

JAPAN AND NEW ZEALAND

*Joint working group report on strengthening
the economic relationship*

March 3, 2009

Executive Summary

New Zealand and Japan have a long standing strategic partnership built on a shared commitment to fundamental democratic values. The bilateral relationship is characterised by the complementary nature of the two countries' economies, good cooperation in multilateral settings, strong people-to-people links and high-level exchanges and meetings.

The importance of this partnership to both countries was reaffirmed in June 2005 when Prime Ministers Helen Clark and Junichiro Koizumi agreed to take a fresh look at the bilateral trade and economic relationship, with a view to its reinvigoration. In November 2006, following on from this agreement, New Zealand and Japan established a Working Group to review the economic relationship and make recommendations on how to advance it. The Working Group, consisting of officials from a range of government agencies, met six times between November 2006 and March 2009 to discuss ways to strengthen and enhance the trade and economic relationship.

During the term of the Working Group, Prime Ministers Yasuo Fukuda and Helen Clark met in May 2008 and reaffirmed their joint commitment to move the trade and economic relationship forward. To follow-up the Prime Ministers' meeting, an Officials Group will be established to jointly examine various policy options to enhance the economic relationship.

Based on its discussions, the Working Group submitted a report to the New Zealand – Japan Joint Economic Consultations in Tokyo on 3 March 2009.

In accordance with the Working Group's terms of reference the report:

- *provides an overview of recent trends in bilateral trade and investment;*

The report noted that while two-way trade had grown substantially over the past two decades, it has been static or declining in recent years. Services are making a significant contribution to bilateral trade, and science and technology cooperation is strengthening. The report stated that there is significant scope for increased direct investment in both directions.

- *assesses recent international and regional policy developments and their implications;*

The report noted that a range of factors had implications for the relationship, including diversification of trade, changing supply chain dynamics, new concerns about access to resources and sustainability, the outcome of the WTO Doha Round, regional cooperation processes and the spread and impact of preferential trading agreements.

- *identifies and describes existing issues and challenges and examines ways to address these;*

The report lists a range of issues raised by both sides including working visas, trade in services, goods issues, sanitary and phytosanitary issues, electricity and renewable energy, investment, government procurement and technical regulations and standards. A range of mechanisms to address these issues were considered.

- *identifies possible initiatives for bilateral cooperation.*

Specific measures to address issues and challenges and further develop bilateral cooperation include:

- New Zealand officials engaging with relevant Japanese companies on their concerns around business environment issues in New Zealand, in particular the electricity market, visa issues and the operation of the Resource Management Act.
- Further enhancing science and technology engagement and giving consideration to concluding a science and technology cooperation agreement.
- Strengthening cooperation on environment and climate change issues, particularly in the areas identified at the March 2008 New Zealand-Japan Environment Workshop.
- Continuing to build collaboration between the Japan External Trade Organisation and New Zealand Trade and Enterprise, the encouragement of further exchanges between businesspeople, and the examination of the possibility of forming an investment partnership.
- Further developing agricultural cooperation, including through information sharing, research collaboration, and farmer and official exchanges and visits.
- Strengthening customs cooperation, building on the Authorised Economic Operator Mutual Recognition Arrangement signed in 2008.
- Encouraging exploratory discussions on cooperation between competition policy authorities.
- Enhancing cooperation on intellectual property rights enforcement, including in negotiations on the Anti-Counterfeiting Trade Agreement (ACTA).
- Increasing dialogue on regulatory issues of mutual interest.
- Enhancing dialogue between food safety authorities.

The Working Group recommends that officials be instructed to implement the recommendations contained in this report and that future sessions of the Joint Economic Consultations monitor progress.

Contents

Introduction	4
1. Overview of recent trends.....	6
1.1 Overview of the bilateral trade and investment relationship	6
1.2 Merchandise trade	7
1.2.1 New Zealand's merchandise trade with Japan	7
1.2.2 Japan's merchandise trade with New Zealand	11
1.3 Services	13
1.3.1 New Zealand's services exports to Japan	13
1.3.2 Japan's services exports to New Zealand	17
1.4 Science and Technology.....	21
1.5 Investment.....	22
1.5.1 Japan's investment in New Zealand	22
1.5.2 New Zealand's investment in Japan	26
2. Recent policy developments	28
2.1 Impact of recent international trade developments.....	28
2.1.1 Overview	28
2.1.2 Sources of growing global prosperity.....	28
2.2 Diversification of trade	30
2.2.1 Export markets	30
2.2.2 Import markets	31
2.3 Supply-chain dynamics	32
2.4 Access to resources and sustainability.....	34
2.5 WTO Doha Round	36
2.6 Regional organisations and processes	36
2.6.1 APEC	36
2.6.2 East Asia Summit.....	37
2.6.3 ASEAN	38
2.7 Preferential Trade Arrangements	39
2.8 Japan's bilateral preferential trading arrangements.....	41
2.9 New Zealand's preferential trading arrangements.....	43
2.9.1 New Zealand's approach to PTAs	43
2.9.2 New Zealand's PTAs with other countries	43
2.9.3 PTA processes and studies underway	45
2.10 Implications of these developments.....	46
3. Issues and Challenges	49
3.1 Border issues	49

3.1.1 Working visas.....	49
3.1.2 Trade in services.....	50
3.1.3 Goods issues	50
3.1.4 Sanitary and phytosanitary issues	51
3.2 Behind the border issues	51
3.2.1 Electricity and renewable energy.....	51
3.2.2 Investment	52
3.2.3 Government Procurement.....	54
3.2.4 Technical Regulations and Standards	54
3.3 Means to address these issues and challenges	55
4. Desirable Cooperation.....	56
4.1 Science and Technology.....	56
4.2 Environment (Climate Change)	57
4.3 Business facilitation and Investment promotion.....	58
4.4 Agriculture cooperation.....	59
4.5 Competition policy.....	60
4.6 Customs cooperation	61
4.7 Intellectual property rights.....	62
4.8 Tourism	62
4.9 Regulatory Policy	63
4.10 Food security	63
Conclusion.....	65

Figures

Figure 1: New Zealand's merchandise exports to Japan.....	7
Figure 2: New Zealand's share of the Japanese imports.....	8
Figure 3: Japan New Zealand Merchandise Trade.....	9
Figure 4: Shares of New Zealand visitor arrivals	14
Figure 5: Japanese tourists to New Zealand	15
Figure 6: Japan's services trade with New Zealand	18
Figure 7: Japan's services export by sector (2006)	19
Figure 8: Stock of FDI by source country.....	23
Figure 9: Stock of Total Investments in New Zealand	24
Figure 10: New Zealand's Investment in Japan.....	27
Figure 11: Growth in global merchandise trade and GDP	29
Figure 12: Direction of export trade.....	31
Figure 13: Direction of import trade.....	32

Tables

Table 1: Top twenty imports from New Zealand in 2007	10
Table 2: Japan's top 20 exports to NZ	13
Table 3: Number of Japanese students in New Zealand	17
Table 4: Japanese FDI in New Zealand by industry, top 10 industries.....	25
Table 5: Table 5: Major destinations for New Zealand investment.....	26
Table 6: Preferential Trading Arrangements between APEC Economies	40
Table 7: EPAs concluded or signed by Japan	42
Table 8: PTAs concluded by New Zealand.....	44
Table 9: Closer Economic Partnership Agreements in the East Asia Summit area	47

Introduction

Prime Minister Helen Clark and Prime Minister Junichiro Koizumi met in Tokyo on 2 May 2005 and the Joint Press Statement at the meeting stated that “recognising their long standing trade and investment links, as well as the complementary nature of the two countries’ economies, the Governments of Japan and New Zealand will take a forward-looking and fresh look at the present bilateral economic relationship and consider ways to strengthen this relationship. This process would consider changes in the situation both at home and abroad”.

In accordance with this decision, the 21st meeting of the New Zealand/Japan Joint Economic Consultations (JEC) on 8 November 2006 decided to establish a Working Group on Strengthening the Economic Relationship. The Working Group was mandated to identify possible initiatives to re-energise and strengthen the relationship consistent with the direction given by the Joint Statement of Prime Ministers.

The terms of reference of the Working Group were as follows:

- (a) To provide an overview of recent trends in bilateral trade and investment, including the key features of the government-level relationship
- (b) To assess recent international and regional policy developments and their implications
- (c) To identify and describe existing issues and challenges and examine ways to address these
- (d) To identify possible initiatives for desirable bilateral cooperation.

The Working Group was instructed to report its findings and recommendations to the Joint Economic Consultations.

The Working Group met six times between February 2007 and March 2009 as follows:

- 1st meeting: 26 February 2007, Tokyo
- 2nd meeting: 20-21 June 2007, Wellington
- 3rd meeting: 18-19 October 2007, Tokyo
- 4th meeting: 28-29 August 2008, Tokyo
- 5th meeting: 14 November 2008, Wellington
- 6th meeting: 2 March 2009, Tokyo

The Working Group received guidance from the 22nd meeting of the Joint Economic Consultations which took place on 7 February 2008.

The following government agencies were represented on the Working Group.

Japan

Ministry of Foreign Affairs (co-chair)
Ministry of Finance
Ministry of Agriculture, Forestry and Fisheries
Ministry of Economy, Trade and Industry
Ministry of Land, Infrastructure, Transport and Tourism
Ministry of Education, Culture, Sports, Science and Technology
Japan Fair Trade Commission
Ministry of Public Management, Home Affairs, Posts and Telecommunications

New Zealand

Ministry of Foreign Affairs and Trade (co-chair)
Ministry of Agriculture and Forestry
Ministry of Economic Development
Ministry of Research, Science and Technology
New Zealand Customs Service
New Zealand Food Safety Authority
New Zealand Trade and Enterprise (including Investment New Zealand)
Treasury

The Working Group's findings and recommendations are contained in the following four chapters.

1. Overview of recent trends

1.1 Overview of the bilateral trade and investment relationship

Japan and New Zealand have long-standing trade and investment links and complementary economies. Over the last thirty years New Zealand's exports to Japan have grown around 740% by value. During the same time, Japan's exports to New Zealand have increased by around 700%. Japan is, and has been for many decades, one of New Zealand's top three most important economic partners. The relationship is characterised by long-established business relationships, integrated supply chains and a focus on high quality products.

Both Japan and New Zealand are relatively open to the trade of goods services and investment from each other. However certain restrictions remain. Japan and New Zealand retain tariffs and other restrictions. While services markets in both countries are relatively open, there are issues around domestic regulation and recognition of professional qualifications

Since 1962, Japan has been at least New Zealand's third largest merchandise export destination, as shown in Figure 1. In the year to December 2007 New Zealand exports to Japan totalled NZ\$3.6 billion, ¥ 317 billion, and imports were \$NZ3.38 billion, ¥293 billion. New Zealand and Japan also have strong and long-standing services trade and investment linkages.

In 2007 New Zealand was Japan's 36th largest trading partner. New Zealand is a key supplier of high purity aluminium and is also a long-standing supplier of coal and wood products to Japan. New Zealand is recognised as an important supplier of food to Japan. One focus of trade and investment from New Zealand is to supply niche markets in Japan and to contribute to reliability and diversity of supply in several sectors.

New Zealand provides important inputs for Japanese industry and consumer products. Japanese exports to New Zealand are dominated by motor vehicles, petroleum products and electronics. These are all significant sectors where New Zealand does not have a domestic industry.

Figure 1: New Zealand's merchandise exports to Japan



Source: Statistics New Zealand

The stock of Japanese investment in New Zealand was around NZ\$7.6 billion, ¥660 billion¹ in the year to March 2007, and New Zealand investment in Japan was around NZ\$3.6 billion, ¥313 billion². Japanese investment in New Zealand reflects the structure of trading between the two countries: much of it is to supply products such as forestry, fisheries, food and beverage and aluminium. Most New Zealand investment in Japan is portfolio based.

1.2 Merchandise trade

1.2.1 New Zealand's merchandise trade with Japan

In 2007 Japan imported goods to the value of NZ\$3.6 billion, ¥317 billion from New Zealand. Major items of export from New Zealand to Japan include aluminium (\$852 million, ¥74 billion, 23.4%), cheese (\$277 million, ¥24 billion, 7.58%), fresh fruit (\$212 million, ¥19 billion, 5.81%), and wood (logs) (\$137 million, ¥12 billion, 3.76%).

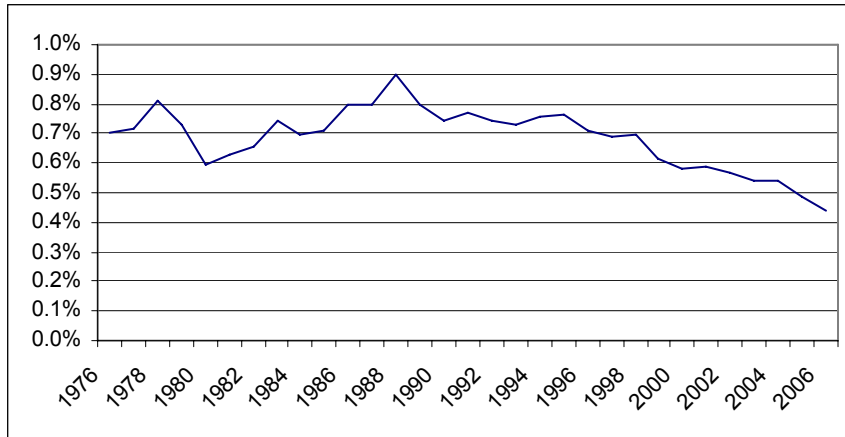
Japan is New Zealand's third largest export market, and its fourth largest source of imports. Whilst two-way trade has grown substantially over the

¹ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

² Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

past two decades, the trading relationship has been static or declining in recent years. A number of factors are likely to have caused this relative decline in exports to Japan, including exchange rate fluctuation and slow economic growth in Japan. More generally, global trading patterns have changed and other economies, such as China, have become increasingly significant trading partners to both Japan and New Zealand, and this trend is likely to continue (see figures 12 and 13).

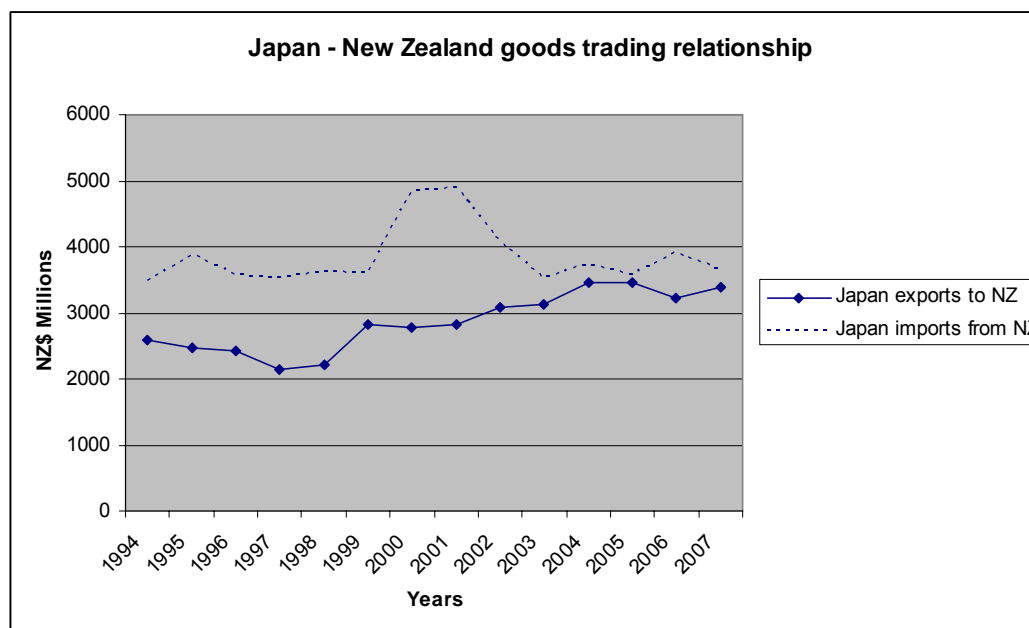
Figure 2: New Zealand's share of the Japanese imports



Source: UNCOMTRADE

Figure 3: Japan New Zealand Merchandise Trade

Millions New Zealand Dollars



Data Sources: analyzed by New Zealand based on trade statistics of Ministry of Finance, Japan

Export Data: FOB, Import Data: CIF

Agricultural, horticultural, fisheries and forestry products account for around 64% of total New Zealand exports to Japan, although relative to a number of other countries, New Zealand is a small supplier by value and volume. 26% of New Zealand's agricultural, horticultural, fisheries and forestry products enter the Japanese market duty free, and a further 20% attract a duty of 5% or less. Overall, 66% of Japan's imports from New Zealand are either non-agricultural, enter duty free or subject to duties less than 5%. New Zealand does not produce rice or sugar, and does not export wheat, barley or pork, all of which are sensitive products to Japan. New Zealand is, however, a significant exporter of dairy products and beef, both of which are also sensitive to Japan. Overall, Japan's agricultural production is two times New Zealand's although for some products such as beef, New Zealand produces more than Japan.

