

Submission by



to the

Ministry for Primary Industries

on the

**Draft Food & Beverage
Industry Transformation Plan**

12th March 2022

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1.0 INTRODUCTION

- 1.1 Export New Zealand (ExportNZ) welcomes the opportunity to comment on the Ministry for Primary Industries' Draft Food & Beverage Industry Transformation Plan (the ITP). In addition to the information about ExportNZ in the annex, ExportNZ also has a contact group that consists of some of New Zealand's leading Food and Beverage (F&B) exporters that were consulted as part of this submission.
- 1.2 ExportNZ believes that New Zealand's exporters are crucial to the overall success of the New Zealand economy and our vision for New Zealand's export sector are;
 - A thriving, modern, and diverse export sector;
 - Exporters that continue to innovate and add value to the economy;
 - And an export community that is well supported by both the public and private sectors.
- 1.3 While ExportNZ is supportive of the ITP and believes that the draft plan broadly aligns with our vision for New Zealand's exporters, we would like to make several suggestions regarding some of the proposed actions in the ITP.
- 1.4 ExportNZ regularly contributes submissions and feedback to MPI on consultations and policy proposals. This submission is consistent with past feedback submitted to MPI and should be regarded as a continuation of the ongoing dialogue between ExportNZ/BusinessNZ and the Ministry.
- 1.5 ExportNZ looks forward to further engagement on the ITP, and continuing our constructive relationship with MPI and our other government partners in the New Zealand export space.

FEEDBACK ON THE DRAFT INDUSTRY TRANSFORMATION PLAN

2.0 Transformation One – Orienting the Sector to the Consumer

- 2.1 ExportNZ has provided feedback to MPI as part of the consultation for the Long-Term Insights Briefing on the Future of the Food Sector, much of which relates to our comments on *Transformation One* of the ITP.
- 2.2 While exporters should constantly stay up to date with consumer trends and demands and insights provided by Government agencies will be of some value, ExportNZ believes that market analysis and selection is a commercial decision and should be largely left to commercial businesses.
- 2.3 Any initiatives to drive market or consumer targeting should be driven by the sector and industry associations. MPI and other government agencies in the export sector ecosystem do have well-defined supporting roles to play for the sector.
- 2.4 As the regulator, MPI needs to stay focused on its core functions – ensuring that New Zealand is maintaining a straightforward and accessible regulatory environment that supports New Zealand exporters and businesses engaging in international trade, and

gaining market access into premium markets for New Zealand exporters to leverage. We will provide more feedback on MPI's regulatory practices in *Transformation Four*.

- 2.5 ExportNZ understands that while there are some issues that are not picked up from time to time, overall, the Ministries and agencies that support New Zealand exporters are performing their functions well. ExportNZ is also able to feed into the support functions when exporters feel like they have been engaged with properly.
- 2.6 ExportNZ is happy to consult with Government partners on opportunities to improve business internationalisation support provided these remain in the scope of each agency's core functions and in line with the goals outlined by the sector.
- 2.7 The ITP needs to recognise the fact that many F&B exporters in New Zealand operate in the business-to-business (B2B) export chain, and not just direct-to-consumer export models. B2B products are often high value in nature (i.e. sold to food services businesses, specialist ingredients, and commodity products sold by preferred suppliers because their products meet a purchaser's sustainability commitments).
- 2.8 The B2B segment is important to the sector and needs to be considered as suppliers (not just end-consumers) are increasingly making commitments (i.e. around sustainability) that need to cover suppliers and impact food systems.
- 2.9 One area of risk that the government needs to help New Zealanders navigate is the turbulence of the current and future global trade environment. The Post-Covid trading environment continues to be uncertain with a myriad of geopolitical challenges for exporters (Multinational Corporations (MNCs) and SMEs) to have to navigate.
- 2.10 MPI and other agencies must continue to listen to New Zealand's exporting community when issues and barriers arise and be prepared to commit appropriate resources when support is requested. Time can also be a critical factor for exporters when approaching officials for assistance, so timely responses are also essential.
- 2.11 The ITP should identify the work that is required across three key areas for exporters;
 - Supporting businesses engaging in international trade navigate geopolitical challenges and the evolving global trade environment.
 - Ensure an appropriate level of investment in continuing strong trading relationships with our key global partners.
 - Progressing a trade agenda that supports resilient export sectors by ensuring exporters have access to our key overseas markets.
- 2.12 *Action Plan 4* should also explore the opportunity to create a 'one-stop shop' for exporter assistance (e.g. MPI's Exporter Regulatory Advice Service and MFAT's Non-Tariff Barrier Register), or at least consolidate the different helplines and email addresses on one 'factsheet' or webpage that can be used to help exporters understand where to direct their query. ExportNZ fulfils this role from time to time to help direct exporters to the right agency.

