



TRANS-PACIFIC partnership DAIRY: KEY OUTCOMES



FACT SHEET

New Zealand dairy exports to the TPP region were worth NZ\$4.3 billion in 2015.

The US, Japan, Canada, Mexico and Peru (New Zealand's five new FTA partners in TPP) imported a combined average of NZ\$2.14 billion of dairy products from New Zealand per year from 2012-2014.

At entry into force of the agreement, estimated dairy tariff savings will be NZ\$28 million, growing to NZ\$50 million by Year 5.

When TPP is fully implemented, New Zealand will benefit from estimated dairy tariff savings of NZ\$96 million per year.

 **NZ\$96m**

→ Estimated annual tariff savings when TPP is fully implemented.

→ Key outcomes

- Trade in dairy products is currently limited by Tariff Rate Quotas (TRQs)¹ and/or high tariffs in several TPP markets. Under TPP, New Zealand will have access to new TRQs for a number of key products in the United States, Japan, Mexico and Canada.
- This quota access will be governed by common disciplines covering transparency and quota conditions. No Party can add any new conditions or restrictions to their TRQs if a Party with a demonstrable trade interest objects.
- The use of export subsidies (which have tended to be used primarily for dairy products) in the TPP region will be prohibited.

1. A tariff rate quota (TRQ) provides access for a set volume of product at a lower (in-quota) tariff. Trade outside of the quota is charged a higher (often prohibitive) over-quota tariff.

United States

The United States is New Zealand’s second-largest market for dairy exports. Exports in 2015 were worth NZ\$1.2 billion. Currently, many of New Zealand’s dairy exports are under WTO quotas with prohibitive out-of-quota tariffs limiting trade growth.

Key TPP outcomes include:

- Tariffs are eliminated on all protein products at entry into force (2014 exports of NZ\$826m) including:
 - › Whey Protein Concentrates (WPCs) (8.5% duty eliminated)
 - › Protein Isolates (5% duty eliminated)
 - › Milk Protein Concentrates (0.1% duty eliminated).
- Tariffs on ice cream (50.2 cents/kg + 17%) are eliminated in 10 years, with a 50% reduction at entry into force followed by linear elimination of the remaining tariff in nine stages.
- Tariffs on retail infant formula (NZ\$1.035/kg + 14.9%) are eliminated over 10 years.
- All in-quota tariffs for WTO quota access are eliminated at entry into force.

Transitional mechanisms:

- Tariffs for milk powders will be eliminated – over 30 years for Whole Milk Powder (WMP) and over 20 years for Skim Milk Powder (SMP) – as will tariffs for New Zealand’s highest-traded cheese tariff line (over 20 years).
- There will be a volume-based safeguard for both the cheese line and WMP, which will be in place for the elimination period plus five years.
- During the transitional period there will also be duty-free quota access for these products.

Product	Tariff treatment	Quota and growth (per year)	Volume safeguard
Cheese – HS0406.90.97 (Other cheeses not specified elsewhere – this includes Egmont-type cheeses)	33% tariff reduction at entry into force (EIF). Linear elimination over 20 years.	This tariff line can also be traded under the separate cheese quota until tariffs are eliminated in 20 years (see cheese quota below)	<i>Safeguard duty</i> MFN ² rate applies from years 1–7 75% of MFN base tariff from years 8–14 50% of MFN base tariff from years 15–20 25% of MFN base tariff from years 21–24 Safeguard removal in year 25 <i>Safeguard Trigger Volume</i> EIF: 4000 MT Linear growth to 10,000 MT in year 12 From years 13 to 24, 3% compound growth

2. MFN rate: Standard WTO "Most Favoured Nation" tariff rate applicable for all non-FTA trade.

Product	Tariff treatment	Quota and growth (per year)	Volume safeguard
Whole Milk Powder	20% cut at EIF Linear elimination over 30 years	EIF: 3000 MT Growth Rate: 4% p.a. compounding	<i>Safeguard duty</i> MFN rate years 1–8 75% of MFN base tariff from years 9–17 50% of MFN base tariff from years 18–24 25% of MFN base tariff from years 25–34 Safeguard removal in year 35 <i>Safeguard trigger volume:</i> EIF: 3000 MT Linear growth to 7000 MT in year 12 From years 13–34, 3% compound growth

Products covered by transitional quotas:

Product	Tariff Treatment	Growth (per year)	Indicative quota volumes over time
Skim Milk Powder	Elimination over 20 years	EIF: 1000 MT Growth Rate: 3% compounding	10 years: 1305 MT 20 years: Unlimited duty-free access

Products covered by other quotas

There will also be quotas for a number of other dairy products. These quotas will have permanent compounding growth rates (3–6%) and are, like all US dairy quotas, country-specific (i.e. open only to New Zealand exporters).

