

Reference: 20150433

18 December 2015



Thank you for your Official Information Act request, received on 9 October 2015. You requested the following:

- “1. A copy of all reports, briefings and advice Treasury has prepared regarding the Trans Pacific Partnership Agreement, since 1 January 2014;*
- 2. A copy of all modelling conducted by Treasury regarding the estimated benefits to New Zealand of entering the Trans Pacific Partnership Agreement, since 1 January 2014;*
- 3. A copy of all modelling conducted by Treasury regarding the estimated costs to New Zealand of entering the Trans Pacific Partnership Agreement, since 1 January 2014.*
- 4. A list of dates and titles of all reports prepared by Treasury on the Trans Pacific Partnership Agreement, since 1 January 2012.”*

On 30 October we wrote to you extending the deadline to respond to this request by 30 working days.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	2/10/2015	Aide Memoire: TPP update - Atlanta negotiations	Release in part
2.	28/07/2015	Update Temporary Safeguard measures Lew Call	Release in part
3.	28/07/2015	Secretary Lew Talking Points for MoF	Release in part
4.	20/07/2015	Aide Memoire: Update on Currency issues in Trans Pacific Partnership negotiations	Release in part
5.	6/05/2015	Aide Memoire: Currency issues in Trans Pacific Partnership negotiations	Release in part
6.	21/09/2015	Treasury Report: The impact of international obligations on measures to restrict foreign investment in housing	Release in part
7.	3/09/2015	Treasury Report: Trans Pacific Partnership: Update on US proposal for a currency arrangement	Release in part
8.	2/10/2015	Treasury Report: Trans Pacific Partnership: Currency Declaration	Release in part
9.	25/9/2015	Aide Memoire: Currency Declaration with TPP Parties: An update	Release in part
10.	31/07/2015	Aide Memoire: TPP Update	Release in part
11.	12/06/2015	Treasury Report: Concluding the Trans-Pacific Partnership Agreement: significant changes to mandate	Release in part
12.	4/10/15	Email Advice to MoF office from Thomas Parry	Release in part
13.	28/07/2015	Trans Pacific Partnership: Mandate to negotiate currency agreement	Release in part
14.	22/10/2015	A table with titles and dates of Treasury advice on TPP since 1 January 2012	Release in full

Some of these documents outline the Treasury's view on early TPP proposals that are not reflected in the final TPP agreement. The official government assessment of the final TPP agreement is contained in the National Interest Analysis which will be publicly released soon.

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- Details of New Zealand's negotiation positions and mandate for TPP, under section 6(a) – to protect the international relations of the Government of New Zealand,
- Information provided by other TPP members during negotiation, under section 6(b)(i) – to protect the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government,
- Details of New Zealand's negotiation positions and mandate for TPP, under section 6(e)(vi) – to avoid seriously damaging the economy of New Zealand by disclosing prematurely decisions to change or continue Government economic or financial policies relating to the entering into of overseas trade agreements,
- Personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons,
- Names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- Legal advice, under section 9(2)(h) – to maintain legal privilege, and
- Information soon to be made public, under section 18(d) – the information requested is or will soon be publicly available.

Please note that the information that has been withheld under section 18(d) of the OIA in document 1 will be publicly available when the National Interest Analysis is released,

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Chris Nees
Team Leader, International

Information Being Released

OIA 20150433

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Reference: T2015/2301

IM-3-0-5



Date: 2 October 2015

To: Minister of Finance
(Hon Bill English)

Deadline: None
(if any)

Aide Memoire: TPP update - Atlanta negotiations

This note provides you with information on outstanding issues in the TPP negotiations, in anticipation of a possible request for you to agree to mandate changes later this week.

Possible areas of TPP mandate change

End game TPP negotiations are underway in Atlanta. You may be contacted to seek mandate changes in order to secure a final deal. We understand you are most likely to be contacted late on Friday 2 October or Saturday 3 October.

[Withheld under s6(a) & s6(e)(vi)]

Summary of current position

[Withheld under s6(a)]

MFAT and Pharmac have now updated their modelling to better approximate the likely final negotiated position on the key quantifiable elements of the agreement. We have modified our summary assessment of the costs and benefits in line with the new model.

¹ Treasury Report, 12 June 2015, *Concluding the Trans-Pacific Partnership Agreement* (T2015/1225), Aide Memoire, 31 July 2015, *TPP Update* (produced to aid possible decisions required from Maui)

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[Withheld under s6(a)]
[Withheld under s6(a)] Quantifiable benefits (i.e. tariff reductions) are now estimated to have a present value of around **\$4,000m**, [Withheld under s6(a)]
[Withheld under s6(a)] Costs, (not including biologics), have ¹ [Withheld under s6(a)] present value of **\$800m**. [Withheld under s6(a)]
[Withheld under s6(a)] [Redaction no 1 Withheld under s6(a)]

We continue to note that genuine progress in trade facilitation, services gains, and reductions in non-tariff barriers has the potential to add significantly to the net benefits of the treaty. From the information we have available it is difficult to calculate an accurate figure but based on MFAT modelling we estimate that the net present value of these benefits could range up to **\$9,300m**.³ Again we stress the uncertainty around this number.

There are also a range of unquantifiable costs and benefits. The ISDS and copyright provisions may have wider economic costs. On the positive side the agreement may also lead to greater investment flows in the region. We understand other trade models such as the Petersons model, have sought to quantify these benefits, but we agree with the approach taken in the MFAT model that these are too uncertain to calculate.

Critical decision points

The key judgement you will need to make is whether the benefits outweigh the costs in the final package. We judge the key outstanding matters that you need to test with Ministers if a deal is proposed are as follows:

[Withheld under s6(a) & s6(e)(vi)]

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² See caveats outlined in table 1 below

³ Using the latest MFAT model (see table 1) the NPV of benefits from NTBs is \$14,537m. We understand MFAT have applied a 50% reduction in the benefits calculated reducing goods NTBs, in order to reflect the uncertainty of all the NTB benefits. The goods NTBs make up 70% of the total NTBs leading to a rounded figure of \$9,300m

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Based on the tariff reduction package as a whole and the potential for NTB benefits, it seems likely that the agreement will have a net positive effect, even if the dairy outcome is modest.

[Withheld under s6(a) & s6(e)(vi)]

Biologics

Biologics are medicines derived from living materials, and are a rapidly growing portion of pharmaceutical expenditure worldwide. In addition to patents, incentives for the development of new products are maintained through a period of protection for relevant data (such as clinical trial data) used to seek regulatory approval.

[Withheld under s6(b)(i)]

[Withheld under s6(a) & s6(b)(i)]

[Withheld under s6(a) & s6(b)(i)]

This contrasts with the 5-year data protection period under New Zealand's domestic law.

The cost for New Zealand of a longer period of data protection would arise through an extension of monopoly pricing.

[Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)]

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Table 1: Economic Welfare ^{Withheld under s6(e)(vi)]} TPP Cost Benefit Analysis (excluding NTBs and Services numbers)	
	Total TPP package within existing mandate⁵ ^{Withheld under s6(e)(vi)]}
Benefits ⁶ (tariff reduction)	~\$4,062m
Pharmac - Patent extensions	(\$14m)
Pharmac - altered transparency	(\$34m)
Pharmac – Biologics	-
Copyright changes	(\$740m-\$840m)
Net Benefits/Costs (present value)	~ \$3,200m
NTB / services reduced ⁷	Up to \$9,300m
Unquantifiable costs/benefits	Net costs include: Wider economic impacts of copyright, ISDS Net benefits include: Possible increase in investment flows

See Annex 1 for a more detailed explanation of the Biologics issue, and a summary of the implications of TPP on Pharmac.

Fiscal Impacts of TPP

We expect a range of departments will face additional costs associated with servicing commitments agreed in TPP. For example, any technical cooperation or ongoing discussions that will be needed to implement the commitments. Pharmac has quantified these costs as being \$2.2m in on-going annual administrative costs, plus \$4.5m in one-off establishment costs. Other departments have not quantified these costs to date. In the first instance, we expect that all departments (including Pharmac) should treat these like any other cost pressure and assess how they can be met within baselines.

Changes to Pharmac are also estimated to result in lost savings ^{s18 (d)}

This represents an average annual impact over the long-term (essentially, a

⁵ Please see Treasury report *Concluding the Trans-Pacific Partnership Agreement (T2015/1225)* for a more detailed breakdown of the figures in this column

⁶ Source: Scenario A1 in table 4 in a report dated 28 September, 2015 prepared for MFAT (as an additional supplement to earlier advice), called "A Dynamic Computable General Equilibrium (CGE) Analysis of the Trans-Pacific Partnership Agreement: Potential Impacts on the New Zealand Economy". Scenario A1 is the more conservative scenario, which assumes that the US, Japan and Canada claim 0.5% of their tariff lines as 'sensitive'. This currently seems the most likely scenario. The modelling result provided an estimate for the economic welfare impact in 2007 dollars for the year 2030 of \$504m, which we assume to be representative of the average net annual benefit after year 16. We assume that the benefits taper up from zero over the years between now and 2030.

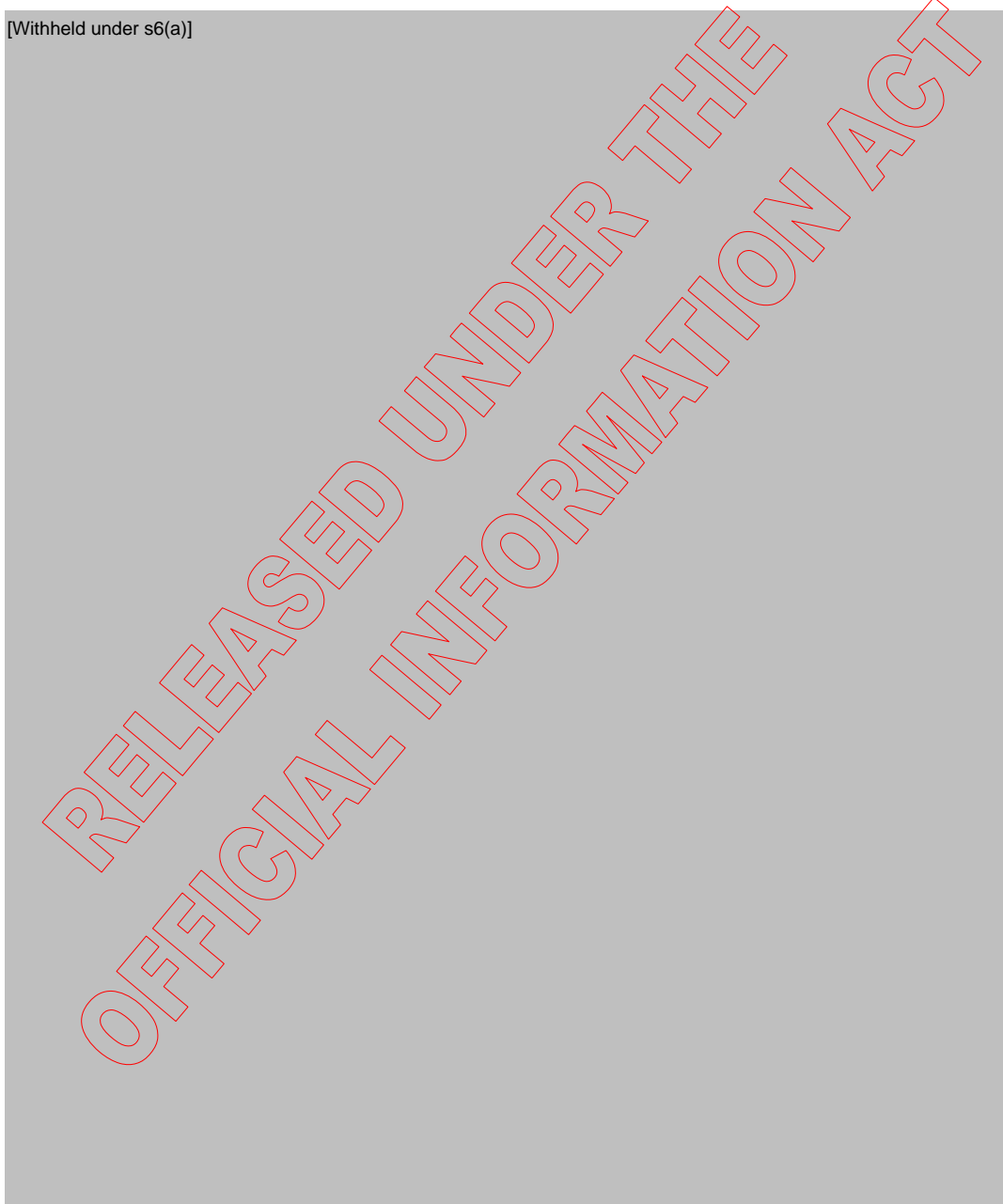
⁷ Includes trade facilitation, services gains, and reductions in non-tariff barriers

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quantification of risk), rather than a specific annual cost. We recommend that Ministers avoiding making any commitments to increase funding for pharmaceuticals to offset the impact of the TPP. See Annex 1 for an explanation of this point.

