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Report Highlights: New Zealand tariff policy report recommends phase out of all remaining tariffs over the next 5 to 10 years. Horticulture: Kiwifruit production set to rise in 2003. Livestock: Meat New Zealand opposes country of origin labeling due to export concerns. Forestry: Waitangi Treaty settlement creates potential disincentives for foreign investment in New Zealand.

Includes PSD changes: No
Includes Trade Matrix: No
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GENERAL

NZ Tariff Policy Report Recommends Comprehensive Removal of All Remaining Tariffs

A report on the New Zealand tariff regime, compiled by a private consultancy firm for the Ministry of Economic Development, recommends that New Zealand should phase out all remaining tariffs over the next 5 to 10 years. The report concludes that there is relatively little to gain from leaving tariff rates at present levels when the 'tariff cuts freeze' ends in July 2005[1]. The report states that only a few companies benefit significantly from tariff protection. For many other companies, the existing tariff regime has an adverse effect on profitability, either by raising input or compliance costs. The report emphasizes that those companies for whom tariffs are important tend to have relatively poor productivity, low foreign exchange earnings and mediocre future viability.

The consultancy's report constitutes an influential piece of information that the Government will use in its current tariff regime review. Drawing in part on the report, a Government of New Zealand (GNZ) tariff review team will compile an "officials' report" which will make recommendations for a post-2005 tariff regime.

Although the Ministry for Economic Development commissioned the consultancy's report, both the Ministry for Economic Development and the Ministry of Commerce distanced themselves from the report's conclusions, indicating that they did not represent current Government policy. The Minister of Commerce has publicly stated that New Zealand's prosperity is directly linked to its ability to expand exports of goods and services. He points out that policy makers need to be mindful of the social, employment and regional impacts of comprehensive tariff reductions. These comments are representative of the New Zealand Government's stance at recent WTO fora where New Zealand has indicated that will not continue to liberalize trade unilaterally before other WTO member countries are committed to do the same. New Zealand's principal remaining tariffs are assessed primarily against clothing and adult footwear (19 percent), carpets (17.5 percent), textiles (maximum of 12.5 percent) and automotive components (10 percent). Most agricultural products enter New Zealand duty free, although some high-value, processed foods are assessed duty rates ranging up to 7 percent.

Ministry of Agriculture and Forestry Traps Single Asian Gypsy Moth

In late March 2003, forest biosecurity officials from the Ministry of Agriculture and Forestry (MAF) reported the discovery of a single Asian Gypsy moth (*Lymantria dispar*) in a trap near Hamilton (North Island)[2]. MAF stated that the moth was trapped before it could get a "wing-

[1] The previous NZG planned to eliminate all tariffs by 2006, which would have removed tariffs on all but a few products by mid-2001. However, the current Labour-led Government, which came into power in 1999, froze tariffs in May 2000 at July 1999 levels until July 2005 or until reciprocal reductions are achieved with other trading partners.

[2] An Asian Gypsy moth trapping program has been in place since 1993. The program involves more than a thousand trap sites throughout New Zealand located in proximity to ports, airports and industrial areas. Between the months of October and April these traps are inspected at two-week intervals.

hold"[3] which means that the occurrence of any aerial spread by other moths that might have been introduced is unlikely. MAF's biosecurity response to the moth find consisted of a ground search within a 750 meter radius of the trap, deployment of a trapping grid, and a "trace back" to determine whether the pest had entered on a preventable pathway. The establishment of a vegetation movement restriction of 100 kilometers around the trap is still being considered. Once the extent and origin of the moth are established, a technical advisory group will be formed to determine the appropriate response. A MAF official indicated that ground spraying rather than widespread aerial spraying would probably be sufficient to contain the pest. As of April 8, no further Asian Gypsy moths were discovered by MAF staff.

Initial MAF investigations have concluded that the moth may have entered New Zealand in sea containers, possibly as part of a consignment of tires or machinery. Industry stakeholders have demanded, for some time, that MAF should inspect every single container as it enters New Zealand to better protect from pest entry via this pathway. However, sea container imports have grown from 150,000 units in 1990 to 420,000 units in 2002, and a spokesperson for the New Zealand Biosecurity Minister reportedly indicated that costs for the inspection of every container would amount to two thirds of MAF Biosecurity's total baseline funding of nearly U.S. $80 million.

Asian Gypsy moth is an "unwanted" pest due to the potential damage an established Asian Gypsy moth population can inflict on New Zealand's U.S. $2 billion forest industry. A report by the New Zealand adviser to Japan Quarantine Inspections in 2000 stated that a gypsy moth outbreak could cost the New Zealand forestry industry U.S. $165 million annually and that forestry exports from New Zealand were likely to be subject to an immediate and comprehensive ban by New Zealand's trading partners.

