

AM20-0062

Ministry for Primary Industries
Manatū Ahu Matua



Aide-memoire:

From: Phil Houlding
Director
International Policy

Contact: John Young, Manager Trade Policy s 9(2)(a)

To: Hon Damien O'Connor
Minister of Agriculture

Hon Stuart Nash
Minister of Fisheries


Hon Shane Jones
Minister of Forestry

Date: 4 February 2020

Impact of Coronavirus on primary sector trade and MPI's response

Key Messages

- This aide memoire provides information on the current known impacts of Coronavirus on primary sector trade and outlines MPI's response.
- Most sectors have experienced some sort of impact, largely from supply chain disruption at the Chinese end or through the reduction of transportation links to China. Forestry and the seafood industry are the most severely impacted at this point.
- MPI is closely monitoring the impacts of Coronavirus on New Zealand's primary sector trade and providing exporters with the latest information. The situation is evolving rapidly and there remains significant uncertainty.
- We will provide further updates as industry impacts change. The next inter-agency meeting with industry groups is on Wednesday 5 February to report on the latest developments and to discuss how government can best support them. MPI is working with NZTE, MFAT and Customs to ensure exporters are updated on the situation so they can implement their own contingency plans.
- There remains no change in the regulatory settings for exports to China.

- s 6(a) 
- MPI officials are working closely with the New Zealand rock lobster industry, which appears to be the sector most acutely affected at this time, to consider options that might provide relief to fishers and exporters. No decisions have been made yet.

Background

Impact on primary sector trade flows and exports

1. While it is too early to determine the full impact of Coronavirus on China's economy, supply chains, and global markets, some impacts on New Zealand's primary sector trade are becoming evident.
2. Most sectors are experiencing some disruption to their trade with China including issues with supply chains, delayed payments, cancelled orders, and cessation of some airfreight services. Lower consumer confidence, combined with other factors such as travel restrictions to China will likely affect overall consumer spending on high value products.
 - **Dairy:** The majority of dairy products are still exported via shipment with limited risks or impacts at this point, due to the Chinese New Year normally being a quiet period. The limited product being sent via airfreight has been affected with the cancelation of Air New Zealand flights. This has predominately impacted e-commerce purchases. If other overseas airlines reduce or cancel flights to or from New Zealand, there would be greater risk to dairy exports, particularly infant formula.
 - **Meat:** The largest concern for the meat industry is clearance delays at ports, creating a shortage in cold store space in both China and New Zealand. There will likely be deferrals to future orders and some New Zealand product is being shipped to other markets, driving down the price. The Meat Industry Association reports that products that can be directed to other markets (especially lamb and prime beef) are being redirected, while there are more challenges with mutton and some manufacturing beef. If the situation is prolonged, this may create problems at the farm level, especially in dry regions where processing plants are under capacity pressure. MPI is in regular contact with the meat industry on this.

- **Horticulture:** The largest risk for horticultural exports is if kiwifruit shipments are stopped or reduced. Early kiwifruit exports to China start in March, reaching full force in April. The product can have a long shelf life if appropriate cold storage is available but will lose value over time. China accounts for 25% of New Zealand's kiwifruit export market so there may be some ability to divert product for a few months. The success of this may be largely determined by the nature of Zespri's contacts. Summerfruit New Zealand has stated that the majority of New Zealand's cherries have already successfully entered China. Harvesting of apples has started this week therefore if disruptions continue there will be impacts for this sector too.
- **Forestry:** The build-up of unprocessed log inventories in China s 9(2)(ba)(i) and the potential for a significant reduction in log export prices due to over-supply is the main concern of the forestry sector. Pre-emptive action by the industry is having flow on impacts to forest harvesting and transport companies and could have an impact on employment. Some forest companies have put a pause on or are reducing harvesting, others are focusing on selling more volume to domestic processors. However there is a limit to the volume domestic processing can absorb. Forest owners are focusing on moving their current inventory of felled logs in forest or on wharf to market as it is the peak season for sap stain and log quality will degrade if left unprocessed for too long. The largest log exporter to China (Pacific Forest Products) has also announced it is pausing exports to China from Wednesday night to prevent further exacerbating the situation. The forestry sector was burnt by a sudden drop in log prices in the middle of 2019 when there was a similar build-up of log inventory. In February, logs on average account for 81% of forestry exports. MPI is working with the forestry sector to better understand and plan for consequences of an extended shut down of the wood processing and construction industry in China beyond the Chinese New Year holidays. There are media reports of forestry crews being sent home for the foreseeable future.
- **Seafood:** The seafood industry is concerned about holding product in the water and the lack of cold storage space. The key concern is around live/chilled products (e.g. rock lobster, chilled salmon, mussels, paua etc.) that are highly perishable. These account for approximately 45% of fisheries exports to China. These products are likely to be diverted to other lower value markets in the short-term. Aside from the live rock lobster industry, the main airfreighted seafood product is chilled salmon. Chilled salmon accounts for less than 1% of seafood exports on average in February. s 9(2)(b)(ii)
The impact on remaining fisheries exports (e.g. mainly frozen) is likely to be determined by the level of broader disruption in China.