3.0 Transformation Two – Increasing Investment & Attracting Capital

- 3.1 ExportNZ broadly supports the six proposed actions listed under *Transformation Two*. Our organisation and the BusinessNZ Network, as a whole, have consistently advocated for greater support to incentivise businesses investing in R&D and better attract capital investment.
- 3.2 The performance of the New Zealand innovation ecosystem is notably weaker than other small and advanced economies in several measures. New Zealand's expenditure on Research and Development (R&D) is well below the OECD average.
- 3.3 In past submissions to various agencies, ExportNZ has advocated for incentives such as accelerated depreciation, investment attraction advice, investor matching programmes, and investment loans where the business case stacks up.
- 3.4 It is good to see a proposal around accelerated depreciation on investments included in the ITP. ExportNZ and the BusinessNZ network have long advocated for the introduction of an accelerated depreciation scheme to encourage investment in property, plant, and equipment, as well as R&D.
- 3.5 Feedback from some exporters has remarked that current offerings from pilot facilities are very costly for SMEs, can be inefficient, and can be inconsistent in terms of helpfulness for small businesses.
- 3.6 ExportNZ supports resourcing the Food Innovation Network (FIN) to be able to support the sector. The FIN is currently the best-positioned organisation already in the sector to be able to connect and serve the F&B sector.
- 3.7 The ITP should investigate whether F&B innovators are accessing the Research & Development Tax Incentive (RDTI) or the Research and Development Grant managed through Callaghan Innovation, and the effectiveness of these two initiatives for the F&B sector.
- 3.8 While the RDTI is not perfect and SMEs have reported finding the application process challenging, time-consuming, and costly, members want to continue to work with Callaghan Innovation, the Ministry of Business, Innovation, and Employment, and Inland Revenue to further develop the process and to make it smoother and easier for smaller companies.
- 3.9 An effective R&D tax incentive programme is an efficient way to incentivise greater investment by private firms in their own R&D programmes and the ITP should ensure that F&B innovators are accessing the RDTI effectively.
- 3.10 The ITP focuses on building up capability in businesses so they are ready to pitch for and receive investment. But it also needs to understand and challenge the barriers that continue to hold back international investment that can take our F&B companies to the next level in terms of capacity, exporting, and innovating.
- 3.11 *Action Plan 10*, supporting high-potential F&B businesses to access capital, needs to include a focus on attracting foreign direct investment (FDI) into New Zealand as part of the conversation.

- 3.12 ExportNZ understands that barriers to overseas investment, particularly concerning the purchase or lease of “sensitive land” makes it difficult to attract FDI into growing businesses.

