

**Submission by BusinessNZ and ExportNZ to the Ministry of Foreign Affairs and Trade on the expressions of interest from Japan, Mexico and Canada in joining the Trans-Pacific Partnership Negotiations**

**Summary**

BusinessNZ and ExportNZ are in principle supportive of the inclusion of Japan, Mexico and Canada in the TPP negotiations. We are particularly supportive of Japanese participation.

We very much welcome the preparatory process that has been established to determine whether a prospective member is able to negotiate rules and market access commitments consistent with the quality of the agreement currently being negotiated. In all three cases we have concerns about the ability of these three countries being able to meet the standard expected from this negotiation. Comments subsequent to the announcements in Honolulu in November 2011 by senior Canadian Ministers and officials have highlighted our concerns about that country in particular. Attitudes to agriculture, forestry and fisheries from Japan, and agriculture from Canada and Mexico are at the heart of our concern.

Beyond questions about their ability to meet the standard being sought for TPP we have some concerns about the impact that participation in the negotiations by these three countries might have on the timing of the overall TPP process. We would not want the entry of these three countries to slow the increase in momentum in 2012 that was clearly anticipated by Leaders when they met in Honolulu in November.

We would also need to be confident that we have the capability within MFAT to handle the extra effort needed if these three economies were to join the negotiations, particularly within the context of the current restructure at that agency.

Finally we wish to express our concern that some are characterizing TPP as a response to the growing economic impact of China. Our organizations see TPP as being a dynamic and open initiative that will, at a minimum, grow in size to encompass the full APEC membership (we hope that a high quality TPP will have an eventual impact on a global scale and lead to a re-ignition of the WTO process through the demonstration of common economic interests and sensible architecture). We accept that a bottom up approach to achieving this end is more likely to achieve success than trying to negotiate the Free Trade Area of the Asia Pacific with the complete APEC membership at this stage (as some are still advocating).

To achieve its ultimate goal, TPP cannot be seen to be excluding key regional partners such as China. We seek an assurance that the New Zealand

Government will proceed with TPP in a way which facilitates the membership of other APEC economies including China.

Moreover we would like to discuss with Government the steps that are being taken to ensure that eventual membership of TPP by China and the separate customs territories of Hong Kong and Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei). Given that New Zealand is the only country to have trade agreements with China and Hong Kong, and given the process that was recently started with Chinese Taipei, we see New Zealand as having a unique role in ensuring that the interests of these three important trade and investment partners are protected in the TPP context.

### **Background Information on BusinessNZ**

Encompassing four regional business organisations Employers' & Manufacturers' Association, Employers' Chamber of Commerce Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association, its 71 member Major Companies Group comprising New Zealand's largest businesses, and its 76-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable GDP growth well in excess of 4% per year would be required to achieve this goal in the medium term.

### **Background Information On ExportNZ**

ExportNZ is a division of BusinessNZ. It operates a nationwide network through which it provides the knowledge, information, contacts, training, support and services to help grow export businesses.

ExportNZ's key objectives are to:

- Provide effective advocacy and lobbying on behalf of exporters
- Inspire New Zealand firms to engage in exporting to expand their business horizons and grow internationally
- Provide practical support programmes and networking events to help firms achieve these goals.

## Submission

Our organizations have been following progress on the TPP negotiations closely. We appreciate the significance of the announcements made at the APEC Leaders Meeting in Honolulu in November 2011, by Japanese Prime Minister Yoshihiko Noda, Canadian Prime Minister Stephen Harper and Mexican Economy Secretary Bruno Ferrari that it was their respective country's intention to begin consultations with the current nine TPP participating countries towards joining the TPP negotiations.

These announcements were positive from a range of perspectives. Bilaterally, New Zealand has over the years explored the possibility of FTA linkages with each of these countries. In all cases the chances of a bilateral negotiation even being launched are slim because of opposition from domestic primary product associated protectionist groups. Inclusion of these economies within TPP offers a once in a generation opportunity to secure for New Zealand markedly improved market access into these economies. Increased investment flows can also be expected from them.

Japan is already one of our major trade and economic partners. It has one of the highest levels of protection against agriculture, fish and forest products in the world. Participation in TPP offers major potential bilateral trade gains for New Zealand.

Japan's economy has underperformed for many years. Part of the reason for this under performance has been the reluctance of successive governments in Japan to undertake essential reforms to the primary sector and to the services economy. TPP offers the opportunity for the Japanese government to introduce these reforms. Once enacted, a more efficient Japanese economy has the potential to resume a stronger growth track. This will be good for Japan, the Asia Pacific region, and for the global economy. A faster growing Japan can only be good for the New Zealand economy.

Mexico also offers considerable opportunity for New Zealand exporters. TPP offers our exporters to chance to compete in Mexico on a level playing field with competitors from the US and Canada who enjoy free access to the market under NAFTA. We note that a number of New Zealand exporters essentially lost their Mexican market after Mexico joined NAFTA. These markets could be restored if Mexico joins TPP.

Canada is also heavily protected against agricultural imports. This level of protection is so high that we question why Canada is allowed to remain a member of the Cairns Group. Canada's supply management regime is particularly egregious imposing tariffs as high as 250-300% on dairy exports and imposing quotas on beef exports. Canada would not be able to maintain these policies if it were part of a high standard FTA such as that being sought by the existing 9 TPP participants. Our exporters would enjoy much improved market access to Canada if Canada were to join TPP. There could also be positive global trade implications flowing from changes to Canada's

agricultural protectionist policies.

