

Exporter Guide

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# UNITED STATES OF AMERICA

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Country Brief  
August 2010

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# CONTENTS

KEY INDICATORS: UNITED STATES	3
OVERVIEW	3
POLITICAL	5
IMPORTS AND EXPORTS	6
SECTOR OPPORTUNITIES	8
SUSTAINABILITY	11
MARKET ENTRY	12
REGULATORY ISSUES	15
FREIGHT	17
VISA REQUIREMENTS	18
TAXATION	19
DOING BUSINESS WITH THE UNITED STATES	20
TIME DIFFERENCE	21
HOLIDAYS	21
USEFUL WEBSITES	22
CONTACTS	22



## KEY INDICATORS: UNITED STATES

ECONOMIC INDICATOR	UNITED STATES
Population	310,232,863 (July 2010 est.)
GDP	US\$14.26 trillion (2009)
GDP Growth Rate	-2.4% (2009)
GDP Per Capita	US\$46,470 (2009)
Inflation	-0.3% (2009)
Total Imports	US\$1.558 trillion (2009)
Total Exports	US\$1.057 trillion (2009)
Currency	US Dollar (\$)
Exchange Rate	NZ \$1 = US \$0.70 (as at 27 August 2010) (see <a href="http://www.oanda.com">www.oanda.com</a> for the latest exchange rate)

Source: Central Intelligence Agency (CIA) Factbook, Economist Intelligence Unit

## OVERVIEW

### United States and New Zealand

As the world's largest, most complex and technically advanced economy, the United States is a key economic partner for New Zealand. The United States is an important source of innovation, research and investment, and is a key market for New Zealand goods and services. The United States is New Zealand's third largest individual export market and third largest source of imports. It is also a major source of foreign direct investment and inbound tourism.

The United States is New Zealand's most important individual country market for agricultural exports. There is excellent cooperation between New Zealand and the United States on agricultural issues – both in terms of policy matters, research and commercial partnerships. Our major agricultural exports to the United States are beef, dairy products and lamb, with horticultural products increasing in importance. In return, the United States is New Zealand's second-largest source of agricultural imports, behind Australia. New Zealand also imports a number of farm-related products from the United States, including farm machinery, animal feed, fertiliser and insecticides.

### Economy

Powerful, diverse and technologically advanced, the United States' economy is the largest in the world. With a GDP of around US\$14.26 trillion and a per capita GDP of US\$46,720 in 2009, the United States accounts for about 20 percent of global GDP. Its strength lies in its size and market diversity. Besides having a variety of natural resources, including petroleum, natural gas and ores, it also has a large agricultural sector, a developed industrial base, a growing service sector, dominance in high technology and a skilled and educated labour market.



The strength of the United States economy is currently being tested, however. The global financial crisis, marked by investment bank failures, falling home prices, and tight credit, pushed the United States into a recession in mid-2008. In response to the crisis, the United States government established a US\$700 billion Troubled Assets Relief Program (TARP) to purchase equity in US banks and other industrial corporations in October 2008, which was then followed by a fiscal stimulus package of US\$787 billion to create jobs and help the economy to recover in January 2009. The government is estimated to have spent a total of US\$1 trillion in stimulus since the first signs of the crisis in February 2008. The American economy is now growing again, with growth forecasts being revised up for 2010. However, it is unclear how the economy will respond as stimulus ebbs and whether current output growth is yet self-sustaining. Also, America's long-term fiscal challenge is significant, with the Congressional Budget Office predicting a government debt of around US\$15 trillion by 2015.<sup>1</sup>

## Industry

In 2009, the services sector was the largest contributor to GDP (76.9%), followed by industry (21.9%) and agriculture (1.2%). The United States is the world's top manufacturing country. Successive governments have played an important role in this, advancing United States business goals in international trade with their policies. Industrial output increased slightly from around US\$2,886 billion in 2008 to reach US\$2,895 billion in 2009. Leading industries in the United States include motor vehicles, aerospace and defence, telecommunications, chemicals, electronics, and computers and software. In the 1990s, some traditional manufacturing sectors grew strongly by embracing new technology and increasing labour productivity. Other sectors have struggled and have relied increasingly on imported components and even finished products.

The services sector has been hard hit by the economic slowdown, falling from positive growth of 3 percent in 2008 to a contraction of 3.6 percent in 2009. The services provided by the private sector accounted for 67.8 percent of GDP in 2006, with real estate and financial services on top. The most rapidly expanding sectors were financial services; professional, scientific, and technical services; durable goods manufacturing, particularly computers and electronic products; real estate; and healthcare. However, since the sub global financial crisis, the banking sector has slowed down and this trend is expected to continue due to the imposition of tighter lending conditions.

Over the past couple of decades, the agricultural economy of the United States has been unstable. Most recently, agricultural output declined from around US\$160 billion in 2008 to US\$155 billion in 2009. Even though agriculture now has a small share of GDP, farmers remain economically and politically powerful forces. The United States has a surplus in agriculture and about a quarter of United States farm output is exported. The major exported agricultural commodities include dairy products and corn. The next in importance are grains, such as wheat, and oilseeds, such as soybeans.<sup>2</sup>

## Investment and Foreign Trade

In 2010, the World Bank rated the United States as the eighteenth easiest country in the world with which to conduct trade over borders and there are very few bilateral trade difficulties between New Zealand and the United States. New Zealand concerns are largely systemic and relate to United States agricultural policy, such as import tariff quota restrictions on dairy products. Access to the restricted United States government

<sup>1</sup> Source: Datamonitor. *Country Analysis Report: USA, April 2010*; *The Economist. A sticky gas pedal, May 29<sup>th</sup> 2010, page 37.*

<sup>2</sup> Source: Datamonitor. *Country Analysis Report: USA, April 2010*; *The Economist; The Economist. A sticky gas pedal, May 29<sup>th</sup> 2010, page 37.* US Department of Commerce, Bureau of Economic Analysis. *Gross Domestic Product by State, June 2009.* ([www.bea.gov](http://www.bea.gov)).



procurement market is also important for a growing number of New Zealand companies.<sup>3</sup>