- **Rock lobster:** China is the leading export market for live rock lobster, accounting for 99% of all exports. The outbreak has significantly impacted demand for rock lobsters. s 9(2)(ba)(i)

This has come at an unfortunate time for exporters with a large volume of rock lobsters being held in New Zealand holding facilities to meet export demand for Chinese New Year celebrations (25 Jan – 8 Feb). Fisheries New Zealand is working with industry to actively consider options that might provide relief to fishers and exporters at this time. MPI proposes to consult and advise on an urgent amendment to regulations to allow carry forward of up to 10% of uncaught annual catch entitlement (ACE). This amendment will need to be made before the start of the new fishing year on 1 April. Separate briefing information will be provided on this.

3. These impacts will likely have flow on effects to employment and labour for the primary sectors. For example, there are reports some forestry crews across New Zealand have temporarily closed operations and logging workers have been told to go home.
4. MPI will be checking with port operators to get further information on the flow-on impacts on New Zealand ports from the Chinese supply-chain slow-down.
5. China's notified market access conditions for food and primary products remain unchanged, along with registrations and listings for New Zealand food and primary product premises. Further information on official references to Coronavirus from China are attached as Appendix Two.

MPI's response and engagement with primary sector exporters

6. The New Zealand Government has limited ability to manage many of the risks and disruptions as a result of Coronavirus – including port and transport delays and changes in market conditions. MPI is however working to ensure exporters are updated on the situation so they can implement their own contingency plans.
7. To minimise risk and gather the latest information, MPI/MFAT/NZTE (including its Beijing based representatives) are seeking information from New Zealand businesses and officials based in China around the impacts of Coronavirus on their operations, supply chains, and the regulatory settings.
8. MPI/MFAT/NZTE/Customs working level officials convened today to further coordinate the NZ Inc. response and messaging, and to discuss how we can best support the primary sectors.
9. MPI/MFAT are undertaking analysis on the longer-term economic impacts of Coronavirus and will report to Ministers and industry on their findings.
10. MPI is using its communication channels and the Export Regulatory Advice Service (ERAS) to ensure that primary sector exporters, including smaller exporters, are kept informed of developments and can put contingency plans in place.

Security Level – In Confidence

11. On Friday 31 January MPI convened a meeting with primary sector stakeholders (chaired by Acting Deputy Director General Policy and Trade, Ruth Fairhall) to discuss Coronavirus and the potential impacts for trade. Participants included peak industry bodies along with businesses from sector groups most likely to be affected, and other agencies including MFAT, Customs, NZTE, and Treasury.
12. MPI will host a second inter-agency meeting with primary sector exporters on Wednesday 5 February to report on the latest developments and to discuss how it can best support them.
13. MPI and MFAT's exporter helplines have not yet received any enquires directly related to Coronavirus. NZTE is currently establishing a portal on its website with the latest information and advice for all New Zealand exporters (expected to be live in the next day). MPI will continue to provide NZTE with its latest intelligence, and update its website as information is made available.
14. MPI will continue to work closely (via MFAT) with Minister Parker's office, who is currently responsible for handling all media enquires related to the trade aspects of Coronavirus.
15. We are keeping Ministers informed through weekly report items and formal messages, and contributing to an economy-wide trade update process led by MFAT. Note an Aide Memoire outlining the impact of coronavirus on log exports will be provided to Minister Jones later this week.

