



# Joint Submission

TO:

The Ministry of Foreign Affairs and Trade

ON:

## A UK – NZ Trade Agreement

BY:

Beef + Lamb New Zealand Ltd

and

Meat Industry Association of New Zealand Inc

11 February 2019

## Executive Summary

1. This is a joint submission by Beef + Lamb New Zealand (B+LNZ) and the Meat Industry Association (MIA), representing the views of the sheep and beef sector (i.e. producers, processors, marketers and exporters).
2. The New Zealand sheep and beef sector (herein after referred to as the sector) is supportive of an ambitious, comprehensive, high-quality FTA with the United Kingdom. With a strong and historical trading relationship, a FTA is a logical next step for our two countries. Strategically, such an agreement would go some way to strengthening the architecture of international trade rules which is of real importance to trading nations like the United Kingdom and New Zealand. This is particularly important in the current climate of growing protectionism.
3. New Zealand has an internationally recognised, robust, risk-based food safety regulatory framework as well as significant experience navigating the complex web of overseas market access requirements. A bilateral FTA provides an opportunity to leverage this experience to jointly set the benchmark for trade facilitating risk-based regulatory approaches. It will further integrate United Kingdom producers and industry in global supply chains.
4. The United Kingdom and New Zealand have a long history of shared values, seasonal complementarity of food production, and a trading ethos that ensures consumers in the United Kingdom have access to the products they wish to consume all year round. A bilateral FTA would strengthen the existing relationships between our respective agricultural industry groups and help to ensure that producers in both countries continue to be profitable by meeting the needs of discerning consumers domestically and internationally.
5. The sector is of the view that an ambitious, high quality and comprehensive bilateral FTA which builds on WTO foundations and enhances current rights and commitments, will demonstrate the United Kingdom's and New Zealand's global trade liberalisation leadership ambitions and serve as a useful reminder about the importance of the rules based trading system at a time when protectionism is taking centre stage.

## Importance of Free Trade to the Sector

6. The sector depends on open, consistent and predictable access to a wide range of markets which requires robust and enforceable trade rules. FTA's play an important role by enhancing and strengthening trade architecture.
7. The sector is New Zealand's second-largest goods export income earner, with more than \$9.1 billion in export revenue for the year ending December 2018. This accounts for 16% of the total value of New Zealand's goods exports, behind only dairy. New Zealand exports over 90% of sheepmeat production and over 80% of beef production.
8. Trade plays an important role in helping raise the living standards of New Zealanders and our rural communities, with the sector directly supporting 80,000 jobs (and families) employed across New Zealand. These jobs are on farms, in processing companies, and in a wide range of supplying services like technology and research providers, transport companies, shearers, and rural contractors. The recycling of wages through local shops, restaurants, and many other small businesses also help to raise living standards in our regions and our cities.
9. The sector has benefited significantly from New Zealand's diverse network of trade agreements. The removal of tariffs and non-tariff barriers improves the competitiveness of

our exports and also mitigates risk exposure in the event New Zealand exports are shut out of a market.

10. Liberalised trade has also underpinned significant market and product diversification over the decades which has allowed our companies to respond to market signals, pursue the highest return for our products and cater to a wide range of consumers. As a result, New Zealand now exports a wide range of value-add red meat and co-products to more than 120 markets around the world.

## **Benefits of a UK/NZ Free Trade Agreement**

11. B+LNZ and the MIA are very supportive of an ambitious, comprehensive and high-quality FTA between New Zealand and the United Kingdom. Trade liberalisation is an important means of improving the red meat sector's access to export markets, and the UK is already a key market for New Zealand's red meat exports.
12. There is already considerable two-way trade between the United Kingdom and New Zealand. The United Kingdom exported \$1.8 billion worth of goods to New Zealand for the year ending December 2018 and New Zealand exported \$1.5 million worth of goods to the United Kingdom over the same period. The majority of United Kingdom exports to New Zealand consist of vehicles and machinery.
13. An FTA has the potential to further benefit both the United Kingdom and New Zealand, through reducing costs, deepening existing partnerships and enhancing value chains and modernising the current trade and economic relationship. More specifically, such an FTA will assist the United Kingdom to create further opportunities for its producers and industries in other markets, particularly in the Asia Pacific region where there is a growing demand for safe, high quality food. It will also improve New Zealand's ability to meet the demands of the United Kingdom consumers and will ensure the United Kingdom remains a cornerstone market for New Zealand's red meat exports.
14. Strategically, an FTA would also reinforce the importance of the rules based trading system and trade liberalisation at a time when protectionism is taking centre stage.
15. New Zealand's current market access arrangements into the United Kingdom were negotiated during the World Trade Organisation (WTO) Uruguay Round discussions. This provides a solid base for mutual gains from deeper economic integration through an FTA. It is an opportunity to build on this solid foundation and set the benchmark for modern, progressive and trade liberalising trade rules.
17. The sector's experience in international markets has been that regulatory settings can significantly enhance – or diminish – trade flows, even where those regulations may not have a "trade" target. As tariffs have been progressively reduced around the world, the prevalence of non-tariff barriers (NTBs) in the guise of domestic regulatory requirements have increased. These not only add costs and erode margins for exporters but can inhibit

