The trade policy environment for New Zealand's wool product exports

February 2024

WOOL IMPACT

SENSE PARTNERS
DATA LOGIC ACTION

Table of contents

1. Scope and objectives

1.1. Objectives of report

Wool Impact has commissioned Sense Partners to identify the key trade barriers facing New Zealand exporters of a range of wool fibre and products.

This includes the obstacles facing traditional wool exports of fibre and those associated with more processed products (which tend to face higher tariffs).

This report documents:

i. Tariffs for major and emerging wool-based products for key and emerging markets.

ii. The impact of Free Trade Agreements (FTAs) (in force and agreed) for these products and markets.

iii. Any relevant tariff and non-tariff barriers for other countries that create an opportunity/advantage for domestic manufacturing of wool-based products.

iv. Features of the broader global trading environment that may affect New Zealand wool exports in the short term.

1.2. Scope

This research seeks to provide a brief factual overview of the trade policy environment facing New Zealand's wool exporters. We look at current trade barriers (tariffs and Tariff Rate Quotas) and how those will change in coming years in key markets because of the FTAs that New Zealand has signed and is implementing.

Out of scope are:

- Economic modelling of the potential expansion of New Zealand's wool exports.
- Analysis of sanitary and phytosanitary (SPS) or Technical Barriers to Trade (TBT) on New Zealand's wool exports.
- Detailed assessment of New Zealand's competitors in global wool markets (including the tariff concessions they may have secured in their FTAs).

These may be important avenues for future Wool Impact research.

The range of wool products we examine was determined by Wool Impact and is shown overleaf. In some of the charts and commentary below we use the Harmonised System (HS) codes rather than referring to the full product descriptions (which are somewhat clumsy).

