Regulatory Impact Statement: Allocation of dairy export quota

Coversheet

Purpose of Document	
Decision sought:	*Agreement to change the basis of dairy export quota allocation so that all dairy export quota is allocated on the basis of export history*
Advising agencies:	*Ministry for Primary Industries*
Proposing Ministers:	*Hon Damien O'Connor, Minister of Agriculture*
Date finalised:	25 August 2023

Problem Definition
Dairy export quota is currently allocated based on the proportion of bovine[1] milk solids collected by participants (or their employees, contractors, or agents) directly from dairy farmers in New Zealand. This excludes a number of dairy export businesses, including non-bovine animal dairy exporters, currently operating in New Zealand. The result is lost opportunities for New Zealand in terms of quota that could be used that is going unused, and a limit on the range of products (including high value products) that could otherwise be exported to quota markets.

Executive Summary

Dairy export quota

Export quotas are negotiated as part of trade agreements, both at a bilateral and multilateral level. Dairy export quotas enable prescribed quantities of New Zealand dairy products to receive preferential tariff rates in states (or common markets) with which New Zealand has trade agreements which include dairy export quotas.

New Zealand administers the allocation of dairy export quota for the following markets: the United States of America (USA); the United Kingdom (UK); the European Union (EU); Japan; and the Dominican Republic.

Under the Dairy Industry Restructuring Act 2001 (the DIRA), quota is allocated based on the proportion of bovine milk solids collected by the participant (or their employees, contractors, or agents) directly from dairy farmers in New Zealand. This is calculated on the basis of the most recent season for which data is available, or at the request of the applicant, the average of the two or three most recent seasons. At a minimum, a participant must collect at least 0.1 percent of total bovine milk solids produced by New Zealand dairy farmers to be eligible for quota. In addition, the participant's share of dairy export quota for a product in a particular market must equate to a volume of 20 tonnes or more of the relevant product.

[1] Milk produced by dairy cattle.

Why a review of dairy export quota allocation is necessary

A number of changes have occurred since the current dairy export quota allocation system was established in 2007:

- there has been an increase in the diversity of business models in the industry, including dairy companies which do not collect milk;
- there has been low utilisation of dairy export quota over the last decade; and
- New Zealand has recently agreed new Free Trade Agreements (FTAs) with the UK and the EU, both of which have quota that dairy sector participants have indicated a high level of interest in.

Options considered

The challenges and opportunities associated with these changes have led to the current review of how dairy export quota is allocated. As part of the review, MPI has considered the following options:

- retaining the status quo;
- allocating quota on the basis of export history;
- allocating quota on the basis of production history;
- allocating quota on a first come first served basis;
- allocating quota based on an assessment of an expression of interest; and
- reserving a portion of quota for participants that are otherwise ineligible for quota, or which are only eligible for low volumes of quota.

Consultation on changing dairy export quota allocation

MPI undertook informal engagement with dairy exporters in late 2021 and early 2022 in order to establish whether there were any problems with the status quo and whether there was interest in export quota among ineligible exporters. Following this engagement and the provision of advice, the Minister of Agriculture (the Minister) directed MPI to undertake a review of dairy export quota allocation.

MPI concluded formal public consultation on options for change over a six-week period in March and April 2023. This involved the publication of a discussion document on the MPI website, and engagement with interested parties via MS Teams. Six written submissions were received, and a further three submissions were provided orally.

This was followed by further targeted engagement in mid-2023, where MPI met with seven dairy exporters, including three non-bovine animal dairy exporters. A further nine bovine dairy exporters were contacted who either did not see a need to engage further or did not respond.

Dairy exporters who submitted to the public consultation (with the exception of Fonterra) were in favour of changing eligibility away from the status quo, though there was no consensus on a preferred option. Although submitters did not have a single preferred option for change, the submissions provided sufficient information to inform the analysis in this Regulatory Impact Statement.

The information received as part of the formal consultation and targeted engagement has informed MPI's final advice to the Minister. The Minister has now made decisions on preferred options for change which are reflected in this analysis.

Preferred options for change

The preferred option is to change the basis of quota allocation from milk solids collected to export history. This is in addition to: a new regulation making power which will enable portions of individual quotas to be reserved for exporters who would otherwise be ineligible, or only eligible for low volumes; and enabling non-bovine[2] animal dairy exporters to have access to quota on the same terms as bovine dairy exporters.

The preferred options have been developed based on the evidence provided by submitters during public consultation and further targeted engagement, along with the analysis of the options against the review objectives. For a range of reasons, including evidence provided in submissions, MPI considers that there are a range of risks and weaknesses associated with the alternative options considered that mean they should not be progressed.

Limitations and Constraints on Analysis

The constraints and limitations outlined below apply to this analysis.

New FTA quotas

Sector participants have identified considerable opportunities associated with the new UK and EU FTA quotas. It is difficult to calculate the extent to which incumbents and newly eligible participants will be able to take advantage of these opportunities due to the very recent entry into force of the UK FTA and in advance of the EU FTA quotas becoming available. This means that assessing the likely uptake and return on these quotas is hypothetical. Nevertheless, eligible and ineligible participants have shown an interest in and an ability to export into the new quota markets.

Quantifying the likely level of uptake of existing quotas and potential for added value

Currently ineligible participants have indicated an interest in existing quotas which are currently underfilled. As with the new FTA quotas, information provided by currently ineligible participants suggests that participants produce, or could produce, the relevant products and have successfully exported to other markets. Without access, however, it is difficult to accurately quantify to what extent these participants will be able to successfully fill existing underutilised quotas. This means that the supporting analysis is largely based on hypothetical scenarios.

Quantifying allocations under the preferred option

It is not possible to accurately quantify the proportion of quota participants would be eligible for under the preferred (or alternative options). This is because it is expected that, as with the status quo, not all eligible participants will apply for quota.

Monetised costs and benefits of the different options

Information relating to likely monetised costs and benefits is not available to MPI. This is either because it is commercially sensitive and has not been provided to MPI; or because it is dependent on future quota access.

[2] The main non-bovine animal dairy processors and exporters in New Zealand source milk from sheep, goats and deer.

Responsible Manager(s) (completed by relevant manager)
Edward Tregidga Manager Animal Sector Policy Ministry for Primary Industries  25 August 2023

Quality Assurance (completed by QA panel)	
Reviewing Agency:	The Ministry for Primary Industries
Panel Assessment & Comment:	A joint QA panel with members from the Ministry for Primary Industries and the Department of Corrections has reviewed the Regulatory Impact Statement and considers that it meets the Quality Assurance criteria. Although there are a number of assumptions made in the RIS, the limitations on data are noted and feedback from public consultation is used to support the analysis. The RIS is otherwise complete, clear, concise and convincing.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

What is dairy export quota?

1. Dairy export quotas enable prescribed quantities of New Zealand dairy products to receive beneficial tariff rates in markets where New Zealand holds dairy export quotas.

2. Dairy export quotas are negotiated as part of trade agreements. Some were agreed as part of bilateral Free Trade Agreement (FTA) negotiations, such as those recently concluded with the UK and the EU. Others were agreed as part of multilateral World Trade Organization (WTO) negotiations during the Uruguay Round (albeit on a bilateral basis).

3. New Zealand has retained the right to administer dairy export quota for the following markets: the USA; the UK; the EU; Japan; and the Dominican Republic. These are set out in more detail in Appendix One.

4. Other dairy export quotas are administered in-market, meaning that New Zealand has little or no control over how they are administered. These quotas are out of scope of the current review.

5. Exporters that do not hold quota can still export into quota markets but are subject to high tariffs and potentially other barriers to trade. New Zealand also has trade agreements with markets where access for all dairy products is completely quota and tariff free, for example, Australia and China.

How is dairy export quota allocated?

6. Dairy export quota is allocated by MPI in accordance with the Dairy Industry Restructuring Act 2001 (the DIRA). Export quota is allocated in the form of export licences for the designated markets.

7. Under the DIRA, quota is allocated based on the proportion of bovine milk solids collected by the participant (or their employees, contractors, or agents) directly from dairy farmers in New Zealand. This is calculated on the basis of the most recent season for which data is available, or at the applicant's request, the average of the two or three most recent seasons. At a minimum, a participant must collect at least 0.1 percent of total bovine milk solids produced by New Zealand dairy farmers to be eligible for quota.

8. In addition, the participant's share of dairy export quota for a product in a particular market must equate to a volume of 20 tonnes or more of the relevant product. For example, if a company is eligible for 1 percent of export quota for cheese, but that 1 percent equates to less than 20 tonnes of cheese in a particular market, then the company is no longer eligible for quota in that market as they have not met the 20 tonnes threshold. The reason behind the minimum threshold set out in the DIRA is to avoid fragmentation of quota into small parcels that are uneconomical.

9. Any quota that is left unallocated as a result of the minimum collection and volume rules is allocated pro rata to the successful applicants.

10. It is possible for eligible companies to access additional export quota by reaching a private arrangement with another quota holder and registering this transfer with MPI. Ineligible companies cannot purchase quota.

