Meat Industry Association of New Zealand (Inc)

Submission on Action on Agricultural Emissions

13 August 2019

Introduction

1. The Meat Industry Association (‘MIA’) is the voluntary trade association representing New Zealand meat processors, exporters and marketers. MIA members represent 99 percent of domestic red meat production and export, and the meat industry is New Zealand’s second largest goods exporter with $8.6 billion in annual exports, making the industry a critical part of the New Zealand economy.

2. Meat processing is New Zealand’s largest manufacturing industry employing some 25,000 people in 60 processing plants, mainly in the regions. In many regional centres, the meat processor is the largest single employer. It is a central feature of the New Zealand economy and New Zealand’s regional social fabric.

3. MIA is a party to the Primary Sector Climate Change Commitment proposal (Option 2). This is a proposal made in good faith by the primary sector that:
   - Accepts that climate change is a real threat to the primary sector, and that we are committed to contributing to New Zealand's goal of limiting New Zealand's contribution to global warming to within 1.5°C above pre industrial levels;
   - Recognises that, given the relatively minute contribution New Zealand makes to global emissions but the outsized importance of our agricultural sector, the single best thing that New Zealand can do for climate change is to continue the shift towards a sustainable farming sector, in line with the recent IPCC Climate and Land Report. Blunt climate change policies that shrink the New Zealand primary sector will not just cost New Zealand economically and harm regional communities – we will also lose an ability to show global leadership on climate change.
   - Puts forward a detailed programme for practical changes for reducing emissions by 2025;
   - Accepts that pricing of on-farm emissions can be part of the toolbox in reducing agricultural emissions, provided that the pricing is targeted on emissions that are creating increasing warming, with the rate transparently set at minimum necessary to drive uptake of available practical technologies.

4. This is a historic opportunity for primary sector and the Government to work together on creating a sustainable “zero carbon” agricultural sector. We strongly urge the Government to seize this unique opportunity.
Summary

5. The MIA:

6. **Oppose Option 1 (Processor ETS from 2021):** Placing processors into ETS won’t do anything to reduce emissions and be an expensive distraction when the focus has to be on practical action on-farm.

7. **Oppose Option 1 (Farmer levy based on ETS from 2025):** A levy based on the ETS at the farm-gate has significant problems.
   a. Major compliance issues (farmers refuse to comply or minimal compliance);
   b. Levy based on carbon price is unpredictable and levy rate irrelevant to on-farm actions;
   c. Leads to different types of environmental regulation and environmental planning on farm – emissions dealt with by an ETS-based levy price approach, while water, biodiversity, etc are dealt with through a risk management approach;
   d. 95% free allocation a political subsidy, and not known how it will wind down;
   e. Overly complex;
   f. On a per unit of methane basis – does not recognise farmers who are reducing methane emissions (cooling) or increasing methane emissions (warming).
   g. Future costs are likely to create significant and unpredictable financial harm to the meat industry (and onto regional New Zealand and the New Zealand economy).

8. **Support Option 2:** This is a five-year programme of action to drive change on-farm. From 2025, the Commitment agrees to an on-farm emissions levy, with price set at minimum level necessary to encourage uptake of available technologies and set only on excess emissions. This option has primary sector united behind it.

**Question 1: What is the best way to incentivise farmers to reduce on-farm emissions?**

9. The best way to incentivise farmers to reduce on-farm emissions will be through helping farmers understand their emission sources and sequestration, and to provide practical tools. Farmer training support and extension by DairyNZ, B+LNZ, PrIITO and processors will be crucial.

10. MIA notes that similar environmental management is already being done at a regional level. For example, Auckland and Northland Councils are cooperating with farmers and iwi on a scheme based around farm environment plans and support for planting high risk areas to rehabilitate the Kaipara harbour. This kind of locally driven, practical programme undertaken with farmer and local Government in partnership, is the model for climate change policy. It is frustrating for industry that the different parts of Government are not connected in devising environmental solutions.