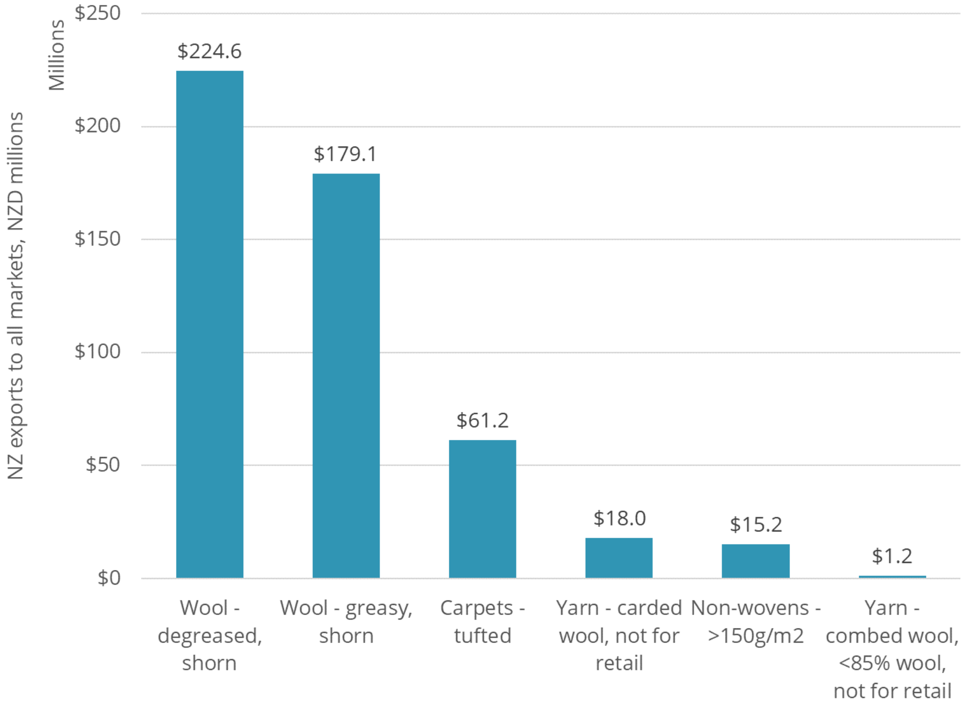
TABLE 1 WOOL PRODUCTS COVERED IN REPORT

HS6 code	Product description
510111	Wool; (not carded or combed), greasy (including fleece-washed wool), shorn
510119	Wool; (other than shorn), greasy (including fleece-washed wool), not carded or combed
510121	Wool; (not carded or combed), degreased, (not carbonised), shorn
510129	Wool; (not carded or combed), degreased, (not carbonised), (other than shorn)
510130	Wool; (not carded or combed), carbonised
510510	Wool; carded
510521	Wool; wool tops and other combed wool, in fragments
510529	Wool; wool tops and other combed wool, other than in fragments
510610	Yarn; of carded wool, containing 85% or more by weight of wool, not put up for retail sale
510620	Yarn; of carded wool, containing less than 85% by weight of wool, not put up for retail sale
510710	Yarn; of combed wool, containing 85% or more by weight of wool, not put up for retail sale
510720	Yarn; of combed wool, containing less than 85% by weight of wool, not put up for retail sale
511111	Fabrics, woven; of carded wool or of carded fine animal hair, containing 85% or more by weight of wool or of fine animal hair, of a weight not exceeding 300g/m2
511119	Fabrics, woven; of carded wool or of carded fine animal hair, containing 85% or more by weight of wool or of fine animal hair, of a weight exceeding 300g/m2
511120	Fabrics, woven; of carded wool or carded fine animal hair, containing less than 85% by weight of wool or fine animal hair, mixed mainly or solely with man-made filaments
511130	Fabrics, woven; of carded wool or carded fine animal hair, containing less than 85% by weight of wool or fine animal hair, mixed mainly or solely with man-made staple fibres
511190	Fabrics, woven; of carded wool or carded fine animal hair, containing less than 85% by weight of wool or fine animal hair, mixed mainly or solely with fibres n.e.c. in heading no. 5111
560129	Wadding; other articles thereof, other than of cotton or man-made fibres
560210	Felt; needleloom felt and stitch-bonded fibre fabrics, whether or not impregnated, coated, covered or laminated
560221	Felt; of wool or fine animal hair (excluding needleloom felt or stitch-bonded fibre fabrics), not impregnated, coated, covered nor laminated
560391	Nonwovens; whether or not impregnated, coated, covered or laminated, not of man-made filaments, (weighing not more than 25g/m2)
560392	Nonwovens; whether or not impregnated, coated, covered or laminated, not of man-made filaments, (weighing more than 25g/m2 but not more than 70g/m2)
560393	Nonwovens; whether or not impregnated, coated, covered or laminated, not of man-made filaments, (weighing more than 70g/m2 but not more than 150g/m2)
560394	Nonwovens; whether or not impregnated, coated, covered or laminated, not of man-made filaments, (weighing more than 150g/m2)
570110	Carpets and other textile floor coverings; knotted, of wool or fine animal hair, whether or not made up
570231	Carpets and other textile floor coverings; woven, (not tufted or flocked), of wool or fine animal hair, of pile construction, not made up, n.e.c. in item no. 5702.10 or 5702.20
570310	Carpets and other textile floor coverings (including turf); tufted, of wool or fine animal hair, whether or not made up
570410	Textile floor coverings; felt tiles, (not tufted or flocked), whether or not made up, having a maximum surface area of 0.3m2
570420	Carpets and other textile floor coverings; of felt, (not tufted or flocked), whether or not made up, having a maximum surface area exceeding 0.3 m2 but not exceeding 1 m2
570490	Carpets and other textile floor coverings; of felt, (not tufted or flocked), in the piece, whether or not made up, having a maximum surface area exceeding 1 m2

2. Overview of New Zealand's wool exports

Based on the HS codes provided to us by Wool Impact, New Zealand exported around $500 million of wool products in the year to September 2023. These can be broadly split into two categories – major export products (>$1m) and emerging export products ($50,000<$1m)[1].

FIGURE 1 MAJOR WOOL EXPORT PRODUCTS (>$1 MILLION)



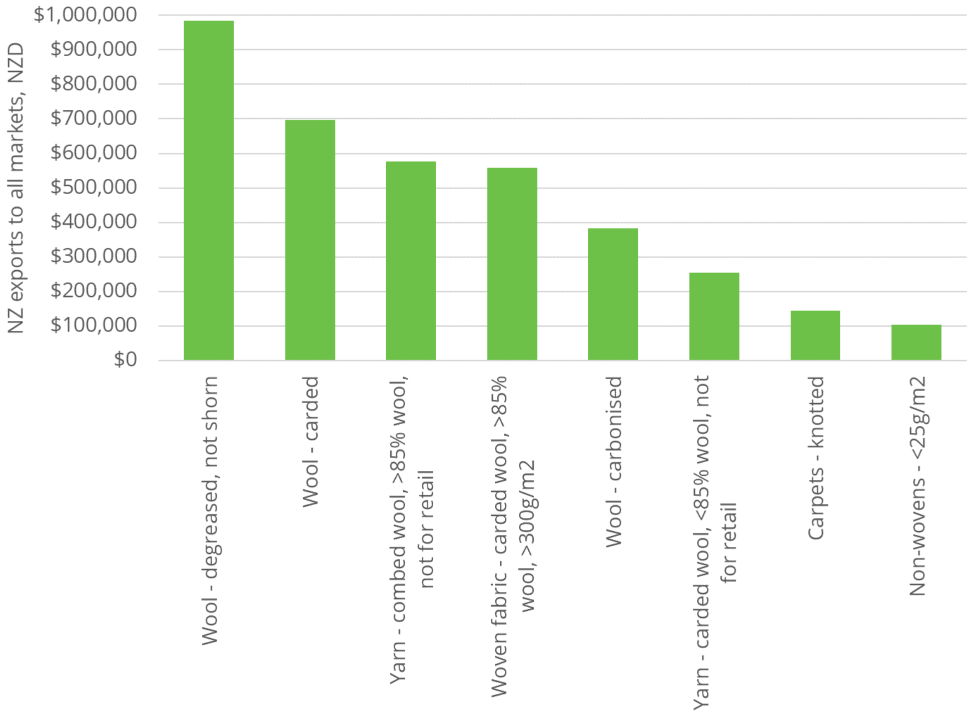
SOURCE: STATSNZ INFOSHARE

Greasy and scoured wool fibre makes up the majority of New Zealand's wool exports at around 80% by value. The majority of fine wool is exported greasy while the majority of strong wool is exported clean.

The higher value of fine wool means that the portion of clean wool exports compared to greasy wool is overstated when measuring by value. By volume, almost 70% of the wool fibre exported in 2023 was cleaned/scoured. For strong wool this is closer to 80% and was down from 86% the previous year due to the impact of Cyclone Gabrielle on the wool scour in Awatoto.

[1] New Zealand exports 12 other wool-based products, each <$50,000, worth a total of $232,000 in 2023. See spreadsheet for more details.

FIGURE 2 EMERGING WOOL EXPORT PRODUCTS ($50,000 - $1 MILLION)



SOURCE: STATSNZ INFOSHARE

REFER TO THE TABLE ON THE PREVIOUS PAGE FOR THE HS CODE PRODUCT DESCRIPTION FOR EMERGING PRODUCTS.

New Zealand's wool exports are currently dominated by relatively unprocessed products – over 80% is accounted for by degreased and greasy shorn wool. However, exports are becoming more diversified over time, with strong growth (albeit from a low base) for non-woven items.

