

**REMARKS BY THE NEW ZEALAND AMBASSADOR TO THE UNITED
STATES OF AMERICA
HIS EXCELLENCY JOHN WOOD**

**CONSUMERS FOR WORLD TRADE
“A US/NZ Free Trade Agreement: What Does the Future Hold?”**

**NEW ZEALAND RESIDENCE
WASHINGTON DC
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On behalf of me and my wife Rosie, I should like to welcome you most warmly to our home tonight. We hope you feel you are among family.

I want to start by thanking the Consumers for World Trade – not just for proposing this event but also for the strong advocacy role you take on.

It is often all too easy for the consumer's voice to get drowned out or ignored altogether. There are a few reasons for this including that it is often more difficult to get consumers to coalesce around an issue and because the cost of the continuation or introduction of a protectionist policy can be hard to immediately quantify. But identifying the cost and impact of any policy on every sector including on consumers, is an important part of any policy making process.

Shortly after I arrived in my current tour as Ambassador we were very clearly shown the downside of increased protection when the Administration imposed tariffs on imports of certain steel products. Proponents argued the safeguard action was necessary to give the

industry some time to restructure. This may be right but that protection came at a huge cost – both in the US and elsewhere.

Studies show that the tariffs (combined with a range of other anti-dumping cases etc) caused an increase in steel costs to the detriment of American companies that used steel to produce goods in the United States. Another consumer focused organisation, the Consuming Industries Trade Action Coalition Foundation, found that 220,000 Americans lost their jobs as a result of higher steel prices during 2002 – this was higher than the total number employed in the US steel industry itself (187,500 Americans were employed by US Steel producers in December 2002).¹ The safeguard action also impacted on New Zealand's steel industry – an industry that has been restructured and operates without any government subsidy. It exports finished steel products to small niche markets on the West Coast. Even though New Zealand's small and steady supply of steel products did not contribute to the US industry's problems, we still got hit by the safeguard; not a single ton of our steel was exempted as were significant supplies from "offending" economies.

In even a brief study of New Zealand's economic history it is easy to see the correlation between increased liberalisation and increased consumer choice. From around 1984 onwards, the direction of economic policy in New Zealand turned away from intervention toward the elimination of many forms of government assistance. Our economic performance improved significantly over the 1990s – it also led to increased choice for consumers.

¹ Taken from Francois, J and Baughman, L *The Unintended Consequences of US Steel Import Tariffs: A Quantification of the Impact during 2002*, Prepared for the CITAC Foundation, 4 February 2003

I want to give one example – it's dear to me as a wine enthusiast and is something you should be pleased about as well given you are enjoying New Zealand's quality wines this evening.

In the mid-1980s the New Zealand government embarked on wholesale economic reform including eliminating subsidies to agriculture. This meant farmers had to move from producing what the government paid them to produce, to producing what the market – which in our case for most commodities means the international market - demanded. In other words producing something that somebody else out there actually wanted, and was prepared to pay the market price for. Land-use diversification occurred. A lot of steep hill country unsuitable for stock was planted with commercial forestry and as we realised our grape growing potential in many regions of New Zealand farmland was converted to vines. Since 1995 acreage planted with vines has more than doubled.

We also lowered our import barriers. This meant we imported more wine from abroad as well as producing more of our own. The end result is that New Zealanders now have a huge choice and drink more imported wine (mainly from Australia) than wine made in New Zealand. Yet we've increased our exports to the US and elsewhere (especially the UK) exponentially and are continuing to grow production capacity.

New Zealand now has an open economy with sizeable manufacturing and service sectors complementing a highly efficient agricultural sector. The New Zealand economy remains strongly trade orientated. Imports and exports together account for over 50% of our GDP

While trade is the driving force behind our economy, the reality is, outside our own borders, we have very little control over trading conditions. We

are a price-taker in global markets and, to a large extent, a policy-taker on the multilateral stage. We try to exercise influence – often successfully but bigger players have greater influence.

Even though NZ operates in a trade environment often set by others, there is an ongoing need to try to reduce discrimination in international trading and to curb the danger of trade rules becoming less liberal. This is what drives New Zealand's trade strategy – we look actively to pursue the opening up of markets and encourage international trade by all possible means.

We do this by following a four-track strategy – (i) unilateral liberalisation in order to enhance domestic competitiveness (this is often called unilateral disarmament, or shooting yourself in the foot in this country, but we do it because it's the right thing to do for us) (ii) multilateral trade liberalisation through the WTO currently under the Doha Development Round (iii) regional trade liberalisation particularly through APEC in support of the multilateral approach and (iii) bilateral trade liberalisation.

