



Review of Live Animal and Germplasm Export Certification Charges

Proposed changes to the Animal Products (Fees, Charges,
and Levies) Regulations 2007

Regulatory Impact Statement

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Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere



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Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Agriculture and Forestry (MAF).

It provides analysis of options to improve cost recovery for live animal and germplasm export certification and official assurance services provided by MAF under the Animal Products Act 1999. Charges for these services to exporters are set out in the Animal Products (Fees, Charges, and Levies) Regulations 2007 (the 2007 Regulations).

The proposed options were developed by the 2010 review of Live Animal and Germplasm Export Certification Charges undertaken by MAF in accordance with the Animal Products Act requirement and Government guidelines to review charges for cost recovered services at least every three years.

On 30 March 2011, MAF released a public discussion paper outlining four proposed options for cost recovery under the amended 2007 Regulations and invited feedback on these options from all affected parties.

Consultation on the proposed options included three workshops with live animal and germplasm exporters in Hamilton, Palmerston North and Ashburton. MAF also presented findings of the review, proposed options for cost recovery and preliminary analysis of submissions to industry representatives at the Live Animal and Germplasm Trade Advisory Council in March and May 2011.

The main industry association and several industry groups representing the interests of exporters of live animals and germplasm, which are likely to be substantially affected by the regulations, made submissions and provided feedback on the proposed changes and options for cost recovery. MAF has also received feedback from a primary industry association.

In formulating the preferred option, MAF has taken into account feedback from consultation workshops and submissions, as well as the proposal of the Live Animal and Germplasm Association on the methods of cost recovery for MAF's services to industry users.

The proposed changes to the 2007 Regulations are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.



Julie Collins
Director
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Wednesday 8 June 2011

Executive Summary

The Ministry of Agriculture and Forestry (MAF) is responsible for official assurances and export certification of live animals and germplasm exported from New Zealand. Charges for these services are set out in the Animal Products (Fees, Charges, and Levies) Regulations 2007 (the 2007 Regulations).

In 2010, MAF reviewed the cost recovery levels and charges for live animals and germplasm export certification services in accordance with the Animal Products Act 1999 and Government guidelines to review charges in the public sector at least every three years. The review has found a significant under-recovery of costs of the service provision, lower than forecast revenue from unit fees, considerably increased costs of maintaining an improved regulatory regime after the European Union Food and Veterinary Office audit, and some gaps in charging for cost-recovered activities.

The areas of largest under-recovery are market access maintenance and export standards and systems. The level of under-recovery in these areas has reached 53% or \$0.32 million as compared to the expected revenue of \$0.6 million and the actual service cost of \$0.76 million per annum. MAF has proposed four options for improving the level of cost recovery in the two areas of largest under-recovery. The options differ in the target revenue to be recovered from the service users and the method of recovering the fixed costs of the service provision.

The two full-cost recovery options (Options 1 and 2) without the Crown's covering of the shortfall in revenue from MAF's cost-recovered activities have the same target revenue, averaging \$0.77 million per annum over the next three years. The two partial-cost recovery options (Options 3 and 4) with the continued covering of the shortfall in cost recovery by the Crown have lower target revenue of \$0.51 million per annum. This minimal target revenue was set on the basis of expected cost recovery only through unit fees under Option 3 that was originally proposed in the discussion paper and favoured by the majority of submitters.

Two of the four options - Option 2 and Option 4 proposed to introduce an export system fee. The purpose of the fee was to equally distribute part of the fixed costs of the service provision among all service users and reduce the total amount of costs to be recovered via unit fees. Introduction of the export system fee was not supported by submitters.

MAF has formulated the preferred option on receiving feedback from consultation workshops, analysing submissions and further consultation with industry representatives. The preferred option is a refined Option 3 (partial cost-recovery) with the target revenue of \$514,700 per annum. In formulating this option, MAF has adopted the method for calculating unit fees, apportioning costs to industry sectors and grouping commodities into unit fee categories that has been proposed by the live animal and germplasm export industry.

Apart from targeting the areas of largest under-recovery, the 2010 review proposed other changes in the amended 2007 Regulations to reduce the overall shortfall in cost recovery. These changes include increases in hourly rates for directly charged services, introduction of call-out charges for work outside normal working hours, and extending the existing fees and charges for recognitions and approvals under the Official Assurance Programme to the new Export Laboratory Programme.

The overall increase in the recovery of MAF's service costs from exporters of live animals and germplasm is estimated at \$0.3 million per annum. Total MAF costs of providing the export certification and official assurance services are estimated at \$1 million per annum.

