Submission

By

BusinessNZ

To

Ministry of Foreign Affairs and Trade

On the

Proposal for a Chile, New Zealand, and Singapore "Pacific Three" Closer Economic Partnership

20 January 2003

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PROPOSAL FOR A CHILE, NEW ZEALAND AND SINGAPORE "PACIFIC THREE" CLOSER ECONOMIC PARTNERSHIP

SUBMISSION BY BUSINESS NEW ZEALAND

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1. Introduction

1.1 Encompassing five regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, Canterbury Manufacturers' Association, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 49-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

1.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

1.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services).

1.4 It is widely acknowledged that consistent, sustainable growth well in excess of 4% per year would be required to achieve this goal in the medium term.

1.5 International trade is critical for economic growth, particularly for small countries with small domestic markets, such as New Zealand. However, many countries impose significant tariff and non-tariff barriers to trade, which harm the competitiveness of New Zealand exporters. Trade liberalisation is therefore very important for gaining improved access and higher returns for New Zealand goods and services in overseas markets, and so increasing New Zealand's rate of sustainable economic growth.

1.6 Business New Zealand welcomes the opportunity to comment on the proposal for a Chile, New Zealand, and Singapore 'Pacific Three' (or P3) Closer Economic Partnership (CEP). Overall, we are in favour of P3 CEP talks proceeding, and while the immediate economic benefits may not be large, we see particular value in the initiative from a longer-term strategic perspective. However, a critical qualifier to our support is that robust rules of origin must be in place.

1.8 Following a summary of recommendations, the remainder of this submission comments on the key issues raised in the Ministry of Foreign Affairs and Trade's discussion paper.

2. Summary of Recommendations

2.1 Business New Zealand recommends that:

(a) Talks for a P3 CEP agreement including Chile, New Zealand and Singapore should proceed;

(b) The existing New Zealand-Singapore CEP agreement should be used as the basis for a P3 agreement;

(c) The emphasis in P3 talks should be on complementarity and cooperation rather than competition in third-country markets;

(d) Robust and enforceable rules of origin **must** be included in any P3 agreement;

(e) A P3 agreement should be comprehensive, and that efforts should be focused on ensuring that any sensitive areas are satisfactorily addressed over time without resorting to exclusions;

(f) A chapter on technical barriers to trade/sanitary and phytosanitary/standards and conformance should be included in a P3 agreement and that it should be modeled on the existing chapter in the New Zealand-Singapore CEP agreement;

(g) A P3 agreement should comprehensively cover trade in services;

(h) A P3 agreement should seek to encourage and promote greater investment flows;

(i) Labour and environmental standards should **not** be covered in a P3 agreement; and

(j) A P3 agreement should **not** include a provision on the Treaty of Waitangi.

3. Why have a CEP with Chile?

3.1 Chile is one of New Zealand's closest bilateral partners in Latin America and both countries have very open economies. We agree that although Chile is a relatively small country, a CEP involving Chile could assist in providing New Zealand with an important strategic link to the Latin America region and beyond – particularly with Chile negotiating a free trade agreement with the United States.

3.2 Chile is, by Latin American and world standards, a relatively small economy, but its population is nevertheless around four times that of New Zealand and its GDP is 40% larger. And although Chile's GDP per capita adjusted for purchasing power parity is less than 70% of New Zealand's, a significant proportion of its population would have similar or higher living standards than the average New Zealander. Most importantly though, Chile's economic performance has been resilient and robust at a time when other Latin American economies have been in turmoil.

3.3 Much of Chile's economic success can be put down to sound economic fundamentals, resulting from market-based economic reforms implemented during the 1980s and 1990s. These reforms have provided it with stability, good governance, and credible institutions, while Chile's embrace of open markets has strengthened its economy. These factors all make Chile a good place for New Zealanders to conduct business in and it is a market that should have some potential for New Zealand exporters.

