NEW ZEALAND MEAT BOARD

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Consultation concerning Transitional Allocation Mechanisms for the European Union (EU) Free Trade Agreement (FTA) Tariff Rate Quotas (TRQs)

Dear registered meat exporter and/or meat industry participant

Free Trade Agreement negotiations between New Zealand and the European Union (EU-NZ FTA) have resulted in new Tariff Rate Quotas (TRQs) for beef and sheepmeat/goatmeat providing preferential access at 7.5% and 0% respectively into the EU.

The EU-NZ FTA agreement requires ratification by the respective EU and NZ (New Zealand) Governments and subject to concluding these domestic legal processes it is likely entry into force (EIF) will be early 2024.

NZMB's Preparedness planning provides for quota administration and implementation processes to be ready for the conclusion of EU and NZ ratification.

The Meat Board Act 2004 requires the NZMB (New Zealand Meat Board) to operate an allocation mechanism system.

The Board wishes to consult with industry on issues of administration of TRQs under this agreement.

This document is part of that consultation process and sets out allocation and cost recovery proposals on which the Board seeks industry views. To assist in the Board's analysis of submissions it would be helpful if you could complete the associated web survey **by 5:00pm Monday 31 July 2023.**

The Board has previously agreed, after consultation with industry, on principles to be applied to the development of allocation mechanisms. They are:

1. A quota 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
2. Quota use should be encouraged
3. An allocation system should not disrupt to any significant extent current trade into the market
4. A quantum of open access to allow new entrants promoting innovation and competition should be made available
5. Hoarding of access should be discouraged (penalised)
6. Complexity and administrative costs should be kept to a minimum
7. Operation of the quota allocation mechanism should be paid for by quota applicants and quota holders

Data collected and analysed in the preparation of this proposal

To assess how the principles proposed above might be applied to the UK TRQs, the Board has accessed and analysed data from:

- New Zealand beef and sheepmeat production history and forecasts – Beef + Lamb New Zealand Economic Service
- New Zealand quota holders' production histories - NZMB
- EU WTO (HQB and Sheepmeat and Goatmeat) quota allocations and use - NZMB
- The New Zealand and EU Harmonised Tariff Systems (HS) - New Zealand Customs Service and DG Taxud (European Union)
- New Zealand export data - Statistics New Zealand and New Zealand Customs Service
- Imports of beef and sheepmeat into the EU from New Zealand and other sources
- Listings of New Zealand processing facilities eligible to produce for the EU market
- Public Health certification of 0210 and 1602 products - MPI Verification Services

The EU FTA Quotas

There are three new tariff rate quotas under the EU FTA, one for beef and two for sheepmeat (separate chilled and frozen quotas). The WTO (World Trade Organisation) quotas for sheepmeat and goatmeat and High Quality Beef remain in place with the tariff on HQB reduced to 7.5%.

Beef

The beef quota is for an increasing quantity of products in the following HS (Harmonisation System) codes; 0201 chilled/fresh beef carcases and cuts, 0202 frozen beef carcases and cuts, 0206, offals, 0210 beef products preserved by processes other than refrigeration (smoking, drying, brining etc.), 1502 (tallow) and 1602 (prepared foods including beef or beef offals etc.).

The quota bears a tariff of 7.5% (except in the case of tallow) and commences at 3,333 tonnes on entry into force, increasing year on year in equal steps up to 10,000 tonnes in the 7th and subsequent years. **The TRQ is designated in carcase weight equivalent (c.w.e.)** and so a multiplier (coefficient) is applied to boneless products. Prepared and/or processed product categories have a coefficient of 1.0 .

It should be noted that the EU FTA beef quota includes tallow at a rate of 3.2% (HS1502 product). This is the same as the m.f.n. tariff rate and so confers no advantage.

The allocation mechanism design implications for the beef quota are similar to those that applied to the UK (United Kingdom) FTA Beef quota. Namely, there are entities that have exported to the market under the previous high tariff conditions that have limited or no production history and would therefore be disadvantaged in acquiring quota directly if a solely production history basis was used to allocate the quota.

Second, there are some products that have not previously been part of an EU Beef quota (0206, 0210, 1502 and 1602).