Access under the quotas will be at a zero duty and require an export certificate issued by the New Zealand Government. Imports will occur on a first-come, first-served basis.

Product	Initial volume	Growth (per year)	Indicative volumes over time
Butter	4000 MT A portion of this quota is reserved for Anhydrous Milk Fat (AMF) through a 15-year transition period. (3,000 MT from years 1–10, then linear phase-out in years 11–15)	Linear to 10,000 MT in year 10 Linear to 16,000 in year 20 + 3% p.a. compounding thereafter	10 years: 10,000 MT 30 years: 21,503 MT
Organic Butter	500 MT	3% compounding	10 years: 652 MT 30 years: 1178 MT

Product	Initial volume	Growth (per year)	Indicative volumes over time
Cheese	10,000 MT	Linear to 20,000 MT in year 12 + 3% compounding thereafter	10 years: 18,182 MT 30 years: 34,049 MT
Other Dairy	5500 MT	5% compounding	10 years: 8532 MT 30 years: 22,639 MT
Evaporated Milk	1000 MT	3% compounding	10 years: 1305 MT 30 years: 2357 MT
Cream	8 million litres	6% compounding	10 years: 13.5 million litres 30 years: 43.3 million litres



Japan

Japan is New Zealand's third-largest dairy export market, with NZ\$700 million in exports in 2015.

Key TPP outcomes include:

- **Cheese:** Complete tariff elimination is offered for nearly all cheeses after a 16-year tariff phase-out period. There will also be some improvements to the mixing ratio for fresh cheeses, which allows fresh cheese to be imported at a zero duty when mixed with domestic products.
- **Ice cream:** 66% reduction, over 6 years, in the 21% ice cream tariff (reaching 7%).
- **Prepared Edible Fat (PEF):** Elimination of the WTO in-quota tariff over 21 years, with an 80% reduction over the first 11 years. The remaining 20% is eliminated over years 12–21.
- **Protein Products:** Tariffs are eliminated at entry into force on all protein products with a protein content over 80% (HS35) including caseinates (5.4% duty) and milk albumin (2.9% duty).

Quota access:

- Japan is providing quota access for butter and milk powders under TPP Wide Quotas (termed TWQs in Japan's tariff schedule and associated documents).
- Importers will require an import licence, to be issued by the Japanese Government on a first-come, first-served basis in order to access Japan's quotas. Exporters will not need an export licence issued by the New Zealand Government to access Japan's quotas.
- Along with the TPP-wide quota access, there will also be two country-specific quotas covering certain whey products and processed cheese.

Key TPP-wide dairy quotas:

Product	Initial Volume	Growth	Comments
Butter	3188 MT (39,341 ME tonnes ³)	Growing to 3719 MT over 6 years, and beyond (45,898 ME tonnes)	Phasing out of mark-up over 11 years. In-quota tariffs remain (35%).
SMP	3188 MT (20,695 ME tonnes ³)	Growing to 3719 MT over 6 years, and beyond (24,101 ME tonnes)	Phasing out of mark-up over 11 years. In-quota tariffs remain (25%).
WMP / Buttermilk Powder (BMP)	169 MT (1500 ME tonnes ³)	Growing to: 253 MT over 6 years, and beyond (2500 ME tonnes)	Phasing out of mark-up over 11 years. In-quota tariffs remain (25% to 35%).
WMP (special purpose, for chocolate making)	2247 MT (20,000 ME tonnes ³)	Growing to 6742 MT over 11 years, and beyond (60,000 ME tonnes)	For use in chocolate making only. Domestic purchase requirement of SMP or WMP (1:3). In-quota tariff eliminated at entry into force.

3. Japan reports the size of its quotas on a liquid milk equivalent (ME) basis (e.g. 1 metric tonne of butter equals 12.34 milk equivalent tonnes, 1 metric tonne of SMP equals 6.48 milk equivalent tonnes)

**Mexico**

Mexico is New Zealand's 17th-largest dairy export market, with NZ\$285 million in dairy exports in 2015.