Aluminium has been New Zealand's single largest export item to Japan for many years. In 2007, Japan imported aluminium worth around NZ\$852 million, ¥ 74 billion from New Zealand accounting for around 23% of New Zealand's total merchandise exports to Japan. This represented a sizable share of Japan's high-grade aluminium imports, and over 6% of Japan's total imports of aluminium.

Table 1: Top twenty imports from New Zealand in 2007

Top twenty imports from New Zealand in 2007 at the HS4 heading level				
HS4 heading	Description	2007 (Yen, Billion)	2007 (NZ\$, Million)	2007, % of total
7601	Aluminium; unwrought	74.005	852.086	23.36
0406	Cheese	23.892	276.580	7.58
0810	Fresh fruit ⁽¹⁾	18.786	211.919	5.81
4403	Wood in the rough - logs	11.844	137.278	3.76
4411	Fibreboard	11.791	136.277	3.74
0202	Frozen beef	11.199	128.556	3.52
3501	Casein	10.116	116.563	3.20
4701	Wood pulp	9.307	108.686	2.98
2905	Acyclic Alcohol	8.682	100.356	2.75
0709	Vegetables ⁽²⁾	7.669	90.590	2.48
4401	Wood chips	6.864	78.906	2.16
2701	Coal	6.664	76.962	2.11
0201	Chilled beef	4.734	54.619	1.50
0206	Meat offal	4.639	53.105	1.46
2106	Food preparations	4.287	50.077	1.37
4407	Timber	4.214	48.709	1.34
2710	Petroleum oils, crude	4.134	45.984	1.26
4418	Builders joinery (wood)	4.100	47.432	1.30
2103	Sauces and preparations	4.086	47.437	1.30
0304	Fish fillets and other fish meat	4.042	46.332	1.27
	Top 20 Sub Total	235.057	2,708.453	74.26
	Total	316.548	3,647.570	100

Notes: (1) Primarily kiwifruit and berries.
(2) Including asparagus, capsicum, and sweet corn.
Source: Japan Ministry of Finance

Taken together, wood and wood products are the next largest group of New Zealand products imported into Japan, valued at NZ\$526 million, ¥46 billion in 2007 and comprising over 14% of imports. Japan's wood imports from New Zealand are concentrated in the following areas: logs (3.76 % of total imports), fibreboard (3.74%), wood pulp (2.98%), woodchips (2.16%), timber (1.34%), particle board (0.94 %) and plywood (0.94 %).

New Zealand is an important global supplier of dairy products which meet the rigorous quality requirements of all the major developed and developing markets. Some of the dairy products, e.g. specialised whey protein products being used in sports drinks in Japan, embody substantial technology and specialist product development. Japan currently produces around 67% of its dairy needs, and imports the remainder. Dairy products account for about 12% of total New Zealand exports to Japan, although about a third of these are speciality or semi-speciality products e.g. casein, caseinates and whey protein concentrate that may not compete with local products. These products are primarily manufacturing inputs into Japanese food and beverage industries. Overall, New Zealand dairy exports to Japan account for around 26% of Japan's total dairy imports and around 8% of total Japanese consumption. Japan is a net cheese importer, while domestic supply accounted for around 16 % of domestic consumption in 2007. Japan's cheese imports from New Zealand account for about 25 % of Japanese consumption, and make up nearly 8% of New Zealand's exports to Japan.

Japan's imports of meat and meat products (primarily lamb and beef) from New Zealand contributed around 8% of total New Zealand exports in 2007, accounting for some NZ\$279 million, ¥24 billion. Traditionally New Zealand has exported about the same quantities of sheep meat to Japan as beef. However, as a response to the shortage of supply since the suspension of the US beef imports at the end of 2003 New Zealand beef exports to Japan have tripled. Japan is a net beef importer, with domestic supply accounting for around 44 % of domestic consumption in 2007. Overall New Zealand exports to Japan of beef and beef products account for about 5% of domestic beef consumption in Japan (and 7% of beef imports). Beef exported from New Zealand to Japan is mainly grass-fed manufacturing beef.

Fruit and vegetables which make up nearly 10% of total Japanese imports from New Zealand, were valued at NZ\$363 million/¥32 billion in 2007. Kiwifruit exports account for the largest share of fruit and vegetable exports to Japan. Other significant horticultural exports include asparagus, capsicums, kabocha, onions and sweet corn. There is a complementarity of seasons between Japan and New Zealand which is reflected in the trading patterns although there can be competition between New Zealand and Japanese suppliers.

New Zealand's coal resources are significant, estimated to be enough to last 1,000 years at current rates of production. In 1994 it was estimated that New Zealand had about 15 billion tonnes of in-ground coal resources, of which 8.6 billion tonnes were estimated to be economically recoverable at 1994 prices. These recoverable resources contain more than 150,000PJ of energy. Long-standing supply arrangements see New Zealand coking coal used to produce the high-strength steel sheets which are used in Japan's car manufacturing industry. These thin but strong sheets have enabled manufacturers to improve competitiveness through reducing the weight of their cars and improving fuel economy.

Fish and fish products which totalled NZ\$135 million, ¥12 billion in 2007, represent nearly 4% of Japan's merchandise imports from New Zealand. New Zealand is a supplier of fish products accounting for around 1% of Japan's total fish imports. Over the last 7-8 years, however, the value of New Zealand's fisheries exports to Japan have halved as other markets, such as China, have become more important. This reflects increased processing in third countries and changes in global fish trade.

1.2.2 Japan's merchandise trade with New Zealand³

In 2007 Japan exported goods to the value of JPY 293 billion/NZ\$3.95 billion to New Zealand. The top four export items were motor vehicles for

³ All yen amounts are calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

the transport of persons (hereinafter referred to as the “passenger cars”, representing 37.2% of exports), oils - not crude (8.0%), motor vehicles for the transport of goods (7.9%), and bulldozers, graders, and the like (4.9%).

About half of exports to New Zealand were motor vehicles and their parts. Japan’s exports of passenger cars amounted to ¥109 billion, \$1.3 billion in 2007. Of these, it has been estimated that approximately 95% by value were new vehicles and 5% were used.⁴ New Zealand absorbs 7% of Japan’s exports of used cars (by value). Japanese passenger cars maintain a high share of the New Zealand domestic market, amounting to approximately 45% of imports by value in 2007 and approximately 83% of vehicles (new and used) joining the fleet annually. In addition, the value of motorcycles exported to New Zealand increased steadily in recent years.

Oils from Japan are low sulphur gas oils. The value of gas oils exported to New Zealand has increased sharply since 2005. In 2007, Japan exported gas oils worth around ¥23 billion \$272 million to New Zealand.

Exports of bulldozers, graders and the like were valued at around ¥14 billion, \$162 million in 2007, making Japan New Zealand’s leading supplier of heavy construction equipment. It is also a supplier of other heavy equipment such as forklifts. Japan is an important source of capital goods and high technology products for New Zealand. This includes a wide range of machinery and mechanical appliances, such as printing machinery, computer and air-conditioning equipment. The total value of machinery exports to New Zealand in 2007 was ¥39 billion/NZ\$450 million. In particular the value of printing machinery exported to New Zealand increased dramatically by ¥3 billion yen, NZ\$34 million to ¥3.7 billion, \$43 million in 2007. Japan also exports a range of electrical machinery and equipment to New Zealand, such as television receivers and digital cameras. This amounted to ¥15 billion/\$NZ172 million⁵ in 2007. Japan’s share of New Zealand imports of machinery/mechanical appliances and electrical machinery/equipment amounted to 10% in 2007.

In a number of product areas mentioned in this section Japanese firms have been diversifying their production locations particularly into East Asia. This means that some Japanese brand products available on the New Zealand market are now made in third countries, and are not included in the bilateral trade figures mentioned above. Overall however, products from Japanese manufacturers, supplied either direct from Japan or from third countries, are an important source of transport, industrial and high technology inputs for the New Zealand economy.

⁴ Figures supplied by NZ Ministry of Transport.

Table 2: Japan's top 20 exports to NZ

Japan's top twenty exports to New Zealand in 2007 at the HS4 heading level				
Heading	Description	2007 (Yen, Billion)	2007 (NZ\$, Million)	2007, % of total
8703	Motor cars	109.173	1256.070	37.23
2710	Oil (Not Crude)	23.476	271.483	8.01
8704	Motor Vehicles for the transport of goods	23.227	267.284	7.92
8429	Self-propelled bulldozers, graders, scrapers etc	14.220	163.288	4.85
8711	Motorcycles	5.357	61.459	1.83
4011	New pneumatic tires, of rubber	4.934	56.930	1.68
8528	TV receivers, including video monitors & projectors	3.873	44.810	1.32
8443	Printing machinery	3.771	43.432	1.29
7210	Flat rolled iron & steel	3.346	38.866	1.14
4810	Paper & paperboard	2.872	33.086	0.98
8525	Transmission apparatus for radio- broadcasting or TV	2.806	32.290	0.96
8702	Motor vehicles for the transport of ten or more persons	2.742	31.523	0.94
8427	Fork-lift trucks	2.544	29.290	0.87
8407	Spark-ignition, rotary, or internal combustion piston engines	2.302	26.474	0.79
8708	Parts & accessories for motor vehicles	2.265	26.155	0.77
8472	Office machines not elsewhere classified	1.795	20.035	0.61
3901	Polymers of ethylene	1.620	18.627	0.55
7219	Flat rolled stainless steel products	1.580	18.245	0.54
3904	Polymers of vinyl chloride	1.538	17.799	0.52
8406	Parts of steam turbines & other vapor turbines	1.337	16.157	0.46
	Top 20 Sub Total	214.778	2473.303	73.25
	Total	293.230	3379.074	100.00

Source: Japan Ministry of Finance

1.3 Services

The growth in world services trade has significantly outpaced the growth in world merchandise trade over the last twenty years. This trend reflects the fact that services are becoming an increasingly important component of economies throughout the world – particularly developed countries.

Services trade is an increasingly important part of both the New Zealand and Japan economies and make a significant contribution to bilateral trade between the two countries. In Japan, services trade currently accounts for 12 % of total exports and 20 % of imports. In New Zealand, services trade accounts for around 27 % of total exports and 25 % of imports.

Services exports from New Zealand have grown rapidly in recent times. Between 1991 and 2006, the value of New Zealand's services exports grew by an average of 7.7% a year, compared with merchandise export growth of 5.1% per year. Growth in imports of services grew 5.2 % on average since 1991, compared with average growth of 7.1 % in merchandise imports between 1991-2006.

1.3.1 New Zealand's services exports to Japan

a) Overview

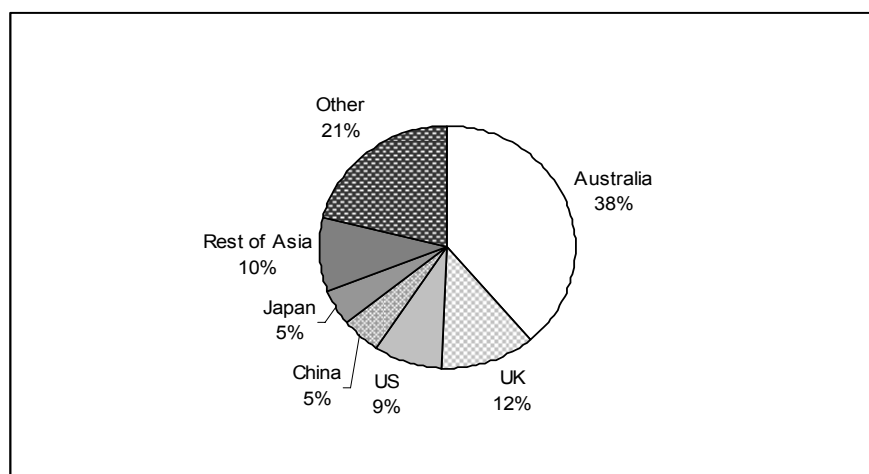
A sizable proportion of New Zealand's services exports to Japan are education or travel related. These links also contribute to long-lasting personal relationships between the people of Japan and New Zealand. In both tourism and education services there is scope to strengthen two-way cooperation and exchange, building from a strong base developed over the last twenty years.

b)Tourism

Japanese visitors accounted for 4.6% of the total number of short term visitors to New Zealand in the year ended June 2008. This made Japan the 5th largest source of visitors to New Zealand, behind Australia, the UK, the United States and China.

Figure 4: Shares of New Zealand visitor arrivals

Percent of total, year to June 2008



Source: Statistics New Zealand

New Zealand was considered by Japanese tourists the 7th most desired travel destination in 2005, up from 9th in 2003. However, it remains a relatively small player in terms of global holiday destinations for Japanese tourists. New Zealand's share of tourist departures from Japan has stayed relatively constant between 0.85 and 1.12% since the mid-1980s.