The new UK FTA for beef has had an allocation mechanism introduced that applies a mix of production and export histories (80.75%/15.75%) with first come first served (3.5%) access to all quota products for new exporters that have received no quota allocation.

ALLOCATION

Possible transitional mechanisms

Exclusions:

For beef tallow the in and out-of-quota tariff rates are the same i.e.; there is no advantage from entering tallow under the quota. For this reason, and the historically low value of edible tallow, it is suggested that

HS1502 (edible beef tallow) be excluded from the quota both in terms of allocation (whether based on production history or export history) and certification by means of an industry agreed discipline.[1]

New Entrants:

Whichever allocation mechanism is adopted it is proposed that a 3.5% provision is made for New Entrants in the EU FTA Beef TRQ on a first come first served basis. Current quota holders would also have access to the New Entrants Allowance for 0201 and 0202 products if they have utilised all of their quota allocation for the year.

If the proposed first come first served allocation mechanism is applied to EU FTA Sheepmeat and Goatmeat TRQs there is no need to provision for New Entrants.

EU Beef TRQ

Terms

EH_{-1} = last calendar or production (ending September) year's exports of quota product to the market concerned (i.e.; if production year used then exports for 2022-23 could be used for allocation for 2024, if calendar year is used then exports for 2022 would be used for 2024 allocation.

EH_{-1-3} = three year rolling average of export history

Export History

At the time of developing a hybrid export/production history allocation mechanism there were limited data available for export history by company by year.

Since that time the NZMB has been able to obtain data for exports for previous years from New Zealand Customs.

This means that in addition to using a single export year as the basis for an export history, a three year rolling average can now be used in the same way as for production history.

Export data is provided on a monthly basis and so it is also possible to define an export history year in ways other than by calendar year. It is possible therefore to have export history mirror production history, commencing 1 October and ending 30 September. Using an Oct-Sep year allows for the most recent information to be used when determining an export history. For these reasons, a 1 Oct-30 Sep export history year is proposed in all the following mechanisms.

A Hybrid system as per the UK Beef FTA

An allocation mechanism was designed last year for the UK FTA Beef TRQ. The EU FTA Beef TRQ is very similar with respect to the range and type of products included. Due to some companies having export history but little or no production history the UK FTA Beef TRQ allocation mechanism incorporated export history and production history as the basis for allocation. This approach was supported by the principle, which is itself supported by the Meat Board Act 2004, that those entities that had been exporting to a market before access was improved, should be entitled to continue their trade under the preferential access conditions.

This approach carries on a general principle that those participants that invest in being able to supply to the quota market concerned should be rewarded for their investment versus those that do not.

Although this hybrid model goes some way to protecting current trade, as those companies with production history (PH) develop export history (EH), modelling suggests that the proportion of the quota

[1] Industry agreed disciplines (IADs) may be used, if the industry as a whole agrees, to limit certain product to the market to ensure maximum returns from the quota. Some IADs apply in the EUS&G quota with respect to certain carcase grades and cuts

available to companies with EH only would drop below previous export volumes, despite having used all of the quota available to them. Modifying the proportions of EH to PH in the model had some effect but each time a change in proportions was proposed consultation would be required.

B Modified hybrid system

To ensure companies with export history but with limited or no production history can maintain an allocation entitlement at least as great as the year prior to preferential access becoming available (assuming previous total exports (excluding tallow) don't exceed available quota), companies with an export history in the previous year (EH_{-1}) could receive at least that volume of allocation for the quota year, with the remainder of quota (if any is available) applied under the combined export history/production history hybrid model. If there isn't sufficient quota to meet all of the previous year's exports, the allocation would be pro-rated according to EH_{-1}.

This mechanism allows some ongoing protection to those companies that have a history of exporting quota product to the market concerned as long as they continue to maintain their export volumes.

C Export History only

This mechanism takes the preference for export history (over production history) further.

Under an export history driven allocation mechanism any company would receive an allocation in the amount of their previous year's exports.

If overall quota available exceeds the total of the previous year's exports, allocations of the excess would be determined by EH_{-1-3}.

Should total exports exceed quota available, quota would be allocated on a pro rata basis of the previous year's exports.

