Ministry for Primary Industries
Manatū Ahu Matua

A review of cost recovery for selected services provided by the Ministry for Primary Industries

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Growing and Protecting New Zealand

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1 Executive Summary

The Ministry for Primary Industries (MPI) provides a range of services to ensure New Zealand is protected from biological risk, the food we produce is safe and suitable and that our natural resources are managed sustainably while also enabling the primary sector to grow the value of its exports.

Cost recovery helps ensure that MPI is sufficiently funded to provide services critical to the operation and viability of the primary industries. Approximately 40% of MPI's departmental funding comes from cost recovery.

MPI has been undertaking a First Principles Review of Cost Recovery (the review). The objectives of the review are to support a more consistent and transparent approach to cost recovery across the range of services MPI provides and to ensure alignment with the Treasury and the Controller and Auditor-General cost recovery guidance.

Over the last 12 months MPI has been developing a package of proposals to improve our cost recovery arrangements. In parallel, MPI has also undertaken a comprehensive review of the levels of existing charges and identified a range of adjustments that will be required to ensure we continue to appropriately recover costs. MPI intends to progress these changes in two tranches.

The seven proposals set out in this document form the first tranche of changes and are those that MPI considers are highest priority for implementation from 1 July 2018. This includes three proposals within the Biosecurity System and four within the Food System. These proposals are summarised in Table 1. The proposals seek to improve equity of charges and adjust rates that are driving significant surpluses or deficits in memorandum accounts. They will also address surplus or deficit issues we expect to manifest over the next 12-24 months. MPI seeks your views on these proposals before we report back to ministers in the coming months.

A second tranche of proposals is also in development, to improve efficiency and equity and to simplify MPI's cost recovery arrangements. At this stage it is anticipated the second tranche will be available for public consultation in mid-late 2018, targeting implementation from 1 July 2019.

MPI is also progressing work to develop a consistent approach to reporting performance of charges and cost-recovered services to provide transparency about MPI's service performance and efficiency. MPI wants to work with industry representatives over the coming months to develop an approach to this, to implement at least some improvements from 1 July 2018.

Following these changes MPI will seek to review charges and policy settings under each regime at least once every three years with phased reviews to avoid reviewing all charges at once (e.g. biosecurity charges are reviewed one year, Food Act 2014 charges the next). Reviews will consider both policy settings and fee and levy rates.

Table 1: Summary of proposals for implementation from 1 July 2018

Page	Proposal	Rationale	Current rates	Proposed rates
19	Increase the maximum levy rate to allow for an increase in the Biosecurity System Entry Levy (BSEL), including recovering the full costs for the Joint Border Management System (JBMS) component of the BSEL	Improve equity by charging importers the full costs of biosecurity services at the border relating to goods	Maximum levy rate: $18.00 BSEL rate only: $13.15 JBMS rate: $4.22 (paid in addition) Total: $17.37	Maximum levy rate: $25.00 BSEL rate only: $15.24* JBMS rate: $5.12* (paid in addition) Total: $20.36* ** Indicative rates only*
24	Allow the levy period for the Border Clearance Levy (BCL) to be extended to up to 36 months	Improve equity between travellers and reduce volatility in BCL rates	Levy period of 12 months	Levy period of up to 36 months
27	Align biosecurity inspection rates for all jurisdictions	Improve equity by ensuring charges are the same for importers of products from all jurisdictions. This will require updating charges for the European Union and Switzerland	Biosecurity inspections (animal/pet): $28.19 Inspection of documents: $28.19 Other types of inspection: $56.37 Veterinary inspector: $94.38 per hour	Charged according to time required: Biosecurity inspector: $102.27 per hour Veterinary inspector: $186.30 per hour
38	Update Animal Products Act 1999 (APA) levies for red meat, dairy, and fish processors to recover historical and ongoing deficits	Improve equity and justifiability by ensuring businesses using APA services are charged full costs	20 rates, based on volumes processed or exported	Range from decrease in red meat domestic rates to increase in fish export rate
46	Introduce new charges relating to templates for food control plans developed by third parties under the Food Act and for a small number of low volume services	Improve equity by ensuring comparability of MPI charges for these and other services	N/A – new charges	Approvals, amendments and renewal of a third party template:- $155 per hour Other charges: range of fixed fees, based on this hourly rate
51	Update rates to fully recover costs and historical deficits for circuit verifications	Improve equity and justifiability by ensuring businesses using verification services are charged full costs	Programme charge: $44.90 per hour Verifier charge: $120.10 per hour Total charge: $165.00 per hour	Programme charge: $99.29 per hour Verifier charge: $105.27 per hour Total charge: $204.56 per hour
55	Introduce a targeted rate to address 2015/16 under-recovery of circuit verifications for coolstores, drystores and fish processing facilities	Improve equity and justifiability by ensuring businesses using verification services are charged full costs	N/A – new charge	$23.60 per hour for two years only (in addition to the general hourly rates)

2 Introduction

2.1 BACKGROUND

2.1.1 The importance of cost recovery to MPI

The Ministry for Primary Industries (MPI) works to ensure the food we produce is suitable and safe, to improve the sustainability of resource use, protect New Zealand from biological risk, improve sector productivity and maximise export opportunities for our primary industries.

Cost recovery plays an important role in achieving MPI's priorities by ensuring that MPI is sufficiently funded to provide a wide range of services, such as supporting access to key overseas markets, providing clearances of imports and verifying compliance with production requirements to ensure that our primary products are fit for export.

MPI receives approximately 40% of its departmental funding from cost-recovered activities. Given the scope and significance of cost recovery, MPI has been undertaking a programme of work to ensure the systems and processes that support cost recovery are fit for purpose.

2.1.2 The First Principles Review

In late 2015, MPI commenced a First Principles Review of its cost recovery arrangements. The review sought to ensure MPI takes a principled approach to cost recovery and promotes a consistent and transparent approach across systems and processes.

The first phase of the review involved the development and release of a discussion document that set out the key policies and principles that we considered should underpin how cost recovery is developed and managed. That work drew heavily on best practice guidance, including the New Zealand Treasury's *Guidelines for Setting Charges in the Public Sector 2002*[1] (Treasury Guidelines) and the Good Practice Guide issued by the Controller and Auditor-General: *Charging Fees for Public Sector Goods and Services 2008* (CAG Guidelines)[2] and sought to apply that guidance to MPI's specific context. The release of the discussion document also provided MPI with an opportunity to hear the views of key stakeholders and regulated sectors about how cost recovery impacted them.

The second phase of the review involved a more detailed examination of existing cost recovery settings, using what we learned in the first phase, to identify areas where policy settings could be improved. The review included analysing the legislative basis for all cost-recovered fees, charges and levies across all of MPI's cost-recovered areas, including assessing the level to which the cost recovery met the Treasury and CAG guidance for setting charges. The review found policy settings to be broadly appropriate but also identified a range of opportunities to improve the design of charges.

Over the last 12 months MPI has been developing a package of proposals to improve its cost recovery arrangements. In parallel, MPI has also undertaken a comprehensive review of the levels of existing charges and identified a range of adjustments that will be required to ensure it continues to appropriately recover costs. MPI intends to progress these changes in two tranches. The proposals and rate adjustments described in this document are those that we consider to be highest priority for implementation from 1 July 2018. The seven proposals in

[1] The new Treasury guidance is available at http://www.treasury.govt.nz/publications/guidance/planning/charges/settingcharges-apr17.pdf MPI developed its cost recovery policy framework before the new Treasury Guidance was released. However, it is generally consistent with the new guidance.

[2] Available at https://www.oag.govt.nz/2008/charging-fees/docs/charging-fees.pdf/at_download/file

Tranche 1 would make changes to six sets of regulations and levy orders under three Acts. The proposals seek to improve equity of charges and adjust rates that are driving significant surpluses or deficits in memorandum accounts.

A second tranche of proposals is also in development and we anticipate that public consultation on these proposals will occur in mid-late 2018, targeting implementation from 1 July 2019. This package will likely include further rate adjustments but is expected to also focus on improvements to policy settings, in particular simplification and design of charging arrangements.

MPI intends to undertake an ongoing programme of ‘rolling reviews’ across all of its cost-recovered systems, through which each cost recovery regime will generally be reviewed once every three years. This will ensure that cost recovery regulatory settings remain appropriate, including preventing any significant deficits or surpluses from accumulating.

2.2 ABOUT THIS DOCUMENT

2.2.1 Purpose

This document seeks your feedback on seven changes proposed to MPI’s cost recovery arrangements for services provided under the Biosecurity Act 1993, the Animal Products Act 1999 (APA) and the Food Act 2014. A summary of the proposed changes is provided in Table 1.

2.2.2 Navigating this document

This document is organised into three parts:

- **Part 1 – Overview of Cost Recovery**
  This part includes general information about MPI’s approach to cost recovery, the method we use to cost activities, how we undertake forecasts and general information about the status of memorandum accounts.
- **Part 2 – The Biosecurity System**
  This part focuses on proposals that relate to charges for services under the Biosecurity Act.
- **Part 3 – The Food System**
  This part focuses on proposals that relate to charges for services under the Food System (the APA and the Food Act).

2.3 SUBMISSIONS

MPI welcomes submissions on the proposals contained in this document. All submissions must be received by MPI no later than **5pm on Wednesday 21 March 2018.**

You can send your submission by:

Email: costrecovery@mpi.govt.nz
Mail: Consultation: Cost Recovery Proposals targeting 1 July 2018
Cost Recovery Directorate
Ministry for Primary Industries
PO Box 2526
Wellington 6140

We encourage you to make your submissions using the template available on MPI's website http://www.mpi.govt.nz/news-and-resources/consultations/proposed-changes-to-cost-recovery-for-some-services/

Please include the following information:

- the title of this discussion document
- your name and title
- your organisation's name (if you are submitting on behalf of an organisation) and whether your submission represents the whole organisation or a section of it
- your contact details (such as phone number, address and/or email).

2.4 OFFICIAL INFORMATION ACT 1982

Submissions are official information and may be the subject of requests for information under the Official Information Act 1982 (OIA). The OIA specifies that information is to be made available to requesters unless there is a good reason for withholding it.

Submitters may wish to indicate grounds for withholding specific information contained in their submissions, such as where they consider information is commercially sensitive or they wish personal information to be withheld. MPI will consider these requests in accordance with the provisions of the OIA. Should we decide to withhold information on request, any such decision is reviewable by the Ombudsman.

2.5 NEXT STEPS

All submissions received within the timeframe will be considered and used to inform final policy decisions in relation to these proposals. MPI aims to implement the agreed policy decisions from 1 July 2018.

MPI will be undertaking stakeholder engagement during the consultation period. If you would like to meet with MPI to discuss the contents of this document, or other matters related to cost recovery, please contact us by emailing: costrecovery@mpi.govt.nz.

3 Part 1 – Overview of Cost Recovery

3.1 MPI'S APPROACH TO COST RECOVERY

3.1.1 Why MPI recovers costs

Cost recovery is an important part of MPI's funding arrangements. It involves charges (usually in the form of fees or levies) to recoup the costs of providing services to individuals, businesses or other entities. Cost recovery is only undertaken where there is a lawful authority provided for in legislation or in some cases on a contractual basis.

MPI recovers costs associated with activities and services that deliver outputs. Our charges do not generally seek to recover costs or reflect benefits associated with the wider outcomes a service may contribute to.

MPI's objectives for cost recovery are to:

- ensure those who use services that enable commercial or private benefits pay for these services
- encourage those undertaking certain activities to take responsibility for managing risks to public health, biosecurity or the sustainability of New Zealand's primary resources, by ensuring they pay for the costs of managing those risks
- promote transparency for those who pay for services
- encourage efficient service delivery, while minimising transaction costs for service users and stakeholders wherever possible
- recover costs in a way that ensures MPI can provide services essential to growing and protecting New Zealand and can meet regulatory and wider government objectives.

3.1.2 Guiding principles

Four key principles guide MPI's approach to cost recovery – equity, efficiency, justifiability and transparency. These four principles, described below, are the criteria that have been used to assess options in the proposals set out in this discussion document and are common features in most legislation that authorises MPI to recover costs.

Principles are defined consistently in the APA and the Food Act as:

- *Equity* – services should be funded from users that benefit from the service or users that create risks that the service is designed to manage ('risk exacerbators').
- *Efficiency* – costs should be charged to ensure that maximum benefits are delivered at minimum cost.
- *Justifiability* – charges should only recover the reasonable costs (including indirect costs) of providing the service.
- *Transparency* – costs should be identified and allocated to the service for the recovery period in which the service is provided.

The Biosecurity Act generally requires the Director-General to consider the principles of equity and efficiency when setting cost recovery fees, charges or levies but these are not defined.

MPI aims to minimise transaction costs for all parties by ensuring charges are easy to understand and apply. MPI also considers the impacts that charges will have on the behaviour of service users: for example, will fees encourage users to be well prepared before engaging with MPI, to make sensible decisions about how much of MPI's services to use or to take steps to mitigate the risks they create (meaning less use of MPI's services is required).

Cost recovery guidance from the Treasury and the Controller and Auditor-General

In addition to the four principles MPI applies in cost recovery decision-making, we also apply the general guidance on cost recovery for public entities published by the Treasury and Controller and Auditor-General (CAG) (referenced on page 4). That guidance requires consideration of:

- *Authority* – does the public entity have legal authority to charge a fee for the goods and services provided?
- *Effectiveness* – are resources allocated in a way that contributes to the outcomes being sought by the activity? Is the level of funding fit for purpose?
- *Simplicity* – is the cost recovery regime straightforward and understandable to relevant stakeholders?
- *Accountability* – public entities are accountable to Parliament and to the public. To be accountable, entities need to ensure that their processes for identifying costs and setting fees are transparent.
- *Consultation* – has the entity engaged in meaningful consultation with stakeholders and is there opportunity for stakeholders to contribute to the policy and design of the cost recovery activity?

Treasury's new guidance (2017) encourages agencies to adopt an open-book approach throughout the different stages of the cost recovery process. The present consultation document includes information about the costs of each proposal, thereby addressing Treasury's guidance to provide information (see Appendix 2: Supporting information). The cost information includes the drivers of costs and planned investments, the different types of cost that make up charges; service volumes; and information on service efficiency and effectiveness.

Authority to charge and accountability

MPI has confirmed it has legislative authority for all of its regulated fees and charges[3] and is accountable through annual reports to Parliament and the public on memorandum account balances. Additionally, MPI recognises that performance reporting is a critical component of providing accountability and transparency to industry and other interested parties, as well as ensuring ongoing system efficiency. MPI is progressing work to develop a consistent approach to reporting performance of charges and cost-recovered services. MPI intends to have at least some reporting improvements in place from 1 July 2018.

3.1.3 Confirming who should pay and structure of charges

When determining who should pay and how charges should be designed, MPI also considers the economic nature of the service. In economic terms, services can be characterised as public, club or private goods:[4]

- *Public goods* are often Crown funded because it is either impractical or costly to exclude people from their benefits (non-excludable) and their use by one person does not preclude use by others (non-rival). However, even if a service has the characteristics of a public good, it may still be appropriate to charge parties that create risks that MPI's services are designed to manage.
- *Private goods* are generally recovered via direct charging the user of the service, where MPI can limit access to the service to a defined user or users (excludable) and the benefit of the service is received only by that user (rival). Direct charging is also appropriate where

[3] MPI charges for a number of services via non-regulated charges.

[4] There is also a category of merit goods – services that the community as a whole desires more of than would be provided if charged for at full cost. None of the proposals in this document include services that meet the definition of a merit good.

individual users create risks that MPI's services are designed to manage ('risk exacerbators').

- *Club goods* are generally recovered via levies on groups of users, where MPI can limit access to the service to a defined user or users (excludable) but any user's access to the service does not limit others' access to the same service (non-rival). Levies are also appropriate where a defined group of users create risks that MPI's services are designed to manage but the risks cannot be attributed to a single identifiable user.

Information on the nature of the service, why there is cost recovery and how charges are designed is provided in each proposal.

3.1.4 Use of Memorandum Accounts

For most of our charges MPI uses *memorandum accounts*, which transparently record expenditure, revenue and the accumulated balance of surpluses and deficits from MPI's charges. Surpluses and deficits occur when actual revenue and/or expenditure is different from estimates used to set charges.

While memorandum account balances fluctuate during the year, they should generally trend towards zero over time. A growing negative balance (deficit) in a memorandum account suggests charges need to be increased and a growing positive balance (surplus) suggests charges could be decreased.

MPI currently operates eight memorandum accounts. Table 2 describes the closing balances of each of these memorandum accounts based on actual and forecast revenue and expenditure data. Some accounts show zero balances in 2014/15 because these are new memorandum accounts commencing from 2015/16. Deficits are shown in red and in brackets.[5]

Table 2: Memorandum account closing balances 2014/15 - 2017/18

Memorandum account $000s	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Forecast
Accounts affected by these proposals				
Border Biosecurity Clearance Fees	(4,166)	(641)	1,925	1,249
Food Standards Assurance – Food Act 2014	0	(156)	(142)	(58)
Standards Setting for the Food Industry	2,203	800	665	(819)
Verification of the Food Regulatory Programme	(1,556)	2,142[6]	(2,499)	(1,803)
Accounts not affected by these proposals				
Approvals, Accreditations and Registrations	601	869	1,763	1,917
Border Biosecurity Traveller Clearance Levy	0	1,123	7,746	9,610
Phytosanitary Exports	1,173	952	912	855
Wine Standards Management	0	530	1,285	2,190

[5] Not all of MPI's cost recovery is managed and recorded via these memorandum accounts. MPI also receives revenue from fisheries and conservation levies, fees and charges under the Fisheries (Commercial Fishing) Regulations 2001, the Forestry Act 1949 and other fees for services provided to organic product exporters, which are not set by regulation.

[6] At June 2016 the Verification of the Food Regulatory Programme memorandum account included an accrual of $2.24 million relating to July 2016 revenue.

The 2017/18 forecast balances are illustrative projections based on forecast MPI expenditure for the year (assuming existing charges and service delivery models) as well as forecast revenue received. The demand for MPI services and revenue received will be affected by trends in the economy and other external factors, which are likely to be subject to greater variation than the forecasts of MPI expenditure.

The surplus in the *Phytosanitary Exports* account is slowly and naturally reducing and it is not proposed to make amendments to these charges at this time. MPI has a separate process under way to address the surplus accumulated in the *Border Biosecurity Traveller Clearance Levy* account. If required, the surpluses accumulating in the *Approvals, Accreditations and Registrations* and *Wine Standards Management* accounts will be addressed in the Tranche 2 proposals targeting 1 July 2019 implementation.

MPI is looking at charging arrangements impacting these accounts in more detail to determine what changes might be appropriate. We expect further discussion with industry in the next six months.

3.2 COSTING AND CALCULATION METHODS

3.2.1 Forecasting expenditure

In some cases charges are reviewed annually – for example, both the Traveller Border Clearance Levy (BCL) and the Biosecurity System Entry Levy (BSEL) are reset annually by the Director-General by notice in the New Zealand Gazette (the Gazette). In these cases charges are set to recover costs over the 12-month period. However, in most cases charges are set in regulation and authorising legislation requires a three-yearly review. Accordingly, MPI sets charges to recover forecast costs and any existing deficit or surplus over a three-year period.

Forecast expenditure includes provision for future cost pressures, as a result of demand changes, inflationary pressures and any specific changes in costs. Forecast assumptions are detailed in the relevant parts of this document.

3.2.2 Allocating expenditure

MPI allocates expenditure from cost centres to chargeable activities and, in the case of some levies, to particular sectors. Broadly, there are three types of costs allocated to activities:

- *Direct costs* are directly related to delivering a specific activity or service and typically include personnel, service specific contracts and other operating costs, such as travel and equipment. Costs of personnel working across multiple activities are allocated by 'assessed effort' estimated by cost centre managers on the relative full-time equivalent (FTE) effort spent providing each activity or service across different business areas and, where possible, informed by data from MPI's time recording system.
- *Operational support costs* include costs such as administrative support and management costs. Service support costs associated with a specific service or group of services are allocated to relevant cost centres.
- *Business support costs* are apportioned to direct cost centres to represent a fair use of particular functions or services, such as finance, human resources (HR), legal services, accommodation and communications.

Where cost centres include expenditure associated with a mix of activities, expenditure is allocated on the basis of assessed effort (i.e. the estimated time used for MPI to deliver a service). Expenditure is adjusted to take into account the memorandum account balance (i.e.

eliminating any prior surpluses or deficits) to generate an estimate of total recoverable expenditure.

3.2.3 Calculating charges

Once an estimate of total recoverable expenditure has been determined, it is converted to an annualised estimate and then divided by an appropriate denominator (e.g. annualised volumes or hours over the same forecast period) to determine the chargeable rate.

3.3 GOODS AND SERVICES TAX (GST)

All of the proposals in this document describe fees, charges and levies on a GST-exclusive basis. MPI has taken this approach to ensure consistency and comparability within and between cost recovery regimes. This approach also means that regulated charges will still be valid in the event of any GST variations.

