

TOWARDS A NEW ZEALAND-EUROPEAN UNION FTA: AN UPDATE

Purpose

1. The purpose of this report is to update the New Zealand International Business Forum (NZIBF) discussion paper entitled [*“Towards a New Zealand-European Union FTA: A business perspective”*](#) released in 2015¹. The NZIBF paper set out the rationale and potential significant mutual benefits of a future Free Trade Agreement (FTA) between the European Union (EU) and New Zealand. Since 2015 there has been an increase in two-way trade, further indicating the potential for growth in this already important bilateral relationship. The first round of NZ/EU FTA negotiations was held in Brussels in June 2018 and the second round will be held in New Zealand in October 2018. This report recalls the principal arguments in favour of an FTA and updates the statistics in the earlier NZIBF paper. Appendix 1 contains an update on the NZ/EU economic relationship.

Background

2. For some time now New Zealand has been interested in establishing an FTA with the EU alongside the suite of other FTAs negotiated with Asia Pacific economies. The EU boasts numerous FTAs with non-member countries including Canada, Chile, Japan, South Korea, Singapore and Vietnam, giving these economies a competitive advantage in the EU market. New Zealand remains one of only six WTO members which, until now, do not have an FTA either under negotiation or completed with the EU.²
3. In October 2015 New Zealand and the EU announced their intention to negotiate an FTA.³ A summary of NZ negotiating objectives may be found [here](#). In May 2018 EU Ministers [agreed a negotiating mandate for a free trade agreement with New Zealand](#). The EU Council’s negotiating mandate outlines a commitment to an extensive free trade agreement to allow *“progressive and reciprocal liberalisation of trade in goods, services and*

¹New Zealand International Business Forum (2015) Towards a New Zealand-European Union FTA: A Business Perspective, NZIBF

Retrieved from: <http://www.tradeworks.org.nz/towards-a-new-zealand-european-union-fta/>

² Hoadley, Stephen. ‘New Zealand Trade Negotiations’ Victoria University, Wellington: New Zealand Institute of International Affairs, 2017, p:245

³ <https://www.beehive.govt.nz/release/nz-takes-significant-step-towards-eu-fta>

foreign direct investment... (and) ensure the highest possible degree of trade liberalisation.”⁴

4. The [first round of negotiations](#) took place in Brussels 16-20 June 2018 and are reported to have been constructive. The first round confirmed both sides' intentions to reach a high-quality FTA, despite known differences in a few areas such as agriculture market access and geographical indications for agricultural products.

Business Perspective

5. In 2015 the NZIBF released its [discussion paper](#)⁵ addressing the mutual benefits of an NZ/EU FTA and the unlocking of future economic potential for both economies, regional supply chains and global value chains. The research within the discussion paper drew on in-depth trade analysis and interviews conducted with a representative range of New Zealand stakeholders, including Fonterra, Beef and Lamb New Zealand, Meat industry Association, Zespri, Business New Zealand and the New Zealand Chambers of Commerce.
6. In August 2018 NZIBF made a [submission](#)⁶ on behalf of its members to the New Zealand Government's consultation process for the FTA. The NZIBF submission outlines the key advantages of an FTA for both trading partners and presents a set of recommendations for to the Ministry of Foreign Affairs and Trade (MFAT) for future negotiating rounds.
7. The NZIBF is also currently preparing a discussion paper around the future of New Zealand-United Kingdom trade relations in the light of the UK decision to leave the EU.

Key Arguments for a future NZ/EU FTA

8. Current constraints in the form of trade barriers and other impediments between the EU and New Zealand limit the potential value of the relationship, not only in trade, but also for future integration, joint ventures and further collaboration in innovation and investment.

⁴ <http://data.consilium.europa.eu/doc/document/ST-7661-2018-ADD-1-DCL-1/en/pdf p2>

⁵ New Zealand International Business Forum (2015) Towards a New Zealand-European Union FTA: A Business Perspective, NZIBF

Retrieved from: <http://www.tradeworks.org.nz/towards-a-new-zealand-european-union-fta/>

⁶ New Zealand International Business Forum(2018) Submission to the Ministry of Foreign Affairs and trade European Union-New Zealand FTA Negotiations, NZIBF

Retrieved from: <http://www.tradeworks.org.nz/3212-2/>

9. To highlight the key benefits raised in the NZIBF 2015 paper, an NZ EU FTA can be expected to:
- raise the profile of each trading partner
 - reduce trading costs
 - secure greater market access for each trading partner; and
 - link both partners to regional value chains, particularly in the Asia Pacific.
10. Drawing from both the earlier NZIBF paper and a [report](#) prepared in July 2015 by the European Centre for International Political Economy (ECIPE)⁷, the principal benefits of a future NZ/EU FTA for both parties may be summarised as follows:

