(Meat Industry Association, 2024) [2 Feb 2020]

Meat Industry Association of New Zealand (Incorporated)

Submission to Productivity Commission on Improving Economic Resilience

17 April 2023

I. Introduction

1. The Meat Industry Association (MIA) is a voluntary, membership-based organisation representing processors, marketers, and exporters of New Zealand red meat, rendered products, and hides and skins. MIA represents 99 percent of domestic red meat production and exports, making the meat industry New Zealand's second largest goods exporter with exports of $12 billion.

2. The meat processing sector is New Zealand's largest manufacturing sector that employs over 25,000 people in about 60 processing plants, located mainly in the regions. The sector is a significant employer in many of New Zealand's rural communities, and contributes over $4 billion in household income.

3. A list of members is attached (Appendix A).

II. Overview

4. We thank the Productivity Commission for the opportunity to contribute to its work on "Improving Economic Resilience". Supply chain disruptions can have serious implications for our industry. Disruptions can range across the industry, and we have varying levels of control and mitigation options over these. Below we provide some answers to the Commission's four questions about supply chain disruption with specific examples where possible. We welcome any further engagement on this issue.

Inquiry questions

- ***What supply chain disruptions and trends are you worried about?***

The products that the red meat sector trades in are not only high in volume but also face complications that come with seasonality, cold-chain logistics, time-sensitivity,

and government regulation affecting market access. Supply chain disruptions from production to processing, to packaging and shipment, to transport to markets and consumers has the potential to cause widespread problems for the industry. Some specific areas are outlined below.

Logistical challenges

New Zealand is far away from its markets. This geographic isolation poses challenges for the red meat sector, exports of which are time-sensitive and highly seasonal. The seasonality of the meat industry's trade can be seen in the volumes of containers, which can vary from around 3,000 twenty-foot equivalent unit containers (TEUs) per month during the low point of the processing season (August and September) to more than 6,000 TEUs per month at the peak of the season (February to April). Furthermore, a high proportion of primary products are also refrigerated or frozen and require specialised cold-chain logistics. The seasonal nature of many primary exports, combined with the requirement for cold-chain logistics, can create stress in the system during peak export periods.

Another challenge is New Zealand's cold chain storage capacity. This was apparent in February 2020 when the first wave of Covid-19 caused delays in exports to China. This occurred during the peak of the meat export season, which meant there was a need for significant additional cold store capacity to accommodate a large volume of chilled and frozen meat that was delayed from being exported to China. While the industry managed this situation (partly by diverting product to other markets or storing product in refrigerated containers), it highlighted the need to have sufficient cold storage capacity available when disruptions occur.

Logistical challenges such as access to containers, and shipping services during peak export periods can pose disruptions that have a direct impact on export revenues. We are seeing this at the moment with trade to the UK, our largest market for high-value chilled lamb; it is also our furthest market. Ongoing supply chain disruptions and the uncertainty about being able to get chilled lamb to the market within the right timeframe has seen trade in this high-value product drop significantly. In February 2023, volumes of chilled sheepmeat to the UK were down 32 percent to 948 tonnes compared to the same period last year, representing a 57 percent drop in value to $9 million. While February is normally the peak month for chilled exports to the UK in the lead up to Easter, this was the lowest volume and value of chilled exports in February in nearly 30 years.

While some of this export was replaced by frozen product, it does not attract the same premium as chilled sheepmeat affecting overall revenue.

While the causes of the disruptions are largely out of New Zealand's control, it is important that any outcome of the Commission's inquiry takes into account the impact that other actions might have on New Zealand's exports of time-sensitive perishable products. For example, the International Maritime Organisation (IMO) is considering measures to reduce global shipping emissions that include speed optimization, or slow steaming, which would potentially have a significant impact on exports of perishable products from New Zealand.

Climate change will impact all aspects of our supply chain – we can see this in the recent weather events (e.g. Cyclone Gabrielle, which posed disruption to road

transport and ability to process animals). Tackling emissions from transport is a key part of New Zealand's emissions reduction plan, and MIA agrees that coastal shipping and rail offer lower emissions modes of transport. However, they require investment to increase their attractiveness to freight users.

With rail, while long term investment is important there are current choke points that would benefit from immediate investment such as improving access to Tauranga and the third and fourth rail lines into Auckland. Rail and road connectivity continues to be a challenge, and unless addressed will shift the congestion issues faced by coastal ports to in-land ports.
In relation to coastal shipping, it will take time to develop sufficient scale in the domestic coastal fleet and it is important that our policy settings should continue to allow international lines to move goods around New Zealand.

In relation to the impact of increasing densification and the challenge of ensuring that there are reliable and adequate freight corridors, MIA understands that many of the access routes to ports and airports are not state highways. This increases the complexity of improving efficiency on these roads as local government becomes involved in the decision-making process. One immediate change that would be beneficial would be for all roads accessing international ports and airports to be designated state highways.