Outstanding Treasury specific issues

[Withheld under s6(a)]



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[Withheld under s6(a) & s6(e)(vi)]

Thomas Parry, Senior Analyst, International, 04 890 7260
Chris Nees, Team Leader, International, 04 917 6019

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Annex 1: Implications of TPP for Pharmac

This note summarises the implications of TPP for Pharmac. There are three issues:

- stronger transparency arrangements,
- patent-term extension for unreasonable regulatory delays, and
- a possible increase in the data protection period for biologics.

[Withheld under s6(a) & s6(e)(vi)]

Stronger transparency arrangements (PV estimated at 34.2 million)

There will be a requirement for Pharmac to make decisions (approve, decline) within a timeframe, but with scope for deadline extensions. There will be an internal review process – but Pharmac will not be required to reassess prioritisation decisions. These changes will involve certain operational costs for Pharmac. These are now estimated as one-off establishment costs of \$4.5 million and on-going annual costs of \$2.2 million.

[Withheld under s6(a) & s6(e)(vi)]

Patent-term extensions s18 (d)

The agreement will include provisions that allow for patent linkage and the extension of patent term if there is an unreasonable delay in the processing of patent or marketing applications for pharmaceuticals. This would impose costs through an extended period of monopoly pricing.

[Withheld under s6(a) & s6(e)(vi)]

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[Withheld under s6(a)]

Biologics: data protection period

Biologics are medicines derived from living materials, and are a rapidly growing portion of pharmaceutical expenditure worldwide. In addition to patents, incentives for the development of new products are maintained through a period of protection for relevant data (such as clinical trial data) used to seek regulatory approval.

The cost for New Zealand of a longer period of data protection would arise through an extension of monopoly pricing. This would manifest as lost savings to Pharmac (savings which Pharmac would otherwise have been able to negotiate in the presence of competition from lower-cost generics). These lost savings would either require a higher level of pharmaceutical funding (direct fiscal cost) or a corresponding reduction in health outcomes compared to the counterfactual of no changes to the data protection rules (welfare cost).

[Withheld under s6(a) & s6(e)(vi)]

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[Withheld under s6(a) & s6(e)(vi)]

Overall implications of TPP for Pharmac

Pharmac is confident, and we agree, that the TPP will not compromise its fundamental operating model. This is the line that Hon Groser has been taking. [Withheld under s6(e)(vi)]

[Withheld under s6(e)(vi)]

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We recommend that Ministers avoiding making commitments to increase funding for pharmaceuticals to offset the impact of the TPP for the following reasons:

- First, the agreement will be only one factor affecting the cost of pharmaceuticals specifically, and the cost of health care overall. Any funding increases are properly a matter for future Budgets, when this issue can be considered alongside other priorities (including other health priorities).
- Second, it is fundamental to the Pharmac model that medicines are classified and funded according to whether they provide value at prices that can be negotiated with manufacturers. Increasing the pharmaceutical budget to offset the impact of TPP would not necessarily mean that affected products were funded, since they may not offer value for money with monopoly pricing.
- Third, the impact of the agreement on the cost of pharmaceuticals is uncertain and will only materialise over time. This makes it difficult for the current government to make credible commitments on funding. In particular:
- the costs associated with transparency provisions (if they eventuate) will be unpredictable and lumpy. The estimate provided (average annual cost over the long-term) is essentially a quantification of risk, rather than a precise costing that can be funded now, and

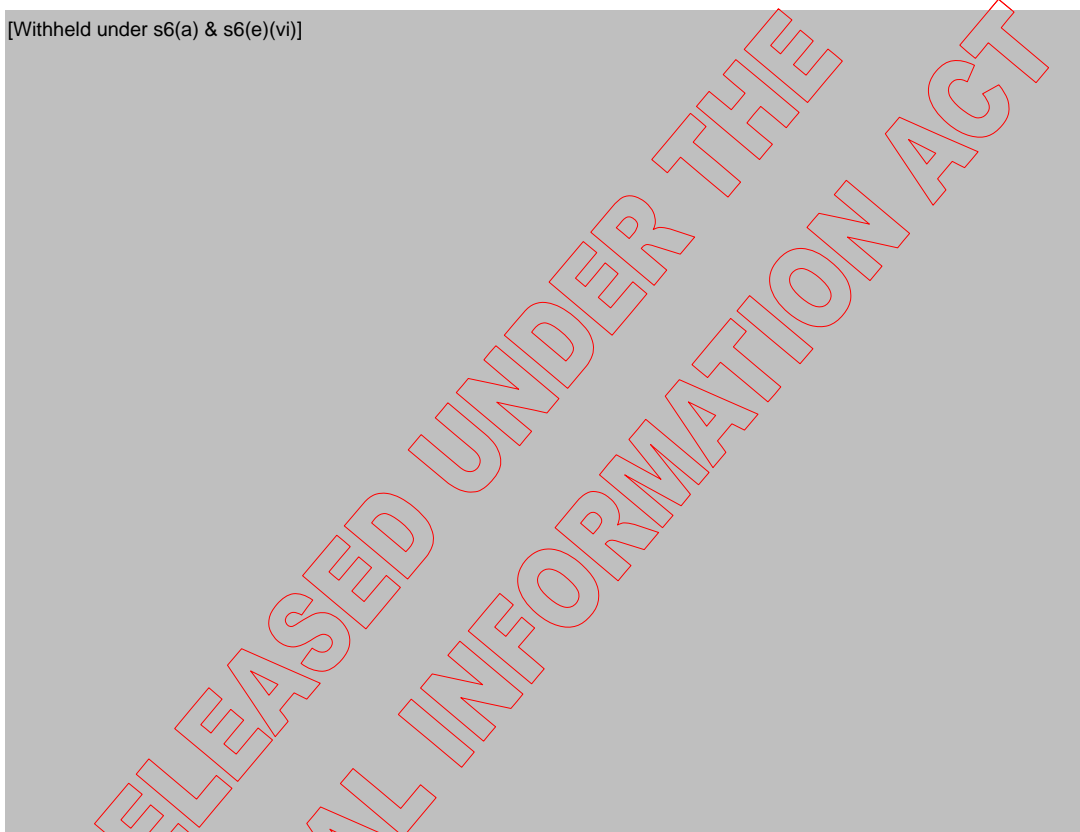
Withheld under s6(e)(vi)]

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Update temporary safeguard measures (TSM)

There are two issues live in the discussion on Maui. This reflects a conversation as 9.30am Monday 28 July.

[Withheld under s6(a) & s6(e)(vi)]



[Withheld under s6(a)]




28 July 2015

Talking Points for call with US Treasury Secretary
US proposed Currency Agreement

- Welcome the opportunity to follow-up conversations that have been started at the officials' level.
- I understand and appreciate the explanation of what the US is trying to achieve. Clearly there is some concern about currency practices. But care needs to be taken to ensure sufficient space for legitimate policy as your letter to Congress pointed out.
- As background New Zealand has for more than 3 decades now run a freely-floating exchange rate with minimal exchange rate intervention. Our current account has been in almost continuous deficit since the 1970s.

[Withheld under s6(a)]



[Withheld under s6(a)]

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[Withheld under s6(a)]

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Reference: T2015/1627

IM-3-0-5



Date: 20 July 2015

To: Minister of Finance
(Hon Bill English)

Cc: Minister of Trade
(Hon Tim Groser)

Deadline: None
(if any)

Aide Memoire: Update on Currency issues in Trans Pacific Partnership negotiations

This note outlines progress since we reported to you in May on the issue of managing currency issues in the Trans Pacific Partnership (TPP) negotiations (T2015/932 refers). The US Treasury recently contacted us to outline how they wish to approach this issue as negotiations are finalised.

To meet the conditions set out in the Trade Promotion Authority Bill, the US administration is required to "make progress" towards the negotiation objective of "*parties to a trade agreement with the United States avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other parties to the agreement, such as through cooperative mechanisms, enforceable rules, reporting, monitoring, transparency, or other means, as appropriate.*"

[Withheld under s6(b)(i)]

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[Withheld under s6(a)]



[Withheld under s6(b)(i)]

[Withheld under s6(a)]



Once we receive a formal proposal from the US we will report to you seeking a mandate to engage with negotiations.

Chris Nees, Team Leader, International, 04 917 6019

James Beard, Manager, International, Financial Markets and Tax Strategy, 04 917 6161

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Reference: T2015/932

IM-3-0-5

Date: 6 May 2015

To: Minister of Finance (Hon Bill English)

CC: Minister of Trade (Hon Tim Groser)

Deadline: None

Aide Memoire: Currency issues in Trans Pacific Partnership negotiations

This note sets out [Withheld under s6(b)(i)] currency issues in the context of the Trans Pacific Partnership (TPP) negotiations and progression of Trade Promotion Authority in US Congress.

- The US Administration is currently seeking passage of a Trade Promotion Authority Bill (TPA). The Bill, as a rule, would restrict Congress to a straight 'up or down' vote on a TPP agreement (and any other free trade agreements signed in a set period). The Bill includes several procedural requirements and outlines negotiating objectives that the Administration must take into account in pursuing trade agreements.
- The Bill includes the following negotiating objective on currency: "The principal negotiating objective of the United States with respect to currency practices is that parties to a trade agreement with the United States avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other parties to the agreement, such as through cooperative mechanisms, enforceable rules, reporting, monitoring, transparency, or other means, as appropriate."
- Some Congress members have sought a stricter objective, in particular a requirement for "strong and enforceable" rules that would help prevent currency manipulation. This amendment (proposed in the Senate Committee 'mark up' process) was defeated but could yet re-emerge.
- The US Administration does not favour the inclusion of strict measures, recognising that it could call be used to query US practices and would be an insurmountable barrier for most TPP countries. The United States Trade Representative and Treasury Secretary have been active in lobbying against such provisions being included in TPA.

