

Joint Submission

TO:

**The Foreign Affairs, Defence and Trade
Committee**

ON:

**The New Zealand-European Union Free Trade
Agreement Bill**

BY:

**Beef + Lamb New Zealand Ltd
and
Meat Industry Association Inc**

16 February 2024

Introduction

1. This is a joint submission by Beef + Lamb New Zealand Ltd (B+LNZ) and the Meat Industry Association Inc (MIA) representing the views of the red meat sector (i.e., producers, processors, marketers, and exporters).
2. The New Zealand sheep and beef sector (the sector) is a vital driver of the New Zealand economy and its prosperity. Our export-led industry, comprising livestock (beef cattle and sheep) production and red meat and co-product (beef and dairy cattle and sheep) processing, and exporting, accounts for 92,000 jobs, 35,702 directly and an additional 56,719 indirectly, mainly in regional New Zealand.
3. The sector is New Zealand's second-largest goods export income earner, with \$ 10.6 billion in export revenue for the year ending December 2023. This accounts for 15.4 percent of the total value of New Zealand's goods exports, behind only dairy. Māori make up a significant portion of the sector with 15 percent of sheep and beef exports coming from Māori farming interests, 36 percent of people working on sheep and beef farms identifying¹ as Māori and a similar amount in the red meat processing sector. New Zealand exports over 95 percent of sheepmeat production and over 90 percent of beef production to more than 110 markets worldwide.

Summary

4. The European Union is an important market for New Zealand's sheep and beef sector with trade spanning over 50 years. With more volatility in global markets this historical and mature trading relationship is a key part of the sector's resilience and is critical in helping us achieve further diversification.
5. We recognise the strategic importance of an FTA with the EU, and appreciate the efforts made in securing one. While the outcomes for the red meat sector (in particular for beef) fall far short of expectations, we support the passing of this Bill and swift entry into force of this FTA.
6. The FTA provides an opportunity to formalise and strengthen a long-standing trading relationship. We want to see use of the agreement in smoothing trade flows between New Zealand and the EU, as well as providing a forum for cooperation on areas of mutual interest – such as improving sustainability while ensuring that trade is not unduly impacted.
7. The Trade and Sustainable Development chapter provides a framework and opportunity for the EU and New Zealand to work together to tackle issues such as deforestation, biodiversity, and climate change in a way that recognises the individuality of our systems. While we may take different approaches to address these issues, these should be objectives-focused and not implemented in a manner that impedes trade.

¹ Pg 14 <https://www.mbie.govt.nz/dmsdocument/13781-the-emissions-exposure-of-workers-firms-and-regions>

8. We request a strong commitment to future upgrades of the FTA that resolve identified shortfalls. An early review of the FTA is recommended, as well as discussion of issues at regular intervals.

The Value of FTAs to the Red Meat Sector and New Zealand

9. Trade is fundamental to the future of the sector and the wider New Zealand economy. The sector's exports make an important contribution to New Zealand overall and more specifically New Zealand's regional economies by creating jobs, improving livelihoods, and encouraging innovation.
10. The sector is a significant employer accounting for 4.7 percent of national employment. Importantly, these jobs are mostly in the regions and in some parts of the country the sector can account for as much as 10 percent (for example in Taranaki, Manawatu/Whanganui) or 12 percent (for example in Otago and Southland) of employment. Additionally, Māori make up an important and valued part of our workforce, accounting for 36 percent of people working on sheep and beef farms, and a similar amount in the red meat processing sector.
11. Diversity in markets is a critical aspect of the resilience of the sector. We rely on favourable access to as many markets as possible, underpinned by strong longstanding commercial relationships, to respond to changing market dynamics, consumer demand, and to maximise the value of each animal. Once the EU-New Zealand FTA has entered into force, approximately 75 percent of the sector's trade will be covered by New Zealand's network of FTAs, saving the sector approximately \$620 million annually in tariffs.