Labour challenges
People are the industry's most important asset, and disruption to access to labour has a real affect not only on revenue but on the productivity of the industry. The industry's sustained labour shortage is hampering processors from reaching their full potential, resulting in a loss of value and reduced export revenue (estimated to be approximately $600 million in 2022). This has flow-on effects for training and development opportunities for staff, and innovation.

Labour shortages in more specialised roles are a particular challenge. For example, the meat industry employs a small number of halal butchers, around 250 out of a total workforce of 25,000. The halal requirements mean that this role cannot be automated and the nature of the role means that the industry has to recruit some halal butchers from overseas. Although they are a vital part of the industry, directly contributing to around $4.4 billion worth of exports annually, immigration settings have meant that it has been very difficult for the meat industry to bring in even the small number of halal butchers that are needed.

The introduction of innovative technologies and automation may be one approach to mitigate against labour disruptions. However, there are still roles that cannot be replaced by automation or technology. In addition, technology and automation will require a workforce to implement and develop – access to people will still be needed.

So, it is important that the Commission considers vulnerability of supply chains in relation to labour supply. MIA's view is that this is a significant vulnerability across a number of sectors in New Zealand, and as noted above, immigration will need to be considered in the measures to address the labour shortages.

Other challenges
As well as the challenges outlined above, MIA considers that biosecurity, trade policy, and environment issues are also potentially significant disruptors to supply chains. Any discussion about resiliency also needs to address these disruptors.

A biosecurity incursion of a foreign animal disease (such as foot and mouth disease) would have long-term and significant impact on production, access to markets, and overall health and viability of the red meat sector. It would deeply challenge the resiliency of our rural communities in particular as the sector is deeply ingrained in the local economy and social fabric.

Internationally, we are concerned about the impact that geo-political trends will have on supply chains and the international trade system that underpins it. Already we are seeing a trend in protectionist policies (particularly on the basis of food security, or to address environmental issues) that could add friction to trade. We are supportive of a rules-based international trade system – it has enormous benefits to an export-driven economy like New Zealand.

Environmental issues, such as climate change, will have an impact across supply chains. Extreme weather events can hamper production, which in turn poses challenges for processing (the seasonality shifts). Transport can be affected when roads close or are destroyed – affecting access to processors as well as access to ports. The industry witnessed this in the aftermath of Cyclone Gabrielle when the major disruptions were roading, water, communications, and electricity infrastructure failures. Policies to deal with emissions from transport may also cause disruption to the sector.

- ***What is your industry/community currently doing or planning to do to address supply chain concerns?***

As mentioned in examples above, the red meat sector is agile enough to divert product to other markets, change the product mix, or store product should they encounter supply chain disruptions. Covid-19 has tested this agility, as have recent extreme weather events.

Table 3 in the analysis of concentrated imports and export in section three of the Issues Paper notes that frozen sheepmeat cuts (excluding lamb) were New Zealand's second most highly concentrated export good in 2019, with China taking exports worth $258 million.

In the Trade Data Analysis that accompanies the Issues Paper it is also noted that China took 82 percent of total New Zealand exports of frozen sheepmeat cuts (excluding lamb) during the year.

It is important to highlight that this concentration was primarily due to exceptionally high demand in China for imported meat in 2019 following a major outbreak of

African Swine Fever in late 2018 that decimated domestic pork production and supplies.

China's demand for imports of these cuts has subsided to some degree since then as domestic pork production has recovered, although it still took 65 percent of exports in 2022. With this reduction in Chinese demand there has been some shift in exports to a wide range of other markets such as Taiwan, Malaysia, the United States and the Netherlands.

A fundamental component of meat industry business model is this ability to send exports to as many markets as possible around the world depending on where the demand is. This relies on having good access to as many markets as possible and the industry works closely with the government to both maintain and improve access into current markets and open up access into new markets.

This gives the meat industry the flexibility to not only to maximise export returns, but also to deal with disruptions in particular markets, as highlighted above.

- ***How can the government help to enhance the resilience of your industry/community to supply chain disruptions?***

The government plays an important role in our industry: not only through food safety and health and safety regulations, but also through setting the trade policy agenda, negotiating market access, and building cooperation with trading partners. As an export-heavy sector a trade enabling environment is crucial to the resiliency of the industry. The trade environment is becoming more complex and we see the government playing an important role in securing access to a multiplicity of existing and future markets. Resiliency to supply chain disruptions is enhanced by the removal of tariff and non-tariff barriers, which will improve the competitiveness of our products.

Facilitating New Zealand's participation in global value chains is another role for government. As New Zealand has very limited ability to influence most aspects of the international supply chain, this is an area where the government can help to improve aspects of the international supply chain. In MIA's view, there are two important aspects of this activity:

- Actively participating in international forums such as the IMO to ensure that New Zealand's views are considered when international rules are being developed. It is important that New Zealand is permanently represented at these Forums.

- Continuing the work that the government does through Free Trade Agreements and other international negotiations to improve border clearance procedures. For example, the Customs Administration and Trade Facilitation Chapter in the CPTPP agreement provides for the release of goods within specified timeframes, which is significant for exporters of perishable, time-sensitive products.