3.4 However, bilateral trade remains very small between the two countries (less than 0.2% of New Zealand merchandise exports and less than 0.1% of New Zealand merchandise imports). With Chile's tariffs already being at low levels (and automatically reducing every year), the immediate economic benefits of a CEP involving Chile are not likely to be large. As a result, some consider that negotiating a P3 agreement should be a low priority compared to progress on multilateral trade liberalisation and securing free trade agreements with more significant bilateral partners, most notably the United States.

3.5 We agree that progress in WTO negotiations and securing a free trade agreement with the United States must remain the highest priorities for New Zealand. However, Business New Zealand considers that a CEP involving Chile would have important signaling effects for other countries, including the United States, which has recently concluded a free trade agreement with Chile[1] and is currently exploring a free trade agreement with Singapore. From a strategic perspective, a P3 agreement should therefore help New Zealand's case for a free trade agreement with the United States and other significant trading partners, such as Korea (with which Chile also has a free trade agreement). It should also assist in promoting trade liberalisation in multilateral fora, such as the WTO and APEC.

3.6 Business New Zealand also agrees that a P3 agreement should assist in raising New Zealand's presence and profile in Chile and thereby encourage trade, investment, tourism, and other economic links. There are also excellent opportunities to sell New Zealand technology and expertise in agriculture, the marine industry, horticulture, and other areas where we have an innovative edge. A P3 agreement involving Chile should also help boost New Zealand's profile with other Latin American countries, notably Argentina and Brazil, and open doors in those countries for New Zealand expertise in forestry, meet, and dairy production and processing technology.

3.7 *Recommendation: Business New Zealand recommends that talks for a P3 CEP agreement including Chile, New Zealand and Singapore should proceed.*

[1] According to *The Economist* (4 January 2003) a US-Chile Free Trade Agreement was concluded on 11 December 2002.

4. Negotiating with Singapore

4.1 New Zealand already has a CEP agreement with Singapore and we understand that it has attracted considerable interest among other countries looking to negotiate similar agreements. Business New Zealand also agrees that a P3 should have considerable strategic benefit for all three countries. From a New Zealand perspective it should boost our free trade credentials in the wider Asia-Pacific region and make us a more attractive CEP partner. Any P3 agreement should be comprehensive and forward-looking and it should seek to promote trade liberalisation within the region. In this context, the New Zealand-Singapore CEP agreement appears to be a good template to use as a basis for negotiations with Chile (and ultimately other countries).

4.2 *Recommendation: Business New Zealand recommends that the existing New Zealand-Singapore CEP agreement should be used as the basis for a P3 agreement.*

5. New Zealand and Chile as Global Traders

5.1 Chapter Three of the MFAT Discussion Paper provides information on New Zealand and Chilean export products and markets. Unlike New Zealand, Chile is not a significant exporter of agricultural products such as meat, dairy products, wool, or hides, skins and leather. Nor does it export much in the way of machinery or textiles, clothing and footwear. There is therefore very little competition between New Zealand and Chile in these important commodity groups for New Zealand.

5.2 Chile is one of the world’s largest copper producers and exports of forest & wood products, fruit & vegetables, fish & seafood, and wine are also significant. With the obvious exception of copper, New Zealand is an exporter of all these broad commodity groups, so there has probably been a degree of competition in some markets over the years.

5.3 Chile’s export markets seem to be quite well diversified and evenly balanced between Europe, Asia, Latin America and North America. The United States, Japan, the United Kingdom, and China are Chile’s largest export markets (not dissimilar to the New Zealand’s major export markets if Australia is excluded).

5.4 Of those countries New Zealand would be interested in pursuing a CEP with, there are likely to be very few, if any, where there would be no issues around competition in third markets. Overall, with respect to Chile there appear to be relatively few areas of sensitivity in merchandise trade and there is clearly much complementarity between our two countries. Business New Zealand agrees that a CEP could help foster a greater sense of partnership and encourage more collaboration and joint ventures in third-markets. We note that New Zealand is already a significant investor in Chilean forestry and in Chile’s dairy processing and retail industry with Soprole.