Adequacy Statement

The Ministry of Agriculture and Forestry has reviewed this Regulatory Impact Statement and considers it to be adequate according to the adequacy criteria.

Status Quo and Problem Definition

BACKGROUND

Cost recovery for live animal and germplasm export certification services and for providing official assurances to foreign governments is governed by the Animal Products Act 1999. The charges for these services are set in Schedule 1 of the Animal Products (Fees, Charges, and Levies) Regulations 2007 (the 2007 Regulations).

Under the 2007 Regulations, exporters of live animals and germplasm currently pay to MAF four types of fees and charges:

- a unit fee for an animal exported;
- an official assurance fee per consignment of animals or germplasm;
- an hourly charge for negotiating new market access or equivalences for existing market access requirements; and
- an hourly charge for verification activities.

The six areas of services provided by MAF to the live animal and germplasm export industry, which were reviewed in 2010, include:

- **Export Standards and Systems** - developing, implementing, monitoring and reviewing export standards and systems;
- **Market Access Maintenance** - maintaining access to existing overseas markets via negotiations of market access conditions and specifications according to changing overseas authorities' requirements;
- **New Market Access** - developing new market access protocols and negotiating requirements for exporting live animals/germplasm to a particular country/market;
- **Official Assurances** - providing verification/inspection services and issuing official assurances to governments of importing countries;
- **Negotiating Equivalences** - negotiating equivalences of the New Zealand sanitary measures and requirements to those imposed or required by an importing country; and
- **Recognitions and Approvals** - running official assurance programmes and administering the systems for recognitions and approvals of recognised persons and agencies involved in official assurances to foreign governments. This also includes approval of germplasm centres under the MAF official assurance programme.

These services are provided by two MAF business units - the Animal Exports Team of the Import and Export Standards Directorate and the Verification Animal and Food Products Directorate - former New Zealand Food Safety Authority Verification Agency.

The Verification Animal and Food Products Directorate became part of MAF after the amalgamation of the New Zealand Food Safety Authority (NZFSA) and MAF on 1 July 2010.

MAF undertook the 2010 review of live animal and germplasm export certification charges according to the requirement of the Animal Products Act and Government guidelines ^{1,2} to review charges in the public sector at least every three years.

PROBLEM

The 2010 review of live animal and germplasm export certification charges has found that existing charges do not reflect the true costs to MAF of providing the services to industry users.

Cost Recovery for Animal Exports Team Services

The revenue recovered from industry for the services provided by the Animal Exports Team averaged just over \$0.328 million over the last two years or only 28% of MAF's total costs of the service provision of about \$1.2 million per annum. These costs have been recovered via unit fees on exported goods and by charging exporters (at hourly rates) for negotiations of the new market access, negotiating alternatives to the existing market access requirements, and recognitions and approvals.

The charges, as set by the last review in 2007, were expected to recover 93% of MAF's Animal Exports Team service costs. Instead, MAF has only recovered 28% of these costs from the service users. In total the Crown has funded over \$0.842 million or 72% of the service costs in the last two years (see Table 1 below).

By the end of the 2009/10 financial year, the shortfall in cost recovery for the Animal Exports Team services to exporters of live animals and germplasm reached \$0.575 million or 64% of the actual annual costs of the service provision.

Table 1: Animal Exports Team costs as compared to revenue received

	2007 projected Average revenue p.a. to 2009/10		Average revenue in 2008/09 and 2009/10		Average costs in 2008/09 and 2009/10	
Services funded	GST incl.		GST incl.		GST incl.	
Export standards and systems; and Market access maintenance	\$599,319	90%	\$282,034	24%	\$760,091	63%
New market access; Negotiating equivalences; Recognitions and approvals	\$19,972	3%	\$46,430	4%	\$143,481	12%
Subtotal for cost-recovered activities	\$619,291		\$328,464		\$903,572	
Shortfall in actual <i>versus</i> projected cost recovery			-\$290,827	-47%		
Under-recovery of costs					-\$575,108	64%
Crown-funded activities including covering the shortfall in industry funding	\$47,000	7%	\$842,612	72%	\$305,042	25%
Total	\$666,291	100%	\$1,171,076	100%	\$1,208,614	100%

The two areas of largest under-recovery are market access maintenance and export standards and systems, which MAF expected to be fully funded by unit fees. The actual service cost in these two areas has increased since the 2007 review, averaging \$0.760 million per annum over the last two years. The level of under-recovery via unit fees has reached 53% or \$0.317 million as compared to the expected average revenue of about \$0.599 million per annum.

¹ Charging fees for public sector goods and services. Good practice guide. Office of the Auditor-General, June 2008.