The United States government has maintained its openness towards foreign direct investment (FDI) and is the world's largest recipient of such investment with a stock of US\$39 trillion in 2009. However, FDI inflows fell by more than 50 percent between 2008 and 2009 due to the global financial crisis. The largest investor inflows in 2009 came from Canada, Germany, France, Switzerland, the United Kingdom and the Netherlands. Foreign investment inflows to the United States are primarily directed into the finance and insurance industry, followed by manufacturing, information, depository institutions, retail trade, professional, scientific and technical services, real estate and other industries.<sup>4</sup>

New Zealand and the United States have a well-founded investment partnership. The United States is New Zealand's second largest source and destination of FDI after Australia. In March 2009, US investment stock in New Zealand totalled NZ\$11.47 billion (12.36 percent of total FDI in New Zealand), while New Zealand investment stock in the United States totalled NZ\$4.66 billion (19.5 percent of total overseas investment).<sup>5</sup> Major United States corporate investment into New Zealand has been in the forestry industry from the United States firms Global Forest Partners, Hancock and Harvard Management Company. Pratt & Whitney and Lockheed Martin also have expanded into the New Zealand market, along with film industry investors such as Walden Media, NBC Universal and Disney.

Major New Zealand investors in the United States include Fisher and Paykel Appliances and Fonterra. Graeme Hart's Rank Group invested US\$1.5 billion in 2007 to acquire Alcoa's packaging division. Fletcher Building has acquired the large United States company Formica. Nuplex and a number of smaller privately-owned New Zealand companies such as Tiger Turf have also invested in manufacturing capability in the US.<sup>6</sup>

Despite the global financial crisis, the United States venture capital industry is experiencing a resurgence in deal flow and investment activity into promising high-growth companies. The industry is optimistic about improving market conditions and a better environment for liquidity events through IPOs or M&A activity. The United States will remain a formidable player in the venture capital asset class, investing in global entrepreneurs and helping to grow international businesses, providing an opportunity for New Zealand high growth companies to attract United States investment capital.

## POLITICAL

The United States is a federal republic comprising of 50 individual states, as well as the territories of Guam, Northern Mariana Islands, Puerto Rico, the Virgin Islands and American Samoa. The United States Constitution of 1787 is based on a federal republic and the principle of the separation of powers between the three branches of government: the Executive, which encompasses the President and his appointed cabinet; the Legislature, comprised of a bicameral Congress (a House of Representatives and a Senate – where bills can originate in each); and a Judiciary, headed by the United States Supreme Court which is the court of review and maintains supreme interpretative powers of the United States Constitution.

<sup>3</sup> Source: New Zealand Ministry of Foreign Affairs and Trade, *United States of America Country Information Paper*. ([www.mfat.govt.nz/Countries/North-America/United-States.php#us](http://www.mfat.govt.nz/Countries/North-America/United-States.php#us)); The World Bank, *Doing Business in the United States*. ([www.doingbusiness.org](http://www.doingbusiness.org)).

<sup>4</sup> Source: Organisation for International Investment, *Direct Investment in the United States*, March 2010.

<sup>5</sup> Source: Statistics New Zealand: *Global New Zealand. International Trade, Investment, and Travel Profile: Year ended June 2009*. ([www.stats.govt.nz/publications/businessindicators/global-nz-jun-09.aspx](http://www.stats.govt.nz/publications/businessindicators/global-nz-jun-09.aspx)).

<sup>6</sup> Source: New Zealand Ministry of Foreign Affairs and Trade, *United States of America Country Information Paper*. ([www.mfat.govt.nz/Countries/North-America/United-States.php#us](http://www.mfat.govt.nz/Countries/North-America/United-States.php#us)); Statistics New Zealand, *Global New Zealand – International Trade, Investment, and Travel Profile: Year ended June 2009*. ([www.stats.govt.nz/publications/businessindicators/global-nz-jun-09.aspx](http://www.stats.govt.nz/publications/businessindicators/global-nz-jun-09.aspx)).



The Constitution states that certain matters are to be overseen by the federal level of government: foreign affairs, national defence, maintenance of the currency and the regulation of interstate commerce. State law covers such things as criminal law, civil law, the chartering of many types of business, labour, education and charities. Below the level of state governments there are city and county governments. Each of the 50 states has a separate constitution and an associated division of power across the three branches of government.

Politics in the United States is dominated by two major parties, the Democrats and Republicans, with ostensibly 90 percent of support from the voting electorate. Minor-status parties include the Green Party, the Libertarians, Natural Law Party, America First Party, and the Independent Party, which combined garner about 10 percent of the electoral vote. The last Presidential election in 2008 was won by the Democrat candidate Barack Obama. The next Presidential election will be in 2012.

## IMPORTS AND EXPORTS

### Key Trends

Although overall imports and exports have fallen marginally over the past decade, the United States is New Zealand's third largest destination for exported goods (behind Australia and China) and third biggest source of imported goods

New Zealand's main exports to the United States include agricultural products, meat (particularly beef), dairy products and casein. While dairy, wine and medical device exports have significantly increased over the past ten years, overall meat, casein, machinery, fish and seafood, electrical machinery and fruit and nuts exports have trended downward.

Significant imports from the United States include gas turbines, computers and computer parts, along with aircraft, medical devices and electrical machines. Over the past ten years, there have been steady increases of imported medical devices, chemical products, perfumes and cosmetics, pharmaceutical and fruit and nut imports. However, there had been a steady drop in levels of machinery and electrical machinery imported through the 2000s.

