2 Executive summary

The total FOB (free on board) value of New Zealand horticulture exports continued on its growth trajectory increasing 7.61% (over 2-years since 2016) to $3.62 billion in the latest year ending June 2018. The **total cost of tariffs** on those exports also increased 12.6% to $214 million (an increase from $190 million in 2016) based on an approximate CIF (cost, insurance, and freight) value (refer table 3.1 below). The continued trend of trade growth is impressive, however it is not of the same magnitude as occurred between 2014 and 2016, as illustrated in the following chart.

The EU ($48.0 million), Japan ($36.0 million) and India ($27.4 million) account for 82.5% of the total $135 million (based on FOB, which is equivalent to $214 million based on CIF) estimated cost of tariffs. Korea ($16.1 million) accounts for a further 12% of tariffs. On a localised basis, the estimated loss of income for the 5,000 commercial growers averages $42,800 (up from $38,000 in 2016).

The European Union maintained the top position ahead of China and Japan in terms of market destination value ranking following a 20% increase in export earnings between 2016 and 2018. This continues a trend of large increases in the value of exports to Europe, which rose 23% from 2014 to 2016. With the exception of 2012, the EU has been the top ranked market destination in each year since this report commenced in 2004. The EU’s top ranking was retained despite the market pressures created from Russia’s decision to limit access to its market for EU produce. This was expected to dampen demand for NZ products within the EU over the short to medium term, however the $813M in 2018, is the highest value of exports to this market on record.

For the second report in a row China (excluding HK) has had the largest increase in exports of any destination market, a $117 million increase since 2016 which has outpaced the increases to the EU by about $4 million. This increase has also taken China ahead of Japan as the second largest export market by value. Japan (3rd) and Australia (4th) both saw small increases in exports over the reporting period, while 3 destinations in the top 10, Taiwan (5th), the USA (6th) and Thailand (9th) all saw decreases of greater than 10% in exports over this reporting period. Trends observed in exports to Asian markets varied greatly by destination. Of the 12 Asian export destinations in the top 20, exports increased to 7 markets and decreased to 5 compared with 2016 export values.

Some changes in the export profile of sectors (compared with 2016) include:

- Total kiwifruit value up 11% with just a 1% increase in volume, with significant increases of 18% and 23% in the value of exports to the EU and China (the top two markets) respectively;
Apple and pear export values were up 6% in 2018 compared to 2016, with the value of apple exports to the EU, India and Vietnam increasing by 32%, 93% and 76% respectively and pear exports to Taiwan and the USA increasing by 27% in value for both markets;

Frozen potato earnings increased 14% in 2017, up from $72 million to $82 million, before a further 29% increase in 2018, which took export earnings to just under $106 million. This has been driven by an increase in exports to Australia as well as the continued growth of the Thailand, China and Philippine markets;

Avocados achieved another export earnings record of $148 million in 2017, but another ‘off-year’ saw exports drop 33% to $98 million in 2018, which is still $14 million higher than exports in 2016;

Onions earnings remained steady in 2017 before dipping 17% in 2018;

Export earnings for cherries increased by 5% and 18% in 2017 and 2018 respectively, up from $68 million in 2016 to $84 million in 2018.

**Free-trade agreement progress:** At the time of writing this report New Zealand had 11 FTA’s in operation and with the pending entry into force of the CPTPP on 30 December 2018, a number of significant trading partners will join that list. Key among those is Japan, where tariffs average 6.3% and amounted to $45 million (on CIF basis) in 2018. At entry into force, an estimated 80% of the annual tariff cost on New Zealand exports to Japan will be removed. Elsewhere, tariff phase-outs are having a positive impact e.g. in 2016 tariffs made up 25% of the value of exports to Korea but this has dropped to 13.6% in 2018. A consequence of this is that while the cost of tariffs fell by $4 million over this period, the value of exports increased by $38 million (a 47% increase). Kiwifruit have seen the greatest increase in exports to Korea, but other commodities such as buttercup squash, avocados, and frozen French fries have also observed significant increases in exports, by value, over the last two years, thanks to this agreement.

**Standout high tariff markets:** The estimated total cost of tariffs paid on horticultural exports to India is $27.4 million (up from $16.4 million in 2016). This represents 44% of the value of all exports to India, which is by far the highest rate of any export destination in 2018. The volume and value of apple and avocado exports to India in 2018 has basically doubled since 2016 and significant growth has occurred in kiwifruit exports over this period too. Tariffs of 30 to 50% remain in place for most commodities, which presents a significant barrier to trade with India. These high tariff rates highlight the value to horticulture of progressing the New Zealand-India Free Trade Agreement (in tandem with the RCEP agreement), and the potential for India to become a top export destination for horticulture if tariffs can be reduced.

