SUMMARY

1. Since its previous Review (2009), New Zealand has remained among the most open economies in the world. Between 2008/09 and 2013/14, real GDP grew at an average annual rate of 2.1% driven primarily by private consumption, although in the later years of the review period growth was mainly due to gross fixed capital formation (associated with the rebuild after the 2010/2011 Canterbury earthquakes). High international prices for New Zealand's commodity exports also contributed to growth.

2. Over most of the review period, an accommodative monetary policy supported economic recovery after the effects of the 2008 global financial crisis. CPI inflation was within the Reserve Bank of New Zealand (RBNZ)'s target band (1%-3%) for most of the review years. As domestic demand picked up and inflationary pressures started to build (owing in part to high housing prices), the RBNZ began tightening monetary policy in March 2014. Limits on high-loan-to-value mortgage lending, in place since October 2013, have helped moderate housing prices. The Government is committed to fiscal consolidation; its operating balance deficit has been reduced (1.3% of GDP in 2013/14) and is expected to return to a surplus in 2015/16.

3. New Zealand has traditionally run a current account deficit, reflecting a persistent shortfall in domestic savings that has been financed by overseas borrowing. Helped by strong terms of trade, the deficit narrowed down to 2.6% of GDP in 2013/14. Net foreign liabilities have decreased gradually but remained relatively high at 65.6% of GDP at end March 2014.

4. While the New Zealand economy has gathered momentum over the last few years, it faces important challenges, including high private foreign liabilities, slowing demand from some trading partners, volatile international commodity prices, a strong exchange rate, and a highly-indebted farm sector. Moreover, New Zealand's labour productivity and income per capita continue to lag behind OECD averages.

5. New Zealand's external trade of goods and services was equivalent to 56.7% of GDP in 2013/14, reflecting a relatively low trade intensity given the small size of the economy, which might be partly explained by the country's geographical remoteness from world markets. Primary sector-based products continue to dominate merchandise exports, increasing their share to 76%, mainly on account of high international commodity prices; while imports concentrate in manufacture (mainly capital goods) and raw materials. The direction of New Zealand's merchandise trade changed during the review period, with China becoming its largest single trading partner. Exports of services, mainly travel services, remain an important source of foreign exchange earnings.

6. New Zealand's trade and investment frameworks have not changed significantly since its previous Review. The Multilateral Trading System remains New Zealand's main vehicle for providing trade opportunities to its exporters and addressing the challenges it faces as a small and remote country. Nonetheless, New Zealand has increasingly engaged in regional trade agreements (RTAs) to complement its participation in the WTO. It now has 10 RTAs, of which four entered into force during the review period (i.e. with Chinese Taipei; Malaysia; Hong Kong, China; and the ASEAN-Australia-New Zealand Free Trade Area), and is continuing negotiations to conclude other RTAs. During the review period, new RTAs were concluded with the Gulf Cooperation Council and the Republic of Korea. New Zealand grants duty-free quota-free access to imports from LDCs and preferential tariffs for developing countries under the GSP. It is an active provider of Aid for Trade, with specific support measures provided to Pacific Island Countries to build their capacity to trade.

7. New Zealand regularly meets WTO notification requirements. During the review period, it was involved as a complainant in one WTO dispute settlement case.

8. Foreign direct investment (FDI) is an important source of financing for New Zealand and a means to gain access to foreign technology, know-how and global markets. The stock of FDI in New Zealand amounted to NZ$97.4 billion at end March 2014 (42% of GDP), with over half of it invested in the financial and manufacturing sectors. New Zealand's stock of FDI abroad totalled NZ$23.2 billion at end March 2014, most of it invested in manufacturing activities. Overall, New Zealand has an open foreign investment regime. However, by means of screening procedures,

restrictions apply in a few areas of critical interest, i.e. certain sensitive types of land, "significant business assets" other than land, and fishing quotas.

9. New Zealand's average applied MFN tariff rate is 2.4% (2015) and over half of tariff lines are duty free, although higher tariffs continue to apply to footwear and textile products. In October 2013, the Government decided to hold MFN tariffs at current levels until at least 30 June 2017. A tariff review will take place in 2016 to consider whether any changes are needed after 2017.

