

## WTO Trade Policy Review: New Zealand\*

*Note: This text provides brief description of the conditions foreign business will encounter in trade with New Zealand. It is based on a WTO Trade Policy Review for New Zealand, mid June 2009. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. ([www.wto.org/english/tratop\\_e/tp316\\_e.htm](http://www.wto.org/english/tratop_e/tp316_e.htm))*

*Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.*

### • ECONOMIC ENVIRONMENT

New Zealand has remained among the more open economies in the world. Prudent macroeconomic policies together with liberalization and restructuring contributed to steady real GDP growth averaging 3.2% between 2003/04 and 2007/08, mainly attributable to growth in domestic consumption, and a fall in the unemployment rate to 3.7%. However, GDP growth is expected to slow down significantly in 2008/09 owing to a recession in the first three quarters of the current fiscal year. Moreover New Zealand's growth potential, and thus its ability to raise living standards, is hampered by declining productivity growth in the economy, to the detriment of the international competitiveness of its firms.

New Zealand's trade in goods and services rose from 57.8% of GDP in 2003/04 to around 58.6% in 2007/08. Primary commodities accounted for the bulk of exports (69.7% in 2008); their share increased during the period under review owing mainly to higher commodity prices (although these have experienced a sharp decline recently). Australia, the EC, the United States, and Japan remain New Zealand's main export destinations.

Inward foreign direct investment (FDI) is critical to New Zealand in addressing issues such as the small size of its economy, the need to access foreign technology and know-how, and to build more globally competitive firms. Inward FDI increased marginally from NZ\$4.1 billion 2003/04 to NZ\$4.2 billion in 2007/08. This increase has been driven

largely by mergers and acquisition activity and capital restructuring. Foreign investment legislation was amended in 2005; it continues to screen investment in a few areas of "critical" interest, namely certain sensitive types of land, strategic infrastructure projects on sensitive land, "significant business assets" other than land, and fishing quotas. Subsequently, an amendment to the Overseas Investment Act in March 2008, resulted in the failure of a bid by foreign investors to acquire shares in the Auckland airport in April 2008.

### • TRADE POLICY FRAMEWORK

It grants at least MFN treatment to all its trading partners.

New Zealand has maintained its support for, and commitment to, the strengthening and liberalization of the multilateral trading system, and for the successful conclusion of the Doha Round negotiations. Nevertheless, New Zealand considers that its overseas network of preferential trade agreements (PTAs) complements its wider trade strategy, by creating new trade opportunities in a shorter timeframe and improving access for its exporters of goods and services to key markets. Consequently, New Zealand has pursued bilateral or plurilateral PTAs intensively with major trading partners (notably Thailand, China, and ASEAN countries) and is continuing or planning negotiations to establish PTAs with several other main trading partners (e.g., Gulf Cooperation Council, India, Japan, Korea, Malaysia). Most of these agreements, which have been notified to and reviewed at the WTO, include goods, services, and investment. All goods of least-developed country origin have qualified for duty-free entry into New Zealand since 1 July 2001; unilateral tariff preferences for less developed countries have been eliminated, or eroded by MFN tariff reductions and other developments (including the status of beneficiaries).

New Zealand attaches high priority to making its laws transparent and readily accessible; many are available online. New Zealand has long been considered on the cutting edge of pro competitive regulatory reform efforts and consistently ranks among the world's leading economies as regards the quality of its domestic regulatory regime and institutions; current work is focused on proposals that are likely to have a significant impact on economic growth, and a new regulatory review programme is intended to identify and remove inefficient and superfluous regulation. New

\* Extracted from WTO Secretariat Report on Trade Policy Review of New Zealand

Zealand has taken steps to meet its transparency obligations at the multilateral level by, inter alia, meeting most of its WTO notification requirements, though submission of its tariff and trade data was somewhat delayed, and information on state trading activities has not been notified since 2004.

New Zealand provides Aid for Trade relating to: trade-related capacity building and trade facilitation; supply-side constraints issues; and support for trade policy and regulatory capacity building. New Zealand considers that the TPRM should be utilized more to assess the impact of OECD Members' trade policies on developing countries' economic prospects as well as on their progress in implementing any Aid for Trade scheme.

#### • TRADE POLICY DEVELOPMENTS

The customs tariff remains New Zealand's main trade policy instrument as well as a significant (and rising) source of tax revenue (1.5% of total tax revenue in 2007/08). Under a unilateral tariff reduction programme, New Zealand's average applied MFN tariff dropped from 4.1% (2002) to 2.5% (2008); it is expected to drop further to 2.4% (July 2009). The tariff structure was simplified considerably and consists mainly of three ad valorem rates (zero, 5%, 12.5%) and six specific rates; "alternative specific" tariff rates were eliminated in 2005. Peak ad valorem rates (19% in 2002) have dropped considerably and will be 10% by July 2009. Agriculture faces relatively low tariff rates, compared with non-agricultural items (WTO definition). Although 99.6% of tariff lines are bound, the average gap of 9.1 percentage points between applied and bound MFN rates (9.7 percentage points for agricultural items) still imparts a degree of unpredictability to the tariff regime and provides scope for the authorities to raise applied rates within the bindings. During the period under review, however, New Zealand has not taken advantage of this gap. Tariff concessions are granted whenever suitable alternative goods are not available from local manufacturers or the domestic content of the locally produced item is not less than 25% of its ex-factory cost of production.

New Zealand maintains some of the most advanced customs and trade facilitation procedures, a means for upholding the economy's commitment to free and open trade. During the period under review, New Zealand has changed its preferential rules of origin criteria under bilateral and plurilateral agreements from an approach based on the regional value content (RVC) to the change in tariff classification (CTC) method.

