



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

Final Report

26 FEBRUARY 2021

To: All registered meat exporters

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. In December 2019, the Board initiated such a review and this document sets out the outcomes of the review of the Board's current quota allocation mechanisms:

- EU Sheepmeat and Goatmeat (EUS&G) [which now also applies to a new UK quota];
- EU High Quality Beef (EUHQB) [which now also applies to a new UK quota]; and
- US Beef and Veal (USB&V).

Review Process

The Act sets out in broad terms the process that the Board should follow when assessing its allocation mechanism 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 meets these mandatory requirements. The key questions for the Board to consider are whether the allocation mechanism(s):

- 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

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. It also involves an overall general assessment of the extent to which the way in which the Board allocates and manages quota entitlements creates a framework that enables the capture of the best possible ongoing returns.

Consultation

To inform this review, the Board sought views from industry, government and other stakeholders, including through a series of questions asked as part of the introduction of the Review in a communication with all registered exporters (attached as Appendix B). The overwhelming feedback in response to this was support for maintaining the existing allocation mechanism.

DECISION

Having considered feedback received, the Board has assessed its current quota allocation mechanisms against its objects. Appendix A sets out this analysis.

The Board has also considered the global trading environment and the extent to which it is changing. In the Board's view, there is a need for stability for New Zealand exporters if as a country New Zealand is to achieve 'the best possible ongoing returns'. Nonetheless, the Board will closely monitor the impacts of change within quota markets, and will remain open to a further review of its quota allocation mechanism well before the next five-year deadline for review.

In the view of the Board, existing allocation mechanisms meet the Board's requirements and objects.

Feedback Invited

Any queries or feedback concerning this communication on the final report of the quota allocation mechanism review can be directed to:

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Appendix A: Outcome of Review

Step One: Consistency with Requirements

Criterion: Does the allocation mechanism.....?	Comment
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?	No – there is nothing at all in the current mechanism that requires 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?	No – there is nothing at all in the current mechanism that discriminates between any potential quota holders.
Require persons to give the Board more information than is necessary to enable effective administration of the quota allocation mechanism?	<p>Under the current allocation mechanisms, the Board does not require information to be provided other than what is needed to verify production history to calculate quota entitlement as between quota applicants.</p> <p>The Board has options under other parts of the Meat Board Act 2004 to request information for statistical purposes, or to require information to support the integrity of quota certification - including where an offence may have occurred. The Board uses those powers, and while they fall outside of the scope of a review of allocation mechanisms, the Board again only uses them to the extent necessary to generate industry statistics and ensure quota integrity.</p>
Clearly specify the products, countries, and tariff rates relevant to the quota market?	The Board is satisfied that these are set out in each of the Board's quota manuals. [See: https://www.nzmeatboard.org/quotas/]
Provide for trading in quota allocation?	The existing allocation mechanism freely allows trading – however, trades must be recorded so that New Zealand exporters operate within the limits of their allocation, and more broadly within New Zealand's total quota entitlements.

Criterion: Does the allocation mechanism.....?	Comment
<p>Provide for quota entitlement to be allocated to those in the meat export industry who are prospective participants in the relevant quota market?</p>	<p>The current allocation mechanisms provide two pathways for 'earning' quota allocation for prospective participants:</p> <ol style="list-style-type: none"> 1. Gradually earn quota entitlement by producing eligible product (over three years - but with quota entitlement increasing each year); 2. A 'New Entrant' mechanism, based around presenting a business case to the Board, and the Board then progressively releasing quota entitlement as targets are met.
<p>Provide for the amount of quota allocated to individual entities to be adjusted proportionately to reflect changes in access to the relevant market?</p>	<p>This is a live issue. The Board has recently established new quotas for sheepmeat and goatmeat and high-quality beef access to the EU-27 and the UK. The need for new quotas follows an effective reduction in access to those markets following the EU27 and UK governments joint decision to split quotas between them post-Brexit.</p> <p>New Zealand continues to challenge the decision to split quotas, as it comes at a material cost in terms of quality of access due to a significant loss of flexibility. The trade rights agreed under the GATT/WTO Uruguay Round need to be honoured by the EU and the UK, and this extends to providing the same quality of access.</p> <p>In the past, the Board's quota allocation mechanisms have proportionally allocated any increased access – notably increases to EU sheepmeat and goatmeat and high-quality beef access as a result of compensation for expansion of the European Union from 15 to 27 Members, and then to 28.</p>

Step Two: Consistency with Objects

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...

The Board's view is that there are three key elements in this statement that need to guide the Board as part of this review:

1. 'facilitate the capture';
2. 'for New Zealand and in the interests of the meat industry': and
3. 'best possible ongoing returns from quota markets'.

With regard to the first of these, the important word is 'facilitate'. The current allocation mechanism provides a low-cost option for the transfer of quota entitlement, and imposes penalties for those that hold on to unused entitlement. There is no evidence to suggest that availability of quota entitlement is a barrier to New Zealand exporters, at this point in time. The Board recognises the need to continue to monitor this and is prepared to review its options should the impacts of Brexit in particular affect this, however.

There are other reasons why a 'status quo' approach enables capture of value. Our existing allocation mechanism is predictable, and so has formed a platform that enables longer-term planning and strategy. Our allocation system is also relatively simple, and so avoids the potential for value to be lost through a more complicated allocation exercise that the Act requires be funded by quota users.

On this basis, the Board is satisfied that the current quota allocation mechanism 'facilitates the capture' of strong returns from the market, in that it provides a pathway for any registered exporter to benefit from New Zealand's favourable terms of access – while at the same time linking initial allocation to access to eligible product to avoid wastage of quota.

The second element asks about the 'best possible ongoing returns'. The Board is satisfied that the current allocation mechanism achieves this by providing for quota allocations to be readily transferred, and through the mechanisms that penalise the hoarding of unused quota. Again, there is no evidence to suggest that access to quota is compromising returns on the beef and sheepmeat trade into the EU and UK, nor the beef trade into the US.

In the Board's view, recent levels of quota utilisation reflect market dynamics rather than barriers to access quota. The attractiveness of markets beyond New Zealand's traditional ones, notably into Asia, has seen trade move away from these quota markets. If anything, this has helped to achieve the best possible returns from quota markets as, a constrained supply from New Zealand forces importers in quota markets to pay as well as possible to compete for product.

The Board is required to have a view to 'ongoing returns', and as such it will continue to monitor this situation and is prepared to initiate a further review of its allocation mechanisms at any time if it sees it can positively influence quota market returns in a sustainable, long-term way.

In the interim, the Board's view is that the 'best possible ongoing returns from quota markets' will be achieved by letting global markets operate.

Appendix B: 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 January 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.