3.4 MONITORING AND REVIEW

3.4.1 Ongoing performance reporting

As part of the First Principles Review, MPI has also identified opportunities to improve performance reporting. MPI recognises that performance reporting is a critical component of providing transparency to industry and other interested parties, as well as ensuring ongoing system efficiency.

MPI intends to improve transparency by publishing additional reports on all cost-recovered services it provides. MPI is undertaking work to develop an approach to this and will continue to work with industry to ensure that performance information is meaningful. At this stage MPI aims to have at least some improvements in place from 1 July 2018.

3.4.2 Ongoing programme of review

MPI intends to undertake an ongoing programme of 'rolling reviews' across all of its cost-recovered systems, through which each cost recovery regime will generally be reviewed once every three years. This will ensure that cost recovery regulatory settings remain appropriate, including preventing any significant deficits or surpluses from accumulating. Reviews will consider both the policy setting and fee and levy rates.

Fees and levies may also be updated outside of the review cycle if a material surplus or deficit accumulates in a memorandum account. However, MPI aims to set fees and levies at levels that ensure memorandum accounts trend towards zero over a three-year period.

4 Part 2 - Biosecurity System Cost Recovery Proposals

4.1 SYSTEM OVERVIEW

4.1.1 Importance of biosecurity to New Zealand

Biosecurity is the exclusion, eradication or effective management of pests and diseases that pose risk to New Zealand's economy, environment, human health, and social and cultural wellbeing. Biosecurity is of fundamental importance to New Zealand; it protects our environment, including our taonga species and human health; provides the platform for us to grow our economy, through primary production, tourism, and trade; and protects our social and cultural values.

4.1.2 Legislative settings

The Biosecurity Act 1993

The Biosecurity Act provides the legislative framework to ensure effective management of New Zealand's biosecurity system. The Biosecurity Act sets out a system for managing biosecurity risks faced by New Zealand through an interconnected series of activities that reduce or minimise risk at different points in the import/export supply chain, including offshore, at the border and within New Zealand.

The Biosecurity Act provides the framework for the biosecurity system, which is made up of:

- *Pre-border* – setting import health standards[7] to support the management of risk before it arrives in New Zealand, developing international standards and rules and entering into trade agreements and bilateral arrangements for biosecurity cooperation to support exports – these are mix between Crown funded and cost recovered.
- *At and around border* – processing cargo, people and craft as they enter New Zealand – these are predominantly cost recovered.
- *Post-border* – surveillance, readiness, response and long-term pest management – these are predominantly Crown funded.

Cost recovery in the biosecurity system is authorised by the Biosecurity Act and prescribed in the Biosecurity (Costs) Regulations 2010. There are also two Levy Orders in place under the Act. The majority of cost recovery in the biosecurity system is focused at the border.

4.1.3 Improving effectiveness in the biosecurity system

Biosecurity risks are growing in scale and complexity and New Zealand is being exposed to more and different pests and diseases from a wider range of sources. Stresses on the system include:

- *Growth in trade and tourism* – the volume and diversity of goods, craft and people crossing our border continues to increase. In the year ended June 2017, 3.65 million international visitors arrived in New Zealand, up 47% since 2008. This number is forecast to increase to 4.9 million by August 2023.[8] The value of imported goods was $51.1 billion in the year ended June 2017, up 22% since 2008, with total two-way trade close to $100 billion.[9]

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[7] Import health standards are documents issued under section 24A of the Biosecurity Act 1993. They state the requirements that must be met before high-risk goods can be imported into New Zealand.

[8] Ministry for Business, Innovation and Employment (September 2017). – International Travel and Migration; *Key Tourism Statistics*, Ministry for Business, Innovation and Employment.

[9] Statistics New Zealand. Import figures are on a Value For Duty (VFD) basis (the value of imports before insurance and freight costs are added). Export figures are on a Free On Board (FOB) basis (the value of goods at New Zealand ports before export), and exclude re-exports.

- *Increasing complexity of global supply chains and the rise of e-commerce* – global logistics networks are getting more sophisticated and New Zealand consumers are also increasingly turning to the internet to import their goods directly – the number of mail and courier parcels grew by 216% between 2003 and 2014, mainly as a result of internet commerce. This is exposing us to more and different risks from pests and diseases and increasing the complexity of the risk pathways.
- *Climate change* – a changing climate will influence organisms' abilities to survive in different parts of the world. It will therefore alter the biosecurity risks faced by our trading partners and the risk of new pests and diseases establishing here.

Over the past few years MPI has strengthened many parts of the biosecurity system through new initiatives, including the:

- Border Clearance Levy to provide funding that has allowed border activities for biosecurity to expand with demand.
- The Joint Border Management System (JBMS) was introduced in 2013 to provide a single point of contact for customers who are required to engage with multiple government agencies (New Zealand Customs Service (Customs) and MPI). The Trade Single Window (TSW) is part of the JBMS and provides a single channel for the cargo industry (importers, exporters, freight forwarders, express couriers, customs brokers, carriers, ports and other cargo custodians) to submit information to, and receive responses from, the border agencies in one place, instead of many.
- Government Industry Agreement for Biosecurity Readiness and Response (GIA) with MPI. GIA involves industry sectors entering into formal partnerships with MPI for decision-making and funding of agreed readiness and response activities. These activities are designed to prepare for and minimise the potential impact of biosecurity pests and diseases.
- Launch of the *Biosecurity 2025 Direction Statement* in November 2016. The Direction Statement presents a high-level plan for how MPI and other participants in the biosecurity system, including all New Zealanders, can collectively future-proof the system.

Intelligence and risk-based profiling is also becoming increasingly important to our identification of higher-risk goods, craft, people and pathways. MPI, with other border agencies such as Customs, is using improved technology, better information and data analysis to allow for more effective and efficient risk management. These tools allow MPI to better prioritise and target resources at higher-risk goods, people, craft and pathways, while facilitating lower-risk trade and travel.

These programmes will ensure MPI continues to strengthen border risk management. MPI conducts an annual survey of compliance monitoring for air passengers and mail. The latest independently verified[10] survey showed 98.8% of air passengers to be compliant after they had gone through our border checks (the performance target is 98.5%). Compliance for mail items was 99.9% (the performance target is 99%).

4.2 AUTHORITY TO CHARGE FOR BIOSECURITY SERVICES

The Biosecurity Act provides for MPI to perform services designed to manage the biosecurity risk posed from imported goods and travellers entering New Zealand. The Biosecurity Act requires the Director-General of MPI (the Director-General) to take all reasonable steps to recover the costs of administering the Act, which are not already funded by the Crown. Mechanisms available under the Act include levies and regulated fees. The Biosecurity Act generally requires the Minister to be satisfied that the imposition of a levy recovering the costs

[10] Independently verified by Colmar Brunton.

of providing or performing a particular service or function is in accordance with the principles of equity and efficiency. MPI applies these same principles to regulated fees.

Before making regulations that impose fees, charges or levies, the responsible Minister must, to an extent reasonably practicable, consult with representatives of the parties that would be affected by the regulations. This consultation document meets these requirements.

The Biosecurity Act has no requirements for the frequency of reviews but each cost recovery mechanism has its own particular requirements. These are described below.

4.2.1 The Biosecurity System Entry Levy

The Biosecurity System Entry Levy (BSEL) recovers the costs of primary screening of consignments and inspection of documentation associated with imported goods. The BSEL is collected on imported consignments triggered by the New Zealand Customs Service (Customs) *de minimis* (goods that incur $60 or more of Customs duty).

The Director-General of MPI is able to set the BSEL rate (including the JBMS component) by notice in the Gazette up to the prescribed maximum. The BSEL Order requires the levy rate to be set annually according to a specific formula. The Director-General may reset the BSEL annually by notice in the Gazette provided it remains below the maximum rate specified in the Biosecurity (System Entry Levy) Order 2010 (the 'Levy Order'), which is currently $18.

4.2.2 The Traveller Border Clearance Levy

MPI costs for processing travellers are recovered via the Border Clearance Levy (BCL).[11] Travellers arrive in New Zealand via air or cruise pathways or on private vessels (i.e. yachts). MPI (and Customs) provide a range of border services to manage biosecurity (and other) risks for all travellers arriving in New Zealand.

The BCL is able to be set by the Director-General of MPI by notice in the Gazette up to prescribed maximums. As with the BSEL, the Biosecurity (Border Processing Levy) Order 2015 requires the levy rate to be set annually according to a specific formula, which requires any surplus or deficit from the previous period to be taken into account when setting a new rate.[12]

The annual process to reset the levy rate will be undertaken independently of the proposals being consulted in this document.

4.2.3 The Biosecurity (Costs) Regulations

For physical inspections of consignments (also known as secondary inspections), the first 15 minutes is paid for under the BSEL and any required time beyond this is charged directly through inspection charges under the Biosecurity (Costs) Regulations 2010.

Proposal 3 in this document would affect inspection rates for importers of live animals or animal products from the European Union (EU) or Switzerland only (inspection rates for goods, live animals or animal products from other areas would not change).

MPI aims to review these fees and charges every three years, in line with the Treasury and CAG guidelines.

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[11] Also referred to as the Border Processing Levy.
[12] The Order includes an 'initial levy period' of 30 months that ends on 30 June 2018.

4.3 INTERNATIONAL COMPARISONS

For comparative purposes, the Australian system is the closest to New Zealand's for passenger and goods clearance and cost recovery.[13] The United Kingdom (UK) and the United States of America (USA) systems are not directly comparable with New Zealand. Therefore, this section focuses on comparisons with Australia for goods clearance (including inspections).

New Zealand's system compares favourably with Australia in terms of cost recovery (Table 3 below). In Australia the biosecurity system is regulated by the Biosecurity Act 2015 and administered by the Department of Agriculture and Water Resources. The Department's Charging Guidelines provide lists of services that are provided in the context of imports and exports, e.g. permits, certifications, inspections and audits or post-quarantine and the charges for these services.

Table 3: Comparison with Australia (NZ$ unless otherwise noted)

	New Zealand (Current)	Australia
Biosecurity – Border entry for goods	Biosecurity System Entry Levy of $17.37 (including JBMS) for goods with duty exceeding $60 (generally equivalent to consignment value of $400)	No charges for goods up to A$1,000. Import entry charges apply on goods exceeding this and will be charged between A$50 and A$150 based on consignment values
Biosecurity inspections and audits	$102.27 per hour for each inspector or biosecurity adviser involved $186.30 per hour for veterinary inspection	Inspection rates range from A$160 to A$200 per hour, though audit and inspection costs vary based on who is performing the inspections and what is being inspected

4.4 PERFORMANCE OF EXISTING CHARGES

This section discusses the current financial performance of the existing fees, charges and levies in the Border Biosecurity Clearance Fees memorandum account. Charges relevant to this account are inspector fees and the BSEL. The traveller BCL is not discussed in this document as the operation of this levy is being reviewed separately. The annual levy reset of the BCL rate for 2018 will be undertaken as part of normal processes independent of this consultation document. Detailed information about the performance of the BCL is included in the *Border Clearance Levy Performance for the year to 30 June 2017, and proposed rates for 2018/19* document available on MPI's website.[14]

4.4.1 Increasing demand for biosecurity clearance of goods

For the 2015/16 financial year there were estimated to be 8.1 million cargo entries crossing the border into New Zealand. Of those, 1.6 million were subject to the BSEL and 78,000 consignments of cargo warranted secondary inspection and/or further treatment by MPI biosecurity officers.

Volumes are forecast to continue growing from 2018/19 - 2020/21. In particular, the volume of consignments is forecast to increase by 4% per annum and biosecurity inspections (general and veterinary) for high-risk consignments are forecast to increase by 5% per annum.

[13] This section provides some information about cost recovery in Australia related to biosecurity. Information has been collected based on publicly available data and is not comprehensive.
[14] Available at https://www.mpi.govt.nz/news-and-resources/consultations/border-clearance-levy/.

Table 4: Forecast volume increase in 2018/19 - 2020/21

	2015/16 Actual	2016/17 Actual	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Leviable consignments (BSEL)	1,615,772	1,678,490	1,746,000	1,815,000	1,888,000	1,964,000
General inspections	78,133	81,880	82,000	86,000	90,150	94,550
Veterinary inspections	5,167	5,425	5,700	6,000	6,300	6,600

Changes to expenditure

While cost increases have been modest in the past few years, costs are forecast to increase more substantially over the next two years. Key drivers are investments in:

- staff resourcing to manage the increasing volumes of consignments and increasing number of inspections, including the delivery of a 24-hour seven-day-a-week cargo risk-assessment function
- new workforce planning management tools, including introducing new processes for biosecurity officers to be deployed in a more agile, mobile and adaptable way
- capability training through competency standards for frontline staff to ensure the efficient, consistent and ongoing provision of biosecurity services across the country.

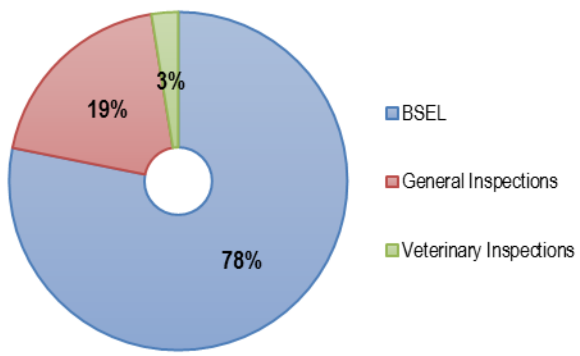
Table 5: Actual and forecast expenditure

$	2015/16 Actual	2016/17 Actual	2017/18 Forecast	2018/19 Forecast
BSEL activity (excluding JBMS costs)	19,001,072	20,991,705	27,179,000	28,186,000
General & veterinary inspection activity	10,821,000	11,823,000	10,454,000	11,089,000
JBMS	11,072,582	11,101,747	9,868,000	9,284,000

4.4.2 Border Biosecurity Clearance Fees memorandum account

Around $42 million is recovered annually for the clearance of cargo entering New Zealand via the BSEL and Biosecurity (Costs) Regulations. The *Border Biosecurity Clearance Fees* memorandum account primarily manages the revenue and expenditure associated with these activities. Approximately 78% of expenditure and revenue managed through this account relates to the BSEL.

Figure 1: Memorandum account break down



Increases to charges implemented from 1 July 2015 recovered previous deficits and in 2016/17 the account returned to surplus. MPI is still forecasting a surplus in the memorandum account at 30 June 2018.

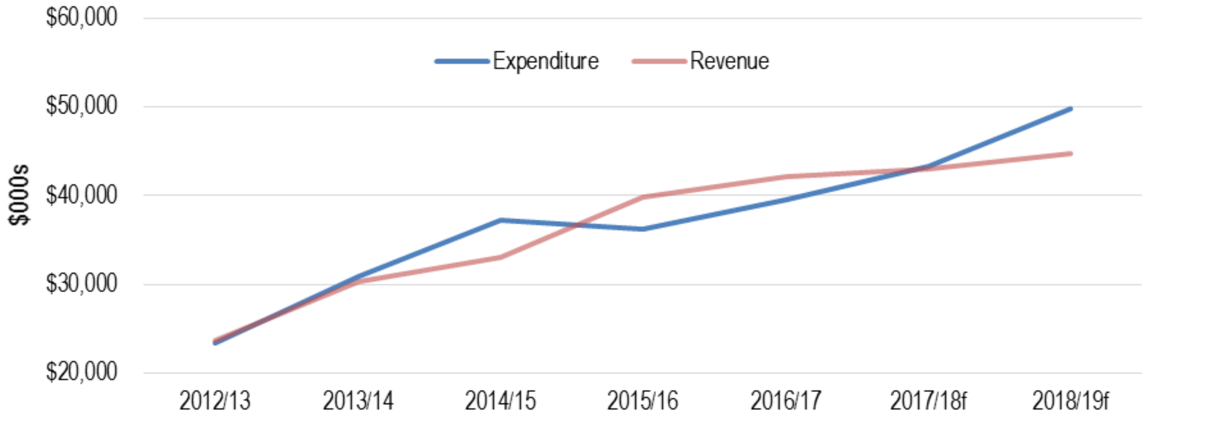
Table 6: Border Biosecurity Clearance memorandum account summary

$000s	2015/16 Actual	2016/17 Actual	2017/18 Forecast	2018/19 Forecast
Opening balance	(4,166)	(641)	1,925	1,249
Annual revenue	39,810	42,073	42,999	44,700
Annual expenditure	(36,285)	(39,507)	(43,675)	(48,500)
Annual operating surplus/(deficit)	3,525	2,567	(676)	(3,800)
Closing balance	(641)	1,925	1,249	(2,551)

At current rates the BSEL is expected to move to deficit in 2018/19. Accordingly, a proposal to update the BSEL is included in this document. The increase is expected to exceed the maximum levy rate set out in the Levy Order so a change to the Levy Order itself will be required to fully recover costs.

It is not proposed to update general inspection and veterinary inspection charges at this stage as they are still performing well at their current levels. It is likely that these charges will need to be reviewed again and updated for 2019 owing to the same forecast increases in expenditure described above. Figure 2 over shows the trends for expenditure and revenue associated with the memorandum account over time.

Figure 2: Border Biosecurity Clearance memorandum account forecast balance



4.5 PROPOSED CHANGES TO BIOSECURITY COST RECOVERY

4.5.1 Findings of the First Principles Review

The First Principles Review of Cost Recovery found that, broadly speaking, the policy settings which underpin biosecurity charges appear to be appropriate. However, a few areas of biosecurity cost recovery were identified for improvement. High priority improvements proposed for implementation for 1 July 2018 are discussed in this document. They include:

- improving equity by fully recovering the costs of the JBMS system instead of relying on Crown funding
- updating the BSEL rate, including amendments to the maximum levy rate
- improving transparency and efficiency by allowing the Director-General to set the BCL levy period to up to 36 months to enable flexibility to smooth adjustments over time and to better align with Customs' levy period
- improving equity by aligning the inspection rates for imports from all jurisdictions.

4.6 PROPOSAL 1: CHANGES TO THE BIOSECURITY SYSTEM ENTRY LEVY

4.6.1 Background

What services are provided?

The Biosecurity System Entry Levy (BSEL) recovers the costs MPI incurs to manage biosecurity risks posed from the importation of consignments[15] into New Zealand. The BSEL is collected on all imported goods for which an import entry or equivalent documentation is lodged with Customs. For the vast majority of consignments, the requirement to lodge an import entry is triggered by the consignment attracting Customs duties of $60 or more[16] (this threshold is sometimes referred to as the *de minimis*).

Costs are recovered for the following activities:

- some surveillance activities
- data collection and analysis
- primary screening
- 15 minutes of secondary risk assessment per consignment
- intervention monitoring programmes
- movement of consignments
- administration and collection of the levy.

The BSEL also recovers costs associated with the Joint Border Management System (JBMS) as a component of the levy.

MPI's immediate priorities for biosecurity investment are recruitment of more frontline staff, workforce planning management tools and capability training through competency standards for biosecurity officers.

Who should pay for these services?

Charging the importer is appropriate for biosecurity risk-related levies because the importer is the direct beneficiary of the services that allow them to bring their goods into New Zealand (excludable). Importers are also the risk exacerbators as it is their imported goods that create the biosecurity risk that MPI must manage. Charging the importer also supports efficiency, as it provides incentives for importers to take steps to reduce risk (to ensure compliance to avoid extra inspection charges).

Why is a levy appropriate?

A levy is charged per consignment and every importer receives broadly the same level of service provided by MPI per consignment. This means that parties that import more consignments will pay more of the levy. Therefore, a levy is an equitable mechanism for recovery of these costs as it ensures that those that benefit more and create more risk, pay more of the costs.

4.6.2 Problem statement

Since the BSEL was last reset, the costs of providing biosecurity services at the border have increased and these increases are expected to continue through the forecast period. The increases are primarily due to estimated additional investment in the resources and

[15] 'Consignment' includes all goods listed on an import entry lodged with Customs seeking permission to import the goods. This means that where a container(s) holds a single consignment of goods, one document that lists the contents of the container is all that is required. This document is used for primary screening purposes by MPI and is charged at a single BSEL rate.

[16] Generally this equates with a consignment value of $400 but for some types of goods a lower value may still attract this amount of duty.

infrastructure required to cope with increasing volumes of consignments. Other investment includes the addition of more frontline staff to deal with increased volume, a workforce planning tool for more effective deployment of staff, and capability standards to ensure consistency and quality across the country.

Additionally, the JBMS component of the BSEL is currently only partially recovered. The Crown has been contributing to the costs of the JBMS since its introduction.[17] The use of the JBMS is scheduled to apply to all imported goods from 1 July 2018; after then it is appropriate that the ongoing operating costs of the JBMS are recovered from importers, as they create the risks (through the importation of goods) which the JBMS has been established to manage.

The Director-General is able to increase the levy rate by notice in the Gazette but only up to the current specified maximum rate in the Levy Order of $18. For full recovery to be achieved (combined JBMS and BSEL) the cap will need to be increased.

