29 February 2016

New Zealand Horticulture Export Authority (NZHEA)
submission to
the Ministry of Foreign Affairs & Trade (MFAT)

on the potential for a

New Zealand –European Union (EU) Free Trade Agreement

1.0 Background

New Zealand horticulture production (including winegrapes) was valued at $7.0 billion in 2014[1], with total investment exceeding $38 billion. There are approximately 5,500 commercial growers across the country, and the industry employs just over 50,000 staff in the peak period. In the year ending June 2015 Horticulture exports (excluding wine) contributed $2.7 billion[2] to the New Zealand economy, representing 5% of total merchandise exported from New Zealand.

1.0 New Zealand Industry Structures:

The New Zealand (NZ) horticulture industry is made up of a number of organisations, each with differing structures and scope of representation.

Horticulture New Zealand is viewed as the "whole of industry" grower representative body, focussing its priorities on matters affecting the entire industry. Most horticulture sectors also have their own organisations that are affiliated with Horticulture New Zealand. These grower / exporter organisations retain their own identity and organisational structure to represent the product-specific interests of their members. The Horticulture Export Authority is an industry entity that is backed by enabling legislation under which industries can regulate their exports, should they choose to do so. The Horticulture Exporters' Council is an exporter organisation with voluntary membership, representing the generic industry good interests of horticulture exporters.

1.1 Horticulture New Zealand

Horticulture New Zealand (Chief Executive – Mike Chapman, www.hortnz.co.nz) was formed in November 2005 from the merger of the New Zealand Vegetable and Potato Grower's Federation, the New Zealand Fruitgrowers Federation, and the New Zealand Berryfruit Growers Federation. Horticulture New Zealand acts as an advocate for New Zealand's 7,000 commercial fruit, vegetable, and berryfruit growers on national industry-wide issues such as:

- Industry profile and promotion;

[1] Source: *FreshFacts*, 2014
[2] Source Statistics NZ

- Border security;
- Environmental issues;
- Resource management plans;
- Education, training, and careers promotion;
- Leadership development;
- Labour and employment, including seasonal labour;
- Food regulations;
- Emergency response.

Twenty two product groups are affiliated with Horticulture New Zealand: asparagus, avocados, blackcurrants, blueberries, boysenberries, citrus, export squash, feijoas, fresh tomatoes, fresh vegetables, kiwifruit, kiwiberries, nashi, onions, passionfruit, persimmons, pipfruit, potatoes, processed vegetables, strawberries, summerfruit and tamarillos.

1.2 New Zealand Horticulture Export Authority (NZ HEA)

The New Zealand Horticulture Export Authority (Chief Executive – Simon Hegarty, www.hea.co.nz) was established under the New Zealand Horticulture Export Authority Act (1987) with the aim of promoting effective export marketing of horticultural products. Based on an export licensing structure and industry rules under an 'Export Marketing Strategy' (EMS), the Authority provides the legislative framework which enables product groups to apply industry agreed programmes that enhance the quality and safety of the exported products. The HEA also works with government to improve export market access. Nine product groups are currently operating under the HEA structure: avocados, blackcurrants, buttercup squash, chestnuts, kiwifruit to Australia, persimmons, summerfruit, tamarillos, and truffles. The HEA has a trade policy advocacy role and is also a member of PMAC (the body representing the plants industry on technical access issues – refer below).

1.3 Horticulture Exporters' Council (HEC)

The Horticulture Exporters' Council (contact - Mick Ahern email: mahern@primaryservices.co.nz) represents the interests of horticulture exporters, provides a forum for exporters of horticultural products, and coordinates exporter nominations for various industry organisations. The HEC has a seat on the HEA board and also has a presence on PMAC.

1.4 Plants Market Access Council (PMAC)

The Plants Market Access Council is a strategic consultative partnership between the horticultural & arable export sectors of NZ and the Ministry for Primary Industries (MPI). Industry pays fees on phyto-certificates for export consignments and this revenue is used by MPI to operate the export phytosanitary system and fund projects or programmes required by the export industry. PMAC's vision is "to provide co-ordinated cohesive leadership to secure, improve and reduce the cost of access for NZ horticultural and arable products into export markets." PMAC's role has been to focus on technical market access issues rather than trade policy advocacy. PMAC is currently chaired by Russ Ballard. Contact info@pmac.co.nz or www.pmac.co.nz

2.0 NZ horticulture export trade with the EU

2.1 New Zealand Exports

For the horticulture sector, the EU is New Zealand's number one export market in value terms, being the destination for 21.5% of the NZ$2.7billion in exports. Horticultural exports to the EU were valued at $580 million in 2015, with fruit products accounting to 92% of this total. Kiwifruit (55%), apples (34%) & onions (8%) are the 3 leading product lines that collectively accounted for 97% of the value of exports in 2015 (refer to Appendix table 1).