² Guidelines for Setting Charges in the Public Sector, the Treasury, December 2002.

The increase in the service costs is largely due to the increased staff numbers (from 3.5 to 6.5 FTE) required for supporting adequate export standards and systems and maintaining an improved regulatory regime following the 2007 audit of the Official Assurance Programme for Export of Live Animals and Germplasm by the Food and Veterinary Office of the European Union. Increased costs also arise from the increasing demand for operational support of trade in live animals and germplasm including high-value and high-volume trade in livestock, horses, and their germplasm to major New Zealand markets.

Cost Recovery of Verification and Inspection Services

The verification and inspection services and official assurances for the export of live animals and germplasm are provided by the Verification Animal and Food Products Directorate (former NZFSA VA) of MAF's verification branch. The provision of these services in the last two years resulted in a cumulative deficit of just over \$58,000 (see Table 2 below).

Table 2: Costs of verification and assurance services and hourly rate calculation

	Actual costs 2008/09 (GST excl.)	Actual costs 2009/10 (GST excl.)	Projected 3-year average (GST excl.)	3-year average (at 15% GST)
Total cost recoverable activities	\$313,085	\$339,573	\$335,700	\$386,055
Official Assurance Fee	\$88,864	\$92,896	\$86,400	\$99,360
Mileage	\$2,722	\$2,561	\$3,224	\$3,708
Balance to be recovered via hourly rate charges	\$221,498	\$244,117	\$246,076	\$282,987
Export billable hours	2,330	2,498	2,590	2590
Hourly Rate Required (GST excl)	\$85.42	\$85.42	\$95.01	
Hourly Rate (GST incl)				\$109.26
Net Position	(\$25,182)	(\$33,328)		

The deficit can be attributed to insufficient hourly rate charges for providing the services within normal working hours and to higher costs of providing services outside normal working hours.

In the next three years, total costs of verification and official assurance services to the live animal and germplasm export industry are estimated to average \$335,700 (GST excl) per annum. The hourly rate charged for verification and inspection of exported live animals and germplasm under the 2007 regulations is \$98.23 including 15% GST. The required hourly rate to achieve cost recovery is \$109.26 as shown in Table 2 above.

MAF pays its veterinary verification staff for additional hours of work, weekend and statutory holiday payments under the Holidays Act 2003. However, under Schedule 1 Part 8 of the 2007 Regulations, exporters are charged at the same rate of \$98.23 per hour for verification and other veterinary functions and activities, necessary for the export of live animals or germplasm, irrespective of whether these activities are carried out within or outside normal working hours.

APPROACH TO COST RECOVERY

In developing its proposal on cost recovery and changes to the 2007 regulations MAF was guided by:

- cost recovery principles set in the Animal Products Act;

- the Office of the Auditor-General³ and the Treasury guidelines⁴ on setting charges for public sector goods and services; and
- recommendations of the 2005 Biosecurity Funding Review⁵ on cost recovery for export certification, official assurances, developing export assurance standards and supporting related MAF systems.

Policy Objectives

The policy objectives are to ensure that:

- charges for the service remain equitable, efficient, justifiable and transparent;
- charges accurately reflect the true costs of MAF's service provision to users; and
- a higher proportion of MAF's costs of providing the service to industry users is recovered as compared to the current cost recovery level.

Proposed Alternative Options

MAF proposed four options for cost recovery in the two areas of largest under-recovery and invited feedback on the options from all affected parties.

The four options were:

- **Option 1:** Full recovery of costs of providing services through unit fees only.
- **Option 2:** Full recovery of the costs of the service provision in the two areas via unit fees plus an **export system fee** per shipment.
- **Option 3:** Partial cost recovery of the service provision in the two areas, with capped increases in unit fees (to maximum of 100% of the existing fee as described on p.15 of MAF Discussion Paper No:2011/02)⁶ and the Crown covering the shortfall in revenue from cost recovered activities.
- **Option 4:** Partial cost recovery with the Crown covering the same level of shortfall as under Option 3, and recovery of the costs of services in the two areas via unit fees plus an **export system fee** per shipment.

The purpose of the export system fee proposed under Options 2 and 4 was to equally distribute part of the fixed costs of the service provision among all service users and reduce the total amount of costs to be recovered via unit fees.

MAF did not form a view on its preferred option prior to consultation and sought industry feedback on all proposed options, as well as methods of cost recovery for the services and other ways in which cost recovery could be achieved.

OPTIONS COMPARISON

The proposed options differ in the level of cost recovery for MAF's services to industry and the total amount of revenue to be cost recovered via unit fees.

