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**BusinessNZ/ExportNZ
Submission to MFAT
Proposed New Zealand Russia Free Trade Agreement
December 2010**

Introduction

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. ExportNZ is a division of BusinessNZ and we have 7 executive officers servicing 7 regions around New Zealand (Auckland, Waikato, Bay of Plenty, Wellington, Hawkes Bay, Canterbury and Otago/Southland). Together with its 70-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.

Submission

Business New Zealand is strongly supportive of New Zealand entering into negotiations for a Free Trade Agreement (FTA) with the Russian Federation and its Customs Union partners of Belarus and Kazakhstan.

The Benefits of a FTA with Russia

Russia is a large and growing market with much potential for New Zealand. There are 142 million consumers with a significant - and growing - average income. Economic growth and income growth has been strong in recent years and this is expected to continue. An FTA with Russia would provide a good base for New Zealand business to take advantage of that growth.

New Zealand's relations with Kazakhstan and Belarus are obviously less significant than they are with Russia but, with an aggregate population of 26 million with a combined GDP of \$US195 million and growing fast, their potential for New Zealand should not be underestimated.

New Zealand has underperformed in Russia relative to its economic size. We would hope that the FTA would help Russia move up our export market list

closer to the 12th spot in theory it should be occupying. Right now it sits around #35.

Hopefully an FTA will also grow investment flows between both countries.

Russia agricultural and education sectors in particular stand to benefit from closer linkages with New Zealand and offer exciting opportunities for collaboration. We are particularly excited about the prospect of using Russia as production base for the supply of agricultural products into the rest of Europe.

We see only opportunity being created for New Zealand from this negotiation. We see no negatives for the New Zealand economy.

Substance of the Negotiation

We favour the negotiation of a high quality agreement covering goods, services, investment and other issues. On goods we oppose any exclusions and want to see tariffs phased down to zero as quickly as possible.

Should compulsory certificates of origin be required for this agreement Business New Zealand and its regional partners would be interested in issuing these. All profits made from issuing such certificates would be re-invested in promoting the agreement and in building links with Russian business.

Services

It is essential that the services sector be a priority in this negotiation. We would like the FTA with Russia etc to be a model services agreement with a negative list and with full liberalisation agreed across all four modes of supply.

Investment

It is also essential that a sound agreement on investment is achieved. Investing offshore rather than exporting from New Zealand is an increasingly common business model that New Zealand FTAs need to take account of. With regard to Russia specifically, this is an economy with an educated workforce and large amounts of natural resources but there are technological deficiencies in some areas which would benefit from New Zealand expertise and of which New Zealand investment could take advantage.

An FTA with sound investment provisions will offer New Zealand firms the opportunity to take advantage of Russia's strategic positioning right next to the EU.

Other Issues to be addressed

We are keen to see the agreement include a Most Favoured Nation (MFN) clause so that if any other country is subsequently granted preferential access to Russia, New Zealand will get the same access conditions. This is particularly important given this will be Russia's first FTA - perhaps something of a trail blazer - and it is likely to entering into many subsequent free trade agreements.

We oppose the inclusion of trade and labour provisions in trade agreements.

Conclusion

Good luck with this negotiation.

We would like to be kept fully informed about progress.

We are also very happy to be consulted as the negotiation progresses.

We repeat below some specific comment from members which might help you formulate your negotiating positions:

From a wine importer in Russia (working with Villa Maria):

Thank you very much for your concern about the problems and difficulties which we are facing while importing wines from New Zealand! We appreciate your will to help us to settle these questions and set up these matters as an agenda for discussion between our Governments within the framework of FTA New Zealand, Russia, Belarus, Kazakhstan.

Frankly speaking there is not a lot of serious problems or things that really stop the process of wine export/import to Russia! Of course there are some but they can be related just to our own domestic legislation. I will highlight just some of them which are supposed to be the sharpest one!

