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Modelling Agricultural Impacts of EU-NZ Trade Liberalisation

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Table of Contents

List of Tables	vi
Abstract	vii
Chapter 1 Introduction	1
Chapter 2 Trade Between EU-NZ	2
2.1 The European Community	3
2.2 Access for New Zealand exports into the EU	5
2.2.1 Butter	5
2.2.2 Cheese	5
2.2.3 Sheepmeat	6
2.3 World Trade Organisation	6
Chapter 3 European Union	8
3.1 European Union Trade Profile	8
3.1.1 Trade with NZ (EU into NZ)	8
3.2 Analysis of EU Free Trade Agreements	9
3.2.1 Analysis of pre-Communication FTAs	11
3.2.2 Conclusion	24
Chapter 4 New Zealand	27
4.1 New Zealand Trade Profile	27
4.1.1 Trade with EU (NZ into EU)	27
4.2 New Zealand Free Trade Agreements	29
4.2.1 New Zealand - Australia Closer Economic Relations (ANZCER)	30
4.2.2 New Zealand - Singapore Closer Economic Partnership (NZSCEP)	30
4.2.3 New Zealand - Thailand Closer Economic Partnership (NZTCEP)	30
4.2.4 New Zealand - China Free Trade Agreement (NZCFTA)	31
4.2.5 New Zealand – Malaysia Free Trade Agreement	31
4.2.6 The New Zealand - Hong Kong, China Closer Economic Partnership (NZHKCCEP)	32
4.2.7 New Zealand – Korea Free Trade Agreement (NZKFTA)	33
Chapter 5 Trade Modelling Results	35
5.1 General Characteristics of the LTEM	35
5.2 EU-28 and New Zealand Free Trade Agreement	36
5.3 Results	38
5.4 Conclusion	42
References	45
Appendix 1	49

List of Tables

Table 3.1: Summary of EU exports, imports and trade balance, 2015	8
Table 3.2: EU exports to New Zealand, 2015 (EU€ millions)	9
Table 3.3: Total production and exports (Chile, South Africa, Mexico and EU) in thousands of tonnes, 2000 and 2015	13
Table 3.4: Production and export in thousands of tonnes	23
Table 3.5: Production and export in thousands of tonnes	25
Table 4.1: Summary of New Zealand exports, imports and trade balance, 2015	27
Table 4.2: New Zealand exports to the EU, 2015 (EU€ millions)	28
Table 4.3: Exports to European Union and duties faced for agricultural products	29
Table 4.4: Current Free Trade Agreements between New Zealand and other countries	30
Table 4.5: New Zealand FTA tariff elimination schedules for agricultural products	34
Table 5.1: Modelling Specifications	35
Table 5.2: Commodity coverage in the LTEM	36
Table 5.3: Countries in the LTEM	36
Table 5.4: Tariffs and duty's applied to New Zealand commodities	37
Table 5.5: Tariffs and duty's applied to European Union commodities	37
Table 5.6: Change in producer prices (USD/t) between scenarios in 2024	38
Table 5.7: Change in production (kt) between scenarios in 2024	39
Table 5.8: Change in consumption (kt) between scenarios in 2024	40
Table 5.9: Change in producer returns (kt) between scenarios in 2024	40
Table 5.10: Change in bi-lateral net trade (kt) between scenarios in 2024	41
Table 5.11: Change in total net trade (kt) between scenarios in 2024	42

Abstract

The European Union and New Zealand have signalled a desire to negotiate a free trade agreement (FTA). This paper seeks to determine what form such an agreement would take by considering previous FTAs negotiated by each party. As agriculture is of particular significance to New Zealand and trade agreements in general, the impact on agriculture is assessed with use of a partial-equilibrium trade model. The report finds that likely areas of liberalisation for imports into New Zealand, are mechanical, electrical and transport goods. For New Zealand imports into the EU concessions on agricultural will be most significant, with an expected liberalisation on kiwifruit, and wine, and a renegotiation on quota access and sheepmeat and beef. One sensitive area is dairy products, where a longer tariff elimination period is expected. The trade modelling results show a small but positive impact on producer returns for both the EU and NZ.

Chapter 1

Introduction

The European Union (EU) is an important trading partner for New Zealand, with over \$5 billion of New Zealand produce going to the EU in 2015, and \$8.8 billion in imports from the EU into New Zealand. This makes the EU the third largest trading partner for NZ, and while the importance of New Zealand as a trading partner is less significant for the EU, there is a long history of trade between the nations, in particular between NZ and the United Kingdom. As part of this trading history the EU still maintains some preferential quota access for some of New Zealand's agricultural products, although currently no extensive bi-lateral trade agreement exists between the nations. This may change as New Zealand and the EU have affirmed that they are seeking to achieve *a deep and comprehensive high-quality Free Trade Agreement*, with negotiations towards a free trade agreement (FTA) likely to initiate in 2017.

This report presents an examination of trade profiles and previous FTA agreements for both the EU and NZ, with the aim of assessing what a potential FTA between the two trading partners may involve. Additionally, as the trade of agricultural products is of particular importance to New Zealand, a more in-depth analysis using a partial-equilibrium trade model is included (The Lincoln Trade and Environment Model LTEM). The structure of the report is as follows, Chapter 2 presents a history of trade between the two regions from a New Zealand perspective, chronicling key events in the development of EU-NZ trade relations. Chapter 3 examines the European Union's trade, including a profile of current trade, as well as an analysis of the EU's current FTAs and protectionist measures taken. Chapter 4 likewise examines New Zealand's trade, including a profile of current trade, as well as an outline of the current FTAs that New Zealand is engaged in. Chapter 5 presents the results from the trade modelling exercise, primarily in changes to producer returns for the EU and NZ.

Chapter 2

Trade Between EU-NZ

New Zealand, as an agriculture-producing nation with relative geographical isolation, has always relied on its primary product exports. Wool was the first substantial primary product to be exported from New Zealand. This was followed by experimental shipments of wheat flour to Britain in 1867 and canned meat in 1870. It was with the introduction of chilling and refrigeration technology in transport that New Zealand saw its first shipment of frozen sheepmeat to Britain in 1882. The entire shipment was sold within a fortnight at twice its New Zealand price. This demonstrated that food – not just meat, but also dairy and other products – could be profitably sent from New Zealand to Europe.

In the 1930s, trade with Britain was around 80 per cent of all New Zealand's merchandise trade. This trade was further facilitated by the Ottawa Agreement, 1932, which was a series of twelve bilateral trade agreements providing for mutual tariff concessions and some other commitments among the participants, a system known as imperial preference. Within the Ottawa Agreement it was decided that Britain would continue to waive its 10 per cent revenue tariff on imports from New Zealand, as well as increase the margin of preference for a range of New Zealand products (including butter, cheese, apples, pears, eggs, honey and milk products) from 10 per cent to 15 per cent, with these rates to remain in place until at least 1937.

The Ottawa Agreement expired in 1937, but even at that stage “the New Zealand and United Kingdom governments had discussed arrangements for the production and shipping of the greatest possible quantity of foodstuffs to feed the people in Britain in the event of war” (Baker, 1965, p. 184). Two years later the United Kingdom was at war; Baker (1965) records that bulk purchasing agreements for wool, meat, cheese and butter were concluded within two weeks of the outbreak in 1939. As World War II drew towards a close, the bulk purchase contracts were extended for wool for one more year and for meat and dairy until 1948 (Baker, 1965). These meat and dairy contracts were again extended in 1948 for another seven years, although in due course they finished one year early in 1954 (Nixon and Yeabsley, 2012).

Thus between 1932 and 1954, New Zealand large agri-food producers were firmly focused on increasing the quantity of exports to the United Kingdom, with much focus on research towards and development of methods to achieve this. Two new industries had their export origins at around that time. The first exports of Chinese gooseberries (later known as kiwifruit) to the United Kingdom and Australia occurred in 1952 (Campbell and Haggerty, 2013).

The bulk purchase agreements with the United Kingdom finished one year ahead of schedule “as production recovered in the UK” (Nixon and Yeabsley, 2012). Thus it was no long possible to rely on the British market for future export growth and this new reality was reinforced when the United Kingdom – along with Denmark, Ireland and Norway – applied to enter the EC in 1961 (although these applications were suspended after France vetoed the UK application).

Trade with Britain was still over 60 per cent of New Zealand exports in the mid-1950s. However, that changed, so that by the time Britain entered into the European Economic Community (EC) on 1st January 1973, diversification by New Zealand exporters meant that the British share of New Zealand's

merchandise trade had fallen to just above 25 per cent. That figure continued to decline and had reached 10 per cent when New Zealand began its decade of economic reforms following the general election of July 1984.

Eventually, when the UK joined the EC in 1973 and adopted the Common Agricultural Policy (CAP) (after a transitional period of five years), the threat to NZ trade was still high. The CAP was based upon fixed support prices with barriers to entry of third country imports. The European Union (EU), then called the European Economic Community, was established on 25 March 1957 when the Treaty of Rome was signed. The CAP was established in 1963 which effectively set internal minimum prices well above world market levels.

2.1 The European Community

The EC was founded by the Treaty of Rome in 1957, with Article 39 concerned with the development of a common market and policy for agriculture which was seen as essential for the formation of the EC. It is not surprising that this policy followed the model of continental Europe, restricting imports in order to raise domestic prices. Nonetheless it took another ten years for the policy to be developed and implemented. The objectives of the CAP can be summarised as follows:

- Increase agricultural productivity
- Thus to ensure a fair standard of living for those engaged in agriculture
- Stabilise markets
- Availability of supplies
- To ensure that supplies reach consumers at reasonable prices

The basic system of support in the EU was, and to some extent still is, based upon the fixing of institutional prices. These include the intervention price, effectively a minimum price at which supplies are removed from the market by Government agencies, and the threshold price, the price at which imports are allowed into the domestic market, which is maintained by a system of import levies. These common prices were, in the case of most commodities, set well above world market prices. This led to increases in production within the Community, aided by increases in productivity through technological change. Thus self-sufficiency increased and the EU became a major exporter of temperate zone products, disrupting world markets further, especially for traditional food exporters like NZ.

The CAP policy led to a number of well documented problems, the main ones being the rising cost of the CAP, the deterioration of international relations, as well as environmental degradation, and pressures for reform increased. Other negative consequences of the CAP such as high consumer prices, inequitable distribution of support and poor transmission of support to farmers, received little, if any, attention by policy makers in Brussels.

There were various reforms to the CAP, on a piece meal basis, over the 1980s. However, it was the McSharry reforms in 1992 which formed the base for future reform (Saunders, 2005). Whilst these left the basic price structure in place they reduced institutional prices for cereals to, or closer to, world market levels and compensated producers with direct payments.

The next sets of reforms were Agenda 2000. This was radical in that it not only dealt with price cuts and detailed CAP policy but also the future financing of the CAP, the structure funds, EU enlargement; and most importantly it replaced the original objectives of the CAP with a set of objectives for a rural policy.

The Agenda 2000 reform built on the McSharry reforms, with further cuts in price and increases in direct payments. The new initiatives introduced under Agenda 2000, which provided the foundation for more radical reform included the introduction of a rural policy under the agriculture directorate.

As stated above, the most radical change in Agenda 2000 reforms was the removal of the objectives of agricultural policy established in the Treaty of Rome and their replacement with objectives for a rural policy. These new policy objectives not only integrate and simplify existing policies but opened up the agricultural budget to being diverted into support for rural areas. One of the historical problems with the reform of the CAP has been the size of the agricultural bureaucracy (Director General VI (DG Agriculture)), as the relative size of the agricultural support budget in the EU has shown. This can inhibit reform, as bureaucracies are reluctant to cede power. Thus allowing DGVI to develop and fund rural policy opens up possibilities of a future policy based not on agricultural production but on rural development.

The objectives for rural policy under Agenda 2000 are as follows:-

- to improve agricultural holdings,
- to guarantee the safety and quality of foodstuffs,
- to ensure fair and stable incomes for farmers,
- to ensure that environmental issues are taken into account,
- to develop complementary and alternative activities that generate employment, with a view to slowing the depopulation of the countryside and strengthening the economic and social fabric of rural areas,
- to improve living and working conditions and promote equal opportunities.

These differ from the original objectives of agricultural policy, outlined earlier in the paper, and do show the change in emphasis within the EU. The change in emphasis in these objectives is radically different as is the very existence of a rural policy.

The Agenda 2000 reforms were then followed by the Mid-Term Review of the CAP in 2002. Under the Mid-Term Review cereal and dairy prices were cut further, with a corresponding increase in direct payments, building again upon the principle of the McSharry reforms. However, the Mid-Term Review also included other changes, such as entitlement to direct payments being conditional on cross compliance, including needing to meet legislative obligations as well as good farming practice. The Mid-Term Review also strengthened policies encouraging food quality and animal welfare.

The Fischler reforms of 2003 reinforced, and in some cases increased, the price cuts agreed in the Mid-Term Review. Thus it was proposed to further reduce cereal prices by 50 per cent. Skim Milk Powder prices to be cut by 15 per cent and butter by 25 per cent and there was also increases in the milk production quota of 1.5 per cent per year in 2004, 2005 and also in 2006.

The major part of the Fischler reforms was the introduction of a Single Farm Payment Scheme (SFPS) to replace all the direct hectare and headage payments. The SFP does depend upon certain environmental, food safety, animal and plant health and welfare standards being met.

2.2 Access for New Zealand exports into the EU

As stated earlier the consequence for NZ of UK entry into the EC was the loss of its main export market. NZ negotiated successfully however, negotiated for some access to the UK market, under protocol 18, for butter and cheese. Initially preferential access was to the UK market alone but then gradually this has been relaxed to include all of the EU.

2.2.1 Butter

During the UK's transitional period to CAP the import levels provided by Protocol 18 did not limit the amount of butter sent to the UK. Protocol 18 had provision for the extension of New Zealand's exports to the UK after the UK's five year transition period was completed.

By the beginning of 1978, the UK had completed its five year task of lifting support prices to full EC levels. In 1977 to 1980 the increase in UK prices increased UK dairy production and reduced domestic demand, resulting in a build-up of butter stocks. As a consequence, New Zealand butter sales to the UK fluctuated in 1979 and 1980 and 19,000 tonnes of New Zealand butter was not sold in 1979 (Amor & Saunders 1999). During 1980, New Zealand had difficulties in meeting its butter quota. As a result New Zealand voluntarily reduced its butter import quota by 20,000 tonnes in 1981 in return for an increase in the minimum c.i.f price to 75 per cent of the EC intervention price. This arrangement was only to continue until the end of 1983, although in 1984 the UK's authorisation to import butter from New Zealand was extended to 31 December, 1989.

The commission of the EC proposed that the 1984 quota should be set at 83,000 tonnes reducing by 2,000 tonnes per annum to 75,000 tonnes in 1988. The butter quota was successively reduced until the completion of the Uruguay round of GATT talks in 1994, when New Zealand's country specific butter access was increased to 76,667 tonnes per annum.

2.2.2 Cheese

Provisions for New Zealand to export cheese into the UK were also covered under Protocol 18. Under Protocol 18 maximum cheese quota levels were to decline from 68,580 tonnes in 1973 to 15,400 tonnes in 1977. Unlike butter, Protocol 18 did not provide for an extension for New Zealand to import cheese into the UK after the transitional period was up in 1978. New Zealand was successful in negotiating an agreement with the EC of an annual quota for cheese exports of 9,500 tonnes. This comprised of 6,500 of cheddar for retail and 3,000 for processing. This level of access continued until the Uruguay Round of the GATT finished in 1995, when negotiations resulted in cheese access remaining at 9,500 tonnes at a tariff of \$340/tonne.

