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New Zealand Concludes FTA with South Korea

Report Categories:

Agricultural Situation

Trade Policy Monitoring

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Report Highlights:

South Korea and New Zealand (NZ) have concluded negotiations on a free trade agreement which was announced November 15, 2014. The agreement is still to be ratified by the respective Governments before it can come into force.

New Zealand – South Korea Free Trade Agreement

After nine formal rounds of negotiations which commenced in 2009 South Korea and New Zealand (NZ) have concluded negotiations on a free trade agreement that was announced November 15, 2014. The agreement is still to be ratified by the respective Governments before it can come into force.

South Korea is New Zealand's sixth-largest merchandise trading partner. It is hoped the FTA will boost bilateral trade and investment links further and provide a platform for further cooperation.

The most immediate value to New Zealand will be in tariff savings. New Zealand exporters currently pay estimated NZ \$229 million total tariffs each year to South Korea. The New Zealand Prime Minister estimated the first year tariff savings for NZ exporters at NZ\$65 million.

New Zealand Export Statistics To Korea, South								
Commodity: _ Total, All Commodity Chapters								
Year Ending: September								
HS Code	Description	United States Dollars			% Share			% Change 14/13
		2012	2013	2014	2012	2013	2014	
	Total Exports-All Commodity Chapters	1,251,280,790	1,313,703,955	1,416,439,361	100	100	100	7.82
98	Special Classification Provisions, Nesoi, Confidential Items	181,083,779	208,148,342	332,095,379	14.47	15.84	23.45	59.55
44	Wood And Articles Of Wood; Wood Charcoal	243,015,443	313,193,744	312,970,503	19.42	23.84	22.1	-0.07
02	Meat And Edible Meat Offal	121,399,774	115,430,950	125,670,969	9.7	8.79	8.87	8.87
04	Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi	139,254,759	136,966,115	87,081,037	11.13	10.43	6.15	-36.42
76	Aluminum And Articles Thereof	101,007,269	111,952,001	80,644,692	8.07	8.52	5.69	-27.96
47	Wood Pulp Etc; Recovd (Waste & Scrap) Ppr & Pprbd	63,356,153	53,706,765	66,469,754	5.06	4.09	4.69	23.76
21	Miscellaneous Edible Preparations	50,076,530	40,556,937	48,461,143	4	3.09	3.42	19.49
08	Edible Fruit & Nuts; Citrus Fruit	56,132,773	34,744,923	43,790,024	4.49	2.64	3.09	26.03

	Or Melon Peel							
72	Iron And Steel	28,630,127	49,645,836	34,635,886	2.29	3.78	2.45	-30.23
35	Albuminoidal Subst; Modified Starch; Glue; Enzymes	34,380,371	34,361,736	31,745,324	2.75	2.62	2.24	-7.61
	<i>All Other Categories/Chapt ers</i>	232,943,811	214,996,605	252,874,649	18.6 2	16.3 7	17.8 5	17.62

Source: GTA

Exports of raw logs to Korea are the single largest primary sector product shipped from New Zealand (19% by value of the total merchandisable exports going to Korea). Currently the tariff is 10% and will be reduced by 1% per year to reach zero after ten years. The forestry and timber sector were not particularly enamored with the timeline for the reduction and commented that some competitor countries are already enjoying zero tariffs.

The meat industry is generally satisfied that the 40% tariff levied over most meat products will be reduced over a 15 year period to zero. Beef products make up 82% of all meat exports to Korea from NZ by value. Sources indicate this deal is essentially the same as that obtained for beef in the KORUS FTA, except that US exporters already have a two year head start on the reduction timeline. Tariffs on sheepmeat will be phased out over a ten year period.

New Zealand dairy product exports to Korea are generally 6% to 10% by value of total merchandize exports going to Korea. Cheese exports comprise 60% to 75% of all dairy exports from New Zealand and totaled 11,149 metric tons (MT) for the year ending September 2014. The FTA will obligate Korea to establish an initial country specific 7,000 MT cheese TRQ with an in-quota tariff of zero. The quota volume will increase by 3% per annum until year 15 when all tariffs will be removed. Similarly, Korea will establish an 800 MT TRQ with a zero in-quota tariff for butter exports from NZ, again increasing by 3% per annum until year 10 when all tariffs will be removed. Exports of butter from New Zealand in excess of the TRQ will still attract a tariff of 89% at entry into force but this will be progressively phased out by year ten. Currently NZ exporters ship around 3,000MT of butter per year to Korea.

Whole and skim milk powder, which are generally New Zealand's flagship dairy products, are not going to gain significant free access. The tariff on powders is 176%. The agreement requires Korea to establish a relatively small (1,500 MT) TRQ with an in-quota tariff of zero. The quota volume will increase each year by 3% but will be capped by year ten at 1,957MT. Both the NZ Prime Minister and Trade Minister have said that if they had held out for a better deal on dairy the FTA would not have been concluded.

Kiwifruit exports from NZ comprise 90% of all fresh horticultural products shipped to Korea from New Zealand. The sector is happy the tariff of 45% will be reduced to zero over a five year period once the FTA comes into force.

The New Zealand wine sector has fared well under this agreement. Currently total NZ wine exports to South Korea are relatively small, at approximately US\$1.5 million per year. The 10% tariff on NZ wine exports will be eliminated when the FTA comes into force.

Obviously exporting businesses in NZ would have preferred an agreement that did away with tariffs far more quickly and didn't have the quota elements. However there is a realization that this agreement is reasonably competitive with other agreements Korea has signed in recent times and will restore a level of price competitiveness for NZ exporters.

The Ministry of Foreign Affairs and Trade indicates that “many New Zealand businesses also face a range of challenging non-tariff barriers and frequently changing regulatory conditions when providing goods, services or investment in the Korean market. Navigating complex requirements around labelling, standards testing, or certification can be difficult and onerous. Improving cooperation and understanding between regulators under an FTA will make it easier to do business with Korea.”

More information can be found at:

<http://www.mfat.govt.nz/downloads/foreign-relations/northasia/NZ-Korea-FTA-Outcomes-Factsheet.pdf>