11. Support for adoption of new technologies needs to be considered carefully – in particular, to avoid being a direct production subsidy.
12. Needs to integrate and be consistent with other environmental and other risk management planning. Other environmental planning (especially for water) as well as providing assurances for food quality, animal welfare, and so on, will be driven through a single farm plan. Emissions should be treated in the same farm environmental and risk management plan.

13. Government needs to provide assurances that products (such as methane inhibitors and vaccines) are safe and fit for purpose. A responsive regulatory system that provides rapid risk-assessment on residues, contaminants, or other unintended impacts will provide assurance for farmers that new technologies such as GHG inhibitors and vaccines are safe for use.

14. A price on emissions in the absence of practical on-farm mitigation tools is largely pointless, except to act as a tool for forcing more productive pasture into permanent carbon storage.

**Question 2: Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for (a) livestock and (b) fertiliser? Why or why not?**

15. Pricing of livestock emissions at the point of the processor will have no impact on on-farm emissions – placing processors in ETS is essentially a production tax, because processors are not paying for emissions but on the number of livestock slaughtered (or gross tonnage processed).

16. Pricing of livestock emissions at the point of the meat processor creates equity issues as there are other animal products which are not subject to an emission price, such as wool. While some animal products are at a historically low price level (i.e. wool), it is unprincipled for those products to not also be priced at the source they are created (i.e. the farm-level).

17. Pricing of livestock at the processor level has only one advantage – it is relatively to do from an administrative stand point. A levy at point of processor is an effective tool for raising funds for farm programmes (which is why it is done for biosecurity, Tb-eradication, and other purposes).

18. However, a processor level ETS obligation or levy will not send any price signal to farmers to reduce emissions because there is way of differentiating between low-emission and high-emission livestock at the point of supplying to processor.

19. If pricing of emissions is intended to reduce emissions, then the obligation has to fall on the point where the emissions are being created – at the farm level.

**Question 3: What are the key building blocks for a workable and effective scheme that prices emissions at farm level?**

20. The key building blocks for a workable and effective pricing scheme on emissions on-farm are:

- Compliance – farmers accept pricing is fair and just and effective. Compliance will be difficult if farmers believe the pricing is unfair. If there is minimal compliance by farmers, then it is impossible to see a very complex levy/rebate system dependent on accurate reporting working.
• Consistency and integration with other on-farm environmental and risk management. Should be an integral part of single farm environment plan which also deals with water, biodiversity, etc.

• Price is set only on those emissions which are causing increased global warming. Farmers who are meeting their emission targets should not pay. This takes into account the fundamental difference between short-lived and long-lived gases, and reducing methane (cooling) versus increasing methane emission (warming).

• The price should be set at the minimum rate to incentivise uptake of tools that lead to lower emission.

• The pricing system recognises offsets from sequestration. However, equally, it should not incentivise wholesale conversion of productive pasture to pine forest. The increasing problems with the ETS acting as a mechanism for converting farmland to carbon storage rather than drive actual GHG reductions should not be exacerbated by farm level pricing policies.

• Predictability – avoid a complex allocation/rebate and price based on the unpredictable carbon price.

21. Any levy should be founded on clear principles. These are in Annex 4: Policy Mechanism Principles of the Primary Sector Climate Change Commitment. MIA believes that these principles are the starting point for creation of any levy system at the farm-level by industry and Government.

Question 4: What should the Government be taking into consideration when choosing between Option 1: pricing emissions at the processor level through the NZ ETS and Option 2: a formal sector-government agreement?

Effectiveness at driving emissions reductions.
22. With regards Option 1, MIA notes that the ICCC has stated that placing processors into the ETS will not drive behaviours to reduce on-farm emissions, and that farmers can “reduce this cost only by reducing output”. (see ICCC report p.58). In contrast, Option 2 enables immediate steps to be taken as per the detailed Programme of Action.

Economic and social impact.
23. The economic and social impact of a processor ETS has not been analysed.

Consistency and integration with other environmental and risk management.
24. Any option up top 2025 should be an integral part of single farm environment plan which also deals with water, biodiversity, etc.