In addition to the above the Uruguay agreement under the GATT resulted in the EU providing a most favoured nation clause (MFN) for cheese of 18,000 tonnes in 1995 rising to 104,000 tonnes in 2000, of which New Zealand has access to in competition with other countries although certainly no quota rent will be earned on these exports. The impact of this is seen in figure 2 where actual exports to the EU are above the access arrangements.

Since 1993, the European Commission allowed New Zealand to export butter and cheese into the rest of the European Union. From 1996 the EU increased New Zealand's country specific access to 11,000 tonnes as compensation for the accession of Austria, Finland and Sweden into the EU. This increase comprises of an extra 1,000 tonnes of processing cheese and an extra 500 tonnes of cheddar cheese for direct consumption.

2.2.3 Sheepmeat

Sheepmeat exports to the UK/EC were not covered by Protocol 18 and therefore initially had no special arrangements. When the UK entered the EU a common external tariff (CET) of 20 per cent was to be applied to imports of sheepmeat after the transitional period, from 1973 to 1977. So from 1977 to 1980 New Zealand had no special access into the UK/EU. In 1980 a voluntary export restraint was introduced and NZ agreed to limit access of sheepmeat to 245,000 tonnes to the UK in return for a lowering of the CET to 10 per cent. In 1984 a sensitive market access was agreed which allowed 3500 tonnes into France which could be expanded by 10 per cent per year. In 1989 the preferential access was reduced to 205,000 tonnes in return for a zero CET. Access increased in 1994 to 205,600 when the Canary Islands entered the customs union. A quota of 6,000 tonnes was given for chilled lamb within the overall quota in 1989 and this was to be increased by 1,500 tonnes per year and reached a possible quota of 13,500 in 1994, although this was not always met. In 1993 and 1994 the agreements were rolled over awaiting the outcome of the Uruguay round of the WTO.

Under the Uruguay round the preferential access was increased to 225,000 tonnes rising to its current level with the last enlargement of the EU at 226,700 tonnes. There is in theory no limit for chilled exports from NZ to the EU, which in 2000 were 27,000 tonnes. Any imports in excess of this amount above have to pay out of quota tariff of between 80 to 100 per cent, which is clearly prohibitive.

2.3 World Trade Organisation

Agricultural policies adopted by different countries have been addressed in the WTO negotiations in a view to achieve greater trade liberalisation. They have been classified in three main pillars: *market access*, *domestic support* and *export competition*. Market access includes all import restrictions such as tariff duties and import quotas. Domestic support address subsidies given by government to their farmers, either via price support mechanisms, direct payments or others. Export competition covers export restitutions and others such as export credits, food aid and exports via STEs.

There is a potential area of contention with the EU due to the existence of trade restrictions based upon types of production whether defined under Sanitary and Phytosanitary (SPS) or technical barriers to trade. Seen in EU bans on imports of beef produced with hormones and the EU attitude to GMOs. The EU is also raising the importance of the multi-functionality of EU agriculture, something more important in the EU which depends upon agricultural land for its wildlife and recreation, compared to NZ.

The millennium Doha Round of trade negotiations began in 2001 with the intention of putting the interests of developing countries at the core of discussions. However, negotiations were delayed in 2003 at the Cancun Ministerial Conference largely due to the inability of countries to reconcile differences in agricultural issues. At present, it has been over a decade since negotiations first stalled and the future of the Doha Round remains uncertain.

Failure to reach agreement in the multilateral arena has led to the proliferation of preferential trading agreements between Parties. Such agreements improve the ability of Parties to access markets by breaking down barriers to trade, including tariff and/or non-tariff barriers. Preferential agreements provide Parties with the opportunity to tailor a trade agreement to their particular circumstances and domestic trade policies. This allows for more liberalisation, by which mutual agreement can be achieved in the global arena. However, the use of preferential trade agreements undermines the goal of global reductions in trade barriers as these fall outside of the scope of the WTO under Article XXIV of the GATT. There is therefore no obligation to afford preferential treatment to those not Party to the agreement, undermining the core value of the WTO that treatment to one must be applied to all; “Most Favoured Nation” (MFN).

The most well-known type of preferential trade agreement is the Free Trade Agreement (FTA). Despite the term “free trade”, an FTA does not necessarily constitute complete liberalisation of all products to be consistent with Article XXIV. Article XXIV(8)(b) requires that duties and other restrictive barriers are eliminated on substantially all the trade between the Parties. The effect is that a Party may choose to retain protective measures on chosen products, provided that it does not fall short of "substantially all". In respect of the EU, this may mean that protective measures are maintained on agricultural products due to their sensitivity and protection under the CAP. It is therefore useful to analyse the extent to which agriculture has been protected within the EU’s current FTAs in order to determine the likelihood of New Zealand obtaining further access to the EU’s agricultural market.

Chapter 3 European Union

This section presents a trade profile of the European Union, including top exports and current barriers to trade (as applicable to New Zealand), as well as an examination of European policy and protectionist measures employed in current preferential bilateral trade agreements.

3.1 European Union Trade Profile

Table 3.1 below presents a summary of total EU trade in 2015, including the total value of exports from and imports into the EU, as well as overall trade balance. The top three EU exports by value for 2015 were machinery and electrical goods, transportation goods and chemicals. In particular, machinery and electrical goods were the most valuable (EU€456 billion), followed by transportation (EU€295 billion) and chemicals (EU€281 billion). The top imports into the EU included machinery and electrical goods (EU€416 billion), fuels (EU€327 billion) and chemicals (EU€166 billion).

Table 3.1: Summary of EU exports, imports and trade balance, 2015

Sector(s)	Export value (EU€ millions)	Import value (EU€ millions)	Net exports	RCA
Animals	25,494	24,695	799	1.03
Chemicals	280,977	165,519	115,459	1.05
Food Products	69,708	45,024	24,684	0.95
Footwear	9,095	22,860	-13,764	0.94
Fuels	85,356	327,321	-241,965	0.68
Hides and Skins	16,445	15,790	655	2.40
Mach and Elec	456,173	416,159	40,014	1.28
Metals	102,710	100,964	1,746	1.16
Minerals	6,359	23,492	-17,133	1.88
Miscellaneous	159,911	140,115	19,796	0.85
Plastic or Rubber	67,420	53,812	13,608	1.21
Stone and Glass	98,042	70,293	27,748	0.44
Textiles and Clothing	44,531	109,450	-64,920	0.92
Transportation	295,455	120,847	174,608	1.09
Vegetable	31,671	61,977	-30,306	2.01
Wood	41,687	28,388	13,299	1.26

Source: EUROSTAT, 2016.

3.1.1 Trade with NZ (EU into NZ)

Table 3.2 below shows the value of exports from the EU to New Zealand in 2015 across a range of categories. It shows that the three most important EU exports to New Zealand are transportation (EU€1.4 billion), machinery and electrical goods (EU€1.1 billion), and chemicals (EU€532 million).

Table 3.2: EU exports to New Zealand, 2015 (EU€ millions)

Sector(s)	Export value (Euro millions)
Animals	126
Chemicals	532
Food Products	229
Footwear	25
Fuels	15
Hides and Skins	12
Mach and Elec	1,134
Metals	180
Minerals	3
Miscellaneous	332
Plastic or Rubber	184
Stone and Glass	80
Textiles and Clothing	95
Transportation	1,365
Vegetable	80
Wood	129

Source: EUROSTAT, 2016.

As stated above, the EU's key exports to New Zealand includes transportation goods, machinery and electrical goods and chemicals. Products of each of these sectors are subject to duties on entering New Zealand. Of transportation goods entering New Zealand, 12.6 per cent of tariff lines are duty free, and the remainder have an average MFN applied duty of 4.3 per cent. Electrical and non-electrical machinery are subject to different duty rates. At present, non-electrical machinery has an average MFN applied duty of 1.9 per cent, while electrical machinery has an average MFN applied duty of 2.8 per cent. The average applied tariff for chemicals is 4.5%, although 47% of tariff lines enter duty free. (WTO, 2015c).

3.2 Analysis of EU Free Trade Agreements

The EU has numerous preferential trade agreements since its inception, however, it has only ratified 4 FTAs to date.¹ The first 3 are with South Africa (Trade, Development and Cooperation Agreement (TDCA), 2004), Mexico (Economic Partnership, Political Coordination and Cooperation Agreement (Global Agreement), 2000) and Chile (Association Agreement, 2002) and represent traditional FTAs which predominantly focus on trade liberalisation in goods. The fourth is with South Korea (EU-South Korea Free Trade Agreement (Korea FTA), 2010) and represents a 'new generation' FTA - not only does it further liberalise trade in goods, it also provides for market access in services and investment and includes provisions relating to competition, intellectual property, capital payments and sustainable development.

The shift from traditional to new generation FTA comes in response to the European Commission's *Global Europe* Communication of 2006, which advocates a new approach to external trade policy in order to

¹ Other preferential trade agreements may be classified as eg. economic partnership agreements, association agreements, stabilisation agreements.

ensure the EU's competitiveness in the global arena. Recognising services, investment and public procurement as crucial to the EU's prosperity and competitiveness, the Communication rejects domestic protectionism and instead promotes openness to global trade as Europe's "prosperity depends on trade" and "others' reciprocal obstacles would damage [Europe's] economy" (EC, 2006). However, the Communication also highlights the need for stronger rules surrounding intellectual property and competition in order to enhance the value of market access for EU businesses. The EU's current external trade policy therefore seeks to advance open markets through a combination of trade liberalisation and strengthened domestic regulatory mechanisms. The rejection of protectionism represents a change in position as the EU has traditionally restricted market access across many products, in particular agricultural products, as discussed above.

Within the multilateral system the EU maintains protectionism under the CAP. This includes key export commodities from New Zealand, such as beef, sheepmeat, dairy, kiwifruit and wine. Many of these levels have remained largely unchanged since the establishment of the WTO. For example, the average applied MFN *ad valorem* tariff across HS code 2204 (wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09) in 1996 was 37.3 per cent whilst in 2015 it had decreased to 32 per cent. Conversely, the number of non-*ad valorem* tariffs had increased from 93 (across 94 tariff lines) in 1996 to 100 (across 101 tariff lines) in 2015. Similarly, but to a lesser level of protection, the average applied MFN *ad valorem* tariff across HS code 081050 (Other fruit, fresh: kiwifruit) in 1996 was 10.3 per cent, which decreased to 8.8 per cent in 2015. Despite the small decrease in applied tariff levels over the past two decades, the EU maintains a bound or 'ceiling' tariff rate which has remained unchanged since at least 2002, with bound levels under HS96 (which applied until 2002) being 32 per cent and 8.8 per cent respectively (WTO, 2015a).

In contrast, average applied MFN *ad valorem* tariffs on HS code 0406 (cheese and curd) had reduced from 10.6 per cent in 1996 to 7.7 per cent in 2000, before being removed in 2015. While *ad valorem* tariffs have been removed, 43 non-*ad valorem* tariffs remain across all 43 tariff lines. Similarly, while the EU has not applied *ad valorem* tariffs on products across HS codes 0201 (meat of bovine animals, fresh or chilled), 0202 (meat of bovine animals, frozen) and 0204 (meat of sheep or goats, fresh, chilled or frozen) under the WTO system, non-*ad valorem* tariffs apply across all tariff lines under those codes (WTO, 2015a).

This tariff data indicates that there remains a substantial level of protectionism towards the EU's agricultural products within the WTO. This is unsurprising given the sensitive nature of agricultural products within the EU and the mutually-advantageous concessionary nature of the multilateral system. It does, however, lead to the conclusion that EU external trade policy in the global arena has not fulfilled the objective of the *Global Europe* Communication (the Communication).

As mentioned briefly above, FTAs, on the other hand, offer an alternative as the contracting Parties are not obligated to apply the same concessionary treatment to all WTO members. The necessary implication of an FTA is the reduction of protectionist measures on certain negotiated products, which may or may not include agricultural products. An analysis of individual FTAs concluded and ratified by the EU is therefore useful in order to determine the extent to which EU protectionist measures on agricultural products have been reduced as a result of those FTAs.

It is useful to examine and compare the EU's FTAs concluded both before and after the release of the Communication to assess if this may affect an EU-NZ FTA. It is also useful to examine both tariff and non-tariff measures within each FTA as domestic regulatory mechanisms may be as much protectionist as

tariff barriers are. This type of analysis would not only provide a better understanding of the protectionist measures imposed and the extent of their reduction between FTAs, but would also provide a comparison between those imposed prior to and after the release of the Communication. This is crucial to understanding the nature of EU external trade policy and it would indicate the extent to which the Communication is incorporated within the EU's FTAs. This analysis would reveal the trading position and preferences of the EU, the significance of which is that it could be used to determine how the EU would likely conclude an FTA with other countries, including New Zealand.

3.2.1 Analysis of pre-Communication FTAs

An analysis of the EU's FTAs with South Africa, Mexico and Chile shows a highly protectionist stance towards agricultural products across all 3 FTAs from all contracting Parties, despite efforts within those FTAs to liberalise trade in agricultural products. This is most apparent within the EU's tariff elimination scheme and the legal provisions of the FTAs. Furthermore, all 3 FTAs exhibit significant commonalities and few differences in respect of agricultural products across both elimination schedules and legal provisions. Both tariff elimination schedules and legal provisions are discussed herein.

3.2.1.1 1 Tariff elimination schedules

The 3 FTAs contain a tariff elimination schedule for agricultural and processed agricultural products, as defined under Annex 1 of the WTO Agreement on Agriculture as all products within HS codes 1 to 24 (less fish products). These schedules set out specific timeframes and detailed schedules for the liberalisation of tariffs across all agricultural products. While all 3 differ in their elimination schedules, they contain one common feature: the exclusion from liberalisation of certain agricultural products, predominantly cheeses and wines, due to their status as protected denominations within the EU (see *Appendix 1* for those products excluded by the EU across the 3 FTA).

In response to diversity in national practices for the regulation and registration of denominations of origin and geographical indications, the EU implemented a uniform system to ensure the protection of products covered by these designations. Council Regulation No 2081/92 sets out the system for the registration and use of these designations, prohibiting their use unless the product complies with the Regulation. It defines *designation of origin* (Protected Denomination of Origin (PDO)) as a region, specific place or country used to define an agricultural product which originates and is prepared and produced in that place, and contains qualities or characteristics which are essentially or exclusively due to that particular geographical environment (Article 2(a)). *Geographical indications* (Protected Geographical Indication - PGI), on the other hand, refer to agricultural products originating and prepared or produced in that place, which possess a specific quality, reputation or other characteristic attributable to that geographical location (Article 2(b)) (European Communities, 1992). Wines and spirits are not included within Regulation 2081/92 but rather have their own protective system under Regulation 1493/99 which prohibits the use of geographical indications for products not originating in the place of indication (European Communities, 1999).

An EU member state may apply to register an agricultural product as a PDO or PGI and, provided that the product meets the required standards, is then recognised as protected on the EU's Database Of Origin & Registration (DOOR). Products excluded from the 3 FTAs are protected under this system, hence their exclusion from liberalisation.

Exclusion from liberalisation is the most drastic protectionist tariff measure taken under each FTA. However, the EU has also imposed protectionist tariff measures through its schedule for liberalisation of other agricultural products. This report is interested in HS codes relating to particular products, meat (0201, 0202, 0204), dairy (0402, 0405, 0406), kiwifruit (081050) and wine products (2204), thus other agricultural products will be excluded from analysis herein.

