



Introduction

1. This is a joint submission by Beef + Lamb New Zealand and the Meat Industry Association, representing the views of the sheep and beef sector (i.e. producers, processors and exporters). The value of the sheep and beef sector was over \$8.6 billion for the year ending December 2015¹ and it is New Zealand's second-largest goods export earner, accounting for over 17% of New Zealand's overall goods export earnings.
2. Beef + Lamb New Zealand (B+LNZ) is the farmer-owned organisation representing New Zealand's sheep and beef farmers. B+LNZ is funded under the Commodity Levies Act 1990 through a levy paid by producers on all cattle and sheep commercially slaughtered in New Zealand.
3. B+LNZ represents around 12,300 commercial farming businesses, creating around 35,000 jobs in the sheep and beef sector. Around three quarters of pastoral land and just under a third of New Zealand's total land area is used for sheep and beef farming. Sheep and beef exports are New Zealand's second-largest goods export earner.
4. B+LNZ's purpose is to help sheep and beef farmers make informed business decisions and promote their collective interests. B+LNZ supports farmers through investing in research and development, developing farm and farmer capability, and delivering knowledge to drive farm performance. B+LNZ advocates on behalf of New Zealand sheep and beef farmers on market access issues (including trade, environment, technical and regulatory issues facing the sector) as well as building sector confidence and profile.
5. The Meat Industry Association of New Zealand Incorporated (MIA) is a voluntary trade association representing New Zealand meat processors, marketers and exporters. It is an Incorporated Society (owned by members) that represents companies supplying virtually all of New Zealand sheepmeat and beef exports.
6. MIA member companies operate more than 60 slaughter and further processing plants employing 25,000 people throughout the country. The plants slaughtered and processed 26 million sheep and five million cattle in 2015. The dairy sector contributes a significant proportion of New Zealand beef exports. Ninety percent of this production is processed into value-added products. Over a million tonnes, or 86% of production, is exported to 120 overseas destinations. The MIA's affiliate members add to the depth of expertise available from the membership, with representation throughout the meat supply chain, including road and rail transport, shipping lines, ports, packaging firms, specialist product exporters, and research and technology providers.
7. The Association advocates on behalf of its members and provides advice on economic, trade policy, market access, employment relations, business compliance costs and technical and regulatory issues facing the industry, with a particular focus on:
 - Food safety trends and developments in importing countries
 - Economic and trade aspects of market access to key overseas markets
 - Major public policy proposals that could impact on industry operations
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¹ Provisional data from Statistics New Zealand for December 2015

Market access is a core objective

9. The returns that sheep and beef farmers receive for their animals are directly related to the returns that processors receive for final products in the market. New Zealand exports more than 80% of its beef production and over 90% of its sheepmeat production. Therefore, the sheep and beef sector places considerable importance on improving the competitiveness of sheep and beef sector products in export markets.
10. Improving market access conditions for the sheep and beef sector's export products is a core objective for B+LNZ and MIA. As part of this, we actively support the New Zealand Government's Free Trade Agreement (FTA) agenda by providing in-depth analysis about our sector's interests in key markets.
11. The sheep and beef sector's business model is based on deriving the maximum value from each animal by identifying the highest returning market for each individual part of the carcass. As such, the sector depends on consistent and predictable access to a wide range of markets.
12. Removing barriers to trade, including both tariff and non-tariffs can improve the competitiveness of New Zealand's meat products in our existing and potential export markets. It also provides New Zealand red meat exporters with more options in the event that New Zealand meat exports are locked out of some markets. Improving market access ultimately helps grow the industry, keep jobs in New Zealand, and increase overall export returns to New Zealand.
13. B+LNZ and MIA engage regularly with negotiators from the Ministry of Foreign Affairs and Trade (MFAT) and the Ministry for Primary Industries (MPI) on the full range of New Zealand's FTA negotiations. This ensures that negotiators are aware of the importance of sheep and beef sector exports, and of the sector's priorities in each export market.
14. An ideal FTA would always remove all tariff and non-tariff barriers to sheep and beef sector exports. We therefore engage with government negotiators to ensure that our highest priority goals are addressed to the greatest extent possible.

Sheep and beef exports to the European Union (EU)

15. New Zealand red meat and associated co-product exports to the European Union (EU) are significant, worth over \$2 billion in total for the year ending December 2015, some 23% of the industry's total exports. The EU is New Zealand's largest market by region for sheepmeat products and second largest for wool exports by value. The EU is also an important beef market.

Sheepmeat

16. New Zealand exported over \$1.4 billion worth of sheepmeat to the EU for the year ending December 2015, making it our largest overall sheepmeat market by value. In particular, it is New Zealand's most important market for high value lamb products, taking 67% of New Zealand's chilled lamb exports over the period.