The value of NZ horticulture exports to the EU over the 10-year period 2005-2015 has fluctuated with a 37% increase over the 4-years 2006-2009 followed by a 37% decline over the 3-years 2010-2012 inclusive, due to the Global Financial Crisis (GFC) impact. In the most recent 3-years 2013-2015, we have seen a 20% recovery/increase. NZ horticulture products have good phytosanitary access to the EU market with few restrictions on importation for SPS reasons (refer section 3.3 'SPS barriers' below).

2.2 EU horticulture exports to NZ

NZ imports of EU Horticulture products: 2013-2015

NZ imports of horticulture products from the EU 2013-2015			
NZ$ cif	*2013*	*2014*	*2015*
Vegetables (HS 07)	5,636,732	4,821,700	4,492,266
Fruit (HS 08)	3,975,098	4,317,138	6,938,340
Preparations of Veg, Fruit, nuts etc (HS 20)	39,112,226	48,865,931	53,539,516
Total	**48,724,056**	**58,004,769**	**64,970,122**
Imports from all markets	**695,453,398**	**734,010,647**	**849,067,871**
% share from EU	7.0%	7.9%	7.7%

Statistics NZ data reveals NZ imported NZ$64.9m of EU horticulture products under HS Chapters 07 (Vegetables), 08 (Fruit) or 20 (Vegetable or Fruit preparations) in 2015, which represented 7.7% of our total imports of these products. The growth trend of 33% over the 3-year period is notable, as is the fact that the significant majority of the imports (82%) is in the prepared products under HS Chapter 20, as opposed to fresh fruit or vegetables. Kiwifruit (from Italy) accounts for approximately 40% of the Fruit imports.

NZ's trade in horticulture with the EU in 2015 was significantly in NZ's favour at a ratio of almost 9:1. This gap is not surprising given New Zealand's small domestic market and the freight logistics challenges involved in supplying horticulture products from the EU to New Zealand.

3.0 Market Access Issues: Barriers to Trade with the EU

3.1 Indicative cost of tariffs

Tariff costs for NZ horticulture exports in 2015 are estimated to be <u>a minimum</u> of $30m. This $30m figure is based on Fob value, however in reality the tariffs are based on Cif values so in light of the significant freight costs to the EU, **the actual cost of tariffs in 2015 was more likely to be in the area of NZ$40-$45m.**

While the average rate across all lines is approximately 5.5% of our export value, the impact on specific products is significant.

3.2 Tariffs for specific products

The following summarises the tariff situation for a number of horticulture products:

(a) **Fresh kiwifruit:** Two tariff rates apply depending on the time of year.

1 January – 14 May	8.80% tariff
15 May – 15 Nov	8.0% tariff
16 Nov – 31 Dec	8.80 tariff

In the 2014 year the cost of this tariff was estimated at NZ$24.4m based on Fob value. **The cost based on Cif value would be at least 20-30% higher (or approximately NZ$31m)- equating to just over $4,700/ha.** In contrast, Chile pays no tariffs on its kiwifruit exports to this market. This tariff differential at the expense of the New Zealand industry, is a key factor negatively impacting on the development of the EU market opportunities for NZ kiwifruit.

(b) **Pipfruit:** A complexity of trigger volumes and unit values at certain periods can result in the applied tariff ranging from zero to 9%. In 2014, the estimated cost of the tariffs was just under NZ$1m – based on Fob values. **On a Cif basis this would more likely be NZ$1.3m or an average $147/ha.**

(c) **Onions** are faced with a fixed tariff of 9.6% - in 2014 this was estimated to cost NZ$4m on a Fob basis or **$5.2m on Cif basis or $970/ha**. This tariff level puts NZ exporters at a distinct disadvantage in relation to other southern hemisphere suppliers (Chile, and South Africa on zero tariff and Argentina on 6.1%) and is preventing development of this market.

(d) **Frozen berry products:** Boysenberries and blackcurrants face tariffs of 20.8% and 16.8% respectively.

(e) **Dried peas/other dried vegetables and dried sweetcorn**: Tariffs of 2% to 12% respectively apply. These tariff levels are constraining growth.