Quota utilisation rates

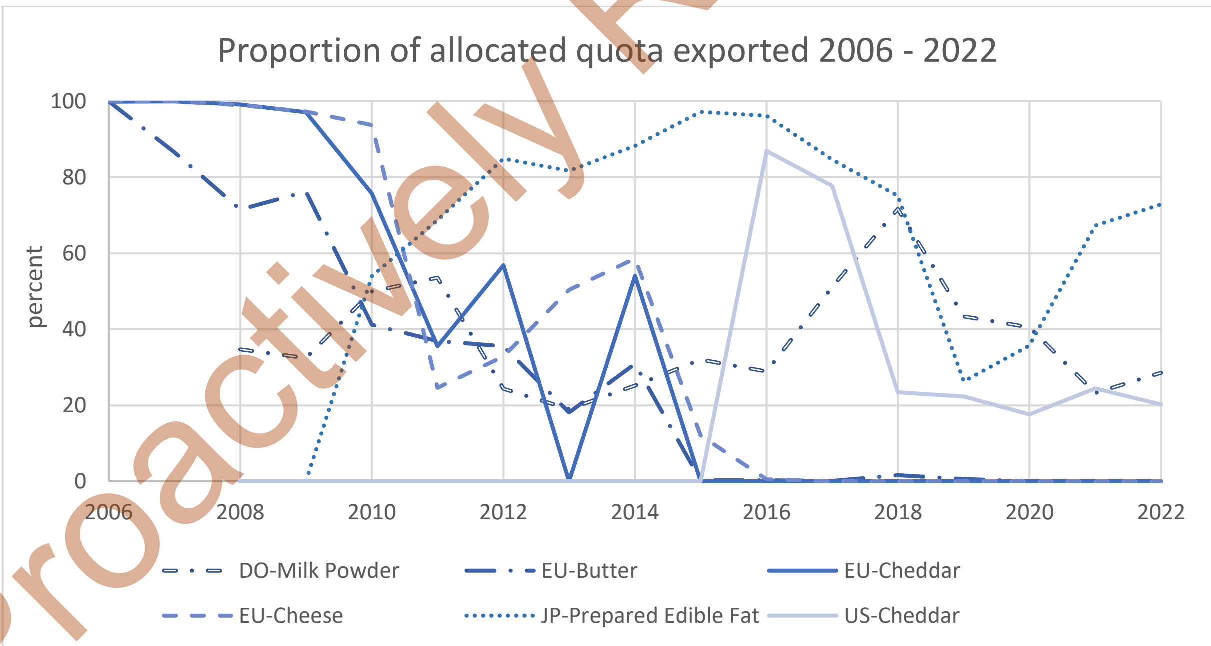
11. There has been low utilisation of dairy export quota over the last decade. Where quota is not being utilised due to lack of access, this represents lost economic opportunities for New Zealand as quota that could be used is going unused.

12. In addition to non-access, low quota utilisation has in part been attributed to:

- quota administration requirements in quota markets, for example, complex import licencing requirements;
- difficulty competing with domestic producers in quota markets; and
- higher margins in non-quota markets.

13. An illustration of quota utilisation in five categories from 2006 to 2022 is presented in Figure One below. Graphs showing quota utilisation in individual categories are provided in Appendix Two.

Figure One[3]



Current quota users and other eligible dairy companies

14. For the 2023 quota year (allocated in 2022) the following four dairy processors applied for and received quota:

- Fonterra Cooperative Group Limited (Fonterra);

[3] For the 2006 to 2022 period n US American Style Cheese or US Low Fat cheese quota was used.

- Open Country Dairy Limited (OCD);
- Synlait Milk Limited (Synlait); and
- Tatua Cooperative Dairy Company Limited (Tatua).

15. The proportion of quota allocated to each applicant differs among the quotas due to the minimum 20 tonnes threshold. As a result of the threshold, Tatua was not eligible for quota in several categories and Synlait in one category. An example of quota where all applicants received an allocation was the quota for prepared edible fat to Japan. 11,550,000 metric tonnes of quota was allocated proportionally as follows: Fonterra approximately 84.92%; OCD approximately 9.46%; Synlait approximately 4.8%; and Tatua approximately 0.85%.[4] All allocations for the 2023 quota year are set out in Appendix Three.

16. Six other dairy processors collected more than 0.1% of bovine milk solids and were, therefore, eligible to apply for quota and hold export licences, but did not apply. One participant (Miraka) did not apply for a 2023 quota allocation, but later applied for and received UK transitional quotas for butter and cheese in May 2023.[5]

17. Reasons for not applying for quota provided to MPI anecdotally included:

- not producing the relevant products or being uninterested in quota markets;
- the reasons for underutilisation outlined in paragraph 12; and
- because the amount of quota some participants are eligible for is commercially unviable.

Changes in the composition of the dairy sector

18. The dairy sector has changed significantly since the current system was introduced in 2007. The dairy sector now includes a range of businesses that do not collect milk and includes a higher proportion of smaller companies than was previously the case. In many cases, these businesses produce innovative and value-added products.

19. Examples of innovative and value-added products include: products manufactured from organic milk; products manufactured from milk produced by regenerative or other sustainable farming practices; products manufactured using sustainable and/or novel manufacturing processes; products with new tastes; and new product formulations, for example, butter with sea salt crystals added.

How is the status quo expected to develop?

20. The UK FTA has recently been implemented and has introduced two new quotas. In addition, the EU FTA is anticipated to enter into force in the next two years and will introduce four new quotas. MPI anticipates that there will be increased demand for quota in both markets. This is because both FTAs have conditions that are less restrictive than for existing quotas. This includes no tariffs in the case of the UK FTA and lower tariffs in the case of the EU FTA. In addition, the FTAs provide quotas in greater amounts than was previously the case in both markets.

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[4] The totals may not add up to 100% due to rounding.

[5] UK FTA transitional quota covers the period from the entry into force of the UK FTA to the end of 2023.

21. The majority of currently eligible and ineligible dairy exporters engaged with during the policy development process indicated a current or future interest in the UK and EU FTA quotas.

What is the policy problem or opportunity?

The current system does not reflect the diversity of business models and sizes in the dairy sector

22. Current quota allocation excludes companies that do not collect at least 0.1% of New Zealand bovine milk solids directly from farmers. Since 2007, when the current quota allocation rules were established, there has been an increase in the diversity of business models in the bovine dairy industry. At least 10 new dairy exporters have been established. This includes: two processors with significant Māori ownership stakes and which identify as Māori; and the two largest New Zealand sheep dairy businesses.

23. New entrants and smaller companies often specialise in niche products which enables them to focus on innovation and developing added value products for export. Excluding these companies from eligibility has the potential to limit innovation and export growth within the dairy industry and may limit the potential economic benefits of quota.

24. The current basis of allocation also means that a large proportion of the dairy industry (by number of companies) is excluded from quota access. MPI was aware of 94 dairy companies operating in New Zealand at the time of its 2022 raw milk survey,[6] yet only 10 companies are currently eligible for dairy export quota allocation. In addition, where quota is not being utilised due to lack of access, this represents lost economic opportunities for New Zealand, as quota that could be used is going unused.

Non-bovine animal dairy is excluded from quota allocation

25. At present, there is no ability for non-bovine animal dairy exporters, notably sheep, goat, or deer dairy, to be allocated quota. Sheep and goat dairy exporters expressed an interest in EU FTA milk powder quota during targeted engagement. They also advised MPI of plans to expand into other products, including cheese and butter. Not enabling future access to non-bovine animal dairy exporters also represents potential lost economic opportunities for New Zealand as goat and sheep milk products attract a premium over bovine dairy equivalents.[7] In addition, the sheep dairy sector grew rapidly in recent years and has the potential to develop further, mainly due to its environmental attributes.

Some allocations are too small to be commercially viable

26. Some eligible companies do not apply for quota because they consider the amount of quota they are eligible for is unlikely to be profitable and is, therefore, not commercially viable. New entrant companies and smaller companies, if eligible, are most likely to be eligible for smaller allocations. If these companies cannot access quota in commercially viable amounts, this may prevent them from expanding into new markets.

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[6] MPI conducts an annual survey of companies that collect and/or purchase raw milk in New Zealand.

[7] *Opportunities for New Zealand Sheep Milk Products*, report prepared by New Zealand Food Innovation, (2020) p 6; *Opportunities for New Zealand Goat Milk Products*, New Zealand Food Innovation (2020), p 6.

27. There is an opportunity to change the eligibility criteria to support small companies, who qualify for small amounts of quota, to access larger quota allocations. In some cases, this may transform commercially unviable allocations into commercially viable allocations.

Opportunities associated with widening eligibility to reflect the dairy sector

28. There is an opportunity to widen eligibility. This would allow different types of businesses to apply for quota and potentially spread the benefits of quota access to a wider range of companies. There is also an opportunity to support small and medium-sized enterprises (SMEs), as smaller dairy companies are less likely to be eligible under the current criteria for quota allocation than larger dairy companies.

29. In addition, MPI has engaged with seven currently ineligible companies which have expressed an interest in quota. These include companies focused on value added niche products such as organic milk products, sustainably developed products, indigenous branded products, and non-bovine dairy products. Changes to the eligibility criteria could support the development of these products for export and increase innovation in dairy sector exports. The development of value added and innovative products for quota markets has the potential to maximise the value of dairy quotas for New Zealand.

Alignment of capability and eligibility

30. The current allocation system does not prevent the allocation of quota to companies for products which they are unable to produce. Some parties suggest this is an issue as it means that quota is going to parties that do not have the capability to use it, while a potential exporter who could use the quota is unable to access it. Unused quota which could be used by other companies potentially leads to missed opportunities and unrealised export earnings for New Zealand.

31. There is an opportunity to better align capability and eligibility. Allocating quota to companies able to use the quota will likely ensure greater quota utilisation. This will benefit New Zealand more generally, as export returns from quota flow back to other New Zealand industries, rural communities, and wider New Zealand.

Opportunities for the Māori dairy sector

32. In reviewing quota allocation, there is also an opportunity to ensure it supports the Māori economy. Māori agri-businesses are suppliers of milk, as well as engaging in processing and exporting. Many Māori owned assets, particularly those owned by collectives, are concentrated towards the beginning of the value chain, for example, in land ownership and milk supply, rather than in processing capability.

33. There may be an opportunity to facilitate the growth of new entrant Māori-owned dairy businesses, and for Māori agri-businesses currently operating in the dairy sector to develop their businesses further up the value chain. Changes to quota eligibility could support the development and growth of Māori agribusiness by enabling access to additional export opportunities.