4.6.3 Proposal

We propose to increase the BSEL rate to fully recover costs, including JBMS. The levy rate is calculated by dividing the total costs of these activities by the estimated volume of leviable importations. The calculation also takes into account a small surplus in the year immediately preceding the new levy year (reflected in the balance of the memorandum account). Table 7 below sets out indicative levy rates. Figure 6 on page 59 sets out the current rate, the break-even rate (the rate that would cover MPI's forecast costs) and an indicative rate.

Table 7: Indicative BSEL rates

	Current rate	Indicative rate	Change to rate	Percentage change	Financial impact pa
BSEL	$13.15	$15.24	$2.09	+16%	$3.8m
JBMS	$4.22	$5.12	$0.90	+21%	$1.6m
BSEL incl JBMS	$17.37	$20.36	$2.99	+17%	$5.4m

To enable higher BSEL rates, we propose to increase the maximum rate of levy described in the Levy Order from $18 to $25. This would allow the Director-General to set a levy rate up to the proposed maximum through the normal Gazette process.

The proposed maximum levy rate allows a 23% buffer above the indicative levy rate to account for any variation. This should provide sufficient headroom in the maximum rate to avoid further changes to the Levy Order in the medium term, which is efficient because it will allow MPI to adjust the rate annually to reflect fluctuations in costs.

See Appendix 1: Calculations for proposed updates for the calculation of the levy. Further information on the volumes, revenue, expenditure, assumptions and cost break downs are included in Appendix 2: Supporting information.

In calculating the proposed rates, MPI has assumed that volumes of consignments subject to the BSEL will increase at 4% per annum and inspection services will increase at 5% per annum from 1 July 2018. These assumptions have been based on historical patterns of growth.

[17] The Crown contribution was $4.4 million in 2016/17. However, this is forecast to decrease to $1.6 million by 2018/19 (the new levy period) as information technology (IT) support costs decrease.

4.6.4 Other Options Considered

a) Maintain status quo for another year

Maintaining the status quo by waiting another year before increasing the BSEL is not technically permitted under the current Levy Order because the formula prescribed for the levy includes the estimated annual expenditure. The only way to avoid an increase to the BSEL in 2018/19 is for MPI to reduce expenditure attributable to the levy. Recent investments in frontline staff, infrastructure and technology mean this is unlikely to be achievable in the short term as there would be a $5.4 million deficit including both the BSEL and JBMS components for 2018/19.

b) Raise the BSEL, but the Crown continues to top up the costs of the JBMS

If full recovery of the JBMS is not included in levy costs from 1 July 2018, additional taxpayer funding in 2018/19 would be required and would result in additional cost pressure for MPI in 2018/19. This option would be less equitable than full cost recovery. Taxpayer funding has already supported a significant portion of the costs associated with JBMS, including development costs. Now that the system has been implemented, it is appropriate that the ongoing operating costs are met by importers.

c) Increase the BSEL but only to the regulated maximum threshold

In effect increasing the BSEL only to the regulated maximum threshold would mean the taxpayer would continue to top up the costs of JBMS. The taxpayer would also have to start topping up part of the costs of the BSEL. This would reduce the impact of the rate increase to importers, but MPI would continue to face a cost pressure associated with JBMS, as a result of being unable to fully recover the costs of the BSEL. The total impact would be $4.3 million per annum. This option may be marginally more administratively efficient, as it avoids the need to raise the cap in the Levy Order; the Director-General could simply gazette the new rate at $18. However, this is a short-term benefit as the cap and full recovery of JBMS and BSEL will need to be considered again for 1 July 2019.

4.6.5 Impact analysis

Impacts on levy payers

Raising the cap in the Levy Order allows more flexibility for the Director-General of MPI to make adjustments to the BSEL rates without requiring decisions from ministers. The BSEL rate is still set pursuant to the prescribed formula and in making a decision to raise the levy rate the Director-General must still consult if significant changes to the way in which the levy is spent are proposed.

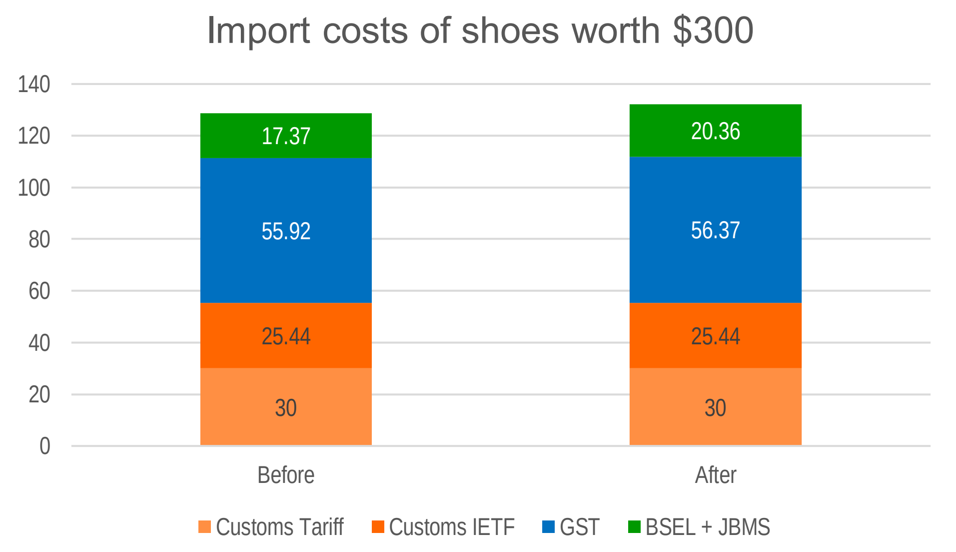
Increasing the BSEL rate will affect all importers of goods. Table 7 shows the change in rate per consignment, e.g. single good or container of goods, both with and without the JBMS component. This increase is unlikely to have a significant impact on importers, the majority of whom are businesses importing in bulk, as the BSEL is only payable per consignment rather than on the individual good within each consignment. The volume of imports is also unlikely to be affected as the proposed increase per consignment is minor compared to the value of the goods.

There may be some impacts on members of the public who import goods from overseas if they attract Customs duties of $60 or more. For those required to pay the BSEL, it will still represent the smallest portion of the total fees and duties payable (GST, Import Entry Transaction Fees and other Customs duties – See Case study 1 below).

Case study 1 –Shoe imports

The BSEL is payable on imports that attract duties above NZ$60. For an import of shoes, this means an import valued at or above approximately NZ$230 (because shoes are subject to tariffs, otherwise known as Customs duty).

The impact of proposed changes to the BSEL and JBMS on an imported pair of shoes valued at NZ$300 is illustrated below.



(1) GST includes GST payable on the tariff, Customs Import Entry Transaction Fee (IETF) and the BSEL + JBMS

The total difference is $2.99. The BSEL/JBMS Levy is still the smallest portion of government charges (18%).

For larger commercial imports the financial impact will be the same, $2.99 more per consignment. Given that consignments for commercial importers can, and generally do, contain multiple items, e.g. a full container load of goods as one consignment, the impact per item will be significantly less.

Financial impact on MPI

The total impact to MPI will be an additional $5.4 million per annum from 1 July 2018. If forecasts are accurate, this will enable full recovery of costs, including planned investment in the biosecurity system, and the memorandum account should balance by 30 June 2019.

The BSEL is currently running a small surplus (see Table 2). However, the increased volumes and costs identified in section 4.4.1 means that the rate needs to increase to cover the full costs and to avoid the account operating at a deficit after the forecast period of 1 July 2018 to 1 July 2019.

MPI will continue to monitor how the balance is tracking within the memorandum account and the levy rate will be reviewed annually and reset if required.

4.6.6 Implementation

If this Proposal is progressed, the Levy Order would be amended to increase the cap from $18 to $25. We would also increase the levy rate in the Levy Order from $17.37 to $20.36 for the next levy period – from 1 July 2018.

4.6.7 Questions for consideration for Proposal 1

1.1 What impact will increasing the maximum cap for the levy and increasing the BSEL rate have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

1.2 Please describe any impact and quantify this if possible.

1.3 Are there any other issues associated with increasing the maximum cap for the levy and the BSEL rate that you think MPI should be aware of?

1.4 Are there any other issues with the way the levy is operating generally that you think MPI should be aware of?

4.7 PROPOSAL 2: EXTEND THE BORDER CLEARANCE LEVY PERIOD

4.7.1 Background

The Border Processing Levy, also known as the Border Clearance Levy (BCL), fully recovers the costs incurred by MPI and the New Zealand Customs Service (Customs) for processing international travellers. These services assess international travellers for any biosecurity risks as they arrive, and Customs risks as they arrive and depart New Zealand.

The BCL came into effect on 1 January 2016 through the Biosecurity (Border Processing Levy) Order 2015 for MPI and the Customs and Excise (Border Processing Levy) Order 2015 for Customs. The levy is charged according to rates set out in the MPI and Customs Levy Orders. These require the initial levy rate to be reviewed by 1 July 2018. The Levy Orders prescribe different levy periods. MPI has a 12-month levy period while Customs has a 36-month levy period.

Travellers pay the levy as part of their air or cruise ticket. Customs collects the levy on behalf of both agencies from the air and cruise industry, which are the collection agents. For private marine craft, which includes yachts, the levy is billed to the registered craft owner.

What services are provided?

The levy is used to fund MPI and Customs' traveller processing activities. It is intended to recover all costs relating to the clearance of passengers for entry into New Zealand.[18] For MPI, relevant services at the border include:

- assessment of arrival documentation against biosecurity requirements
- verification of compliance to biosecurity requirements of travellers
- application of intervention tools, e.g. communications, searches, detector dogs, x-rays

as well as pre- and post-border services including:

- screening for targeted interventions – identifying travellers of biosecurity interest
- coordination of resourcing and tasking of border activities
- en-route biosecurity clearance (where possible)
- management of craft applications for arrival at non-approved Places of First Arrival
- collection of information relating to pathways and effectiveness of interventions
- review and management of high-risk travellers
- verification of the process for the disposal of risk goods seized from travellers
- investigations into non-compliance
- compliance monitoring and analysis to measure performance of pathways.

Rates are reset via an annual process. This process is being undertaken separately. This proposal focuses on an operational change to the formula for calculating the levy. Costs are not discussed further here.

Who should pay for these services?

Charging the levy to international travellers is appropriate as they create the biosecurity risk that MPI's services are designed to manage.

[18] This also includes some services provided by Customs relating to exit of persons from New Zealand.

Why is the levy appropriate?

The clearance of an international traveller for biosecurity risk applies only to that individual traveller. Therefore a flat levy charged on all international travellers is appropriate as it ensures that they as a group meet the costs of MPI providing the border clearance services that allow them to enter New Zealand. A per-traveller levy means that revenue changes in line with traveller volumes, so provides the resources for MPI to scale up services as necessary to maintain the level of risk assurance.

4.7.2 Problem statement

The Biosecurity (Border Processing Levy) Order 2015 specifies a levy period of 12 months beginning on 1 July and ending on 30 June. This requires MPI to review and, if appropriate, reset the levy annually and notify the rates in the New Zealand Gazette. However, the Customs and Excise (Border Processing Levy) Order 2015 requires that Customs manages its levy revenue over a 36-month levy period.

MPI's current 12-month levy period means that any surpluses or deficits must be recovered or returned during the next 12-month period. While this allows MPI to respond to any changes in expenditure or revenue, it can create volatility in the levy rates if there are big changes in expenditure or revenue (volumes). This volatility means that the levy rate can increase or decrease significantly between levy periods. This can cause two issues:

1. As the levy is generally factored into ticket prices, industry needs to be notified of the new rates months in advance to ensure travellers pay the correct amount.
2. It prevents MPI from smoothing impacts over a longer period, creating equity issues for travellers travelling in different levy periods or at different times who would be charged different rates.

4.7.3 Proposal

MPI proposes to amend the Levy Order to set a levy period of *up to* 36 months. The levy period would continue to run from 1 July to 30 June. The proposal would allow MPI to reset the levy if significant surpluses or deficits start to accumulate within the 36-month levy period but would also provide greater flexibility to manage the financial performance of the memorandum account over a longer period. This will smooth out any volatility due to changes in passenger volumes or costs. This should also improve equity because passengers travelling in different levy periods or at different times are more likely to be charged a similar levy rate. Moving to three-yearly reviews will also align with best practice contained in the *Office of the Auditor General's Guidelines for Charging Fees for Public Sector Goods and Services*.

The impact on the memorandum account balance will continue to be monitored and reported through the annual performance review of the levy. The report would indicate whether a levy rate adjustment is required within the remaining levy period. The new rates would be gazetted at least every 36 months.

Other options considered

The alternative option is to remain with the status quo of a 12-month levy period. This would not address the problems identified above. Other levy periods were also considered but MPI considers a maximum of 36 months provides for more stable rates while also ensuring that rates would be reviewed within a suitable timeframe, i.e. at least every three years.

4.7.4 Impact analysis

This Proposal is expected to have minimal impact on levy payers as they will still be required to pay the BCL. However, equity would be improved because passengers travelling at different times would more likely be charged a similar levy rate, enabling the impact of levy changes to be smoothed over a longer period.

Extending the levy period to up to 36 months will make it easier for MPI to manage the impact of any surplus or deficit in the memorandum account or any changes in the cost to deliver the service.

4.7.5 Implementation

Changing the BCL levy period from 12 to up to 36 months requires an amendment to clause 3 of the Biosecurity (Border Processing Levy) Order 2015. The Proposal would amend the definition of 'levy period' to: allowing for a period 'of up to 36 months'.

If progressed, the Levy Order would be amended by 1 July 2018, so that from 1 July 2019 levies could be set for a period of up to 36 months.

MPI will continue to monitor the financial performance and cost drivers of the levy annually regardless of the levy period and make adjustments if necessary.

4.7.6 Questions for consideration for Proposal 2

2.1 What is your preference for the Border Clearance levy period?

☐ 12-month levy period (status quo)	☐ *Up to* 36-month levy period	☐ No preference

2.2 Please describe the reasons for your preference.

2.3 What impact will extending the levy period from 12 months to *up to* 36 months have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

2.4 Please describe any impact.

2.5 Are there any other issues associated with the extension of the levy period that you think MPI should be aware of?

4.8 PROPOSAL 3: ALIGN BIOSECURITY INSPECTION RATES FOR ALL JURISDICTIONS

4.8.1 Background

Biosecurity inspection, clearance, and approval services are designed to keep harmful pests and diseases out of New Zealand. Currently, MPI does not have one aligned biosecurity inspection rate for all jurisdictions. In particular, MPI's charges are considerably lower for importers of general and veterinary animal goods from the European Union (EU) and Switzerland than for importers of goods from all other jurisdictions for the same services. This is because the rates were set in 2015 to fall beneath maximum rates set out in the EU-NZ Sanitary Agreement.[19] The maximum rates for document and identity checks in the EU-NZ Sanitary Agreement have subsequently been increased.

The documentation and identity checks covered by the EU-NZ Sanitary Agreement are administrative, desk-based components of MPI's border services that take between 15 and 30 minutes; even at standard hourly rates, the charges fall below the new maximums specified in the EU-NZ Sanitary Agreement. The physical inspection fees are not set by the EU-NZ Sanitary Agreement and the time taken for a physical inspection varies depending on the animal, its origin and its condition. MPI's current fee structure is based on an hourly rate that includes the document checks and the physical inspection as a combined service.

What services are provided?

The services provided by MPI include both the administrative checking of documents and identity and the physical inspection of animals and animal products arriving at the border. The EU-NZ Sanitary Agreement maximums only cover the administrative components, which are a small portion of the actual services provided by MPI at the border.

Who should pay for the services?

The costs for biosecurity inspections are recovered from importers of risk goods because the importer creates the risks that MPI's services are designed to manage. In addition, charging the importer creates an incentive to take steps to reduce risk (to ensure compliance). For example, by ensuring animals have been properly inspected before leaving the country of origin. It is appropriate and equitable that all countries importing into New Zealand pay the same rates for the services they receive from MPI.

Why are fees appropriate?

Direct charging via fees is appropriate because MPI can efficiently identify and charge the direct user of the service and it is equitable that users pay the actual costs of providing the service.

4.8.2 Problem statement

The maximum rates for document and identity checking allowed in the EU-NZ Sanitary Agreement have been increased but the charges to these importers have not been increased. It would be inequitable to maintain the lower rates for importers of goods from the EU or Switzerland only. In addition, the physical inspections are not covered by the EU-NZ Sanitary Agreement so there is no reason for MPI to retain differential rates for physical inspections.

[19] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32015D1084&from=EN - ANNEX VIII

4.8.3 Proposal

MPI proposes to align MPI border inspection rates for imports of live animals and animal products or material for all jurisdictions to ensure equitable treatment between all countries that export to New Zealand. Table 8 over sets out the rates that would be impacted by this Proposal.

The identity and administration checks for a consignment generally take 15 to 30 minutes of MPI inspection time. It is highly unlikely that an identity and administration component of the inspection would ever take 1.46 hours (which would be the level required to exceed the maximum set out in the EU-NZ Sanitary Agreement). The Agreement does not mandate maximum rates for physical inspections; instead it refers to the standard rates set for all importers in the Biosecurity (Costs) Regulations 2010.

Further information on the cost types are included in Appendix 2: Supporting information.

4.8.4 Other options considered

MPI considered maintaining the status quo where the taxpayer funds the cost of not fully recovering for imports from the EU and Switzerland. This option was not considered equitable and efficient as the taxpayer does not contribute to the risks that create the need for inspection and therefore is unable to take steps to reduce risk.

4.8.5 Impact analysis

Impacts on fee payers

Under this option, importers from EU and Switzerland face an increase in fees for inspections as they would be aligned with all other inspection fees. This increase would still be compliant with the EU-NZ Sanitary Agreement, therefore it is unlikely that the EU or Switzerland would reciprocate with higher rates for New Zealand exports. MPI will continue to apply the maximum rates for documentation and identity checks established in the EU-NZ Sanitary Agreement (see Table 9). Most documentation and identity checks take less than 30 minutes, so the maximums in the EU-NZ Sanitary Agreement are unlikely to be reached.

Financial impacts on MPI

Table 8 indicates that, based on the 2016/17 volumes for each affected charge, additional cost-recovered revenue for MPI is anticipated to be approximately $30,000 per annum, which is unlikely to have a significant impact on MPI’s overall cost-recovered revenue for biosecurity inspections.

The additional revenue ($30,000 per annum) would have a minor positive impact on the memorandum account.

4.8.6 Implementation

If progressed, these changes would be updated via amendments to the Schedule in the Biosecurity (Costs) Regulations 2010 and implemented from 1 July 2018. To ensure the Proposal complies with the maximums set in the EU-NZ Sanitary Agreement, the regulations may include reference to the maximum allowed rates for document and identity checks.

4.8.7 Questions for consideration for Proposal 3

3.1 What impact will aligning the inspection rates for all jurisdictions have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

3.2 Please describe any impact and quantify this if possible.

3.3 Are there any other issues associated with aligning inspection rates for all jurisdictions that you think MPI should be aware of?

4.8.8 Supporting information

Table 8: Financial impacts summary for aligning rates with other jurisdictions

<table>
<tr><th>Service</th><th>Fee item[20]</th><th>2016/17 volumes</th><th>Current EU and Switzerland rates</th><th>New (aligned) rates</th><th>Financial impact</th></tr>
<tr><td>Monitoring controls on new organisms in containment facilities</td><td>8</td><td>0</td><td>$94.38 per hour for each veterinary inspector</td><td>$102.27[21] per hour for general inspections
$186.30[22] per hour for veterinary inspections</td><td rowspan="5">The total financial impact of these changes is estimated to be a revenue increase of $30,000</td></tr>
<tr><td>Inspection of animal after arrival</td><td>9</td><td>473</td><td>$28.19 per animal imported</td><td>$102.27 per hour for general inspections
$186.30 per hour for veterinary inspections (generally half an hour per inspection)</td></tr>
<tr><td>Inspection and monitoring of an animal or plant held in a transitional or containment facility</td><td>11</td><td>3</td><td>$94.38 per hour for each veterinary inspector</td><td>$102.27 per hour for general inspections
$186.30 per hour for veterinary inspections</td></tr>
<tr><td rowspan="2">Inspection of a consignment of animal material (other than fish meal) for the purpose of ascertaining whether it should be cleared</td><td rowspan="2">12</td><td>1,200</td><td>$28.19 per consignment for inspection of documents</td><td rowspan="2">$102.27 per hour for general inspections
$186.30 per hour for veterinary inspections</td></tr>
<tr><td>11</td><td>$56.37 per consignment for other types of inspection</td></tr>
</table>

[20] Item in the Schedule to the Biosecurity (Cost) Regulations 2010.
[21] Figure 9 sets out the cost components of this hourly rate.
[22] Figure 10 sets out the cost components of this hourly rate.

Table 9: Description of maximum rates for documentation and identity checks allowed in the EU-NZ Sanitary Agreement

Service	Type of charge	Fee (excluding GST)[23]
Single consignment	Fixed	A maximum of $149.60 per consignment for documentation and identity checks
Multi -container consignments	Fixed	A maximum of $149.60 for the first container for documentation and identity checks and a maximum of $75 per additional container for additional containers
Break bulk consignments	Hourly	A maximum of $149.60 per hour for documentation and identity checks

[23] Where maximum rates are specified there is also provision in the agreement for that maximum to increase overtime in accordance with inflation. The formula is: Listed inspection fee x (1 + average inflation rate/100)(Current year - 2009)

5 Part 3 – Food System Cost Recovery Proposals

This part introduces MPI's food system and seeks feedback on four cost recovery proposals.