3.2.1.1.1 (a) Meat of bovines: HS 0201 and 0202

As mentioned above, the EU has not applied *ad valorem* tariffs on beef under the WTO, but has imposed non-*ad valorem* tariffs instead in the form of a compound tariff. All beef products are subject to an *ad-valorem* and specific tariff component as the EU's applied MFN tariff for 2015. For example, fresh or chilled boneless beef (HS 0201 30) is subject to an *ad-valorem* tariff of 12.8 per cent with an additional specific tariff of €303.4/ 100kg. Similarly, frozen boneless beef forequarters (HS 0202 30 10) are subject to an *ad-valorem* tariff of 12.8 per cent with an additional specific tariff of €221.1/ 100kg (WTO, 2015a).

Despite the inclusion of beef products within the FTAs, there is no set schedule for their liberalisation in relation to South Africa and Mexico. All beef products within the TDCA are contained within the "reserve" List 7: all products are *provisionally* excluded from liberalisation and shall be reviewed periodically on the basis of future developments in the CAP (TDCA, 2004). Similarly, all beef products within the Global Agreement are provisionally excluded from liberalisation, falling within Category 5 where they shall be reduced in accordance with the provisions stated therein (European Communities, 2000). Both List 7 and Category 5 shall be reviewed no later than 5 years and 3 years, respectively, after entry into force of the FTAs, in order to consider further steps in the process of liberalisation between the Parties (TDCA, 2004). However, there is no guarantee that a review will lead to liberalisation.

The Association Agreement, on the other hand, provides for substantial liberalisation of beef products by removing both the *ad valorem* and specific tariff applied under the multilateral system. Instead, beef products originating in Chile are subject to a tariff quota under Art 71(5) of that FTA. The EU agreed to allow duty free importation of an aggregate quantity of 1,000 metric tonnes of beef products under HS 0201 and 0202, with an increase by 10 per cent each year of the original quantity (Association Agreement, 2002). Any quantity above what is permitted will be subject to the applied MFN rate. It is important to note that the quantity is an *aggregate* quantity across all beef products and therefore the quantity is less than what may appear.

All 3 FTAs fall within the "traditional" category of FTAs, but they have differential treatment across commodities, largely explained below by the different production and trading patterns.

Table 3.3 illustrates the total production and export of selected agricultural products (in thousands of tonnes) for 2000 and 2015. Production data shows that South Africa and Mexico are reasonably large producers of beef, particularly Mexico, with a higher percentage of their beef products exported. This could pose a threat to EU beef producers, thus protectionism is employed within their FTAs. Chile, on the other hand, is a comparatively minor beef producer and their beef products are mainly consumed domestically. Therefore, Chilean beef poses only a small threat to EU beef producers, thus the need for protectionism is reduced in comparison to South Africa and Mexico.

Another explanation for the difference in protectionism towards beef between South Africa and Mexico and Chile at these times may be found in the European Commission's 2003 Impact Analysis of the 2002 proposed Mid-Term Review of the CAP. The Mid-Term Review proposes a set of adjustments to the CAP, one of which saw an extension of quotas for milk, leading to increased EU milk production. (In subsequent CAP reforms the milk quota has now been removed.) The EU Impact Analysis highlights as an implication of increased milk production a reduction in beef production, thus the EU would have the need to rely on more imports (EC, 2003). As the Association Agreement was concluded during the CAP reforms in the early 2000s, it could be that the tariff quota on Chilean beef was included within the FTA to take account of predicted decreased EU domestic production.

Table 3.3: Total production and exports (Chile, South Africa, Mexico and EU) in thousands of tonnes, 2000 and 2015

	BEEF		SHEEP		MILK		BUTTER		CHEESE	
	2000	2015	2000	2015	2000	2015	2000	2015	2000	2015
CHILE										
Prod	226.4	192.2	16.5	18.5	2000.0	2704.3	9.9	26.1	50.6	71.1
Export	0.2	4.8	4.0	6.8	-----	-----	0.2	4.0	1.6	7.8
Ex per cent prod*	0.10%	2.51%	24.18%	36.99%	-----	-----	2.23%	15.24%	3.16%	11%
S AFRICA										
Prod	521.9	884.0	150.4	166.8	2540.0	3712.7	9.4	14.3	35.3	46.4
Export	13.5	62.2	0.1	2.3	-----	-----	1.5	4.4	1.8	4.0
Ex per cent prod	2.58%	7.03%	0.03%	1.37%	-----	-----	15.07%	31.04%	4.95%	8.57%
MEXICO										
Prod	1377.4	1844.1	33.39	59.8	9600.1	11478.6	15.5	16.85	133.5	174.4
Export	276.3	314.7	0.1	0.0	-----	-----	0.1	1.5	0.5	2.5
Ex per cent prod	20.05%	17.06%	0.17%	0.03%	-----	-----	0.38%	8.9%	0.37%	1.43%
EU										
Prod	8530.5	7363.5	1288.3	950.0	150454.9	161422.6	2200.1	2235.3	7819.3	10042.7
Export	665.5	301.1	11.7	78.1	-----	-----	192.5	157.8	520.6	797.9
Ex per cent prod	7.80%	4.08%	0.90%	8.21%	-----	-----	8.74%	7.05%	6.65%	7.94%

Note: * Percentage of total production being exported.

Source: OECD-FAO, 2015.

3.2.1.1.2 (b) Meat of sheep: HS 0204

As also mentioned above, the EU has not applied *ad valorem* tariffs on sheepmeat under the WTO, but it has imposed non-*ad valorem* tariffs instead by way of a compound tariff, similar to beef products. For example, frozen boneless lamb other than half-/ carcasses (HS 0204 43 10) has an applied MFN *ad-valorem* tariff of 12.8 per cent with an additional specific tariff of €234.5/100kg (WTO, 2015a).

While the compound tariff of sheepmeat is very similar to that of beef, the two products have been treated very differently across the 3 FTAs. Rather than being excluded and subject to review clauses like beef, the EU's tariff elimination schedule in its FTAs with both South Africa and Mexico provides complete liberalisation over a transitional period of 10 years. Article 14(5) of the TDCA establishes the progressive abolition of all customs duties on sheepmeat, beginning with a reduction to 83 per cent of the basic duty five years after entry into force of the FTA. It then sets an annual reduction schedule until all remaining duties are abolished 10 years after entry into force. Similarly, Article 8(4) of Decision No 2/2000 of the EC-Mexico Joint Council provides for the reduction of all customs duties on sheepmeat to 87 per cent of

the basic duty three years after entry into force of the FTA, setting an annual reduction schedule until all remaining duties are abolished 10 years after entry into force (European Communities, 2000).

The Association Agreement also provides for substantial liberalisation of sheep products, removing both the *ad-valorem* and specific tariffs and replacing them with tariff quotas instead under Article 71(5) of that Agreement. The EU agreed to allow duty free importation of 2000 metric tonnes of sheepmeat, with an increase by 10 per cent each year of the original duty. Unlike the tariff quota on beef, however, the permitted quantity is not an aggregate quantity, thus it permits duty free importation of 2000 metric tonnes of *each* HS classification of sheepmeat.

The difference in treatment between beef and sheepmeat across all 3 FTAs may be explained by the EU's domestic production of those meats. While both are products included in the CAP, the EU is far from achieving self-sufficiency in the sheepmeat sector and therefore imports much higher quantities (EC, 2015).

Neither Mexico nor Chile is a large producer of sheepmeat, whereas South Africa produces a relatively large amount of sheepmeat when compared with EU production. However, sheepmeat produced in Mexico and South Africa is nearly entirely consumed in the domestic market. Chile, on the other hand, exports a substantial percentage of its sheepmeat, equating to nearly 25 per cent of production in 2000 and 37 per cent in 2015. Of its total sheepmeat exports for 2003, 66 per cent was exported to the EU (3566 tonnes), compared with 70.5 per cent in 2004 (3773 tonnes) - one year after entry into force of its FTA with the EU (FAOSTAT, 2015). It is suggested that as Chile is a small producer and exporter of sheepmeat, there is minimal threat to EU sheepmeat producers while also ensuring that there is a sufficient quantity of sheepmeat on the EU market. This, however, does not explain the exclusion from liberalisation of Mexican sheepmeat considering that Mexico is a low producer and exporter, thus there is very minimal threat to EU sheepmeat producers.

3.2.1.1.3 (c) Milk and cream: HS 0402

The EU has continuously applied MFN non-*ad valorem* tariffs to milk and cream products since the inception of the WTO, either by compound tariffs or specific tariffs. The current non-*ad valorem* tariff consists of a specific tariff. For example, HS 0402 10 11 (in powder, granules or other solid forms, of a fat content by weight not exceeding 1.5 per cent, containing neither sugar or sweetening matter, in packings of a net content not exceeding 2.5kg) has a specific tariff of €1.19/kg/lactic matter with an additional €27.5/ 100kg. Other products have a single specific tariff, such as HS 0402 21 11 (in powder, granules or other solid forms, of a fat content by weight exceeding 1.5 per cent but not exceeding 27 per cent, containing neither sugar or sweetening matter, in packings of a net content not exceeding 2.5kg) which has a specific tariff of €167.2/ 100kg.

While the EU's tariff elimination schedules for beef and sheepmeat were very similar between South Africa and Mexico, those FTAs contain substantially different levels of protection for milk and cream. The EU has excluded from its the Global Agreement the liberalisation of all milk and cream products by placing those products in Category 5 alongside beef. The TDCA, on the other hand, provides for the progressive liberalisation of all milk and cream products in powder, granules or other solid form over a 10 year period (List 4). Only those milk and cream products other than in powder, granule or solid form are excluded from liberalisation by their allocation to List 7. Neither South Africa nor Mexico have provided for the liberalisation of milk and cream products within their respective tariff elimination schedules, both

countries being producers of milk and cream. The EU's tariff elimination schedule for Chile contains the least protective measures of all 3 FTAs, with full and immediate liberalisation of all milk and cream products originating in Chile.

3.2.1.1.4 (d) Butter and dairy spreads: HS 0405

Similarly to milk and cream products, the EU has continuously applied non-*ad valorem* tariffs to butter and dairy spreads in the form of both compound and specific tariffs. Both are currently applied to products across all tariff lines. For example, natural butter of a fat content not exceeding 85 per cent in packings of a net content not exceeding 1kg (HS 0405 10 11) has a specific tariff of €231.3/ 100kg. Dairy spreads of a fat content by weight of between 60 per cent and 75 per cent (HS 0405 20 30), on the other hand, are subject to both an *ad-valorem* tariff of 9 per cent and a specific agricultural component.²

The EU has provisionally excluded from liberalisation under the Global Agreement all butter and dairy spread products, with the exception of 2 dairy spread classifications: HS 0405 20 10 (dairy spreads, of a fat content, by weight, of 39 per cent or more but less than 60 per cent) and 0405 20 30. Those products are instead excluded under Category 7, to which the EC-Mexico Joint Council may at any time decide on the reduction of their MFN duties (Article 8(8)(b)) (Global Agreement, 2000). The FTAs with South Africa and Chile have also differentiated these classifications, with both removing the *ad-valorem* tariff whilst maintaining the agricultural component. All other butter and dairy spread products have been excluded from liberalisation from the TDCA under Category 7, while the EU has eliminated all other protectionist measures from those products under the Association Agreement.

South Africa, Mexico and Chile are all small producers of butter and have until recently retained the majority for domestic consumption, particularly Mexico. However, Chile has received the most preferential access of the 3 to EU butter markets. This preferential access cannot be explained by the trade data in Table 3.1; however, it may be explained by the fact that Chilean butter is not exported to the EU, being exported primarily to the Americas and Asia instead (Article 8(8)(b)) (Global Agreement, 2000). It can therefore be inferred that this represents little threat to EU domestic butter producers and, as a result, the EU may have seen little need to impose substantial protection in its FTA with Chile.

3.2.1.1.5 (e) Cheese and curd: HS 0406

Cheese and curd products have traditionally been subject to the highest protection for all dairy products by the EU. However, those measures have been slowly reduced over the past two decades. As mentioned above, an *ad-valorem* tariff had been continuously imposed on all cheese and curd products since the establishment of the WTO, its removal only occurring recently. Non-*ad valorem* tariffs have been continuously applied in the form of a specific tariff and that tariff remains today, albeit at a reduced level. For example, grated or powdered Glarus herb cheese, otherwise known as Schabziger (HS 0406 20 10) was subject to an *ad valorem* tariff of 10.6 per cent and a separate specific tariff of €258.7/ 100kg in 1996. By 2015, the *ad valorem* tariff had been removed and the remaining specific tariff for that product is €188.2/ 100kg.

² An additional duty applied to certain processed products using primary agricultural products.

Cheese and curd products are also subject to highly protective measures within each of the 3 FTAs. The EU has excluded from liberalisation many cheese and curd products from all 3 FTAs due to their status as either PDO or PGI within the EU (see Appendix 1). Under the Global Agreement the remaining cheese and curd products are provisionally excluded under Category 5 where they may be subject to review.

As shown in Appendix 1, the EU has excluded the same cheese and curd products from the Association Agreement as it has in the Global Agreement. All remaining cheese and curd products originating in Chile, however, are instead liberalised, by way of a tariff quota under Article 71(5) of that FTA. The EU allows duty free importation of a quantity of 1,500 metric tonnes of cheese and curd products under HS 0406, with an increase by 5 per cent each year of the original quantity (Association Agreement, 2002). This quota is also imposed on those products that are excluded from liberalisation. It can be inferred that the quota for those cheeses will not increase. Grated or powdered Glarus herb cheese and 'other' Glarus herb cheese (HS 0406 90 19) are also subject to an *ad valorem* tariff of 7.7 per cent which shall be reduced over a transitional period of 4 years. This is unsurprising given the application of an MFN *ad valorem* tariff of 7.7 per cent to that specific product during the negotiations and at the conclusion of that FTA.

The TDCA excludes from liberalisation an additional 25 cheese and curd tariff classifications which are not excluded under the FTAs with both Mexico and Chile. With the exception of grated or powdered Glarus herb cheese (HS 0406 20 10), all additional excluded items are those which fall within the classification 'other than' fresh, grated or powdered, processed or blue-veined cheeses (HS 0406 90). Following intensive negotiations aimed at resolving agricultural issues between the Parties, the European Commission recognised the erroneous exclusion of certain cheeses and proposed to the European Council that those cheeses be removed from the exclusionary List 8. It proposed that those products instead be moved to List 7, where their liberalisation would be subject to review (EC, 2007). This proposal was endorsed by the European Council and was adopted by the EU-South Africa Cooperation Council in September 2009 (EC, 2009). Of those additional 25 cheese and curd products, 15 have been 'reinstated' while the other 10 remain excluded. The Cooperation Council also 'reinstated' 19 cheeses over 5 tariff lines which remain excluded under the FTAs with Mexico and Chile. It is important to note that while these products have been removed from absolute exclusion, they remain excluded under List 7 until developments in the CAP permit their review and they are granted liberalisation.

Those cheese and curd products which are neither excluded or subject to review under the TDCA are to be liberalised over a transitional period of 10 years, as products contained within List 4. Customs duties are to be reduced to 83 per cent of the base rate five years after entry into force and shall be further reduced according to a set schedule on an annual basis. Additionally, the EU shall permit duty free entry for a quantity of 5000 tonnes of the cheese and curd products contained in List 4, with an annual growth factor of 5 per cent.

An examination of Table 3.1 shows that Mexico predominantly retains all of its cheese for domestic consumption, while Chile receives the most preferential access to EU cheese markets, despite producing and exporting more cheese than South Africa. The preferential access cannot be explained by this trade data, however, it may be explained by reference to Chilean exports of cheese to the EU both preceding and following the entry into force of the Association Agreement. In 2003, Chile exported 1 tonne of cheese to the EU for the United Kingdom (UK) market alone, compared with 13 tonnes to both Germany and the UK in 2006, before dropping back to one tone to the UK in 2010. Cheese exports to the UK in 2010 accounted for merely 0.009 per cent of Chilean cheese exports for that year (FAOSTAT, 2015). As the EU constitutes a very small market for Chilean cheese, it can be inferred that there is minimal threat to EU

domestic cheese producers. As a result, the EU may have seen little need to impose substantial protection in its FTA with Chile.