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[Withheld under s6(b)(i)]

- Officials will continue to actively monitor this issue and progress of the Trade Promotion Authority Bill.

Thomas Parry, Senior Analyst, International, 04 890 7260

James Beard, Manager, Financial Markets and International, International, 04 917 6161

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Treasury Report: The impact of international obligations on measures to restrict foreign investment in housing

Date:	21 September 2015	Report No:	T2015/1978
		File Number:	IM-2-0-0

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	[Withheld under s6(a)] refer a copy of this report to the Prime Minister, Minister of Trade, and the Minister of Revenue.	Monday 28 September 2015

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]	Analyst, International	04 890 7226 (wk)	[Withheld under s9(2)(a)] ✓
Chris Nees	Team Leader, International	04 917 6019 (wk)	
James Beard	Manager - International, Financial Markets & Tax Strategy	04 917 6161 (wk)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
Refer a copy of this report to the Prime Minister, Minister of Trade, and the Minister of Revenue

Enclosure: No

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Treasury Report: The impact of international obligations on measures to restrict foreign investment in housing

Purpose of Report

1. This report discusses whether different measures to restrict foreign investment into residential housing are consistent with the current TPP mandate [Withheld under s9(2)(h)]
[Withheld under s9(2)(h)]
[Withheld under s9(2)(h)] The report also provides advice on whether New Zealand should seek to preserve further policy flexibility in this area through the TPP negotiations.

Analysis

Background

2. We have previously responded to questions from Ministers and officials about what our FTA obligations are in relation to restrictions on foreign investment in housing. [Withheld under s9(2)(h)]
[Withheld under s9(2)(h)]

NZ's ability to restrict foreign investment into residential housing

[Withheld under s9(2)(h)]

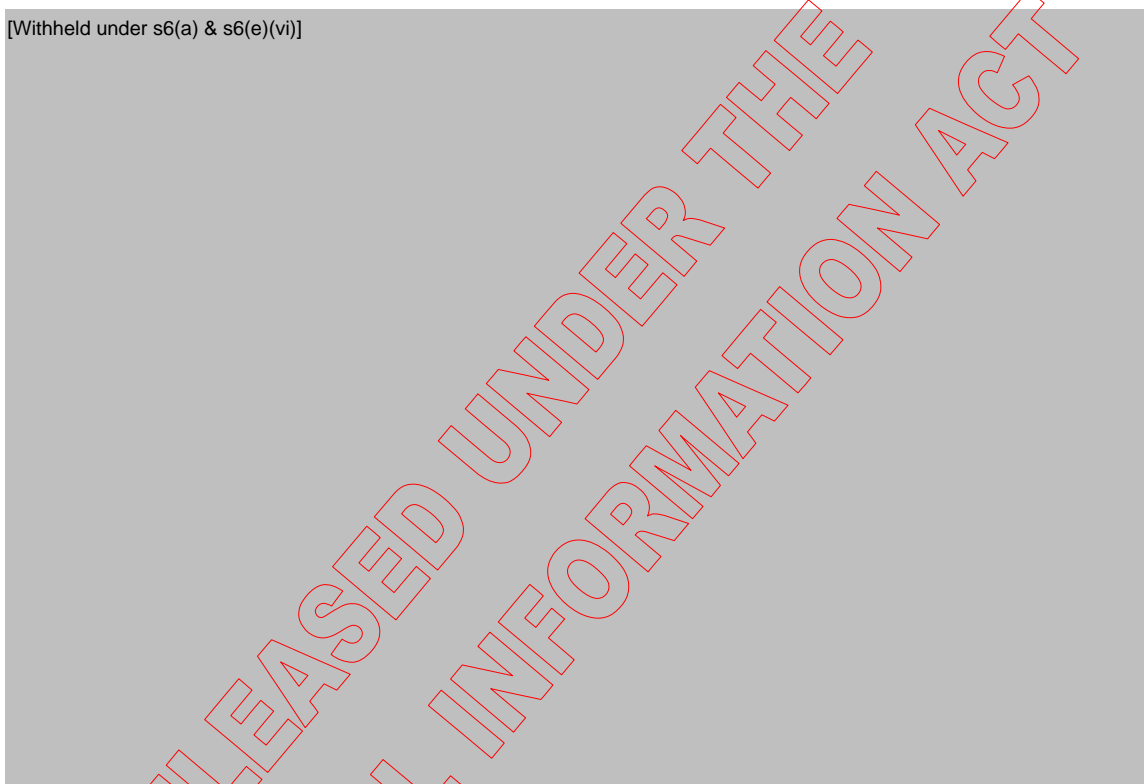
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Providing policy flexibility

6. The key decision in this paper is whether to maintain future policy flexibility to impose restrictions on foreign investment into residential housing by seeking a wider reservation within the TPP. The main economic trade-off to consider at this point is the option value of retaining the ability to impose restrictions versus any trade policy costs.

Option value

[Withheld under s6(a) & s6(e)(vi)]



Trade policy costs

[Withheld under s6(a)]



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[Withheld under s6(a) & s6(e)(vi)]

MFAT comment

[Withheld under s6(a)]

Next steps


[Withheld under s6(a)]

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Recommended Action

We recommend that you:

[Withheld under s6(a)]



- c **refer** a copy of this report to the Prime Minister, Minister of Trade, and the Minister of Revenue.

Refer/not referred.

James Beard
Manager - International, Financial Markets & Tax Strategy

Hon Bill English
Minister of Finance

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[Withheld under s9(2)(h)]

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Treasury Report: Trans Pacific Partnership: Update on US proposal for a currency arrangement

Date:	3 September 2015	Report No:	T2015/2077
		File Number:	IM-3-0-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Refer to the Prime Minister, Minister for Economic Development and Minister of Trade	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Mario DiMaio	Principal Advisor	04 917 6154 (wk) N/A (mob)	✓
Chris Nees	Team Leader, International	04 917 6019 (wk) [Withheld under s9(2)(a)]	

Actions for the Minister's Office Staff (if required)

<p>Return the signed report to Treasury.</p> <p>Refer to the Prime Minister, Minister for Economic Development and Minister of Trade</p>

Enclosure: No

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Treasury Report: Trans Pacific Partnership: Update on US proposal for a currency arrangement

Purpose of Report

1. This report updates you on progress in developing an agreement on currency issues at the instigation of the United States to meet their Congress' requirements.

Analysis

2. In your call with Treasury Secretary Lew on July 28 you agreed officials would engage constructively with the US on negotiation of a parallel agreement among TTP parties on currency issues. [Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)] [T2015/1696]. Based on this mandate officials from the Treasury and Reserve Bank have had a series of exchanges with the US Treasury.

3. [Withheld under s6(a) & s6(b)(i)]

[Withheld under s6(b)(i) & s6(e)(vi)]

[Withheld under s6(b)(i) & s6(e)(vi)]

4. [Withheld under s6(a)]

[Withheld under s9(2)(h)]

5. [Withheld under s6(a) & s6(b)(i)]

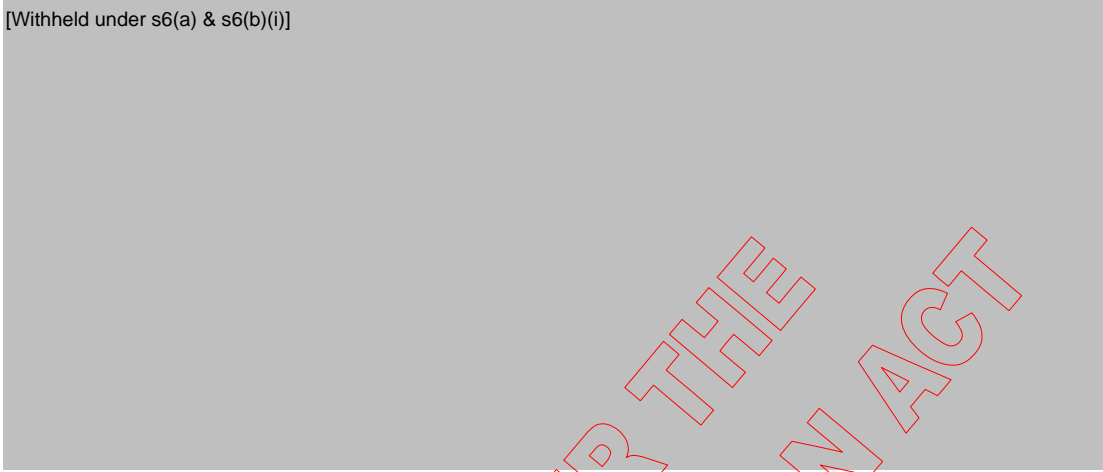
[Withheld under s6(a) & s6(b)(i)] [Withheld under s6(e)(vi)]

[Withheld under s6(e)(vi)]

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Next Steps

6. [Withheld under s6(a) & s6(b)(i)]



7. We will update Ministers at a point where there has been substantive progress.

Risks

8. At some point there is a small risk that the TPP 'group' could publically criticise New Zealand policies as inconsistent with the arrangement. We assess that the changes ensure that there are minimal risks to future policy action from entering the arrangement.

Recommended Action

We recommend that you:

a **refer** a copy of this report to the Prime Minister, Minister for Economic Development and Minister of Trade

Refer/not referred.

Chris Nees
Team Leader, International

Hon Bill English
Minister of Finance

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[Withheld under s6(a) & s6(b)(1)]

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[Withheld under s6(b)(i)]

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[Withheld under s6(b)(i)]



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Treasury Report: Trans Pacific Partnership: Currency Declaration

Date:	2 October 2015	Report No:	T2015/2313
		File Number:	IM-3-0-5

Action Sought

	Action Sought	Deadline
Prime Minister (Rt Hon John Key)	Indicate comfort with the Treasury/Reserve Bank entering a currency declaration with TPP parties	By the time of any decisions on wider TPP mandate issues.
Minister of Finance (Hon Bill English)	Indicate comfort with the Treasury/Reserve Bank entering a currency declaration with TPP parties	By the time of any decisions on wider TPP mandate issues.
Minister for Economic Development (Hon Steven Joyce)	Indicate comfort with the Treasury/Reserve Bank entering a currency declaration with TPP parties	By the time of any decisions on wider TPP mandate issues.
Minister of Trade (Hon Tim Groser)	Indicate comfort with the Treasury/Reserve Bank entering a currency declaration with TPP parties	By the time of any decisions on wider TPP mandate issues.

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Mario Di Maio	Principal Advisor	04 917 6154 (wk)	N/A (mob)
Chris Nees	Team Leader	04 917 6019 (wk)	✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury

Communication: Note attached draft press release to be issued on behalf of Treasury/Reserve Bank

Note any feedback on the quality of the report

Enclosure: Yes (attached as annex)

IN-CONFIDENCE

Treasury Report: Trans Pacific Partnership: Currency Declaration

Executive Summary

This report seeks your comfort with the Treasury and Reserve Bank entering into a Declaration with TPP parties on macroeconomic policy. As this is not a legally-binding Declaration between policy agencies, formal Cabinet/Ministerial agreement is not required.

TPP parties, at the instigation of the United States, have reached substantive agreement on the text of a Declaration on macroeconomic and currency issues. US Congressional approval of the trade agreement among TPP Parties requires the US Administration to demonstrate progress on the principal negotiating objective of 'unfair' currency practices.

[Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)]

More specifically, the Declaration would now be between macroeconomic authorities (the Reserve Bank and the Treasury for New Zealand) and does not create legal obligations for New Zealand. The Declaration also addresses the objectives agreed by Ministers and now:

- does not carry any restrictions on future policy regarding currency arrangements and macroeconomic policy, nor provisions that may conflict with domestic policy objectives;
- includes transparency and data release provisions that are consistent with current practice; and
- brings the consultation provisions closer to best practice and includes checks and balances regarding public statements of other countries' policies.

The intention is that TPP macroeconomic authorities issue a joint press statement (draft in Annex 2) should Trade Ministers reach substantive agreement on the text of the trade agreement in the coming days or weeks. The final text of the Declaration has not yet been agreed among all parties and would not be made public at this stage. The intention would be to publish the Declaration at a future point, potentially around the time the trade agreement were published. We have included some communications messages in this report.

IN-CONFIDENCE

Recommended Action

We recommend that you:

- a **Note** that TPP parties have reached substantial agreement on the text of a currency arrangement
- b **Indicate** whether you are comfortable with the Treasury and Reserve Bank entering into this agreement

Yes/No
Prime Minister

Yes/No
Minister of Finance

Yes/No
Minister for Economic Development

Yes/No
Minister of Trade

- c **Note** that a joint statement (attached) by the heads of macroeconomic agencies of TPP parties would be released alongside any announcement of agreement or substantive agreement amount, and
- d **Note** that further minor changes to the Declaration text and/or press release are likely.

Chris Nees
Team Leader, International

Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance

Hon Steven Joyce
Minister for Economic Development

Hon Tim Groser
Minister of Trade

IN-CONFIDENCE

Treasury Report: Trans Pacific Partnership: Currency Declaration

Purpose of Report

1. This report seeks your comfort with the Treasury and Reserve Bank entering into a Declaration with TPP parties on macroeconomic policy.

Background

2. With the passage of the Trade Promotion Authority Act (TPAA) through the US Congress, TPP negotiations are in their final stages. To grant approval to the TPP agreement Congress requires the US Administration to make progress towards the negotiating objectives with respect to exchange rate manipulation. [Withheld under s6(a), s6(b)(i) & s6(e)(vi)]
[Withheld under s6(a), s6(b)(i) & s6(e)(vi)]
3. The Treasury and Reserve Bank have been negotiating the text of an understanding with the US. In discussion with US Treasury Secretary Lew, the Minister of Finance directed officials to engage constructively to secure a text that addresses Congressional concerns and New Zealand objectives. Officials have also been chairing a group of TPP macroeconomic authorities [Withheld under s6(a) & s6(b)(i)] to ensure consistent and informed bilateral discussions with the US.
4. Substantive agreement has been reached on the text of the Declaration. The Declaration now includes statements on exchange rate policy, public disclosure of data and IMF assessments, and agreement to formalise policy dialogue among TPP macroeconomic authorities.
 - **Exchange rates:** Authorities agree to: (i) restate their commitments under Article IV(1)(iii); (ii) foster an exchange rate system that reflects underlying economic fundamentals, and avoids persistent exchange rate misalignments; (iii) refrain from competitive devaluation and targeting their own countries' exchange rates for competitive purposes.
 - **Transparency and Reporting:** Authorities agree to publish their IMF Article IV report and participate in the IMF survey of the currency composition of foreign reserves. The Declaration also includes agreement to publish data on foreign reserves, exchange rate intervention, exports and imports, portfolio capital flows, and monetary aggregates.
 - **Dialogue:** The Declaration establishes a group of officials that will meet to discuss the issues covered in the Declaration and publish a report of the meeting and any conclusions.
5. As this is not a legally-binding Declaration between policy agencies formal Cabinet/Ministerial agreement is not required.
6. While substantive agreement has been achieved there is potential for further minor changes to the text. These are very unlikely to change the substantive nature of the obligations in most respects. The exception is the transparency provisions (and particularly those regarding data on exchange rate intervention) which have been problematic for [Withheld under s6(a) & s6(b)(i)] We expect that the disclosure of this data could be reduced in frequency, provided with a longer delay, or these countries could be carved out of these requirements. Any change along these lines will not impact on New Zealand compliance.

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Analysis

7. [Withheld under s6(a)]

with very limited costs and risks to New Zealand in terms of potential criticism of policy and transactions costs.

Legal status

8. The Declaration does not create any binding legal obligations for New Zealand. Read as a whole, the text is not a treaty and now creates moral rather than legal obligations and commitments. In addition, the Declaration is now between agencies in each TPP country that deals with macroeconomic policy rather than creating political obligations.

Exchange rate policy

9. The Declaration is now completely consistent with domestic policy objectives and poses no risk of limiting future policy choices regarding the exchange rate regime or macroeconomic management. The commitments in the Declaration now line up very closely with the legal obligations that New Zealand already has as a signatory to the IMF Articles of Agreement. The commitments are also consistent with avoiding practices that are widely accepted as harmful to economic and financial stability and growth.

10. The Declaration now recognises that disorderly exchange rate movements are possible and that departures (albeit temporary) are useful in exceptional circumstances to deal with these events.

Transparency

11. Based on the revised text, New Zealand now complies with all of the commitments regarding data publication without any changes to existing practice. It is also New Zealand policy to publish Article IV reports and the timeframe proposed is consistent with past practice.

Consultations

12. The revised consultation process is closer to New Zealand's desire for a constructive and consultative process closer to international best practice. There is clearer scope for independent input (although this is not mandated) and the text now requires collective agreement among parties. Operating on a collective basis will safeguard against the risk that the group becomes dominated by any one party. This should guard against the dialogue becoming politicised and help ensure more productive discussion. It also reduces the risks that the group could issue public statements that do not reflect a balanced and informed assessment of a country's policies.

New Zealand representation

13. The Declaration provides New Zealand the ability to decide on the agencies it wishes to agree to the Declaration. We propose that both the Treasury and the Reserve Bank are Parties to the agreement for New Zealand. The matters addressed in the agreement include some issues that are currently delegated to the Governor of the Reserve Bank of New Zealand under New Zealand legislation. [Withheld under s6(a) & s6(b)(i)] The US has signalled that the US Federal Reserve will not be a party to the Declaration.

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Risks

14. There are no substantive risks.

Communications

15. In the event that Trade Ministers reach substantive agreement on the wider text of the trade agreement, the US proposes to issue a joint statement on behalf of all the TPP macroeconomic authorities (see Annex 2 for a draft). Further minor changes to the draft are possible.
16. The statement notes that macroeconomic authorities have been in discussion on macroeconomic policy cooperation and have reached broad or substantive agreement (depending on progress). It repeats language from the Declaration noting the importance of macroeconomic stability to the success of the TPP and identifying the broad elements of the Declaration.
17. In terms of proactive communications messages, the following key points could be seen as relevant:
- We welcome this Declaration as an opportunity for the Treasury and Reserve Bank to strengthen macroeconomic policy dialogue with our close trading partners.
 - As a small open economy we are well aware that other countries' macroeconomic choices can affect our own economy.
 - We also recognise that macroeconomic stability plays an important role in supporting stronger trading and investment flows.
 - New Zealand's strong and sound macroeconomic policy settings and open and transparent approach to data are consistent with the Declaration.
 - This Declaration does not create any new legal obligations for New Zealand and is not part of the wider TPP agreement.
18. Annex 3 contains some questions and answers.

Next Steps

19. Although we are satisfied with the draft Declaration, final agreement on the text may require further minor changes. Final agreement will be conveyed to other TPP authorities from the Governor of the Reserve Bank and Treasury Secretary.
20. The timing of the publication of the final text remains under discussion. We will signal our strong preference that the public disclosure of the text is aligned with communication of the wider TPP agreement. [Withheld under s6(a)]
[Withheld under s6(a)]
21. [Withheld under s6(a) & s6(b)(i)]
[Withheld under s6(a) & s6(b)(i)]

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[Withheld under s6(a) & s6(e)(vi)]

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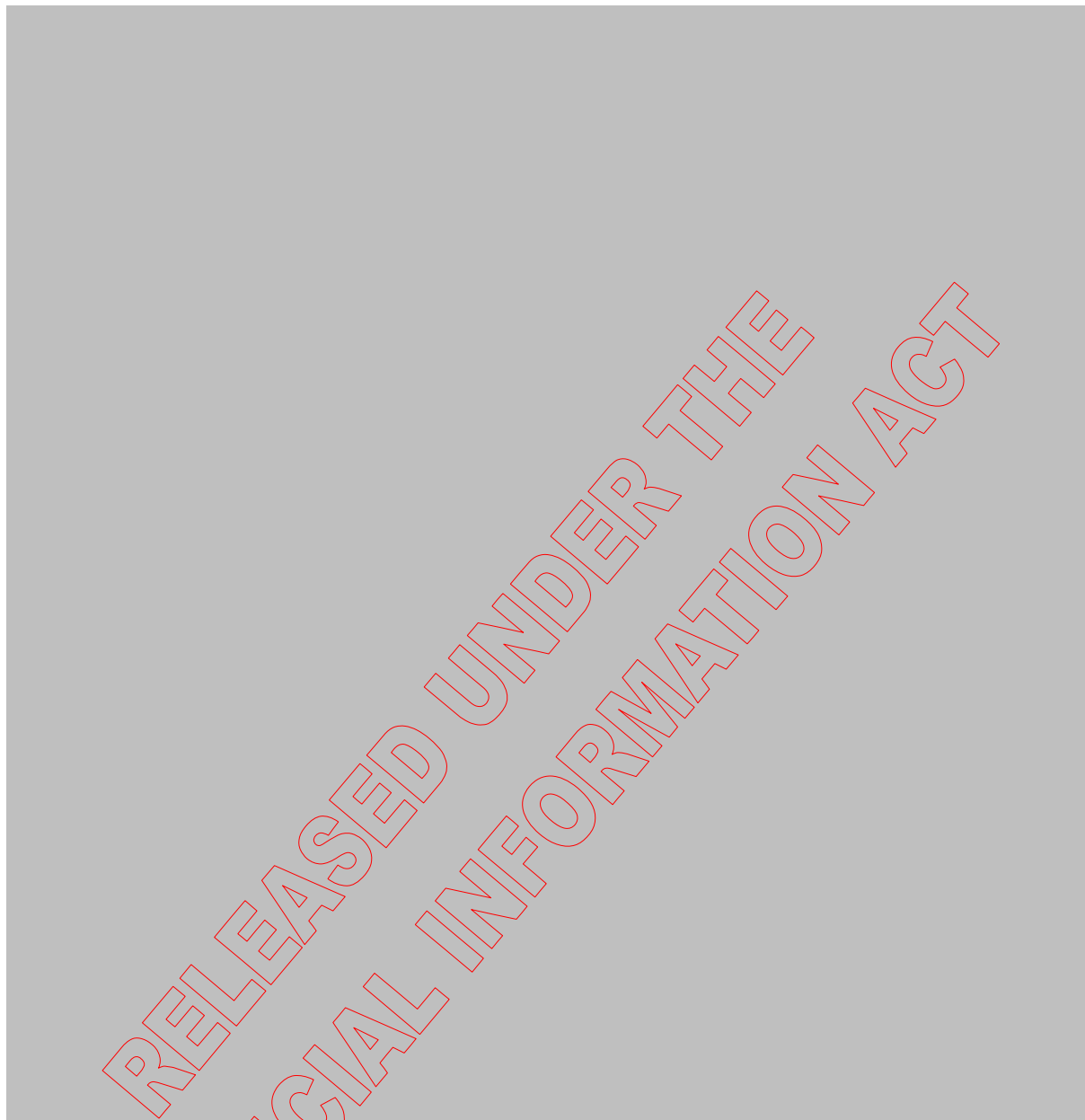
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[Withheld under s6(a) & s6(e)(vi)]