investment and trade flows altogether. While the sector does not currently face any significant NTBs in the United Kingdom, an FTA provides an opportunity for the United Kingdom and New Zealand to work together to set the benchmark for robust high quality outcomes-based regulations consistent with the internationally accepted principles in the WTO, OIE<sup>1</sup> and Codex<sup>2</sup>. This will balance the need for strong regulatory oversight and provides the flexibility needed to support industry innovation and growth.

18. New Zealand has a robust and high quality, outcomes-focused regulatory framework which enables New Zealand to negotiate regulatory equivalence agreements that bridge different countries' requirements and ensure the desired outcomes are met. It is recognised as a leader for its high hygiene standards that meet the regulatory and customer requirements in all the markets we export to. In addition, New Zealand is consistently ranked as having some of the highest and best practice regulatory standards in the world for ethical matters such as animal welfare<sup>3</sup> and halal processing.
19. The sector welcomes the recent announcement that a Veterinary Agreement between the UK and NZ was signed, ensuring regulatory continuity after the United Kingdom leaves the EU. While this Agreement will address technical issues and support on-going stable trading conditions, there are other areas where the red meat sector would like to see greater recognition of the equivalence of New Zealand systems, particularly in relation to processing requirements, animal welfare and good manufacturing practices. The FTA should build on the strong foundations of the Veterinary Agreement and include additional mechanisms for regulatory coordination and alignment to support further trade liberalisation.
20. Linked to this is the opportunity for New Zealand and the United Kingdom farmers and industry to build on existing relationships to further learn and share information with one another to make their businesses more efficient, profitable and sustainable. An FTA would recognise the long-standing positive and collaborative relationship between the United Kingdom and New Zealand.
21. This cooperation takes place on a number of levels, from exchanges of farmers to learn from one another, to collective action to support the nutritional role of meat in a balanced diet, through to cooperation in developing methodologies for assessing the environmental impacts of livestock production. For example, arising from an international sheepmeat forum held in Brussel in 2013, New Zealand coordinated the development of a global greenhouse gas footprint methodology for sheepmeat to farm gate level. This methodology has since been adopted by the International Meat Secretariat.
22. A more recent example was a programme that the New Zealand government, B+LNZ and the MIA put together called the Red Meat Supply Chain Integrity Programme (SCIP). The main objectives of the programme were for the United Kingdom participants to build stronger relationships across our two industries, gain an understanding of New Zealand agricultural systems, processes and regulation relevant to the red meat sector while also providing an opportunity to identify further programme(s) of interest that could support closer trade and cooperation between the two nations. This involved 20 government and industry officials from the United Kingdom visiting New Zealand.

## History of shared values, counter-seasonal production, and responsible trading

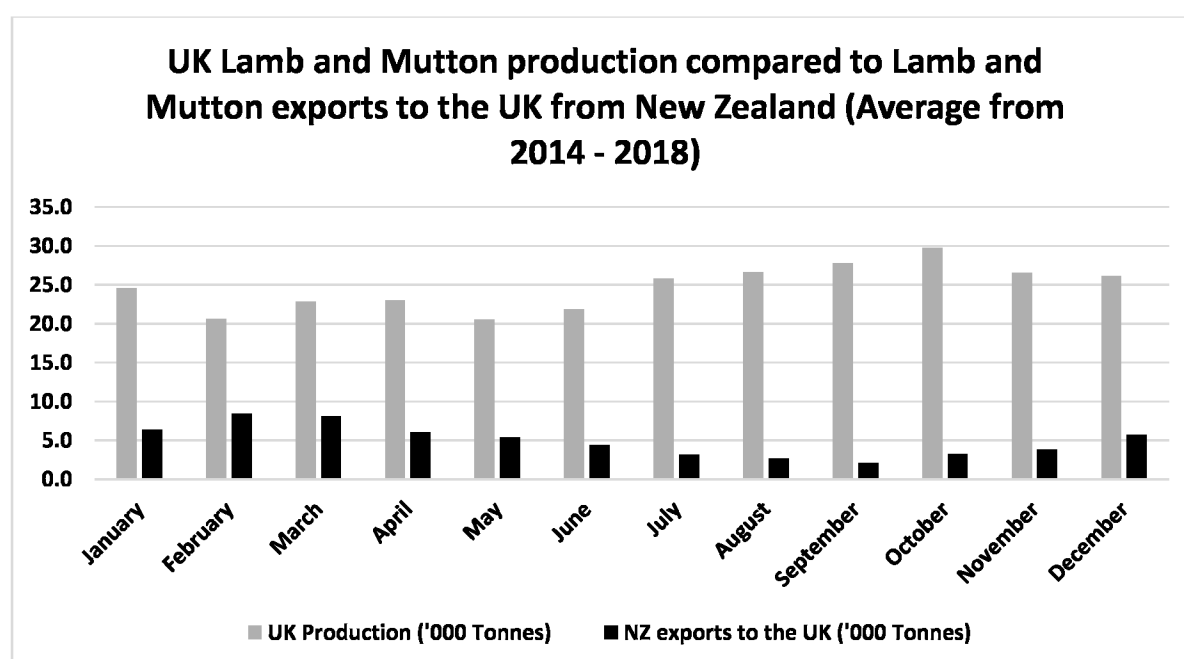
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<sup>1</sup> OIE: The World Organisation for Animal Health

