

Trade Update October

Where do we begin?

Why not RCEP....

Intense negotiations are continuing to conclude the Regional Comprehensive Economic Partnership by the 4 November meeting of the ASEAN Summit. Trade Ministers will be meeting two days ahead of this.

This negotiation has been getting very close to conclusion for some time. The most recent Ministerial saw things step back with India raising issues about agriculture, imports from China, rules of origin and the quality of ASEAN services commitments (movement of people).

There has been a strong lobbying effort in India to exclude dairy but that has been resisted in the negotiations equally strongly by Australia and New Zealand.

Reading the Indian media over the last few days we conclude that the Indian people are being softened up for some compromises on key issues. This should clear the way for agreement to be reached.

However, it is important to stress that this is an extremely fragile negotiation. The outcome will have major implications for India's economic model into the future. And the negotiation is very much shadowed by big power politics – India-China, China-Japan, China-Korea, Japan-Korea and Asia-US relations. A negative development in anyone of these relationships over the next few days could impact the RCEP process.

If agreement is reached there will be some market access gains for New Zealand into the Indian market. This will not be a high quality deal. But it has strategic value at a time when the WTO system is under such strain. RCEP will deliver a set of rules that will govern trade with many of New Zealand's most important trading partners and it is backed up by a dispute settlement system.

European negotiators should not be expecting RCEP to be any indication of what New Zealand will be willing to accept in the FTA negotiation with the EU (or UK).

Brexit

We await the outcome of the UK election. If the opinion polls are correct Boris Johnson should be in a stronger position to have his deal with the EU pass the new Parliament. This would see an orderly Brexit and the UK commencing FTA negotiations with a number of countries such as New Zealand early in 2020.

If we have another close result or if Boris loses then we should expect continuing uncertainty.

The future of New Zealand's meat and dairy quota arrangements with the EU are still uncertain in a post-Brexit world. Negotiations are continuing in Brussels, Geneva and London.

China FTA Upgrade

Expect a big announcement soon (maybe the ASEAN Summit). We understand that this negotiation has finally been completed. Forest products exporters seem to be the potential winners from this negotiation.

US – New Zealand

MFAT Deputy Secretary Vangelis Vitalis will be travelling to Washington DC for formal trade talks in early November. This will be the first official test of the commitments given by President Trump in his excellent meeting with Prime Minister Ardern. US trade officials were clearly disconcerted by the Presidential position. The chances of a FTA negotiation being launched on terms that are acceptable to New Zealand are still remote. This will only happen if the President remains focused on this issue and continues to push for an outcome (in effect overriding his trade officials who want to exclude big hunks of agriculture, and to change the Pharmac regime – along with other too hot to handle issues).

It is unfortunate that this year's APEC Summit has been cancelled as PM Ardern had the opportunity to keep the momentum for this negotiation up through discussion with President Trump at that meeting. Might it be necessary for her to now visit Washington DC?

US-China

Expect the long-awaited agreement between the US and China to be signed within the next few weeks. This is not the deal originally envisaged. Rather than major commitments from China on state owned enterprises and intellectual property this is more going to be about China purchasing more US product in return for a stay of execution on threatened tariff increases. Many of the existing increased tariffs are likely to remain in place. It seems that meat (pork and poultry) will be part of this deal. This may have some implications for New Zealand beef and sheepmeat exports to China as pork and chicken are substitute products.

The cancellation of the APEC Summit means that a new venue for the signing of this agreement will need to be found.

EU – NZ FTA

This negotiation remains essentially stalled over market access, but geographic indications and other issues also remain to be resolved. The EU might be waiting for big decisions from the UK on post-Brexit arrangements before deciding a final position on New Zealand. The UK will be a major competitor for New Zealand in sheepmeat and dairy in a post Brexit EU.

The current EU market access position is completely unacceptable.

CPTPP

New Zealand officials seem pleased by the CPTPP Commission meeting in Auckland in early October. The meeting proved non-controversial and good technical level discussions were held. There has been little or no progress on the four outstanding ratifications – Chile, Peru, Malaysia and Brunei. The current chaos in Chile has not been helpful.

There has also been no, or little progress on expansion of the CPTPP membership.