EH_{-1} = last year's exports of quota product to the market concerned

EH_{-1-3} = three year rolling average of exports of quota product to the market concerned

Examples for option C

Example C1 – previous year's exports exceed quota allocation

Quota =1000 tonnes

Company A EH_{-1} = 200; EH_{-1-3} = 320

Company B EH_{-1} = 400; EH_{-1-3} = 220

Company C EH_{-1} = 500; EH_{-1-3} = 400

Allocation

Company A = 200/1100 x 1000 = 181

Company B = 400/1100 x 1000 = 363

Company C = 500/1100 x 1000 = 454

Example C2 – previous year's exports less than total quota

<u>Quota = 1000 tonnes</u>

Company A $EH_{-1} = 200$; $EH_{-1-3} = 320$

Company B $EH_{-1} = 400$; $EH_{-1-3} = 220$

Company C $EH_{-1} = 300$; $EH_{-1-3} = 400$

<u>Allocation</u>

Company A = 200 + 320/(320+220+400) * 100 (being the excess of quota available over exports)

Company B = 400 + 220/(320+220+400) * 100

Company C = 300 + 400/(320+220+400) * 100

Discussion

In considering allocation mechanisms for the EU FTA quotas, account has been taken of the established allocation principles previously approved by the Board, current allocation systems in place, the administrative workload associated with each mechanism design, individual quota characteristics and the impending Quota Allocation Mechanism Review.

New mechanisms may be necessary due to the specifics of an individual quota but only in so far as they accommodate those specific issues.

Discussion of Beef Allocation Options

For beef, the existence of companies that currently export quota product that do not have or have limited production history preclude the sole use of either a FCFS or production history mechanism.

A mechanism already developed is the **hybrid production history/export history** (PH/EH) system (**Mechanism proposal A)** that has been applied to the UK FTA Beef quotas.

This hybrid mechanism is new and has not been tested but has a potential weakness in that any selected PH:EH ratio is arbitrary (currently set at 80.75%/15.75%) and previous export volumes are not necessarily protected over the medium term.

Adjustment to the ratio of PH to EH requires a new consultation.

If this mechanism was adopted no changes to current quota management systems would be required.

Mechanism proposal B (modified hybrid system) overcomes the weakness of an arbitrary PH:EH ratio and eventual dominance by PH by preserving the previous year's export volume for all quota applicants and then allocating any excess quota on a PH:EH basis. This mechanism would require only a small modification to current quota management systems.

The third M**echanism proposal C** (export history only) goes further in taking account only of exports and eliminating production history as an allocation parameter. This makes for a much cleaner and simpler allocation mechanism based on performance in the quota market concerned (rather than NZ production).

Sheepmeat and Goatmeat Quota

The new EU FTA sheepmeat and goatmeat quota provides for additional HS 0204 access as well as products in the HS 0206, 0210 and 1602 categories.

Given the current utilisation levels of the EU WTO sheepmeat and goatmeat quota, the new quota is only likely to be used by WTO quota holders for these 0206, 0210 and 1602 products and by new entrants for all products.

Looking at current demand for quota and the volumes available under the WTO quota and the new FTA TRQ, it is expected that in the short to medium term, that demand for the new quota will be low. The Board therefore considers it prudent to make quota freely available at low cost and therefore is proposing a First Come First Served allocation mechanism with the proviso that holders of WTO must use their allowances under that quota first for HS 0204 product. Any registered meat exporter may use the EU FTA quota for 0206, 0210 and 1602 products through a certification on demand system.

Monitoring, return of quota and reallocation

Utilisation of the quota will 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 will apply to this quota (Principle 5).

New Entrants and New Products

The New Entrants allocation allows prospective new entrants to enter the market. In the case of HS 0206, 0210 and 1602 products, those entities that have received a fixed allocation may also use the New Entrant's allocation.

Transfers

It is proposed that transfers of quota allowances and production and export histories be able to be transferred in the same way as applies for all other TRQs administered by NZMB – this is an obligation under the MBA (Principle 2).

Penalties

The same penalty provisions for non utilisation that are in effect for other quotas will apply.

COST RECOVERY

The Board may set fees for the purpose of recovering the costs of carrying out its functions in relation to quota markets – s.36 of the Meat Board Act (MBA).

