

29 February 2016

Submission to Ministry of Foreign Affairs and Trade on a potential Free Trade Agreement between New Zealand and the European Union

Introduction

This submission is prepared on behalf of Seafood New Zealand, a company owned by seafood industry stakeholder organisations and charged with representing the shared interests of those organisations.

New Zealand Seafood Trade Interest in the European Union

The New Zealand seafood sector is as heavily reliant on international trade of its products as the other major food producing primary industry sectors in New Zealand. The seafood trade has some particular interests and concerns in markets the European Union:

1. Fish and fish products are among the mostly highly traded and heterogeneous food commodity groups globally. The Food and Agriculture Organisation (FAO) estimates that close to 40% of total seafood production is traded internationally, with about 50% originating from developing countries;
2. International markets are relatively open, compared to markets for pastoral agriculture products, and dominated by strong demand from the European Union, USA, Japan and (increasingly) China – collectively accounting for more than 80% of seafood imports.
3. New Zealand's export market mix aligns well with global demand with the addition, for New Zealand, of Australia as a key market for our seafood exports.
4. New Zealand seafood sales to markets in the EU have consistently accounted for 10 to 12% of direct export by value for the last two decades.
5. More than 50% of New Zealand seafood exports to the EU are directed to southern markets (see Table 1). The leading market for New Zealand seafood sales is Spain. Spain is a key market for hake and ling, while the southern European markets of Spain, Greece and Italy are key markets for squid. By value 72% of hake exports, 31% of ling and 27% of squid exports were to EU markets in 2015. Direct exports to EU markets accounted for 32% of global hoki sales in 2015 with sales of hoki processed in China potentially lifting that proportion to an aggregate of about 40%.
6. Hoki is acknowledged by European Association of Fish Processors (AIPCE) as among the suite of white fish or ground fish species (led by Alaska Pollack from the US and Russia) imported for the fish processing sector in Germany, France and UK.
7. Greenshell mussels have carved out an important niche in EU markets as a unique alternative to the ubiquitous black shelled mussel. The EU accounted for 20% of New Zealand's global exports by value in 2015.

Most Favoured Nation Status is now a trade barrier

8. New Zealand has gradually become more isolated among a decreasing group of exporters to the EU that have to access the markets across standard WTO Most Favoured Nation (MFN) terms. Most of our competitors enjoy more favourable access terms arising from historic relations or their classification as developing countries.

9. The group of MFN access states continues to decrease as more States negotiate FTAs with the EU – the most recent being Canada. When the US and EU conclude the TTIP negotiation, New Zealand seafood exporters will be even more isolated. It is imperative for the future of the New Zealand seafood trade to the EU that tariff-free access is secured as soon as possible.
10. The outcome of accessing the EU trade bloc over MFN tariff rates, when most competitor products do not, means that New Zealand exporters must absorb the tariff to remain competitive.
11. Currently the average MFN tariff rate for the mix of New Zealand seafood exports represents a NZ\$20 million impost on trade worth NZ\$200 million at f.o.b in 2015.
12. The lowest MFN tariff rate available for seafood relevant to New Zealand in Chapter 3 of the Harmonised System is 6% for some shark products and 7.5% for a limited range of fin fish species, with the general tariff rate for fin fish set at 15%. Frozen molluscs including squid, molluscan shellfish including mussels face a tariff rate of 8% while the rate on tuna species is 22%. There is significant tariff escalation for processed seafood products traded under Chapter 16 of the Harmonised System with most tariffs ranging around 20% to as high as 26%.
13. In global terms, the EU's MFN tariff rates are now among the highest in the developed world and on a par with tariff rates encountered in developing countries, but are now the exception rather than the rule for most seafood imports by the EU. The seafood industry strongly submits that negotiators should seek tariff elimination on all New Zealand origin seafood exporters on entry into force of any Free Trade Agreement

EU Tariff Concessions

14. As noted above, most seafood imports by the EU enter the market at concessionary rates – the effective tariff on seafood imports generally may be well less than 5%.
15. New Zealand exports of certain fish and squid products for further processing under an autonomous tariff quota arrangement renewed on a three yearly cycle have benefitted, especially exports of hoki fillets and blocks, headed and gutted hake and ling and frozen squid. However the policy is limited to registered processors only and acts as a disincentive to processing the species concerned to added value product forms in New Zealand.
16. In the latest review of the quotas in 2015, the EU chose to reduce several (including for hoki) to better align to actual trade, which in the three years 2013 to 2015, and the previous three to that, had been constrained by reduced demand following the global financial crisis.
17. The quotas are species based, rather than related to origin. However the case of the coming force of the Canada/EU FTA demonstrates that the current policy takes account of the new market access benefits that Canada will achieve during the course of the current 3 year programme with a reduction in quota volume for frozen shrimp at the point that that FTA comes into force.
18. New Zealand trade may be at some risk if the same were to be done for the quotas for hoki and squid. European importers have identified that about 20% of hoki imported for processing that originates from the New Zealand fishery has been initially processed in China to intermediate product form suitable for the EU processing sector. That product is regarded as product of China. The same situation applies to USA origin Alaska Pollack imported for further processing. The volume of Alaska Pollack imported from China but originating from

the USA fishery is 150% of the volume imported directly from the USA. It will be important to monitor how this product is treated in the US/EU TTIP outcome and how it is reflected in future ATQ treatment as an indicator of EU attitude to the issue.