The New Zealand/Korea FTA has had 4-years of operation, yet Korea remains our second highest average tariff market at 13.6%, due to long phase-out periods of what were very high tariffs. Some products (onions, apples, pears, capsicums and persimmons) were excluded from the FTA, so it is hoped these products will see tariff reductions under a successful RCEP agreement.

The third highest average tariff market is New Caledonia at an average 10.9%. While this market ranks 21st in overall value terms, these tariff levels are constraining growth.

**Rising non-tariff measures:** Previous reports have drawn attention to the range of non-tariff measures (NTM’s) that include Sanitary & Phytosanitary (SPS) barriers. While it is acknowledged that under the various International Agreements and Treaties (viz. the WTO Agreement on the Application of Sanitary and Phytosanitary Measures – SPS Agreement, and the FAO International Plant Protection Convention – IPPC) countries have a right to apply the level of plant health protection it deems appropriate, any measures required should as far as possible be based on the analysis and assessment of objective scientific data. Such measures should not be misused for protectionist purposes that could result in unnecessary barriers to international trade.

Section 8 of this report lists the NTM’s for each of 25 countries. There is a notably lengthening list of NTM’s gaining prominence across a range of countries such as delays in assessing access requests, import quotas, additional import licensing requirements, extensive carton/product labelling requirements, pre-shipment inspections and a lack of recognition of existing verification certification. Country policies of processing only one access request at a time is a particularly limiting (and frustrating) mechanism. In a number of cases, the economics of compliance with phytosanitary requirements can make trade unviable. Where specific products have access to a market, the cost of maintaining that access is rising and likely to require additional resourcing.
Lack of registered agrichemical label claims for minor crops: Trading partners’ food safety concerns relating to agricultural chemical residues remain a significant barrier to expanding New Zealand’s horticulture exports. Even when food safety concerns don’t exist, when an overseas regulator prohibits use of a product for environmental, worker, or other concerns, they often revoke the associated MRLs (Maximum Residue Limits). To enable continued and expanded market access, growers must be able to utilise new agrichemicals that are favoured by trading partners.

Access to new agricultural chemical active ingredients is an issue especially for minor crops in NZ. Older chemicals (such as organophosphate and carbamates) have or are being phased out and there is a lack of new chemicals being registered in NZ as replacement products. The few new chemicals that are registered usually take a very long time to proceed through the regulatory process, and sometimes have very conservative controls set for their use, which limits the number of situations in which they can be effective. This presents pest/disease and weed management issues as a barrier to export growth as growers do not have access to the latest sustainable pest management options. In other countries, horticultural sectors are large enough to justify investment by industry or crop protection companies, or there are ongoing government-funded programmes to assist minor crop sectors. However, NZ does not yet have a minor crop programme in place to deal with these issues and there is no ongoing government funding to support this. This leads to lost market opportunities due to lack of MRLs set for minor crops in export markets. If products are used that do not have an MRL or import tolerance set in the importing country, this presents residue issues that are usually dealt with by either avoiding using these control options for produce destined for certain export markets, or implementing very long withholding periods to ensure residues are not detectible. This impedes industry’s ability to sustainably manage pests and disease issues and can affect yield and quality.

Less reliance on older chemicals, more MRLs in importing countries and increased and more timely access to pest management options would enable growers to maximise their food safety value proposition, providing an opportunity for export growth in all sectors.

New market access: The process for achieving new market access is a significant hurdle for many horticultural product groups. The steps involved in making a new market access request are summarised in Section 5.4. Often this can be a long process and may take many years. The level of detailed technical information that is required to be provided by product groups to support these market access requests is a considerable burden, particularly for New Zealand’s smaller horticultural product groups. Such applications require substantial financial investment and human resource expertise. In most instances this is funded by the specific industry. The demands for new market access are large and also places a greater pressure on limited MPI resources, which affects the timeliness of MPI’s ability to progress market access applications. MPI cost recovers its time on market access requests from industry.

Changing state of the horticultural sector: The profile of the horticultural sector is changing, this is even more noticeable in this 2018 report. Many horticultural industries have experienced a degree of consolidation with several industries now having fewer growers but larger grower operations. This is evidenced by a smaller number of growers reported by many horticultural product groups but a similar acreage in production has been retained and in some cases production acreage has increased. The onion and capsicum industries are examples of this. In 2016 there were 95 onion growers with 4,895 ha in production compared to 2018 with 91 growers and 5,225 ha planted. Similarly, for capsicums there were 75 growers in 2016 but this has declined to 46 growers in 2018, with an increase in production from 15,000 to 19,000 tonnes.

