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12 October 2022

## UK-NZ FTA PREPAREDNESS PLANNING

### COMMUNICATION WITH INDUSTRY RE CONSULTATION, FEEDBACK AND DECISIONS MADE BY THE NZMB WITH RESPECT TO THE UK TRQS

#### Background

The New Zealand Free Trade Agreement with the United Kingdom (UK FTA) was negotiated in the latter part of 2021 and signed 28 February 2022. Subject to completion of domestic legal processes entry into force is expected at the commencement of 2023. The NZ-UK FTA provides for liberalisation of the UK market for beef and sheepmeat over eleven and sixteen years, respectively.

In contrast to the existing World Trade Organisation (WTO) tariff rate quotas (TRQs) which cover fresh and frozen meat only, the UK FTA TRQ also includes offals, meat meals, cooked and uncooked meat preparations and prepared foods containing beef and sheepmeat.

The Meat Board Act requires that *...“where a quota market exists, the Board must establish and operate a mechanism for the allocation of access to that quota market if satisfied that the operation of an allocation mechanism would be consistent with the Board’s objects.”*

The Board’s objects include:

*...“to facilitate the capture, for New Zealand and in the interests of the meat industry, of the best possible ongoing returns available from quota markets.”*

#### Consultation

The Board consulted on allocation principles, a proposed allocation mechanism and cost recovery for beef and sheepmeat access in the UK FTA TRQ.

Consultation was with all registered meat exporters, existing quota producers and supplemented by communications through NZ Customs Service to all freight forwarders export agents and exporters.

More information on the consultation proposal is outlined further in this communication. A summary of the NZMB decision on the transitional quota allocation mechanism follows:

#### NZMB Decision on transitional Quota Allocation Mechanism for UK FTA TRQ

Following feedback from the consultation, the New Zealand Meat Board decided:

- That all quota holders are to have access to supply any of the products covered by the UK FTA TRQ, i.e. no separate tranche for the non-traditional products (HS 0210 and 1602).
- There will be a tranche available for New Entrants of 3.5%

- The remainder of the quota will be allocated to those with qualifying production history and/or export history. Collectively known as General Quota Allocation (GQA).
- Production history is to be calculated in the same manner as for other quotas (three year rolling average of qualifying product).
- Export history is to be on a rolling three-year average (the same as for production history). Export history is to accumulate, so in the first year, 2023, Export History allocation would be based on exports of all TRQ products in 2021, in the second year on the average of exports over 2021 and 2022, and in the third year on the average of 2021, 2022 and 2023 exports and rolling three-year average applying thereafter.
- New Entrants to be eligible for access to new entrant quota for a maximum of three years, a similar timeframe to the current mechanism(s). This allows new entrant applicants to build a three year rolling average and accumulate GQA.
- The allocation tranches of the UK FTA TRQ beef to be initially based on year one 12,000 tonnes product weight:
  - A Production History tranche of 80.75%, (9,690 tonnes);
  - An Export History tranche of 15.75%, (1,890 tonnes);
  - A New Entrants tranche of 3.5%, (420 tonnes).
- The inclusion of a New Entrants tranche requires a mechanism by which entities that do not qualify for an allocation by means of either a Production or Export History can access the quota.
- New Entrants, which are entities without production or export history at the time of their first application for a quota allowance, may access an allowance on a first come first served basis up to a maximum of 1/3 of the New Entrant tranche volume.
- An entity cannot be a new entrant if they are an *associated entity or related company* to a quota holder or another new entrant.
- The one third volume limit does not apply to quota that has been returned to the Board for reallocation and not taken up by holders of General Quota Allocation (residual quota).

## Consultation Overview

### ***Allocation Principles***

An allocation mechanism (other than free and open access) should only be applied if there is an expectation that it is going to be fully utilised or nearly fully utilised.

1. Quota use should be encouraged.
2. An allocation mechanism should not disrupt to any significant extent current trade into the market.
3. A quantum of open access to allow new entrants promoting innovation and competition should be made available.
4. Hoarding of access should be discouraged (penalised).

5. Complexity and administrative costs should be kept to a minimum.
6. Operation of the allocation mechanism should be paid for by quota applicants and quota holders.

#### ***Proposed Allocation Mechanism in the 4 July 2022 Consultation document***

The proposed transitional allocation mechanism was primarily based on production history on a rolling three-year basis for Harmonised Tariff System (HS) codes 0201 and 0202, (fresh, chilled and frozen beef) as is the case for current quotas. A second tranche was proposed for export history to the UK for 2021 of HS codes 0201, 0202 and specific 0206 (meat offals) products covered by the TRQ (UK HS Codes 0206.10.95 and 0206.29.91).

A third tranche was proposed for 0210 (meat and offals salted in brine, dried or smoked; edible flours and meals of meat or meat offal) and 1602 products (other prepared or preserved meat, meat offal) available on a first come first served (FCFS) basis. Utilisation within tranches would be monitored and penalties for unused quota applied (Principle 5).

In summary, the proposed transitional allocation mechanism of the 12,000 tonnes beef quota available at entry into force (anticipated to be the 2023 quota year) was as follows:

- An allocation based on production history, whereby each company producing beef in a UK listed plant (previously EU listed) would obtain a share of 77.5% (9,300 tonnes) in the first year.
- In addition, an allocation based on a share of beef exports to the UK covered by the TRQ (including HQB) in the previous calendar year (i.e., for quota year 2023, allocated in late 2022 the previous export year would be 2021), whereby each company with an export history would receive a share of 12.5% (1,500 tonnes) in the first year.
- In addition, an allocation of 10% (1,200 tonnes) in the first year, accessible to quota holders and new entrants for the export of 0210 or 1602 products covered by the TRQ to the UK on a first come first served basis.