34. In addition, the new UK and EU FTAs include Māori trade and economic cooperation chapters. The focus of these chapters is on collaboration to enhance the ability of Māori enterprises to benefit from the FTAs' trade and investment opportunities by strengthening links between Māori and UK and EU enterprises. There is a particular

emphasis on Māori SMEs. Broadening quota eligibility could support Māori in the dairy industry to explore export opportunities, including to the UK and EU. This would support collaboration, including between UK and EU enterprises and Māori SMEs.

What objectives are sought in relation to the policy problem?

35. The objectives sought in relation to the policy problem and opportunities are to:

- develop a system that reflects the diversity of business models and sizes in the dairy sector;
- ensure quota allocations are commercially viable and support companies to scale up;
- maximise the value of New Zealand's dairy export quotas to New Zealand;
- support the growth of Māori trade in dairy products; and
- enhance New Zealand's reputation and relationships in quota markets.

36. The first four objectives were developed during the initial analysis and consulted on as part of formal public consultation. The fifth objective was added following public consultation where two submitters suggested objectives relating to New Zealand's reputation and relationships in quota markets.

37. The five objectives have been used as the basis for the decision-making criteria.

Objective One: Develop a system that reflects the diversity of business models and sizes in the dairy sector

38. The system for allocating dairy export quota should reflect the diversity of business models and sizes of businesses in the New Zealand dairy sector.

39. Developing a quota allocation system that better reflects the dairy sector will ensure that New Zealand is able to fill its quota with a wider range of products from a variety of exporters. This will enhance New Zealand's reputation as a dairy exporter and widen the range of exporters and products entering quota markets.

Objective Two: Ensure quota allocations are commercially viable and support companies to scale up

40. Businesses need to have access to quota in commercially viable amounts. Allocating quota in commercially viable amounts or providing alternate pathways for businesses to access additional quota, for example the quota trading system, will encourage businesses to enter quota markets. Companies that want to develop new products and capabilities need to be able to access viable amounts of quota to justify investment in products. They also need to be able to export in amounts that support the development of markets for their products.

Objective Three: Maximise the value of New Zealand's dairy export quotas to New Zealand

41. Dairy export quota is negotiated for the benefit of New Zealand. In order to be realised, these benefits need to accrue to the New Zealand dairy industry. A well-functioning dairy industry has numerous flow-on benefits to other New Zealand industries, rural communities, and wider New Zealand.

42. To maximise the value of dairy export quota to New Zealand, allocation should encourage utilisation of quota, along with utilisation that achieves the highest value.

This needs to be balanced against companies' need for flexibility to make business decisions about export opportunities in real time, particularly as they compare to other market opportunities. However, if quota is going unused or is not being used to its full value, where other companies do not have quota access, this potentially leads to missed opportunities. This may translate to unrealised export earnings for New Zealand.

Objective Four: Support the growth of Māori trade in dairy products

43. Quota allocation has the potential to support the growth of Māori dairy trade and create additional export opportunities for Māori agri-businesses. This includes supporting collaboration between UK and EU enterprises and Māori enterprises, particularly SMEs, consistent with the Māori cooperation chapters in the new FTAs.

Objective five: Enhance New Zealand's reputation and relationships in quota market

44. In its submission to the formal public consultation, Southern Pastures suggested a further objective of "maintain and enhance New Zealand's reputation as an exporter of quality dairy products". Fonterra referred to Section 21(1)(c) of the DIRA (the 'purpose' section of the allocation subpart of the DIRA) which provides that one of the purposes of the quota allocation system is to "safeguard New Zealand's interests in respect of those tariff quotas".

45. Taken together, both objectives focus on preserving and enhancing New Zealand's reputation and relationships in quota markets. As this is not explicitly reflected elsewhere, MPI suggests 'enhancing New Zealand's reputation and relationships in quota markets' be added as an additional objective.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

46. The following criteria will be used to measure each of the options under consideration against the status quo and have been weighted equally:

- *The dairy quota allocation system reflects the diversity of business models and sizes in the dairy sector*

  The quota allocation system enables a range of different business models and businesses of different sizes to access dairy export quota.

- *Quota allocations are commercially viable and support companies to scale up*

  The dairy export quota allocation system allocates quota to participants in amounts that are commercially viable and support them to scale up.

- *The dairy quota allocation system maximises the value of New Zealand's dairy export quotas to New Zealand*

  Dairy export quota is allocated in such a way that it maximises the value to New Zealand's quota. This includes by increasing utilisation, as well as ensuring an export profile that increases returns from quota to New Zealand.

- *The dairy quota allocation system supports the growth of Māori trade in dairy products*

  The dairy quota allocation system supports the growth of Māori trade in dairy products. This includes recognising and supporting Māori interests across the value chain.

- *The dairy quota allocation system enhances New Zealand's reputation and relationships in quota markets*

  Any changes to the dairy export quota allocation system would need to enhance New Zealand's reputation and relationships in quota markets.

What scope will options be considered within?

The purpose of the quota allocation system

47. Section 21(1) of the DIRA sets out the purpose of New Zealand's quota allocation system, which is to:

    a) *"maximise the economic benefits to New Zealand arising from tariff quotas maintained by foreign governments controlling access to their domestic markets;*
    b) *provide that the New Zealand dairy industry is the recipient of these benefits;*
    c) *safeguard New Zealand's interests in respect of those tariff quotas; and*
    d) *ensure that the administrative and other arrangements made are consistent with New Zealand's international obligations."*

48. The objectives, criteria and options were developed and considered within the scope of this purpose.

Excluded options

Auctioning quota

49. The option of auctioning quota is excluded. Auctioning may be an option where governments must allocate finite goods. The option was considered and excluded by MPI prior to initiating public consultation. This is on the basis that New Zealand has long opposed the auctioning of import quotas by our trading partners, as auctions can be used to create non-tariff barriers to trade.

50. Fonterra agrees that this option should not be progressed. This is on the basis that it would: increase the cost of accessing quota for businesses; reduce the overall value of the quota; and impede the development of ongoing business relationships, due to a lack of certainty around yearly access to quota volume.

A return mechanism

51. This option could require participants who do not use quota allocated to them within a specified period to return that quota to a general pool. This returned quota could then be available for others to apply for. A return mechanism would not change eligibility but could be introduced alongside current eligibility or together with new eligibility criteria.

52. A return mechanism was included in the 2023 public consultation and received mixed support. While there was some support for the principle that quota should be used or otherwise available to others, concerns were raised regarding how this would work in practice. Concerns included:

- challenges associated with identifying the right time in the quota cycle for returning quota in the context of the milk production cycle and standard contract and supply terms;
- in some quota markets, the corresponding import licencing requirements are issued for the year and cannot be reallocated;
- that it would significantly hinder the ability of companies to take advantage of opportunities arising in the latter part of the quota year;
- a return mechanism may incentivise participants to use quota as soon as possible, potentially for lower prices or other suboptimal conditions, in order to avoid surrendering quota part way through the year; and
- that it could result in quota being taken off participants where it was unused due to circumstances they cannot control, for example, global pandemics.

53. A return mechanism was proposed to address the issue of participants holding unused quota which other participants could use. MPI expects that the proposed change to an export-history based allocation with wider eligibility will reduce the amount of quota being unused. The expected increase in utilisation, combined with the challenges identified by submitters, mean that a return mechanism has been excluded from the options under consideration.

Different approaches to different markets

54. A different approach to quota allocation could be taken in different quota markets. A differentiated approach could potentially be justified due to varied market characteristics. This approach could consider the characteristics of the market, the size of the quota, the nature of the quota products and competition for the quota. Any differentiation between markets would need to take a medium to long term approach to avoid basing this on fluctuating market characteristics.

55. This approach could also be applied to quota for a product in a market if that quota was consistently underutilised. For example, if quota was underfilled for two years in a row, a different allocation system might then apply. This was also included as an option in the 2023 public consultation.

56. This option received limited support during consultation. Milligans was comfortable with a differentiated approach, noting that some markets may have surplus quota which should be made available for use, while some quota may be in greater demand than what is available and must be rationed. Fonterra reiterated its support for retaining the status quo but noted that it could be open to a new approach to the UK and EU FTA quota. It cautioned, however, that the number of different allocation methods should be kept to a minimum. In addition, it did not support moving to a different method of allocation in the event that a quota was underfilled. Southern Pastures considered that there was not enough information available to be able to adopt a different allocation approach to different markets or different products.

57. The problems associated with the status quo, including that allocation does not reflect the diversity of the sector and a lack of alignment between capability and eligibility, apply to all quotas to a greater or lesser extent. This means that the preferred option

would ideally apply across all quotas. In addition, applying different approaches to different markets would create administrative complexity and costs for both participants and MPI. For these reasons, adopting different approaches to quota allocation in different markets is not recommended.

Options for changing the basis of allocation for dairy export quota

58. The following six options were considered as part of the options analysis:

- retaining the status quo;
- allocating quota on the basis of export history;
- allocating quota on the basis of production history (including contracted production);
- allocating quota on a first come first served basis;
- allocating quota based on expression of interest to be assessed on a discretionary basis; and
- reserving a portion of quota for participants that are otherwise ineligible for quota, or which are only eligible for low volumes of quota.

59. All options with the exception of the status quo, which requires collection of bovine milk solids, would widen access to non-bovine dairy exporters.

Option One – Status Quo

60. All quota is currently allocated on the basis of milk collected directly from farmers. Companies must collect at least 0.1% of bovine milk solids from New Zealand farmers to be eligible for quota, and their quota share must equate to at least 20 tonnes of product. Companies with business models which do not include milk collection are not eligible for quota and cannot purchase quota.

61. With the exception of Fonterra, all dairy exporters that submitted as part of public consultation confirmed their support for changing from the status quo. Fonterra's preference is to maintain the status quo, which it considers to be transparent, simple, fair, and predictable. It did not see a strong justification for changing the allocation mechanism. Seven other submitters, including five dairy exporters, supported changing the status quo. In addition, the three non-bovine dairy exporters engaged with as part of targeted engagement supported changing the status quo.