Mexico will eliminate tariffs on some dairy products, including:

- Infant formula (elimination in 10 years).
- Yoghurt (elimination in 10 years).

Quota access:

- Mexico will also provide quota access on a plurilateral basis (excluding the US, Chile and Peru which already have FTA access to Mexico).
- Mexico has reserved the right to allocate any TRQ or any portion of TRQ through auctioning for specified periods – a maximum of three to five years for New Zealand priorities.
- After this period, Mexico may require that importers obtain an import licence. This import licence will be issued on presentation of proof of purchase of the goods under the quota. Exporters will not need an export licence issued by the New Zealand Government to access Mexico's quotas.
- Mexico's quotas will have zero in-quota duties and grow for 10 years after entry into force.

Key products covered by quotas in Mexico

Product	Initial Volume	Growth
Milk Powders	25,000 MT	1700 MT/year up to 42,000 MT after 11 years, and beyond During the 10 year transition 80% of quota will be allocated to imports of WMP.
Cheese	4250 MT	225 MT/year up to 6500 MT after 11 years, and beyond
Butter (excluding AMF, which is already duty-free)	1500 MT	50 MT/year up to 2000 MT after 11 years, and beyond
Certain Dairy-Based Preparations	2000 MT	50 MT/year up to 2500 MT after 11 years, and beyond
Milk Protein Concentrates (MPCs)	1000 MT	100 MT/year up to 2000 MT after 11 years, and beyond



Canada

Canada is New Zealand's 36th-largest dairy market, with NZ\$54 million of dairy exports in 2015. Most of New Zealand's dairy exports to Canada are under WTO quota, for which all in-quota tariffs are being eliminated at entry into force.

- Tariffs are eliminated for Milk Protein Substances (HS3504) at entry into force. This means New Zealand exporters will trade under the same conditions as the United States (under NAFTA) and the European Union (after the Canada-EU FTA enters into force).
- Tariffs on retail infant formula (9.5%) are eliminated at entry into force.

Quota access:

- Canada will have an import licence allocation mechanism with quota allocation occurring before the quota year starts. Licences will be valid throughout the year. Exporters will not need an export licence issued by the New Zealand Government to access Canada's quotas.
- Canada has reserved the right to allocate any quota or any portion of quota through auctioning for up to the first seven years after entry into force.
- All quota volumes are TPP-wide and have zero in-quota duties.

Key products covered by quotas in Canada

Product	Initial volume	Growth	End point	Conditions
Butter	750 MT	Growing to: 4500 MT at year 6 1% compounding for years 7–19	5121 MT from year 19, and beyond	85% of quota volume for further processing, remainder unrestricted
Milk Protein Concentrates (MPCs)	667 MT	Growing to: 4000 MT at year 6 1% compounding for years 7–19	4552 MT from year 19, and beyond	none
Cheese	2417 MT	Growing to: 14,500 MT at year 6 1% compounding for years 7–19	16,502 MT from year 19, and beyond	Access divided across three TRQs: 25% unrestricted, 55% for cheese for further processing, 20% for mozzarella, grated cheese, and processed cheese.
WMP	1000 MT	1% compounding for years 2-14	1138 MT from year 14, and beyond	none
Cream	500 MT	3% compounding for years 2–14	734 MT from year 14, and beyond	none
BMP	750MT	2% compounding for years 2–14	970 MT from year 14, and beyond	none
Ice cream and mixes	1000 MT	1% compounding for years 2 –14	1138 MT from year 14, and beyond	none



Malaysia

Malaysia will eliminate liquid milk tariffs over 16 years. During the tariff elimination period, Malaysia will provide a volume⁴ of additional quota access for liquid milk to all TPP Parties, with a zero in-quota tariff.



Peru

- TPP will lock in, at entry into force of the agreement, the zero tariffs currently applied on key dairy products (including milk powders, cheese, etc).
- While Peru will eliminate all tariffs it did not commit to eliminate the price band mechanism for a range of products, including dairy. The price band is a border measure that Peru sometimes applies if the imported price drops below a reference price.

→ Tariff finder

Look up tariffs under TPP and compare them to other free trade agreements at: tariff-finder.fta.govt.nz

4. Malaysia will establish three TPP-wide liquid milk quotas (differentiated by fat content) totalling 3.3 million litres. The quota for regular-fat milk is two million litres. These volumes are in addition to the quotas in New Zealand's existing FTAs with Malaysia (AANZFTA and MNZFTA).