations with Pacific Alliance members and the parameters of a high-level mandate for the initial negotiating rounds (EGI-17-MIN-0140). That paper outlined the strategic and commercial value of securing an FTA with the Pacific Alliance, including advancing the objectives of *Trade Agenda 2030*; joining a high quality regional integration initiative with the potential to act as a bridge between Latin America and Asia; deepening New Zealand's relationships with the Alliance members; and eliminating an estimated \$70 million in tariffs on current New Zealand exports to the region (presently \$722 million in goods and services, [s9\(2\)\(j\)](#))
- 11 While current trade flows are modest, trends are positive. Internally, Pacific Alliance countries have experienced generally consistent GDP growth since 2005. In purchasing power parity terms, over the last two years alone Chile's GDP has expanded by 6.3%, Colombia and Mexico each by around 7.5%, and Peru almost 10%. The International Monetary Fund (IMF) expects annual growth to 2021 in the Pacific Alliance to vary from 4.5% in Mexico to 5.9% in Peru.<sup>2</sup> These factors, along with population growth, lend themselves to increased demand and consumption for goods and services, particularly for meat and dairy products.<sup>3</sup>

## Comment

### Negotiations successfully launched

- 12 On 30 June, at the Pacific Alliance Summit, the Presidents of Chile, Colombia, Mexico, and Peru announced the launch of FTA negotiations with New Zealand. At the same time, they confirmed that Australia, Canada, and Singapore also met the criteria for Associate Membership and had been invited to begin trade negotiations.
- 13 In launching negotiations, Alliance Leaders signalled they wanted a high quality,

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<sup>2</sup> IMF World Economic Outlook April 2017.

<sup>3</sup> OECD FAO Agriculture Outlook country consumption data.

comprehensive agreement concluded within 12 months. s6(a)

At the Summit, Chile's Foreign Minister noted that completing a comprehensive, high quality agreement in a short timeframe would be a demonstration against those who favour protectionism. s6(a)

- 14 s6(a) there are several challenges to concluding negotiations in 2018. These include the need to ensure a fast negotiation does not undermine our core substantive interests in the negotiation s6(a), s9(2)(j)

- 15 A first meeting of Pacific Alliance, New Zealand, Australia, Canada, and Singapore Chief Negotiators will be held in Peru on 5 September. The aim of the meeting is to s6(a) confirm forward process. No decisions have been made on the timing of the first round, but we expect it to be held before the end of the year.

s6(a)

- s6(a)

Services and investment will be negotiated on the basis of New Zealand's preferred 'negative list' approach.

- The **issues to be negotiated**: at least 24 chapters covering: goods market access; trade remedies; rules of origin; customs procedures and trade facilitation; sanitary and phytosanitary (SPS) measures; technical barriers to trade; cross-border services; financial services; maritime transport; telecommunications; temporary entry for business people; investment; electronic commerce; government procurement; intellectual property; competition policy; state-owned enterprises; regulatory improvement/coherence; transparency; small and medium-sized enterprises; cooperation; labour; environment; trade and gender; and legal provisions. Paragraphs 20 and 22 provide further comment on these issues and New Zealand's existing mandate for Pacific Alliance negotiations.
- **Negotiating process and structure**: s6(a) the

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s6(a)

intention to involve all eight countries in the negotiating process (the Pacific Alliance members, New Zealand, Australia, Canada, and Singapore). s6(a)

- **Confidentiality:** consistent with each country's laws, negotiating texts are to be kept confidential.

s6(a), s9(2)(j)

#### New Zealand's negotiating mandate and objectives

- 20 The mandate approved by Cabinet in June is expected to provide sufficient scope to guide New Zealand's approach at the September Chief Negotiators' meeting and initial negotiating rounds. That paper confirmed New Zealand would seek a comprehensive, high quality agreement that meets New Zealand's key trade interests in goods, services and investment, s9(2)(j)

s9(2)(j)

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<sup>5</sup> This is an uncommon process but is still intended to result in four separate agreements (between the Pacific Alliance and each prospective Associate Member – New Zealand, Australia, Canada and Singapore), not one plurilateral agreement.

s6(a), s9(2)(j)

Delegated authority for Ministers to make decisions before the end of the year

- 23 In light of the goal of concluding negotiations in 2018, it is possible that urgent decisions may be required in the coming months on New Zealand's approach in negotiations. The most likely issues that would require decisions are the parameters of initial New Zealand market access offers on tariffs, services, investment, and government procurement.
- 24 In light of the timing of the New Zealand General Election, along with anticipated international travel commitments at the end of the year for the APEC and East Asia Summit meetings, the Regional Comprehensive Economic Partnership FTA negotiations, and World Trade Organization ministerial meeting, it is proposed that Cabinet authorise the following Ministers to take decisions as required before January 2018 on New Zealand's approach in negotiations: the Prime Minister, Minister of Finance, Minister of Trade, Minister for Economic Development, and any relevant portfolio Minister(s).
- 25 It is expected Cabinet will be asked to consider a further mandate paper in early 2018 once the parameters of the negotiation, s6(a), s9(2)(j) become clearer.

