# Regulatory Impact and Business Compliance Costs Statement:

Amendment to the Dairy Industry (Herd Testing and New Zealand Dairy Core Database) Regulations 2001 to adopt revised Herd Testing Standard (NZS 8100)

2001

Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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## Statement of the nature and magnitude of the problem and the need for government action

1. Lack of efficiency in herd testing, which adds to the cost of herd testing, has led to declining participation. This reduces the effectiveness of animal evaluation and sire selection and therefore, the rate of genetic progress in the dairy industry.
   Currently only 73 percent of cows are herd tested and this represents a decline of approximately 15 percent in ten years. The cost of herd testing is approximately $9.50 per cow or around $3,100 for an average size herd (based on 3 tests per year and testing the herd at both milkings in a 24 hour period). In addition, there is a time cost for farm labour at each herd testing, as milking takes longer when herd testing is being conducted.
2. New Zealand Animal Evaluation Limited (NZAEL), undertakes animal evaluation for industry good purposes aimed to "identify animals whose progeny will be the most efficient converters of feed into farmer profit". NZAEL has adopted a new animal evaluation (AE) methodology, which has recently been approved by the international body overseeing animal evaluation, Interbull, for use in New Zealand.
3. The new AE methodology allows more flexibility and reduces the total cost of herd testing for farmers. To be implemented it requires changes to be made to the Dairy Herd Testing Standard NZS 8100 (the "Herd Testing Standard"). While reviewing the Herd Testing Standard to make those changes, the industry panel convened by Standards New Zealand, proposed other refinements and clarifications to the Herd Testing Standard; along with the introduction of further flexibility in herd testing, which might help arrest the decline in herd testing, particularly among large herds.
4. These changes to the Herd Testing Standard require consequential changes to the Dairy Industry (Herd Testing and New Zealand Dairy Core Database) Regulations 2001 (the Herd Testing Regulations).

## Statement of the public policy objective(s)

5. The public policy objective is to enhance the nourishment of the core database, and to maximise the rate of genetic gain for the dairy industry.

## Statement of feasible options (regulatory and/or non-regulatory) that may constitute viable means for achieving the desired objective(s)

6. **StatusQuo:**
   Farmers currently have to herd test at every milking in a 24 hour period (usually this means twice, at the afternoon and morning milkings), and if they herd test any cows they have to test every lactating cow on the property. The implication of continuing with current requirements is that the numbers of dairy herds being tested will be likely to continue to decline. This decline will be exacerbated by the increasing size of herds; and an increasing use of in-line milk metering, which would give farmers most of the information they require for management, without them having to undertake manual, and regulated herd testing.

7. **Option A: Non regulatory Option:**
Deregulate herd testing. This would mean that the core database, which is a valuable industry asset with natural monopoly characteristics, created from the information of most dairy farmers, would only be available to Livestock Improvement Corporation Limited (LIC). This would be expected to have implications for competition in some markets.

Deregulation would also impact on public good and industry good features of the core database. Genetic gain in the dairy industry (which is estimated to have contributed almost half of the industry's annual increase in productivity at around $400million over ten years) would be reduced, because LIC would be unlikely to receive data from as wide a cross-section of dairy herds, making identification of top sires less effective. The data that was received would not be as readily available for industry-good purposes or to other industry participants (including other breeding companies and researchers).

Deregulating herd testing would reduce administrative and compliance costs for the industry. For example, there would be no cost borne by LIC for the operation of the Core Database Access Panel or the annual audit of its compliance with the Herd Testing Regulations, a total of around $75,000 per year. The Ministry of Agriculture and Forestry would not have to apply any resource to the oversight of the herd testing regulatory framework. Herd testers would not be compelled to submit data to a core database.

8. **Option B (the preferred option):**
Amend the Regulations to adopt the new Herd Testing Standard, allowing farmers to adopt more flexible herd testing regimes. For instance, farmers with herds milked twice a day, would need to sample only once in a 24 hour period, but would have to submit slightly more data to the core database.

Farmers would also be able to test just part of their herd. The new Herd Testing Standard allows the testing of "contemporary groups" which are defined as "groups of cows of similar age and season of calving that are managed together in the same herd".

It is expected that allowing farmers to test part of their herd (as long as the whole "contemporary group" is tested) will see large herds in particular, opting back in to herd testing. This could mean that in due course, more cows have at least some information in the core database which will enhance animal evaluation outcomes.

