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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

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

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 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 suitably 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 document's, 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 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.

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