³ *Charging Fees for Public Sector Goods and Services*. Good practice guide. Office of the Auditor-General, June 2008. - <http://www.oag.govt.nz/2008/charging-fees/docs/charging-fees.pdf>

⁴ *Guidelines for Setting Charges in the Public Sector*. The Treasury, December 2002. - <http://www.treasury.govt.nz/publications/guidance/finmgmt-reporting/charges>

⁵ Future Funding of Biosecurity Services – Biosecurity New Zealand Discussion Paper No: 04/01 <http://www.biosecurity.govt.nz/bio-strategy/papers/biosecurity-funding-review.htm> #P147_11406

⁶ *2010 Review of Live Animal and Germplasm Export Certification Charges* - <http://www.biosecurity.govt.nz/biosec/consult/live-animal-germplasm-export-cert-charges>

The two full-cost recovery options (Options 1 and 2) without the Crown's covering of the shortfall in revenue from MAF's cost-recovered activities have the same target revenue, averaging \$769,200 per annum over the next three years.

The partial-cost recovery options (Options 3 and 4) with the continued covering of the shortfall in cost recovery by the Crown have lower target revenue averaging \$514,700 per annum.

A comparison of charges under the four proposed options with the existing fees and charges is provided in Table 3 below. The table also shows the estimated annual revenue to be raised from exporters in the two areas of largest under-recovery over the next three years.

Unit fees under Options 2 and 4 were calculated with the export system fee set at \$50. These unit fees would be lower with the export system fee set at a higher rate.

Table 3: Fees under four options as compared to current fees under the Animal Products (Fees, Charges, and Levies) Regulations 2007 (all fees include 15% GST)⁷

Current and new proposed categories	Current unit fee (\$)	Full cost recovery		Partial Cost recovery	
		Option 1 Unit Fee (\$)	Option 2 Unit Fee (plus Export System Fee at \$50)	Option 3 Unit Fee (\$)	Option 4 Unit Fee (plus Export System Fee at \$50)
Cats/dogs (incl semen) /unit	25.55	40.48	27.71	38.33	14.31
Livestock (only bovine, caprine, cervine, ovine, porcine) /unit	1.78	7.45	7.28	3.58	4.82
Bloodstock (equine)/unit	3.52	46.41	35.51	38.33	20.15
Semen bovine per straw	0.08	0.07	0.07	0.10	0.04
Semen cervine, equine, ovine and caprine	0.08	3.77	3.46	0.16	2.21
Porcine semen	5.06	1.23	0.70	5.06	0.30
Bovine and cervine embryos	4.08	32.98	32.00	8.18	21.09
Ovine and caprine embryos	4.08	8.36	8.20	8.18	5.43
Day old chicks and hatching eggs	0.0013	0.0088	0.0042	0.0027	0.0013
Queen bees (excluding bumble bees) /unit and Packaged bees/Kg	0.76	0.44	0.36	0.77	0.21
Ferrets /unit	2.14	1.10	0.00	2.15	0.00
Alpacas/ Lamoids	5.06	75.54	65.51	10.12	40.51
Avians	5.06	32.83	32.23	10.12	21.36
Zoo animals	5.06	72.66	35.06	38.33	11.02
All other animals, germplasm and invertebrates	5.06	72.66	35.06	10.12	11.02
Average annual cost recovery via unit fees	\$282,000	\$769,200	\$615,400	\$514,700	\$360,900
Average annual cost recovery via export system fee set at \$50 per shipment	NA	NA	\$153,800	NA	\$153,800
Total cost recovery for two service areas	\$282,000	\$769,200	\$769,200	\$514,700	\$514,700

The export system fee proposed under Options 2 and 4 was considered to offer a more equitable and fairer approach to sharing common costs of MAF's service provision among service users irrespective of the category of live animal or germplasm they export. This fee would have reduced the amount to be recovered via unit fees across all export categories, while providing specific charges for each export category commensurate with the use of MAF's services by that category/industry sector.

⁷ Under Schedule 1 Part 8 of the 2007 Regulation all fees and charges are GST inclusive.

Submitters from the live animal and germplasm export industry did not support the introduction of an export system fee. Accordingly, MAF has dropped the idea of introducing this fee, although it is considered more equitable and fairer. The remaining two options are Option 1 with full cost recovery and Option 3 with the Crown covering the shortfall in revenue from cost-recoverable activities.

Preferred Option

MAF recognises that to achieve full cost recovery of the service provision in one step would require significant (multi-fold) increases in unit fees, which would be untenable for many exporters' current business and any expansion into new international markets.

