



Level 4, Wellington Chambers, 154 Featherston Street
PO Box 121, Wellington 6140, New Zealand
T: 64 4 473 9150 F: 64 4 474 0801
www.nzmeatboard.org

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UK – NZ FTA PREPAREDNESS PLANNING

INDUSTRY CONSULTATION ON PROPOSALS FOR ALLOCATION MECHANISM AND COST RECOVERY

Purpose

The purpose of this document is to seek feedback from current and potential quota holders on establishing quota administration systems for the new tariff rate quotas accessible under the UK-NZ Free Trade Agreement (UK-NZ FTA TRQs). Feedback is required on:

- a **proposed transitional¹ allocation mechanism** for the new UK-NZ FTA TRQs for beef and sheepmeat; and
- proposals for **cost recovery** for the new UK FTA TRQs, as required under s.36

Introduction

Free Trade Agreement negotiations between New Zealand and the United Kingdom (UK-NZ FTA) have resulted in new Tariff Rate Quotas (TRQs) for beef and sheepmeat, providing preferential access at 0% into the UK. The UK-NZ FTA agreement requires ratification by the respective UK and NZ Parliaments, and subject to concluding these domestic legal processes, entry into force (EIF) is anticipated for 1 January 2023. NZMB's preparedness planning provides for quota administration processes to be ready for implementation prior to this date.

The NZ-UK FTA liberalises the UK beef and sheepmeat markets. For beef access, 12,000 tonnes product weight (p.w.) is provided, rising by 4,980 tonnes per year at a preferential tariff of 0% until the eleventh year at which time there is unrestricted access, subject to safeguards, until year 16. For sheepmeat, additional free access of 35,000 tonnes is allowed until the fifth year in which it rises to 50,000 tonnes and becomes fully liberalised after 15 years. The Meat Board Act 2004 (MBA) requires the NZMB (New Zealand Meat Board) to operate an allocation mechanism system.

The UK Beef TRQ has the potential to be filled in its first year (likely 2023), while the new sheepmeat quota is constrained by a requirement to first utilise 90% of the existing WTO UK TRQ for sheepmeat before accessing the new FTA quota and is therefore unlikely to be triggered soon.

The UK High Quality Beef TRQ remains, as does the current allocation and use mechanism for that quota.

Both the beef and sheepmeat UK TRQs differ from the existing World Trade Organisation (WTO) TRQs for fresh and frozen meat only, in that the UK FTA TRQ also includes offals, meat meals,

¹ The proposed allocation mechanism is transitional because of the adoption of some new allocation mechanisms arising from the unique nature of the UK TRQs and the absence of data on production and export of some affected products. As use of the mechanism evolves, adjustments may need to be made before settling on a more permanent allocation mechanism.

cooked and uncooked meat preparations and prepared foods containing beef and sheepmeat (see Appendix B for the list of UK² HS codes covered by the TRQs).

This consultation document proposes principles for quota allocation mechanisms in general and specifically, a transitional mechanism for the beef TRQ.

Although this consultation document deals mainly with the UK Beef TRQ, it is also proposed that a similar (parallel) mechanism be applied to the UK Sheepmeat TRQ to provide certainty and to avoid the need for a second consultation process.

1. Transitional Allocation Mechanism

Allocation Mechanism Principles

It is a requirement of the MBA that NZMB facilitates the capture of the best possible ongoing returns available from quota markets for New Zealand.

Any allocation mechanism must either help achieve this objective, or at the very least, not adversely affect it.

In general, the allocation mechanisms in place have allowed for those companies who are able to supply product to the quota market concerned to be eligible to acquire access through a quota allowance in proportion to their eligible production volumes.

A new entrants provision allows entities new to the quota system to obtain a quota allowance and compete with incumbents. The MBA also requires an allocation mechanism to support trading in allowances. Allocation mechanism costs are met by quota applicants and holders as permitted through s.36 of the MBA.

Based on the requirements of the MBA and current allocation mechanisms, the following design principles are proposed:

1. An allocation mechanism (other than unrestricted 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 mechanism should not disrupt, to any significant extent, current trade into the market
4. A quantum of allocation to allow new entrants should be made available to promote innovation and competition
5. Hoarding of access should be discouraged (penalised)
6. Complexity and administrative costs should be kept to a minimum
7. Operation of the 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:

² Both of the UK TRQs are defined at the 8-digit level, in contrast to the WTO quotas that are defined at the 4-digit level and include only products on which there are m.f.n. tariffs (i.e. the tariffs that applied to New Zealand prior to the negotiation of the FTA). For example, there are only two HS codes included within the offals section (0206), 02061095 and 02062991. These are also the only products in 0206 that count towards export history.

