



## SUBMISSION TO THE MINISTRY OF FOREIGN AFFAIRS AND TRADE

### PROPOSED NEW ZEALAND KOREA FREE TRADE AGREEMENT

FEBRUARY 2009

#### Introduction and Summary

1 This submission is made on behalf of the NZ International Business Forum (NZIBF) whose members are listed at Annex A. NZIBF is a grouping of senior business leaders working to promote New Zealand's engagement in the global economy.

2 NZIBF welcomes and supports the Government's intention to negotiate a free trade agreement (FTA) with Korea. New Zealand's relationship with Korea is already substantial but NZIBF believes there is ample scope to expand it further. An FTA would provide a means to remove existing trade barriers, expand trade and investment, place New Zealand on a level playing field with competitors in the Korean market and provide an important impetus to broader trade liberalisation efforts. In addition to improved market access, an FTA could be expected to focus new commercial attention on opportunities in each other's market and contribute to new investment, innovation, economic growth and job creation.

3 NZIBF, as a leadership body, leaves to sectoral groups the task of identifying specific issues in the negotiation but NZIBF believes that the goal of the FTA should be a comprehensive agreement with a commitment to eliminate barriers in all goods and services sectors by an agreed deadline. NZIBF believes there should be no *a priori* sectoral exclusions from the ambit of the negotiations but recognises that differing sectors may be subject to differing timetables for liberalisation. The negotiating agenda should encompass all issues of relevance including market access for goods and services, investment, competition policy, intellectual property, government procurement, labour and environment issues. NZIBF encourages the Government to consult and take into account the views of all stakeholders to ensure its negotiating position reflects an overall balance of interests to New Zealand. NZIBF recognises that where adjustment is required domestically appropriate transitional assistance may need to be given. NZIBF recommends to the New Zealand Government that it proceeds to conclude these negotiations as soon as practically possible.

4 NZIBF looks forward to working closely with the New Zealand Government to support a successful outcome to these negotiations.

### **About the NZ International Business Forum**

5 Incorporated in May 2007<sup>1</sup>, NZIBF aims to ensure New Zealand enterprises are fully integrated and engaged in the global economy and New Zealand's global competitive position is maximised. To enable New Zealand business to exploit new opportunities in international markets, NZIBF provides leadership; works with businesses and affiliated business organisations to implement key projects; and articulates the needs and priorities of New Zealand's international business as well as the importance of open markets to both the New Zealand Government and stakeholders.

6 The NZIBF Board brings together leaders from amongst New Zealand's largest internationally oriented companies and peak business organisations. NZIBF works closely with other business organisations and the New Zealand Government to implement its strategic plan.

7 With assistance from the Government, NZIBF has under implementation a project bringing together business and government agencies in a programme aimed at enhancing New Zealand's business and economic engagement with Korea. The overall objective is to ensure that business organisations in Korea campaign actively in favour of an FTA with New Zealand as they have done with the US and Canada. The project is focused on engaging with Korean business organisations to this end through the organisation of a first Korea NZ Economic Roundtable meeting to be held in Seoul in mid 2009.

8 While this submission is made on behalf of the NZIBF membership a number of NZIBF members are likely to make their own submissions containing more detailed comments on specific issues relevant to their individual business interests.

### **The Case for Freer Trade with Korea**

9 NZIBF is of the view that Korea should be counted alongside Australia, the United States, Japan and the European Union (EU) as a strategic economic partner for New Zealand<sup>2</sup>. A strong relationship at the political, cultural and economic level already underpins the two countries' shared interests in a peaceful and prosperous Asia-Pacific region. A study has been completed into the benefits of an FTA

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<sup>1</sup> NZIBF is a successor organisation to the NZ Trade Liberalisation Network Inc which was established in 2001.

<sup>2</sup> Address to the Korea NZ Business Council, 3 September 2007, by Graeme Harrison, Chairman, NZIBF

between the two countries<sup>3</sup>. The study found that a Korea NZ FTA would produce accumulated gains to real GDP over the 2007-2030 period of US\$5.9 billion and US\$4.5 billion for Korea and New Zealand respectively. NZIBF welcomes and broadly endorses the findings of this study.

10 NZIBF believes there is ample scope to expand the relationship with Korea in ways that reflect our respective economic strengths and the fundamental complementarities of our two economies. New Zealand's strengths as a supplier of sustainably produced food and natural resources are of strategic interest to Korea. Korea's industrial and technological capabilities are important to New Zealand. NZIBF believes that an FTA would make a positive contribution to improving the environment for business between the two countries and contribute to increased innovation and technology transfer.

11 Korea maintains high tariffs on a number of key export items including beef (40 percent), dairy products (butter = 89 percent; skim milk powder = 189 percent) and kiwifruit (45 percent) which could be targeted for elimination in the FTA. NZIBF is concerned that without an FTA the volume and value of New Zealand's key exports to Korea of wood products, beef, kiwifruit and dairy products could be undermined by other trading partners with more favourable market access conditions. Already Chile has concluded an FTA with Korea<sup>4</sup>; the US has concluded an FTA which remains subject to ratification; the EU is currently in negotiations with Korea and Australia is close behind New Zealand in seeking to launch negotiations. The FTA should also address issues of tariff escalation which penalise the further development of the Korean market for wood products and processed meat products in particular.

12 NZIBF believes that an FTA between the two countries would remove existing trade barriers, expand trade and investment, place New Zealand on a level playing field with competitors in the Korean market and provide an important impetus to broader trade liberalisation efforts. In addition to improved market access, an FTA could be expected to focus commercial attention on opportunities in each other's market with consequent positive impact on trade, new investment, economic growth and job creation in New Zealand.