<sup>2</sup> Codex: The Codex Alimentarius Commission

<sup>3</sup> World Animal Protection - Animal Welfare Index

23. New Zealand has a long history of shared values and economic engagement with the United Kingdom and the wider European Union (EU). The first frozen meat shipment from New Zealand was exported to the United Kingdom in 1882 which was the start of a mutually beneficial trading relationship that has stood the test of time. New Zealand is well-known for its high food safety standards that comply with the United Kingdom's strict regulatory and retailer-level standards. Today the United Kingdom remains a cornerstone market for New Zealand sheepmeat.
24. Drawing on the significant long-standing commercial relationships with the United Kingdom, the sector has established itself as a responsible trader and has responded to consumer demands by providing consumers with a wider array of sophisticated, competitively priced products and providing manufacturers and the foodservice sector with access to high-quality, competitively priced inputs.
25. The current WTO access across both the EU and the United Kingdom allows individual companies to specialise and prioritise their marketing effort in the particular markets or market segments they wish to focus on. It also reflects the fact that each market or market segment will have a natural propensity for different cuts and product specifications, and therefore associated value. This flexibility allows companies to help maintain market stability while continuing to respond to consumer demands and market opportunities.
26. In addition, because nearly all sheep and cattle in New Zealand are grass-fed, our production season is counter-cyclical and complementary to United Kingdom production and supply. New Zealand exporters work closely with United Kingdom retailers to supply New Zealand chilled lamb legs to meet consumer demand and to provide United Kingdom consumers with access to high-quality "best in season" product all year-round. This is especially so in the United Kingdom's off-season when domestic production is unable to meet demand or maintain quality without incurring additional feed and housing costs that would erode United Kingdom producer profitability.
27. The graph shows that over the last five years imports of New Zealand product have peaked when United Kingdom production is at its lowest. There is a relatively small volume of imports from New Zealand at the height of the United Kingdom production season, and this volume tends to be comprised of particular cuts where consumer demand exceeds domestic supply (for example, barbecue cuts during the summer).



28. There is some element of competition with domestic producers at the shoulders of the seasons given the influence of variable climate on grass-fed production systems and consumer demand. However, this is offset by strong mutual interests and the overall benefits that generally arise from seasonal complementarity and in particular the benefits that flow from keeping lamb available to consumers all year round. This complementarity helps maintain market stability and supports maintaining price levels that benefit producers in both the United Kingdom and New Zealand.
29. New Zealand sheepmeat supplies ensure that the products available to consumers are those that they most wish to consume. The United Kingdom produces as much sheepmeat as it consumes, but importantly not all of the sheepmeat produced in the United Kingdom is of the kind that domestic consumers wish to purchase. Currently, the United Kingdom exports some 30% of its sheepmeat production. In turn, the United Kingdom imports broadly the same volume of finished cuts from countries such as New Zealand. Through this process, the United Kingdom is exporting the parts of the carcass that United Kingdom consumers least prefer and replacing that volume of lamb with imports of the cuts they find more desirable.
30. The trade in lamb legs illustrates this well. Consumer demand in the United Kingdom for lamb legs is significantly higher than can be produced from its domestic flock. Satisfying consumer demand for these legs from the United Kingdom's domestic production alone would require a 66% increase in the United Kingdom's production. This would also generate around an additional 130,000 tonnes of other cuts that would have to be absorbed by the domestic market or exported to third countries. This would be counterproductive to producer prices for livestock and be a major destabiliser of the market.
31. Imports of selected cuts from New Zealand have assisted United Kingdom producers to meet consumer leg demand and maintain domestic livestock prices by enabling United Kingdom producers to export and secure a higher value for those parts of the carcass that do not have a natural market in the United Kingdom. As a result of this market dynamic, the United Kingdom is New Zealand's main market for high value leg cuts and accounts for almost half of New Zealand's global lamb leg exports.