MAF has agreed on the preferred option with the majority of submitters and representatives of several live animal and germplasm export sectors on the Live Animal and Germplasm Trade Advisory Council.

The preferred option is a refined Option 3 with re-calculated unit fees and the target revenue averaging \$514,700 per annum. In formulating the preferred option, MAF has adopted the industry-proposed method for calculating unit fees, apportioning costs to industry sectors and grouping commodities into unit fee categories.

The methodology of calculating fees comprises the following steps:

- (a) assessing full costs of the service provision including direct and indirect costs (such as management, support services, organisational overheads, etc);
- (b) estimating the number of output units in each activity area and by export category; and
- (c) building in both direct and indirect costs into hourly rate and unit fee charges.

Input data for fee calculations was obtained from the financial accounts of MAFBNZ and NZFSA, MAF's time recording system (Time Disciple) over the three years (from 2007 to 2010) preceding the current review.

The revenue to be recovered via unit fees from each live animal export sector is proportionate to the costs incurred by MAF in providing the services to that sector. The costs of MAF's services to the sectors is determined 50% by time recorded in Time Disciple and 50% by the number of export certificates developed by MAF for each sector since the 2007 review. For this purpose the sectors are defined as:

- Livestock (bovine, caprine, cervine, ovine, porcine, live animals, semen and embryos)
- Bloodstock (equine, live animals and semen)
- Day old chicks and hatching eggs
- Bees
- Cats and Dogs
- Other.

The average annual number of units to be exported in each export category was estimated using the data on live animal exports over the last 6 to 10 years derived from the Statistics New Zealand datasets, previous live animal and germplasm funding reviews, the Verification Animal and Food Products Directorate (former NZFSA Verification Agency) reports and information provided in submissions.

Table 4 below shows unit fees and forecast revenue under the preferred option in comparison with the *status quo* and a full-cost recovery option (Option 1) without an export system fee. The revenue expected to be raised via unit fees under these options was re-calculated using the updated estimates of export volumes in each export category.

In defining unit fee categories, MAF has taken into account the suggestions of the Live Animal and Germplasm Trade Association on the commodity groupings. MAF has also agreed to the proposal to set a cap for unit fees based on free on board (FOB) values of exported commodities. Increases in unit fees under the preferred option have been capped at 1% to 2% of the current FOB value of the corresponding commodities. The list of the existing categories (under the 2007 Regulations) has been extended to take into account the industry-proposed groupings by sector while reflecting significant differences in the costs of the service provision between export categories within the same sector.

Table 4: Fees and revenue under the preferred option as compared to status quo and Option 1
(all fees are per animal, egg or straw unless specified otherwise and are GST inclusive)

Category	Status quo (the 2007 Regulations)		Option 1(full cost recovery)			Preferred option (partial cost recovery)		
	Current fee (\$)	Revenue p.a. (\$)	Unit fee (\$)	% change	Forecast revenue p.a. (\$)	Unit fee (\$)	% change	Forecast revenue p.a. (\$)
Cats and dogs (including semen)	25.55	117,610	40.48	58%	186,330	38.33	50%	176,430
Bloodstock (only equine)	3.52	9,080	46.41	1216%	119,740	38.33	989%	98,890
Equine semen	0.08	330	4.15	4972%	17,080	1.74	3788%	7,160
Livestock (only bovine, caprine, cervine, ovine and porcine)	1.78	29,780	7.45	316%	124,660	4.24	138%	70,940
Semen bovine	0.08	76,440	0.074	-10%	70,700	0.07	-13%	66,890
Semen caprine and ovine	0.08	870	3.28	3912%	40,840	0.42	425%	4,550
Semen cervine	0.08	140	5.99	7226%	10,300	3.40	4150%	5,840
Semen porcine	5.06	960	1.23	-76%	240	3.40	-33%	640
Embryos and ova (bovine, cervine, caprine and ovine)	4.08	9,940	33.07 8.36	709% 104%	43,260	3.40	-17%	8,280
Day old chicks and hatching eggs (only poultry and ducklings)	0.0013	7,880	0.0088	565%	53,350	0.0027	108%	16,370
Bees packaged (per kg)	0.77	20,850	0.44	-42%	12,070	0.40	-21%	10,970
Queen bees and bumble bees	0.77	2,960	0.44	-42%	1,720	0.26	-66%	1,020
Ferrets	2.14	3,420	1.10	-49%	1,760	2.15	0%	3,430
Alpacas/Lamoids	5.06	1,490	75.54	1393%	22,210	33.51	562%	9,850
Avians	5.06	4,170	32.83	549%	27,090	27.45	442%	22,600
Finches and rosellas (wild caught)	5.06	4,500	waiver	NA	4,500	0.30	NA	4,500
Zoo Animals	5.06	300	72.66	1336%	4,360	38.33	658%	2,300
Other animals and animal germplasm not specified above	5.06	2,020	72.66	1336%	28,990	10.12	100%	4,040
Total revenue from Unit fees		\$292,740			\$769,200			\$514,700

Under the preferred option the Crown would continue covering the estimated shortfall in cost-recovered activities of about \$254,500 per annum for three years until the next review. This would be funded from the MAF baseline without additional appropriation.