UNITED STATES' TOP TEN IMPORTS 2009	US\$ billion
Mineral fuels and oils	279
Electrical machinery	218
Machinery	208
Motor cars	133
Pharmaceutical products	56
Business services	55
Optical, photographic and medical instruments	51
Organic chemicals	46
Precious stones and metals	37
Knitwear clothing	35
<b>Total imports</b>	<b>1,445</b>

Source: UN Comtrade Database



UNITED STATES' TOP TEN EXPORTS 2009	US\$ billion
Machinery	153
Electrical machinery	125
Aircraft and spacecraft	83
Motor cars	74
Optical, photographic and medical instruments	65
Mineral fuels and oils	55
Plastic	43
Pharmaceutical products	41
Precious stones and metals	38
Organic chemicals	31
<b>Total exports</b>	<b>995</b>

Source: UN Comtrade Database

NEW ZEALAND'S TOP TEN EXPORTS TO UNITED STATES 2009	NZ\$ million
Meat	972
Dairy, eggs and honey	500
Casein and albumins	401
Beverages	229
Optical, photographic and medical instruments	211
Wood	210
Machinery	200
Fish and seafood	159
Electrical machinery	146
Edible fruit and nuts	115
<b>Total exports</b>	<b>3,953</b>

Source: Statistics New Zealand (via World Trade Atlas)



NEW ZEALAND'S TOP TEN IMPORTS FROM UNITED STATES 2009	NZ\$ million
Machinery	857
Aircraft and spacecraft	670
Optical, photographic and medical instruments	427
Electrical machinery	412
Motor vehicles	213
Plastic	174
Chemical products	124
Pharmaceutical products	104
Perfumes and cosmetics	80
Edible fruit and nuts	79
<b>Total imports</b>	<b>4,328</b>

Source: Statistics New Zealand (via World Trade Atlas)

## SECTOR OPPORTUNITIES

### Aviation

The United States is the world's largest producer of commercial and military aircraft and this is a major contributor to the US economy (approx US\$200 billion per year). Despite the difficult economic conditions, the United States aviation industry is forecast to remain strong and continue to grow. Opportunities for New Zealand aviation companies continue to remain in the specialised equipment, niche aviation products and pilot training sectors.

The expansion and upgrade of existing airports in the US also opens opportunities for New Zealand companies offering technologies such as baggage handling systems, security detection devices, screening and display equipment, security control access devices and other equipment related to airport infrastructure. The United States also possesses one of the highest numbers of private and corporate jet planes in the world and the opportunity for New Zealand companies exists for overhaul services, supply of jet parts and interior design and materials services.

### Marine

Events such as the America's Cup have positioned the New Zealand marine industry as a source for United States yacht builders demanding innovative, high-quality and customised products and solutions. Opportunities for New Zealand manufacturers continue to lie in custom-built boats and in high-end, high-spec marine equipment and accessories. Manufacturers should continue to capitalise on the quality reputation they hold in this sector and on New Zealand's high profile in the marine sector. New Zealand has also been recognised among the yachting industry as a premium destination for United States yacht owners and captains. New Zealand offers a complete solution on refits, construction and maintenance centres for yachts coming from different parts of the world.

### Wood Products

Opportunities exist for New Zealand manufacturers through DIY retailers, supply stores, professional



contractors, and other building companies. New Zealand pine has made some headway into the market, partly due to supply constraints increasing the demand for highly workable coniferous timbers with good machining properties. There is growing interest in the latest value-added wood products and green building products from New Zealand manufacturers.

### **Food and Beverage**

United States sales of imported food and beverage products and private labelled foods through retail channels have increased modestly in the last 24 months. Private labelled foods have recently reached a growth plateau due to the resurgence of branded products spurred by small increases in United States consumer confidence and discretionary spending over the last three months. New Zealand has a positive image and reputation in the food and beverage space in terms of quality, safety and innovation. NZTE has been working closely with specialty food companies in market, especially using programmes and promotions to expand sales and identifying new channels to market, and there is a need to continue to expand and attract export-ready New Zealand food and beverage companies.

### **Wine**

The United States wine market is forecast to grow to 407 million cases of table wine by 2030 from the 282 million cases sold in 2009, presenting significant opportunity for New Zealand wine. New Zealand is well positioned for growth, having performed remarkably well in the United States over the past two years. Sauvignon Blanc currently makes up only four percent of the total US market, offering plenty of scope for increased sales. Competition from Chile and South Africa is growing, but generally at lower price points. Other varietals with good market growth prospects, albeit on a smaller scale, include Unoaked Chardonnay, Pinot Gris and Riesling. First-time exporters to the United States must understand the traditional three-tiered system of alcoholic beverage sales in the United States and that each of the 50 states has its own alcoholic beverage sales and distribution laws.

### **Health**

The United States is likely to be a key market for many New Zealand medical technology and health IT companies. The market is huge: expenditure on health in the United States is over 16 percent of GDP and growing. The health sector is a top priority for the Obama administration and recent legislative and policy changes (the Patient Protection and Affordable Care Act 2010 and American Recovery and Reinvestment Act 2009) open significant new opportunities for New Zealand health technology companies.

The Department of Health and Human Services (HHS) is the principal United States government agency for protecting the health of all Americans. As one of the largest federal departments, the nation's largest health insurer, and the largest grant-making agency, the HHS represents almost a quarter of all federal outlays and awards approximately 60 percent of the federal government's grant dollars.

Paramount for success in the United States market is strong evidence that a medical / technological product delivers improved health outcomes, along with financial and / or operational efficiencies. Demand will continue for products that ensure:

- improved health IT systems, particularly certified health IT products and electronic health records,
- improved medical devices, particularly those that can be used by patients or other non-medically trained professionals and are connected to electronic patient records,
- smarter preventative methods, drugs, processes and devices that identify and alleviate risks,



especially in diabetes, hypertension, cancer and obesity, and

- improved safety and quality of care.

The United States medical device market grew to US\$ 138.3 billion in 2010 and is the world's largest. Imports are forming an increasingly significant part of the market, and now account for around 31 percent of the total. The market is highly regulated, principally by the United States Food and Drug Administration (FDA), and can be an expensive one in which to operate. It is, however, transparent and 'rules-based.' New Zealand companies need to be aware of the complexity, time and expense required to achieve regulatory approval and the necessity to develop a reimbursement strategy in the market.

### **Security**

The events of 9/11 and the enhanced focus on security issues have created an opportunity for niche technologies in the United States public sector. Strong demand exists within the Department of Homeland Security for international solutions that have application to security issues relating to public safety, infrastructure protection, cyber-security, emergency and inter-operable communications, aviation and marine solutions. Demand for high-quality innovative solutions is solid and interest in developing partnerships with New Zealand companies from United States integrators and government contractors is strong.