3.2.1.1.6 (f) Kiwifruit: HS 0801 50 00

As mentioned above, the EU has applied an MFN *ad valorem* tariff to fresh kiwifruit since 1996, where a base rate of 8.8 per cent has been steadily applied since 2001. In each of the FTAs the EU has agreed to eliminate the *ad valorem* tariff over a scheduled period of time. The FTAs with both South Africa and Mexico establish a schedule to completely eliminate tariffs on kiwifruit 10 years after entry into force of the FTA. Their schedules will see the MFN base rate reduce to 8.7 per cent three years after the entry into force of both FTAs, followed by a progressive annual reduction until the completion of 10 years (Article 14(4)). Interestingly, the Global Agreement stipulates the base rate to be 8.7 per cent during the period 16 November - 14 May, and 8.0 per cent during the period 15 May - 15 November (Global Agreement, 2000). The Association Agreement also provides a schedule for reduction of the MFN base rate, albeit over a period of 7 years rather than 10 (Annex 1, Section 3) (Association Agreement, 2002).

Chile receives the least level of protectionism yet it is the 4th top kiwifruit producing country, making up 14.9 per cent of all global kiwifruit exports in 2011 (Cruzat, 2015). Its largest market is the EU, which made up 57.62 per cent of total kiwifruit exports in 2003, before decreasing to 46.81 per cent in 2011 (FAOSTAT, 2015). Italy is the 2nd top kiwifruit producer, making up 28.7 per cent of the global kiwifruit market in 2011 (Cruzat, 2015). Like Chile, its largest export market is the EU, which made up 68.3 per cent of total exports in 2003, before decreasing to 61.43 per cent in 2011 (FAOSTAT, 2015). In 2012, approximately 75 per cent of Italian kiwifruit were exported (Bettini, 2012).

Interestingly, Italy was Chile's top kiwifruit EU market in both 2003 and 2011, accounting for 38 per cent and 30.5 per cent respectively, of all Chilean kiwifruit exported to the EU. Chilean kiwifruit also accounted for the highest percentage of kiwifruit imported into Italy, accounting for 49.26 per cent and 49.44 per cent in 2003 and 2011 respectively. This relationship was established prior to the FTA between the EU and Chile, with Chilean kiwifruit accounting for 31.83 per cent of kiwifruit imports into Italy in 2000 (FAOSTAT, 2015). This relationship can be explained by the fact that Chilean kiwifruit is counter-seasonal to EU kiwifruit. This may account for the reduced protectionism towards Chilean kiwifruit in the FTA.

By comparison, Mexico exported a total of 2 tonnes of kiwifruit in 2003 (to Cuba) and 6 tonnes in 2011 (Belize and the US). South Africa exported 1,322 tonnes in 2003 of which 84.03 per cent was to the EU, decreasing to 270 tonnes in 2011 with 42 tonnes exported to the Netherlands. To put it into perspective, Chile exported a total of 77,892 tonnes of kiwifruit to the EU alone in 2011 (FAOSTAT, 2015). Trade data alone cannot account for the differential treatment as Mexican and South African kiwifruit represent minimal threat to EU domestic kiwifruit producers.

One possible reason for the differential treatment between South African, Mexican and Chilean kiwifruit may relate to the EU's Generalised Scheme of Preferences (GSP), to which both South Africa and Mexico benefited from at the time of their FTAs with the EU. At that time, the priority of the GSP was the industrialisation of developing countries while the constraints of the CAP made agriculture a sensitive area for concessions (EC, 2015b). Concessions on kiwifruit were not offered until the adoption of European Council Regulation (EC) No 2501/2001 which added numerous agricultural products to the GSP. The Regulation provided for the reduction of *ad valorem* tariffs on sensitive products by 3.5 percentage points for those countries which benefit from the EU's GSP, including South Africa and Mexico (EC, 2001). The implication is that kiwifruit, while still considered sensitive, had already been subject to concessions

by the time the FTA with Chile was concluded. The reduced protectionist stance of the EU towards kiwifruit may explain why Chilean kiwifruit is subject to a seven year transitional period rather than a 10 year period.

3.2.1.1.7 (g) Wine of fresh grapes, including fortified wines: HS 2204

The EU has applied both *ad valorem* and non-*ad valorem* tariffs to wine products within the multilateral system. Of 101 tariff lines for 2015, only one remains subject to an *ad valorem* tariff; HS 2204 30 10 (other grape must; in fermentation or with fermentation arrested otherwise than by the addition of alcohol), with an applied tariff rate of 32 per cent. All tariff lines across HS 2204 10-29 are subject to specific tariffs based upon price per hectolitre. For example, Champagne (HS 2204 10 11) is subject to a specific tariff of €32/ hl while Bordeaux (white, of an alcohol strength by volume not exceeding 13 per cent: HS 2204 21 12) is subject to a specific tariff of €20.9/ hl. While the remaining four tariff lines under HS 2204 30 are not subject to a specific tariff, being removed in 2014, they are subject to an entry price in order to enter onto the EU market instead.

All 3 FTAs provide schedules for the elimination of duties on those wine products which are not excluded from liberalisation due to their status as protected denominations. Each FTA sets out a different schedule in regards to the time period for elimination. The Global Agreement provides for the complete elimination of customs duties three years after entry into force of the FTA, with an annual reduction rate of 25 per cent to begin on the date of entry into force (Article 8(2)). This excludes the five products under HS 2204 30 which fall within Category 5 instead (Global Agreement, 2000). Similar to Mexico, the Association Agreement provides for the complete liberalisation of all remaining wine products. This, however, includes the same five HS 2204 30 products which are subject to review under the Global Agreement. Furthermore, all products subject to liberalisation shall be liberalised over a period of four years after entry into force of the FTA, with the exception of the five HS 2204 30 products which shall be completely liberalised 10 years after entry into force. Those products shall remain subject to the MFN entry price applicable under the multilateral system.

The TDCA provides for the complete elimination of most remaining customs duties 10 years after entry into force of the FTA under List 4. Of those products covered by HS 2204 21 79-80 and 83-84, South Africa may export to the EU 32 million litres duty free per year, with an annual growth factor of 3 per cent. Unlike the FTAs with Mexico and Chile, the TDCA provides for the liberalisation of the five HS 2204 30 products. Customs duties on those products are to be completely eliminated over a period of 10 years; however, the full applicable specific duty is to be paid if the respective entry price is not reached (Annex IV) (TDCA, 2004).

Both South Africa and Chile are among the top 10 wine producing countries as recorded by the International Organisation for Vine and Wine, ranking 7th and 9th respectively in 2014 (OIVV, 2015). Total South African wine production for 2014 was approximately 958.8 million litres, with exports of 422.7 million litres (SAWIS, 2015). Of export data published, 298.66 million litres was exported to the EU, accounting for 70.65 per cent of South African wine exports that year (WoC, 2011a). Total Chilean wine production for 2011 was approximately 837.4 million litres, of which approximately 664 million litres was exported (WoC, 2011b). Of exported wine, 66 per cent was bottled wine, of which 44.9 per cent was exported to the EU. It can therefore be inferred that the EU is a substantial market for both Chilean and South African wine.

The EU was established as a market for both Chilean and South African wines prior to their respective FTAs with the EU. South Africa exported a total of 81,723 tonnes of wine in 1998 of which 57,114 tonnes was exported to the EU, accounting for 69.88 per cent of wine exports. Similarly, Chile exported a total of 405,800 tonnes of wine in 2000 of which 171,336 tonnes was exported to the EU, accounting for 42.22 per cent of wine exports (FAOSTAT, 2015). It can be inferred from the data that both South African and Chilean wine posed a significant threat to EU domestic wine producers, thus the EU sought a longer transition period for those wines eligible for liberalisation in both FTAs.

Mexico, by comparison, is a low producer of wine. Total exports of Mexican wine in 1998 equated to approximately 2.7 million litres, of which 69.95 per cent was exported to the EU. Exports had dropped to 1.17 million litres in 2011, of which 20.92 per cent was exported to the EU (FAOSTAT, 2015). The contrast between Mexican exports of wine to the EU, on the one hand, and South African and Chilean wine exports, on the other hand, may explain the preferential treatment of Mexican wines in its FTA with the EU. It can be inferred that Mexican wines pose very little threat to EU domestic producers in comparison with South African and Chilean wines.

2 *Protectionism within the provisions*

3.2.1.1.8 (a) Safeguards

Article 24(1) of the TDCA permits the taking of appropriate safeguard measures by the Parties where any product is being imported in such increased quantities and under such conditions as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products. Article 15(1)(a) of the Global Agreement applies the same standard verbatim.

Articles 24(1) and 15(1)(a) mirror the text of Article 2(1) of the 1994 WTO Agreement on Safeguards, which sets out the rules for the application of safeguards pursuant to Article XIX of the GATT (WTO, 1994). The TDCA goes on to state that safeguard measures are to be taken under the conditions provided for within the Agreement on Safeguards. Furthermore, the Association Agreement explicitly states that the provisions of the Agreement on Safeguards are to apply between the Parties, rather than providing its own standard for when a safeguard may be applied. The identical text and references to the Agreement on Safeguards within the FTAs implies that the inclusion of a bilateral safeguard clause was to ensure adherence to international standards.

The Agreement on Safeguards only sets the minimum standards for the application of safeguards. Each FTA has provided additional standards that suit the respective Parties. For example, the TDCA permits the exceptional use of safeguard measures where the conditions posed by increased products cause or threaten to cause serious deterioration in the economic situation of either the EU's outermost regions or any of the other Members of the Southern African Customs Union (Article 24(2) and (3)) (TDCA, 2004). The Association Agreement contains additional provisions which are applicable only when a Party has a substantial interest as exporter of the product concerned (Article 92(1)). This provides the interested Party with the opportunity to present their views on the matter and to have the matter thoroughly examined by the EU-Chile Association Committee prior to the application of safeguard measures (Article 92(3) and (4)) (Association Agreement, 2002).

The Global Agreement goes much further by adding an additional standard which widens the situations in which a safeguard may be applied. Article 15(1)(b) of the Global Agreement permits the application of safeguards where the conditions posed by increased products cause or threaten to cause serious

disturbances in any sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region of the importing Party. While Article 15(1)(a) and the Agreement on Safeguards requires the existence or imminent threat of significant impairment, Article 15(1)(b) requires the existence or imminent threat of a disruption to the ordinary functioning of that economic sector, thus setting a lower standard for the application of safeguards.

One possible reason for the lower standard within the Global Agreement may relate to the absence of an agricultural safeguard; a safeguard which is present within the FTAs with South Africa and Chile. The TDCA permits the EU-SA Cooperation Council to take safeguard measures if, given the particular sensitivity of the agricultural markets, imports of products originating in one Party cause or threaten to cause a serious disturbance to the markets in the other Party (Article 16) (TDCA, 2004). The Association Agreement sets a similar but stricter standard, permitting the contracting Parties to take appropriate measures if, given the particular sensitivity of the agricultural markets, a product originating in a Party is being imported into the other Party in such increased quantities and under such conditions as to cause or threaten to cause serious injury or disturbance in the markets of like or directly competitive products of that other Party (Article 73(1)). It goes on to provide the conditions to be adhered to in applying an agricultural safeguard (Association Agreement, 2002).

Both FTAs set a similar broad standard of 'serious disturbance' to that in the Global Agreement, although the TDCA does not require the additional standard that there are increased quantities of imports. The lower standard for agricultural safeguards means that it is easier to afford protectionism to agricultural products. This is with the exception of the Global Agreement, which does not specify the economic sector to which the lower standard applies. However, as the Global Agreement largely excludes agricultural products, the inclusion of a specific agricultural safeguard clause may have been deemed unnecessary.

3.2.1.1.9 (b) General exceptions

Each FTA includes a general exceptions clause which permits the Party to adopt measures which are necessary to ensure compliance with a set list of exceptions. The inclusion of this clause is in direct recognition of the sovereign right of the state to take those measures it deems necessary in order to protect matters of public and national interest. This right has been enshrined within Article XX of the GATT, to which the 3 Agreements are a direct reflection or near replica of.

The general exception clause within the Association Agreement is a direct reflection of Article XX, which begins by stating that nothing shall prevent the adoption or enforcement of measures, *subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between the Parties where the same conditions prevail, or a disguised restriction on trade between the Parties*. This proviso is reiterated near verbatim in both the TDCA and the Global Agreement. The Association Agreement further reflects Article XX by permitting as measures those which are consistent with the exceptions listed in (a) - (g) of Article XX: public morality; the protection of human, animal or plant life or health; rules necessary to secure compliance with laws or regulations; rules relating to gold or silver; rules relating to the protection of national treasures; rules relating to the conservation of exhaustible natural resources and rules which relate to the products of prison labour. The Global Agreement includes those same exceptions, while the TDCA includes all except those relating to natural resources and prison labour. The TDCA includes one additional exception: rules relating to public policy or public security.

The protection of human, animal or plant life or health is one of the most often invoked exceptions in the global arena and has been directly linked to agricultural trade. One of the leading cases against the EU related to the outright ban on imports of United States beef on grounds that added hormones to beef posed a risk to human health. The WTO dispute panel in that case held that as the EU had not provided scientific evidence of an identifiable risk to human life or health the ban was unlawful (European Communities, 1997). The implication of that ruling is that where there is scientific evidence of a risk to human health or life, there is a higher likelihood of the measure being found to be lawful, even if it does negatively affect trade.

3.2.1.1.10 (c) Circumventing protectionism

The TDCA offers a unique method for circumventing EU CAP protectionism: the possibility for accelerated tariff elimination. Article 17 of that FTA offers South Africa the opportunity to propose an accelerated timetable for tariff elimination of EU agricultural products which, if the EU accepts, shall be coupled with the elimination of all export refunds for products exported to South Africa. This would see the accelerated liberalisation of tariffs for agreed agricultural products originating in the EU, coupled with decreased support to EU exporters of those same products. The purpose of that provision is to reduce the preferential treatment afforded under CAP which currently ensures EU exporters receive a constant price for their products, subjecting EU exporters to the same global market conditions which other global exporters are subjected to. The aim is therefore to increase competition on South African markets.

Following an application under Art 17 for the accelerated tariff elimination for imports of certain cheeses in South Africa, the European Commission in 2007 proposed the elimination of export refunds for 3 categories of cheeses: Gouda (HS 0406 90 78), Cheddar (HS 0406 90 21) and processed cheese, not grated or powdered (HS 0406 30) (European Commission, 2007). This proposal was adopted by the EU-SA Cooperation Council in 2009 (EC, 2009). While the adoption of the proposal will not lead to increased EU market access for South African cheeses, it does remove a non-tariff barrier to trade between the Parties, thus circumventing the protectionism of the CAP.

B Post-Communication: An Open Market?

The FTA with South Korea was the first EU FTA negotiated after the release of the Communication. A brief analysis of its provisions and tariff elimination schedule show the extent to which the EU has changed its approach to protectionism.

The EU's tariff elimination schedule for the FTA with South Korea seemingly shows a different approach and provides, largely, for open agricultural markets. This is most apparent for HS codes 0204, 0405, 0406 and 2204 (sheepmeat, butter, cheese and wine products), for which all customs duties shall be eliminated entirely at the date of entry into force of the FTA. All HS 0201, 0202, 0402 and 0810 50 (beef, milk and kiwifruit) products shall be completely liberalised over a transitional period of 5 years (6 annual stages), beginning on the date of entry into force of the FTA (EC, 2010). This is in stark contrast to the 3 traditional FTAs which exclude many of these products from liberalisation, impose transitional liberalisation periods of up to 10 years and impose non-*ad valorem* tariffs such as agricultural components and entry prices.