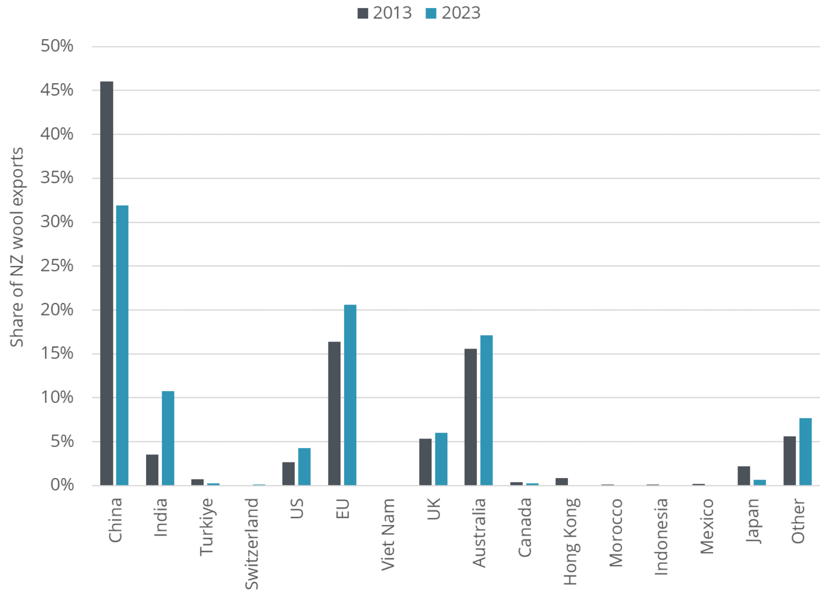
TABLE 2 WOOL EXPORTS BY BROAD CATEGORY

Category	Export value, year to September 2023, $m	Average export growth 2013-2023
Wool fibre (HS 5101 to 5105)	405.8	-5.5%
Yarn of carded/combed wool (5106 to 5107)	20.1	-7.2%
Woven wool fabrics (5111)	0.6	0.1%
Non-woven, wadding & felt (5601 to 5603)	15.5	16.6%
Carpets & floor coverings (5701 to 5704)	61.3	-5.3%
Total wool products	**503.4**	**-5.3%**

SOURCE: STATSNZ INFOSHARE

The export destinations for New Zealand's wool products are also diversifying (Figure 3). China's share has dropped from 46.0% to 31.9% in the past decade, with proportionately more being sold to India, the EU, the US, the UK and Australia. Türkiye, Hong Kong and Japan have also seen their market shares fall.

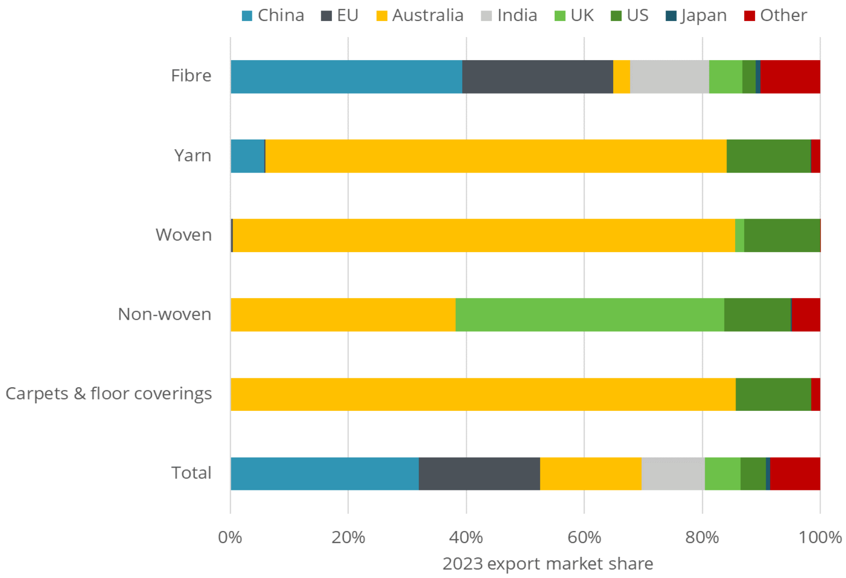
FIGURE 3 NEW ZEALAND'S WOOL EXPORT MARKETS, 2013 AND 2013



SOURCE: STATSNZ INFOSHARE

The markets to which New Zealand firms export vary considerably by broad category of wool product (Figure 4). China, the EU and India are vital markets for fibre, whereas Australia, the US and UK are more important for semi-processed and final products.

FIGURE 4 NEW ZEALAND'S WOOL EXPORT MARKETS, BY CATEGORY



SOURCE: STATSNZ INFOSHARE

3. Tariffs on major and emerging wool products

This report is accompanied by a detailed spreadsheet showing tariffs by market by detailed product. We recommend checking this spreadsheet for specific questions due to each importing country having a slightly different nomenclature for products more detailed than HS6 (i.e. with an HS code of more than 6 digits).

3.1. Markets New Zealand has an FTA with

3.1.1. China

Under New Zealand's bilateral FTA with China[2], New Zealand's $160.8 million of wool products are currently free of tariffs apart from:

- A country-specific tariff rate quota (TRQ) for New Zealand exports of wool fibre (greasy and degreased, shorn and not shorn, carbonised and noils).
    - Provided New Zealand's combined exports of these products are lower than 36,936 tonnes per year, they too are free of tariffs.
    - Anything additional to this quota will face a 38% tariff.[3]
- A country-specific TRQ for New Zealand exports of wool tops (HS codes 510510, 510521 and 510529).
    - Provided New Zealand's combined exports of these products are lower than 665 tonnes per year, they are free of tariffs.
    - Anything additional to this quota will face a 38% tariff.