The overall domestic homeland security market (including the Department of Homeland Security (DHS), other agencies at the Federal, State and local levels, and the private sector) is US\$61 billion, and the broader United States government procurement market is worth US\$518 billion. The DHS requested US\$56.3 billion from Congress in the Fiscal Year 2011 budget and prioritized efforts to enhance security to protect against terrorism and other threats.<sup>7</sup> These figures do not include funds from DHS allocations under the American Response and Recovery Act (ARRA) of 2009. For further information, visit the United States Department of Homeland Security website [www.dhs.gov](http://www.dhs.gov), or the Recovery Act website [www.recovery.gov](http://www.recovery.gov).

United States airports are also receiving top attention by homeland security planners. After five years of tepid growth, the explosives detection screening market is poised to undergo its second surge since September 2001. In the United States alone, recent events have resulted in an additional US\$2.1 billion being earmarked for aviation security. For further information, visit the United States Department of Homeland Security website [www.dhs.gov](http://www.dhs.gov).

### **Apparel**

Despite the attractiveness of its sheer size, the United States women's apparel market is very competitive. Over the past few years, men's and children's apparel have performed better in terms of growth / contraction than the overall women's segment. One trend since the global economic downturn has been the challenge for new names to enter a market that has seen a retreat toward known brands and classic items. Both designers and retailers active in the market continue to show interest in apparel made from natural fibres. New Zealand apparel companies should be careful to develop a business strategy that suits their capabilities as channels that appear attractive, such as department stores, can be quite challenging to sustainably achieve.

### **Floriculture**

The United States floriculture industry sees itself as being firmly intertwined with the fashion, decorating, life-style, well-being and emotion communication categories. This bodes well for New Zealand companies seeking

<sup>7</sup> Source: *United States Department of Homeland Security. Budget in Brief Fiscal Year 2011.* ([www.dhs.gov/xlibrary/assets/budget\\_bib\\_fy2011.pdf](http://www.dhs.gov/xlibrary/assets/budget_bib_fy2011.pdf)).



to differentiate themselves by providing products that are high quality and in limited supply. Demand for exotic, hard-to-find, unique or innovative varieties continues to grow in major metropolitan markets. New Zealand's competitive advantage is very high-end flowers, such as calla lilies and peonies that can be supplied in the US off-season. In general, sustainable and / or organic production of cut flowers has not yet been seen as a major issue within the United States. However, it is an area that should be watched by New Zealand exporters to ensure that they can take advantage of any trends.

### **Information Technology / Software**

The United States information technology (IT) industry is one of the largest segments of the United States economy and continues to grow despite current economic conditions. IT sales are estimated to be in the US\$753 billion range and New Zealand information and communications technology (ICT) companies are encouraged to target niche markets such as Health IT, radio frequency identification (RFID), and automation software. New Zealand exporters should keep in mind the competitiveness of the United States IT industry. Products should be uniquely positioned to gain a prospective buyer's attention. Pricing alone is not sufficient differentiation and pricing below the market value will likely position the product as inferior in quality.

### **Agriculture / Agritechnology**

There is excellent cooperation between New Zealand and the United States on agricultural issues – both in terms of policy matters and research and commercial partnerships. New Zealand officials are seeking to expand their relationship with the United States Department of Agriculture with a focus on increasing cooperation in agricultural food technology and biotechnology research. United States dairy farmers who are adopting New Zealand-style seasonal dairy farming are looking for good quality, robust, cost-effective equipment and want to introduce new genetic strains. The market for supplying farmers raising grass-fed beef is slowly establishing itself in the northeast (Vermont, Connecticut) and northern California. Grass-fed beef is sold in specialty markets in San Francisco and New York, reflecting these two centers predominance in the specialty food markets.

## **SUSTAINABILITY**

Research conducted by the Hartman Group in 2009 and 2010 on behalf of NZTE showed that United States consumers no longer consider living more sustainably as an alternative lifestyle. Although “quality” is the most important United States purchase driver, attributes that relate to sustainability often strongly suggest quality to United States consumers, with some willing to pay up to 10 percent more for more ‘sustainable’ products (20 percent more for food and beverage products). The fact that a product is ‘sustainable’ in one or more ways can be a key purchase driver for consumers, although triggering purchase behaviour does require careful consideration and messaging of related product attributes. To view the Hartman Group reports, visit the website [www.nzte.govt.nz](http://www.nzte.govt.nz).<sup>8</sup>

Growth areas for New Zealand clean technology exports to the United States include energy efficient building and housing, water recycling and re-use, and renewable energy. In the 2011 budget proposal, President Obama pushed for increased use of alternate energy by ending tax breaks and other incentives for domestic production of oil, natural gas and coal. Although nuclear energy is the main focus of increased alternatives, the 2011 proposal also includes tax credits to spur private investment in facilities that manufacture advanced

<sup>8</sup> Source: Office of Management and Budget. *Creating the Clean Energy Economy of Tomorrow*. ([www.whitehouse.gov/omb/factsheet\\_key\\_clean\\_energy](http://www.whitehouse.gov/omb/factsheet_key_clean_energy)); Datamonitor. *Country Analysis Report: USA*. April 2010; New Zealand Ministry of Foreign Affairs and Trade. *United States of America Country Information Paper*. ([www.mfat.govt.nz](http://www.mfat.govt.nz)).



energy technologies in fields like renewable energy, energy storage, advanced energy transmissions, energy conservation and contribute to greenhouse gas emissions mitigation.