Trade with the EU

12. The EU is among the New Zealand red meat sector's most important markets, consistently ranking number three for the past three years. In the 2023 calendar year, the sector exported \$1.3 billion of product to the EU, making up 12 percent of the sector's total exports.
13. Within the EU, the major markets in 2023 were the Netherlands (\$346.8 million), Germany (\$247.7 million), Belgium (174.3 million) Italy (\$172.0 million) and France (\$121.9 million).
14. New Zealand has a well-established and mature trading relationship with the EU. It is a market that forms a key part of the industry's long-term resilience, which is why an FTA with the EU is of great strategic value.
15. The EU is a particularly important market for sheepmeat. In 2023, the EU was the sector's largest market for chilled sheepmeat (\$276 million) and second largest for frozen sheepmeat (\$588 million) behind China. While China takes a considerably larger volume of sheepmeat, the EU is a market for much higher value cuts. Despite inflationary pressures in the EU, the average value (Free on Board or FOB) of exports was still high: frozen sheepmeat exports to the EU was \$15.23/kg compared to \$6.43/kg for exports to China.

16. Beef exports to the EU have been growing in recent years and were worth \$105 million in 2023, an increase of 11 percent compared to 2022. As with sheepmeat, the EU is a high value market for beef. The average FoB value of beef exports to the EU in 2023 was \$22.79/kg compared to \$8.63/kg for overall beef exports.
17. Apart from sheepmeat and beef, the EU is an important market for co-products, which were worth \$316 million in 2023. The major co-products exports to the EU were hides and skins (\$106 million), wool (\$91 million), blood products (\$49 million), casings and tripe (\$35 million), and meat and bone meal (\$25 million).

The outcomes of the New Zealand-European Union FTA

Goods market access

18. The red meat sector supports the ratification and entry into force of the FTA. It is no surprise that the outcomes of the FTA fall far short of the sector's expectations of a meaningful and ambitious FTA that would reflect the close relationship New Zealand has with the EU. While it is not the purpose of this submission to relitigate the outcomes, we would like to highlight some of the areas of concern.
19. While the FTA has made some improvements for sheepmeat access, the same cannot be said for beef. The small volumes granted are not commercially meaningful, nor do they allow for growth in the market. The new beef quota accounts for less than two percent of New Zealand's annual beef exports and represents less than 0.2 percent of annual EU beef consumption. The demand gap will ultimately be filled by products that may not meet the high-quality food safety, animal welfare, and environmentally sustainable characteristics that the EU consumer desires and undermines the EU's own sustainable sourcing objectives.
20. In addition to the fairly minimal improvements outlined above, the method of calculating quota volumes is also concerning. The new FTA quota volumes will be calculated using a carcass weight equivalent (CWE) as opposed to product weight – a significant disadvantage in terms of the actual access granted. For instance, as 99 percent of New Zealand's beef exports to the EU are boneless cuts, using this calculation will reduce the true volume of new access from 3000 to around 2,570 tonnes on entry into force rising to around 7,715 tonnes after seven years.
21. We also hold concerns that the value of the new access could be limited by overly restrictive quota conditions. Before legislation implementing the EU FTA enters into force the New Zealand government must ensure that quotas conditions enable trade. We are working with the New Zealand Meat Board and the New Zealand government to ensure the quota is administered in a way that provides for free-flowing trade.

Non-tariff Measures

22. The sector welcomes recognition that EU and New Zealand standards and systems provide for comparable outcomes related to animal welfare and antimicrobial usage. We also welcome the recognition of the cornerstone of the trade relationship between the two parties through the Veterinary Agreement (The Agreement on Sanitary Measures

Applicable to Trade in Live Animals and Animal Products). The Agreement has been instrumental in keeping trade functioning smoothly since it was agreed in 1997.

23. Despite this established relationship on some non-tariff measures, we are disappointed that the FTA only provides minimal improvements to customs procedures and trade facilitation. In some cases, not meeting the high standards New Zealand has secured in other trade agreements. For instance, the FTA does not provide for quick release times for perishable goods at customs, constraints on import fees and charges, or paperless quota administration. In the implementation of the FTA, we look forward to work towards resolving these issues.