Unless New Zealand negotiators are able to include wool fibre and wool tops in any future FTA upgrade, these TRQs will persist in their current size and shape.

All other tariffs are bound in at zero, so will not rise.

3.1.2. EU

The EU is a key market for New Zealand wool exporters, accounting for 20.6% ($103.8 million) of exports in the year to September 2023. Germany, Italy and Czechia are the largest markets.

---

[2] China and New Zealand are also members of the Regional Comprehensive Economic Partnership (RCEP) trade agreement. However, the bilateral FTA offers better access.
[3] However, China also has a 287,000-tonne World Trade Organisation (WTO) quota for uncarded/uncombed wool which is open to all countries, with a 1% in-quota rate. Contact MFAT at tnd@mfat.govt.nz for advice on how to access this additional quota.

Under the New Zealand-EU FTA, which has been ratified by the EU Parliament but is not yet in place, tariffs on New Zealand's wool exports will be eliminated when it enters into force (hoped to be in the first half of 2024).

These tariff reductions will help place New Zealand on a level playing field with other producers with whom the EU has an FTA. Importantly, the FTA will provide a competitive advantage for Kiwi exporters over Australian competitors, as EU-Australia FTA talks have stalled (or collapsed, depending who you speak to).

TABLE 3 EU TARIFFS, BY CATEGORY

Category	EU tariffs	
	Current	Entry into force (mid-2024)
Greasy and degreased shorn wool	0%	0%
Carded and combed wool	2%	0%
Yarn	3.8% to 4.0%	0%
Woven fabrics	8% [4]	0%
Wadding	3.8%	0%
Felt	6.7%	0%
Non-wovens	4.3%	0%
Carpets	8%[5]	0%

SOURCE: MFAT TARIFF FINDER

3.1.3. UK

New Zealand's FTA with the UK has been in place since May 2023 and provides duty free access for all of New Zealand's wool exports.

To the extent the UK does not have FTAs or other preferential schemes with competitors, this will provide a degree of competitive edge for some New Zealand exporters. The UK's tariffs range from 2-4% for yarn and wadding, 8% for woven fabrics, 6% for felt, and up to 4% for non-wovens.

---

[4] Apart from: 51121100 'Woven fabrics of combed wool or of combed fine animal hair: - Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 200 g/m2 - Of a weight not exceeding 200g/m2', which is duty free.

[5] Apart from:

- 57041000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: -Tiles, having a maximum surface area of 0.3 m2: - Tiles, having a maximum surface area of 0.3m2'
- 57049000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: - Other: - Other'

which face a tariff of 6.7%, reducing to 0% when the FTA enters into force.

Fibres, carded and combed wool, and carpet imports currently do not attract any tariffs from any country, however, so New Zealand exporters of these products will not receive any material competitive edge from the FTA.

3.1.4. Australia

All trans-Tasman exports (currently $86.3 million) enter duty free under any of the FTAs New Zealand has with Australia (bilateral CER, AANZFTA, RCEP, CPTPP).

3.1.5. Canada

New Zealand's $1.25 million of wool exports into Canada attract no tariffs under the CPTPP. Australia enjoys the same duty free access under CPTPP.

3.1.6. Mexico

New Zealand has preferential access to the Mexican market under CPTPP. Countries without FTAs with Mexico face tariffs of 10% for most wool products, whereas New Zealand products enter either duty free or at a 6% tariff. Current exports are $269,000.

Remaining Mexican tariffs on New Zealand's exports will phase out at 1.5% per year out to 2027, at which time they will enter free of duty. Key competitors such as Australia will also enjoy the same access under CPTPP.

Category	Mexican tariffs	
	Current	By 2027
Greasy and degreased shorn wool	0%	0%
Carded and combed wool	0%	0%
Yarn	6%	0%
Woven fabrics	6% [6]	0%
Wadding	0%	0%
Felt	6%	0%
Non-wovens	6%	0%
Carpets	0%	0%

SOURCE: MFAT TARIFF FINDER

3.1.7. Japan

New Zealand's $3.43 million of wool exports into Japan attract no tariffs under the CPTPP. Australia enjoys the same duty free access under CPTPP.

[6] Unless the woven fabrics are for tapestries, in which case they are duty free.

3.1.8. Hong Kong

New Zealand's wool exports of $421,000 into Hong Kong enter duty free under the bilateral FTA (formally the Hong Kong China-New Zealand Closer Economic Partnership) in place since 2011.

3.1.9. Viet Nam and Indonesia

New Zealand has two FTAs with both South-East Asian countries, the ASEAN-Australia-New Zealand FTA (AANZFTA) and RCEP.

Under these FTAs, all New Zealand wool exports enter both markets free of duties. Exports are currently fairly small, with $85,000 exported to Indonesia and nothing to Viet Nam in the year to September 2023.

Both countries also have FTAs with Australia and a range of other competitors, so New Zealand exporters will generally be on a level playing field with overseas producers.

3.2. Markets NZ does not have an FTA with

3.2.1. India

In the absence of an FTA with India, or unilateral tariff reductions (both unlikely in the short-medium term), New Zealand wool exporters will continue to face tariffs entering the Indian market. Current exports are $54.2 million, primarily degreased, shorn wool.

Kiwi exporters will be at a competitive disadvantage to other wool exporters who have secured tariff reductions in their FTAs with India (e.g. Australia, who will face tariffs of 0-5%).

TABLE 4 INDIAN TARIFFS, BY CATEGORY

Category	Indian tariffs
Greasy and degreased shorn wool	2.5%
Carded and combed wool and yarn	10%
Woven fabrics	The higher of 10% or 105-130 Rupees per m^2 (varies by product)
Wadding, felt Non-wovens weighing <25g/m^2 or 71-150g/m^2	10%
Non-wovens weighing 25-70g/m^2 or >150g/m^2	20%
Carpets[7]	20%

SOURCE: MFAT TARIFF FINDER

[7] Apart from 57049010 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: - Other: - Produced by the needleloom process', which is the higher of 20% or 25 Rupees per m^2.