The United States is New Zealand's most important bilateral research and technology partner. Both countries are seeking to build on established science and technology links to expand dialogue and co-operation in two emerging issues of importance to both countries: climate change and sustainability. For example, New Zealand and the United States have worked on particular sustainability issues in recent World Trade Organisation negotiations, such as the effort to free up trade in environmental goods and services, where average tariffs exceed 15 percent globally. New Zealand and the United States also work closely together on our shared goal of creating sustainable fisheries.<sup>9</sup>

## MARKET ENTRY

### Overview

The United States is a good market for a wide range of quality products, due to large numbers of consumers with high disposable incomes. Due to the sheer size of the United States market, New Zealand companies are recommended to research customer bases to target, then to focus their approach on a particular region / state. Specific recommendations include:

- research competitor information rigorously to ensure competitiveness and maximise returns,
- produce sufficient quantities to meet the market size, or find a United States partner with production capabilities,
- provide for high marketing and promotion costs,
- spend time and money travelling to and from the market,
- use agents, distributors, fulfilment centres and consider setting up an in-market office,
- be open to alternative and innovative supply chain options to match competitive pricing in the market,
- have proven e-commerce and direct marketing capabilities,
- sell products and services online through e-business channels, and
- purchase insurance against product liability, especially where personal injury is a risk.

### Agents / Distributors

The role of agents and distributors cannot be ignored. Rarely will retailers purchase directly from manufacturers, particularly overseas manufacturers – they don't have the time, resources or warehouse space. Instead they rely on distributors and agents. Some distributors have the capacity to import products. Others, however, rely on agents to manage the import of the product and marketing the product to end-users. In this respect the agent acts as an offshore salesperson for the exporter. A good agent can be an invaluable

<sup>9</sup> Source: New Zealand Ministry of Foreign Affairs and Trade. *Joint Statement by New Zealand and the United States following the Fifth Meeting under the US/New Zealand Bilateral Climate Change Partnership, 2008.* ([www.mfat.govt.nz/Media-and-publications/Media/0-NZ-US-climate-change-18-sept-08.php](http://www.mfat.govt.nz/Media-and-publications/Media/0-NZ-US-climate-change-18-sept-08.php)).



asset in the large US market because distributors tend to focus their sales staff on existing major lines rather than introducing new products. When considering representation an exporter should rarely deviate from appointing regional agents / distributors.

### **Fulfilment Centres**

Fulfilment centres are specialist operations in warehousing and US distribution. They have become increasingly important in the supply-chain network, especially since the growth of e-business services. They can allow a more competitive margin in the market by replacing a traditional distributor with agents working in conjunction with lower cost fulfilment centres. This approach is better suited to non-perishable items and consumer products. Fulfilment centres can often provide customs clearance, warehousing, order fulfilment, payment processing, amongst other services.

### **Setting up an Office in the United States**

Increasingly, companies are finding that it is critical to establish a presence in the US market. This is particularly true of the software and high-tech industry. Establishing a presence in the US brings the exporter face-to-face with end-users, helps address after sale service and support, and enables the company to get detailed feedback on its products and / or services. The following websites provide helpful hints on incorporation, setting up a business, and business filings: [www.mycorporation.com/incorporation.htm](http://www.mycorporation.com/incorporation.htm), [www.bizfilings.com](http://www.bizfilings.com), and [www.corpcreations.com](http://www.corpcreations.com).

### **Regions**

It is important to bear in mind that some states are significant global players in their own right. For example, with a gross state product of US\$1.85 trillion, California has a GDP per capita ranking that would place it in around sixth position if it were an independent country. Also, different regions in the United States have different tastes and demands, depending on the product too. This difference is particularly pronounced between the east and west, the north and south, and can be profound in the Southwest, where there is a high demand for Hispanic goods. It is important to undertake some assessment of which regions are likely to have the best consumer profile for your product or service. Once successful entry has been achieved in the market and a distribution point established, it is easier to then penetrate other regions. Collective activities embraced through NZTE programmes can be beneficial for New Zealand companies that have excellent products to offer the US market, but are unable to overcome volume and resource gaps. For further information on US regions and industry clusters see [www.locationusa.com](http://www.locationusa.com).

### **Entry Points**

Many retailers require a steady supply of large volumes of product. They are particularly concerned about readily available stock access as they are aware of freight distance from New Zealand. Smaller specialty retailers who demand lower volumes often provide better prospects for New Zealand companies. Competition for shelf space is fierce. Retailers prefer to reserve space for items with the highest turnover. At times, retailers charge sizeable slotting fees which are essentially product space rental.

New Zealand companies should consider entry points other than retail. The hotel, restaurant and institution sector (HRI), for example, allows a New Zealand company to introduce its products (initially with lower volumes), whilst side-stepping issues of brand recognition, packaging, labelling requirements, and competition for shelf, refrigerator, and freezer space. A foothold in this sector could also be a springboard to the retail market.

Online selling is another valid entry point for the United States. Online purchases are dominated by travel,



stocks, apparel and music, although the slow down in the economy has impacted the expansion of online sales. Specialist e-business web sites offer an alternative to United States market entry for New Zealand companies. However, considerable care needs to be taken to ensure delivery is performed efficiently (through smaller fulfilment centres) and issues of duties and state taxes need to be clarified and spelt out to the prospective consumer in any pricing information.

The rules on state tax collection for e-business have tended to be a “grey area” in the past with some form of business nexus (office, bank account etc) being required in a state before state taxes can be collected. This area should be checked out prior to launching online sales. Such information can be obtained through each state. Often, companies will want to consult with qualified legal experts.

### **Use of Social Media**

In the web-savvy United States market, engaging in online social media can be a cost-effective way to reach a large customer base – which could have major advantages for New Zealand exporters. The internet explosion means that today at least three-quarters of a billion people are participating in some form of social media. There is interactive exchange of news, views and information on these sites and people actively talk within social communities about products and brand. New Zealand companies entering or doing business in the United States market can often use social media to build a company brand, promote products, connect with customers / clients, monitor competitors, even as a recruitment tool. It provides the ability to do things on a large scale at much lower cost than through traditional marketing channels.

Allocating staff and financial resources to social media is important for getting it right. Because of the plethora of social media outlets, you need to find a manageable number of platforms that work best for reaching your audience. Current examples are Twitter, Facebook, YouTube, and LinkedIn, amongst others. Having a strategy outlining how you are going to use social media tools, your objectives, and the resources you need to allocate is key to success. Social media in the United States market is a phenomenon that is not going away and companies ignore it at their own risk.

