

**DAIRY COMPANIES ASSOCIATION OF NEW ZEALAND SUBMISSION**

**TO THE MINISTRY OF FOREIGN AFFAIRS AND TRADE**

**ON**

**THE PROPOSED NEW ZEALAND/EUROPEAN UNION FREE TRADE AGREEMENT**

**29/2/2016**

The Dairy Companies Association of New Zealand (DCANZ) appreciates the opportunity to make a submission on the proposed New Zealand – European Union (EU) Free Trade Agreement (FTA) in light of its relevance and importance to our member companies. DCANZ member companies collectively account for more than 98% of the milk processed in New Zealand and the vast majority of New Zealand's dairy exports. The role of DCANZ is to represent commonly held policy positions of our eleven member companies.

DCANZ supports the Government's intention to negotiate a free trade agreement with the European Union. There is already two-way dairy trade and investment between the New Zealand and the EU. A comprehensive and high quality FTA between New Zealand and the EU would support further growth in global dairy value chains. By doing so, an FTA will bring benefits for dairy sector participants in both New Zealand and the EU. A high quality EU-New Zealand FTA would also contribute to a deepening of the globally traded market for dairy products, which is critical for easing dairy market volatility.

**Specific comments:**

**DCANZ supports negotiation towards a comprehensive high quality FTA with the EU**

1. DCANZ's interest in liberalisation of dairy trade is well known to the New Zealand government. We are concerned that the high levels of trade protection which continue to be a feature of global dairy trade are contributing to extreme price volatility. Our perspective is that the New Zealand dairy industry shares a common interest with the European industry, as fellow dairy exporters, in policy outcomes that alleviate price volatility. Furthermore, we consider that trade liberalisation must be the primary policy focus for alleviation of price volatility.
2. DCANZ supports a comprehensive FTA negotiation with the EU. This must aim for a commitment to eliminate all barriers in goods and services sectors by an agreed point in time. It is important that there are no sectoral carve-outs and that dairy is within scope for the negotiation on an equivalent basis to other goods sectors.
3. Both the New Zealand dairy industry and the EU dairy industry are global exporters. This means a common interest in continued liberalisation of the global dairy market. It also

means there should be no barrier to negotiating to compete on a level playing field in our own markets.

### **There will be two way benefits from deepening dairy trade between the EU and New Zealand**

4. Reducing barriers for trade in dairy products via a NZ-EU FTA will increase opportunities for New Zealand dairy exporters, where there is demand for their products in the EU. Open markets will also benefit European consumers and producers. Reducing volatility by enlarging the geographic diversity of markets has benefits at both the production and consumption ends of the supply chain.
5. There is a high degree of complementarity between the EU and New Zealand dairy industries. This includes counter seasonality of production cycles and significant differences in product mix. There are also growing linkages between the New Zealand and European dairy industries:
  - a. Europe is a major supplier of lactose and whey permeate to New Zealand;
  - b. European companies have also recognised the growth of the New Zealand speciality cheese market in recently years; this includes Granarolo's investment in distribution in New Zealand for Italian cheeses.
  - c. New Zealand dairy products are exported to Europe when there is demand for them at globally competitive prices taking into account the tariff hurdle.
  - d. Company commercial linkages aim to leverage the complementarity in geographies. For example, Fonterra's DMV joint venture for pharmaceutical lactose manufacture, which have production facilities in both geographies.
  - e. In recent years Fonterra has grown its investment in manufacturing facilities in Europe, and European Dairy companies have also invested in New Zealand dairy manufacturing.
  - f. European agricultural technology companies are suppliers to the New Zealand dairy industry. For example, Yashili New Zealand Dairy companies \$200 million plant was built by GEA, an international technology group based in Germany.

