



COVERSHEET

Minister	Hon Melissa Lee	Portfolio	Economic Development
Title of Cabinet paper	Progressing New Zealand's Obligations Under the Indo-Pacific Economic Framework for Prosperity Supply Chain Agreement	Date to be published	27 January 2025

List of documents that have been proactively released		
Date	Title	Author
30 October 2024	Progressing New Zealand's Obligations Under the Indo-Pacific Economic Framework for Prosperity Supply Chain Agreement	Office of the Minister for Economic Development
20 November 2024	Progressing New Zealand's Obligations Under the Indo-Pacific Economic Framework for Prosperity Supply Chain Agreement ECO-24-MIN-0270 Minute	Cabinet Office

Information redacted

YES / NO (please select)

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of international relations, confidentiality, free and frank opinions and confidential advice to Government.

Restricted

Office of the Minister for Economic Development
Cabinet Economic Policy Committee

Progressing New Zealand's obligations under the Indo-Pacific Economic Framework for Prosperity Supply Chain Agreement

Proposal

- 1 This paper seeks agreement to notify New Zealand's list of critical sectors and key goods to the other parties of the Indo-Pacific Economic Framework for Prosperity (IPEF) Supply Chain Agreement (the Agreement).

Relation to government priorities

- 2 New Zealand's participation in the Agreement supports the Government's objective of economic growth and productivity through increased cooperation with Indo-Pacific trading partners (including the United States (US), India, and Southeast Asian partners), and building more resilient, transparent, and diverse international supply chains.
- 3 Increasing the resilience of New Zealand's supply chains contributes to economic security priorities. The Agreement allows collaboration with like-minded countries at the officials, ministerial and leaders levels to facilitate access to key goods that may be disrupted from reaching New Zealand.

Executive Summary

- 4 As a small, advanced economy, New Zealand relies on imports of key inputs into critical sectors and cannot onshore manufacturing of all of these inputs. New Zealand's economic security depends on continued and diversified access to goods such as fertilisers, food inputs (for example, sugars, machinery, and packaging), pharmaceuticals and fuel.
- 5 The Agreement offers a mechanism to increase supply chain resilience through IPEF Parties' collective actions for targeted goods and critical sectors. The opportunity for New Zealand is to pursue the de-risking of the above inputs, but also to be part of the solution for other countries' key goods such as critical minerals and food.
- 6 Under the Agreement, New Zealand is required to notify other Parties of its critical sectors and key goods and to credibly engage in solutions. The proposed sectors and goods reflect data on production and import concentration risks, feedback from selected businesses and peak bodies, and Government priorities.

Background

- 7 Over the last few years geopolitical, pandemic and climate related disruptions have reduced supply chain resilience. The COVID-19 pandemic, the war on Ukraine, and attacks on commercial shipping in the Red Sea have caused disruptions which have impacted international trade and the supply of goods and services to consumers. These disruptions were key drivers of the global inflationary spike over 2021-2023.

- 8 This paper focuses on Pillar II of IPEF, the Supply Chain Agreement. Membership extends across the Indo-Pacific region, totalling 14 members¹ which represent close to 40 per cent of global GDP and 50 per cent of New Zealand’s exports. New Zealand ratified the Agreement on 12 September 2024 [ECO-24-MIN-0052] and it entered into force for New Zealand on 12 October 2024 (as did the Clean Economy Agreement (Pillar III) and the Fair Economy Agreement (Pillar IV)).
- 9 Under the Agreement, IPEF Parties undertake to:
- a. Promote regulatory transparency in areas which may impact IPEF supply chains
 - b. Develop a shared understanding of global supply chain risks through each Party identifying their critical sectors and key goods in their supply chains
 - c. Monitor for and address supply chain vulnerabilities, and
 - d. Promote responsible business conduct and transparency in terms of upholding labour rights in supply chains.

Initial benefits from IPEF engagement

10 The multilateral nature of cooperation between IPEF Parties allows New Zealand to engage in closer bilateral engagements to deliver benefits in areas related to supply chains. For example, recent engagements between New Zealand and Singapore are enabling negotiations on the addition of a new Trade in Essential Supplies Agreement to the existing NZ-Singapore Closer Economic Partnership. The Ministry of Business, Innovation and Employment (MBIE) is also deepening its engagement on supply chain initiatives with IPEF Parties including India, the Republic of Korea, and the US.

11 **International relations**

MBIE has engaged with the United States’ Department of Energy, Department of Commerce and Office of the United States Trade Representative on critical minerals, energy security, tariffs, economic security, and other supply chain matters. MBIE has aligned the IPEF and critical mineral workstreams and the engagement with the US system has already yielded valuable contacts.

Requirements of the IPEF Supply Chain Agreement

- 12 The Agreement requires New Zealand to identify, and notify IPEF Parties, of its critical sectors and key goods through the Supply Chain Council by 9 February 2025 (150 days after ratification).
- 13 I am seeking agreement to the list of critical sectors and key goods developed by MBIE in consultation with other agencies and key private sector stakeholders, in order to comply with New Zealand’s obligations under the Agreement. Feedback from Treaty of Waitangi partner representative groups has been sought on the list of critical sectors and key goods but has not yet been received and is not reflected in this paper.
- 14 Under the Agreement, the critical sectors and key goods which are notified by Parties are those where collective action may help to mitigate the effects of supply chain

¹ Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, the United States, and Viet Nam.

disruptions in areas of importance to New Zealand's economy. The Agreement defines critical sectors and key goods as those that are critical to, or have a significant effect on, a Party's national security, public health and safety, or prevention of significant or widespread economic disruptions.

