

Dairy Companies Association of New Zealand

Submission to:

Ministry of Foreign Affairs and Trade

on

Potential Bilateral Free Trade Agreement between the United Kingdom and New Zealand

11/2/2019

1. Introduction & summary

- 1.1 The Dairy Companies Association of New Zealand (DCANZ) appreciates the opportunity to make a submission on the potential bilateral free trade agreement (FTA) between the United Kingdom and New Zealand. 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.
- 1.2 We strongly support the negotiation of high quality and comprehensive FTA with the UK.
- 1.3 DCANZ considers that a high quality and comprehensive FTA agreement that removes barriers to dairy trade will:
 - a. **Create benefits for both countries:** Removal of barriers to dairy trade will support a deepening of dairy trade flows in both directions, improve the environment for New Zealand and UK companies to deepen commercial partnerships, and enhance participation in global value chains for industry participants in both geographies. New Zealand exporters will benefit from an enhanced opportunity to export their products to one of the world's largest dairy import markets (which has been liberalised to imports from European Union producers for over 40 years), with flow-on benefits to New Zealand regional economies and jobs. UK dairy customers will benefit from the option to source the dairy products they import from a country whose production systems are associated with high standards of food safety, quality, animal welfare and sustainability, and which has counter seasonal supply. Additionally, removal of trade barriers will.
 - b. **Address a notable gap in the close relationship between the UK and New Zealand:** The lack of a trade agreement is inconsistent with the otherwise longstanding relationship and shared values between our two countries;
 - c. **Add weight to New Zealand and the UK's leadership towards reducing trade barriers globally:** Both the UK and New Zealand have been leading voices for many years in favour of removing trade barriers. A high quality and comprehensive FTA agreement would provide a clear demonstration of our shared comment to growing global prosperity by removing trade barriers.

2. Dairy market context for a NZ-UK FTA

- 2.1 The UK's is one of the world's largest net importers of dairy products and is a market that has been fully liberalised to trade from some of the world's largest dairy exporters (from within the EU) for the last 40 years. An FTA between the EU and New Zealand would provide UK dairy customers who are importing dairy products, with the option of sourcing from New Zealand.
- 2.2 In the year to June 2018:
 - a. The UK Imported approximately \$NZ 5.2 billion of dairy products under HS Chapter 04. This placed the UK second only to China in terms of imports of HS chapter 04 dairy products by value.
 - b. For dairy imports with HS Chapter 04, the UK was the largest importer of cheese globally (NZ\$2.9 billion), the largest importer of buttermilk, curdled milk and cream and yoghurt products (HS Code0403, \$765 million) and the second largest importer of butter by value (NZ\$ 628 million). The UK also imported NZ\$ 237 million of milk powder (HS 0402) and NZ \$175 million of whey products (HS 0404).
 - c. The UK also imported a range of other dairy linked products including ice cream and edible ice (\$NZ 547 million), infant formula (NZ\$346 million), milk albumin (NZ\$116 million), casein (NZ\$42 million) and caseinates (\$10 million).
 - d. Over 95% of the dairy products imported by the UK were of EU origin.
- 2.3 The UK is also a growing competitive exporter of high quality dairy products, which we understand is focused on continuing to grow exports and leverage the benefits of global value chain integration. In 2018 the UK exported more than NZ \$3.2 billion of dairy products.
- 2.4 Historically the UK has been a significant market for New Zealand dairy products. New Zealand sent its first shipment of refrigerated butter to the UK in 1882, and during both the first and second world wars New Zealand entered into a sole supply agreement with the EU for dairy exports. More recently, trade has been significantly constrained by the EU's high level of market access barriers for dairy imports combined with the tariff disadvantage that NZ exporters face into the UK market compared with EU competitors.
- 2.5 In 2018 New Zealand exported approximately \$NZ 21 million of dairy products to the EU market.
- 2.6 The New Zealand dairy relationship with the UK extends beyond trade. There are existing commercial partnerships and investments between New Zealand and UK industry participants. At an industry level there is a history of co-operation on industry-good matters of common interest between New Zealand and EU dairy organisations. This includes expert dialogue between DairyNZ in New Zealand and AHDB in the UK, and working together to advocate for science based international standards via the International Dairy Federation.
- 2.7 Both our industries are committed to sustainable dairy provision. This includes a focus on improving environmental outcomes and achieving good animal welfare standards. Both industries have strategies that align to the international Dairy Sustainability Framework, and both organisations have endorsed the Dairy Declaration of Rotterdam – a statement of industry commitment to working in support of the UN Sustainable Development Goals.

