



# Regulatory Impact And Compliance Cost Statement:

FIN Paper On Application For A Commodity Levy Order  
On Deer Products

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Ministry of Agriculture and Forestry  
Te Manatū Ahuwhenua, Ngāherehere

Requests for further copies should be directed to:

Publication Adviser  
MAF Information Bureau  
P O Box 2526  
WELLINGTON

Telephone: 0800 00 83 33  
Facsimile: 04-894 0300

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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 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 the Cabinet Finance, Infrastructure and Environment Committee (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 Deer Farmers' Association Incorporated (the NZDFA) has applied under the Act for a commodity levy order on deer products (ie venison and antler in velvet) derived from farmed deer raised in New Zealand. The levy will fund production related research, technology transfer, provision of information and advice to deer farmers, consultation with farmers and others in the interests of farmers, representation of the views of farmers, promotion of the industry within New Zealand, public relations, and administration of the NZDFA. In the absence of a levy these activities would either cease or continue at considerably reduced levels with consequential effects on industry output.
- Deer farmers currently pay a levy under the Commodity Levies (Farmed Deer Products) Order 1995, which is due to expire on 29 October 2001. To ensure continuation of funding for the NZDFA's activities the Association has applied for a new order. The proposed levy is estimated to provide \$750,300 in its first year of operation. When the Commodity Levies (Farmed Deer Products) 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.

## Statement of options for achieving the desired objective

- The favoured option considered by the NZDFA was to bring funding of its activities within the ambit of a commodity levy order under the Act as it is as present. Transferring the NZDFA's activities and funding to the statutory Game Industry Board (the Board) would entail amending the Game Industry Board Regulations 1985, placing at risk the Board's market focus, and very likely only partially achieving the policy objective. The commodity levy proposal is the only regulatory option available that would target the objective. The option of a voluntary levy is not consider 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 Deer Products

- The NZDFA has demonstrated anticipated benefits from levy expenditure. Activity in the research and technology transfer area (\$266,500 or 40 percent of total levy expenditure in the first full year of the levy) is expected to facilitate ongoing development of the industry. This expansion of the industry has been market led but such growth has been constrained by resources available for the development of new technology to further reduce production costs and increase productivity. Research into vaccines to control some of the principal diseases affecting deer and the development of a Tb test to provide results within 1 to 2 days instead of the 3 months as at present are among the projects planned using levy funds during the first year. The establishment of DeeResearch by the NZDFA, the Game Industry Board and AgResearch demonstrates that the industry recognises the need to prioritise and direct research expenditure such that significant benefits will flow from future investment in research for the industry.
- The NZDFA plans to spend about \$380,000 per annum on representation, consultation, provision of information to levy payers (eg the use of a landcare manual to be completed and regularly updated), industry promotion and public relations, and administration. The Association uses its branches, field days, other regional meetings, written material, and the media as mechanisms to improve industry knowledge and performance. It is difficult to forecast what returns this investment will bring, however, based on historical performance the projected spending in this area is expected to continue to generate net benefits to farmer levy payers. The NZDFA views itself as a focal point for communication to and from farmers. The Board consists of representatives of farmers and processors and exporters, with the NZDFA nominating for appointment the majority of board members. Hence farmers regard the NZDFA as the "parent" body representing the interests of all deer farmers.

## The Expected Costs likely to be imposed by the Deer Products Levy

- The disadvantage to deer farmers 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 administrative costs incurred by levy collecting agents. Deer farmers are already paying a commodity levy and were aware of the costs when they voted in favour of the levy.

## Net Impact of the Proposed Deer Products Levy

- Having regard for the assessed overall costs and benefits associated with the proposed levy, it is considered that the expected benefits of the levy will outweigh the disadvantages.

## Business Compliance Cost Statement

- The NZDFA levy proposal is a continuation of its existing levy. The same levy collection arrangements will be used as for the current levy. Levy collecting agents will incur administrative costs in collecting the levy from farmers and paying it to the Board, acting for the NZDFA, as they do at present. The collection agents will continue to be owners/operators of deer slaughtering premises and game packing houses and velvet traders. The size of the businesses acting as levy collecting agents vary widely from the

largest owner/operator of deer slaughtering premises to the smallest velvet operator. Hence not only will compliance costs for businesses vary according to their relative efficiencies but also according to their throughput of deer products. Collection agents and the Board have systems in place to continue their levy collection roles.

- Compliance costs will be on-going but to keep them to a minimum the levy will be paid by the levy collecting agents to the Board along with the Board's levy imposed on the same deer products under the Game Industry Board Regulations 1985. Levy collecting agents are not able to charge the Board a collection fee for the Board's levy and likewise they will not be able to charge the NZDFA a fee for the collection of its levy. The compliance costs borne by collection agents can be passed on to levy payers through purchase prices or processing charges. It should be noted, however, that some levy collecting agents see benefits in having a levy in place. An example of this could be research and technology transfer contributing to better quality product and higher returns for both collection agents and farmers.

## Consultation

The NZDFA carried out an extensive information and consultation programme with potential levy payers, levy collecting agents and the Board. From the evidence provided, it is considered that the NZDFA went to considerable lengths to ensure that potential levy payers would be aware of the proposal. In the levy payer referendum, supporters of the levy proposal made up 80.4 percent of all participants, and they produced 72.6 percent of the total production of deer products by all referendum participants.

## Contact for Enquiries

MAF Information Services  
Pastoral House  
25 The Terrace  
PO Box 2526  
Wellington, NEW ZEALAND

Fax: +64 4 894 0721

[Contact this person](#)