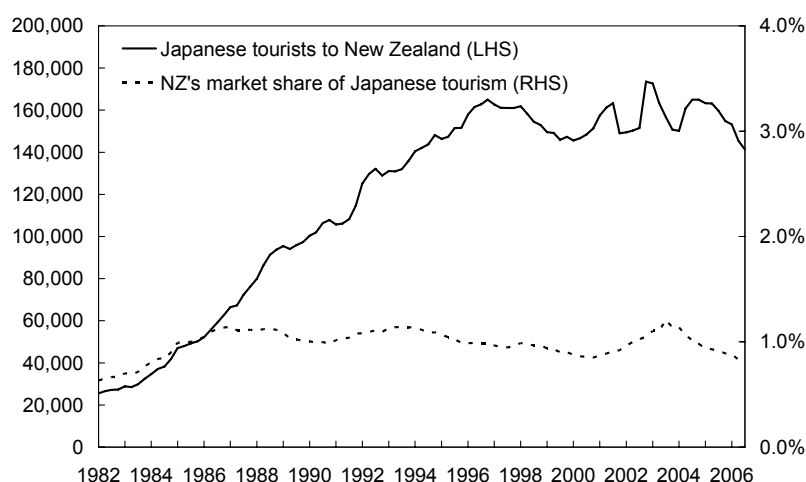
Throughout the 1980s and early 1990s the number of tourists to New Zealand from Japan increased steadily from just over 20,000 to over 160,000. Since around 1996 then there has been no consistent growth. Around 115,000 tourists visited New Zealand from Japan in the year to June 2008, a 10% decrease on the year to June 2007, and down from a peak of 175,000 in the year to January 2003. Tourism New Zealand expects tourism numbers to decrease by 0.5% annually until 2013. New Zealand is seen as a safe destination, as demonstrated by the growth in visitor numbers following the terrorist attacks in the US in September

2001. Tourism New Zealand research indicates that New Zealand is particularly popular with affluent, older travellers.

Japanese tourists are amongst the highest spending visitors to New Zealand and contributed around \$419 million, ¥ 36 billion ⁶ to the New Zealand economy in the year to March 2008.⁷

Figure 5: Japanese tourists to New Zealand

Annual numbers



Source: PATA, NZIER, Japan National Tourist Organisation

Tourism links between New Zealand and Japan are underpinned by air services provided under an inter-governmental Air Services Agreement and a long-standing cooperative arrangement between Air New Zealand and Japan Airlines. Signed in 1980, and updated a number of times since then (most recently in 2005), the Air Services Agreement would benefit from being updated.

c) Education

International education services are a major component of New Zealand's services export trade, worth around NZ\$1.517 billion⁸, ¥132 billion⁹ in 2007. Statistics from the New Zealand Ministry of Education indicate that 90,934 international students studied in New Zealand in 2007. Close to

⁶ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

⁷ Source: Statistics New Zealand. In addition to short term visitors (tourists), there is also a large and growing permanent Japanese population residing in New Zealand. Data from the 2006 Census indicates that 12,000 Japanese people are permanently residing in New Zealand, an increase of 19% since 2001.

⁸ Including education fees, living expenses, and economic multiplier factors for the wider New Zealand economy

⁹ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

14% of these students were from Japan. A large number of students from Japan also study a variety of short courses in New Zealand when visiting New Zealand as regular visitors¹⁰. Japan is New Zealand's third largest source of fee-paying international students (after China and South Korea), contributing around NZ\$214 million, ¥18.5 billion to the New Zealand economy.¹¹

New Zealand provides high quality education in a safe, clean and environmentally friendly setting. According to The Times Higher Education World University rankings, two¹² out of eight New Zealand universities are amongst the World's Top 100 Universities. Auckland, Victoria and Otago universities all feature in the top 100 in various disciplines (Science, Technology, Arts and Humanities, Social Science and Biomedicine).

The table below disaggregates the total enrolments from Japanese students according to provider groups.

¹⁰ Students enrolled in courses shorter than 90 days in length do not require a student visa and are not included in school enrolment statistics

¹¹ According to New Zealand Ministry of Education

¹² University of Auckland ranked 46 and the University of Otago ranked 79

Table 3: Number of Japanese students in New Zealand

Japanese student enrolments	2001	2002	2003	2004	2005	2006	2007
Schools	1,422	1,482	1,509	1,530	1,676	2,000	1,789
Public Tertiary Education Institutions	1,363	1,424	1,325	1,276	1,171	1,989	2,020
Private Training Establishments	11,162	14,938	12,698	12,111	10,000	9,945	8,427
Totals	13,947	17,844	15,532	14,917	12,847	13,934	12,236

Source: New Zealand Ministry of Education

A wide range of linkages exist between New Zealand and Japanese tertiary institutions. All eight New Zealand universities, for example, have formal agreements with Japanese institutions in areas such as research collaboration and staff and student exchange.

Since 1987, over 2175¹³ New Zealand graduates have been employed under the Japanese Government's Exchange and Teaching (JET) Programme. There are also significant numbers of New Zealanders teaching in private institutions in Japan. Through this programme New Zealanders work in the Japan school system as Assistant Language Teachers or in local-government offices as Co-ordinators for International Relations.

d) Other commercial services

Other commercial services include accounting, engineering and management consulting. A small number of New Zealand firms have offered such services to Japanese firms. The growth in New Zealand exports of other commercial services to Japan has been slow (averaging 1% annually) over the last ten years. This suggests that there is scope for deepening bilateral links in this area of trade.

1.3.2 Japan's services exports to New Zealand

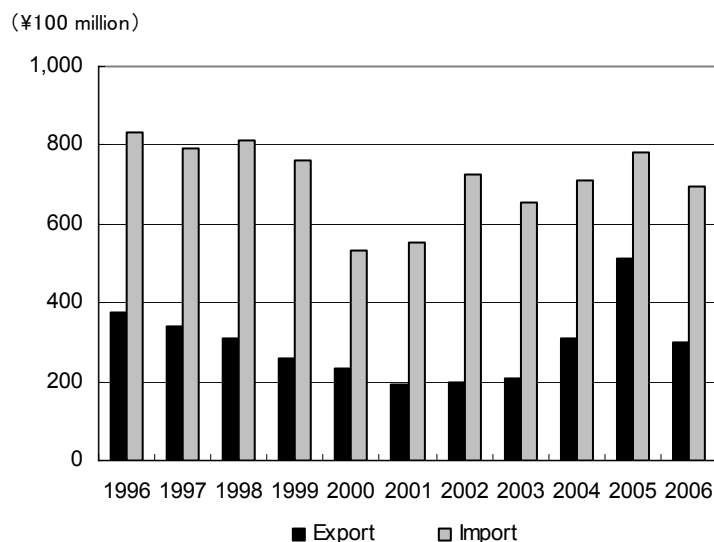
a) Overview

According to Japanese statistics, in 2006 Japan's services exports to New Zealand were NZ\$340 million, ¥30 billion while service imports were NZ\$790 million, ¥69.7 billion. New Zealand's share of Japan's 2006 global services exports was 0.22% (total global services exports for Japan were

¹³ Through JET, over 270 New Zealanders are in Japan in 2007.

approximately ¥13.6 trillion). This share has trended downward since the mid-1990s.

Figure 6: Japan's services trade with New Zealand

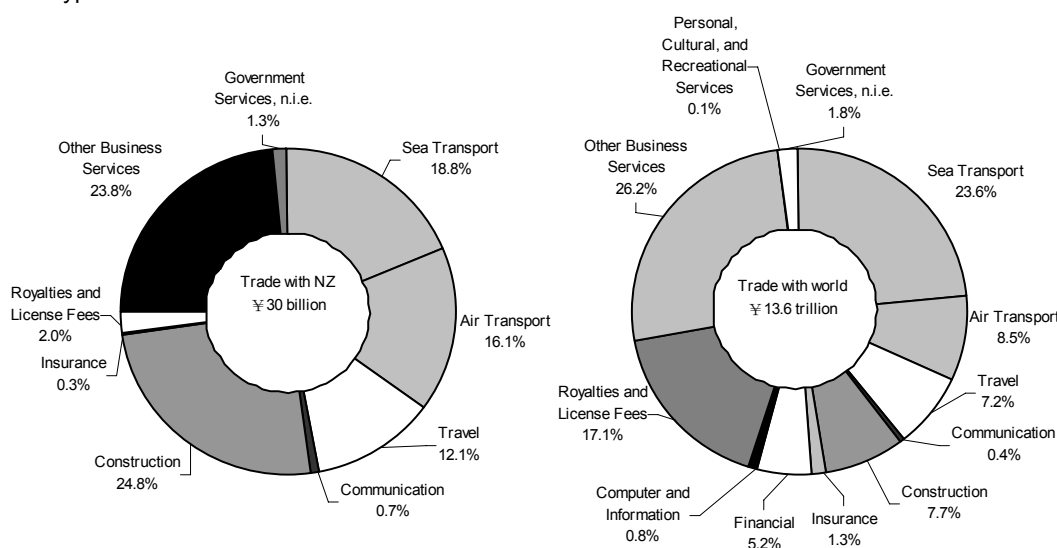


Source: Bank of Japan "Regional Balance of Payments"
http://www.boj.or.jp/en/theme/i_finance/bop/dlong/regbop/index.htm

The breakdown of Japan's services exports to New Zealand shows that transport services (sea and air transport combined) account for approximately 35% (NZ\$118 million, ¥10.4 billion,) of total services exports. In recent years sea transport services exports (NZ\$63 million, ¥5.6 billion, 18.8%) exceeded air transport services exports NZ\$54 million, ¥4.8 billion, 16.1%). As a proportion of total services exports, Japan's air transport services to New Zealand are higher than its global average (8.5 %) and sea transport is lower (23.6 %).

Figure 7: Japan's services export by sector (2006)

Data type



Source: Bank of Japan "Regional Balance of Payments

http://www.boj.or.jp/en/theme/i_finance/bop/dlong/regbop/index.htm

Transport services are followed by construction and travel services which account for 24.8% (NZ\$84 million, ¥ 7.4 billion) and 12.1% (NZ\$40 million, ¥ 3.6 billion,) of Japan's service exports to New Zealand, respectively. The proportion of exports made up of financial services, insurance services, computer and information services, and, royalties and licence fees is small.

Japan's exports of construction¹⁴ and travel services to New Zealand are relatively large compared to Japan's services exports to the world, while the proportion of royalties and licence fees, financial/insurance services, and computer and information services are relatively small. According to Japanese statistics, 32,339 New Zealand tourists visited Japan in 2006, making it Japan's 19th largest source of tourists (by country of origin¹⁵).

¹⁴ However, exports of construction services vary greatly according to the existence of large scale projects. For example, while exports were valued at ¥ 300 million and ¥ 400 million in 2003 and 2005 respectively, in 2005 and 2006, exports increased significantly to ¥ 11.6 billion and ¥ 7.4 billion respectively.

¹⁵ Japan National Tourist Organisation ed. (2007), "2007 JNTO White Paper on International Tourism", International Tourism Center of Japan, p.513 (in Japanese)

b) Japanese service providers present in New Zealand

Japanese companies are active in a number of service sectors in New Zealand¹⁶ including tourism, trading companies, marine transport, transportation services, and insurance.

There are also many Japanese manufacturers involved in leasing and maintenance services in addition to servicing sales in New Zealand.

¹⁶ Toyo Keizai Inc. (2007), "Comprehensive Databook on Overseas Operating Companies (Edition by Country)", Toyo Keizai Inc

1.4 Science and Technology

International collaboration in science and technology improves the quality and international compatibility of research, which in turn attracts investment, talent, and commercialisation opportunities. Research excellence is the foundation of any world-class RS&T system. International collaboration enhances the capabilities of the RST system by linking researchers with leading international partners and providing access to a global knowledge network.

Science links between New Zealand and Japan are long-standing in areas like vulcanology and medical research. They have strengthened over the past few years, with the development of joint research projects and information-sharing arrangements, however there is scope to broaden and increase cooperation between the two countries further. New Zealand has identified Japan as a priority partner for developing S&T cooperation and a science and technology coordinator for Japan has been appointed to facilitate collaborative links.

In 2005 the New Zealand Ministry of Research, Science and Technology signed a MOU with the Japan Society for the Promotion of Science. The arrangement provides for enhanced cooperation in areas such as science workshops, collaborative research projects and exchange of senior scientists & post doctorate fellows.

The relatively small size of the New Zealand economy has encouraged cooperative, cross-boundary research carried out by scientists competent in a broad range of research areas. There are many opportunities for international collaboration. In fact, 43% of New Zealand's published papers are co-authored with international partners from more than 100 countries. Crown Research Institutions, universities and other research providers all work closely with one another, the Government and businesses. The education and health systems are also closely intertwined with the science system.

Japan and New Zealand have many science and technology shared interests. Both Japan and New Zealand are recognised as creative, innovative nations. Major science and technology developments by New Zealand scientists include being the first to split the atom, inventing earthquake shock absorbers and designing the jet boat propulsion systems. New Zealand's size and high usage rates for modern technologies make it a useful venue for testing new technologies. New Zealand's environment also provides a natural advantage for some technologies to leverage off. In some sectors New Zealand has advanced basic research capabilities which can benefit from Japan's experience of commercialisation.

In Japan, the Third Science and Technology Basic Plan covering the years 2006-2010 was approved in 2006. Among other things, the plan stipulates strategic priority setting in Science and Technology, consisting of the

promotion of basic research, along with naming four areas (Life sciences, Information Technology, Environmental sciences, and Nanotechnology and non-materials) as “Four Priority Fields to be Promoted”, and another four areas (Energy, MONODZUKURI (manufacturing) technology, Social Infrastructure, and Frontiers (such as outer-space and the oceans)) as “Four Fields to be Promoted”. The plan specifies that the budget for governmental R&D investments over the five years will total 25 trillion yen.

Current areas of collaborative New Zealand Japan research include:

Area of Research	Example
Industrial science	Developing clay-polymer nanocomposites for potential commercial application
Climate change	Researching the factors affecting livestock methane gas emissions
Earth-science	Exploring submarine volcanoes and seafloor hot springs in Kermadec Arc, northeast of NZ
Health science	Developing silicon quantum dots and testing their application in high-resolution cellular imaging and treatment of cancerous tumours

1.5 Investment

There is significant scope for increased Foreign Direct Investment (FDI) both to New Zealand from Japan, and to Japan from New Zealand. Both countries have relatively open investment regimes although they retain some restrictions.¹⁷ The level of Japanese investment in New Zealand is low relative to its economic size and compared to investments made in New Zealand by other countries. New Zealand FDI in Japan is also low.

1.5.1 Japan’s investment in New Zealand

Japan is a respected and important investor in New Zealand, with Japanese companies having long sought business relationships in New Zealand in order to, among others, secure long-term access to reliable commodity supplies (eg aluminium, wood products) and food products (eg meat, fisheries) which results in exports back to Japan and to third countries as well as supplying New Zealand's domestic market (see table 4).

At March 2007, Japan’s total investments in New Zealand were valued at \$7.6 billion, ¥660 billion, including \$1.8 billion, ¥156 billion¹⁸ foreign direct

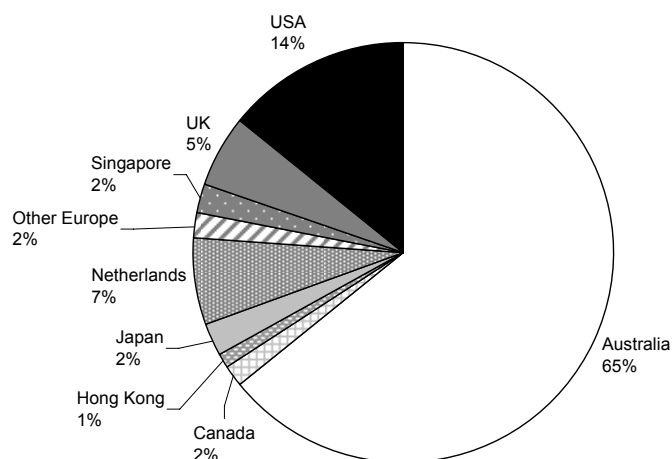
¹⁷ Japan maintains minimal restrictions complying with the OECD Code of Liberalization of Capital Movement

¹⁸ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

investment (FDI) and \$2.0 billion, ¥174 billion¹⁹ in other forms of investment. Over the past decade Japan's share of FDI in New Zealand has changed relatively little, making up about 2.0% of the total at March 2007. Australia, Europe, and the United States are currently the principal sources of FDI in New Zealand.

