# Political Factor Workbook

1. ***Trade barriers***

A country will not accept another countries produce because they wish to maintain their own production monopoly without competition.

Trade barriers may be imposed for biosecurity or phytosanitary reasons. This is when a country is known to have pest & disease & the potential importing country does not want it introduced as it may threaten those countries crops, e.g. NZ’s ban on honey imports to stop the entry of “American Foul brood”.

1. ***Tariffs***

The tax, which has to be paid by the supplier (exporter) before the produce, enters the country. This is another method of supplier protection.

Tariffs potentially cost individual commercial growers tens of thousands having a significant impact on the affordability of products in many of the offshore markets. Tariffs are a real cost of trade that hit the profitability of the NZ export industry while protecting domestic producers in these markets.

Quantifying these costs is a key step in dismantling them. These punitive tariffs add cost without adding value at the market end. Consequently, demand for NZ horticultural products is suppressed.

The benefits of Free Trade Agreements are illustrated in the Closer Economic Partnership (CEP) between NZ & Thailand.

Traceability through barcodes ensures automatically ensures that tariffs are collected from the country of origin.

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| **Tariffs Continue To Cost NZ Horticulture Millions**<http://www2.nzherald.co.nz/the-country/news/article.cfm?c_id=16&objectid=11785890> [Te Puke Times](http://www.bayofplentytimes.co.nz/) 4:00 PM Friday Jan 20, 2017Horticulture has experienced a spectacular 40 per cent growth in export earnings since 2014, according to a new report, with tariffs on exported produce down by 22 per cent since 2012.The NZ Horticulture Export Authority (HEA) & Horticulture NZ commission the report NZ Horticulture - Barriers to Our Export Trade every two years, with funding support from the Ministry of Foreign Affairs & Trade & NZ Fruitgrowers Charitable Trust.The report says horticultural produce exporters paid an estimated $190 million in tariffs, a reduction of 22 per cent on 2012's figure of $241million.About 60 per cent of NZ's total horticultural production of fruit & vegetables is exported, valued at just over $3.4 billion (to NZ’s economy). |

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| **Mandarins**: No tariffs imposed by Japan the major importer thus profits are not eroded by payment of tariffs. |

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| **Kiwifruit tariffs.*** In the 2008 free trade talks, China agreed to reduce tariffs from 20% to zero over the following 8 years. 2016 was the first year with no tariffs on kiwifruit. China earnt Zespri $500m that season, selling 40m of the 140m trays harvested. “It has become a significant business in its own right, coming from only 10m trays back in 2011”.
* Zespri has welcomed the NZ Government’s decision to go ahead with ratifying the Trans Pacific Partnership (TPP) Agreement, despite President Donald Trump’s to pull the US out of the TPP. “The TPP would eliminate tariffs on kiwifruit exports into all 11 Asia-Pacific nations & the most immediate impact would be in Japan, where kiwifruit growers paid around $25 million in tariffs last season,” says Lain Jager. “If this tariff relief was passed straight through to NZ growers, it would equate to savings of around $1900 for every hectare of kiwifruit grown in NZ.”
* Zespri looks to expand into Korea with the latest round of tariff reductions under the NZ-Korea Free Trade Agreement, Trade Minister Todd McClay says. The value of NZ’s kiwifruit exports to Korea grew nearly twenty per cent in 2016 with further progress expected as the 30 per cent tariff on kiwifruit has now reduced to 22.5 per cent (half of what exporters were paying before the FTA).
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***Exercise:*** Describe the effect tariffs will have on the profit a kiwifruit grower can make

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Explain how this affects the amount of product a NZ grower will export. *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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**Tariff avoidance**

A grey market is the trade of a commodity through distribution channels that are legal but unintended by the original manufacturer. They are often used & are commonly relied on by international firms wanting access to Chinese markets & to avoid tariffs, difficult regulatory hurdles, & inefficient distribution networks. Grey channels employ "thousands of people" known as transporters, who are prepared to truck product from Hong Kong or ship it to the mainland ports in small boats, to distributors who then move it through the country. For food products, grey channels involve risks such as unreliability in delivery & inadequate cool chain management..."