MAF believes that by the time of the next three-year review, efficiency gains from the amalgamation of MAF with the New Zealand Food Safety Authority in the post-2010 review period and from the coming amalgamation with the Ministry of Fisheries would accrue to allow some cost savings across all cost-recovered areas. In the next review, MAF expects to

move to full cost recovery of export certification and official assurance services provided to exporters of live animal and germplasm.

The revenue to be raised via unit fees (defined in Table 4 above) from the six live animal and germplasm sectors under the preferred option is presented in Table 5. The table also provides comparison of the revenue to be recovered under the preferred option with the required revenue under the full cost recovery option.

Table 5: Cost recovery by sector

Sector	Full cost of services	Cost recovery (under Preferred option)	Difference \$	Difference %
Cats and dogs including semen	\$186,330	\$176,430	-\$9,900	-5%
Livestock (bovine, caprine, cervine, ovine, porcine)	\$124,660	\$70,940	-\$53,720	-43%
Bloodstock (equine including semen)	\$136,820	\$106,050	-\$30,770	-22%
Livestock germplasm	165,340	86,200	-\$79,140	-48%
Day old chicks & hatching eggs	53,350	16,370	-\$36,980	-69%
Bees	13,790	11,990	-\$1,800	-13%
Other live animals and germplasm	88,910	46,720	-\$42,190	-47%
Total	\$769,200	\$514,700	-\$254,500	-33%

CHARGES FOR OTHER COST-RECOVERED SERVICES

The 2010 review has also proposed other changes in charges under the amended 2007 Regulations to reduce the overall shortfall in cost recovery for MAF services.

The proposed changes to GST inclusive charges are:

- increase an hourly rate for negotiating new market access or alternatives to existing market access requirements from \$134.92 to \$140.28;
- increase an hourly rate for verification and other veterinary functions and activities necessary for the export of live animal or germplasm from \$98.23 to \$102.20;
- introduce the following call-out charges for veterinary inspection and verification work outside normal working hours:
 - \$129.86 per hour for each veterinary inspector or verifier working at 1.5-times rate;
 - \$157.51 per hour for each veterinary inspector or verifier working at 2-times rate;
 - \$442.31 per day for each veterinary inspector or verifier working on a statutory holiday plus a 2-times hourly rate for the actual inspection time;
- extend the existing fees and charges for recognitions and approvals under the Official Assurance Programme to the new Export Laboratory Programme. These charges are set in Schedule 1 Part 1 and Part 2 of the 2007 Regulations and are as follows:
 - application fee of \$140.30 for recognition or approval under the Export Laboratory Programme; and
 - hourly charge of \$140.28 for assessment of an application for recognition or approval under the Export Laboratory Programme.

MAF proposes no change to the official assurance fee currently set at \$36.80.

The revenue expected to be recovered from exporters for MAF's verification and official assurance services is estimated at \$0.36 million per annum over the next three years (see Table 6 below).

Total MAF costs of supporting market access and providing official assurances to foreign governments for live animals and germplasm exported from New Zealand are currently estimated at \$1.29 million per annum. This is expected to reduce to an average of 1.23 million per annum over the next three years.

Under the preferred option, overall costs to be recovered from exporters of live animals and germplasm are estimated at \$0.97 million per annum. The \$0.25 million shortfall in cost recovery is proposed to be covered by the Crown (Table 6).

Table 6: Cost recovery and total costs of MAF's export certification and assurance services

	Current state 2009/2010	Average per annum next 3 years
Total costs	\$1,293,408	\$1,229,000
Average annual cost recovery via unit fees: Market access Maintenance; and Export Standards and Systems	\$282,000	\$514,700
Hourly charges: New Market Access; Negotiating Equivalences; and Recognitions and Approvals	\$46,400	\$95,700
Verification and other veterinary functions and activities necessary for the export of live animal or germplasm	\$231,968	264,700
Official assurance fees	\$102,240	99,360
Total cost recovery	\$662,608	\$974,460
Crown covering for shortfall in cost recovery	\$630,800	\$254,540

Over the next three years, cost recovery per annum for all MAF's export certification and assurance services for live animal and germplasm exports are expected to increase by \$0.31 million, compared to the current cost recovery level. This increase in cost recovery from providing these services to exporters, will significantly reduce MAF's current deficit of \$0.63 million to \$0.25 million.