### **Issues in the negotiation**

13 NZIBF is primarily a leadership body: its membership comprises representatives of key sectors as well as New Zealand's largest business organisations with an interest in promoting New Zealand's relationship with the

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<sup>3</sup> "Benefits and Feasibility of a Korea-New Zealand Free Trade Agreement", Joint Research Report, NZIER, KIEO, CIE, 24 November 2007

<sup>4</sup> The Korean tariff for kiwifruit from Chile is currently 24.8% reducing by 4.5% per annum. The Korea US FTA provides for elimination of the tariff on US kiwifruit over 15 years.

Korea as well as other key partners. NZIBF's role is to support the negotiating process so that it ultimately leads to the timely conclusion of a comprehensive FTA which delivers value for New Zealand interests. It is not NZIBF's role to represent specific industry viewpoints in the negotiation – this is best left to industry sectoral groups.

14 NZIBF believes that the agreement should be high quality and conform fully to Article XXIV (8) (b) of the WTO's General Agreement on Tariffs and Trade which stipulates that FTAs should cover "substantially all trade" among participating countries. NZIBF recommends that there should be no *a priori* sectoral exclusions from the ambit of the negotiations. The aim should be the complete elimination of tariff lines between Korea and New Zealand. As with New Zealand's other FTAs, the services schedule should follow a negative list approach meaning that categories of services are included unless specifically excluded. NZIBF recognises that differing sectors may be subject to differing timetables for liberalisation. In general the NZIBF recommends any timetables should if possible reduce and in no case extend the timeframe for liberalisation set by other agreements to which New Zealand is already a party including the NZ/China FTA, or to which Korea is already a party, including with Chile, the United States (pending ratification) and the EU (under negotiation).

15 NZIBF agrees that issues of concern to Korea should also be placed on the agenda of the negotiation. This includes New Zealand's foreign investment regime given reported Korean interest in increasing investment into New Zealand's agriculture and forestry industries<sup>5</sup>. NZIBF encourages the Government to consult and take into account the views of all stakeholders to ensure its negotiating position reflects an overall balance of interests. NZIBF recognises that whether concessions are made will be determined by the New Zealand Government after consultation with stakeholders and with regard to the overall balance of interests achieved in the negotiation.

16 NZIBF believes the negotiating agenda for the FTA should encompass all issues of relevance including market access for goods and services, investment, competition policy, intellectual property, government procurement, labour and environment issues. NZIBF encourages the Government to consult widely with sectors likely to be affected directly by the negotiation. NZIBF recognises that where adjustment is required domestically appropriate transitional assistance may need to be given.

17 NZIBF is mindful that New Zealand is currently engaged in negotiations on an expanded Trans Pacific Strategic Economic Partnership (TPP) with the existing signatories (Brunei, Chile and Singapore) along with Australia, Peru and the United States. Given that TPP has been mooted as a possible template for trade

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<sup>5</sup> "Koreans eye opportunities from free trade deal" by Fran O'Sullivan, NZ Herald, 14 February 2009

liberalisation in the Asia Pacific region, and that Korea has already negotiated FTAs with both Chile, Singapore and the United States NZIBF recommends that Korea be encouraged to consider membership of the TPP at the appropriate time.

18 While conscious of the complexity of the negotiations NZIBF recommends to the New Zealand Government that it proceeds to conclude these negotiations as soon as practically possible.

### **Recommendations to the Ministry of Foreign Affairs and Trade**

19 NZIBF recommends that the Ministry:

- (a) **note** the NZIBF's support for the negotiation of a comprehensive FTA between New Zealand and Korea
- (b) **agree** that the goal of the FTA should be the elimination of all barriers in all goods and services sectors by an agreed deadline without *a priori* sectoral exclusions from the ambit of the negotiations
- (c) **agree** that the negotiating agenda should encompass all issues of relevance including market access for goods and services, investment, competition policy, intellectual property, government procurement, labour and environment issues
- (d) **consult** widely with sectors likely to be influenced directly by the negotiation and **consider** transitional adjustment assistance where necessary
- (e) **agree** to proceed to conclude these negotiations as soon as practically possible
- (f) **note** that NZIBF has in hand a project to support the negotiation in both New Zealand and Korea.

#### For further information

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**NZ International Business Forum  
February 2009**

## ANNEX A

### NZIBF: MEMBERSHIP 2009

Graeme Harrison, Chairman, ANZCO Foods (*Chair*)  
Rod Carr, Vice-Chancellor, University of Canterbury  
Peter Clark, Chief Executive, PF Olsen and Company  
Don Elder, Chief Executive, Solid Energy NZ Ltd  
Charles Finny, Chief Executive, Wellington Regional Chamber of Commerce\*  
Robin Hapi, Chairman, Sealord Group Ltd  
Gary Judd QC, Chairman, ASB Bank Ltd  
John Loughlin, Chairman, Zespri International Ltd  
Mike Petersen, Chairman, Meat and Wool New Zealand  
Phil O'Reilly, Chief Executive, Business NZ  
Henry van der Heyden, Chairman, Fonterra Co-operative Group Ltd

Stephen Jacobi, Jacobi Consulting Ltd (*Executive Director*)  
Gabrielle Rush, Rush Consulting (*Associate Director*)

\* *Representing the New Zealand Chambers of Commerce*

#### Alternate directors

Scott Champion, Chief Executive, Meat and Wool NZ  
Bruce Turner, Global Trade, Fonterra  
Carol Ward, Director, Corporate and Grower Services, Zespri International