Finch told The NZ Farmers Weekly that grey trading was "rife" & NZ exporters like Zespri & the meat industry were always concerned about perishable goods with their name on it being removed from a cool store chain to far-flung destinations. However, the trade source said even with the removal of import tariffs, VAT tax of 13 to 17% would still make it worthwhile for a grey trader to operate. Smuggling would only tail off when it became more expensive to truck untaxed product to a final destination than to pay duties.

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| **Kiwi skincare exporters use grey channel to reach Chinese market**ANUJA NADKARNILast updated 05:00, June 12 2017Small NZ cosmetics companies opposed to compulsory animal testing regulations in China are opting for a backdoor export channel using diagous, even if they do not prefer it.Diagous, which translates to 'buy on behalf' are personal shoppers who sell products to individual Chinese consumers through social media sites like WeChat & Weibo & websites like Taobao (Chinese equivalent of Trade Me). Diagous can be small business owners or souvenir shops that stock NZ products, or Chinese students or immigrants that want to help friends & family or earn extra money. Linden Leaves chief executive Peter Allard said the diagous channels have formed despite NZ's free trade agreement with China because the non-tariff barriers like animal testing being implemented were stopping free access to the market. "The diagous channel doesn't sit well with us at all because we don't have the control over where we are sold, how we are sold & at what price. The discounting that goes on is just ridiculous," Allard said. "It's very much a case of 'if you can't beat them join them' because some of our competitors are very heavily invested in those channels & that gives them a competitive advantage over us in our domestic market."Sales to diagous are counted as domestic sales, calculated in NZ currency; while sales made by diagous to Chinese consumers are generally use the Chinese renminbi.Allard said the grey area here was that these products were being sold overseas making them technically exports, but they were still considered domestic sales. Export consultant Paul O'Brien said the diagou system in NZ was still small with only about 100 businesses actively selling to diagous. ​But many NZ brands were passively in the diagous chain because their products might be bought by individual customers & sold overseas. "Many Kiwi businesses try to find diagous, but in most cases, if a brand is doing well the diagous find them," O'Brien said. Businesses can gauge the success of their products based on the number of mentions, retweets, or direct comments on the social media sites. Allard said after discovering two diagous that had made purchases to ship to China but resold them locally, Linden Leaves began actively tracking all its products to its specific buyers with a marking system that alerted the company if the products had been resold into NZ. He said larger Kiwi businesses in the health & skin care industry were exempt from animal testing if they were manufacturing in China & then distributing there too. But Allard said this was not a possibility for many small & medium enterprises. "We have to sell it this way even if we don't like it, because eventually when the animal testing goes, which it will, we'll be far behind those that already have a presence in China," Allard said. O'Brien said the diagous market will not last long due to unpredictable Chinese regulations, but for the time being, it was a good way for small companies to test their market in China or beat animal testing regulations. "At first I was critical of the channel, but for small & medium businesses with turnovers of about $1 million that cannot afford to reach China it's a legitimate way of doing business. "If we don't take advantage of this channel that other countries are using, including Australia, we'll just lose out on growing our brand awareness in a huge market", he said.**Kiwi exporters face trouble in China**17 Feb, 2017 6:00amFor Comvita, an unofficial "grey" channel into China has played a big part in its success.The company, NZ's biggest Manuka honey maker, has enjoyed a dream run for years, based on strong offshore demand - particularly from China. Cracks in that performance started to emerge last year, when the company reported tough trading conditions in the first four months of the year to June. Sales were significantly lower than in the prior year, resulting from a slowdown in the NZ & Australian informal channels into China. Making things worse, unfavourable weather means Comvita now expects its net profit to be just $5m to $7m, compared with $18.5 million in the 18 months to June 2016. It is not the only company to hit a snag in the so-called "daigous" channel - Chinese for "buying on behalf". The slowdown has hit other Manuka honey producers & played a part in the spectacular fall of Tasmania-based infant formula company Bellamy's. Health supplements company Blackmores has also suffered from problems in the grey market.Comvita chief executive Scott Coulter says the company has benefited from the unofficial channels, which it has used to build its brand in China. For Comvita, the simplest unofficial channel has been through Chinese tourists buying product at a gift store or airport, helping the brand to build its reputation. |

***Exercise:*** *Explain in detail how grey trading affects market access for kiwifruit to China & why this system might have problems.*

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1. ***Quotas***

The maximum quantity of a primary product, which will be accepted by an importing country. This is used to protect the home producers. Satsuma mandarins & kiwifruit are not subject to quotas.