Policy delivery.
25. Under Option 1, industry will focus on minimising exposure to costs under that scheme – in particular, on maintaining the 95% free allocation. Under Option 2, the focus will be on the Programme of Action.

Unpredictability.
26. MIA notes that officials in this consultation exercise agreed that the ETS price and “free allocation” to 2025 are unpredictable. With highly uncertain revenue streams, this will make planning of programmes difficult.

Disruption to programmes.
27. Under Option 1, a processor ETS for the intention of raising funds will displace existing and future commercial and farmer-levy climate change funding. It is unlikely that farmers will vote to continue levies for climate change purposes to DairyNZ and Beef+Lamb (and funding PGGRC, etc) if farmers are already paying via the processor
ETS. In the short-term this will create considerable uncertainty and disruption to industry-funded programmes.

**Governance and administration.**

28. Option 1 will require completely new governance and other arrangements for administration of a fund. The Food Safety Science Research Centre and NAIT shows the time that this can take. There will be fundamental questions to be resolved – for example, who has decision-making rights, what extent or strength are those rights, how accountability is exercised, how will be the administrative agency be formed, how will the chief executive and staff of the fund be appointed, and so on. To imagine that these could be resolved within 12 months is fanciful. In contrast, Option 2 utilises existing industry structures and systems. These will need to change, but the change will be from industry and emerge without undermining existing progress.

5. As an interim measure, would Option 1: pricing emissions at the processor level through the NZ ETS with recycling of funds raised back to the sector to incentivise emissions reduction or Option 2: a formal Government-industry agreement for reducing emissions be best? Why?

**Option 1:**

29. The MIA opposes the ICCC recommendation for an “interim” processor level ETS.

30. The ICCC has raised two justifications for a processor ETS obligation: generating funds and providing certainty. Neither stand up to scrutiny.

31. The ICC claim that a processor ETS will provide certainty is incorrect. In fact, a processor ETS obligation creates greater uncertainty. The price and the continuation of the free allocation are all subject to unpredictability. Instead of being able to plan for a predictable industry-led scheme leading to 2025, the sector will become focussed on the processor ETS. Processors will become focussed on trading in the ETS and reducing liabilities under that scheme, instead of on-farm practical action.

32. The ICC claim that the ETS obligation is to generate funds. The purpose of the ETS is to reduce the emissions of greenhouse gases – not raise revenue. Cap and trade systems are market-based systems for reducing pollutants. They are not designed to raise revenue. Turning a cap and trade system into a revenue gathering vehicle undermines credibility in the market. If the purpose of the exercise is to raise funds for specific purpose, then Governments should use a levy or tax.

33. The ICC itself states that while processors are likely to pass on the costs to farmers through reduced payouts, farmers “could reduce this cost only by reducing output” (p.58) – in other words, the ETS would not achieve anything except reduce production.

34. MIA opposes having processors made responsible for farm emissions in the ETS for three reasons.

1. **Lack of direct price signal on on-farm emissions**

35. The ETS price is driven by the demand for NZUs mostly by CO2 emitters (fossil fuel users) and supply of NZUs and forestry availability. This price is divorced from on-farm emissions and on-farm sequestration. As such, it fails the elementary test for a market based mechanism.
36. Processors will buy NZUs based on annual aggregated tonnage of production multiplied by an emissions factor. There no price signal back to farmers for emissions. Even the ICCC accepted that at best the price signal to farmers was weak and indirect. If there is no incentive to farmers to reduce emissions, then the entire rationale of doing this disappears.

2. Unpredictable and potentially excessive costs
37. The costs of a processor ETS estimated by the ICCC ($0.01/kg for beef, $0.03/kg for sheepmeat) raise questions about the emission factors. How sheep meat has three times the emissions of beef (when the methane science of ruminant livestock is essentially the same, and sheep have significantly lower nitrous oxide emissions) is puzzling. Emissions factors should be credible and supported by transparent science.

38. The cost to farmers will be greater than the actual estimated NZU price of $25. Processors will need to meet administrative costs, hedge against trading losses, and insure against risks and liabilities attendant with trading in new scheme. So while the ETS obligation will (initially) raise about $17 million in total from meat processors, the actual costs passed onto farmers will be greater. Using a trading scheme as a means of gathering revenue is very inefficient, as it is unpredictable and entails significant additional costs for hedging and insuring against risk.