Option Two – Allocating quota on the basis of export history by volume (preferred option in combination with Option Six)

62. Under this approach, quota would be allocated relative to the quantity exported in a preceding prescribed period. For example, if a company exported 10% of New Zealand butter by volume over the past three years, this company would, at a minimum, be entitled to 10% of New Zealand's export quota for butter by volume in the subsequent year. This could mean a company exporting butter to other non-quota markets could qualify for export quota for butter. As with the status quo, there would still be a minimum allocation of 20 metric tonnes and any quota left unallocated would be allocated pro rata to the successful applicants.

63. This approach was strongly supported by Southern Pastures. It noted that it was not necessarily undesirable that new exporters be required to establish themselves in non-quota markets first (or pay tariffs in quota markets). In its view, the requirement that

exporters establish their credentials by proving export capability would ensure quota is allocated to companies which have demonstrated the ability to use it. Southern Pastures considered that calculating previous export history should be a relatively straightforward administrative exercise. While Fonterra's preference was to retain the status quo, it preferred this approach to the other options. Milkio queried how this would work for new entrants or companies previously ineligible for quota, and OCD raised concerns regarding how this approach could ensure that quota is allocated to dairy products manufactured in New Zealand from New Zealand milk.

Option Three - Allocating quota on the basis of production history by volume (including contracted production)

64. This option would allocate quota based on production history, including contracted production. Quota would be allocated relative to how much of a particular product an eligible participant has produced in New Zealand over the prescribed period. For instance, if a company produced 10% of New Zealand's butter over the last year, this company would be entitled to 10% of New Zealand's butter quota for the next year. This could enable a company who had been producing products for the domestic market, but not exporting, to qualify for access to export quota.

65. There was some support for moving to a system where quota is allocated based on production history. OCD strongly supported this approach on the basis that quota should be allocated to companies that can and will use it. Synlait also considered this option could address the issues outlined in the discussion document.

66. This option was not preferred by other submitters. Fonterra was strongly opposed to this approach and questioned how it would work in practice, including: how production would be defined; concerns regarding how and whether the relevant data could be obtained in a usable format; and a risk of 'double-counting'. Southern Pastures thought that this option would provide the wrong incentives, by driving investment in low value high volume production, rather than high value products.

Option Four – Allocating quota on a first come first served basis

67. This option would allocate quota on a 'first come, first served' basis. Participants would apply for dairy export quota on an 'as needed' basis, that is, when ready to export, until each quota is exhausted.

68. Stakeholders generally did not support moving quotas to a first come first served system. This was on the basis that it would introduce a high degree of business uncertainty. Submitters thought that the lack of business certainty would make it difficult to plan and commit to clients.

Option Five - Allocating quota based on expression of interest to be assessed on a discretionary basis

69. Under this approach, eligible participants would submit an expression of interest in quota and provide evidence to support their application. A decision-making body would be required to assess expressions of interest and allocate quota. This could be a new or existing government body, industry body or third party. Evidence would be assessed on a discretionary basis by the relevant body which would still require the development of decision-making criteria, including eligibility criteria. Evidence would likely need to illustrate the applicant's ability to produce or obtain the relevant products for export, along with in-market opportunities.

70. Fonterra did not support this approach due to it being a largely arbitrary model. Milligans thought that it would depend on the people making the decision, including their values, political agendas and criteria they use, also suggesting a level of arbitrariness.

Option Six - Reserving a portion of quota for participants that are otherwise ineligible for quota, or which are only eligible for low volumes of quota (preferred option in combination with Option Two)

71. Reserved portions could be created for individual quotas on a case-by-case basis via regulation. Where quota has been reserved, applicants that are ineligible to apply for the main pool of quota or that are only eligible for low volumes, could apply for an allocation under the reserved portion.

72. Where regulations reserving a portion of quota were required, these would be developed in accordance with statutory criteria. Creating reserved portions via regulation would allow for reserved portions to be structured differently across different quotas, and to be adjusted over time in response to changes to quota or market conditions. Reserved portions could not exceed 10% of the total volume of quota.

73. Allocations would be made annually, simultaneously with allocations for the main portion. Any residual reserved quota would be allocated (on a pro-rata basis) to main pool participants.

74. Reserving a portion of quota could be implemented in combination with any of the options for change outlined above, or the status quo.

75. During targeted engagement on the reserved portion, Synlait and Southern Pastures expressed an openness to reserving a portion of quota for otherwise ineligible participants. Synlait observed that it was reasonable if it was trying to help new entrants. Southern Pastures expressed a similar view, noting that it would have been helpful when Lewis Road (a brand now owned by Southern Pastures) first started exporting.

76. Fonterra is opposed to enabling the creation of reserved portions of quota on the following grounds:

- the reserved portion is unnecessary where the basis of allocation is changed to export history as all key exporting companies will have access to quota;
- it will increase complexity, while eroding transparency and predictability;
- it creates a risk that quota will be allocated to companies with either no history of exporting or a meaningful export record;
- reserving a portion of quota is unlikely to lead to higher utilisation as quotas are generally underfilled due to market dynamics; and
- it will erode the ability of larger companies that can use this quota to use it for arbitrage and market insurance purposes.

How do the options compare to the status quo/counterfactual?

Options **Criteria** (All criteria have been weighted equally)	**Option One -** Status quo	**Option Two –** Allocation based on export history	**Option Three –** Allocation based on production history (including contracted production)	**Option Four -** First come first served (FCFS)	**Option Five -** Expression of interest to be assessed on a discretionary basis	**Option Six** – Reserving a portion of quota
Develop a system that reflects the diversity of business models and sizes in the New Zealand dairy sector	0	+ Broadening access to all exporters would widen access to a greater range of business models and sizes. This includes participants that don't collect milk, and participants that don't collect enough milk to be eligible and non-bovine dairy exporters.	+ As with export history, broadening access to exporters who produce or directly contract production would widen access to a greater range of business models and sizes. This includes participants that don't collect milk, participants that don't collect enough milk to be eligible and non-bovine dairy exporters.	+ Allocation could be made to any business type or size.	+ An expression of interest approach could widen eligibility to all business types and sizes. In theory, all types of businesses could apply.	+ Enabling quota to be reserved would ensure that quota access can be tailored to specifically reflect the diversity of business models in the New Zealand dairy sector, including non-bovine animal dairy exporters.
Ensure quota allocations are commercially viable and support companies to scale up	0	+ Moving to an export history-based approach would better align the allocation of quota to the ability to export a particular product. This alignment will result in businesses having access to greater volumes of quota for products they actually export. - Allocating quota on the basis of export history will not provide new entrants with commercially viable allocations and support them to scale up. Instead, they will need to establish a three-year export history in order to be allocated quota.	+ As with export history, moving to a production history approach would better align the ability to produce a particular product with quota allocation. This alignment will result in businesses having access to greater volumes of quota for products they actually produce.	+ Applicants would presumably only apply for amounts of quota that are commercially viable. - Where demand exceeds what is available, participants may be left with a commercially unviable proportion of quota or no quota, limiting the ability of participants to scale up their businesses. - The commercial uncertainty associated with a FCFS approach may make it difficult for participants to enter into multi-year contracts in quota markets, thereby limiting their ability to scale up.	+ An expression of interest system could take into account the commercial viability of allocations as part of the decision-making process. - While the commercial viability of a quota allocation could be taken into account, as with a FCFS approach, where there is demand that exceeds the amount of quota, it may be difficult to allocate quota in commercially viable amounts. - The commercial uncertainty associated with allocation based on an expression of interest may make it difficult for participants to enter into multi-year contracts in quota markets, thereby limiting their ability to scale up	+ Reserving a portion of quota will allow for new entrants and those who are only eligible for low-volume allocations, including non-bovine dairy exporters, to enter quota markets and develop their export histories as they scale up. + Similarly, it will allow more commercially meaningful access for exporters of niche, low-volume products that may not ever become eligible on the basis of their export history.
Maximise the value of New Zealand's dairy export quotas to New Zealand	0	++ Eligible participants would have demonstrated the ability to produce and export a particular product. This would support quota utilisation. This is unlike the status quo where quota is allocated to participants who do not have the ability or intention to use it, or a demonstrated ability to successfully export a product.	+ Unlike the status quo, this approach would align the ability to produce a product with eligibility. This could increase the likelihood of quota being used. 0 Like the status quo, applicants will not have to demonstrate the ability to export a product, meaning that there is no assurance that it can be successfully exported by the applicant.	+ Under a FCFS approach, participants would be able to apply for quota up to the amounts they need as required (to the extent that it is still available). This may mean that quota utilisation increases in markets that currently have low utilisation, with corresponding benefits for the value of New Zealand's dairy export quota. - A FCFS approach may incentivise participants to enter into less valuable arrangements earlier in the quota cycle, in order to be sure that they can access quota. This may be at the expense of higher value trades that might have been achieved later in the quota cycle.	+ An expression of interest approach would enable an evaluative approach that allocates quota based on an assessment of the highest value use or users. This approach could enable quota to be awarded to higher value products as they are developed, maximising export returns. - This may incentivise participants to follow short term high value deals, at the expense of longer-term contracts that may provide better returns to New Zealand on a longer-term basis.	+ The ability to widen access to a broader range of exporters in appropriate circumstances would support the maximisation of quota value to New Zealand. Access to a reserved portion would be where there is demand from small and/or niche exporters, including non-bovine animal dairy exporters. + Given that the amounts of quota available in the reserved portion would be relatively small it can be assumed that they will be accessed by exporters of high value products, thereby maximising the returns from dairy export quota. While exporters could access quota in order to export low value products in small volumes, the relative costs associated with exporting mean that this will be unprofitable and, therefore, unlikely.