10. Since its 2009 TPR, New Zealand has implemented a trade facilitation project geared towards the establishment of a "Joint Border Management System". As part of it, a Trade Single Window and a revised import electronic declaration form have been put in place.

11. During the review period, New Zealand continued to modernize its trade related legislation. For example, the antidumping and countervailing law underwent significant amendments, including a new provision to allow importers to apply for refund of anti-dumping duties paid in excess of the margin of dumping. In addition, to support rebuilding activities after the Canterbury earthquakes, anti-dumping measures were suspended on residential building materials. A new Trade (Safeguard Measures) Act was adopted in 2014, allowing for a timely imposition of safeguard actions and the inclusion of "public interest" criteria when imposing a safeguard measure. Four anti-dumping investigations were initiated during the review period, of which two resulted in the imposition of final measures; no countervailing or safeguard measures were imposed.

12. Technical regulations and sanitary and phytosanitary measures (SPS) are intended to reflect WTO provisions. When standards are developed, existing international standards are considered and stakeholder consultation is undertaken. Relatively stringent SPS measures are applied to imports of plant and animal products for biosecurity reasons. In the WTO Committee on TBT, some Members have raised concerns about New Zealand's 2012 proposal to introduce plain packaging of tobacco products, while some other Members have supported it. New Zealand has Mutual Recognition Agreements with some of its main trading partners. The most comprehensive is the Trans-Tasman Mutual Recognition Arrangement with the federal government and state and territory governments of Australia.

13. New Zealand maintains several business assistance and export promotion programmes. The main export promotion agency, New Zealand Trade and Enterprise, provides strategic advice, research and market intelligence for new exporters, as well as support for already established export companies. Export credit insurance is also available for exporting companies. Other incentive schemes are in place mainly to encourage innovation and capacity building.

14. New Zealand has a comprehensive legal and institutional framework for competition policy. The Commerce Commission is responsible for enforcing the generic provisions of the Commerce Act, as well as the competition components of industry-specific laws. The Commission is also engaged in international cooperation with overseas competition authorities. While New Zealand's competition regime is considered as generally performing well in international comparisons, some studies have found that the country's small market and remoteness have led to relatively low levels of competition in some services industries (i.e. retail, finance, insurance, real estate and professional services). This may have contributed to low productivity levels and high costs in some of these sectors to the detriment of New Zealand firms and consumers. Proposed amendments to the competition law, including criminal sanctions for hard-core cartels and the application of the Commerce Act to the international freight transport sector, are currently before Parliament.

15. There is only one state-trading enterprise in operation, with special authority to export kiwifruit. The Government maintains equity shares in several enterprises in key economic sectors such as energy and transport. The level of government participation in such enterprises has been falling in recent years.

16. Government procurement in New Zealand amounted to some 20% of GDP in 2012. New rules for government sourcing came into force in 2013. The regime intends to promote open competitive procurement practices, with no preferences accorded to domestic suppliers. The terms of New Zealand's accession to the revised WTO Agreement on Government Procurement (GPA) were agreed on 29 October 2014. A Parliamentary treaty examination process is under way to ratify the country's accession.

17. New Zealand's intellectual property regime aims at ensuring a balance between the interests of rights owners and the society as a whole. Several legislative changes occurred during the review period. A new patent Act entered into force in 2013 to allow, *inter alia*, stricter examination of applications, and exclude "computer software as such" from patentability. The Copyright act was amended to facilitate enforcement action against infringing sharing file. The Trade Marks Act was amended several times to accommodate international standards. Protection for geographical indications continues to be provided through the Fair Trading Act 1986. The Geographical Indications (Wine and Spirits) Registration Act 2006, which establishes a registration system for wines and spirits geographical indications is yet to be brought into force.