In terms of the domestic environment, businesses require certainty and stability to effectively plan for the future and invest in growth and development. The government plays a role in creating such an environment.

MIA's view is that one of the government's key roles in the freight and supply chain system is to ensure that the resource management settings provide certainty for investment decisions and ensure that necessary investment can be undertaken in a timely manner.

One particular area of concern is the consenting process. MIA's view is that this is an area where there are currently problems, and where the government can make significant improvements. For example, improving and extending the Port of Tauranga have amounted to delays spanning years as the process makes its way through a lengthy appeals process. In late-2022, Covid-19 meant a scheduled hearing had to be delayed and is not expected to take place until later this year. The Port is expected to run out of capacity in the next three years. These delays have real consequences on the ability for our major port to undertake any infrastructure investments.

The Infrastructure Commission[2] has highlighted the barriers that the resource management process poses for New Zealand to develop and deliver major infrastructure projects. The current resource management system has a number of flaws that need to be overhauled, however, the alternative currently before Select Committee in the form of the Natural and Built Environment, and the Spatial Planning Bills do not adequately address these flaws.

- ***What should the Commission study to learn more about the economic resilience of industries and communities?***

Over the last few years, the industry's resilience has been tested by Covid-19-related disruptions, inflationary pressures, depressed global prices, and high input costs. We recommend that further work be undertaken on understanding the responses in the context of Covid-19 would be a useful exercise in understanding how a significant shock could affect the supply chain.

We also recommend undertaking further work be undertaken to ensure solid understanding of the entire supply chain. This includes work on:

- key labour shortages are in the supply chain, particularly those that cannot be filled domestically, so that the immigration settings can be adjusted to allow international workers to fill these roles where required.

- Gaining a better understanding of the current capacity of the cold chain in New Zealand in order to assess what new capacity is required.

- Lessons learned on critical failures after Cyclone Gabrielle in roading, water, electricity, and communications infrastructure – all critical to resilience and require further examination and investment.

- infrastructure development both around coastal ports and in-land ports – particularly on rail and road connectivity – and whether our current regulatory framework is fit-for-purpose in addressing this.

In addition, we also recommend further work on shocks to the supply chain that test its resilience in the medium- to long-term. This includes the impact that climate change-related weather events have on supply chains, as well as how New Zealand builds its resiliency towards international events that affect supply chains.

MIA Contact

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Appendix 1: MIA members and affiliate members as at 17 April 2023

Members	Affiliate members
Advance Marketing Ltd	Abattoirs Association of New Zealand
AFFCO New Zealand Ltd	AgResearch Ltd
Alliance Group Ltd	Alfa Laval New Zealand Ltd
Ample Group Ltd	Americold New Zealand Ltd
ANZCO Foods Ltd	AON New Zealand Ltd
Ashburton Meat Processors Ltd	Auspac Ingredients Pty Ltd
Auckland Meat Processors Ltd	Centreport Ltd
Bakels Edible Oils (NZ) Ltd	CMA-CGM Group Agencies (NZ) Ltd
Ballande New Zealand Ltd	Cooltranz 2014 Ltd
Black Origin Meat Processors	G-Tech New Zealand Ltd
Blue Sky Meats (NZ) Ltd	Haarslev Industries Ltd
BX Foods Ltd	Hamburg-Sud New Zealand Ltd
Columbia Exports Ltd	Hapag-Lloyd
Crusader Meats New Zealand Ltd	Intralox Ltd
Davmet (New Zealand) Ltd	Kemin Industries NZ Ltd
Farmlands Mathias International Ltd	Liqueo (HB) Ltd
Fern Ridge Ltd	Maersk NZ Ltd
Firstlight Foods Ltd	MJI Universal Pte Ltd
Garra International Limited	Moda Systems New Zealand Ltd
Global Life Sciences Solutions NZ Ltd t/a Cytiva	Oceanic Navigation Ltd
GrainCorp Commodity Management NZ Ltd	Port of Napier Ltd
Greenlea Premier Meats Ltd	Port Otago Ltd
Harrier Exports Ltd	PrimeXConnect
Integrated Foods Limited	Pyramid Trucking Ltd
Kereru Foods Limited	Rendertech Ltd
Kintyre Meats Ltd	Rockwell Automation (NZ) Ltd
Lowe Coprporation	SCL Products Ltd
Ovation New Zealand Ltd	Scott Technology Ltd
Peak Commodities Ltd	Sealed Air (New Zealand)
Prime Range Meats Ltd	SHICO Limited
Progressive Meats Ltd	Suncorp New Zealand Ltd
PVL Proteins Ltd	Visy Industries Australia Pty Ltd
SBT Group Ltd	Wiley New Zealand Limited
Silver Fern Farms Ltd	
Standard Commodities NZ Ltd	
Taylor Preston Ltd	
Te Kuiti Meat Processors Ltd	
UBP Ltd	
Value Proteins Ltd	
Waimarie Meats Partnership	
Wallace Group	
Wilbur Ellis (NZ) Ltd	
Wilmar Gavilon Pty Ltd	