Figure 8: Stock of FDI by source country

Percent of total



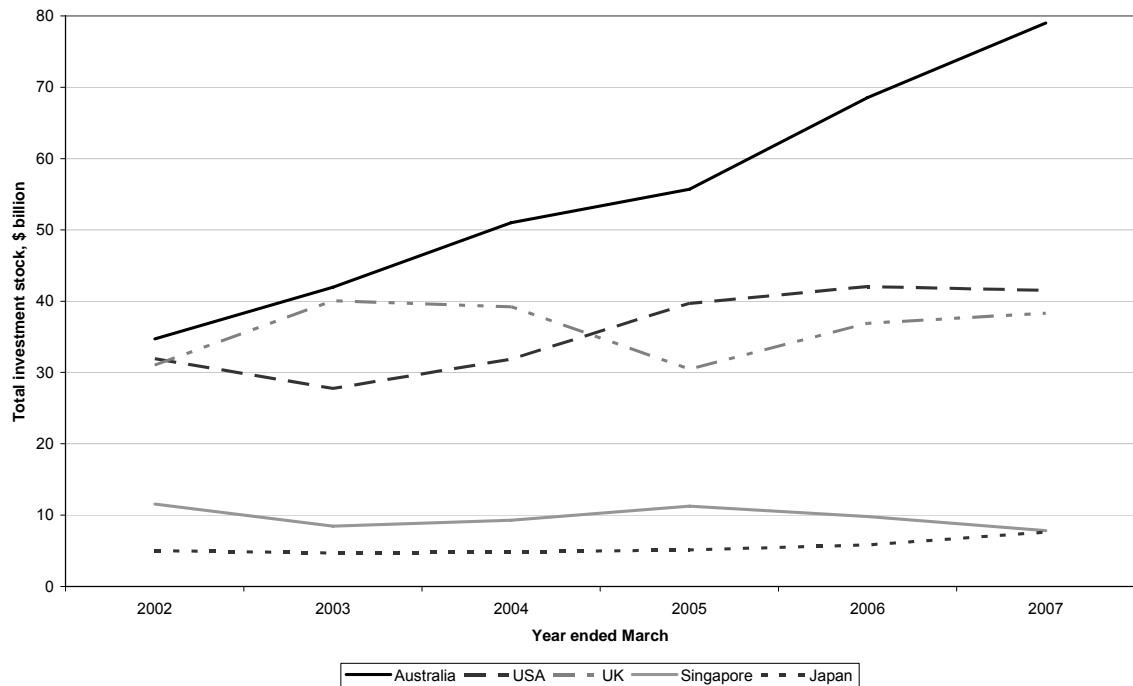
Source: Statistics New Zealand

Flows of FDI from Japan between F.Y. 2000 and F.Y. 2004 averaged ¥4.5 billion (average exchange)²⁰ per annum. This is in contrast with the growing importance of both Australia and the United States, in particular, as sources of foreign direct investment. The rapid growth of Australian investment in the New Zealand economy over the last few years reflects the growing inter-connectedness of the two economies as regulatory coordination between the two governments is leading to the creation a single economic market.

¹⁹ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

²⁰ Based on average ODI flows reported by the Japan Ministry of Finance, converted at the average NZ dollar/Yen exchange rate of NZ\$1 : Yen 65 between 2001 and 2005.

Figure 9: Stock of Total Investments in New Zealand



Source: Ministry of Foreign Affairs and Trade, New Zealand

In absolute terms Japanese investment plays an important role in the New Zealand economy. For example, in addition to direct investment, Japanese investors are significant purchasers of New Zealand dollar denominated debt instruments. A trial data series recently produced by Statistics New Zealand suggests that in 2003 there were 141 Japanese affiliate firms (firms where there is majority control by foreign investors or 50% ownership) in New Zealand. While this represents a small number when compared against the total 3,779 foreign affiliate firms operating in New Zealand, Japan is the fifth ranked source country for investment in foreign affiliated enterprises in New Zealand. Table 4 below outlines some of the larger Japanese investments in New Zealand.

From a New Zealand perspective Japanese inward investment has been important, both in terms of technology transfer and through its positive effect on the labour market. For example, a number of green-field investments in the forestry sector have led to additional employment opportunities. Technology transfer due to these investments has been important both for manufacturing processes and for the skills used in management.

Table 4 below outlines Japanese FDI by industry. Columns two and three capture New Zealand's share of Japan's outward direct investment between 1989-2004 and 1999-2004 respectively. In the 5 years between 1999 and 2004 Japanese investment in New Zealand become more concentrated in the fisheries and lumber and pulp sectors. This concentration of FDI in primary sectors does not, however, reflect the global pattern of FDI from Japan. In the 1989-2004 period the real estate, service and transport sectors alone accounted for around 27% of Japan's global outward direct investment. This is compared with just 1.2% for the farming and forestry; fisheries; and lumber and pulp sectors.

Table 4: Japanese FDI in New Zealand by industry, top 10 industries

	NZ share of Japan's outward direct investment, 1989 – 2004	NZ share of Japan's outward direct investment, 1999 - 2004	Industry share of total Japan outward direct investment, 1989 - 2004
Farming & Forestry	10.40%	7.60%	0.24%
Fishery	8.29%	18.04%	0.15%
Lumber & Pulp	6.18%	9.07%	0.80%
Food	4.37%	0.14%	3.08%
Other Manufacturing	0.24%	0.38%	3.64%
Real Estate	0.20%	0.00%	10.21%
Service	0.12%	0.06%	10.86%
Transport	0.11%	0.00%	6.39%
Trade	0.10%	0.02%	9.64%
Construction	0.07%	0.00%	0.70%
TOTAL	0.29%	0.08%	100.00%

Source: NZIER

New Zealand has been an important investment destination for Japanese companies. For example, New Zealand received over 18% of all investment from Japan in the global fishing industry during 1999 – 2004. Farming and forestry (7.6%) and lumber and pulp (9.1%) were other sectors where a sizable share of FDI from Japan was invested in New

Zealand. In addition, approximately 20% of Japanese investment in New Zealand relates to distribution and service facilities for Japanese exports.²¹

Nevertheless it is clear there is considerable untapped potential in the investment relationship. While New Zealand is continuing to build on its traditional strengths in the primary-based industries there are opportunities in areas of traditional Japanese strength - particularly the service sector - as that continues to grow in importance as a contributor to GDP.

1.5.2 New Zealand's investment in Japan

At March 2007, Japan was New Zealand's fifth largest destination for New Zealand total foreign investment holdings, accounting for 3.3% of total New Zealand investment.²² The stock of investment from New Zealand to Japan was around NZ\$3.6 billion, ¥313 billion to March 2007²³. See Table 5 below.

Table 5: Major destinations for New Zealand investment
Total investments at 31 March 2007 (NZ\$ billion)

Australia	30.1
United States of America	26.5
United Kingdom	9.0
Germany	3.9
Japan	3.6
Singapore	3.5
Switzerland	2.8
France	2.6
Netherlands	2.4
Total all countries	111.0

Source: Statistics New Zealand

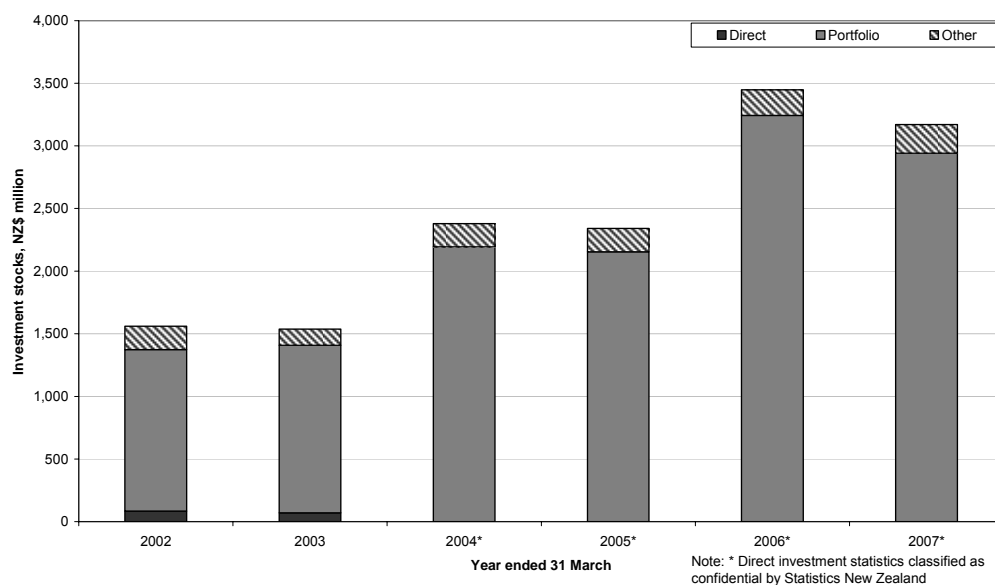
²¹ Toyo Keizai Inc. (2008), "Comprehensive Databook on Overseas Operating Companies (Edition by Country)", Toyo Keizai Inc

²² Source: Statistics New Zealand

²³ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

Between 2002 and 2007, New Zealand's investment levels in Japan have fluctuated from a high of \$3.8 billion, ¥ 287 billion²⁴ in March 2006 to a low of \$1.8 billion, ¥121 billion²⁵ in March 2003. Since 2002 New Zealand investment into Japan has trended upwards, and now stands at \$3.6 billion, ¥313 billion.²⁶

Figure 10: New Zealand's Investment in Japan



Source: Ministry of Foreign Affairs and Trade, New Zealand

Portfolio investment accounts for most of New Zealand's investment into Japan. Japan is New Zealand's eighth largest destination for FDI. Experience indicates that joint ventures and cooperation between New Zealand and Japanese companies help to ensure a stable supply of food products to Japan.

The potential for further New Zealand investment in Japan, particularly in light of Japan's policy of increasing inward investment, would merit further investigation.

²⁴ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y75.61 for the 2006 calendar year.

²⁵ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y67.44 for the 2003 calendar year.

²⁶ Yen amount calculated using the average NZ\$/Yen exchange rate of 1NZ\$:Y86.85 for the period 1/03/07-28/02/08.

2. Recent policy developments

2.1 Impact of recent international trade developments

2.1.1 Overview

Japan and New Zealand recognise that their economic interests are best served by a robust and well-functioning multilateral trading system. Japan and New Zealand also recognise that bilateral and regional trade agreements contribute to the development of their foreign economic relations as well as the attainment of their economic interests as a mechanism to complement the multilateral free trade system centring on the WTO. In this context, both countries have worked closely in the GATT/WTO. In addition they collaborate in APEC and in the EAS reflecting their shared interest in building a prosperous and peaceful Asia-Pacific region.

As like-minded and complementary partners in the Asia-Pacific region Japan and New Zealand have much to gain from continued global productivity growth. New Zealand recognises Japan as an important centre for innovation and entrepreneurship, two key drivers of economic growth. New Zealand is also seeking to grow through innovation and the Government recognised that the New Zealand economy will have to continually adapt itself in sustainable ways to deliver improved living standards.

Increasing the level of international economic activity is a vitally important part of enhancing the growth prospects of the Japan and New Zealand economies. Our shared interests in sustainable global productivity growth and innovation mean there is considerable potential to further stimulate the Japan – New Zealand economic relationship.

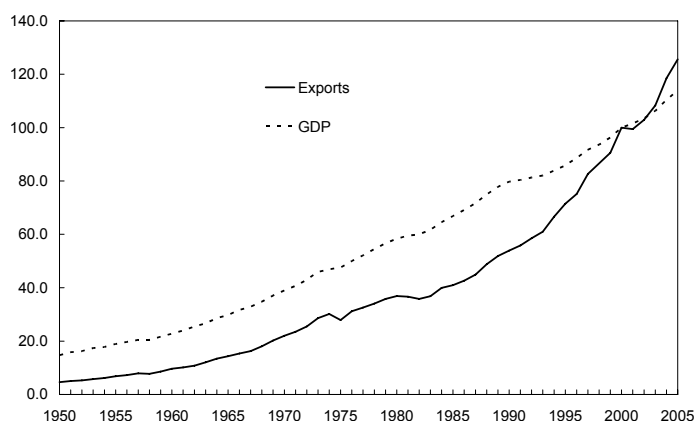
2.1.2 Sources of growing global prosperity

Global merchandise trade has grown rapidly over the past fifteen years and recent growth in trade has out-paced growth in global GDP. Trade now makes up around 20% of world GDP and the revolution in information technology has substantially lowered the costs and increased the speed by which information can be transmitted across borders.

The most dramatic growth in the last decade has been observed in China, India, and emerging Europe where significant progress has been made in opening economic and advancing market reform. The major structural transformations that have taken place within these economies have had strong positive impacts on productivity.

Figure 11: Growth in global merchandise trade and GDP

Index, volumes



Source:WTO International Trade Statistics 2006

Productivity growth in the United States over the past decade or so has also been much higher than in previous decades. Increasing use of new information and communication technologies has made a significant contribution to this growth. There have also been recent gains in other advanced economies, as Western Europe and Japan have emerged from periods of corporate restructuring.

Strong productivity growth throughout the world has been supported by the increasing integration of international markets.²⁷ This process has been fed by a combination of rapid technological development, an increasingly open global trade system and sophisticated financial markets, and more resilient macroeconomic-policy frameworks.

The rapid growth of international trade and the introduction of new technologies have allowed the ‘unbundling’ of production processes. Both manufacturing and service activities are shifting to lower-cost locations in an increasingly global market, thus providing productivity gains in both source and host countries. This process has been supported by important trade liberalisation initiatives, including conclusions of successive global trade rounds, the entry of former Eastern bloc countries into the EU in 2004 and China's entry into the WTO in 2001.

The shifting production structure has also been supported by the increasing international mobility of capital, especially rising rates of foreign direct investment and portfolio investment into emerging markets. This has provided a conduit for financing, and enabled the diffusion of new technologies and management skills.

²⁷ OECD Working Paper 34 (2006) on “Dynamic gains from trade” contains further background on this).

2.2 Diversification of trade

The emergence of China and India is of increasing importance to the performance of the world economy. Rapid growth in China and India has spilled over to many other developing countries and has contributed to establishing East and South Asia as new growth regions in the world economy. The growth performance of the large developing countries in Asia has been closely linked with increasing intra-regional specialisation and production-sharing. While this represents opportunities and challenges for Japan and New Zealand, both countries recognise the importance of continuing to develop long-standing cooperation and relationships with the region.

2.2.1 Export markets

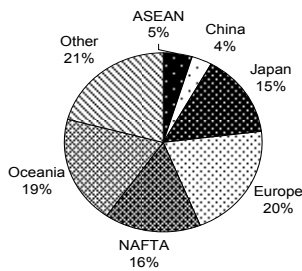
Over the past twenty years the composition of New Zealand and Japanese export markets has changed in a similar way. Exports have increased particularly to ASEAN and China reflecting the growing importance of their expanding domestic markets and their role in global supply-chain activities.

The graphs below outline the changing nature of Japanese and New Zealand export trade. For Japan, exports to ASEAN and China grew as exports to NAFTA (Canada, Mexico and the US), as a percentage of total exports, declined. In New Zealand's case, this growth has seen a decline, in relative terms, in exports to the EU and Japan, while exports to China and Oceania increased. Exports to Japan in NZ\$ value remains at a constant level.

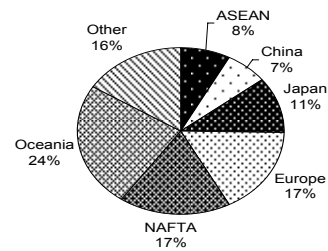
Figure 12: Direction of export trade

Shares of value of total exports by region/country

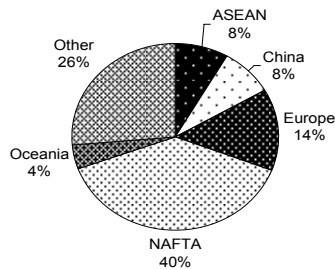
New Zealand, 1984



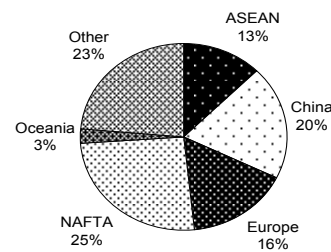
New Zealand, 2005



Japan, 1984



Japan, 2005



Source: UN COMTRADE, New Zealand Institute for Economic Research (NZIER)

2.2.2 Import markets

Diversification has also taken place in New Zealand and Japan's import markets.