### **The dairy trade between the EU and New Zealand is more balanced than much of the commentary suggests.**

6. New Zealand is an important dairy market for the EU. EU exports of dairy products to New Zealand were valued at US\$90.8 million in 2015. During the same period New Zealand exported dairy products worth US\$ 287 million to Europe. When considered on a per capita basis New Zealand exported dairy products worth US\$0.57 per person to the European Union in 2015, compared with importing dairy products worth US\$20.3 per person from Europe. New Zealand is one of the largest importers of lactose globally and these imports add an additional income stream for European milk used for cheese production<sup>1</sup>.

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<sup>1</sup> Lactose is an additional product stream from cheese production

7. Europe is a logical source of supply of dairy ingredients for New Zealand manufacturers where it is needed to complement local New Zealand supply. New Zealand is also a logical source of supply for dairy products to complement local European supply, including the supply of dairy ingredients for further processing. Both the EU and New Zealand have strong food safety and quality frameworks, and place high priority on animal welfare, environmental performance, and biosecurity in our farming systems. However, the high in-quota and out of quota barriers to dairy trade with Europe have become an increasing impediment to trade in recent years.

**High levels of protection into the EU are a major barrier to deepening the global dairy value chain links between New Zealand and the EU.**

8. High tariff rates have been a major factor in reduced useability of the WTO quotas for New Zealand origin imports into the EU since 2007. The WTO quota for 74,693 metric tonnes of New Zealand butter comes with an in quota tariff of EUR 700 per tonne. While the 11,000 metric tonnes access under country specific quotas for New Zealand cheese have an in quota tariff rate of EUR170.6 per metric tonne. The in-quota-tariffs on the full quota volume amount to EUR 54 million (NZD 92.1 million).
9. The in-quota tariffs for butter and cheese are often prohibitive to trade. And the out of quota tariffs are always prohibitive to trade at rates of EUR 1896 per metric tonne for butter and upwards of EUR 1409 per metric tonne for cheese.
10. The EU market consumes more than 2 million tonnes of butter and over 9 million tonnes of cheese each year. The high market protections which are being maintained mean that less than 2% of the EU market is open to trade. This is out of step with the EU's status as a major global dairy exporter.

**New Zealand dairy has an interest in ensuring the ongoing ability to use common cheese names**

11. DCANZ understands that the European Union has sought protection under the framework of geographic indications for certain commonly used cheese names. It is important to note at the outset of the negotiating process that the New Zealand dairy industry has existing investment in the production of a wide variety of cheeses which originated from Europe. It is important to the New Zealand dairy industry to have the opportunity to manufacture and market these cheeses.
12. The New Zealand dairy industry produces more than 320,000 tonnes of cheese per year. The market value of these cheeses exceeds USD 1.2 billion.
13. Cheese names such as Gruyere, Feta, Parmesan, Havarti, and Halloumi, are familiar to New Zealanders as a result of the migration that has occurred between New Zealand and Europe. New Zealand companies have invested in the development of manufacturing capability and brands for these cheeses, and contributed to market growth. New Zealand also worked with EU members and other countries to establish global standards for a number of these cheeses via the Codex framework; this was with a view that these commonly known cheeses would be manufactured in different geographies and traded between geographies.
14. DCANZ has previously submitted objections to the registration of several cheese names as protected geographic indications in the European Union. We welcomed the pragmatic approach taken by the Dutch in adopting a compound name approach to the registration of

‘Holland Edam’ and ‘Holland Gouda’. We have been disappointed at the loss of our ability to export Feta, Parmesan and Gruyere to the EU. And we remain hopeful that we will not also lose the right to export Danbo, Harvati and Halloumi to Europe, as a result of current GI registration applications.

### **DCANZ looks forward to the launch of negotiations**

15. As outlined above there are benefits for both New Zealand and the EU dairy producers in progressing an FTA negotiation. The EU is a heavily protected dairy market. Lessening these barriers will create new opportunities to build value for two way trade, and will help alleviate dairy market volatility.
16. DCANZ also considers that whilst negotiating an FTA to address border protections, it is also important for New Zealand to continue engaging with the EU to support further reform away from the use of trade distorting domestic supports.

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