3. Opportunities for the FTA to build on the foundations of the existing relationship

- 3.1 Prior to detailing opportunities associated with the FTA, DCANZ wishes to reiterate the importance of the FTA building on the foundation of current access. We are concerned at the proposals that the EU and UK have put forward (in parallel) to split WTO tariff rate quotas (both MFN and CSTQ) when

Brexit comes into effect. These proposals represent a significant diminishing of dairy trade opportunity into the UK market, and are generally unacceptable to us. DCANZ places significant value on the Geneva based engagement between the EU, UK and other WTO members resulting in an outcome, which leaves New Zealand no worse off.

- 3.2 It is important that the FTA negotiation build upon New Zealand’s current market access into the UK. We do not accept that it should be necessary to regain the loss of access, which has already been ‘brought and paid’ in past negotiations in a NZ-UK FTA negotiation.
- 3.3 Removal of trade barriers will enhance the environment for this multifaceted commercial and industry-to-industry relationship to continue to grow in the future. It will place New Zealand on a level-playing field with EU competitors and provide the opportunity to leverage the counter-seasonal nature of New Zealand’s dairy production.
- 3.4 The tariff rates currently applied to dairy products are in many cases prohibitive to trade. There are also challenges to utilising the existing country specific tariff rate quotas due to high in quota tariff rates, limited import licencing opportunities and other quota administration complexities.
- 3.5 An important outcome for the FTA negotiation will be the timely and complete elimination of all tariffs on New Zealand dairy imports. Given the UK’s market has been liberalised to dairy imports for a long period of time we see no barrier to achieving this. Furthermore, an ambitious FTA outcome will support both New Zealand and the UK in ambitions for trade liberalisation in other markets.
- 3.6 Another important outcome would be a set of WTO-plus provisions in areas such as phytosanitary rules and technical barriers to trade. It is important that an FTA negotiation between New Zealand the UK not only takes an ambitious approach to addressing non-tariff barriers to bilateral trade, but also sets a high benchmark for other trade agreements. DCANZ supports a focus on regulatory coherence, and prioritises standards and regulations being science-based and outcome focused. We also support trade facilitating customs administration procedures and flexible approaches to Rules of Origin.

UK Tariff Levels			
HS Codes	Description	MFN Tariff	EU Customs Union
040221	WMP	Up to EUR 1837/mt	0
040210	SMP	Up to EUR 1837/mt	0
040410	Butter	EUR 1896/mt	0
0406	Cheese	From EUR 1409 – 2212/mt	0
040410	Whey & Whey Products	Up to EUR 1672/MT depending on tariff line	0
040590	AMF	EUR 1896/mt	0
0403	Infant Formula	7.6% + vc	0
3501.1	Casein	9%	0

4. Inclusive economic benefits of improved dairy market access

- 4.1 DCANZ’s submissions to the 2018 Trade for All Agenda consultation set out in detail how dairy exports contribute to inclusive economic growth for New Zealander, and how further removal of barriers to trade would enhance this further.
- 4.2 Findings from the NZIER reports appended to the DCANZ Trade for All submission included:
- The dairy sector employs over 38,000 people providing important employment opportunities in regional New Zealand;

- b. Just under 80% of dairy sector wages are earned in rural areas and dairy farming is a top 10 employer in half of New Zealand territorial authorities;
- c. Dairy farming has the highest average salary amongst agricultural industries and dairy processing has the highest average salary level of New Zealand's food manufacturing industries. Dairy manufacturing also has the 5th highest average female salary level of 138 New Zealand industries;
- d. The dairy sector is a top 10 purchaser of output from around a third of all other New Zealand industries, which collectively account for over 40% of GDP;
- e. Dairy is the top income generator, delivering more than 10% of GDP, in the Waikato, Southland, the West Coast and Taranaki. It is also the second largest contributor to economic activity in Northland and Manawatu, and the third largest in Canterbury and Bay of Plenty;
- f. The sector is also highly linked to the Maori economy with an estimated 10% of industry assets being in Maori ownership.
- g. Trade liberalisation to date, in the form of tariff reductions from bound WTO levels, has resulted in the value of New Zealand dairy exports being \$2.3 billion higher, and nominal GDP being \$1.66 billion more, than it otherwise would be. Remaining tariffs suppress the value of Remaining tariffs suppress the value of New Zealand dairy exports by around \$1.3 billion dollars annually, and non-tariff measures add over \$3 billion in costs to New Zealand dairy exports in the APEC region alone.

5. Conclusion

- 5.1 DCANZ supports a comprehensive and progressive free trade agreement with the UK. It will be create mutual benefits for both our economies and dairy industries.
- 5.2 We look forward to continued engagement with New Zealand officials as the potential FTA negotiation is progressed.
- 5.3 DCANZ's contact for this submission is Kimberly.crewther@dcanz.com