



# Regulatory Impact Statement:

## Meat Board Restructuring

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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

The Meat Board Act 1997 provides the New Zealand Meat Board (a statutory entity) with powers to collect compulsory levies on meat to support a range of activities, including research and development, information provision, market access and promotion, and other trade related activities. The levy imposed by the Act is not subject to the voting and other accountability provisions of the Commodity Levies Act 1990 (the CLA). There is also duplication of levy administration as meat and wool levies are administered separately.

The meat (sheep, beef and goat) and wool industries are two of New Zealand's largest export-based industries. In the year ended March 2003, New Zealand exported around \$6 billion worth of products from the sheep (meat and wool), beef (including meat from dairy industry), and goat industries. It is estimated that total annual meat levies collected in a year, for spending on industry-good activities, would be around \$21m and another \$12m from wool levies.

The Board, as provided in the Act, administers access to those overseas meat markets that are governed by meat export quotas. The meat export quotas (excluding the world market value of the meat) are worth over \$200 million a year to the New Zealand economy. The need to safeguard that revenue stream remains a high priority to the Government and the meat industry.

## Statement of the public policy objective(s)

The overarching objective is to ensure that the institutional structures and processes of the New Zealand meat industry are appropriate to sustain and enhance its international competitiveness so that the industry can make the best possible contribution to growth and innovation in New Zealand. To achieve this, the public policy objectives are to ensure that:

- industry-good activities are funded in a targeted and cost efficient way, with strong accountability to levy payers;
- the export quota is allocated and managed in a way that optimises sustainable returns to the New Zealand meat industry; and
- appropriate safeguards are in place to avoid serious risk to the benefits arising from quota markets.

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

### Status Quo

The Meat Board performs the following livestock farming and meat related functions to fulfil its statutory obligations under the Meat Board Act 1997 (the Act):

- compulsorily collects levies to support a range of industry-good activities;
- conducts and/or funds industry research and development;
- improves market access for meat products and co-products;
- promotes meat products and co-products;
- encourages adoption of more efficient processes and practices;
- collects, processes and makes available industry information; and
- administers access to those overseas meat markets that are governed by quotas.

Apart from the quota administration function, which is largely self-funded (from fees paid by processors and exporters), the Meat Board's above functions are funded by levies and by interest earned on the Meat Board's reserves.

While the Act provides for levying powers and for spending on the above activities, it does not require the Board to seek a mandate from levy payers on whether there is to be a levy and if there is to be a levy how such levies should be spent. Thus, a key weakness of the status quo is that transparency, reporting and accountability provisions of the Act are far weaker than the provisions in the Commodity Levies Act 1990 (the CLA). For instance, under the CLA the levying organisation has to seek a new mandate for a levy from levy payers every six years, whereas no such requirements are included in the Act.

The wool industry's levying powers and industry-good functions were provided for by the Wool Board Act 1997. That Act has been repealed, and an interim arrangement has been put in place until 30 June 2004 to allow for the wool industry to consider its future under the Commodity Levies Act 1990 (the CLA). Retaining the status quo would not enable the meat and wool industries to combine their industry-good functions to achieve cost efficiencies (eg levy referendum, consultation, administration, reporting, etc). The Meat Board Act provides for levies on meat only and not wool whereas it is the same sheep farmers who pay both the levies. Further, a number of industry-good functions are jointly funded by the two industries.

While the quota management functions under the Act are satisfactory and are subject to five-yearly performance and efficiency audits, there is no provision for active government oversight or intervention. The Meat Board has power to license meat exporters and to establish mandatory carcass description systems.

## **Incorporating CLA provisions in the Meat Board Act**

The key feature of this option would be retaining all of the Meat Board's current functions (see status quo), and the funding of industry-good functions would continue with levies and quota administration funded largely by fees paid by processors and exporters. The levying powers would include provisions from the CLA into the Meat Board Act for six yearly farmer referenda for the continuation or cessation of levies and annual consultation on levy rates and spending. This would improve transparency, accountability and the reporting provisions of the Act with respect to spending of levy money.

This option would not enable the meat and wool industries to combine their industry-good functions to achieve cost efficiencies because the Meat Board Act only provides for levies on meat and not wool. A sheep farmer would continue to pay meat levies to one body and wool levies to another and in some cases it would be to fund joint meat and wool projects.

The quota management provisions could be improved by inserting provisions for regular compulsory audit of the nature and efficacy of the Meat Board's enforcement systems, and the export licensing powers could be removed.