### **New Zealand–United States Business Links**

There are a large number of New Zealanders who have chosen to live in the United States. Such individuals are often highly educated and have reached significant positions of influence and therefore provide a valuable network and source of ideas, expertise and contacts for New Zealand. New Zealand embassies and network of honorary consuls, along with a number of private associations and organizations such as KEA seek to maintain networks of New Zealand expatriates and maintain their valuable links with New Zealand

Founded in 1986 and based in Washington DC, the United States New Zealand Council is a private, non-profit, and non-partisan organisation that aims to strengthen bilateral relations. Its partner organisation is the New Zealand United States Business Council based in New Zealand. The Council's central focus is the promotion of economic and commercial ties, and cultural exchange. It works closely with the New Zealand Embassy in Washington in the areas of information dissemination, event promotion and strengthening of United States–New Zealand linkages. It has strong ties with the Administration, Congress and business. The focus of the Council's activity is on the promotion of free trade between the United States and New Zealand.

AMCHAM, the American Chamber of Commerce in New Zealand is a very active not-for-profit membership organisation based in Auckland that promotes two-way trade and investment relationships between New Zealand and the United States.

Beachheads is a programme designed for high-growth New Zealand companies looking to grow internationally into countries such as the United States. It connects participating companies to a network of advisors who can



provide detailed insights into doing business in specific international markets, and provide valuable advice and contacts that can plug companies into the right partners and potential customers. For more information on the Beachheads programme, visit the NZTE website [www.nzte.govt.nz/beachheads](http://www.nzte.govt.nz/beachheads).

## REGULATORY ISSUES

### Anti-Dumping Regulations

The United States enforces laws against unfair trade practices, such as the Anti-Dumping Law, which makes sales to the United States at prices lower than for sale in the exporter's market illegal, and the Countervailing Duty Law, which restricts the sale of subsidised exports. If you are exporting products which compete with strong local producer lobby groups in the United States or command a reasonable proportion of the market you should familiarise yourself with this law. The United States government polices this legislation strictly and a number of successful cases have been brought against various products. Anti-trust legislation is also particularly severe on companies collaborating to fix prices, with the Sherman Act applying to parties that affect more than a 20 percent market share.

### Health Regulations

The United States Food and Drug Administration (FDA) is responsible for protecting the public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products, medical devices, food supply, cosmetics, products that emit radiation, and tobacco products. The FDA is also responsible for advancing the public health by helping to speed innovations that make medicines and foods more effective, safer, and more affordable; and helping the public get the accurate, science-based information they need to use medicines and foods to improve their health. For further information on health regulations, visit the Food and Drug Administration [www.fda.gov](http://www.fda.gov).

### Import Barriers

Trade between New Zealand and the United States is generally open, although quotas do exist on some products (see Import Quotas and Licences). New Zealand exporters need to be aware of some non-tariff barriers that may impede trade. These barriers include anti-dumping and countervailing duties; high out-of-quota tariffs; service sector access restrictions; import licensing; restrictive labelling and standards; export-promotion programs; subsidies which add to the cost of trade; and domestic and other preferences in government procurement.<sup>10</sup> The Buy America Act is a domestic preference based on evaluation penalties; the Trade Agreements Act applies to procurements over US\$186,000 and favours countries that have signed the Government Procurement Agreement (GPA); and the Government Services Administration Schedule also favours countries that have a GPA with the United States.

The Buy American Act discourages but does not prohibit federal agencies from buying foreign products by adding an evaluation penalty to their cost which could then make their offer more expensive than a competing domestic offer. Contracting Officers at civilian agencies must add a six percent penalty to an offer of foreign-made products or a twelve percent evaluation penalty if the competing United States vendor is a small business or operates in a labour surplus area. Defence agencies add a fifty percent penalty to the foreign offer.

For procurements over US\$186,000, the Trade Agreements Act (TAA) supersedes the Buy American Act. TAA requires federal agencies to treat the products of countries that have signed the Government

<sup>10</sup> Source: *The Heritage Foundation and Wall Street Journal. 2010 Index of Economic Freedom.* <http://heritage.org/index>.



Procurement Agreement (GPA) as favourably as American-made products, and prohibits the purchase of products made in countries that have not signed the GPA.

Another consequence of New Zealand not being on the GPA is that New Zealand companies cannot participate in the General Services Administration (GSA) Schedule. The GSA Schedule is a procurement vehicle that allows government agencies to buy directly from vendors without going through a lengthy tender process. Many United States Government agencies are required to buy products off the GSA schedule so New Zealand companies can be at a disadvantage.

### **Import Quotas and Licences**

The United States operates strict quotas in certain product sectors, particularly beef, cheese, butter, milk powder, sugar and textiles. It is recommended that exporters planning to export these types of products consult with NZTE prior to export. Detailed information on the operation of the beef and lamb tariff quotas is available from the New Zealand Meat Board ([www.nzmeatboard.org](http://www.nzmeatboard.org)). The dairy quotas in many instances provide specific quota volumes for New Zealand products (e.g. cheese), which are administered by the New Zealand Food Safety Authority ([www.nzfsa.govt.nz](http://www.nzfsa.govt.nz)). There are, however, still some prospects for import of intermediate dairy products (covered by global quotas) which can be examined.

Textile products that are manufactured offshore (e.g. China) are also subject to strict quota rules relating to country of origin and may be placed under China quota allocation typically if the original fabric was made there. The United States Department of Commerce's Import Administration is one source of related information, <http://trade.gov/ia>.

### **Marking and Bar Codes**

Many American retailers and distributors require that the products they handle have Universal Product Codes (UPC). This helps them to efficiently manage the flow of goods through their warehouses, stores and checkout stands. UPC differs from the EAN-13 codes typically used in New Zealand. Although most traders in America should still accept New Zealand barcodes, you should check with your importer if a UPC code will be required by the end-user. An official international barcode can be secured with an international, not-for-profit association called GS1. For further information, please visit the GS1 website [www.gs1nz.org](http://www.gs1nz.org).