5.1 SYSTEM OVERVIEW

5.1.1 Importance of food safety services to New Zealand

The food safety system encompasses all food and beverages for human consumption, pet and animal feed, agricultural compounds and veterinary medicines. It includes the whole food-supply chain, including production, import, processing, packaging, transporting, storage, sale and export.

There are approximately 97,670 business premises that predominantly serve food across New Zealand. Our food retail and service industry had a turnover of $30.9 billion and food manufacturing had a turnover of $45.5 billion for the year to 30 June 2017. In addition, food imports totalled $4.7 billion and food exports (including beverages) totalled $29.1 billion for the year to 30 June 2017.

New Zealand's food safety system is world-leading, and is based on international best practice science and risk assessment. In general terms, the current legislative framework requires businesses to take responsibility for the safety and suitability of food, wine and related products and MPI is responsible for ensuring that this happens.

The food safety system is critical for protecting and supporting the health of New Zealanders and minimising the number of foodborne illnesses. The system also supports New Zealand's food, wine and related exports; around 80% of food products produced in New Zealand are exported. Consumers and trading partners expect these products to be safe and suitable to consume. New Zealand and Australia share the same standards for food labelling and composition wherever possible. This joint system is governed by the Australia and New Zealand Ministerial Forum on Food Regulation.

5.1.2 Legislative settings

The legislative framework to ensure effective management of the food system comprises the following Acts (Table 10 below):

Table 10: Description of legislation that comprises the food system

Legislation	Description
Food Act 2014	The Food Act 2014 came into force on 1 March 2016, replacing the Food Act 1981. The central feature of the Food Act is that food businesses are regulated according to the level of risk that their food presents to consumers and assigned applicable measures for high, medium and low levels of risk. The Food Act provides a staged transition into the new requirements for domestic food operations by 28 February 2019.
Agricultural Compounds and Veterinary Medicines Act 1997 (ACVM)	The purpose of the ACVM is to prevent or manage risks associated with the use of agricultural compounds. Products regulated by the ACVM Act include veterinary medicines (such as antibiotics for animals), agricultural chemicals (such as herbicides) petfoods and animal feeds, fertilisers and toxic vertebrate agents (such as those used to control possums or rabbits).

Legislation	Description
Animal Products Act 1999 (APA)	The APA applies to the production and processing of all animal material and products and applies to a wide range of businesses – meat processing, fish and shellfish, dairy products and a diverse group of other processors – for domestic and export markets. MPI provides a range of regulatory services under the APA that aim to minimise and manage risks to human or animal health arising from the production and processing of animal material and products, and also facilitate the entry of animal material and products into overseas markets by providing the controls and mechanisms needed to provide official assurances for entry into those markets.
Wine Act 2003	The Wine Act 2003 protects consumers of New Zealand wine by developing standards ensuring correct labelling and the safety of the product. The Wine Act also provides for compliance activities to ensure that producers of New Zealand wine comply with these standards. It does this to support New Zealand's reputation of high quality wine, which underpins trade and economic growth outcomes.

These Acts are administered by MPI and regulate the production of products for human or animal consumption and the import, manufacture and use of agricultural compounds and veterinary medicines (primarily relating to managing direct or indirect impacts of their use on other areas of the food system).

All of the Acts in the food system require cost recovery to be aligned with the principles of equity, efficiency, justifiability and transparency, using the definitions outlined in Part 3 of this document. Each Act provides a wide range of flexibility in the types of fees, charges and levies that can be applied, including allowing for direct, indirect and average costs to be recovered. Each Act also establishes a wide range of administrative provisions, including parameters on the recovery of historic deficits (4 years), requirements for consultation, setting penalties and provisions for fees to be waived. All of these Acts require a review of cost recovery to be completed every three years.

Cost recovery in the food system is authorised by the relevant legislation and prescribed in the following regulations:

- the Food (Fees and Charges) Regulations 2015
- the ACVM (Fees, Charges, and Levies) Regulations 2015
- the Animal Products (Fees, Charges, and Levies) Regulations 2007
- the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
- the Wine Regulations 2006.

5.1.3 Improving effectiveness in the food system

New Zealand has a strong reputation as a trusted supplier of safe and suitable food. With continually increasing growth of both food imports and exports, it is important for this reputation to be maintained.

Therefore, MPI has been implementing a range of initiatives in the food system that aim to improve the effectiveness of the food system and to contribute to improved efficiency for both MPI and food businesses. MPI is also continually identifying new ways to improve the way we interact with businesses.

Some examples of initiatives improving effectiveness and efficiency are briefly discussed in this section. MPI will also investigate options to ensure alignment with the Government's regional economic development objectives and support small, remote and developing businesses to succeed.

Implementation of the Food Act 2014

The Food Act 2014 replaces the one-size-fits-all prescriptive approach found in the previous Act with a risk-based, outcome-focused approach. It sets different rules for higher- and lower-risk activities, focusing on what is most important for food safety.

The aim is that our system controls are efficient and flexible, allow for innovation, impose minimal compliance costs and reflect the diversity of businesses in the food sector. This means food businesses producing or selling low-risk foods (for example, potatoes or popcorn) face lower regulatory burdens than those producing high-risk foods (for example, infant formula or salami). Efficiency and effectiveness is improved by ensuring that food businesses only need the level of service from MPI appropriate for the level of risk created.

Exporter Regulatory Advice Service

The Exporter Regulatory Advice Service (ERAS) is a new initiative designed to contribute to MPI's goal of growing the value of New Zealand's primary sector. It is a proactive, customer-centric team designed to help primary sector exporters understand and navigate export requirements by providing targeted advice and a range of resources.

This will help exporters to understand and comply with export requirements and will provide advice on export opportunities.

Verification Services

Over the past few years, MPI has continued to develop ways to improve the effectiveness and efficiency of its verification service through new initiatives, including:

- optimising circuit mobility to ensure that all circuit verifiers are completely mobile. This allows staff to not only undertake the verifications on site but also provide the necessary reporting at the customer's premises to reduce travel costs
- further improving efficiency by networking verifications to geographical areas. This ensures that staff are able to undertake consecutive verifications in the same area, reducing travel costs imposed on businesses
- evidence-based monitoring to set productivity targets, which provides MPI with improved tools to manage and measure productivity and to identify trends and changes. This will help MPI to better drive efficiency improvements in the future.

5.2 AUTHORITY TO CHARGE IN THE FOOD SYSTEM

MPI recovers more than 60% of food safety expenditure via third party charging (fees and levies). MPI recovers the costs of a wide range of services in the food system, including development of standards and regulation of businesses and products for compliance against those standards.

The level of service provided by MPI in the food system is primarily driven by the level of assurance required to ensure that the system is operating effectively and that operators are managing their risks appropriately. This assurance relates directly to domestic food safety and ensuring that products meet the overseas market access requirements of our trade partners.

MPI provides similar types of services to stakeholders regulated by each Act. These include:

- *Standards development, market access services and system and assurance monitoring*: this includes market access services, standards development (domestic and export), and system-wide monitoring to ensure compliance of the system as a whole.

- *Approvals: including approvals, listings, recognitions, registrations and exemptions:* these are services provided to applicants to regulate whether and how businesses operate in relevant markets (including approval of their premises, systems and supply chains).
- *Verification services:* these include verification staff permanently on site at establishments or undertaking mobile circuit verification services, to verify that businesses are operating in accordance with legal requirements.
- *Official assurances and certifications to provide assurance that exports have met the relevant standards.*
- *Compliance monitoring:* including inspection, audit and enforcement actions related to individual parties (rather than system-level compliance activities as part of MPI's standards monitoring services).

Table 31 gives more information on the types of cost-recovered services provided by MPI to provide assurances that foodborne risks are being effectively managed.

5.3 INTERNATIONAL COMPARISONS

For comparative purposes, MPI has looked at cost recovery systems across Australia, Canada, the UK and the USA. Food-related services provided are similar in these countries but the legislative contexts and service delivery models in each vary considerably. In general, other countries charge for food-related services but the underlying differences mean that it is difficult to provide direct comparisons between costs for 'similar' services in New Zealand and elsewhere.

In Australia the food safety system is regulated by a range of Acts administered by the Department of Agriculture and Water Resources. Cost recovery fees and charges are applied to the Department's import and export services related to food safety, such as certifications, inspections and compliance services. The Department also collects, administers and disburses levies and charges on behalf of Australian agricultural industries, which are used to fund research and development, marketing, biosecurity and residue testing programmes.

New Zealand and Australia provide similar verification services for animal processing (see Figure 3).

Figure 3: Comparison on establishment verification charges between New Zealand and Australia

	New Zealand	Australia
On plant veterinarian	NZ$27.84 per 15 minutes	A$32.00* per 15 minutes
		(* after remission of A$7.00 of the total nominal fee of $39.00)

In Canada, food safety is regulated under the Safe Food for Canadians Act 2012[24], which is administered by the Canadian Food Inspection Agency. There are charges for a range of services, including labelling, registrations and approvals (including permits, licensing and certifications), compliance services, inspections and monitoring, as well as services related to imports and exports.

[24] Available at http://laws-lois.justice.gc.ca/eng/acts/S-1.1/page-1.html

In the UK, primary responsibility for food safety and food hygiene lies with the Food Standards Agency. The Agency is supported by local authorities in enforcing food safety regulations. EU regulations (such as Regulation 882/2004[25]) include controls related to food, animal health and animal welfare. Cost recoverable services in the regulations include verification. The Food Standards Agency may also apply charges for services such as export certifications.

In the USA, the food system is regulated by numerous federal, state and local authorities. The Food Safety Modernization Act 2011[26], the key instrument for food safety at the federal level, is administered by the Food and Drug Administration, a federal agency of the Department of Health and Human Services. The agency charges for services it provides, including inspections, recalls and export certificates.

5.4 PERFORMANCE OF EXISTING CHARGES

5.4.1 Changes in volumes

Food forms an increasingly significant part of New Zealand's exports. For the year to 30 June 2017, New Zealand food exports (including beverages) accounted for $29.1 billion, an increase of 19% from June 2012. Food exports amounted to 60.5% of New Zealand's total merchandise exports in the year to 30 June 2017.

With respect to red meat, cattle slaughter numbers are expected to decline as dairy prices gradually recover and milking herds move from retrenchment to expansion. Declining sheep returns and the relative strength of beef prices may play a role in the continuing fall in the sheep population.

For the dairy sector, milk solids production dropped in 2016/17 due to a lower dairy pay out for farmers. As dairy prices gradually recover it is expected that milk solids production will steadily increase.

Requests for MPI's circuit verification services are forecast to increase by an average of 2.0% per year based on current trends, whereas establishment verification hours are forecast to decline slightly, with a 1.0% reduction forecast.

5.4.2 Changes to expenditure / service-level drivers

New Zealand's international trade partners are placing increasing demands on exporters and exported products, which in turn raises the level of assurances required from MPI. For example, there have been requirements for increases in on-farm verifications, standards development and residues testing.

In addition, the consequences of major food safety incidents were highlighted by the 2013 whey protein concentrate contamination event, where contaminants were suspected to be present in infant formula. Testing later confirmed that no products had been contaminated; but until this was confirmed, significant resources were required from the dairy industry and MPI to manage the potential damage to New Zealand's reputation for food safety.

The incident demonstrated the potential for significant harm to public health and our economy, and reputational damage to New Zealand from food safety incidents, and highlights the need for a strong regulatory regime to ensure that operators are meeting their requirements. MPI has

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25 Available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004R0882R(01):EN:HTML

26 Available at https://www.gpo.gov/fdsys/pkg/PLAW-111publ353/pdf/PLAW-111publ353.pdf

since aligned its structure and governance to provide for greater visibility and focus on food safety.

The diversity of businesses and of MPI's services in the food system means there are multiple factors driving revenue and expenditure in the relevant memorandum accounts. These are discussed in detail in the following section.

5.4.3 Memorandum account trends

MPI operates six memorandum accounts for the food system. Table 11 below outlines the current position and forecasts for each food system memorandum account and indicates which proposals in this document relate to each memorandum account. Appendix 4: Performance of food system memorandum accounts provides supporting information that sets out the volume drivers, the primary cost and revenue drivers, high-level trends and components of each memorandum account in the food system.

Table 11: Food system memorandum accounts – closing balances 2016/17 - 2017/18

Memorandum account ($000s)	2016/17 Actual	2017/18 Forecast	Comment
Approvals, Accreditations and Registrations	1,763	1,917	No changes proposed in Tranche 1. Tranche 2 will look at options to return the accumulated surplus
Food Standards Assurance – Food Act 2014	(142)	(58)	Additional charges to be added to recover for services not currently included in regulations will increase revenue to this account (Proposal 5)
Phytosanitary Exports	912	855	No changes proposed as surplus expected to decrease over time Note also that charges for this account are not discussed in this document as they are not set by regulation
Standards Setting for the Food Industry	665	(819)	Updates required to some APA levies to recover deficits (Proposal 4)
Verification of the Food Regulatory Programme	(2,499)	(1,803)	Updates required to fully recover costs for verification services (Proposals 6 and 7)
Wine Standards Management	1,285	2,190	No changes proposed in Tranche 1

5.5 PROPOSED CHANGES TO FOOD SYSTEM COST RECOVERY

5.5.1 Findings of the First Principles Review

The First Principles Review of Cost Recovery found that, broadly speaking, the policy settings which underpin charges appear to be appropriate. However, some areas of cost recovery in the food system were identified for improvement. High priority areas for implementation from 1 July 2018 are introduced in this document:

- updating levy rates under the APA to recover accumulated deficits for red meat, dairy, and fish processors
- introducing new charges for approvals under the Food Act for consistency with other services
- updating charges relating to circuit verification services, including recovering historic deficits due to under-recovery.

Other areas that will be explored further in Tranche 2 include the following.

- The Agricultural Compounds and Veterinary Medicines Act 1997 (ACVM)
  - consult on the basis and application of the levy on Trade Name Products (to improve equity).
- The Animal Products Act 1999
  - further simplify levies (to improve efficiency and transparency)
  - implement cost recovery for out-of-hours official assurances
  - recover some costs of compliance investigations (for consistency with other sectors)
  - consolidate and simplify the two sets of cost recovery regulations into a single set.
- The Wine Act 2003
  - review the basis for the export wine levy (to better align costs and revenues over time, to prevent the accumulation of surpluses).
- Cross-cutting food system proposals
  - explore more flexible mechanisms (other than by regulation) to update levy rates (to enable more frequent review if required).

5.6 PROPOSAL 4: UPDATE ANIMAL PRODUCTS ACT LEVIES FOR RED MEAT, DAIRY, AND FISH PROCESSORS

5.6.1 Background

MPI provides a number of services to support the operation of standards, market access and performance monitoring under the APA. The levies are used to pay for the development of domestic and export standards and to monitor compliance with the standards at an industry level. More information on the services funded by levies in the food system is available in Table 31. The red meat levy is paid by processors of livestock, such as sheep beef, and other species, as common standards are applied to the processing of all of these types of animals. A ‘lamb equivalent’ is used as the conversion factor for apportioning levies per unit processed, based on the relative effort required to process each animal compared to a lamb.

Who should pay for these services?

Businesses that operate in the red meat, dairy and fish processing sectors benefit from having standards that provide clear statements of the requirements they must meet to supply domestic and export markets. The costs of standards-related services should be recovered from the relevant businesses.

When are levies appropriate?

Standards-related services are club goods in that they are excludable – MPI can require businesses to be registered (as part of the wider regulatory system) – but non-rival – one business’ use of the standards does not preclude or limit its use by another processor.

Levies are generally considered appropriate for recovering the costs of club goods as they are a way to secure a contribution towards the costs of services provided to the ‘club’ of businesses, in the absence of a strong link between the services and delivery to individual businesses. APA levies on red meat, dairy, and fish processors are based on production volumes (e.g. per animal processed[27] or thousand kilograms of dairy products exported) on the basis that each business’ share of total industry volumes is a good proxy for its share of the benefits of standards-related services.

5.6.2 Problem statement

The red meat, dairy and fish processing levies under the APA need to be updated to account for changes in forecast costs and volumes since the rates were reset from 1 July 2015. The *Standards Setting for the Food Industry* memorandum account has accumulated a significant deficit since levies were last reset. There has also been significant variation in the levels of over- and under-recovery **within** this memorandum account between different industries, and between domestic and export standards within the same industry.

These are driven by increased costs for services related to export standards, including increased residue testing and the expiry of Crown funding for staff engaged as a result of the 2013 whey protein concentrate inquiry.[28] These costs are both historical and ongoing. They have contributed to a small deficit in the memorandum account for these industries which must be recovered.

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[27] The levy rate for red meat is calculated on a ‘per lamb’ basis, then scaled up by ‘lamb equivalent’ conversion factors, which reflect the relative processing times for other species. For example, bobby calves require the same amount of processing as lambs and therefore are charged at the same rate; whereas beef cattle require seven times as long as a lamb to process and attract a levy seven times larger.
For some species, the export rates also include $0.025 per lamb equivalent, which is collected on behalf of the Meat Industry Association, in addition to the recovery of MPI costs.

[28] In 2013 there was a suspected contamination of whey protein concentrate. Testing later confirmed no products had been contaminated.

Red meat and dairy products

There have been increases in services and associated costs in recent times because more residue testing has been needed and more resources have been required to develop and review food standards for dairy products. These costs are ongoing, and equate to approximately $2 million per annum for residue testing and $1 million for food safety standards beyond what was budgeted when current levies were set in 2015.

Aligning deer processing and other levies

Deer slaughter is now proposed to be included in the common red meat standards, meaning that processors of deer now receive the same services as other red meat processors. It is therefore equitable for deer processors to be levied on the same basis as other red meat processors, with levies set using the lamb equivalent conversion factors.

One difficulty in setting levies is robust attribution of costs for small groups of businesses. The resulting levy rates may be highly sensitive to differences in estimates of resources applied to those groups, which means that the rates may not meet MPI's or industry's expectations of transparency.

To address this problem MPI proposes consolidating small levy categories, wherever practical and logical. Therefore, in parallel with the change to the deer slaughter levy, it is timely to consider consolidating a number of categories covering small numbers of animals slaughtered requiring similar levels of processing – horses, ostriches and emus.

Fish processor levies

MPI had previously built up a memorandum account surplus of approximately $250,000 in respect of fish processors prior to 30 June 2015. In the levy rate set from 1 July 2015, the rates for fish were deliberately set below full cost recovery to return the surplus to the industry; the export rate was reduced from $0.82 per tonne to $0.50 per tonne and the domestic rate from $0.40 per tonne to $0.20 per tonne.

This surplus will be fully returned and the memorandum account balance for fish will have moved into deficit by 30 June 2018. The combination of this and increased costs means an increase in the fish levy is required from 1 July 2018.

5.6.3 Proposal

MPI proposes to update the domestic and export levy rates for red meat, dairy, and fish processors. The following adjustments are proposed:

- to adjust red meat, dairy, and fish levies under the APA to reflect the Standards memorandum account deficit relating to these levies, ongoing under-recovery of costs and rebalancing between export and domestic components[29]
- to simplify the red meat levy by including deer and consolidating smaller categories (horses, ostriches and emus) into a '*Deer & other large species*' category.

Four options have been developed, with different timelines for implementing increases to the levies.

[29] The memorandum account has an emerging deficit driven by under-recovery associated with red meat, dairy, and fish processing. Consequently, there is a requirement to increase these levies for all processors (except for red meat processors supplying only the domestic market, for which estimated costs are lower).

The options are:

1. Increase the levies with effect from 1 July 2018. This option would address the deficit relating to the levies, ongoing under-recovery of costs and re-balancing between export and domestic components, to balance the memorandum account by 30 June 2021.
2. Increase the levies with effect from 1 July 2019, to balance the memorandum account by 30 June 2022. This delay would mean any increases would be significantly higher than under Option 1 when implemented.
3. Increase the levies with effect from 1 January 2019[30], to balance the memorandum account by 30 June 2021.
4. Increase the levies in two steps, on 1 July 2018 and 1 July 2019, to balance the memorandum account by 30 June 2021.

Table 12 below shows the impact of alternative timing for each of the four options.

Table 12: Impact of alternative implementation dates for APA levy increases (percent change)(1)

Levy category	Effective date(s) 1 July 2018	1 July 2019	1 January 2019	1 July 2018/ 2019(2)
Red meat (lamb equivalent)				
export	11%	25%	18%	9% / 12%(3)
domestic	-33%	-33%	-33%	-16% / -16%
Dairy				
processing	43%	61%	52%	24% / 24%
export	8%	15%	11%	6% / 6%
Fish processing				
export	124%	170%	147%	43% / 43%
domestic	12%	19%	16%	8% / 8%

Notes

(1) Percent changes are rounded.

(2) The percent change for 1 July 2019 is relative to the updated rate for 1 July 2018.