3.2.2. Türkiye

New Zealand does not have an FTA with Türkiye. Our $1.46 million of wool exports therefore face the same tariffs as all other countries, apart from those who have an FTA with Türkiye[8].

Currently, all of New Zealand's exports are degreased, shorn wool, which enters duty free.

TABLE 5 TURKISH TARIFFS, BY CATEGORY

Category	Turkish tariffs
Greasy and degreased shorn wool	0%
Carded and combed wool	2%
Yarn	3.8% to 4%
Woven fabrics	8%
Wadding	3.8%
Felt	6.7%
Non-wovens	4.3%
Carpets[9]	8%

SOURCE: MFAT TARIFF FINDER

3.2.3. US

New Zealand currently exports $21.6 million of wool products to the US, the bulk of which is unprocessed. However, there are also smaller pockets of semi-processed and processed exports.

Unless the US chooses to re-join the Comprehensive and Progressive Trans-Pacific Partnership (unlikely in the short to medium term), there is very little prospect of New Zealand entering into an FTA with the US.

As such, New Zealand wool exporters will continue to face tariffs when selling to the US and will be a competitive disadvantage to other wool suppliers such as Australia (with whom the US does have an FTA).

---

[8] Namely the EU, EFTA, Israel, Macedonia, Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Egypt, Albania, Georgia, Montenegro, Serbia, Chile, Mauritius, South Korea, Malaysia, Moldova, Faroe Islands, Singapore, Kosovo, Venezuela United Kingdom, and the UAE. The precise outcomes on wool products will vary by agreement. See details here: https://www.trade.gov.tr/free-trade-agreements

[9] Apart from:

- 5704100000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: - Tiles, having a maximum surface area of 0.3 m2 - Tiles, having a maximum surface area of 0.3 m2' ; and
- 570490.0000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: - Other: - Other'

which both attract a tariff of 6.7%.

The US tariff schedule is complex and messy, with a range of ad valorem and specific tariffs applied to very narrow types of products. Some tariffs are quite high, reflecting a desire to protect specific US producers.

TABLE 6 US TARIFFS, BY CATEGORY

Category	US tariffs
Greasy and degreased shorn wool	0% [10]
Carded and combed wool	6% [11]
Yarn	6%
Woven fabrics	
51111120 'Woven fabrics of carded wool or of carded fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 300 g/m2: - Bleached' *51111910 'Woven fabrics of carded wool or of carded fine animal hair: -Containing 85% or more by weight of wool or of fine animal hair: - Other – Unbleached'* *51121110 'Woven fabrics of combed wool or of combed fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 200 g/m2: - Unbleached'* *51121920 'Woven fabrics of combed wool or of combed fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Other – Bleached'*	7%
51111130 'Woven fabrics of carded wool or of carded fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 300 g/m2: - Dyed' *51111920 'Woven fabrics of carded wool or of carded fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Other – Bleached'*	10%
51111170 'Woven fabrics of carded wool or of carded fine animal hair: - Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 300 g/m2:- Woven fabrics, 85% or more by weight of carded wool/fine animal hair, weight not over 300 g/m2, nesoi' *51111960 'Woven fabrics of carded wool or of carded fine animal hair: - Other - Woven fabrics, with 85 percent or more by weight of carded wool/fine animal hair nesoi, weight over 300 g/m2'* *51121130 'Woven fabrics of combed wool or of combed fine animal hair: Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 200 g/m2: - Dyed'*	25%

[10] Apart from:

- 51011160 'Wool, not carded or combed: - Shorn wool - Wool, excluding unimproved, finer than 46s, greasy, shorn, not carded or Wool, not carded or combed: - Greasy, including fleece-washed wool: - Shorn wool – combed', 18.7c per clean kg.
- 51012140 'Wool, not carded or combed: - Degreased, not carbonised: - Shorn wool: -Wool, excl. unimproved, finer than 46s, degreased, not further processed, shorn, not carded or combed, not for special uses', 20.6 c per clean kg
- 51012170 'Wool, not carded or combed: - Degreased, not carbonised: - Shorn wool: -Unimproved wool and other wool, finer than 46s, degreased, shorn, not carbonized, not carded or combed', 6.5 c per kg clean + 5.3%

[11] Apart from:

- 51051000 'Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments): - Carded wool', 6.5 c per kg + 5.3%
- 51052100 'Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments): - Wool tops and other combed wool: - Combed wool in fragments - Combed wool in fragments', 3.7c per kg + 3%