#### ***Return of quota to the Board and reallocation***

Utilisation of the quota to be monitored throughout the year and opportunities provided for the return of quota allowances to the Board for redistribution (Principle 2).

The standard penalty regime for companies that hold quota allowances more than a de minimis amount to apply to this quota (Principle 5).

#### ***New Entrants***

There was no specific new entrants provision (no qualifying entities, FCFS for all).

#### ***Transfers***

It was proposed that transfers of quota allowance(s) and production and export histories be allowed in the same way as applies for all other TRQs administered by NZMB – this is an obligation under the Meat Board Act 2004 (MBA 2004) (Principle 2).

#### ***Cost Recovery***

Industry was also consulted on a cost recovery mechanism that was the same as currently applies to the WTO quotas.

### **Parallel Sheepmeat allocation mechanism**

The consultation also requested feedback on a parallel quota allocation mechanism for sheepmeat mirroring that proposed for beef quota.

### **Consultation process**

Consultation material was emailed directly to all registered meat exporters (over 200) on 4 July and followed up with a reminder email on 18 July.

On the same dates, consultation material was emailed to a subset of registered meat exporters, some 23 exporters – a mix of quota and non-quota exporters – who had provided contact details for direct communication regarding NZMB’s UK FTA Preparedness project.

The Meat Industry Association were also provided the consultation documents and their feedback sought.

### **Feedback**

Eleven responses were received with feedback on the consultation proposals. Feedback was from quota holders only despite endeavours to engage non quota holders/exporters e.g. cooked/processed food producers. The table below summarises representation of the eleven responses by quota type based on the current quota year allocations and includes representation of beef exporters to UK market aggregated from 2019 to 2021 calendar years i.e. current export investment in UK market in high tariff environment (both in/out of quota exports).

Table 1

**Summary of Feedback by Quota Type and representation of beef exporters to UK market (both in/out of quota)**

	<b>USBV allocations 2022</b>	<b>UKHQB allocations 2022/2023</b>	<b>UKSG allocations 2022</b>	<b>Exported 0201/0202/0206 products to UK in 2019-2021 (both HQB and non-quota product)</b>
Submitters representation of allocation	94.50%	99.10%	91.30%	91.35%

- no submissions were received from non-quota holders

- USBV allocation used because it includes broader bovine classifications e.g., cow/bull production etc in addition to steer/heifer (HQB only) and better matches UKFTA access

The key themes from feedback received were:

- Majority of support for “production history only” allocation mechanism; or at least ratios heavily weighted to production history.
- Primarily submitters not currently exporting to the UK market are against the export history allocation mechanism and suggest it is removed or reduced, although several submitters support this approach.
- Most support the concept of a separate tranche for only HS 0210 and 1602 but feedback ranges from 10% ratio is “too high” to “don’t cap (limit) opportunity in this FCFS tranche”.
- Cost recovery proposals were supported.
- Parallel mechanism for sheepmeat allocation was supported.

## **Consideration of feedback from the consultation**

The scope of the availability of quota to new entrants was considered to be insufficient to fully give effect to the requirements within the Meat Board Act 2004.

The revised position gives new entrants access to all product categories within the UK Beef TRQ.

This effectively eliminated the need for a separate HS 0210, 1602 tranche.

The new products included within the TRQ and high tariff rates that previously applied, broadened the scope of new entrant entities and supported an increase in the 2% proportion that had previously applied and was accordingly increased to 3.5%.

The 10% of quota that had initially been proposed for the FCFS tranche less the 3.5% new entrants' allocation was distributed evenly across the production other tranches, and allowed an increase in production history based allocation as requested by many respondents.

## **Board Decisions on Other Aspects of the UK FTA Beef Allocation Mechanism**

### **Monitoring, return of quota and reallocation**

Utilisation of the quota shall be monitored throughout the year and opportunities provided for the return of quota allowances to the Board for redistribution.

Quota allowances returned to the Board, including unused New Entrants allowance, shall be made available for reallocation. Reallocation in the first instance is to General Quota Holders with any residual quota available to New Entrants.

The standard penalty regime for companies that hold quota allowances of more than a de minimis amount at the end of the quota year applies to this quota.

### **Transfers**

Transfers of quota allowances and production and export histories may be transferred in an equivalent manner as for all other WTO TRQs administered by NZMB.

### **Cost Recovery**

There is no change to the cost recovery mechanism as a result of the consultation.

### **Sheepmeat allocation mechanism**

The same mechanism as applies to the UK FTA Beef TRQ shall apply to the UK FTA Sheepmeat TRQ.

## **NEXT STEPS:**

### **Applications for UK Beef FTA TRQ Allowances**

The NZMB will shortly commence a quota allowance application system in anticipation of potential entry into force of the **UK FTA Beef TRQ** quota in 2023 while the UK-NZ FTA ratifications processes are being concluded by UK and NZ Parliaments.

Initially, there will be no application process for **UK FTA Sheepmeat TRQ** access. The UK Sheepmeat FTA TRQ access is not triggered until 90% utilisation of the existing WTO sheepmeat TRQ is triggered. NZMB monitors utilisation of this quota and will communicate further with exporters should circumstances change where the UK Sheepmeat FTA TRQ is able to be accessed.

### **EMPIC Codes**

NZMB is updating its Export Meat Product Identification Codes (EMPIC) Summary to accommodate the broadened access available to NZ through the recently negotiated UK-NZ FTA. Companies wishing to export under the UK FTA TRQ for UK HS code 0210 and 1602 categories will need to adopt/incorporate these EMPIC codes into their systems. NZMB will communicate these changes in more detail in due course as administration preparations are finalized.