"New Zealand Trade and Enterprise" Integrates "TRADENZ" and "Industry New Zealand"

New Zealand Trade and Enterprise (NZTE) is the new Crown (Government) agency that emerges from the integration of the New Zealand Trade Development Board (TRADENZ) and Industry New Zealand (INZ). The relevant legislation to merge TRADENZ and INZ, the Industry New Zealand and Trade New Zealand Integration Bill, was introduced to Parliament in early March. Once passed, the bill will dissolve TRADENZ and INZ and lead to the repeal of two acts, the New Zealand Trade Development Board Act 1999 and the Industry new Zealand Act 2000. NZTE will be governed by a board appointed by the Ministries for Economic Development and Foreign Affairs and Trade. The new agency will operate from 9 New Zealand and 38 foreign offices from July 1 2003, on an annual budget of U.S. $88 million.

The establishment of NZTE was driven by TRADENZ and INZ's clients who requested a single economic and trade development agency. An effective integration of the two agencies, however, will depend on the successful merger of two very different organizational cultures and activities. TRADENZ and INZ differ in terms of both the type of services offered and how their services can be accessed. TRADENZ charges on a "user pays" basis which means that it does give preferential treatment to some businesses at the expense of others. INZ, on the other hand, grants

[3] Asian Gypsy moth is a long-range flyer with the male able to cover 100 km and the female 20 km.

funding to businesses if their activities contribute towards achieving the GNZ's strategic development goals. The Government maintains, however, that the integration is designed to lead to the amalgamation of business advice with exporting support which is expected to create more benefits for New Zealand's export-oriented businesses.

BIOTECHNOLOGY

New Zealand Participation in International Bovine Genome Sequence Project

A consortium of New Zealand organizations has been invited by the National Human Genome Research Institute in the United States to map the bovine genome sequence at the Baylor College of Medicine and Texas A&M University. The New Zealand consortium – AgResearch, Dairy Insight, and Meat New Zealand – will join forces with organizations representing cattle industries in the United States, Canada, the EU, Brazil and Australia. The New Zealand consortium has made a commitment to fund U.S. $1 million towards the project. The successful completion of the project requires that the cooperating countries fund half of the U.S. $51 million project (the other half is funded by National Human Genome Research Institute). A draft Bovine Genomic Sequence is expected to be produced by 2005.

Existing bovine maps contain 2,000 comparative links to the human genome but a complete bovine genome sequence would contain 150,000 links. Such an increase in the number of known links and their orders will considerably expand existing information. This will enable a better understanding of cattle production and provide opportunities to develop new human medicines.

For New Zealand, the key benefit of the project is to gain the ability to link a desirable animal trait to genetic markers on the genome sequence map. Knowledge of trait markers for growth rate, meat composition, meat quality, reduced methane emissions or disease resistance will be of considerable benefit to New Zealand's beef and dairy farmers. By employing a bovine genome sequence map cattle and dairy herds can achieve genetic gains several years faster than with conventional breeding techniques.

LIVESTOCK & PRODUCTS

Meat New Zealand Opposes Mandatory Country of Origin Labeling

New Zealand's Green Party has called on the New Zealand Government to implement mandatory country of origin labeling (MCOOL) regulations for imported food products. Meat New Zealand (MNZ), however, has indicated its opposition to such regulations. MNZ believes that existing import standards for meat products already ensure that food safety standards for imports are equivalent to standards applied to domestic products. MNZ believes that MCOOL regulations could create the impression among New Zealand's consumers that imported meat products are unsafe or of lower quality. Furthermore, MNZ considers associated compliance costs as a technical trade barrier. While this might obviously suit some of New Zealand's meat producers, MNZ realizes that New Zealand's implementation of MCOOL regulations would set an undesirable precedent. If other countries were to follow suit by implementing similar regulations, New Zealand's overall meat export picture might be disadvantaged.

New Zealand lamb exports to the European Union could benefit from such labeling, but the same probably is not true for manufacturing grade beef exports to the U.S. fast food industry. New Zealand manufacturing grade beef usually is enhanced to meet U.S. taste criteria before it goes into hamburger patties. MNZ is concerned that New Zealand MCOOL regulations would ultimately be to the detriment of the New Zealand meat industry since the majority of New Zealand's meat production is exported.