Within the provisions themselves, however, there remains an element of protectionism which hinders the creation of open agricultural markets. Furthermore, a comparative analysis of trade data indicates a relationship between existing trade patterns and the tariff elimination schedule. This may explain why

certain products have been liberalised under the FTA with South Korea and not with the 3 traditional FTAs.

The immediate and complete liberalisation of all HS 0406 and 2204 products is surprising given the status of many of these products as PGIs or PDOs within the EU. However, the FTA contains a chapter on intellectual property rights which includes a sub-section for the recognition and protection of geographical indications (Korea FTA, 2010). Both Parties have agreed to protect the geographical indications for agricultural and wine products of the other Party, which have been specified within their respective annexes to the FTA. This will prevent the use in both Parties of any designation that does not conform to the set specifications, including the use of the expressions "kind", "type", "style", "imitation" or the like when identifying a good as a like or similar good (Article 10.21). The FTA leaves it to each Party to enforce protection on their own initiative, although enforcement shall be granted where it is requested by an interested party (Article 10.22) (Korea FTA, 2010).

Within the EU, Customs Regulation No 608/2013 concerning customs enforcement of intellectual property rights sets out the procedural rules for customs authorities when dealing with infringements or suspected infringements of intellectual property rights at the border. The Regulation authorises customs officials to suspend the release of goods suspected of infringing an intellectual property right, including geographical indications, or to detain them.³ It further authorises the destruction of goods suspected of infringing an intellectual property right provided specific conditions are fulfilled (Article 23). On this basis, any 0406 or 2204 product originating in South Korea may be seized and destroyed or detained if it is suspected of infringing one of the PGIs specified within the relevant annex of the FTA (EC, 2010).

The effect of the Customs Regulation is to exclude specific products from entry into the EU, despite the tariff elimination schedule providing for complete and immediate liberalisation of all HS 0406 and 2204 products. Of those products specified by the EU in Annex 10-A as PGIs, many correspond to those products excluded under the 3 traditional FTAs including, for example, Champagne (HS 2204 10 11), Alsace (HS 2204 21 11), Grana Padano (HS 0406 90 61), Gorgonzola (HS 0406 40 50) and Roquefort (HS 0406 40 10). Those products listed receive the same protectionist treatment as those excluded under the 3 traditional FTAs, therefore there is no difference between the traditional and new generation FTAs in this respect.

The FTA also contains general exceptions and safeguard clauses which are very similar to the 3 traditional FTAs. As regards general exceptions, Article 2.15 affirms the existing rights and obligations of the Parties under Article XX of GATT, *which are incorporated into and made part of this Agreement*. In this respect, there is no difference between the FTA with South Korea and the 3 traditional FTAs.

Article 3.1 permits the adoption of safeguard measures where, *as a result of the reduction or elimination of a customs duty under this Agreement, originating goods of a Party are being imported into the territory of the other Party in such increased quantities, in absolute terms or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to a domestic industry producing like or directly competitive goods*. While clarifying that the increase in quantity must result from the reduction in tariffs, Article 3.1 sets the same broad standard as the 3 traditional FTAs, thus complying with the Agreement on Safeguards. The FTA with South Korea also includes an agricultural safeguards clause which

³ See Article 17(1) for suspension of the release or detention of goods following the grant of an application to take action against goods suspected of infringing an intellectual property right. See also Article 18(1) where goods are detained or suspended from release before the grant of an application.

permits the adoption of an agricultural safeguard to protect those products listed in Annex 3. The EU has not listed any products, therefore choosing not to allow the application of agricultural safeguards. In this respect, the FTA with South Korea affords less protectionism than the 3 traditional FTAs which have made it easier to protect agricultural products.

A brief analysis of trade data indicates a relationship between trade patterns and the EU's tariff elimination schedule which may undermine the open market stance advocated for in the Global Europe Communication.

As indicated by Table 3.4, South Korea is a very small producer of butter and a relatively small producer of cheese. What it does currently produce is entirely consumed by the domestic market. Furthermore, at the time of entry into force of the FTA South Korea exported a total of 105 tonnes of cheese, of which none was exported to the EU, and a total of 2 tonnes of butter, which was exported to Algeria and Japan. Similarly, South Korea is a very small producer of sheepmeat and currently exports only 0.07 per cent of its total production. At the time of entry into force of the FTA South Korea did not export any sheepmeat (FAOSTAT, 2015). It can therefore be inferred that the complete and immediate liberalisation of all 0404, 0405 and 0406 products occurred because there was very little threat to EU domestic producers of the same products.

Table 3.4: Production and export in thousands of tonnes

S KOREA	BEEF		SHEEP		MILK		BUTTER		CHEESE	
	2000	2015	2000	2015	2000	2015	2000	2015	2000	2015
• Prod*	305.9	345.4	2.8	1.4	2252.8	2190.5	3.8	6.1	15.0	27.0
• Export	1.01	4.72	0.64	0.001	-----	-----	0	0	0.70	0
• % prod exported*	0.33%	1.36%	23.10%	0.07%	-----	-----	0%	0%	4.67%	0%

* Percentage of total production being exported.

Source: OECD-FAO, 2015.

While grape production in South Korea has been described as excessive (Song, 2000), the grape wine industry remains small due to the high cost of land and labour and poor weather conditions. It therefore lacks competitiveness against the price and quality of imported wines. Of those wines produced, most are sold as souvenir wines or as blends of imported and locally produced wines. South Korea also produces fruit wines from locally produced fruit (Oh, 2013). Total exports of wine for the year of entry into force of the FTA indicates that South Korea is a very small exporter of wines, exporting a total of approximately 97,759 litres in 2011. No wine was exported to the EU that year, while only approximately 13,238 litres was exported to the EU in 2010. As Italy exported a total of 65.56 million litres to Austria alone in 2010, it can be inferred that South Korean wine exports impose no threat to EU domestic producers, hence their complete and immediate liberalisation within the EU's tariff elimination schedule (FAOSTAT, 2015).

In comparison to sheepmeat, butter, cheese and wine, South Korea produces a relatively substantial amount of beef and milk, as shown in Table 3.2. These products receive the most protection within the EU's tariff elimination schedule, being subject to liberalisation over a transitional period of 5 years. As regards beef, South Korea exported a total of 3581 tonnes of beef in 2011, none of which was exported to the EU (FAOSTAT, 2015). Despite export patterns the existence of protectionism towards beef is unsurprising due to its heavily protected status within the EU.

Trade data indicates that South Korea is not a large exporter of milk, exporting a total of 220 tonnes of milk in 2010, none of which was exported to the EU. Following the trend in regards to cheese, butter, sheepmeat and wine, the protectionism towards South Korean milk is interesting.

It is suggested that in light the predicted increased production when the internal production quota is removed the EU has maintained protectionism on milk products. This may also explain the imposition of a mere 5 year transitional period for beef, as increased quotas will lead to reduced beef production. The abolition of quotas will also coincide with open access to South Korean beef, thus ensuring that the EU has access to that market.

Finally, South Korea as the 10th-top producer of kiwifruit in 2010 (Zespri, 2015). While South Korea did not export kiwifruit to the EU at the date of entry into force of its Agreement, its production is not counter-seasonal and could therefore pose a threat to EU domestic kiwifruit producers. This may explain why South Korean kiwifruit is subject to a 5 year transitional tariff under the EU's tariff elimination schedule.

3.2.2 Conclusion

The 2006 Global Europe Communication advocated the rejection of protectionism within the EU's domestic and external trade policy, proposing open markets and fair trading conditions instead. As is evident by the above analysis of the EU's 3 traditional FTAs EU trade policy prior to 2006 prioritised domestic agricultural producers at the expense of trade. However the Communication recognised the need to adapt in order to embrace globalisation and the changing global economic order, of which open markets and competition are crucial.

With this shift in rhetoric came the establishment of 'new generation' FTAs which incorporated new and wider areas of trade, largely aimed at ensuring the competitiveness of the EU on the international market. One such FTA was that between the EU and South Korea which rejects protectionism by enabling the complete liberalisation of agricultural products within a period of 5 years. However an examination of the trade data reveals a relationship between trade patterns and the tariff elimination schedule which suggests that the EU has not rejected protectionism for the sake of rejecting protectionism. Rather, protectionism has been rejected where there is no need to impose it and has been imposed where there remains a threat to EU domestic agricultural producers.

Based on the above analysis of the EU's FTAs an EU-NZ FTA will maintain elements of protectionism. The question is to what extent. If an assessment is to be made solely based upon the tariff elimination schedule of South Korea and the rejection of protectionism within the Communication, then New Zealand could see the same treatment as that stipulated in the FTA with South Korea. However, this approach would disregard the trade statistics which show South Korea as presenting very little threat to EU agricultural producers. Trade policy does not exist in a vacuum; there are many diverse factors that must be taken into account.

As shown in Table 3.5, New Zealand is a large exporter relative to its production. Furthermore, it is a larger exporter than South Korea. On this basis alone it can be inferred that an FTA with New Zealand will contain more protectionism towards agricultural products than the FTA with South Korea due to the potential threat to EU agricultural producers. On the other hand, being an agricultural exporter New Zealand would not agree to an FTA without further liberalisation of agricultural products.

Table 3.5: Production and export in thousands of tonnes

	BEEF		SHEEP		MILK		BUTTER		CHEESE	
NZ	2000	2015	2000	2015	2000	2015	2000	2015	2000	2015
• Prod	589.8	636.6	538.2	477.6	12235.3	21644.3	350.4	537.7	296.7	389.4
• Export	465.3	533.0	432.6	462.4	-----	-----	333.9	477.3	250.6	292.5
• % prod exported*	78.8%	83.7%	80.3%	96.8%	-----	-----	95.2%	88.7%	84.4%	75.1%

* Percentage of total production being exported.

Source: OECD-FAO Agricultural Outlook 2015-2024, by commodity. Various years.

New Zealand already has limited preferential access to the EU's market through quotas on imports of beef, sheepmeat, cheese and butter. These quotas are protected through European Regulations and the EU's Schedule of Concessions. It is therefore unlikely that the quotas will be removed. Instead, NZ would negotiate a higher quota or a reduction in import tariffs where they would ordinarily be applicable.

New Zealand was granted a tariff quota of 300 tonnes of beef in 1979. At that time the EU set a global quota of 50,000 tonnes per annum for frozen beef. By 2013 the global quota had risen to 53,000 tonnes with an in-tariff quota of 20 per cent (Beef and Lamb NZ, 2013). New Zealand secured access for an additional 1000 tonnes of high-quality beef in 2006 (Evans and Grace-Webb, 2007). This was due to the accession of Cyprus and Malta to the EU in 2004, of which both had been importers of New Zealand beef (WTO, 1995). New Zealand may be able to negotiate a slight increase on its quota, however the small global increase of 3,000 tonnes over the past 3 decades indicates that beef remains heavily protected within the EU. Furthermore, Chile's Association Agreement gives Chile a duty-free quota of 1000 tonnes of beef, thus New Zealand already has more preferential access in regards to quantity despite not having an FTA with the EU. New Zealand's quota is not duty-free, however, being subject to an *ad valorem* tariff of 20 per cent. An FTA may therefore remove the tariff without increasing the quota.

The quota for sheepmeat has slightly increased from the amount stipulated in the EU's Schedule of Concessions, increasing to 228,254 tonnes per annum. Furthermore, the in-tariff quota of 10 per cent has been removed (Beef and Lamb New Zealand). On the basis of a comparison between the Association Agreement and the South Korean FTA, New Zealand will unlikely gain much concession for sheepmeat. South Korea is a very small producer of sheepmeat and therefore there is no protectionism of sheepmeat in its FTA. Chile is a slightly larger producer and is subject to a tariff quota of 2000 metric tonnes per annum. New Zealand is a much larger producer, thus high protection would be expected. Furthermore, EU sheepmeat production has been relatively consistent since 2010 (OECD-FAO, 2015). While production remains consistent it would be expected that New Zealand's sheepmeat quota remain relatively stable.

New Zealand has benefited from a tariff quota for butter since the UK's accession to the EU in 1973. As detailed above, the quota has reduced over time. However, by 2001 the quota had increased to 76,667 tonnes compared with 55,000 tonnes in 1992, but the import tariff had risen as a consequence to €86.88 per 100 kg from 45.83 ECU in 1989 (EC, 2001b). Both the quota and import tariff decreased in 2013, reducing to 74,693 tonnes at a price of €70 per 100 kg. Similarly, the quota had increased to a total of 11,000 tonnes in 2013 (7,000 cheddar; 4,000 other processed cheese), although there remains an import tariff of €17.06 per 100 kg (EC, 2013).

Both the Association Agreement and the FTA with South Korea remove all barriers to trade for butter, with the exception of an agricultural component applied to Chilean butter. However, neither country is a

large producer of butter. In comparison, New Zealand is a large producer and exporter of butter, therefore an assessment based upon their FTAs alone is not possible. Similarly, neither country is a large producer of cheese when compared with New Zealand. However, both exclude from liberalisation cheeses due to their status as PDOs and PGIs, therefore New Zealand would be similarly treated. Furthermore, the Association Agreement sets a tariff quota of 1,500 tonnes of cheese per annum, with full liberalisation of the import duty after a period of 4 years. Again, New Zealand has better access to EU markets in regards to quantity; however, an FTA may see the reduction or liberalisation of the import tariff.

New Zealand does not have preferential access to EU markets for wine or kiwifruit. A comparison of kiwifruit production between Chile and New Zealand, however, shows that both are high kiwifruit producers; Chile was the 4th largest producer in 2011 (14.9 per cent global share) whilst New Zealand was the 3rd largest (32.1 per cent global share) (Cruzat, 2015). Furthermore, both are counter-seasonal producers. It can be inferred that New Zealand kiwifruit will likely be treated similarly to Chilean kiwifruit. In regards to wine, New Zealand was the forecasted 13th top wine producer in 2014 with a forecasted production rate of 320.4 million litres (OIVV, 2015). In comparison to Chile and South Africa, New Zealand is a much smaller producer, therefore a reduced liberalisation period would likely apply. However, New Zealand remains a larger producer of wine than Mexico, thus a liberalisation period of less than 3 years would not be expected. While the FTA with South Korea did not exclude any wine from the EU's tariff elimination schedule, South Korea is a very small producer of wine therefore an assessment could not be fairly based upon that FTA. Additionally, all 4 FTAs exclude certain wines from liberalisation due to their status as PDOs or PGIs; New Zealand would receive the same treatment.

Finally, all 4 FTAs include provisions for bilateral safeguards and general exceptions as affirmation of international obligations. These provisions would also be included in an EU-NZ FTA as New Zealand is a Member of the WTO. Furthermore, the 3 FTAs which do provide for the liberalisation of agricultural products contain agricultural safeguards. An EU-NZ FTA would also likely include such a provision.

Chapter 4 New Zealand

This section presents a trade profile of New Zealand, including top exports and barriers to trade (particularly in relation to the European Union), as well as an outline of the current preferential trade agreements that New Zealand has.

4.1 New Zealand Trade Profile

New Zealand is a net exporter of primary products. Table 4.1 presents a summary of New Zealand trade in 2015, including the total value of exports from and imports into New Zealand, as well as trade balance. It shows that the top three New Zealand exports by value for 2015 were animal (US\$14.6 billion), food (US\$3.5 billion) and wood (US\$3.3 billion) products. Top imports for New Zealand include machinery and electrical goods (approx. US\$7.8 billion), followed by transportation (approx. US\$6.6 billion) and fuels (approx. US\$3.6 billion).

