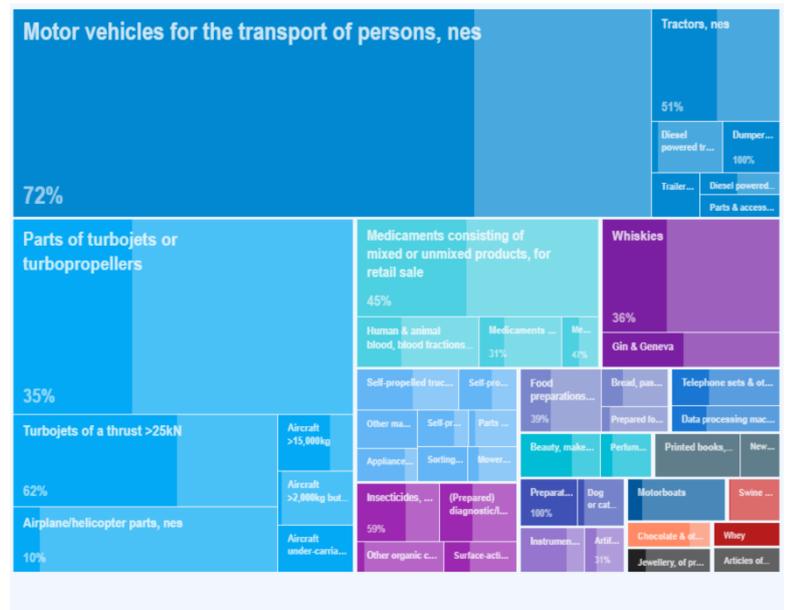


# Call for Evidence: United Kingdom – New Zealand Free Trade Agreement: Trade in Goods Impacts

**Submission by International Economics Consulting Ltd (IEC)<sup>1</sup>**

1. The future United Kingdom – New Zealand (UK-NZ) Free Trade Agreement (FTA) has been regarded by many as an important step in the UK's efforts to replace and extend on the network of FTAs it held with the EU. The export potential for UK exports into New Zealand, based on econometric estimations, has not been reached. The products with the greatest estimated potential for further intensification are motor vehicles, parts of aircrafts and pharmaceuticals.
2. The agreement itself will remove all tariffs on goods by both parties, with the UK removing tariffs over a longer period than New Zealand, which applied no phase out period. However, it is worth highlighting that, whilst the negotiation of an FTA by itself is an important achievement with ramifications that go beyond the pure trade effects, the impact of the FTA is expected to be rather small, particularly in macro-economic terms.
3. This is mainly due, first, to the fact that the existing level of bilateral trade between the UK and New Zealand is rather minimal. In 2020, New Zealand was the UK's 47<sup>th</sup> largest export destination, between Greece and Indonesia, with £706 million worth of exports (0.2% of UK exports). Cars, machinery and, to a lesser extent, chemical products, are the most exported products.

Figure 1 Export potential from UK to New Zealand



Source: ITC Export Potential Map

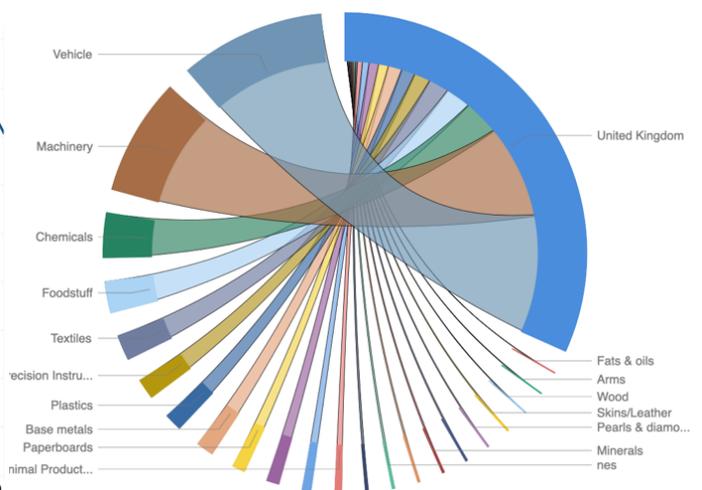
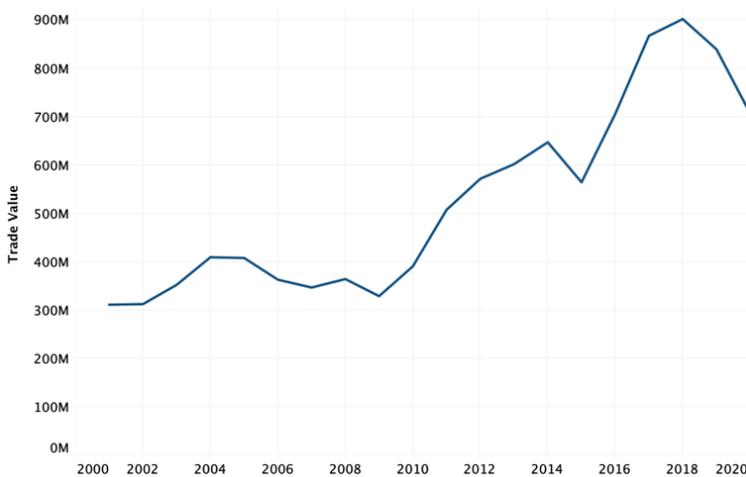