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| **Mandarins**The mandarin market window is very small 6-8 week period April/May when 700 tonnes are exported. After which the Japanese mandarins become available & the premium price of $3.50/kg available to NZ growers will be reduced as the local product begins to compete on the market. |

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| **Kiwifruit** At present there are no quotas for kiwifruit in the markets, which they are targeting. Over 489,000 tonnes of premium quality kiwifruit is sold to over 50 countries every year & the only restriction on volumes sold is from the consumer. Since kiwifruit are only 0.5% of the fruit consumed globally, the restriction to volumes will be from competition from other fruits & kiwifruit produced by other countries. However Zespri predict that the markets, particularly in Asia, are far from saturated & there is the potential for up to 200 million trays to be sold worldwide. |

1. ***Incentive Grants & Subsidies***

NZ removed any grants or subsidies in 1985-87 since there was not enough money to ensure “floor prices”. This forced growers to become independent & follow a business model. As a result, many small producers went out of business. NZ growers have to compete in the global market where subsidies are still paid e.g. in the US & China.

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| Beginning in 2008, the Shaanxi Fruit Industry Council first announced it would support kiwifruit farmers with a yearly cash subsidy of 300RMB for each Chinese “mu” harvested for kiwifruit (the equivalent value would be approximately $267 USD per acre based on the exchange rate of December 31, 2009). After an initial review of the program’s benefits over the last two years, the Shaanxi government reconfirmed support to maintain the program through to 2015. Shaanxi Province is China’s largest growing area for kiwifruit. In particular, Shaanxi Qinling mountain area is the most fertile growing area for kiwifruit, which can grow 96% species of kiwifruit known worldwide.  |

***Exercise:*** *Subsidies can be money paid to the producer to grow a specific product for export. Explain why a government would do this?*

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*Or subsidies can be money paid to producers to raise the profit that they get for their product. Explain why a government would do this?*

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1. ***Tax concessions***

These are given to growers between the period of establishment of a crop & economic production; e.g., an orchardist is entitled to deduct expenditure on; cultivation, pruning, spraying, rates, insurance 🡪 recurring annual costs.

***Exercise:*** *Read the article written by David Carter – the then Minister for Agriculture & answer this question.*

*Zespri has become a world leader in horticultural production. Write out a balance sheet of what Zespri has done for NZ & what the government is prepared to give Zespri to encourage its growth.*

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| What Zespri has done | What the NZ government will provide |
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## “What the kiwifruit industry can do for NZ”

David Carter – 19 August 2010

The kiwifruit industry is to be congratulate! You are part of an industry that other primary sectors can look to for establishing a benchmark for solid growth.  Since taking up the role of Agriculture Minister in November 2008, I have visited Zespri head office in Tauranga twice. I have also had the pleasure of touring your European distribution centre in Belgium, & a production centre in Italy. My impression is that Zespri runs an exciting & innovative operation, both here in NZ & internationally. When I talk to your board & senior management it takes me to those immortal words of John F Kennedy - & I paraphrase - you ask not what NZ can do for you, but what you can do for NZ. Zespri has succeeded in maintaining a high & steady price for NZ kiwifruit over the past 10 years. In addition, you have attained a premium over your competitors. The value generated by sales supports your considerable investment in branded marketing & research & development. In fact, the Zespri brand has been so successful; your overseas competitors have piggybacked on your efforts in international markets. As they say, imitation is the highest form of flattery. Zespri can proudly claim it invests more in innovation as a percentage of revenue than any other NZ primary industry. But Zespri's growth has not been simply the result of using more resources. It has been achieved through driving productivity gains. A statistic that deserves highlighting is that growers are producing more fruit & making more money for NZ from a land area approximately 70 percent of what it was 20 years ago. Like Zespri, this Government is also focused on growth. There are no exceptions - horticulture & the kiwifruit industry have a big role in turning our economy around. Your efforts over the past 10 years have led to the significant increase in kiwifruit's export volumes & revenue - from $464 million to more than $1 billion today. Zespri's promise to triple export earnings by 2025, to at least $3 billion is just the sort of ambitious goal this Government is calling on all exporters to strive for.

So what can the Government do for you, so you can do more for NZ?

With regard to primary sector growth, we have identified **four** key drivers to make ‘doing business' easier.