(3) The different percent changes are because of the inclusion of the Meat Industry Association levy of $0.025 per lamb equivalent, which it is assumed will not change. MPI cost recovery changes by equal amounts in both years.

Table 13 on page 43 provides a list of the proposed rates for each affected industry. Note that:

- the red meat levy calculations are based on applying the lamb equivalent conversion factor to the lamb levy rate
- no changes are proposed to rates other than those in the table nor to the definitions of any levy categories that are not highlighted
- no changes are proposed to the basis on which levies are charged, including:
  - the application of the export rate to all red meat animals slaughtered at export meat premises
  - on separate export and domestic rates to fish processors
  - on the division of total dairy levies according to each large processor's or exporter's share of the previous year's total output.

[30] Note that under section 115 of the Animal Products Act 1999, fees and levies may only be increased on dates other than 1 July if the Minister is satisfied that persons affected by the increase substantially agree with it. Therefore, this option could only proceed with agreement of industry.

The calculation of the levy is outlined in Appendix 1: Calculations for proposed updates. Further information on the volumes, revenue, expenditure, assumptions and cost breakdowns is included in Appendix 2: Supporting information. This Appendix also illustrates the split between domestic standards (including the costs of domestic standard development) and export standards (including market access, export standards development and performance monitoring) for each affected levy, using Option 1 as an illustrative example.

Assumptions

In updating the rates MPI has assumed the following:

- Increases in services and costs: $2 million per annum for residue testing and $1 million for food safety standards will need to be cost recovered through levies on animal product processors (primarily in the red meat and dairy sectors).
- Volume change:
    - *Cattle slaughter numbers* are expected to decline as dairy prices recover and milking herds expand rather than retrench. Meat processor volumes are forecast to decrease by 0.1% in 2017/18, 1.1% in 2018/19 and 1.7% in 2019/20.
    - *Milk solids production* dropped in 2016/17 due to a lower dairy pay out for farmers. As dairy prices gradually recover, it is expected milk solids production will steadily increase. Dairy processor volumes are forecast to increase by 2.2% in 2017/18, 0.5% in 2018/19 and 2.1% in 2019/20.
    - In the absence of any specific forecast for other areas in the Standards memorandum account, MPI has assumed a nil volume growth for *fish processing*.

Other options considered but not progressed

In addition to the options presented above, MPI could write off the accumulated deficits instead of recovering the lost revenue. This would be inequitable because taxpayers would contribute towards the deficit associated with a service for which they receive no direct benefit and create no risk.

5.6.4 Impact analysis

Impact on levy payers

The impact on individual levy payers will vary depending on changes within the levy category to which they belong. Table 14 shows the impact of proposed levy rates on 'typical' small, medium and large processors in the meat, dairy, and fish industries. It shows costs associated with domestic meat standards have fallen and this will enable levies for processors supplying only the domestic market to be reduced.

Financial impact on MPI

Overall, the adjustments to APA levy rates would increase MPI's third party revenue by approximately $3.0 million per annum (this will vary depending on which timing option is implemented). This cost-recovered revenue will push the memorandum account into surplus due to minor surpluses across other APA levies that have accumulated. Increases in forecast expenditure mean that these do not need to be addressed at this time.

Impact on the memorandum account

These options would eliminate the deficit in the *Standards Setting for the Food Industry* memorandum account relating to meat, dairy, and fish by 30 June 2021; except for Option 2, which would not do so until 1 July 2022.

5.6.5 Implementation

The rates set out in the relevant regulations would be amended to give effect to the proposed changes, from the dates described for each option.

MPI will continue to monitor the impact these charges will have on this memorandum account to ensure that surpluses and deficits are managed appropriately and that costs are being fully recovered, but not over-recovered, for the different standards activities.

5.6.6 Questions for consideration for Proposal 4

4.1 What impact will updating the levies have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

4.2 Please describe any impact and quantify this if possible.

4.3 Would you prefer updating the levies from 1 July 2018, 1 July 2019, 1 January 2019, or splitting the updating (50% on 1 July 2018 and 50% on 1 July 2019)? Please rank the options from 1 to 4 with 1 being most preferred and 4 being least preferred.

☐ Updating on 1 July 2018	☐ Updating on 1 July 2019	☐ Updating on 1 January 2019	☐ Splitting the update between 2018 and 2019

4.4 What are the reasons for your views? Please describe any impact and quantify this if possible.

4.5 Do you agree with the proposal to consolidate levies for deer, horses, and ostriches and emus in a *Deer and other large species* levy category?

☐ Agree	☐ Disagree	☐ No preference

4.6 What are the reasons for your views?

4.7 Are there any other issues associated with the various options of updating levy rates that you would like us to be aware of?

4.8 Are there any other issues with the way the levies are operating generally that you think MPI should be aware?

5.6.7 Supporting information

Table 13: Proposed APA levy rate changes

Levy category		Current	Proposed 1 July 2018	Proposed 1 July 2019	Proposed 1 January 2019	Proposed 1 July 2018 / 2019
Red meat levies (per head)						
Lambs, bobby calves	export(1)	$0.135	$0.150	$0.169	$0.156	$0.142 / $0.153
	domestic	$0.040	$0.027	$0.027	$0.027	$0.031 / $0.024
Sheep	export(1)	$0.157	$0.169	$0.191	$0.176	$0.160 / $0.173
	domestic	$0.040	$0.030	$0.030	$0.030	$0.035 / $0.028
Pigs	export	$0.310	$0.311	$0.360	$0.327	$0.310 / $0.321
	domestic	$0.090	$0.067	$0.067	$0.067	$0.078 / $0.061
Cattle	export(1)	$0.974	$1.047	$1.183	$1.091	$0.991 / $1.073
	domestic	$0.250	$0.188	$0.187	$0.188	$0.219 / $0.171
Goats	export	$0.120	$0.125	$0.144	$0.131	$0.120 / $0.128
	domestic	$0.040	$0.027	$0.027	$0.027	$0.031 / $0.024
Deer & other large species						
Deer(2)	export	$1.38	$0.872	$1.008	$0.916	$0.816 / $0.898
	domestic	$1.04	$0.188	$0.187	$0.188	$0.219 / $0.171
Horses	export	$0.86	$0.872	$1.008	$0.916	$0.816 / $0.898
	domestic	$0.25	$0.188	$0.187	$0.188	$0.219 / $0.171
Ostriches, emus	export	$22.00	$0.872	$1.008	$0.916	$0.816 / $0.898
	domestic	$3.50	$0.188	$0.187	$0.188	$0.219 / $0.171
Dairy levies(3)						
Large dairy processor *(based on milk solids collected)*		$3,441,944	$4,935,867	$5,554,508	$5,004,488	$4,263,601 / $5,281,404
Large dairy exporter *(based on dairy export mass)*		$1,258,824	$1,355,100	$1,443,525	$1,398,600	$1,315,627 / $1,374,993
Fish levies (per tonne)						
Fish (*other than bivalve molluscan shellfish*)	export	$0.50	$1.12	$1.35	$1.21	$0.80 / $1.28
	domestic	$0.20	$0.22	$0.24	$0.24	$0.21 / $0.23

Notes

(1) These rates include $0.025 per lamb equivalent collected on behalf of the Meat Industry Association, in addition to the recovery of MPI costs.

(2) There is currently a waiver in place for deer which results in charges of $0.86 per head for export premises and $0.10 per head for domestic premises. Therefore the proposed changes will result in increases in levies for processing deer.

(3) As applied to large processors and exporters; it is not proposed to change the rates for small and medium processors and small exporters.

Table 14 shows the impact of the proposed changes on 'typical' processors. These are based on production data from 2015/16 for processors near the top, middle and bottom of the distribution of levy payers. The data have been rounded and adjusted to be representative of typical processors, rather than using actual data from any individual businesses.

Table 14: Impact of levy changes on typical processors
(per annum; assuming volumes unchanged)

Processor	Current	Proposed 1 July 2018	Proposed 1 July 2019	Proposed 1 January 2019	Proposed 1 July 2018 / 2019
Red Meat processors[(1), (2)]					
Small domestic *(20,000 lamb equivalents)*	$800	$540 -33%	$540 -33%	$540 -33%	$626 / $489 -22% / -22%
Medium domestic and export *(500,000 lamb equivalents)*	$6,750	$7,500 11%	$8,450 25%	$7,800 16%	$7,100 / $7,650 5% / 8%
Large domestic and export *(2 million lamb equivalents)*	$270,000	$300,000 11%	$338,000 25%	$312,000 16%	$284,000 / $306,000 5% / 8%
Very large meat company *(with multiple processing plants)*	$1,600,000	$1,777,778 11%	$2,002,963 25%	$1,848,889 16%	$1,682,963 / $1,813,333 5% / 8%
Fish processors					
Small processor[(3)] *(200 tonnes domestic)*	$77.50	$77.50 0%	$77.50 0%	$77.50 0%	$77.50 / $77.50 0% / 0%
Medium processor *(325 tonnes export, 175 tonnes domestic)*	$198	$403 104%	$481 143%	$435 120%	$297 / $456 50% / 54%
Large processor *(25,000 tonnes export)*	$12,500	$28,000 124%	$33,750 170%	$30,250 142%	$20,000 / $32,000 60% / 60%
Large processor *(exporter with multiple plants and vessels)*	$42,000	$94,080 124%	$113,400 170%	$101,640 142%	$67,200 / $107,520 60% / 60%
Dairy processor					
Large processor *(21m kg milk solids collected)*	$39,707	$56,941 43.4%	$64,078 61.4%	$57,733 45.4%	$49,186 / $60,927 24% / 24%

Notes

(1) Most meat processors slaughter a variety of animal species, with different levy rates for each type. All levies are based on 'lamb equivalents', which are conversion factors based on processing costs for different species relative to the requirements of processing lambs. To simplify the table, we have calculated (and rounded) the 'lamb equivalents' for stock of different types slaughtered by 'typical' processors.

(2) The charges faced by different processors depend on both the domestic/export mix and the levy categories, as set out in the regulations. These calculations assume the following:

- the 'small domestic' meat processor pays only the domestic meat levy on stock processed (There are few processors supplying only the New Zealand market and they are much smaller than export premises.)
- the 'medium', 'large' and 'very large' meat processors process some stock for export; therefore they are levied at the export rate for all stock processed, regardless of their domestic/export mix (as this is how the levy is applied, per the regulations)
- the 'small, 'medium' and 'large' fish processors pay domestic and export levies on tonnages for the domestic and export markets
- the large dairy processor levy is based on its share of total milk solids processed in New Zealand in the previous year; this calculation assumes that constant volume results in an unchanged share.

(3) There is a minimum APA levy of $77.50 per annum. As the volume-based levy for this processor (under both current and proposed rates) is less than this, it would pay $77.50.

5.7 PROPOSAL 5: NEW CHARGES UNDER THE FOOD ACT

5.7.1 Background

MPI provides approvals, registrations and recognitions to individuals and businesses operating under the Food Act 2014. This is to ensure that businesses comply with legislative requirements and take responsibility for the safety and suitability of their food. If the business is assessed by MPI as compliant, it is granted approval to operate.

Food businesses involved in higher-risk activities must operate under a food control plan (FCP), which identifies risks to food safety in its operations and describes how it will actively manage these risks.

What are the services provided?

Businesses can register an FCP with MPI based on either a template issued by MPI under section 39 of the Act (an MPI-developed template) or a template developed by a third party (usually an industry organisation) and approved by MPI under section 40 (an industry-developed template). No industry-developed templates have been approved under section 40 yet but MPI is working with industry on the development of these. Templates will need to be approved by MPI, renewed triennially and periodically amended.

Once an industry-developed template has been approved, food businesses can apply to register FCPs under it.[31] Therefore MPI also anticipates approving registrations, amendments, renewals and voluntary suspensions of FCPs based on industry-developed templates.

MPI provides a range of approval services under the Food Act. This Proposal also relates to the following services:

- renewals of laboratory approvals and amendments between renewals of the details of laboratory approval
- amendments between renewals of the details of recognition of an agency, person or class of persons
- waivers under section 53(3)(b) from the requirement for a custom FCP to be evaluated
- approvals under section 291 to meet a requirement of the Act (except laboratory approvals), and renewal and amendments between renewals of the details of section 291 approvals.

Who should pay for the services?

The above services create benefits that are 'excludable', as applicants have to be approved by MPI to operate (for commercial benefit) and 'rival' as an approval is specific to the applicant, which makes them private goods. Therefore, it is appropriate to charge the applicant directly for these services as the applicant is the primary beneficiary.

Why is direct charging via hourly rates appropriate?

Recovering costs directly from applicants via an hourly rate allows the actual costs of MPI delivering these services to be recovered from the applicant. In some cases the processes and time necessary to consider an application are standardised, short and predictable; a fixed fee is appropriate for these, possibly with some recourse to additional charging for unusual and time-consuming applications.

[31] These are possibly limited to members of the industry organisation, at the organisation's discretion.

However, there may be other types of approval where the requirements on MPI are more substantial and customised and less predictable. For these, payment according to an hourly rate limits the risk of under- or over-recovery, which might happen if fixed fees were used.

5.7.2 Problem statement

When the new Food Act was implemented on 1 March 2016, it was uncertain how many industry organisations, if any, would choose to request these services. Some Crown funding was initially provided to support implementation. MPI has since been approached by a number of industry organisations and businesses for provision of services, for which MPI currently has no ability to recover costs.

Approvals, amendments and renewals of industry-developed templates

There are currently no charges for MPI to approve industry-developed templates, nor for subsequent amendments and renewals of these. Without charges there is no financial incentive for organisations to provide high-quality, complete applications for approvals or amendments of templates. This means MPI would incur the costs of providing services to industry that create private or club benefits that would in effect be Crown funded. This is inequitable as the applicant is the primary beneficiary and therefore should be charged for the service.

Registrations and renewals of FCPs based on templates

There are currently no provisions in the fee regulations for MPI to charge businesses that apply to register FCPs based on industry-developed templates nor when those registrations are renewed. Without these provisions, businesses that choose to register an FCP under an industry-developed template cannot be charged, even though those that register FCPs under MPI-developed templates would be.

In addition, while there are provisions to charge for registration and renewals of an FCP based on an MPI-developed template, there are none to charge for amendments or for voluntary suspension to this type of FCP.

These omissions are inequitable as similar services are provided by MPI in both instances. In addition, charging for these services may improve efficiency by incentivising applicants to provide all the required information to minimise the time required by MPI to process applications.

Other approvals

There are four other services that do not currently have charges prescribed in regulations, notwithstanding the fact that they are very similar to services for which charges have been prescribed. Not charging for these services is inconsistent with MPI's cost recovery for other approvals under the Food Act and other legislation.

This is inequitable as some businesses could be charged for certain MPI services while others using comparable services would not be charged. It is also potentially inefficient as it may incentivise businesses to choose a particular approach to meeting Food Act requirements on the basis of whether or not they will be charged by MPI.

5.7.3 Proposal

The Proposal would amend the Food (Fees and Charges) Regulations 2015 to provide for direct charges for the services described above. The proposed rates (shown in Table 15), are based on a rate of $155 per hour, which would align with the rate for existing charges under the Food Act.

MPI will undertake a more extensive review of charges under the Food Act during or after the review of the implementation of the Act scheduled for 2019.

Other options considered but not progressed

If the status quo is retained, MPI anticipates costs of up to $1 million per annum, which would need to be Crown funded. This would be inequitable as the taxpayer would be paying for a service that provides direct commercial benefit to the applicant who also creates the risk that the services are designed to manage. It would also be less equitable as comparable approval services under the Food Act are cost recovered.

5.7.4 Impact analysis

Impact on fee payers

MPI anticipates that the costs of approvals, amendments and renewals of industry-developed templates will vary for each application, depending on the requirements set out in the Food Act for the particular industry. The time and costs to organisations developing templates could vary, especially as MPI expects to work with the organisations during the development process.

Individual registrations and renewals of FCPs based on industry-developed templates would be charged at the same rate as similar approvals under MPI-developed templates. Generally, the assessment of registrations of FCPs takes 1 hour and 15 minutes, which means that the majority of applicants for FCPs would incur a one-off cost of $193.75, with subsequent renewals and amendments generally charged at $77.50. MPI expects up to 5,000 applications for new FCPs may be lodged, although not all in a single year.

More complex applications can attract higher charges, at an hourly rate of $155 (after the first 1 hour and 15 minutes); however, these are expected to be infrequent and the additional MPI time may be a result of factors the applicant can control, e.g. provision of accurate information.

For the other approval services, it is expected there may be approximately 50 to 100 applications per year, so this would only affect a small number of fee payers.

Financial impact on MPI

MPI is currently working with three industry organisations on the development of templates and expects more to be developed in future. This will likely result in processing more than 5,000 applications for FCP approvals under industry-developed templates.[32] We estimate that approving the templates and resulting FCPs would initially increase costs for MPI by up to $1 million; therefore the proposed charges will increase MPI's cost recovery by that amount.

Cost recovery after the initial year is likely to be lower as the number of new registrations of FCPs using industry-developed templates would be fewer. Existing approvals would need to be renewed but costs are lower because renewals are significantly less time-consuming than approvals (half an hour versus 1 hour 15 minutes).

The revenue from the other approval services is expected to be minimal.

Impact on MPI's memorandum account

While there is a minor deficit in the *Food Standards Assurance – Food Act 2014* memorandum account, this is related to other, existing charges and is tracking towards surplus. The next scheduled review of cost recovery arrangements under the Food Act 2014 is proposed for 2019.

[32] Based on the number and size of industry associations currently intending to develop section 40 templates for their members.

MPI will continue to monitor the impact these charges will have on the memorandum account, to ensure that surpluses and deficits are managed appropriately and costs are being fully recovered but not over-recovered.

5.7.5 Implementation

Provisions to enable the above changes would be included in the Food (Fees and Charges) Regulations 2015, with effect from 1 July 2018.

5.7.6 Questions for consideration for Proposal 5

5.1 Do you agree that MPI should charge for approving templates for food control plans (FCPs) that are developed by third parties, e.g. industry organisations, under s40?

☐ Agree	☐ Disagree	☐ No preference

5.2 What are the reasons for your views?

5.3 What impact will the proposed new charges for approvals, renewals and amendments of food control plans developed from s39/40 templates have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

5.4 Please describe any impact and quantify this if possible.

5.5 What impact will any of the other proposed new charges for approval-related services* have on you or your business?

☐ Significant negative impact	☐ Negative impact	☐ No impact	☐ Positive impact	☐ Significant positive impact	☐ Don't know

(* relating to laboratories, recognised agencies or persons, custom food control plans and approvals under s291 – see Table 15)

5.6 Please describe any impact and quantify this if possible.

5.7 Are there any other issues associated with introducing these charges that you think MPI should be aware of?

5.8 Are there any other issues with the way fees charged by MPI under the Food Act are operating generally that you think MPI should be aware of?

5.7.7 Supporting information

Table 15: Proposed additional rates for approval services under the Food Act

Service	Proposed Fee
Miscellaneous provisions	
Renewals of laboratory approval and amendments between renewals of the details of laboratory approval	$77.50 per application, plus $155 per hour after the first 30 minutes
Amendments between renewals of the details of recognition of agency, person or class of persons	$77.50 per application, plus $155 per hour after the first 30 minutes
Waivers under section 53(3)(b) from the requirement for a custom food control plan to be evaluated	$348.75 per application, plus $155 per hour after the first 2 hours and 15 minutes
Approvals under section 291 to meet a requirement of the Act (except laboratory approvals) and renewal and amendments between renewals of the details of section 291 approvals	$77.50 per application, plus $155 per hour after the first 30 minutes
Template and FCP provisions	
Approval, amendments and renewals of a section 40 template	$155 per hour
Amendments and voluntary suspensions of a food control plan based on a section 39 template	$77.50 per application, plus $155 per hour after the first 30 minutes
Registration of a food control plan based on a section 40 template	$193.75 per application, plus $155 per hour after the first 1 hour and 15 minutes
Renewal of registration of a food control plan based on a section 40 template	$77.50 per application, plus $155 per hour after the first 30 minutes

5.8 PROPOSAL 6: UPDATE RATES FOR CIRCUIT VERIFICATIONS

5.8.1 Background

What services are provided?

Circuit verifications are undertaken by verifiers travelling between businesses, i.e. on a 'circuit', for meat, dairy, fish/shellfish and other premises. They verify that the business is operating its internal systems (and for some aspects, its external supply chains) consistently with legal requirements and risk management plans. These differ from verifications of export meat processors, including slaughterhouses, where there are establishment verifiers located permanently on site and charged under a different set of fees.

Provision of most verification services is in a contestable market where MPI Verification Services covers approximately 850 premises (out of a total of 1,344 requiring verification) with AsureQuality New Zealand and Eurofins New Zealand servicing the remainder. In some cases the private verifiers are unable or unwilling to provide the service to some businesses, so MPI does so as 'verifier of last resort'. For other sectors verification services are not contestable and are done by MPI because it is a requirement of foreign governments that official assurance of exports is done by a government department.