4.0 Transformation Three – Building Capacity to Innovate & Improve Capacity

- 4.1 ExportNZ broadly supports the three proposed actions listed under *Transformation Three*. Through the BusinessNZ Network, ExportNZ plays an active role in Future of Work Tripartite discussions as one of the Government’s social partners.
- 4.2 This ITP must work hand-in-hand with the Te Ara Paerangi Future Pathways, Food & Fibre Work Force Strategy, and the Future of Work Tripartite Forum to ensure New Zealand is not creating new silos within relevant areas of work.
- 4.3 Both Hanga-Aro-Rau and Muka Tangata Workforce Development Councils will be critical to the capability programme suggested by the ITP and should be engaged with closely as the sector develops future capability-building programmes.
- 4.4 ExportNZ advocates for a high-quality education system that provides opportunities to young people and supplies the business community with the skills and talents necessary to grow and prosper in New Zealand.
- 4.5 The Government investment in the Targeted Training and Apprenticeship Fund (TTAF) allowed businesses and education providers to work together to find ways to boost skills development in areas that New Zealand industries needed. ExportNZ and BusinessNZ endorsed the reinstatement of the TTAF.
- 4.6 The ITP should recognise the need for a simple, open, and permissive immigration system that can help New Zealand firms be attractive in a globally competitive environment.
- 4.7 Like many sectors, the F&B sector requires a mixture of talent trained in New Zealand and talent that is brought into the country through the immigration system. Often the talent, skills, and experience required to grow and unlock new opportunities are not readily available in the local labour market. New Zealand needs an effective immigration system that allows firms and innovators to bring in the talent they require to help grow their firms.
- 4.8 ExportNZ supports the idea of running a graduate development programme with an overseas internship offering. As mentioned in the above points, New Zealand does not always have the necessary skills and experience to support growing F&B firms, nor to help develop local talent with these necessary skills. An internship programme would help the next generation of Kiwi F&B innovators learn from the very best overseas and, hopefully, bring those ideas, processes, and ways of working back to New Zealand.

5.0 Transformation Four – Regulatory Settings Enable Food Innovation

- 5.1 As the regulator for the New Zealand F&B sector, MPI should be committed to developing a regulatory system that supports innovation in the F&B and facilitates New Zealand F&B exports into overseas markets.
- 5.2 ExportNZ believes there is significantly more the ITP can do to recognise the difficulties that many exporters from the F&B sector have when dealing with MPI regulations and processes.
- 5.3 ExportNZ wrote a paper to MPI in 2020 titled "*Removing Barriers for Mixed Food Exporters*". This report is attached (Annex 2.).
- 5.4 Much of Annex 2 is still relevant to the current conversation regarding regulatory settings and MPI's management of processed food manufacturers. As long as the regulatory system continues to be difficult to navigate there will be a hesitancy to invest in innovating and creating new products.
- 5.5 Point 4 of Annex 2. Continues to be a major issue for processed food companies that deal with prepared meat products, and has been raised with us a number of times.
- 5.6 ExportNZ fields complaints about the regulatory system from time to time and does play a mediator role between businesses and MPI.
- 5.7 At times, firms request anonymity when we provide feedback and complaints on their behalf to MPI. It is a concern that if complaints are made to MPI management regarding MPI's local teams, there will be repercussions made against the complainant in the form of harsher rulings or more regular site visits.
- 5.8 One food exporter has called the regulatory process they go through a "*death by a thousand cuts*" and that regulators are inconsistent and nit-picky around plant aesthetics to "*protect themselves and not support exporters.*"
- 5.9 This exporter also has a production site in Australia and rather than continue to deal with a complicated and inconsistent regulatory regime, and high compliance costs in New Zealand, is looking to focus investment and innovation at the Australian branch.
- 5.10 ExportNZ supports the establishment of a '*Making It Easy*' Roundtable with regulator and business representation but believe more needs to be done to engage constructively with food and beverage businesses, especially SMEs.
- 5.11 Currently, all F&B produced in New Zealand must comply with New Zealand composition and labelling, even when that product is destined for export to an overseas market that has different requirements. This has been identified as a barrier to innovation, and a change should be considered.
- 5.12 F&B products that are sold and exported via an e-Commerce platform (e.g. small package delivery direct to consumer) are subject to the same requirements as large consignments. While ExportNZ expects exporters to keep high-quality standards, we support a more balanced and risk-proportionate approach to small-volume exporting. A change in approach would allow SMEs to test markets with smaller volumes of

products and lower some of the financial risks currently associated with entering new markets.