Category	US tariffs
51121160 'Woven fabrics of combed wool or of combed fine animal hair: - Containing 85% or more by weight of wool or of fine animal hair: - Of a weight not exceeding 200 g/m2: -Woven fabrics of combed wool/fine animal hair, over 85% wool or hair, weight not over 200 g/m2, nesoi' *51121960 'Woven fabrics of combed wool or of combed fine animal hair: - Containing 85% or more by weight of wool or of fine animal hair: - Other: -Woven fabrics of combed wool/fine animal hair, over 85% wool or fine animal hair, ov 200 g/m2, avg wool fiber diameter 18.5 micron or <'* *51121995 'Other - Woven fabrics of combed wool/fine animal hair, over 85% wool or fine animal hair, weight Woven fabrics of combed wool or of combed fine animal hair: - Containing 85% or more by weight of wool or of fine animal hair: - Other: over 200 g/m2, nesoi'*	
Wadding	4%
Felt	0% [12]
Non-wovens	0%
Carpets	
57011013 'Carpets and other textile floor coverings, knotted, whether or not made up: - Of wool or fine animal hair:- Carpet & other textile floor covering,hand-knotted/hand-inserted,w/ov 50% wt pile of fine animal hair,foregoing cert. hand-loomed & folklore' *57011016 'Carpets & other textile floor coverings, hand-knotted or hand-inserted, w/ov 50% by weight of the pile of fine animal Carpets and other textile floor coverings, knotted, whether or not made up: - Of wool or fine animal hair:- hair, nesoi'* *57011040 'Carpets & other textile floor coverings, hand-knotted or hand-inserted, w/ov 50% by weight of the pile of fine animal: -Carpets and other textile floor coverings, of wool or fine animal hair, hand-hooked (tufts were inserted and knotted by hand or hand tool)'* *5704900000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: - Other: - Other'*	0%
57023120 'Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including "Kelem", "Schumacks", "Karamanie" and similar hand-woven rugs: - Other, of pile construction, not made up: Other, of pile construction, not made up: - Of wool or fine animal hair: - Druggets'	4%
57011090 'Carpets and other textile floor coverings, knotted, whether or not made up: Of wool or fine animal hair: - Of wool or fine animal hair-other'	4.5%
57041000 'Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up: -Tiles, having a maximum surface area of 0.3 m2: - Tiles, having a maximum surface area of 0.3m2'	4.7%
57031020 'Carpets and other textile floor coverings tufted, whether or not made of: Of wool or fine animal hair: - Mats and matting' *57031080 'Carpets and other floor coverings, of wool or fine animal hair: -Carpets and other textile floor coverings, tufted, whether or not made up, of wool or fine animal hair, nesoi'*	6%

[12] Apart from:

- 56021010 'Felt, whether or not impregnated, coated, covered or laminated: - Needleloom felt and stitch-bonded fibre fabrics - Needleloom Felt and stitch-bonded fibre fabrics', 12.0%
- 56021090 'Felt, whether or not impregnated, coated, covered or laminated: - Needleloom felt and stitch-bonded fibre fabrics - Needleloom felt and stitch-bonded fabrics, whether or not impregnated, coated or covered, nesoi', 10.6%
- 56022100 'Other felt, not impregnated, coated, covered or laminated: - Of wool or fine animal hair', 49.5c per kg + 7.5%

Category	US tariffs
57023110 'Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including "Kelem", "Schumacks", "Karamanie" and similar hand-woven rugs: - Other, of pile construction, not made up:- Of wool or fine animal hair: - Carpets more"	8%

SOURCE: MFAT TARIFF FINDER

3.2.4. Morocco

New Zealand does not have an FTA with Morocco, and there has been no indication one might be in the offering. As such, New Zealand wool exporters selling to Morocco will face the same tariffs as most competitors, including Australia. Tariffs are fairly low for most products, apart from 30% on carpets (reflecting Morocco's interests in shielding its carpet producers).

New Zealand's wool exports to Morocco are currently $442,000, and are entirely degreased, shorn wool.

Morocco has FTAs with the US, EU, and dozens of African economies, which will allow those countries preferential access to the Moroccan market.

TABLE 7 MOROCCAN TARIFFS, BY CATEGORY

Category	Moroccan tariffs
Greasy and degreased shorn wool	2.5%
Carded and combed wool	2.5%
Yarn	2.5%
Woven fabrics	10%[13]
Wadding	2.5%
Felt	10%
Non-wovens	2.5%
Carpets	30%

SOURCE: MFAT TARIFF FINDER

3.2.5. Switzerland

New Zealand currently exports $700,000 of wool products to Switzerland, almost entirely fibres.

Exports of fibre, carded and combed wool, yarn and woven fabrics all enter Switzerland free of tariffs.

[13] However, several woven fabric products attract a lower tariff rate of 2.5%. Our accompanying spreadsheet contains the details.

More processed wool exports face specific tariffs (a monetary value per 100kg brut (dry) of product). These vary by detailed product:

- Wadding, 19 Swiss Francs (SFR) per 100kg
- Needleloom felt and stitch-bonded fibre fabrics, 43 SFR per 100kg
- Other felt, not impregnated, coated, covered or laminated: - Of wool or fine animal hair, 57 SFR per 100kg
- Non-wovens, 21 SFR per 100kg
- Wool carpets and other textile floor coverings, knotted, whether or not made up, 137 SFR per 100kg
- Wool carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including "Kelem", "Schumacks", "Karamanie" and similar hand-woven rugs, 95 SFR per 100kg
- Needle-punched wool carpets and floor coverings, 90 SFR per 100kg
- Carpet tiles, 40 SFR per 100kg.

New Zealand exporters deciding to send more processed wool products will be at a competitive disadvantage to other wool exporters who have signed an FTA with Switzerland and secured tariff reductions.[14]

[14] Switzerland has an extensive FTA network. See https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/partner_fha.html

4. Broader trade environment

4.1. The short term outlook is turbulent

As New Zealand's lead trade negotiator has suggested, the global trade environment is now in a highly challenging state. The 'golden weather' era of trade liberalisation via bilateral, regional and multilateral trade agreements seen over the past 30 years has stalled.

Instead we are seeing a return to power-based geopolitics, with the US, China, Russia and EU (to a lesser extent) becoming more insular. Respect for the rules-based international order – on which small countries like New Zealand rely in the absence of economic scale and clout – has decreased.

Many factors are driving this shift, including:

- The impacts of COVID-19 on trade, which led to a greater focus on domestic self-sufficiency and resilience when borders were closed.
- Ongoing tensions between the US and China, stoked by the Trump administration and not rolled back by the Biden administration.
- A return of active industrial policy, whereby governments are providing large subsidies and other forms of trade protection to strategically important industries such as semi-conductor manufacturing.
- Greater government involvement in the promotion of green technologies in the interests of finding solutions to climate change and other environmental challenges.
- Fragmentation and reorganisation of global supply chains due to COVID-19, conflicts (e.g. Russia's invasion of Ukraine, ongoing Middle East tensions), and economic coercion (e.g. China banning imports of certain products from Australia).