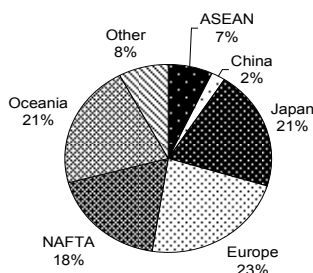
Again the main story is the shift in relative shares for both ASEAN and China. Japan and New Zealand are increasingly sourcing their imports from these two markets at the expense of more traditional developed country partners.

In New Zealand's case Japan, NAFTA and the EU have experienced a decline in import market share and in Japan's case the shift has again come as a result of lower import growth from mainly NAFTA.

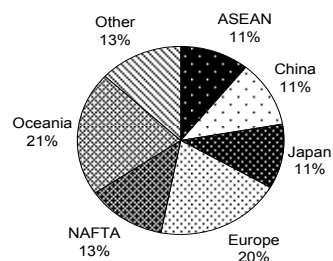
Figure 13: Direction of import trade

Shares of value of total imports by region/country

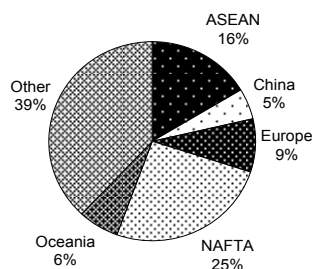
New Zealand, 1984



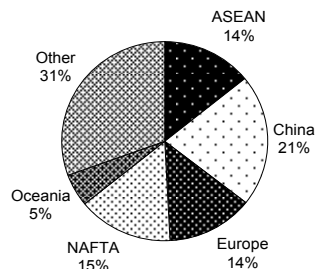
New Zealand, 2005



Japan, 1984



Japan, 2005



Source: UN COMTRADE, New Zealand Institute for Economic Research (NZIER)

2.3 Supply-chain dynamics

The vertical fragmentation of production is fast changing the way firms do business. Supply chain driven changes to the global trading environment present new opportunities for New Zealand and Japanese firms to cooperate, including through increased investment, and collaboration in third-country markets.

The basic economic argument for international trade - comparative advantage - was traditionally seen in terms of whole industries locating in particular areas. But international disaggregation of production is now a key feature of globalisation. Instead of individual companies at similar stages of development specialising in particular products, we now see two-way trade flows in very similar goods – for example cars moving across a national border in both directions. As new preferential trade agreements are concluded and implemented they also play a role in how global and regional supply chains develop and diversify.

Large factories do not necessarily make a product from start to finish: production can now be broken down across national borders, with different countries specialising in the production of particular components.

Advances in telecommunications have made it possible for services also to be supplied a long way away from the customer.

The China-Japan trade, which has experienced extremely high growth over the past five years, provides a good example of how supply chains are developing in the Asia Pacific region. Japanese companies have re-shaped their production processes to take advantage of China's comparative advantages, particularly in the manufacturing sector. According to the Japan External Trade Organisation (JETRO) roughly 15% of trade between Japan and China trade is reverse importing - subsidiaries of Japanese companies sending, for example, Chinese-made PCs, printers, and DVD players back to Japan. The increased competitive advantage Japanese companies have gained has not only spurred Japan – Chinese trade but also Japan's trade with the rest of the world. This growth in trade is having a strong positive impact on economic growth in Japan.

New Zealand companies are also seizing the opportunities for them through the vertical fragmentation of production. The off-shoring of manufacturing has become an important channel through which a range of New Zealand companies, from furniture to children's buggies, have been able to take advantage of differing cost bases, skills and technical specialisations. For example, some of New Zealand's most successful clothing exporters have manufacturing bases in China and elsewhere while the design, logistics, and marketing elements are run from New Zealand.

It is also working the other way. New Zealand's high-skilled population is offering opportunities for companies in a range of sectors, including information technology, forestry and agriculture sectors to base aspects of their operations in New Zealand. Such collaboration, for example in the research and development of new technologies, helps to foster strong international relationships that enable cooperative expansion into new markets.

Japan and New Zealand's trading markets are likely to continue to diversify as incomes and populations of developing countries increase and increased specialisation continues to grow trade.

Despite some examples of supply-chain benefits flowing from Japan-New Zealand partnerships there remains considerable untapped potential. New Zealand's value proposition lies the sustainable supply of high quality and innovative products or services either via export or as part of a global supply chain.

Japan, too, has the potential to develop its role as an Asia “hub”, channelling high quality, high tech products and human and financial capital into the region. Business in both countries is yet to fully explore and take advantage of the unique capabilities in either economy and there is a role for Government to help build a more supportive framework for this to take place.

2.4 Access to resources and sustainability

Strong economic growth in developing countries in the past five years, especially China, has also put upward pressure on commodity prices. The boom in commodity prices, including for aluminium, coal, crude oil, gold and methanol, reflected the fact that supply was not able to keep pace with demand as rapidly growing developing countries require more base materials to generate continued economic growth. A number of New Zealand’s resources, such as aluminium and coal, for which Japan used to be the primary market, are now being exported in greater volumes to China and India.

Limited resources and rising costs have encouraged businesses and countries to investigate ways to secure access to key resources to ensure reliable supplies of imports. As a result, diplomatic ties between countries have been established and strengthened (e.g. between China and African nations), medium and long-term commercial agreements are being entered into (e.g. Australian LPG exports to Japan and China) and increased emphasis placed on existing reliable and secure suppliers.

The changing global demand and supply for food products is also having important impacts on food trade. Rising costs of production, the need for world agricultural production to increase significantly to meet expected future demand, strong interest in biofuel, and increased disease concerns such as H5N1 avian influenza and bovine spongiform encephalopathy (BSE) are all factors that are expected to impact on future food supply, quality and prices. Climate change is also predicted to impact on agriculture productivity through climatic events such as drought and flooding.

The growing use of grain in biofuel production has seen feed costs escalate. Consumers and retailers are increasingly demanding a reliable supply of safe, high quality food products. The nutritional benefits of certain foods are also becoming increasingly important for consumers. BSE and avian influenza outbreaks had a significant impact on the choices made by consumers.

In these circumstances, increasing agricultural production in each country through the efficient use of all available resources for food production is essential for enhanced food security. Increasing the self sufficiency rate of food is an important objective for Japan. Food safety is an associated

issue of concern for both Japan and New Zealand. Both countries attach importance to ensuring safe food is available for consumers. New Zealand and Japan have made an important contribution through the application of high standards and both countries have maintained strong inter-agency co-operation in support of food safety.

Global environmental and resource constraints are likely to impose increasing costs over time, which could undermine productivity performance. Issues around sustainability and climate change have become the compelling issues of our times. The combination of changing consumer expectations (both locally and internationally) and increasing awareness of global environmental issues has led to an increased focus on environmental sustainability in both Japan and New Zealand. Increasingly, customers want to know that they are buying products derived from an environmentally sustainable production chain.

The quest for sustainability is a key priority for both Japan and New Zealand. For example, New Zealand has elevated sustainability to a higher level of public awareness and improved business partnerships to support sustainability goals. Its producers and exporters are also proactive in continually improving their sustainability credentials. In supporting a range of initiatives around energy, energy efficiency and conservation, climate change, and land management New Zealand and Japan hope to be well placed to meet the challenges brought about by an increasing awareness of the world's resource constraints.

Japan and New Zealand share common policy approaches in this area. Japan is ensuring it is linked with a partner at the forefront of global action in relation to the environment. New Zealand has committed itself for sustainable, safe and high-quality production. There is scope for increased cooperation between Japan and New Zealand on sustainability issues.

2.5 WTO Doha Round

The multilateral WTO Round remains the top trade priority for both Japan and New Zealand because it provides a stable trading environment that protects against undue discrimination. Multilateral WTO negotiations are also the best forum for reducing behind border trade barriers over time, as well as offering the largest potential welfare gains to the global economy. Japan and New Zealand are therefore committed to a successful and timely conclusion of the Doha Development Round.

While both Japan and New Zealand were disappointed at the failure to reach agreement on agriculture and non-agricultural market access (NAMA) modalities at the Ministerial negotiations in July 2008, both countries recognised that significant progress was made at the meeting. It will be important for Japan and New Zealand to continue to work together with a view to achieving a successful conclusion of the DDA with a comprehensive, ambitious and balanced outcome.

Japan and New Zealand's interests coincide in a number of important areas in the Round, where we have actively cooperated in order to press for greater ambition. Both countries:

- support an ambitious outcome in the services negotiations
- support an ambitious overall approach in the non-agriculture negotiations
- are playing a leading role in pushing for tighter anti-dumping rules and
- are working to secure a good outcome on environmental goods.

2.6 Regional organisations and processes

2.6.1 APEC

Japan and New Zealand are both active players in APEC. APEC continues to have significant global clout (just under half of world trade and over 60% of world GDP). About 70% of Japan's exports go to APEC countries. APEC countries account for over 70% of New Zealand's total merchandise trade and 60% of its FDI.

For over a decade APEC has promoted the prosperity and security of the Asia Pacific region through moving towards a common goal of an economically integrated region, including the goal of free and open trade and investment. APEC's current efforts to develop model measures for RTA/FTAs in the region, its trade facilitation action plans (customs, standards, business mobility and e-commerce) and its new behind-the-border structural reform agenda all promote the interconnectivity of economies in the region and help contain potential downside costs arising from the "spaghetti bowl" of proliferating bilateral FTAs.

Japan has invested heavily in APEC. Japan has provided funding to APEC's Trade & Investment Liberalization Fund (TILF) continuously since 1997, which is an important contribution to assist APEC Member

Economies to meet the free trade and investment goals. Japan has also recently decided to co-fund (with Australia) a new APEC Policy Support Unit within the Secretariat to boost APEC's policy development and analytical capability. Japan will host APEC in 2010.

Within APEC New Zealand and Japan enjoy very good levels of cooperation and share perspectives and priorities across much of the APEC agenda, including on energy security, intellectual property right protection, avian and pandemic influenza, and the development of FTA model chapters. This cooperation is expected to continue, and increase in the years ahead.

A key area of recent cooperation has been in the area of "behind the border" economic issues, including the development of a structural reform agenda. New Zealand and Japan have been playing a leading role in developing the Leaders' Agenda for Implementing Structural Reform ("LAISR") Initiative and in refocusing the work of the Economic Committee on structural reform issues. New Zealand and Japan continue to work closely on this area.

Japan also cosponsored the recent New Zealand (and Canadian) initiative on establishing a programme of work on better business regulation ("ease of doing business"), and will host the fourth workshop in this work plan during its year as APEC Host in 2010.

2.6.2 East Asia Summit

Japan and New Zealand have shared interests in the East Asia Summit (EAS) process, and are committed to its success. The first EAS Summit was held in Kuala Lumpur in December 2005 and since then has become an important part of the Asian regional architecture. It is the first addition to regional architecture since the establishment of ASEAN+3 in 1997. The EAS is likely to play a significant role in managing increasingly complex issues in the region, and forming the basis of an East Asia community.

The emergence of the EAS reflects the strengthening of ASEAN-centred processes for regional integration. Promoting regional cooperation and integration and implementing a range of initiatives in areas of energy, environment and financial cooperation will be key priorities for the EAS. While centred on an annual Leaders' Summit, meetings of EAS ministers (foreign, trade, energy and environment) now occur on a regular basis.

New Zealand and Japan have been active across the EAS agenda, including the areas of energy cooperation and regional financial cooperation. New Zealand and Japan welcomed cooperation aimed at developing regional economic integration at the ASEAN+6 Economic Ministers Meeting on 28 August 2008 in Singapore, including the 'track two' study on a possible EAS-wide FTA (a Comprehensive Economic Partnership in East Asia, or CEPEA) and an initiative on establishment of a research structure (the Economic Research Institute for ASEAN and

East Asia, or ERIA) to support the development of an ASEAN Economic Community by 2015.

2.6.3 ASEAN

Japan and New Zealand are both Dialogue Partners with ASEAN. New Zealand's formal relationship with ASEAN was established in 1975 and Japan established formal relations with ASEAN in 1978. Japan and New Zealand have both signed the Treaty of Amity and Cooperation (the TAC), in July 2004 and July 2005 respectively. The TAC is a code of conduct governing relations among countries and a diplomatic instrument for the promotion of peace and stability in the region. The signing of the TAC by a non-ASEAN country is seen as signifying their commitment to ASEAN.

Japan is one of ASEAN's biggest economic partners and is a major contributor to development cooperation activities. Its cooperation covers a wide range of areas including support for the Initiative for ASEAN Integration (IAI) HRD, ICT, youth, Mekong Basin Development. ASEAN also values New Zealand's development cooperation with the region. In 2006 ASEAN and New Zealand signed a Framework for Cooperation through to 2010 which outlines our cooperation across the economic, political, security, and socio-cultural pillars of the Vientiane Action Programme.

Since relations were established 1978, Japan and ASEAN have formed a partnership that has contributed significantly to the region's economic, social and political development. Japan has been a key contributor to the region's Official Development Assistance (ODA) programme which has played a particularly important role in the region's economic dynamism and continues to be a pillar of support for ASEAN's least developed members.

Japan is also a member of the 'ASEAN + 3' grouping which includes ASEAN and Japan, China and Korea. In 1997 the Asian financial crisis highlighted the interdependence of the region's economies and led to the establishment of the ASEAN+3 Framework. To assist ASEAN countries recover from the crisis the Japan-ASEAN Solidarity Fund was established in 1999 and the Japan-ASEAN general Exchange Fund (JAGEF) in 2000. In 2001, the ASEAN-Japan Eminent Person Group produced a vision for Japan-ASEAN relations in the 21st century that proposed expanding cooperation in international issues such as UN reform and the WTO.

Relations have been strengthened further since 2005 through high-level visits and events. The 2005 Japan-ASEAN Summit confirmed the parties' commitment to build a strategic partnership to tackle problems facing the entire Asia region. At the Summit PM Koizumi announced Japan would contribute approximately USD 70 million to the ASEAN Development Fund, through the Japan-ASEAN Integration Fund (JAIF), to assist with ASEAN integration.

2.7 Preferential Trade Arrangements

Today's global trade negotiating environment is the most active in recent history. World trade talks and multiple bilateral and regional trade agreements are progressing simultaneously. 400 Preferential Trade agreements (PTAs), have been notified to GATT/WTO. PTAs can also form the basis for enhanced economic and political partnerships and cover areas that WTO agreements do not.

While preferential trading arrangements (PTAs) have been a recurring feature of the global economy, the last decade has witnessed a dramatic increase in PTA activity in the Asia-Pacific region. Japan and New Zealand attach importance to their use of PTA such as Economic Partnership Agreements (EPA) and Free Trade Agreements (FTA) as a means of complementing the multilateral trading system.

Table 6 outlines the increase in bilateral and regional PTA activity since 1999.