PREFERRED OPTION AND FUNDING PRINCIPLES

MAF considers that the charging structure proposed under the preferred option meets the Animal Products Act cost recovery principles of equity and fairness. The option aims to ensure that funding of MAF's export certification and official assurances services is sourced, as far as practicable, from the exporters of live animals and germplasm benefiting from these services. Unit fees for recovery of the costs of maintaining market access and supporting export standards and systems have been calculated on the basis of costs incurred by MAF in providing the services to particular live animal and germplasm sectors.

While the preferred option tries to limit the required increases in unit fees by capping the fees at 1% to 2% of the FOB values of the exported commodities, the target revenue to be recovered via specific unit fees and from a particular industry sector is proportionate to the use of MAF's service by that sector.

The principle of justifiability is met because fees and charges under the preferred option are set only to meet the reasonable costs incurred by MAF in providing the services to exporters of live animal and germplasm.

The principle of transparency is met because the costs incurred by MAF in the service provision are identified by the service area and export category and are allocated as closely as possible to the activity areas where they are incurred and to the period in which the service is provided.

MAF has also started regular reporting on its work programmes including completed export certificates and standards for particular sectors at the quarterly meetings of the Live Animal and Germplasm Trade Advisory Council. This will provide for greater transparency of MAF's activities and will enable the industry representatives to have a more informed view of the relationship between the work and responsiveness of the service.

While the continued effective subsidisation of the service costs by the Crown under the preferred option may not drive efficiency for both MAF and industry, MAF recognises that achieving full cost recovery in one step would be untenable for most exporters and may adversely affect their current business viability and expansion to new overseas markets.

Benefits of the Preferred Option

GOVERNMENT

The key benefit to Government would be the ability to recover the costs incurred by MAF in providing export certification and official assurance services to exporters. The government would also benefit from greater certainty about the funding of these services that would be used to support continued access for New Zealand live animals and germplasm to overseas markets.

The proposed unit fees for different animal or germplasm export categories would ensure consistency in charging within a certain export category and provide transparency of fees to exporters.

The proposed charges for call-outs and additional hours of work for veterinary inspection and verification of live animals and germplasm prior to export will ensure that the associated costs will be recovered as a true cost of providing the service.

LIVE ANIMAL AND GERMLASM EXPORT INDUSTRY

Exporters may benefit from the certainty about costs transparently charged for export certification and official assurance services under the amended 2007 Regulations.

Contributing towards the true costs of export certification by exporters will help with adequate funding of the export certification and official assurance system and programmes. Industry will also benefit from maintaining an upgraded regulatory regime ensuring continued access to overseas markets worth of over \$200 million per annum.

PRIVATE EXPORTERS

There are no benefits to private exporters of live animals. These exporters will pay more towards the true costs of export certification and official assurances of live animal and germplasm exports.

Statement of Consultation Undertaken

CONSULTATION REQUIREMENTS

In reviewing the levels and methods of cost recovery, MAF needs to ensure appropriate consultation with persons, and representatives of persons substantially affected. Section 113 (3) of Part 9 of the Animal Products Act states:

Costs should not be recovered under this Part unless there has been appropriate consultation with affected parties in accordance with section 163, and the parties involved have been given sufficient time and information to make an informed contribution.

Section 163 of the Act further states that, prior to making any recommendation on animal products cost recovery regulations, the Minister —

- (a) must be satisfied that the Director-General has carried out consultation in accordance with subsection (3) and has advised the Minister of the results of any such consultation; and*
- (b) must take into account the results of that consultation.*

Under Section 115 of the Act, cost recovery regulations must be generally set before the start of the financial year. However, the amendment of any regulations or alteration of fees and charges, or setting a new fee or charge can be made during any financial year, given:

- (a) appropriate consultation has been carried out with the affected persons or their representatives; and
- (b) the Minister is satisfied that those persons, or their representatives, agree or substantially agree with the alteration or setting.

CONSULTATION

Consultation on the proposed changes to export certification charges under the amended 2007 Regulations took place in March-April 2011. A discussion paper *2010 Review of Live Animal and Germplasm Export Certification Charges* was published on MAF Biosecurity New Zealand website: <http://www.biosecurity.govt.nz/regs>.