### **Packing and Labelling**

It is important to research the packaging and labelling requirements in the United States for your product. The Federal Trade Commission, the FDA and the Department of Agriculture all have guidelines that must be met, depending on the product. Under Bio-terrorism rules there are also labelling and exporting requirements that need to be met. While a lot of information is available on the web, the relevant sites for information are often widespread and it is difficult to get an overview of what agencies are involved. In determining this information, close liaison should be maintained with existing / prospective importers who will be very familiar with industry requirements. For information or advice, ring the Enterprise Hotline on 0800 555 888, or contact your NZTE client manager.

### **Patents**

Obtaining patent protection in the United States can be expensive and the options for ensuring that any such patent is watertight need to be closely examined. Some lawyers advocate using "getting into the market ahead of the competition" as the most effective strategy. Whatever approach is taken the costs and advantages of taking out patent protection need to be carefully considered. Companies should also consider the cheaper course of copyright and trademark protection if brand names / logos are an important part of the market entry



strategy. Companies should take specialist advice in this area before going into the market.

### **Product Liability**

Products imported to the United States have potential product liability exposure, but especially where they may cause personal injury. Unfortunately with litigious United States business conditions, the cost of defending a product not at fault is often more expensive than settling out of court. However, product liability should not be considered a trade obstacle. Rather, companies contemplating market entry need to assess their exposure and determine their comfort level in terms of taking on risk.

Where exporters have minimum presence in the market, their exposure may not require insurance coverage. The exception will be where an importer/retailer specifically requests an insurance certificate. Exporters can help protect themselves by understanding the relevant City, State and Federal regulatory requirements where the product will be sold, and by stating appropriate warnings on the packages and labels.

Exporters without a United States presence may be able to purchase public liability insurance less expensively through a New Zealand insurance company, but that company should be affiliated with a United States insurer, or have an understanding of United States liability issues.

### **Safety Regulations**

Ten Federal Departments and agencies are responsible for ensuring the safety of products imported into the United States. For further information regarding which agency is responsible for a specific product, please visit the [www.importsafety.gov](http://www.importsafety.gov) website.

### **State Regulations**

Laws and regulations governing certain businesses and products may vary from state to state on such issues as the sale of alcohol, environmental and safety controls, and taxation. It is wise to research these issues. As an example, while efforts are made to ensure harmony in building construction codes, local municipalities have considerable jurisdiction to add local rules – for example, no cedar roofing tiles in fire risk areas in the south-west United States.

### **Tariffs**

Tariffs are levied either as a percentage of the value of the goods being imported, or on the basis of a specific amount of dollars per quantity of imports. In general, United States tariff rates for manufactured items and consumer goods are very competitive by international standards, with most being under 10 percent. To find about the tariff applicable for your product, visit [www.usitc.gov](http://www.usitc.gov). Alternatively, NZTE can provide basic information on tariffs at an indicative level to assist companies assess viability of market entry.

## **FREIGHT**

### **Air**

A number of air lines including Air New Zealand offer air cargo services to the United States through Los Angeles and San Francisco. Exporters should note that space is limited and that careful planning in conjunction with freight forwarders is important in ensuring access to the limited space available at the desired time.



## Sea

In shipping to the West Coast, exporters have three main options: a) Swire offer once or twice monthly shipping services from Tauranga to Long Beach (15 days), b) NAPA offer once or twice shipping service from Auckland on the RORO service to Long Beach (19 days), and Grays Harbour, Oregon (23 days), or c) a container line consortium is offered by Hamburg Sud, Hapag Lloyd, Maersk and ANL from Auckland on a fortnightly service to Oakland (16 days), Seattle (19 days), Vancouver BC (20 days), Long Beach (24 days), or from Tauranga weekly to Oakland (16 days and Long Beach (18 days).

In shipping to the East Coast, exporters have two main options: a) a Hamburg Sud, Hapag Lloyd and Maersk consortium service from Tauranga and Auckland weekly to Philadelphia (26-27 days) and Savannah (29-30 days), or b) ANL, CMA CGM and Marfret offer a service from Tauranga fortnightly to Savannah (19 days) and Philadelphia (22 days).

*NZTE has basic information on air and shipping freight options to this market, but for details on rates and schedules, exporters will be referred to a range of appropriate service providers.*

## VISA REQUIREMENTS

New Zealand is a member of the Visa Waiver Programme (VWP), which permits New Zealand citizens to enter the United States for business and tourism purposes for up to 90 days without a visa. All incoming passengers who intend to take advantage of the Visa Waiver Program are required to complete the I-94W form online before departure to the United States, but preferably at least 72 hours (3 days) in advance. An electronic visa can be obtained online at <https://esta.cbp.dhs.gov> for nationals of VWP countries. Further advice and guidance for New Zealanders travelling to the United States is available at [www.safetravel.govt.nz](http://www.safetravel.govt.nz).



## TAXATION

TYPES	RATES
Corporate tax rates	35% for taxable income equal to or greater than US\$18.3 million, with graduated rates from 15% applicable to taxable income of less than US\$18.3 million.
Resident individual income tax	Progressive up to 35%, but limited to a maximum of 15% for certain 2010 capital gains. The applicable tax rate will depend on the amount of taxable income and the return filing status of the tax payer. Present law provides for higher rates (to include a top rate of 39.6 %) for income received in taxable years beginning after 2010.
Non-resident individual income tax	Non-resident aliens are taxed only on Effectively Connected Income (ECI) and US-source non-ECI. The 50 states and the District of Columbia also collect income tax from non-residents and individuals who reside in their territory.
Real property gains tax	Tax is generally imposed by the local government at various rates.
Service and sales tax	No federal value added tax, although individual states levy sales tax at various rates subject to state-set requirements.
Withholding tax	30% for dividends, 30% for interest, and 30% for royalties
Double taxation	New Zealand and the United States hold a Double Taxation Agreement. <sup>11</sup>

Source: Deloitte International Tax and Business Guide: United States. ([www.deloitte.com](http://www.deloitte.com)).

Taxation in the United States is complex and rates of tax and the methods used to calculate them can change at any time. In addition to federal government taxes on income, taxes are also imposed by states and local governments and usually consist of income, payroll, property, sales and use, inheritance, severance and transaction taxes. These states and local taxes can be significant and effects should be considered when any transaction is contemplated. For further details on the United States tax system, visit [www.ustaxnetwork.com](http://www.ustaxnetwork.com).