- New Zealand beef production history and forecasts – Beef + Lamb New Zealand Economic Service
- New Zealand quota holders' production histories - NZMB
- UK HQB allocations and use - NZMB
- The New Zealand and UK Harmonised Tariff Systems (HS) - New Zealand Customs HMRC and DEFRA
- New Zealand export data - Statistics New Zealand and New Zealand Customs
- Imports of beef into the UK from New Zealand and other sources - DEFRA and HMRC
- UK production and imports of beef - AHDB
- Listings of New Zealand processing facilities eligible to produce for the UK market - DEFRA
- Public Health certification of 0210 and 1602 products - MPI Verification Services
- Australian quota allocation mechanisms – MLA, DPI

Considerations

There is sufficient production eligible for export to the UK to easily fill the UK Beef TRQ.

To fully utilise the UK FTA TRQ for beef of 12,000 tonnes in the first year, there would need to be a shift of only 2% away from current markets in favour of the UK.

Depending on the rate of shift, quota may be exhausted before the end of the year, leading to a hiatus in the market until the next quota year begins.

An allocation mechanism is therefore required. (Principle 1)

The base case would be for an allocation mechanism as used for current TRQs. Current TRQs (USBV, EUSG, UKSG, EUHQB, UKHQB) are based on production history of eligible product, which has been effective for those quotas involved (Principle 6).

For the UK TRQ, however the Board does not currently hold production data for HS 0206, 0210 or 1602 products. In addition, some items under these codes have product weight made up of non-meat ingredients.

Although access to the UK beef market has been restricted, there have been exports covered by the UK TRQ, both within the HQB quota and out of quota, despite the tariffs that apply.

The allocation mechanism therefore needs to include mechanisms to cover exporters of these products in which trade already occurs (Principle 3).

For 0210 (corned beef etc.) and 1602 products (prepared foods containing beef/sheepmeat) covered by the TRQ, production history data are not readily available. These products also include non-meat ingredients and are not directly comparable with 0201 and 0202 products on a weight basis. Finally, NZMB cannot be certain that it can obtain the required information on all producers/production and exporters/exports of these products.

Allocation Proposal

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

A third tranche is proposed for 0210 and 1602 products, available on a first come first served basis. Utilisation within tranches will be monitored and penalties for unused quota applied (Principle 5).

In summary, the proposed transitional allocation mechanism is as follows:

1. An allocation based on production history, whereby each company producing beef in a UK listed plant would obtain a share of 77.5% (9,300 tonnes in the first year).
2. 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 2022 the previous year would be 2021), whereby each company would receive a share of 12.5% (1,500 tonnes in the first year)
3. In addition, an allocation of 10% (1,200 tonnes in the first year), whereby anybody could access quota for the export of 0210 or 1602 products to the UK covered by the TRQ on a first come first served basis.

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

Although there is no specific new entrants provision, the NZMB considers that the proposed mechanism allows prospective new entrants to enter the market. In the case of 0210 and 1602 products, new entrants can apply directly for quota without the need for any production history. Those wishing to export 0201, 0202 or 0206 products can do so by obtaining quota from a quota holder and/or establishing a production or exporting history in the usual way (Principle 4).

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).

2. 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 MBA.

The Board is consulting on proposed quota administration fees as per the following table 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.

Quota Fees (GST exclusive)	<i>UK FTA Sheepmeat</i>	<i>UK FTA Beef</i>
New Entrant Application Fee	NA	NA
Fixed Participation Fee (for access to annual quota allocation)	\$3,000.00	\$3,000.00
First Come First Served Participation Fee	\$1,500.00	\$1,500.00

Quota Fees (GST exclusive)	<i>UK FTA Sheepmeat</i>	<i>UK FTA Beef</i>
Variable Participation Fee (per tonne)	\$2.40	\$2.40
Special Levy (per tonne)	NA	NA
Certification Fees (per certificate)		
Wellington (electronic)	\$10.00	\$10.00
Wellington (manual)	\$40.00	\$40.00
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	\$50.00	\$50.00
Production History (but does not include transfer of export history)	\$500.00	\$500.00
Quota Utilisation Reports	Nil	Nil
Miscellaneous		
Courier within EU	Actual	Actual
Production/Export History Audits	Actual	Actual
Company Compliance Audits	Actual	Actual

Feedback

The NZMB seeks feedback on the allocation principles and transitional allocation mechanism outlined in this document. Feedback on the cost recovery fee proposal is also sought.

To assist in the analysis and consideration of your feedback, we would like your responses to the following questions.

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. Alternatively, you can provide feedback to these questions using [this online form](#).

First, allocation principles

1. Do you agree with the allocation principles contained in this paper?
2. If not, why not and what would you change?
3. Are there any other principles that should be added? If so, please comment.

Allocation mechanism (questions re quantities follow in the next section)

4. Do you agree with the use of a production history as a basis for allocation as proposed?
5. If not, why not and what would you change?
6. Do you agree with export history as a basis for allocation for all products except for HS codes 0210 and 1602?
7. If not, why not and what would you change?
8. Do you agree with a separate tranche for HS codes 0210 and 1602?
9. If not, why not and what would you change?

