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Considerations on the EU - New Zealand FTA negotiations

Eucolait, as the association representing exporters, importers and wholesalers of dairy products, supports free and open trade within a global rule-based system. As such, we can fully adhere to the EU's trade agenda. With respect to the ongoing negotiations with New Zealand Eucolait puts forth the following considerations:

Overall, current dairy trade flows between the EU and New Zealand are quite balanced. In 2017, EU exports to NZ exceeded imports in volume terms. However, when looking at value, NZ exports to the EU were still higher than exports to the opposite direction as the two main commodities exported by the EU to NZ (lactose and whey powder) are relatively low in value in comparison to cheese, butter or whole milk powder.

Export opportunities

Total exports of dairy products from the EU to New Zealand in 2017 were valued at just over €100 million. In order of value, whey, lactose, cheese, skimmed milk powder and whole milk powder were the main product categories exported. Export volumes to NZ are growing from a low base and 2017 represented a record year for many products such as cheese and whey powder. New Zealand is also the EU's largest export market for lactose. Tariffs are very low already, with a maximum rate of 5% on whey, lactose and milk powders. Cheese and butter enter New Zealand duty-free.

New Zealand has a population of just 4.7 million people and a self-sufficiency rate in dairy of about 900%. Dairy consumption is extremely mature and there is little scope for growth in per capita terms. Growth opportunities for EU dairy are in niche products and commodities not or insufficiently produced in New Zealand. Today these would be specialty cheeses and whey derivatives, including lactose, used in infant formula and other food applications. A significant share is sourced through joint-venture production operations within the EU.

Eucolait fully supports the dismantling of the remaining tariffs applicable to EU dairy products imported into New Zealand. As tariffs do not restrict trade in their current form their elimination will not be a significant driver of future trade flows. A freezing of all tariffs at 0 would nevertheless ensure the EU will not be affected by any increase of MFN tariffs in the future.

Potential for imports

Total 2017 imports of dairy products from New Zealand into the EU were valued at approximately €122 million. Major product categories are butter and butter oil, casein and caseinates and cheese.

With respect to tariffs, casein and caseinates enter the EU duty-free. Milk fat imported outside of a quota is subject to the full EU duty (€189,60/100 kg on butter; €231,30/100 kg on Butteroil/AMF). There is a specific import quota for New Zealand butter (74,693 tonnes annually at €70,00/100 kg).

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Alternatively the *erga omnes* quota allows for the import of butter/butter equivalent (11,360 tonnes at €94,80/100 kg). Imports are possible also under the inward-processing regime, i.e. the imported butter (or equivalent EU product) is re-exported as part of a processed food product.

Cheeses from New Zealand imported outside of quota are subject to full duty. There are two specific quotas for New Zealand cheese (cheese for processing, 4,000 tonnes annually at €17,06/100 kg and whole cheddar cheeses, 7,000 annually, also at €17,06/100 kg).

The NZ specific quotas have been barely used in recent times. The reason for this is that the relatively close alignment of EU and NZ prices and the in-quota duty do not always make imports viable under those quotas. This used to be different when the EU market was more disconnected from global price developments due to the quota regime and higher intervention prices.

New Zealand exports in the region of 95% of its dairy production. It is very likely that a reduction or elimination of EU inbound tariffs would lead to an increase of volumes imported from New Zealand. However, we do not expect to see New Zealand product flooding the EU either. With both parties generating over 50% of the global trade they already compete in most countries around the world and as such are exposed to the global market (the EU arguably to a lesser degree due to its sizeable internal market). In addition, NZ export efforts are likely to focus on emerging, growing countries where they already have a strong presence, rather than on the saturated and highly competitive EU market. Demand for New Zealand product will likely arise where there is a significant disconnection in pricing or where supply is unable to meet demand and focus on products with respect to which New Zealand tends to enjoy a competitive advantage, i.e. whole milk powder and, perhaps to a lesser extent, butter(oil).

TRQ administration

If TRQs are granted to certain dairy products from New Zealand, it is crucial that these are managed to allow all interested importers to have access to the quota. This can be achieved for instance with the normal import licencing method applicable to most dairy import quotas, i.e. without any additional requirements such as the IMA1 certificate.

Non-tariff barriers

The EU and New Zealand have a longstanding veterinary agreement which has been in place since 1996, but was updated and enhanced in 2015. The agreement includes equivalency measures for raw milk cheeses and mutual recognition of microbiological controls. The principle of regionalisation (in instances where there is an outbreak of animal disease) is also respected therein. Therefore, current trade with New Zealand presents very few SPS barriers.

Conclusion

On Dairy New Zealand will benefit more from the future FTA than the EU. Added value for the EU will be minor tariff reductions and possibly increased investment opportunities in a country well located to serve the growing demand in the Asia-Pacific region.

Annex – current trade flows