**Consultation**

- 26 The following departments have been consulted in the preparation of this paper and concur with its recommendations: Ministry for the Environment; Ministry for Primary Industries; Ministry of Business, Innovation and Employment; New Zealand Customs Service; Te Puni Kōkiri; and The Treasury.
- 27 The Department of Prime Minister and Cabinet have also been notified of the preparation of this paper.

## *Public engagement*

- 28 In light of *Trade Agenda 2030*'s renewed focus on public engagement, the Ministry of Foreign Affairs and Trade (MFAT) will be developing an extensive plan for engaging New Zealanders on the Pacific Alliance process, including to ensure New Zealand's positions in the negotiation reflect feedback from business on barriers that are impacting trade and investment in the region. This will begin with a press release that will be issued later this month inviting public submissions. MFAT is working with the New Zealand Customs Service and New Zealand Trade and Enterprise to ensure businesses currently active in Pacific Alliance markets are alerted to this process and encouraged to provide feedback. Outreach on the Pacific Alliance FTA will also sit in the broader context of MFAT's work to strengthen coherence and efficiency in engaging Māori, business, and other interested groups and New Zealanders.

## **Financial Implications**

- 29 While this paper does not have any direct financial implications, there are costs involved with negotiating and implementing a final agreement.

## *Negotiation*

- 30 The cost of commencing negotiations, including public consultation, advocacy, and attending and hosting negotiating rounds, will be funded through existing baselines. MFAT received funding through Budget 2017 to progress FTA negotiations and implementation, and agencies also have access to the inter-agency Trade Negotiations Fund for the negotiation, implementation, and promotion of trade agreements.
- 31 MFAT is also conscious that New Zealand needs to manage an active trade policy agenda in what is a currently fluid and uncertain global environment. As one of a number of trade matters brought before Ministers in recent weeks, the Pacific Alliance FTA negotiations will sit alongside several other ongoing negotiations that will need to be resourced and progressed in the coming months and into 2018. In light of these demands and the increased funding for trade policy in Budget 2017, the various negotiation work-streams remain under continual review by MFAT in order to ensure appropriate allocation and management of resources. [s9\(2\)\(j\)](#)

## *Implementation*

- 32 There will be financial implications associated with implementing the final agreement. Costs will include:
- A reduction in New Zealand's existing tariff levels from the FTA. This would result in a reduction to Crown revenue. Current tariff revenue on imports from Pacific Alliance countries is around \$21 million each year.
  - Any cooperation programmes agreed as part of, or alongside, any FTA.
- 33 Agencies will endeavour to manage the costs associated with implementation and any agreed cooperation programmes through existing baselines. However, because these

potential costs are currently uncertain, Ministers will be kept informed of developments in negotiations that may result in fiscal implications. Ministers will then have the opportunity to consider any residual funding requirements that cannot be met through agency or cross-sector reprioritisation as part of the annual Budget process.

## **Human Rights**

- 34 There are no inconsistencies with the Human Rights Act 1993 and New Zealand Bill of Rights Act 1990.

## **Legislative Implications**

- 35 There are no legislative implications directly resulting from this paper. Legislative amendments would be required to enable any completed FTA with the Pacific Alliance to enter into force.

## **Regulatory Impact Analysis**

- 36 Not required at this stage. Should an FTA be successfully concluded, an extended National Interest Analysis (incorporating a Regulatory Impact Analysis) will be presented to Cabinet.

## **Gender Implications**

- 37 A gender implications statement is not required.

## **Disability Perspective**

- 38 A disability perspective statement is not required.

## **Publicity**

- 39 The Minister of Trade issued a press release on 1 July announcing the launch of negotiations. A press release will be issued later this month inviting public submissions on the process.

## **Recommendations**

- 40 The Minister of Trade recommends that the Committee:
1. Note that on 30 June the Presidents of Chile, Colombia, Mexico, and Peru announced the launch of free trade agreement (FTA) negotiations between the Pacific Alliance and New Zealand, stating they wanted a high quality, comprehensive agreement concluded within 12 months;
  2. Note that the Pacific Alliance has at the same time also launched negotiations with Australia, Canada, and Singapore;
  3. Note while the Pacific Alliance's intention is to conclude separate FTAs with all four countries, it is proposing that at least some outcomes would be negotiated jointly (the agreement text or 'rules');
  4. Note that a first meeting of Pacific Alliance, New Zealand, Australia, Canada, and Singapore Chief Negotiators will be held on 5 September s6(a) to confirm forward process;



5. Note that the mandate approved by Cabinet in June (EGI-17-MIN-0140) is expected, at this stage, to provide sufficient scope to guide New Zealand's approach at the September Chief Negotiators' meeting and initial negotiating rounds;

s9(2)(j)

7. Authorise the Prime Minister, Minister of Finance, Minister of Trade, Minister of Economic Development, and any relevant portfolio Minister(s) to take decisions on New Zealand's approach to negotiations as required before January 2018; and
8. Note that the costs of negotiating the FTA will be met from departmental baselines, and that Ministers will have the opportunity to consider at a later date any additional costs that may arise from the content of any agreement.

Hon Todd McClay  
Minister of Trade