Figure 2 Composition of UK's exports to New Zealand in

2020

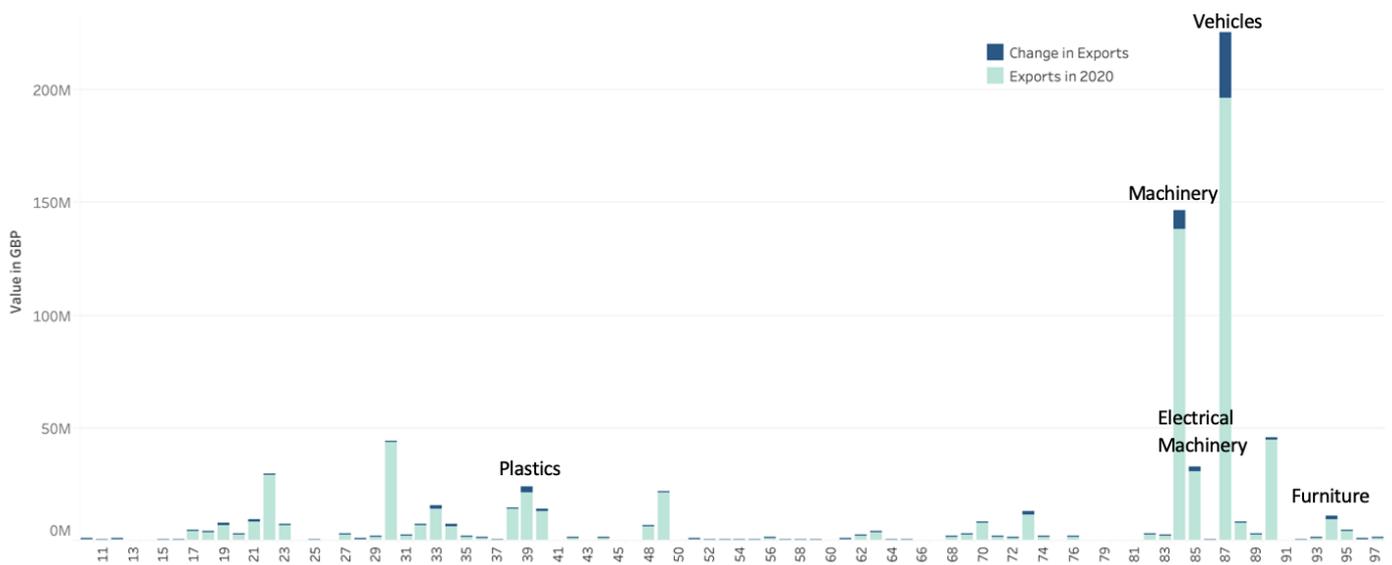
Source: IEC Trade Insights at [www.tradeeconomics.com/trade-insights/](http://www.tradeeconomics.com/trade-insights/)

<sup>1</sup> For any additional information, please contact Mr. Paul Baker, Chief Executive Officer.

Written evidence from International Economics Consulting Ltd (ANZ0013)

4. A similar situation is seen on the import side, with New Zealand ranking as the 50<sup>th</sup> largest supplier of the UK, amounting to £812 million worth of imports (0.2% of UK imports).
5. However, this is not to say that the agreement will not bring any benefits, on the contrary. Overall exports are expected to increase by £57.5 million from tariffs reductions alone, representing a nearly 7% increase in UK exports to the New Zealand. According to DIT simulations, this could be increased to £100 million if we include a reduction in the cost of complying with NTMs. This increase will be pronounced on a handful of specific industries. According to IEC economic modelling, the agreement will mainly benefit the vehicle sector, which is expected to see its exports to New Zealand increase by 15% increase over the current trade levels. This is because the tariff currently faced by the UK for cars is up to 7%. Another major beneficiary is expected to be machinery products, which is expected to increase its exports by 5%.

