

ECIPE PRESS RELEASE — NEW POLICY BRIEF

New Zealand: The EU's Asia-Pacific Partnership and the Case for a Next Generation FTA

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Brussels, Belgium, 11 July 2015 - Given the Trans-Pacific Partnership (TPP) and several intra-Asian agreements, the EU is focused on large-sized free trade agreements (FTAs) to avoid trade diversion and to maintain Europe's ability to set the trade policy agenda. The EU is now negotiating with all TPP countries except Australia, New Zealand and Brunei, a blind spot worth US\$1.5 trillion in GDP.

The idea of an FTA with New Zealand already enjoys the support of key EU Member States. New Zealand is consistently ranked number one on economic and personal freedom indices, and despite accounting for only 0.2% of EU external trade, New Zealand's economy is still on par with previous EU FTA partners like Peru and Vietnam. Measured in final consumption, New Zealand is larger than Chile, Malaysia and Singapore.

Agriculture is a sensitivity for some Member States in any trade negotiation. However, the EU has already liberalised New Zealand's key export items such as sheep meat and wool. On other meats, New Zealand pays half the regular duties. Products with full duties have either strong seasonal complementarities or specialisation, notably on kiwifruit and dairy, and none of New Zealand exports are amongst European sensitivities, e.g. grains or sugar. The existing duty-free treatments and complementarities make a case for an agreement negotiated with relative ease: If an FTA cannot be done with New Zealand, it cannot be done at all.

This is why Brussels is likely to start with New Zealand before Australia, as it often starts with the smaller (and thereby less threatening), more flexible counterpart first. Yet, EU FTAs with Australia and New Zealand (tied to a common market by the Closer Economic Relations agreement with mutual recognition) would have an economic output equivalent to NAFTA. Australia and New Zealand have also concluded the most ambitious FTA with the ASEAN bloc – the AANZFTA. This agreement is a springboard for the EU, similar to how the P4 agreement led to the creation of the TPP for the United States.

But negotiating regulatory issues has proven to be difficult, even with likeminded countries. However, New Zealand already enjoys a high level of regulatory co-operation with the EU on TBT, SPS and data privacy, providing a starting point for negotiation that never existed with other FTA partners. Thanks to the existing level of cooperation, the EU-New Zealand could provide the new template for EU FTAs, including areas where the EU is defensive in other negotiations (e.g. cross-border data flows). Europe needs a third generation FTA model to ensure that Europe's key offensive issues (including tariffs, GIs and technical standards) are not constrained by the TPP framework. The EU-New Zealand FTA would match the regulatory disciplines of the TPP, as well as open up the door towards Australia and ASEAN. And this door could very well be Europe's last chance of overtaking TPP.

Publication details: *New Zealand: The EU's Asia-Pacific Partnership and the Case for a Next Generation FTA*, ECIPE Policy Brief No. 7/2015

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