Table 4.1: Summary of New Zealand exports, imports and trade balance, 2015

Sector	Export value (US\$ millions)	Import value (US\$ millions)	Net exports	RCA
Animals	14,552	560	13,992	30.89
Chemicals	1,814	3,300	-1,486	0.36
Food Products	3,467	2,659	808	2.47
Footwear	44	340	-296	0.24
Fuels	627	3,616	-2,989	0.26
Hides and Skins	406	181	225	3.10
Mach and Elec	1,933	7,845	-5,913	0.28
Metals	1,333	1,735	-401	0.79
Minerals	56	214	-158	0.86
Miscellaneous	1,865	2,756	-891	0.52
Plastic or Rubber	380	1,860	-1,479	0.36
Stone and Glass	611	691	-80	0.14
Textiles and Clothing	997	1,741	-743	1.08
Transportation	522	6,561	-6,039	0.10
Vegetable	2,215	1,106	1,109	7.36
Wood	3,346	1,171	2,175	5.29

Source: World bank, 2016.

4.1.1 Trade with EU (NZ into EU)

Table 4.2 shows the value of exports from New Zealand to the EU in 2015 across a range of categories. It shows that the three most important New Zealand exports to the EU are animal, vegetable and food products. In particular, animal products are the most valuable commodity group exported to the EU (at a

value EU€1.4 billion) followed by vegetable products (EU€486 million) and food products (EU€401 million).

Table 4.2: New Zealand exports to the EU, 2015 (EU€ millions)

Sector(s)	Export value (Euro millions)
Animals	1,413
Chemicals	230
Food Products	401
Footwear	5
Fuels	0
Hides and Skins	143
Mach and Elec	204
Metals	108
Minerals	4
Miscellaneous	174
Plastic or Rubber	41
Stone and Glass	27
Textiles and Clothing	150
Transportation	71
Vegetable	486
Wood	35

Source: EUROSTAT, 2016

The development of an NZ-EU FTA would seek to reduce barriers to trade. Table 4.3 below shows the total value of agricultural exports to New Zealand's top five trading partners, as well as average and weighted duties faced in each market for agricultural products. Across all agricultural products entering the European Union, 16 per cent of total tariff lines are duty free, this accounts for 18 per cent of NZ agricultural trade with the EU by value. Of tariff lines with duties, the average weighted tariff on New Zealand agricultural goods entering the EU is 24.8 per cent.

Table 4.3: Exports to European Union and duties faced for agricultural products

	Bilateral imports (2013) (US\$ millions)	Diversification 95% trade in no. of		MFN AVG of traded TL		Pref. margin Weighted	Duty-free imports	
		HS 2-digit	HS 6-digit	Simple	Weighted		TL in %	Value in %
1. China	5,261	9	27	14.5	11.8	5.8	84	18.3
2. European Union	2,757	14	40	16.7	24.8	0.0	16	18.1
3. Australia	2,293	19	81	1.9	3.8	3.8	100	100
4. United States of America	2,196	14	30	3.5	4.5	0.0	37.7	20.4
5. Japan	1,390	20	66	25	31	0.0	27.6	21.8

Source: WTO, 2015c

As previously discussed, the EU currently represents New Zealand's second-largest trading partner for agricultural products. It is therefore useful to consider current tariffs for particular agricultural commodities entering the EU. In particular, all dairy products entering the EU are currently subject to tariffs, with an average MFN applied duty of 42.1 per cent. Furthermore, approximately 6.1 per cent of animal products enter the EU duty-free with an average MFN applied duty of 17.7 per cent, while 14.2 per cent of fruit, vegetable and plant products entering the EU are duty-free, with an average MFN applied duty of 10.9 per cent (WTO, 2015c).

4.2 New Zealand Free Trade Agreements

New Zealand's approach to negotiating trade agreements differs from the EU, and from most developed countries, in that it is a small open economy which relies heavily on agricultural trade. As such, New Zealand has low protection for its agriculture and pursued opportunities for improved market access.

New Zealand has participated in multilateral negotiations such as the Uruguay Round and the following Doha Round in an effort to gain WTO multilateral reductions of barriers. New Zealand has also developed bilateral trade agreements. New Zealand has concluded FTAs with several countries and regions, which are shown in Table 4.4 below.

Table 4.4: Current Free Trade Agreements between New Zealand and other countries

Trading partner	Name of the agreement	Year concluded
Australia	The Australia New Zealand Closer Economic Relationship	1983
Singapore	NZ-Singapore Closer Economic Partnership	2001
Thailand	NZ-Thailand Closer Economic Partnership	2005
China	NZ-China Free Trade Agreement	2008
Malaysia	NZ – Malaysia Free Trade Agreement	2010
Hong Kong	The New Zealand-Hong Kong, China Closer Economic Partnership (CEP)	2011
ASEAN and Australia	ASEAN Australia New Zealand FTA (AANZFTA)	2012
South Korea	NZ-Korea Free Trade Agreement	2015

4.2.1 New Zealand - Australia Closer Economic Relations (ANZCER)

New Zealand concluded negotiations towards its first FTA with Australia in 1965. Following this, the two countries sought to deepen their relationship in creating a single economic market, with talks towards this initiated in the 1970s. Following this, in 1983, a new agreement called New Zealand-Australia Closer Economic Relations (CER) came into force. Under this agreement, all tariffs and quantitative restrictions on the trade of goods were to be eliminated by 1990, five years before the CER tariff elimination schedule. Therefore, all goods which meet the CER rules of origin did not face any tariff and quantitative restrictions (ANZCER, 1982).

4.2.2 New Zealand - Singapore Closer Economic Partnership (NZSCEP)

Negotiations towards an FTA between New Zealand and Singapore began in 1999, taking less than a year to conclude. In 2001, this agreement, known as the Agreement between New Zealand and Singapore on a Closer Economic Partnership, came into force. Under this, all tariffs on goods made in Singapore or New Zealand were eliminated on the date of entry into force of the agreement. In addition, goods which met the rule of origin defined by this agreement could be traded duty-free. In addition, the agreement outlined stipulations to prohibit export subsidies on all goods including agricultural products (NZSCEP, 2001).

4.2.3 New Zealand - Thailand Closer Economic Partnership (NZTCEP)

In 2004, New Zealand and Thailand initiated negotiations towards a Closer Economic Partnership (CEP) agreement, which was enforced in 2005. As a result, New Zealand eliminated 85 per cent of tariffs on imports from Thailand, including all agricultural products, such as meat and fish, dairy products, fruits,

vegetables, nuts and wine. The remaining tariffs were progressively eliminated by 2015. New Zealand also gradually eliminated tariffs on the most sensitive products such as textile, footwear, clothing and carpets over a period of 10 years. Tariffs on some less sensitive products such as whiteware, particular furniture items, paper, steel, iron and aluminium products and automotive components were initially held at their original level before either falling to zero in 2010 or being phased out over a 5 year period.

On the other hand, Thailand completely eliminated tariffs on more than half of New Zealand exports when the CEP came into force. All remaining tariffs and quotas will be abolished by 2025. The most sensitive sector to negotiate for Thailand was the dairy sector, as around half of New Zealand's exports to Thailand fall into this category. Thailand has kept tariff quotas for some sensitive agricultural products, such as liquid milk and cream, skim milk powder, potatoes and onions, up to 2025. For fruit and vegetables (such as kiwifruit), most of the high tariffs (in the range of 30-40 per cent) were instantly eliminated when the agreement came in force. High tariffs on beef and sheepmeat (of 50 and 30 per cent respectively) were to be completely phased out in period of 15 and 5 years respectively. Furthermore, tariffs on wine (which were 60 per cent initially) were reduced to 30 per cent, before being phased out completely in 2015 (NZTCEP, 2005).

4.2.4 New Zealand - China Free Trade Agreement (NZCFTA)

New Zealand was the first developed country to conclude an FTA with China in 2008. Negotiations towards an agreement began in 2004. After four years the agreement was signed and came into force. New Zealand eliminated most of its tariffs on goods originating from China when the agreement came into force. The remaining barriers were phased out completely by 2016 (MFTA, 2008). The same pattern applied to the agricultural sector. The majority of tariffs were abolished in 2008, and the remainder were gradually reduced over a period of five years. All meat of bovine and sheep, milk and cream, butter and dairy spreads, cheese and curd, kiwifruit became duty-free when the agreement came into force with most other products in five years.

China was more protective towards its agricultural sector than New Zealand. The Chinese dairy industry was considered as an infant industry, and therefore was protected the most. Tariffs on infant milk formula, casein and yoghurt were gradually removed over a period of five to six years (MFTA, 2008). The phased out of ten years period was applied on cheese, butter and liquid milk. The longest phased out of 12 years was applied on milk powder. For these products, a specific safeguard mechanism can be triggered in exceptional cases. Other products which China treated as sensitive are sheep and beef, edible offal and kiwifruit. A country-specific tariff quota was imposed on New Zealand wool exports. Most of other tariffs on the agricultural products were gradually eliminated over a period of five years. Some agricultural commodities were excluded from the agreement, and they are subject to MFN tariffs rates. Those products are durum wheat, maize seed, all type of rice, raw cane sugar and other sugars, soy bean oil, curd palm oil, sunflower oil and some other oils (MFTA, 2008).

4.2.5 New Zealand – Malaysia Free Trade Agreement

Negotiations towards an agreement between New Zealand and Malaysia began in 2005. After four years the agreement was signed and came into force in 2010. New Zealand liberalised completely most of its agricultural products when the agreement was ratified. All meat of bovine and sheep, milk and cream, butter and dairy spreads, cheese and curd, kiwifruit, as well as wines became duty-free in 2010 (MFTA,

2010). New Zealand applied longer phase-out periods for its sensitive products. Tariff on margarine was kept for five years. New Zealand was protective towards some pasta, sweet biscuits, soy sauce and nutmeg. Tariffs on these products were reduced to five per cent, were kept for five years, and they were reduced to zero in the fifth year (MFTA, 2010). Tariffs on pepper, waffles and wafers phased out over a period of two years. New Zealand was very protective towards its sensitive sectors such as clothing, footwear, some textiles, carpets, most wooden furniture and some manufactured products. Those products had the longest phase-out periods (MFTA, 2010). Malaysia was very protective towards its agricultural sector. In the dairy sector, tariff rate quotas on liquid milk were introduced. Tariff quota on the liquid milk is 2.1 million litres with the quota volume rates increase of up to five per cent on an annual basis (MFTA, 2010). Malaysia introduced tariff quotas as well as on pigs, pork, chicken and duck's eggs. The remaining agricultural products have been fully liberalised by 2016 (MFTA, 2010).

4.2.6 The New Zealand - Hong Kong, China Closer Economic Partnership (NZHKCEP)

New Zealand started to negotiate an FTA with Hong Kong before an FTA with China. After a long negotiation process of ten years, the agreement was signed, and it came into effect in 2011. Hong Kong market is duty-free accessible for all countries, as its MFN tariffs on all imported products are zero (GovHK, 2016). During negotiations, the most difficult were to agree on and set robust rules of origin. New Zealand wanted to make sure that only Hong Kong products are legitimate to qualify to enter its market duty-free. New Zealand applied the same timetable for tariff phase-out on goods originating from Hong Kong as within the FTA with China (MFTA, 2011). Tariffs on highly traded clothing, footwear and some other textile had the longest phased out by 2016. Tariffs on carpets, other clothing, footwear and textile were eliminated by 2014. By 2012, tariffs were gradually eliminated on some less sensitive products (MFTA, 2011). The majority of tariffs were abolished when the agreement came into force. Tariffs on the remaining agricultural products phased out in the same year as the tariffs within the FTA with China in order to mitigate the adjustment effects. New Zealand imposed tariff phase-out periods up to five years on agricultural goods originating from China, while phase-out periods with Hong Kong were up to two years.

Hong Kong is a very small producer of agricultural products. Farms are small in size and leafy vegetables, poultry and pigs are the main products. According to the Government of Hong Kong (2016), 2 per cent of vegetables consumed, 6 per cent of the pig meat and 95 per cent of poultry consumed came from domestic production in 2015. Therefore, Hong Kong as a very small agricultural producer is not a threat to New Zealand's agricultural sector. These terms are similar to the New Zealand FTA with Singapore which is also a city-state with comparable agricultural trade and production profile. New Zealand immediately removed all tariffs on all agricultural products originating from Singapore when the agreement came into force (MFTA, 2001). Therefore, New Zealand's protectionism towards some agricultural products within an FTA with Hong Kong can not be explained by production and trade data. A possible explanation for the same tariff treatment as within the New Zealand-China FTA may be a special status and relationship of Hong Kong with China. Hong Kong is an autonomous territory of China. The implication is that New Zealand may have put the same year of the complete tariff elimination for China and Hong Kong to ensure that Chinese products did not receive back-door entry to New Zealand. The fact that for New Zealand was the most difficult to negotiate rules of origin in order to make sure that only Hong Kong products are legitimate to qualify to duty-free enter its market supports the previous reasoning.

4.2.7 New Zealand – Korea Free Trade Agreement (NZKFTA)

The most recent New Zealand FTA is with South Korea. Negotiations towards an agreement began in 2009. After four years the agreement was signed, and it came into force in late 2015. New Zealand liberalised almost all agricultural products immediately after the agreement came into effect. Only a few products were treated as sensitivities. The longest tariff phase-out period of seven years was applied on nutmeg, coconut oil and its fractions. The tariff on margarine will phase out over a period of five years. The shortest tariff phase-out of three years was imposed on sweet biscuits and soy sauce (MFTA, 2015). The agreement applied longer tariff phase-out periods for New Zealand sensitive sectors such as clothing, footwear, some textiles and carpets. Tariffs on these products have a phase-out period from three up to seven years (MFTA, 2015).

In contrast, South Korea was very protective towards its agricultural sector because it mostly imports dairy products, beef, lamb, kiwifruit and other agricultural goods from New Zealand. South Korea introduced tariff rate quotas with zero in-quota duty for butter, cheese and infant formula and they will be eliminated over a period of ten to 15 years (MFTA, 2015). A permanent tariff rate quota was introduced on milk. In the dairy sector, tariffs will be removed over a period of five to 15 years. Mussels, the main fishery exports of New Zealand to South Korea, were subject to 20 per cent tariff before FTA and now they are subject to a permanent duty-free tariff rate quota. Before the agreement, the tariff on kiwifruit was 45 per cent, and it was reduced to 6 per cent when the agreement came into force. In 2020, it will be eliminated. Tariffs on other fruits and vegetables will be removed over ten years. Tariff of 40 per cent on beef will phase out over 15 years and tariff of 22 per cent on sheepmeat will be eliminated over ten years. Other meat products are subject to a phase-out periods up to 15 years. Tariffs on wine were eliminated when the agreement came into force (MFTA, 2015).

Table 4.5 shows the tariff elimination schedules for agricultural products in New Zealand's FTAs with Australia, China, Malaysia, Hong Kong and South Korea. New Zealand has liberalised beef and sheepmeat, milk and cream, cheese, and kiwifruit in each of FTA immediately after the agreements came into force. New Zealand removed gradually tariffs on wine over five years in the FTA with China and over two years in the FTA with Hong Kong. In all other FTAs, wine was immediately liberalised. New Zealand immediately liberalised almost all the remaining agricultural products when the agreements came into effect. In all FTAs, apart from Australia, Singapore and Thailand, there were few agricultural commodities with a longer tariff phase-out of five to seven years depending on the agreement. However, New Zealand has not ever excluded any agricultural product from liberalisation or has applied tariff rate quotas.