39. The ICCC did not do an economic analysis of the likely cost to the sector once the NZU price is likely to increase significantly once the $25 cap is removed, and the assumption that the price will remain at $25 a ton is extremely optimistic.

40. Economic analysis from DairyNZ and Beef+Lamb NZ shows the potentially disastrous impact of increasing ETS obligations on farmers. If this results in lower production levels, then the knock on impact onto meat processing (which relies on high levels of throughput to stay economic) will be unpredictable but significant – some chains may simply reduce throughput, but others will become unprofitable and close. The absence of economic and social analysis on the impact of Option 1 is concerning.

3. Administrative issues and disruption
41. The processor ETS obligation will be administratively difficult. MIA notes that a per kilogram estimate used by the ICCC contrasts with all levies which are on a per head basis, and with the ETS reporting requirements which are on tonnage slaughtered basis. Exiting fees and levies are done on a per head basis deducted from the schedule price, and it is likely that processors will continue to use a per head basis in charging farmers.

42. While large processors have foreign exchange desks which could trade in the ETS, smaller processors will need to establish capability to be able to trade on the ETS and will struggle to set this up in the time envisaged by the ICCC. The costs of establishing this processor ETS trading capability is just for 4-5 years.

43. What happens with the money raised from the processor ETS is unclear. The ICCC Report is extremely vague about programmes for on-farm actions up to 2025. If the money is to go into a separate fund, then that fund will require appropriate governance and accountability mechanisms. MIA is experienced with establishing industry-good funds. As the creation of the Food Safety Science Research Centre shows, establishment of a fund involving multiple sectors is extremely challenging and time-consuming. It is not feasible that one could be established by 2020.

44. Most industry-good bodies are funded by levies raised at the minimum rate necessary for funding the objects of the body. In this case, however, the body will be funded by a completely separate mechanism – revenues from NZUs from meat and a dairy
processors. The funding stream will therefore be unpredictable, making planning by the body extremely difficult. It is not stated what will happen if there are excess funds raised.

45. MIA also notes that if a fund is established, then it will replace existing funds that are already being raised by the sector (raised under the Commodity Levy Act and commercial projects) - it will not be additional funding. The funding raised by the processor ETS will replace the funds already currently raised by processors and by farmer-industry-good bodies – it will not be additional.

46. Shifting funding from existing commercial and levy sources to a new ETS-funded source will be disruptive.

47. If the Government is determined to implement some pricing on farm production before 2025, then the easiest way is a levy on a per head slaughtered (and per kg of milksolids), like all other levies. This would be administratively simple and more efficient, and have a predictable and transparent rate and revenue collection.

48. The funds raised from a levy on production could be utilised for rolling out Farm Environment Plans, developing ways for farmers to understand their emissions, assist with on-farm sequestration, and assist farmers in the uptake of potential new technologies – that is to say, practical things that actually reduce emissions. Which is to say, Option B.

49. Of course, such a levy is already collected by DairyNZ and B+LNZ under the Commodity Levies Act. MIA notes that if a separate levy was to be introduced, then the actual money raised would likely not increase that much, as it would simply replace money from commercial and farmer-levy funded organisations.

Option 2:

50. MIA is part of the Primary Sector Climate Change Commitment. The assumptions behind the document are:
   - On-farm missions have to be dealt with by on-farm solutions.
   - The only way to achieve immediate on-farm action is the farming sector taking leadership.
   - The emphasis has to be on developing and taking up practical on-farm tools for reducing emissions.
   - The appropriate vehicle are Farm Environment Plans which integrate other environmental risks. MIA notes that this approach is consistent with other Government regulatory approaches in the primary sector, which expect an operator to manage risk through an audited management plan.
   - Without the support of the sector, achieving long-term stable climate change policy will not be possible.
   - Pricing could be an important tool – farmers are sensitive to pricing signals, but need certainty to make planning and investment decisions. Most effective mechanism is a levy targeted on emissions that are creating increasing warming, with rate transparently set at minimum necessary to drive uptake of available practical technologies. Simply put, any price should only act as a "stick" for farmers who are not reducing their emissions. If farmers are doing the right thing and reducing their emissions, they should be left alone.
• Compliance of 25,000 farmers is not possible without active support of industry as a whole.

