



**New Zealand Chambers of Commerce (Inc)**  
**Submission to MFAT**  
**Proposed New Zealand Russia Free Trade Agreement**  
**December 2010**

**Introduction**

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 29 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.

**Submission**

NZCCI is fully 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.

While NZCCI believes a comprehensive multilateral trade agreement should be the main goal of New Zealand's trade policy, it is still in New Zealand's best interests to pursue bilateral agreements in tandem with multilateral negotiations. An FTA with Russia and its Customs Union partners would be hugely beneficial for New Zealand.

**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 exports to Russia have grown considerably in recent years (366% since 2000 compared with 136% for New Zealand's exports overall) but are still modest relative to the size of the Russian economy. In spite of

being the 12th largest economy in the world, Russia is only New Zealand's 35th largest export destination.

New Zealand's business linkages with Russia generally are also low relative to the size of its economy – the xth largest source of FDI and xth source of visitors to New Zealand. All this suggests there is still much scope for growth in economic linkages between New Zealand and Russia. An FTA would be a valuable platform to build that trade and economic relationship.

The fact that Russia is a significant food importer (fifth largest in the world in 2008) emphasises the potential for greater trade and investment relations with New Zealand. But as well as food and primary product exports there are significant opportunities for New Zealand in the manufacturing and services sectors.

In quantifying the benefits to exporters of the FTA it is important to look beyond the reduced duty that is currently being paid on exports to Russia. There is also the trade which has hitherto been deterred or diverted by the high tariffs. Even more importantly, there is the trade likely to be generated as Russia's economy continues to grow which will have preferential access over competitors from other countries.

As well as the direct benefits from tariff-free trade, there are other strategic benefits coming from the agreement in the form of the higher commercial profile New Zealand companies are likely to achieve in Russia. As we have seen with the New Zealand China FTA - which was the first FTA to be negotiated by that country - there are advantages in being the first country to negotiate a FTA.

Russia's economic reforms and its increasing openness are attracting growing interest from the international business community. An FTA at this stage of its development is a valuable opportunity for New Zealand. At the same time, without an FTA, New Zealand's competitive advantage is likely to be eroded as our international trade competitors take advantage of improving access to Russia's markets.

Russia's geographical expanse is significant to New Zealand in that its eastern coast, as part of the Asia Pacific rim, is relatively close to New Zealand. At the same time its western border provides New Zealand with an opportunity to take advantage of its positioning adjacent to the EU.

There would also be the new investment New Zealand is likely to attract from third party countries hoping to get into Russia through the New Zealand FTA. This is particularly so given an FTA with New Zealand would be Russia's first.

## **Issues that should be addressed in the negotiation**

It is essential that the New Zealand negotiators strive for a comprehensive, high quality free trade agreement. The agreement should cover all sectors and phase down tariffs to zero as quickly as possible.

### **Services**

It is essential that the services sector be a priority in this negotiation. Even though services constitute more than 70% of our GDP and almost 30% of our exports, and even though our single biggest export earner is tourism, the sector has not had the attention that agriculture and non-agricultural goods trade have received from policy makers.

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.

In the agriculture area, for example, Russia has significant tracts of fertile agricultural land but, as mentioned earlier, it is one of the world's largest food importers. Many New Zealand agricultural companies will want to focus as much on investment as on trade.

As mentioned earlier 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.

NZCCI is strongly supportive of inward foreign investment and we believe there is nothing to fear from investment provisions which open up investment from Russia.

### **Other Issues to be addressed**

Like other recent trade agreements the negotiation should encompass the full ambit of provisions namely market access and related rules (including customs procedures, rules of origin, technical barriers to trade, sanitary and phytosanitary measures and trade remedies); intellectual property; government procurement; competition policy; environmental goods and services; trade and labour; and dispute settlement.

We are particularly 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 trial run - and it is likely to entering into many subsequent free trade agreements.

It is likely that some sectors of the community will fear an increase in Russian imports arising from an FTA. New Zealand already has low tariffs but we see this as an advantage in terms of access to cost effective consumables and business inputs. We do not consider the further reduction of domestic tariffs as a potential risk. The complimentary nature of the Russian and New Zealand economies suggests that adjustment costs to both would be small.

Given the pace things are moving on the global environment, we encourage the government to commence and conclude the negotiations as quickly as possible.

The China and ASEAN-Australia agreements provide good templates and the lessons learned from those negotiations should be applied to this one.

## **Conclusion**

Thank you for the opportunity to make these initial comments on the proposed New Zealand-Russia FTA. We would like an opportunity to be heard on this submission. We think business should have an increased role in trade negotiations and we would value ongoing consultations as the negotiations progress. NZCCI would be pleased to work with the government to facilitate this through the chamber network. We wish you well in the negotiations