Meat and Wool Producers Levy Referenda

In a series of farmer consultation meetings around New Zealand, Meat New Zealand (MNZ) and SheepCo (a body formed from the imminent disestablishment of the Wool Board) are establishing an agenda for sheep and beef referenda to be held later this year. Both referenda will be held under the Commodity Levies Act. Through the referenda MNZ and SheepCo will seek confirmation from farmers that they wish to continue to pay a levy to fund activities undertaken by both organizations. Sheep and beef farmers will be asked to vote on two issues: 1) Whether a single organization should handle both wool and meat levies – MNZ and SheepCo are proposing a single organization to collect and administer levies on behalf of sheep, cattle and goat farmers. 2) Which activities sheep, cattle and goat farmers want the new organization to undertake. MNZ and SheepCo are planning to release a draft proposal for wider consultation in April, leading up to a final proposal in June.

Meat New Zealand Will Retain Statutory Backing for Managing Quota Access

In a pre-emptive move, Meat New Zealand (MNZ) has decided to split its meat quota management operation off into a separate organization, ahead of producer referenda on the meat and wool industries reform (see section "*Meat and Wool Producers Levy Referenda*"). According to MNZ, discussions with the New Zealand Ministry of Agriculture and Forestry (MAF) have indicated that MNZ will be granted continued statutory backing to managing tariff rate quotas (TRQs) in export markets under a separate organization.

Farmers, exporters and MNZ agree that the TRQ administration should remain in New Zealand. The decision to move quota operations management into a separate organization is designed to keep the quota administration in New Zealand in case farmers decided in the upcoming referendum not to fund MNZ activities. A New Zealand-based quota administration is critically important for extracting the maximum value from export sales to quota markets, according to MNZ, and should therefore always be closely associated with trade policy development. The European Union sheep and goat meat tariff quota is worth NZ $1.4 billion (U.S. $770 million). The United States tariff quota for manufacturing beef is estimated to be worth NZ $1.2 billion (U.S. $660 million).

HORTICULTURE & PRODUCTS

Kiwifruit Production Increases in 2003

Zespri International's first official crop estimate for the 2003 season suggests an increase in production as well as an increased quantity of large fruit compared with 2002. The present estimate indicates that Green kiwifruit production will increase 5 percent, Gold kiwifruit volume will increase 12.5 percent to 9 million trays (34,200 tons), and Organic kiwifruit volume will remain stable at 2.5 million trays (9,500 tons).

The forecast production increase is positive for Zespri's marketing plans, given that earlier indications after many orchards experienced severe frosts in September and October 2002 signaled a possible decrease in production. The late spring frosts were offset by warm weather since early December which led to a greater than expected increase in fruit size. While orchardists agree that the warm weather compensated for some losses due to frosts, they add that the Gold crop could have been up to 50 percent larger than in 2002 given that fruit bearing Gold plantings have increased significantly.

HortResearch's Apple & Pear Breeding Program Survives With Overseas Finance

In a historic development and final effort, New Zealand pipfruit growers ensured that New Zealand's world-renowned pipfruit breeding program remains under New Zealand control – but not completely. New Zealand pipfruit growers have approved the share marketing rights to new apple and pear varieties developed by New Zealand's HortResearch with competitors in return for royalties. The sale of marketing rights will now be managed by a joint venture company between HortResearch, Pipfruit Growers of New Zealand and overseas interests represented by Horticulture Australia and Australian pipfruit growers, and HortResearch's global partner, the Associated International Group of Nurseries (AIGN)[4]. HortResearch will retain the breeding program but the joint venture company will manage the commercialization of new varieties developed by HortResearch. The joint venture arrangement will enable HortResearch to raise funds to continue with the "basic" breeding program, the part of apple and pear research that ensures the ongoing development of new varieties.

HortResearch and New Zealand apple and pear growers were forced into selling parts of the marketing rights due to developments in the aftermath of the deregulation of the apple and pear industry in 2001. During the time before deregulation, breeding research and development was funded by the former Apple and Pear Marketing Board and other direct government funding. Since deregulation, however, the successor to the Apple and Pear Marketing Board, ENZA, is only funding the final stages of commercialization of those varieties for which it retains exclusive planting and marketing rights. The Government's decision in 2002 to reduce funding to HortResearch NZ $5.5 million (U.S. $2.4 million) further fueled the funding crisis. Both of these funding cuts have led to the present decision by the industry to sell the output of the program to overseas interests – but only partially. The joint venture arrangement will retain the New Zealand pipfruit industry's majority control as well as the majority of the royalties from the use of new varieties.

[4]The group includes growers from Australia/Asian region, the United States, South America, Europe, and South Africa.