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Support the growth of Māori trade in dairy products	0	+ An export history-based approach would enable a range of Māori interests to access quota. This includes small processors and exporters that don't collect milk. + This option enables Māori more flexibility with regard to what parts of the supply chain they need to invest in in order to access quota.	+ A production history-based approach would enable a range of Māori interests, including currently ineligible participants, to access quota. This includes small processors and exporters that don't collect milk.	+ Māori businesses would not need to go through an intermediate step in order to enter quota markets, for example, collect milk or demonstrate export or production history.	+ An expression of interest approach could take into account whether quota allocation would support the growth of Māori trade in dairy products. - If the criteria are too uncertain and/or there is too much flexibility in decision making, Māori interests may be overlooked or disregarded.	+ A reserved portion of quota would provide new opportunities for Māori to participate in the dairy export market. This includes participants who are not currently eligible or who only qualify for small amounts that may not be commercially viable. These opportunities could support Māori SMEs to collaborate with UK and EU enterprises as envisaged by the newly agreed FTAs. This includes sheep milk producers, noting that Māori owned sheep dairy farms supply the two main sheep dairy exporters.
The dairy quota allocation system preserves New Zealand's reputation and relationships in quota markets	0	0 The predictability associated with an export history-based allocation system would support exporters to develop and maintain relationships in quota markets. + Applicants would have demonstrated that they are able to navigate export markets, lessening the likelihood of supply or other failures in market.	0 As with the status quo and export history, the predictability associated with this approach would support exporters to develop and maintain relationships in quota markets.	- This approach risks incentivising participants to focus on reaching deals so that they can apply for and obtain quota, rather than building long term relationships. - This approach may also mean that the focus on reaching deals comes at the expense of investment in developing exporters' brands within a market, forgoing the potential reputational benefits of a more focused approach.	- The lack of business certainty associated with a discretionary approach may make it difficult for participants to form relationships in overseas markets. - The lack of business certainty may also result in interruptions in supply from New Zealand exporters, or make it difficult for New Zealand exporters to commit, damaging the reputation of the New Zealand dairy sector.	+ The ability to include a wider range of dairy exporters in appropriate circumstances will enable New Zealand to demonstrate the broad array of dairy products, including innovative and high value dairy products, produced by New Zealand exporters. - Enabling a very wide array of exporters, including very small and/or very niche exporters, potentially with no or little export experience in quota markets presents a risk to New Zealand's reputation and relationships in quota markets.
Overall assessment	0	6	4	-1	-2	6

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

- - much worse than doing nothing/the status quo

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

77. The preferred option is a combination of options two and six, that is:

- changing the basis of allocation of quota to export history; and
- a new regulation making power that would enable the creation of reserved portions of quota for otherwise ineligible participants, or those that are only eligible for low volumes.

78. Non-bovine animal dairy exporters will have access to quota on the same terms as bovine dairy exporters.

79. The preferred options are based on analysis of the options against the objectives of the review, the evidence from submissions, and the risks and weaknesses associated with the less favoured options.

An export history-based allocation would be the default setting

80. Under the default settings, allocation of quota to applicants would be proportional to their share of exports of the relevant product to all markets. That is, an applicant's entitlement would be based on their exported volume of the product, for example butter, as a proportion of the total volume exported by other applicants of that product worldwide.

81. Calculations would be made using average export volumes over the last three years. Export volumes data collected by Customs would be used to calculate export history.

82. A minimum allocation threshold of 20 metric tonnes would be retained to ensure that quota is still allocated in commercially viable quantities. However, businesses excluded from quota access due to being eligible for allocations of less than 20 tonnes would now have alternative pathways to quota access. This could be either by purchasing quota from successful applicants, or via reserved portions where these exist.

83. Quota would continue to only be able to be used for products made from New Zealand milk that is processed in New Zealand.

84. An export history-based approach would widen quota access to a range of different types of businesses, including non-bovine dairy exporters, as well as smaller businesses. It would also support smaller companies to scale up by either providing new access to quota, or for those already eligible, potentially in greater amounts than under the status quo.

85. An export history-based approach would also ensure that participants have demonstrated the ability to produce and export the relevant product. This has the potential to increase utilisation by aligning capability and eligibility. This is unlike the status quo where quota is allocated to participants who do not make or export products. Requiring participants to have a track record of successfully exporting a product over a three-year period would also increase the likelihood of the value of the quota being maximised. This is relative to production history which, while it would align capability and eligibility, would not require the applicant to demonstrate a successful export history.

86. Moving to an export history-based quota allocation system would enable Māori businesses who occupy different points along the dairy supply chain to share in the benefit from quotas. Incumbents with Māori farm suppliers would receive a share of quota, proportional to their ability to export the relevant products. Processors with significant Māori ownership would potentially have access to quota for the first time, or enhanced quota access.

87. Like the status quo, the business certainty associated with an export-history based allocation system would support exporters to develop and maintain relationships in quota markets. In addition, applicants would have demonstrated that they are able to navigate export markets, lessening the likelihood of supply or other failures in market.

Quota can be reserved for otherwise ineligible exporters or those that are only eligible for low volumes of quota

88. In addition to changing to an export history-based allocation, creating a regulation making power to enable portions of quota to be reserved will allow access for otherwise ineligible exporters or exporters only eligible for low volumes.

89. Applications for the reserved portion would only be open to businesses whose allocations were less than 200 tonnes (including those that were not eligible for any allocation).

90. Applicants that are not eligible for any quota based on their export history would be able to apply annually for up to 200 tonnes of each reserved quota. Applicants that are eligible for less than 200 tonnes of quota based on their export history would be able to apply for a top up from the reserved portion, so that their total allocation would be up to 200 tonnes. This will ensure that exporters eligible for less than 200 tonnes quota are not disadvantaged relative to ineligible exporters where a reserved portion is created.

91. In cases where the reserved portion is oversubscribed, applicants would receive a share of available reserved portion quota (up to a maximum of the volume applied for) split equally between applicants for the reserved portion.

92. The proposed criteria for deciding which quotas should have a reserved portion are that:

a) dairy exporters have provided evidence of their interest in and ability to use the relevant quotas through a reserved portion;
b) consultation has been undertaken with current holders of the corresponding quotas;
c) the reserved portion is consistent with import licensing requirements or other requirements in quota markets; and
d) reserving the quota is consistent with the purpose of New Zealand's quota management system as set out in section 21(1) of the DIRA.

93. A reserved portion could not exceed 10% of the total volume of quota. Reserving a portion of quota would reduce the size of the main portion of quota. This creates a risk that the main portion of quota could be broken up into allocations that are too small and are, therefore, allocated in volumes that are difficult for companies to utilise. This risk will be mitigated by using the regulation making criteria to inform the size of the reserved portion.

94. In terms of demand for dairy export quota, as with the current review, MPI anticipates that consideration of whether or not to create a reserved portion will be initiated following approaches from dairy exporters and feedback received as part of routine engagement.

95. The reserved portion would provide quota access to businesses which are less experienced at exporting and are potentially less sophisticated in business generally. These types of businesses could create a reputational risk if they were seen to be less professional or failed to meet the expectations of quota markets with regard to the quality of New Zealand products. This would, however, be true of any model that provided access to new entrants and smaller-scale exporters.

96. At this point in time, MPI does not anticipate that regulations creating a reserved portion will be made at the outset of the new quota allocation system. This is subject to further engagement with and feedback from dairy exporters and the timing of enabling amendments to the DIRA. Any new regulations creating a reserved portion or portions of quota would be subject to a separate Regulatory Impact Statement.

Quota access will be provided to non-bovine animal dairy exporters

97. Non-bovine animal dairy exporters will have access to quota on the same terms as bovine dairy exporters. This includes reserved portion quota.

98. When considering whether to make or amend regulations creating a reserved portion, consideration of the demand for and potential value of access would include non-bovine animal dairy exporters. Additionally, consideration of licencing requirements in quota markets would need to take into account whether the conditions of the corresponding international agreement allow the quota to be used for non-bovine dairy.

99. Due to the small scale of the non-bovine animal dairy sector, MPI anticipates that non-bovine dairy exporters are likely to be users of reserved portions of quota in the short to medium term. Moving to an export history basis and clarifying that the DIRA provisions relating to quota allocation include non-bovine dairy will ensure that the quota allocation system is future proofed to accommodate longer term growth in the non-bovine animal dairy sector.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact[8]	Evidence Certainty *High, medium, or low*
Additional costs of the preferred option compared to taking no action			
Exporters who collect milk (currently eligible participants)	Current quota users may lose some quota access. Any reduction in quota, however, is expected to be very small. In addition, any reductions are likely to be offset by increases in other quota. This is based on feedback received from Fonterra and Synlait received during targeted consultation. Fonterra and Synlait are two of the four incumbents that regularly apply for quota allocation.	Low	Medium: As noted, this assessment is based on feedback received during consultation and further targeted consultation. MPI is not in a position to make a definitive assessment of likely gains and losses as allocations will depend on the number of applicants for any given quota following the changes, along with the relative size of their entitlements.
	Currently eligible participants who apply for quota and on sell it to other participants are likely to lose access to this quota if they do not export the relevant product. The last quota trade registered with MPI was in 2018.	Low	Medium: MPI maintains a register of quota trades. The amounts paid for quota trades are commercially sensitive and have not been provided to MPI.
	The proposed changes may result in implementation costs for currently eligible participants, who may need to change internal processes. This was raised by Fonterra during formal consultation. Fonterra was non-specific about the internal processes that would need to change or the associated costs which it advised would depend on the design of the new allocation system. This was not raised as an issue by other submitters.	Low	Medium: This assessment is based on feedback received from Fonterra during consultation. No other dairy exporters have identified this as an issue.
Māori dairy sector	No costs to the Māori dairy sector have been identified. The two large Māori dairy farm owners engaged with as part of consultation supply Fonterra and Synlait. The two processors with significant Māori ownership engaged with informally did not have access to quota or were	None	Medium: This is based on submissions received from the two large Māori dairy farm owners as part of formal public consultation; and informal engagement with two processors with significant Māori ownership.