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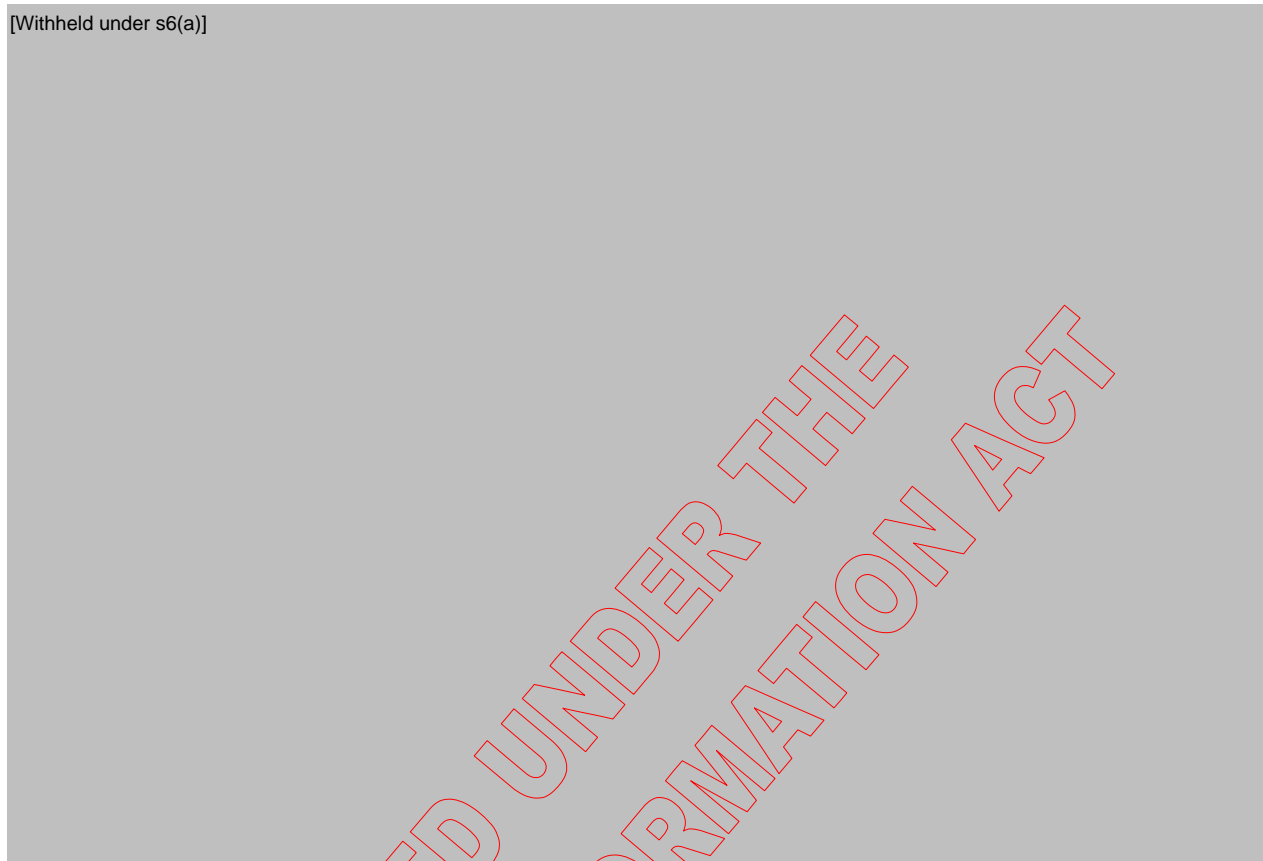


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[Withheld under s6(a)]



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ANNEX 3: QUESTIONS AND ANSWERS

Has this been foisted on New Zealand as a cost of participating in TPP?

- This was one of a number of issues the US Congress has legislated progress on as a negotiating objective for TPP.
- However, New Zealand welcomes the opportunity for dialogue with larger systemic trading partners.
- The Declaration provides an opportunity for our officials to raise concern about the effects of others' policies on New Zealand.
- New Zealand has a freely-floating exchange rate, an independent central bank operating monetary policy with the goal of stabilising inflation, and limited and targeted exchange rate intervention policy.
- Our macroeconomic policy settings and frameworks are based on delivering macroeconomic stability with a view to supporting trade and investment.

Does New Zealand comply with the Declaration?

- Yes. New Zealand's practice and policy is consistent with the elements set out in the Declaration

Would the Reserve Bank's policy on currency intervention breach the Declaration?

- No. The framework does not restrict the ability of the RBNZ to intervene.
- The framework setting out the operating of currency intervention policy under Section 16 of the Reserve Bank of New Zealand Act provides for interventions when the exchange rate is exceptionally high or low and clearly unjustified by economic fundamentals. This is consistent with the text of the Declaration.
- Interventions will not attempt to influence the long-term trend of the exchange rate.

Is this Declaration legally binding?

- No. This is an understanding among our macroeconomic agencies. It is not a treaty among TPP governments.

Will this restrict New Zealand's ability to change its exchange rate regime or approach to monetary policy?

- No. The text on exchange rates largely echoes New Zealand existing commitments under Article IV of the IM Articles of Agreement.
- The exchange rate elements of the Declaration – for example the avoidance of exchange rate manipulation - are helpful in supporting stronger trade.

Is the US Federal Reserve's QE (Quantitative Easing) policy consistent with the Declaration?

- It is not appropriate for New Zealand to pass judgement on QE in relation to the Declaration. The purpose of the Declaration is to foster cooperation and dialogue among authorities responsible for macro-economic management, rather than to pass judgement on each other's regimes."

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Reference: T2015/2280

IM-3-0-5

Date: 25 September 2015

To: Prime Minister (Rt Hon John Key) Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce) Minister of Trade (Hon Tim Groser)

Deadline: None

Aide Memoire: Currency Declaration with TPP Parties: An update

The US Treasury provided an updated 'Declaration' on currency issues among TPP parties (attached). This responds to comments from other parties, including New Zealand.

Our assessment is that the draft Declaration addresses all of the substantial issues New Zealand has raised with previous versions. [Withheld under s6(a)]

[Withheld under s6(a)] [T2015/2077 and T2015/1696]. More specifically, the Declaration would now be between macroeconomic authorities (in New Zealand's case the Reserve Bank and the Treasury) and does:

- not create legal obligations for New Zealand
- not carry any restrictions on future policy space regarding currency arrangements and macroeconomic policy
- include transparency and data release provisions that are consistent with current practice; and
- bring the consultation provisions closer to best practice and includes checks and balances regarding public statements of other countries' policies.

While there are some minor changes to the language that would further clarify the nature of the Declaration, we are comfortable with the proposed text.

[Withheld under s6(b)(i)]

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[Withheld under s6(b)(i)]

Once a final text is agreed we would report to joint Ministers seeking final agreement for Treasury and the Reserve Bank to enter into the declaration. We have begun to turn our attention to how we can shape the conduct of the ongoing Dialogue so that it is productive, protects our interests, and we continue to be a trusted and constructive partner.

Mario Di Maio, Principal Advisor, International, 04 917 6154

Christopher Nees, Team Leader, International, International, 04 917 6019

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[Withheld under s6(a) & s6(b)(i)]

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[Withheld under s6(a) & s6(b)(i)]

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Reference: T2015/1755 IM-2-0-0

Date: 31 July 2015

To: Minister of Finance (Hon Bill English)

Deadline: None
(if any)

Aide Memoire: TPP Update

This note provides you with information on relevant outstanding issues in the TPP negotiations, in anticipation of a possible request for you to agree to mandate changes later tonight.

The note also updates you on two other issues of interest on TPP, most importantly the implications of TPP on the government's ability to restrict foreign investment into residential housing.

Possible areas of TPP mandate change

End game TPP negotiations are underway in Maui. We understand your office has been contacted by MFAT to indicate mandate change decisions may be sought late tonight (Friday 31 July) in order to secure a final deal.

There are a number of discrete changes in the draft agreement text areas of Treasury responsibility, some of which may require mandate change. Also, as foreshadowed in earlier advice, [Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)]

Summary of current position

[Withheld under s9(2)(g)(i)]

[Withheld under s9(2)(g)(i)] we noted that genuine progress in trade facilitation, services gains, and reductions in non-tariff barriers had the potential to add significantly to the net benefits of the treaty.

The key judgement you will need to make tonight is whether the benefits outweigh the costs in the final package. [Withheld under s6(a) & s6(e)(vi)]

¹ See caveats outlined in table 1 below

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[Withheld under s6(a) & s6(e)(vi)]

Biologics

Biologics are medicines derived from living materials, and are a rapidly growing portion of pharmaceutical expenditure worldwide. In addition to patents, incentives for the development of new products are maintained through a period of protection for relevant data (such as clinical trial data) used to seek regulatory approval.

[Withheld under s6(b)(i)]

Withheld under s6(b)(i)]

may seek agreement to an 8-year [Withheld under s6(b)(i)]
year data protection period under New Zealand's domestic law.

The cost for New Zealand of a longer period of data protection would arise through an extension of monopoly pricing.

Withheld under s6(e)(vi)]

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[Redacted]
Withheld under s6(e)(vi)]

Again, as noted above, genuine progress on trade facilitation, services gains, and reductions in non-tariff barriers has the potential to add significantly to the net benefits of the treaty. This table does not include these potential benefits. From the information we have available it is difficult to calculate an accurate figure, but in the time given, we estimate that the net present value of these benefits could range [Withheld under s6(e)] in net present value terms. Again we stress the uncertainty around this number.

[Redacted]
Withheld under s6(e)(vi)]

See Annex 1 for a more detailed explanation of the Biologics issue, and a summary of the implications of TPP on Pharmac.

[Redacted]
Withheld under s6(e)(vi)]

[Redacted]
Withheld under s6(e)(vi)]

[Redacted]
[Withheld under s6(b)(i)]

[Redacted]
[Withheld under s6(b)(i)]

[Redacted]
[Withheld under s6(e)(vi) & s6(b)(i)]

[Redacted]
[Withheld under s6(a) & s6(b)(i)]

[Redacted]
[Withheld under s6(a) & s6(e)(vi)]

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[Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a)]

Other TPP matters for your attention

Foreign investment into residential housing

We have previously reported to you about the general implications of FTAs on our ability to apply investment screening and discriminatory tax measures to foreign investment in residential housing. Yesterday we had a specific discussion with the Ministry of Foreign Affairs and Trade on this issue, focussing on the implications from TPP. The advice below summarises that discussion, with the key caveats that this remains subject to negotiation in TPP [Withheld under s9(2)(h)]

[Withheld under s9(2)(h)]

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[Withheld under s9(2)(h)]



Currency manipulation

[Withheld under s6(b)(i)]



[Withheld under s6(a)]



We will continue to engage with these parties and the US to find a constructive solution, as you agreed with Secretary Lew.