Participation by these three economies increases the critical mass of TPP and increases its appeal to all participants. In turn this should encourage other economies to join TPP. As noted above our organizations want TPP to grow to at least encompass the current APEC membership. We are open to it growing beyond APEC and we hope that a high standard TPP with substantial membership will eventually have global impact.

Increased critical mass will also improve the chances of TPP receiving broad based support when it eventually has to go before the US Congress for ratification. In this regard the addition of Japan is particularly important. The US already has free trade linkages with Mexico and Canada, and with most of the existing TPP members. Free trade with Japan will be of enormous interest to many of the key US trade lobbies.

For the above reasons, our organizations support the principle of eventual inclusion of these three countries in the TPP process. The inclusion of Japan has the greatest significance to our organizations and should be given the highest priority by New Zealand. Canadian membership (for reasons explained below) is potentially the most problematic and should be given the lowest priority.

While we support, in principle, the inclusion of these three countries we do have concerns about their requests for entry.

First, we were delighted by the momentum achieved by negotiators over the past year and the desire expressed by existing participants at Honolulu to have negotiations completed by the middle of 2012. We hope that negotiators and Ministers can keep to this timetable. We are concerned that potential entry by these three new participants might distract the existing process. We would not want this to happen.

We are also concerned that the involvement of these three countries might encourage those in the United States opposed to agricultural trade liberalization to either seek a delay in proceedings to allow the three new entrants to catch up to the existing nine participants. Once they are in this position there is a chance that the three new participants could seek widespread exclusions for products from the negotiations. This in turn would put pressure on the United States to likewise seek exclusions for some products.

Because of the above concerns, we favour a two track process for TPP in 2012. On the first track we wish to see the existing participants continue without delay to conclude a high standard FTA of the type that Ministers and Leaders have been foreshadowing.

On the second track Japan, Mexico and Canada can engage with the existing nine TPP participants and seek to demonstrate that they are actually willing to meet the standard being set in the negotiations by the other nine. In this context we are most encouraged by statements by the Japanese government

about their commitment to liberalise sensitive parts of the economy for TPP. At the other extreme we are most concerned about public and private comments from Canada that suggest that the government there hopes it can join TPP while maintaining current levels of agricultural protectionism. Our organizations believe that it would not be possible for TPP to accommodate current Canadian policies and still be regarded as a high standard agreement. Moreover, to accommodate Canadian (and maybe some Japanese) policy sensitivities TPP would cease to have potential global strategic impact that it currently has the potential to deliver.

We are aware that several other governments have expressed interest in joining TPP. The use of a two track approach could prove of assistance when considering possible expansion of TPP beyond the current three new prospective members. In all cases prospective members will have to meet the standard set by the founder nine participants.

A final potential concern about participation of Japan, Mexico and Canada in TPP is one of perception, particularly how a TPP with 12 participants will be perceived by China which is not a participant.

Our organizations favour Chinese participation in TPP and we are alarmed by some comments from the US and elsewhere that TPP is motivated by concern about Chinese global economic power.

We do not believe that this issue of perception should stop TPP proceeding, or the inclusion of Japan, Mexico and Canada in the agreement. But we believe that every effort should be made to reassure China that TPP is not an anti-Chinese initiative and that eventual Chinese membership of TPP is sought by all participants. TPP cannot possibly deliver on its potential without participation by China, Hong Kong and Chinese Taipei.

In this regard our organizations see New Zealand (and to a lesser extent Singapore and Chile) as having a particularly important role in ensuring that Chinese interests – and those of the separate Customs territories of Hong Kong and Chinese Taipei (Taiwan, Penghu, Kinmen and Matsu) – are protected in the TPP process. New Zealand is unique in having trade agreements with China and Hong Kong and a process is underway with Chinese Taipei. We would appreciate a discussion with the New Zealand government on this point at some stage.

To summarise our position above, our organizations support in principle the participation of Japan, Mexico and Canada in TPP, but only if these three demonstrate that they can meet the high standard New Zealand and the existing nine participants are seeking for TPP. We also do not want to see the entry of these three countries into the process either delaying progress in the existing negotiation or increasing concern about TPP in China.

We realise that negotiations are well developed already, but we thought it useful to formally express our position on the standard that we are expecting from TPP. We are hoping that TPP will have the following elements:

- Comprehensive goods coverage (with no exclusions)
- Zero tariffs as the end point for liberalization
- Eventual elimination of all tariff quotas
- Prohibitions on export subsidies
- The use of a negative list approach to both services and investment
- Substantial GATS plus liberalization for services and investment
- Mechanisms established to ensure that SPS and TBT barriers do not replace tariff barriers
- Mechanisms to encourage regulatory coherence, mutual recognition, and in some cases harmonisation of regulation
- Provisions on Government Procurement which allow open access to Government Procurement markets and transparency in the Government Procurement decision making process
- Provisions that encourage similar approaches to competition policy amongst participants
- Provisions which make the agreement directly relevant to the interests of small and medium sized enterprises

We welcome this invitation to submit on this matter and would like to take this opportunity to thank Ministers and officials for their willingness to date to keep our organizations well informed about the TPP process. We hope that this openness will continue as negotiations progress. We would be particularly grateful for reassurance on the concerns that we have raised above about the potential entry of Japan, Mexico and Canada into TPP. We repeat our interest in talking to Government at some stage about the implication of TPP for China.

Contact for further information

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