<u>The Board is consulting on proposed quota administration fees as per the table in Appendix A</u> for the new UK-NZ FTA TRQs. It is expected a further review of costs will be undertaken at the conclusion of this preparedness work and access to the quota is opened when better transparency of preparedness investment and quota utilisation is available to the Board.

The Board works under a principle that the administration of each quota should be self-funded i.e.; that there should be no cross subsidisation between quotas.

Setting up an administration system for a quota has substantial fixed costs and these costs are usually recovered through the application of a fixed participation fee for those that wish to receive an allocation. Operating costs are funded through a variable (per tonne) participation fee and a certification fee that varies according to the urgency of issue (sea or air).

The cost recovery proposal for the EU Beef TRQ is the same as applies to the UK Beef TRQ.

In the case of the EU FTA sheepmeat quotas (fresh and frozen) it is possible, given the low utilisation of the EU WTO Sheepmeat and Goatmeat quotas in recent years, that there will be very little utilisation of the new TRQ. This situation has led to the recommendation of a low cost FCFS (certification on demand) allocation mechanism.

This mechanism has no fixed allocation process as such and it is therefore difficult to charge an allocation application fee. The quota still has set up costs (mainly software development, staff time, consultation processes etc.) that need to be recovered. This leaves limited cost recovery mechanisms such as a participation fee (per tonne) and a certification fee (per certificate). Prospective utilisation levels are difficult to predict and therefore the setting of appropriate fees to recover costs is more of an art than a science. The situation with a FCFS quota system where demand is likely to be low is that either very large fees are required for participation/certification or some subsidy is required from other quotas.

These are the options available to at least partially address this cost recovery imbalance.

1. Do not utilise the quota (no further costs)
2. Set high participation and certification fees for low utilisation quotas
3. Subsidise less utilised quotas with fees from those for which there is more demand

Discussion

Option 1 Do not use the quota.

In the case of the EU FTA sheepmeat and goatmeat quotas, this would mean:

- that there would be no preferential access for new (non 0204 products) despite having been negotiated within the terms of the FTA.
- New entrants would have to rely upon access provided under the WTO EU Sheepmeat and Goatmeat quota, either through the current provisions for that quota or by transfers from quota allowance holders (which should not be an issue given current utilisation rates for that quota).
- There may be reputational effects with respect to New Zealand FTA negotiations in the future, either in terms of an unwillingness by trade partners to provide for access that is never used or, perhaps more likely, a reluctance by the New Zealand Government to negotiate preferential access on the industry's behalf.
- Should utilisation rates change (e.g.; other markets close), a system could need to be stood up rapidly, potentially mid quota year, to ensure prudent use and administration.

Option 2 would set <u>high variable participation and certification fees</u>. These high fees in themselves could be a disincentive to quota use. Demand (for quota) and thus recoveries would be uncertain potentially leading to ongoing administration deficits;

Option 3 <u>high use quotas subsidise low use quotas</u> – this would require an acceptance that utilisation of all quotas may wax and wane according to market changes and that at any given time the recovery of costs from some quotas will accumulate more income than others. In the past any excessive fees have been accumulated and either delayed administrative fee increases or returned to the quota holders.

One reason to avoid cross subsidisation between quotas is the fact that some companies concentrate on individual species (ovine or bovine) while others may specialise in meeting particular markets (US manufacturing beef v EU HQB). An adjustment of the non-subsidisation rule could be made on a species basis i.e.; there should be no cross subsidisation between sheepmeat and beef quotas. This at least constrains the level of subsidisation to between those exporting the same (species) product.

As quota administration is self-funding and is paid for by quota users the Board is interested in which of these options (or any other) is most palatable to the industry.

In the meantime, a putative schedule of fees is provided in Appendix A. These fees are modelled on Option 2 above and **there is no guarantee that they will cover the costs of administration of the new EU quotas.**

The Board reserves the right to amend them as more information comes to hand regarding set up costs and relative demand.