## Overview of New Zealand sheep and beef exports to the United Kingdom

32. New Zealand red meat and associated co-product exports to the United Kingdom totalled \$565 million for the year ending December 2018 with sheepmeat accounting for 84% of the sector's total exports to the United Kingdom. High-value chilled lamb makes up more than half of the sheepmeat exports. In addition to sheep and beef meat, New Zealand currently exports a variety of other products including: prepared meats; offal; bovine semen; pet food; raw skins; and leather. The United Kingdom is also a significant market for New Zealand wool, accounting for over \$43 million in trade for the year ending December 2018. See the table below for a breakdown of the sectors exports to the United Kingdom.

**Red meat and associated co-product exports to the United Kingdom – Year ending November**

Description	New Zealand Dollars		
	2016	2017	2018
Sheepmeat	\$475,239,811	\$445,127,469	\$472,496,264
Wool	\$53,491,363	\$43,792,706	\$43,056,009
Offals	\$22,052,221	\$17,917,744	\$18,895,897

Beef	\$6,708,026	\$6,582,235	\$14,396,538
Other co-products	\$18,469,175	\$19,812,621	\$15,217,597
Hides and skins	\$1,532,058	\$1,546,394	\$1,364,459
<b>Total</b>	<b>\$577,492,654</b>	<b>\$534,779,169</b>	<b>\$565,426,764</b>

33. All New Zealand's sheepmeat exports to the United Kingdom currently enter under a country specific tariff rate quota (TRQ) in the EU's WTO tariff schedule under a zero tariff.
34. New Zealand's beef exports to the United Kingdom enter under a variety of different quotas under the EU's WTO tariff schedule. New Zealand has a very small high quality beef (HQB) quota of 1,300 shipped tonnes that attracts a concessional 20% ad valorem in-quota tariff. The out-of-quota tariff rate is 12.8% + €141.4 to €304.1 per 100kg net (depending on the product) - which roughly equates to an ad-valorem equivalent of 50% tariff rate or more depending on product. New Zealand is also eligible to compete for access under a number of most favoured nations quotas opened by the EU. Co-products face tariff rates under the EU's MFN schedule, ranging from 0-17%.
35. At a more technical level, New Zealand is one of the few countries to manage the administration of the New Zealand country specific TRQs for sheepmeat and beef into the EU – including the United Kingdom. This allows New Zealand to responsibly manage its trade to the EU in a way that supports market stability, provides companies with certainty of access and the ability to respond to in-market dynamics, and complements seasonal production patterns in the United Kingdom so that consumers can purchase high-quality safe meat products all year round. The sector highly values these arrangements as it forms an integral part of the quality of the CSTQs.
36. The sector is conscious that there is a risk that the United Kingdom may consider changes to the current administration arrangements. Even small changes in quota administration can have significant impacts on trade and economic returns and the dangers of opening up these arrangements very substantially outweigh any anticipated benefit from doing so. Therefore, we strongly hold the view that there be no modification of the current arrangements and that no such negotiation should be engaged in.

## Conclusion

37. The New Zealand sheep and beef sector is supportive of the negotiation, at the earliest possible opportunity, of an ambitious, comprehensive and high-quality FTA between our two countries that builds on and strengthens the existing trade relationships.
38. Such an FTA has the potential to benefit both the United Kingdom and New Zealand, through reducing costs, deepening existing partnerships, enhancing value chains and modernising the current trade and economic relationship. By addressing tariff and non-tariff barriers, both sides would benefit from greater access to each other's markets which would provide consumers with a wider array of competitively priced products and manufacturers with access to high-quality, competitively priced inputs. It would also provide industries the certainty to plan future investments.

## About Beef and Lamb New Zealand Ltd and the Meat Industry Association of New Zealand Inc

39. Beef + Lamb New Zealand (B+LNZ) is the farmer-owned organisation representing New Zealand's sheep and beef farmers. It is the organisation with the legal mandate to speak on behalf of New Zealand 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. B+LNZ's purpose is to provide insights and actions that drive tangible impact for farmers.

40. B+LNZ represent around 11,300 commercial farming businesses, creating around 35,000 jobs (wages, salaries and self-employment) 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.
41. 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.
42. MIA member companies operate more than 60 slaughter and further processing plants employing 25,000 people throughout the country. The plants slaughtered and processed around 23.4 million sheep and 4.3 million cattle in 2018. 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.
43. 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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