**Question 6: What additional steps should we be taking to protect relevant iwi/Māori interests, in line with the Treaty of Waitangi?**

51. MIA notes the Crown’s Treaty of Waitangi obligations to Māori are a Crown responsibility.

52. The Crown must work with Māori landowners in partnership, and in a way which ensures self-government over their own land and resources. For climate change policy, this means that policy cannot be “top-down” demands or taxes, but rather “bottom-up” solutions focussed. Government climate change outcomes must be done in a way which respects tino rangatiratanga and the right for Māori to make decisions over their lands.

**Question 7: What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emissions? What could the Government investigate further?**

53. There are three opportunities for reducing on-farm emissions (without reducing production by land-use change from pasture to forestry):

54. Improved management by farmers. This entails adoption of best-practice, which is best done through on-farm extension work by farmer-good organisations, and improved awareness of behaviours which effect on-farm emissions. A significant barrier to willingness to change will be farmer attitudes about more general climate change policy – achieving changes will be harder if farmers feel defensive and besieged by Government policies.

55. Sequestration through planting of non-productive land (steep slopes, gullies, etc) and riparian strips. There is currently little incentive for farmers to do so, and farmers are unaware of the impact of their actions. Unfortunately, currently what incentives there are for farmers are extremely blunt and counter-productive, and result in wholesale conversion of productive pasture to pine forest. A barrier to be overcome is developing appropriate policies to encourage “the right tree in the right place”.

56. Technologies, such as methane inhibitors and vaccines, and new low-emission genetics. There are significant barriers for Government to investigate further:

- Regulatory barriers from EPA and MPI in adoption of new technologies. The ACVM regime needs to be urgently reviewed.
- Adoption of new technologies will be easier for some intensive farming systems over extensive systems – however, this may result in poorer environmental outcomes elsewhere (such as reduced water quality from intensive farming).
- Cost to farmer of adoption of new technologies – consideration needs to be given to how cost and risk of new technologies can be reduced/removed. Government needs to avoid situations where high emission farming is essentially subsidised to reduce emissions, while low emission farming pays a financial cost for emissions.

**Question 8: What impacts do you foresee as a result of the Government’s proposals in the short and the long term?**
Long-Term Economic Impact:

57. The economic impact on the meat sector of Option 1 (farmers paying ETS price from 2025) could be devastating. Given following assumptions:

- Emissions factor of 12.70 per ton (based on current emissions factors for reporting slaughter);
- NZU at $55 a ton in 2030 and $80 in 2050 (based on Productivity Commission scenarios. The Commission modelling assumed that all long-lived gases reduce to net zero, but methane only requires to stabilise and reduce at 0.4-0.8% per annum);
- Wind down of free allocation of 3% a year (free allocation is intended to be temporary support, and not a permanent subsidy – MIA notes that the free allocation is essentially a political matter, and whether or not it is reduced and how it is reduced will be based on the fortunes of politics); and
- No offsetting (noting that under the Zero Carbon Bill, methane reductions are to be gross, thereby preventing offsetting by on-farm sequestration).

### 2030:

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<th>Emission Factor</th>
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58. Even if emissions decrease (and so reduce the emission factor), it is highly unlikely that, without significant offsetting and Government subsidies, that the sheep and beef industry could survive under the ETS.

59. Mfe should undertake an economic analysis of the likely costs to the red meat sector under the ETS with different pricing scenarios and potential reductions of the free allocation.

Compliance and enforcement:

60. Putting farmers into the ETS is likely to be strongly opposed by many farmers, making compliance extremely difficult. Given the complexities of emissions reporting, free allocation, and so on, compliance will be even more difficult.