8 MPI does not have access to the monetised costs and benefits associated with the proposed changes. This is either because the information is commercially sensitive and has not been provided to MPI, or because the costs and benefits are hypothetical and difficult to estimate, for example, due to no previous quota access.

	dissatisfied with the amounts of quota they are eligible for and supported changes to quota allocation.		
Farmers	Export revenue from dairy quota flows through to farmers in the farmgate milk price. Any costs associated with a slight loss of access could affect farmers, although this is expected to be negligible and offset by increased quota access in other markets.	None	Medium: This is based on feedback received from eligible and ineligible exporters during formal consultation and targeted engagement.
Exporters who do not collect milk or who do not collect enough milk to be eligible	There are no costs to currently ineligible participants associated with the change.	None	High: This is based on feedback from ineligible participants during formal consultation and targeted engagement.
Non-bovine animal dairy sector	There are no costs to the non-bovine animal dairy sector associated with the change.	None	Medium: This assessment is based on targeted engagement with the largest goat dairy and the two largest sheep dairy exporters.
MPI	New Zealand Food Safety (NZFS) which administers the quota has advised that implementation costs associated with the new system will be low.	Low	High: This is based on advice from NZFS.
Customs	Customs has advised that the costs associated with sharing data with MPI are likely to be low.	Low	High: This is based on advice from Customs.
New Zealand	The changes are unlikely to result in any costs to New Zealand more generally.	None	High: No costs to wider New Zealand have been identified during formal consultation, targeted engagement or as part of this analysis.
Non-monetised costs	*Costs associated with changing to an export-based allocation system are expected to be low. Any additional costs are outweighed by the benefits outlined below.*	*Low*	*Medium*
Additional benefits of the preferred option compared to taking no action			
Exporters who collect milk (currently eligible participants)	Some incumbents would be entitled to more quota than under the status quo in relation to some products. This may be offset by losses of quota in relation to other products.	Medium	Medium: Feedback from Fonterra and Synlait during targeted consultation is that they are likely to gain in relation to some quotas and lose in relation to other quotas as a result of the changes.

Māori dairy sector	Processors with significant Māori ownership would potentially have access to quota for the first time, or enhanced quota access.	High	High: This is based on submissions received from the two large Māori dairy farm owners as part of formal public consultation; and informal engagement with two processors with significant Māori ownership.
Farmers	Export revenue from dairy quota flows through to farmers in the farmgate milk price. This means that the benefits of new or enhanced access will likely flow through to farmers via the farmgate milk price.	Medium	Medium: This is based on feedback received from eligible and ineligible exporters during formal consultation and targeted engagement.
Exporters who do not collect milk or who do not collect enough milk to be eligible	Newly eligible exporters would pay no or reduced import tariffs on dairy products in quota markets for which they hold quota.	High	High: This is based on feedback from ineligible participants during formal consultation and targeted engagement.
Non-bovine animal dairy sector	The non-bovine animal dairy sector will have quota access for the first time. While the sector is largely focused on non-quota markets and products, the changes present an opportunity for future growth and diversification.	Medium	Medium: This assessment is based on targeted engagement with the largest goat dairy and the two largest sheep dairy exporters.
New Zealand	Increased quota usage would increase the economic benefits to New Zealand of dairy export quota. Providing access to a more diverse range of dairy products would enhance New Zealand's reputation in quota markets as a producer of diverse and innovative food and beverages.	Medium Medium	Medium: This assessment is based on the results of formal consultation and targeted engagement where currently ineligible exporters expressed a desire and an ability to use quota. Medium: This assessment is based on the results of formal consultation and targeted engagement where currently ineligible exporters expressed a desire to export products that are different to those currently exported to quota markets.
Non-monetised benefits	*Overall, the benefits of the proposed changes are considered to be medium to high. This assessment is based on analysis of all available information, including the results of formal consultation and targeted engagement.*	*Medium to high*	*Medium*

Section 3: Delivering an option

How will the new arrangements be implemented?

Government implementation of the new arrangements

MPI's systems and processes

100. Quota will continue to be allocated by MPI. MPI administers the allocation of dairy export quota via NZFS.

101. MPI anticipates that there will be an increase in the number of participants applying for dairy export quota. This is based on the results of formal public consultation and feedback received during targeted engagement from currently ineligible exporters which expressed an interest in access to dairy export quota. The increase in applicants is not, however, expected to be large enough to significantly increase NZFS's workload.

102. Some minor changes to the allocation process will be required as result of the changes. This includes obtaining data from Customs and using this as the basis of allocation, as opposed to requiring an annual declaration of milk solids collected. In addition, MPI's website will be updated to reflect the changes and MPI will update the list of participants that receive a notification regarding the annual application round.

103. The cost of administering the quota allocation system is recovered from participants. Currently, this is via a fee calculated based on the quantity of quota held by a participant in all markets. NZFS has recommended that this approach be reviewed. Any changes to the way in which the fee is calculated will take place separate to this review.

Impact on Customs

104. Customs has advised that additional administrative costs associated with data sharing will be low and can be managed within current resources.

Reserving portions of quota

105. Quota will be reserved on a case-by-case basis via regulation. MPI does not anticipate that any quotas will require a reserved portion at the commencement of the new system. This is based on the near-term export strategies of the participants most likely to use reserved quota. MPI will, however, continue to engage with dairy exporters as the changes are progressed.

Timing and transitional arrangements

Timing of implementation

106. The new quota allocation system would apply to subsequent annual allocation rounds. Allocations are generally made in September each year but can be made at any point prior to the beginning of the quota year. The quota year aligns with the calendar year. The exception is Japan PEF quota where the quota year beings on 1 April, but which is allocated in the annual allocation round.

Transitional arrangements

107. As the changes will apply to the quota allocation round following commencement, no transitional arrangements are required.

Implications for participants

Implementation costs for participants

108. Fonterra advised that a change to the way dairy export quota is allocated may impose additional costs on quota users who may need to change internal processes, but that this will also depend on the design of the new system. Fonterra has not provided an estimate of the likely costs. Given that the export history data will be obtained from Customs, however, MPI anticipates that the cost of participating in the proposed new system will impose a relatively small administrative burden on applicants.

How will the new arrangements be monitored, evaluated, and reviewed?

109. MPI administers the quota allocation system. This means that MPI has up to date information on the amounts of quota applied for and by which participants. In addition, MPI has access to information on the amounts of quota used. This will enable MPI to monitor how much quota is being applied for, by who, and how much is being used. This means that MPI will be in a position to evaluate whether changes to eligibility are widening the range of participants applying for quota, and whether utilisation is increasing.

Appendix One: Dairy export quotas administered under the DIRA

1. This review covers all dairy export quotas that are allocated under the DIRA. Schedule 5A of the DIRA sets out the dairy export quotas for designated markets. These are shown in **Table One** below.

2. In future, this will include the NZ-EU FTA dairy export quota. The dairy export quotas agreed as part of the new NZ-EU FTA are set out in **Table Two** below.

Table One

Dairy quotas administered under the DIRA

Market	Product
Dominican Republic	Milk powder
European Union WTO quota	Butter
European Union WTO quota	Cheddar cheese
European Union WTO quota	Cheese for processing
Japan	Prepared edible fat
United Kingdom WTO quota	Butter
United Kingdom WTO quota	Cheddar cheese
United Kingdom WTO quota	Cheese for processing
United Kingdom FTA quota	Butter
United Kingdom FTA quota	Cheese
United States of America	Low-fat cheese
United States of America	Not specifically provided for (NSPF) cheese
United States of America	Other American-type cheese

