

The Strategic Context and Emerging Issues

International Economic

1. The international economic environment for New Zealand's agricultural and forestry exports is determined by:
 - the international economic situation, which affects demand for New Zealand's products, and which New Zealand can do nothing about; and
 - the international trading environment, which we try to influence at the multilateral, plurilateral and bilateral levels.

International Economic Situation

2. Global economic activity fell sharply over the past year as an economic downturn that began in the United States spread into other countries, including Asia. The decline intensified following the terrorist events of 11 September 2001. The ensuing shock waves around the globe heightened insecurity and lowered consumer confidence and demand. Average GDP growth for OECD nations is expected to remain around 1.0 percent in 2002, the same as for 2001, but down from 3.7 percent achieved in 2000. Prospects for the global economy are better, however, with average OECD economic growth forecast to recover to 3.0 percent in 2003 and 3.1 percent in 2004. However, there is now some rising uncertainty resulting from recent weaknesses in equity markets.
3. International dairy product prices fell during the 2001/02 season, and little improvement is expected in the short term. International meat prices, which have been rising over the past two years, are forecast to fall over the medium term of three to four years. After bottoming out in 2001/02, log and panel prices are forecast to recover over the medium term while pulp, paper and lumber prices are expected to rise over the next 3 years. International wool prices are forecast to continue to improve, rising over the medium term.
4. After a period of relative strength the United States dollar (USD) has begun to weaken against all major currencies, including the New Zealand dollar (NZD). The USD is expected to continue depreciating against the NZD over the next three years, before levelling out. The working assumption is that there will be a continuing appreciation of the NZD over the next couple of years towards its long-term average level, after the unusually depreciated levels of the past two years.

International Trading Environment

5. With over 80 percent of New Zealand's agricultural and forestry production destined for export, access to international markets is of vital importance. However, the trading environment for agricultural products is seriously distorted by the financial assistance developed countries give to their farmers. Total support for agriculture in OECD nations amounted to USD 311 billion in 2001 and accounted for 31 percent of total OECD farmers' receipts. Most support is delivered as market price support and output payments,

which generates surplus production. Some of this surplus production appears on world markets as subsidised exports and depresses prices received by agricultural exporters, including New Zealand. New Zealand provides virtually no “producer support” for agriculture, compared to 21 percent of farm receipts being derived from support for the United States and 35 percent for the European Union. As well as competing against high levels of producer support and export subsidies, New Zealand must also contend with a myriad of high tariffs and other forms of border protections that restrict market access for our agricultural and forestry products.

MULTILATERAL RELATIONS

6. Multilateral relations issues include:

World Trade Organisation

7. The World Trade Organisation (WTO) is the only international organisation which enforces the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. These agreements stipulate legally-binding rights and obligations concerning international trade and trade policy to help ensure international trade flows as freely as possible. The goal is to help producers of goods and services, exporters, and importers conduct their business.
8. For a small country like New Zealand a rules-based trading system is essential. Without it New Zealand would be subject to unnecessary and damaging protectionist trends in a number of major markets and our current access opportunities for agricultural and forestry products would be reduced. One specific example of this relates to non-tariff measures. There is an increasing tendency for countries to try and impose their own standards on other countries in areas such as labour rights, environmental protection, animal welfare, unjustified food “safety” and labelling requirements, and restrictive construction codes and building-material standards. While the aims of such measures may be valid, without a robust international legal framework there is a high risk of abuse of border requirements for protectionist ends. New Zealand believes that non-tariff measures must be in line with international standards or scientifically justified as provided for by the WTO Agreements on the Application of Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT).

The Doha Development Round

9. The 4th WTO Ministerial Conference took place in Doha, Qatar in November 2001. That meeting launched a new round of trade negotiations which encompasses both risks and opportunities for the New Zealand agricultural and forestry sectors. Most important for MAF are the mandated negotiations on reducing distortions to trade for both agricultural and forestry products. The Doha Development Round includes other areas of significance, including negotiations on trade and environment (for example, a review of the rules applying to “eco-labelling” which is particularly important for the forestry sector), possible discussions on “geographical indications” for products and “new” areas such as those relating to investment and competition rules.
10. The role of developing countries in the WTO system has also increased over recent years and this has altered the dynamics of the Organisation. Nevertheless, most developing

countries recognise their future prospects rely at least in part on improving their access to others' markets and reducing trade-distorting subsidies. In this respect developing countries are often natural allies for New Zealand.