Feedback

The NZMB seeks feedback on the transitional allocation mechanism and on the cost recovery fee proposal outlined in this document. To ensure your feedback is incorporated into the Board's consideration of these issues it must be received by **5:00pm Monday 31 July 2023.**

To assist in the analysis and consideration of your feedback, we strongly encourage you to respond **web based feedback link**. .

If in addition to responding, you wish to provide further feedback, please feel free to do so. Likewise, if you wish to clarify any aspects of the proposal, we are happy to respond by email or, you can call us – contact details are at the end of this form.

Beef Allocation

Of the three possible mechanisms for allocation of the new EU beef TRQ described above, please indicate below your company's preferences.

1. Do you prefer Mechanism A (combination of Production History and Export History as a basis for allocation similar to the current UK FTA mechanism?)

2. If so, why? - If not, why not?

3. Do you prefer Mechanism B (an allocation based on the previous year's exports to the EU (EH_{-1}), with any residual allocated on the same basis as Mechanism A?

4. If so, why? - If not, why not?

5. Do you prefer Mechanism C (as for Mechanism B, except any residual quota is allocated on the basis of a three year rolling average of Export History (EH_{-1-3})

6. If so, why? - If not, why not?

7. If none of the options proposed for the Beef TRQ are suitable, what would you prefer?

8. Why?

9. Do you agree that tallow should be excluded from allocation and certification, if not, why not?

10. If you agree that tallow should be excluded from allocation and certification, should this be through an industry agreed discipline?

11. If not, why not?

Sheepmeat and Goatmeat Allocation

12. Do you agree with a First Come First Served system for both the fresh and frozen sheepmeat and goatmeat TRQs?

13. If not, why not and what would you propose instead?

Other aspects

14. Do you agree with the other aspects of the quota management system as outlined in this consultation i.e., new entrants provision, transfers, monitoring and reallocation, penalties regime?

15. If not, why not and what would you change?

Any other comments

16. Is there anything else you believe should be taken into consideration in developing the allocation mechanism?

Cost recovery questions

Beef

17. Do you agree with the cost recovery provisions proposed for the **Beef TRQ?**

18. If not, why not, and what would you change?

Sheepmeat and Goatmeat

19. Bearing in mind the advantages and disadvantages of each approach which (if any) of the cost recovery options for the **sheepmeat and goatmeat TRQ** would you prefer? 1. Do not use quota; 2. Set high participation and certification fees for low use quotas; 3. Subsidise less utilised quotas with fees from those with higher utilisation?

20.Why?

21. If you prefer Option 3 (acceptance of cross subsidisation across quotas) would you prefer the cross-subsidisation a) across all quotas or b) just those for the same species e.g.; other sheepmeat (and goatmeat) quotas (not beef)?

22. Why?

23. Is there anything else you believe should be taken into consideration in dealing with the cost recovery issue?

24. Any other comments

Your contact details here:

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APPENDIX [??]

APPENDIX [A]

Quota Fees (GST exclusive)	**EU FTA Sheepmeat FCFS covering both chilled and frozen access excluding HS 0204 *(unless WTO access is exhausted)***	**EU FTA Beef**
New Entrant Application Fee	NA	NA
Fixed Participation Fee (for access to annual quota allocation)	NA	$3,000.00
First Come First Served Participation Fee (first application only)	$950.00	$1,500.00
Variable Participation Fee (per tonne)	$4.50	$2.40
Special Levy (per tonne)	NA	NA
Certification Fees (per certificate)		
Wellington (electronic)	$45.00	$10.00
Wellington (manual)	$100.00	$100.00
Brussels – Sea Freight	$200.00	$200.00
Brussels – Air Freight	$150.00	$150.00
Certificate rework (per certificate)		
Cancellation	$30.00	$30.00
Not Issued	$30.00	$30.00
Transfers		
Quota Allowance	NA	$50.00
Production History (but doesn't include transfer of export history)	$500.00	$500.00

Quota Fees (GST exclusive)	**EU FTA Sheepmeat FCFS covering both chilled and frozen access excluding HS 0204 *(unless WTO access is exhausted)***	**EU FTA Beef**
Quota Utilisation Reports	Nil	Nil
Miscellaneous		
Courier within EU	Actual	Actual
Production/Export History Audits	Actual	Actual
Company Compliance Audits	Actual	Actual