New Zealand⁸

- With 513 million consumers, the EU is a highly attractive market for New Zealand's high-end products⁹
- A future comprehensive NZ/EU FTA should eliminate tariffs, address non-tariff barriers and reduce the cost, and increase the speed, of doing business
- A future NZ/EU FTA should encourage greater investment into capital in the primary and secondary sectors, enabling greater efficiency and lowering production costs
- Greater New Zealand presence in the European market would raise New Zealand's profile in the region, allowing greater integration into regional value chains, attract foreign investment and enable greater investment into Europe
- A future NZ/EU FTA would *“allow New Zealand to absorb new technologies, generate intellectual property and other innovations.”*¹⁰ The EU is the most significant regional science and innovation partner of New

⁷ Lee-Makiyama, Hosuk (2015). New Zealand: The EU's Asia-Pacific Partnership and the Case for a Next Generation FTA, ECIPE Policy Brief, European Centre for International Political Economy, No7
Retrieved from: http://www.ecipe.org/app/uploads/2015/07/ECIPE_Policy-Brief_New-Zealand.pdf

⁸ Unless otherwise stated, all key arguments are drawn from the NZIBF 2015 Discussion Paper

⁹ <https://ec.europa.eu/eurostat/documents/2995521/9063738/3-10072018-BP-EN.pdf/ccdfc838-d909-4fd8-b3f9-db0d65ea457f>

¹⁰ New Zealand International Business Forum (2015) Towards a New Zealand-European Union FTA: A Business Perspective, NZIBF, p5
Retrieved from: <http://www.tradeworks.org.nz/towards-a-new-zealand-european-union-fta/>

Zealand with more than half of New Zealand's researchers having an active collaboration with a European partner¹¹.

EU

- A future NZ/EU FTA would enable European enterprises to build networks and connections and expand value chains into the Asia Pacific region: *“New Zealand is not only the chief institutor and architect of the TPP agreement, but also the only country part of TPP, RCEP, and to have FTAs in place with ASEAN, Korea, China, Hong Kong and Taiwan”*¹²
- A future NZ/EU FTA could reduce regulatory challenges EU exports may face in the New Zealand market, while ensuring trade advantages relative to EU competitors, including China and other Asian suppliers
- Although small, New Zealand has a developed economy and one of the highest growing markets in the OCED, offering a more prosperous market for EU exports than other small third-country economies, with which the EU has an FTA
- New Zealand provides high quality, counter-seasonal products ensuring the year-round supply of products for the European consumer. According to ECIPE, New Zealand products are complementary to EU domestic production: *“EU demonstrates extremely high export competitiveness and is by no means threatened by New Zealand imports”*¹³
- Incorporation of New Zealand companies into the European market will boost European employment. For example, *“Zespri...has invested in the EU to the extent that 11% of its overseas sales are produced in the EU”*¹⁴
- A future high-quality, third generation agreement would advance the EU trade agenda, set a benchmark for further EU negotiations in the Asia-Pacific and set a new standard for trade liberalisation globally¹⁵.

¹¹ https://ec.europa.eu/research/iscp/pdf/policy/roadmaps_nz-2016.pdf p1

¹² Lee-Makiyama, p:2

¹³ Lee-Makiyama, p:7

¹⁴ Lee-Makiyama p:7

¹⁵ New Zealand International Business Forum Submission to the Ministry of Foreign Affairs and Trade: Proposed New Zealand/European Union Free Trade Agreement, NZIBF
Retrieved from: <https://www.mfat.govt.nz/assets/FTAs-in-negotiations/EU-FTA/2.-NZ-International-Business-Forum.pdf>

What's next

11. The next round of FTA negotiations will take place in New Zealand 8-12 October 2018. To follow the process, please see the [MFAT Trade Negotiations web page](#), which provides background on the upcoming negotiation rounds, the timeline for EU NZ negotiations as well as all published information. The European Commission also reports on the progress in the negotiations at the [EU NZ Free Trade Agreements page](#).
12. For further information, please contact us at info@nzibf.co.nz.

NZIBF

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APPENDIX 1

EU NZ ECONOMIC RELATIONSHIP IN 2018

Bilateral New Zealand-EU trade, Year Ending March 2018¹⁶

	Exports to the EU (NZ\$ billion)			Imports from the EU (NZ\$ billion)			Two-way trade (NZ\$ billion)
	Value	Rank	% of total	Value	Rank	% of total	
Goods	\$5.217	3	9.5%	10.294	2	18.5%	\$15.511
Services	\$3.618	2	15.5%	3.078	2	16.7%	\$6.696
Total	\$8.835	3	11%	13.371	1	18%	\$22.206

The NZ/EU relationship is founded on shared values and decades of co-operation and growing integration. Even in the absence of an FTA the relationship has grown significantly over time in terms of trade, investment as well as cultural exchange and

¹⁶ Unless otherwise stated, all statistics are sourced from Statistics New Zealand, March 2018.