11. The 5th WTO Ministerial Conference is scheduled for September 2003 in Cancun, Mexico. This will be a vital meeting for the New Zealand agricultural and forestry sectors and the world trading system as a whole. Outside the direct agricultural and forestry areas there is a range of controversial issues being discussed which could "make or break" the Doha Development Agenda. With other government departments MAF will be working towards a successful 5th Ministerial in order to promote agricultural and forestry trade liberalisation.

The Doha Development Round: agricultural trade negotiations

12. The mandated agricultural negotiations under the Uruguay Round began in the WTO in early 2000. There was a slow start to the negotiations, following the failed Seattle Ministerial meeting in 1999. Negotiations are now in full swing, having been given a boost by the Doha mandate. The principal elements of the Doha declaration on agriculture are that the negotiations will aim for "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support". All of these elements are of vital importance to New Zealand.
13. Market access for some products is limited by prohibitive tariffs of up to 500 percent in some countries with minimal access allowed under tariff quotas. Export subsidies (particularly prevalent for dairy products) force down prices on world markets, reducing the returns New Zealand farmers receive. High levels of domestic support, provided mainly by the European Union, the United States, Japan and Korea, with protective border regimes in place impede imports.
14. Non-trade concerns such as animal welfare and the environment, food security and rural development issues are also being raised in the agricultural trade negotiations. While New Zealand agrees that these issues are important, the WTO agricultural negotiations are not necessarily the place to address them and furthermore they should be pursued in non-trade distorting ways. Supporting New Zealand's objectives in the negotiations are other Cairns Group (largely unsubsidised agricultural traders) members and a range of other developing country Members. With respect to developing countries generally, New Zealand places emphasis on finding concrete special and differential measures which will allow them to both fully participate in the world trading system and pursue their specific development objectives.

The Doha Development Round: forestry trade negotiations

15. Forestry is included as part of the Doha Development Round's "industrials" or non-agricultural market access negotiation which request countries to "reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well non-tariff barriers...." Removing tariffs and non-tariff barriers are the principal elements to improved market access for New Zealand's forestry products.

World Trade Organisation: accessions

16. As at 1 January 2002, 144 countries were members of the WTO and a further 29 countries, including Russia, were applying to become WTO members. Accessions to the WTO are an important issue for New Zealand. The accession process allows us to negotiate market access concessions that are at least equivalent to those of existing WTO Members, as well as requesting additional concessions to eliminate the use of agricultural export subsidies or domestic support measures that could lead to a displacement of imports in the future.

World Trade Organisation Dispute Settlement

17. The WTO dispute settlement process allows a relatively small country like New Zealand to challenge the trade restricting practices of much larger economies. New Zealand has used the dispute settlement system to ensure a continuation of spreadable butter access into the European Union and eliminate WTO-inconsistent lamb tariffs in the United States. MAF was intimately involved in both of these cases.
18. **Canada dairy export subsidies:** Recently a dispute settlement panel ruled in New Zealand's favour in finding that Canada is providing WTO-inconsistent export subsidies to its dairy exporters. MAF estimates that the Canadian scheme is costing New Zealand dairy exporters and farmers about \$80 million per year. Even more importantly, if other WTO Members were to adopt the Canadian scheme it could lead to circumvention of the agreed Uruguay Round export subsidy disciplines and result in further declines in international dairy prices over time. This is the fifth occasion on which Canada has been unable to demonstrate that its dairy export regime complies with WTO export subsidies disciplines.
19. **United States/Japan apples:** Japan currently maintains prohibitive phytosanitary restrictions on the importation of US (and New Zealand) apples, in respect of fire blight or the fire blight disease-causing organism *Erwinia amylovora*. The US claims that the measures are inconsistent with WTO commitments and on 3 June 2002 a dispute settlement panel was established to consider the issue. New Zealand is formally involved in this dispute as a "third party", signalling to Japan our concerns about the measure's effect on the importation of New Zealand apples. This dispute is likely to cover issues relevant to Australia's restrictions on the importation of New Zealand apples as well.
20. **Other dispute settlement cases:** In conjunction with the Ministry of Foreign Affairs and Trade, MAF will continue to monitor other relevant dispute settlement cases in the WTO to ensure New Zealand's interests are recognised. MAF is also following the recently-initiated steel dispute between the United States and a number of countries (including New Zealand) as the measure at issue (safeguards) was the focus of the United States' lamb case. The steel case has potentially precedential implications for the treatment of agricultural and forestry products.