Figure 3 UK Export changes to New Zealand from UK-New Zealand FTA



Note: HS chapters on the x-axis at the HS2 digit level; Source: IEC Trade Modelling

6. On the import side, the effects are expected to be equally localised. Whilst the overall agreement is expected to increase UK's imports from New Zealand by nearly £670 million, representing an 80% increase in comparison to the 2019 level of imports, 85% of such increase - £580 million - is expected to take place through the importation of meats (HS 02). This would mean that imports of meat would increase by 2.5 times due to the removal of tariffs. And whilst the agreed tariff phase down will ease the shock, the removal of tariffs will certainly make New Zealand's imports of meat more attractive to the UK market.
7. A second important element to consider is that, despite FTA, non-tariff measures will continue to restrict trade.<sup>2</sup> The problem with NTMs is that, even if implemented on legitimate grounds, such regulations might also lead to discrimination between national and foreign suppliers, representing an additional source of costs, putting foreign competitors at a disadvantage and generate, intentionally or not, a form of protection for domestic industries.<sup>3</sup> In the case of New Zealand, it has one of the most open, transparent and predictable trade regimes in the world. The improvements it can continue to make in this area are limited. It does however continue to apply stringent SPS measures to protect human and plant health. This is not without consequences for exporters.

<sup>2</sup> UNCTAD (2019) defines NTMs as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both." Such policy measures can take the form of "technical measures, such as sanitary or environmental protection measures, as well as others traditionally used as instruments of commercial policy, e.g. quotas, price control, exports restrictions, or contingent trade protective measures, and also other behind-the-border measures, such as competition, trade-related investment measures, government procurement or distribution restrictions." See UNCTAD (2019). International Classification of Non-Tariff Measures – 2019 Version. United Nations, UNCTAD/DITC/TAB/2019/5, New York and Geneva.

<sup>3</sup> Molina, A. C. & Khoroshavina, V. (2015). 'TBT Provisions in Regional Trade Agreements: To What Extent Do They Go Beyond the WTO TBT Agreement?' WTO Staff Working Paper ERSD-2015-09, December, p. 8.

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8. Specifically, Fontagné, Orefice, Piermartini, and Rocha (2013) found that SPS measures reduce the participation of firms in export markets, affecting especially small and medium enterprises (SMEs), impacting, not just trade flows, but also market participation and price positioning, as SPS measures represent an incentive for firms to increase their price range, likely driven by the increase in costs associated with the SPS measures.<sup>4</sup> Grubler, Ghodis and Stehrer (2016) disentangle the effects of the different types of NTMs, with specific attention given to technical barriers to trade (TBT), Sanitary and Phytosanitary (SPS) measures and quantitative restrictions. The authors find that SPS measures and TBTs both impede as well as promote trade, depending on the NTM imposing country and product under consideration, whilst quantitative restrictions played an equally, if not more important, role in restricting trade during the period under investigation.<sup>5</sup>
9. In our view, it is unlikely that the FTA will be able to deliver a 50% decrease in the impact on NTMs, unlike what the Department for International Trade has proposed as a scenario in its impact assessment<sup>6</sup>. This is because, even though the agreement will cover rules on TBT and SPS, for example, it is unlikely that strong, “hard-law” obligation for the parties will be contained in the agreement.<sup>7</sup> For example, the SPS provisions in the UK-NZ FTA build on the WTO obligations and propose a number of efforts to mutually recognise each other’s capacity to monitor and control for pests and human and plant health controls. While low risks foods would not need health certificates, but given the high thresholds required by New Zealand, it is unlikely that convergence of views on risk assessments levels will be reached. There appears to be no specific obligation to reach harmonization nor to implement international standards.
10. Thus, for the agreement to achieve the impact foreseen in the DIT impact assessment, it is crucial that the negotiators achieve specific and actionable commitments, particularly in the area of NTMs such as TBT, SPS, but also others like competition and investment law, just to name a few, in order to achieve regulatory convergence. As such the estimates of DIT are overly estimated in our opinion and a more realistic scenario would, at best, reach less than a 25% reduction in NTMs.
11. Overall, the UK-NZ FTA would leave to a significant widening of the trade in goods deficit with New Zealand and would also widen the imbalances of some sectors. In particular, we expect the food and beverage sector to widen its trade deficit, while the auto sector would witness a greater trade surplus.

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<sup>4</sup> See Fontagné, L.; G. Orefice, R. Piermartini and N. Rocha (2013), ‘Product Standards and Margins of Trade: Firm-level Evidence’; CEPII working paper 2013-06; Paris: CEPII.

<sup>5</sup> See Grubler, J., Ghodsi, M. & Stehrer, R. (2016). ‘Assessing the Impact of Non-Tariff Measures on Impacts’. The *Vienna Institute for International Economic Studies*, February.

<sup>6</sup>DIT (2020). UK-New Zealand Free Trade Agreement The UK’s Strategic Approach. Available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/901870/uk-strategy-uk-nz-free-trade-agreement.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901870/uk-strategy-uk-nz-free-trade-agreement.pdf)

<sup>7</sup> As defined by the European Center for Constitutional and Human Rights, “[the] term *soft law* is used to denote agreements, principles and declarations that are not legally binding. *Soft law instruments* are predominantly found in the international sphere. *UN General Assembly resolutions* are an example of *soft law*. *Hard law* refers generally to legal obligations that are binding on the parties involved and which can be legally enforced before a court.” Available at: <https://www.ecchr.eu/en/glossary/hard-law-soft-law/>