- 5.13 The ITP should reflect the important role MPI plays in international regulatory harmonisation. This role is crucial in supporting market access efforts for F&B exports and should be prioritised by MPI.
- 5.14 ExportNZ supports the ITP's actions to strengthen the protection of Māori cultural and intellectual property and to bring a commercial lens to these discussions. There are clear benefits to Māori businesses and exporters that stem from Tikanga practices, mātauranga Māori, and other traditions that should be recognised and protected for correct use.
- 5.15 Currently, ExportNZ does not hold a view on the use of genetic technologies in the food and beverage sector.
- 5.16 However, given the considerable advances in genetic technologies, and the fact that the current regulatory regime does not reflect the current science of genetic technologies, our organisation believes it is important to hold an informed and considered discussion about the role of genetic technologies in the F&B sector.

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ANNEX 1.

ABOUT BUSINESS NEW ZEALAND

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Business South](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium-sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the makeup of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to the Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).

ABOUT EXPORT NEW ZEALAND

ExportNZ is a national industry association representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and have approximately 2,000 export members around the country.

ExportNZ advocates for, inspires, connects, and celebrates New Zealand exporters. We aim to build a thriving ecosystem that supports each other.

We are exporters helping exporters.

BusinessNZ Network



12 May 2020

Removing Barriers for Mixed Food Exporters

Processed food or mixed food is one of our highest value-added goods exports, earning \$31.6 billion and comprising of 37% of exports. It is a sector that employs 96,000 people and it is one of our fastest growing and innovative industry sectors. In times of crisis such as COVID19, food exports remain remarkably resilient. If the Government wants to add **value to volume** and see the emergence of more added value food exports, then it will be important to dismantle any barriers that are holding processed food exports back.

While New Zealand is a major global F&B exporter, the country has significant untapped capacity to export more. New Zealand is a country the size of Italy with the population of Singapore. However, Italy feeds a domestic population of 60m people and exports twice as much F&B as New Zealand. New Zealand is a young country still discovering its comparative advantages and new industries continue to emerge¹.

ExportNZ has been consulting with our processed food exporters group and we have the following information to share with Government on how best to support added value food exports.

Overview comments

1. There is a very vibrant and innovative food manufacturing scene in New Zealand with a steady wave of entrepreneurs that establish successful domestic food businesses. The feedback we have from our small to medium size value added food manufacturers is that while setting up in business for domestic supply under the Food Act is relatively straight forward, if and when these businesses decide to try exporting they will experience a 'world of regulatory pain'.
2. This is due in large part (our exporters members believe) because the regulations for food exporting have been written to suit exports of primary sector commodity food, and while it works for primary; meat, dairy and seafood – for any business that tries to create a food export that uses any of those ingredients and add value to them, they will find a world of regulatory pain and cost. In addition, being smaller companies than the larger commodity exporters, if they are required to co-invest for things like market access or to get regulatory attention, they are never prioritised in a model that makes those decisions on the basis of the value of the sector. Meat or dairy or horticulture which are doing large volume and value as sectors, will always trump the diversity of SME added value exporters. The cost recovery model used by MPI does not work for SME added value exporters.
3. We would like to emphasise that we are totally in support of our primary; meat, dairy and horticultural exporters and we think on balance that MPI does a very good job supporting them, it is just that we would like to see more support for the mixed food exporters, that apart from a few large exceptions are small to medium size firms. We also note that when the Government negotiates Free Trade Agreements (FTA's), those negotiations happen through the lens of the large food exporters as well, which is why what works for a primary meat exporter, can end up being a barrier for a mixed food exporter. For example, NZ's FTA with Thailand says meat must not have been slaughtered for more than a year prior to being presented at the Thai

¹ Coriolis – Investors Guide to the Food and Beverage Industry, late 2019

border. This requirement directly impacts one of our mixed food, value add producers. Veal is only slaughtered once a year and stock made from veal has a long shelf life (typically up to 3 years). Because of an agreed restriction not based on any scientific principles, veal stock cannot routinely or easily be exported to Thailand. This simple inclusion during market access negotiations, that most likely has minimal impact on any Primary Meat Producer, has become a significant barrier to trade for the mixed food producer.