United Nations: Sustainable Forest Management

21. Concerns overseas about the sustainability of New Zealand's planted forests pose a potential threat to market access. Planted forests are sometimes portrayed as leading to a loss of biodiversity and other adverse environmental effects. Fora such as the United Nations Forum on Forests (UNFF), the International Tropical Timber Organisation (ITTO) and the Food and Agriculture Organisation of the United Nations (FAO) present important opportunities for New Zealand to promote planted forests and sustainable forest management.
22. **Forest Convention:** The international community has repeatedly debated the merits of a forest convention and is divided on this issue. To date no convincing arguments have been advanced favouring a convention over the current voluntary sustainable forest management arrangements. The UNFF will revisit the issue in 2005.

Food and Agriculture Organisation of the United Nations (FAO)

23. The Director-General of FAO, Dr Jacques Diouf, intends visiting New Zealand in September/October 2002, en-route to calls on new South West Pacific members of FAO.

World Summit on Sustainable Development (WSSD)

24. The Prime Minister is scheduled to lead the New Zealand delegation to WSSD, on 26 August to 4 September 2002 in Johannesburg. Because elements of the Johannesburg Plan of Action will have a bearing on the future of New Zealand's agriculture and forestry sectors, MAF will be represented at the WSSD.

PLURILATERAL RELATIONS

25. Plurilateral fora (such as APEC and the OECD) are also important to the promotion of New Zealand's agricultural and forestry trade objectives.

Asia Pacific Economic Cooperation (APEC)

26. A steady volume of work continues in the field of technical cooperation and trade facilitation, for example in agricultural technology and biotechnology, and food and forestry product standards. However, in recent years, the promotion of trade liberalisation in the agricultural, food and forestry sectors has not been a prominent feature. The APEC Business Advisory Council continues to advocate action in the food sector and is positioning the World Agricultural Forum as a shadow APEC agriculture ministers' meeting and a regular fixture for Asia-Pacific agricultural leaders from industry, government, academia and non-governmental organisations. The World Agricultural Forum is meeting in Guadalajara, Mexico on 18-19 September 2002.

Montreal Process

27. MAF will complete New Zealand's second report for input to the Montreal Process Working Group on criteria and indicators for the conservation and sustainable management of temperate and boreal forests. This will be a benchmark report that identifies New Zealand implementation of criteria and indicators for sustainable forest

management. The report reviews New Zealand's approach to seven criteria: biodiversity; productivity; forest health; the carbon cycle; soil and water protection; socio-economic benefits; and the laws and regulations that constitute the forest policy framework. The Ministry will need to maintain and enhance its reporting framework and capability to ensure the third report captures New Zealand's progression in sustainable forest management.

World Wine Trade Group (WWTG)

28. Members of the WWTG (formerly the New World Wine Producers or NWWP) including Argentina, Australia, Canada, Chile, New Zealand, South Africa and the United States share a common interest in international wine trade. A core function of the WWTG is information exchange. Increased interest in facilitating trade, within the group, has led to the negotiation of a Mutual Acceptance Agreement of oenological practices (MAA). To enter into force the Agreement must be ratified by two signatories, within 30 months of their signing the MAA. New Zealand (and Australia, Canada, Chile and the United States) signed the MAA in December 2001. The MAA commits Parties to accept each other's laws, regulations and requirements relating to oenological practices and the mechanisms to regulate them. It does not limit WTO rights or obligations. Parties are also required to negotiate an agreement on wine labelling with a view to concluding such an agreement within a year of the MAA entering into force. New Zealand supports a labelling agreement, in principle. The WWTG (then the NWWP) met in July 2002, in South Africa.