5.5 *Recommendation: Business New Zealand recommends that the emphasis in P3 talks should be on complementarity and cooperation rather than competition in third-country markets.*

6. New Zealand's Sensitive Sectors

6.1 New Zealand only retains significant tariff protection on textiles, clothing, and footwear, and as noted above Chile is not a significant exporter of these products. As a 'less-developed country' Chile already enjoys a tariff preference on many products, typically 80% of the normal tariff rate. In 2001, 68% of Chilean exports into New Zealand (worth $25.3 million) paid no duty at all, and the average duty was 2.4%. Most of the duty paid on Chilean exports was for wine (much of which would have been the excise duty on alcohol products, which would presumably be maintained even under a CEP).

6.2 It is Business New Zealand's strong submission that any agreement including Chile must include robust rules of origin that will ensure that only goods of New Zealand, Chilean, and Singaporean origin benefit from tariff preferences under a P3 agreement. While Chile is not a significant exporter of textiles, clothing and footwear, it has tariff concessions granted through bilateral trade accords with a number of its near neighbours (e.g., Bolivia, Colombia, Mexico, Peru, and Venezuela) and its association agreement with Mercosur. Some or all of these countries may be more significant low-cost producers of products sensitive to New Zealand interests.

6.3 Another key issue would be the percentage of local content required for products to comply with rules-of-origin requirements and the type of costs that may be included in calculations. For example, CER/CEP agreements with Australia and Singapore have 50% and 40% local content requirements respectively. There are also some differences in definitions of the costs that can be included in these calculations (for example, marketing expenses and profits are often explicitly excluded).

6.4 A robust rules-of-origin enforcement regime will also be required with severe penalties for those attempting to abuse the tariff preferences, and it will also be very important that rules or origin can be effectively enforced through customs procedures at the Chilean border.

6.5 *Recommendation: Business New Zealand recommends that robust and enforceable rules of origin* ***must*** *be included in any P3 agreement.*

7. Chile's Sensitive Sectors

7.1 New Zealand has been actively pursuing free trade with Chile since the mid-1990s, but the main sticking point in the past has been dairy. Although Chile is only a very small exporter of diary products, its influential domestic dairy industry was fearful of competition from New Zealand dairy products and was intractable in its opposition to a free trade agreement with New Zealand. This was perhaps not helped at the time by what some believe was a clumsy and heavy-handed approach by the New Zealand dairy industry.

7.2 However, we understand that over recent times a more cooperative approach by New Zealand dairy interests has assisted in reducing the Chilean dairy industry's opposition to free trade with New Zealand. There are undoubtedly opportunities for Fonterra and the wider AgriTech industry to develop joint venture opportunities and assist the Chilean dairy industry become more export focused.

7.3 New Zealand should seek the inclusion of all products in a CEP with Chile. Ministerial and diplomatic efforts should be focused on ensuring that any sensitive areas, such as dairy, are satisfactorily addressed without resorting to exclusions.

7.4 *Recommendation: Business New Zealand recommends that a P3 agreement should be comprehensive, and that efforts should be focused on ensuring that any sensitive areas are satisfactorily addressed over time without resorting to exclusions.*

8. Non-Tariff Barriers

8.1 Business New Zealand strongly supports efforts to reduce non-tariff barriers. Non-tariff barriers impose significant compliance costs on our exporters and can be more of an impediment to free and fair trade than tariffs (which are at least relatively transparent). New Zealand should therefore actively pursue means to reduce and eliminate such barriers to doing business, both multilaterally (for example through the WTO, OECD and APEC) and bilaterally.

8.2 Although we are not aware of New Zealand exporters facing significant non-tariff barriers in Chile, Business New Zealand agrees that a CEP agreement that seeks to address or eliminate non-tariff barriers would be beneficial to New Zealand businesses. A chapter on technical barriers to trade/sanitary and phytosanitary/standards and conformance should be modeled on the existing chapter in the New Zealand-Singapore CEP agreement.

8.3 Recent events such as the foot and mouth outbreak in the United Kingdom and our recent own scares over exotic insect pests have increased the awareness of how important it is to maintain a secure border. We would be wary about a CEP agreement that would compromise our ability to maintain in place a robust biosecurity regime.

