



# COVID-19 and Trade FAQs

May 2020

As an export dependent sector, New Zealand's red meat sector has been significantly impacted by COVID-19. Currently 94 percent of New Zealand's sheepmeat and 87 percent of beef production is exported. Last year the sector exported NZ\$9.3 billion to more than 120 markets around the world.

**However, the sector's focus on market and product diversification and strong customer relationships across a range of markets has highlighted the agility and resilience built into the sector's business model. Consequently, the sector is well placed to adapt and get through this period of volatility.**

## FAQs

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### 1. How has the New Zealand red meat sector's trade been affected by COVID-19?

COVID-19 has impacted trade for New Zealand's red meat sector in two ways:

- Supply chain challenges; and
- Softening demand due to lockdown measures worldwide that have severely impacted food service.

These two impacts have affected sector exports and market dynamics overseas. Initially, exports to China slowed due to congestion at the ports and disruption to distribution channels. Demand also fell as restaurants closed across the country, and people changed consumption patterns from eating out to cooking at home. The impact of COVID-19 saw the value of exports to China drop by 45 percent to \$175 million compared to February 2019. Sheepmeat exports were down 50 percent by volume and 46 percent by value compared to February 2019 and beef exports dropped by 60 percent by volume and 53 percent by value for the same period. However, this was offset by increases in value of overall exports to North America, North Asia (Japan and Taiwan), Malaysia, Middle East and the UK.

However, as China flattened the COVID-19 curve and began to tentatively re-open the economy we have begun to see some recovery in demand and consequently our exports. While exports declined to China in the first quarter of this year, there is some indication that the market is beginning

to recover. Export volumes of lamb to China lifted 105 percent in March following a large drop in February. Additionally, average export values also lifted 8 percent indicating prices for lamb may be recovering slightly. Similarly, the total volume of beef exported to China was up 99 percent compared to February although prices still appear to be negatively impacted with the average value of beef exports declining by 7 percent.

Despite these disruptions we saw signs of successful diversification of markets with increases in exports to important markets like North America (with beef exports by value up 11 percent to the US compared to March 2019), and other markets, such as the Middle East, Japan, Korea and Taiwan. The benefits of a strong market diversification strategy and strong customer relationship by companies has been reinforced through this crisis.

While China, as the first country affected by COVID-19 was the first to see trade impacts, as the virus spread around the world, the sector has since faced similar challenges in other key markets. Over the next couple of months, we expect to see the China market continue to cautiously recover while demand and supply chain issues may have an impact on exports to other large trading partners like the EU, the UK and the US.

## 2. What supply chain challenges have meat companies faced overseas?

New Zealand's red meat sector has faced a number of challenges to its supply chain although it is important to acknowledge that the sector has not faced new trade restrictions. Supply chain challenges have included:

**Impacts on labour** – Processing companies have had to adjust their production protocols to ensure worker safety (i.e. the two-metre rule) and to ensure infection does not get introduced into the workforce.



Image credit: Silver Fern Farms

**Reduced production capacity** – a knock on effect from labour implications is that adapting to the new production protocols consistent with COVID-19 health requirements has resulted in lower processing capacity, particularly under Level 4. However, since moving to Level 3, processors have been able to significantly increase capacity to close to normal levels.

**Decreased demand for exports** – demand has been depressed by strict lock down conditions affecting the food service industry. However, retail demand has increased and this has also seen changes in consumer shopping behaviour as people seek out new recipes and source more food and beverage through online retail.

**Increased market access complexity** – While New Zealand exports have not seen additional trade restrictions put in place, other market access requirements are becoming more challenging. B+LNZ and the MIA are working closely with government to understand new complexities and where necessary work through solutions.

**Longer lead times due to reduced supply of transport and logistics services and travel restrictions (decreased air and sea freight capacity)** – additionally, sheepmeat and beef exports have been affected by reduced capacity at ports, a shortage of reefer containers, and the impact on distribution networks in key markets (e.g. due to trucking shortages, high demand in cold storage facilities).