No import restrictions or prohibitions are operated on commercial grounds; no import licensing requirements have been in place since 1992. Nonetheless, imports of animal and plant products are subject to relatively strict sanitary and phytosanitary laws. In the area of food safety, institutional changes have been undertaken and provisions are being reviewed. Some products, notably non-pasteurized cheese, live poultry, and fresh eggs, may not be imported until their risk to human, animal and plant health is assessed. Most standards are voluntary, and the share of those not equivalent to international standards has dropped.

Most anti-dumping investigations have been taken against imports involving paper articles originating in Asia, and have led to the adoption of final measures in 11 out of 17 cases; long-standing anti-dumping and countervailing measures in place affect, inter alia, canned peaches. Anti-dumping actions may not be taken on goods covered by the Australia New Zealand Closer Economic Relations Agreement (ANZCERTA); instead, prohibitions on the misuse of market power, under each country's competition law, are extended to the other's market. Changes to the safeguards regime are under way.

New Zealand has no barriers to exports except for those maintained for health and safety reasons or those necessary to comply with international obligations. Exporters benefit from export credit insurance and the promotional activities provided by a state owned institution; government funding is fully recovered from recipients. Drawbacks and refund of border and internal taxes (tariffs, excises, Goods and Services Tax) collected on imported goods is available for exporters and based on a visible audit trail; during the review period, total drawbacks more than tripled, and reached an average rate of 5.94% of the f.o.b. export value.

Domestic support is aimed at promoting economic transformation and business exports through innovation and public-sector-led R&D: direct funding and income tax incentives (including for R&D from 2007/08 to April 2009) are being used. New Zealand does not appear to provide direct subsidies for any sector-specific activities; under its 2007 notification in accordance with Article 25 of the WTO Agreement on Subsidies and Countervailing Measures, New Zealand indicated 13 support schemes, including refund of the excise duty for fuel used for commercial purposes. Under its bilateral and plurilateral agreements, New Zealand, an observer to the WTO Agreement on Government Procurement since December 2008, is committed not to discriminate between suppliers of goods and services; nevertheless,

government departments have been instructed to require origin and local-content information in all offers to supply goods. Until recently, New Zealand has maintained a decentralized government procurement system; a set of Mandatory Rules for Procurement was endorsed in 2006 and plans are under way for the progressive implementation of a single procurement policy across the state sector. Assistance is provided to domestic enterprises, government departments and bodies to identify major procurement opportunities that can be fulfilled through competitive local supply. Privatization has been at a standstill and re-nationalization has occurred.

During the period under review, intellectual property rights protection was strengthened with legislative amendments in the areas of trade marks and copyright; implementation in the area of geographical indications was delayed. New Zealand has remained a non-party to most WIPO treaties, but progress is expected with respect to treaties relating to trade marks protection by 2010 after passing new domestic legislation in this area.

Minor changes have been made to the substantive provisions of New Zealand's generic competition legislation. Comprehensive amendments have been made, *inter alia*, to the regulatory control provisions, including in industry-specific competition legislation. As from November 2004, a Leniency Policy and a new Co-operation Policy have proved effective, *inter alia*, at breaking cartel behaviour.

## • **SECTORAL POLICY DEVELOPMENTS**

During the period under review, total factor productivity growth in agriculture exceeded that of the wider economy and the sector remains internationally competitive. Agriculture was responsible for approximately 59% of New Zealand's merchandise exports in 2008. The sector receives only limited government support, with the Producer Support Estimate (PSE) being 0.7%. Average applied MFN tariffs in agriculture have declined, while statutory marketing boards were "disestablished" during the review period. Reform of state-trading enterprises (STEs) in recent years virtually eliminated their influence on exports of major agricultural products, except for kiwifruit, for which one state-trading enterprise (Zespri) has almost exclusive rights. Amending legislation was passed in 2007 providing for the allocation of access rights amongst various dairy processors, other than the Fonterra Cooperative Group, to certain restricted dairy markets overseas. Competition policy concerns arise due to Fonterra's dominance in the dairy market.

The electricity sector is characterized by significant state involvement. Approximately 60% of the electricity sold is generated by state-owned companies; the sole transmission company is also government owned. Despite electricity trading being liberalized at the wholesale and retail level, there are flexible price caps in certain transmission and distribution services. The review period also saw the establishment of a gas industry regulator and the introduction of an emissions trading scheme.

Manufacturing's importance in the economy continues to be eroded, as the sector's shares of GDP, employment, and exports are all declining. The Government has increased budgetary allocations for skills and market development as a measure of support for manufacturing.

Overall, the services sector has remained relatively liberal and competitive, with low barriers to entry. New Zealand has commitments in 90 of the 155 sectors under GATS and has an MFN exemption only for film co-production agreements. However, there is still to be state involvement in the aviation sector, where the Government is the majority stake holder in the largest airline. Aviation is subject to a foreign investment cap. Despite deregulation in the telecommunications sector with the unbundling of the local loop, tariffs remain relatively high. Continued reform of the financial sector, such as the implementation of the Basel II capital adequacy framework, has seen banks' balance sheets improve. Nonetheless, the financial sector remains vulnerable as most of the banks' funding is from external sources, and this is affected by variations in the world economic and financial regime. Another factor adding to the vulnerability of the banking sector is the banks' significant exposure to the real estate market. Thus, deteriorating economic conditions in the housing market could give rise to defaults and thus rising non-performing loans (NPLs). To ensure continued confidence in the banking system, the New Zealand has introduced deposit guarantees (up to NZ\$1 million) for the first time in its history.