Retrieved from: <https://www.stats.govt.nz/information-releases/goods-and-services-trade-by-country-year-ended-march-2018>

people to people connectivity. As the NZIBF 2015 paper argues, the EU is significant to New Zealand and current NZ/EU FTA negotiations are building from a deep-rooted, continuously expanding relationship. The table above provides an overview of the economic relationship to the year ending March 2018, further outlined below:

- The EU is New Zealand's **third-largest trading partner**. The two-way trade relationship with the EU was worth NZ\$22.2 billion in March 2018 (a 23% increase since March 2014)
 - The EU is New Zealand's **third largest export destination** after China and Australia. Exports to the EU were valued at NZ\$8.8 billion, \$5.2 billion in goods and \$3.6 billion in services
 - The EU is currently New Zealand's **largest source of imports** valued at NZ\$13.4 billion. EU imports make up almost one fifth of New Zealand's total imports, approx. NZ\$10.3 billion in goods and NZ\$3.1 billion in services.

Trade in goods

- New Zealand's major exports to the EU are mostly primary products accounting for approximately 74% of total exports to the EU:
 - Meat (primarily sheepmeat) and edible offal are still New Zealand's largest export worth approximately NZ \$1.6 billion, accounting for 31.2% of total goods exports to the EU
 - This was followed by fruit (especially kiwifruit and apples) worth NZ\$654 million and wine worth \$574 million, accounting for approx. 23.5% of total goods exports to the EU. Also significant are fish and seafood products and medical equipment
- Goods imports from the EU accounted for NZ\$10.3 billion of total trade (77% of total imports from the EU)
 - New Zealand's top imports from the EU were high value commodities such as vehicles, parts and accessories worth NZ\$2.5 billion, mechanical machinery worth \$2.4 billion and pharmaceutical products worth \$628 million.

Trade in services

- Some 31% of NZ/EU trade is represented by trade in services:
 - The largest services exports to the EU included tourism (expenditure in New Zealand by tourists from the EU) at approximately NZ\$2.5 billion.

This was followed by transportation services at NZ\$433 million, and other business services at NZ \$238 million¹⁷

Education

- One of New Zealand's major services exports was international education worth NZ\$215 million, representing 6% of total services exports, a 24% increase in March 2018 from March 2015

Tourism¹⁸

	New Zealand to EU	EU to New Zealand
Visitors (% of total)	250,160 (8.7%)	587,520 (15.3%)

- As of March 2018, 587,520 EU visitors travelled to New Zealand. This represents 15.3% of all visitors to New Zealand and a 9.3% increase from March 2017
 - Holiday/vacation was the purpose of travel for 260,528 overseas visitors from EU
- As of March 2018, 250,160 New Zealand visitors travelled to the EU. This represents 8.7% of total New Zealand's outbound tourism, a 14.3% increase from March 2017.
 - New Zealand's top outbound tourist destinations within the EU was France with 19,160 visitors and Germany with 17,540 visitors.

Investment¹⁹

- As of June 2017, the EU was New Zealand's **second largest foreign investor**
 - EU foreign direct investment (FDI) into New Zealand in the year ended June 2017 was NZ\$10.6 billion, representing 10.2% of all FDI

¹⁷ <https://www.stats.govt.nz/news/trade-deficit-increases-with-eu>

¹⁸ <https://www.stats.govt.nz/assets/Uploads/International-travel-and-migration/International-travel-and-migration-March-2018/Download-data/international-travel-and-migration-march-2018-tables.xlsx>

¹⁹ All investment statistics are sourced from Statistics NZ, June 2017 (latest statistics available)

Retrieved from: archive.stats.govt.nz/...trading.../eu-nz-trade-invest-migr-yejun17.pdf

- The stock of total EU investment into New Zealand was valued at NZ\$87.2 billion in June 2017, representing 27.4% of total investment into New Zealand
- The EU was **New Zealand's third largest destination for outward international investment** in the year ending June 2017
 - New Zealand's outward direct investment (ODI) to the EU was worth NZ\$3.1 billion in June 2017, representing 12.3% of New Zealand's total ODI
 - The stock of total NZ investment into the EU in June 2017 was worth NZ\$48.6 billion, representing 25.1% of New Zealand total outward investment
- EU and NZ companies have **strategic partnerships in R&D, science and technology**, with significant bilateral collaboration between NZ and EU entities in international research of new technologies for environmental sustainability. Such areas include "seismic engineering and geothermal energy"²⁰ .

²⁰ New Zealand International Business Forum (2015) Towards a New Zealand-European Union FTA: A Business Perspective, NZIBF, p5
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