FORESTRY & PRODUCTS

Waitangi Treaty Settlement Has the Potential to Deter Investment in NZ Forestry

On March 27, the Crown (Government) and the Maori Ngati Awa tribe (one of several Maori tribes in New Zealand) signed a Deed of Settlement marking the acceptance of the first comprehensive Treaty settlement in the Bay of Plenty (North Island)[5]. The Deed of Settlement includes an apology from the Crown for past breaches of the Treaty of Waitangi, together with the transfer of seven sites of significance to Ngati Awa and 64 hectares of Crown-owned land, and a cash payment. The Crown-owned land includes part of the Kaingaroa Forest in the central North Island which is the only gateway to the Central North Island Forestry Partnership's (CNIFP) 165,000 hectares of commercial plantation forest. The settlement between Ngati Awa and the Crown will give Ngati Awa control over access rights to the forest's private road network which is essential to transport logs to mills, rail depots and nearby ports. This means that the CNIFP might have to negotiate a payment to the Ngati Awa for the right to use critical access roads into and out of their commercial forest interests. CNIFP maintains that if access rights are not resolved, the value of commercial forest activity in the area will fall as a result of higher costs associated with cutting rights owned by forest operators such as CNIFP.

CNIFP is concerned that the Government's settlement may set a precedent for other treaty settlements which would deter foreign investment in New Zealand's forestry. The CNIFP indicated that it would pursue legal action to enforce its rights. The Deed of Settlement is still subject to ratification, establishment of a governance entity, and the passage of settlement legislation. It also is conditional upon the outcome of an ongoing Court of Appeal proceeding filed by a third party (another Maori tribe).

Fletcher Forests Restructures

Fletcher Forests (FF) announced in late March that it would separate its forest ownership activities from its processing, marketing, distribution and forest management operations by implementing a 4-point strategic plan. FF has been affected by declining commodity prices in recent years, the rise in the New Zealand dollar and limited international economic growth. Declining log prices, in particular, have affected FF's ability to earn an adequate return on its forest assets. The restructure is designed to move FF away from commodity tree growing and towards intensifying its value-added business activities. The 4-point strategic plan is designed to improve FF's performance and make it comparable to world-best standards. It involves a reduction of investment in trees, a focus of investment into high-margin processing, distribution and marketing and the return of surplus capital to shareholders. The security of future wood supply remains a critical strategic issue for FF, though. FF has forest estate investments worth NZ $1.2 billion (U.S. $660 million) but revenue derived from its estates does not cover its capital costs. Consequently, FF wants to divest a part of its forest holdings without losing future access opportunities to wood supplies.

[5] Iwi (tribes) in the Bay of Plenty were significantly affected by Crown confiscation of land in the 19th century and the settlement with Ngati Awa makes important progress in addressing historical grievances in the region, according to the Minister of Treaty of Waitangi Negotiations.

Macquarie New Zealand which advises FF on restructuring of the forest ownership business has until May to report back to the board of FF with recommendations. Potential options for partitioning FF include the establishment of two separate companies and securitization of the forest asset. This could involve putting the forests into a special-purpose company and then selling the forests to specialized forestry investors in return for an interest rate and a wood-supply agreement back to FF. FF indicated that it would have sufficient future wood supply to meet wood demand from the increase in its value-added activities. It stated that on an annual basis it had 1 million cubic meters of timber from supply and trading operations and 1.6 million cubic meters from its own forests. FF forecasts that supply from its own forest estate would double over the next 8 years.

The Chairman of FF stated that it was not yet clear how much of FF's 117,000 hectare forest estate would be divested, but a significant proportion of its holdings are likely to be sold. FF has recently sold 8 percent of its forest estate to UBS Warburg Timber Resources demonstrating that it is serious about implementing its 4-point strategic plan.

Timber Management Company to Run CNIFP Forests

The receiver of the Central North Island Forest Partnership (CNIFP), Ferrier Hodgson, announced in March that the management of its 165,000 hectare forest estate would be taken over by the Timber Management Company (TMC). The company which still has to be launched (probably by the middle of this year) will receive initial management support from Carter Holt Harvey. Fletcher Forests (FF), which has the current contract to manage CNIFP's forests, stands to lose up to NZ $20 million (U.S. $11 million) in annual contract fees. FF indicated that the wider commercial implications from the contract termination would be significant. Not surprisingly then, FF stated that it would explore issues such as the receiver's ability to terminate the contract, the notice period required and the appropriate transition requirements. This would clarify the likely legal position FF would take with regards to the termination of its management contract.