MPI forecasts that the continuing growth of the food processing industry means that chargeable hours for circuits are projected to increase by 2% per annum over the three years from 1 July 2018.

There is also a large number of premises subject to verification under the Wine and (especially) Food Acts. MPI generally does not verify these and the services are provided by private verifiers, e.g. accounting firms for wine verification, and local authorities (under the Food Act). The main exception is multi-product businesses operating under the Food Act that are required to have some products verified by MPI and wish to use MPI as their sole verifier for all of their products.

Who should pay for the services?

Verification services provide direct benefits to the operator of the processing facility as verification confirms compliance with both New Zealand and export standards and enables operators to supply overseas markets. They are 'private goods', in that they are excludable (MPI can decline to provide the service if the operator does not pay) and 'rival' (specific to the relevant premises or products). This means that, in general, this service is appropriately cost recovered by direct charging based on the time required for the verifier to deliver the service.

Why are fees appropriate?

Hourly charges are appropriate for verification services as the length of time taken depends on the size and complexity of the premises. Direct charging via an hourly rate means that each business pays the actual costs of MPI providing verification services.

5.8.2 Problem Statement

The costs of circuit verifications have been under-recovered for some time. The increase in charges in 2015 was not sufficient to fully recover costs, so a deficit has been accumulating in the memorandum account since that time. The deficit in the memorandum account relating to circuit verifications is estimated to be $1.319 million by 30 June 2018. Charges now need to be increased to recover the historic deficit and fully recover the ongoing costs of providing these services.

5.8.3 Proposal

MPI proposes to increase the fees for circuit verifications from 1 July 2018 to avoid future losses. The rate would increase from $165 per hour currently, to $204.56 per hour or 24% increase.

Table 16: Proposed hourly charges – circuit verifications

$ per hour	Current	Proposed	Change
Programme charge[33]	44.90	99.29	121%
Verifier charge	120.10	105.27	-12%
Total	165.00	204.56	24%

A complete list of all current and proposed circuit charges, including penal and after-hours call-out rates, is shown in Table 18 on page 54.

In proposing new rates MPI has assumed that time spent on circuit verifications will increase at 2% per annum over the three years from 1 July 2018, in line with past growth rates.

The calculation of the levy is outlined in Appendix 1: Calculations for proposed updates. Further information on the volumes, revenue, expenditure, assumptions and cost break downs are included in Appendix 2: Supporting information.

Other options considered but not progressed

MPI considered retaining the status quo and delaying implementation until 1 July 2019; however, this would require a larger increase to $231.15, or 40%, when the rate is eventually raised.

MPI also considered recovering only the ongoing costs of providing circuit verification services, i.e. not recovering the deficit in the memorandum account. This would have resulted in an increase to $195.98 per hour or 19%. This would be less equitable because taxpayers would contribute towards the deficit associated with a service for which they receive no direct benefit and create no risk.

5.8.4 Impact analysis

The impacts discussed below do not take into account any changes in the behaviour of businesses in response to the incentives created by increased charges. It is possible that some might elect to switch from MPI to other verifiers (where MPI is not mandated). Switching between suppliers is a normal occurrence in a well-functioning market and MPI could be considered to be inhibiting the market by providing its services below the cost of provision.

Businesses may also have scope to reduce the costs of verification by managing their internal processes so that the verifier can more readily confirm their compliance with legal requirements and risk management programmes.

[33] This is described as a 'basic charge' in the regulations.

Impact on fee payers

The impact of the proposed increases on a range of 'average' businesses is illustrated in Table 17 on page 54, which shows the median average[34] number of hours charged annually for different types of processors and the resulting dollar impacts. Appendix 5: Impact of Verification Services charges on different types of operators provides a number of indicative case studies that illustrate the potential impact of the proposed fees on different types of fee payers.

Financial impact on MPI

The annual increase in revenue to MPI would be approximately $2.6 million per year, which would recover the deficit in the *Verification of the Food Regulatory Programme* memorandum account and fully recover the actual costs of providing the services.

Impact on memorandum account

Based on current forecasts this Proposal will ensure the memorandum account will eliminate the deficit with respect to circuit verifications by 30 June 2021.[35] MPI will continue to monitor trends in the memorandum account for any surpluses or deficits and ensure that they are managed appropriately.

5.8.5 Implementation

Changes to the relevant rates to give effect to the above proposals would be included in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015, with effect from 1 July 2018.

5.8.6 Questions for consideration for Proposal 6

6.1 What impact will the proposed increase in charges for circuit verifications have on you or your business?

☐	☐	☐	☐	☐	☐
Significant negative impact	Negative impact	No impact	Positive impact	Significant positive impact	Don't know

6.2 Please describe any impact and quantify this if possible.

6.3 What scope do you have to organise alternative ways of working to minimise the impact of the increased charges?

6.4 Are there any other issues associated with the proposed verification charges that you think MPI should be aware of?

6.5 Are there any other issues with the way verification charges are operating generally that you think MPI should be aware of?

[34] The median average is the value of the middle observation in an ordered sequence of observations - exactly half the values in the sequence are smaller and half are larger. A median value is regarded as representative of a 'typical' member of the relevant population; in particular, it does not get skewed by very large or very small values as can happen with a mean average (total values divided by the number of observations).

[35] This is excluding the deficit attributable to circuit verifications for coolstores and other storage premises and processors of fish, which is discussed in Proposal 7.

5.8.7 Supporting information

Table 17: Impact of changes in hourly charges for circuit verifications

	Hourly charge	*$165.00*	*$204.56*
Processor category	Median number of hours pa	Current charges	Future charges
Bee products	10.0	$1,650	$2,046
Increase			*$396*
Dual operator butchers	4.75	$784	$972
Increase			*$188*
Eggs	15.5	$2,558	$3,171
Increase			*$613*
Hides & skins	55.25	$9,116	$11,302
Increase			*$2,186*
Poultry	8.0	$1,320	$1,636
Increase			*$316*
Secondary Processors	76.5	$12,623	$15,649
Increase			*$3,026*

(1) Note: all calculations are rounded to the nearest dollar. The 'Increase' figures may differ slightly from simple subtraction because of rounding.

Table 18: Complete list of circuit charges

$ per hour	Current	Proposed	Change
Basic hourly charge	44.90	99.29	121%
Non-penal charges			
Per hour	120.10	105.27	-12%
Per hour at 1½ time	180.10	157.91	-12%
Per hour at double time	240.10	210.54	-12%
Penal charges			
Time worked at penal rate 0.5	60.10	52.64	-12%
Time worked at penal rate 1.0	120.10	105.27	-12%
Time worked at penal rate 2.0	240.10	210.54	-12%
After-hours call-out charge(1)			
Minimum charge	3 hours at the relevant hourly rate		
Flat breakfast shift charge (if applicable)	8.70	N/A	-100%
Per hour	75.00	105.27	40%
Per hour at 1½ time	125.00	157.91	26%
Per hour at double time	150.00	210.54	40%

(1) These charges apply only to call outs of circuit verifiers.

5.9 PROPOSAL 7: INTRODUCE A TARGETED RATE FOR STORAGE PREMISES AND FISH PROCESSORS

5.9.1 Background

See the previous section for a description of the circuit verification services and the rationale for cost recovery through fees charged as hourly rates.

5.9.2 Problem statement

Circuit verification charges comprise two parts, both of which are charged on an hourly basis:

- a charge for the verifier
- a programme charge[36] to cover the costs of MPI services supporting verification.

Prior to 1 July 2015 there was an annual fee paid by coolstores and other storage premises, and processors of fish,[37] to recover a fixed portion of MPI's costs. MPI intended to move from this arrangement to charging them the programme charge from 1 July 2015, but, because of an error in drafting the regulations, this did not occur until regulations were corrected from 1 July 2016. Consequently, these businesses made no payment towards these costs in the 2015/16 financial year. Foregone revenue for that year is estimated at $996,000.[38]

Changes implemented from 1 July 2016 mean that the basic charge is now applied to coolstores and other storage premises and processors of fish but the costs incurred in the 2015/16 financial year have yet to be recovered from these businesses.

5.9.3 Proposal

MPI proposes to recoup the costs incurred in 2015/16 in the two financial years commencing on 1 July 2018 and 1 July 2019 through a targeted rate to these businesses of $23.60 per hour for two years only. This targeted rate is in addition to the proposed rate increase discussed in Proposal 6 and set out in Table 16.

It is appropriate that the foregone revenues be recovered but, given other businesses have already paid the basic charge, it would be inequitable to attempt to do so through a general charge applying to all APA businesses. Therefore, the charge should be targeted towards coolstores and other storage premises and processors of fish.

Other options considered but not progressed

MPI also considered the option of delaying implementation of the targeted rate for another year. However, this would require a much larger increase of $47.20 per hour.

Alternatively, MPI could write off the deficit. This would be less equitable because taxpayers would contribute towards the deficit arising from a service for which they receive no direct benefit and create no risk.

5.9.4 Impact analysis

As noted previously, the impacts discussed below do not take into account any changes in behaviour in response to the increased charges – for example, clients switching to other verifiers or managing their internal processes to reduce verifier time requirements.

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[36] This is described as a 'basic charge' in the regulations.
[37] Fish processors include both wetfish and shellfish.
[38] This is assuming the hourly basic charge had been applied to all time for which verifiers' time had been charged.

Impact on fee payers

Because coolstores and other storage premises and processors of fish would face the cost increases proposed in Proposal 6, as well as the targeted charge proposed here, they would face a total charge of $228.16 per hour for verifications, an increase of 38%.

Table 20 on page 57 illustrates the annual impact for 'typical' processors at the median level of use of MPI Verification Services. Additional information on the impacts on a range of processors in different industries is shown in Appendix 5: Impact of Verification Services charges on different types of operators.

Financial impact on MPI and the memorandum account

The annual increase in revenue to MPI is $498,000 per annum for each of the two financial years commencing on 1 July 2018 and 2019.

This Proposal would eliminate this component of the historical deficit in the Verification memorandum account relating to circuit verifications, by 30 June 2020.

5.9.5 Implementation

Changes to the relevant rates to give effect to the above proposals would be included in the Animal Products (Fees, Charges, and Levies) Regulations 2007, with effect from 1 July 2018.

MPI will continue to monitor the impact these charges will have on the Verifications memorandum account to ensure that surpluses and deficits are managed appropriately and that costs are being fully recovered but not over-recovered.

5.9.6 Questions for consideration for Proposal 7

7.1 What impact will the proposed targeted rate have on you or your business?

☐	☐	☐	☐	☐	☐
Significant negative impact	Negative impact	No impact	Positive impact	Significant positive impact	Don't know

7.2 Please describe any impact and quantify this if possible.

7.3 Are there any other issues associated with the proposed targeted rate that you think MPI should be aware of?

5.9.7 Supporting information

Table 19: Proposed hourly charges – verification of coolstores and other storage premises and processors of fish

		Cumulative Impact		
Proposal	$ per hour	Current	Proposed	Change
Proposal 6	Programme charge	44.90	99.29	121%
	Verifier charge	120.10	105.27	-12%
Proposal 7	Additional targeted rate		23.60	
Combined	Total	165.00	228.16	38%

Table 20: Impact of changes in hourly charges for circuit verifications – verification of coolstores and other storage premises and processors of fish

	Hourly charge	*$165.00*	*$228.16*
Processor category	Median number of hours pa	Current charges	Future charges
Coldstore	56.5	$9,323	$12,891
Increase			*$3,569*
Drystore	28.25	$4,661	$6,446
Increase			*$1,784*
Wetfish	32.75	$5,404	$7,472
Increase			*$2,068*
Shellfish	81.5	$13,448	$18,595
Increase			*$5,148*

(1) Note: all calculations are rounded to the nearest dollar. The 'Increase' figures may differ slightly from simple subtraction because of rounding.

Appendix 1: Calculations for proposed updates

Table 21: Calculation of proposed fees, charges and levies for implementation 1 July 2018

Current charges			Rate calculations						
			A	B	C	D	E	F	G
Chargeable activity	Rates		Forecast opening position 2018/19	Years to recover	Forecast annualised costs 2018/19 - 2020/21	Forecast recoverable cost per annum (C-(A/B)) 2018/19 - 2020/21	Forecast annualised volumes/ denominator 2018/19 - 2020/21	Break even rate (C/E) Excludes opening position	Proposed charge (D/E) Includes opening position
Biosecurity System Entry Level (BSEL)	13.15	per consignment	528,900	1	28,186,000	27,657,100	1,815,000	15.53	15.24
BSEL - JBMS component	4.22	per consignment	-	1	9,284,000	9,284,000	1,815,000	5.12	5.12
APA levies									
Red meat - domestic	0.0400	per head processed (lamb equivalent)	(48,906)	3	1,254,000	1,270,302	47,411,000	0.0264	0.0268
Red meat - export 'top up'	0.0700	per head processed (lamb equivalent)	(139,194)	3	4,355,000	4,401,398	45,044,000	0.0967	0.0977
Dairy processor	3,441,944	apportioned on volume of milk solids collected	(464,600)	3	4,781,000	4,935,867	1	4,781,000	4,935,867
Dairy exporter	1,258,824	apportioned on dairy export mass	(360,300)	3	1,235,000	1,355,100	1	1,235,000	1,355,100
Fish - domestic	0.20	per tonne processed	53,100	3	109,000	91,300	406,000	0.27	0.22
Fish - export 'top up'	0.30	per tonne processed	193,500	3	406,000	341,500	383,000	1.06	0.89
Circuit verification - programme charge	44.90	per hour (up to 40hrs)	(356,049)	3	4,925,000	5,043,683	50,800	96.95	99.29
Circuit verification - verifier charge	120.10	per hour	(962,651)	3	5,090,000	5,410,884	51,400	99.03	105.27
Circuit verification - targeted rate	-	per hour (up to 40hrs)	(996,000)	2	-	498,000	21,100	-	23.60

Appendix 2: Supporting information

Proposal 1 – Changes to the Biosecurity System Entry Levy: supporting information

Table 22: Rate calculation – Biosecurity System Entry Levy (excluding the JBMS component)

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast costs for 2018/19	Recoverable costs = B-A	Forecast volumes	Break even rate = B/D	Proposed rate = C/D
528,900	28,186,000	27,657,100	1,815,000	15.53	15.24

Figure 4: Volumes of consignments (actuals and forecast) 2014/15 - 2020/21

Volumes of consignments have grown consistently since 2014/15 at approximately 4% per annum and this is expected to continue.

Forecast assumptions:
Volume of consignments paying the BSEL will increase by 4% per annum.

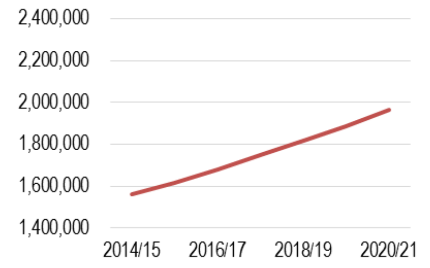


Figure 5: Revenue and expenditure (actuals and forecast) 2014/15 - 2020/21

Revenue has been increasing as volumes have increased and is forecast to continue at the same rate. However, cost increases in 2016/17 and 2017/18 mean expenditure will be higher than revenue and a deficit will begin to accumulate in 2018/19 unless levy rates are increased. Cost increases are predominately due to the addition of more frontline staff to deal with the increased volumes, a workplace planning tool and enhanced capability standards.

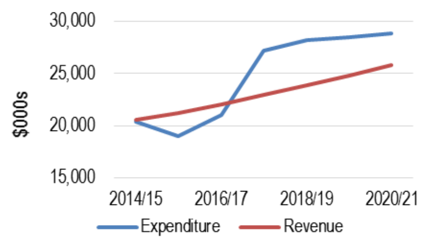


Figure 6: Comparison of current and indicative levy rates

At forecast expenditure and volumes, levy rates will break even at $15.53. However, because there is a small surplus in the memorandum account this offsets the levy rate by $0.29 (shown in red on the third column in the graph on the right).

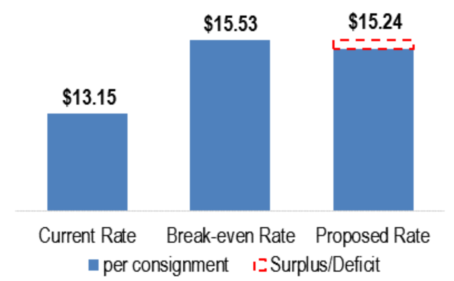


Figure 7: Forecast 2018/19 cost break down by activity

More than half the costs recovered from the BSEL relate to primary screening activities at the border, followed by secondary risk assessments for consignments identified as risk goods and surveillance activities to identify pests around high-risk sites, such as ports.

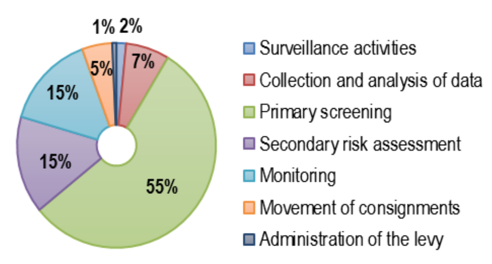
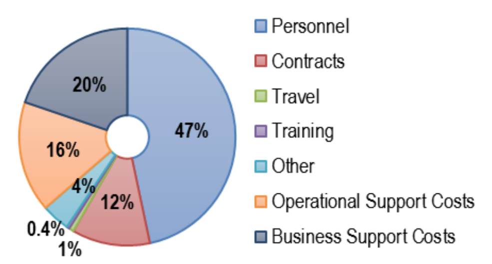


Figure 8: Forecast 2018/19 cost break down by MPI cost type

The majority of costs that make up the BSEL are personnel costs. Business support (or corporate) costs are in line with most areas of MPI's business at around 20%.



Proposal 3 – Align Biosecurity inspection rates for all jurisdictions: supporting information

Figure 9: Forecast 2018/19 cost break down for general biosecurity inspectors by MPI cost type

The costs of general biosecurity inspectors follow the same pattern as the costs of frontline border screening staff, with almost half of costs on personnel. Business support costs are in line with the rest of MPI at around 22%.

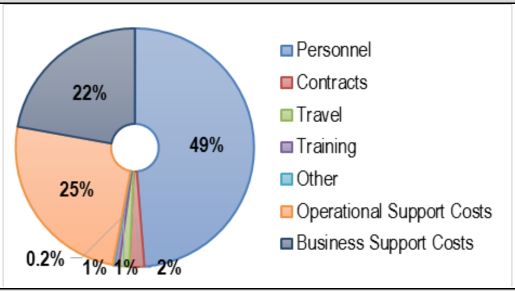
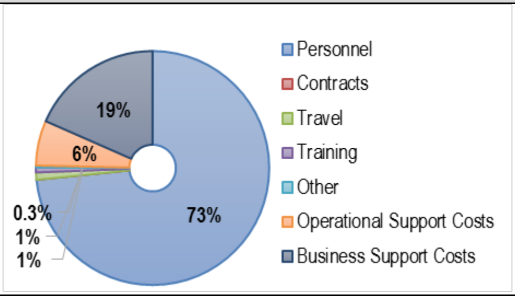


Figure 10: Forecast 2018/19 cost break down for veterinary biosecurity inspectors by MPI cost type

Owing to the specialised nature of veterinary biosecurity inspectors, their personnel costs are higher than general frontline staff and thus personnel costs comprise a much greater proportion of their total costs.



Proposal 4 – Update Animal Products Act levies for red meat: supporting information

Table 23: Rate calculations - domestic red meat levies[39]

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable costs = B-A/3	Forecast volumes	Break-even rate = B/D	Proposed rate = C/D
(48,906)	1,254,000	1,270,302	47,411,000	0.0264	0.0268

Figure 11: Volumes of animals processed (actuals and forecast) 2014/15 - 2020/21

Volumes of animals being slaughtered have been steadily declining for a number of years and this is expected to continue.

(Note: volumes are shown in 'lamb equivalents', a measure that scales animal numbers according to relative processing times per species, so that large animal species have a higher weighting in total volumes.)

Forecast assumptions:
Cattle slaughter numbers are expected to decline as dairy prices gradually recover and milking herds expand, by
- -1.1% in 2018/19
- -1.7% in 2019/20.

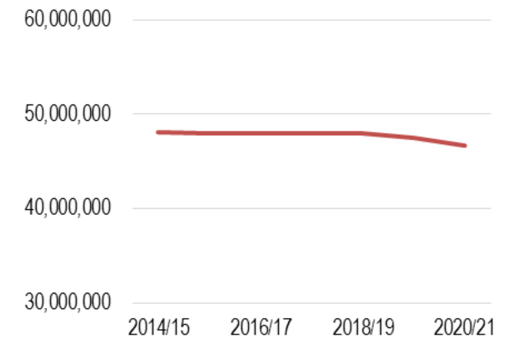


Figure 12: Revenue and expenditure domestic standards (actuals and forecast) 2014/15 – 2020-21

Revenue has been declining slightly, in line with volumes. However, costs have fallen as there has been significant shift of resources towards services relating to export standards.

Forecast assumptions:
- the current division of activity between domestic and export standards will be maintained and therefore costs will continue at a lower level
- costs are forecast to remain at 2017/18 levels due to an intention to deliver efficiency gains to offset any future cost pressures.

