

Trade Update

August 2008

If more detail is required on the items mentioned below please do not hesitate to contact Jules Croft, Jeff Blackburn, or Jenny O'Donnell.

1 Proposed FTA with India

New Zealand's main exports to India are wool, logs, aluminium and ferrous scrap, and sheepskin leather. Exports of all products are \$366million, giving a trade balance in New Zealand's favour of around \$100million. India's main exports to New Zealand include diamonds and medicaments (free of duty), jewellery and bed linen (5% tariff).

MFAT is requesting companies to alert it to any trade issues in the forthcoming Study which will inevitably conclude that an FTA should proceed. Australia is also commencing negotiations with India on an FTA.

2 Australia : Special Safeguards

Australia has, again, imposed special safeguards on canned pineapple from Thailand. The safeguards have been applied until 31 December 2008.

3 Doha and Safeguards

The so-called collapse of the Doha Round has been attributed to China and India exercising their growing influence by insisting that Special Safeguard Mechanisms be included in the event that there is a surge in imports of agricultural products. China succeeded in having such a safeguard included in the NZ-China FTA. But the

US must have breathed a sigh of relief that the talks have broken down. It would be difficult prior to the US election to convince the beneficiaries of USD15billion in production subsidies to give this up to help, amongst others, cotton farmers in West Africa.

4 But it's Agriculture Stupid

The fact is, and this is demonstrated by France and Japan, developed countries aren't interested in too much compromise on the key issue of reducing subsidies for farmers. It is an entrenched belief that the maintenance of traditional agriculture in rural communities is a strategic/political priority. Even though agriculture makes up less than 8% of world trade, history shows that this is a position that will take time to address. Meanwhile food exporters, such as Fonterra, overcome this intransigence by establishing processing operations and sources of supply behind the barriers to trade. Developing countries continue to frustrate the efforts of America and Europe in accessing the rapidly growing service sectors in markets like China and India

5 Review of Anti-dumping Duties

In 1988 (that's right, 20 years ago) anti-dumping duties were imposed on hog bristle paint brushes imported into New Zealand from China. No doubt in this time synthetic paint brushes have made it

hard for hog bristle paint brushes to survive. A review to decide whether or not the anti-dumping duties should apply for a further 5 years is under way.

6 Going to China

New Zealand Trade & Enterprise plans to establish a New Zealand concept store in Shanghai in November 2008. NZTE believes the Centre will help companies grow their business in China and further information is available from NZTE.

7 Australian Customs

Australian Customs has announced changes to applications for tariff advice and tariff concession orders. These new requirements should be studied closely in order to avoid any unnecessary delay. Australian Customs Notice 2008/33 sets out the new procedure.

8 Hong Kong Intervenes

With the objective of competing with London as the trading and distribution centre of quality table wine in the world, the Hong Kong Government has removed excise duties on wine. The cost to the government will be around NZD110million with expected increased revenues to the wine and related sectors of around NZD800million.

9 China Intervenes

Sound familiar: The Chinese textile and garment industries have been plagued by the stronger Chinese currency, tight monetary policy that has made financing more expensive, higher labour costs and rising raw material prices.

Sound unfamiliar: To offset these conditions export tax rebates for some textile and garment items have been increased by 2 percentage points from 1 August.

10 New Zealand Made - Not

A New Plymouth-based office furniture company has been convicted of breaching the Fair Trading Act in a ruling which helps to define what "New Zealand made" means. The company was convicted in relation to advertising material that represented four models of office chair as being New Zealand made. The imported components included the base, castors, gas lift, chair adjustment levers and seat and back assemblies. The Court heard that while these components had been assembled in New Zealand, the only parts of the chairs manufactured in this country were some incidental parts and the foam and upholstery for the seat and back support. The judge held that the New Zealand input into the chairs was not enough to justify describing them as New Zealand made. This will have implications for New Zealand manufacturers as a substantial part of New Zealand manufactured goods comprises imported materials.

11 China FTA Benefits Overstated?

The benefits of free trade deals are always unreliable, none more so in the lead-up to the China FTA when meaningful dialogue with manufacturers and exporters didn't exist. Fonterra, accounting for around 35% of export value to China reflects this observation: "In financial terms the benefits from the reduction in tariffs and quotas is not major and will not be seen for some time, however, New Zealand's standing in the eyes of China has been elevated significantly". It's sobering to revisit the "Scoping Studies" for the FTA, noting the prediction that the dairy industry and manufacturers will benefit, including appliance manufacturers.