My government has been active on all these fronts. Its highest trade priority is the WTO negotiations – the Doha Development Round – for obvious reasons – we've got more to gain when we're negotiating with 147 other WTO members at the same time. In these negotiations we know we don't have the economic or trade clout of many other WTO members including the US. What we try and do is approach the negotiations constructively and sensibly – bringing new ideas and trying to help build consensus. We thought the July frameworks package was a good result, certainly better than what had been on offer in Cancun.

What we also know is that multilateral agreement on trade issues is becoming increasingly more difficult. The Uruguay Round lasted over seven years, compared with six for the Tokyo Round and three for the Kennedy Round. The slow progress of multilateral liberalisation has led New Zealand, and many other nations, to examine other alternatives in trade barrier reduction. This makes negotiating bilateral, plurilateral and regional trade agreements attractive.

Provided they are comprehensive across all sectors and truly trade liberalising, bilateral and regional trade agreements can add momentum to the more complex multilateral process of 140 countries negotiating through the WTO. They can also set the bar higher, providing, for example, negotiating models for issues such as investment, services and competition policy.

We've got a number of irons in the fire on these issues – APEC, but also P3 (with Chile and Singapore) and ASEAN-CER as well as a number of bilateral trade negotiations. We are currently negotiating with Thailand and will be starting negotiations, early in 2005 with China. The Chinese authorities have announced their intention that New Zealand will be the first OECD country with which they will conclude an FTA. We've got a number of other potential partners lined up including Malaysia, Hong Kong and Egypt but the country at the top of our list is the United States.

Why do we want an FTA with the United States?

The first reason is business. Trade agreements are not an end in themselves. The primary reason to negotiate trade agreements is to create opportunities for business and increase profitability. Academic studies undertaken in both Washington and Wellington have

demonstrated that a bilateral FTA would be good for business in both countries. Some of this would flow from a reduction in tariffs and other market access constraints.

An FTA would deepen and strengthen our bilateral relationship with the US. The US is already our second largest trading partner, in terms of both exports and investments. It is a major investor in New Zealand. A comprehensive, high quality agreement would enhance these already high levels of bilateral trade and investment to the mutual benefit of both countries.

Some advantage would also come from the less obvious benefits that flow from trade agreements. Our experience with FTAs is that they act as the catalyst for a flowering in the overall economic relationship between countries. They raise the profile of the economic relationship and lead to greater trade and investment developments. They are good for business and investment confidence and provide certainty – the best conditions under which business can flourish. And they lead in turn to greater exchanges of people, products and ideas.

Second, an agreement would also be a natural and logical extension and complement to the AUSFTA. Australia and New Zealand have one of the most open bilateral economic and trade relationships between any two countries. The Australia/New Zealand CER arrangements underpin substantial flows of merchandise trade, services, investment, labour and visitors between the two countries. We have also moved progressively towards much deeper integration of policies, laws and regulatory regimes through processes of coordination, mutual recognition and harmonisation. This means the AUSFTA, once it comes into effect, has some advantages as well as some risks for us.

Economic growth in Australia as a result of the AUSFTA will increase opportunities there for New Zealand. There will also be potential for new opportunities in third markets if Australia diverts additional exports to the US. These benefits have to be seen alongside the risks. First, the erosion of New Zealand's export competitiveness – take agriculture as an example. Australia and New Zealand have a similar export profile in agriculture. The AUSFTA will increase the Australia's dairy, beef and avocado access to this country. It will lower or remove tariffs on dairy, beef, sheepmeat, wine and some processed foods. We will be placed at an access disadvantage.

The second risk is the potential for investment diversion arising from the high level of integration of the New Zealand and Australian economies. This is very difficult to measure but a real risk nonetheless. As a result of the AUSFTA, Australia has enhanced its scorecard as a destination for US investment.

What then are we doing to advance the prospects of negotiating such an FTA NZ/US?

To start with, we're being both patient and persistent in our efforts to get a FTA. I firmly believe it is a matter of *when* New Zealand gets an FTA rather than *if*. New Zealand enjoys good levels of support, within the US Congress, in the business community and among sectoral interest groups and the wider community. It is a matter of the timing being right for that support to get translated into a decision by the Administration to begin negotiations with New Zealand.

Clearly we need to give the new Bush Administration some time to bed down but we will be (in fact we have been already) reminding them of our request. My Prime Minister wrote to President Bush to congratulate him on winning a second term in office. In this letter she gave New Zealand's commitment to continue to work closely with the US on multilateral and regional trade issues, and reminded him of our continued strong interest in an FTA. She will be looking to catch up with the President in person at the upcoming APEC Leaders meeting in Santiago in late November to reinforce this message.

In the meantime here in Washington, we'll be continuing to do what we've been working on for some time - increasing business support and expanding Congressional support and reaching out to all groups and organisations who have questions and a few apprehensions about a NZ/US FTA. In these efforts we need and look forward to the help and encouragement of Consumers for World Trade.

Thank you for your interest and attention. I am happy to take a few questions and comments before we get back to the food and the wine.