1. **First** driver is our **company tax rate** will fall to 28 cents in the dollar - lower than Australia. This will ensure we remain competitive, attract foreign investors & encourage exports.
2. The **second** driver is better business innovation. Innovation is about creating long-term benefits. Government & the kiwifruit industry both know this. We cannot continue to rely on research & development of previous decades. That is why last year we announced the Primary Growth Partnership innovation fund. On Tuesday, I announced two major projects that have qualified for $144 million from the Government fund. When coupled with the dollar contribution by industries, the total now committed to primary sector innovation over the past two years is $366 million. The good news is Zespri is a co-investor in two of the current PGP projects. & I understand it is also looking seriously at other programmes that may be eligible for PGP funding.
3. The **third** driver is our ambitious trade agenda. Free trade agreements will deliver more for NZ export businesses than anything else we do, short of completing the Doha Round. Our Free Trade Agreement with China is already paying dividends. In addition, we have signed agreements with Malaysia & Hong Kong, & we are in talks with India, the Gulf States, Trans-Pacific Partnership countries, Korea & Russia.
4. The **fourth** & final driver - the one that ensures a healthy & successful primary industry - is biosecurity. If there was a major incursion it would seriously jeopardise this country's growth plan.  Trade & travel volumes are increasing, presenting new & diverse types of biosecurity risk along the way. Consider this amazing statistic - 175,000 items a day come across our borders. A huge amount of money, three quarters of a billion dollars, is spent annually on biosecurity in NZ. Activities are undertaken by central government, regional councils, industry & private landowners.
5. ***International Commodity Agreements***

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| **What is The World Trade Organization (WTO)?**The WTO is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated & signed by the bulk of the world’s trading nations & ratified in their parliaments. The goal is to help producers of goods & services, exporters, & importers conduct their business.The WTO is an organization that intends to supervise & [liberalize](http://en.wikipedia.org/wiki/Free_trade) [international trade](http://en.wikipedia.org/wiki/International_trade). The organization officially commenced on January 1, 1995 under the [Marrakech Agreement](http://en.wikipedia.org/wiki/Marrakech_Agreement), replacing the [General Agreement on Tariffs & Trade](http://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating & formalizing trade agreements, & a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments & ratified by their [parliaments](http://en.wikipedia.org/wiki/Parliament). Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the [Uruguay Round](http://en.wikipedia.org/wiki/Uruguay_Round) (1986-1994).The WTO is attempting to complete negotiations on the [Doha Development Round](https://en.wikipedia.org/wiki/Doha_Development_Round), which was launched in 2001 with an explicit focus on developing countries. As of June 2012, the future of the Doha Round remained uncertain: the work programme lists 21 subjects in which the original deadline of 1 January 2005 was missed, & the round is still incomplete. The conflict between free trade on industrial goods & services but retention of [protectionism](https://en.wikipedia.org/wiki/Protectionism) on [farm subsidies](https://en.wikipedia.org/wiki/Farm_subsidies) to domestic [agricultural sector](https://en.wikipedia.org/wiki/Agricultural_sector) (requested by [developed countries](https://en.wikipedia.org/wiki/Developed_countries)) & the [substantiation](https://en.wikipedia.org/wiki/Substantiation) of [fair trade](https://en.wikipedia.org/wiki/Fair_trade) on agricultural products (requested by [developing countries](https://en.wikipedia.org/wiki/Developing_countries)) remain the major obstacles. This impasse has made it impossible to launch new WTO negotiations beyond the Doha Development Round. As a result, there have been an increasing number of bilateral [free trade agreements](https://en.wikipedia.org/wiki/Free_trade_agreements) between governments. As of July 2012, there were various negotiation groups in the WTO system for the current agricultural trade negotiation, which is in the condition of stalemate. The WTO's current Director-General is [Roberto Azevêdo](https://en.wikipedia.org/wiki/Roberto_Azev%C3%AAdo),[[12]](https://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-guardn-12)[[13]](https://en.wikipedia.org/wiki/World_Trade_Organization#cite_note-13) who leads a staff of over 600 people in [Geneva](https://en.wikipedia.org/wiki/Geneva), [Switzerland](https://en.wikipedia.org/wiki/Switzerland). A trade facilitation agreement, part of the [Bali Package](https://en.wikipedia.org/wiki/Bali_Package) of decisions, was agreed by all members on 7 December 2013, the first comprehensive agreement in the organization's history.  |

***Exercise:*** *List the principles behind WTO:*

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**50-year import ban on Australian honey lifted**

5:00 AM Wednesday Jul 12, 2006

**Beekeepers fear imports will threaten their viability**

Australian honey is to be allowed into NZ, breaking a ban of more than half a century. Honey from Western Australia - which does not have European foulbrood disease in its bees - will be allowed to enter the country without treatment. Other Australian honey will have to be treated with heat & some other bee products may be treated with radiation.