## 3. How has global meat trade been affected by COVID-19?

New Zealand's red meat sector hasn't been the only meat sector to be affected. Fellow producers and processors around the world have also been impacted. Challenges faced globally have included:

**Increased trade protectionism** - COVID-19 presents a significant challenge to food security in some parts of the world. While open trade and maintaining trade flows would help mitigate risks of food security, unfortunately some governments have responded by imposing trade barriers such as putting export restrictions in place. These restrictions have largely affected staple commodities such as wheat and rice but it is something we are watching closely. The New Zealand government has also been taking a leadership role is seeking commitments from key trading partners to keep trade borders open and facilitate trade;

**Lower demand as a result of food service being largely shut** – Just as in New Zealand, food service around the globe has had significant operating restrictions. Product destined for the food service is an important part of the carcass balance and profitability. Meat companies worldwide have had to adapt product quickly to find other market channels for their products, for example reconfiguring product destined for food service into retail ready packs. Partners around the world have reported an unprecedented demand for mince, for example, counterparts in Australia report a 37 percent increase in demand for beef mince; and

**Reduced processing capacity and processing plant closures** – just as in New Zealand, processing plants have faced significant challenges with ensuring their workforce remains safe. Additionally, some countries' processing sectors have faced major disruption as their workforce has contracted the virus. For example, the US has reported that daily cattle slaughter was down 24 percent in April compared to the same period last year. This could have significant impacts on US supply to their key markets, including some where we compete, as well as global prices. This downward pressure has also impacted livestock prices.

#### 4. What is B+LNZ and the MIA doing to support trade?

B+LNZ and the MIA continue to work closely together on trade issues. There have been a number of strands of work to support trade, including:

- Supporting government with information required to make decisions related to the meat sector, or understand the market dynamics experienced by the meat sector;
- Continuing to be the interface between government and the sector to work through challenges and issues as they've arisen;
- The MIA swiftly responded to government restrictions by developing processing protocols to manage the risk of COVID-19 to ensure production and exports could continue under Level 4 and Level 3;
- Leaning on our representatives offshore to understand market dynamics. For example, B+LNZ have a Trade and Relationship Manager based in Washington who has been instrumental in ensuring we have the insights we need to understand market dynamics and challenges being encountered. Where problems have arisen at ports he's been able to get information quickly, and pass on contacts details to companies who might be looking to quickly secure alternative cold storage etc.; and
- B+LNZ commissioned a report into consumer perceptions of New Zealand red meat in China and the impacts of COVID-19. This report can be found [here](#). This report will help guide our market development work post COVID-19 with Taste Pure Nature.

#### 5. What has the New Zealand government done to support the sector's trade?

Government officials quickly put in place a range of mechanisms and forums to ensure they could effectively receive and respond to information from industry representatives and companies. In particular:

- Government officials established a primary sector weekly phone call for industry representatives. Led by MPI and attended by MFAT, NZTE, Customs and Ministry of Health, this phone call allowed government to share updates, insights and information. It has also provided an opportunity for industry to share their concerns and the challenges faced;
- Through New Zealand's overseas posts, there has also been important information flowing back to our industry, allowing exporters to better understand issues as they arise. Deeper analysis of market conditions provided by MFAT and NZTE has also been helpful when trying to understand market dynamics;
- MPI officials identified export specific challenges early (e.g. Plant Audits) and worked closely with companies, verification agencies, and counterparts in key markets such as Japan and China to ensure workable solutions were put in place to ensure exports could continue;
- The Government moved quickly to support exporters by keeping open air channels to key international markets. The International Airfreight Capacity (IAFC) scheme, announced on 1st May 2020, provided a schedule of weekly flights to a number of global markets. This has been used by the red meat sector to ensure valuable chilled product continues to reach its destination;
- The New Zealand government has taken a leadership role in combating trade protectionism and seeking commitments from key trading partners to ensure trade remains open. Minister of Trade, David Parker, has issued a number of [joint statements](#) supporting open and predictable trade with likeminded countries and also penned an article with his counterparts from the Australia, Singapore, and the UK on the importance of trade at this time. You can read the full article [here](#).