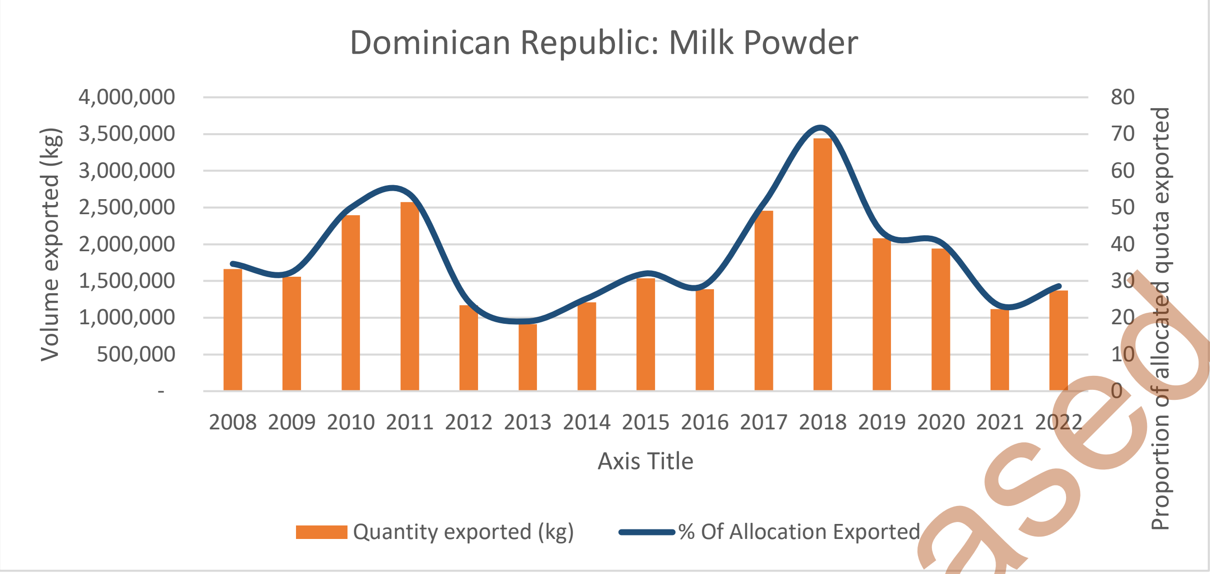
Table Two

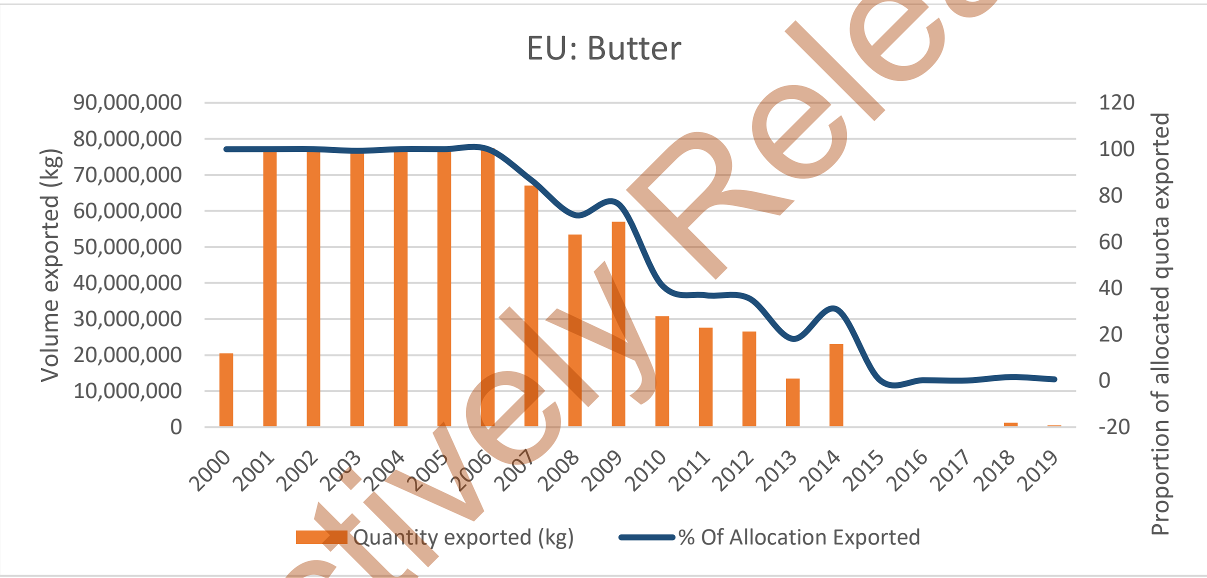
EU FTA quota to be administered under the DIRA following the entry into force of the EU FTA

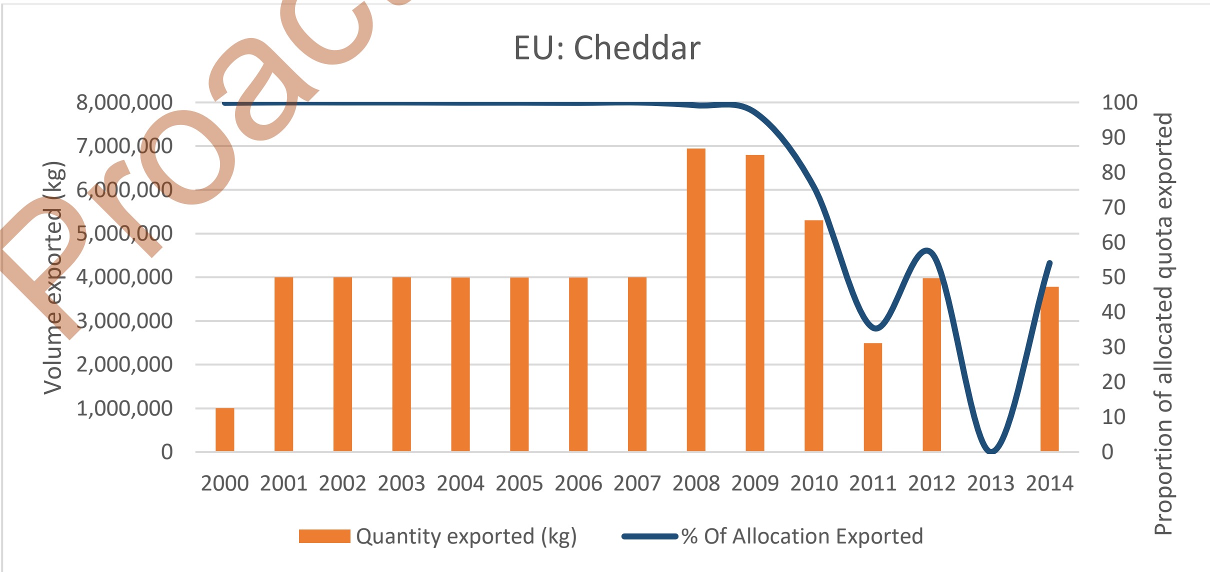
Market	Product
European Union	Butter
European Union	Cheese
European Union	Milk powder

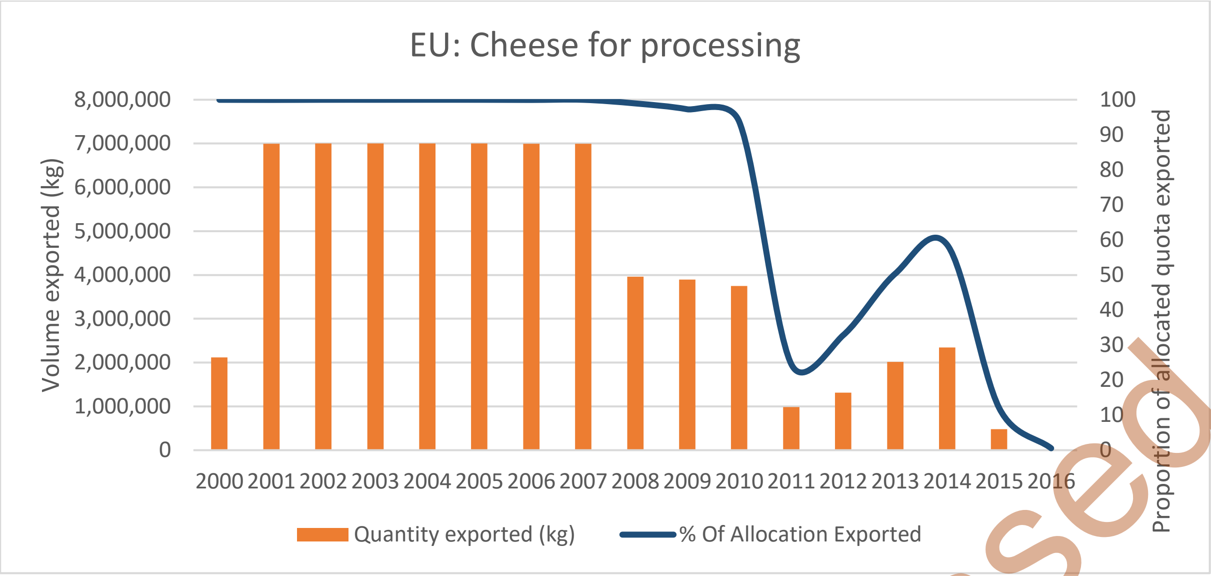
European Union	Dairy Processed Agricultural Products and High Protein Whey