Table 4.5: New Zealand FTA tariff elimination schedules for agricultural products

Title of the agreement	Year concluded	Tariff elimination schedules for agricultural products
Australia-New Zealand CER	1983	All tariffs and quantitative restrictions were eliminated
New Zealand-China FTA	2008	<p>The majority of tariffs were removed when the agreement implemented</p> <p>Products subject to a five-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Meat and fish: meat and edible offal of poultry, rock lobsters and crabs ➤ Dairy sector: yogurt and natural honey ➤ Fruits and vegetables: cherries and lemon peel, sweetcorn, olives, cucumbers and gherkins, mushrooms, onions and mix of vegetables ➤ Coffee ➤ Margarine and coconut oil ➤ Sugar confectionery, chocolate and other food preparations containing cocoa ➤ Milling industry: wheat products and preparations of cereals, flour, starch, and pastry cooks products ➤ Miscellaneous edible preparations: yeasts, soy sauce and other such as tomato ketchup, soups, broths and ice-creams ➤ Wine and all fruit juices
New Zealand-Malaysia FTA	2010	<p>The majority of tariffs were removed when the agreement implemented</p> <p>Products subject to a five-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Margarine and coconut oil ➤ Sugar confectionary sector products and chocolate and other food preparations containing cocoa ➤ Some pastas, sweet biscuits, soya sauce and nutmeg <p>Products subject to two-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Pepper, waffles and wafers
New Zealand-Hong Kong, China Closer Economic Partnership	2011	<p>The majority of tariffs were removed when the agreement implemented</p> <p>The remaining tariffs had the same treatment and were phased out in 2012 along with tariffs under the FTA with China</p>
New Zealand- South Korea FTA	2015	<p>The majority of tariffs were removed when the agreement implemented</p> <p>Products subject to a seven-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Nutmeg ➤ Coconut oil and its fractions <p>Product subject to a five-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Margarine <p>Products subject to a three-year phase-out period:</p> <ul style="list-style-type: none"> ➤ Sweet biscuits ➤ Soy sauce

Source: compilation based on data sourced from published New Zealand's FTAs

Chapter 5

Trade Modelling Results

This chapter details the preliminary results from a partial-equilibrium modelling exercise examining the implications for trade and production of agricultural commodities under relaxed trade barriers between New Zealand and the European Union.

Work is ongoing refining this methodology, thus the results shown herein are not finalised but do show what kind of results are possible but these may be subject to change. Due to this, the initial results should not be quoted nor disseminated.

5.1 General Characteristics of the LTEM

The Lincoln Trade and Environmental model (LTEM) is a partial equilibrium modelling framework focused on mapping the trade and production of agricultural commodities worldwide. The specifications of the LTEM and its methodological basis are given in Table 5.1.

Table 5.1: Modelling Specifications

Model	LTEM- Lincoln Trade and Environment Model
Modelling Approach	Partial equilibrium
Temporal Properties	Comparative static (+ short term dynamics through sequential simulation)
Solution Type	Non-spatial, net global trade
Solution Algorithm	Newton's global algorithm
Parameters	Synthetic
Commodity Coverage	23
Country Coverage	23 (incl. Rest-of-World)
Behavioural Equations (per commodity and country)	Domestic supply <ul style="list-style-type: none"> • feed • food • processing Domestic demand Stock variation Producer price Consumer price Trade
Economic Identity	Net trade
Source	Catagay et. al. (2003)

The LTEM models 23 agricultural commodities, listed in Table 5.2. The model has a particular focus on the trade of dairy commodities, splitting raw milk production into 4 tradable commodities (butter, cheese, whole and skim milk powders) and one non-traded commodity (liquid milk) expended in domestic consumption.

Table 5.2: Commodity coverage in the LTEM

Wheat	Oilseed meals	Poultry	Liquid milk
Maize	Vegetable oils	Eggs	Apples
Other grains	Beef & veal	Butter	Kiwifruit
Rice	Pork	Cheese	Grapes
Sugar	Sheepmeat	Whole milk powder	Wine
Oilseeds	Wool	Skim milk powder	

Table 5.3: Countries in the LTEM

Argentina	European union (28)	New Zealand	Switzerland
Australia	India	Norway	United States
Brazil	Indonesia	Paraguay	Turkey
Canada	Japan	Russia	Uruguay
Chile	Republic of Korea	Singapore	Rest-of-World
China	Mexico	South Africa	

The model, is based upon VORSIM the predecessor of SWOPSIM combining associated trade-database used to conduct analyses during the Uruguay Round (Roningen, 1986; Roningen et al., 1991). LTEM is used to quantify the price, supply, demand and net trade effects of trade and domestic agricultural support policies. The model is used to derive the long-term policy impact in a comparative static fashion. The included products are treated as homogenous and therefore perfectly substitutable in international markets. It is a non-spatial model in which the framework derives the net trade of each region, however, the supply and demand shares of countries in trade can also be traced down. It allows the application of various domestic and border policies explicitly such as production quotas, set-aside policies, input and/or output related producer subsidies/taxes, consumer subsidies/taxes, minimum prices, import tariffs and export subsidies. The economic welfare implications of policy changes are also calculated in the LTEM framework by using the producer and consumer surplus measures.

5.2 EU-28 and New Zealand Free Trade Agreement

A scenario of full trade liberalisation between the EU and New Zealand was modelled. Whilst an unlikely outcome of the free trade negotiations between the EU and New Zealand, it is an important indicator of the most extreme potential economic outcomes of more likely moderate agreements. This scenario can be thought of as the upper-bounds of any trade agreement outcomes.

The LTEM is populated with tariffs and duties data taken from a number of international databases and sources (European Union, 2015; New Zealand Customs Service, 2015; Statistics New Zealand, 2015; World Trade Organisation, 2015). Below Tables 5.4 and 5.5 show the baseline tariff and duty levels for bi-lateral trade into New Zealand and the EU respectively. The rates are given for commodities in the LTEM, which are often aggregates of many narrower designations for the classification of traded goods. In these cases trade weighed ad valorem rates were calculated based on past trading values between the two regions. In the absence of reliable or consistent trade data to trade-weight rates, the tariff rates for the majority traded sub-commodity was used.

Table 5.4: Tariffs and duty's applied to New Zealand commodities

Commodities	Ad Valorem Tariff	Duties USD/t	Commodities	Ad Valorem Tariff	Duties USD/t
Wheat	3.2%	-	Wool	4.5%	-
Maize	7.7%	-	Poultry	7.7%	-
Other Grains	7.7%	-	Eggs	73.6%	-
Rice	95.4%	-	Butter	0.0%	0.905
Sugar	95.4%	-	Cheese	0.0%	0.221
Oilseeds	1.3%	-	Whole milk powder	0.0%	0.614
Oilseed meals	6.6%	-	Skim milk powder	0.0%	1.686
Vegetables oils	119.9%	-	Apples	8.5%	1.785
Beef & veal	19.1%	-	Kiwifruit	0.0%	-
Pork	14.7%	-	Grapes	0.0%	-
Sheepmeat	0.0%	-	Wine	0.0%	0.414

Table 5.5: Tariffs and duty's applied to European Union commodities

Commodities	Ad Valorem Tariff	Duties USD/t	Commodities	Ad Valorem Tariff	Duties USD/t
Wheat	0.0%	-	Wool	0.0%	-
Maize	0.0%	-	Poultry	5.0%	-
Other Grains	0.0%	-	Eggs	2.7%	-
Rice	0.0%	-	Butter	0.0%	-
Sugar	0.0%	-	Cheese	0.0%	-
Oilseeds	0.0%	-	Whole milk powder	1.4%	-
Oilseed meals	0.0%	-	Skim milk powder	1.4%	-
Vegetables oils	0.5%	-	Apples	0.0%	-
Beef & veal	0.0%	-	Kiwifruit	0.0%	-
Pork	5.0%	-	Grapes	0.0%	-
Sheepmeat	0.0%	-	Wine	4.5%	-

For the free trade scenario, all tariffs and duties applied to bi-lateral trade between the EU and New Zealand were dropped to zero in 2015.

As the LTEM is not a bi-lateral trade model and uses a world-market-price clearing mechanism to simulate international trade, by default the trade model applies one average tariff for each country and commodity uniformly for trade from all trade partners, the model treats all goods within each commodity as homogenous. In order to simulate limited bi-lateral trade with specific tariff levels within this model framework we have differentiated the commodities into two sub-commodities, one comprising of products traded between the EU and NZ, and the other comprising all other trade. In this way the model is clearing two markets, bi-lateral trade between the EU and NZ, and other global trade. This allows for distinct tariff rates for bi-lateral trade, furthermore as the two sub-commodities are modelled as perfect

substitutes both the EU and NZ can defer production and consumption for either bi-lateral trade or global trade, based on the relative trade price. This method of splitting commodities, is a similar approach is used in Barkley (2002), and has been used previously with the LTEM to model trade and production of genetically modified produce compared to non-genetically modified produce (Saunders et al., 2003).

This approach is able to provide a means to analysis bi-lateral trade in a partial equilibrium framework. This is approach is limited in some cases however as cross-price elasticities are used to ensure the sub-commodities are perfect substitutes (cross-price elasticity of 1), the relative change between production and consumption of the sub-commodities is relative to the magnitude of production and consumption. A shift in price will have the same proportionate impact on production and consumption between these sub-commodities, thus a differing absolute impact will be observed. This is relevant to the current study as while the share of NZ production destined for the EU market is relatively large, the relative size of exports for NZ compared to EU total production is very small. We can expect then the impact of changes in tariffs on the EU export into NZ to be minor.

5.3 Results

The results for the modelling are presented as the comparison between the free trade scenario and a baseline 'business as usual' scenario, both in 2024. Price is presented in USD per tonne, and quantities in kilo tonnes.

Table 5.6 shows that producer prices for most commodities do not change more than one percent. The only exceptions are in New Zealand both the producer price for apples and wine increase by over 12 per cent.

Table 5.6: Change in producer prices (USD/t) between scenarios in 2024

Commodity	EU-28				NZ			
	Base	Free Trade	Change	% Change	Base	Free Trade	Change	% Change
Cereals	258.1	258.5	0.3	0.13%	326.5	326.9	0.4	0.13%
Beef	5041.2	5044.0	2.8	0.06%	3031.7	3032.4	0.6	0.02%
Sheepmeat	6236.9	6236.8	-0.1	0.00%	4106.7	4087.8	-18.9	-0.46%
Wool	1504.5	1506.6	2.1	0.14%	2962.6	2964.6	2.0	0.07%
Butter	3594.8	3591.5	-3.3	-0.09%	4894.5	4870.9	-23.6	-0.48%
Cheese	3797.7	3795.9	-1.8	-0.05%	5283.4	5269.2	-14.2	-0.27%
Whole Milk Powder	2780.4	2783.2	2.8	0.10%	3799.1	3804.6	5.5	0.14%
Skim Milk Powder	2511.1	2520.8	9.7	0.39%	4018.5	4041.9	23.4	0.58%
Apples	974.2	976.0	1.8	0.19%	480.4	538.2	57.8	12.03%
Kiwifruit	1967.4	1966.0	-1.4	-0.07%	1176.6	1174.5	-2.1	-0.18%
Wine	826.4	827.9	1.6	0.19%	1566.7	1758.6	191.9	12.25%

Agricultural production in the EU and New Zealand remains relatively unchanged with the implementation of the free-trade scenario, as shown in Table 5.7. Both regions experience minor changes to all commodities, and New Zealand experiences minor increases in dairy production, from butter and cheese, although interestingly no large scale increase in milk powder production are projected to occur. The most significant change is in the production of apples in New Zealand increases by almost 25 per cent. This is expected due to the dropping of the EU's duty on apple imports combined with an increase in producer returns for their production.

Table 5.7: Change in production (kt) between scenarios in 2024

Commodity	EU-28				NZ			
	Base	Free Trade	Change	% Change	Base	Free Trade	Change	% Change
Cereals	299494	299488	-6	0.00%	1411	1412	-6	0.00%
Beef	9803	9807	4	0.04%	683	685	2	0.29%
Sheepmeat	1103	1104	1	0.09%	604	605	1	0.14%
Wool	219	219	0	0.04%	171	171	0	-0.24%
Butter	2819	2823	4	0.15%	661	675	13	2.01%
Cheese	12000	12006	6	0.05%	455	465	9	2.09%
Whole Milk Powder	837	834	-4	-0.46%	1434	1433	0	-0.03%
Skim Milk Powder	1542	1541	-2	-0.12%	712	713	1	0.08%
Apples	11982	11955	-27	-0.23%	718	889	171	23.82%
Kiwifruit	807	809	2	0.23%	638	644	6	0.87%
Wine	16036	16032	-4	-0.03%	590	577	-12	-2.09%

Table 5.8 shows changes in domestic consumption. Consumption of agricultural goods under a free trade scenario increases slightly in the EU for most commodities, with the exception of sheepmeat, wool and wine. The consumption of cereals and apples increase most significantly, with additional consumption of 187 and 141 kilo tonnes respectively. Domestic consumption in New Zealand changes similarly, with slight increases for most commodities, and larger increases for cereals and apples, the similar consumption effects reflects changing world consumer prices. The main difference for New Zealand domestic consumption is an increase in wine consumption, with an increase in EU wine imports.

Table 5.8: Change in consumption (kt) between scenarios in 2024

Commodity	EU-28				NZ			
	Base	Free Trade	Change	% Change	Base	Free Trade	Change	% Change
Cereals	118883	119069	187	0.16 %	518	707	189	36.49 %
Beef	10011	10021	11	0.11 %	153	164	11	6.97 %
Sheepmeat	1149	1143	-6	-0.53 %	82	82	0	0.00 %
Wool	246	246	0	-0.06 %	255	256	1	0.35 %
Butter	2540	2550	10	0.38 %	91	91	0	0.13 %
Cheese	12662	12668	6	0.04 %	84	84	0	0.16 %
Whole Milk Powder	270	273	3	1.22 %	5	5	0	-5.55 %
Skim Milk Powder	1230	1235	5	0.42 %	189	189	0	-0.05 %
Apples	17890	18031	141	0.79 %	202	312	110	54.58 %
Kiwifruit	360	366	5	1.50 %	29	29	0	-0.05 %
Wine	21928	21893	-35	-0.16 %	105	127	22	20.96 %

Table 5.9 shows changes in producer returns, most importantly the total producer returns for all agricultural commodities in the LTEM are expected to increase, with an increase of less than one per cent in EU and over a one per cent increase for New Zealand producers. In the EU there are no major changes in producer returns although returns for apples and whole milk powder decrease slightly. Alternatively in New Zealand only sheepmeat and wool returns decrease, while wine returns increase almost 10 per cent even with a decrease in wine production due to an increase in producer prices. The largest rise is in producer returns for New Zealand apples, increasing almost 40 per cent, this is due to a rise in both production amounts and producer price.