Point 1. The samples. As you may know from recent times it became forbidden to send the sample bottles to Russia via delivery services such as DHL, TNT or any. Unfortunately I'm not sure about the certain reasons for that but the only fact that I possess is that we cannot receive the samples of wines from any part of the world! And it really makes us some problems to wide and enlarge our portfolio wines because we cannot hold the tastings for Fort team. Probably the solution can be find during the talks between Prime Ministers. So we would like to pay your attention on this first please.

Point 2. Custom barriers. Everything is very simple here. The entrance (or custom clearance procedure) fees are rather high. But I should say it is not only in case of New Zealand wines but all other countries wines as well. It is just our internal problem. For sure if we can cut the charges as for the custom clearance fees it would be perfect for both parties. This can play an outstanding role for price formation and gaining the "sunny" place on the Russian market because of the best deal for customers and clients. But it's just my personal thoughts.

Point 3. Registration and certification. These are two processes that cannot be reduced or eliminated as it is a rule and a law. But one short remark – it can't be switched off but it can be substituted for a simpler system. What we have now is a very long, hard and annoying procedure to get wines registered and certified. Actually i'm not sure that this can be changed. We were told that once we have registered wines we will not have to do the same procedure ever again. But you can easily imagine what we can face in the nearest future just having in mind the problem with back label rules that are changing almost every month!

Point 4. I think that this point should be the last but not the least! I would like to put a stress on some marketing and promo maintenance from the governments to support and develop the brand on the market. I'm not talking about the A&P budget which is provided by Villa Maria. But if the parties could come to an agreement to supply the Company as an exclusive Importer and Distributor here in Russia with any kind of help (such as funds investments, marketing support like a wide advertisement etc.) it would be great! I think this is also very important and can really affect the brand development and strengthening!

Drawing a conclusion I would say that we are also interested in breaking any barriers between the countries to provide good and fast-growing sales that would improve Villa Maria brand and an image of New Zealand wines at whole here in Russia! We do hope we can wait for the positive and fruitful results!

Thank you for your time and consideration

More general:

Having had some exposure to the Russian market over the past 7 or 8 years, here are my views.

Russia is a petrodollar powered economy, and this is not going to change anytime in the foreseeable future. It is not a strong agricultural producer, considering its massive size, although the previous USSR was through the capabilities of Ukraine, Moldova etc.

As a result, they are quite relaxed about importing food and agricultural products from whoever will give them reasonable value for money.

There is a useful top end market of wealthy to very affluent people, and they will buy products because they are expensive, just to show off their wealth. It is not uncommon to hear the conversations about how much one paid for say a jacket, with the second party countering that with their own, made of more expensive fabric. N Z can help these people in a number of ways! We are good at producing expensive products in all sorts of areas.

Made in NZ certainly has a good reputation, built very largely by NZ Dairy Board and Fonterra's marketing in earlier days. Sadly this has since totally vanished, but the recollection by the population remains strong.

There is strong growth in wine consumption, and a decline in vodka drinking, which works in NZ favour. But like China, there is a lot of work to do in educating the wine buyer to appreciate the benefits of our higher priced options. However, unlike China, who has a large investment in new vineyards, Russia will always be a major importer rather than exporter of wine.

To help make the FTA seem to offer more than just political attraction to the Russian side, NZ does need to explore more closely what options there are in import terms from Russia. I asked that question of the Russian Ambassador, and he was not able to indicate product categories that they could see potential to export to us, apart from oil. We do buy some steel and copper cables from there I understand, and a tiny amount of ethnic foods, juices etc.

It remains a difficult market to trade in, and exporters will need added education to help prevent more of the same historical issues of which everyone is only too well aware. Terms of payment especially, must be confirmed L.C. or prepayment. Any other variation is simply an invitation for disaster.

Having said that, I know that one can build up an excellent rapport with buyers in Russia, loyalty can be created, and there are good business opportunities to be had. The FTA will be another good step forward to developing yet another useful market for NZ Exporters.

Contact person for further enquiries/engagement

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