



2020 REVIEW OF QUOTA ALLOCATION MECHANISMS ADMINISTERED BY THE NEW ZEALAND MEAT BOARD

Discussion Paper

To: All registered exporters

Introduction

Section 29(2) of the Act requires the New Zealand Meat Board (the Board) to review its quota allocation mechanisms at least every five years. Despite remaining uncertainty around Brexit, and what that might mean for quota administration, the Board has little option to delay the review further.

Attached as Appendix A are the Terms of Reference for the review, which sets out the process the Board propose to undertake and includes a timetable of key steps in the review process.

As part of initiating the review, we are seeking feedback from registered meat exporters on the key questions we have identified for the review. Feedback does not have to be limited to the questions we ask below, and we invite comments and ideas about any part of the quota allocation framework that quota users want to share.

Key Questions for Quota Users

- 1. Does the Board's current allocation mechanism maximise potential value? Are there alternatives?**
 - The Board overriding object is to maximise the potential value of quotas. In the current mechanism, we seek to do this by:
 - allocating quota to those most likely to use it;
 - allocating quota as a block at the start of the year to facilitate planned shipments;
 - providing for the trading of quota; and
 - operating a hand-back mechanism towards the end of the quota year.
 - Are these things effective in maximising potential value, and what other options might there be?

- 2. To what extent will that be affected by Brexit and/or other medium term shifts and trends in the international red meat trade? Are there other relevant geopolitical matters to consider?**
 - The EU27 and the UK are proposing to split existing EU28 quotas when the UK leaves the EU. This could be problematic for exporters that deal predominantly with either the EU27 or the UK.
 - Would allocating access to some or all quotas on the basis of export destination, rather than eligible production, help to manage this?
 - What other trade and geopolitical issues can you see that need to be factored into the Board's thinking about how to allocate existing quotas?

- 3. Is there potential for the quota allocation to be used to support pre-competitive cooperation among exporters?**
 - The Board's existing mechanisms essentially allow any person with eligible production history to apply for and obtain quota. Should the Board look at potentially linking some or all quota access to support pre-competitive export industry-led schemes? If so, what would that look like?

4. Have we ensured the value of quota access is being realised by ‘New Zealand and in the interests of the meat industry’?

- The Board is required to ensure that the value of quota access benefits New Zealand and the red meat industry. This is a broad objective that can cover matters as broad as employment, support for rural communities, farmer profitability, as well as factors such as where trading profits are realised.
- Is the Board’s allocation mechanism meeting this objective? What alternatives might there be?

5. What opportunities do we have to increase the value of quota access?

- Is there anything the Board could do, through its allocation mechanism, to generate new value in quota markets?

6. Do you have any other comments or suggestions regarding the Board’s allocation mechanism?

Deadline for Feedback

Your feedback on the above questions will help the Board to frame up potential changes to the Board’s allocation mechanisms. The Board will come back to you and consult further on concrete proposals in 2020, and so this is just a chance to provide ideas and perspectives – it is not your only opportunity to participate in the review.

We are seeking as much feedback as possible at this stage, so that the Board’s proposals can be as well-developed as they can be before the next round of consultation. Please provide your feedback, or direct any questions, to:

Megan Gibson
Quota and Information Team Leader
Email: megan.gibson@nzmeatboard.org
Phone: 04 494 9502

The deadline for feedback is **Friday 21 February 2020**.

Yours sincerely



Dave Harrison
GM Quota and Information



APPENDIX A: TERMS OF REFERENCE FOR QUOTA ALLOCATION REVIEW

2020 Quota Allocation Mechanism Review

Terms of Reference

Background

The Meat Board Act 2004 (the Act) requires the New Zealand Meat Board (the Board) to review existing quota allocation mechanisms at least every five years. This review has now fallen due.

The Board currently operates three quota allocation mechanisms - for EU Sheepmeat and Goatmeat (EUS&G), EU High Quality Beef (EUHQB), and US Beef and Veal (USB&V). The mechanisms used to allocate access to these quotas have not been changed since 2006, which was when changes from the last wholesale review were implemented. However, the results of that review itself was a continuation of a pre-existing allocation mechanism largely untouched.

Much has changed in the export meat industry since 2006, and the potential for the EUS&G and EUHQB to be split between the United Kingdom and European Union means there is the potential for significant change to New Zealand's quota entitlements in the near future.