61. Mfe needs to consider how inspection of farmers reluctant to comply in an extremely complex system will be undertaken. Mfe should also consider how enforcement powers will be employed against non-compliant farmers, particularly if there is widespread non-compliance, and which agency is responsible for enforcement.

Long-Term Policy Instability:

62. Without agreement being reached with the pastoral sector, there will be ongoing policy instability as future Government’s change, and New Zealand climate change policy oscillates between ETS/no-ETS extremes.

Environmental Policy Confusion:

63. Separate systems (market-based pricing per unit of CO2e for methane and nitrous oxide emissions versus risk management planning for water quality and other issues)
risks duplication and confusion for farmers. It will lead to policy incoherence by Government agencies.

Question 9: Do you have any other comments on the Government's proposals for addressing agricultural emissions?

64. With 25,000 farmers, the regulatory regime must be as simple as possible. A complex system will fail.

65. Compliance needs to be considered foremost in consideration of options. What compliance model will be used? Which agency will be responsible for inspection and enforcement? What kind of resource for inspection and enforcement will be required? What will be done in the event of widespread non-compliance?

Additional questions on free allocation of emissions units: We want your view
A. Do you agree that the method for free allocation of emissions units at processor level should be output-based? Why or why not?
B. Do you agree that free allocation of emissions units should be provided at the same time emissions obligation are due? Why or why not?
C. Do you agree with the ICCC that allocation factors should be updated in line with business-as-usual improvements in emissions intensity? Why or why not?
D. Do you agree the process for making decisions on any phase down of free allocation of emissions units should be set in legislation and informed by the Climate Change Commission? Why or why not?

66. MIA is dubious about a 95% “free allocation”. This is a result of political expediency and is already termed in the media a “sweetheart deal” and a taxpayer subsidy for farmers.

67. As an export industry, the meat industry wishes MfE to note that the 95% free allocation will be regarded as a direct subsidy to farmers in international markets.

68. The 95% “free allocation” will reduce, but we don’t know how or when. Given that the free allocation has such precarious foundations, there is little confidence by industry that it will remain at that level for the future, and future decisions will factor in that high level of uncertainty with it.

69. The ICCC’s various proposals for allocation of the free emissions units (except for proportional allocation) are extremely complex and probably impractical. How the competent authority will be able to ensure compliance of such a complicated scheme – especially if there is opposition to farmers to it – is problematic. It is difficult to conceive how such a bewilderingly complex scheme applied to 25,000 farmers – especially if most farmers oppose it - could possibly work.

70. MIA notes that smaller processors will struggle to develop the capability to trade on the ETS immediately. For that reason, the MIA would prefer, if the Government insists that processors go into the ETS from 2020, for any system to be as simple as possible (i.e. proportional allocation). An outputs-based allocation of credits is likely to be exceedingly complex. Given the problems MfE have already had in determining the different emissions factors of beef and sheepmeat in an ETS, MIA is sceptical that MfE has the capability to be able to determine an outputs based system in the time available.
MIA Contact

Paul Goldstone, Meat Industry Association, paul.goldstone@mia.co.nz 04 4949507

Meat Industry Association of New Zealand (Inc)
13 August 2019
## MIA members and affiliate members as at July 2019

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<tr>
<td>Provenance Meat (NZ) Ltd</td>
<td>Rendertech Ltd</td>
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<tr>
<td>PVL Proteins Ltd</td>
<td>Rockwell Automation (NZ) Ltd</td>
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<td>SCL Products Ltd</td>
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<td>Silver Fern Farms Ltd</td>
<td>Scott Technology Ltd</td>
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<td>Standard Commodities NZ Ltd</td>
<td>Sealed Air (New Zealand)</td>
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<td>Taylor Preston Ltd</td>
<td>Vero Insurance New Zealand Ltd</td>
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<tr>
<td>Te Kuiti Meat Processors Ltd</td>
<td>Wiley New Zealand Limited</td>
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<td>UBP Ltd</td>
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<td>Wilbur Ellis (NZ) Ltd</td>
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<td>Wilmar Gavilon Pty Ltd</td>
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