Minister / Minister's Office

Seen / Referred

/ / 2020

Appendix One: New Zealand trade to China

Average exports (2017-2019)	January	February	March	April	May	June	Average yearly exports	Current Situation	Risk (from extended crisis)
Dairy	\$326.0 million 1% Air	\$292.7 million 1% Air	\$362.9 million 1% Air	\$373.3 million 2% Air	\$407.8 million 2% Air	\$412.8 million 2% Air	\$5.4 billion 2% Air	Minimal impact - Due to the non-perishable nature of main dairy commodities (e.g. WMP)	Medium – increasing risk over time.
Forestry	\$167.2 million 0% Air	\$242.4 million 0% Air	\$291.6 million 0% Air	\$258.8 million 0% Air	\$198.8 million 0% Air	\$267.6 million 0% Air	\$3.1 billion 0% Air	Significant disruption reported – impact on forest crews	High – compounded by market slowdown.
Horticulture	\$23.2 million 76% Air	\$9.5 million 7% Air	\$35.7 million 0% Air	\$115.5 million 0% Air	\$107.2 million 0% Air	\$99.1 million 0% Air	\$674.9 million 4% Air	Minimal impact – Key export products currently off-season	Medium – Increasing risk as approach export season (e.g. kiwifruit exports start in March and apples in April).
Meat/wool	\$227.1 million 0% Air	\$283.1 million 1% Air	\$308.1 million 1% Air	\$246.3 million 1% Air	\$268.6 million 1% Air	\$236.3 million 2% Air	\$3.0 billion 1% Air	Trade slowing – reported scaling back of exports to China and some market diversion occurring.	High – risk from lack of cold storage space in China and New Zealand. This is compounded by near drought conditions and peak season.
Seafood	\$40.8 million 73% Air	\$50.7 million 50% Air	\$52.4 million 29% Air	\$51.7 million 41% Air	\$65.4 million 51% Air	\$41.2 million 55% Air	\$616.5 million 50% Air	Significant disruption reported	High –given perishable nature of product

Security Level – In Confidence

Rock Lobster	\$28.6 million 99% Air	\$25.3 million 97% Air	\$13.8 million 100% Air	\$21.5 million 95% Air	\$32.1 million 100% Air	\$21.5 million 100% Air	\$293.8 million 95% Air	s 9(2)(ba)(i)	High – Likelihood that no trade with China will occur before the rock lobster fishing year ends on 31 March. It will take time for market to re-open or to grow alternative markets.
-----------------	------------------------------	------------------------------	----------------------------------	------------------------------	----------------------------------	-------------------------------	-------------------------------	---------------	--

Appendix Two: Update on China's notified market access conditions

1. China's notified market access conditions for food and primary products remain unchanged, along with registrations and listings for New Zealand food and primary product premises – and there is no evidence suggesting changes.
2. Express references to Coronavirus border clearance processes on GACC and local customs offices' official websites are currently confined to the 'zero delay' clearance of imported Coronavirus prevention and control supplies.
3. There has been no public notification on official websites to port or airport freight closures. However, there are references to some processes at some ports which are now able to be done remotely, thereby reducing the need for customs agents to visit port Customs offices.
4. China's Ministry of Commerce has published a notice detailing the adequacy of China's meat imports, along with a document on supply of goods to consumers after the Coronavirus outbreak, and encouraging businesses to use imports to provide necessities. China's Ministry of Agriculture and Rural Affairs has also published a notice to agriculture cooperatives on strengthening production and supply during the Coronavirus outbreak.