(f) **Other fresh fruit products (Apricots, Cherries, Peaches, Persimmons, Mandarins)**: Tariffs of between 8% to 20% apply: Apricots 20%, Peaches 17.6%, Mandarins 16%, Cherries 12% and Persimmons 8.8% all face significant tariff barriers. Chile also supplies some of these products to the EU at more favourable tariff rates.

(g) **Market access for processed products in HS Chapter 20:** A number of NZ companies produce a range of processed fruit or vegetable ingredient products including juices, purees, jams, prepared or preserved products. These products face tariffs in the EU of between 18-20%, which severely limit opportunities in that market. This is a potential growth area for NZ as we look to add-value to products prior to export. However, importing country tariffs on processed products are dis-proportionately high and an impediment to growth.

3.3 SPS and other barriers

Import prohibitions & prioritisation of access requests

The EU's phytosanitary system imposes few restrictions on the importation of horticultural products from New Zealand.

There are however some issues which are causing some frustration to specific sectors:

Kumara – Exports to the UK fell sharply since 2008 due to new agrichemical residue requirements impacting on the use of a product used to prevent rots over the long shipment time.

Marketing standards – The European Union imposes grade marketing standards on a range of fruit and vegetable products. These apply to both domestic and imported products. Imported products are either inspected for compliance with the marketing standards on arrival at the border or through a system of third country assurances. New Zealand has a special status for apples, pears and kiwifruit whereby conformity checking against the EU marketing standards are performed in New Zealand and thereby negating the need for compliance inspection on arrival.

4.0 Areas of Negotiation:

The NZHEA acknowledges the importance of trade and actively promotes free and fair trade ideals. We believe these principles need to convert to pragmatic actions. An initial step is to ensure the scope of the negotiation is broad and reflects an appropriately high level of ambition. It should have a particular emphasis on trade remedies and an agreed process for solving disputes within a defined timeframe. This latter point is crucial to avoid the long delays in solving trade disputes – something the NZ food export sector has painful experiences of.

The negotiations must include a chapter on Sanitary and Phytosanitary measures that are consistent with our international/WTO obligations & endorse a commitment to the principles of sound science and removal of prohibitions within a reasonable period of time. In doing this the success of the SPS provisions negotiated in other completed FTA negotiations need to be considered. Of key importance to New Zealand is the retention of our delegated authority system whereby the phytosanitary status of export consignments are based on a systems approach relying on MPI approved operators and independent 3rd party verification agencies.

5.0 Specific issues for Horticulture:

Much of the detail of NZ's horticulture trade issues is contained in s 2, 3 & 4 above. In addition to this, there are a number of important considerations relating to trade in horticulture between New Zealand and the EU which may be relevant to any FTA negotiations:

1. NZ has a long and respected track record of marketing horticulture products into the EU, which includes the provision of safe, high quality products and services. Various industries have also invested in promotion over many decades and this commitment to the EU markets should be noted.
2. Fruit and vegetable products grown in New Zealand and marketed in the EU are counter-seasonal and therefore complimentary to EU domestic production. These products provide healthy food options that enhance the health of the population.
3. NZ exports are supplied via a range of mechanisms spanning the ZESPRI single point of entry (SPE) system, groups operating under the HEA framework or those exporting in a totally de-regulated environment. With over 56% (by value) of NZ's horticulture exports to EU in 2014 exported via a regulatory framework (either Zespri SPE or HEA framework) there is a considerable degree of co-ordination and sector-wide systems in operation.

4. We consider the New Zealand horticulture sector provides significant opportunities for European business and investment, particularly in the areas of property investment, packaging supply, high-tech fruit & vegetable grading equipment, robotics, other types of post-harvest (packinghouse and cool-storage) automation and food processing technology.
5. The NZ Horticulture sector considers it has ‘best practice’ systems for phytosanitary & food safety compliance and would like to see greater recognition of NZ’s low risk status in this area. We believe NZ export products should be on the lowest acceptable level of border inspection based on our good record of performance in this area.

6.0 Potential benefits and risks to NZ horticulture from a FTA with the EU:

Benefits to NZ Horticulture:

1. An elimination of the estimated $45m (Cif equivalent) in trade distorting tariffs. This would lead to a more level playing field vis a vis our competitors.
2. Increased EU consumer exposure to the range of NZ horticulture products. Counter seasonal supply enhances consumer options.
3. Enhanced relationships leading to increased market development opportunities for NZ exporters in a sophisticated market
4. Potential for increased EU equity/scale investment in NZ horticulture industry
5. Potential for increased R&D investment and collaboration
6. Enhanced counterpart agency co-operation leading to the resolution of technical barriers to trade
7. Opportunity for young people to come to NZ on the Working Holiday Scheme to learn more about horticulture and work in the NZ industry.