8.4 *Recommendation: Business New Zealand recommends that a chapter on technical barriers to trade/sanitary and phytosanitary/standards and conformance should be included in a P3 agreement and that it should be modeled on the existing chapter in the New Zealand-Singapore CEP agreement.*

9. Services Trade

9.1 Business New Zealand recognises that services are a significant and growing component within our total export and import trade. However, despite the service sector's global and national importance, traditionally in many countries it has been a restricted sector with many institutional and regulatory barriers to access. Only in recent years, has attention turned to opening and deregulating services markets.

9.2 However, some countries continue to take a conservative position on services and even Chile, which is otherwise a very open economy, is less open than New Zealand on services. There is significant potential for New Zealand businesses in the transport, tourism, professional, consultancy and education service sectors to do business in Chile. A comprehensive CEP agreement that covers trade in services would go some way to level the services playing field between the two countries and provide equal opportunities to each side's businesses, to the long-run benefit of both economies.

9.3 *Recommendation: Business New Zealand recommends that a P3 agreement should comprehensively cover trade in services.*

10. Investment

10.1 Business New Zealand recognises the importance of attracting investment, including foreign direct investment (FDI), to economic growth. Although Chile appears to have a relatively open foreign investment regime (with some exceptions) and the two countries already have a bilateral Investment Protection and Promotion Agreement, we agree that there is more scope to encourage further two-way investment and that a P3 agreement would assist in this regard.

10.2 *Recommendation: Business New Zealand recommends that a P3 agreement should seek to encourage and promote greater investment flows.*

11. Labour and Environmental Standards

11.1 Business New Zealand recognises that the Government places a high importance on labour and environmental standards, but we would be concerned if such considerations became the overriding factor in whether to negotiate a CEP with any economy.

11.2 Not withstanding the fact that free trade has been proven to be beneficial to developing countries in raising living standards, opponents of free trade have used labour and environmental standards as a smokescreen to mask their inherent protectionism. While on one hand complaining about gap between rich and poor, the anti-globalisation lobby has sought to keep developing countries impoverished by effectively seeking to restrict their ability to trade and grow their economies by insisting on adherence to strict labour and environmental standards.

11.3 With respect to Chile, we do not believe that New Zealand should be concerned about labour and environmental standards being applied in that country. Chile has ratified the 8 core ILO conventions and is a party to many of the key global environmental agreements (including the Kyoto Protocol, although it is not an Annex 1 country). Chile already has agreements on labour and environmental co-operation linked to the Canada-Chile Free Trade Agreement and such issues are likely to be included in the Chile-US Free Trade Agreement.

11.4 Although the inclusion of labour and environmental standards are unlikely to be sticking points for Chile, it is very important to be aware that the New Zealand-Singapore CEP does not cover labour and environmental issues. Singapore may have serious concerns about incorporating such standards into the existing CEP. Our good bilateral relationship with Singapore must not be compromised by an ideological desire on New Zealand's part to include labour and environmental issues in a trade agreement.

11.5 *Recommendation: Business New Zealand recommends that labour and environmental standards should **not** be covered in a P3 agreement.*

12. Treaty of Waitangi

12.1 The New Zealand-Singapore CEP has a provision on the Treaty of Waitangi, and MFAT says that New Zealand will look to include it also in a P3 agreement.

12.2 Business New Zealand is opposed to the inclusion of a Treaty of Waitangi clause being written into a CEP agreement with Chile. We would not support any measures that would allow the Government to give any special interest group preferential treatment. This could be construed to be protectionism by another name – how would New Zealand feel about agreeing to a trade agreement with France that would let the French accord favourable treatment to their farmers on 'cultural grounds'? Business New Zealand would be concerned if a clause were to be viewed by Chile with suspicion and if it increased the risk of our negotiators having to make important concessions in other areas.

12.3 Also, the discussion paper does not elaborate on what sort of 'favourable treatment' to Maori might be considered. If such measures were to take the form of non-tariff barriers or subsidies, then they could potentially add significant costs to the economy and/or result in the misallocation of resources.

12.4 *Recommendation: Business New Zealand recommends that a P3 agreement should **not** include a provision on the Treaty of Waitangi.*