Chris Nees, Team Leader, International, International, 04 917 6019

James Beard, Manager - International, Financial Markets & Tax Strategy, 04 917 6161

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Annex 1: Cost of Biologics and Implications of TPP for Pharmac

[Withheld under s6(a)]

Biologics: the issue

Biologics are medicines derived from living materials, and are a rapidly growing portion of pharmaceutical expenditure worldwide. In addition to patents, incentives for the development of new products are maintained through a period of protection for relevant data (such as clinical trial data) used to seek regulatory approval.

[Withheld under s6(b)(i)]

[Withheld under s6(b)(i)]

This contrasts with the 5-year data protection period under New Zealand's domestic law.

The cost for New Zealand of a longer period of data protection would arise through an extension of monopoly pricing. This would manifest as lost savings to Pharmac – that is, savings which Pharmac would otherwise have been able to negotiate in the presence of competition from lower-cost generics. These lost savings would either require a higher level of pharmaceutical funding (direct fiscal cost) or a corresponding reduction in health outcomes compared to the counterfactual of no changes to the data protection rules (welfare cost).

[Withheld under s9(2)(g)(i)]

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Withheld under s6(e)(vi)]

Other TPP impacts for Pharmac

[Withheld under s6(a)]

Briefly, they are as follows:

- **Stronger transparency arrangements** [Withheld under s6(a)] There will be a requirement for Pharmac to make decisions (approve, decline) within a timeframe, but with scope for deadline extensions. There will be an internal review process – but Pharmac will not be required to reassess prioritisation decisions. Estimated costs are a combination of administrative overheads [Withheld under s6(a)]
[Withheld under s6(a)]
- **Patent extension** [Withheld under s6(a)] The agreement will include provisions that allow for patent linkage and the extension of patent term where there is an unreasonable delay in the processing of patent or marketing applications for pharmaceuticals. The cost derives from an extended period of monopoly pricing. A one year extension of patent term averaged across all medicines has been assumed, [Withheld under s6(a)] The actual impact is uncertain, but we think this is a reasonable estimate.

Overall implications of TPP for Pharmac

Pharmac is confident, and we agree, that the TPP will not compromise its fundamental operating model. This is the line that Hon Groser has been taking. [Withheld under s6(e)(vi)]

Withheld under s6(e)(vi)]

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Withheld under s6(e)(vi)]

Pharmac budget decisions

We recommend that Ministers avoid making any firm commitments to increase funding for pharmaceuticals to offset the impact of the TPP. The agreement will be only one factor affecting the cost of pharmaceuticals specifically, and the cost of health care overall. Its impact on the cost of pharmaceuticals is uncertain and will only materialise over time. Any funding increases are properly a matter for future Budgets, when this issue can be considered alongside other priorities (including other health priorities). Again, this is consistent with the line Hon Groser has been taking.

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Treasury Report: Concluding the Trans-Pacific Partnership Agreement: significant changes to mandate

Date:	12 June 2015	Report No:	T2015/1225
		File Number:	IM-3-0-5

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<p>note that TPP mandate revisions will be sought at STR</p> <p>note we consider Ministers have not been given enough information to make a well-informed decision on the net benefits of a revised deal</p> <p>suggest that Ministers agree to mandate changes <i>in-principle</i>, on the condition of more evidence</p> <p>[Withheld under s6(a)]</p>	Prior to STR meeting, 15 June
Associate Minister of Finance (Hon Steven Joyce)	note the contents of this report	Prior to STR meeting, 15 June
Associate Minister of Finance (Hon Paula Bennett)	note the contents of this report	Prior to STR meeting, 15 June

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]	Analyst	[Withheld under s9(2)(g)(i)]	N/A (mob)
James Beard	Manager, Financial Markets and International	04 917 6161 (wk)	[Withheld under s9(2)(a)] ✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

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Treasury Report: Concluding the Trans-Pacific Partnership Agreement: significant changes to mandate

Executive Summary

The Minister of Trade considers that New Zealand's current mandate is not sufficient to conclude Trans-Pacific Partnership (TPP) negotiations. At the STR meeting on Monday 15 June, he will seek authorisation to conclude TPP negotiations by requesting changes to the negotiating mandate. The two major changes sought are:

[Withheld under s6(a) & s6(e)(vi)]

Neither the Minister of Trade nor MFAT have provided information that clearly sets out the costs and benefits of joining the TPP. [Withheld under s6(a)]

[Withheld under s6(a)]

Any benefits would need to be balanced against the equity (distributional) impacts of joining TPP.

Ministers will need to form a view on two key questions as they decide whether to agree to these mandate changes:

Firstly, would signing up to a TPP agreement negotiated under these revised mandates deliver a positive return (i.e. positive net benefits) to New Zealand?

Secondly, are the individual mandate changes proposed in the A3 and the associated distributional impacts, acceptable to Ministers?

[Withheld under s6(a)]

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Preliminary cost benefit framing – some uncertainty

Treasury has done some preliminary cost benefit framing based on the limited information available to us. The analysis suggests quantified benefits (derived from the goods market offerings) of [Withheld under s6(a)] and [Withheld under s6(a)] of costs (impacts on Pharmac and intellectual property). However, there are a number of both benefits and costs that have not been quantified. Most are likely to be small, with the possible exception of gains from services trade liberalisation.

[Withheld under s6(a)]

Window to seek more assurance about the net gains of TPP

If Trade Promotion Authority (TPA) has not been passed in the US House of Representatives by STR on Monday 15 June and Ministers would like more certainty about the benefits of a revised TPP scenario, you may wish to suggest that Ministers agree to mandate changes *in-principle*, on the condition that better estimates on the net national benefits are presented to Ministers before the next Chief Negotiators meeting – and that they present a compelling case for the overall net gains of TPP under a revised mandate.

If TPA has been passed by the time of STR (and so putting negotiations on a much faster timetable), we recommend Ministers still seek more clarity on the net benefits of a revised TPP agreement, either before or during the STR Committee meeting.

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Recommended Action

We recommend that you:

[Withheld under s6(a)]

- c **note** that we consider Ministers have not been given enough information to make a well-informed decision on the net benefits of a revised deal

[Withheld under s6(a)]

- e **note** that genuine progress in reducing non-tariff barriers and barriers to services trade has the potential to add significantly to the net benefits derived from joining TPP, but greater clarity is required on the extent to which TPP would be expected to reduce these barriers before these could be confidently banked as net gains from joining the agreement

- f **suggest** that Ministers agree to mandate changes *in-principle* at STR, on the condition that more evidence is provided to Ministers before the next Chief Negotiators meeting that presents a compelling case that the benefits of a TPP agreement, negotiated under these revised mandates, continues to deliver positive net benefits to New Zealand

[Withheld under s6(a)]

James Beard
Manager, Financial Markets and International

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Paula Bennett
Associate Minister of Finance

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Treasury Report: Concluding the Trans-Pacific Partnership Agreement: significant changes to mandate

Purpose of Report

1. This report updates you on the Trans-Pacific Partnership (TPP) negotiations and highlights the mandate changes the Minister of Trade is seeking at STR on Monday 15 June. This report was prepared on the basis of an early draft of the materials presented to STR.
2. The report provides high-level analysis on the impact of these proposed mandate changes to the overall cost benefit proposition of TPP. [Withheld under s9(2)(g)(i)]
[Withheld under s9(2)(g)(i)]

Analysis

3. TPP negotiations are in the final stages with parties waiting to see if the US House of Representatives will grant Trade Promotion Authority (TPA) before they advance negotiations further.
4. The Minister of Trade considers that New Zealand's current mandate is not sufficient to conclude negotiations. At the STR meeting, he will seek authorisation to conclude TPP negotiations by requesting changes to the negotiating mandate. [Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)]

Ministers will need to form a view on two key questions as they decide whether to agree to these mandate changes:

Firstly, would signing up to a TPP agreement negotiated under these revised mandates deliver a positive return (ie positive net benefits) to New Zealand?

Secondly, are the individual mandate changes proposed in the A3, and the associated distributional impacts, acceptable to Ministers?

[Withheld under s6(a) & s6(e)(vi)]

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7. The second issue of whether the individual mandate changes are acceptable is a decision for Ministers. We have provided commentary on the proposed changes in Appendix II. This report focuses on the first question – would signing up to TPP negotiated under these revised mandates deliver a positive return to New Zealand –

[Withheld under s6(a) & s6(e)(vi)]

8. Before discussing these issues, it is worth noting that if Ministers feel they need more time or more information to consider the proposed mandate changes, in our view, there may be time to defer a decision and request further information to support Ministerial decision-making, depending on the timing of a decision in the United States on its Trade Promotion Authority Bill.

[Withheld under s6(a) & s6(e)(vi)]

10. A US vote on TPA is scheduled for 12 June but there is a reasonable possibility that TPA will be referred back to the Senate, delaying TPA further. This would provide a period of between one and three weeks within which more analysis of the costs and benefits could be done before final mandate changes are confirmed.

Would signing up to TPP under these revised mandates continue to offer net benefit to New Zealand?

11. As the STR A3 notes, some of the concessions that New Zealand would need to make under both the current and proposed mandate would create costs for the New Zealand economy. In the presence of these costs, the benefits from improvements in market access for New Zealand enterprises must be sufficient to more than offset these costs if TPP is to deliver an improvement in economic welfare for New Zealand. That is, Ministers will need to satisfy themselves that the expected net benefits from signing TPP are positive.

[Withheld under s6(a) & s6(e)(vi)]

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[Withheld under s6(a) & s6(e)(vi)]

What do we know about the costs and benefits?

17. Assessing the costs and benefits of a comprehensive FTA agreement is a challenging task that requires careful quantification of the impact of individual elements of the agreement. Many costs and benefits may not be quantifiable in any meaningful way. In addition, the analysis of costs and benefits also requires an assessment of when these benefits or costs might emerge (reflecting the fact that a dollar received today is worth more than a dollar received in, say, 10 years time). Substantial timing differences in the profile of costs and benefits can lead to stark differences in the estimated net benefits, even if the magnitude of these cost and benefit flows are broadly similar.
18. While the STR A3s present a number of figures that to varying degrees attempt to point to the costs and benefits that TPP under a revised mandate might deliver, we recommend Minister treat these values with some caution for the following reasons:

The A3 presents estimates from trade modelling [Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)]

However, while this modelling has been conducted using a reputable model by reputable modellers, the model results are based on possible liberalisation scenarios rather than being directly informed by the likely landing zones for the TPP agreement. We would like to see more evidence that these reported results are good proxies for what TPP might deliver in practice, particularly in relation to the upper bound estimate which is derived from assumptions around the removal of some non-tariff barriers and liberalisation of services trade.

[Withheld under s6(a) & s6(e)(vi)]

The upper bound estimate of GDP impacts is derived from an estimate of the gains from reducing some non-tariff barriers and reducing barriers to services trade. The authors of the modelling study from which this is derived note that the modelling approach is 'first generation' (i.e. in a relatively early stage of development and interpreting these results should be done with 'appropriate caution'. Furthermore, the results represent indicative scenarios assuming barriers are reduced to regional averages rather than being calibrated against the likely commitments under TPP. That is, it is not clear how well these model results could be said to represent the likely benefits of TPP as negotiated in practice.

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The estimate of ¹ [redacted] in annual tariff savings cannot be counted as an additional benefit (over and above the GDP gains) as it is likely that these tariff savings will accrue to foreign consumers rather than New Zealand producers (as a result of competition from other TPP suppliers bidding down the duty-paid price in these liberalised markets). While a case can be made there is a benefit from NZ participating in TPP to ensure our exporters are not disadvantaged by competition from TPP suppliers benefitting from tariff-free access, there are good economic arguments for believing that those benefits would be much lower than the ² [redacted] for annual tariff revenues implies. It would therefore be incorrect to value this benefit by estimating the annual tariff savings.

