



Regulatory Impact And Compliance Cost Statement Commodity Levies Act 1990:

Application for Levies on Feijoas

May 2001



Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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Background

This statement is brief because the policy for the Commodity Levies Act 1990 (the Act) has already been agreed to and the Cabinet Committee on Finance, Infrastructure and Environment (FIN) is not being asked to make a substantive policy decision. The Minister responsible for the Act is charged with deciding whether an organisation applying for a levy order has complied with the requirements of the Act. The purpose of the paper to FIN and the Regulatory Impact and Compliance Cost Statement is to inform FIN of the proposal.

Statement of the problem and the need for action

- New Zealand Feijoa Growers Association Inc (the Association) has applied under the Act for a commodity levy order on all feijoas and hybrids of the same, grown by commercial feijoa growers in New Zealand for commercial purposes. The levy will be spent on product development, education and training, promotion, market research and development, and the administration of the Association.
- Feijoa growers currently pay a levy under the Commodity Levies (Orchard Fruit) Order 1995 for spending on generic fruit industry activities. To secure funding specifically for the feijoa industry the Association has applied for a levy order, which it estimates will provide \$16,400 in its first year of operation.

Statement of the public policy objective

- The purpose of the Act is to enable the making of Orders-in-Council imposing on certain commodities levies payable to bodies corporate representing the views and interests of the persons primarily responsible for paying those levies. The Act enables industries to finance "industry-good" activities, for which voluntary funding would lead to a "free-rider" problem or would be impracticable.

Statement of options for achieving the desired objective

- The option considered by the Association was to bring funding of its activities within the ambit of a commodity levy order under the Act. This is the only regulatory option available.
- The Association currently collects a voluntary levy, which has declined from \$16,499 in 1997 to \$8,730 in 2000. The decline has been mainly due to many growers not paying the voluntary levy as they perceive that it is unfair for them to be funding the activities for the benefit of all growers, including those who do not pay the voluntary levy. Further, since the 1998 season a major local marketing company has refused to collect the voluntary levy.

Statement of the net benefit of the proposal

- The Association has presented a budget for the first year of the operation of the levy. The budget estimates the value of the total amount of feijoas produced for commercial purposes by commercial feijoa growers will yield levies of \$16,400 once levy collection fees and uncollected levies are allowed for.
- Market promotion and quality management are the main areas of intended expenditure (\$12,000), making up about 44 percent of the budgeted operating expenditure. Other areas of expenditure include research and development (\$8,000 or 29 percent), and administration (\$7,340 or 27 percent), and the Association expects a deficit in the levy's first year of operation (\$5,890).
- The Association's application listed the following activities that it intends to fund with levy money and it considers that they would be of benefit to all feijoa growers:
 - The collection of new genetic material and a cultivar research programme with Waimea Nurseries and HortResearch; and
 - the partially funding of the publishing of a book on feijoas.
- The Association has provided additional information on intended use of levy funds to enable a better assessment of benefits to levy payers:
 - Two research projects are being contracted to Fresh Technologies, Massey University, looking at enzyme functions and skin removal processes. These are important areas of research for the rapidly growing area of processed feijoa products. Considerable wastage is incurred in current skin removal techniques, and reducing this will benefit the whole industry by increasing the usable fraction of the processing crop nation-wide.
 - Management of the national collection of feijoa germplasm will be taken over by the Association because HortResearch is unwilling to continue to look after the collection. The collection comprises seedling feijoa trees from seed collected in areas of South America where feijoa is native, and includes specimens of great genetic variability. This genetic resource is considered crucial for future breeding programmes and to preserve the resource for future generations of feijoa growers. If this collection was lost to the New Zealand feijoa industry, the cost of trying to create another would be beyond the capability of the Association.
 - The Association says it needs funds available to deal with pest, disease and other crop problems as they become issues to the industry. For example, the browning problem that occurred last year in export feijoas was a severe blow to the export industry. If this problem continues into the next season, then severe losses to export growers are likely, and dumping of fruit on the local market will drive prices down for all growers. It is imperative that this problem is solved as soon as possible, and therefore the Association must invest in research to solve this problem. Individual growers would be unable to fund or carry out this research.
 - Local market retail promotions are funded by the Association on an annual basis. The Association claims that it has been demonstrated that sales of fresh feijoas and feijoa products can treble consequent to an in-store promotion.
- The level of support for the levy also indicates that a small majority of potential levy payers who voted in the referendum believe the benefits to them from the spending of the levy proceeds will outweigh the disadvantages.
- The disadvantage to commercial feijoa growers would be the opportunity cost of using the levy money elsewhere. The direct costs to the industry would be the cost of paying the levy by the levy payers and any administrative costs borne by levy payers and collection agents. Levy payers were aware of the costs when they voted in favour of the levy.

Business Compliance Cost Statement

- In some cases the levies will be collected, on behalf of the Association, by collection agents. A collection agent is someone whose business is, or includes, buying feijoas from commercial feijoa growers for resale or processing or exporting, or selling or exporting feijoas on behalf of the growers. The agent may recover the amount of the levy (and any GST payable on it) from the commercial feijoa grower by reducing the amount otherwise payable to the grower.
- Collection agents are entitled to retain up to 10 percent of the levy they collect as a collection fee to reimburse them for the costs and imposition of collection. In relation to other collection agent fees this is considered to be at the higher end of the scale. It should also be noted that some levy orders do not provide for collection fees at all as the collection agents see benefits of having a levy in place such as for example research and development leading to a better quality product and higher returns for collection agents.
- In the long term the marginal costs a compulsory levy imposes on collection agents will decrease. Once companies in the business of exporting, processing or selling fruit domestically set up systems for collecting levies and recording information required under the levy order, the costs of collecting another levy will decrease. A number of other fruit and vegetable groups have levies based on gross sales value and is therefore a basis well recognised by collection agents. Given most collection agents within the industry already have systems in place under existing levy orders this is considered to be the most effective and efficient means of collection.

Consultation

The Association carried out an extensive information and consultation programme with potential levy payers and collection agents. From the evidence provided, it is considered unlikely that any potential levy payers would not have been aware of the proposal. In the levy payer referendum, supporters of the proposal made up 51.7 percent of all participants, and they produced 61.4 percent of the total value of production of feijoas produced by commercial feijoa growers in New Zealand for commercial purposes.

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