18. The primary sector plays a key role in New Zealand's economy. Benefitting from high commodity prices, agricultural products contributed to 70% of total merchandise exports in 2014. Agriculture is a highly-productive sector, with minimal Government intervention. Tariffs on agricultural products continued to decline and there are no import quotas or licensing. Domestic support is limited to biosecurity border control for pest and disease and relief against climate disasters. New Zealand's producer support estimate (PSE) was less than 1% in 2010-13 (the lowest among OECD countries). The former statutory marketing boards have all been replaced by producer organizations; a state-trading enterprise still has a quasi-monopoly on exports of kiwifruit to most markets. The dairy industry has seen further reforms to improve transparency and access to raw milk by market entrants. The exclusive export licences held by the Fonterra Co-operative Group, New Zealand's major dairy exporter, were phased-out at end 2010. Commercial fishing is a thriving export subsector, with 90% of all catch being exported. However, restrictions to overseas investment in fishing quotas apply. Foreign-flagged charter fishing vessels will be prohibited from fishing in New Zealand waters from 1 May 2016.

19. State participation remains strong in the electricity sector, although steps have been taken to open it up further to private investors. Three state-owned companies generate nearly two-thirds of all electricity, while transmission is in the hands of another state-owned enterprise. The State sold 49% of its stake in the three main generators in 2013 and 2014. Electricity is traded in a liberalized market, with no regulation on wholesale or retail prices, while the transmission company and the largest distribution firms are subject to price quality controls. The Electricity Industry Act 2010 created an independent regulator and relaxed ownership restrictions between distribution, retail and generation companies. In 2013, changes to the petroleum regulatory regime were made to attract investments, including a streamlined exploration permit procedure.

20. Manufacturing remains an important contributor to the economy, but its shares in GDP, employment and exports continued to decline in the review period. Food and other resource-based industries account for most of manufacturing output. The simple average applied MFN tariff on manufactures is 2.5%. In recent years, the manufacturing industry has faced challenging conditions, including weak demand and shortages of skills and R&D. The Government has put in place several programmes to assist the business sector (not specifically targeted to industry), mainly in the form of financial support, technical advice and R&D funding.

21. Services are the leading sector of the economy and account for 25% of total exports of goods and services. The services trade regime is relatively liberal, although there are a few restrictions on FDI in the telecommunications and transport sectors. New Zealand has commitments in 90 of the 155 sectors under the General Agreement on Trade in Services (GATS).

22. Recent regulatory changes in New Zealand's financial sector included strengthening of the prudential framework for banks and other financial institutions (insurance companies and non-bank deposit takers). The banking sector, characterized by a high level of foreign ownership, is well capitalized and meets prudential requirements, including the Basel III capital adequacy thresholds. Nonetheless, highly indebted household and farm sectors and heavy reliance on foreign funding remain key challenges for the financial sector. Macro-prudential measures have been implemented to address such challenges and increase the system's resilience.

23. The telecommunications sector has seen significant regulatory changes, including the incumbent operator's demerger in 2011. Internet broadband uptake has grown fast but prices remain relatively high by OECD standards. At present, the Government is implementing its initiative to roll-out the ultra-fast-broadband fibre network to 75% of the population by 2020. There are no licensing requirements for entry into the market and control over retail prices is minimal. Foreign investment in telecommunication firms is subject to compliance with generic

overseas investment rules, and there is a 49.9% cap on any overseas investment in the former incumbent wholesale operator without prior written approval of the Crown.

24. New Zealand has a liberal international air transport policy and maintains air services relationships with over 60 partners. The national carrier, Air New Zealand, is 52.3% owned by the Crown, and no overseas person may hold 10% or more of the voting shares without prior written consent by the Crown. The three main international airports have both private and public ownership and are subject to information disclosure requirements under the Commerce Act. A review of airport legislation, including competition issues, is currently being conducted.

25. Virtually all New Zealand overseas trade, by volume, is moved by sea. Shipping policy aims to ensure that New Zealand exporters and shippers have access to carriers on competitive terms. A bill currently before Parliament would, if adopted, remove an exemption that allows price-fixing in international shipping agreements. Foreign ships passing through New Zealand to unload imports or load exports and overseas-registered ships operated or controlled by a New Zealand entity are allowed to carry coastal cargo. Most of the 14 seaports are managed by port companies owned by local authorities. Increasing port productivity would help reduce trading costs for New Zealand firms. Tourism is an important generator of foreign exchange earnings and jobs. The sector is supported by significant public investment.