# Statement of the net benefit of the proposal, including the total regulatory costs (administrative, compliance and economic costs) and benefits (including non-quantifiable benefits) of the proposal and other feasible options

## Government/Society

9. Amending the Herd Testing Regulations to adopt the new Herd Testing Standard will reduce the total cost of herd testing to the farmer, and is expected to enhance the nourishment of the core database. More data and the use of a more accurate animal evaluation technology will allow greater genetic progress, thereby increasing the

productivity of dairy farmers, with flow on benefits to the wider economy. It is estimated that the net benefit of current rates of genetic gain[1] in the national dairy herd is $400 million over 10 years.

## Industry

10. Under the preferred option, the herd recording and artificial breeding industry is expected to have access to more herd test data as a result of arresting the decline in herd testing. This will lead to more accurate animal evaluation information. However, herd testers will have to convey slightly more information to the core database (46 rather than 40 fields; two of which are provided only annually and four which will be the same for the whole tested group and relate to the milking regime and time of milking). Herd testers will also need to ensure that all cows that are in the same "contemporary group" on a farm are being herd tested (which is somewhat more complex than simply determining that all lactating cows are being herd tested).
11. Although allowing single herd tests of herds milked twice a day is expected to increase the number of herds tested, modelling by LIC has indicated that allowing part herd testing would reduce records sent to the core database in the short term (estimated by 3 percent per year). It is expected that 85 to 90 percent of herds currently testing will still test the whole herd. Over the longer term, if there was widespread uptake of part herd testing, genetic gain would be reduced. This was indicated to be at a marginal cost to the industry of up to $4 m per annum due to reduced accuracy and/or reduced selection pressure. This result would be similar to the situation where the proportion of herds tested drops to half or quarter of present.
12. There is a risk that part herd testing and the single herd tests will result in fewer herd tests overall, and may affect the viability of herd testing (and its cost to farmers), and the reliability of cow evaluation for the proofing of bulls and selection of bull dams. But it could also mean that in time there are more cows with at least some herd testing data in the core database than would be the case if the existing regime continued.

## Farmers

13. Amending the Herd Testing Regulations to adopt the new Herd Testing Standard is likely to encourage farmers to continue herd testing. This is because farmers milking twice-a-day will only have to take samples from one of the two milkings in a 24 hour period. Approximately 20 percent of herds signed up for herd testing in 2007/08 by March 2007 have indicated that they will opt for single milking herd tests. Fewer samples mean reduced cost (savings in the order of $500 per year for an average herd) and less time required by farmers. However, farmers, via their herd testers, will have to supply a small amount of extra data to the core database relating to the drying off of cows (on an annual basis) and relating to the milking regime and milking times (at each herd test).
14. Changes to the Herd Testing Standard which allow part herd testing, that is the differential herd testing of various classes of cows on a single property, are also likely to encourage farmers to undertake or continue herd testing. This will mean that farmers, particularly those with very large herds might for instance, choose only to test their two- and three-year old cows.
15. Amending the Herd Testing Regulations will help ensure that the core database, which is a valuable industry asset, continues to receive information about the production and progeny of a large proportion of the New Zealand dairy herd. This will lead to improved genetic selection and improved productivity and profitability for individual farmers.

# Statement of consultation undertaken

## Stakeholder Consultation

16. The following dairy industry stakeholders were consulted:
    - Dairy InSight Incorporated; National Dairy Core Database Access Panel; Livestock Improvement Corporation Ltd; NZ Dairy Breeds' Federation; Federated Farmers – Sharemilkers' Section; Federated Farmers - Dairy Farmers Industry Group; New Zealand Animal Evaluation Ltd; Ambreed; Fonterra Co-operative Dairy Company; Westland Milk Products; Tatua Co-operative Dairy Company Ltd; Dexcel; Massey University; Lincoln University; AgResearch; SAITL; and Vestigo Management Limited.
17. All of the respondents supported the proposed changes. The National Dairy Core Database Access Panel sought further changes, including clarifying the ability of the Access Panel to set out terms and conditions for access to core data, in an agreement with applicants who did not waive their rights to confidentiality in respect of LIC. This was considered to be provided for in existing Regulations. Other changes sought by the Panel would require more fundamental changes to the Dairy Industry Restructuring Act 2001 and are not proposed at this time.

## Government Departments/Agencies Consultation

- The Ministry of Economic Development, Ministry of Research Science and Technology, the Treasury; and the Department of Prime Minister and Cabinet have been consulted and have not raised any issues.

# Business compliance cost statement

There are no additional business compliance costs as a result of this proposal.

# Endnotes

[1] Genetic gain is the average (heritable) improvement (in production) from one generation to the next as a result of selection.

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