**Will NZ apples ever be allowed into Australia?**

9:02 AM Tuesday Apr 13, 2010

NZ has won its long-running apple war against Australia.

A World Trade Organisation decision issued in Geneva early this morning ruled against Canberra's efforts to block imports of Kiwi apples. Australia has refused for 90 years to let NZ apples be sold there; claiming fire blight in NZ apples would infect its apple & pear orchards.

NZ’s pip fruit growers will be bitterly disappointed at the decision of the Australian Government to appeal a WTO ruling that would allow NZ apples into Australia, Labour Agriculture spokesman Damien O’Connor says. “NZ’s WTO victory should have allowed NZ apples into Australia & I know that the pip fruit industry was extremely excited by the news,” Damien O’Connor said. “I am deeply disappointed that Australia has decided to appeal. It is clear that the WTO ruling will now become a political football that will delay NZ pip fruit growers accessing a valuable market. “Access to the Australian market is expected to be worth at least $30 million a year to the industry. “The WTO process began in 2007 under Trade Minister Phil Goff & it is thanks to his efforts that NZ has gotten this far. I firmly believe that the decision by the Australian government is just delaying the inevitable. NZ Apples will be sold in Australia”.

***Exercise:*** *Explain how Australia has manipulated the agreement in controlling apple imports from NZ & NZ controls honey imports.*

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**Closer Economic Relations**

Closer Economic Relations (CER) is a [free trade](https://en.wikipedia.org/wiki/Free_trade) agreement between the governments of [NZ](https://en.wikipedia.org/wiki/New_Zealand) & [Australia](https://en.wikipedia.org/wiki/Australia). It is also known as the Australia NZ Closer Economic Relations Trade Agreement (ANZCERTA) & sometimes shortened to (CERTA). It came into force on 1 January 1983, but the actual treaty was not signed until 28 March 1983 by the [Deputy Prime Minister of Australia](https://en.wikipedia.org/wiki/Deputy_Prime_Minister_of_Australia) & [Minister for Trade](https://en.wikipedia.org/wiki/Minister_for_Trade_%28Australia%29), [Lionel Bowen](https://en.wikipedia.org/wiki/Lionel_Bowen) & the NZ [High Commissioner](https://en.wikipedia.org/wiki/High_Commissioner) to Australia, Laurie Francis in [Canberra](https://en.wikipedia.org/wiki/Canberra), Australia.

CER built on the earlier NZ Australia Free Trade Agreement (NAFTA), which was signed on 31 August 1965 & came into force on 1 January 1966. NAFTA had removed four-fifths of the [tariffs](https://en.wikipedia.org/wiki/Tariff) between the two countries & quantitative restrictions on trade across the [Tasman Sea](https://en.wikipedia.org/wiki/Tasman_Sea). However, it came to be seen as too complex & bureaucratic, & in March 1980, a joint Prime Ministerial communiqué was released that called for "closer economic relations". The two major sticking points in the negotiations were NZ's wish for better access for its [dairy products](https://en.wikipedia.org/wiki/Dairy_product) in Australia & Australia's wish for NZ to remove export incentives & quantitative restrictions. After the two hurdles were overcome, the [Heads of Agreement](https://en.wikipedia.org/wiki/Heads_of_agreement_%28law%29) was signed on 14 December 1982 & came into force on 1 January of the following year.

One of the most important results of CER was the Protocol on the Acceleration of Free Trade in Goods, which resulted in the total elimination of tariffs or quantitative restrictions between the two countries by 1 July 1990, five years ahead of schedule.

Other parts of CER include:

* A good that can be legally sold in one country can also be legally sold in the other.
* Anyone registered to practise an occupation in one country may practise in the other (with some exemptions including medical practitioners).
* Service providers may provide services in either country (except in certain areas such as airway services)

***Exercise:*** *List the advantages & disadvantages of CER to NZ growers.*

*Advantages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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*Disadvantages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

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