



B u s i n e s s V i t a l i t y

New Zealand Chambers of Commerce (Inc)

Submission to Ministry of Foreign Affairs and Trade

PACER Plus

November 2009

Introduction

The New Zealand Chambers of Commerce (Inc), 'NZCCI', is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

We welcome this opportunity to provide input into PACER Plus, the free trade agreement between New Zealand and Australia and the Pacific Forum Island Countries ('PFIC') provided for under the Pacific Agreement on Closer Economic Relations (PACER).

Submission

NZCCI strongly supports a free trade agreement ('FTA') with the PFIC. This would be in the interests of New Zealand as well as PFIC.

New Zealand has a close relationship with Pacific Island countries but there is considerable scope to improve the economic relationship.

Pacific Island countries are often an overlooked and undervalued market for New Zealand exporters. Our exporters currently face often-high tariff barriers in those markets designed to protect domestic industry and raise revenue. The removal of these tariffs under PACER Plus will benefit exporters and businesses generally. The PACER Plus agreement will provide a platform for New Zealand businesses to increase their exports to these countries.

Pacific Island nations are not performing well economically. There are a variety of reasons for this but insufficient export orientation is a key factor. It is notable that those countries that are doing best are more focused on exports (eg Samoa). PACER Plus will provide these nations with an opportunity to increase economic prospects by becoming more export oriented.

MFAT's call for submissions says that PACER Plus will not be a traditional trade negotiation because of the special nature of the relationship, the need to promote

sustainable economic growth in the Pacific and New Zealand's Official Development Assistance to those countries.

We acknowledge that there are some differences because of these factors. However we think the call for submissions overstates this when it understates the importance of 'commercial interests'. We must not underestimate the ability of trade and commerce to enhance the economic potential of the forum countries. We have free trade agreements with other developing countries that were established under the knowledge that free trade has mutual benefits to both partners. We would be doing our PFIC neighbors a disservice if we did not treat them the same way.

We support the government's recent changes to aid policy, which more fully acknowledges the role of commerce and trade. PACER PLUS needs to be consistent with this approach. Trade has proven to be the most effective way of lifting people out of poverty as millions of people across Asia over the last twenty years can attest to.

The call for submissions highlights the trade imbalance between New Zealand and the PFIC (New Zealand exports \$800 million, imports \$200 million). This trade imbalance comes in spite of the fact that that PFIC have significantly more favourable export conditions into New Zealand (in the form of zero tariffs) than New Zealand exporters have into PFIC.

NZCCI submits that the way to address the PFIC trade deficits and to improve economic growth is not to constrain imports but to increase their exports. Pacific Island exports can be made more competitive by reducing internal cost structures and ensuring that resources flow to sectors where those countries have a competitive advantage. This means it is strongly in PFIC interests to remove their tariff barriers. NZCCI totally rejects the notion that PFIC need trade barriers to protect industries and that any reductions are a concession to wealthier countries. In this regard tariffs should be phased out as quickly as possible.

Notwithstanding this, as mentioned above, we do acknowledge that PACER should incorporate some wider measures to support economic growth such as capacity building and economic cooperation but the principles of free trade should not be compromised.

As tariffs come down, improved access to PFIC markets is also in the interests of New Zealand businesses but the real benefits to New Zealand from this agreement would come as PFIC become more self-sufficient (i.e. no longer rely on financial aid from New Zealand) and stronger economically making them better trading partners in the long term.

In conjunction with the opening of markets, the financial and technical assistance New Zealand provides must be carefully targeted towards effective economic strengthening of these countries and private investment led development.

Issues that should be addressed in the negotiation

As with all FTA negotiations, New Zealand should strive for a comprehensive, high-quality free trade agreement. The agreement should cover all sectors and phase tariffs down to zero as quickly as is possible. Different phase out periods for different nations may have to be considered.

We agree with the list of issues that the negotiations should cover that are set out in MFAT's call for submissions. Namely; market access, rules of origin, customs procedures, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, movement of natural persons, telecommunications, financial services, investment, intellectual property, government procurement, electronic commerce, competition policy, trade and labour, trade and environment, dispute settlement, economic cooperation and development, and development assistance and capacity building.

We touch on some of these issues below.

Movement of natural persons

New Zealand has an ageing population and there are often gaps in the skill sets of our workforce. Consideration should be given as to how work programmes with the PFIC could be better utilised to address this issue. New Zealand already has a seasonal work scheme (the Recognised Seasonal Employer Policy) that allows Pacific workers to fill horticulture and viticulture jobs when no New Zealanders are available. This could be built upon. Such programmes must be based on market and business needs – we do not want to create artificial jobs.

Investment

NZCCI is strongly supportive of increased investment across all countries and believes the agreement should include an investment chapter. Inward investment flows into PFIC from Australia and New Zealand are much greater than flows the other way. This investment benefits both parties and should be allowed to expand.

As Pacific island economies grow they will be in a better position to increase outward investment which would benefit recipient countries including New Zealand. Accordingly we fully support New Zealand opening up more to inward investment from PFIC

Government procurement

We would be supportive of the agreement including provisions on government procurement and New Zealand should seek to secure access to the PFIC government procurement market.

MFN

We submit that the agreement should include a Most Favoured Nation clause so that if any other country is subsequently granted preferential access to the Pacific nations, New Zealand will be entitled to the same access conditions. The Pacific nations already have a MFN clause with the EU in their interim Economic Partnership Agreement (although this can be negated if there are additional benefits for the Pacific).

It is important to retain our market share in the PFIC especially when the PFIC begin to strengthen economically. We do not want an international trade competitor to take advantage of New Zealand's lack of progress especially in light of our already substantial investment.

Services Sector

New Zealand's economic relationship with the PFIC has a strong foundation in the service sector through the tourism and education industries. PACER Plus should provide scope to build on these foundations.

Conclusion

Thank you for the opportunity to make these comments on the PACER Plus negotiations.

We support the removal of trade barriers for goods and services exports under PACER Plus as quickly as is reasonably possible.

NZCCI is part of the international Chamber network and as such has close links with Pacific Island business. We would be pleased to work with the government to further assist through these networks as well as through our members trading with PFIC countries.