- 15 Following best practice developed by other IPEF Parties, MBIE has analysed available trade and industry sector data to identify New Zealand's critical sectors and key goods. MBIE's quantitative evaluation focused on concentration risks and vulnerabilities across New Zealand's imports and international supply chains. Consumer goods have not been included due to their substitutability.
- 16 The notified lists, from New Zealand and other IPEF Parties, form the basis of a small number of action plans established under the Agreement. Action plans can only be formed for critical sectors or key goods notified by three or more countries. New Zealand has agreed to participate in action plans on critical minerals (focused on batteries), critical chemicals, and health. It is also chairing a subcommittee on logistics and the movement of goods and has joined a subcommittee on data and analytics.

Industry engagement

- 17 MBIE met with BusinessNZ, New Zealand Council of Trade Unions, a number of peak industry bodies, and individual importers. Feedback from the engagement was positive. Industry sees value in the Agreement and the possibilities for cooperation and crisis management with other IPEF Parties. There was general agreement with the proposed list of critical sectors and key goods with only two changes ('dairy farming' changed to 'pastoral farming', and the addition of 'surface transport')

- 18 Confidentiality

Free and frank opinions


Confirmation of critical sectors and key goods

- 19 International relations


- 20 Following the above analysis and engagement, I propose that the critical sectors and key goods identified below form New Zealand's list for notification to IPEF Parties.

Critical sectors:

Construction services	Medical and other health care services
Heavy and civil engineering construction	Pastoral farming
Hospitals	Surface transport

Key goods:

Bulk animal feed	Fertiliser	Pharmaceuticals
Cereals for food production	Food packaging	Steel alloy bars and rods
Critical chemicals	Machinery for food production	Sugars for food production
Critical minerals	Medical devices	
Engine / liquid fuels	Oils for food production	

Cost-of-living implications

- 28 Supply Chain disruptions can lead to increased costs for businesses and consumers, contributing to inflation. Measures to strengthen long-term resilience through global cooperation and crisis management can stabilise goods prices when disruptions occur but may also impose additional costs in the nearer term, depending on the measures chosen and how they are implemented.
- 29 There are no significant cost-of-living implications from the specific recommendations of this paper.

Financial implications

- 30 Any financial implications arising from this proposal will be managed within baselines. Future policy and operational decisions that have financial implications will be subject to Cabinet approval or will be subject to future Budget decisions consistent with the Government's Budget Strategy and ongoing fiscal sustainability programme.

Impact analysis

- 31 There are no legislative implications therefore regulatory impact analysis requirements do not apply to this proposal.
- 32 There are no climate or population implications from this programme.
- 33 This proposal is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act.
- 34 External resources have not been used in the development of the proposals in this paper. Any use of external resource for future work will be consistent with the Government's ongoing fiscal sustainability programme.

Agency Consultation

- 35 The following agencies have been consulted: The Treasury, Ministry of Foreign Affairs and Trade, Ministry of Health, Ministry for Primary Industries, Department of the Prime Minister and Cabinet, New Zealand Customs Service, and Ministry of Transport. Agencies have endorsed the list of critical sectors and key goods and the approach being undertaken by MBIE. MBIE has also engaged with Pharmac, Health New Zealand and the New Zealand Defence Force.

Communications

- 36 Following the Cabinet decision and in line with a number of IPEF parties such as the US and Australia, I propose to proactively release the list of New Zealand's critical sectors and key goods. I note that this reflects the Government's role to provide information on supply chain vulnerabilities and opportunities to allow the market to respond, rather than undertaking direct intervention. Public release of the list will also enable MBIE to undertake informed engagement with industry and other stakeholders in its work to develop policy options.
- 37 I note that there is some risk in releasing the list. The data which forms the basis of MBIE's analysis is publicly available trade data, however releasing the list may confirm New Zealand's supply chain vulnerabilities and the relative importance of our sectors. Conversely, the overarching benefits of increased private sector awareness of any vulnerabilities and the ability to take action to mitigate exposure will outweigh this risk.

Proactive Release

- 38 I intend to proactively release the body of this paper once the list of critical sectors and key goods has been notified pursuant to the requirements of the Agreement. Proactive release will be subject to redaction as appropriate under the Official Information Act 1982. Appendix One is confidential pursuant to Article 13 of the Agreement and will not be proactively released.

Recommendations

The Minister for Economic Development recommends that the Committee:

- 1 Note that New Zealand is required to notify its list of critical sectors and key goods to other Parties to the IPEF Supply Chain Agreement, via its Supply Chain Council, by 9 February 2025.
- 2 Note that MBIE officials undertook trade data analysis, cross-agency engagement, industry and stakeholder engagement, and discussions with international partners to identify and confirm the critical sectors and key goods.
- 3 Agree to notify the following lists of critical sectors and key goods to IPEF Parties:

Critical sectors

Construction services	Medical and other health care services
Heavy and civil engineering construction	Pastoral farming
Hospitals	Surface transport

Key goods

Bulk animal feed	Fertiliser	Pharmaceuticals
Cereals for food production	Food packaging	Steel alloy bars and rods
Critical chemicals	Machinery for food production	Sugars for food production
Critical minerals	Medical devices	Oils for food production
Engine / liquid fuels		

- 4 Agree to publicly release the list of critical sectors and key goods following notification to the IPEF Parties.
- 5 Confidential advice to Government

Hon Melissa Lee

Minister for Economic Development