Table 6: Preferential Trading Arrangements between APEC Economies
(Listed by participant members rather than official name of the arrangement)

Prior to 1999	Since 1999	
Concluded or Signed	Concluded or Signed	Under Negotiation
AFTA (ASEAN FTA)	ASEAN-Australia-NZ	
Canada - Chile	ASEAN – China	
CER – NZ, Australia	ASEAN-Japan	
Chile – Mexico	ASEAN- Korea	
	Australia – Singapore	Australia – China
	Australia – Thailand	Australia – Japan
	Australia – US	Australia – Malaysia
NAFTA	Australia – Chile	Canada – Singapore
US, Canada, Mexico	Brunei – Japan	Canada – Korea
	Chile – China	Chile – Thailand
	Chile – Japan	China – Peru
	Chile – Korea	Japan – Korea
	Chile – US	
	China - Hong Kong SAR	
	China- NZ	Korea – Mexico
	China – Singapore	Korea – Thailand
	Indonesia – Japan	
	Japan – Malaysia	Malaysia – US
	Japan – Mexico	Malaysia – NZ
	Japan – Philippines	NZ – Hong Kong SAR
	Japan – Singapore	Peru-Thailand
	Japan – Thailand	Thailand – US
	Japan - Vietnam	
	Korea – Singapore	
	Korea – US	
	NZ – Singapore	
	NZ – Thailand	
	Peru – US	
	Singapore –US	
	TPSEP	

In the APEC region there could be more than 40 PTAs operating in the near future resulting in a ‘noodle-bowl’ of linkages between various countries. In addition APEC members have been pursuing and concluding PTAs with partners outside the APEC region. Japan and New Zealand should continue to work together to consider plurilateral economic structures in the region, such as through supporting studies on CEPEA and FTAAP. It will also be important that Japan and New Zealand continue to discuss the progress being made through regional fora towards economic integration and the implications for both countries.

2.8 Japan's bilateral preferential trading arrangements

Japan has completed negotiations and signed economic partnership agreements (EPA) with Singapore (2002), Mexico (2004), Malaysia (2005), the Philippines (2006), Chile(2007), Brunei (2007), Thailand(2007), Indonesia(2007) ASEAN(2008), Vietnam(2008) and Switzerland (2009).

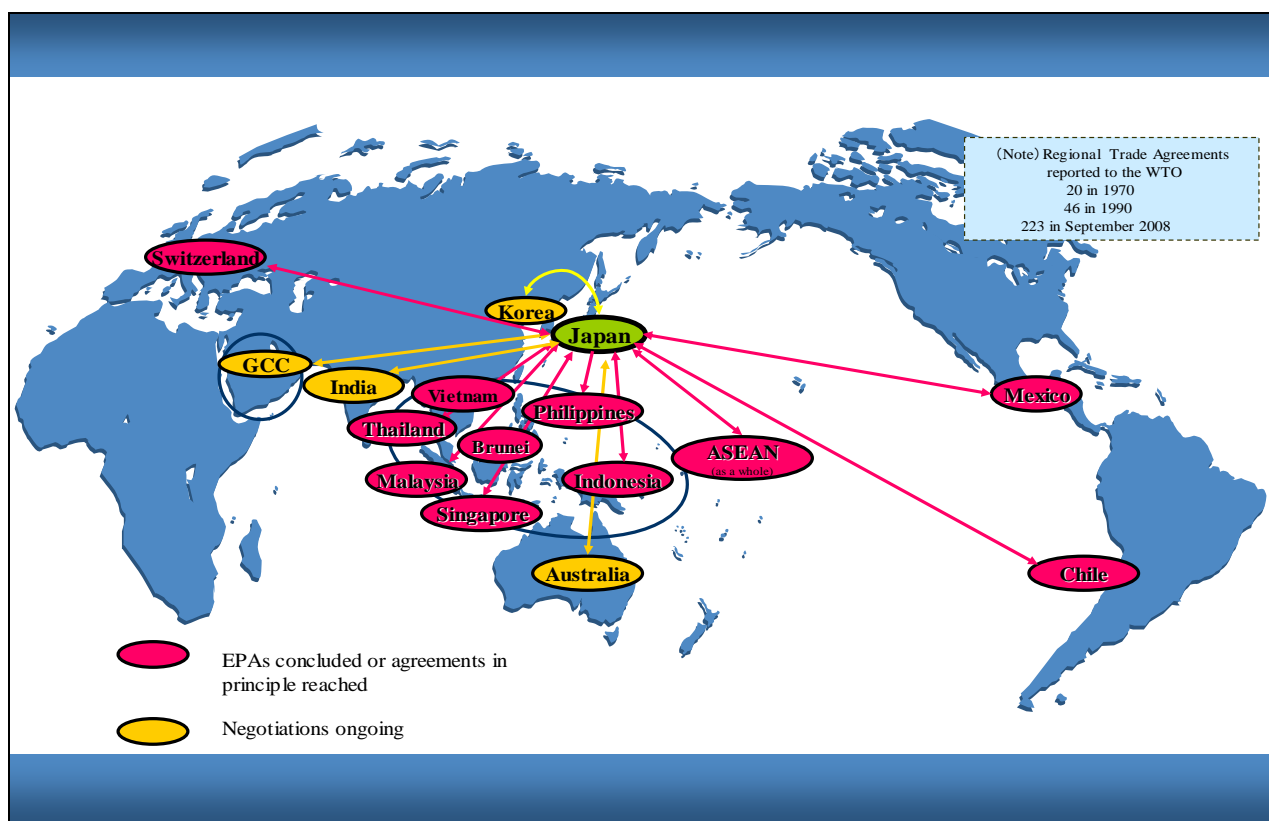




Table 7: EPAs concluded or signed by Japan

--	--

<p>Singapore</p> 	<ul style="list-style-type: none"> • The Agreement was signed by the two Leaders in January 2002, and entered into force on 30 November 2002. • Negotiations for a partial review of the EPA started in April 2006. • The Protocol amending the Agreement was signed in March 2007, and entered into force in September 2007. • Diplomatic Notes amending Annexes IIA and IIB of the Agreement exchanged in November 2007, and was entered into force on 1 January, 2008.
<p>Mexico</p> 	<p>The Agreement was signed by the two Leaders in September 2004, and entered into force on 1 April 2005. The Protocol relating to improvement of market access conditions was signed in September 2006, and entered into force on 1 April 2007.</p>
<p>Malaysia</p> 	<p>The Agreement was signed by the two Leaders in December 2005, and entered into force on 13 July 2006.</p>
<p>Chile</p> 	<p>The Agreement was signed by Foreign Ministers of the two countries in March 2007, and entered into force on 3 September 2007.</p>
<p>Thailand</p> 	<p>The Agreement was signed by the two Leaders in April 2007 and entered into force on 1 November 2007.</p>
<p>Indonesia</p> 	<p>Negotiations on a bilateral EPA were launched in July 2005. The Agreement was signed by the two Leaders in August 2007, and entered into force on 1 July, 2008.</p>
<p>Brunei</p> 	<p>The Agreement was signed by the two Leaders in June 2007, and entered into force on 31 July, 2008.</p>
<p>ASEAN (as a group)</p>	<p>The signing of the Agreement completed by Foreign Ministers of Japan and authorized Ministers of respective ASEAN countries in April 2008 and entered into force on 1 December 2008.</p>

<p>The Philippines</p> 	<p>The Agreement was signed by the two Leaders in September 2006 and entered into force on 11 December 2008.</p>
<p>Switzerland</p> 	<p>The Agreement was signed on 19 February 2009.</p>

Source: Ministry of Foreign Affairs, Japan

2.9 New Zealand's preferential trading arrangements

2.9.1 New Zealand's approach to PTAs

New Zealand pursues a multi-track trade policy involving multilateral, regional, bilateral and unilateral approaches. New Zealand is committed to liberalising trade through bilateral and regional trade arrangements, and seeks to strike high-value, comprehensive deals with its trading partners.

New Zealand seeks to use preferential trading arrangements to underpin the wider economic and investment relationship and to enhance opportunities for productive commercial partnerships and other forms of cooperation.




New Zealand takes a comprehensive but flexible approach to trading agreements covering goods and services and, for the most part, also rules for investment, rules of origin, trade remedies and trade rules. New Zealand recognises that some product lines are more sensitive domestically than others. When negotiating these agreements it has worked closely with its partners to cater to these sensitivities through appropriate phasing mechanisms.

Given that trade flows can be affected as much by internal regulatory and administrative barriers as by tariffs and quotas, New Zealand also seeks to address ways of facilitating trade through cooperation in areas such as standards and conformance and customs procedures.

2.9.2 New Zealand's PTAs with other countries

New Zealand's PTAs include the Closer Economic Relations Agreement signed in 1983 with Australia; the NZ/Singapore Closer Economic Partnership (CEP) (2001); the NZ-Thailand CEP (2004); the Trans-Pacific Strategic Economic Partnership between Brunei, Chile, Singapore and New Zealand (2005), the NZ/China Free Trade Agreement (2008) and the ASEAN-Australia-NZ Free Trade Agreement (2009) .

Table 8: PTAs concluded by New Zealand

<p>Australia</p> 	<ul style="list-style-type: none"> · CER was signed in 1983 and has been described by the WTO as “the world’s most comprehensive, effective and mutually compatible free trade agreement”. · The economies of Australia New Zealand are now intensely interlinked. International trade developments affecting one economy will also have an impact on the other · Consists of free trade in goods and services and free movement of labour. Both countries are now moving progressively into much deeper integration of policies, laws and regulatory regimes · Work in progress includes coordinating approaches on business law, competition policy, accounting standards, securities offerings, intellectual property and banking supervision.
<p>Singapore</p> 	<ul style="list-style-type: none"> · The CEP entered into force on 1 January 2001 and is the most comprehensive trading agreement, outside CER, that New Zealand has signed. · It provides for full duty-free trade between Singapore and New Zealand. · The CEP is comprehensive, covering goods, services, investment and technical barriers to trade.
<p>Thailand</p> 	<ul style="list-style-type: none"> · The CEP entered into force on 1 July 2005 · In parallel to the CEP, Thailand and New Zealand have negotiated Arrangements on labour, environment and customs services · Thailand and New Zealand are complementary economies, creating a natural trade partnership. Many products exported to New Zealand are produced by Japanese owned companies (e.g. utes and air-conditioners) · The CEP eliminated tariffs on 100% of products.

<p>Trans Pacific</p> 	<ul style="list-style-type: none"> • The Trans-Pacific Strategic Economic Partnership (SEP) was concluded on 3 June 2005. It is the first multiparty trade agreement linking Asia, the Pacific and Latin America. • The overall package includes a binding Environment Cooperation Agreement, and a binding Labour Cooperation Memorandum of Understanding. • The SEP is scheduled to comprehensively eliminate tariffs in all four countries. Most were eliminated upon the Agreement's entry into force, and remaining tariffs will be removed by 2017. • The SEP also features a high-quality negative list approach for services commitments, and is open to accession by other countries.
<p>China</p> 	<ul style="list-style-type: none"> • The New Zealand-China Free Trade Agreement was signed on 7 April 2008 in Beijing. The FTA is scheduled to enter into force on 1 October 2008. • Alongside the FTA, China and New Zealand concluded a binding Environment Cooperation Agreement and a binding Memorandum of Understanding on Labour Cooperation. • The FTA aims to build and strengthen the China- New Zealand trade and economic relationship through: removing barriers to trade in goods and services and to investment; establishing a framework for resolving trade and investment issues that may arise in the future; broadening and deepening relations between New Zealand and China; and strengthening economic integration in the Asia-Pacific and multilaterally. • On a commercial basis, the FTA has the potential to offer significant benefits to both countries.
<p>ASEAN</p>	<p>Leaders from ASEAN, Australia and New Zealand agreed in 2004 to launch negotiations for an FTA involving the 10 countries of ASEAN and Australia and New Zealand. The substantive conclusion of this agreement was announced in August 2008 and it was signed in February 2009 .</p>

Source:Ministry of Foreign Affairs and Trade, New Zealand

2.9.3 PTA processes and studies underway

New Zealand is also currently negotiating a number of PTAs with other countries, or is involved in processes considering the merits of a bilateral PTA. These include;

GCC. New Zealand and the Gulf Cooperation Council began FTA negotiations in 2007.

Republic of Korea. A joint study into the prospects for an FTA and found that the two countries should enter negotiations on an FTA. New Zealand and ROK held two rounds of preparatory talks in 2008 and an announcement that the two countries would enter into FTA negotiations is expected in March 2009.

Malaysia. New Zealand and Malaysia began negotiations in 2005. Six rounds have since been held.

India. The India/New Zealand Joint Study Group (JSG) was finalised by officials in February 2009, and the two countries agreed to an early commencement of FTA negotiations, subject to their approval processes.

Hong Kong. New Zealand commenced a Closer Economic Partnership negotiation with Hong Kong in 2001 which was suspended after five rounds of negotiation in late 2002. Negotiations will resume in 2009.

Trans Pacific Partnership. On 22 September 2008 Ministers announced the launch of negotiations for the United States to join the comprehensive Trans-Pacific Strategic Economic Partnership Agreement. Australia and Peru have also announced their intention to join negotiations, and Vietnam will participate as an observer.

2.10 Implications of these developments

New Zealand and Japan decided that the working group report should not provide “direction” on an Economic Partnership Agreement, but should accurately describe the relationship and the options available. This section identifies the options available, taking into account recent bilateral, regional and multilateral developments and their implications.

As the region becomes increasingly inter-connected and inter-dependent, the working group affirmed the on-going need to consider ways to ensure existing linkages between Japan and New Zealand remain strong and prosper. New Zealand and Japan share strong political ties, underpinned by a commonality of values and shared interests in the stability, development and growth of the Asia-Pacific region, in addition to other common interest and concerns in the international sphere. Over recent years efforts have been made to step up the pace of the Japan-New Zealand bilateral relationship with commitments being made to strengthen cooperation across the breadth of the relationship.

During the term of the Working Group, Prime Ministers Yasuo Fukuda and Helen Clark met in May 2008 and reaffirmed their joint commitment to move the trade and economic relationship forward. To follow-up the Prime

Ministers' meeting, an Officials Group will be established to jointly examine various policy options to enhance the economic relationship.

While maintaining and strengthening the multilateral trading system remains the priority for many WTO members, increasingly regional and bilateral trade policies are seen as a means of complementing the multilateral trading system. Shared values and regional integration have become important factors in setting priorities and identifying issues of interest for both Japan and New Zealand. Such issues include the promotion of two-way trade and investment and related activities to ensure healthy and robust relationships with strategic partners. Within the Asia Pacific region, traditional trading patterns are becoming increasingly flexible as economies integrate and companies specialise their supply chains. These changes present new opportunities for Japanese and New Zealand firms to cooperate, including through increased investment, and collaboration in third-country markets. The disaggregation of production across borders also underlines the need for effective measures to advance trade and investment liberalisation and facilitation.

A risk for Japan and New Zealand is that developing networks of preferential trading arrangements, together with evolving trade patterns, could adversely affect the bilateral economic and trade relationship. The futures of both Japan and New Zealand are inextricably linked with the peaceful development of the Asia Pacific region and continued economic growth that has characterised progressive economic integration in the region. Regional bodies such as ASEAN, APEC and the EAS complement regional integration through cooperative activities designed to facilitate trade and promote free and open trade and investment. Japan and New Zealand are committed to continued support of these efforts, including through further regional and bilateral cooperative activities.

Bilateral trading arrangements will support continued regional economic integration to promote increased regional trade and investment flows. The table below outlines the trading arrangements Japan and New Zealand have or are negotiating with members of the East Asia Summit.