Appendix Two: Historic quota utilisation rates

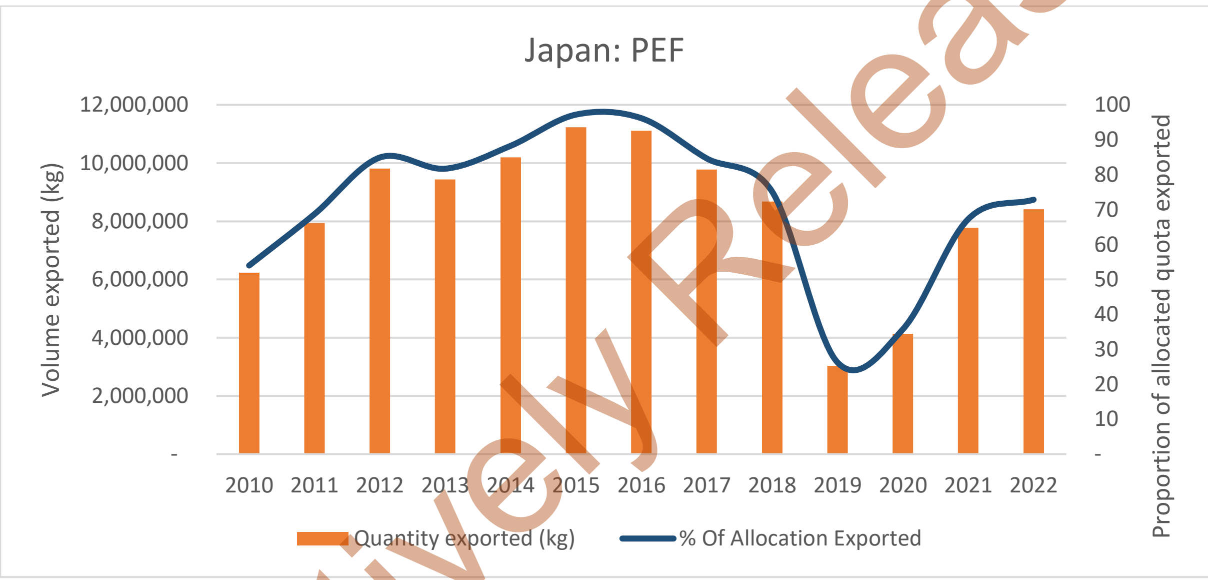




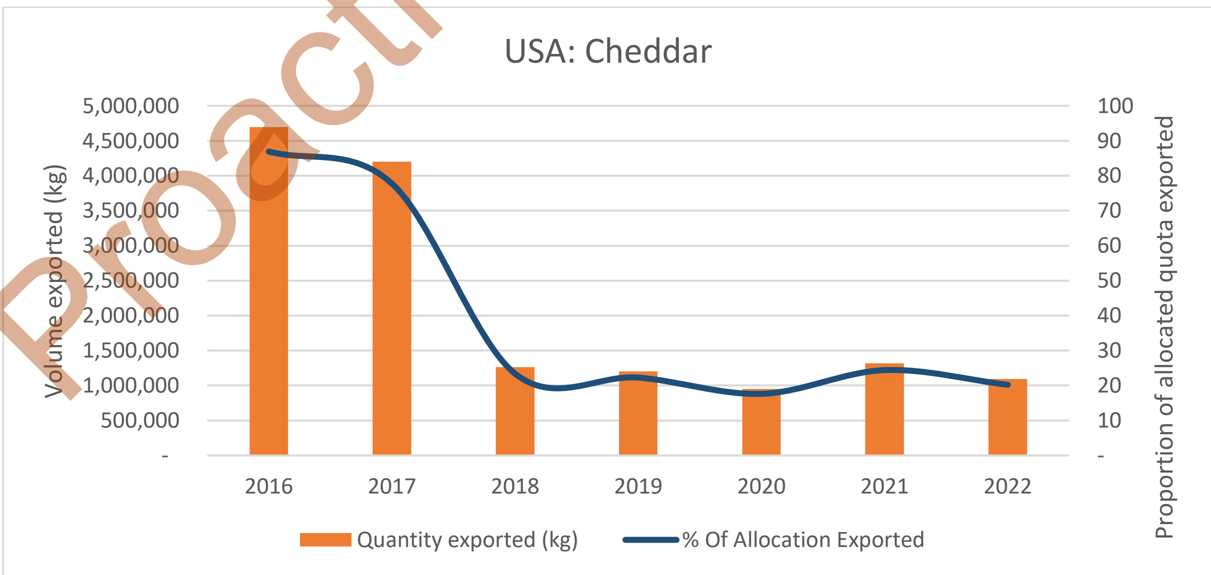




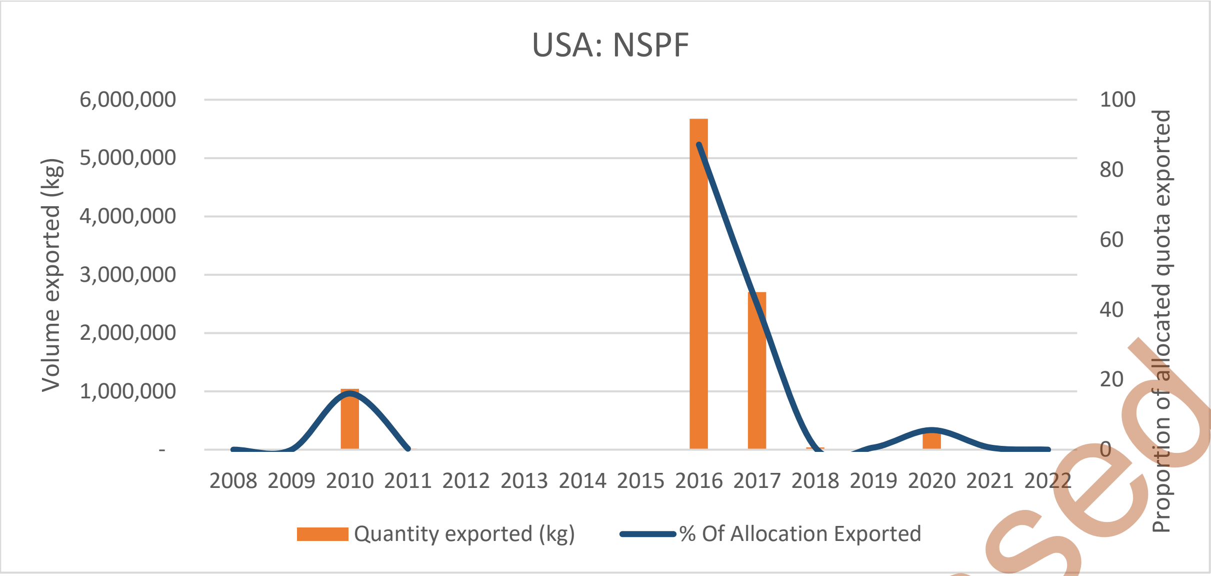
EU: Cheese for processing
Volume exported (kg)
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
100
90
80
70
60
50
40
30
20
10
0
Proportion of allocated quota exported
Quantity exported (kg)
% Of Allocation Exported



Japan: PEF
Volume exported (kg)
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
-
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
100
90
80
70
60
50
40
30
20
10
-
Proportion of allocated quota exported
Quantity exported (kg)
% Of Allocation Exported



USA: Cheddar
Volume exported (kg)
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2016 2017 2018 2019 2020 2021 2022
100
90
80
70
60
50
40
30
20
10
-
Proportion of allocated quota exported
Quantity exported (kg)
% Of Allocation Exported



Over the period 2000 to 2022, no US American Style Cheese or US Low-Fat Cheese quota was used by New Zealand dairy exporters.

Appendix Three: Allocations for the 2023 quota year

Export Licences for designated markets under the Dairy Industry Restructuring Act 2001.

Allocations (in kilograms) for the 2023 quota year.

Butter to the European Communities	**Sub-period one (1 January to 30 June)**	**Sub-period two (1 July to 31 December)**
Fonterra Co-operative Group Limited	20,031,427	20,031,427
The Tatua Co-operative Dairy Company Limited	201,202	201,202
Open Country Dairy Limited	2,230,853	2,230,853
Synlait Milk Limited	1,125,018	1,125,018
Total Allocated	**23,588,500**	**23,588,500**

Cheese for Processing to the European Communities	
Fonterra Co-operative Group Limited	1,430,370
The Tatua Co-operative Dairy Company Limited	*nil*
Open Country Dairy Limited	159,297
Synlait Milk Limited	80,333
Total Allocated	**1,670,000**

Cheddar Cheese to the European Communities	
Fonterra Co-operative Group Limited	3,703,375
The Tatua Co-operative Dairy Company Limited	37,198
Open Country Dairy Limited	412,436
Synlait Milk Limited	207,991
Total Allocated	**4,361,000**

Butter to the United Kingdom	
Fonterra Co-operative Group Limited	23,366,672
The Tatua Co-operative Dairy Company Limited	234,702
Open Country Dairy Limited	2,602,292
Synlait Milk Limited	1,312,334
Total Allocated	**27,516,000**

Cheese for Processing to the United Kingdom	
Fonterra Co-operative Group Limited	1,995,666
The Tatua Co-operative Dairy Company Limited	*nil*
Open Country Dairy Limited	222,252
Synlait Milk Limited	112,082
Total Allocated	**2,330,000**

Cheddar Cheese to the United Kingdom	
Fonterra Co-operative Group Limited	2,241,047
The Tatua Co-operative Dairy Company Limited	22,510
Open Country Dairy Limited	249,580
Synlait Milk Limited	125,863
Total Allocated	**2,639,000**

Low Fat Cheese to the United States	
Fonterra Co-operative Group Limited	856,509
The Tatua Co-operative Dairy Company Limited	*nil*
Open Country Dairy Limited	95,387
Synlait Milk Limited	48,104
Total Allocated	**1,000,000**

Cheddar Cheese to the United States	
Fonterra Co-operative Group Limited	4,588,697
The Tatua Co-operative Dairy Company Limited	46,090
Open Country Dairy Limited	511,032
Synlait Milk Limited	257,713
Total Allocated	**5,403,532**

American Type Cheese to the United States

Fonterra Co-operative Group Limited	214,151
The Tatua Co-operative Dairy Company Limited	*nil*
Open Country Dairy Limited	23,850
Synlait Milk Limited	*nil*
Total Allocated	**238,001**

NSPF Cheese to the United States	
Fonterra Co-operative Group Limited	5,525,363
The Tatua Co-operative Dairy Company Limited	55,499
Open Country Dairy Limited	615,347
Synlait Milk Limited	310,319
Total Allocated	**6,506,528**

Milk Powder to the Dominican Republic	
Fonterra Co-operative Group Limited	4,076,175
The Tatua Co-operative Dairy Company Limited	40,942
Open Country Dairy Limited	453,954
Synlait Milk Limited	228,929
Total Allocated	**4,800,000**

Prepared Edible Fat to Japan	
Fonterra Co-operative Group Limited	9,808,295
The Tatua Co-operative Dairy Company Limited	98,518
Open Country Dairy Limited	1,092,327
Synlait Milk Limited	550,860
Total Allocated	**11,550,000**

Notes relating to the allocation tables

1. NSPF cheese is cow's milk cheese 'not specifically provided for' elsewhere in the schedule of the US tariff rate quotas for cheese.

2. Some quantities listed have been rounded up or down to the nearest kilogram.

3. Companies listed with *'nil'* have applied for export quota in that specific market but do not qualify as their share in that market is less than 20 tonnes of product.

Allocations of UK FTA transitional quota

The following quota allocations were made in May 2023 in advance of the entry into force of the UK FTA on 31 May 2023. Going forward, allocations of UK FTA quota will be made as part of the annual quota allocation process.

United Kingdom Transitional Tariff Rate Quota for Butter	
Fonterra Co-operative Group Limited	3,624,200
Open Country Dairy Limited	403,619
Miraka Limited	59,066
The Tatua Cooperative Dairy Company Limited	36,403
Total Allocated	**4,123,288**

United Kingdom Transitional Tariff Rate Quota for Cheese	
Fonterra Co-operative Group Limited	12,425,830
Open Country Dairy Limited	1,383,835
Miraka Limited	202,512
The Tatua Cooperative Dairy Company Limited	124,809
Total Allocated	**14,136,986**