These drivers are unlikely to moderate substantially in the short term. Indeed, should Trump return for a second stint as US President, we are likely to see even more turbulence as he doubles down on his love of tariffs and misguided beliefs about how they will "fix" the US's trade deficit and bring back manufacturing to the US heartland.

Such monumental shifts in the global trading environment are in general not great news for small countries like New Zealand. We cannot compete with the big economies using subsidies or other trade measures. We don't have the fiscal resources to do so and know from bitter experience in the pre-1970s reforms period that strong government intervention in the tradables sector leads to huge inefficiencies.

A return to more inwards-focused policy settings will tend to reduce global economic growth and with it the demand for New Zealand's exports, including wool.

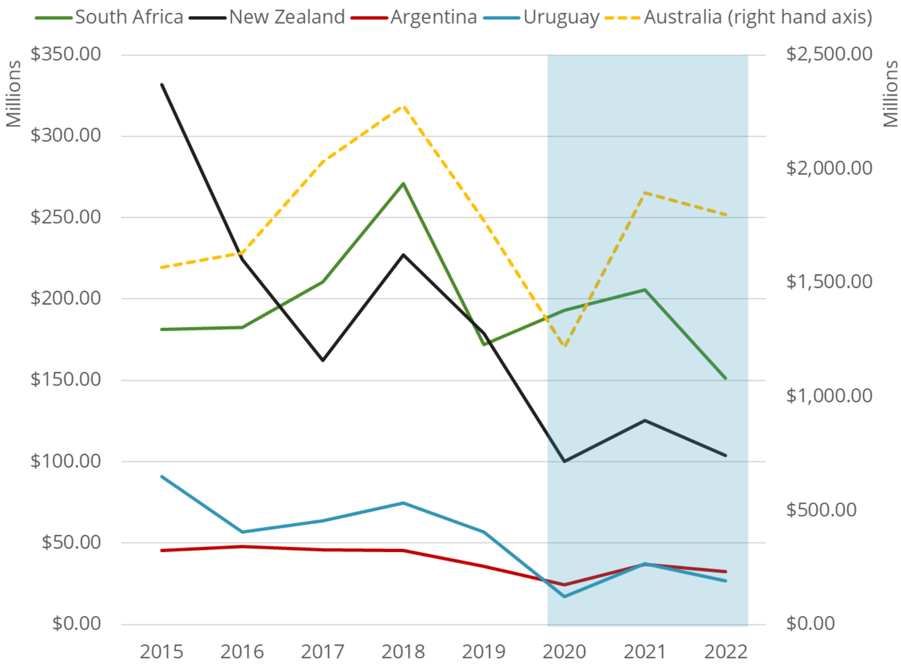
For more thoughts on where to next for New Zealand's trade policy strategy, see this recent Sense Partners report.

4.2. US-China trade relations

The main impact of ongoing US-China trade tensions for New Zealand's wool exporters is that Chinese textile manufacturers reduced their production and exports (as the US is China's number one market for textiles). This in turn reduced China's demand for raw materials such as wool.

The decline in demand was exacerbated by the COVID-19 pandemic (shaded in blue), which snarled up supply chains and reduced global trade growth.

FIGURE 5 KEY WOOL EXPORTERS' SALES TO CHINA, US$ MILLIONS



SOURCE: COMTRADE

We can expect further volatility if Trump returns to the Oval Office later this year. Already he is threatening more hikes in tariffs, and not just on imports from China. This – and the inevitable retaliatory measures imposed by other major economies – will create more uncertainty in the global trade environment and will weigh on global GDP growth. This points to a weaker demand outlook for New Zealand wool exporters.

It should be noted that regardless of what measures the US and China take against each other, New Zealand's exports to China should not face any increased tariffs. Our FTA with China binds in tariffs at zero (i.e. they can't be increased) and any move away from that should New Zealand somehow get caught in the US-China crossfire would be a breach of China's international obligations.

This serves to highlight the value of New Zealand's existing FTA network – it ensures market access to FTA partners no matter what is going on in the global economy.

4.3. EU climate policies

The EU continues to place a high weighting on sustainability and climate change when conducting its trade policy. The region's Carbon Border Adjustment Mechanism (CBAM) is the latest incarnation of trade-related policies that are primarily designed to deliver climate gains, but which also provide a degree of protection for European producers relative to overseas competitors.

At this stage, the EU's CBAM does not cover primary products such as wool, but that could become a possibility over time.[15] While New Zealand is not the target of the EU's CBAM (it is mainly to reduce emissions leakage to economies with lax environmental policies and no carbon price), the EU extending the CBAM to include agricultural products would at a minimum create administrative headaches for New Zealand wool exporters. There is a lot of paperwork involved in trading products under a CBAM (unless the EU grants New Zealand a blanket exemption because of our Emissions Trading Scheme).

Whether New Zealand exporters to the EU would face additional duties under a CBAM would depend on how carbon-efficient New Zealand producers are relative to EU benchmarks for its producers.

Another EU climate policy that has attracted a degree of attention is contained within the EU-New Zealand Free Trade Agreement chapter on Trade and Sustainable Development. Some media outlets and commentators have suggested that any regulatory changes in New Zealand that might be seen as being 'bad' for the climate – such as removing the oil and gas exploration ban – could result in the EU sanctioning New Zealand via increased tariffs.[16]

In John Ballinga'l's non-lawyer opinion, this is unlikely. There are many intermediate process steps that would need to be taken before any trade sanctions are introduced, and it is far from clear to me how the EU would determine whether any single regulatory change by the New Zealand government constitutes an "action or omission which materially defeats the object and purpose of the Paris Agreement".