Size of tranches

10. Do you agree with the production history based allocation making up 77.5% of the quota?
11. If not, why not?
12. Should it be higher or lower? What do you propose?
13. Do you agree with the production export-based allocation for making up 12.5% of the quota?
14. If not, why not?
15. Should it be higher or lower? What do you propose?
16. Do you agree with the new HS codes 0210, 1602 allocation making up 10% of the quota?
17. If not, why not?
18. Should it be higher or lower? What do you propose?

Sheepmeat TRQ

19. Should a similar allocation mechanism be applied to the UK Sheepmeat TRQ? If not, why not?

Other aspects

20. 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.
21. If not, why not and what would you change?

Any other comments

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

Cost recovery questions

23. Do you agree with the cost recovery proposals contained in this paper?
24. If not, why not, and what would you change?

Your contact details here:

Name

Address

Phone

Email

NZMB contact details:

For queries phone 04 473 9150 or email info@nzmeatboard.org

APPENDIX A
Timetable for UK-NZ FTA Preparedness Planning

Activity	Description	Due Date
1. Industry Consultation	Consultation with industry on UK FTA preparedness: <ul style="list-style-type: none"> • Transitional allocation mechanism(s) • Cost recovery fee proposals 	4 - 21 July 2022
2. Consultation concludes	Review feedback from industry consultation and report back to Board	22-27 July 2022
3. Board Meeting	Board review and approval of <ul style="list-style-type: none"> • Transitional allocation mechanism(s) • Cost recovery fees 	9 August 2022
4. Industry Communication	Notify UK FTA quota administration systems, including: <ul style="list-style-type: none"> • quota manuals (via web publication) • allocation mechanism (final form) • application processes/admin timeline – in anticipation of entry into force 1 January 2023 	end August 2022
5. Development/build of allocation mechanism database	Develop and build allocation mechanism system into Quota Management System (QMS), including testing and integration	August – September 2022
6. Development of Quota Certificate	Liaison with MPI/UK Authorities on quota certificate outputs <i>Subject to UK Parliament ratification processes – may be delayed</i>	July/September 2022
7. UK FTA quota applications for 2023 quota year	Subject to Entry into Force (EIF) – applications for new UK FTA quota(s) commencing 1 Jan 2023 close <i>Applications received in anticipation of entry into force</i>	15 October 2022
8. Quota certification development	Development/build/testing of UK FTA quota certification – data receipt and outputs; including new EMPICs including testing and integration Comms to quota holders on UK FTA certification specification(s) <i>Go live - Subject to UK FTA entry into force</i>	September /October/November 2022 November 2022

Activity	Description	Due Date
9. Board meeting	Approval of Quota applications/allocations for UKFTA TRQs (<i>subject to conclusion of UK/NZ ratification processes and in anticipation of entry into force 1 January 2023</i>)	6 December 2022
10. Gazette requirements	Subject to entry into force – gazette allocations	8-9 December 2022
11. Communication to industry	New UK FTA quota allocations in anticipation of entry into force	9-12 December 2022

APPENDIX B

UK HS codes encompassed within the UK-NZ FTA TRQ

Beef

Chapter 2

0201 Meat of bovine animals, fresh or chilled

0202 Meat of bovine animals, frozen

Note: the UK and NZ HS codes differ in structure at the eight digit level, however all of the NZ HS codes in the 0201 and 0202 classification are encompassed within the specific 8 digit UK HS codes in the TRQ

0206.10.95

0206 edible offal of bovine animals.....fresh chilled or frozen

0206.10 of bovine animals fresh or chilled

0206.10.95 thick or thin skirt

0206.29.91

0206 edible offal of bovine animals.....fresh chilled or frozen

0206.29 of bovine animals frozen

0206.29.91 thick skirt and thin skirt

0210.20.10

0210 meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat and meat offal

0210.20 meat of bovine animals

0210.20.10 with bone in

0210.20.90

0210 meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat and meat offal

0210.20 meat of bovine animals

0210.20.90 boneless

0210.99.51

0210.99 .. other

0210.99.51 offal - thick and thin skirt

1602 Prepared foodstuffs of prepared or preserved meat or offal

1602.50 of bovine

1602.50.10 uncooked: mixtures of cooked and uncooked meat and offal

1602.50.31 corned beef in airtight containers

1602.50.95 canned beef of luncheon meat, samosa of grounded beef

1602.90 other including preparations of blood of any animal

1602.90.61 containing beef meat or offal - uncooked, mixtures of cooked and uncooked meat and offal

1602.90.69 other

Sheepmeat

Chapter 2

- 0204 Meat of sheep or goats, fresh, chilled or frozen
- 0210 Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal
- 0210.99 other including edible flours and meals of meat and meat offal
- 0210.99.21 of sheep and goats with bone in
- 0210.99.29 of sheep and goats without bone

Chapter 16

Preparations of meat, of fish, of crustaceans, molluscs or other aquatic invertebrates, or of insects

- 1602 Other prepared or preserved meat, meat offal, blood or insects
- 1602.90 Other, including preparations of blood of any animal
- 1602.90.91 of sheep