[Redactions 1-3
Withheld under s6(a)
& s6(e)(vi)]

- The first figure of ³ [redacted] relates to current trade only. It should not be conflated with a gain attributed to New Zealand joining TPP. The scale of our current trade is already taken into account in the trade modelling noted above.

19. To assist Ministerial decision making, we would have preferred the STR material to have presented estimated costs and benefits in a cost-benefit analytical frame. This would ensure that only genuine costs and benefits are reported and timing differences are taken into account.

20. We have been working with MFAT to ensure that should an agreement be reached, the resulting National Interest Analysis employs good cost-benefit principles in presenting the case for the ratification of the Agreement. [Withheld under s6(a) & s6(e)(vi)]
[Withheld under s6(a) & s6(e)(vi)]

21. These estimates suggest quantified benefits [Withheld under s6(a) & s6(e)(vi)] costs (impacts on Pharmacist and changes to patents). However, there are a number of both benefits and costs that have not been quantified. Most are likely to be small, with the possible exception of gains from reducing non-tariff barriers and services trade liberalisation. As noted above, because of uncertainty over the representativeness of the MFAT-commissioned model's estimate of likely outcomes, we have been cautious about including these in the cost-benefit estimates in the Appendix.

22. [Withheld under s6(a) & s6(e)(vi)]
[redacted] genuine progress in reducing non-tariff barriers and barriers to services trade has the **potential to add significantly to the net benefits of joining TPP**. However, greater clarity is required over how much the current expected landing points on these aspects of the agreement would contribute to reducing these barriers before these could be confidentially banked as net gains from TPP. Any net economic benefit would need to be balanced against the equity (distributional) consequences of the agreement.

23. We stress that these estimates are very preliminary and informed by trade modelling results that have only recently been provided to us by MFAT. We suggest that Ministers direct officials to test the robustness of these results over the next one to three weeks before committing to a final decision to revise mandates.

24. If TPA has not been passed by STR on Monday 15 June and Ministers would like more certainty about the benefits of a revised TPP scenario, you may wish to suggest that Ministers agree to consider mandate changes in-principle, on the condition that more evidence on the benefits is presented to Ministers before the next Chief Negotiators meeting.

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25. If TPA has been passed by STR, we recommend Ministers seek more clarity on the net benefits of a revised TPP agreement before or during the STR Committee meeting.

[Withheld under s6(a) & s6(e)(vi)]

Biologics background

[Withheld under s6(a) & s6(e)(vi)]

29. Biologics are medicines derived from living materials, and are a rapidly growing portion of pharmaceutical expenditure worldwide. They are significantly more difficult and more costly to develop, test, and manufacture. In addition to patents, incentives for the invention of new pharmaceuticals are maintained in part by a period of protection for the data (such as clinical trial data) used by an innovator to seek marketing approval by MEDSAFE.

[Withheld under s6(a) & s6(e)(vi)]

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Appendix I – Cost benefit framing of identified costs and benefits

TPP: Cost Benefit Analysis		Notes	Present Value
Discount rate: 8% real			
Benefits			
Tariff reductions (net)	1	[Withheld under s6(a) & s6(e)(vi)]	
Unquantified Benefits:			
Liberalised trade in services	2		Unknown
Temporary entry			
Sanitary and Phytosanitary			
Technical barriers to trade			
SOEs			
Government procurement			
Transparency and anticorruption			
Costs			
Pharmac improved transparency processes	3	[Withheld under s6(a) & s6(e)(vi)]	
Patent extensions (pharmaceuticals)	4		
IP (books, music, TV/film)	5		\$740-840m
Unquantified costs:			
Various other impacts consequential from the IP rules	6		Unknown
Investor state dispute settlement			
Textile rules	7		
Other (not clear whether costs or benefits):			
Rules of origin			Unknown
Customs			
Electronic commerce			
Telecommunications			
Trade and labour			
Competitiveness and business facilitation			
Cooperation and capacity building			
Development			
Regulatory coherence			
SMEs			
Net benefits (in present value terms)	8	[Withheld under s6(a) & s6(e)(vi)]	

Notes:

1. [Withheld under s6(a)]

The modelling result provided an estimate for the economic welfare impact in 2007 dollars for the year 2030 of 1 [redacted] which we assume to be representative of the average net annual benefit after year 16. We assume that the benefits taper up from zero over the years between now and 2030.

Note that MFAT's A3 provides a figure of 2 [redacted] p.a., which is coincidentally similar to the 3 [redacted] derived from the CGE model. The figure in the A3 does not represent the economic impact of tariff reductions, as it ignores a number of consequences that flow from tariff reductions.

[Redactions no 1-3 Withheld under s6(a) & s6(e)(vi)]

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2. The modelling mentioned in note 1 has a very large number for trade in services and non-tariff barriers. [Withheld under s6(a) & s6(e)(vi)]

[Withheld under s6(a) & s6(e)(vi)] However, it is based on the modellers' own assumptions about what would be negotiated, rather than what has actually been negotiated. It therefore seems inappropriate to include the number in the table without assurance that this reflects the likely negotiated outcome.

3. Estimate of increased administration and legal costs resulting from the approval of some drugs being delayed. [Withheld under s6(a) & s6(e)(vi)] These are fiscal costs. Guesstimate of the social cost resulting from the delay in approvals for some drugs. ¹ [Withheld under s6(a) & s6(e)(vi)] This could be a fiscal cost if Government decided to compensate Pharmac for the lost savings. Source: MFAT's A3 distributed on 9/6/15 and CAB Min (12) 30/12. Discussions with Pharmac and the Ministry of Health suggest these estimates are on the high side.

[Redaction no 1
Withheld under
s6(a) & s6(e)(vi)]

4. Patent extensions as a result of delay in processing applications for pharmaceutical patents or marketing approval, or patent 'linkage'. [Withheld under s6(a) & s6(e)(vi)] This could be a fiscal cost if the Government decided to compensate Pharmac for this cost. Source: Treasury briefing prepared for EGI in 2012.
5. Source: MFAT's A3 distributed on 9/6/15 states that the cost to consumers each year from extending copyright term to 70 years is \$51-59m. This annualised figure reflects the modelled estimates of present value cost for books and music provided in the Concept Economics report dated September 2009 (\$265 – 300m and \$210 – 240m respectively) AND a simple, un-modelled allowance that the impact on film and television consumption would be identical to that for books.
6. E.g. impact on production of derivative works; administrative costs on intermediaries (libraries, universities); enhancement of default rights for Performers; new prohibitions and remedies re circumvention of Technological Protection Measures; administrative costs for enforcing prohibition on Cam-Cording.
7. Yarns have to be sourced from within TPP to benefit from tariff reductions.
8. Given the margins of error around the estimates, and the number of unknowns, we consider that this number could be considerably bigger, but also zero or negative.

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Analysis

Copyright related concessions


Of copyright related concessions, the extension of copyright term (Item a) is by far the greatest economic cost for NZ, with the STR paper presenting this cost as an annualised present value figure of **\$51-59m**. This is derived from modelling completed in 2009 that estimated the **present value of net costs for books and music at \$475m over a 110 year period from enactment**, plus a less formal estimate for film and television consumption. Almost all of this cost is driven by a net transfer of income from NZ consumers to foreign rights holders at the greater (monopoly) price generated as a result of the term extension (deadweight loss from foregone consumption has been modelled as negligible). In general, we consider the analysis for books and music to be of good quality, with robust methodology and assumptions. Nevertheless, lack of data or significant dependent variables meant that this analysis was unable to quantify:

- the impact of term extension on the production of derivative works (increased term will create at least some increase in input and transaction costs for these works); or
- the additional administrative costs for intermediaries (Eg Universities & libraries) from compliance with the term extension (this potentially includes tracing, negotiation, and licensing costs, with higher prices for works actually purchased included in the transfer costs discussed above).

In addition, no substantial analysis was done on the film and television sectors, so that the annualised figure simply includes an allowance for film and television at cost levels similar to that for books.

As a result, uncertainty remains about the total economic cost of copyright concessions. If anything, we think these figures are likely to represent an underestimation of total costs, although this may also be countered by phasing provision for copyright changes – this is yet to be confirmed).

[Withheld under s6(a) & s6(e)(vi)]



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From: Thomas Parry [TSY]
Sent: Sunday, 4 October 2015 3:01 p.m.
To: ^Parliament: Simon Duncan
Cc: Christopher Nees [TSY]
Subject: RE: TPP SUBMISSION FOR APPROVAL

[SEEMAIL][RESTRICTED]

All good. I think that while the dairy outcome is disappointing overall the deal stacks up in the positive. [Withheld under s6(a)]
[Withheld under s6(a)]

[Withheld under s6(a)]

But again, overall I think the deal stacks up and is broadly in line with the scenario we predicted when drafting the A-M

Thomas Parry | Senior Analyst | **The Treasury**
Tel: +64 4 890 7260 | Thomas.Parry@treasury.govt.nz

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- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Simon Duncan [<mailto:Simon.Duncan@parliament.govt.nz>]
Sent: Sunday, 4 October 2015 2:13 p.m.
To: Thomas Parry [TSY]
Subject: FW: TPP SUBMISSION FOR APPROVAL

Just a heads up I gave minister your number (as well as brad burgess from mfat) in case he wants to talk to anyone regarding this submission.

What's your take on where they have landed?

Simon

Simon Duncan | Economic Advisor
Office of Hon Bill English | Deputy Prime Minister, Minister of Finance
T: 04 817 9425 | M: [Withheld under s9(2)(a)]

[Deleted - Not Relevant to Request]

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Treasury Report: Trans Pacific Partnership: Mandate to negotiate currency agreement

Date:	Tuesday, 28 July 2015	Report No:	T2015/1696
		File Number:	IM-3-0-5

Action Sought

	Action Sought	Deadline
Prime Minister (Rt Hon John Key)	Agree to the proposed mandate	Wednesday 30 July
Minister of Finance (Hon Bill English)	Agree to the proposed mandate	Wednesday 30 July
Minister for Economic Development (Hon Steven Joyce)	Agree to the proposed mandate	Wednesday 30 July
Minister of Trade (Hon Tim Groser)	Agree to the proposed mandate	Wednesday 30 July

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Mario DiMaio	Principal Advisor	04 917 6154 (wk) N/A (mob)	
Christopher Nees	Team Leader, International	04 917 6019 (wk) [Withheld under s9(2)(a)]	✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

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Treasury Report: Trans Pacific Partnership: Mandate to negotiate
currency agreement

Executive Summary

[Withheld under s6(b)(i)]

[Withheld under s6(b)(i)]

[Withheld under s6(a)]

[Withheld under s6(a)]

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The Reserve Bank has been consulted on this report. The Ministry of Foreign Affairs have

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provided input to the report

Recommended Action

We recommend that you:

a **note** that the US Treasury have provided the attached agreement on currency issues among TPP parties;

b [Withheld under s6(a) & s6(e)(vi)]

Agree/disagree.
Rt Hon Prime Minister

Agree/disagree.
Hon Bill English

Agree/disagree.
Hon Steven Joyce

Agree/disagree.
Hon Tim Groser

c **Direct** officials to report on further substantive progress in negotiations.