19. The issue of third country processing of New Zealand origin seafood should be addressed in the Rules of Origin negotiation. The processing of seafood to intermediate forms in third countries does not involve a chapter change, but simply a change at most to heading, from 03.03 to 03.04 for example. In some cases, as for squid, it may simply be a line change.

Technical Barriers to Trade

20. The Veterinary Agreement between New Zealand and the EU has undoubtedly assisted our seafood exports to be accepted in EU markets with very low levels of border inspection. An FTA with the EU would enable an even more productive relationship to be developed as part of the Sanitary and Technical Barriers negotiations.
21. Meeting EU expectations remains challenging for seafood processors. The relative importance of EU markets for several of the major deepwater species and for some mussel processors and exporters mean that all production, processing and traceability norms operate within the electronically based eligibility and certification disciplines required to meet EU eligibility criteria, regardless of whether or not the product concerned is eventually sold to EU customers. "E'cert" has been embraced by the seafood industry as a "win-win", as it has assisted companies to manage inventory more efficiently and meet customer expectations for traceability. Fully electronic documentation of trade is a goal that should be embraced by an FTA.
22. The EU has strict requirements for catch documentation for wild capture fin fish products. New Zealand has integrated these requirements into the electronic certification system. However the final documentation required by the EU remains firmly based on paper based systems. It would be helpful if the EU could adopt electronic certification for catch documents also and thus improve the effectiveness and efficiency of trade.
23. Maximum residue limits for heavy metals are a barrier to trade for certain species and size grades of those species, while there is no evidence that the fish concerned pose a significant health risk to consumers. The EU has addressed these anomalies for many important northern hemisphere species but appears reluctant, or at least tardy, in addressing similar issues for southern hemisphere species.
24. Exporters who have product detained and are placed on notification lists for enhanced inspection often have difficulty in getting clearance off the notification lists due to inconsistency of inspection performance by border officials in EU Member States.

Foreign Investment in the seafood sector

25. The seafood industry supports the limits on foreign ownership of Individual Transferable Quota and would expect that these limits would be maintained in an FTA with the EU. Similarly there is an expectation that the Government will repeat the Treaty of Waitangi related exclusions that have formed a part of all recent FTAs.

Table 1:

Seafood Exports to EU Markets (NZ\$ f.o.b.)

	2011	2012	2013	2014	2015 (prov)
Austria	390,873	392,524	365,038	466,028	163,057
Belgium	5,985,492	5,040,302	5,085,030	5,994,210	5,078,943
Bulgaria	665,136	350,296	468,299	424,537	435,772
Croatia	2,429,632	2,800,372	779,659	1,517,161	2,189,330
Cyprus	2,673,027	2,330,716	2,295,674	2,520,992	3,068,501
Czech Republic	113,992	0	0	71,201	0
Denmark	3,619,512	3,700,425	4,453,075	5,124,038	3,631,807
Estonia	328,233	251,400	347,455	333,465	440,316
Finland	33,159	29,203	59,480	40,040	0
France	34,173,133	31,259,364	32,007,366	36,362,691	33,472,855
Germany	28,721,177	22,164,735	30,731,173	26,151,887	28,881,257
Greece	15,782,631	10,129,207	9,496,626	10,105,539	6,845,269
Hungary	133,509	115,373	134,214	141,804	161,013
Ireland	859,583	230,597	369,087	359,857	640,414
Italy	9,712,505	5,501,320	6,886,932	6,522,901	4,553,826
Latvia	0	0	0	93,396	0
Lithuania	3,055,574	2,748,971	1,287,105	2,792,682	2,383,042
Malta	144,582	90,355	201,177	270,055	64,820
Netherlands	7,661,737	10,214,261	12,457,971	9,119,233	12,791,964
Poland	5,244,215	5,894,557	9,285,800	15,421,228	21,125,949
Portugal	7,614,049	10,600,163	7,802,661	13,316,189	13,714,642
Romania	328,488	142,906	66,108	129,110	52,735
Slovenia	0	70,513	9,006	0	248,430
Spain	54,842,440	32,439,577	32,772,100	36,708,593	42,114,270
Sweden	4,663,929	4,091,156	3,038,477	3,307,051	3,666,630
United Kingdom	15,005,181	12,272,547	14,155,274	14,106,370	14,263,231
TOTAL EU	204,181,789	162,860,840	174,554,787	191,400,258	199,988,073

Source: Statistics NZ and Seafood NZ Export Database

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