Tariff (New Zealand–Hong Kong, China Closer Economic Partnership Agreement) Amendment Bill

148—1

Report of the Foreign Affairs, Defence and Trade Committee

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Recommendation

The Foreign Affairs, Defence and Trade Committee has examined the Tariff (New Zealand–Hong Kong, China Closer Economic Partnership Agreement) Amendment Bill and recommends that it be passed.

Introduction

The Tariff (New Zealand–Hong Kong, China Closer Economic Partnership Agreement) Amendment Bill seeks to amend the Tariff Act 1988 as part of the implementation of the New Zealand–Hong Kong, China Closer Economic Partnership Agreement (CEP) signed at Hong Kong on 29 March 2010. The proposed amendments to the Tariff Act would allow the application of preferential tariff rates under the CEP.

We have no recommendations to amend the bill and our report covers a number of issues relating to the CEP, which we considered in our examination of the bill.

Advantages and disadvantages of the agreement

Hong Kong is New Zealand’s tenth-largest export market and ninth-largest market for direct foreign investment. The comprehensive CEP negotiated with Hong Kong provides an important platform for building trade with China and the Asia region, complementing the New Zealand–China Free Trade Agreement.

We note that the CEP secures a range of advantages for New Zealand, including certainty of access into Hong Kong for New Zealand-produced goods, and services in key sectors such as business, communications, and environmental services; and for New Zealand service exporters it secures “most favoured nation” treatment. New Zealand exporters will therefore benefit from any preferential treatment that Hong Kong provides to future free trade agreement partners, subject to certain reservations and exceptions.

The CEP includes a “ratchet” clause, which means that any future unilateral liberalisation by Hong Kong in certain sectors, such as education, will be bound in to the agreement and applied to New Zealand. The CEP takes a “negative list” approach to scheduling services commitments, which means that unless a service sector is listed in the services schedules (or otherwise excluded by provisions in the CEP), the CEP obligations apply.

We believe that the most favoured nation status and the ratchet clause will “future-proof” access for New Zealand service exporters to key sectors in Hong Kong.

The removal of tariffs, while benefiting exporters, will affect producers for New Zealand’s domestic market. We note that the CEP provides for the same tariff reduction rate as that
set out in the New Zealand–China Free Trade Agreement, which will benefit suppliers of products which are sensitive to goods imported from Hong Kong (or China).

An investment chapter is not included in the CEP. We note, however, that New Zealand and Hong Kong have agreed in a legally-binding Exchange of Letters to negotiate an investment protocol within two years of the entry into force of the CEP.

**Rules of origin**

Under the rules of origin, for goods to qualify for preferential tariffs they must originate from Hong Kong or New Zealand. The rules of origin treat goods variously depending, for example, on whether they are wholly obtained or wholly produced in Hong Kong or New Zealand, or manufactured in Hong Kong or New Zealand, or both, using inputs from other countries. Other factors include whether goods meet the rules in the Product Specific Rules Schedule of the CEP.

We note that for some clothing items the rules of origin will allow Hong Kong manufacturers to undertake “part-processing” in mainland China while still qualifying for Hong Kong origin for the purposes of preferential access under the agreement. These goods will require a valid Certificate of Origin to qualify for preferential tariff treatment.

**Investment screening regime**

We note that the CEP does not provide Hong Kong investors with an exemption from New Zealand’s investment screening regime as set out in the Overseas Investment Act 2005. The Act requires overseas investors to apply to the Overseas Investment Office for consent to invest in New Zealand in fishing quota, sensitive land, or business assets over $100 million.

The screening threshold for Hong Kong, however, is $20 million, which is well below the threshold of $100 million applicable to other overseas investors. We understand that there is a commitment to review this amount upon the conclusion of the negotiation of an investment protocol; and the purchase of sensitive land, irrespective of the monetary value, by any overseas investor will be subject to screening by New Zealand’s Overseas Investment Office.

**Green Party minority view**

The Green Party opposes adoption of the Tariff (New Zealand–Hong Kong, China Closer Economic Partnership Agreement) Amendment Bill. The Green Party supports international trade as important to the national economy, but the underlying theory on which the Government rests its commitment to trade liberalisation is, in the contemporary context, flawed. The resulting skew, towards export-led growth at the cost of domestic exposure to inexpensive and often imperfect imports, is injurious to New Zealand’s medium-term employment stability and dangerous to long-term economic resilience.

The neo-classical theory of comparative advantage, on which the Government’s trade policy rests, is obsolescent. It requires refinement to reflect 21st century conditions of finite planetary limits, global resource stress, and destabilising climate change. The National Interest Analysis, on which the bill is based, ignores or dismisses the following considerations:
- the increase in the depletion rate of the natural resource base from internationally-traded products
- the energy-intensive, carbon-emitting consequences of extra sea or aviation freight
- the economic and social costs of relocation and/or re-training of displaced domestic labour
- the increasing vulnerability of the national economy through product specialisation, reflecting greater export commodity strength and reduced domestic manufacturing resilience
- the undermining of economic sovereignty through greater investment ownership of New Zealand land and other assets
- the illogicality of near-identical goods crossing flight paths and sea lanes in the name of (excessive) consumer choice.

The analysis acknowledges that the CEP could create “adjustment costs” for domestic producers as a result of increased competition from imports, but concludes that the impact is expected to be minor as firms will already be “positioning themselves” to transition. But the consultations held reflect a bias towards exporting interests (presentations to Chambers of Commerce, online survey of exporters, and meetings with (some 13) textile manufacturers). The Green Party does not regard this as a sufficiently independent, objective analysis of the country’s domestic manufacturing sectoral interests. We note, however, one citation pertaining to one of the companies identified for consultation (pertaining, albeit, to China rather than Hong Kong):

When we last featured Cambridge Clothing, back in 2001, it planned to keep manufacturing in New Zealand ‘as long as it makes sense’. Six years on, it makes less sense than it used to. Last year the company had 25% of its output manufactured in China and that figure is expected to rise to 50% this year, due to what Cambridge’s marketing manager Kim Macky calls ‘the changing shape of the marketplace’. Outsourcing to China has resulted in its now 250-strong workforce being cut by about a fifth.¹

Appendix

Committee procedure

The Tariff (New Zealand–Hong Kong, China Closer Economic Partnership Agreement) Amendment Bill was referred to the committee on 24 June 2010. The closing date for submissions was 15 July 2010. We met from 1 July to 22 July 2010 to consider the bill.

We received advice from the Ministry of Economic Development, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service.

Committee members

John Hayes (Chairperson)
Hon Chris Carter (until 21 July 2010)
Jacqui Dean
Hone Harawira (non-voting member)
Hon Pete Hodgson
Dr Paul Hutchison
Keith Locke
Todd McClay
Hon Maryan Street
Phil Twyford (from 21 July 2010)