Table 5.9: Change in producer returns (kt) between scenarios in 2024

Commodity	EU-28				NZ			
	Base	Free Trade	Change	% Change	Base	Free Trade	Change	% Change
Cereals	77306	77403	97	0.13 %	461	462	1	0.21 %
Beef	49421	49468	47	0.09 %	2072	2078	6	0.31 %
Sheepmeat	6882	6888	6	0.08 %	2480	2472	-8	-0.32 %
Wool	329	330	1	0.17 %	508	507	-1	-0.17 %
Butter	10133	10139	6	0.06 %	3237	3286	49	1.52 %
Cheese	45572	45573	1	0.00 %	2406	2450	44	1.81 %
Whole Milk Powder	2328	2320	-8	-0.36 %	5447	5453	6	0.11 %
Skim Milk Powder	3873	3883	10	0.26 %	2863	2882	19	0.66 %
Apples	11672	11668	-4	-0.04 %	345	479	134	38.71 %
Kiwifruit	1588	1590	3	0.16 %	751	756	5	0.69 %
Wine	13252	13274	21	0.16 %	924	1015	91	9.90 %
Total	222358	222537	179	0.08 %	21492	21839	347	1.61 %

Changes in trade between New Zealand and the EU are shown in Table 5.10, the figures are given in net trade, positive numbers indicating net exports and negative numbers imports. The EU changes from importing cereals from New Zealand to exporting almost 400 tonnes additionally with the drop of trade barriers. The export of apples from New Zealand to the EU increases significantly

Table 5.10: Change in bi-lateral net trade (kt) between scenarios in 2024

Commodity	EU-28			NZ		
	Base	Free Trade	Change	Base	Free Trade	Change
Cereals	-1	394	396	1	-394	-396
Beef	-13	-3	9	13	3	-9
Sheepmeat	-143	-139	4	143	139	-4
Wool	0	0	1	0	0	-1
Butter	-29	-38	-9	29	38	9
Cheese	-19	-27	-8	19	27	8
Whole Milk Powder	0	-3	-3	0	3	3
Skim Milk Powder	0	-4	-3	0	4	3
Apples	-39	-266	-227	39	266	227
Kiwifruit	-83	-88	-5	83	88	5
Wine	-110	-78	32	110	78	-32

Lastly, Table 5.11 shows the effect of the free trade scenario on total net trade for the EU and New Zealand. Here the EU whilst exporting more cereals to New Zealand remains a net importer of cereals. The increase in trade to New Zealand is due to the EU being a net exporter of wheat, trade of which to New Zealand increases in the free trade. However the EU in both scenarios remains a net importer of larger quantities of maize, this offsets the amount of wheat exported, making the EU a net importer of total cereals.

Table 5.11: Change in total net trade (kt) between scenarios in 2024

Commodity	EU-28			NZ		
	Base	Free Trade	Change	Base	Free Trade	Change
Cereals	-17410	-17639	-229	-543	-940	-397
Beef	-220	-227	-8	530	521	-9
Sheepmeat	-46	-38	7	518	519	1
Wool	-27	-27	0	-83	-85	-1
Butter	273	267	-6	567	581	13
Cheese	-684	-683	0	371	381	9
Whole Milk Powder	568	560	-7	1429	1428	0
Skim Milk Powder	139	131	-7	523	523	1
Apples	-5908	-6076	-168	517	578	61
Kiwifruit	447	443	-4	610	615	6
Wine	-5892	-5861	31	485	451	-34

Importantly these results show that for the agricultural commodities considered in the modelling exercise, total producer returns in both the EU and New Zealand are expected to increase, be it marginally. The most significant changes would be for apple production and returns in New Zealand which rise significantly, whilst sheep and wool returns are expected to drop slightly. Most other changes are marginal, although wine producers in New Zealand are expected to experience an increase in returns of almost 10 per cent even given a drop in production.

5.4 Conclusion

This report is an initial examination of the potential impacts of a FTA between New Zealand and the EU. New Zealand and the EU have a long history of trade in agricultural products especially with the UK. This trade changed when the UK entered the then EC in 1973 and implemented the Common Agricultural Policy (CAP) which had a common external tariff which for many products was prohibitive. In addition due to the subsidies for many products in the EU production rose, imports fell and exports grew. Therefore New Zealand lost its main market and had to compete with subsidised exports on the world market. New Zealand was successful in obtaining preferential access for sheepmeat, butter and cheese into first into the UK and then the EU.

Nonetheless, the EU is New Zealand's third largest trading partner with exports of over \$5 billion in 2015. These are mainly meats (sheepmeat and beef), wine, kiwifruit, apples and dairy. The EU exports \$8.8 billion in goods to New Zealand, mainly machinery and electrical, transportation, and chemicals, which all have low applied MFN tariff rates (between 0.8 and 3.2). Furthermore, New Zealand has relatively low protection on agriculture imports with 5 per cent on pork, poultry, and milk powders, and 5 per cent on wine from EU. Whereas the EU has a prohibitive trading policy with extensive system of tariffs and import quotas. Although New Zealand does have the aforementioned preferential access for sheepmeat and a more limited access for butter and cheese.

An analysis of the existing EU FTA's with South Africa, Mexico, Chile and South Korea was undertaken to provide insights into how a FTA may be negotiated with New Zealand. The first three FTAs were negotiated prior to the EU Global Europe Communication which in theory rejects protectionism, and embraces freer trade. The FTA with South Korea does show a different approach with more liberalisation for agricultural products. In particular from sheepmeat, butter, cheese and wine in contrast to the earlier FTAs. However, South Korea is not a large exporter of these commodities. Milk, kiwifruit and beef are subject to greater protectionism with a 5 year transitional period to liberalisation. All the FTAs include safeguard clauses in the case of the FTA affecting a domestic industry.

Therefore a FTA between New Zealand and the EU can be expected to maintain some form of protectionism for commodities such as dairy and beef. In the case of sheepmeat, current trade is relatively liberal with New Zealand not always choosing to fill its export quota. As Kiwifruit exports to the EU are counter seasonal like those from Chile, similar provisions as with the Chilean FTA may be likely, that is a 7 year liberalisation compared to 10 years in other earlier FTAs. In the case of New Zealand wine a liberalisation period of 3 years may be expected. All FTAs exclude certain agricultural products mainly certain cheeses and wines with PDOs or PGIs status, a FTA with New Zealand would also be expected to omit products on that basis, thus generic liberalisation for cheese and wine is not expected.

An initial analysis of the impact of an FTA between the EU and New Zealand was undertaken using the LTEM. This only assessed impact of a removal of tariffs and duties using an unmodified LTEM which has a limited capacity to simulate bilateral trade. The results of this analysis showed relatively little impact on New Zealand producers with the exception of increases in producer returns for apples and wine. All other changes were marginal, importantly including dairy products, being significant export products for both regions. These results however are somewhat unsurprising as both the EU and New Zealand are net exporters of many agricultural products.

Again it must be stressed that this modelling is an initial assessment of the impacts and further modelling is needed to represent the bilateral trading more accurately, and also to then simulate the impact of different negotiating positions, transitional arrangements, and quota access as outlined in this report.

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Appendix 1

HS96/ 02 Code	Description	South Africa	Mexico	Chile
0406	<i>Cheese and Curd</i>	-----	-----	-----
0406 20 10	- Grated or powdered cheese, of all kinds -- Glarus herb cheese (known as Schabziger) made from skimmed milk and mixed with finely ground herbs	X		
0406 40 10	- Blue-veined cheese -- Roquefort	X	X	X
0406 40 50	-- Gorgonzola	X	X	X
0406 90 02	- Other cheese --- Emmentaler, Gruyère, Sbrinz, Bergkäse and Appenzell ---- Whole cheeses with a free-at-frontier value, per 100kg net weight exceeding EUR 401,85 but not exceeding EUR 430,62, of a fat content of 45 % or more by weight in the dry matter and matured for three months or more	X		
0406 90 03	---- Whole cheeses with a free-at-frontier value, per 100kg net weight exceeding EUR 430,62, of a fat content of 45 % or more by weight in the dry matter and matured for three months or more	X		
0406 90 04	---- Pieces packed in vacuum or inert gas, with rind on at least one side, of a net weight of 1kg or more but less than 5kg and with a free-at-frontier value exceeding EUR 430,62 but not exceeding EUR 459,39 per 100kg net weight, of a fat content of 45 % or more by weight in the dry matter and matured for three months or more	X		
0406 90 05	---- Pieces packed in vacuum or inert gas, with rind on at least one side, of a net weight of 1kg or more and with a free-at-frontier value exceeding EUR 459,39 per 100kg net weight, of a fat content of 45 % or more by weight in the dry matter and matured for three months or more	X		
0406 90 06	---- Pieces without rind, of a net weight of less than 450g and with a free-at-frontier value exceeding EUR 499,67 per 100kg net weight, of a fat content of 45 % or more by weight in the dry matter and matured for three months or more, packed in vacuum or inert gas, in packings bearing at least the description of the cheese, the fat content, the packer responsible and the country of manufacture	X		
0406 90 18	- Other Cheese --- Fromage fribourgeois, Vacherin Mont d'Or and Tête de Moine	X	X	X
0406 90 19	--- Glarus herb cheese (known as Schabziger) made from skimmed milk and mixed with finely ground herbs	X		
0406 90 23	--- Edam	X		
0406 90 25	--- Tilsit	X		

0406 90 27	--- Butterkäse	X		
0406 90 29	--- Kashkaval	X		
0406 90 31	--- Feta ---- Of sheep's milk or buffalo milk in containers containing brine, or in sheep or goatskin bottles	X		
0406 90 33	---- Other	X		
0406 90 35	--- Kefalo Tyri	X		
0406 90 37	--- Finlandia	X		
0406 90 39	--- Jalsberg	X		
0406 90 61	--- Other ---- Other ----- Of a fat content, by weight, not exceeding 40 % and a water content, by weight, in the non-fatty matter ----- Not exceeding 47 % ----- Grana Padano, Parmigiano, Reggiano	X	X	X
0406 90 63	----- Fiore Sardo, Pecorino	X	X	X
0406 90 73	----- Exceeding 47 % but not exceeding 72 % ----- Provolone	X		
0406 90 75	----- Asiago, Caciocavallo, Montasio, Ragusano	X	X	X
0406 90 76	----- Danbo, Fontal, Fontina, Fynbo, Havarti, Maribo, Samsø	X	X	X
0406 90 79	----- Esrom, Italico, Kernhem, Saint Nectaire, Saint Paulin, Taleggio	X	X	X
0406 90 81	----- Cantal, Cheshire, Wensleydale, Lancashire, Double Gloucester, Blarney, Colby, Monterey	X	X	X
0406 90 82	----- Camembert	X		
0406 90 84	----- Brie	X		
0406 90 85	----- Kefalograviera, Kasseri	X	X	X
2204	<i>Wine of fresh grapes, including fortified wines</i>	-----	-----	-----
2204 10 11	- Sparkling wine -- Of an actual alcoholic strength by volume of not less than 8,5 % vol --- Champagne	X	X	X
2204 10 91	-- Other --- Asti Spumante	X	X	X
2204 21 11	--- Wine other than that referred to in subheading 2204 10 in bottles with 'mushroom' stoppers held in place by ties or fastenings; wine otherwise put up with an excess pressure due to carbon dioxide in solution of not less than 1 bar but less than 3 bars, measured at a temperature of 20 °C --- Other ---- Of an actual alcoholic strength by volume not exceeding 13 % vol ----- Quality wines produced in specified regions ----- White ----- Alsace	X	X	X
2204 21 12	----- Bordeaux	X	X	X
2204 21 13	----- Bourgogne (Burgundy)	X	X	X

2204 21 17	----- Val de Loire (Loire Valley)	X	X	X
2204 21 18	----- Mosel Saar Ruwer	X	X	X
2204 21 19	----- Pfalz	X	X	X
2204 21 22	----- Rheinhessen	X	X	X
2204 21 24	----- Lazio (Latium)	X	X	X
2204 21 26	----- Toscana (Tuscany)	X	X	X
2204 21 27	----- Trentino, Alto, Adige and Friuli	X	X	X
2204 21 28	----- Veneto	X	X	X
2204 21 32	----- Vinho Verde	X	X	X
2204 21 34	----- Penedés	X	X	X
2204 21 36	----- Rioja	X	X	X
2204 21 37	----- Valencia	X	X	X
2204 21 38	----- Other	X	X	X
2204 21 42	----- Other ----- Bordeaux	X	X	X
2204 21 43	----- Bourgogne (Burgundy)	X	X	X
2204 21 44	----- Beaujolais	X	X	X
2204 21 46	----- Côtes du Rhône	X	X	X
2204 21 47	----- Languedoc Roussillon	X	X	X
2204 21 48	----- Val de Loire (Loire Valley)	X	X	X
2204 21 62	----- Piemonte (Piedmont)	X	X	X
2204 21 66	----- Toscana (Tuscany)	X	X	X
2204 21 67	----- Trentino and Alto Adige	X	X	X
2204 21 68	----- Veneto	X	X	X
2204 21 69	----- Dão, Bairrada and Douro	X	X	X
2204 21 71	----- Navarra	X	X	X
2204 21 74	----- Penedés	X	X	X
2204 21 76	----- Rioja	X	X	X
2204 21 77	----- Valdepeñas	X	X	X
2204 21 78	----- Other	X	X	X
2204 21 81	----- Other ----- White ----- Other ---- Of an actual alcoholic strength by volume exceeding 13 % vol but not exceeding 15 % vol ----- Quality wines produced in specified regions ----- White		X	X
2204 21 82	----- Other		X	X
2204 21 87	---- Of an actual alcoholic strength by volume exceeding 15 % vol but not exceeding 18 % vol ----- Marsala		X	X
2204 21 88	----- Samos and Muscat de Lemnos	X	X	X
2204 21 89	----- Port	X	X	X
2204 21 91	----- Madeira and Setubal muscatel	X	X	X
2204 21 92	----- Sherry	X	X	X
2204 21 93	----- Tokay (Aszu and Szamorodni)	X	X	X
2204 21 95	---- Of an actual alcoholic strength by volume exceeding 18 % vol but not exceeding 22 % vol ----- Port	X	X	X
2204 21 96	----- Madeira, sherry and Setubal muscatel	X	X	X
2204 21 97	----- Tokay (Aszu and Szamorodni)	X	X	X
2204 29 12	--- Wine other than that referred to in subheading 2204 10 in bottles with 'mushroom'	X	X	X

	<p>stoppers held in place by ties or fastenings; wine otherwise put up with an excess pressure due to carbon dioxide in solution of not less than 1 bar but less than 3 bars, measured at a temperature of 20°C</p> <p>--- Other</p> <p>---- Of an actual alcoholic strength by volume not exceeding 13 % vol</p> <p>----- Quality wines produced in specified regions</p> <p>----- White</p> <p>----- Bordeaux</p>			
2204 29 13	----- Bourgogne (Burgundy)	X	X	X
2204 29 17	----- Val de Loire (Loire Valley)	X	X	X
2204 29 18	----- Other	X	X	X
2204 29 42	----- Other	X	X	X
	----- Bordeaux			
2204 29 43	----- Bourgogne (Burgundy)	X	X	X
2204 21 44	----- Beaujolais	X	X	X
2204 29 46	----- Côtes du Rhône	X	X	X
2204 29 47	----- Languedoc Roussillon	X	X	X
2204 29 48	----- Val de Loire (Loire Valley)	X	X	X
2204 29 58	----- Other		X	X
2204 29 62	----- Other		X	X
	----- White			
	----- Sicilia (Sicily)			
2204 29 64	----- Veneto		X	X
2204 29 71	----- Other	X	X	X
	----- Puglia (Apuglia)			
2204 29 72	----- Sicilia (Sicily)	X	X	X
2204 29 81	<p>---- Of an actual alcoholic strength by volume exceeding 13 % vol but not exceeding 15 % vol</p> <p>----- Quality wines produced in specified regions</p> <p>----- White</p>	X	X	X
2204 29 82	----- Other	X	X	X
2204 29 87	<p>---- Of an actual alcoholic strength by volume exceeding 15 % vol but not exceeding 18 % vol</p> <p>----- Marsala</p>	X	X	X
220 29 88	----- Samos and Muscat de Lemnos	X	X	X
2204 29 89	----- Port	X	X	X
2204 29 91	----- Madeira and Setubal muscatel	X	X	X
2204 29 92	----- Sherry	X	X	X
2204 29 93	----- Tokay (Aszu and Szamorodni)	X	X	X
2204 29 95	<p>---- Of an actual strength by volume exceeding 18 % vol but not exceeding 22 % vol</p> <p>----- Port</p>	X	X	X
2204 29 96	----- Madeira, sherry and Setubal muscatel	X	X	X
2204 29 97	----- Tokay (Aszu and Szamorodni)	X	X	X

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