



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 12/11/2006

GAIN Report Number: NZ6024

New Zealand

Dairy and Products

EU/New Zealand Butter Quota Issue Resolved

2006

Approved by:

Laura Scandurra
U.S. Embassy

Prepared by:

Alastair Patterson

Report Highlights: The New Zealand Government recently announced that they have reached agreement with the EU on New Zealand's EU butter quota. The agreement, which will likely be ratified this week, includes a requirement that a percentage of the quota be allocated to new companies. This will ensure that "traditional" importers don't dominate the quota, which was the issue that sparked the action against the existing regime by a European importer, as it was felt that Fonterra's control over who was able to purchase milk under New Zealand's quota was discriminatory against European companies (see NZ6020).

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1]
[NZ]

The New Zealand Government and the EU have settled the import dispute over butter. The European Court of Justice ordered a suspension of butter imports from New Zealand in July 2006 because they were viewed as discriminatory – import licenses went only to subsidiaries of Fonterra located in the EU. New Zealand had an EU butter quota of 77,402 tons at a special low tariff, all of which was imported by two of Fonterra's subsidiary companies. The quota is a remnant of the special access conditions for New Zealand negotiated as part of Britain's entry into the EU. An interim arrangement has been in place since July (see NZ6020).

The new agreement allows Fonterra to keep a large slice of the quota, while giving some to European importers. The agreement, once ratified by the Council of the European Union, will be implemented on January 1, 2007, although some of the changes may not be in place until later in 2007. Under the deal, "traditional importers" (Fonterra) will be able to keep 55 percent of the trade and the rest will be opened up to new European importers from January 1, 2007. Over time, European importers may have the opportunity to be categorized as "traditional importers", which would make them eligible for a slice of Fonterra's 55 percent share. The deal also cuts the tariff rate by nearly 20 percent and changes the butterfat standard for the quota, which will benefit Fonterra, with a 3.5 percent reduction in the quota to take into account the higher levels of allowed fat. Fonterra will now be able to export unsalted product to the EU.

According to press reports, Fonterra does not expect the change to have a significant impact on earnings over the next few years. Although Fonterra will lose a significant chunk of the quota rent profits over time, the drop in the tariff rate partially offsets this loss. Fonterra states that its quota rents have declined in recent years.

A New Zealand Government press release is available at:
<http://www.beehive.govt.nz/ViewDocument.aspx?DocumentID=27923>.