Chris Nees
Team Leader, International

Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance

Hon Steven Joyce
Minister for Economic Development

Hon Tim Groser
Minister of Trade

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**Treasury Report: Trans Pacific Partnership: Mandate to negotiate
currency agreement**

Purpose of Report

1. The purpose of this report is to seek a mandate from Joint Ministers to negotiate a separate agreement on currency arrangements with the parties to the Trans Pacific Partnership (TPP).

Background

2. We have previously reported to the Minister of Finance and Minister of Trade on currency issues in the context of the TPP agreement negotiations (T2015/1627 and T2015/1627). This paper seeks a mandate for the negotiations of an agreement under the Cabinet delegation to joint Ministers [ECI Min (13) 27/10] for TPP.
3. With the passage of the Trade Promotion Authority Act (TPAA) through the US Congress TPP negotiations are now entering their final stages. Ministerial negotiations are scheduled for 28-31 July with the intention of reaching a final agreement among TPP partners. The US TPAA requires that in order to approve the TPP agreement the US Administration must make progress towards the negotiating objective that:

- **with respect to currency practices:** parties to a trade agreement with the United States avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other parties to the agreement, such as through cooperative mechanisms, enforceable rules, reporting, monitoring, transparency, or other means, as appropriate.”
- **with respect to unfair currency practices:** establish accountability through enforceable rules, transparency, reporting, monitoring, cooperative mechanisms, or other means to address exchange rate manipulation involving protracted large scale intervention in one direction in the exchange markets and a persistently undervalued foreign exchange rate to gain an unfair competitive advantage in trade over other parties to a trade agreement, consistent with existing obligations of the United States as a member of the International Monetary Fund and the World Trade Organization.

4. The US Treasury has approached New Zealand Treasury and the Reserve Bank to discuss the text of a separate agreement (draft in Annex 1). [Withheld under s6(b)(i)]

[Withheld under s6(b)(i)]

5. [Withheld under s6(a)]

[Withheld under s6(a)] [Withheld under s6(b)(i)]
[Withheld under s6(b)(i)]

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- 6. [Withheld under s6(a)]
- 7.

Country perspectives

- 8. [Withheld under s6(a)]
[Withheld under s6(a)] [Withheld under s6(b)(i)]
[Withheld under s6(b)(i)]
- 9.
- 10. [Withheld under s6(a)] [Withheld under s6(b)(i)]
[Withheld under s6(b)(i)]

Analysis

Summary of the US Treasury proposed agreement

- 11. As proposed the text involves commitments on exchange rates policies, fiscal and monetary policy; transparency and accountability.
- 12. [Withheld under s6(b)(i)]
- 13.

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[Withheld under s6(b)(i)]

14.

15.

Discussion

16. Without the direct link to US Congress approval of the TPP agreement, there would be no merit in signing the proposed agreement. There is perhaps some - probably negligible - potential benefit in being able to consult the US directly regarding the consequence of its monetary policy decisions (as the largest reserve currency) on small countries such as New Zealand.
17. The risks from obligations in this area are limited by our current policy framework. New Zealand has a freely-floating exchange rate, an independent central bank operating monetary policy with the goal of stabilising inflation, and limited and targeted exchange rate intervention policy. Neither of these grounds relate to balance of payments adjustment or the impact on trade and competitiveness.

18. [Withheld under s6(a)]

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19. [Withheld under s6(a)]

20. [Withheld under s6(a)]

21. Some of the language is straight forward and represent commitments New Zealand is already a party to and has a well-accepted definition (Article IV of the IMF Article of Agreement). [Withheld under s6(a)]
[Withheld under s6(a) & s6(e)(vi)]

22. [Withheld under s6(a) & s6(e)(vi)]

Proposed Mandate

23. [Withheld under s6(a)]

24. The key aim for New Zealand is sufficient clarity that we are able to maintain New Zealand's existing policy frameworks relation to macroeconomic and fiscal, monetary, and macroprudential policy. And that we have scope to adjust these policies if circumstances change. The changes we will seek to secure from the US proposal are identified below. The highest priority are changes that clearly indicate that the provisions are not legally binding and therefore do not constitute treaty obligations. Many of the other proposed changes are desirable to manage risks to New Zealand more effectively.

[Withheld under s6(a)]

25. [Withheld under s6(a)]

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Status of the document (most important)

26. We do not propose to accept provisions that would be legally binding. This would require clarity that the status of the 'arrangement' is not a treaty and it does not include language that would be legally binding on New Zealand. Such an 'arrangement' or 'understanding' would reflect a political and moral commitment and not a legal commitment. [Withheld under s6(b)(i)]
[Withheld under s6(b)(i)]

Exchange rate policy

27. Our objective is to secure changes that limit the obligations to currency practices and seeking to avoid the objectives of the TPP being undermined. For example, avoiding manipulating exchange rates though protracted large scale intervention to gain an unfair competitive advantage over other members, refraining from competitive devaluation, and not targeting exchange rates for competitive purposes.

28. [Withheld under s6(b)(i)]

29. We will seek to reflect the fact that disorderly exchange rate movements are possible and that departures (albeit temporary) are useful in exceptional circumstances. For example, the current TPP agreement already includes temporary safeguard measures that allow for departure from capital and current account obligations in the event of balance of serious balance of payments and external financial difficulties.

Transparency

30. We already comply with the proposed obligations, with the exception of the timing for the monthly foreign-exchange reserves data and forward positions. We currently publish this information within 31 days of the end of the month as opposed to the proposed 7 days.

31. [Withheld under s6(e)(i)]

32.

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Consultation

33. The principle guiding the proposed New Zealand position is the need for a constructive and consultative process. This implies the application of best practice in the design of mechanisms around international macroeconomic (and structural policy) consultation and dialogue. Application of best practice would suggest: (i) reliance on an independent assessment on currency issues (the IMF Article IV report for example); (ii) decisions reached by consensus; (iii) publication of any policy assessment is done only with the consent of the party involved; and (iv) consultation initiated only on the basis of potential breaches of the arrangement rather than an annual basis.

Risks

34. [Withheld under s6(a)]

[Withheld under s6(a)]
[Withheld under s6(b)(i)]

[Withheld under s6(b)(i)]

35.

Link with TPP

36. [Withheld under s6(a)]

[Withheld under s6(a)]

[Withheld under s6(a), s(b)(i) & s6(e)(vi)]

[Withheld under s6(a), s(b)(i) & s6(e)(vi)]

37.

Next Steps

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38. We would engage further with the US Treasury on the basis of the mandate in this paper. We will report subsequent to further substantive proposals from the US and a sense of the position of other Parties to the Agreement.

39. [Withheld under s6(a)]

40.



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[Withheld under s(b)(i)]



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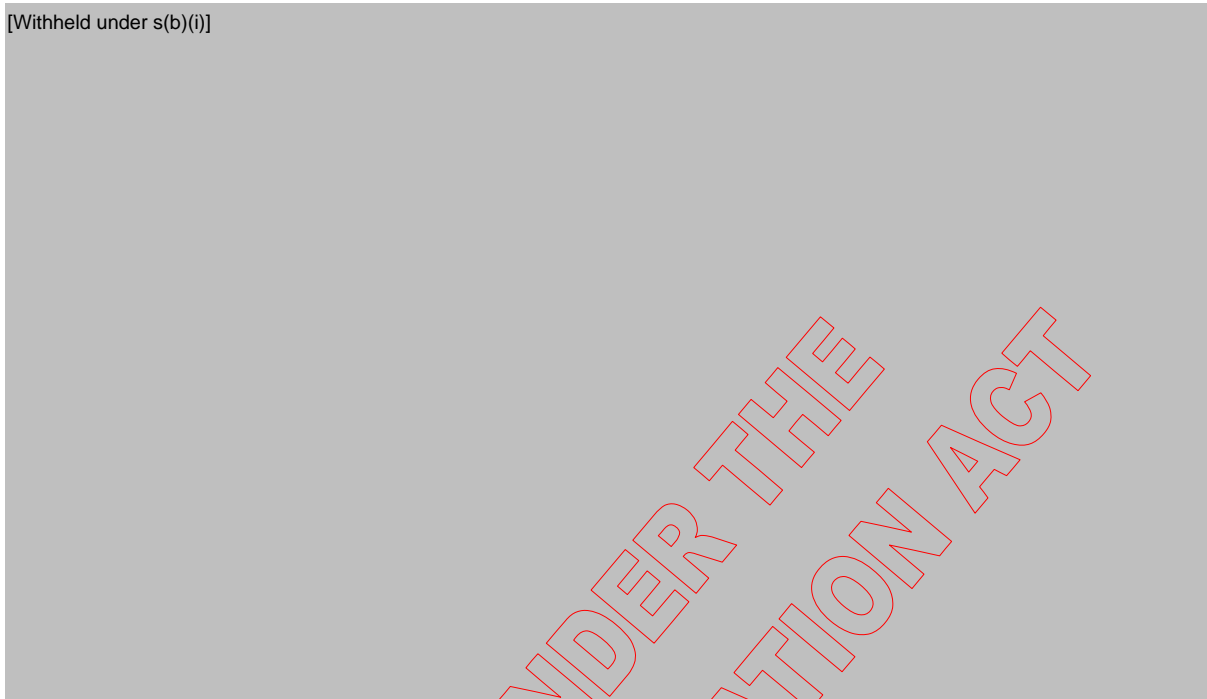
[Withheld under s(b)(i)]

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A list of dates and titles of all reports prepared by Treasury on the Trans Pacific Partnership Agreement, since 1 January 2012

Date	Document Description
10/02/2012	Aide Memoire: Briefing for 15 February TPP Meeting
18/04/2012	Trans-Pacific Partnership: State Enterprises, State Commercial Enterprises and Designated Monopolies
30/04/2012	Briefing for Economic Growth & Infrastructure Committee - Wednesday 2nd May 2012
30/04/2012	TPP Regulatory Coherence - Mandate
7/6/2012	Overseas Investment in the Trans-Pacific Partnership Agreement
11/06/2012	TPP - STR Meeting Briefing
21/06/2012	Trans-Pacific Partnership Agreement and Tax
12/09/2013	Aide Memoire: Briefing for 16 September STR Discussion of Trans Pacific Partnership
11/11/2013	Briefing for Cabinet Economic Growth and Infrastructure Committee Wednesday, 13 November 2013
6/05/2015	Aide Memoire: Currency issues in Trans Pacific Partnership negotiations
20/07/2015	Aide Memoire: Update on Currency issues in Trans Pacific Partnership negotiations
28/07/2015	Update Temporary Safeguard measures Lew Call
28/07/2015	Secretary Lew Talking Points for MoF
31/07/2015	Aide Memoire: TPP Update
3/09/2015	Treasury Report: Trans Pacific Partnership: Update on US proposal for a currency arrangement
21/09/2015	Treasury Report: The impact of international obligations on measures to restrict foreign investment in housing
25/9/2015	Aide Memoire: Currency Declaration with TPP Parties: An update
12/06/2015	Treasury Report: Concluding the Trans-Pacific Partnership Agreement: significant changes to mandate
28/07/2015	Trans Pacific Partnership: Mandate to negotiate currency agreement
2/10/2015	Treasury Report: Trans Pacific Partnership: Currency Declaration
2/10/2015	Aide Memoire: TPP update - Atlanta negotiations
4/10/15	Email Advice to MoF office from Thomas Parry