<sup>11</sup> Source: New Zealand Inland Revenue. *Double-tax agreements*. September 2008. ([www.ird.govt.nz/yoursituation-nonres/double-tax](http://www.ird.govt.nz/yoursituation-nonres/double-tax)).



## DOING BUSINESS WITH THE UNITED STATES

- Don't fall into the trap of thinking that business in the United States is similar to business in New Zealand just because Americans speak English. The size and complexity of the market and American culture impact on the way Americans conduct their everyday business.
- American business people tend to be extremely busy and take the saying "time is money" to heart. Make your requests, demands and dealings with Americans brief and to the point. Often a telephone call or an email is the most effective way to make initial contact with a business.
- Email is used widely. It is essential to respond to inquiries and messages from the United States overnight. Non-response or 'slow' response is interpreted as a lack of interest. Most United States business people pick up email through their mobile phone and therefore expect responses within an hour to an important request/question.
- When selling any product or service in the United States it is essential to have a three minute elevator pitch that will have an impact.
- It is critical you engage with one of the key decision makers in the United States company. United States companies are usually significantly larger than New Zealand companies so it is critical to ensure you are properly connected in the United States company to ensure real progress is made. This should commonly be someone at Vice-President level or similar.
- Arrange appointments with United States businesses well in advance to ensure key personnel are available. Once an appointment has been set, you may have as little as five to 20 minutes to pitch your product. You must present your product with enthusiasm and verve and ensure that the key advantages of your product/service are strongly emphasized at the outset! Preparation of an elevator pitch may be helpful.
- Cold-calling is usually a lengthy and frustrating process with an extremely low conversion rate to appointments.
- Business is often conducted over breakfast, lunch or dinner. Don't hesitate to initiate such invitations and be prepared to pay.
- Americans tend to be less formal than New Zealanders on first contact and the use of first names is common. However it is important that communication should be reasonably formal and of a professional nature until a good business relationship is established.
- Business dress in the western United States tends to be more casual than in the eastern United States. There is however, a strong trend to casual dress entering the market on both coasts led by the high-tech sectors. There are no hard and fast rules in this changing dress environment so when in doubt a suit is the best option, on the grounds that it is better to over-dress than under-dress.
- Avoid using New Zealand slang – it's not likely to be understood. Be aware that Americans may not fully understand the New Zealand "ironic" or sarcastic sense of humour.



- In general, Americans don't know a lot about New Zealand. Be prepared to patiently answer their questions and give them background material.
- Tipping is normal and expected in restaurants (15-20 percent of the bill) and taxis (15 percent of the fare). Porters and bellhops should be tipped at least \$1 a bag. Hotel maids should also be tipped at least \$1 a night. Valet parking attendants are usually tipped \$1.

## TIME DIFFERENCE

The time difference between the United States and New Zealand differs widely between 16-23 hours, depending on the city and the time of year. For the specific and current time in major American cities go to [www.timezoneconverter.com](http://www.timezoneconverter.com).

## HOLIDAYS

Avoid business travel in late November as it will be impossible to schedule business meetings and airports will be extremely busy due to Thanksgiving holiday. Public holidays for 2010-11 are observed, although do not necessarily fall, on the following days:

HOLIDAY	2010	2011
New Years Day	Friday, January 1	Monday, January 3
Martin Luther King's Birthday	Monday, January 18	Monday, January 17
Presidents' Day	Monday, February 15	Monday, February 21
Memorial Day	Monday, May 31	Monday, May 30
Independence Day	Monday, July 5	Monday, July 4
Labor Day	Monday, September 6	Monday, September 5
Columbus Day	Monday, October 11	Monday, October 10
Veteran's Day	Thursday, November 11	Friday, November 11
Thanksgiving Day	Thursday, November 25	Thursday, November 24
Christmas Day	Friday, December 24	Monday, December 26
New Years Eve	Friday, December 31	Monday, January 2

Source: US Commercial Service

Please note that not all of these holidays are observed by private industry – for example while Government offices observe Veteran's Day and Columbus Day, few private businesses do.



## USEFUL WEBSITES

ORGANISATIONS	WEB ADDRESSES
Official Business Link to the United States Government	<a href="http://www.business.gov">www.business.gov</a>
Links to State Government Websites	<a href="http://www.usa.gov">www.usa.gov</a>
United States Chamber of Commerce	<a href="http://www.uschamber.com">www.uschamber.com</a>
United States – New Zealand Council	<a href="http://www.usnzcouncil.org">www.usnzcouncil.org</a>
United States Customs & Border Protection	<a href="http://www.cbp.gov">www.cbp.gov</a>

## CONTACTS

### New Zealand Trade and Enterprise

Export Hotline	Phone 0800 555 888
Website	<a href="http://www.nzte.govt.nz">www.nzte.govt.nz</a>

### New Zealand Trade and Enterprise in the United States

#### Los Angeles

Postal Address	New Zealand Trade and Enterprise 2425 Olympic Blvd, Suite 610 East Santa Monica, California 90404, USA
Phone	+1 310 633 7904
Fax	+1 310 460 4450
Email	<a href="mailto:info@nzte.govt.nz">info@nzte.govt.nz</a>

#### New York

Postal Address	New Zealand Consulate General 222 E. 41st Street, Suite 2510 New York, NY 10017
Phone	+1 646 378 4813
Fax	+1 212 832 7602
Email	<a href="mailto:info@nzte.govt.nz">info@nzte.govt.nz</a>



## Washington DC

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Postal Address	New Zealand Embassy 37 Observatory Circle NW, Washington DC 20008
Phone	+1 202 328 4887
Fax	+1 202 265 9659
Email	info@nzte.govt.nz

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*The New Zealand Embassy is based in New York, and there is a Consulate-General in Los Angeles. New Zealand Honorary Consulates in Atlanta, Boston, Chicago, Guam, Honolulu, Houston, Sacramento, Salt Lake City, San Diego, San Francisco and Seattle. Contact details are at [www.nzembassy.com/contact.cfm](http://www.nzembassy.com/contact.cfm).*

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