Examples of barriers and costs

4. The Animal Products Act – written for a 1970's style meat processing plant with big volume through-put, with an assumption that for export processing a vet would be on site to oversee the process. That then translates into industry codes of practice (written for meat or dairy companies) and in turn translates into Overseas Market Access Rules (OMAR's) that impose regulations that are sound for a large slaughterhouse. However, on a small mixed food producer that receives its animal products as prepped meat, regulations that do not manage the risks associated with process foods are just 'cost plus'. So a processed food exporter that buys in the meat/bones from a meat company in New Zealand and exports to the US – is also required to have MPI supervision on site to watch the frozen plastic bag of a meat containing processed food, being put into a box because that is a "process" and if this process occurred on a different day to the cooking of the product that would incur a second visit. This is despite the meat coming from an approved and audited meat processing facility. The cost of an MPI market access visit at a meat processing plant with big volume is negligible, the cost to a SME at \$176 per hour is significant, and for no sensible food safety related reason.
5. A market access visit by MPI staff costs time and a half on a Saturday morning and double time on a Saturday afternoon & Sunday. The consequence is that a market access visit that could take as little as 15 minutes could be billed out at \$528, an effective hourly rate of over \$1000. To avoid such charges a mixed food business must schedule their export production to fit into standard office hours. This is possible if export requiring this type of MPI supervision remains a small part of overall production but is a significant barrier when moving from having trivial export volumes to having a significant export workload. Effectively the consequence of the cost of the recovery model implemented by MPI is to suppress businesses moving the export part of their business from small volume to more significant proportion of their overall business.
6. If a mixed food manufacturer wants to significantly change its processes, it is considered a significant amendment to the Risk Management Plan (RMP) and kicks off a whole process similar to getting a building consent, with an independent MPI approved evaluator approving the changes to the RMP. Once the independent evaluator has recommended the changes to the RMP be approved, MPI must accept the evaluator's recommendation to approve the change to the RMP. During the time between the evaluator's recommendation to approve the change in the RMP and MPI approving the RMP any product made must be burned or buried – it cannot be sold. The time for MPI approving the evaluator's recommendation can be up to 20 working days. The evaluator is an individual approved by MPI to judge RMP changes as safe (and some are MPI employees), so why don't they just trust these individuals to make the decision in the first place or at least allow product to be held for sale pending MPI approval?
7. Often a food exporter's customer in an overseas market wants some sort of assurance that the food meets the regulatory requirements of the country it is made in. MPI will sign off on an RMP but consider that a Government to Government assurance only. An RMP is of no use to the processed food exporter's customer. It would be better if MPI called them Food Safety Plans (which is what they are) as that would resonate better with customers in overseas markets. A food safety certificate for customers would be hugely beneficial for exporters not just a market access certificate – which is what they get now.
8. RMP audits for honey/bee product premises have been increased from annual to a 6-monthly audit. Many honey producers only use an RMP for bulk storage. The honey is processed by someone else's RMP and sent in sealed drums for storage in 20 and 40ft containers. This is a

very low risk food product, stored in a very low risk situation. One Exporter described that what used to be an annual face to face audit costing less than \$500 has now doubled in frequency and grown to a cost of \$1284 + GST per visit or \$2568 + GST per annum excluding exporter preparation and attendance time.