Table 9: Closer Economic Partnership Agreements in the East Asia Summit area

CEP Partners	JAPAN	NEW ZEALAND
ASEAN	√	√
Australia	Under negotiation	√
Brunei	√	√

China	-	√
India	Under negotiation	Negotiations to commence
Indonesia	√	*
Korea	Under negotiation <u>(suspended)</u>	Negotiations to commence
Malaysia	√	Under negotiation
Philippines	√	*
Singapore	√	√
Thailand	√	√
Vietnam	√	√

* No bilateral negotiations, however Indonesia and Philippines are ASEAN members and participate in the ASEAN – New Zealand negotiations

Source: Ministry of Foreign Affairs and Trade, New Zealand

While bilateral PTAs are generally considered to create trade and generate economic benefits to the countries involved, they can also bring economic costs to countries excluded from such deals. By definition PTAs discriminate against third countries through trade and investment diversion. Trade deals agreed by larger trading countries can have a larger impact on established trade with other trade partners. However this downside can be avoided through a strong commitment to “open regionalism,” which means placing importance on global-scale cooperation and promoting regional cooperation in a manner that supports this cooperation, thereby preventing regional divisions in the world.

In this context, New Zealand noted, in particular, that its businesses are closely monitoring the potential consequences for New Zealand of Japan’s ongoing EPA negotiations, including Japan-Australia negotiations, given the two CER economies are greatly interlinked.

3. Issues and Challenges

The bilateral trade and economic relationship between Japan and New Zealand is well developed. Like any mature economic relationship between two countries, a range of issues and challenges exist that may impact on the trade and economic environment. The working group was tasked with identifying and describing issues and challenges which may affect the bilateral economic relationship and examining ways to address them. The following issues and challenges identified by the working group are not an exhaustive list, but they do encompass a wide range of issues affecting the ability of businesses in both countries to increase bilateral trade and investment.

In order to address many of the issues and challenges outlined over the following two chapters the working group has undertaken to continue an ongoing bilateral dialogue through the JEC and other avenues. In parallel both countries will continue to strengthen cooperation at the multilateral level (recognising in particular the importance of WTO developments and other regional/international processes in achieving progress).

3.1 Border issues

3.1.1. Working visas

Japan conveyed concerns expressed by Japanese companies regarding visa issuance, such as the requirement of many documents for business persons to obtain and extend working visas and those for family members; certificates issued by Japanese authorities stating the status of spouse not necessarily considered sufficient; the requirement for documents proving families of business persons are not in ailment; and the short working hours of New Zealand's visa section in Japan. Examples given included a business person who joined a company about one year ago who could not obtain a working visa or obtain a trainee visa; and Japanese tour guides that are required to obtain working visas even if they stay in New Zealand only for a few days.

The New Zealand Department of Labour (DoL) confirmed that general requirements for a work visa are the same for all nationalities and are not specific to Japanese nationals. These requirements may include evidence from the prospective employer in New Zealand or company in Japan, police certificates, medical certificates, and if a spouse is included in the application, evidence of the relationship which may include specific evidence that the couple have been living together. A medical certificate may be required to ensure that people entering New Zealand do not impose excessive demands on New Zealand's health services. However, people intending a short stay in New Zealand or in New Zealand for the purposes of business travel may not be required to supply police and medical certificates.

The New Zealand DoL is committed to ensuring that operations of the Tokyo visa office meet its standards for processing times for applications that are correctly submitted. A number of steps have been taken to improve the operation of the office. DoL will continue to monitor the situation. New Zealand also noted that measures to improve bilateral business mobility with New Zealand would normally be treated in a broader bilateral economic agreement.

The working group supports New Zealand's offer to organise a meeting with representatives from the Embassy of Japan and interested companies to hear their concerns. This could also remain an item to review at the Joint Economic Consultations (JEC) should Japanese companies have new cases where obtaining a visa decision has been more difficult than is reasonable.

3.1.2. Trade in services

Both Japan and New Zealand have relatively open services sectors, though some sectors have potential for further, and are working together in the WTO to encourage liberalisation of global services markets. They noted that both countries have certain sectors in services for which commitments have been requested in the context of WTO negotiations.

The WG recommends that these issues be pursued through the WTO services negotiations. New Zealand noted that further services liberalisation could also be addressed through unilateral liberalisation, and through bilateral and plurilateral trade agreements. New Zealand stated that recently completed FTAs such as the Transpacific SEP provide a further indication of the type of high quality and comprehensive services commitments New Zealand is prepared to make beyond its existing WTO commitments if trade partners are willing to reciprocate, including the use of a negative list approach to scheduling commitments if New Zealand secures reciprocal treatment from trade partners.

3.1.3. Goods issues

It was raised by New Zealand that some products of export interest to it faced problems in terms of access to the Japanese market. In New Zealand's view these included tariff peaks and escalation, access issues relative to other trading partners, and issues around quantitative import restrictions and the administration of tariff quotas.

New Zealand believes that such problems adversely affect commercial relationships. Japan pointed out that such problems would be substantially improved in the context of the WTO negotiations. New Zealand agreed that WTO negotiations had an important role to play, however it noted that tariff concerns could also be addressed through unilateral liberalisation or through bilateral and plurilateral economic agreements. Japan contended

that measures it took were fair and WTO consistent, and those measures were necessary to protect agriculture, forestry and fisheries in the country.

3.1.4. Sanitary and phytosanitary issues

Referring to the WTO SPS Agreement, New Zealand expressed concern that some SPS issues were impacting the normal and unimpeded flow of New Zealand trade to Japan. It was noted that such bilateral SPS issues were being taken up in other fora such as bilateral expert consultations. These consultations could include discussions on equivalence agreements and the further adoption of international norms.

3.2 Behind the border issues

3.2.1. Electricity and renewable energy

Japan noted that the price of electricity in New Zealand was one of the strongest concerns Japanese firms investing in New Zealand had, and that electricity costs had led some companies to purchase on-site electricity capability for the operation of their factories. The reasonable price of electricity had been the major reason encouraging investors to invest in New Zealand, the more notable investments being in the aluminium and paper sectors.

New Zealand noted that the spot price of electricity can be quite volatile due mainly to the high dependency on hydroelectric generation and seasonal variations in associated water available for generation. However on average electricity prices in New Zealand are relatively low compared with those in OECD countries and the prices for industrial use are about half those for households.

Major consumers have options to rely on the electricity spot price or to enter into contracts with electricity retailers and others to manage price risk. Spot prices can range relative to the average spot price, for example when hydro electric generation is constrained. This tends to gain media attention, but in practice the active hedge market and other tools enable parties to contract out of this risk if they wish. Longer term contracts are encouraged and some retailers offer terms up to ten years, possibly more. In addition, where companies seek greater security of supply they have the option of installing localised or on-site generation primarily as a back up source. Japanese investors are encouraged to explore all options available in the electricity market.

The New Zealand government has established an Electricity Commission whose overall objective is to ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable and environmentally sustainable manner. It has begun pursuing a number of important initiatives, including a major electricity market design review

which will encompass both retail and wholesale markets. The review will target the two major objectives of lifting sector performance through improved design and obtaining broader stakeholder support for revised arrangements.

New Zealand has a comparative advantage in renewable electricity generation given its significant hydro, geothermal and wind resources. In an environment that places a price on carbon emissions, the NZ Government believes that policies promoting renewable generation in NZ will serve to keep its electricity prices lower than the prices relying on more fossil-based generation. As the carbon-based electricity generation begins to reflect the cost of its carbon emissions, greater electricity price effects are likely to be felt in countries with heavier reliance on fossil-based electricity generation.

Energy Outlook to 2030 shows that using renewable electricity in place of new fossil-fuel based generation need not make prices higher in real terms – in New Zealand costs per unit of electricity for renewables are on a par with those for new thermal generation.

The working group supports New Zealand's offer to organise a meeting with the companies concerned to discuss the system and outlook for future electricity generation. This could remain an item to review at the Joint Economic Consultations (JEC).

3.2.2. Investment

Japanese companies investing in New Zealand expressed concerns that it can take some time to obtain consent to construct a plant, because of New Zealand's investment screening regulations and the Resource Management Act. New Zealand welcomes investment from Japan and the contribution this brings to the prosperity of both countries. New Zealand also noted that it normally treated negotiations on investment issues in a comprehensive economic agreement, while Japan noted that an investment agreement, i.e. a bilateral agreement specifically and exclusively on investment, was also useful to address investment issues.

a) Investment screening

Investments by an overseas person or company in 25% (or a controlling interest) of a New Zealand business or investment valued at over \$100 million requires approval. Applications for approval are submitted to the Overseas Investment Office which is located within Land Information New Zealand.

New Zealand explained that the average turnaround time for OIO approval of Japanese investment applications is 45 working days and that average turn around time for Japanese applications requiring the OIO to refer the application to Ministers is 79 days. At present less than one-third of Japanese applications require referral to Ministers.

New Zealand has not declined any business investments since 1984 (note the term “business investments” means investments excluding those involving sensitive land (some of which do get declined from time to time)) in over 20 years. New Zealand also noted that approval times for applications from Japanese investors are broadly in line with those for investors from other countries.

The OIO has recently put in place a forward work plan to improve the performance of the overseas investment screening regime. The work plan includes reducing application processing times to 20 working days for 90% of applications for active consideration by the OIO and for relevant Ministers to be given 11 working days upon receipt of the application by the Minister of Finance to make a decision. These improvements should be in place by 1 July 2009. This may help address some of Japan’s concerns around timelines.

b) New Zealand’s Resource Management Act

The principal aim of the Resource Management Act is to ensure the ‘sustainable management of natural and physical resources’ (the environment). The requirements of the Resource Management Act apply equally to all persons and businesses operating in New Zealand. The RMA does not concern itself with the nationality of those seeking approvals but sets up a performance-based system for managing adverse effects on the environment. Most controls are set by local authorities through their district or regional plans and are based around avoiding, remedying or mitigating adverse effects on the environment. Activities that meet certain performance criteria stipulated in the plans usually proceed without the need for an approval (called a resource consent).

The time it takes for a local authority to make a decision on a resource consent varies. A well-prepared resource consent application that does not require notification (made subject to public submissions and hearings) can take 20 working days (about a month) or less. Where an application proceeds smoothly but is required to be notified, the timeframe is around 70 working days (3 - 4 months). The decision as to whether an application is notified principally depends on the scale of the environmental effects and whether those affected have given their written approval to the proposal. Timeframes to process resource consents may be longer in circumstances such as when the applicant has not supplied sufficient information with their application and the local authority has to request more, or the decision of the local authority is appealed (either by the applicant or a submitter) to the Environment Court.

More than 99% of resource consents applied for are approved. Less than 6% of resource consents are notified (required to undergo the public submission and hearing process). Around 1% of resource consents are appealed to the Environment Court.

The New Zealand Government has, and is, taking a number of steps to improve the way the RMA works and is implemented by local authorities. In 2005 the RMA was amended to a) strengthen tools for providing nationally consistent policy direction and controls in response to important environmental issues; b) introduce a more robust local authority hearing process (including requiring those conducting hearings to be accredited); and c) give applicants the right to refuse requests for further information. The Minister for the Environment was also given strengthened powers to call-in (process and decide) resource consent applications for projects of national significance.

Complementing changes to the RMA the New Zealand Ministry for the Environment funds and administers a range of programmes aimed at improving implementation of the RMA and building local authority capacity and capability. Guidance and assistance is provided to businesses and the public through publications, website resources (www.rma.govt.nz) and a free-phone service (0800 RMA INFO). More resourcing has also been provided to the Environment Court, significantly reducing the time it takes for an appeal on a resource consent to go before that the Court. The RMA is currently being reviewed to realise further opportunities to streamline these processes, particularly for larger scale projects of national or regional importance.

It is expected that over time these changes will decrease the time taken to gain RMA approvals and increase the certainty of RMA outcomes.

The working group supports New Zealand's offer to organize a meeting with Japanese companies with an interest in the RMA to explain the system and outlook for future implementation. This could remain an item to review at the Joint Economic Consultations (JEC).

3.2.3. Government procurement

Japan urged New Zealand to participate in the WTO's Government Procurement Agreement. New Zealand replied that it has one of the most open government procurement markets in the world and that it had not joined the WTO Government Procurement Agreement because of concerns about compliance costs. New Zealand is now an observer of the GPA Committee (since July 2008).

3.2.4. Technical Regulations and Standards

New Zealand stressed the relevance of "behind the border" issues such as technical regulations and standards to international trade, and noted that dialogue and coordination in these areas can facilitate trade and lead to significant economic benefits. As an example of interaction between the two countries in this field, New Zealand noted that it had a record of engagement with Japan on standards and conformance issues relating to wood construction and continues to take an interest in these issues. In addition, New Zealand and Japan noted differences in interpretation over

rules of origin for fisheries products.

Japan considered that such bilateral issues should be taken up in other fora. New Zealand agreed, adding that mutual recognition agreements and adopting international norms were also possible ways of dealing with such matters.

The WG recommended that Japan and New Zealand should continue to look for ways to enhance dialogue on technical standards and regulations issues through expert consultations and in other fora.

3.3. Means to address these issues and challenges

Through its discussion of issues and challenges affecting bilateral trade and economic relations and how best to address them, the working group noted that a range of tools exist to manage various issues and challenges. The working group identified the following tools as having potential application to the issues and challenges identified.

a) WTO negotiations - both countries urged the successful conclusion to the WTO Doha negotiations, and agreed to continue collaborating to support this outcome.

b) Plurilateral processes (including potential PTA negotiations) - both countries welcomed progress in APEC/EAS on regional economic integration, including PTA initiatives, and agreed to continue collaborating to support this work.

c) Agency dialogue and cooperation - many countries have a range of bilateral technical dialogues that focus on specific issues of interest to each partner. Regulatory dialogue and cooperation can facilitate trade through for example, mutual recognition or recognising equivalence of various conformity assessment bodies or agencies that accredit those bodies.

d) Joint Economic Consultations - for more than 20 years the Joint Economic Consultations (JEC) have played an important role in coordinating joint efforts to promote and facilitate trade and economic activity between Japan and New Zealand. These consultations have provided a useful means to increase understanding through dialogue. They also provide a means to exchange views on a range of international, regional and bilateral issues that might, or are, impacting on the bilateral economic relationship.

e) Other mechanisms - Officials from relevant government agencies might consider providing additional information to companies to assist them to adapt to the changes, e.g. through presentations at the annual Japan New Zealand Joint Business Council meeting or through separate one-off meetings as required.

4. Desirable Cooperation

The bilateral economic relationship between Japan and New Zealand is already well developed, however there is scope to do more. The working group sought to identify areas for substantial enhancement to the bilateral economic relationship; through developing enduring activities and processes for cooperation. To ensure sustainability the working group recommends that, where possible, cooperative activities should build on existing relationships.

The working group recommends the following areas of cooperation be continued and enhanced:

4.1 Science and Technology

Science and technology cooperation has been promoted by the MOU signed in June 2005 between the New Zealand Ministry of Research, Science and Technology and the Japan Society for the Promotion of Science and by the guidelines made in 2006 to implement the MOU. The arrangement encourages enhanced cooperation through workshops, collaborative research projects and exchange of senior scientists and post doctorate fellows.

New Zealand has suggested cooperation areas to be explored and meetings of researchers from the two countries have been held, and are being prepared, in such fields as functional food and nanotechnology.

Japan and New Zealand discussed the merits of concluding a bilateral science and technology cooperation agreement as a next step towards enhanced cooperation. Noting the agreement reached between Prime Minister Clark and Prime Minister Fukuda in May 2008 on working level consultations to discuss ways of enhancing the bilateral science relationship, including the conclusion of a science and technology cooperation agreement, both countries agreed there were potential benefits in concluding such an agreement, and agreed that exchanges of views should continue.

