

## **Trade Update September 2019**

### **US Japan- possible bad news for New Zealand exporters**

One of the outcomes from the UN General assembly meetings in New York was the finalization of an agreement between the US and Japan. In return for a US “commitment” not to increase tariffs on automobiles and some auto parts Japan will apply the commitments it has made under CPTPP for import liberalization to some US agriculture imports. Unfortunately for New Zealand this includes beef and cheese and other products of interests.

This agreement will therefore potentially see the US, once more, competing on a level playing field with New Zealand exporters in the Japan market. This threatens to erode some of the most important gains achieved through CPTPP.

It is unclear when Japan’s commitment to the US will actually begin (there is still plenty of follow up negotiation necessary). And this deal is potentially subject to challenge in the WTO. The EU in particular is expressing displeasure (mainly because it leaves the EU very exposed on automobiles and because it makes it even more difficult for the EU to exclude agriculture in any bilateral deal with the US designed to avoid higher automobile tariffs). This agreement is almost certainly a breach of WTO rules (it does not meet the substantially all trade rule in Article XXIV).

### **US China**

Talks have resumed and China has reached for the cheque book and has resumed imports of some US commodities such as soy beans. President Trump is coming under enormous pressure from US farmers who are suffering from Chinese retaliation for US tariffs. With the election looming in the US the chances of some form of agreement between China and the US must be increasing. But how will China react to increased restrictions on technology exports to the US? How will they respond to President Trump’s hard hitting allegations against China in the UN? And will anyone be wanting to move quickly to finalise agreements with a President who is facing an impeachment investigation?

### **New Zealand takes the initiative on trade and the environment and climate change**

It was announced in New York that New Zealand would be joining Norway, Iceland, Costa Rica and Fiji in beginning negotiations on the Agreement on Climate Change, Trade and Sustainability. This will seek the removal of tariffs on environmental goods and new commitments for environmental services. It will establish commitments to eliminate fossil fuel subsidies and provide best practice guidelines to assist the development of voluntary eco-labelling programmes. The negotiation is expected to start in February 2020. The Trade for All process is now taking public submissions on this initiative.

At the same time as this initiative was being announced the future European Commission President Ursula von der Leyen surprised many by committing to introduce a carbon border tax within 5 years. This has major implications for international trade. It will be interesting

to see how the US, Australia, China and India react, should this idea continue. There is potential that such a tax could be used as a protectionist tool so New Zealand will need to monitor this very closely.

## **Brexit**

Anyone who claims to know what is going to happen is being dishonest.

MFAT's formal advice to exporters is "the prospects seem to be that while there **may be some impact** on the deepwater ports, they(the UK) appear to be doing their best to mitigate the impact of increased traffic on traders. New Zealand exporters should, however, continue to plan for the **possibility of some delays, whether in ports or on roads nearby.**"

We think this is good advice. There remains risk that a hard Brexit will occur at the end of October. It is probably wise to avoid, if possible, exports landing in the UK or EU around that time.

## **NZ EU**

Negotiations remain stalled over market access. EU dairy lobbyists were running around the World Dairy Summit this week in Istanbul trying to get the New Zealand dairy delegates to agree to an industry to industry commitment to manage trade. This did not seem to draw any interest from the New Zealand side, but it does indicate the level of EU concern about this agreement. Another round of negotiations is scheduled before the end of the year.

## **RCEP**

Negotiators worked all last week in Vietnam in an attempt to finalize the agreement in what was meant to have been the final round of negotiations on RCEP (but a meeting of Trade Ministers is scheduled before Leaders meet to hopefully agree the final deal). India was under enormous pressure from all sides in this negotiation. Unfortunately, media accounts suggest that no progress was achieved. It is now up to Ministers to see whether sufficient progress has been achieved to finalise the deal.

Although the level of market access commitments from this negotiation may not be of a standard that would usually be acceptable, it might still be positive to have this negotiation finalized and have so many important economies agreeing to the same set of enforceable trade rules at a time of so much global uncertainty. The market access elements of the Agreement can be improved over time.

## **CPTPP**

CPTPP members gather in Auckland for a Commission Meeting in early October to have a stocktake of progress. Four members have yet to ratify the agreement but Chile and Peru are expected to do this this year. This will leave Malaysia and Brunei as the only two parties yet to ratify.

We are not anticipating any new economies seeking to accede to this agreement in Auckland. Taiwan is clearly very keen and worthy but is unlikely to seek membership alone. There is talk of Thailand potentially joining before the end of 2019.

Unfortunately the US-Japan trade deal reduces the incentive for some countries to join the agreement.