Notification on the proposed amendments to the 2007 Regulations was made through the following channels:

- e-mail alerts to more than 7,500 subscribers to the exporters/importers pages of the MAF Biosecurity New Zealand website;
- over 100 individual e-mails to exporters listed in the Animal Exports Team customer database; and
- the main stakeholder groups including members of the Livestock and Animal Germplasm Trade Council.

MAF conducted three workshops for industry and the public in Hamilton, Palmerston North and Ashburton (11-13 April 2011) to present proposed changes, answer questions and clarify issues. After a four-week consultation period MAF received nine submissions from five stakeholder groups. These groups represent several sectors with interests in export of live animals and germplasm as well as a primary industry association.

Feedback from the consultation with the live animal and germplasm export industry indicated preference to continue with a unit fee only to fund the two areas of largest under-recovery - market access maintenance and export standards and systems.

The majority of submitters were concerned about significant increases in unit fees for most export categories required for full cost recovery, as well as escalation of other regulatory and compliance costs. The submitters commented on the adverse impact of such increases on the viability of their export business. They also expressed concern about the required level of MAF's service delivery and the complexity of the existing export certification system,

multiple charges by different agencies involved in verification and assurance of live animal and germplasm exports, and increased compliance requirements.

In formulating the preferred option, MAF has taken into account submitters' suggestions, feedback from consultation workshops and the proposal of the Live Animal and Germplasm Association on the methods of cost recovery for the areas of largest under-recovery. MAF recognises that achieving full cost recovery in one step would require significant (multi-fold) increases in unit fees, which would be untenable for many exporters' current business and any expansion into new export markets.

CONCLUSION

The option preferred by MAF and the affected export industry stakeholders is the modified Option 3 with the continued Crown covering of the expected shortfall in cost recovery and unit fees funding the two service areas – market access maintenance and export standards and systems. The benefits of this option are described above under the Preferred Option section.

Implementation

MAF expects to implement the amended Regulations from 1 October 2011. The review project team is developing a communication plan for the implementation phase of the amended 2007 Regulations.

Risks

The main risk to cost recovery under the amended 2007 Regulations is associated with the uncertainty around total volume of trade in live animals and germplasm and significant variations in export demand in overseas markets. The revenue expected to be recovered via unit fees is determined by trade volumes of live animal and germplasm exports.

Since the revenue from unit fees is used for funding MAF's costs of market access maintenance and maintaining export standards and system, there is a risk that activities in these two areas would not be adequately funded. To mitigate this risk MAF needs to closely watch its expenditures and revenues and reprioritise activities accordingly. The Animal Import and Export Group's initiative to report on the programme of work to the Live Animal and Germplasm Trade Advisory Council and get feedback on the work should help to mitigate this risk.

Another cost recovery risk is under-recovery of the service costs due to under-charging exporters for directly charged (hourly-rate based) services in the areas of negotiating new market access and equivalences and recognitions and approvals.

Mitigation of this risk is addressed by implementing stricter charging practices for cost-recovered activities performed by the Animal Exports Team.

MAF will also update the charging procedures and systems used by the Animal Exports Team and frontline verification staff once the amended Regulations are in place.

The third major risk associated with cost recovery is to MAF's ongoing relationship with industry stakeholders. They have already complained that MAF's service costs are too high and questioned the essentialness of some activities.

As a measure of increasing transparency, MAF has proposed a working group with the Live Animal and Germplasm Trade Advisory Council to look at our costs, work and revenue streams. If MAF and the Council are unable to agree that the costs are reasonable and the work essential, the whole relationship and the next cost recovery review would be much more difficult.

Issues that may not be resolved operationally during the implementation phase of the amended 2007 Regulations will be taken into account in future reviews.

Monitoring, evaluation and review

MAF will continue three-year reviews of the charges for export certification services of live animals and germplasm as required by Section 116 of the Animal Products Act.

The 2010 review has also developed a computerised model to derive charges to exporters for services provided. The model has also incorporated long-term historical data on the volumes and FOB values of live animal and germplasm exports and provided for continued accumulation of these data for using in future reviews.

Business Compliance Cost Statement

Business compliance costs are the costs to businesses associated with identifying and understanding government regulatory requirements and performing administrative paper work to meet these requirements.

MAF believes that changes proposed to Schedule 1 Part 8 of the 2007 Regulations will not increase business compliance costs. Most services subject to the 2010 review are already having costs recovered using similar charging methods.

While there may be some costs of initial familiarisation with the new fees under the proposed amendment regulations, the affected industry parties were not concerned about such costs.

The main concerns of the industry submitters were about overall business costs associated with meeting the regulatory requirements for export of live animals and germplasm to overseas markets and competitiveness of New Zealand exporters in those markets.