WG recommends that science and technology cooperation be further enhanced through workshops and a working level consultation process agreed upon between Leaders in May 2008, and other forms of exchanges between researchers and research institutes particularly in the areas of environmental science, disaster prevention, agriculture/forestry/aquaculture, and aging societies.

WG also recommends that both countries continue to consider the possibility of concluding a science and technology cooperation agreement.

WG encourages the activities of the New Zealand and Japan Science and Technology Coordinator of the NZ's MoRST (Ministry of Research, Science & Technology) to promote cooperation of researchers and research institutes of the two countries.

4.2 Environment (Climate Change)

Combating climate change is one of the major challenges for humankind and it has the potential to seriously damage our natural environment and the global economy. Climate change may therefore have considerable impacts on the economies of both Japan and New Zealand. Responding to the threat of climate change (through reducing emissions of greenhouse gases that lead to climate change, as well as adapting to the impacts of climate change) also offers opportunities for Japan and New Zealand to cooperate, including in science and technology, and associated commercial ventures.

Both Japan and New Zealand have presented a long-term vision for building a low carbon society. Japan launched the initiatives such as "Cool Earth 50" in May 2007 and "Cool Earth Promotion Programme" in January 2008. In these initiatives, Japan proposed to set a long-term target of cutting global emissions by half from the current level by 2050 as a common goal for the entire world and to set fair quantified national emission reductions targets based on the sectoral approach. New Zealand supports the need for international agreement on a long-term global emission reduction target. In order to achieve this goal, it is of vital importance to develop and share innovative technology that contributes to energy efficiency and conservation. Japan and New Zealand have acknowledged that the sectoral approach is useful for encouraging global sector-specific actions through identifying technically possible mitigation potentials.

Both countries contributed to issuing declarations to tackle climate change at the Asia-Pacific Economic Cooperation (APEC) forum in September 2007, and the East Asia Summit (EAS) in November 2007. As G8 presidency in 2008, Japan achieved progress towards all major economies meaningfully contributing to resolving the issue of climate change. New Zealand welcomes the political momentum newly created by G8 leaders in seeking to share with all Parties to the UN Framework Convention on Climate Change (UNFCCC) the long-term goal of achieving at least 50% reduction of global emissions by 2050.

Both countries share the view that in order for the international community to urgently strengthen its cooperative action against climate change and to achieve the ultimate objective of the UNFCCC as stipulated in Article 2, it is essential that a comprehensive and effective post-2012 agreement can be reached. They also share the view that to be effective, the future international framework will require meaningful emission reductions by the world's major economies, and that the framework must be flexible and diverse, taking into consideration the circumstances of each country, and

provide for environmental protection and sustainable economic growth. New Zealand acknowledged Japan's recent proposal presented to the UNFCCC which includes differentiation of developing countries in accordance with the principle of common but differentiated responsibilities and respective capabilities to achieve the ultimate objective of the Convention.

In order to further cooperation on these issues, the Japan-New Zealand Environment Workshop was held in Tokyo on 25 March 2008. Exchanges during the workshop supported the deepening of the relationship on environmental issues between the two countries through more regular dialogue on both external and domestic policies and practical cooperation. The Workshop provided a good basis for the further discussion of possible cooperation in exploring the potential of sectoral approaches to contribute to post-2012 framework, as well as in the fields of renewable energy, electric vehicles and agricultural and forestry emissions. Both sides also expressed an interest in exchanging information about their climate change adaptation assistance towards Pacific Island countries. Japan and New Zealand decided to hold a follow-up meeting of the principals of lead agencies to consider a programme for closer cooperation on environmental issues at a later date. Building on the discussions at the Workshop, New Zealand has since prepared proposals for closer cooperation across a range of environmental fields which Japan is considering.

WG recommends that the two countries continue to have dialogue and cooperate to reduce greenhouse gas emissions, particularly in the areas identified by the Japan-New Zealand Environment Workshop, and that the two countries consider the proposals for closer cooperation.

4.3 Business facilitation and Investment promotion

Both Japan and New Zealand provide assistance to businesses to promote commercial connectivity in the international arena to stimulate economic development. Japan's JETRO and New Zealand's NZTE share similar objectives and use their knowledge and contacts in overseas economies to connect businesses with trade and investment opportunities. Services and programmes can be used by companies from start-ups through to established groups of exporters. They include advice, training, mentoring, and business and market development assistance.

A key role for both NZTE and JETRO is to help build alliances and to develop strategic commercial relationships overseas. JETRO and NZTE recognise that cooperation to develop and nurture these alliances and relationships would be mutually beneficial. During the course of the working group, JETRO and NZTE met to discuss how to implement effective cooperation and agreed to a range of cooperative actions. These actions included cooperation

- to promote the JETRO Invest Japan Business Support Centers
- on business matching

- to provide continued support for the Talent and Skills (business capacity building) and ICT (business/facilitation/capacity building) projects
- to identify opportunities for the Regional Industry Tie-Up Programme
- In addition NZTE outlined its Venture Investment Fund (NZVIF) established through government funding. It explained innovative cases where the fund and similar funds in a third country were utilized and several firms of the third country and New Zealand invested into the project, hoping that similar cases could be made in Japan. NZTE proposed that a similar project be established between New Zealand and Japan, and noted that it was looking for relevant funds in Japan that could form partnership using VIF.

Japan outlined its invitation programme for young professionals for New Zealand (and Australia), called “Down Under 50”, formulated in cooperation with the Japan New Zealand Business Council. The programme’s objective is to promote mutual understanding and the future Japan New Zealand relationship through inviting 50 young professionals, mainly from the business community, to visit Japan to learn more about the country. The first visit of this five year programme, conducted in June 2008, was very successful, with a diverse group of young professionals from New Zealand visiting Japan. Their 12 day stay in Japan included visits to leading Japanese companies and seminars on doing business in Japan.

WG recommends that NZTE and JETRO continue cooperation according to the above agreement and toward introduction and utilization of new products and new technologies, especially in areas such as ICT, biotech, environmental systems.

The WG also encourages the promotion of exchanging leading business persons and researchers of the two countries engaging in R&D and/or providing appealing products and services.

WG welcomes New Zealand’s venture capital initiative and recommends that discussions continue between relevant parties to examine the possibility of an investment partnership being formed to deepen the technology business relationship between the two countries.

The WG welcomed the potential for further investment in Japan and New Zealand. Consideration should be given to promote investment taking into account the fact that longstanding and successful cooperation already exists between Japan and New Zealand.

4.4 Agriculture cooperation

Japanese consumers and its food industry demand a secure supply of high-quality, safe and affordable food and agricultural products. New Zealand is a useful source country to help meet this demand. Japan and

New Zealand also cooperate in various sectors of agriculture. Examples include:

- Technological cooperation (eg dairy processing technology)
- Research and development (eg seeds, flowers, fruit)
- exchange of information on agricultural policy

There are also important connections at the commercial level including through investment, supply chains, and cooperative production activities.

The Japan New Zealand Dairy Talks have been a longstanding example of successful agricultural cooperation for over 30 years. Through these talks an ongoing partnership and positive relationship has developed between the Japanese and New Zealand Agricultural Ministries. The Dairy Talks have evolved with time and now focus on supply and demand trends and policies, exchanging trade issues, and discussing wider agricultural issues of interest to both countries. They are seen by both Japan and New Zealand as a valuable means of sharing information and experiences as well as discussing issues of mutual concern and interest, and offer an example for generating greater understanding and cooperation in other areas of mutual interest.

Significant progress has been made to step the S&T relationship in agriculture over recent years and further efforts will be undertaken to strengthen cooperation in this area.

WG recommended that the two countries should continue efforts to develop further agricultural cooperation. Possible areas for cooperation could include exchange of information on agricultural policy (i.e. promotion of sustainable agriculture, agricultural reform), strengthening research cooperation in agriculture, farmer and official exchanges and/or visits, and discussing ways to enhance private-sector cooperation.

4.5 Competition policy

As globalization progresses, anti-competitive behaviours are increasingly cross border in nature. Therefore, cooperation is becoming increasingly important to take actions against such behaviours as international cartels. Japan and New Zealand participate in the OECD's Competition Committee that provides the chief international forum on important competition policy issues, discussing well-designed competition law and effective law enforcement to tackle anti-competitive practices.

Japan has signed bilateral agreements concerning cooperation on anti-competitive activities with the United States, EU and Canada. Besides, the Japan Fair Trade Commission (JFTC) has regular bilateral meetings to exchange information on current enforcement activities and policy changes with such competition authorities as the Conseil de la Concurrence in France and the Korea Fair Trade Commission.

The New Zealand Commerce Commission (NZCC) has a bilateral agreement with the Australian Competition and Consumer Commission (ACCC) that was updated in 2007 and reflects increasing cooperation between those two agencies. The NZCC meets with the ACCC on a regular basis to discuss competition and fair trade practices issues. The NZCC entered into a trilateral cooperation agreement with the Australian ACCC and the Canadian Competition Bureau. It also entered into a trilateral co-operation arrangement with the ACC and Chinese Taipei Office of Fair Trade in 2002. A further trilateral arrangement with the United Kingdom and the ACCC was entered into in 2003.

The JFTC and the NZCC enjoy an informal relationship through international organizations, but do not yet have a program of bilateral cooperation.

WG recommends that the JEC encourages exploratory discussions on the enhancement of cooperation between the competition authorities of Japan and New Zealand.

4.6 Customs cooperation

Customs procedures play an important role in facilitating legitimate trade flows, while also ensuring effective enforcement at the border.

The Customs administrations of New Zealand and Japan continue to cooperate closely based on their Cooperative Framework signed in 2004. Through the two Customs Cooperation Meetings held in Tokyo in May 2007 and in May 2008, both Customs deepened their mutual understanding of challenges they were facing, including the importance of balancing supply chain security and trade facilitation and the role that Customs administrations can play in environmental protection. They agreed to advance their cooperative scheme in various areas including capacity building in the Asia-Pacific region, and enforcement against goods infringing IPR at borders, and developing regionally/multilaterally harmonised mutual recognition of Authorised Economic Operators (AEOs).²⁸ They also recognised the need to further develop information exchange on smuggling.

As one of the remarkable developments to tackle the challenges identified between the Heads of the two Customs, the Intelligence Experts' Meeting was launched in Auckland in November 2007 to explore effective intelligence exchange between the two Customs administrations, with a view to enhancing enforcement at the front line.

²⁸ An AEO (Authorised Economic Operator) program is one in which a Customs administration authorises status as an 'AEO' to economic operators who have good compliance levels and who meet criteria specified by Customs, and grants benefits in customs clearance to them. The Mutual recognition initiative intends that Customs administrations mutually recognise each other's AEO Programs, and therefore grant the benefits of their own AEO program to participants of the other Customs administration's AEO program.

Also in May 2008, New Zealand and Japan signed a Mutual Recognition Arrangement of each country's respective Authorised Economic Operator (AEO) programmes. This arrangement provides that businesses who are AEO partners in either country will receive trade facilitation benefits from Custom administrations in each country. Each AEO program is a customs-to-business partnership consistent with the AEO guidelines adopted by the World Customs Organisation, which enhances supply chain security while facilitating the trade flow of goods.

WG recommends that under the cooperative framework between the Customs administrations customs officials explore avenues to facilitate trade and ensure effective enforcement by continuing the above mentioned cooperation.

4.7 Intellectual property rights

Robust intellectual property rules that are consistently applied and easy to use, help encourage investment in and development of new products and technology Japan and New Zealand have common interest in protecting intellectual property rights as they rank high in such terms as number of patent applications per million people. Progress in globalization raised the need to tackle the infringement of intellectual property rights across borders of countries.

Japan proposed an Anti-Counterfeiting Trade Agreement (ACTA) as a new legal framework aimed at preventing the proliferation of counterfeit and pirated goods and has continued discussions with other trading partners to realize it. New Zealand has been participating constructively in the discussions toward realizing the initiative. Japan and New Zealand agree on the importance of cooperation for the early conclusion of ACTA.

In the forums of WTO (TRIPS) and WIPO, Japan and New Zealand enjoy a cooperative relationship on IP protection. Japan and New Zealand agreed on the importance of cooperation to improve patent acquisition and protection, including through mutual utilisation of patent examination results and efforts to enhance harmonisation through the Substantive Patent Law Treaty.

WG recommends that the JEC encourage increased bilateral dialogue and cooperation on IP issues of mutual interest, including the potential for New Zealand to join the Advanced Industrial Property Network. Japan and New Zealand will also continue to cooperate to accelerate the Anti-Counterfeiting Trade Agreement (ACTA) negotiations with a view to achieving its early conclusion.

4.8 Tourism

As noted in Chapter 1, tourism from Japan to New Zealand is an important element in the economic relationship. However, the tourism industry faces

a range of challenges in maintaining tourist numbers to New Zealand, including the increasing cost of air travel and the emergence of new tourist destinations closer to Japan. Japan is also seeking to increase the number of in-bound tourists through its *Yokoso Japan* campaign. New Zealand encourages relevant Japanese organisations to market Japan actively as a destination in New Zealand.

Both countries recognised that there is scope to enhance cooperation to boost the numbers of tourists in each direction. Participants at the Japan-New Zealand Business Council meeting (2007) and the Japan-New Zealand Partnership Forum (2008) also expressed interest in closer cooperation in this field.

The Working Group discussed a range of possible ways for both countries to cooperate more closely to promote tourism in both directions. Ideas included enhanced efforts at marketing in both countries, the establishment of a market forum involving tourism industry representatives, and more flexible air services arrangements to allow airlines to respond to changes in market conditions. The Working Group recommends that officials continue to exchange views on ways to address these issues in cooperation with relevant business organisations.

4.9 Regulatory Policy

Behind the border regulations can have a significant impact on trade and other commercial activities. Every year officials from various agencies in Japan and New Zealand are in contact, either directly, or through electronic means, or with the assistance of our Embassies, to discuss a range of issues impacting commercial interactions between the two countries. Through these formal and informal exchanges, officials are able to resolve a number of technical issues to enable effective economic relations to continue and to grow.

Improved cooperation on regulatory policy may be beneficial to both countries, particularly in such areas as approaches to achieving good regulatory practice and regulatory impact analysis. This work is also closely related to possible cooperation in such fields as standards and conformance (ie TBTs) and competition policy.

WG recommends that steps be taken to explore a closer working relationship between METI in Japan and MED in New Zealand to ascertain whether an ongoing dialogue on these issues can be established.

4.10 Food safety

The relationships between regulators – NZFSA (and MAF Biosecurity NZ) and the Japan Ministry of Agriculture, Forestry and Fisheries (MAFF) and Ministry of Health, Labour and Welfare (MHLW) – are long standing and mature. For example, technical information supplied by NZFSA has assisted Japan in its establishment of a positive list for maximum residue

limits (MRLs) in food products. No major issues affect trade in food products from New Zealand to Japan – a situation that has existed for many years and is underpinned by strong relationships between regulators. Correlation of standards between Japan and New Zealand is expected to grow, providing certainty in the standards affecting trade, and assurance in the food supply to Japanese consumers.

Since the creation of the Food Safety Commission (FSC) in Japan, high-level links with NZFSA have been created and maintained. The FSC continues to look to NZFSA experiences in managing risk in food supply, and has expressed an interest in learning more how New Zealand regulators communicate the relative risks to stakeholders, including, importantly, to domestic consumers.

WG recommends further cooperation on food safety issues through enhanced dialogue between relevant Japanese and New Zealand authorities could benefit both countries as they meet challenges arising from increased global food trade, new technologies and new risks.

CONCLUSION

The Working Group recommends that officials be instructed to implement the recommendations contained in this report. It also recommends that future sessions of the Joint Economic Consultations monitor progress in this regard.