International Organisation of the Vine and Wine (OIV)

29. The OIV was established in 1924 to undertake scientific and technical work on wine and vines. The Organisation is seen as "eurocentric", although current membership includes a number of the New World Wine Producers. At the request of "New World" wine producing countries the structure and operation of the OIV was reviewed. Negotiations for a new OIV Agreement, to replace the current one dating from 1924, were concluded in April 2001. New Zealand has signed the new agreement that is now open to ratification.

BILATERAL RELATIONS

30. New Zealand is party to two free trade agreements: the Australia New Zealand Closer Economic Relations (CER) Agreement, signed in 1983; and the New Zealand Singapore Closer Economic Partnership Agreement, signed in 2000. New Zealand (with Australia) is also party to two preferential agreements: the South Pacific Regional Trade and Economic Cooperation Agreement, signed in 1981; and the Pacific Agreement on Closer Economic Relations, signed in 2001.

31. New Zealand is currently negotiating a closer economic partnership (CEP) with Hong Kong, and is seeking to negotiate CEPs with a number of countries, including Chile and the United States. Other possibilities include Mexico and Thailand.

32. Next year is CER's 20th anniversary, which presents an opportune time to respond to the Foreign Affairs, Defence and Trade Committee's report into New Zealand's economic and trade relationship with Australia and its recommendations aimed at strengthening and improving further economic integration.

33. A wide range of market access issues are addressed bilaterally with many of New Zealand's trading partners. The overall aim is to continue to pursue trade opportunities of interest to exporters of New Zealand agricultural and forestry products and resolve trade problems, on a country-by-country basis.

World Trade Organization's Committee on Sanitary and Phytosanitary Measures (SPS Committee)

34. The SPS Committee is made up of representatives of all World Trade Organization (WTO) members and also has some observer countries and organisations. It has a mandate to provide a regular forum for consultations and to do anything necessary to implement the provisions of the Agreement on the Application of Sanitary and Phytosanitary Measures (the WTO-SPS Agreement).
35. The SPS Committee takes an active role in consulting on SPS implementation issues raised by members, and in providing technical assistance. Members can consider in detail specific trade concerns they have with other member countries. But the SPS committee does not set international standards. This is done by the three international standard setting bodies outlined below, which are particularly relevant to ensuring New Zealand's trade interests.

Office International des Epizooties (OIE)

36. The OIE, or World Organisation for Animal Health, is the 160-member body which sets the standards by which animals and animal products can be traded safely without spreading diseases which would threaten humans or animals. In the case of trade disputes arising from imposition of measures aimed at reducing disease risks posed by animal products, the WTO defers to the technical expertise of the OIE and its standards. The OIE's standards are compiled as the International Animal Health Code and MAF invests significant energy in the development and enhancement of these standards. New Zealand's biosecurity and trading interests are well served by influencing the international standards to ensure they are fair. Fair and scientifically-based international standards ensure that we can trade without jeopardising our own animal and human health status and without being subjected to unfair burdens on our producers when they seek market access for their products.

International Plant Protection Convention (IPPC)

37. The purpose of the IPPC is to secure common and effective action to prevent the spread and introduction of pests of plants and plant products and to promote measures for their control. The IPPC provides a framework and forum for international cooperation, harmonisation and technical exchange in collaboration with regional and national plant protection organisations. The IPPC plays a vital role in trade as it is the organisation recognised by the WTO-SPS Agreement as the source for international standards for the phytosanitary measures affecting trade. New Zealand participates through the Interim Commission on Phytosanitary Measures, which enables us to develop and maintain rigorous science-based SPS systems both at a national and international level.

FAO/WHO Codex Alimentarius Commission (Codex)

38. Codex is responsible for protecting consumer health and facilitating fair practices in food trade. Codex has 165 member countries.