Risks to NZ horticulture

- While no specific risks to NZ horticulture have been identified, as a general principle NZ horticulture is opposed to the use of domestic subsidies by the EU, where products from subsidised programmes are exported either directly to NZ or to other markets in competition with NZ products.
- The NZ market is already relatively open to EU horticulture products provided they comply with our phytosanitary import protocols. Robust & effective Biosecurity surveillance is critical to ensure unwanted pests & diseases do not enter NZ.

7.0 Any specific information that would help develop NZ’s negotiating position:

There are a range of NZ/EU horticulture collaborative relationships spanning commercial marketing (e.g. BayWa 73% investment in T&G) and research and information sharing initiatives (e.g. NZ Blackcurrants membership of the International Blackcurrant Association (IBA) in Dijon, France).

There is potential to develop additional collaborative relationships with counterpart organisations in the EU. Most exporters have established commercial relationships with EU importers in their respective sectors (e.g. kiwifruit, apples, onions).

NZ horticulture export product volumes will be relatively insignificant in terms of a percentage share of total domestic EU consumption and will also be complimentary to EU domestic production due to counter-seasonality.

The NZ horticulture industry is seeking to supply healthy, safe food options to that will benefit the EU population.

8.0 Desired outcomes from the negotiations:

- Binding commitment to a programme for the rapid elimination of all tariffs on NZ horticultural products (fresh, frozen and processed) accessing the EU market
- Binding commitment to a process that resolves technical trade issues within agreed timeframes (e.g. within 18-months from date of initial lodgement or that the recipient party will respond to an initiative/action within an agreed timeframe)
- Retention and increased recognition of our systems approach to the phytosanitary status of export consignments based on MPI approved operators and independent 3rd party verification agencies.
- A commitment to appropriately resourcing government agencies to enable timely processing and resolution of import approval processes
- Strengthened inter-agency working relationships that smooth the trade pathways.

9.0 Conclusion/Summary:

The NZ HEA welcomes the initiative to develop a FTA with the EU. This is of significant strategic benefit to NZ's future prosperity. The size of the NZ economy will dictate our sector's continued reliance on international trade for its survival. Agreements with larger economies that display a real commitment to the importance of reducing trade barriers will play an important role in the longevity of our industry.

The EU has displayed a commitment to reducing its trade barriers & completed a number of FTA's in recent years. New Zealand needs to remain internationally competitive with other Southern Hemisphere supplying countries. Completing a comprehensive high quality FTA with the EU is of significant strategic importance to the development of the NZ horticulture export sector. Eliminating technical and tariff barriers without compromising NZ's biosecurity status is a fundamental objective for the NZ horticulture sector and this move to FTA negotiations with the EU is a major step toward that objective.

Contact details:

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Appendix:

Table 1: Horizontal exports to EU (tonnes and NZ$ FOB) y.e. June

Tariff code	Product	2012		2013		2014	
		Volume	Value	Volume	Value	Volume	Value
0810.50.00.00*	Kiwifruit	189,891	317,640,919	177,925	285,728,451	162,832	305,343,361
0808.10.00.00	Apples	130,868	128,702,190	147,058	178,457,960	144,130	186,954,301
0703.10.01.00	Onions	70,926	27,438,167	90,468	41,500,999	86,893	41,741,016
0713.10.08.11 *	Dried peas	299	1,950,375	1,748	3,902,321	2,338	5,021,826
0811.90.19.18	Boysenberries - other frozen	647	1,439,185	704	1,931,200	760	2,517,655
0808.30.00.01	Pears	873	1,198,398	1,092	1,645,904	1,296	2,020,152
0809.10.00.00	Apricots	121	1,261,386	132	571,372	164	1,126,266
2009.89.20.25	Frozen boysenberry concentrate	22	426,691	4	107,058	14	339,036
2008.97.00.10	Preserved / prepared mixed fruit	0	0	98	573,582	35	303,722
2008.99.39.01	Prepared / preserved kiwifruit	72	196,739	89	423,455	14	291,344
0712.90.19.09	Other dried vegetables	1	9,008	1	9,514	20	191,718
0810.70.00.00	Persimmons	42	132,983	15	55,338	47	124,500
0712.90.01.00	Dried corn	7	89,231	3	38,827	18	113,283
0703.10.09.00	Shallots	0	0	127	85,105	128	100,253
0709.93.00.10	Buttercup squash (Kabocha)	64	39,536	95	80,643	79	62,789
2009.71.19.00 *	Apple juice	2	16,251	21	58,266	23	56,171
0809.30.00.09	Peaches	10	114,498	7	38,850	6	37,363
0809.29.00.00	Cherries	15	264,383	7	82,700	1	26,324
0805.20.00.02	Mandarins	12	53,243	4	17,166	4	25,690
2009.89.20.15	Blackcurrant concentrate	39	355,424	0	0	1	12,968
2007.99.00.00	Jam / marmalade	53	174,947	15	100,864	2	8,512
2005.80.00.00	Canned sweetcorn	1	1,087	0.2	514	1	1,097
0810.40.00.01	Blueberries	5	100,216	3	57,689	0	0
0710.21.00.09 *	Frozen peas	0	0	1,907	2,684,280	0	0
0710.40.00.00	Frozen sweetcorn	0	0	3	6,751	0	0
0709.90.19.09	Vegetables other	0	0	28	5,760	0	0
0811.90.19.12	Boysenberries, IQF	3	5,055	3	13,249	0	0
0804.40.00.01	Avocados	42	173,561	0	0	0	0
2005.20.00.09	Prepared potatoes not frozen	0	1,603	0.1	1,169	0	0
0706.10.00.01	Carrots	0	0	0.4	1,248	0	0
0709.90.01.00	Sweetcorn	126	120,000	0	0	0	0
0706.90.00.00	Beetroot, celeriac, radishes	748	263,607	269	57,390	0	0
0706.10.00.09	Turnips	0.1	299	0.1	441	0	0
0710.80.00.19	Other frozen vegetables	0	0	3	4,910	0	0
0713.33.00.11 *	Dried beans	18	138,535	11	69,629	0	0
Other		2,499	4,801,627	536	1,240,581	217	699,963
Total		**397,405**	**$487,109,144**	**422,379**	**$519,553,186**	**399,024**	**$547,119,310**
% change (yr/yr)		**-9%**	**-15%**	**6%**	**7%**	**-6%**	**5%**

Source: Statistics New Zealand

Source: Statistics New Zealand, NZ Horticulture Barriers to Our Export Trade Report Nov 2014

Table 2: Cost of tariffs on horticultural goods entering the EU Cost of tariffs on horticultural exports to the European Union in 2014 (year ending June, tonnes and $NZ FOB)

Tariff code	Product	Volume	Value	Tariff rate[1]	Cost of tariff ($)
0703.10.01.00	Onions	86,893	41,741,016	9.6%	4,007,138
0703.10.09.00	Shallots	128	100,253	9.6%	9,624
0709.93.00.10	Buttercup squash (Kabocha)	79	62,789	12.8%	8,037
0712.90.01.00	Dried corn	18	113,283	9.40 EUR / 100 kg	2,774
0712.90.19.09	Other dried vegetables	20	191,718	12.80%	24,540
0713.10.08.11 *	Dried peas	2,338	5,021,826	0%	0
0805.20.00.02	Mandarins	4	25,690	16%	4,110
0808.10.00.00	Apples	144,130	186,954,301	0-9%	969,749
0808.20.00.01	Pears	1,296	2,020,152	0-10.4%	24,438
0809.10.00.00	Apricots	164	1,126,266	20%	225,253
0809.29.00.00	Cherries	1	26,324	12%	3,159
0809.30.00.09	Peaches	6	37,363	17.6%	6,576
0810.50.00.00 *	Kiwifruit	162,832	305,343,361	8-8.8%	24,427,469
0810.70.00.00	Persimmons	47	124,500	8.8%	10,956
0811.90.19.18	Boysenberries - other frozen	760	2,517,655	20.8%	523,672
2005.80.00.00	Canned sweetcorn	1	1,097	5.10 % + 9.40 EUR / 100 kg/net eda	136
2007.99.00.00	Jam / marmalade	2	8,512	20.00 % + 23.00 EUR / 100 kg	1,992
2008.97.00.10	Preserved / prepared mixed fruit	35	303,722	19.2%	58,315
2008.99.39.01	Prepared / preserved kiwifruit	14	291,344	18.4%	53,607
2009.71.19.00 *	Apple juice	23	56,171	18%	10,111
2009.89.20.15	Blackcurrant concentrate	1	12,968	16.8%	2,179
2009.89.20.25	Frozen boysenberry concentrate	14	339,036	16.8%	56,958
Other		217	699,963		
Total		**399,024**	**$547,119,310**	**5.56%**	**$30,430,794**

[1]Average exchange rate Euro to NZD for 1st July 2013 to 30th June 2014 (2014 stats year) = 0.6121 (Source: Reserve Bank of NZ)