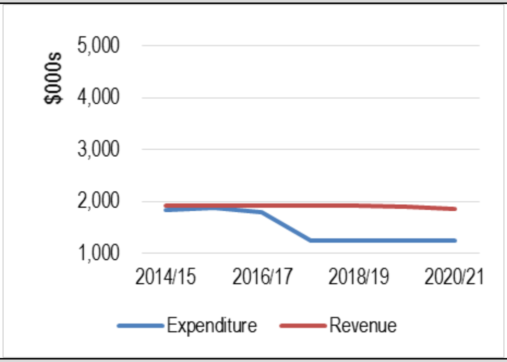
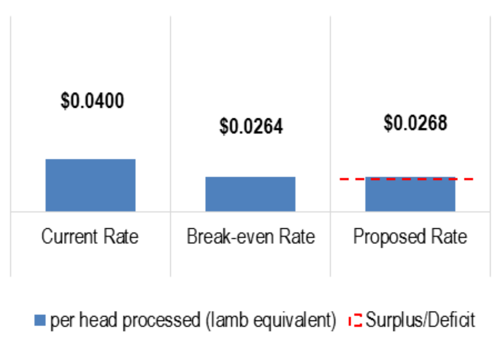


Figure 13: Comparison of current and proposed levy rates for domestic standards

At forecast expenditure and volumes, levy rates will break even at $0.026 per lamb equivalent. The anticipated surplus is very small, so has a negligible impact on the proposed levy rate. This is 33% below the current rate.

Note: this rate is only applied to meat processing plants that supply the domestic market exclusively and there are only a few small plants in this category.



[39] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Table 24: Rate calculations - export red meat levies[40]

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes	Break-even rate = B/D	Proposed rate = C/D
(139,194)	4,355,000	4,401,398	45,044,000	0.097	0.098

Figure 14: Volumes of animals processed – export (actuals and forecast) 2014/15 - 2020/21

Please see Figure 11.

Forecast assumptions:

- we assume that 95% of animals processed are for export
- all other assumptions as summarised at Figure 11.

Note that the published export levy rate has three components

- the domestic levy (as all meat must comply with domestic standards as a minimum)
- the export 'top up' component (discussed here)
- a levy collected on behalf of the Meat Industry Association.

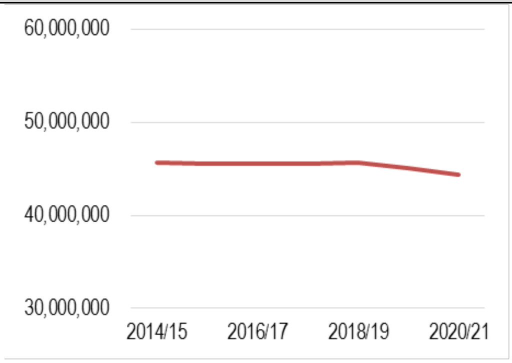


Figure 15: Revenue and expenditure on export standards (actuals and forecast) 2014/15 – 2020-21

Revenue has been declining slightly on line with volumes. However, costs have increased substantially because of increased requirements from international trading partners for residue testing and food standards.

Forecast assumptions:
Costs are forecast to remain at 2017/18 levels due to an intent to deliver efficiency gains to offset any future cost pressures.

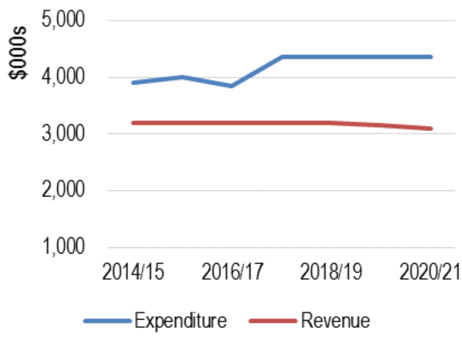
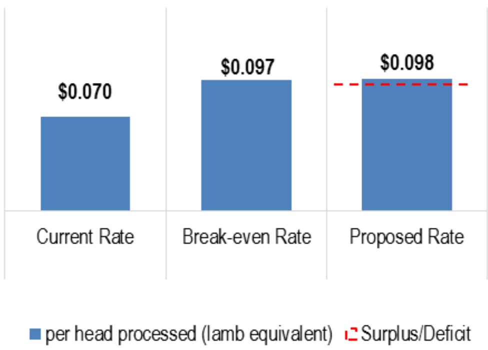


Figure 16: Comparison of current and proposed levy rates for exporters

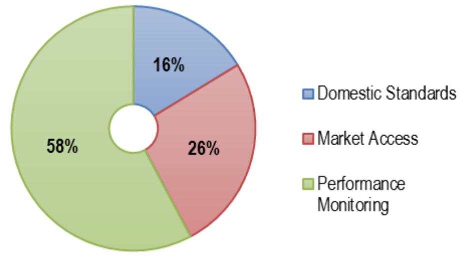
At forecast expenditure and volumes, levy rates will break even at $0.097 per lamb equivalent. This is significantly higher than when the current levy was set. There is also a small deficit arising from the increased costs in recent years, which lifts the required rate a little bit further.

The total impact is a proposed export rate that is 8-11% higher for the major types of animal processed (lambs, sheep and cattle).

Note that the export rate shown in Table 13 is a combined rate made up of this rate and the domestic rate (above).



[40] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Figure 17: Forecast 2018/19 cost breakdown by activity	
In line with the export orientation of the meat industry, most of the MPI costs (including performance monitoring) relate to export rather than domestic standards.	

Proposal 4 – Update Animal Products Act dairy levies: supporting information

Table 25: Rate calculations – dairy processors levy[41]

A	B	C	D
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes
(464,600)	4,781,000	4,936,000	N/A

Figure 18: Revenue and expenditure dairy processors (actuals and forecast) 2014/15 - 2020/21

Revenue for this levy is set at a fixed amount in the fee regulations and charged to large processors according to their shares of production volumes in the previous year. This means that revenue cannot vary between years (regardless of changes in dairy volumes).

However, costs have increased substantially because of increased requirements from international trading partners for residue testing and food standards, which are attributed to domestic standards in the dairy sector. This will generate an accumulated deficit on 30 June 2018.

Forecast assumptions:
Costs are forecast to remain at 2018/19 levels due to an intent to deliver efficiency gains to offset any future cost pressures.

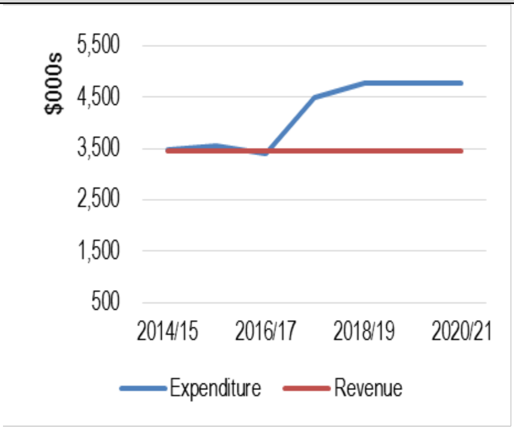
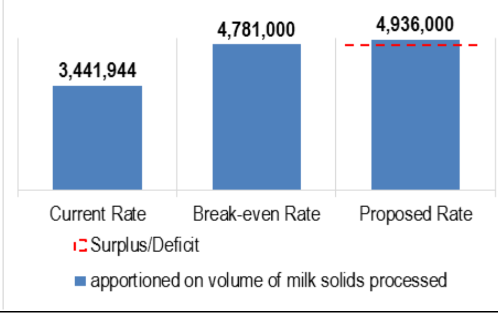


Figure 19: Comparison of current and proposed levy rates for domestic standards

It is necessary to recover $4.781 million to cover ongoing costs, and a further $0.155 million to recoup the accumulated deficit - $4.936 million in total, an increase of 43%.



[41] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Table 26: Rate calculations – dairy exporters levy[42]

A	B	C	D
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes
(360,300)	1,235,000	1,355,100	N/A

Figure 20: Revenue and expenditure dairy exporters (actuals and forecast) 2014/15 - 2020/21

Revenue for this levy is set at a fixed amount in the fee regulations and charged to large exporters according to their shares of export volumes in the previous year. This means that revenue cannot vary between years (regardless of changes in export volumes).

There have been increased costs because of increased requirements from international trading partners for residue testing and food standards, although most of these are attributed to domestic rather than export standards in the dairy sector.

Forecast assumptions:
Costs are forecast to remain at 2018/19 levels due to an intent to deliver efficiency gains to offset any future cost pressures.

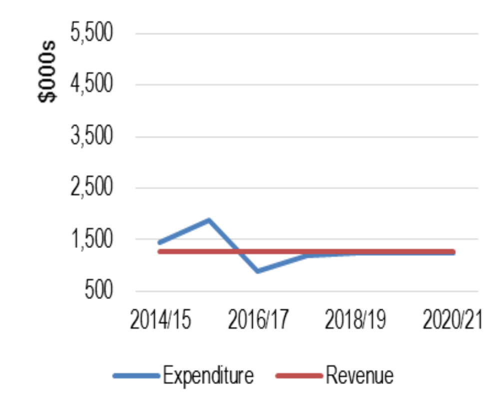


Figure 21: Comparison of current and proposed levy rates for exporters

It is necessary to recover $1.235 million to cover ongoing costs, and a further $0.1 million to recoup the accumulated deficit - $1.335 million in total, an increase of 4%.

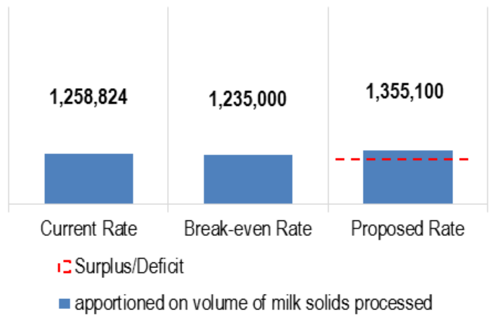
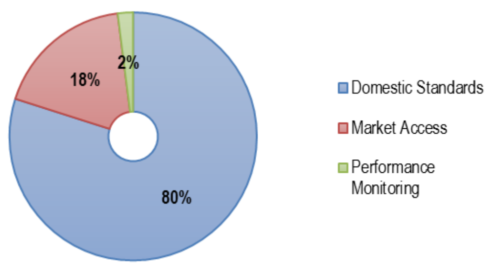


Figure 22: Forecast 2018/19 cost break down by activity

The majority of costs relating to dairy production are attributed to domestic rather than export standards, although the distinction is not necessarily meaningful in light of the highly integrated nature of production along the dairy supply chain.



[42] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Proposal 4 – Update Animal Products Act levies for fish processors: supporting information

Table 27: Rate calculations – domestic fish processors[43]

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes	Break-even rate = B/D	Proposed rate = C/D
53,100	109,000	91,300	406,000	0.27	0.22

Figure 23: Tonnes of fish processed for domestic consumption (actuals and forecast) 2014/15 - 2020/21

Volumes of fish produced for export have remained relatively constant since 2015/16.

Forecast assumptions:
In the absence of any specific forecasts for fish processors, we have assumed that fish processed for domestic consumption remains at 2016/17 levels.

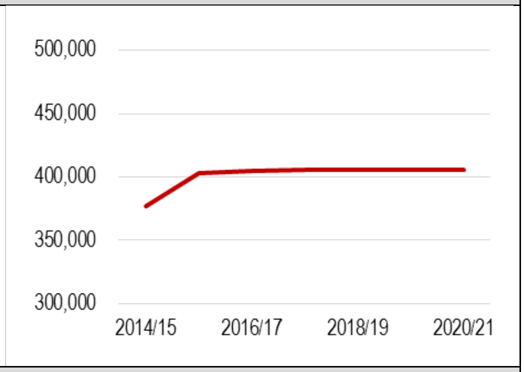


Figure 24: Revenue and expenditure domestic standards (actuals and forecast) 2014/15 - 2020/21

The previous levy rate review set the rates deliberately below full cost recovery to return a large surplus to the industry; the domestic rate was reduced from $0.40 per tonne to $0.20 per tonne.

Forecast assumptions:

- the current division of activity between domestic and export standards will be maintained, and therefore costs will continue at a lower level
- personnel costs are forecast to increase in line with MPI's Four-year Plan, at 2% per annum
- other costs are forecast to increase in line with the Consumers Price Index (CPI) (1.4% per annum).

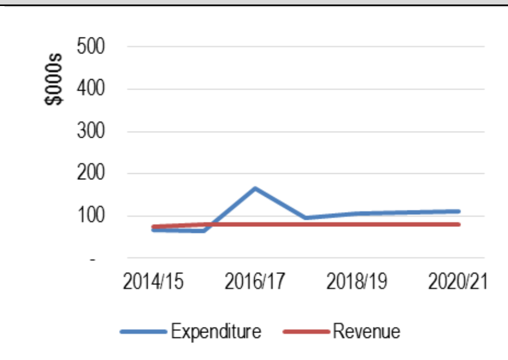
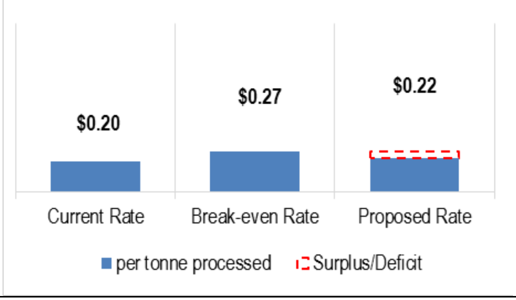


Figure 25: Comparison of current and proposed levy rates for domestic standards

At forecast expenditure and volumes, levy rates will break even at $0.27 per tonne of fish processed. However, because there is a small surplus in the memorandum account this offsets the levy rate by $0.05 (shown in red on the third column in the graph on the right), down to $0.22 per tonne.

Note: unlike other APA levies with a domestic and export component, the fish processor domestic levy is payable on tonnes of fish processed for domestic consumption. Processors in other APA sectors must pay the export rate of total volumes processed unless they process for the domestic market exclusively.



[43] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Table 28: Rate calculations – fish export levy[44]

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes	Break-even rate = B/D	Proposed rate =C/D
193,500	406,000	341,500	383,000	1.06	0.89

Figure 26: Tonnes of fish processed for export (actuals and forecast) 2014/15 - 2020/21

Volumes of fish produced for export have remained relatively constant since 2014/15.

Forecast assumptions:
In the absence of any specific forecasts for fish processors, we have assumed export fish processed remains at 2016/17 levels.

Note that the published export levy rate has two components:

- the domestic levy (as all meat must comply with domestic standards as a minimum)
- the export 'top up' component (discussed here).

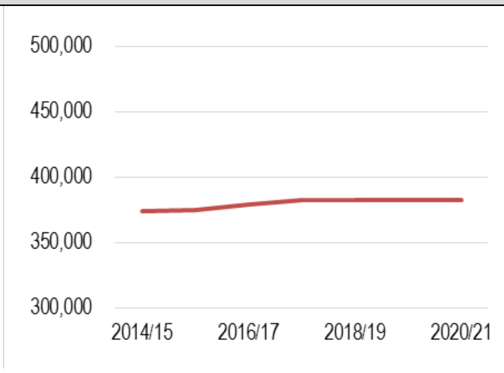


Figure 27: Revenue and expenditure on export standards (actuals and forecast) 2014/15 - 2020/21

The previous levy rate review set the rates deliberately below full cost recovery to return a large surplus to the industry; the export rate was reduced from $0.82 per tonne to $0.50 per tonne.

This surplus will be fully returned and the memorandum account balance for fish processors will have moved into deficit by 30 June 2018. The combination of this and increased costs means that an increase in the fish levy is required from 1 July 2018.

Forecast assumptions:

- costs have increased substantially because of increased requirements from international trading partners for residue testing and food standards
- personnel costs are forecast to increase in line with MPI's Four-year Plan, at +\2% per annum
- other costs are forecast to increase in line with the CPI (1.4% per annum).

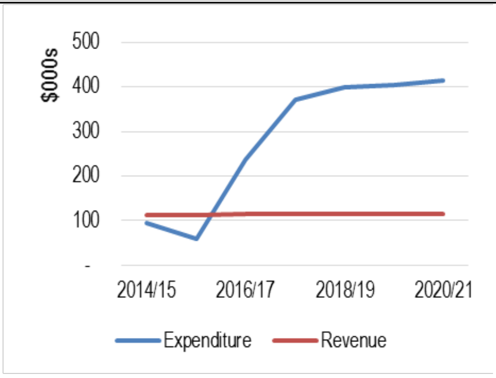
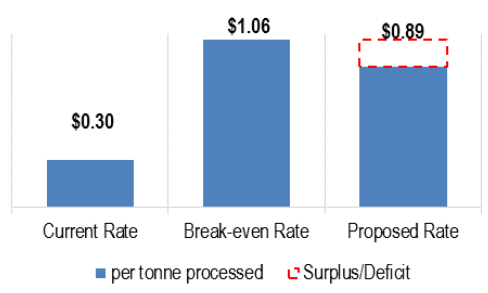


Figure 28: Comparison of current and proposed levy rates for exporters

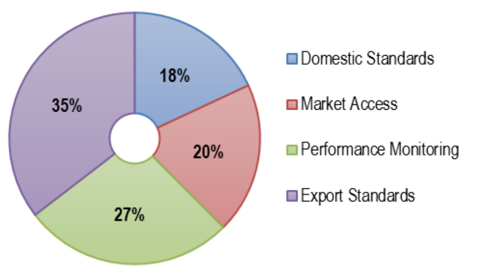
At forecast expenditure and volumes, levy rates will break even at $1.06 per tonne of fish processed. However, as there is still a small surplus in the memorandum account, we propose a levy rate of $0.89 per tonne to fully return the surplus.

Note that the export rate shown in Table 13 is a combined rate, made up of this rate and the domestic rate (above).

Note: unlike other APA levies with a domestic and export component, the fish processor export levy is only payable on fish processed for export. Processors in other APA sectors must pay the export rate on total volumes processed unless they process for the domestic market exclusively.



[44] These calculations apply to Option 1 (changes effective 1 July 2018, to balance the memorandum account by 30 June 2021). Equivalent calculations for other options are available on request.

Figure 29: Forecast 2018/19 cost break down by activity	
Domestic standards only comprise 18% of the fish processor levy, with standards for export as the largest category of MPI expenditure.	

Proposal 6 – Update rates for Circuit verifications: supporting information

Table 29: Rate calculations – circuit verifications

A	B	C	D		
Forecast opening surplus/(deficit)	Forecast annualised costs for 2018/19	Recoverable annualised costs = B-A/3	Forecast volumes	Break-even rate = B/D	Proposed rate = C/D
(1,318,700)	10,015,000	10,454,600	51,102	195.98	204.56

Figure 30: Hours of circuit verifications (actuals and forecast) 2014/15 - 2020/21

Circuit hours have been increasing due to new areas of work and a growing number of operators. 2015/16 growth is considered an outlier.

Forecast assumptions:
Future chargeable hours are forecast to increase by 2% per annum.

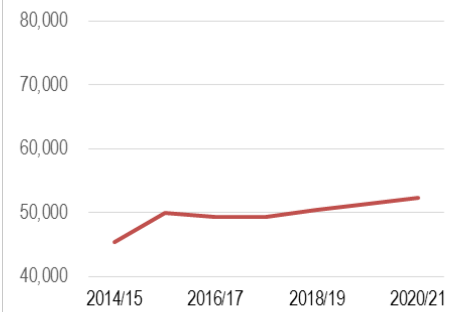


Figure 31: Revenue and expenditure (actuals and forecast) 2014/15 - 2020/21

Circuit personnel costs have increased since 2015/16, primarily due to the increase in growth of diverse export goods, such as ready-to-eat meals, which have required highly specialised verifiers.

Forecast assumptions:
Costs are forecast to remain at 2017/18 levels due to an intent to deliver efficiency gains to offset any future cost pressures.

Figure 32: Comparison of current and proposed levy rates

The current hourly rate for circuit verifications is $165.00. The proposed rate will recover the deficit in the memorandum account and estimated forecast expenditure and volumes for the three years from 1 July 2018 ($204.56).

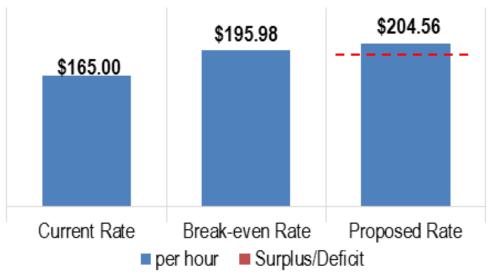
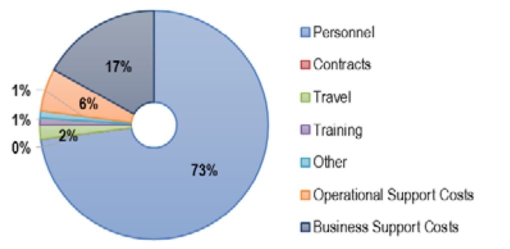


Figure 33: Forecast 2018/19 cost break down by MPI cost type	
The majority of costs for circuit verifications are for personnel, which is to be expected given the highly trained, specialised requirements of the role. Business support costs are slightly lower than in other areas of MPI at 17%. Owing to the nature of the circuit verification service, travel costs are much higher than across the rest of MPI, at 6%.	