## **Amend the Meat Board Act to remove industry-good functions and levying powers (Preferred Option)**

Key features of the New Zealand Meat Board restructuring are:

- Quota management powers would be retained in a statutory entity (residual Meat Board) under an amended Meat Board Act. The residual Meat Board (with statutory powers) would continue the quota administration functions (funded by fees paid by processors and exporters) and manage industry reserves. The meat export quotas will continue to be owned by the Crown but managed by the industry.
- Industry-good functions would be undertaken under the CLA framework jointly with the wool industry by a company (initially named Single Organisation Limited - SOL) registered under the Companies Act 1993. A referendum would be held every six years on whether a levy should continue, the amount of the levy and levy use.
- The wool levy order under the CLA would be in place before 30 June 2004, so that the collection of wool levies could commence on 1 July 2004, the day after the current interim levy arrangement for wool expires. The meat levies would come under the proposed CLA arrangement at the start of the 2004/05 meat levy year (start on 1 October 2004).
- Six of the directors of SOL are to be elected by livestock farmers, two by the meat processing/exporting sector of the industry and an option for the other directors to appoint one independent director. All SOL directors would then become directors of the trust (the trust owning SOL) and the residual Meat Board. The Minister will appoint to the residual Meat Board for a term of three years all the directors of SOL and no less than two and no more than three additional directors with in-depth expertise in meat trade and quota management. When appointing the additional directors to the residual Meat Board the Minister will take into consideration suitable women and people who are qualified to represent to the residual Meat Board the views of Maori livestock farming interests.
- The Meat Board reserves would be held by the residual Meat Board with transfers made as required to SOL. Reserves are to be utilised as follows:
  1. \$52.3m (adjusted annually for inflation) would be held by the residual Meat Board as a "contingency fund" to facilitate a response to a major industry crisis, with the residual Meat Board (based on board decision and without farmer consultation) funding the industry-good body to undertake such activities;
  2. \$5.0m held as liquidity funding for the industry-good body, to cover cash shortfalls arising from mismatches in the timing of income and expenditure; and
  3. The balance (\$50.6m at 30.9.02) held by the residual Meat Board to:
    - a) provide (as a first priority) any support required to ensure preservation of the quota administration system; and
    - b) be allocated to SOL to undertake specific projects that have long term and strategic significance to sheep and cattle farmers (this may include investments in biotechnology projects), with the requirement that for any such expenditure of less than \$5 million farmers are consulted during levy use consultation process and for expenditure over \$5 million farmers vote at SOL's general meeting.
- Clarification of the boundary between the role of government and the residual Board's role with respect to meat quota enforcement and provision for government oversight of the residual Board's enforcement role. This is to be achieved by providing for compulsory audit of the nature of the residual Board's enforcement systems and of their efficacy, set against New Zealand's treaty obligations relating to quota management.

- The residual Board would provide annual reports to the Minister, covering its quota management activities and guardianship of industry reserves. The Minister would be able to commission an independent scrutiny of the residual Meat Board's performance. Government oversight of the residual Board would be through regular certification and enforcement systems audit at the discretion of the Minister as a minimum requirement.
- The residual Board would hold the meat industry reserves and tax losses, and these would be utilised by both the residual Board and SOL.
- There would be specific safeguards for the spending of reserves including: specifying the object and purposes for which the reserves may be held and spent; farmers would have to be consulted widely on using reserves to fund activities that do not fall within the "Contingency Fund" or do not fall within the function of maintaining integrity of quota system; and the residual Board, in its annual reports to the Minister, report on how the reserves were utilised and that it make available such reports to livestock farmers who request them.
- Meat Board's powers to license meat exporters and to establish mandatory carcass description systems under the Meat Board Act 1997 would be discontinued.
- The database of growers be transferred to Single Organisation Limited for the purposes of consultation with livestock farmers.
- The Bill will provide for terminating current Meat Board directors' terms with no compensation being payable, and provide for the appointment of directors to the residual Meat Board.

## 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

- Quota markets would remain protected under legislation.
- Retention of a statutory body for quota management purposes reflects the regulatory nature of quota allocation and administration and would be acceptable for the authorities in quota markets.
- The proposed restructuring provides an opportunity to strengthen the quota enforcement and compliance provisions of the Act.
- The redefining of the Meat Board's functions would enable it to focus on its core function of quota management and this would give greater security to New Zealand retaining the meat export quotas and satisfying its markets.
- The proposal would provide the added advantage of improving the quota management provisions by inserting provisions for regular compulsory audit of the nature and efficacy of the residual Board's enforcement systems, and removing the export licensing powers which would no longer be required.
- The Board of Directors will have appropriate in depth knowledge and expertise. The 2/3 directors appointed by the Minister will assist in managing any conflicts of interest arising out of the same group of people deciding on the reserves held by the residual Board and spent by SOL.
- The proposed structure will enable the transfer of funds between the residual Meat Board and the Single Organisation without incurring tax liabilities.