Beef

17. The EU is an important beef market, with New Zealand exporting over \$135 million worth of exports for the year ending December 2015. While the EU is a relatively small beef market in overall terms, it is an important market for high value beef cuts. The average FOB value of beef exports to the EU in the year ending September 2015 was \$14.21/kg, nearly double the FOB value of total New Zealand beef exports (\$7.39/kg).

Other products

18. The EU is the second largest market for wool exports, with exports worth over \$216 million for the year ending December 2015. New Zealand also exported \$200 million worth of skins and hides to the EU for the year ending December 2015, making it a significant market for red meat co-products.

Current EU access

Sheepmeat

19. New Zealand already enjoys comparatively favourable conditions of access to the EU market for sheepmeat. As a result of the GATT Uruguay Round and the subsequent EU enlargement, New Zealand has a Country-Specific Tariff-Rate Quota (CSTRQ) for exports to the EU of 228,254 tonnes carcass weight equivalent (c.w.e) of sheepmeat (and goatmeat), with an in-quota rate of 0%.
20. The value of the New Zealand CSTQ is further enhanced because New Zealand is one of a few countries that manage their EU CSTQs, which means "quota rents" accrue to New Zealand. The CSTQ system is administered by the New Zealand Meat Board under the Meat Board Act 2004. Furthermore, quota allocation to other non-European countries totals only 56,748 tonnes c.w.e. making New Zealand the supplier of approximately 80% of all imports, which are mainly the higher value cuts (loins and legs) to meet market demand.

Beef

Country Specific Tariff Quota

21. Unlike for sheepmeat, New Zealand has a very limited high quality beef (HQB) quota of 1,300 tonnes product weight (p.w.) with a concessional 20% ad valorem in-quota tariff. This is out of a total quota of 65,250 tonnes.

Most favoured nation quotas

22. The EU also operates a quota system on a most favoured nation (MFN) basis for imports of frozen beef and processing beef. Exporters from many countries, including New Zealand, are able to compete to utilise these quotas, that is:
- Frozen beef quota of 53,000 tonnes p.w. (1 July – 30 June) with an in-quota tariff rate of 20%
 - Processing beef quota of 63,703 tonnes (1 July – 30 June) with an in-quota rate of 20% to 20% + EUR994.5–2,138.4/tonne depending on the product)².

23. Imports under these quotas tend to be dominated by lower cost suppliers (for example from South America) which are also able to supply some product over the high out-of-quota tariff.

EU Grain-fed High-Quality Beef Quota

24. New Zealand has access to the EU grain-fed high-quality beef quota promulgated as a result of the settlement of the dispute between the US and the EU over hormone growth promotants. Other countries that have access to this quota include the US, Canada, Australia, Uruguay and Argentina.

Tariffs Paid

25. For the year ending December 2014, New Zealand paid approximately NZ\$69 million of tariffs on its total red meat and co-product exports to the EU, largely on beef exports. This makes the EU the market with the second-highest tariff burden for the red meat sector, behind only

² Source: WTO tariff data base



Japan. Presuming the Trans-Pacific Partnership is successfully ratified, our exports to the EU will then incur by far the largest tariff costs of any market.

Non-Tariff Barriers

26. New Zealand enjoys a good relationship with EU authorities including the Commission's Directorate General for Agriculture. New Zealand and the EU have an agreement on sanitary matters in place (the NZ/EU Sanitary Agreement), which establishes the principles of recognition of equivalency of sanitary measures maintained by the two parties and improves communication and cooperation on sanitary measures. The agreement has helped to reduce many potential irritants in the trade of animals and animal products between New Zealand and the EU. The Agreement was amended in 2015 to further streamline a number of procedures including expediting listings of food establishments and reducing frequency of physical checks of consignments.

A long history of shared values and engagement

27. The New Zealand and EU sheep and beef sectors share a long history of shared values and economic engagement. The New Zealand red meat sector has exported sheep and beef products to the EU for over 130 years, and has established a reputation as a responsible supplier to this market.
28. Exports of New Zealand sheep and beef products complement seasonal production patterns in Europe to provide consumers with high-quality, safe meat products all year round. New Zealand's pastoral growing seasons are counter-cyclical to European seasons. This has allowed high-end European retailers to apply a "best in season" supply chain approach to ensuring year-round product availability, using New Zealand product to supply quality meat in the off-season for EU producers. While there is an element of competition with domestic producers, this is offset by strong mutual interests and the overall benefits that arise from seasonal complementarity. Allied to this supply chain cooperation has been engagement between European and New Zealand farmer supplier groups to learn from one another in making their businesses more efficient, profitable and sustainable.
29. New Zealand sheep and beef producers cooperate with European producers under the "Meat Matters" programme. Jointly-funded promotional activities under this programme include a website containing information on the nutritional value of meat consumption, the environmental impact of meat production and a range of recipes using meat.
30. B+LNZ is also working directly with the European beef, pork and sheepmeat industries as part of the European Commission's Product Environmental Footprint programme, aimed at providing a better measure and more information on the relative environmental impacts of products sold in Europe. This is in direct response to consumer demands, including those in the EU, for sustainably produced environmentally friendly products.