9. Similar but different rules for meat and dairy sectors cause headaches for processed food manufacturers that use both meat and dairy as an input into their finished value-added product. For example, you need a HACCP qualification to manage the RMP for a plant producing meat products. The meat regulations do not recognise the equivalent dairy qualification, even though HACCP principles are not industry specific. So a suitable qualified food safety expert moving from a dairy background to a mixed food plant producing meat products, does have to complete additional training (approximate \$750), because the dairy and meat regulations have been developed in silos, independent of each other, and with no awareness of mixed food operations that encompass both dairy and meat processing. The value in this is?
10. A processed or mixed food exporter needs to understand and know about the regulations for meat, dairy, seafood and be across all the OMAR updates – which is a big job for a small to medium enterprise (SME). The job of being informed enough to comply is made more difficult by the fragmentation of regulation and advice across several MPI documents, a good example of this is advice on exporting to a particular country is held in the OMARS and FYI's. It would be significantly easier for the would-be exporter if this advice was consolidated in the OMAR only.
11. Sometimes the exporter is aware of the latest OMAR from a country and MPI is not. MPI have a history of being slow to update the documented OMAR after being informed of changes by the exporting company. The consequence of this is there can be a disconnect between what is allowed and required by the importing country and the MPI staff that issue health certification. This lack of correct and updated information has caused MPI to refuse to issue health certificates which leads to delays to the export order being dispatched, until such time as MPI update their information. A current example of this is that the Taiwan OMAR has remained incorrect and not updated since MPI market access agreed that the OMAR should be changed on 29 November 2017, yet in June 2020 the best commitment to this change (a change requiring no input from Taiwan) is that the OMAR will be updated in the next (unspecified) OMAR update. It should be noted that failure to update OMAR's causes a late delivery to a customer resulting in a negative customer experience that all businesses want to avoid.
12. The MPI crackdown on third party logistic and freight forwarder companies assisting companies in the export E-commerce space, has caused major disruption for many businesses. An example of this is from August 2019 when MPI cracked down on freight forwarders especially those sending to China in small parcels. There was no prior communication or follow up communication to the wider honey industry of MPI's actions or the reasons action was taken and what needed to be done to restore compliance. MPI were unaware of a Cross Border E-Commerce regulation that allowed smaller consignments into China.
13. E-certs can cause issues. It is difficult to ensure that your e-cert sticks with the product through the supply chain. If a truck driver fails on the paperwork, despite giving assurances, clients are let down and product is wasted. This can be hugely costly and can cause reputational damage.
14. Exporters that operate both in New Zealand and Australia say that Australia is more pro-active in support of its processed food exporters. The Animal Products Act is very much aimed at the primary sector and has almost no relevance to mixed food exporters.
15. Up to 10 percent of the product cost can be compliance costs for mixed food exporters based on the experience at some mixed food processors.

Recommendations

1. Mixed food exporters need a sector specialist in MPI that is an in-house advocate and champion. That person would be required to work on a programme to reduce regulatory compliance costs and to coordinate with MFAT on FTA negotiations with a view to ensuring they are not building in barriers and costs for processed food exporters. MFAT need to put more effort into getting sensible rules for mixed food exporters – such as not needing MPI staff to oversee frozen meat being un-boxed or boxed when being exported to the US.
2. MPI to produce a food safety certificate for mixed food exporters that is more meaningful for the customers in market, not just a market access certificate.
3. Work out a way to support mixed food exporters that is not based on a cost recovery model. For the mixed food exporters there is no equivalent to the Commodity Levies Act, which helps the primary sector to co-contribute.
4. Ensure all the Government websites are joined up – along with OMARS and FYI's.
5. Require that MPI put more effort into keeping up to date with OMARS so certificates do not get with-held in Auckland.

Mixed food businesses that sell domestically do not know the level of regulation they will need to go through to sell internationally and when they find out, that often ends the export journey. We need to change this in order to grow these added value exports and to help our existing mixed food exporters to scale up.