Appendix 3: Further explanation on the charts and tables

Proposed fee
Fees have been set to recover the full forecast costs of the service over the fee-setting period, plus the opening balance in the memorandum account at 1 July 2018. These fees are calculated to achieve a zero balance in the memorandum account at the end of the fee period.

Break-even rate
The illustrative fee calculated on recovering the full forecast costs over the fee-setting period, excluding any opening balance.

Fee-setting period
The period over which proposed fees are intended to be applicable for. This varies across MPI's cost recovery system depending on legislation. For fees under the APA, this is three years.

Opening balance
The current accumulated difference between the costs of MPI's cost-recovered services and the revenue received for them.

Memorandum account
A separated transparent account that records specific expenditure and revenue. MPI uses memorandum accounts to monitor the balances of cost-recovered charges, with separate accounts for different types of charges.

Annualised costs
The 'average' costs of a service over the fee-setting period. If the fee-setting period is one year, these are the costs for 2018/19. If the fee-setting period is three years, these are the arithmetic mean of the costs for the three years from 2018/19 to 2020/21.

Current rate
The charge currently specified in MPI cost regulations or Levy Orders.

Financial year
MPI uses the standard New Zealand financial year of 1 July to 30 June.

Domestic and export standards cost component split
The split shows the proportion of total costs that are allocated to domestic standards compared to export-related processing levies. The processor pays both the domestic costs as the base and the export cost on top. Export portions are split out by performance monitoring, export standards and market access.

Denominator
When setting a fee or levy for a service, the total costs of the service must be recovered from the denominator – i.e. the base that attracts the charge. In many cases, this is for example, per application for an approval, per passenger entering the country or per consignment being imported. For many levies the denominator is a unit of production – e.g. per animal slaughtered or per kilogram of milk solids produced.

Surplus
A surplus is created when the revenue received is greater than the cost of providing a service.

Deficit
A deficit is created when the cost of providing a service is greater than the revenue received for it.

Revenue impact
The difference between the forecast annualised revenue MPI will receive if the rates charged for a service remain at current levels, as opposed to the new proposed rate.

Appendix 4: Performance of food system memorandum accounts

Table 30: Summary of memorandum accounts and financial drivers in the food system

Memorandum Account	Description	Cost and Revenue Drivers
Approvals, Accreditations and Registrations	This memorandum account includes revenues from charges for MPI to issue a range of regulatory approvals, primarily under the ACVM Act and the APA. This account is projected to have accumulated a surplus of $1.9 million by 30 June 2018.	Revenues for this memorandum account are based entirely on applications for regulatory approvals received, therefore, the key revenue driver for this surplus is the number of applications from users, which have been increasing by 8% annually. This growth rate seems unsustainable in the longer term but strong growth of 5% per annum is still expected. This growth would require an increase of 2.5% in staffing levels.
Food Standards Assurance – Food Act 2014	This memorandum account was established in 2015/16 following the passage of the Food Act and the Food (Fees and Charges) Regulations 2015. MPI manages revenue and expenditure relating to some of its services under the Food Act through this account. These services are: registration, renewal and amendments of Food Control Plans or under a national programme, verification, and clearance of imported food. The account is projected to accumulate a small deficit ($58,000) by 30 June 2018.	Cost drivers in this account are the staff required to set, implement and monitor food standards, and assess compliance with them. The Food Act provides a staged transition for domestic food operations into the new requirements by 28 February 2019. Once the transition to the new regime is complete, MPI will have a clearer understanding of the actual revenue, expenditure and underlying drivers for this memorandum account. In the meantime, MPI will continue to monitor the memorandum account to ensure that large surpluses or deficits do not accumulate.
Verification of the Food Regulatory Programme	This memorandum account relates to MPI veterinary staff on site at establishments and undertaking circuit verification services, and also the provision of official assurances and other types of export certificate. By 30 June 2018 a surplus of $584,000 will have accumulated from establishment verifications. However, circuit verifications are forecast to have deficits of approximately $1.319 million relating to general under-recovery and $996,000 relating to non-recovery of the 'basic charge' (for MPI's overheads) from coolstores, drystores, and fish processors in 2015/16. Addressing these will require significant changes to circuit and establishment verification rates.	Cost drivers in this memorandum account are staff costs for those required to provide verification services and official assurances. Staff numbers are primarily driven by volumes, however, a standing level of capacity is required to ensure MPI can provide services to those who request them. Revenue drivers are the numbers of premises that request verification by MPI, and the number of export consignments that require official assurances. There are modest decreases (1% per annum) forecast in chargeable hours for establishment verifiers but these are not expected to have any significant impact on staffing levels or costs. Chargeable hours for circuits are projected to increase by 2% per annum over the three years from 1 July 2018 as a result of continuing growth of the food industry.

Memorandum Account	Description	Cost and Revenue Drivers
Wine Standards Management	This memorandum account was introduced following the introduction of a per-litre levy on all wine exported after the first 200,000 litres in the 2015/16 financial year. A substantial surplus of $2.2 million is expected to accumulate by 30 June 2018 due to increasing revenues compared to stable costs.	Cost drivers in this account are the staff required to set, implement and monitor food standards and assess compliance with them. Costs are relatively stable in this area as the current levels of service to the sector are considered appropriate at this stage. Cost-recovered revenue is based on litres of wine exported. A substantial surplus of $2.2 million is expected to accumulate by 30 June 2018 because revenue has been much higher than forecast, due to the number of litres exported increasing substantially over projections made when the levy was set.
Standards Setting for the Food Industry	This memorandum account relates to revenue and expenditure for the development and maintenance of New Zealand standards, overseas market access requirements and export standards under the APA and ACVM Acts. APA levies are the largest component and dairy and red meat the largest contributors. The other significant contributors to this account are Dairy e-certification charges and Animal Product assurances. An accumulated deficit for the account of approximately $1.9 million is forecast for 30 June 2018. Within this deficit there are some industries with large accumulated deficits (dairy, meat, and poultry) and others with large surpluses (e.g. fish and shellfish). These differences have arisen as the costs of developing and maintaining standards have diverged significantly between industries, relative to what was expected when levies were last set.	Cost drivers in this account are the staff required to draft, implement, and monitor standards and compliance with them. Costs are only set to recover the actual costs of providing these services, so revenue drivers are the level of service required to provide domestic and international assurance that products are safe for their intended purposes. The accumulating deficits have been driven by large cost increases to fund increased services to the sector: • more residue testing to provide greater confidence in the overall safety of the food production system, as a result, an additional $2 million per annum is required to be cost recovered through levies on animal product processors (primarily in the meat and dairy sectors) • an additional $1 million of costs for the development of food safety standards across the meat and dairy sectors. This revenue covers a number of employees who have been reallocated to standards development work, which is cost-recovered, following the end of the Crown-funded response to the 2013 whey protein contamination event. Future trends are projected as follows: • costs associated with standards funded by these levies are forecast to increase from $16.1 million in 2017/18 to an average of $16.8 million per annum over the subsequent three years • there is also the accumulated deficit of $330,000 that must be recovered • the differences between industries are expected to persist over the next three years and therefore APA levies will need to be adjusted to account for this • slaughter volumes for the red meat sector are projected to fall by 2.8% over the next three years, while milk solids production is projected to increase by 4.8%.

Table 31: Summary of MPI's cost-recovered services in the food system

Type of service	Description	Authority
Standards *Development of standards and monitoring system-wide compliance*		
Market access	Services to develop and maintain market access arrangements with overseas jurisdictions, developing export standards to ensure exported products are of the required standard and the negotiation of Overseas Market Access Requirements (OMARs) to enable access to specific markets.	APA, Wine Acts
Standards development (domestic and export)	Development and publication of: • New Zealand standards to ensure domestic food safety • export standards to ensure suitability of export products, including General Requirements for Export (GREXs) promulgated by MPI and Overseas Market Access Requirements (OMARs) negotiated with specific countries. Examples are wine standards and export standards for red meat.	ACVM, APA, Wine Acts
Performance monitoring	Monitoring system-wide compliance with standards through: • undertaking system performance audits to ensure the regulatory model is working as intended • monitoring and assessing recognised agencies' and accredited persons' performance (in conjunction with the accreditation body) by assessing a percentage of performance-based verification reports • providing technical clarification, technical assessments and regulatory compliance dispute resolution and managing critical non-compliance • contributing to industry forums and working groups and liaising with overseas regulators on systems performance • the pathogen strategy • residues programmes including: o the National Chemical Contaminants Programme, which controls chemical residues in milk o the Independent Verification Programme, which manages sampling and testing for the purposes of food safety o the National Chemical Residues Programme, which tests animals and animal products to ensure good agricultural practice • the National Microbiological Database (NMD) • monitoring, reporting on and managing routine procedural failures in dairy processing premises and export non-conformances (dairy industry only).	ACVM, APA, Food, Wine Acts

Type of service	Description	Authority
Approvals *Regulating whether and how businesses operate in relevant markets (including approval of their premises, systems and supply chains)*		
Approvals	Assessment of applications for persons or businesses to undertake specific activities, such as to export animal products. Approvals can be of persons/businesses or plans for how they will operate.	APA, ACVM, Food Acts
Recognitions	Services associated with evaluating, amending or renewing applications of agencies or persons to become 'recognised' agencies or persons to perform functions specified in the legislation.	APA, ACVM, Food Acts
Registrations and Listings	Some activities require people or agencies performing those services to be registered so MPI can ensure those activities are being carried out appropriately. These include food businesses registering risk management programmes or food control plan, or listing as pet food processors, halal premises, game estates or homekill butchers.	APA, ACVM, Food Acts
Exemptions and waivers	MPI considers applications for exemptions for (typically smaller) operators wishing to function outside of risk-based programmes to reduce compliance burden. Exemptions from regular registration processes also exist for some types of agricultural compounds and veterinary medicines.	Food, Wine, ACVM Acts
Compliance monitoring *Monitoring whether regulated businesses and products meet requirements set by standards*		
Verification services	Services to verify compliance with regulatory requirements and risk management programmes and food control plans. There are two broad types: • *establishments*: full-time on site veterinary presence at specific premises • *circuits:* mobile verification services for premises not needing a full-time presence.	APA, Food, Wine Acts
Other types of inspections or audits	Development and issue of improvement notices for food businesses and individually focused compliance activities, such as follow-up visits.	APA, Food Act, Wine Act
Official assurances and certification	Issue of declarations that products comply with requirements of export markets.	APA, Wine Acts

Figure 34: Standards setting for the food industry memorandum account forecast performance

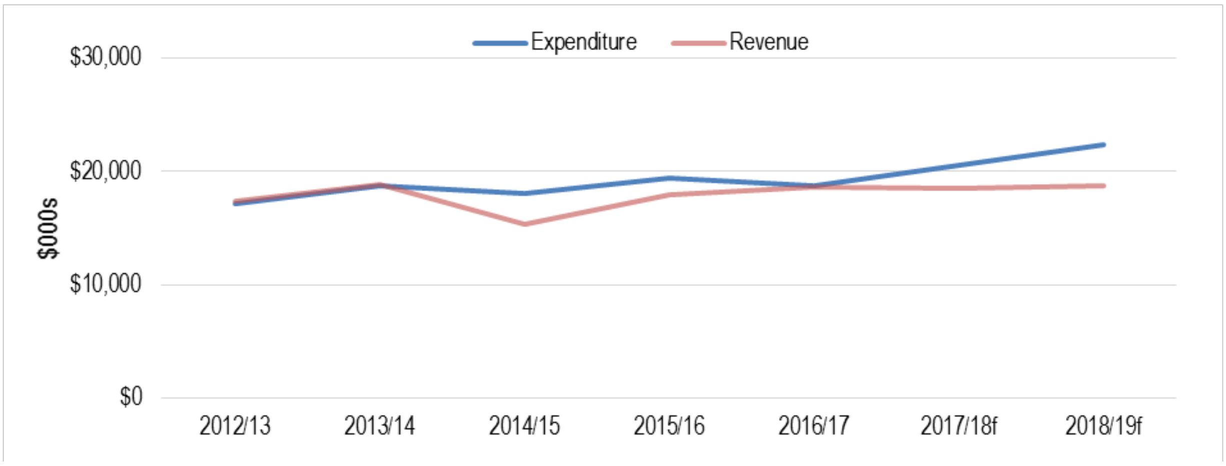


Figure 35: Standards setting for the food industry memorandum account components

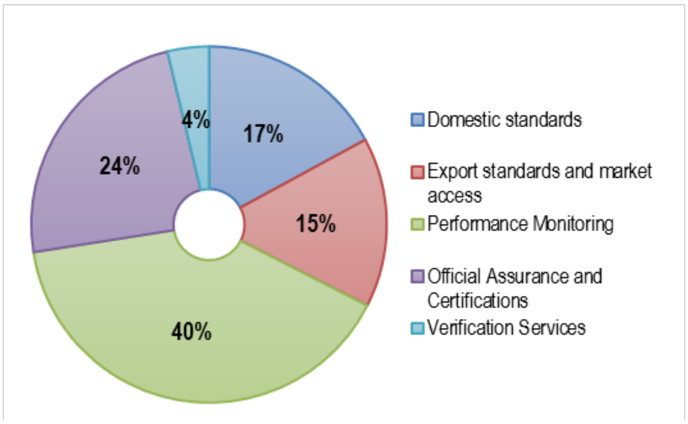


Figure 36: Verification of the food regulatory programme memorandum account forecast performance

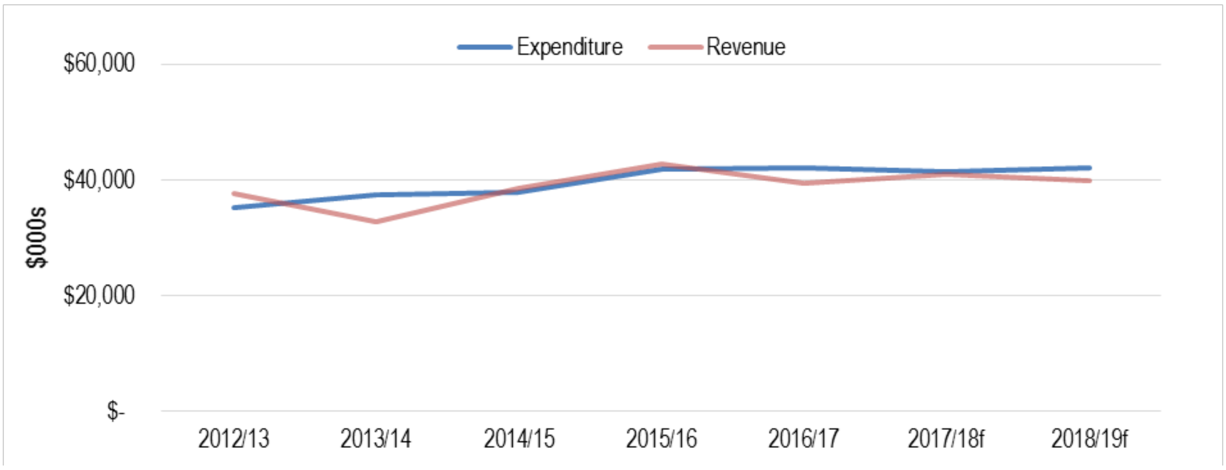


Figure 37: Verification of the food regulatory programme memorandum account components

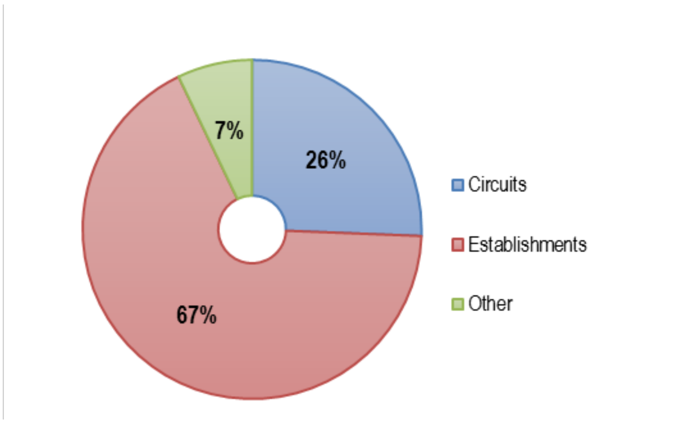


Figure 38*:* Approvals, Accreditations and Registrations memorandum account forecast performance

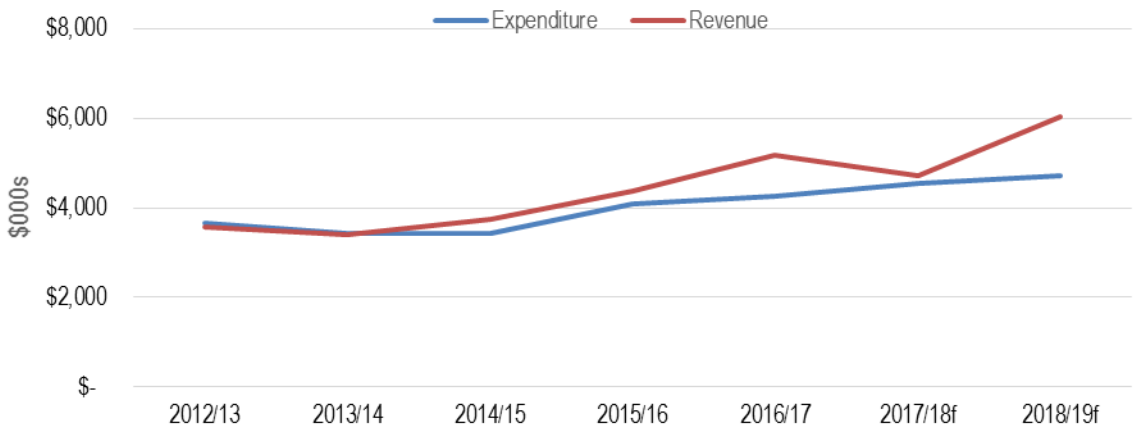
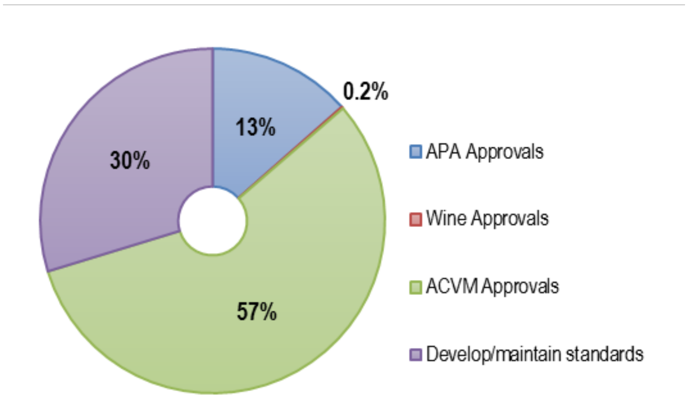


Figure 39: Approvals, Accreditations and Registrations Memorandum Account memorandum account components



Appendix 5: Impact of Verification Services charges on different types of operators

The following case studies are designed to illustrate the effect of proposed verification charges on a range of businesses. All figures are rounded to the nearest dollar.

1. *Small dual operator butcher based in a remote area.*

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Small – Dual Operator Butcher	9.95	$1,642	$2,035

2. *Owner/operator secondary processing plant with some performance issues.* This causes higher than normal verification hours as more site visits are needed to ensure the customer is complying with the relevant standard.

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Small – Secondary meat processor	60.25	$9,941	$12,325

3. *Medium egg processor.* The egg sector is particularly important owing to a growing export industry for shell eggs and that there are a number of operators unregistered with MPI.

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Medium - Egg processor	15	$2,475	$3,068

4. *Large seafood processor with multiple processing sites and vessels.* This business' fees will include the extra $23.60 per hour (for two years only) to recover the historic deficit that relates specifically to coolstores and other storage premises and processors of fish.

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Large – Seafood processor	960	$158,400	$219,034

5. *Farmer selling raw drinking milk.*

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Raw drinking milk supplier	9.65	$1,592	$1,974

6. *Very large operator with frequent verification visits mandated by overseas market access requirements.*

Customer size and type	Hours per annum	Charge pa	
		Current	Proposed
Large processor	400	$66,000	$81,824

Appendix 6: Glossary

ACVM	Agricultural Compounds and Veterinary Medicines
APA	Animal Products Act 1999
BCL	Biosecurity Clearance Levy
BSEL	Biosecurity System Entry Levy
CAG	Controller and Auditor-General
CPI	Consumers Price Index
Customs IETF	Customs Import Entry Transaction Fee
Customs	New Zealand Customs Service
ERAS	Export Regulatory Advice Service
EU	European Union
FCP	Food Control Plan
FTE	Full-time Equivalent
GIA	Government Industry Agreement
GST	Goods and Services Tax
JBMS	Joint Border Management System
MPI	Ministry for Primary Industries
OIA	Official Information Act 1982
The review	MPI's First Principles Review of Cost Recovery
TSW	Trade Single Window