Potential Benefits of an NZ-EU FTA

31. B+LNZ and the MIA are very supportive of a Free Trade Agreement (FTA) negotiation between New Zealand and the EU. Trade liberalisation is an important means of improving the red meat sector's access to export markets, and the EU is already a key market for New Zealand's red meat exports.
32. However, New Zealand exports still face barriers into the EU, at the border and beyond, which add costs and generate uncertainty. Given the progress the EU has made with its trade liberalisation agenda, New Zealand is currently at a disadvantage compared to competitors with their own preferential arrangements, either in force or in negotiation. The Canada-EU FTA

includes a duty free quota for Canadian beef. Negotiations are currently underway with the United States and Mercosur, and Australia is a potential future FTA partner.

33. With regard to non-tariff barriers, while the EU/NZ Sanitary Agreement generally provides good access and stable trading conditions, there are areas where the red meat sector would like to see greater recognition of the equivalence of New Zealand systems in meeting EU standards, particularly in relation to processing requirements, animal welfare and good manufacturing practices. The FTA should build on the strong foundations of the EU/NZ Sanitary Agreement and include additional mechanisms for regulatory coordination and alignment to support trade liberalisation.
34. An FTA has the potential to benefit both the EU and New Zealand, through reducing costs, deepening existing partnerships and enhancing value chains and modernising the current trade and economic relationship.
35. Both sides would benefit from greater access to each other's markets, in the form of tariff reductions, providing consumers with a wider array of competitively priced products and manufacturers with access to high-quality, competitively priced inputs. New Zealand's meat is internationally respected for its high quality and hygiene standards. Further the fact that our production system is predominantly pasture-based and hormone-free would be viewed positively in Europe. Longer term, an ambitious FTA between New Zealand and the EU would also drive dynamic gains, in the form of enhanced competitiveness, new jobs, productivity and innovation.
36. An FTA between New Zealand and the EU also has the potential to strengthen multi-country global value chains cutting transaction costs while adding value to a product making goods and services competitively priced, benefiting the end user. Connected to the multi-country global value chain is the opportunity for New Zealand and the European farmers to build on existing relationships to further learn and share information with one another making their businesses more efficient, profitable and sustainable.
37. Many aspects of New Zealand's economic engagement with the EU are already underpinned by various arrangements and treaty level agreements, including our bilateral sanitary agreement and the recently concluded agreement on Customs Cooperation. Crucially, these agreements are also complemented by long-standing and regular engagements at official level. This has ensured a level of understanding of each other's systems, like-mindedness and mutual respect of each other's systems and processes.
38. B+LNZ and the MIA call for a high quality, ambitious and comprehensive FTA with the EU. A key objective will be for an FTA to build on, but not undermine in any way, current access volumes and administrative arrangements for New Zealand sheep and beef exports. We encourage New Zealand and EU governments to proceed as soon as possible to the negotiating table, with ambition and determination to succeed in delivering a modern, comprehensive and commercially meaningful FTA.

Potential risks of not entering into an NZ-EU FTA

39. New Zealand potentially faces significant risks should FTA negotiations not commence with the EU. As the EU continues to sign more FTAs with other trading partners New Zealand producers face the possibility of reduced market access conditions compared to other competitors. This risk is not only in relation to higher relative tariffs but could also include other significant barriers to trade, such as the setting of new rules, standards and regulations, which could have adverse implications for third countries like New Zealand. It will be particularly important to closely monitor the outcomes of EU FTAs already concluded and those under negotiation, including those with Australia.

40. A bilateral agreement between the EU and New Zealand should minimise any detrimental impact of third country negotiations on New Zealand's competitive position.

Conclusion

41. The European Union (EU) is a very significant export market for New Zealand red meat products, worth over NZ\$2 billion for the year ended December 2015. The EU is New Zealand's largest market by region for sheepmeat exports, and second-largest for wool exports by value.
42. While New Zealand generally has good access into the EU, the red meat sector still faces a range of significant tariff and non-tariff barriers in this market, including around \$69 million in tariffs paid this year on its red meat and co-product exports to the EU.
43. Many of our competitors in this market have already reached free trade agreements with the EU, such as Canada, or are in the process of negotiating, such as the United States and Mercosur.
44. The EU is an important market for New Zealand sheep and beef exports. As such, this is a great opportunity to explore an ambitious, high quality agreement with the EU that supports and enhances New Zealand's competitive position. An EU-NZ FTA has the potential to improve access for key agricultural products on both sides, and to highlight opportunities for further partnership within the two markets and beyond.
45. Securing an FTA with the EU will strengthen our existing trade relationship and will create a more formal trade framework to support greater participation in global value chains.
46. We look forward to working together with the New Zealand government and European organisations to generate new opportunities for the agriculture and food sectors.