- A residual Meat Board with limited functions would reduce the Government's role in overseeing the Meat Board's performance and compliance with the Act.
- The proposal should reduce the Government's involvement in the affairs of the industry and costs faced by the Crown as monitoring costs are likely to be reduced because of the greater accountability provided by the CLA..
- The director appointment costs will remain unchanged as the Minister will be appointing some board members of the residual Board, as the Minister does currently to the Meat Board.
- There would be a cost (estimated to be no more than 0.25 FTE) to assess the application and make a levy order every six years, when the industry submits its CLA application to the Minister.

### Industry (Growers and Single Organisation Limited)

- The changes will enable the meat and wool industries to combine their industry-good functions under the CLA to achieve cost efficiencies, ie instead of sheep farmers paying meat levies to the Meat Board (because the Meat Board Act only provides for levies on meat) and wool levies to another body, they will be paying meat and wool levies to the same body.
- There would be a reduction in overhead costs (viz one board of directors, CEO, staff, and office) and annual farmer (over 30,000 farmers spread throughout New Zealand) consultation costs. This could save the industry around \$1 million a year.
- Will enable the industry to benefit from the much higher level of transparency, accountability and reporting requirements due to the six-yearly referendum and will improve performance incentives on the levy organisation, making it more focussed in its spending, as each levy order would specify its own list of uses. This should therefore bring savings to industry or at least improvement in its quality of spending.
- By combining meat and wool industry-good functions, only one annual report will be required.
- The proposal for regular audit of quota enforcement and compliance systems and performance audits of the residual Board (a much smaller body with very limited functions) would replace the current requirement of a five yearly performance audit of a much bigger entity with a wide range of functions. Therefore overall there would be little change in costs arising from the proposal.

## Statement of consultation undertaken

The initial reform proposals were developed and submitted to the Minister of Agriculture by the Meat Board. In late 2002 and early 2003 the Meat Board and SheepCo held two rounds of farmer meetings around the country to present their interim proposals and seek feedback from farmers on them. Following that, they refined their proposals and circulated a discussion document in late April 2003 to seek further views on the proposals. In June 2003 the Meat Board and SheepCo circulated further documents to all beef, dairy, sheep and goat farmers with details on their reform proposals, mainly their industry-good spending proposals. The Meat Board and SheepCo held another round of area meetings in July 2003, prior to the referenda in August 2003. Representatives of Maori farmers were also consulted. The Meat Board has published all its papers and proposals on its web site during the consultation phase.

The Meat Board also held a number of meetings with the Federated Farmers of New Zealand, the Meat Industry Association and representatives of Maori farmers, and has considered their

views in the development of its proposal. Livestock farmers supported proposals (August 2003 referendum) to combine the meat and wool industry-good functions, for levies on meat and wool to be collected under the CLA, and for the reserves to be held as a contingency fund and invested in some industry-good projects.

MAF also consulted the Meat Board, the Federated Farmers of New Zealand, the Federation of Maori Authorities, and the Meat Industry Association.

The Treasury, Ministry of Economic Development (MED), Ministry of Justice, Te Puni Kokiri (TPK), Inland Revenue Department, and the Department of the Prime Minister and Cabinet have been consulted on this paper and broadly agree with the proposal.

## Business compliance cost statement

It would appear that compliance costs associated with this proposal relate mainly to activities such as levy collection and the six-yearly referendum which will be considered under the proposed application for levy orders under the Commodity Levies Act 1990. The compliance costs for business will be addressed in a paper for consideration by Cabinet upon receipt of a levy application. A Regulatory Impact Statement/ Business Compliance Cost Statement will also be prepared then.

The proposed legislation for a residual Meat Board would not introduce any extra compliance costs on the industry. Combining the meat and wool levy collection under the CLA would reduce collection costs for those firms that collect both the levies. Instead of forwarding levies to two organisations, sheep farmers will forward only one under the proposal.

The quota management functions affect the meat exporters and the levy collection affects the meat and wool buyers, processors, and exporters who will be charged with levy collection. These remain unchanged from the current provisions, except for the cost reductions of those collecting the meat and wool levies.

Levy collection agents will also benefit from the proposal as they will be able to charge levy collection fees, which is not currently available under the Meat Board Act 1997. There will be compliance costs associated with becoming familiar with the new requirements.

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