Sustainability and trade

24. In addition to the FTA providing a forum to address the non-tariff measures above, it also provides an opportunity to address sustainability issues through a range of chapters, including sustainable food systems, animal welfare, and sustainable development. While we welcome the inclusion of these kinds of issues in trade agreements policies and actions to address these issues should not be more trade restrictive than necessary nor undermine the overall objectives of the FTA.

25. Pointing to a specific example, the EU's deforestation-free supply chains regulation will erode and reverse the minimal gains made under the FTA for our sector (and indeed others placing product in the EU market). The regulations are a blunt tool to address an important global issue. In effect, the regulation discriminates against countries like New Zealand that do not have deforestation and therefore do not have verification systems in place to prove this. There has been limited ability for New Zealand exporters to discuss and engage on the regulation with the EU. As currently drafted, it will remove New Zealand's ability to export beef and leather to the EU when it enters into force in December 2024. These were worth \$111 million for beef and \$103 million for leather using 2023 export value.

26. We request the Government implement provisions that would prevent such trade restrictive outcomes. For example, through ensuring working group attendees include the relevant expert-level representatives from industry.

27. Much as the EU and New Zealand have done for other areas, such as SPS, animal welfare, and antibiotic and hormone use, we encourage a similar approach to sustainability and environmental policies that affect trade. Recognition of different approaches that meet the same outcomes at a country-level – through mutual recognition arrangements or other mechanisms would ensure that sustainability objectives are met while EU-New Zealand trade is not unduly impacted.

28. The sustainability chapter of the FTA is touted by both parties as “world-leading”. The disjunct between the EU's environmental and sustainability policies and this chapter is concerning and undermines both parties' commitment to sustainable trade. The EU's current trade policy has the effect of rewarding inefficient and unsustainable domestic producers, resulting in increased global emissions, while leaving out more efficient producers like New Zealand. Also of major concern is EU member countries' continued subsidisation of fossil fuels in agriculture, as well as wider agricultural subsidies that

incentivise inefficient production at best and encourage agricultural practices that are harmful to environmental and human health at worst.

29. The EU FTA represented an opportunity to provide a high value market for red meat products with high animal welfare and sustainability attributes, however, the limited amount of new access does not achieve these goals. This is extremely disappointing for New Zealand producers who continue to lead the world in sustainable farming practices and viewed the FTA as an opportunity to access a market where these practices would deliver additional value.

Conclusion

30. We remain deeply disappointed at the missed opportunity that the outcomes of the FTA have delivered for the sector, particularly for beef. New Zealand exporters are still largely kept out of a high-value market. This is further undermined by the implementation of environmental and sustainability policies that in effect keep a high-quality producer out of a market where those products are in demand. Further work will continue to be required as the FTA is implemented and reviewed to enhance its contribution to both trade diversification and the economy more generally.
31. Despite this, the MIA and B+LNZ consider the EU FTA to be of strategic significance and we support the swift passage of this Bill and entry into force. The EU is a key market for trade demanding sustainable, high-quality products, and we see opportunity to make progress on key areas of common interest.

About Beef + Lamb New Zealand and the Meat Industry Association of New Zealand

32. 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 vision is profitable farmers, thriving rural communities, valued by New Zealanders and its purpose is to provide insights and actions that drive tangible impact for farmers.
33. B+LNZ represents around 9,200 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.
34. 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.
35. MIA member companies operate more than 60 slaughter and further processing plants employing 25,000 people throughout the country. Ninety percent of this production is further processed into value-added products. Over a million tonnes, or 86% of total production, is exported to nearly 110 overseas countries.

36. MIA 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, trade, market access, and public policy impacting industry operations.

37. The contacts for this submission are:

Nicholas Jolly
Senior Trade Policy Advisor
(Environment)
Beef + Lamb New Zealand

Ashlin Chand
Manager – Policy and Trade
Meat Industry Association

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