This consolidation has been driven by a range of factors, primarily economic, whereby costs of compliance (worker safety, food safety), and production costs per hectare, are increasing (the combined effect of increasing labour, utilities, and transport and machinery costs). Larger scale operations tend to be more insulated from these costs due to economies of scale compared to individual smaller growers’ operations. This has the collective effect of forcing small grower’s operations out of business, or growers selling their operations to larger grower businesses.

Exports of horticultural products continue to grow and tariff barriers are reducing through the successful negotiation and implementation of FTAs. However, the rise of other non-tariff measures remains a significant concern to the industry. A further concern to arise over the last three years has been the geo-political environment with an obvious swing to more nationalistic and isolationist policies. History suggests that protectionist trade policies will likely become more prominent in the international trading environment faced by New Zealand’s horticulture exporters.
3 Introduction

This report is prepared primarily as a resource for government officials, industry representatives, and exporters, but it is also aimed at building a better understanding of trade barriers within the wider horticultural export industry. The report is made up of two main sections. In Chapter 6, horticultural exports across 30 products are analysed, detailing export volumes and values for key markets, highlighting trends, estimating the costs of tariffs, and describing market access barriers for each product. In Chapter 8 export statistics are analysed on a market by market basis, and up-to-date schedules of tariffs applied by the most important markets for New Zealand horticultural exports are provided.

The total cost of tariffs on New Zealand horticultural exports in 2018 is estimated to be $214 million, based on estimated CIF (cost, insurance, and freight) value. This is the figure that should be quoted as the most accurate estimate of tariff costs (i.e. not the free on board (FOB) value cost). This is a 12.6% increase from 2016 which outpaces the overall increase in value of exports (5%) mostly because of a near doubling of apple exports to India, which attract a 50% tariff. Tariffs now account for an average of 5.9% of the value of our trade (still down from 7.5% in 2014 but up from 5.7% in 2016 – refer to the key comparisons table in the ‘reflections’ on page 5).

The cost of tariffs presented in Chapter 6 is an estimate only and is based on FOB figures supplied by Statistics New Zealand. For most markets, actual tariffs are applied to the value of the imported product, including insurance and freight costs (CIF value). Obtaining accurate CIF values for the range of products discussed in this report is complex as freight costs and insurance charges are dependent on many factors including mode of shipping, shipping routes, the various product forms, and destination. This information is not gathered on all of New Zealand’s horticultural exports by any one organisation, so the costs of tariffs are reported on an FOB basis unless specified otherwise (onions). Use of FOB values will underestimate the true cost of tariffs.

Table 3.1: Cost of tariffs for New Zealand horticultural exports (NZ$ million).

<table>
<thead>
<tr>
<th>2012</th>
<th>2014</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff</td>
<td>% of total value</td>
<td>Tariff</td>
<td>% of total value</td>
</tr>
<tr>
<td>Cost of tariffs based on FOB value</td>
<td>$152m</td>
<td>63%</td>
<td>$114m</td>
</tr>
<tr>
<td>Tariffs applied to insurance and freight</td>
<td>$89m</td>
<td>37%</td>
<td>$67m</td>
</tr>
<tr>
<td>Total cost of tariff based on estimated CIF value</td>
<td>$241m</td>
<td></td>
<td>$181m</td>
</tr>
<tr>
<td>% change</td>
<td>2010-2012: + 2.5%</td>
<td>2012-2014: - 25%</td>
<td>2014-2016: +5%</td>
</tr>
</tbody>
</table>

The range of export markets analysed in this report is the same as for the 2016 report and includes a summary of the “best of the rest” export markets, which in 2018 now includes Pakistan. In all cases the volumes of exports are expressed in tonnes and, following the practice of previous versions, these figures are gross weights – this is necessary as Statistics New Zealand are unable to report data on nett weights for some products. All values are in New Zealand dollars FOB (free on board) unless otherwise noted.

Information has been researched from several sources. All data for 2016 and earlier has been taken directly from Barriers to our Export Trade 2016. The data in all tables containing export volumes and values for 2017 - 2018 were sourced from Statistics New Zealand, unless specified otherwise in a footnote to the table.

Finally, it must be stressed that it is very difficult to determine the true impact that high tariffs may have on restricting the development of trade. In some markets high tariffs appear to completely block trade, while other markets with very high tariffs still report growth, such as for apples to India. It is beyond the scope of this report to analyse the reasons behind these trends but there can be little argument that tariffs and preferential access arrangements distort trade.