Regardless of the probabilities of New Zealand's wool exports being covered by a CBAM or subject to dispute settlement processes under the New Zealand-EU FTA, these examples serve to highlight the priority the EU places on trade and sustainability. New Zealand wool exporters to the EU will need to continue to demonstrate very high standards of environmental compliance to keep EU buyers happy.

[15] Currently, no country applies emissions pricing to farming, so New Zealand is not unusual in this regard.
[16] Similar comments have been made regarding the risks of New Zealand not hitting its 2030 Nationally Determined Contribution under the Paris Agreement. New Zealand's target is not explicitly mentioned in the EU FTA text, however.

4.4. Russian and Iran

Russian and Iran have in the not too distant past been important markets for New Zealand wool. The chart below shows New Zealand's wool exports (almost entirely fibre) to these markets over the past 30 years.

FIGURE 6 NEW ZEALAND'S WOOL EXPORTS TO RUSSIA AND IRAN NZ$ MILLIONS

SOURCE: COMTRADE

The decline in exports reflects a combination of factors, including

- The greater opportunities and better market access provided by other markets such as China.
- The US sanctions on Iran which have made it difficult for New Zealand wool exporters to use US financial entities to process payments from Iranian importers.
- A broader decline in New Zealand-Russian trade relations over time, which has been accelerated in light of Russia's invasion of Ukraine.

It is hard to see either market becoming commercially viable again for New Zealand wool exporters in any meaningful way in the near term.

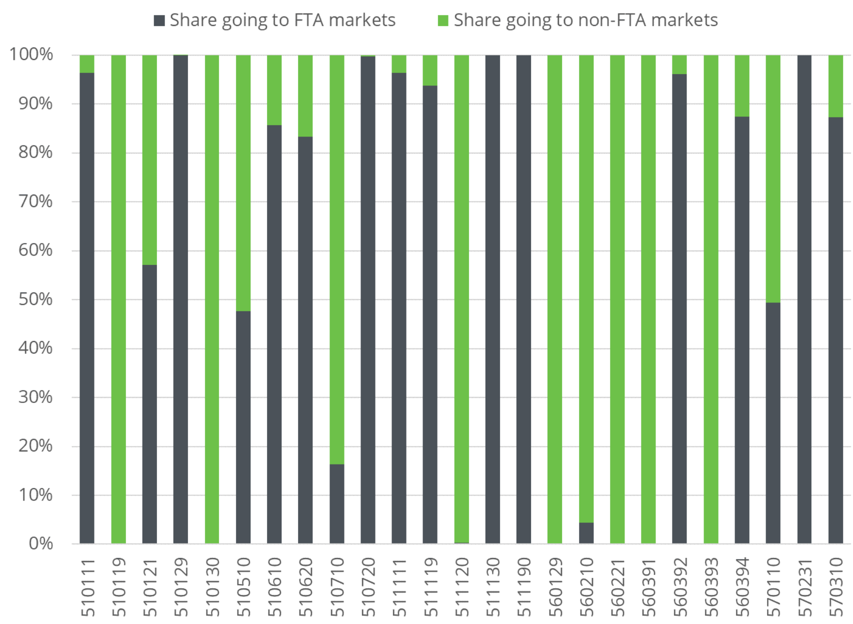
However, Russia in particular is a large and growing import market, taking almost US$150 million from all sources in 2021 (latest data available), primarily non-wovens. Should geopolitical and economic conditions improve over time, there may be opportunities for New Zealand exporters seeking to diversify their export markets.

5. Opportunities for New Zealand exports

Currently, 77% (or $386 million) of New Zealand's wool exports are destined for markets with whom New Zealand has an FTA (when we include the EU). China and the EU account for 2/3 of this value.

However, on a product basis, the use of New Zealand's FTA network is mixed (Figure).

FIGURE 7 WOOL EXPORTS TO FTA MARKETS



SOURCE: STATSNZ INFOSHARE, SENSE PARTNERS ANALYSIS

As the analysis above notes, the wool product sector globally is characterised by 'tariff escalation', whereby (outside of FTAs) unprocessed and raw materials tend to have zero or very low tariffs, and tariffs rise as the degree of processing occurs.

As such, exporters of **unprocessed wool products** (especially fibres) are unlikely to be hit hard by tariffs, regardless of market or whether New Zealand has an FTA in place.

For these unprocessed products, the main benefit of FTAs is that they 'bind' (or lock in) tariffs at zero, thus providing certainty of access. In markets with whom we do not have an FTA, tariffs could – theoretically – increase, provided the tariff currently in place is below the country's bound tariff at the WTO.[17]

[17] The bound tariff is the maximum a country can charge without breaking its WTO obligations. In practice, most countries use tariffs well below these bound tariffs, but the policy space remains for them to increase them (against all non-FTA imports).

The value of New Zealand's FTAs increases for more **processed wool products**. Our FTAs generally see tariffs reduced to zero (and locked in) for these products, which would otherwise attract tariffs.

For example, New Zealand currently sends 13% of its exports of 570310 'Carpets and other textile floor coverings (including turf); tufted, of wool or fine animal hair, whether or not made up)' to the US where it attracts a 6.0% tariff.

Currently, New Zealand exports of processed wool products are relatively low – fibres and yarn account for 85% of exports by value. Carpets and floor coverings account for the bulk of the processed products.

As the industry develops over time, and exporters consider moving into more processed products, firms will want to be more aware of the tariff advantages that New Zealand's FTA network can deliver them.

SENSE PARTNERS
DATA LOGIC ACTION

WOOL IMPACT