



Regulatory Impact And Compliance Cost Statement:

FIN Paper On Application For A Commodity Levy Order
On Avocados

September 2001



Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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Background

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

- The New Zealand Avocado Growers Association Incorporated (the AGA) has applied under the Act for a commodity levy order on commercially grown avocados intended for export from or consumption in New Zealand. The levy will fund research and development, promotion, market development, grower education and information, market access, crop estimation, quality management, quality assurance, and the administration of the AGA.
- Avocado growers currently pay a levy under the Commodity Levies (Avocado) Order 1995, which is due to expire on 17 September 2001. To secure its funding the AGA has applied for a new order covering two levies, one being on avocados produced commercially for consumption within New Zealand, the other being on avocados produced and exported from New Zealand. These levies combined will provide \$630,000 in its first year of operation. When the Commodity Levies (Avocado) Order 1995 expires the new order will come into force.

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.
- The public policy objective of this levy is to enable the avocado industry to fund industry good activities, such as its research and development programme, which confer benefits on all industry participants, but which in the absence of a compulsory levy would not be funded.

Statement of options for achieving the desired objective

- The option considered by the AGA 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 option of a voluntary levy is not considered suitable because of the "free-rider" problem, likely to be experienced with such a funding mechanism.

Statement of the net benefit of the proposal

Expected Benefits of the Proposed Commodity Levy on Avocados

- The AGA has demonstrated its anticipated benefits from investment in each area of expenditure. Activity in the research expenditure area (\$350,000 or 49 percent of total annual expenditure in the first full year of the levy) is expected to facilitate the ongoing rapid expansion of the industry. The driver for the rapid expansion of the industry has been the consistent lift in productivity (yield per hectare) over the last few years from under 4 tonne/ha to 7.5 tonne/ha last year. This equates to an industry benefit of around \$18,000,000 last year alone. These figures support the view that past research and development expenditure has been well directed and that significant benefits will flow from future investment in research for this rapidly growing industry.
- The AGA plans to spend \$136,000 or 19 percent of levy expenditure in the new levies first full year of operation on consultation and representation. The majority of this money is spent on holding the AGM and industry conference. The AGM assists in the AGA objective of ensuring growers are provided with up to date market information. The AGA views itself as a focal point for communication to and from growers. No other body in New Zealand represents all avocado growers.
- Avocado domestic levy money will also be spent on generic promotion, aimed at growing the local market. Current spending of \$55,000 has ensured that despite volumes consumed more than doubling in the last 5 years values per fruit piece have been rising. A key part of the promotional efforts has been in handler education and this has seen a significant improvement in the fruit quality being displayed for sale. It is difficult to forecast what returns this investment in promotion will bring, however, based on historical performance the projected spend on generic promotion is expected to continue to generate net benefits to grower levy payers.

The Expected Costs likely to be imposed by the Avocado Levy

- The disadvantage to avocado 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. Furthermore, the growers are already paying for these under the current arrangements.

Net Impact of the Proposed Avocado Levy

- Having assessed the overall costs and benefits associated with the proposed levy, I consider the expected benefits of the levy will outweigh the disadvantages.

Business Compliance Cost Statement

- The AGA has proposed introducing a new levy on avocado produced and exported from New Zealand to complement the funding from the domestic avocado levy. There will be a transition period during which a small additional cost will be imposed on exporters (not recoverable from growers) as collection agents. The reason for this administrative cost increase is that until the full management fee of 50 cents per 5.5kg tray of avocados is

replaced by the export levy exporters will be making two payments rather than the current one payment to the Avocado Industry Council. A collection agent for the export avocado levy is someone whose business is the export of avocados.

- In the long term the marginal costs a compulsory levy imposes on collection agents will decrease. Companies in the business of exporting, processing or selling fruit domestically will incur once-off costs associated with setting up systems for collecting levies and recording information required under the levy order, and understanding the new levy regime. Once companies have these systems in place the ongoing costs of collecting another levy will decrease. A number of other fruit and vegetable groups have levies based on a value or sales basis and is therefore a basis well recognised by collection agents. Given most exporter - collection agents within the industry already have systems in place under existing arrangements in terms of paying the Avocado Industry Council the AGA considered this to be the most effective and efficient means of collection.
- In the context of the domestic avocado levy 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 (the levy proposed for export avocado production being a case in point) as the collection agents see benefits of having a levy in place. An example of this could be research and development leading to a better quality product and higher returns for collection agents.

Consultation

The AGA 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 domestic levy proposal made up 76 percent of all participants, and they produced 76 percent of the total value of production of avocados by all eligible participants. For the export avocado levy 86 percent of participants supported the export levy proposal and these growers represented 87 percent of the production of export avocados based on export production in kilograms.

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