As such, it is timely to undertake a comprehensive review of the Board's quota allocation mechanisms to ensure the provide for optimisation of New Zealand's quota access in a changing world.

Scope

The 2020 Quota Allocation Mechanism Review will look broadly across the current allocation mechanism, and at potential improvements.

Questions to be considered here include:

1. Does the Board's current allocation mechanism maximise potential value? Are there alternatives that would better achieve this?
2. To what extent will that be affected by Brexit and/or other medium term shifts and trends in the international red meat trade? Are there other relevant geo-political matters to consider?
3. Is there potential for the quota allocation to be used to support pre-competitive cooperation among exporters?
4. Have we ensured the value of quota access is being realised by 'New Zealand and in the interests of the meat industry'?
5. What opportunities do we have to increase the value of quota access?

Out of Scope

Under the Uruguay Round Agreements negotiated under World Trade Organisation (WTO) rules New Zealand has the legal rights to administer quotas. These rights are held by the New Zealand Government. The Meat Board Act 2004 provides for the New Zealand Meat Board to establish and operate meat export quota management systems that provide for compliance with New Zealand's international treaty obligations in relation to that quota market access.

Neither New Zealand's legal right to administer these quotas, nor the delegation of administration to the Board, form part of this review.

Review Process

Section 29(2) of the Act requires the Board to review its quota allocation mechanisms at least every five years. Despite remaining uncertainty around Brexit, and what that might mean for quota administration, the Board has little option to delay the review further.

The Act sets out in broad terms the process that the Board should follow when assessing its allocation mechanisms and any proposed changes to it. It is essentially a two-step process ensuring allocation mechanisms are consistent with a set of minimum requirements, and with the Board's objects.

Step One: Consistency with Requirements

Sections 24 and 25 of the Act set out a number of requirements regarding the content of any quota allocation mechanism the Board decides it should establish and operate.

Step One of the review process is testing whether the current process, or any proposals for amendments to the current process, comply with these mandatory requirements. The key questions for the Board to consider are whether any allocation mechanism proposal would:

- exclude persons, limit access to persons, or otherwise discriminate between persons, on the basis of whether or not a person has given the Board a liability undertaking?
- exclude persons, limit access to persons, or otherwise discriminate between persons, other than as is necessary to ensure an allocation mechanism is consistent with the Board's objects or to avoid jeopardising New Zealand's continued administration of a quota on current terms?
- require persons to give the Board more information than is necessary to enable effective administration of the quota allocation mechanism?
- clearly specify the products, countries and tariff rates relevant to the quota market?
- provide for trading in quota allocation?
- provide for quota entitlement to be allocated to those in the meat export industry who are prospective participants in the relevant quota market?
- provide for the amount of quota allocated to individual entities to be adjusted proportionately to reflect changes in access to the relevant market?

Step Two: Consistency with Objects

Step Two is more complex. Having determined whether the Board's quota allocation mechanisms, or any proposed amendments, provide for the matters set out above, Step Two involves an assessment of the extent to which the Board's quota allocation mechanism is consistent with the Board's objects. The Board's objects as they relate to its quota management function are set out in section 7(a) of the Act, which reads:

The objects of the Board are...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...

This requires assessment of the Board's approach to each of the individual matters set out in sections 24 and 25 of the Act for consistency with the above object. Further than this, though, it would also involve an overall general assessment of the extent to which the way in which the Board allocates and manages quota entitlement helps capture the best possible ongoing returns.

Timetable and Process

The table below sets out the timetable and process for the review. It assumes changes are made, which may not be the case.

Timeframe	Milestone
December 2019	Release Discussion Document to seek broad industry feedback on how the current mechanism performs, and ideas for improvement
February 2020	Deadline for feedback
February-March 2020	Develop proposals for amendment to proposed allocation mechanism (if any)
Mid April 2020	Consultation starts on a proposed allocation mechanism
June 2020	Deadline for submissions
July 2020	Communicate Board decision on allocation and consult on implications for quota fees
August 2020	Deadline for submission on quota fee review
September 2020	Communicate Board decision on fee review
1 Jan 2021	Implementation of allocation mechanism and fee structure

At this stage, the Board has not factored in the potential for individual submitters to be heard by the Board in person. The Board remains open to the potential for submitters to be heard if the nature of submissions from reasonably justifies it. In this case, the timetable above would be adjusted accordingly.